

The EAEU economic and legal exemptions in cross-border trade between Russia and Kazakhstan

V Kovalev¹, O Falchenko^{1*} and A Semin¹

¹ Ural State University of Economics, 62 8th Marta str., Yekaterinburg 620144 Russia

E-mail: falchenko@usue.ru

Abstract. This paper assesses the impact of the customs effects of the Eurasian Economic Union (EAEU) on the border trade development of Russia and Kazakhstan. The authors argue that the key problem of trade and economic cross-border cooperation between Russia and Kazakhstan is the existence of economic and legal exemptions of the EAEU common customs territory functioning and the absence of a trade flows customs control system on the Russian-Kazakh border. The paper analyzes the EAEU customs effects on the cross-border trade development of Russia and Kazakhstan, using the example of agricultural products, highlights the main problems consisting in the movement of withdrawal goods and sanctioned agricultural products from Russia to Kazakhstan, and provides practical recommendations for improving the control system of movement of these commodity groups in mutual trade.

Keywords: exemption, economic and legal exemptions, custom, customs territory, trade

1. Introduction

An important feature of the border regions of Russia is their special role in ensuring the country economic security, including in the sphere of trade and economic relations.

The intensification of interstate integration processes in the post-Soviet space and the formation of the core of Eurasian economic integration on the basis of five states (Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan) forces us to revise the conceptual apparatus related to ensuring the free movement of goods between these countries. New complex economic categories are emerging, related to the development and functioning of markets in the context of intensification and deepening of integration processes: “obstacles,” “barriers,” “exemptions,” and “restrictions.” At the same time, many scholars and researchers mix these concepts, some use them as synonyms, which complicates the general research methodology related to the analysis of the formation and development of national markets and border areas of the EAEU under the influence of Eurasian economic integration.

The key problems of trade and economic cross-border cooperation of the Russian regions with the EAEU member countries are the problem of controlling the movement of goods from the territory of the neighboring countries (first of all, Kazakhstan) to the territory of the Russian Federation in the context of the unity of the customs territory, on the one hand, and the presence of economic and legal “exemptions” the functioning of the unity mechanism of the customs territory, on the other hand.

This leads to the emergence of customs effects of interstate integration within the EAEU in cross-border trade, which are associated with re-export of agricultural products prohibited from being imported into Russia since 2014, and the problem of controlling the access of goods from Kazakhstan

to Russia, because of the difference in accepted obligations to the WTO and the discrepancy between the rates of import customs duties of Kazakhstan and the rates of the Common Customs Tariff of the EAEU, which increases the state rivalry.

2. Materials and Methods

The theoretical and methodological of this research are based on the scientific works of Ahmedov, R. Sh., Gerasimenko, T. I. and Semenov, E. A. (2016) [1]; Bil'chak, V. (2014) [2]; Burnasov, A. S., Kowal'jov, Y. and Stepanov, A. (2018) [3]; Morachevskaya, K.A. and Karpenko, M. S. (2018) [5]; Morachevskaya, K.A. and Zinovyev, A.S. (2017) [6]; Vardomskiy, L. B. (2018) [7]; Zhundubayev, M. (2014) [8]. Their works are devoted to issues and problems of the development of trade and economic cooperation between Russia and Kazakhstan in the context of Eurasian economic integration. The authors are unanimous in that the institutional factors of the formation and development of the EAEU as a whole and its individual member-countries have the greatest influence on the development of cross-border cooperation between Russia and Kazakhstan.

The purpose of this paper is to assess the impact of the customs effects of the EAEU on the development of cross-border trade in Russia and Kazakhstan, using the movement of agricultural products as an example. The object of the research is the trade and economic relations of the border regions of Russia and Kazakhstan in the context of Eurasian economic integration. The research subject is the impact of the economic and legal exemptions of the EAEU functioning on the structure and directions of agricultural products cross-border trade of the Russian and Kazakhstan regions.

The regulatory basis for this research was the documents of the Eurasian Economic Commission concerning trade and economic relations between Russia and Kazakhstan [10], [13], [17], as well as the documents of the World Trade Organization (WTO) [15], [16], [18]. The statistical base for the study was the data from customs statistics of the EAEU [10], the Federal Customs Service (FCS) of Russia [11], [14], as well as the published statistical data of periodicals and Internet resources.

The paper used the following research methods: description, analysis and synthesis, case study.

3. Results

Until 2014, the problems associated with customs policy and its impact on the national interests of the countries of the EurAsEC Customs Union in the field of agriculture, really was not very much, and if these problems were felt, they were primarily technical, rather than systemic. When the first Decree of the Government of the Russian Federation of August 7, 2014 No. 778, which became the starting point in a protracted conflict of interests in the agricultural market between Russia and a number of other post-Soviet countries, appeared, the Eurasian integration project went through several stages, including the formation of a single customs territory, customs tariff and a single commodity nomenclature of foreign economic activity.

The Resolution of the Government of the Russian Federation noted above established new rules of the game when importing food products and was Russia's response to unfriendly steps towards our country by Western partners. This document provided for a ban on the import of agricultural products, raw materials and foodstuffs, the country of origin of which are states that are included in the sanctions list. At the same time, Russia, through this document, separately singled out the vector to increase its own food security and the beginning of the implementation of large-scale import substitution in the field of agriculture.

The decision on the food embargo with regard to certain goods originating in the EU, the USA, Canada, Australia, and other countries is valid only in Russia and does not apply to the rest of the EAEU. In its essence, this is a very powerful, serious economic and legal exemption violating the basic principles of unity of the customs territory of the EAEU. However, it also was permitted by the legislation on Eurasian economic integration. In addition, after Kazakhstan's accession to the WTO in 2015, its tariff obligations began to contradict the levels of the EAEU unified customs tariff, which, in turn, was built on the basis of Russia's tariff obligations to the WTO [16], [15], [17]. There was

another serious economic and legal exemption, which violates the principles of unity of the customs territory of the EAEU.

These exemptions, in turn, form “customs effects” destabilizing cross-border cooperation between Russia and the rest of the EAEU countries, including Kazakhstan. The “customs effect” is the result of the transformation of the customs policy of the state through the processes of significant changes in the conditions and mechanisms of functioning of the customs regulation system as a whole or its individual elements under the influence of exogenous and endogenous factors leading to the emergence of new risks and challenges of the effective use of customs control and exchange control in the customs territory of a particular state or integration association. It is obvious that the “Customs Effects” affect the economic, legal, organizational, and managerial levels of implementation of the agreed agro-industrial policy of the EAEU and are a complex definition that requires additional specification and interdisciplinary research [4].

The resulting customs effects have resulted in a significant increase in sophisticated sanctions product re-export schemes to Russia using the transit potential of Kazakhstan and the active movement of these goods through the border regions of Russia and Kazakhstan (Chelyabinsk, Kurgan, Orenburg, Novosibirsk, Omsk regions, Altai Krai). This situation led to the fact that, for example, in Siberia, from December 2015, in the region of the Altai, Novosibirsk, Omsk customs, there are 6 mobile groups that were charged with preventing the importation of prohibited goods into the territory of the Russian Federation, including “sanctioned / banned” products, as well as goods in respect of which the Republic of Kazakhstan applies lower rates of import customs duties in comparison with the rates of duties of the Unified Customs Tariff of the Eurasian Economic Union.

In the first year of operation of mobile groups in the border regions of Russia and Kazakhstan, for the period from January to November 2016, only mobile groups of the Altai Customs revealed 58 attempts to import into the territory of the Russian Federation prohibited goods in the amount of about 223 tons. Of these, 8 tons were destroyed by the employees of Rosselkhoznadzor in accordance with the acts on the destruction of agricultural products, raw materials and foodstuffs banned for importation into the Russian Federation under the control of the Rosselkhoznadzor:

- Fruits (pomegranate, pears, tangerines, kiwi, apples), origin of Poland, Holland, Turkey, Italy, Pakistan, China, Belgium;
- Meat (chicken legs, pork, duck fillet, poultry meat), origin of Hungary, Lithuania, USA, Ukraine,
- Cheese, with the origin of Poland, Holland, Ukraine.

More than 215 tons of goods were returned to the country of export on the basis of the Decision of the Council of the Eurasian Economic Commission dated 14.10.2015. No. 59, Decisions of the Eurasian Intergovernmental Council of September 12, 2016 No. 5 [12].

To date, the situation in the border areas of Russia and Kazakhstan remains very tense. The statistics of the Federal Customs Service of Russia testifies that in 2018, the mobile groups of Siberian customs returned to Kazakhstan about 27.7 thousand tons of goods imported into Russia in violation of the requirements of current legislation. This exceeded the same period in 2017 by more than 58% (17.4 thousand tons). In total, in interaction with the territorial divisions of the Ministry of Internal Affairs of Russia (GIBDD), Rospotrebnadzor, Rosselkhoznadzor, Rostransnadzor, and the Border Service of the FSB of Russia in 2018, 21,904 vehicles were stopped by mobile groups of the customs of the Siberian Customs Department of the Federal Customs Service of Russia. Violations were identified during the inspection of more than two thousand vehicles. Their main part was related to the movement of goods in respect of which the Republic of Kazakhstan applies import customs duty rates lower than the rates established by the Unified Customs Tariff of the Eurasian Economic Union (the so-called “goods from exemptions”), as well as goods with signs of counterfeit and “sanctioned (embargo)” goods. Most often, the nomenclature of returned goods included products of vegetable (vegetables, fruits) and animal (meat, dairy products, fish) origin, as well as consumer goods (clothing, shoes, etc.). Batches of apples, pears, chicken legs, beef, salmon, and cheese fell under the destruction.

The border regions of Russia and Kazakhstan remain the main direct participants involved in economic and legal exemptions (withdrawals), caused by the integration processes within the EAEU. This requires a special attention to their role in the processes of interstate integration from both national executive authorities and interstate bodies within the EAEU, councils and working groups, coordinating bilateral cooperation between Russia and Kazakhstan. This will make it possible to fully assess the extent of the resulting customs effects, their consequences, and reduce the negative impact of these customs effects on the general economic situation in the border regions [9].

4. Discussion

Implications of the implementation of sanctions policy at the national level in the context of the implementation of the principles of unity of the EAEU customs territory, the presence of exemptions in the single customs tariff of the EAEU as a result of different tariff obligations of the EAEU member countries to the WTO, very sharply exposes the problem of creating an effective traceability system of agricultural and food products transported through the common customs the territory of the EAEU.

This system should become a kind of guarantor of effective management decisions in implementing the concept of a coherent (coordinated) agro-industrial policy. At the same time, the creation of such an efficient system of traceability of goods moved across the territory of the EAEU is not a narrow technological task but, in fact, a new environment that would become transparent, first of all, for the business and consumers themselves.

The essence of the system is that if a product from a third country enters the common market of the EAEU, then all members of the Union must have objective information about it: what kind of product it was purchased, how it got into the EAEU, how the owners of this product changed, what movements within the Union this product has already made. This system should allow to deal with the gray market and the supply of counterfeit products. In addition, the traceability system will ensure the control of goods imported under special conditions and here we mean, first of all, the exemptions that individual EAEU countries have and operate at the national level. The implementation of this traceability system will have a serious impact on the border areas of Russia and Kazakhstan, allow for the most efficient implementation of the agro-industrial potential of these areas and reduce tensions in certain areas of trade relations between Russia and Kazakhstan, mainly due to the economic and legal exemptions of the EAEU single customs territory.

5. Conclusion

Thus, the following conclusions can be made about the impact of the customs effects of the Eurasian economic integration for the regions of the Russian-Kazakh border region in agricultural products trade:

1. The EAEU formation and the positioning of individual member countries in this integration association is accompanied by the emergence of economic and legal exemptions for the functioning of a single customs territory and the development of trade and economic relations within Eurasian integration. These institutional problems are primarily reflected in the border regions and the development of prior economic sectors such as the agro-industrial complex.
2. One of the key conditions for the development of cooperation between the border regions of Russia and Kazakhstan in the agricultural products trade is finding a balance between the institutional factors of the EAEU common customs territory functioning and the need to ensure national security, which directly depends on the foreign relations of the participating countries of this integration.
3. In our opinion, in order to ensure the economic security of the neighboring regions of Russia with regard to preventing the movement of sanctions and withdrawal goods across the Kazakh border, it is necessary to form a unified system of goods movement traceability in foreign and domestic trade of the EAEU member-countries.

6. Acknowledgment

The paper is prepared with the support of Russian Foundation for Basic Research (RFBR), project No. 18-010-01209 A “Formation of the Organizational and Economic Model of Managing the Customs Effects of the Eurasian Economic Integration and Assessing their Impact on the Mechanism for Implementing the Agreed Agro-Industrial Policy.”

References

- [1] Ahmedov R Sh, Gerasimenko T I, and Semenov E A 2016 Orenburg region: problems and perspectives of spatial development *Social'no-jekonomicheskaja geografija. Vestnik Associacii rossijskih geografov-obshhestvovedov* **5** pp 130-139
- [2] Bil'chak V 2014 Theoretical aspects of borderland economic cooperation on the basis of integration processes *Baltiyskij Region* **21**(3) pp 83-94
- [3] Burnasov A S, Kowal'jov Y, and Stepanov A 2018 Russia-Kazakhstan vector of the cross-border economic cooperation within the EAEU integration progress *Ural Oriental Studies: International Almanac* **7** pp 108-113
- [4] Kovalev V E 2018 Customs effects of Eurasian economic integration and their impact on agriculture of Russia *AIC: Economy, Management* **3** pp 69-77
- [5] Morachevskaya K A, and Karpenko M S 2018 The impact of Eurasian integration on economic interactions in the Russian-Belarusian and Russian-Kazakhstan border regions *Regional'nyye issledovaniya* **61**(3) pp 92-100
- [6] Morachevskaya K A, and Zinovyev A S 2017 Effects of the customs union for the regions of the Russian-Belarusian and Russian-Kazakhstan borderland *Geographical bulletin* **43** (4) pp 50-59
- [7] Vardomskiy L B 2018 Geoeconomic conditions for the development of new border regions of Russia *The Review of Economy, the Law and Sociology* **2**(1) pp 29-34
- [8] Zhundubayev M 2014 Economic problems of Russia and Kazakhstan's cross-border cooperation at the present stage *Bulletin of the Moscow Region State University. Series: History and Political Sciences* **2** pp 142-147
- [9] *Almost 28 thousand tons of prohibited goods returned mobile groups of customs authorities of Siberia to Kazakhstan* Available at: http://stu.customs.ru/index.php?option=com_content&view=article&id=18399:-28-&catid=4:news&Itemid=88 (Accessed 06 04 2019)
- [10] *Eurasian Economic Commission* 2019 Available at: <http://www.eurasiancommission.org/en/Pages/default.aspx> (Accessed 06 04 2019)
- [11] *Federal Customs Service (FCS) of Russia* 2019 Available at: <http://www.customs.ru/> (Accessed 06 04 2019)
- [12] *Mobile groups of the Altai Customs detained 223 tons of prohibited goods* 2019 Available at: http://stu.customs.ru/index.php?option=com_content&view=article&id=14645:-----223---&catid=4:news (Accessed 06 04 2019)
- [13] Council of the Eurasian Economic Commission 2015 *Decision of the Council of the Eurasian Economic Commission October 14, 2015 No. 59* (Minsk, Belarus)
- [14] *Siberian Customs Administration* 2019 Available at: <http://stu.customs.ru/> (06 04 2019)
- [15] *Tariff profile of Kazakhstan* 2019 Available at: https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/KZ_E.pdf
- [16] *Tariff profile of Russian Federation* 2019 Available at: https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/RU_E.pdf (Accessed 06 04 2019)
- [17] *Unified Customs Tariff of the Eurasian Economic Union* Available at: <http://www.eurasiancommission.org/ru/act/trade/catr/ett/Pages/default.aspx> (Accessed 06 04 2019)
- [18] Bogoviz A V, Litvinova T N, Lobova S V, Ragulina Y V 2018 Infrastructural provision of international entrepreneurship: theory and practice *International Journal of Trade and Global Markets* **11**(3) pp 190-199