

**JEL Classification: H30, F53, F60**

## **FEATURES OF THE TARIFF PREFERENCES IMPLEMENTATION IN THE RUSSIAN FEDERATION IN THE FRAMEWORK OF THE EURASIAN ECONOMIC UNION**

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### ***Abstract***

*This paper was presented at the 10th annual WCO PICARD conference (in the frameworks of the “Youth Forum”), 8-10 September 2015 in Baku, the Republic of Azerbaijan.*

*The author of the paper analyzes the main characteristics of the existing tariff preferences in the Russian Federation as a member state of the Eurasian Economic Union. The emphasis is put on the legal basis of tariff preferences application, which include international standards (the World Trade Organization provisions on free trade agreements, the rules of the Kyoto Convention, the resolutions of the United Nations Conference on Trade and Development) and regional agreements (Eurasian Economic Union).*

*Types of preferences in the Eurasian Economic Union as well as the preferences granted to the trade partners of the Russian Federation are analyzed. In particular, the author stresses that preferences have contributed to the growth of trade relations between Russia and Argentina, Serbia and Brazil.*

*Conflict situations are considered in relation to the existing system of tariff preferences, as well as various scenarios of applying non-tariff regulation, the use of which makes the access of the goods to the market impossible even though the current preferential treatment.*

*In conclusion, the author suggests ways of improving the tariff preferences system of the Eurasian Economic Union, namely through the development of a new tariff preferences scheme in accordance with international obligations and experience, refining the commodity nomenclature, dimensions and mechanisms of granting preferences and their cancellation as well as inclusion of agricultural equipment in the preferences list aimed at the development of domestic agriculture.*

*In examining the issue of tariff preferences application, scientific methods of investigation, namely analysis, synthesis, comparison, generalization, were used. Such specific methods of economic study as economic-statistical and economic-analytical methods for the preparation of tables, charts and diagrams were applied.*

*Keywords: the Eurasian Economic Union, the Customs Union, the Russian Federation, Belarus, Kazakhstan, China, Argentina, Brazil, Serbia, the Generalized System of Preferences, tariff preference, preferential benefit, developing countries, the least developed countries, commodity flow, Customs policy, trade relations.*

### **Introduction**

Tariff preferences are used as one of the methods for implementing the Customs policy of the country or different trade unions. Today, due to the increasing complexity of international relations and political contradictions, tariff preferences heavily depend on the political factors. This trend has

become common in the current business environment. However, this situation cannot be ignored because it contradicts the World Trade Organization (further – WTO) standards, in particular free trade agreements.

### 1. The legal basis of the national tariff preference system

Traditionally, preferences used to be provided to certain countries for certain types of goods. The legal basis for determining the country of origin of goods is the Kyoto Convention and Resolutions 21, 24 and 96 of the 4th Session of the United Nations Conference on Trade and Development (UNCTAD) The system is one-sided: developed countries reduce or abolish their import duties for goods from developing countries, but each developed country determines the scheme of Customs privileges granted freely and independently on a flexible basis (Figure 1).

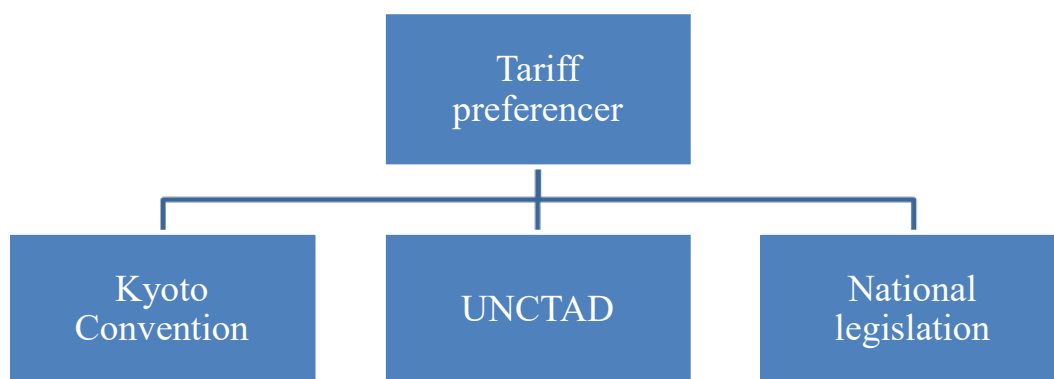


Figure 1. The legal basis of the national tariff preference system

The world tariff preference system appeared in the second part of the 20th century and nowadays it is used by all the WTO members. Among its main users there are both highly-developed and the least developed countries. According to the World Bank and the United Nations reports, this number has been increasing.

Since January 1, 2015 the Treaty on the Eurasian Economic Union came into force. Its members at the moment are the Russian Federation, Kazakhstan, Belarus and the Republic of Armenia (The Treaty on the Eurasian Economic Union signed on May 29, 2014 and edited on May 8, 2015). The transition to a more complex form of integration determines the need for changes to the Customs legislation of the Customs Union, including the provision of preferential conditions for placing the goods under the Customs control. The system of tariff preferences, being in compliance with the United Nations standards, has been used in the Russian Federation since 2003. In 2010 some changes were introduced to this system because of the appearance of the Customs Union of Russian Federation, Republic of Belarus and Kazakhstan. On its basis the new system of preferences of the Customs Union appeared. It was modified without any significant changes for the Eurasian Economic Union in order to minimize the negative reactions of the third countries (The decision of the Interstate Council of the Eurasian Economic Community from November 27, 2009 № 18). It is now clear that the system of tariff preference of the Eurasian Economic Union is the continuation of the Customs Union tariff preference system. According to the data obtained in 2014, import duties make up 14% of all revenues of the federal budget of the Russian Federation, received from the foreign economic activity, which is about 4.058 trillion rubles. Import duties rates are prescribed at the supranational level in the Common Customs Tariff of the Customs Union (CU CCT).

## 2. Types of preferential benefits within the Eurasian Economic Union

Within the Eurasian Economic Union 100 developing countries receive the preferential benefits in the amount of 75% of the base rate of the import Customs duty. Among them there are Russia's main trade partners: China, South Korea, Brazil, Argentina, Turkey, Egypt, Iran, Cuba, Pakistan and Malaysia (Review and statistics of Russian foreign trade).

Considering the list of the least developed countries, which can import duty-free products, it is important to note that none of them has regular trade relations with the Eurasian Economic Union.

In order to provide preferences, imported goods must be included into the list of the preferential ones ("On the common system of tariff preferences of the Customs Union": Protocol from December 12, 2008). Food products take the first place in the list of the imported goods eligible to preferential treatment: sunflower oil; citrus; fresh and frozen fish; fresh and frozen meat (Figure 2). Regarding some categories of goods, it is also worth mentioning that the Eurasian Economic Union is heavily dependent on the imported products, it is particularly true of meat and medicine. However, there has been much talk recently around the necessity to remove meat and foodstuffs from the preferential list to support domestic producers (Concerning restrictive measures applied to trade of the Customs Union member states with third countries for the first half of 2014). The successful experiment with the poultry meat was carried out in 2013 .

|                                   |                             |
|-----------------------------------|-----------------------------|
| 02 - Meat                         | • Argentina, Brazil         |
| 07 - Vegetables and certain roots | • Egypt, Macedonia          |
| 09- Coffee, tea                   | • Sri-Lanka, India, China   |
| 2401 - Raw tobacco                | • China, Malaysia, Zimbabwe |
| 3003- Medicines                   | • India                     |

Figure 2. The main preferential products and their countries of origin

## 3. Russia's important trade partners preferences

Figure 3 shows the dynamics of China-Russia trade relations. As far as the volume of the foreign trade turnover is concerned, the graph provides strong evidence that in 2014 China is the main trading partner of Russia. It takes 12% of the Russian turnover (approximately 88, 4 billion dollars). However, in recent years there has been a marked slowdown, because preferences have already fulfilled their task (Russian Statistical Yearbook).

The APEC countries are also among Russia's important trade partners. In particular, Japan shows a strong growth of trade with Russia (+32%); Taiwan, Vietnam and South Korea are also not far behind. Unfortunately, at the beginning of 2015 the world economic crisis caused a decrease in the volume of foreign trade with APEC countries by 25%. However, there is a positive trend to improve the situation.

The preferences have contributed to the growth of foreign trade relations with Argentina (Figure 4) and Serbia (Figure 5), but only in the framework of the existing trade flows. However, this trade growth comes mainly from the increase in prices, not expanded import due to preferences (Statistical Compendium: Russia and other countries of the world).

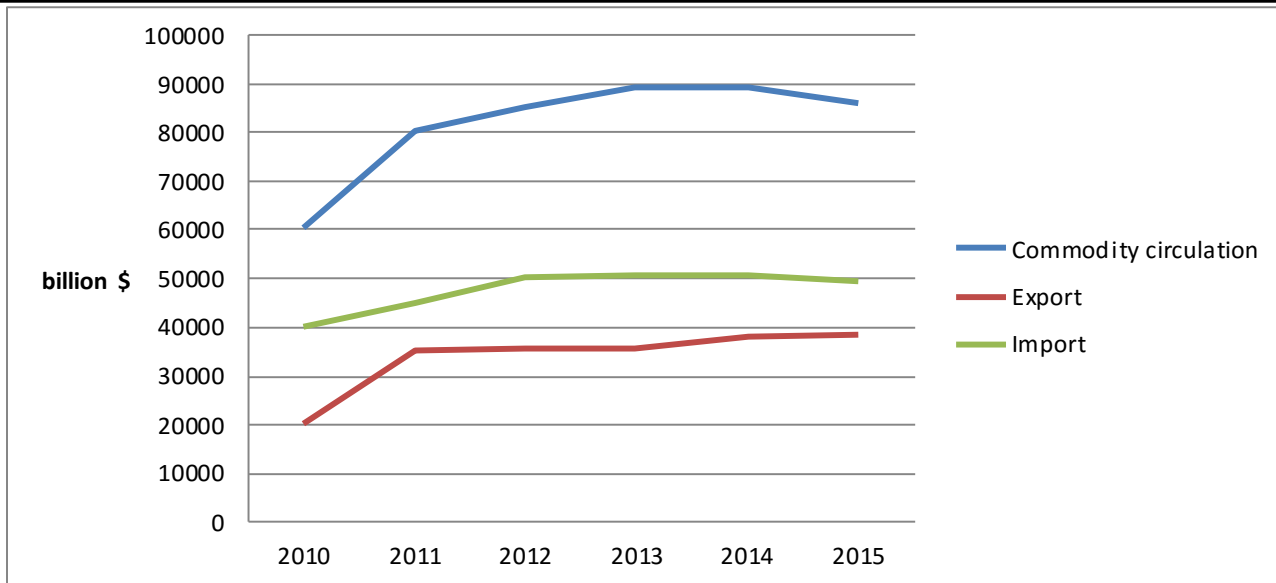


Figure 3. The turnover between Russia and China

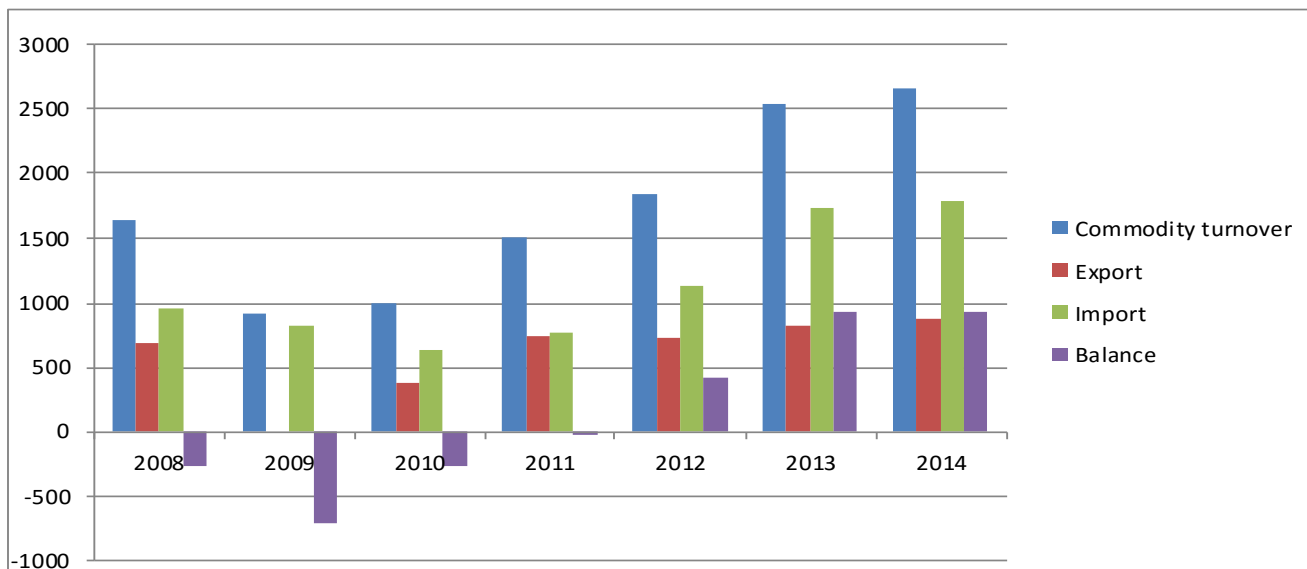


Figure 4. The turnover between Russia and Argentina

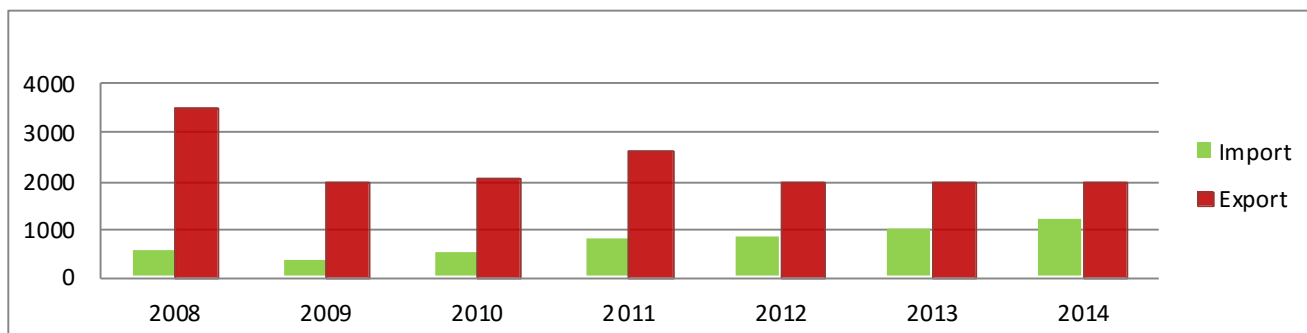


Figure 5. The turnover between Russia and Serbia

In recent years, the commodity flow from Brazil (The statistics portal of the foreign trade of the Ministry of development, industry and foreign trade of Brazil) to Russia has started to grow, but due to the difficulties in transporting the goods and problems with adapting Brazilian products to the Eurasian Economic Union standards, importers and exporters have suffered only losses so far. Thus, economists suppose that the system of preferences is not efficient enough because the costs and expenses still prevail over the benefits (Figure 6).



Figure 6. The turnover between Russia and Brazil

In 2014 a per capita income index in Antigua and Barbuda, Venezuela, Kuwait, Hong Kong, Trinidad and Tobago, Croatia and Chile was higher compared to the same index in Russia. However, this particular figure is taken into account when creating the national system of preferences. This situation makes economists talk about practicability of granting preferences to the goods imported into the Eurasian Economic Union from these countries. The question raised here is not that of the abovementioned countries exclusion from the list of the beneficiary ones, but rather the question of the need for changes in the system of preferences within the Eurasian Economic Union.

In author's opinion, the Eurasian Economic Union needs to specify the codes of the preferential position to the level of the sixth character in the commodity nomenclature. Regarding the development of the domestic agriculture, it is necessary to include some agricultural equipment into the preferential list.

### Summary and concluding remarks

In conclusion it will be important to note that we should make some changes in the Eurasian Economic Union tariff preference system. Firstly, radical changes in the system of preferences should be made only on the basis of the newly developed preferential system that could take into account the international obligations, the worldwide expertise as well as the tariff preferences schemes of the Eurasian Economic Union while maintaining a sufficiently wide coverage of countries, but significantly adding commodity nomenclature, dimensions and mechanism of preferences and refusal from them. Thus, such situation can't occur when preferences users enter restrictive measures against goods from the Eurasian Economic Union, and preferences would cease to be politically motivated.

Secondly, the list of the beneficiary countries should remain the same, because some changes in this sphere will cause negative reaction of Russia's trade partners.

Thirdly, it is necessary to specify codes of preferential positions to the level of the sixth character in the commodity nomenclature, as well as for the development of domestic agriculture to include agricultural machinery in the preferential list.

To sum up, such an approach would contribute to the further improvement of a unified system of preferences in order to transform it into a truly effective mechanism for regulating trade relations with developing countries, which would be consistent with the principle of the Generalized System of Preferences [9] and take into account the experience of other countries in this area.

## Endnotes

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