

Seija Lainela

Russia, Belarus and Kazakhstan form customs union

Seldom in history has there been such a swift achievement of economic integration as the new customs union comprising Russia, Belarus and Kazakhstan. Planning of the union began in 2007 and detailed preparations commenced in 2009. In the summer of 2009 Russia's Prime Minister, Vladimir Putin, announced that the three countries would form a customs union in 2010. The short timetable for realization of the customs union came as a big surprise.

Political leaders and officials in Russia, Belarus and Kazakhstan had about a year's time to agree on the practical operations of the customs union. Notwithstanding the official launch of the union, it is not yet fully operational but is restricted in scope by a large number of transitional rules.

Multi-phased start-up

The customs union was established at the start of 2010 when a set of uniform import rules and, inter alia, a licensing system entered into force. Russian officials however failed to put in place the necessary administrative rules on time, nor did the companies engaging in foreign trade have advance information on the operating procedures. For this reason, the flow of goods imports into Russia saw frequent interruptions in early 2010.

The actual start-up of the customs union occurred on 6 July when the member states signed a customs code defining the operational procedures of the union. Problems are sure to arise in the early stages because Russia's national legislation for completing the customs code is still in progress. The Russian parliament is slated to approve the new customs legislation in the autumn, and in the interim both the customs union's own code and a part of Russia's old customs legislation are in effect.

Only import duties are unified

Because Russia is the key member, the customs union rules are largely based on Russian customs practices. Belarus and Kazakhstan, having generally operated under more liberal foreign-trade regimes with lower import duties than Russia, have had to tighten their regulation.

Under the customs union, only the members' import duties are unified; duties on exports to third countries will continue to be decided at the national

level. For the most part, the union's unified import duties are based on the Russian duties. The members' calculations show that 82% of Russian import duties are included without change. For Belarus and Kazakhstan, the corresponding figures are 75% and 45%. Increases occur in 4% of Russian duties, 18% for Belarus and 45% for Kazakhstan.

The increase in import duties in Belarus and Kazakhstan requires adjustments in these economies, which is why certain increases will take effect only after a one-year transition period. For Belarus, there are some tens of these exceptions, for Kazakhstan over 400. Exceptions concern e.g. cars. If such products are exported to Russia from Belarus or Kazakhstan, they must be declared at the Russian border, after which they are taxed for the difference between the duties of the importing country and the customs union.

Heated discussions took place on the magnitudes of the unified import duties. Each member state struggled to further its own best interests. For Russia, it was important use import duties to protect, among others, its domestic car and airplane industries; for Belarus, a cheap supply of Russian crude oil was paramount. Kazakhstan, whose economy is even more dependent on raw material extraction than Russia's, plumped for minimal restrictions and low duties on imports of consumer goods in particular.

One of the most difficult issues in forming the customs union was the allocation of import duty revenues among the member states. Many options were considered in the negotiations, but finally it was decided that Russia's share would be 88%, Belarus' 4.7% and Kazakhstan's 7.3%. Since July, the import-duty revenues have gone into the members' joint account, from which the dispersals are made.

The most pointed differences of opinion in setting up the customs union were between Russia and Belarus. Resolution of those differences took so long that the commencement of operations, slated for 1 July, was delayed for almost a week. Belarus did not approve of Russia's export duties on sales of crude oil to Belarus. Russia sells crude oil to Belarus duty-free only to the extent of the latter's domestic consumption. Belarus refines over 70% of its crude oil imports from Russia pursuant to exporting to other countries. In the past, Belarus has been able to purchase even this portion at advantageous prices. Oil refining is important to Belarus' economy; for example, it ac-

counts for some 40% of export earnings. In the end, Belarus backed off. But it has not yet totally given up the fight, and it is expected that the dispute will continue within the confines of the customs union.

Internal border controls continue

In principle, border checks were shifted from the Russia-Belarus border to the countries' external borders in July, so that goods move freely between the two countries. The shift means little change in practical terms, as Russia and Belarus have since 1997 been in a loose alliance with harmonized customs operations.

The shift from internal to external border checks between Russia and Kazakhstan will take place a year later, 1 July 2011. The reason is that Kazakhstan needs to upgrade its external border control. Russia is generally concerned about shortcomings in Kazakhstan's southern border control. The border has e.g. become an important drug trafficking route to Russia.

In practice, the border checks will continue at all internal borders within the area of the customs union throughout the transition period, i.e. until the summer of 2011.

Customs clearance of goods entering the customs union must take place in the home country of the importing company and not in other member countries. The time period for this restriction has not yet been announced. Russia has been concerned about the smoother customs procedures in Belarus and Kazakhstan, which could lead to a situation where a significant portion of Russia's foreign trade moves through Belarus and Kazakhstan.

Practical reforms

Customs union regulations resulted in some immediate changes in foreign trade practices. The new regulations resulted e.g. in faster customs procedures than those that had prevailed in Russia: starting in July goods are to be checked and turned over to the importer within one (in practice, two) business days, compared to the old period that was two days longer.

Private individuals can import into the customs union area, duty-free, items valued at EUR 1 500 and weighing up to 50 kg, compared to Russia's old limit of RUB 65 000 (currently ca EUR 1 700) and weighing 35 kg.

The maximum amount of cash that can be taken out of a member country without reporting to customs is now USD 10 000, compared to USD 3 000 under the former Russian regulations. Larger amounts require notification of the origin of the

funds. These restrictions also apply to border crossings within the customs union.

Customs union or WTO?

The goal of the member states is to advance to the next stage of integration in 2012. The countries would then form an economic union with the free movement not only of goods but also services, capital and labour. Economic union means that the members must expend huge efforts in harmonizing legislation. This work, already partly in progress, should be completed in 2011, according to the agreed timetable. The stated long-term goal of the economic cooperation is actually the formation of a single-currency area.

The customs union of Russia, Belarus and Kazakhstan can be seen as a step in the direction of a broader economic space covering the area of the former Soviet Union. The idea of a customs union came from the Eurasian Economic Community, and Kazakhstan was particularly active in getting things started. Membership in the Eurasian Economic Community includes – in addition to Russia, Belarus and Kazakhstan – Kyrgyzstan, Tadjikistan and Uzbekistan. Observers include Armenia, Moldova and Ukraine. Possible enlargement of the customs union would initially involve these countries. Tadjikistan, Kyrgyzstan and also Armenia have indicated their interest in joining the customs union. But enlargement is not a given. Harmonizing the interests of countries that differ in terms of economic structure and phase of development is no small task. Nor is there certainty as to how many of these countries are truly interested in membership. The broader significance of the new customs union will only become clear over time.

The customs union may not actually affect Russia's possible WTO membership. In announcing the customs union in summer of 2009, Prime Minister Putin noted that the members would abandon their unilateral talks on WTO membership and would instead seek to join as a group. But Russia's stance has subsequently changed so that each country may now seek WTO membership according to its own timetable, but subject to the same conditions. Linking WTO membership and the customs union afforded Russia an excuse for slowing its drive to WTO membership. Although Russia publically affirms its desire to join the WTO, it seems that it may not be totally committed to that goal.

Seija Lainela is a senior economist at BOFIT.