

EastContact

The Foreign Trade Magazine

“Let’s talk” says EAEU Minister Tatyana Valovaya “It takes two to tango” claims EU Ambassador to Russia Markus Ederer “The more integration, the better” argues Belarusian Ambassador to Germany, Denis Sidorenko

EAEU

from Lisbon to Vladivostok:
Transformations and Perspectives

NEU:

ERSTES DEUTSCH-RUSSISCHES BRANCHENFORUM IN MOSKAU

22. November 2018

ab 9:30 Uhr im Hotel "Ararat Park Hyatt"
(Moskau, Neglinnaya ul. 4)

Thema:

Russische Industriepolitik und Exportförderung

Branchen im Fokus:

Automobil, Maschinenbau, Chemie,
Pharma, Infrastruktur, Ernährungswirtschaft

Teilnehmer:

namhafte deutsche und russische
Unternehmen, hochrangige
Regierungsvertreter, Branchenverbände

Konferenzsprache:

Deutsch/Russisch mit Simultanübersetzung

Im Anschluss findet ab 19.00 Uhr
der AHK-Treff mit Tobias Zech (Airbus) als
Gastredner statt.



Stand up for a greater Common European House

EastContact, the exclusive publication of OWC Foreign Publishing House, is dedicated to the idea of European-Eurasian economic partnership and in particular to the idea of a Common Economic Space from Lisbon to Vladivostok.

The idea is not new. Mikhail Gorbachev spoke of the “Common European House” several years before the Soviet Union fell apart, and, more recently, the authors of the Minsk II agreement on Eastern Ukraine have made reference to this vision. But while some politicians speak publicly in favor of such a vision, very little has happened to bring it about.

I well remember times in the 1980s when young people – myself included – took to the streets to demonstrate for a common Europe. We had a great vision in mind, and despite all the challenges in the European Union today, we achieved a lot. To drive this movement for a united Europe, a European effort was necessary, namely the French-German partnership.

I sincerely wish more people today would stand up for a “Common European House” from Lisbon to Vladivostok and that politicians would do more to turn this visionary idea into a reality. In this respect, it is a good sign that the German government has agreed upon including the “vision of a Common Economic Space from Lisbon to Vladivostok” in their 2018 coalition agreement.

For the last four years, I have been personally invested in promoting this vision. I have talked to people from countries such as Poland and Ukraine where politicians remain critical of cooperation between the EU and the Eurasian Economic Union (EAEU). A Common Economic Space is larger than

the EU and EAEU, but the two unions could pave the way for their future cooperation by getting the mandate from their respective members to start official talks.

I perceive my talks with Polish and Ukrainian businesses as very positive, as these countries could well benefit from free trade from Lisbon to Vladivostok.

This issue of EastContact looks at the vision for a Common Economic Space from many different angles. We have interviewed the EU Ambassador to Russia and the EAEU Minister for Integration and Macroeconomics. We also give smaller countries like Belarus and Armenia a voice in our magazine. My impression is that these smaller countries would particularly benefit from the opening of official talks between the EU and the EAEU on the formation of a Common Economic Space. Advancing talks between the two unions would be the best thing we could do at the moment to help these countries grow their economies. The fact that progress on the Minsk II process is stated as an important precondition for such talks is effectively punishing the smaller countries of the EAEU because of the differences Russia and the West continue to have.

In his interview with EastContact, the Belarusian Ambassador to Germany remarked: “The more integration, the better”. I will continue to dedicate my time and energy to bring this idea to fruition. The initiative for a Common Economic Space from Lisbon to Vladivostok presents itself as an excellent opportunity for overcoming the political deadlock between the EU and Russia. It would be a clear sign against protectionism. It is a win-win situation for everyone involved.



Ulf Schneider
Managing Director and Publisher
OWC Foreign Trade Publishing House

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Foto: REUTERS/Alexei Druzhinin/RIA Novosti/Kremlin

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An Economic Space from Lisbon to Vladivostok Hold on to the Vision!



Photo: Russian-German Chamber of Commerce Abroad

When I became Chairman of the Russian-German Chamber of Commerce two and a half years ago, one of my first official acts was to propose to the AHK board, which comprised 15 seasoned company directors, that we should join the “Lisbon-Vladivostok” initiative. The stimulus for this came from the world of business, from entrepreneur Ulf Schneider. The board resolution in July 2016 was unanimous.

Already back then, the companies had a keen understanding that, of all the integration projects initiated after the collapse of the Soviet Union, the EAEU is the most promising and the most serious. Since the foundation of the EAEU in May 2014 by Russia, Kazakhstan and Belarus, two additional countries have joined in the form of Armenia and Kyrgyzstan.

Our regular business climate surveys conducted among the 850 members of the AHK reflect the growing importance of the EAEU. At the end of 2015, the vast majority – 78 percent – of the companies still reported that they felt the EAEU had no impact whatsoever on their business. Three years later, and 44 percent of the companies are talking of “growing importance”, with eight percent even talking about the “great importance” of the EAEU. Companies are seeing advantages in the scrapping of tariffs and controls, in the larger sales market and in the cost savings in terms of logistics and technical regulations.

While she was still Secretary of State, the losing US presidential candidate Hillary Clinton branded the Eurasian Economic Union (EAEU) early on as a neo-imperial project of Russian President Vladimir Putin. Other politicians and experts offer a more sober take on the EAEU as a further regional economic alliance along the lines of the many other, more or less successful economic alliances in the world: Mercosur in South America, the North American Free Trade Agreement NAFTA or the East African Community EAC.

Company directors are responding rationally and pragmatically to this ideological debate that is associated with the EAEU. The EAEU is a reality – and one that offers opportunities. This is also the point of view adopted by AHK Russia.

It is also why, in February 2017, we decided to promote the Eurasian Economic Union (EAEU) more prominently in Germany for the first time together with our colleagues from Belarus and Kazakhstan as part of our traditional AHK Conference “Markt. Modernisierung. Mittelstand” (Market. Modernisation. SMEs), to which we invited the President of the Commission, Tigran Sargsyan. Since then, there has been a follow-up conference every year, alternating between the five member states of the EAEU (Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan).

This year the conference will take place on 9 November in Minsk, and the 3rd Dialogue on Technical Regulations in the EAEU commences the day before. It brings together company directors with representatives from German, Russian and EAEU regulatory authorities in order to standardise norms and standards across country borders.

At the open day of the AHK in the autumn of 2017, the companies Allianz, Hellmann East Europe, Knauf Group CIS, METRO AG, Rhenus Logistics, Siemens and WILO had already joined the “Lisbon-Vladivostok” initiative, and Bosch followed soon after. Further renowned companies will join the initiative at our EAEU conference again this year.

Since the start of September, one of the employees from our Government Contacts department, Vladimir Gerassimov, has

been assigned the task of dealing with issues relating to technical regulations and the EAEU at AHK: gerasimov@russland-ahk.ru. Please feel free to write to him with questions and suggestions. We would be delighted if you and your company would join “Vladivostok-to-Lisbon”.

The coalition agreement of the German government has the following to say about this economic area: “We are holding on to the vision of a shared economic space from Lisbon to Vladivostok. Both sides and the whole of Europe can profit from this.”

Matthias Schepp

is Chairman of the Russian-German Chamber of Commerce Abroad.

“The EAEU is a reality – and one that offers opportunities.”

Transforming the EAEU: Emancipation from Moscow?

Russia's political intentions have strongly shaped the EAEU – despite it having been originally promoted as a purely economic project. Recently, Moscow's interest in the Union has waned. The organisation now has the opportunity to focus more intently on its technocratic tasks.



Photo: kremlin.ru

From the very beginning, the development of the Eurasian Economic Union (EAEU) was overshadowed by a contradiction that affected not only how the organisation functioned, but also how the EAEU was perceived internationally. On the one hand, from the point of view of the Russian leadership, the EAEU was a politically driven initiative. The Union had to recognise Russia's influence in the post-Soviet geopolitical space and, potentially, be recognised as an equal player by other actors, especially the EU. On the other hand, in its implementation, the EAEU followed a clearly non-political path: the organisation did not include even rudimentary or symbolic elements of political integration and focused exclusively on economic affairs. This was to a large extent the result of the strong position of Kazakhstan, which insisted on making the EAEU a purely economic organisation. The effect of Russian ambitions on the development of the EAEU was ambiguous. It did increase Russia's commitment to the EAEU and Russia's willingness to compromise with other members. However, Russia was also responsible for many conflicts associated with EAEU membership, treating accession to the EAEU as a political issue and exercising pressure on other Eurasian countries (like Armenia or Ukraine) to join the organisation.

Russian interest decreased substantially

The obvious importance of the EAEU in the eyes of the Russian leadership was also the reason why the EU-EAEU dialogue was seen by many observers as a possible format for in-

teraction with Russia in 2014-2015. However, as of 2018, it appears that the situation has changed: Russian interest towards the EAEU has decreased substantially. While, in 2012, Vladimir Putin devoted one of the programmatic articles he published in leading Russian newspapers as a basis for his new presidential term to Eurasian regionalism, six years later, before the new presidential elections of 2018, the EAEU was no longer a relevant topic for the rhetoric of the Russian leader – in his most recent address to the nation, it was only mentioned in passing.

There are several reasons why political attention on the EAEU is in decline. Firstly, in its “Great Game” with the West, Russia is now focusing on other arenas, Syria being the crucial one. Russia's foreign policy activism now includes such diverse countries as the Central African Republic, Libya, Ukraine and Afghanistan. The EAEU is simply less important for Russia's attempts at gaining recognition, as there are other, much more prominent international crises that Russia is involved in. Secondly, Russia is a personalistic regime, where key foreign policy decisions are made by a very narrow circle of people. Their attention span is limited, and they have to focus on a small number of decisions they perceive as being crucial. Thirdly, hopes that the EU will approach the EAEU as its equal have also diminished over time, which makes the organisation less interesting for Russia.

This development does not mean, however, that we should expect a crisis in terms of the development of the EAEU. On

The effect of Russian ambitions on the EAEU was ambiguous. It did increase Russia's commitment to the EAEU. However, Russia was also responsible for many conflicts.

the contrary, the transformation of the EAEU from a highly politicised to a purely technocratic project could allow the organisation more leeway in its efforts to achieve the actual goals it was (formally) designed for – the development of regional integration in Eurasia.

The EAEU's achievements in this area should not go unappreciated. The organisation remains a functioning customs union (although politics occasionally intervenes, resulting in major frictions – the most recent being Kazakhstan's decision to temporarily block cross-border trade with Kyrgyzstan in October 2017). Since 2016, some progress has been made in terms of the regional integration goals: the organisation established the common market for medical products and replaced the old Customs Union Customs Code with the new EAEU Customs Code. In September 2018, the Eurasian Economic Commission approved the establishment of the common electricity market (the corresponding amendment of the EAEU treaty is now being assessed by the authorities of the member states).

However, in all of these cases it is also important to not overestimate what the EAEU has achieved; member states agreed to the relevant treaties only after the depth of integration was reduced in comparison to the original plans. Furthermore, there appears to be little progress in one of the most crucial areas of the development of the EAEU common market – the persistence of non-tariff barriers.

Bureaucracy functions but is not independent

The situation is somewhat similar in terms of the operations of the EAEU institutions – the Commission and the Court. The EAEU has established a functioning international bureaucracy, which is capable not only of preparing specific decisions, but also of monitoring the situation in the member countries and evaluating potential barriers to development of the internal market. However, the EAEU bureaucracy is not an independent player on a par with the member states. The bureaucrats of the EAEU do not attempt to increase their autonomy vis-à-vis the national governments; on the contrary, they prefer to exercise caution and avoid any politically challenging decisions. Some of the institutions of the EAEU have become weaker over time – thus, while the EAEU court was seen as a very strong institution when it was first established, today it plays a much smaller role.

What the EAEU bureaucracy does, however, is to compete with some of the national agencies of the member states for support from the political leaders. An example was the issue of reduction of the threshold for duty-free import of goods sold by online retailers. Russian bureaucracy was divided on this (Ministry of Communications vs. Ministry of Finance), as were the EAEU member states, and the Eurasian Economic Commission managed to join this bureaucratic game as an additional player.

Technocratic focus fits members' interests

The purely technocratic focus with a well-specified and somewhat limited scope of regional integration seems to fit

The EAEU remains a functioning technocratic institution, albeit one that is plagued by contradictions between member states.

the interests of most members of the EAEU. I have already mentioned that Kazakhstan treats the EAEU primarily as an economic union, and insists on it staying that way.

For Kyrgyzstan, the key benefit of the EAEU is access to the Russian and Kazakhstani labour markets for its migrants; the key challenge remains how to deal with the Chinese imports Kyrgyzstani traders resell in other post-Soviet countries. Kazakhstan insists on Kyrgyzstan tightening its border controls (after the crisis in 2017, the Kyrgyzstani leadership committed to doing precisely this), while at the same time attempting to reroute trade with China through its own entry points like the Khorogos special economic zone.

Armenia, in spite of the political changes of 2018, also does not seem to be changing its attitudes towards the EAEU. In this case, it is driven not only by economic interests (Armenian labour migrants in Russia), but also by political considerations (membership of the EAEU is one of the elements of the Russian security guarantee that is desperately needed by Armenia).

Finally, Russia and Belarus still maintain their complex relations, which has led to several conflicts in recent years caused, for example, by the Belarusian decision to introduce visa-free entry for US and EU citizens, or by the Russian reform of taxation in the oil sector, which takes away one of the main benefits negotiated by Belarus while establishing the EAEU, i.e. the import of Russian crude oil without payment of export duty. Russia plans to abolish export duty on

oil altogether while at the same time increasing other forms of taxation of the oil sector, which would make crude oil more expensive for Belarus. Still, despite these conflicts Belarus remains heavily dependent on Russia, and no changes to this situation are in sight.

Summing up, in the coming years we are likely to see far fewer spectacular decisions, conflicts or geopolitical confrontations associated with the EAEU. At the same time, the EAEU remains a functioning technocratic institution, albeit one that is plagued by contradictions between member states and is occasionally overruled by political considerations, yet is still able to contribute to the integration of the economies of the Eurasian countries.

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Making Friends: Expansion through EPAs

While enlargement is not an option for the EAEU, it is in the process of concluding more and more economic partnership agreements (EPA) with third countries – including China.

Vladimir Putin and Chinese President Xi Jinping discuss their potential for cooperation on a high-speed train.



Photo: kremlin.ru

“In response to the US sanctions we have consolidated our internal processes and created the standardised market for the Eurasian Economic Union (EAEU)”, said Andrey Beliyaninov, Chairman of the Eurasian Development Bank (EDB), at the start of September at the Euroasian Media Forum in Almaty. These words were an attempt by the banker to put a good spin on the embargo imposed by US President Donald Trump. Beliyaninov’s institute was founded in order to support economic development in certain CIS countries. It has a capital of USD seven billion and is an important institution for promoting economic growth in the EAEU.

In addition to its attempts to create shared markets within its sphere of action, the organisation is also looking for other ways to strengthen the economic power of its five member states, the combined gross domestic product (GDP) of which is around two trillion dollars. These include free trade deals and economic partnership agreements with other countries to facilitate trade. In May the EAEU concluded an agreement with China that contains provisions for far-reaching economic cooperation and comes into force on 1 January 2019. This is seen as a milestone in terms of closer convergence between the organisation and China, which is currently implementing its “New Silk Road” initiative – involving land routes in which the EAEU member states Russia, Kazakhstan and Belarus play an important role.

Exact details are yet to be finalised

The agreement between China and the EAEU will also include the dismantling of tariffs and other non-tariff trade restrictions, protection of intellectual property and a Government Procurement Agreement (GPA). These agreements govern the rules for access to public contracts. Simplified customs regulations and an exchange of information between authorities are particularly important here.

These are the fundamentals that still need to be specified. The partners still have around three months to define its content in detail before the agreement is due to come into force. The biggest partner within the EAEU is Russia, which has steadily increased trade with China in recent years. According to statistics of the Chinese General Administration of Customs (GAC), foreign trade volumes between Russia and China have risen in 2017 by 20.8 percent to USD 84 billion in comparison to the previous year.

Turnover for the current year to the end of August has increased by 25.7 percent to USD 67.5 billion over the previous year. The outlook of the Chinese Ministry of Commerce is highly promising for 2018 as a whole, as it is expecting a trade volume of USD 100 billion – almost another twenty percent more than twelve months ago.

The organisation signed a framework agreement with Cuba on 31 May for a trade agreement that will enable both sides to facilitate mutual economic relations. The Caribbean country has a gross domestic product (GDP) of around USD 90 billion and a sales market of some 2.5 million consumers.

In September, Cuban pharmaceutical manufacturers had initial meetings in Astana with representatives of the organisation with a view to being able to sell their products in the EAEU zone in the future. “Cuba has already had connections with all the countries in the EAEU for a very long time now”, said Wiktor Nazarenko, the zone’s spokesperson. “This relates

both to pharmaceutical trade and to the health sector”, explained the representative of the EAEU.

Agreement with Vietnam offers a tremendous boost to trade

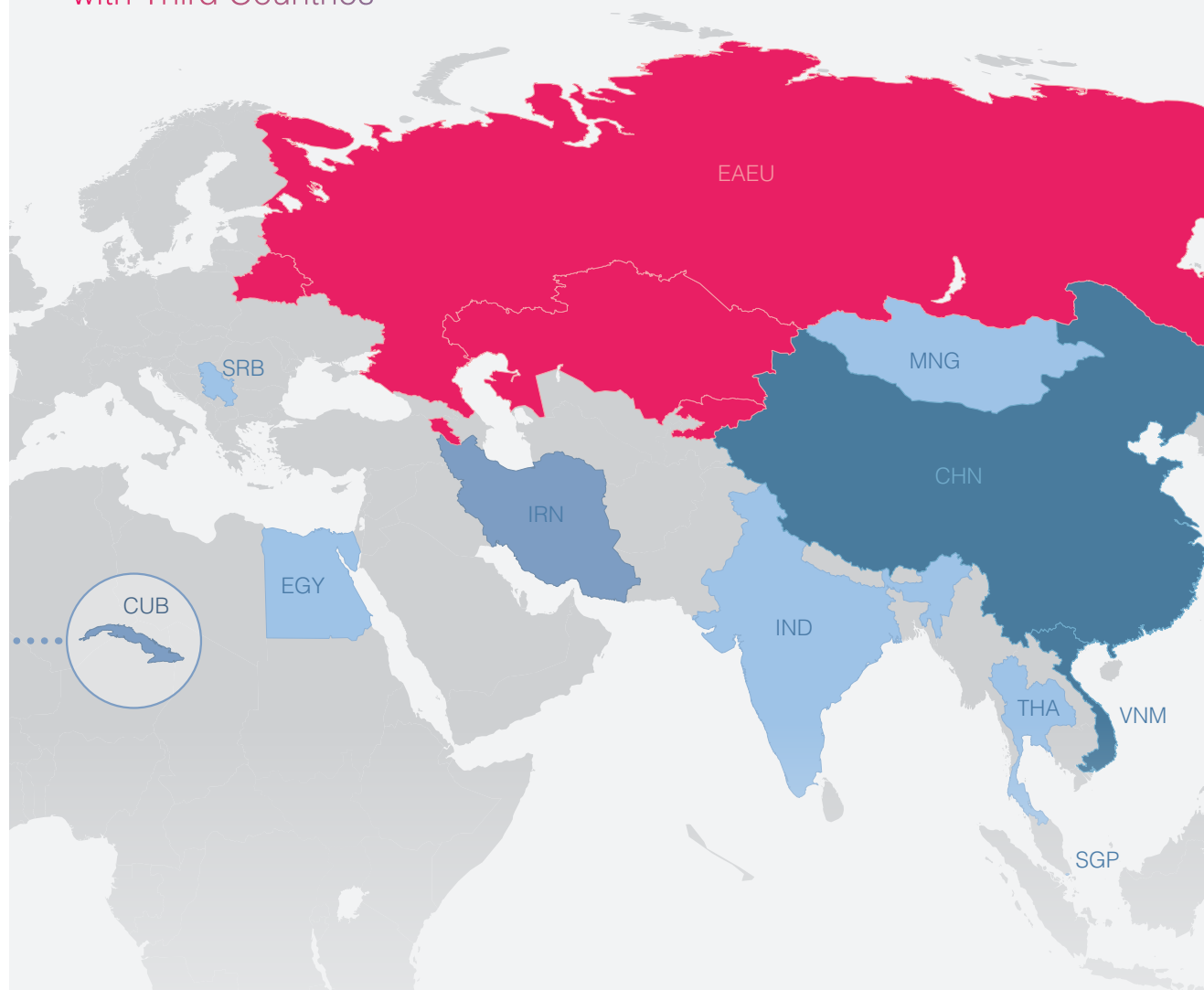
In addition, the EAEU also has a free trade agreement with Vietnam, which was already ratified in October 2016. During the last year, foreign trade volumes between the partners increased by 36 percent over the previous year to USD 5.9 billion. Exports from Vietnam into the economic area increased by 35 percent to USD 3.7 billion. Against this, the EAEU sold 40 percent more into the Asian country, leaving a trade surplus of USD 2.3 billion. “In 2017, the countries in the organisation and the Asian country generated the largest trade volume there has ever been between these partners”, said EAEU Trade Minister Weronika Nikischna.

At the end of September, the partners agreed on new long grain rice import quotas from Vietnam on the basis of this treaty, which will apply from next year. Vietnamese companies are permitted to sell a total of 10,000 tonnes of rice tariff-free to Russia.

In addition, the organisation is also in discussions with a number of countries about future agreements. An agreement was close to being concluded with India, one of the world’s largest national economies with a GDP of USD 2.3 trillion, at the start of October. “This agreement will create a vast market, from which the countries in the region as well as India

The free trade agreement with China is seen as a milestone in terms of closer convergence between itself and the EAEU.

EAEU Trade Agreements with Third Countries



	Status	Enforced
China	signed May 2018	Jan 2019 (planned)
Vietnam	signed May 2015	Oct 2016
Cuba	MOU signed May 2018	
Iran	MOU signed May 2018	
Egypt	being negotiated	n.a.
India	being negotiated	n.a.
Mongolia	being negotiated	n.a.
Serbia	being negotiated	n.a.
Singapore	being negotiated	n.a.
Thailand	being negotiated	n.a.

Source: EAEU

and the member states of the EAEU will all profit”, explained Suresh Prabhu, Indian Minister of Commerce and Industry.

Links to Egypt and Iran

Discussions are also under way with Egypt. “The end of 2018 will see the first round of negotiations”, explained a spokesperson for the zone. The accession of Egypt could be particularly interesting for the member states, because the Arab nation has very a wide network of trade structures with African and Arab countries. But that is not everything: during the last ten years, economic output has almost doubled to around USD 340 billion. On top of this, as well as its extremely dynamic growth Egypt also offers a sales market of nearly 80 million consumers.

The EAEU is also conducting negotiations with Iran that are already well advanced. The organisation declared: “We will conclude a treaty with Iran within the next three years”. The fundamental agreement was already signed by the parties on 17 May. This is seen as an important document that should pave the way for free trade between Iran and the five member states of the EAEU.

The organisation has also agreed almost all the necessary details with Singapore, which has an economic output of USD 300 billion. Although neither side had signed a document by mid-October, the parties have already completed several rounds of negotiations, the results of which have been very promising. “During the last round of negotiations we were able to agree on the tariffs”, said Russia’s Deputy Prime Min-

ister Maxim Akimov at the end of September, before adding: “Based on our experience, this is always the hardest part”.

Cooperation with the EU would be lucrative

Cooperation with the EU would, of course, be highly lucrative for the EAEU – with the EU offering an economic output of USD 17.7 trillion and a market of some 500 million consumers. Together with the EAEU, the community could form a vast economic area – and one that could be politically very significant based on the major tensions that exist between countries in Eastern Europe and the EU.

At the World Economic Forum meeting in Davos in 2015, German Chancellor Angela Merkel spoke of the “possibility of a free trade zone extending from Lisbon to Vladivostok”. She believed that the prerequisite for this would be “a peaceful solution to the crisis in Ukraine”.

However, no convergence between the two organisations is really in sight yet. This fact also annoys the experts: “The best response of the EU to growing protectionism would be to conclude free trade agreements with as many countries as possible”, said Wolfgang Buechele, Chairman of the German Eastern Business Association (OAOEV). “After the successful negotiations between the EU and South Korea, Canada and Japan and the trade agreement with MERCOSUR, the South American trade block, and with Africa, we are unfortunately not seeing any efforts at all to cooperate with the EAEU”, reminded the official.

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Alignment of Technical Standards Between West and East

While the number of non-tariff barriers in the world is rising, the EAEU is pursuing a decrease of NTBs – and alignment of technical standards with the EU. However, immediate benefits to European companies have not yet materialised.

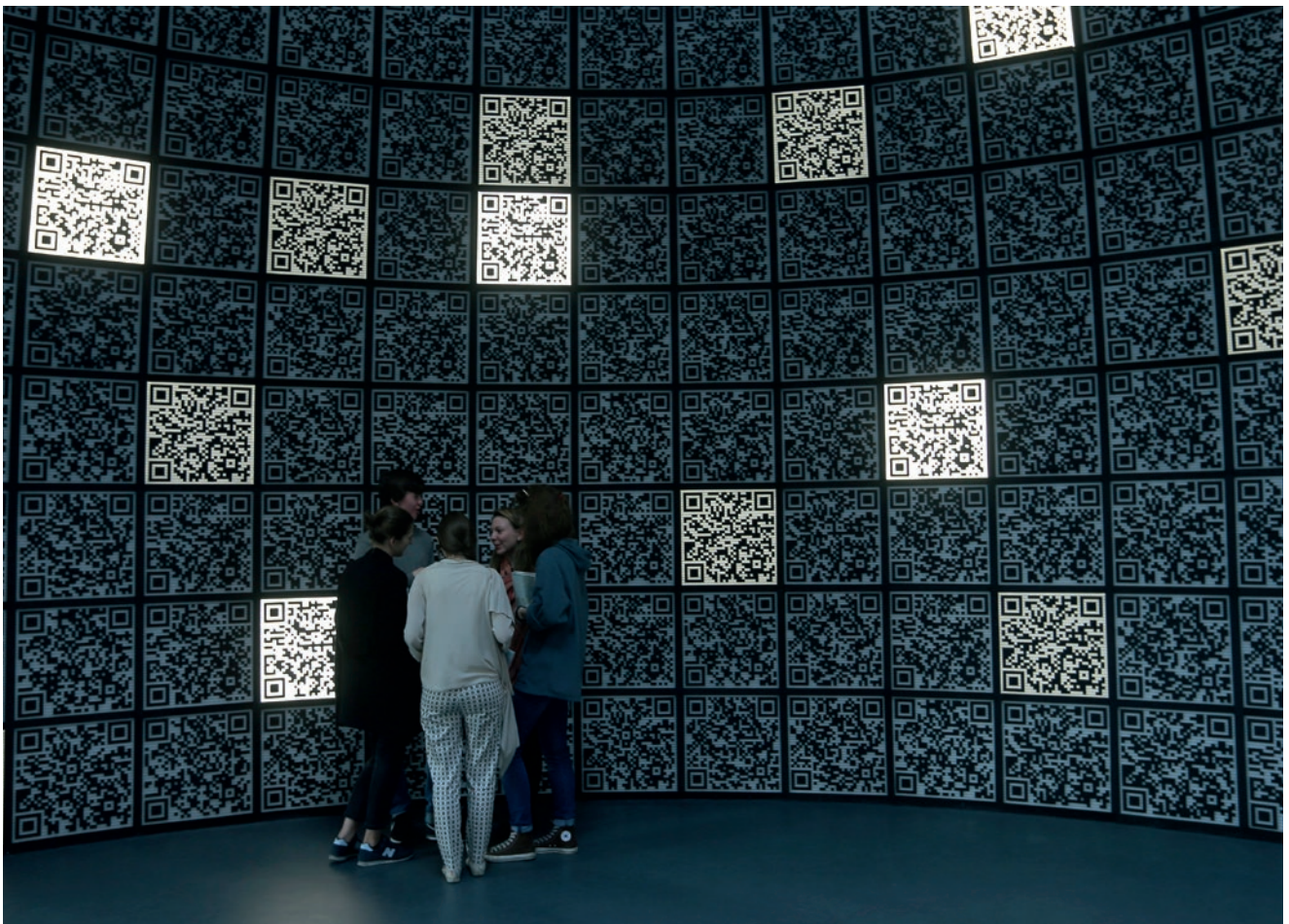


Photo: REUTERS/Maxim Shemetov

Recent years have seen a rise in protectionist rhetoric, sanctions and counter-sanctions, and the increasing use of non-tariff-barriers (NTBs) in global trade. The world economy has been witnessing a continuous decrease in the use of customs duties over the past 15 years. For example, in the BRIC countries the average most-favoured-nation tariff has decreased from 17 percent in 2000 to slightly over eight percent by 2015. This has been achieved mainly under the influence of the World Trade Organisation (WTO). However, mainly as a means to counterbalance the effects of trade liberalisation, countries turned more and more to the use of non-tariff barriers. From 2009 to 2016 alone their implementation in overall global trade has increased more than fivefold – from 389 to 2421.

At the same time, the Eurasian Economic Commission, the main governing body of the Eurasian Economic Union (EAEU), on the contrary has been quietly doing something quite remarkable that can make life potentially a lot more easy for European businesses selling their goods on the common market of the Eurasian Union. The Eurasian Commission autonomously has been working towards maximal approximation of the EAEU's technical regulation system to that of the European Union. This forms the "technical framework" for the creation of a Common Economic Space from Lisbon to Vladivostok.

Potential format of a Common Economic Space

Before assessing the scope for convergence of the technical regulation systems between the EU and EAEU, we first need

60 to 80 percent of the EAEU's technical standards are identical to European/international standards.

to answer the question of what overall format an EU-EAEU Common Economic Space could have.

Despite the crises in EU-Russia relations, this concept in recent years has not only received notable public support from European and Eurasian business communities, especially from the unions' respective "core countries", but has also become the focus point of several distinguished research institutes in Europe.

At the same time, despite a growing support for the idea itself, few people indeed imagine what exactly could be meant by the concept of a "Common Economic Space". In fact there are only two realistic options.

In the first option, EU-EAEU mutual relations could be managed under a not so ambitious non-preferential trade and economic cooperation agreement, which would mirror the one that the Eurasian Union signed with China in May 2018. Tatyana Valovaya, the Eurasian Commission's minister for integration development and macroeconomic policy openly supports such a format, since a treaty of this kind would not entail the reduction in tariff barriers. This echoes the common belief that Eurasian enterprises would not yet be ready to face stronger European competition within a potential free trade area. It also moves in line with Russia's import substitution policy and the EAEU's overall demand for FDIs and technological transfer.

At the same time such a format would significantly impair the scope for the reduction and harmonisation of technical barriers to trade (TBT). Most importantly, it would not suit the interests of European producers aimed at exporting more goods to the EAEU's domestic market.

The second option would be the compromise solution of an "asymmetric" free trade area from Lisbon to Vladivostok, rather like the EU's deep and comprehensive FTA with Ukraine. It would be asymmetric in the sense that the European Union would curb import tariffs on Eurasian goods from day one. Whereas the Eurasian Union would be entitled to transition periods from three up to ten years for less competitive industries, lowering customs duties step by step depending on the sensitivity of each sector. Since such an agreement would still be on trade liberalisation it could include chapters on the approximation of technical product standards.

Basic TBT system of the EU

While the system for setting technical standards in the EU is highly complex and has been changing over time, its basic, two-level system can be summarised as follows.

On the first level the EU's harmonisation laws, of which a few "horizontal" regulations or decisions cover the general methodology and institutional framework, and around 30 directives cover broad "sectoral" product groups such as "machinery," etc.

On the second level around 5,000 product-specific "harmonised standards" provide the technical means to assure the presumption of compliance with the essential health and safety requirements defined in the sectoral product directives. These standards are produced at the request of the European Commission by the three technical organisations (CENELEC for electrical products, ETSI for telecommunications equipment, and CEN for the largest number of other products). However these organisations produce on their

own initiative a far larger number of around 25,000 voluntary standards, often in collaboration with the International Standards Organisation (ISO), International Electrotechnical Commission (IEC), and the International Telecommunication Union (ITU).

When placing a product on the EU market covered by the EU's harmonisation legislation, the manufacturer has to draw up and sign an "EU Declaration of Conformity," in which he/she declares and ensures that the products concerned satisfy the "essential requirements" of the relevant product directive and that the relevant conformity assessment procedures have been fulfilled. By signing the EU Declaration of Conformity, manufacturers assume responsibility for the compliance of the product. Only then can a manufacturer affix the "CE" mark to the product. Products bearing the CE marking are presumed to comply with the applicable EU legislation and benefit from free circulation in the European single market.

EU's TBT system as a model

The EU's two-tier system, together with WTO agreements, serve as a model for the Eurasian Union. Its member states have agreed to harmonise their policies and regulatory systems in the area of technical regulations. While the process is not yet complete, the goal of this harmonisation is to ensure uniform requirements for the circulation of goods within the Eurasian domestic market through common technical regulations. These technical regulations are to be applied directly

in the territory of the member states, without complementary national legislation.

Once the technical regulations of the EAEU come into force, relevant national requirements can no longer be applied. In practice, this process may take time and there remain some inconsistencies, e.g. simultaneous listing of common harmonised standards (interstate standards) and differing or modified national standards.

The system of technical regulation in the Eurasian Economic Union is regulated by Section X of the EAEU Treaty, which states as one of its principles the "harmonisation of interstate standards with international and regional standards", as well as Annexes 9, 10 and 11 to the Treaty. Appendix 9 states that "the relevant international standards are applied as the basis for the development of technical regulations of the Union". The process of preparation of draft technical regulations goes as following. The "developer" of the draft technical regulation, which is usually either the CIS-based standards organisation in Minsk, or an EAEU member state institution, prepares the first draft, which is considered by a working group including representatives of standardisation bodies, industry and business. As a next stage, the Eurasian Economic Commission sets in motion committee work, a publication of the draft on its official websites, and public consultations. The text, as revised through these processes, is submitted by the Board to the EEC Council for decision.

The main prerequisite for harmonisation and approximation of technical regulations between the EU and the EAEU is that most of the 46 adopted technical regulations and 11,000 standards that are listed under them are "identical" in text and content to the EU's technical regulations and European standards, as well as to international standards which also coincide with the European ones. Thus, 31 technical regulations of the EAEU, which entered into force in the period from 2012 to 2015, were developed on the basis of EU sectoral directives and horizontal regulations. From 60 to 80 percent of the EAEU's technical standards are identical to European/international standards, depending, of course, from regulation to regulation. The total number of Eurasian interstate standards developed on the basis of international and European standards by the beginning of 2018 was 5,821. For example, the EAEU technical regulation "On the safety of low-voltage equipment" practically coincides with the corresponding EU directive. From 978 standards under this technical regulation, 841 are identical to IEC/CENELEC standards. The remaining 137 standards are "modified" based on European/international standards, i.e. with a deviation in text of no more than 20 percent.

In June 2017, CEN and CENELEC signed a Memorandum of Understanding with the Eurasian Economic Commission. This MoU provides for "further harmonisation of interstate and national standards of the Eurasian Economic Union Member States with international standards and in the absence of those international standards with European standards".

Necessary future steps

So, does this approximation process bring immediate benefits to European companies selling their goods on the market of the EAEU? Unfortunately, not yet. Certificates on European technical product standards are not accepted in the EAEU. Even those that are identical to the EAEU's interstate standards. Some Eu-

Certificates on European technical product standards are not accepted in the EAEU. Even those that are identical to the EAEU's interstate standards.

European testing methods can be taken into account when conducting conformity assessment in the Union. However, even this is all at the discretion of the national certification body that issues the certificate and according to its competence.

The next big step in the possible agenda for reducing the burden of technical barriers to trade between the EU and the EAEU could be the signing of a Mutual recognition agreement (MRA) over conformity assessment. Within such an agreement, the parties, while retaining their own distinct technical regulations and standards, agree to mutual recognition of each other's conformity assessment bodies to certify conformity with the importing party's regulations or standards on the territory of the exporting party.

European exporting enterprises would benefit from the possibility to obtain certification of conformity of its products by an accredited conformity assessment body accredited at home under MRAs, without further intervention of an agency in the Eurasian importing country. Naturally such MRAs are symmetrical, and European companies would have to accept the assessment of conformity with its own regulations and standards of imports from the EAEU to be conducted in an EAEU member state. For this to be acceptable there has to be high trust in both the technical professional skills of the accredited conformity assessment bodies and their clear independence from political orientations.

A study by the Munich-based ifo Institute found that the creation of a free trade area "from Lisbon to Vladivostok" to-

gether with a deep reduction of NTBs would be highly beneficial to the European side. For example, in such a scenario Germany's export could rise by almost 60 percent and the economy could gain an additional 90 Euros GDP per capita.

Yet, the conditions for an MRA between the EU and the EAEU may seem a distant possibility, not only due the political crisis in EU-Russia relations, but also to Brussels' unwillingness to accept the EAEU conformity assessment of European regulations and standards. At the same time, the Eurasian Economic Commission is currently getting ready to sign MRAs, and even cross-recognition (acceptance of equivalence) of technical product standards, with some of the third-part countries that the Eurasian Union has free trade agreements with. This can happen as early as 2019.

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This article is based on the recent report "Technical Product Standards and Regulations in the EU and EAEU – Comparisons and Scope for Convergence" by Michael Emerson and Jurij Kofner, IIASA.
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Eurasian Economic Union: Basic Features

Although the EAEU in its present form is still a young organisation, it already looks back on over 20 years of history. Its competencies and activities are constantly evolving. Some institutions have not yet lived up to the expectations. In other areas, substantial progress has been made.

May 2014: Russia, Kazakhstan and Belarus sign the Treaty on Eurasian Economic Union in Astana.



Photos: kremlin.ru

The treaty that established the Eurasian Economic Union (EAEU) has been in force since 1 January 2015, and the founding members Russia, Kazakhstan and Belarus have now been joined by Kyrgyzstan and Armenia. Even though there are a number of parallels between the European Union (EU) and the EAEU, the EAEU is currently still only focused on creating a common economic area. Initial attempts at founding a customs union were already made in the 1990s. They led to the foundation of the Eurasian Economic Community in 2000 and to the creation of a customs union in 2010. This customs union is characterised by the abolition of tariffs within the economic area and the creation of standardised customs tariffs for trade with third countries. When the Treaty on the Eurasian Economic Union came into force, the customs union rulings were integrated in the more extensive provisions for the economic union.

The most recent step in this development is the adoption of a shared customs code in April 2017, which supersedes the customs code of the customs union and came into force on 1 January 2018. Thanks to the standardised customs code, the customs procedures between the member states of the EAEU have been largely standardised.

Powers of the EAEU

According to Article 4 of the Treaty on the Eurasian Economic Union, the goal of the EAEU is the economic development of its member states, the creation of a single market and the

TIMELINE

1994

The President of Kazakhstan Nursultan Nazarbayev voices the idea of the Eurasian Union of States.

1995

Belarus, Kazakhstan and the Russian Federation sign the Treaty on the Customs Union.

1996

29 March: Belarus, Kazakhstan, the Kyrgyz Republic and the Russian Federation sign the Treaty on Deepening Economic and Humanitarian Integration on. The Republic of Tajikistan joins in 1998.

1999

26 February: Belarus, Kazakhstan, the Kyrgyz Republic, the Russian Federation and Tajikistan sign the Treaty on the Customs Union and Single Economic Space.

2000

23 May: The meeting of the Interstate Council decides to draft a Treaty on the creation of an integration alliance between Belarus, Kazakhstan, the Kyrgyz Republic, the Russian Federation and Tajikistan.

May 2015: Meeting of Supreme Eurasian Economic Council at the Kremlin, Moscow



strengthening of competitiveness in the globalised world. According to its legal nature, it is an international organisation for regional economic integration with its own legal capacity. Here, in the field of foreign trade policy, the EAEU is authorised to conclude binding contracts for its member states with third countries and international organisations within its defined powers. Similarly to the EU, the principle of conferral also applies to the EAEU, which means that it can only become active in areas in which powers are explicitly conferred by the member states. Accordingly, the institutions of the EAEU are authorised to make decisions with binding effect for its member states. However, unlike in the EU, these resolutions have no direct effect and instead need to be implemented by the responsible national institutions. This means that, although the EAEU is an international organisation, in contrast to the EU no national sovereignty rights have been transferred to it yet.

This aspect is particularly significant in terms of the lower importance of the EAEU's court of justice compared to that of the EU. Although this court of justice has been established based in Minsk on the basis of the Treaty on the Eurasian Economic Union, the same powers that have enabled the EU Court of Justice in Luxembourg to evolve into a motor of integration have not been transferred to it. In addition, against the background of the differences with the European Court of Human Rights, power has been conferred to the Constitutional Court of the Russian Federation to check the conform-

10 October: The Eurasian Economic Community is established in Astana.

2003

19 September: Belarus, Kazakhstan, the Russian Federation and Ukraine sign the Treaty on Establishment of the Single Economic Space in Yalta.

2006

In August, the heads of the Eurasian Economic Community Member-States decide that Belarus, Kazakhstan and the Russian Federation should create the Customs Union in the format of three States with subsequent accession by the Kyrgyz Republic and the Republic of Tajikistan.

2007

16 October: The Treaty on the Creation of the Single Customs Territory and Establishment of the Customs Union of Belarus, Kazakhstan and the Russian Federation is signed.

2010

In January, the Customs Union of Belarus, Kazakhstan and the Russian Federation is launched.

In December, 17 primary international treaties are adopted, and also the Declaration on Establishment of the Single Eco-

Supreme Eurasian Economic Council meeting in expanded format. May 2016 in Astana



Photos: kremlin.ru

ity of legal acts under international law with the Russian constitution. This caveat also applies to the legal acts of the EAEU.

Field of activity

The Treaty on the Eurasian Economic Union lists a number of areas in which powers have been transferred to the EAEU. Alongside powers to implement the objective of a customs union, these also include powers for the creation of a single economic area.

In addition to the transfer of powers to represent member states to third countries, the goal of creating a single market in order to implement the principle of the freedom of movement of goods is also served by competences in the areas of regulating tariff and non-tariff trade barriers, technical and sanitary regulations and protection against dumping prices.

The treaty contains various principles with regard to the single economic area, focusing first and foremost on coordination as a tool with which to achieve these objectives. This includes in particular further freedoms for trade in services, capital and investments as well as labour. Liberalisation is specified as the goal for these points, but implementation is transferred to the responsible institutions.

In addition, coordinating tasks are also being assigned to the EAEU in different areas. These include in particular the areas of energy, agriculture and transport.

In the areas of protection of competition, procurement law and state aid, which are important from the point of view of

conomic Space of Belarus, Kazakhstan and the Russian Federation is signed.

2011

In November, the Presidents of the integrating three States sign the Declaration on Eurasian Economic Integration and the Treaty on the Eurasian Economic Commission.

In October, a decision is taken to start negotiations on the accession of the Kyrgyz Republic to the Customs Union.

December: Enactment of the Treaties Establishing the Single Economic Space of Belarus, Kazakhstan and the Russian Federation.

2012

In January, the treaties enter into force. The Eurasian Economic Commission, headquartered in Moscow, starts its work in February.

2014

29 May: The Presidents of the CU and SES Member-States sign the Treaty on the (EAEU).

10 October: The Agreement on Accession of the Republic of Armenia to the EAEU is signed in Minsk, during the session of the Supreme Eurasian Economic Council.

Meeting of the Supreme Eurasian Economic Council. December 2016 in St. Petersburg



the EU, no powers have been transferred. Although the Treaty on the Eurasian Economic Union does include provisions on these topics, these are, however, limited to the responsibility for formulating joint principles that are to be reflected in implementations by national authorities.

Organisational structure

Parallels to the EU are evident in the organisational structure of the EAEU, but it also differs in key points. The most important institution is the Supreme Eurasian Economic Council, which is composed of the member countries' heads of state. This body, which meets at least once a year, makes fundamental decisions about the general development of the EAEU, as well as making key personnel decisions and deciding on the budget. Decisions are made by consensus in this body, which normally means that unanimous agreements are required.

The heads of government of the member states form the Eurasian Intergovernmental Council, which is responsible for implementing the resolutions of the Supreme Eurasian Economic Council and for reviewing the implementation. This body also makes decisions by consensus.

The only permanent body of the EAEU is the Eurasian Economic Commission, which has its headquarters in Moscow. This is the actual executive body. It is responsible for preparing the file required for implementation of measures and for submitting it to the responsible bodies for their decision. Here,

December 23, Belarus, Kazakhstan, the Russian Federation and the Kyrgyz Republic sign the Agreement on Accession of the Kyrgyz Republic to the EAEU.

2015

1 January: Foundation of the EAEU

2 January: Armenia officially joins.

Vietnam signs Free Trade Zone Agreement on 29 May 2015. The law was signed on 2 May 2016 by Russian President Vladimir Putin, on 31 May by Alexander Lukaschenko, President of Belarus, and on 2 June by Almasbek Atambajew, President of Kyrgyzstan.

12 August: Kyrgyzstan joins

2016

EAEU and Thailand start negotiations about a free trade zone on 1 April.

June: At the SPIEF, President Nasarbajew calls to start negotiations in the EU-EAEU format.

In autumn, Mongolia starts negotiations about a free trade zone and possible accession.

Supreme Eurasian Economic Council meeting. October 2017 in Sochi



Photo: kremlin.ru

it is subordinated to the Supreme Eurasian Economic Council both in terms of personnel and content.

There is no representation of national parliaments and no parliament of the EAEU. Finally, we should also mention the Eurasian Development Bank. However, this is not an institution within the framework of the EAEU, but an investment bank that is operated by the members of the EAEU and Tajikistan.

The EAEU as a trading partner

To close, the relationship between the EAEU and the WTO, of which all member states of the EAEU with the exception of Belarus are members, is not without controversy. For companies from its member states, the court of the EAEU already declared in a decision dating back to June 2013 that Union laws take priority. With regard to third countries, it is defined in the GATT that regional economic alliances in the form of a customs union and a free trade zone are not considered incompatible in principle with GATT regulations. However, it is a prerequisite for this that the burdens for companies from third countries overall are not increased due to the alliance.

Prof. Dr. Hans-Joachim Schramm

is Professor of Economic Law and the Professor of Civil Law, Labour Law and European Law at the University of Applied Sciences in Wismar.

2017

17 January: Moldova seeks observer status. On 22 March 2017 the country signs a corresponding memorandum of understanding. On 3 April 2017 a partnership agreement is signed between Moldova and the EAEU.

On 14 April the decision to grant Moldova observer status is taken in Bishkek.

June: India signs a declaration to start negotiations about a free trade zone.

2018

1 January: EAEU Customs Code comes into force.

14 May: Moldova is granted official observer status.

17 May: First time-limited free trade agreement is signed with Iran. Memorandum for trade and economic cooperation with China.

31 May: MOU between the Eurasian Economic Commission and the Government of Cuba

November 2018: Singapore due to sign a free trade agreement

EAEU Structure & Institutions

Court of Eurasian Economic Community

10 independent judges (2 from each member country) / 5 courts

Supreme Council of Eurasian Economic Union

5 heads of state of member states

takes important political decisions by consensus

Eurasian Intergovernmental Council

5 Prime Ministers of the member states

analogue to Supreme Council, governs activity of EEC

Eurasian Economic Commission (EEC)

Council of the EEC

5 Dpt. Prime Ministers

Board of the EEC

1 Chairman of the Board / 9 Ministers

Operational Level

23 Departments / 17 Consulting bodies

takes decisions on operational level, drafts agendas, prepares issues etc.

EAEU: Facts and Figures

The EAEU as a Resource Power-house
Production of Raw Materials in EAEU Member Countries



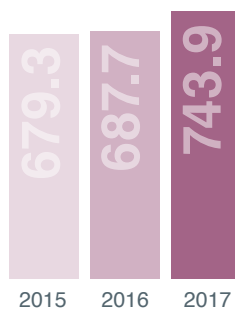
Oil production
million MT



1st place
global share of pro-
duction: 14.5%



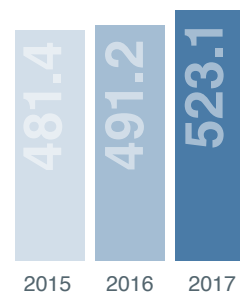
Gas production
bcm



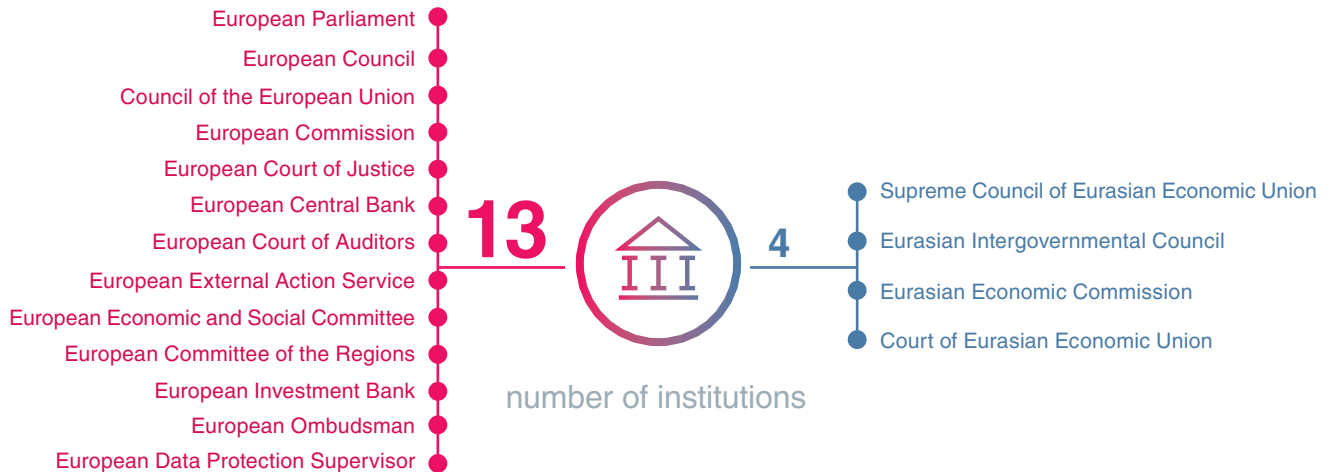
2nd place
global share of pro-
duction: 20.2%



Coal production
million MT



6th place
global share of pro-
duction: 5.8%



country breakdown in %

16% Germany
13% France
13% GB
12% Italy
9% Spain
37% Others

510
million

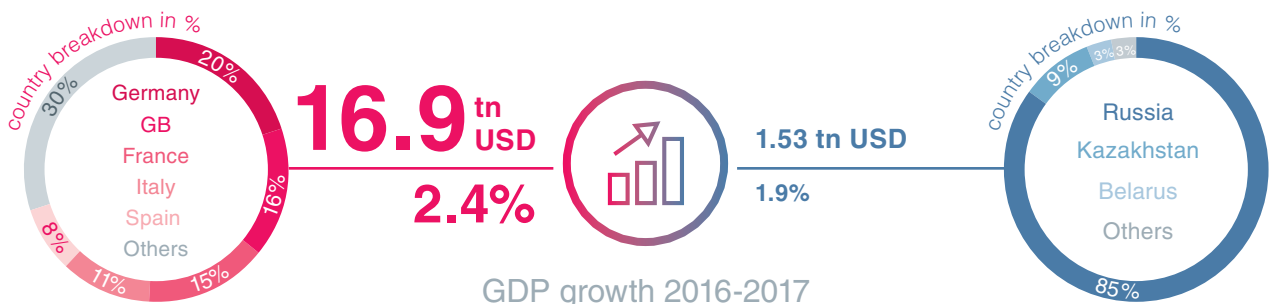


population

179
million

country breakdown in %

Russia 78%
Kazakhstan 10%
Belarus 5%
Kyrgyzstan 3%
Armenia 2%



“Let’s Talk!”

EAEU Minister for Integration and Macroeconomics Tatyana Valovaya on the achievements and challenges of the Union and on its relations with the EU.

Minister Valovaya, before we talk about the challenges of the EAEU and its difficult relations with the EU, what are the major achievements the EAEU has made so far?

Valovaya: The level of the EAEU integration today is similar to the level the EU had in 1993-95. We have four freedoms of movement: goods, capital, services, and labour force; and we are building single markets. There is a distinction between the freedom of movement and the single market: the freedom of movement means there is no customs control, there are no tariffs, etc., but at the same time, the single market implies unified regulation.

In the majority of sectors, we have already created single markets. For a few commodities, we do still have national regulations, but we have a timetable for building single markets in these spheres as well. As far as the Customs Union is concerned, it has been built, and there is no discrimination in services, except in a few sectors pertaining to, for example, state services. All our citizens can work in any country of the Union without any special permission, without passing any special exams etc. We also have the ambition to create a common financial market by 2025. In essence, this common market will also be a single market, and the main principle of its operation will be similar to the logic of the single market for services. Of course, we need to harmonise our legislation, and we will need a new supranational institution for financial regulation, which is to be located in Kazakhstan. So, I think we have achieved a lot, but we still have a lot of problems, I like to say.



Photo: Dmitry Bagin

There are still a lot of impediments to trade within the EAEU – non-tariff barriers like the technical barriers to trade, sanitary and phytosanitary measures, and a lack of openness on public procurement. EU representatives often stress these short-comings. What are you doing to address these?

Valovaya: I heard (this criticism) when I was speaking with the Ambassador of the European Union (to Russia, Markus Ederer) – and to tell you the truth, I was very happy. The EU is finally starting to observe what we are doing. They see the results, but also the problems.

We want a dialogue with the EU about this. They also had these problems in the past; they solved them. They can now share their experience with us.

A lot of the barriers we have resulted from the deterioration of the political climate. Where we have barriers we have to react. The majority of the discussions we have inside the Union address the fact that Russia has a different regime with many countries due to the sanctions these countries imposed on Russia. These sanctions and counter-sanctions are very difficult for the Union. Kazakhstan, for example, can import everything and anything, including agricultural products from the EU – and according to the Treaty, Russia has to then provide free transit, of course.

The easiest thing to do would have been to restore internal frontiers temporarily. But we decided not to. Instead, we need closer cooperation between the authorities, like the customs or

phytosanitary authorities of our respective countries. In addition, we are discussing a new and transparent electronic tracking procedure of the goods that are exported to the Union. Once we have this digital system in place, we will have less problems because we will be able to immediately see which goods have crossed the frontier into Belarus from Poland and (how they continue onward) to their destination in Kazakhstan.

You compared the EAEU's development to that of the EU's in the past. In the EU there has never been a single dominant power as Russia is in the EAEU. There are also much bigger economic imbalances between EAEU members, as most of the trade is bilateral trade between Russia and Belarus, or Russia and Kazakhstan. How much does this hamper the Union's evolution?

Valovaya: One thing we did not take from the EU is the representation of the member-states. We tried to imagine a scheme that balances the economic weight of Russia, and we could not. As a result, we decided on an absolutely revolutionary formula that treats each country equally.

This doesn't make our life easier. It is very difficult for five member states to reach a consensus. But we think it is the only way for us to develop and build our integration process.

At the same time, the ties with Russia are the backbone of our trade. Russia-Belarus and Russia-Kazakhstan (constitutes) the majority of our trade. But once we launched the Customs Union and later the EAEU, trade between other members increased at a higher rate than trade between traditional partners. Lots of trade, for example between Kazakhstan and Belarus, appeared as a result of the unification of railway tariffs. In some years, trade increased up to four times. The volume is still small, but the dynamic is huge.

But the EAEU is not only about the trade of goods. The further we go, the less important trade in goods will be – and the more important trade in services, digital trade, and joint investments will become.

You mentioned your wish to communicate and cooperate with the EU. How happy are you with the relations on both a political level and technical level right now?

Valovaya: I am still very unhappy. I worked in Brussels for five years when the European Union was launched. It was the time of the Soviet Union's break-up, and I remember all the support the EC provided to the young countries of the Commonwealth of Independent States, prompting us to launch an economic union. When we finally took the European advice, we did not get the kind of support we had 25 years ago.

The problem did not start in 2014. Even in 2012, when the EEC (Eurasian Economic Commission) was launched, the first thing we did was ask our European colleagues to start meeting (with us). They answered: '(...) we cannot meet at a political level'. So I could send people from my department to Brussels to have technical consultations, which we did – but I couldn't meet my counterpart and speak honestly about all the problems and all the ideas we had.

To talk with my counterpart in the EC, I do not need a mandate from any other EAEU member state. So for us, it was very strange when our counterparts in the EC said: 'We need a mandate from the member states to start a relationship'.

“The further we go, the less important trade in goods will be – and the more important trade in services, digital trade or joint investments will become.”

Tatyana Valovaya is a Member of the Board and Minister in charge of the Development of Integration and Macroeconomics of the Eurasian Economic Commission.

We sent an official letter from the President of our Commission to President Juncker, to start very informal consultations. Unfortunately, we received an answer six months later, saying that they were in favour of some economic cooperation in principle, but that there would be political conditions. I couldn't accept this because we are an economic union.

Last year we saw some positive signs. There was an EC delegation in Moscow on technical regulations. I had contact with different EC representatives on the sidelines of international forums. I am very happy that the European Union is now monitoring the state of our integration, but we still do not have any dialogue.

What bothers me is the decrease in trade between the EAEU and EU. We have more trade coming from the Asia-Pacific and less from the European Union. It is a pity that many European companies who have invested a lot in our countries – who have traditional links – are losing their (position) in our market.

EU representatives also complain that they tried on some occasions to cooperate on technical issues, but that they only received holding answers because the EEC wasn't competent enough, or didn't really have the capacity to act.

Valovaya: Some dialogues have to be started at the top. If our experts know that the bosses are meeting, they are quicker to react. If our ministers sign a paper, a roadmap, or set up a string of meetings, it will work.

We work very closely with CIS countries. We also know that the EU has its own dimension of working with these countries. So let us talk about it. We do not want to have a certain frontier. We do not want to have a situation where these countries think: If I work with the EU, I cannot work with the EAEU.

I also think it is very important to talk about the transport sphere, starting from the top. We are very involved in working on our common transport market. But we also work with China on the Silk Road project, which is very interesting for the EU, too. But what is the sense in China working with us or with the EU without EU and EAEU talking on a bilateral, and then on a trilateral level?

The EC will get a new president in November and is about to draft its 'connectivity strategy' for Eurasia. Are you optimistic that things might soon change?

Valovaya: To tell you the truth, I am very much looking forward to this appointment. I always respected President Juncker as a person who supports European integration. I thought his Commission would change things. But alas, they had political pressure, and so now I am looking forward to the new Commission.

We work very closely with the OSCE on connectivity. The topic of economic connectivity is very important, and we, the EEC, always participate. If the EU supports the idea, we will be happy.



Photo: Dmitry Bagin

Who could be the actors that bring both the EU and EAEU together economically?

Valovaya: It's business. Business is the sector that will gain the most if our relations improve. I had a meeting recently with German business representatives in Russia. Three years ago, just a few knew about the Union and its benefits. Now two-thirds of German companies in Russia say that they see the benefits of the EAEU for their businesses.

They should be proactive. European companies are losing their competitive gains in our markets; they are losing traditional niches. In agriculture, we now have lots of products from Chile, Peru, and Thailand. We work with them more closely now; we have memoranda with them, share technical regulations, we support each other. Even small issues are now subject to a special regime.

Do you have any plans for enlarging the Union?

Valovaya: One lesson we learned from the EU is not to be hasty on enlargement. But we want to increase our cooperation with all our traditional partners of the CIS. We will soon sign a new memorandum with the CIS. We are interested in more cooperation, but we are not going to press them.

Minister Valovaya, thank you for the interview.

*The interview was conducted by Jakobine Freytag
and Patrick Bessler.*

“I am very happy that the European Union is now monitoring the state of our integration, but we still do not have any dialogue.”

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“It Takes Two to Tango”

There are a lot more exchanges going on between the EU and EAEU than many people think, argues EU Ambassador to Russia, Markus Ederer. Still, it is not enough to take it to a higher level, as the one EAEU representatives are striving to reach. There are technical as well as political reasons.



Photo: Dmitry Bagin

With the Skripal incident, Syria and the Ukraine conflict, the relations between the EU and Russia are extremely politicised at the moment. Is there any room at all for economic cooperation, Ambassador Ederer?

Ederer: I would not call the existing tensions ‘politicised’. We have political disagreements on a number of important issues. But we also have converging views on others. It is fair to say that our relations have possibly not been at such a low point since the end of the Cold War. And this low point came in 2014 with the illegal occupation of Crimea and Russia’s interference in Eastern Ukraine.

Regarding economic relations, we have seen a drop in trade between the EU and Russia, but we also saw a 20-percent increase last year. There is regular contact between experts and the upper echelons of our administrations. We had an important delegation from DG Trade here less than a year ago, which also went to see representatives of the Eurasian Economic Union (EAEU). There, we are talking about issues of mutual interest. I may refer to this year’s workshops on pharmaceuticals, on phytosanitary measures; we engaged the Eurasian Economic Commission (EEC) on intellectual property rights and invited their director of technical regulations to Brussels. So, this is the level of activity.

I think all issues are being addressed in this relationship. But since the EU suspended much of the political dialogue in 2014, all of this has been happening at a level no higher than Vice Minister, not at the level of Ministers, Prime Min-

isters and Presidents. But then we also held a trilateral meeting on the future gas transit through Ukraine between Russia, Ukraine and the European Commission at ministerial level.

If you look at the economic figures, we are forced to cooperate. We are the biggest neighbours to each other on the continent. The EU still stands for roughly 43 percent of Russia’s foreign trade and 60 to 70 percent of FDI. Without an ongoing dialogue, this could not be managed.

There is widespread criticism of the EAEU as a Russian-led attempt for regional dominance? How do you see this?

Ederer: We have to look at the EAEU on the basis of its economic credentials and its achievements, measured against its objectives. It aims at economic integration with free trade among its member states and unified international trade policies. When you look at it, even from the view of the EAEU, there is certainly a delta between ambition and reality.

If you look at free trade within the EAEU, there are many internal trade impediments. Three-thousand goods have been excluded from the Common Customs Tariff – that is about one-third of all goods that have been targeted. You have internal trade disputes, not too long ago, the border between Kazakhstan and Kyrgyzstan was temporarily closed. You have import restrictions on Belarusian goods into Russia. You have numerous non-tariff barriers.

At the same time, if you look at the external customs regime, it is not unified either. With Moldova or Ukraine, Russia takes unilaterally external measures, which the other members of the EAEU don’t follow.

I could go on. All in all, I find the EAEU’s credentials on free trade not entirely convincing.

The EAEU sees itself as a supranational body with equal representation of all its members. Do you agree with this description?

Ederer: I would strongly dispute that the EAEU is a supranational body. When we approach the Eurasian Economic Commission on technical issues, on pharmaceuticals, on toys or other products, we get holding answers. Why? Because they say that they have to go back to their member states and that this is an intergovernmental decision.

I have two examples where in the follow-up to a meeting between the Director of DG Trade and the Eurasian Economic Commission, the European Commission submitted two requests, which had been discussed with EEC counterparts. This was almost a year ago, and we have still not received a final answer. So the EU understands that it is not good enough to talk to EAEU structures here in Moscow. Basically, on any topic, you have to talk to them and all member states, too.

The EAEU, on the other hand, criticises the EU for remaining reluctant to engage in deeper communication and cooperation.

Ederer: What we are talking about here is trade facilitation. If we are successful in this field, this should be a benchmark for more cooperation. But what I am saying is that it does not work very well. There are very long delays, if we get an answer at all.

I think we are ready, but it takes two to tango.

“All in all, I find the EAEU’s credentials on free trade not entirely convincing.”

If the institutions and capacities of the EAEU bodies are a problem, is the EU pursuing any projects to support capacity building on the EAEU side?

Ederer: We are open to identifying potential fields of interaction as well as weaknesses that could be addressed together. For example, recently the EU has launched, together with the Association of European Business in Moscow, an external study project on technical regulation in the Eurasian Economic Union to see, together with interested businesses, what could be done in this field.

What do you think about the idea of a Common Economic Space between Lisbon and Vladivostok? It seems this is already on the way, but propelled by China and its Belt and Road Initiative (BRI), while we are still debating EU-EAEU relations?

Ederer: We were closer to this idea some ten years ago with the concept of Four Common Spaces and with the Partnership for Modernisation between the EU and Russia.

Today it is nothing more than a vision. However, I don't think that the vision is dead, or that it should be declared so. A Common Economic Space would profit everybody.

You mentioned China - therefore, I don't think that you can define such a space exclusively from Lisbon to Vladivostok these days. The EU is therefore currently developing concepts on how to develop infrastructure projects in the Euro Asian space and work with other stakeholders. We have

developed a connectivity strategy which will hopefully be introduced by the end of October. It would help the EU to connect with other players in the fields of transport infrastructure (road, air and by sea), in energy and digitalisation – on a rules-based, non-discriminatory, fair and sustainable basis. The strategy also describes the differences the EU would have to address with other players – and I am not only talking about Russia and the EAEU.

The Kazakh government is said not to have been able to give a lot of input for drafting this connectivity strategy. Were views from Russia also implemented?

Ederer: We branched out to all partners. I introduced this idea early to both the Ministries of Economic Development and Foreign Affairs in Moscow. I asked whether Russia would have any input. We didn't get any. But looking at Russia's geographic position, it is clear that Russia will have to play a role in the cross-cutting question of connectivity from Lisbon to Shanghai and beyond.

At the end of September, the EU and Russia, together with the other remaining partners of the Iran nuclear deal (JCPOA) - from which the US had withdrawn unilaterally - stood side by side to defend the deal. Might this kind of US policy even bring the EU and Russia closer together?

Ederer: For the EU, the JCPOA is a landmark agreement. It is an important building block in the nuclear non-proliferation



Photo: Dmitry Bagin

architecture. It clearly serves European interests – we do not want a nuclear arms race in our neighborhood. The EU is of the opinion, together with Russia and China, that this agreement needs to be implemented.

The EU passed a blocking statute, which is to protect European companies. Now the EU is working on a special purpose vehicle, enabling economic operators to process payment transactions, notwithstanding US Iran sanctions. In pursuance of this objective, the JCPOA is an important area of EU-Russia cooperation. Given all other recent developments I don't know whether this suffices to bring the EU and Russia closer together.

The US administration also unilaterally enforced new sanctions against Russia. Why is there no talk about a blocking statute in this case?

Ederer: Because the question has not presented itself so far. What the US does in the Iran case is to extend extraterritorial sanctions to any economic operator, even those who pay in dollars, related to a transaction with Iran. The EU position is clear: we do not accept extraterritorial effects with regards to a third country's sanctions. Secondly, we cannot accept a breach of the JCPOA and thereby a breach of international law. Thirdly, we want to save the (Iran) agreement. For the reasons given above you cannot compare this to the situation between the US and Russia.

However, I understand the concerns of EU business representatives. The EU is clearly positioned against the extrater-

ritorial effects of third-country sanctions, also in the case of US sanctions against Russia. But we have also expressed understanding for the reasons of US sanctions. When I look at the recent developments with e.g. increasing evidence about where the perpetrators in the Skripal case came from, and what their agenda was, then, frankly, we have to understand where the US is coming from.

Now, there is obviously a deadlock, preventing both the EU and EAEU from working together more closely. How can the deadlock be broken? Somebody will have to make the first move.

Ederer: You have to take into account the overall political situation. Can you easily create a common space with countries bullying their neighbors? Can you move with the EAEU freely when we have serious political issues with its biggest member? These are questions that need to be addressed.

For this you need 28 member states to decide. The current policy is a "yes" on talks about technical trade facilitation with the EAEU and there are no taboos. I do not think there is anything that could be excluded. But it is currently "no" to taking it to a higher political level – for technical and political reasons.

But let's see what the EU Connectivity Strategy will do in possibly bridging some of the differences. In the field of trans-continental connectivity you can define common interests, because everybody profits from infrastructure in terms of economic development. And if we are able to bridge the economic gaps, we may be in a better position to bridge the political divides.

Ambassador Ederer, thank you for your time.

The interview was conducted by Jakobine Freytag and Patrick Bessler.

“It is clear that Russia will have to play a role in the cross-cutting question of connectivity from Lisbon to Shanghai and beyond.”



Denis Sidorenko, Ambassador
Extraordinary and Plenipotentiary
of the Republic of Belarus in
Germany

Photo: Michael Farkas

“The Deeper the Integration, the Better”

In a region shaped by many tensions, Belarus is shaping up well. We spoke to Ambassador Denis Sidorenko about his country, lying at the border between East and West, about Chinese influence and prejudice against the EAEU.

Ambassador Sidorenko, Belarus is sandwiched between two countries that don't have great relationships with the EU at present – Russia on one side and Poland on the other. Is there a risk that your country might go under among these conflicts, or does it represent an opportunity?

Sidorenko: It is a challenge, but it is also an opportunity at the same time. We see ourselves as a pillar of stability and as a connecting link in this regional Eurasian context, where we have good relations with our traditional strategic partner Russia, but also with our European partners, whether Germany or our immediate neighbours like Poland or the Baltic countries. We are trying to be a good example of a country that is anchored in both directions, and this means that we can contribute to stability and security in the region – and that we can also help to stimulate increased trade.

Does this help attract foreign investors to your country?

Sidorenko: It is precisely this mixture of factors that sends out positive signals to business people: the political context, the Eurasian Economic Union (EAEU), which transforms a market like Belarus from ten million people to a sales market of 180 million, and the growth of the Belarusian economy. Last year we had 2.4 percent growth, this year it is between three and four percent.

Of course, we are continuing to improve the conditions for investors, with various incentives such as the favourable terms offered in the “Great Stone” park or in the free economic zones. The legal framework has also been improved and made much clearer. There are new rulings for the digital economy and for enterprise that are interesting not only for

foreign investors, but also for domestic investors, as they entail less state interference in commercial activities. The draft of the new tax code, which contains simplified procedures, is due to be adopted shortly.

Belarus is trying to diversify its trade – what is the strategy behind this?

Sidorenko: We have a new concept for our foreign trade relations. Of course, we have our long-standing, traditional and good partnerships with Russia and the CIS states, which will continue in the future. But for us – as an open economy and with our exposure to external factors – genuine diversification is important. This is why we have a strategy of thirds: one third for foreign trade with Russia, one third for the EU and one third for third countries. This is not a simple matter and will need to be pursued in the long term. Our companies have experience in the traditional markets. Exporters to the EU and other countries do not always have an easy ride, so we try to offer government support. For example, we can offer exporters help with certification processes, new marketing strategies and export assistance for their exports to the EU.

At present, Russia accounts for over 40 percent of our foreign trade. Last year the EU managed 26 percent, but this year it is already at almost 30 percent. This trade-off doesn't mean that we want less commerce with Russia – but that we are looking for more with others.

Belarus is an important country on the New Silk Road. What do Chinese investments mean for your country?

Sidorenko: The Chinese New Silk Road initiative is an opportunity to position Belarus as a regional hub, as a transit country or also as an industrial base. The Chinese have chosen Belarus as a key post on the route from China to Europe because it is not too far from the EU and because it is part of the EAEU. We can be a commercial hub for further developments of this initiative. The Chinese are coming to Belarus with major investments and with concrete projects in different industries, for example in food production and chemical manufacturing. Or there is the new automotive plant BelGee, where cars from the leading Chinese manufacturer Geely are assembled. Large projects for the future are under discussion in the field of e-mobility.

Our political relationships are strategic and are developing well. This enables us to recommend the advantages of this initiative to our other partners. Take, for example, the industry park “Great Stone” close to Minsk, which according to Chinese President Xi Jinping is a “pearl in the economic belt of the Silk Road”. We have jointly developed this major logistics and industrial project with funding from China and Belarus. Now German involvement has been added to the mix in the form of Duisport, Europe's largest domestic port. This is exactly what the New Silk Road is all about – a Belarusian/Chinese/German project that generates opportunities for investors. We hope that China will also be making investments into infrastructure and road building, or into railway electrification projects. Some of the projects fit very well with what we are trying to do with our European partners as part of our Eastern Partnership. We are creating a new connectivity in the region, which is what we need as trading countries.

At the moment we keep seeing problems with rail transport that are causing delays at the Polish/Belarusian border in particular. There are general accusations that Poland doesn't have its infrastructure under control. How is Belarus dealing with this?

Sidorenko: This is exactly the reason why it is in the interest of everyone – the EU, the EAEU and of course us – that we invest more with our non-immediate partners to remove these bottlenecks at the borders. This affects not only the Polish/Belarusian border, but also our borders with Lithuania and Latvia. This specific area is also the biggest challenge for the regional economy. Together we must push ahead with the development and expansion of infrastructure – with the necessary checks and controls, but also with the corresponding capacities and technology to make flows of goods more streamlined and efficient. This will be to the benefit of all – and while we hope that this type of cooperation will also be with the Chinese, primarily it will be with the EU. This is not something that we can approach just from the Polish side or from the Belarusian side, that wouldn't make any sense. Some cross-border projects are already in place, but there are not enough of them yet. Funding is missing, as is proper coordination in some cases.

How realistic do you think the vision of a shared economic space from Lisbon to Vladivostok is?

Sidorenko: I think it is an important vision. Due to our sometimes very dramatic and tragic history, we know that good

relationships between all partners in this region are the only guarantor for sustainable development in our country. If the developments are positive, we will all benefit hugely. And this is why we support the initiators of this idea. This “integration of integrations” not only makes economic sense, but also plays a pivotal role in terms of security, human contact and our future. We want to avoid a situation where – if we don't manage to do this – Belarus is once again forced to choose between one type of border or the other, regardless whether political, economic or virtual. This would have a detrimental effect for us.

Countries like Poland and the Baltic nations are not exactly seen as proponents of closer cooperation between the EU and the Eurasian Economic Union. What influence can Belarus bring to bear here as a neighbour?

Sidorenko: The current political climate is not very friendly or conducive to dialogue between the EU and the EAEU. In some countries there is doubt whether such a dialogue is even a positive thing. We will keep talking to all of our partners, including Poland and the Baltic states, who are possibly the most sceptical of all at this point in time. We understand some of the perceptions or fears of these countries, but we are equally certain that the development of the region as a whole is also in the interests of Poland and the Baltic countries. On the European side, they would actually be the first to benefit from the new connectivity.



Photo: Michael Farkas

If we can create this economic path to dialogue, this will also make a contribution to the political dialogue. But if we insist that everything has to be perfect at the level of political relationships first before we ever engage in economic dialogue, then we will just be wasting our time.

There has been an increasing exchange recently at a technical level, and this has also been sponsored by the German Federal Ministry of Commerce. What do you think about this?

Sidorenko: We really appreciate the fact that, with support from the German Government, a consultation format for experts from the European Commission and the Eurasian Economic Union is now in place, via which individual topics like standardisation, phytosanitary standards or certification can be broached and we can see which technical barriers we can clear off the desk for our business people. This is a small but important step in the right direction. We are realistic in the sense that there cannot be any major summits between both organisations at the moment.

But if two large integration projects like the EU and the EAEU operate simultaneously in new fields like digitalisation without any coordination, this could very quickly throw up new “digital barriers”. This is why, at the initiative of Belarus, we are talking – both in the Eastern Partnership but also in the EAEU – about the harmonisation of digital markets. In any case, the future of trade will be networked and digital. For this, it is so important that the actors currently driving the

new standardisation remain in conversation with each other, so that we don’t end up with different systems that are completely divergent from each other.

You mention the fears of some countries. The reason for this is Russia’s dominance of the EAEU. Do you not see a problem with this? And how far has the union already developed, measured against your targets?

Sidorenko: For us, the EAEU is an economic project. If some people see it as a union that is dominated by Russia, I would say that member states here possibly enjoy more equal rights than they do in the EU in terms of legislation and framework conditions. Decisions in the EAEU are usually made by consent and are discussed during negotiations beforehand. The rights and competences of the EAEU have developed very well. But it is still a very young economic union.

For Belarus, the deeper the integration the better.

Mr Sidorenko, thank you for taking the time to talk to us.

The interview was conducted by Elena Matschilski and Patrick Bessler.

“The ‘integration of integrations’ not only makes economic sense, but also plays a pivotal role in terms of security, human contact and our future.”

“The EU Would be the Natural Partner for the EAEU”

A growing number of German and European companies and associations are calling for closer ties between the EU and the EAEU – including the German Eastern Business Association (OAOEV). We spoke to Chairman Wolfgang Büchele about Chinese ambitions and the risk of the EU losing out in terms of influence and getting left behind.

Mr Büchele, the transatlantic relationship is at rock bottom and the USA is risking its influence in the Asia-Pacific region. Among other things, this is due to its withdrawal from the TPP free trade agreement. At the same time, China has plans to redevelop Eurasia with the Belt and Road Initiative (BRI). Do you see a shift in focus in the global economy from “transatlantic” and “transpacific” to “Eurasian”?

Büchele: In comparison to the well-established Transatlantic and Transpacific trade, Eurasian trade flows still have a lot of catching up to do – or to frame this in a more positive manner, there is significant opportunity for development here. The Chinese Belt and Road Initiative is already delivering an important impetus. However, we Europeans cannot sit back and watch while China sets the standards in the transit regions between its western provinces and Europe. Instead, we should be playing a far more active role in the integration of Russia and Central Asia in a joint economic area. Trains coming from Beijing only take very slightly longer to reach the western border of Belarus than they do for the comparatively short distance across the Polish border and on to Duisburg. This is the sad reality.

The Eurasian Economic Union is still interested in cooperation with the EU as part of its efforts to advance its own economic area and to follow the European model in the process. Why should the EU be interested in this cooperation? From the point of view of German companies, what are the specific economic advantages?



Photo: OAOEV

Büchele: The five countries of the EAEU coordinate their trade policy via the joint Commission in Moscow. For thousands of companies from the EU, this Eurasian Economic Commission (EEC) in Moscow is an important point of contact when it comes to issues relating to trade, customs, investments or legal matters. Anyone who manufactures in the EAEU has access to a market of almost 200 million people. In addition, the EAEU is also working on improving export opportunities via its own free trade agreements. Here, companies in Europe are generally looking for more from Brussels in terms of political support for their interests. Some of the countries in Eastern Europe are still sceptical about cooperation with the EEC because of their political differences with Russia, although the economies of these countries would profit particularly from simplifications in cross-border trade. Joint talks about technical standards, certifications and standardisation are barely making any progress at all. At the same time, China is virtually creating a new status quo with its incredibly dynamic economy. Last year, for the first time the five member states of the EAEU did more trade with China than with the European Union.

Without cooperation with Russia, any further convergence between the two regions is going to be difficult. Where can there be a successful economic cooperation and exchange despite the political “ice age”?

Büchele: If we look at the most important social and economic trends, one thing that is apparent is that what we share in

“Joint talks about technical standards, certifications and standardisation are barely making any progress at all.”

common with Russia outweighs our differences. In many areas we are making progress together, starting from the Iran nuclear deal and the fight against terror all the way up to tackling climate change and safeguarding supplies of raw materials in Europe, the digitalisation of our economies in general, exploration and exploitation of the Arctic and space, or the preservation of multilateral institutions like the UN or the WTO. Unfortunately, many players perceive relations between Russia and the EU as a zero-sum game: whatever we gain, the other side has to lose – and vice versa. We need to break out of this logic, which dates back to the era of the Cold War. As Europeans, we can only win together, or we will have to watch jointly from the sidelines while China and the USA impose their standards upon us. We should, for example, be alarmed by the fact that no European speakers were invited to give presentations at the International Conference on Artificial Intelligence in Shanghai in September and that US and Chinese companies dominated all the panels. With its strong internet services, Russia would be an important building block in a European digital economy, as would Belarus, Armenia or Ukraine, by the way.

EAEU members like Belarus and Kazakhstan are increasingly vying for German investments. How have the economic relationships with these countries evolved? Have the tensions with Russia impacted the relations with these countries?

Büchele: The political crisis in terms of the relationship between the EU and Russia has also left its mark in Belarus and Kazakhstan in terms of the economy, particularly on account of the sharp devaluation of the rouble. The Belarusian economy especially is closely interwoven with the Russian economy. Coming from the west, Belarus is also the main transit country on the way to Russia. Despite these close-knit economic ties, both neighbouring countries of Russia are, however, pursuing their own course and have developed individual investment conditions. This is not yet being given enough recognition by companies or by Brussels. Brussels has to learn to treat Belarus and Kazakhstan as independent players, even within the Eurasian Economic Union. It is true that not much that happens in the EAEU goes against the will of Russia. But, on the other hand, Russia also depends on Belarus and Kazakhstan, and all the member nations of the EAEU have a veto right.

With the opening up of Uzbekistan, a new player has come to the fore in Central Asia. How will this influence dynamics in the region?

Büchele: The rapid opening of Uzbekistan, which has been in progress for two years now, is a stroke of luck for the entire region. With smart foreign policy, the current Government of Uzbekistan has managed to hugely improve regional relationships in Central Asia and has thus significantly boosted the conditions for cross-border trade in the region. In addition, internal reforms are also helping to make the country more attractive as an investment location. In May, the OAOEV visited Tashkent with a large delegation of businesspeople and entrepreneurs, and we are currently preparing a scholarship programme for young Uzbeks. With 32 million inhabitants, the country is by far the largest market in Central Asia, but economically, it is far behind Kazakhstan as the econom-

ic engine of Central Asia. The increased competition should give the entire region a boost.

The EAEU and its member states are currently pursuing a number of bilateral agreements with India, Iran, ASEAN and also China. The BRI plays an important role for them. Is this an opportunity or a danger from a German perspective?

Büchele: In principle, trade agreements between the EAEU and other large trade regions are a good thing for companies in the EU who invest in these regions and perhaps wish to export from there. If the treaties boost prosperity and standards of living in Armenia, Kyrgyzstan, Belarus, Russia or Kazakhstan, this can only be a good thing for all of us. However, things will get difficult if trade agreements of the EAEU cause a shift away from Europe. I still believe that the EU, and not China or India, would be the natural partner for the EAEU. But of course, this also depends on us Europeans. The EU needs to be more open for dialogue, but I also expect practical proposals from the EAEU. A verbal willingness to cooperate is one thing, but this needs to be followed up with real action. One aspect of this is, for example, paying even more attention to ensuring that rules agreed to under WTO terms are also implemented in the EAEU. Criticism has been voiced from the EU in this regard, and justifiably so.

We keep hearing talk between Western Europe and Eastern Europe about a Common Economic Space from Lisbon to Vladivostok. Do you think this is realistic? And, while we are still talking about Lisbon-to-Vladivostok, isn't China already creating a new status quo?

Büchele: A shared economic region in the sense of a large single market is undoubtedly highly unrealistic at the moment. Nonetheless, it is good to hold onto this vision – which has also been mentioned by the German Government in its coalition agreement – so that we can align our compass to it. Every journey is made up of lots of smaller steps. Here, I think that the proposal of the German Federal Minister for Economic Affairs, Peter Altmaier, to work together on creating a “European region of prosperity” as a short-term objective is very alluring. This is surely something everyone could sign onto, whether Germans, Russians, Poles, Lithuanians, Ukrainians or Belarusians. If we could focus again on generating more growth, step-by-step in Europe, instead of constantly throwing spanners in the works, this would already represent great progress. Then we can see where these dynamic developments take us.

Mr Büchele, thank you for taking the time to talk to us.

The questions were asked by Patrick Bessler.

Dr. Wolfgang Büchele is the Chairman of the German Eastern Business Association (OAOEV).

“The EU needs to be more open for dialogue, but I also expect practical proposals from the EAEU. A verbal willingness to cooperate is one thing, but this needs to be followed up with real action.”

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EU and EAEU

Moving Towards Cooperation

The EU still seems to look for a strategy towards its Eastern neighbors. It could play an important role overcoming immaterial borders. Meanwhile, Italy develops and strengthens its economic, diplomatic and strategic relations with the EAEU.

This is the first time since the end of the Cold War that opposite poles – Western countries and Asia – have been looking in the same direction, searching for integration and ways to pull together despite their apparent contradictions. This is happening beyond the eastern borders of the European Union, and is a challenge that has led to the creation of the Eurasian Economic Union.

On the other side we have the European Union, which is currently in some very “stormy waters”, with difficulties and problems resulting from internal and external setbacks. Among the issues currently plaguing Europe are its weaknesses when it comes to designing common policies for foreign affairs, problems affecting crucial industries (such as energy, transport, infrastructure etc.) and other key topics relating to the future of our “old continent”.

In this scenario, Italy (by itself – just like each other European country) is engaged in developing and strengthening its economic, diplomatic and strategic relationships with the EAEU. The problem I see is that the EU will continue in its approach of trying to find global plans and approaches, while each country shapes and manages its own strategy based on its relationship with its most successful partner from the EAEU. Actually, if we have a look at Italian exports during the first quarter of 2018, we can see that the EAEU imported over € 2 billion worth of Italian products (+1.7% compared to the same period of 2017). But this growth has been driven by the recovery of Russian imports from Italy, which is contrasted



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by a dramatic reduction in imports to Kazakhstan by -59.5%. This means that Italian companies are more focused on investing and working in Russia than in other Eurasian countries and that they are not pursuing the same economic policies in the other Eurasian areas, having settled instead for the Russian market.

Physical and immaterial barriers

However, the critical issues of Europe are the self-same issues that represent the strong EAEU basis on which it has built its strategy: improving competitiveness and cooperation among the economies of individual states and promoting stable, inclusive development in order to raise the living standards of the member countries – in part also thanks to the free circulation of goods, services, capital and labour.

However, connected to this topic I believe that future national, multinational and regional cooperation and initiatives will make it necessary to look at two key issues – firstly, the physical barriers that will need to be overcome, and secondly the intangible values and features that create limits.

In connecting the Eurasian “supercontinent”, each nation shouldn’t forget that, in the post-cold war era, the greatest challenge to international efforts is finding ways to cross immaterial barriers. Big and small actors alike – from China to Japan, Russia to EU countries, India to Kazakhstan etc. – focus mainly on infrastructure initiatives, but in order to develop a successful common integration project, I sense that they also

need to implement ideas and multi-economy, multi-cultural and multi-institutional programs together and across nations. Globalisation has broken down physical borders and barriers with the aid of technology, but at the same time I feel that cultural and national differences have strengthened their power, and tangible yet immaterial barriers often play a more important role now. Outlining challenges and opportunities for European businesses in the Eurasian Economic area, I see that the key issues here include energy, transport and infrastructure – but the impact of these matters on people and, therefore, on different cultures and societies, only features at a secondary level.

This is the context within which the Beijing Belt and Road Initiative (BRI) is unfolding: a vast geographical area where borders are fading or can be easily overstepped, but diversity and cultural, social, political and national differences are becoming increasingly established. China, for example, considers physical infrastructures as a first step towards Eurasian integration, thanks to the creation of economic corridors that will enable greater regional policy coordination and foster a community of common destiny. But the integration of intangible key factors typical of different cultures, economies and societies is easier said than done.

Western institutions need to stay engaged

I think that the EU can play a key role in this scenario, but it is necessary for Western institutions to stay engaged, feel part of this “community” and go beyond building just railways and other infrastructure projects. From my point of view, these do not represent the only keystone of the Eurasian and BRI commitment and of coherent, inclusive growth. Europe can define itself if it considers the other Asian countries; and the Asian community can define its own image only by establishing negotiations and profitable relationships with Europe. This scenario represents the backbone of the relationships between the EU, EAEU and Asian countries, which are still alive and open.

Fruitful cooperation and successful strategies from Lisbon to Vladivostok cannot exist without persistent teamwork between industry and modernisation stakeholders, focusing on the economic development, social innovation and strong, joint institutional participation between Europe and Eurasia in common projects.

Leonora Barbiani

is Secretary General of the Italian-Russian Chamber of Commerce.

In connecting the Eurasian ‘supercontinent’ crossing immaterial barriers is the most challenging international effort.

Armenia

Caught in the Middle – or the Art of Complementarity

The chronology of EU-Armenia relations started immediately after Armenia's independence. Despite occasional uncertainties, it includes several milestones that brightly illustrate the growing potential of bilateral cooperation.

The Partnership and Cooperation Agreement (PCA) between the EU and Armenia was concluded in 1999, having taken three years to finalise. It was the first framework agreement between the two parties that regulated multiple aspects and sectors of bilateral relations, such as political dialogue, promoting the development of democratic institutions and economic development, as well as social, financial, cultural cooperation between Armenia and the EU. In 2004, Armenia joined the European Neighbourhood Policy (ENP), which was established to share the EU values of security, stability and prosperity with EU neighbours. The ENP offered close political, security, economic and cultural cooperation, and Armenia's first ENP Action Plan adopted in 2006 envisaged a wider framework of close cooperation with the EU.

EAEU membership left EU in suspense

With the launch of the Eastern Partnership, Armenia together with Georgia, Moldova and Ukraine negotiated an Association Agreement (AA) and a Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU, which was supposed to be signed in the autumn of 2013. However, on 3 September 2013, Armenian President Serzh Sargsyan unexpectedly announced the decision to join the Russia-led Eurasian Economic Union, which made the signing of the AA and DCFTA impossible. This U-turn was shocking for both the EU officials and a swathe of Armenians. However, the natural reaction to the situation was to develop a new format of relations,

Before the shock over Armenia's EAEU accession: EU President Tusk is greeted by Foreign Minister Nalbandyan in July 2015.



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since the PCA was already outdated and there was a need to replace the AA with a new framework agreement that would regulate bilateral relations. The new format, though, was to be determined given Armenia's new membership to the Eurasian Economic Union (EAEU), with corresponding obligations, an increase of goods turnover and the mobility of labour force, as well as access to the EAEU single market with 170 million citizens, among other commitments and benefits.

Meanwhile, the uncertainties emerging from this new membership left the EU in suspense. According to the EU's official version, they were waiting for a clear understanding of the limitations that Armenia would face due to its EAEU membership. In addition, the 2014 elections of the European Parliament caused objective delays during the formation of the new EU leadership. However, I think there is more than that. I will call it a lack of political will on the EU side. The EU was simply not ready to apply a similar approach towards Armenia, as that towards Ukraine, i.e. the EU was not ready to sign the political component of the AA separately from the DCFTA. Even though Armenia had repeatedly been stating its readiness to sign the political component of the AA since 4 September 2013, the EU decided to adopt quite a strict position regarding Armenia, regardless of the fact that it seemed doable for Ukraine, which eventually signed the political component separately from the DCFTA.

Rethinking the policy of “either ... or ...”

Even though the DCFTA with Ukraine was to be signed quickly, its implementation was actually delayed until 1 January 2016. This means that the same policy would have been possible regarding Armenia as well. Armenia could have signed the political component, and the EU and Armenia could then have had time to renegotiate the economic component in line with the limitations that Armenia is facing due to its EAEU membership. Anyway, I should commend the new leadership of the EU for its political flexibility, and I hope that this flexibility will be real and some fundamental documents will be signed by the end of 2015.

We are still witnessing talks on both sides of wanting to reach a “common understanding”, and in my opinion, it means acknowledging the realities of Armenia and why they led to “3 September” as well as the mistakes that have been made on both sides. It also means developing a shared understanding on the best ways to proceed, specifically rethinking the policy of “either ... or ...”, which I am more than certain will not lead to a mutually beneficial partnership, but rather tapping the potential of the more flexible policy of “both ... and ...”.

However, after around two years of reflection, the EU and Armenia announced the launch of negotiations over a new agreement, the so-called “AA-minus” that would contain all the provisions of the already negotiated Association Agreement, excluding those components that conflicted with the new obligations of Armenia in light of its EAEU membership. These components mainly relate to customs and trade relations, since Armenia has granted this authority to the supranational EAEU. Thus, negotiations on the Comprehensive and Enhanced Partnership Agreement (CEPA) were successfully concluded on 26 February 2017 and signed in November 2017 during the EaP Summit in Brussels. The new document is based on the previously negotiated AA. However, it

excludes provisions that conflict with Armenia's obligations in the Eurasian Economic Union, which mainly relate to the customs sector. The CEPA envisages cooperation in a wide variety of sectors, including democratic reforms, cooperation in the energy sector, security, and economy.

EU adopts new approach to its neighbours

The name of the agreement itself implies that the classical perception of association with the European Union is there no more. However, we need to understand the very context of the Agreement, which may essentially bring us much closer to the Association Agreement. Questioning the possibility of implementing the CEPA is rather strange, as the Agreement is already signed, and it means that all EU member countries have considered it possible: they have agreed and signed an official document. Moreover, the EAEU did not make an issue of this as well, which also means that they are very well aware of the situation, and see no problem with one of its members signing the CEPA. Hence yes, CEPA is possible.

Perhaps one of the most important aspects of the results of the Riga Summit is the new approach the EU has adopted towards its relations with neighbours. This is an individual approach, which has been called many times a “flexible approach to each country of the EaP” This is a new possibility for Armenia to negotiate a new legal base for its relationship with the EU.

Armenia is a unique country that has committed to a policy of complementarity, i.e. building and maintaining relations with different international organisations and cooperating with sides that are often perceived as an adversary and which many think impossible. However, Armenia seems to have adopted two directions within similar cooperation modes: it cooperates with the CSTO and NATO on security, and with the EAEU and the EU on the economy and institutional development. It is natural that when there is no confrontation between Russia and the West, Armenia appears in a much easier situation, but with political confrontations, it is very difficult to maintain the “both ... and ...” formula. Still, Armenia is trying.

Tevan Poghosyan

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Poland

Barely a Flicker of Interest in the EAEU

To date, the Polish government has shown very little interest in a joint Eurasian economic area. Instead, separate negotiations are being conducted with individual member states.

In principle, the Eurasian Economic Union (EAEU) represents a lucrative market for Poland, with attractive sales markets that are already being served by many Polish traders at the moment. For example, Polish apple growers have lots of customers for their fruit in Russia, Belarus and Kazakhstan. Trade relations have always been very close – not least because, in some cases, they date back to the communist era. With the five member states of the EAEU now joining their economic forces, you would think that this should be of economic interest to their old trading partner Poland.

But the reality is different: to date, Poland has barely shown any interest in the organisation at all. “The EAEU is only relevant for individual Polish industries that maintain isolated business relationships with the member states”, underlines Jakub Biernat, business journalist at Warsaw TV station Bel-sat, which broadcasts its programmes in Belarusian for Belarusians. The Polish government does not have an official position on the EAEU.

EAEU helps Polish companies avoid sanctions

“In one case, ironically, the organisation actually helped Polish food manufacturers to continue exporting their products to Russia, even though Moscow has banned imports of Western goods”, explains Biernat, who is seen as an expert in the Eastern European and Central Asian markets and has written numerous analyses about them.

Bad apples? Despite the embargo, Polish apples found their way into Russia.



Foto: Sputnik/Alexei Druzhinin/Kremlin via REUTERS

During the Ukraine crisis, in August 2014, Russia prohibited imports of foodstuffs from the EU and from other Western countries. These include dairy produce, fish, vegetables, fruits and nuts. The losses by Western companies resulting from these sanctions probably run into billions of Euros every year. For Poland, this embargo is particularly painful because Russia has always been a particularly important sales market.

“The Poles initially exported their dairy produce, their vegetables or their fruit to Belarus – and this was perfectly legal”, explains the business journalist, emphasising that trade has always been strong with the neighbouring country. “Then the Belarusians simply declared these goods as foodstuffs from other countries and sold them on to Russia”, explains Biernat. “As the EAEU has scrapped tariffs between its member states, this meant that the foodstuffs could also easily end up in Russia”, says the expert. Of course, he added that no official statistics exist for this. Nonetheless, the extent can be derived from other figures. “For example, a vast number of apples from Ecuador suddenly appeared in Russia – far more, actually, than the South American country actually produces”, explains Biernat. “The Russians suspected that the fruit came from Poland”, says the journalist. The expert believes that there are even Belarusian companies who have specialised in trade with these types of Polish products, explaining that – after all – the member states of the Union often look out for their own interests first.

Russia is the most important trade partner – but only because of gas

He added that this lack of unity among the member states is another reason why the EAEU is so unattractive for Poland. Consequently, as a third country Poland only deals with one member state at a time.

To put some numbers on this, the biggest trade partner within the EAEU is Russia. As reported by the National Statistical Services of the CIS, in 2017 foreign trade between Poland and Russia totalled PLN 82.6 billion (around EUR 19.8 billion). This is nearly five percent of the total volume. The trade volume with Belarus was around PLN 4 billion (EUR 950 million), which contributes around 0.6 percent of the overall foreign trade. Although no data was available for Kazakhstan for 2017, the country was probably in third place. This is based on the 2016 value of commerce with Kazakhstan, which represented around 0.5 percent of the total volume with PLN 3.6 billion (EUR 820 million).

This shows that Poland’s Eastern business only makes a relatively small contribution to the country’s overall foreign trade balance. Apart from Russia, the countries of the EAEU only play a minor role for the economy of Poland. In addition, oil and gas imports account for the bulk of the Russian trade volume.

In principle, Poland has no internationally active corporations

In addition, the Poles basically do not have any large corporations with multi-billion capital who operate internationally – unlike Germany, France and the UK. For companies that set up production sites or branch offices in different countries, a joint market can be an attractive proposition. However, Polish companies simply lack the financial means for this.

The number of foreign direct investments (FDI) made from the country in 2017 is correspondingly low. The United Nations (UNCTAD) has calculated that Polish FDIs worldwide amount to around USD 3.6 billion. By comparison: during the same time period, the UK invested USD 100 billion, Germany USD 82 billion and France USD 58 billion.

In addition to these economic aspects, political motives of course also play a role in the lack of Poland’s interest in the EAEU. Criticism that the organisation is dominated by Russia is widespread in Poland. It is not perceived as an autonomous community, which is why the Poles prefer to establish contact with the individual states.

Sebastian Becker

In any case, the Poles reject Russia’s dominance of the EAEU.

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A New Movement for a Common Economic Space

Supported by people from different countries in the West and East right from the start, the working group for a Common Economic Space has been growing steadily, adding international companies and business associations to its ranks. The initiative promotes prosperous free markets from Lisbon to Vladivostok.

Creating a Common Economic Space from Lisbon to Vladivostok seems an ambitious project since it would incorporate so many different countries and markets, with completely different experiences of market economies and very diverse production bases. This is why only a step-by-step approach will work, paired with patience and commitment to the idea. We need a realistic process, fuelled by an optimistic attitude.

The working group for a Common Economic Space has set out to put exactly this into place. The working group, founded in 2015 in Germany, brings decision makers together from business, politics and research to assess the Common Economic Space and how to get there in all its dimensions. In the working group, members from many countries represent their interests and work out ways of cooperation that serve all. They have fixed their ideas in a brief memorandum, which multiple companies and associations from Germany, Russia and other countries have signed to show their support for the Common Economic Space publicly.

Advantages for companies of any size

Among the signatories, one finds global industrial heavyweights such as Bosch, Schneider Electric and Siemens, major retailers such as Metro Group or specialised hidden champions like Wilo, an important pumps manufacturer with production sites in Russia and Kazakhstan, or Knorr-Bremse, who manufactures breaks for most of the German automotive industry. Indeed, the Common Economic Space can be advantageous for market participants of all sizes.

This common market needs to be built on a common understanding and a common set of standards and rules. The memorandum, therefore, puts forward the importance of a committed dialogue on a far-reaching congruent application of

customs procedures, common rules of certification, common technical standards, visa-free travel and capital movement, which would contribute towards an economic upswing and increase the competitiveness of Europe and Eurasia.

A single market is a place where everyone can offer what they produce best, where all players can benefit from the transfer of knowledge and use given resources in different countries. Consumer A can choose from a widening array of products and services, and all participants of this market will develop and improve their quality of production and of living in the medium and long term.

As the memorandum states, the Common Economic Space from Lisbon to Vladivostok combines Western engineering knowledge and experience with the outstanding IT skills in the East, thus enhancing the “fourth industrial revolution” in the European Union, the Eurasian Economic Union and in the countries between. This brings about the necessity for new financial hubs as well. The Eurasian Economic Union is already setting up a new financial centre in Astana, which will function as a link between Singapore and London, Moscow and Shanghai, Paris and Tokyo.

Benefits for manufacturing as well as service sector

Logistics companies like Kuehne+Nagel or Rhenus Logistics, who have also signed the memorandum, seem the obvious winners as they transport traded goods from producers, to sellers, to consumers, across the continent. The memorandum points out that infrastructure is an important factor for stronger economic cooperation. The East-West corridor needs to be developed further with common investments directed at strengthening connectivity. Simultaneously, an improvement of the conditions of transit would allow the countries of the Eurasian Un-



ion and their neighbours, such as Uzbekistan, to function as a link between the European Union and China, similar to China's concept of the Belt and Road Initiative (BRI), or the new Silk Road as it is often referred to.

Service companies such as the global insurance company Allianz can also gain from an integrated and harmonised market where the freedom of movement for capital, labour, goods and services apply. Simplified tax regulations, the mutual recognition of official documents and the harmonisation of relevant jurisdictions can improve the investment climate beyond national borders and thus open the door to a common judicial area.

By the end of 2018, more than 15 companies and ten business associations have already signed the memorandum. The continuous addition of new signatories is a sign for the importance of the commitment to a functioning common market in times when free trade is under attack. The emergence of new actors in the East seems a logical consequence when international markets as we know them are being disrupted by new customs duties and embargos introduced by one of its biggest players, i.e. the United States.

Based on a two-pronged approach

This is why a strong pro-trade alliance on the Eurasian continent, bridging all the way to Asia, is even more crucial today than ever before. For the alliance to be sustainable, it needs to be based on a two-pronged approach. Business is the backbone of trade relations and needs to take its responsibility for furthering contacts. At the same time, national governments and supranational institutions are required to participate and move the project forward. We believe that the proposed talks on a supranational level between the European Commission,

representing 27 countries, and the Eurasian Economic Commission, representing five countries, is in the interest of all parties.

Last but not least, the importance of a common space from Lisbon to Vladivostok goes beyond the economic indicators – built on the principles of international law and the OECD, a common humanitarian space, where people can travel without bureaucratic hindrances, can create peace and play an important role in giving new impulses to the current situation and further economic development.

The memorandum for a Common Economic Space captures these ideas in a comprehensive document aiming at a peaceful space of free trade from Lisbon to Vladivostok, and beyond. The initiative continues to campaign for these values and has already achieved many successes as the EU, and the EAEU are starting to talk with each other more often. We hope that many more companies from all the countries between Lisbon and Vladivostok will join the initiative and work together with the political decision-makers towards the harmonisation and integration of our markets.

Jakobine Freytag

Task Forces for successful cooperation: formulating next steps for the EU and the EAEU

The working group for a Common Economic Space (CES) has established three topical task forces to develop policy recommendations for broader collaboration between the EU and the Eurasian Economic Union (EAEU). The task forces are charged with analysing systems of governance and domains of economic activity that demonstrate high potential for successful, inter-union cooperation. Topics include the normalisation of technical standards, the simplification of customs procedures, and simplification of visa regimes. Future areas of focus include digitalisation, interconnectivity and energy.

The CES working group has advanced a set of concrete goals that would foster the formation of Common Economic Space extending from Lisbon to Vladivostok. In the process of identifying thematic areas for policy analysis and review, the group emphasised the importance of building a cooperative, working relationship between a variety of stakeholders, from state officials and political leaders to private sector actors and organisations representing civil society. The three current task forces on customs regimes, technical norms, and visa regulations are made up of working-group members with subject-area expertise in these fields. :

- customs procedures simplification
- harmonisation technical regulation and certification
- visa regimes simplification

The CES task forces will lay the groundwork for cooperation between the EU, the EAEU and those countries that lie in between the two by promoting knowledge-sharing between business leaders, government and civil society. By inviting private-sector actors from different industries, sectors, and countries to exchange perspectives and approaches with other stakeholders, the working group aims to ensure that any potential collaboration will give due consideration to the products, goods and services from all participating countries. The results are fixed in White Papers. The CES working group is also deeply invested in fostering the global competitiveness of the Common Economic Space. Each of the identified topical areas of collaboration are crucial to the functioning implementation of the four freedoms of movement (for capital, labour, goods and services), through which a sustainable and prosperous Common Economic Space can be achieved.

Harmonisation of technical standards

Setting technical standards and ensuring their mutual recognition through certification is at the heart of trade cooperation. All member states of EAEU and the other CIS states inherited the former Soviet Union's system for technical regulations, norms and standards. With the recent move from the GOST system of technical standards to the Eurasian Conformity Mark (EAC), introduced in 2013 across the Eurasian Union, much progress has been made towards modernising a partly out-dated system. In defining the EAC standard, the regulator is encouraged to use international or foreign standards and guidelines. The EU standards, which many companies work with internationally and which have a good reputation, can serve as blueprints for the modernisation process of the GOST standards. At the same time, Russia and the other EAEU countries also have specific technical standard requirements for some technologies, such as oil and gas equipment used under extreme temperatures in the far north, which is why copying EU standards does not present itself as an effective solution. The technical standardisation institutions belonging to both economic areas are already communicating and collaborating with each other on the working-level, but more platforms for multi-stakeholder dialogue with participants from authorities of both unions and business are needed to bring about the full normalisation and mutual recognition of technical standards. In this respect, establishing high-level political dialogue between the EU and EAEU Commissions would create a positive long-term dynamic. On that level, the EU and the EAEU would be able to discuss whether or how the harmonised European norms can serve in the EEU as "acceptable norms" for the conformity assessment process. Further, on the level of the

standardisation bodies EASC, CEN and CENELEC it would be necessary to push for the harmonisation of testing standards, which directly impact conformity assessments. The full set of recommendations made by the task force can be found in its White Paper.

Simplification of customs procedures

The customs regimes both in the European Union and in the Eurasian Union, which adopted a new customs code in January 2018, are, in theory, highly sophisticated vehicles for trade facilitation aiming at a timely release of goods. In practice, however, a lot more can be done to further simplify the transit of goods from Lisbon to Vladivostok. The adoption of a tri-lingual customs declaration, which would use both English and Russian in addition to national languages, is one example of a procedural reform that would assist in accomplishing smoother transition of goods between the unions. At the same time, such a reform would be relatively easy to implement. The Eurasian Economic Union's recent introduction of an electronic customs declaration has already greatly simplified cross-border trade and commerce. But everything is not yet perfect: both sanctions placed against Russia and counter-sanctions imposed by Russia have impeded the free flow of goods across countries, as sanctioned goods cannot transit via Russia, e.g. to Kazakhstan. Political tensions between member states can also lead to internal trade complications, as seen in December 2017, when Kazakhstan closed its border for agricultural imports from Kyrgyzstan.

Improving customs procedures includes the tracking of goods. For example, a beacon-based electronic tracking system can help guarantee that sanctioned goods arrive at their final destination in a non-sanctioned country.

But it also means also means taking a close look at logistics. The European Commission has already announced a policy of multimodality that would serve to improve transport connectivity, integrate transit hubs and simplify the cross-border flow of public and private means of transportation. Here again, it is crucial that the EU and the EAEU work together on developing systems that are mutually compatible. This is significantly different to the Chinese approach, and more difficult but will guarantee more stable means of long-term cooperation in a win-win setting: the Chinese Belt and Road Initiative, or "New Silk Road", consists of a range of flagship projects financed Chinese loans, thus creating new dependencies on the Eurasian continent. But the BRI has no regulatory framework, nor institutional bodies to control and synchronise future cooperation on this New Silk Road.

Simplification of visa regimes

The simplification and perhaps even future abolition of visa regimes in the geographical space from Lisbon to Vladivostok has the potential to play an important role the development of civil society and economic activity. We are living in a time of mounting geopolitical tension and rising protectionism, which has materialised in the form of new, non-tariff trade barriers and complex sanction regimes. Simplifying the visa regimes that exist throughout this Common Economic Space would send a powerful signal to businesses, people and societies, that two different geo-economic blocs can work together to improve the lives and economic opportuni-

ties for their citizens and businesses. It would reduce bureaucratic costs, facilitate investment and trigger economic development. Today, the strict visa regimes applied by both the EU and some states in the EAEU (i.e. Russia) act as a traditional, non-tariff barrier to trade and a comparative disadvantage for companies based in countries that need visas. Conversely, within the framework of a simplified regime, businesses would find it much easier and economically advantageous to travel and consider business opportunities abroad. This would likely stimulate local innovation and the exchange of know-how between entrepreneurs based in different parts of each union.

When policy goals for the elimination of visa barriers are developed, they often involve domestic reforms, stricter document protection systems (i.e. biometrical passports) and the introduction of advanced technologies to secure borders and guard against illegal migration. The perceived dangers of uncontrolled immigration and rising crime remain at the front and center of discussions on visa simplification. However, a closer examination of certain visa-free travel agreements (such as the one adopted in the EU in 2014 for citizens travelling from Moldova) reveals these perceptions to be more fear rather than fact-based. The CES task force on visa simplification would like to shift the conversation toward the potential benefits of a visa-free Common Economic Space.

While the CES working group's task forces are currently focused on analysing the three aforementioned topical areas, they will take on the study of other pressing issues as the initiative grows. In the future, they plan to develop a new approach to energy markets, which has become a critical issue in the wake of climate change. They also plan to define working targets regarding digitalisation processes for easier cooperation. Both of these topical areas affect the professional realities of our working group members. Through the targeted policy work and input of our task forces, the larger working group for a Common Economic Space will continue to work for greater geo-economic cooperation between the EU and the EEU.

Jakobine Freytag



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