



# Customs and Tariff Regulation of the Eurasian Economic Union in the Context of New Geo-economic Realities and Challenges to Industry

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## Abstract

Based on the study of the proposals received in 2020–2021 from the authorized bodies of the Eurasian Economic Union member states to change the rates of import duties on certain categories of goods received, the paper reveals the geographical, industry, and target features of customs and tariff measures of regulation of foreign trade activity of the EAEU. During the studied period, 90% of the measures were aimed at reducing or establishing zero rates of import duties. It was found that the most significant number of proposals accounted for goods of the engineering, metallurgical, and chemical industries. The authors investigated the impact of sanction restrictions on the application of measures of customs and tariff regulation in the context of the analysis of key measures that contribute to the improvement of macroeconomic stability of the EAEU member countries.

## Keywords

Eurasian Economic Union · Foreign trade regulation · Customs and tariff regulation · Sanctions

## JEL Codes

F02 · F15 · F13 · F14

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## 1 Introduction

In today's realities, it is particularly relevant to study the foreign trade interaction of the EAEU and the changes in measures of customs and tariff regulation caused by the geographical and commodity transformation of foreign trade. The functioning of the EAEU assumes that decisions in the field of customs and tariff regulation are taken not at the national level but at the level of the regional integration association. Simultaneously, the transformation of foreign trade relations of the Russian Federation entails the transformation of foreign trade relations of the entire EAEU and leads to a significant number of changes in the area of customs and tariff regulation. Thus, it is of particular interest to analyze the proposals considered by the Eurasian Economic Commission (EEC) on changing the level of import customs duty rates in the period from 2019 to 2021, classify them by geographical, industry, time, and other characteristics, and analyze the EEC decisions taken in 2022 on key measures that contribute to the macroeconomic stability of EEU member countries in the field of customs and tariff regulation.

## 2 Materials and Methods

Many studies are devoted to the basics of the application of customs and tariff regulations in foreign trade activities, which are part of various models of foreign trade (classical, neoclassical, and modern) (Krugman, 1990; Krugman et al., 2011; Linder, 1961; Porter, 1990; Posner, 1961; Ricardo, 2001; Smith, 1776; Stolper & Samuelson, 1941; Vernon, 1966). Contemporary works based on general and partial equilibrium models study the characteristics of supply and demand for imported and domestic goods, depending on the price of goods and its elasticity, as well as the exchange rate (Hong, 1999; Idrisov, 2010; Knobel, 2011; Leontief, 1956; Samuelson, 1948). P. Lindert examines the impact of the

tariff on the overall welfare of the nation, proposes the concept of “optimal tariff,” and notes that the introduction of customs and tariff protection reduces the overall welfare of the nation, but “one must know where the limit of the free trade regime lies” (Lindert, 1992). V. Novikov conducted a study on customs duty rates as a tool to directly influence the price of imported and domestic goods (Novikov et al., 2012). T. Saurenko has developed a model for assessing the impact of the rates of import customs tariff on the volume of imports in consumption within the EAEU member states and the set task of maximizing budget revenues (Saurenko, 2013). P. Hong points out that only two parameters, income and relative prices, directly affect the magnitude of demand for imports, while other factors, such as resource endowment, market size, consumer preferences, customs duties, etc., will be factored into changes in relative commodity prices (Hong, 1999). According to A. Knobel, the factors influencing demand include not only the income of the importing country and the prices of imported goods and domestic substitutes but the real effective exchange rate of the Russian ruble (Knobel, 2011; Knobel et al., 2019).

### 3 Results

#### 3.1 Characteristics of Foreign Trade Activities of the EAEU

Foreign trade activities of the EAEU are currently the most important aspect of the development of the economies of the EAEU member states. Simultaneously, about 83% of the value of foreign trade in 2020 was accounted for by Russia (\$519,293 million).

In 2020, EAEU goods were exported to China, the Netherlands, the UK, Germany, Turkey, Italy, etc. Imports

were mostly from China, Germany, the USA, South Korea, Italy, and France.

Analyzing the structure of exports and imports of goods in value terms, it should be noted that the main exports were mineral products (54.09% of the value of all exports), metals (10.49% of all exports), food products (8.16%), and chemical products (6.55%). The structure of imports was dominated by machinery, equipment, and vehicles (45.26% of the volume of imports in value terms), chemical products (18.22%), and foods (11.51%) (Table 1).

The analysis of the commodity structure suggests a high share of imports of high-tech goods in the domestic markets of member states (machinery, equipment, and vehicles), textiles and footwear, as well as chemical products.

Despite the decrease in the volume of foreign trade activity compared to 2019, the commodity and geographic structure has not undergone significant changes.

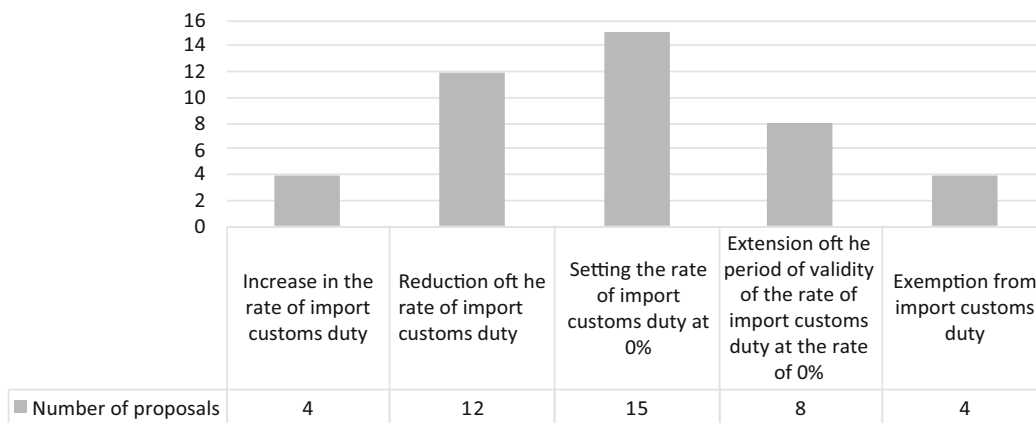
#### 3.2 Analysis of Received Proposals to Change the Rates of Import Customs Duties

Due to changes in the global environment and the state of the domestic market and production of goods, the current measures of customs and tariff regulation are periodically revised by the EAEU countries. For this purpose, the state authorities of the EAEU countries, which are authorized to interact with the EEC, submit proposals concerning changes in the level of import customs duties, which are subsequently considered by the EAEU bodies (Eurasian Economic Union, 2014; Supreme Eurasian Economic Council, 2015). If the considered measures create favorable conditions for the development of domestic production in the EAEU countries, the corresponding changes will be introduced in the Common customs tariff of the EAEU and the FEACN of the EAEU.

**Table 1** Trade volumes of the EAEU member states with third countries by aggregated commodity groups in 2020

FEACN* code of the EAEU	Name	Export			Import		
		USD million	in % to 2019	in % of total exports	USD million	in % to 2019	in % of total exports
	TOTAL	364,810.4	79.2	100	259,817.1	94.5	100
01–24	Food products and raw agricultural materials	29,773.4	119.0	8.16	29,897.2	97.8	11.51
25–27	Mineral products	197,327.0	65.2	54.09	3171.3	76.9	1.22
28–40	Chemical products	23,880.3	89.1	6.55	47,333.3	90.2	18.22
41–43	Rawhide	114.0	66.4	0.03	1069.2	75.4	0.41
44–49	Wood and paper products	12,636.1	97.7	3.46	3772.1	91.7	1.45
50–67	Textiles, textile products, and footwear	1032.6	92.1	0.28	16,527.4	92.4	6.36
72–83	Metals and derivative products	38,255.2	94.1	10.49	17,176.2	89.7	6.61
84–87, 90	Machinery, equipment, and vehicles	13,544.8	85.6	3.71	117,581.0	96.5	45.26

Note: \* FEACN Foreign Economic Activity Commodity Nomenclature. Source: Compiled by the authors based on the Department of Statistics of the Eurasian Economic Commission (Eurasian Economic Commission, 2020, pp. 98–100)



**Fig. 1** Proposed changes in the field of customs and tariff regulation by the EAEU member states for the period from 2020 to 2021. *Source:* Compiled by the authors based on (Eurasian Economic Commission, n.d.)

From 2020 to 2021, 43 proposals were submitted to the EEC by the EAEU member states to change the rates of import customs duties (Eurasian Economic Commission, n.d.). Many proposals aim to establish import duty rates of 0% for certain goods, extending the period of their validity and reducing the rates—35 such proposals were made. In some cases, member states proposed to establish tariff concessions in the form of exemption from import customs duties. Thus, 90% of the total number of proposals aimed to reduce the rates. There were only four proposals from the EAEU member states to increase the level of import duty rates (Fig. 1).

As for the sectoral distribution, the greatest number of proposals to reduce or establish import duty rates at the rate of 0%, as well as exemption from their payment, is noted in respect of goods of the chemical industry, metallurgy, and engineering industry. Eight proposals were made to reduce the rates of duties for the first two industries, and seven proposals were made for the engineering industry. Additionally, four proposals were made by the EAEU member states for agricultural and light industry goods; three proposals were made for the food industry; one proposal was made for the forestry and mining industries (Fig. 2).

The increase in the size of import duty rates was considered in relation to goods of the machine-building industry and agricultural goods.

The main stated objectives of the proposals of the EAEU member countries to reduce import duty rates are as follows:

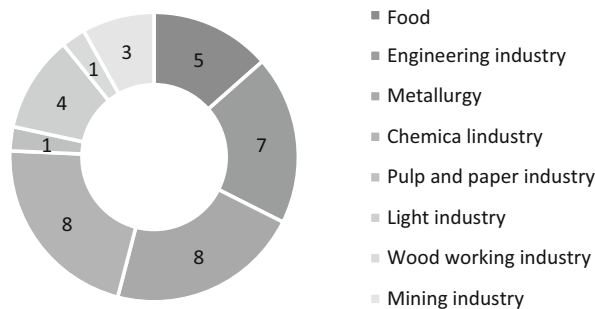
1. Compensation of deficit of certain goods on the EAEU market, especially those the production of which is not available in the territory of the EAEU countries.
2. Support of domestic producers who use imported goods as raw materials or parts for their own production because lower rates reduce production costs and, consequently, increase the volume of products manufactured.

3. Ensuring favorable conditions in the market of imported goods in the EAEU countries and stabilizing their prices.

Thus, almost all proposals of the EAEU countries concerning the measures of customs and tariff regulation during the reviewed period concerned the reduction of the level of rates for import duties. The main reasons for the decline are insufficient domestic production volumes and the uncompetitiveness of domestic goods.

### 3.3 Impact of Sanction Restrictions on the Application of Measures on Customs and Tariff Regulation

The foreign policy and the introduction of new sanctions against Russia in the spring of 2022 also make it possible to assess the dependence of the EAEU economy on imports. Restrictions on imports of goods from many countries lead to a further reduction of import duty rates to facilitate the import of goods, which affects the competitive environment emerging in the domestic market and the economic security of the EAEU in general.



**Fig. 2** Sectoral distribution of proposals to change the size of the rate of import customs duty, pcs. *Source:* Compiled by the authors based on (Eurasian Economic Commission, n.d.)

Most of the restrictions were imposed by the USA and the EU. These restrictions consist of a ban on imports into Russia of luxury goods and high-tech equipment. It is prohibited to import goods and technology for the aviation and space sectors of the economy, as well as technology and equipment for the energy sector. Sanctions also affected imports from Russia. A ban was imposed on imports of oil and gas from Russia to the USA and steel products to the EU.

In addition to the sanctions imposed by the USA and the EU, imports to Russia are limited due to the suspension of many logistics companies. Under such conditions, the EEC makes decisions to establish zero duty rates and introduce benefits for many commodity items. Additionally, the possibility of organizing negotiation processes to conclude agreements on trade cooperation with such countries as China, Iran, Egypt, Israel, Indonesia, and Mongolia is being intensified and worked through.

The EAEU bodies approved lists of goods imported into the EAEU from third countries for the implementation of measures to ensure macroeconomic stability of the EAEU countries. According to the decisions adopted, tariff concessions will be applied to the goods on the list until September 30, 2022 (Council of the Eurasian Economic Commission, 2022a, 2022b). Such products include food and products for its production, goods for the production of pharmaceutical, electronic, metallurgical, and light industry products, goods for digital technology, and goods used in construction and transport. Reduction of rates or provision of tariff benefits affected about 2300 sub-subheadings of the HS EEU (about 21 percent of the nomenclature), which may indicate insufficient domestic industrial production of such goods. These circumstances pose new challenges to the industry of the EAEU countries related to the urgent need for self-sufficiency in essential commodities.

## 4 Conclusion

For the entire period of operation of the EAEU in terms of taking decisions on changing the rates of duties (since 2015), no such wide range of decisions on zeroing the rates was taken as in April 2022. Additionally, 43 proposals were considered between 2020 and 2021, 90% of which were aimed at reducing import duty rates. These circumstances indicate a clear liberalization of customs and tariff regulation in the EAEU and the reduction of customs and tariff protection for a large list of goods of the most important industries.

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