THE POLISH INSTITUTE
OF INTERNATIONAL AFFAIRS

BULLETIN

No. 102 (178) • July 9, 2010 • © PISM

Customs Union of Russia, Belarus and Kazakhstan

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Established last July, the customs union of Russia, Belarus and Kazakhstan may prove to be a source of positive impulses for the economies involved, even if at the same time it will strengthen Russian influences in the remaining two countries. Thanks to the union, Russia may get more instruments for influencing the neighbors economically, and it might apply them already in the course of the forthcoming presidential election in Belarus.

Although the customs code establishing the customs union of Russia, Kazakhstan and Belarus was signed by Presidents Dmitri Medvedev, Nursultan Nazarbayev and Alaksandr Lukashenka back on 27 November 2009, it took more than half a year to complete the ratification process, amidst disputes among all signatory states, largely reflecting their different approaches to tariff levels for goods of particular importance to their economies. Following protracted negotiations, the text of the customs code was approved by the Russian State Duma on 21 May 2010, by the Kazakhstani Parliament on 10 June, and by the Belarusian Parliament on 30 June (in a closed-door sitting on the last day of the parliamentary session). Consequently, the code took effect on 1 July in relations between Russia and Kazakhstan, and on 6 July in relations among all three states.

The establishment of the customs union marks a second stage of the three countries' economic integration, after the first one that began on 1 January 2010 with the entry into force of a common export tariff schedule. And starting from 1 January 2012, the customs union is going to evolve into a common economic area for the free movement of goods, services, capital and labor between Russia, Belarus and Kazakhstan. Actually, Belarus and Russia signed a customs union agreement back in 1995, but for lack of political will it has never been introduced in practice, even if neither party has revoked it formally.

Economic Consequences. The customs union guarantees a free movement of goods among the signatory states. This and new investments are expected to add some 15% to the combined GDP of the three partners by 2015.

For Russia, the customs union also translates into trade facilities enabling increased investment activity—and greater leverage on the authorities—in the partner countries. Furthermore, with the trade barriers removed, the Belarusian and Kazakhstani exporters may become even more dependent on the Russian market. On the other hand, Russia's customs-union commitments have to be taken into account in its negotiations with the WTO, which postpones the prospect of Russian accession to the organization.

For Belarus and Kazakhstan, the establishment of a common customs border will generate increased transit revenue and contribute to the expansion of logistics centers (with clearance moved from the Russian border to the customs-union frontier). Simultaneously, due to the fact that the common customs code is designed in line with the WTO's guidelines, Belarus and Kazakhstan will have it easier in talks with that organization.

Another gain for Kazakhstan will come from the unification of transport rates and facilitated shipment of its major commodity, oil. And Belarusian products will have freer access to the Russian market, which accounts for 48% of Belarus's overall trade.

Contentious Issues and Ratification Problems. The process of customs code ratification revealed many contentious issues related to the launch of common tariff schedules, with only some of these issues resolved to date. Belarus sought a removal of intra-customs-union duties on oil and oil products, and Kazakhstan wanted low import rates (mostly on Chinese goods) to stay. Both insisted on retaining their own tariffs (lower than Russia's) on imported cars for use by individuals, whereas Russia, as part of its anti-crisis policy, slapped prohibitive duties on foreign-made cars, thus protecting its own producers.

The latter demands, plus the conditions set by Kazakhstan, were partly met, with lower domestic duties on imported cars taking effect in Kazakhstan and Belarus on 1 July 2011. But the question of complete removal of Russia's export duties on oil and petroleum products shipped to Belarus remains unresolved. In 2010, Belarus will receive from Russia a tariff-free oil quota of 6.3 million tons (or 30% of all oil imports), but the remaining oil and petroleum-product shipments will cost it the full-rate price. For a long time, that prodded the Minsk authorities to sabotage customs union preparations and threaten to stay out, which would greatly diminish the project's overall advantages. The issue of oil and oil-product duties is of major importance for Belarus, where in 2009 oil refining generated a third of the GDP and where the profits earned in the industry are being partly passed to other loss-making sectors, via the so-called cross-subsidies. In the end, following Russia's announcement to ratchet up its phytosanitary control of Belarusian dairy and meat products (which in practice would put an end to all exports of these products), Belarus ratified the contentious document.

Prospects for Belarus-Russia Relations. By embracing the customs code, Belarus avoided chaos in its eastern part which might have emerged if Russia had unilaterally imposed a customs border. The Minsk government also escaped a highly probable tariff war with the neighbor over meat, dairy products, and engineering industry products. But while signing the code, Belarus did not shelve its earlier demands for Russia to remove tariffs on oil and oil products, which Russia says will only take place with the entry into force of the common economic area, on 1 January 2012. This means the dispute between the two states will go on.

The customs union will no doubt be used by Belarus as a major argument in its talks with Russia, scheduled for the autumn, to discuss the amount of the tariff-free oil contingent and the gas price for 2011. During the forthcoming presidential campaign, President Lukashenka will surely resort to anti-Russian slogans, portraying himself as the defender of the Belarusian economy.

Assessment. The entry into force of the customs code means a unification of export/import tariffs and regulations on the territory of Belarus, Russia and Kazakhstan, and the emergence of a common market with some 170 million consumers. But given the many exceptions negotiated by partners, the customs union is less than full. Pending the final adjustment to the code of signatory states' domestic regulations (including trade agreements with third parties), foreign businesses should be prepared for temporary problems in trade with Belarus, Russia ad Kazakhstan. But after the adjustment period, the customs union is likely to make it easier to trade with these countries and invest there.

The customs union should be viewed as a political success for Russia, which has thus gained a new trump card in relations with Belarus and Kazakhstan by narrowing their room for joining competitive integration projects, e.g. with the EU or China. But how far the customs union project will actually go into practice remains a matter of guesswork. This will largely depend on the political will on the part of the signatories, and especially Russia, which in the past did not always pursue its own projects of this kind, as demonstrated by the 1995 agreement with Belarus.