Implications of the establishment of a customs union between Russia, Kazakhstan and Belarus for the Dutch agribusiness

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Contents

1 Introduction

Ex-Soviet nations Russia, Kazakhstan and Belarus established a customs union in 2010 to foster their mutual trade and investment relations. The formation of the uniform customs territory assumes cancellation of customs borders between the Customs Union states and the shift of all kinds of border state control to the external customs border of the union. Border controls between Belarus and Russia have been cancelled from 1 July 2010 and will be cancelled between Kazakhstan and Russia from 1 July 2011. The uniform custom duties in the territory of three countries came into force on 1 January 2010. The customs code has been in force since 1 July 2010.

Impacts on trade among the custom union members and with external trade partners may be significant. Belarus imports Russian oil, gas and metals as well as machinery, and exports trucks, car parts, tires, dairy products, poultry and meat to Russia. Kazakhstan sells minerals such as ores, metals products and chemicals to Russia, while importing other minerals, chemicals, metals and machinery. The customs union will divert trade flows inside and outside the custom union. How this customs union might affect Dutch trade interests in agricultural and food products is an interesting question. Russia is on top of the priority list of EL&I countries and the second non-EU export market for Dutch agricultural products. Furthermore, agricultural counsellors have been appointed in Belarus and Kazakhstan.

The objective of this study is to provide insights into the possible economic effects of the custom union Russia/Belarus/Kazakstan for the Dutch agribusiness in this region. Dutch export perspectives on the Russian market are promising, due to increasing investments in the agri-food sector and an expected continuation of economic growth (Van Berkum et al., 2010). However, the establishment of a customs union may indicate a preference for regional trade partners, which could lead to a loss of Dutch trade opportunities. The establishment of this customs union may affect the political relations in the context of WTO, with the EU and between the partners of the customs union. Changes in market access regarding veterinary and phytosanitary issues of agricultural products and the issue of harmonisation of food regulations (food safety) may importantly affect the trade possibilities of the Netherlands to the customs union states in the years to come. Changes in trade conditions will also determine the region's agricultural business climate, which is important in attracting foreign investments.

The evaluation of the consequences of the CU is based on trade data analysis, literature review and interviews with relevant experts and traders. A quantitative projection of the possible future impact of this CU on trade flows, and more specifically on the Dutch trade flows towards the region, is outside the scope of this assignment.

2 Present trade flows and conditions

Table 2.1 shows the bilateral trade relations in agricultural products between the three CU countries. Belarus' major agricultural export market is Russia, to which it exports 1.8 bn out of the total 2.5 bn. Belarus and Kazakhstan are both significant export markets for Russia, yet not the most important (which is China, while Egypt and Finland are also important destinations). Bilateral trade between Belarus and Kazakhstan is rather small, both in absolute values as in percentage of these two countries' total agricultural exports. The overview also indicates Dutch interests as an exporter to Russia. Trade flows with the other two countries are fairly insignificant.

Table 2.1 Agricultural trade flows in million USD a)

	Importers				
Exporters	Belarus	Kazakhstan	Russia	Netherlands	World
Belarus	X	80	1,772	10	2,519
Kazakhstan	3	X	266	7	1,733
Russia	709	1,178	X	95	14,044
Netherlands	70	26	1,349	X	76,086
World	2,462	2,600	29,070	47,089	1,079,128

a) 2009 data, in round figures.

Source: UNComtrade.

Belarus' agricultural trade balance is close to zero, whereas Kazakhstan and Russia are net importers of agricultural products. Table 2.2 presents the major imported and exported commodities and shows that for some of the agricultural commodities these countries are complementary to each other. For instance, Belarus is a net importer of cereals, whereas Russia and Kazakhstan are net exporters. Also, Kazakhstan and Russia need to import dairy and meat products respectively, whereas Belarus is exporting them. None of the three CU countries exports fruits, whereas it is a major import product in Belarus and Russia. This indicates that fruits largely have to be imported from outside the CU.

Table 2.2 Major agricultural commodities imported and exported by CU countries

CU country	Major import commodity	Major export commodity
Belarus	Fish, fruits and cereals	Meat, dairy, sugar
Kazakhstan	Dairy, sugar, misc. edible preparations	Cereals, products of milling industry
Russia	Meat, fruits and sugar	Cereals, fish, animal fats and oils

Source: UNComtrade.

Figure 2.1 **CU countries' agricultural import flows (million USD)**

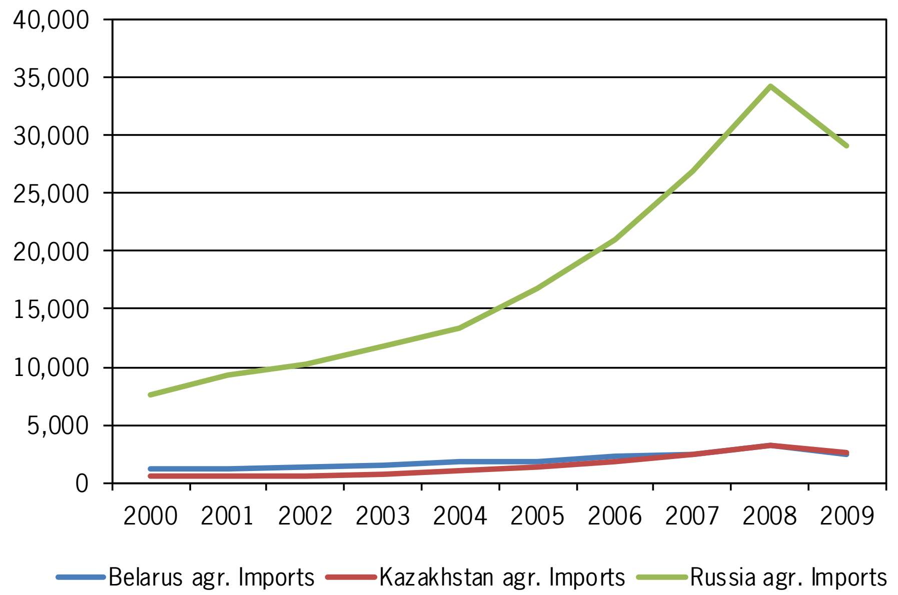


Figure 2.1 shows a rapid increase of agricultural imports in Kazakhstan where the annual growth of total imports has been 20% on average over the period. Dairy imports - one of the country's major import products - have been growing even more than this overall average. Russia's imports increased annually by an average of 16%, with imports of fish and ornamental plants such as live trees, plants, bulbs, and flowers exceeding this average figure significantly. Agricultural imports grew slowest in Belarus - by 8% per year - and vegetables and preparations of cereals have been the two categories with, in absolute terms, the highest imports, showing a considerable growth over the last ten years.

Main trends in the bilateral trade relations of the three CU countries are presented in Figures 2.2, 2.3 and 2.4.

Belarus exports to Kazakhstan have increased very rapidly, although the base level was low in the first years after 2000: whereas in 2005 the value was still only USD8m, the value increased to USD80m in 2009 (Figure 2.2). Half of this value is related to dairy products while another 35% is sugar. Other exports are insignificant. Kazakhstan exports to Belarus are very small and concentrated on cereals. Over the last years, exports were never more than USD40m. Note, however, there were also years with less than USD20m. Since 2007 Belarus has realised an export surplus in its bilateral trade in agricultural products with Kazakhstan.

Russia's exports to Belarus are quite stable over the period, between USD700m and USD1,000m, see Figure 2.3. Russia exports a broad range of products to Belarus, the largest items being fish, animal and vegetable oils/fats and preparations of cereals. These three product groups account for no more than 30% of all agricultural exports on average. In contrast, Belarus exports to Russia mainly concentrate on meat and dairy, which account for about two thirds of all agricultural exports from Belarus to Russia. Export values of both categories have even increased above the average trend of export growth towards Russia. Since 2003 Belarus is a net-exporter in its bilateral trade in agricultural products with Russia.

Figure 2.2 **Bilateral trade in agricultural products between Belarus and Kazakhstan (USD1,000)**

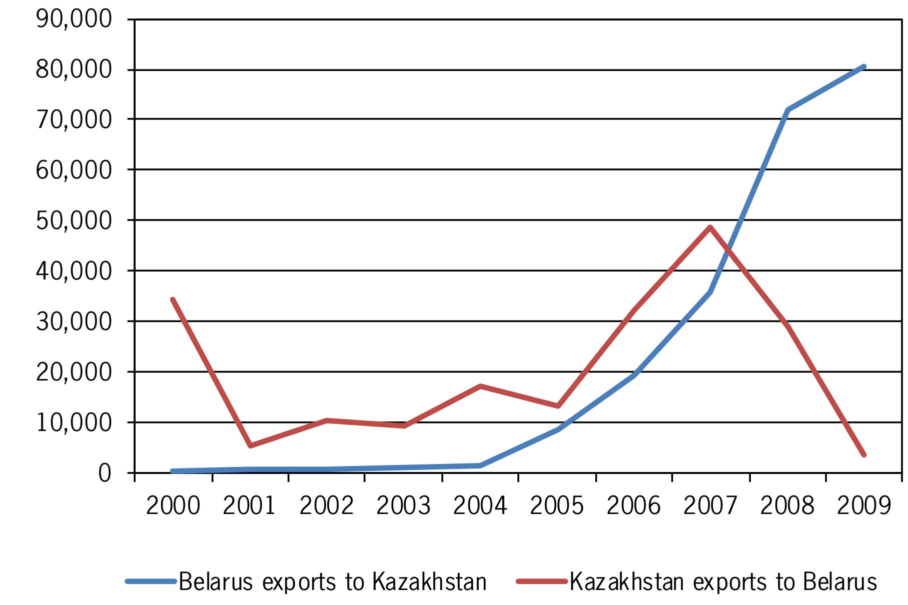


Figure 2.3 **Bilateral trade in agricultural products between Russia and Belarus (USD1,000)**

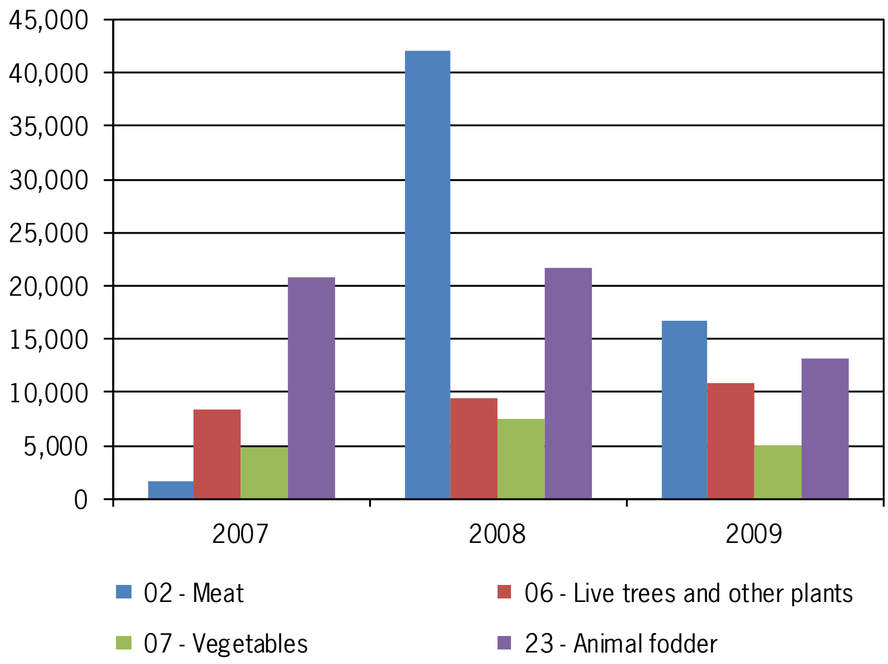
Kazakhstan exports to Russia are largely concentrated on cereals, fruits and vegetables, which are responsible for two thirds of its agricultural exports to Russia (Figure 2.4). Cereal exports to Russia have declined, while fruit and vegetable exports show an annual growth rate of 7-8%. Russia's exports to Kazakhstan have grown rapidly since 2002 and consist of a wide array of product categories. The most important items are dairy, animal fats and oils, preparations of cereals and miscellaneous edible preparations, but none of these categories account for more than 10% of Russia's total agricultural exports to Kazakhstan.

Figure 2.4 **Bilateral trade in agricultural products between Russia and Kazakhstan (USD1,000)**

3 Exports of the Dutch agribusiness to the three countries

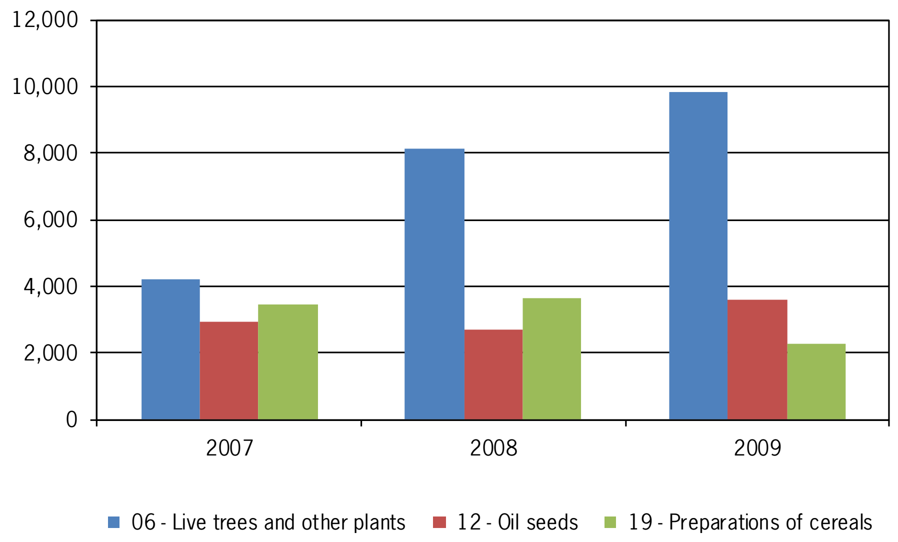
Dutch exports to Belarus were around USD70m in 2009, a significant drop compared to the 2008 level of USD111m (see Figure A.1 in Appendix 1, 'export value' on the right-hand axis). Exports did not exceed USD20m in the first years of the decade, rising to USD40-50m in 2005-2007. The increase during these years has been driven by increasing exports of animal fodder (HS23), such as oil-cake and other preparations of animal fodder. Also, the category 'live trees and other plants' shows a steadily increasing export value to Belarus, consisting mainly of cut flowers. Exports of pork meat have been significant in 2008 and 2009 only (see Figure 3.1). Although values are still rather low, Dutch exports of vegetables and fruits, oilseeds, and preparations of cereals to Belarus show quite some changes in recent years.

Figure 3.1 **Dutch agricultural exports to Belarus (USD1,000)**



Dutch export relations with Kazakhstan are still limited. Total agricultural exports amounted to an annual USD20-30m in the last 5 years (Figure A.1 in Appendix 1, export value on the right-hand axis). Major export categories are live trees and other plants - such as cut flowers - and seeds for fruits and vegetables (in HS12). Exports of oilseeds and preparations of cereals, although still small in absolute numbers, show a strong increase in recent years (see Figure 3.2).

Figure 3.2 **Dutch agricultural export to Kazakhstan (USD1,000)**

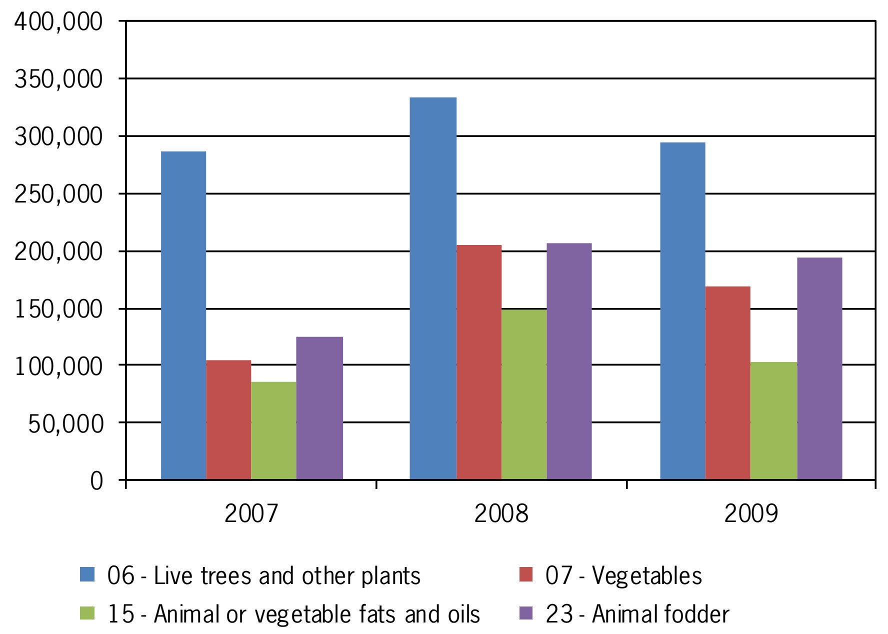


Dutch export interests in Russia are much bigger than in the other two CU countries. Dutch exports have shown an impressive growth since 2005, when exports of USD500m quickly rose to USD1.6bn in 2008 (Figure A.1 in the Appendix, export value on the left-hand axis). Exports in 2009 declined due to the economic crisis, which strongly affected Russia. Major export items are live trees and plants such as cut flowers, vegetables and prepared vegetables, animal or vegetable fats and oils - mainly palm oil - and animal fodder, such as oil-cake and any other kind of animal fodder preparations (see Figure 3.3). These four categories account for almost 60% of Dutch exports to Russia in 2009. Next to these major product categories, exports of live animals and dairy produce have shown a robust growth rate over time, although export figures of live animal differ from year to year.

Dutch agribusiness exports to Russia in 2010 increased again and regained half of the fall in export value from 2008 to 2009 levels (CBS, Buha data). Product groups showing a significant recovery from the 2009 fall are vegetables, dairy and meat products. Exports of cocoa products reached unprecedented high levels in 2010. 2010 Dutch export figures to Belarus and Kazakhstan are not yet available.

Besides agricultural and food products, the Dutch agribusiness exports a broad variety of agricultural machinery and related agricultural processing plant equipment, such as for soil preparation and cultivation, for harvesting, milking machines and dairy machinery, machinery for preparing animal feed stuff, poultry incubators, machines for cleaning, sorting or grading of seed, grain or leguminous vegetables, and other machinery including a germination plant fitted with mechanical or thermal equipment (the latter including some parts of greenhouses). Exports to Russia of machinery in this category amounted from USD400m to USD500m in 2007 and 2008 respectively, but fell down to USD160m in 2009. The economic crisis must have been the reason for this sudden decline of export figures. The total export value of agricultural capital goods to Russia adds up to more than USD1.7b over the period 2001-2009, indicating that this is a substantial and important part of the overall Dutch agribusiness export activities to the Russian market. Trade with Belarus and Kazakhstan in these capital goods is much less: Dutch exports to Belarus were USD19m and to Kazakhstan only USD8m in 2009. Exports to these two countries were considerably less in 2009 than in 2008, while the period 2001 to 2008 showed an increasing trend of Dutch exports of agricultural machinery and equipment.

Figure 3.3 **Dutch exports of agricultural products to Russia (USD1,000)**

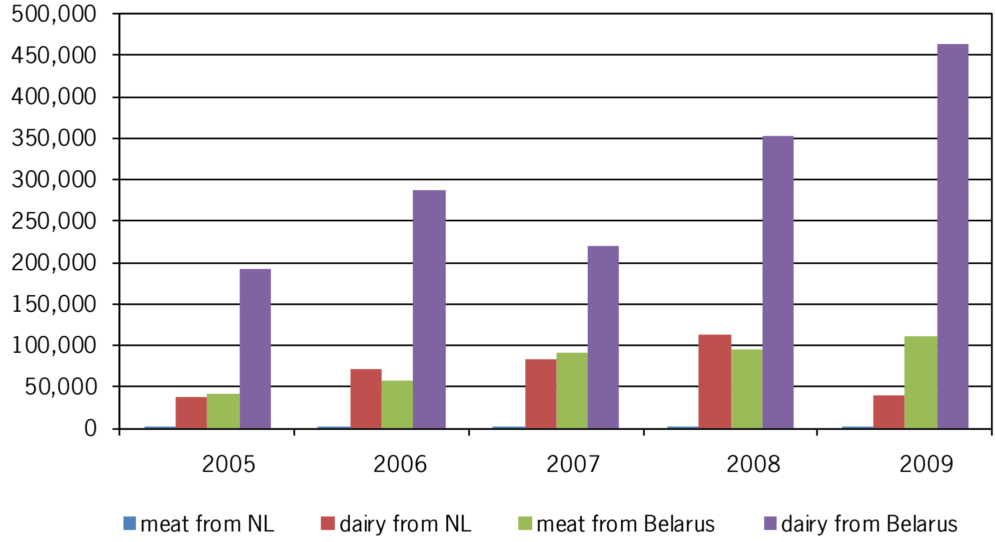


Trade figures, hence, indicate that major interest of the Netherlands in the CU countries are in the export of live trees and other plants, vegetables, animal fodder, dairy, pork and poultry meat exports while there are several other product categories mentioned above with which Dutch suppliers are increasingly entering the markets of the three CU countries. In addition, Dutch suppliers of agricultural machineries etc. have gained increasing sales in the three countries over the years and have now a significant interest in exports to all three CU countries.

Major competitors of the Dutch suppliers at each of the CU countries are countries outside the customs union. For instance, Argentina is the Netherlands' major competitor on the Russian import market of (prepared) animal fodder - and to a much smaller extent suppliers from Germany, Brazil and the USA. Dutch competitors on the Belarus market for animal fodder are from Ukraine, Argentina and Belgium, while Dutch exports of pork meat competes largely with supply from Germany and Poland. On live trees and other plants, the Netherlands has to compete with Columbia and Ecuador in all three CU countries, plus Kenya and Israel on the Russian market. Further, Dutch dairy exports to Russia compete largely with dairy produce from Ukraine, German, Finland and Lithuania. This implies that, whatever the changes in market access to the three CU countries due to the formation of the customs union, similar changes will be applied to the Dutch suppliers as to its major foreign competitors on these three markets.

For dairy and meat Belarus is, however, a significant exporter to Russia. Belarus' export values of these product categories surpassed those of the Netherlands tenfold in 2009 (see Figure 8). Dutch exports to Russia of meat and dairy grew over time, but the export flows from Belarus grew much faster. Belarus' meat and dairy sectors may benefit from the trade preferences granted by the CU at the cost of export opportunities of third countries - among which the Netherlands - exporting meat and dairy to Russia. Dutch exports of meat to Russia are largely frozen meat of swine, while dairy exports are concentrated in cheese (HS 040690). Belarus' exports of meat to Russia are dominated by fresh/chilled bovine meat, but exports of meat of swine are also significant. Moreover, next to milk powder and butter, Belarus exports a lot of cheese to Russia. This shows that the Netherlands' meat and dairy exports to Russia compete with similar products coming from Belarus.

Figure 3.4 **Russian imports of meat and dairy products from the Netherlands and from Belarus (USD1,000)**



4 Implications of the establishment of the customs union for market access of agricultural and food products to the three CU countries

4.1 State of play in the establishment of the CU and implications for trade with EU

On the supranational level EU DG TRADE and DG SANCO are responsible for the bilateral negotiations on the non-tariff measures such as SPS between the EU and the CU. The negotiations on trade issues between EU and Russia started in 2004 and since then over 24 different certificates have been agreed upon and signed on issues such as animal products, dairy and different commodity products. Besides these bilateral negotiations, the EU participates in trilateral negotiations between the EU, Russia and USA in light of the possible WTO accession and membership of the Russian Federation. The EU has tried to involve the US in these negotiations right from the start. Russian membership of WTO does not only depend on economic issues but is also a highly political topic, since becoming a full member of the WTO requires all existing member countries to agree with Russia's entry. At the moment Georgia opposes Russia's membership due to a territorial conflict, which culminated in a brief but intense war in the summer of 2008.

Since the introduction of the CU all prior agreements between the EU and Belarus, Russia and Kazakhstan are being overshadowed by the new union's trade conditions for third countries. Russia, as the main trade partner for the EU countries, has been accused by EU officials of hiding itself behind the CU's secretariat when it comes to the signing of new trade agreements (source: various meeting reports). An often heard excuse is that the three member states have to discuss the specific agreement in the union before any new agreements with third parties can be reached. The CU secretariat is located in Moscow and is responsible for running the office, while it has no mandate to discuss the content of trade measures between the three countries. The incomplete and hence unclear institutional structure is also a reason why many decisions are being postponed.

The introduction of a new Common External Tariff (CET) on 1 January 2010 consolidated most of Russia's 'temporary' anti-crisis tariff increases and extended them to the two other CU Members. This resulted in a worsening of terms of trade and additional costs for EU exporters to Belarus and Kazakhstan compared to the situation before 2010. For agricultural products the main impact is on Belarus' import tariffs of meat products and on sugar and confectionary (Tochitskaya, 2010), while Kazakhstan has increased about one third of its customs duties since the start of 2010 (Silitski, 2010). Table 4.1 provides an overview of differences in ad-valorem tariffs before and after the establishment of the customs union for a number of product categories that are important Dutch exports to Belarus.

Text box 4.1	Tariffs on CU countries' imports of agricultural products

Import tariffs are available at a 10-digit product level. Data on tariffs at such a level refer to over 2,500 agricultural products (HS 01-24). Detailed information on these data can be found in the ITC/WTO database (MacMap: Market Access Map). The ITC/WTO database presents similar agricultural tariffs for all products for all three countries in 2010, as a result of the customs union. Table 4.1 summarises tariff information for the bilateral trade between the Netherlands and Belarus in 2009 and 2010, presenting ranges of applied ad valorem tariffs for selected product categories. The online database does not include data over the years for Kazakhstan, which makes it impossible to show the differences between years or the implications for tariff changes as a result of the establishment of the customs union for trade with Kazakhstan.

Table 4.1	An indication of import tariff protection at the Belarus border of selected agricultural product categories		
Product category	**Range of applied ad valorem tariffs (%)**		**Specific tariffs (Euro/ton) applied to**
	2009	**2010**	
02 Meat	0-25	15-80	Bovine meat, pork, lamb and poultry meat
04 Dairy products	15	15-20	Yoghurt, buttermilk, whey, cheese and eggs
06 Live trees and plants	0, 5, 10 or 15	5, 10 or 15	Cut flowers
07 Vegetables	0, 5, 10 or 15	15	Tomatoes and cucumbers
15 Animal or veg. fats & oils	0 ,5, 10 or 15	0 or 15	Palm oil, soybean oil, sunflower oil
19 Preparations of cereals	0 or 15	15	Pasta, crisp bread
20 Prepared vegetables	5 or 15	15	Juices
23 Animal fodder	0, 5 or 10	5 or 20	Dog & cat food

Source: ITC/WTO (MacMAP).

When it comes to non-tariff measures such as SPS the integration is still in an early development stage. The CU has created an expert group with members from all the three countries who have been discussing and designing a set of applicable basic requirements on the issue of SPS measures. These measures are equally applicable for foreign exporters as well as the local producers of agri-food products. The union has mapped out a route for the development of the SPS measures with different stages of progress within this development:

1. creation of the basic requirements;
2. rules;
3. resolution;
4. import conditions.

In March 2011 the expert group agreed up on the basic requirements, which can be considered ready. This means that all previous agreements between the EU and its member countries (i.e. the Netherlands) and Belarus, Russia and Kazakhstan have been cancelled. Existing arrangements made before 2008, are temporarily valid until 1 January 2012. Until then, the national SPS conditions apply in each of the three countries. Currently, the EU institutions will continue working until the end of 2011, on the substance of the future measures in cooperation with their CU counterparts. The main goal is to achieve approximation of SPS regulations between the EU and CU in alignment with the WTO agreements.

On sanitary issues some progress has been made by the CU, whereas on phytosanitary measures the CU has not reached an internal agreement except for a fundamental agreement on necessary measures. Consequently, the implementation of phytosanitary measures has been postponed until 1 January 2013.

A major concern for both DG TRADE and DG SANCO are the so-called 'export lists' used by the Russian authorities - Rosselhoznadzor, federal service for veterinary and phytosanitary surveillance - granting export access to foreign companies. The CU will likely include this instrument in its policy, which will mean that not only the exported products should meet CU standards but also the production sites of the exporting companies. Experiences so far with the Russian authorities with regard to granting firms export eligibility indicate that the export lists are subject to discretionary decisions (see section 4.2).

4.2 Trade conditions between the Netherlands and the CU countries

Looking at the trade figures and their development, the conditions must be workable. However, there are some challenging difficulties in obtaining market access. At present, the SPS certification procedures and formats of the three countries have not been geared to one another and therefore bilateral agreements between on the one side the Netherlands and on the other Russia, Belarus and Kazakhstan are still in place. CU countries have indicated that every bilateral agreement of each of the CU countries with third countries shall be respected by the other two countries as long as there is no uniform CU rule installed. Belarus has declared to be willing to copy the Russian SPS legislation under the current terms in the near future while Kazakhstan is keeping its own certification system in place, until CU rules are installed.

The multifaceted set of SPS requirements and other quality or product registrations legislation is complicated. Whether the transition to the CU requirements will make this system of requirements more transparent remains to be seen. At present it is maybe not so much the requirement but mostly the interpretation of the requirement at the border that can cause unforeseen surprises. Therefore, it is very important for the Dutch businesses exporting to Russia, Belarus and Kazakhstan to fully comply with the official requirements and regulations related to the SPS export conditions of these countries and CU. But in a transition period it also difficult to know exactly what requirement has to be met. Even though the statements made by CU members in meetings with EU indicate that current agreements are still in place, sometimes already new legislation is followed.

Since all players in the network of trade are aware of the fact that indeed there is a transitional period direct communication is often the solution for problems at the border. Therefore, timely approaching the Dutch authorities with any issues concerning the SPS procedures is a must for companies that want to avoid customs problems at borders of the recipient countries. The Dutch government has good direct working relations with Russian authorities, as it is represented by its Embassy and the agricultural office (with a 'market access desk' and an agricultural counsellor) in Moscow. Links with Belarus' officials are not that well-established from Moscow, but are handled from the Ukraine office and contacts with Kazakhstan are established via the economic department of the Dutch Embassy in Kazakhstan (while the agricultural counsellor from Moscow is accredited for Kazakhstan) For the Dutch Ministry of Economic Affairs, Agriculture and Innovation Rosselkhoznadzor - the Russian authority in charge of implementation and surveillance of the Russian food law - is the official interlocutor. Because this organisation is highly bureaucratic, high-level communications needed for a decision are difficult. Personal contact and knowing who to contact is essential to discuss important issues for a specific sector or subsector. The agricultural office in Moscow invests in these relations and on a working level the contacts are well established.

Gradually, contacts between business organisations on both the Dutch and Russian side are consolidated, which may have positive effects on trade. Recently, the Dutch Meat Association (COV) and Russian Meat Union (RMU) signed an agreement on trade procedures in red meat and related products between the two countries. Dutch exporters are satisfied with the agreement, pointing at exports are been done smoothly in recent months. On the other hand, the Dutch dairy and fisheries' sectors, which do have a promising outlook to increase exports to Russia (Van Berkum et al., 2010), do not have such an agreement with their Russian counterparts yet and point at experiencing certain sanitary and other non-tariff barriers in their trade with Russia.

According to Dutch government officials who have been interviewed, Rosselkhoznadzor's policy is not protectionist yet pragmatic and predictable in the sense that the authority is always protecting Russia's business' interests. Spokespersons note that trade problems occur when Russian interests do not match imports from the Netherlands. Efforts to comply with all necessary regulations and measures are then not always rewarded. Where Dutch interests are under pressure, direct contacts of business-representing organisations may be more effective to solve problems than through governmental channels. This implies that sector representatives or umbrella organisations such as NZO and COV should connect with their equivalent organisation to be able to quickly mobilise forces to solve problems as soon as they arise.

5 Implications for trade between the Netherlands and the CU: some examples of trade practices

Trade figures of the past reveal that the Netherlands has a strong comparative advantage over its competitors in live trees and plants - mainly cut flowers, animal fodder and prepared animal fodders - while it has a solid export position in several other agricultural products, such as dairy products. Such a comparative advantage is mainly based on competitive prices, in combination with the quality of the produce supplied and/or services accompanying the delivery of products. However, access to the Russian market is highly dependent on the ability of exporting companies to comply with the Russian import requirements which are defined in the country's food law. It is worthwhile mention some of the major features of this law and the Russian interpretation of the implementation of the law in practice to indicate what might be the consequences if the Russian food law would become the reference for the import requirements of the customs union.

The Russian food law is the basis for all rules and interpretations of the implications of the import rules and requirements for agricultural and food products. When establishments (of companies) are able to comply with the requirements set in the law, they may become eligible for exporting to Russia if they successfully go through Russian inspection and audit procedures. Then, firms are pre-listed and registered for being permitted to export; without being pre-listed there is no possibility to export to Russia.

Dairy

The pre-listing process, including the inspections and audits, is hence a central instrument in the Russian import policy. It may then be used to restrict market access as Russia may unilaterally decide not to expand the list or ban foreign exports as a result of not having approved establishments, which conform to the country's import requirements. USDA/FAS claims that Russia may already have used this instrument to redirect dairy imports to its CU partner Belarus, at the cost of US export interests (USDA/FAS, 2010). The 2010 drought has negatively impacted milk and therefore dairy production in Russia, implying a need for imports to keep supply and consumption stable. This would provide export opportunities for traditional suppliers to the Russian market, according to the USDA/FAS. Yet, US dairy exports have been effectively banned from the Russian market in 2010, as a result of Russia's claim that US establishments do not comply with customs union's requirements. At the same time, all dairy enterprises of Belarus received permission to export dairy products to Russia in contrast with the fall and summer of 2009. This shows that Russia favours sourcing from regional suppliers. USDA/FAS expects that Russia will continue looking first to Belarus for supplies in 2011 as the two countries draw closer in cooperation and policy vis-à-vis the Customs Unions. Moreover, a policy of import-substitution as Russia may want to implement (see Text box 5.1) may further reduce export possibilities for traditional dairy suppliers from outside the CU.

Text box 5.1	**Further protection of dairy market in CU?**
First Vice Prime Minister of Russian Federation Viktor Zubkov said, at the presidential council in the central federal district, the that import duties on foreign dairy products may be increased. Current load of domestic production of dairy products must be increased, said Mr Zubkov. Facilities for the production of cheese can be increased from 60% to 80%, milk powder - from 40% to 60%, butter - from 27% to 50%. In order to support domestic farmers, Mr Zubkov considers it necessary to dramatically increase the import duties. In particular, he said, the duties on cheese products can be 40% or even 60%.	
Source: Rossiyskaya Gazeta (18 March 2011).	

Whether this policy is affecting Dutch exports remains to be seen. Fact is that the Dutch dairy industry is subject to thorough surveillance by Russian authorities. In January 2011 82 locations of 34 Dutch dairy companies and traders were registered. Out of these 82 locations, 9 were temporarily restricted to export and 14 locations were banned. This is the result of two audits by Russian inspections recently held, one in June 2009 and one in November 2010. Next to the rather rigid procedures, which also take long - the outcome of an inspection is first reported to the headquarters in Moscow, and after 2-3 months, the Dutch authorities are informed - Dutch companies find the reports unclear in explaining the reasons why a company is excluded from exporting to Russia. The result is that companies do not know what to do in order to regain its status as being eligible to export to Russia.

Most annoying in trade with Russia is the uncertainty whether the transport complies with the Russian import requirements or not. Exporters indicate that there is much ambiguity with regard to the export documents (what should be on and how should it be formulated) and the interpretations of regulations. The fact that rules and standards change often and are enforced just overnight also complicates compliance with customs requirements. Some of the requirements are really impossible to comply with as Dutch practice and standards differ greatly from the Russian. (Example: Russia demands exporting dairies to daily intake of milk from the farm). In fact, the Russian law is found inconsistent with the implication that there are always requirements an exporter cannot comply with. The consequence is that Russian customs can always find something to deny imports entering into the country.

As an important part of Dutch dairy exports to Russia goes transit through Belarus, some effects of the CU are reported already. Although the CU is not formally operational yet, Belarus' border inspectors already apply Russian requirements such as requesting the exporter to show an importer licence of the Russian importing company. As in most cases such information is not available at the Belarus' border, exporter and importer need to make arrangements and the Belarus and Russian border control authorities have to communicate, all which takes time, delays the trade and therefore costs money.

Flowers

Problems may arise when provisions of the requirements by one of the CU countries are not in line with international standards. One example is Russia's phytosanitary rules related to the imports of cut flowers: Russia requires imports to be free of thrips. In response to Russia's very strict requirements, Dutch authorities introduced a new certification system for the floriculture sector in 2007. As a rule, thrips are being found in 0.01 to 0.02% of Dutch shipments abroad. Internationally, these are acceptable rates, but not for the Russian authorities. To be constantly thrips-free is an unfeasible requirement for many of the Dutch growers: out of 350 companies interested in exporting to Russia, half gave up their ambition of becoming 100% thrips free. Those companies declared thrips-free are listed in a special register and eligible to export to Russia. Even when growers are registered, the checks continue by Dutch and Russian authorities.

Approximately 70% of all Dutch cut flower exports to Russia is sold on the Moscow's flower market, as the Russian capital is still the largest market for flowers in Russia. Today, the flower trade chain in Russia is clearly divided into companies that buy flowers abroad and companies specialising in retail trade and supply of flowers in Moscow and the Moscow region.

Dutch floriculture companies perceive that their Russian partners are in a quest for balance: direct purchases from countries in Africa or Latin America which are cheaper, or continue to use existing supply channels through the Netherlands. The latter is a more expensive option, but less risky in terms of quality, time, services, etc. Large Russian flower importers and wholesalers closely follow the latest developments in the international flower trade and continuously evaluate business options and risks associated with alternative suppliers. This implies that the Dutch flower sector faces tough competition from other foreign suppliers every day and cannot be careless to Russian import requirements if one wants to maintain market shares.

Russia is and remains a huge market with lots of potential for the Dutch trade in cut flowers and other plants to increase its value and market share. According to the sector's interviewees this means that not only trade in flowers shall expand in volume but also that extra added value must be provided to the Russian customers. Offering quality for money is an important strategy to keep the Russian market attractive to the Dutch plant products on the long term.

Harmonisation of requirements: advantage or disadvantage?

Difficulties in trade may occur as import rules and regulations of the three countries are different and harmonisation implies that market access previously granted, will be lost. Such a scenario might become reality if the CU will apply import requirements that take the most protectionist version of the requirements each of the three CU countries presently enforces. An example is the conditions for exports of semen. Export to Russia is based on a EU certificate (thus equally applied to every EU member state) which is also OIE conform (hence complying with the international standards). This certificate has been introduced only since 2010 and offers much more flexibility to Dutch exports than the certificate valid before that date. Belarus and Kazakhstan presently do not allow semen imports from the Netherlands; there is no export certificate agreed (despite many years of negotiations). If the provisions of the CU common veterinary requirements will be more in line with the 'old' export certificate with Russia, this will result in reducing the export possibilities towards Russia, the major market of the three countries. On the other hand, if the EU is able to negotiate a common CU export certificate similar to the one for Russia, the Dutch export opportunities would increase significantly, also because Kazakhstan and Belarus (the latter having a relatively strong dairy sector) may proof to be an attractive market.

Another issue in the same vein is the ban on imports because of BSE. Presently, Belarus has banned import of live cattle, beef and sheep meat from the Netherlands due to BSE, while there is no such ban in Russia or Kazakhstan. In case Belarus' argument to keep out imports convinces the other two countries to close their borders for cattle and meat too, exports will collapse implying a loss of tens of millions of dollars. It can also be the other way around: the ban will be lifted and the Belarus' market will open. There are, hence, significant interests at stake.

6 How to deal with barriers to trade with CU countries

Most problems experienced by Dutch companies can be grouped into difficulties with customs procedures and especially the problems of certification and declaration of import values of products. There are also problems with the registration of imports and contract agreements and payments. It is therefore essential to prepare the goods in a very painstaking manner with the receiving party. It involves more than just certification but also logistics, contracts, contacts and networking, security, etc. The preparations should involve the entire production chain instead of only the exported product. Many of the shipments are based on the ex-works principal: Dutch companies make the goods available at their premises and the buyers from Russia, Belarus and Kazakhstan arrange transportation, pay all transportation costs and bear the risks for bringing the goods to their final destination.

For large projects and companies it is possible to apply for exceptional or other classifications than the specified SPS measures at the Russian authorities. This process should be regulated and started on time by the Dutch companies, as it requires being registered as an Authorised Economic Operator (Ernst and Young, 2010). Horticulture is a good example of such exceptional classifications, because it often involves large projects the parties will reach an agreement in advance and the Russian partners will take the administrative burdens on themselves. Of course, the problems at the border for one company cause more than nuisance for others; it is mainly about the impermanence and freshness of products: greenhouse constructors are less likely to suffer from delay than the flower growers.

A common strategy for the Dutch companies is to form alliances with local firms where the Dutch companies provide knowledge and training for free in order to create certain opportunities to enter the local market. Sometimes it happens that when the Russian companies have enough personal knowledge built up due to the Dutch contribution suddenly numerous administrative problems begin to arise at the border. It is important to have trustworthy partners for a healthy continuation of one's business activities.

7 Conclusions

Given the state of play of the implementation of all the elements of the customs union - there are still many issues that are not clear yet - an evaluation of possible impacts of the establishment of the CU between Russia, Belarus and Kazakhstan on Dutch agri food trade is challenging. Though we draw a number of conclusions and presented them in bullets:

- Russia and Kazakhstan are net importers of agricultural products and all three CU countries increasingly import agricultural products. The Dutch agribusiness has benefitted from this situation: exports to each of the three markets has grown, although exports to Belarus and Kazakhstan (USD70m and USD30m in 2009) is only a fraction of the Dutch exports to Russia (USD1,4bn in 2009).
- Dutch major export products to the CU countries are live trees and plants, animal fodder and (prepared) vegetables. The Dutch agribusiness has interests in exporting many more agri and food products to the three CU countries, such as dairy and meat products.
- Belarus' exports of dairy products to Russia show an increasing tendency, and therefore may be a serious competitor of Dutch dairy exports to Russia.
- Foreign competition to Dutch suppliers on the markets of the CU countries are mainly offered by suppliers from outside the CU.
- The Customs Union formation is still in an early stage of development. Russian imports tariffs are applied as common external tariffs, effectively implying higher import tariffs of many agricultural products for Kazakhstan, yet only a few for Belarus. Yet, little is known about the CU common import requirements in the SPS area, which makes an ex-ante economic impact assessment rather premature.
- Pre-listing of companies is an important instrument of Russia's import policy. The EU fears this instrument will be used by the CU. This means that not only products but also production sites of exporting companies have to comply with CU law on agricultural and food imports. Experiences with the Russian inspections and audits of exporting firms point at time-consuming, unclear procedures subject to discretionary decisions.
- Best through their associations Dutch companies shall advocate their interests with the European Commission to make sure that their concerns are considered in the negotiations of the Commission with the CU countries.
- Dutch companies shall argue their case with CU importers and emphasise that they benefit from importing Dutch high quality products. Strategic alliances with CU business partners are a base for stable business relations. Russian partners can make a case for favourable trade conditions and/or help solving problems at the border.
- Based on the presently known CU trade procedures and requirements, there are no indications of sector-specific consequences, either positive or negative in terms of Dutch export opportunities, except for dairy and - perhaps - meat.
- The Dutch dairy industry may face a stronger competition from Belarus at the Russian market as a result of the establishment of the CU linked with the Russian policy towards pre-listing exporting companies. Moreover, increasing import tariffs (due to import-substitution policy) may (further) decline price competitiveness of Dutch dairy on the CU market.
- The Dutch meat exporters face an significant increase of import tariffs at the Belarus border, while Belarus' competitors have free access to the Russian market for their meat exports. Still, the Dutch meat export to Russia increased in 2010 compared to 2009, due to increased demand in Russia.
- However, as many other Dutch sectors exporting to the CU the Dutch dairy and meat products shall compete on quality, rather than on prices. This strategy will reduce the possible negative effect of increasing import tariffs on trade opportunities. Most important, though, is that companies comply with all the SPS requirements and technical trade conditions set by the CU countries.

- In order to realise a smooth transit of their goods to CU markets, detailed and early information on the latest changes in customs union procedures are crucial for Dutch companies. Companies should organise, best through their associations and in cooperation with the Dutch government authorities, an effective and efficient information flow in order to be aware of all and the most up-to-date export requirements.

Literature

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Appendix

Important websites for further information

All decisions and regulations adopted by the CU commission are officially published in its current website www.tsouz.ru

A number of important documents - for example the reports on the interstate council decisions - is published on the website of the EurAsEC: www.evrazes.com/

Information on the development of the CU can also be found on the customs related websites of the CU member states:

- www.customs.ru/ru/tssouz/ for Russia;
- www.e.customs.kz/wps/portal/customs/ for Kazakhstan;
- www.gtk.gov.by/ru/union/ for Belarus.

Other relevant information about the Customs Union should also be available in English at the new website established by the Ministry of Economic development www.ved.gov.ru.

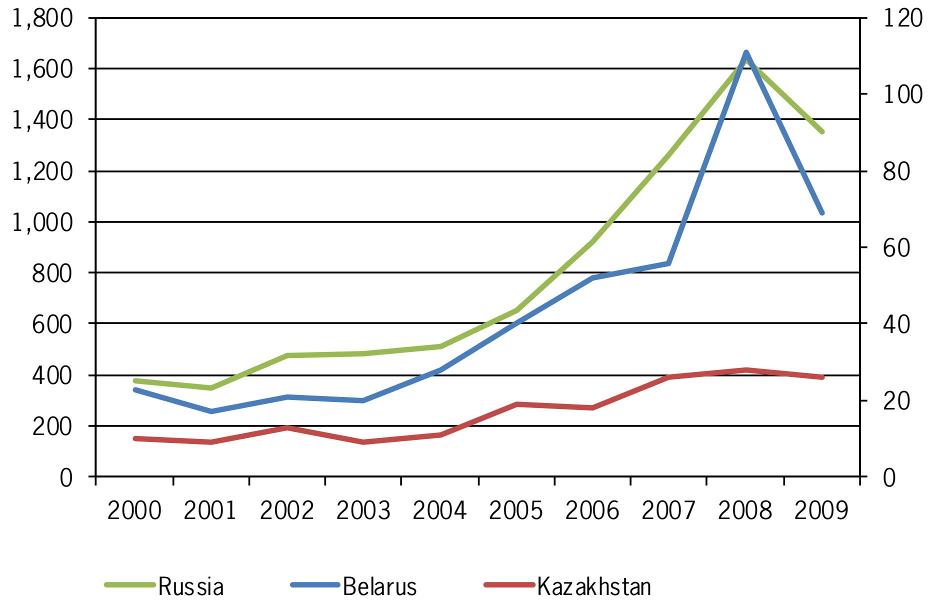
Most of the Customs Union SPS requirements are now available in English on the website of DG SANCO: www.ec.europa.eu/food/international/trade/sps_requirements_en.htm

- All CU veterinary and phytosanitary requirements have been translated, as well as the general CU sanitary text which is close to the Russian SanPIN 2.3.2.1078-01 (www.ec.europa.eu/food/international/trade/docs/CU_SPS_requirements_customs_union_chap1_en.pdf)
- CU common veterinary requirements, which the RF argues should be the basis for any future bilateral or multilateral veterinary export certificate (www.ec.europa.eu/food/international/trade/docs/CU_common_vet_req_en.pdf)

List of interviewed companies and organisations

- Agrico, Frisian
- EC DG TRADE
- EC DG SANCO
- Ministry of Economic Affairs, Agriculture and Innovation, The Hague
- Dairy Produce Board
- CRV
- Topigs
- WTC Leeuwarden
- EVD
- Astra BV
- Difco International BV
- Agricultural Production and Handling BV
- Barenbrug BV
- DLV Plant
- Friesland Foods Cheese
- Geerlofs Koeltechniek BV
- Jos America Machines BV
- Las Palmas International Trade BV
- Van de Bilt Zaden en Vlas BV

Figure A.1 **Dutch agricultural export to Russia, Belarus and Kazakhstan (million USD)**



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