

Belarus and the Eurasian Economic Union: Only about oil?

On 29 May 2014, the Presidents of Belarus, Kazakhstan and Russia signed the “Treaty of the Establishment of the Eurasian Economic Union” (EAEU) by 1 January 2015. The EAEU is the third stage of the Eurasian integration process followed by Belarus, Kazakhstan and Russia. Previously, these three countries have already established a Customs Union (2010) and a Common Economic Space (2012).

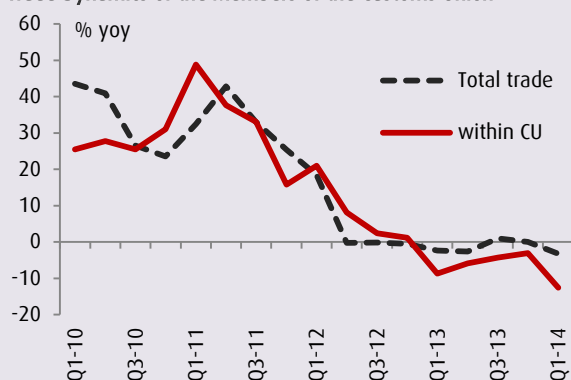
The main objective, the creation of a functioning single internal market with the well-known four freedoms will not be reached at the start of the EAEU, since in a number of strategic sectors (e.g. energy, finance) this is foreseen only in the (very) long term by 2025. Also the conduct of a coordinated economic policy seems unlikely, as the Treaty is quite vague about specific details.

For Belarus, the main benefit of the EAEU is related to the oil trade with Russia, which is of high importance to the country. In 2015, Belarus will be able to keep half of the export duties on oil products in the country (USD 1.5 bn, or 2% of GDP), while previously the full amount had to be transferred to the Russian budget. This is, however, only a partial success, and a complete solution to this issue is not envisaged yet.

New areas of economic integration

During 2010 – 2012, Belarus, Kazakhstan and Russia formed a Customs Union (CU) that later became the Common Economic Space (CES) with free movement of goods, services, capital and labour, albeit with a number of exceptions in strategic sectors (such as oil, energy transit, etc.). Trade dynamics within the integration area followed largely overall trade trends, even though intra-area trade seems to lag the overall performance as of late.

Trade Dynamics of the Members of the Customs Union



Source: Own calculations based on Eurasian Economic Commission
 Note: Data refer to merchandise trade (goods)

The recently signed Treaty on the next integration step - the EAEU – broadly aims to extend the cooperation between the member countries towards the creation of a single internal market with the well-known four freedoms.

However, the creation of a true single market (without any exceptions) is only foreseen in the (very) long term. For example, the harmonization of legislation in the financial sector is planned according to the Treaty only by 2025, the establishment of a common energy market - by 2019, and a common gas and oil trade market - by 2025. However, even these terms are not final, because the Treaty allows further additions and adjustments to its text.

An additional element is the stated goal of closer coordination of economic policies, even though a common economic policy is not envisaged in the Treaty. This implies, among other things, that industrial policies will still be individual for each of the countries.

Another weak side of the EAEU is the settlement process of disputes. The relevant court cannot solve conflicts between member states, as its decisions have in effect only an advisory and explanatory character. Thus, the main issues and controversies are still to be solved bilaterally on a political level.

Belarus in the EAEU

Belarus associates a number of benefits in certain sectors with its participation in the Eurasian integration process. In 2010, the accession to the CU allowed Belarus to retain duty-free imports of Russian crude oil for domestic consumption. Another benefit was the price of gas: Belarus saved the lowest price for Russian natural gas in Europe. In 2012, Russia finally abolished duties on crude oil to Belarus.

However, in exchange for that, Belarus had to transfer the export duties on oil products produced from Russian oil to the Russian budget. In addition to oil, Eurasian integration retained the unhindered access of Belarusian goods to the Russian market, which is essential for Belarus. Furthermore, in 2011 Belarus attracted a stabilization loan from the Anti-Crisis Fund of the Eurasian Economic Community that became important after the financial crisis of 2011.

It thus comes as no surprise that prior to the signing of the Treaty, extensive negotiations between Belarus and Russia regarding the oil trade took place. As a result, the Presidents of Belarus and Russia reached a compromise that in 2015, nearly half of export duties on oil products (about USD 1.5 billion, or 2% of GDP) will remain in the Belarusian budget. This will also improve the current account balance by a similar amount. In addition, the Russian side promised to continue to lower transfers to the Russian budget in the following years, even though there is much less clarity on this issue.

Regarding a coordinated economic policy, the Treaty of the Establishment EAEU doesn't appear to limit the Belarusian authorities in conducting their own economic policies. The agreement only suggests that the countries should work towards a common economic policy, but doesn't provide any sanctions for failure to achieve this result.

In line with the above, Belarus managed to maintain a monopoly on government procurement in the EAEU. Regarding state support to the economy, the Treaty established a transitional period until 2016, during which Belarus is committed to reduce the permitted amount of state support for the agricultural sector: In 2015 – 12%; in 2016 – 10% of the total value of agricultural production.

Unsolved questions

The issue of oil trade continues to remain the main unsolved question in Belarus-Russia trade relations in the framework of Eurasian integration. Due to its difficult external position, Belarus is in need of additional financial resources and expects to keep all export duties on oil products in the country, and not to transfer them to Russia. This would be one of the ways to improve its chronically weak current account balance.

Since Belarus clearly prefers a settlement of this issue before the creation of a common gas and oil market in 2025, this will continue to be a point for discussion between the two countries in the near future. In addition, Belarus discusses perspectives of using the Russian transit infrastructure to import energy resources like oil and gas from Central Asia. According to the Treaty, member states will try to solve such problems that are important for Belarus in the near future, but without going into further details.

Outlook

The process of economic integration between Belarus, Kazakhstan and Russia continues to develop at a rapid pace, and the recently launched EAEU is another proof of this. It will become operational in 2015, just 5 years after the initial CU between the three countries entered into force. Apart from the three founding members, a number of post-Soviet countries (e.g. Armenia, Kyrgyzstan) have indicated their interest in accessing the EAEU in the near future.

For Belarus, the upcoming new stage of the Eurasian integration process implies first and foremost a partial improvement in the conditions of the oil trade, which is of great economic importance to the country. However, the main goal of creating a true common market in energy, finance, etc. (which should have already been set at the current stage of the Common Economic Space) seems even after the launch of the EAEU still many years away. Thus, the oil trade will continue to be a point of discussion between Belarus and Russia for the foreseeable future.

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