Russia's Agri-Food Trade: The Eurasian Dimension

Dragneva, Rilka

ANALYSIS

Russia's Agri-Food Trade: The Eurasian Dimension[1]

Rilka Dragneva (Birmingham Law School, University of Birmingham)

DOI: 10.3929/ethz-b-000530882

Abstract

Given its ambitious integration agenda, including the creation of a genuine internal market and a common external trade policy, the Eurasian Economic Union (EAEU) was expected to affect Russia's place in regional and global food trade. To date, however, the EAEU has performed below its potential as a vehicle for growth. This paper attributes this to the weakness of Eurasian institutions when it comes to removing regulatory distortions and their inability to constrain the politicization of Russia's food policy.

Introduction

Over the last two decades, increasing its influence in the global food trade has been a key priority of Russia's agri-food policy. This has resulted in a gradual reduction of trade with its former Soviet partners relative to trade with the rest of the world. At the same time, Russia has sought to invest in regional economic integration through the launch of the Customs Union with Belarus and Kazakhstan in 2010 and ultimately the Eurasian Economic Union (EAEU), to which Armenia and Kyrgyzstan also acceded, in 2015. While the main drivers behind Eurasian integration have been geopolitical, the project also promised the expansion of regional trade through the creation of an EU-style common market underpinned by an ambitious agenda for regulatory harmonization and the coordination of such policies as agriculture and transport. The EAEU similarly presented opportunities for more prominent participation in the international food system thanks to its common external tariff and common trade policy.

To date, however, progress on the ground toward achieving these goals has been modest or even disappointing. The launch of the EAEU was marked by a sharp currency depreciation against the dollar and the start of Russia's food embargo against the West. Russia, a net food importer from the EAEU, experienced a reduction of its agri-food imports. This trend gradually reversed after 2015 (see Figure 1 on p. xx), but the rate of recovery has been unequal across Russia's EAEU partners. Notably, the dynamics of imports from Belarus—Russia's most important food partner, with particular significance in the supply of dairy and meat products—show pronounced dips in trade (see Figure 2 on p. xx). The volumes of agri-food imports from Belarus have yet to return to the heights they reached in 2013–2014. Furthermore, the rate of increase in the value of EAEU imports has slowed down since 2017. Ultimately, the volume of external food trade dwarfs that of internal trade (see Figure 3 on p. xx). Similarly, while Russia has increased its exports to the EAEU, this has occurred at a rate slower than the growth of its exports to the rest of the world. The low share of intra-Union trade stands in stark contrast to other integration groupings, such as the EU. There is also a trend toward other geographical regions replacing the countries subject to the import ban.

This overall picture can be attributed not only to the weakness of Eurasian institutions in tackling barriers to trade, but also to their inability to constrain the politicization of Russia's food policy, which has come at the expense of developing integration.

Institutional Obstacles to Internal Trade

The EAEU benefitted from the early achievements of the 2010 Customs Union, including the removal of internal customs controls and its early attempts to impose common mandatory requirements in relation to sanitary and veterinary matters. These developments contributed to a rise in mutual agri-food trade that peaked in 2013. The EAEU was expected to provide a further boost to trade by focusing on the removal of regulatory barriers to trade that related to food safety (technical regulations as well as sanitary and phyto-sanitary (SPS) and veterinary controls). The extent of the EAEU common regime and the powers of its common bodies, however, have not matched the ambition of the project.

First, while the mandatory requirements and procedures are developed and updated by the permanent regulator of the EAEU, the Eurasian Economic Commission (EEC), its autonomy is limited. Its progress in upgrading technical regulations is highly dependent on member states' consent and cooperation. In the EEC's own assessment, this is an area where delays and perfunctory attitudes of the member states abound (EEK 2019).

Second, even where EAEU technical regulations are adopted, there are no effective Union mechanisms to

1 This paper draws on a chapter titled "Russia's Agri-Food Trade within the Eurasian Economic Union," in Russia's Role in the Contemporary International Agri-Food Trade System, ed. Stephen K. Wegren and Frode Nilssen (London and New York: Palgrave Macmillan, 2022).

ensure domestic compliance, resulting in discrepancies and inconsistent application of requirements. The EEC has no powers in this regard: control is the prerogative of national authorities in line with the national systems of food control (Article 57.4 of the EAEU Treaty). The possibility for divergence is even greater in relation to SPS requirements, as member states are allowed to impose additional requirements and additional processes for assessing conformity (Article 53.2 of the EAEU Treaty). The exercise of SPS and veterinary control is the province of domestic authorities, with the EEC having no power to audit national systems of control or participate in joint inspections.

Third, member states have the right to impose temporary SPS restrictions. This gives them the opportunity not only to apply protective measures vis-à-vis another member when notified of problems, but also to act upon their own findings of a violation of technical regulations or a "deterioration of the sanitary-epidemiological situation on the territory of member state" (Paragraph 6, Annex 12 of the EAEU Treaty). The result is wide discretion in the imposition of temporary SPS measures, subject only to the requirement, introduced in May 2016, to follow a process for mutual notification and consultation. This is especially problematic given the important gaps in the common SPS regime when it comes to the definition and justification of key terms (e.g., "deterioration" or "threat") or the format of processes (e.g., how a risk analysis should be conducted).

Thus, food trade continues to be subject to a range of regulatory distortions and uncertainty. The weakness of the common bodies is compounded by the weakness of domestic institutions for inspection, certification, and enforcement in many EAEU member states. For example, there has been ample evidence of corrupt practices leading to a "market for documents" (EEK 2020). This further undermines the integrity of the common system, especially where market access is based on mutual recognition of certificates.

The Geopolitics of Food Trade

Another determinant of the food trade dynamics within the EAEU has been Russia's food embargo against the West, which was imposed in August 2014 and has been extended until the end of 2022. The import ban led to two main effects working in opposition to each other. On the one hand, it created opportunities for an increase in EAEU imports to substitute for Western goods. On the other hand, it had significant deleterious effects on mutual trade: creating new obstacles, proliferating trade disputes, and undermining its previous achievements. Having failed to secure support for Union-level action, Russia imposed the import ban unilaterally. This represented a very visible departure from the principles of a customs union, undermining its legitimacy. Yet in the absence of a developed common regime, Russia was dependent of the cooperation and capacity of its partners to enforce the ban at the external borders of the Union. While such cooperation was initially promised, it was soon overshadowed by the boom in "contraband" food trade through a variety of schemes, the most widely publicized of which is the case of Belarus.

Faced with the weakness of its partners' institutions, but also their willingness to profit from the sanctions regime, Russia resorted to defensive measures. It reintroduced customs and food safety checks in areas bordering Belarus and Kazakhstan, causing delays in traffic and resulting in the emergence of a "de facto two-tier customs regime" (Kofner 2019). At the same time, it stepped up its use of temporary SPS measures to protect its market and pressure Belarus. This resulted in a number of high-profile trade disputes, with Russia's measures often perceived as protectionist and politically motivated as well as contrary to EAEU common market requirements. Following the 2018 "milk war," the EEC sided with Minsk. Yet given its limited powers, its notifications to the Russian side and subsequent attempts to address the underlining institutional problems have been largely inconsequential, with solutions ultimately hostage to the vagaries of the highest level of political bargaining.

Given the limits of Russia's defensive responses, it also sought to promote improvements in the common regime to tackle contraband trade. Moscow was instrumental in promoting agreements on product marking, traceability of imported goods, and overall advances in the digital agenda of the EAEU. Yet the practical effect of such improvements is slow and uncertain due to persistent technical difficulties and opposing interests (Kofner 2019).

Finally, another byproduct of the sanctions war with the West has been Russia's import-substitution policy, launched in October 2014. While the EAEU aims at a coordinated agricultural policy—including an attempt to formulate some common principles for the adoption of state support policies, especially in relation to sensitive agri-foods—this remains a distinctly decentralized process based on "soft" measures such as consultations and recommendations (Articles 94 and 95 of the EAEU Treaty). Certainly, the effort to coordinate national import-substitution programs has proceeded very slowly. Notably, to start with, Russia was reluctant to open its public procurement market to EAEU companies, attracting complaints about the resulting distortion of the common market. Although Russia admitted EAEU companies to its program in 2018, there remain substantial obstacles to their effective participation.

The External FTA Agenda

Externally, the EAEU has sought to develop active cooperation with partners across many geographical regions, thus potentially aiding not only Russia's quest for greater prominence in the international food system, but also the geographical reorientation of post-sanction imports.

To date, the EAEU has finalized free trade agreements (FTAs) with Vietnam (2015), Iran (2018), Singapore (2019), and Serbia (2019). These agreements promise to increase trade in agricultural products (with the exception of trade with Singapore, which already benefitted from Singapore's liberal trade regime). In terms of imports, for example, the Vietnam FTA improves access for fish, rice, and fruit—and indeed, trade data show that Russia's total imports from Vietnam have grown. In terms of exports, it helps EAEU producers increase their market share in milk, poultry, and confectionary. However, these effects are minimal, for two main reasons.

First, the FTAs are not concluded with major trade partners and the primary reason for pursuing them was not economic. Instead, the agreements exist because they align with Russia's geopolitical objectives in particular regions. Thus, they account for small volumes of external trade: for example, Vietnam represents less than 1% of Russia's total trade (Dragneva and Hartwell 2021).

Second, the agreements' liberalizing ambition is limited. They exclude sensitive goods and leave wide scope for protectionism. The Vietnam agreement, for example, excludes competing goods, such as meat, milk, and sugar, but also provides for applying trigger safeguard measures to control the volume of imports, such as rice.

In this sense, it is not surprising that the bulk of the growth in Russia's external markets since 2014 has been outside the framework of the EAEU's FTAs. The EAEU has also been negotiating with larger trade partners, such as Egypt and India. Yet negotiations have been slow and complicated. At the same time, while a cooperation agreement between China and the EAEU was signed in 2018, this was a non-preferential agreement; there is little appetite for a free trade deal at the Union level. An EAEU–EU trade agreement, while occasionally entertained by well-wishers as a way of depoliticizing the current crisis in Russia–EU relations, seems to be an even more distant prospect.

Conclusions

The EAEU has performed below its potential in growing regional trade and enhancing Russia's policy options in the global food system. Notably, it has failed to make significant advances toward eliminating non-tariff barriers to trade. At the same time, it has not been able to constrain the tide of food politicization and prevent new distortions through unilateral departures from commitments and the proliferation of trade disputes. While recent strategic documents of the Union seek to reignite the common market agenda, it seems questionable whether they will be able to deliver without a radical change to the Union's institutional backdrop. Against this background, it can be expected that Russia will continue to assert its policy priorities—in relation to agri-food but also wider geopolitics—*through* the EaEU where possible, but also *despite* the EAEU where necessary.

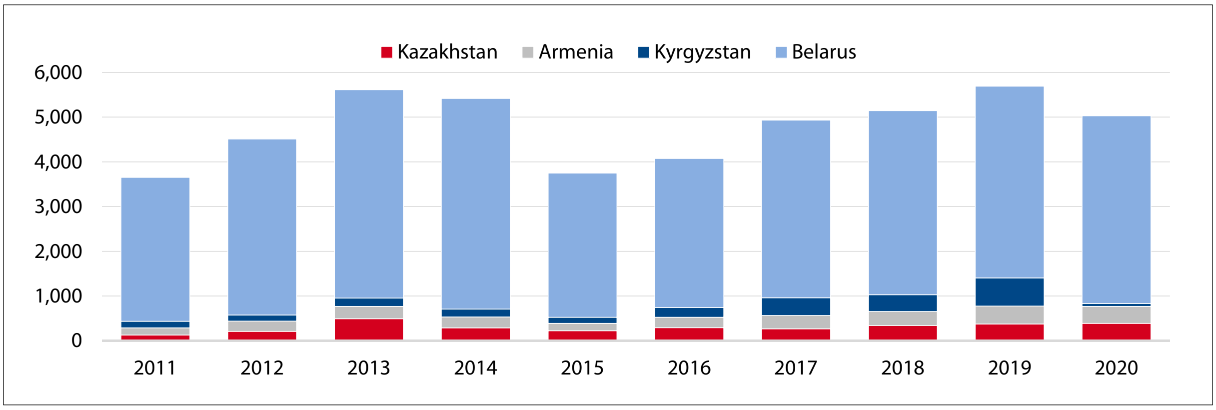
About the Author

Rilka Dragneva is Professor of International Legal Studies at the Birmingham Law School, University of Birmingham, UK. She holds a PhD in Law from the University of Sussex, UK. Rilka's research centers on regional integration, preferential trade agreements, EU external policy, and legal reform and development. Her recent publications have focused on the internal and external dimensions of Eurasian economic integration, its overlaps with EU initiatives in the post-Soviet region, and its wider comparative implications.

Bibliography

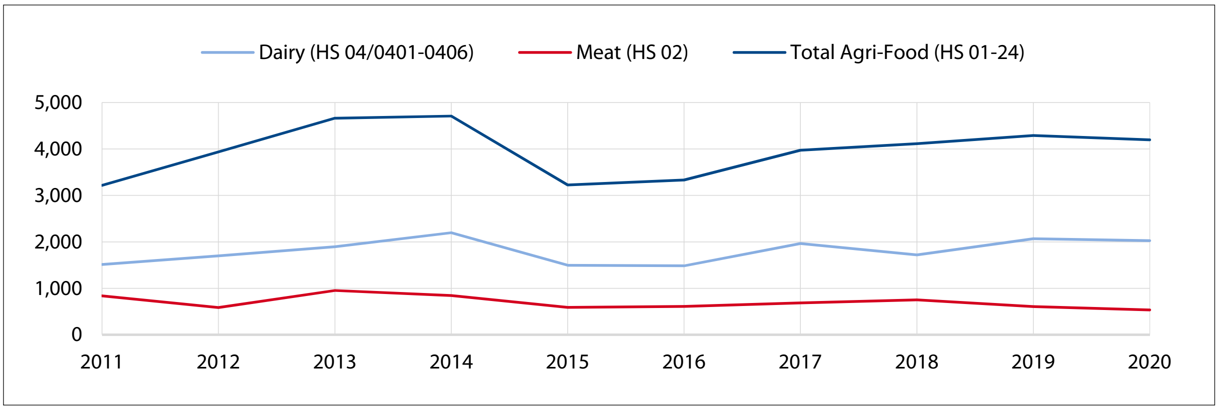
- Treaty on the Eurasian Economic Union (EAEU Treaty). https://www.wto.org/english/thewto_e/acc_e/kaz_e/wtacckaz85_leg_1.pdf.
- EEK. 2019. "EEK predlagaet izmenit' poriadok razrabotki soiuznykh tekhreglamentov i uzhestochit' kontrol' za sobliudeniem ustanovlennykh srokov." http://www.eurasiancommission.org/ru/nae/news/Pages/11-10-2019-1.aspx.
- EEK. 2020. "Viktor Nazarenko: Sistema ozenki sootvetstviia i gosudarstvennogo nadzora dolzhny byt' vystroeny takim obrazom, chto na obshchii rynok postupala tol'ko kachestvennaia i bezopasnaia produktsiia." http://www.eurasiancommission.org/ru/nae/news/Pages/27-02-2020-1.aspx.
- Kofner, Jurij. 2019. "Did the EaEU Create a Common Market for Goods, Services, Capital and Labour within the Union?" October 30, 2019. https://l2v.blogactiv.eu/2019/10/30/did-the-eurasian-economic-union-create-a-common-domestic-market-for-goods-services-capital-and-labor.
- Dragneva, Rilka, and Christopher A. Hartwell. 2021. "The Eurasian Economic Union: Integration without Liberalisation?" *Post-Communist Economies* 33: 2-3: 200–221.

Figure 1: Russia's Agri-Food Imports from the EAEU (in million USD)



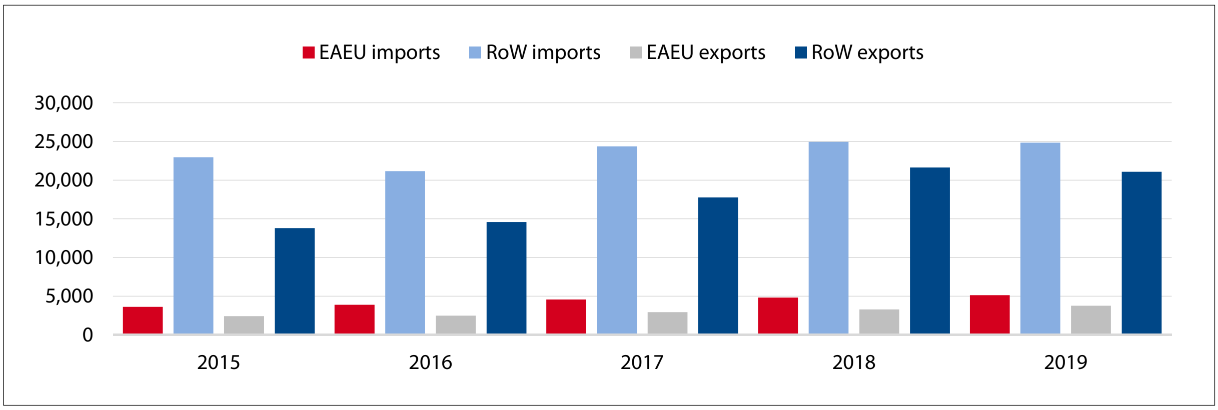
Source: Compiled by the author on the basis of the EEC's statistics on trade in agri-food products (HS codes 01-24).

Figure 2: Dynamics of Russia's Agri-Food Imports from Belarus (in million USD)



Source: Compiled by the author on the basis of the EEC's statistics on trade in agri-food products (HS codes 01-24).

Figure 3: The Structure of Russia's Agri-Food Trade: EAEU Compared to the Rest of the World (RoW) (in million USD)



Source: Compiled by the author on the basis of the EEC's statistics on trade in agri-food products (HS codes 01-24).