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REVIEW OF AGRICULTURAL TRADE POLICIES IN POST-SOVIET COUNTRIES 2015-16 Summary Report



REVIEW OF AGRICULTURAL TRADE POLICIES IN POST-SOVIET COUNTRIES

2015-2016

Summary report



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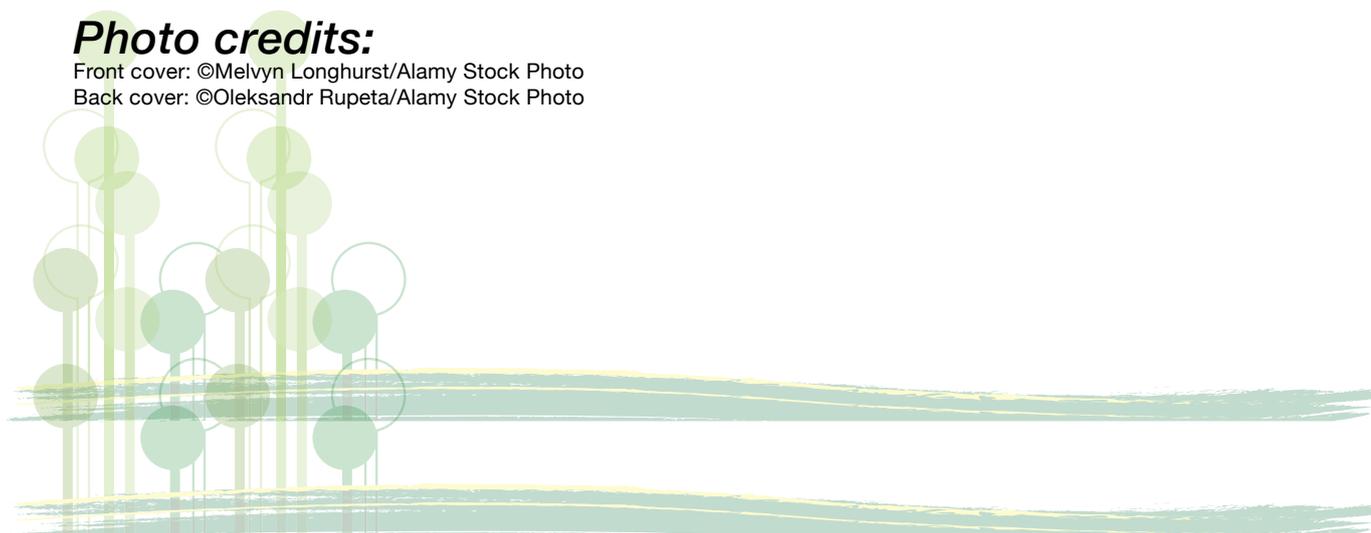
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Contents

KEY TRENDS IN THE DEVELOPMENT OF AGRIFOOD TRADE IN THE REGION DURING 2015-2016

- 04 PATTERNS OF AGRICULTURAL IMPORTS AND EXPORTS
- 07 TRADE POLICY MEASURES: MAJOR CHANGES IN THE
REGION'S COUNTRIES IN 2015 AND 2016
- 08 TRADE AGREEMENTS – KEY DEVELOPMENTS IN
2015 AND 2016
- 10 DOMESTIC SUPPORT TO AGRICULTURAL
PRODUCERS: KEY TRENDS IN 2015
- 12 CONCLUSIONS



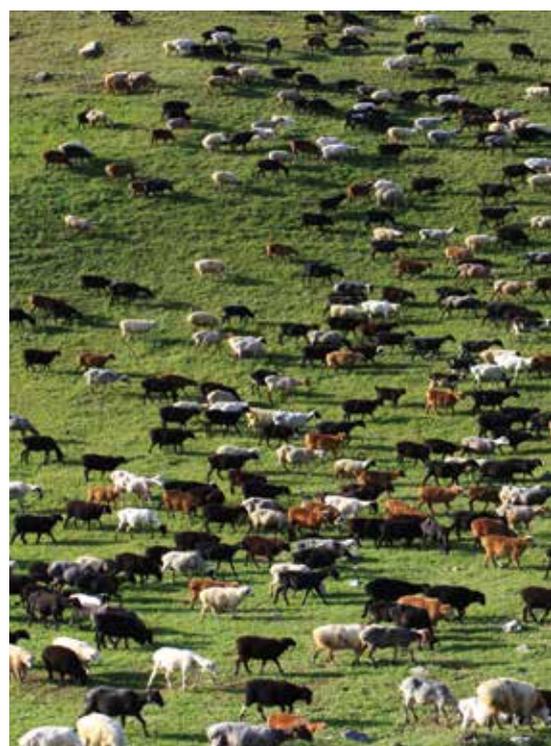
IMPACT OF MACRO-ECONOMIC FACTORS ON AGRIFOOD TRADE IN THE POST-SOVIET COUNTRIES

- 14 THE MACROECONOMIC SITUATION IN THE REGION'S
COUNTRIES BEFORE 2014
- 16 BEHAVIOUR OF MACROECONOMIC INDICATORS
AMID FALLING GLOBAL OIL PRICES
- 18 CHANGES IN AGRIFOOD EXPORTS AND
IMPORTS IN 2014-2015
- 21 CONCLUSIONS



CHANGES IN THE AGRICULTURAL TRADE POLICIES BY COUNTRY

- 26 ARMENIA
- 28 AZERBAIJAN
- 30 BELARUS
- 32 GEORGIA
- 34 KAZAKHSTAN
- 36 KYRGYZSTAN
- 38 THE REPUBLIC OF MOLDOVA
- 40 THE RUSSIAN FEDERATION
- 44 TAJIKISTAN
- 46 TURKMENISTAN
- 48 UKRAINE
- 52 UZBEKISTAN



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Acronyms **and** abbreviations

CIS	Commonwealth of Independent States
EAEU	Eurasian Economic Union
EAEU CCT	Common Customs Tariff of the Eurasian Economic Union
EU	European Union
EUR	Euro
GDP	Gross domestic product
GSP	Generalized System of Preferences
HS	Harmonized (Commodity Description and Coding) System
IPV	Index of physical volume
MFN	Most-favoured nation
RER	Real exchange rate
SPS	Sanitary and phytosanitary (measures)
UN Comtrade	United Nations Commodity Trade Statistics Database
USA	The United States of America
USD	United States Dollar
VAT	Value-added tax
WTO	World Trade Organization

Key trends in the development of agrifood trade in the region during 2015-2016¹

Kateryna Schroeder

The main economic and political factors influencing the patterns of agrifood trade in the region during 2014 generally continued to have an impact in 2015 and 2016. In particular, a further slowdown in economic growth was observed in all countries during 2015. The highest percentage decline in real gross domestic product (GDP) was seen in Ukraine (-9.9%), Belarus (-3.9%) and the Russian Federation (-3.7%). In addition, the depreciation of all the national currencies against the US dollar (USD) and the euro (EUR), which began in 2014, continued in 2015 and 2016. Since a large share of food products in the region are imported, their prices tended to increase in domestic markets. Meanwhile, due to the

drop in exchange rates of national currencies and falling consumer demand, the total value of imports of agrifood products in USD terms decreased in many countries. The decline in demand for agrifood products in the region and lower international prices also contributed to the reduction in agrifood exports from the region.

The Russian ban on the importation of some agricultural products, agricultural raw materials and food from Australia, Albania, Canada, European Union (EU) countries, Iceland, Liechtenstein, Montenegro, Norway, the United States of America (USA) and Ukraine remained in force in 2015 and 2016. Most recently, the ban was

¹ The review covers 12 post-Soviet countries: Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, the Russian Federation, Tajikistan, Turkmenistan, Uzbekistan and Ukraine.

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extended from 6 August 2016 until 31 December 2017. However, the import measures were relaxed for some product groups during the period under review. For example, in May 2016 the Russian Federation removed products used in the preparation of baby food from its list of products affected by the ban.

TraderelationsbetweentheRussianFederationandUkraine continued to deteriorate. With the Cabinet of Ministers of Ukraine Resolution No. 1147 of 30 December 2015 “On the prohibition of import of goods originating from the Russian Federation to Ukraine’s customs territory”, Ukraine introduced an import ban for a large group of agricultural

goods originating from the Russian Federation. The ban, which was initially in place from 10 January 2016 to 5 August 2016, was extended until 31 December 2017, in response to the Russian Federation’s decision to prolong its trade sanctions against Ukraine.

A number of additional events in 2015 and 2016 affected agrifood trade in the region. In particular, in early 2016, the Russian Federation introduced an import ban for some categories of agricultural products, agricultural raw materials and food from Turkey. The ban was partially removed in October 2016. In September 2015, the Federal Service for Veterinary and Phytosanitary Surveillance (Rosselkhoznadzor) lifted the prohibition on imports for a broad range of fruits from the Republic of Moldova. The prohibition was introduced by the Russian Federation in July 2014, immediately following the conclusion

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of the Association Agreement between the EU and Republic of Moldova. According to Russian authorities, this measure was applied in response to the failure of Moldovan products to comply with Russian sanitary and phytosanitary requirements.

In addition, the last two years have been marked by stronger integration processes in agrifood trade among several countries in the region. In particular, Kazakhstan acceded to the World Trade Organization (WTO) (30 November 2015); Kyrgyzstan became a member of the Eurasian Economic Union (EAEU) (12 August 2015); and the Association Agreements entered into force between the EU and Ukraine (1 January 2016 – the economic part), between the EU and Georgia (1 July 2016), and between the EU and the Republic of Moldova (1 July 2016).

Patterns of agricultural imports and exports²

The share of agrifood³ exports and imports in the total value of exports and imports remained similar in 2015 to the share in 2014 for many countries. The only exception was Ukraine, where the share of agrifood exports in the total value of exports increased by 7.3 percent points in one year, reaching 38 percent in 2015. The share of agrifood exports in Armenia, Georgia, the Republic of Moldova and Uzbekistan continued to exceed 25 percent in 2015, while it was slightly below 5 percent in Kazakhstan and the Russian Federation (Graph 1).

Tajikistan and Armenia are two countries in the region with the largest share of agrifood imports in the total value of imports. It amounted to 24 percent and 20 percent, respectively, in 2015 (22 and 21 percent in 2014).

At the same time, in all the countries in the region except for Tajikistan and Uzbekistan, the value of exports and imports for agrifood products declined in 2015 (Graph 2). It was caused primarily by the deteriorating macroeconomic situation in the region and the loss of consumer purchasing power. The most drastic contraction of agrifood exports in percentage terms occurred in Kyrgyzstan (-31.7%), Georgia (-25.9%), Kazakhstan (-21.9%), Turkmenistan (-21.9%) and Belarus (-21.1%). However, when comparing changes in export value terms, the most notable drop in 2015 was recorded in the Russian Federation (USD -2.8 billion), Ukraine (USD -2.1 billion)

and Belarus (USD -1.2 billion). Tajikistan was the only country showing an increase from USD 192 million in 2014 to USD 204 million in 2015. The growth was predominantly determined by an increase in cotton exports, the value of which totaled USD 156 million in 2015 (USD 144.7 million in 2014).

The most significant reduction of agrifood imports in 2015, as compared to 2014, took place in Ukraine (-42%, or USD 2.6 billion), the Russian Federation (-33%, or USD 13.5 billion), Kyrgyzstan (-32%, or USD 275 million), Armenia (-30%, or USD 271 million) and Kazakhstan (-23%, or USD 1 billion). In 2015, Uzbekistan was the only country with a minor increase in agrifood imports (+2.5%, or USD 48 million) (Graph 2).

In 2015, the Republic of Moldova, Ukraine and Uzbekistan remained the only net exporters of agrifood products in the region (Graph 3). Due to a significant decline in the value of agrifood exports, mainly due to the Russian Federation, Belarus became a net agrifood importer in 2015, recording a USD -13.8 million trade deficit in this category of products. In other countries of the region, imports of agrifood products continued to exceed their exports. However, since imports declined more than exports, the agrifood trade deficit in 2015 decreased in most countries: from USD -480 million to USD -235 million in Armenia; from USD -774 million to USD -619 million in Azerbaijan; from USD -1.6 billion to USD -1.2 billion in Kazakhstan; from USD -619 million to USD -420 million in Kyrgyzstan; from USD -21.4 billion to USD -10.7 billion in the Russian Federation; from USD -737 million to USD -627 million in Tajikistan; and from USD -943 million to USD -267 million in Turkmenistan. Therefore, the total trade balance of agrifood products in the region was USD -2.4 billion in 2015. In 2014, it was USD -13.8 billion.

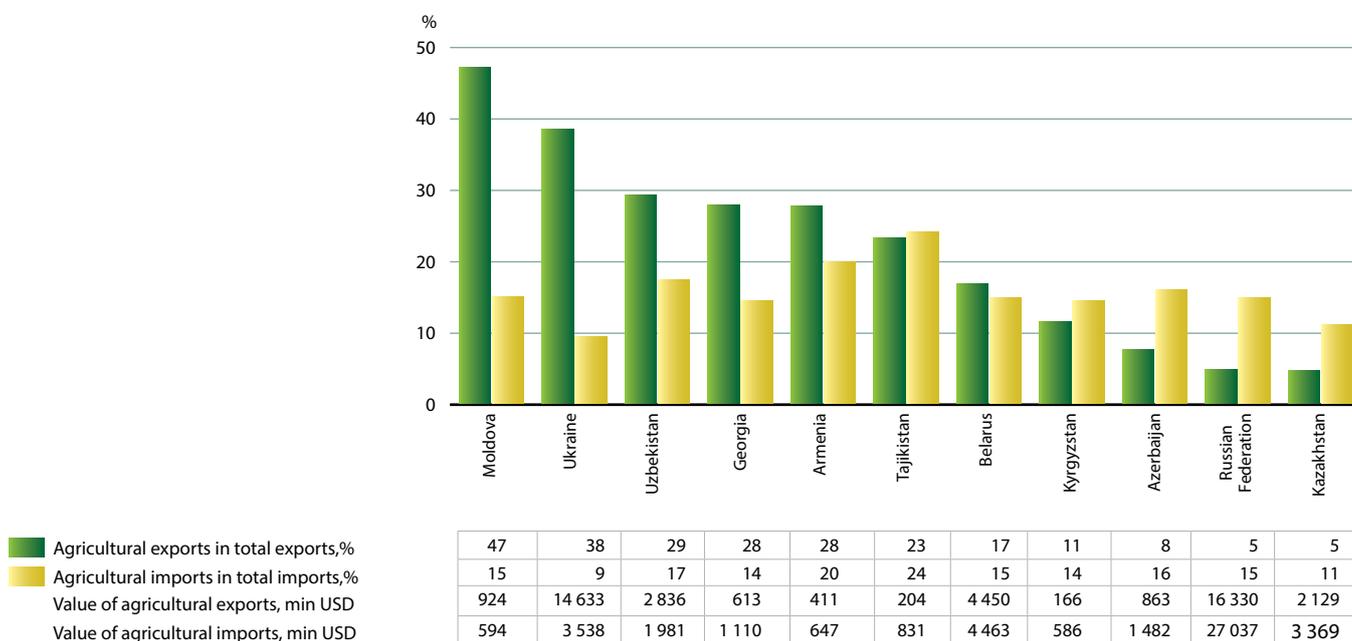
The geographical structure of exports changed in 2015 relative to 2014, with some countries reorienting exports towards countries outside the region. At the same time, the share of exports to the Russian Federation market decreased. For example, the share of exports to Russia in the structure of total agrifood exports from Armenia, Georgia and the Republic of Moldova dropped by 8 percentage points on average. Meanwhile, the share of Azerbaijan's agrifood exports to the Russian Federation increased from 39 percent in 2014 to 52 percent in 2015 (from USD 367 million to USD 448 million in value terms) (Graph 4). During this period, the share of Moldovan

² The review covers agricultural commodity groups Harmonized System (HS) codes 1-24 as well as some commodities from groups 29 (2905.43 and 2905.44), 33 (33.01), 35 (35.01 - 35.05), 38 (3809.10 and 3823.60), 41 (41.01 - 41.03), 43 (43.01), 50 (50.01 - 50.03), 51 (51.01 - 51.03), 52 (52.01 - 52.03) and 53 (53.01 and 53.02).

³ Terms "agricultural goods" and "agrifood products" are used in the text interchangeably.

GRAPH 1

Shares of agrifood exports and imports in total value of countries' exports and imports, 2015*

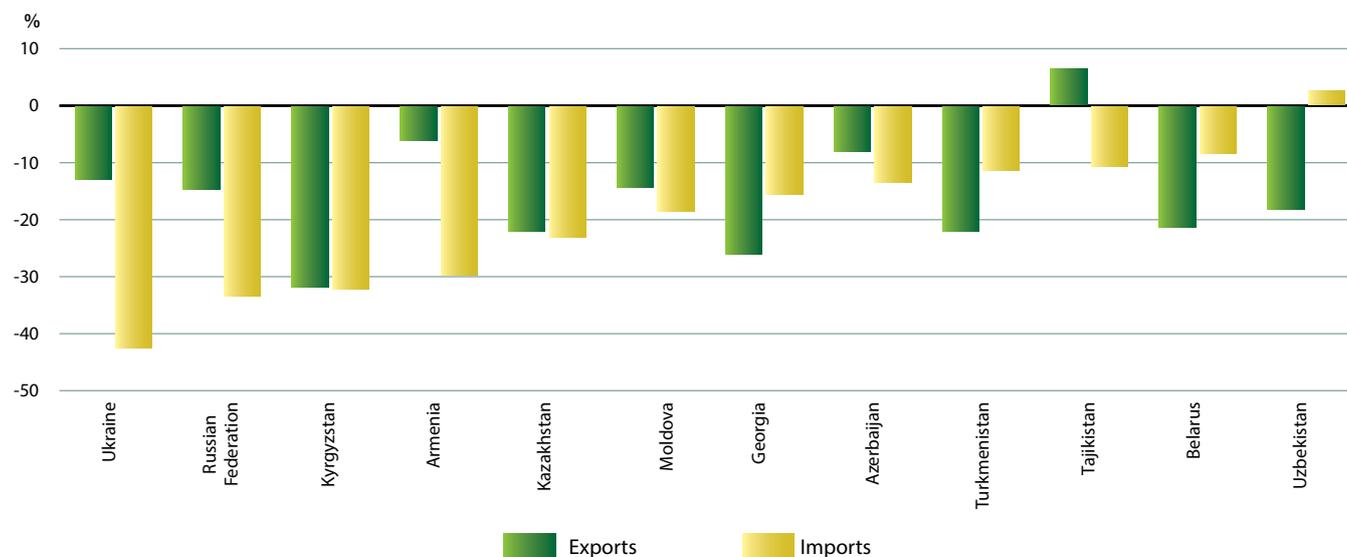


Source: Data by country-chapter authors

* Official foreign trade statistics for the region's countries for 2016 was not available at the time of writing

GRAPH 2

Changes in values of imports and exports of agrifood products, 2015 to 2014 (%)

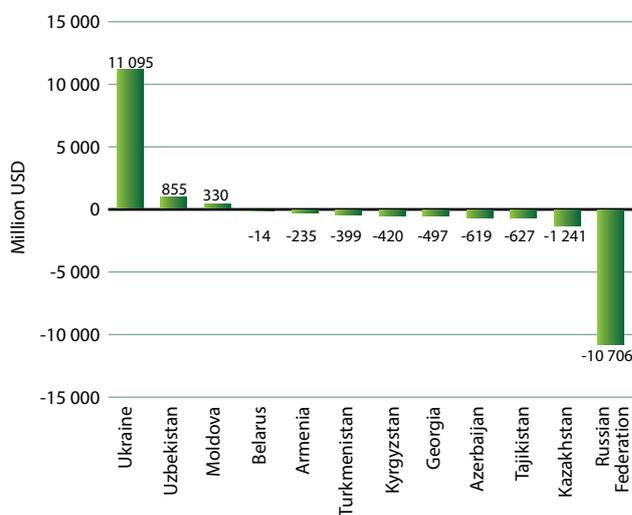


Source: Data by country-chapter authors

agri-food exports that went to the EU increased from 42 percent to 54 percent.

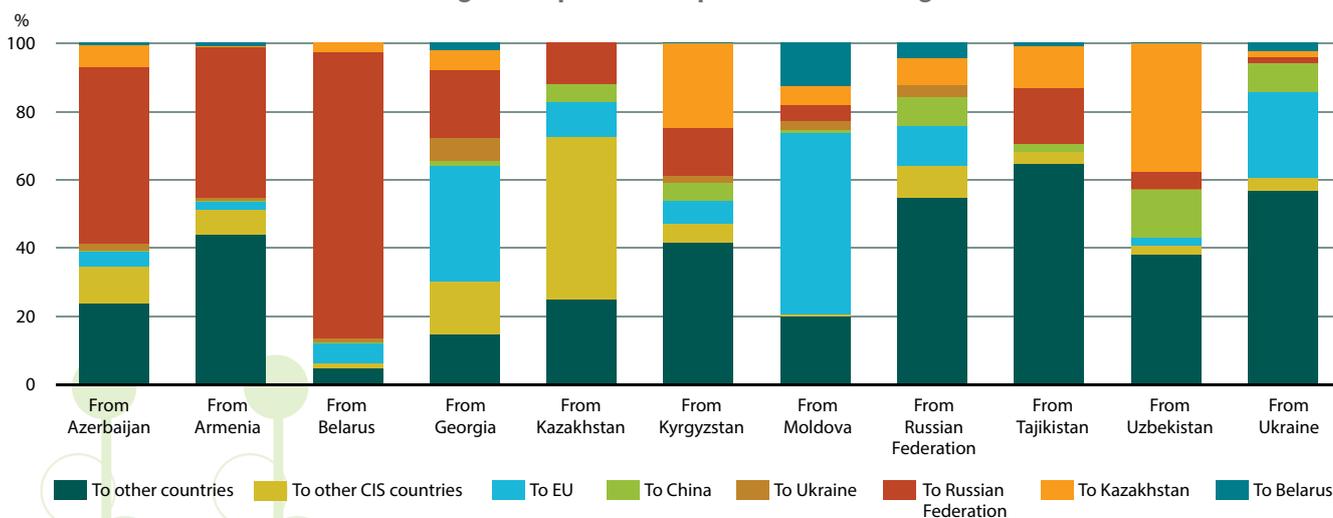
The agrifood imports of the Russian Federation, from all countries in the region as well as from the EU, declined substantially in 2015, becoming the main feature in the shift of the geographical structure of trade within the region. In particular, Russia’s agrifood product imports from the EU decreased by USD 6.2 billion (51.2%) as compared to 2014. Importantly, despite the EU-Ukraine Free Trade Agreement entering into force, 2015 was also marked by a slump in agrifood imports from the EU countries to Ukraine (by USD 1.4 billion, or 50%) as compared to 2014. There was also a decline in the total share of agrifood imports from the EU for Ukraine, which amounted to 40 percent in 2015, six percentage points lower than the 2014 figure (Graph 5). These changes were primarily caused by Ukraine’s difficult macroeconomic situation.

GRAPH 3
Trade balance for agrifood products by country in 2015



Source: Data by country-chapter authors

GRAPH 4
Main destinations for agrifood product exports from the region’s countries in 2015



Source: Data by country-chapter authors

Trade policy measures: major changes in the region's countries in 2015 and 2016

Tariff regulation measures remain the primary import policy tool in all countries of the region. In 2015, agrifood products (HS 1-24) recorded increases in average tariff rates in Armenia (+0.8 percentage points) and Kyrgyzstan (+1.7 percentage points), which was caused mainly by the accession of these countries to the EAEU. Increases were also recorded in the Republic of Moldova (+1.1 percentage points) and Uzbekistan (+0.2 percentage points). Belarus, Georgia, Kazakhstan, the Russian Federation, and Tajikistan had an opposite pattern: average tariff rates for agrifood products decreased (Graph 6). No change in the average tariff rate occurred in 2015 in Azerbaijan. However, this country has set new, higher tariff rates for some agricultural goods since 1 November 2016 for two years. A significant event took place in Ukraine, where surcharges to import tariffs for agricultural goods were cancelled on 1 January 2016, that were previously introduced in February 2015 to stabilize the country's balance of payments.

In addition, Belarus, Kazakhstan, Kyrgyzstan, the Russian Federation and Ukraine were applying tariff rate quotas to certain types of agricultural goods in 2015 and 2016. In May 2016, the Republic of Moldova also introduced tariff rate quotas for agrifood imports from Ukraine as a response to a considerable increase in

their value of imports. Besides, almost all the countries in the region were actively using sanitary, veterinary and phytosanitary regulation measures during the period under review to restrict import of some agrifood products.

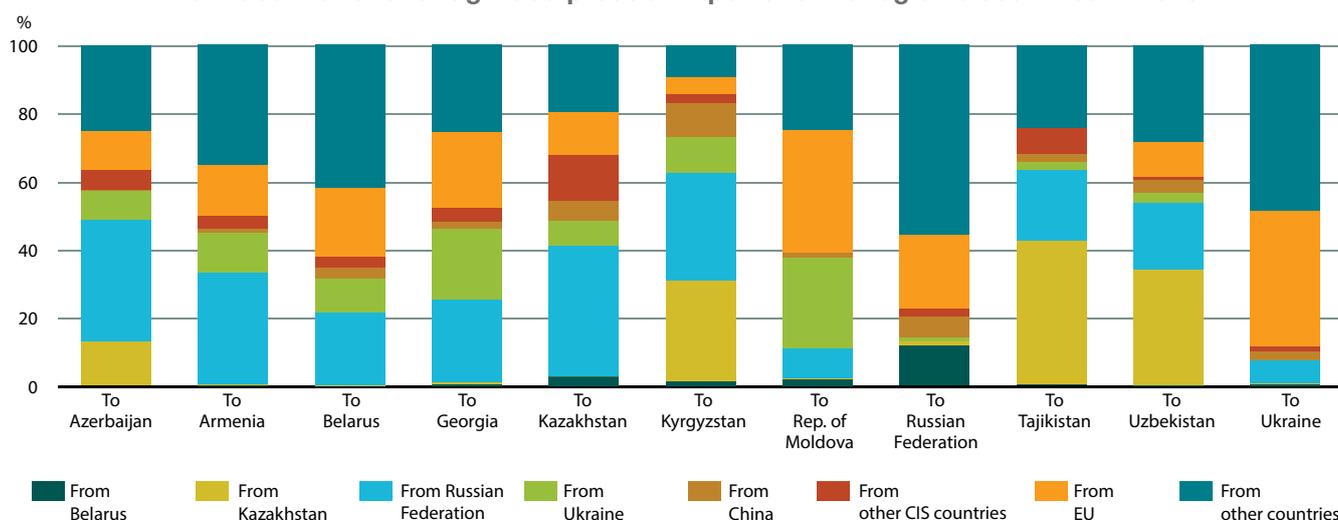
As already noted, the Russian Federation and Ukraine also introduced bans on the import of some agrifood products during that period. In Russia, the ban on the import of some agricultural products made in Australia, Albania, Canada, the EU countries, Iceland, Liechtenstein, Montenegro, Norway, the USA and Ukraine remained in force (since August 2014). In addition, the Russian Federation introduced a ban in early 2016 on the import of some agrifood products, mainly fruits and vegetables, from Turkey. The ban was partially relaxed in October 2016. In Ukraine, a retaliatory ban on the import of agricultural goods from the Russian Federation remained in 2015 and 2016.

In terms of export policies, the Russian Federation's applied an export duty on wheat grain on 1 February 2015, and implemented subsequent modifications thereafter in July and October of the same year. However, in 22 September 2016, the Ministry of Agriculture cancelled these duties.

Overall, however, export promotion measures contributed significantly to the export policy implemented among the countries in the region in 2015 and 2016. During that period, Azerbaijan, Belarus, Kyrgyzstan and Turkmenistan

GRAPH 5

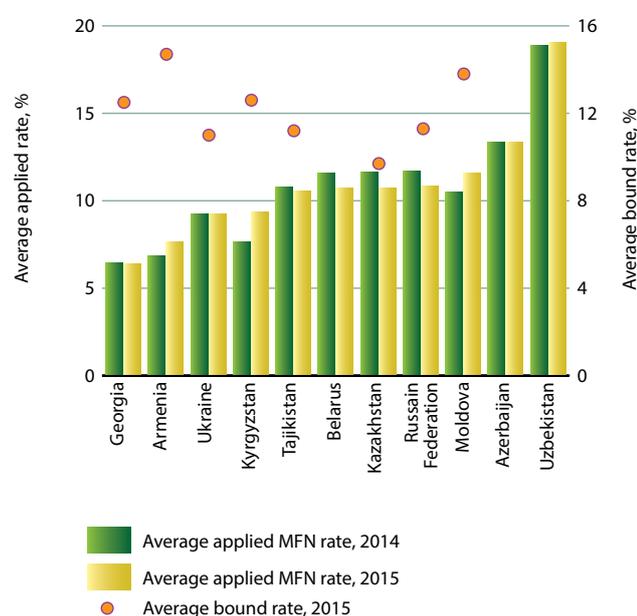
Main destinations for agrifood product imports to the region's countries in 2015



Source: Data by country-chapter authors

GRAPH 6

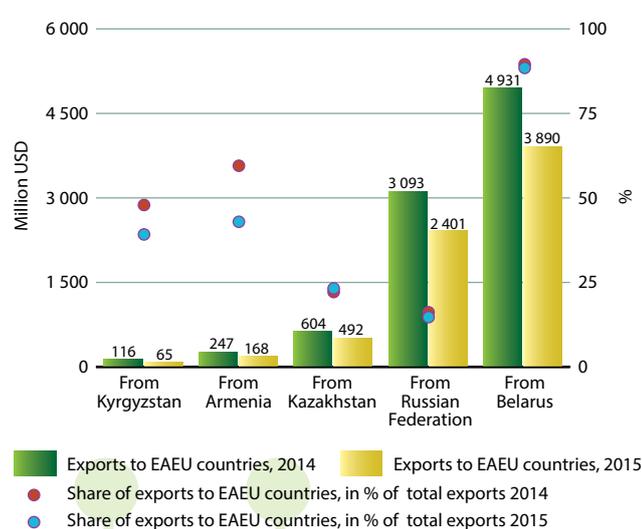
Patterns of average applied and bound most-favoured nation (MFN) tariff rates for agrifood products in 2014 and 2015 (HS 1-24)



Source: WTO database

GRAPH 7

Value of intra-EAEU agrifood exports, 2014 and 2015* (USD millions)



Source: UN COMTRADE database, author's calculations

* To provide more detailed analysis, this section uses UN COMTRADE data. In some cases, minor differences are present between these data and data provided by the country-chapter authors

adopted export support and development programmes, including for agrifood exports. In Tajikistan, the Regulations on the Standing Commission for Expansion of Domestic Production and Development of Export were approved on 30 December 2015. In Uzbekistan, the Uzpakhtasanoatexport holding company for acceptance, processing and export of cotton fibre, and the Uzagroexport specialized foreign trade company for export of fresh and processed fruits and vegetables, were established in 2015-2016. The companies were established to improve the competitiveness and export capacity of Uzbek-made products.

Trade agreements – key developments in 2015 and 2016

The World Trade Organization

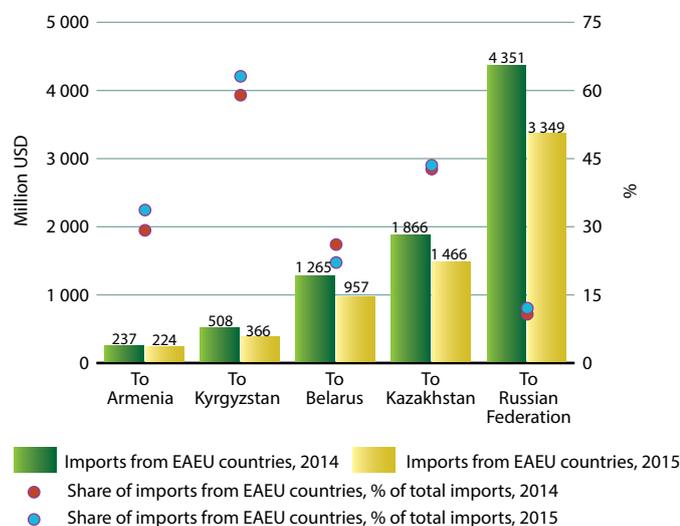
Kazakhstan's accession to the WTO (30 November 2015) marked an important event in terms of trade policy developments in the region. Among the three countries (Azerbaijan, Belarus and Uzbekistan) that are negotiating their accession to the WTO, active negotiations in 2015-2016 took place only on the part of Belarus. Turkmenistan, the regions only country that has not yet begun a WTO accession negotiation process, held a series of consultations with the WTO representatives to discuss conditions of accession to this international organization.

Eurasian Economic Union

Inside the EAEU, the second half of 2015 and all of 2016 were marked by stronger integration processes among the Union member states as well as by the EAEU's growing foreign economic cooperation with some countries of the world. For example, the Kyrgyzstan became a new member of the Union on 12 August 2015. In 2016, the EAEU member states developed and approved the methodology for calculating permissible levels of state support measures for agriculture. The document specifies a procedure for formulating the commitments concerning the level of state support measures for agriculture that have a distortive effect on the Union members' trade. Furthermore, in 2016, a draft procedure was developed to compensate effected members in the event that an EAEU member violates its domestic support for agriculture. In addition, at the interstate level in the EAEU, the recommendation "On coordination of sales and marketing policies of the member states concerning export of agricultural products and food" was adopted to facilitate export promotion for the Union member states; and draft recommendations were developed "On coordinated development of exchange trade in agricultural products" and "On coordinated actions of the EAEU member states to develop export capacity for agricultural products and food".

GRAPH 8

Patterns of intra-EAEU agrifood imports, 2014 and 2015 (USD millions)



Source: UN COMTRADE database, author's calculations

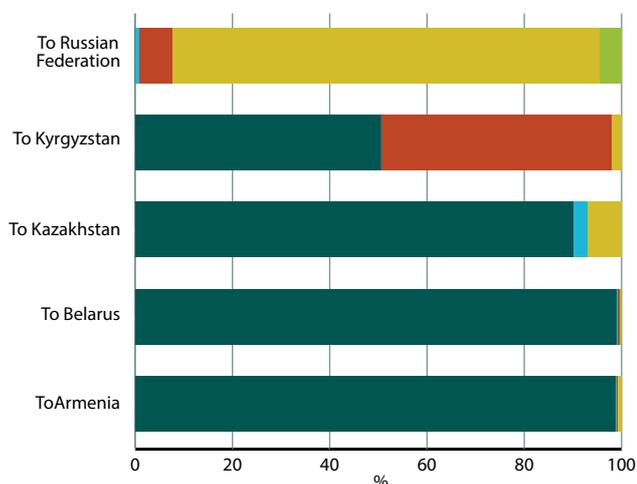
Overall, however, the EAEU experienced a downward trend in the value of agrifood exports and imports in 2015, due to the deteriorated macroeconomic situation. The value of intraregional exports dropped by 28 percent in 2015 (Graph 7). In percentage terms, the most substantial reduction in agrifood exports among the EAEU countries was recorded in Kyrgyzstan (-44%), whereas Belarus was the first in absolute terms (with a decrease of slightly more than USD 1 billion). Moreover, the redirection of export flows from the EAEU to other countries occurred in Kyrgyzstan and Armenia in 2015. In Armenia, the share of agrifood exports to the EAEU countries dropped by 17 percentage points in 2015, while the corresponding decrease was 9 percent points in Kyrgyzstan.

Similar changes also occurred in the pattern of agrifood product imports inside the EAEU (Graph 8). The average value of agrifood imports among the Union member countries decreased by 21 percent in 2015 as compared to 2014.

No major change occurred in the geographical structure of agrifood trade among the EAEU member countries in 2015 (Graphs 9 and 10). The Russian Federation remains

GRAPH 9

Geographical structure of intra-EAEU agrifood imports, 2015 (USD millions)

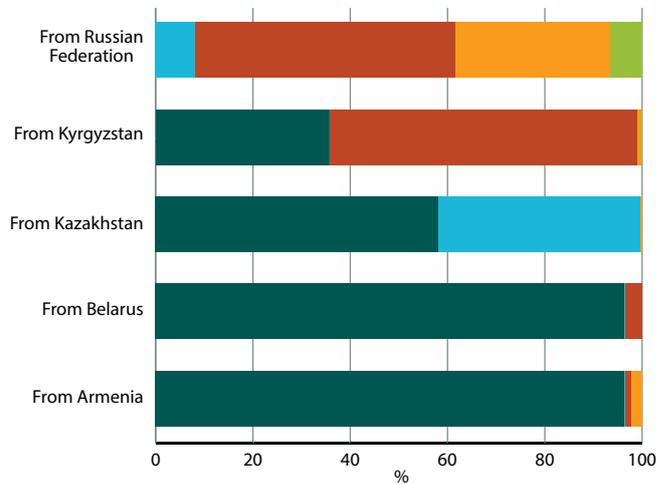


	To Armenia	To Belarus	To Kazakhstan	To Kyrgyzstan	To Russian Federation
From Russian Federation	221.7	948.1	1 323.3	185.0	
From Kyrgyzstan	0.1	0.8	39.6		25.9
From Kazakhstan	0.0	3.5		172.5	222.7
From Belarus	2.2		101.2	8.0	2 896.8
From Armenia		4.8	1.8	0.1	150.6

Source: UN COMTRADE database

GRAPH 10

Geographical structure of intra-EAEU agrifood exports, 2015 (USD millions)



	From Armenia	From Belarus	From Kazakhstan	From Kyrgyzstan	From Russian Federation
To Russian Federation	161.7	3 747.6	285.8	23.1	
To Kyrgyzstan	0.1	6.7	203.7		194.2
To Kazakhstan	2.4	133.8		41.0	1 284.1
To Belarus	3.8		2.4	0.6	764.6
To Armenia		1.9	0.1	0.1	158.3

Source: UN COMTRADE database

the key trade partner for the other Union member states. The only exception is Kyrgyzstan, whose main trade flows are directed to Kazakhstan.

In the framework of the EAEU's international cooperation,⁴ the Free Trade Agreement between the EAEU and Vietnam was signed on 29 May 2015. The agreement provides for a reduction in import customs duties for some agrifood products. It also envisages commitments for the protection of intellectual property rights, cooperation in electronic commerce, and adoption of common principles on competition issues. In addition, the EAEU member states commenced negotiations in 2015 and 2016 on free trade agreements with Egypt, Iran, Mongolia and Thailand. It was also decided to launch negotiations with Israel.

Despite a number of positive developments facilitating stronger trade relations inside the EAEU, tensions and trade barriers were still emerging among the Union countries in 2015-2016. For example, although Kyrgyzstan acceded to the EAEU in August 2015, with the Kyrgyz phytosanitary control system officially recognized as equivalent to those of other Union member states, Kazakhstan maintained its phytosanitary posts at the border with Kyrgyzstan until October 2016.

Moreover, the problem of harmonizing commitments to the EAEU and with WTO partners persisted. For example, Kyrgyzstan's adoption of the EAEU Common Customs Tariff (CCT) does not comply with its WTO commitments, which caused the need to reconsider the country's tariff commitments to this international organization. A similar situation emerged in Kazakhstan, whose WTO commitments concerning tariff rates for some agrifood products were at a lower level than the CCT. As a result, Kazakhstan had to withdraw 578 agricultural product lines from the CCT, thereby complicating its customs regulation in the EAEU. From now on, the agrifood products imported to Kazakhstan from third-party countries at lower duty rates can only enter markets of other EAEU member states if customs duties for them are paid at the CCT rates.

Bilateral trade agreements and preferences

The Association Agreements between the EU and Georgia and the EU and the Republic of Moldova, including the Deep and Comprehensive Free Trade Area, entered into full force on 1 July 2016. Furthermore, on 27 June 2016 Georgia signed a free trade agreement with the European Free Trade Association that includes Iceland, Liechtenstein, Norway and Switzerland, which are non-member states of the EU. The agreement provides for the introduction of zero tariff rates for some agricultural goods.

⁴ As part of implementation of Art. 7, Treaty on the Eurasian Economic Union, 29 May 2014.

A free-trade area between the EU and Ukraine entered into force on a bilateral basis on 1 January 2016. Before that, from 23 April 2014 to 31 December 2015, the EU provided unilateral trade preferences to Ukraine. In addition, Ukraine entered into a free-trade agreement with Canada (signed on 11 July 2016) that assumes removal of a considerable part of the tariff barriers on some agrifood products. The agreement is expected to take effect after its ratification by both countries' parliaments.

Since 27 January 2016, a preferential trade regime for Kyrgyzstan's trade with the European Union (GSP+) has entered into force, which allows some agrifood products to be exported to the EU countries at zero or reduced tariff rates. This EU regime remained in force in 2015-2016 for Armenia as well.

Domestic support to agricultural producers: key trends in 2015

The share of state support to agriculture in state budgets remained relatively stable in most countries of the region in 2015 (Graph 11). Armenia, the Republic of Moldova and Ukraine were an exception. The share of support for agriculture in total government expenditures decreased from 1.4 percent in 2014 to 0.4 percent in 2015 in Ukraine and from 1.9 percent to 1.2 percent in the Republic of Moldova. In Armenia, the share of government spending on agriculture increased by 0.7 percent points, reaching 2.4 percent of the total budget in 2015.

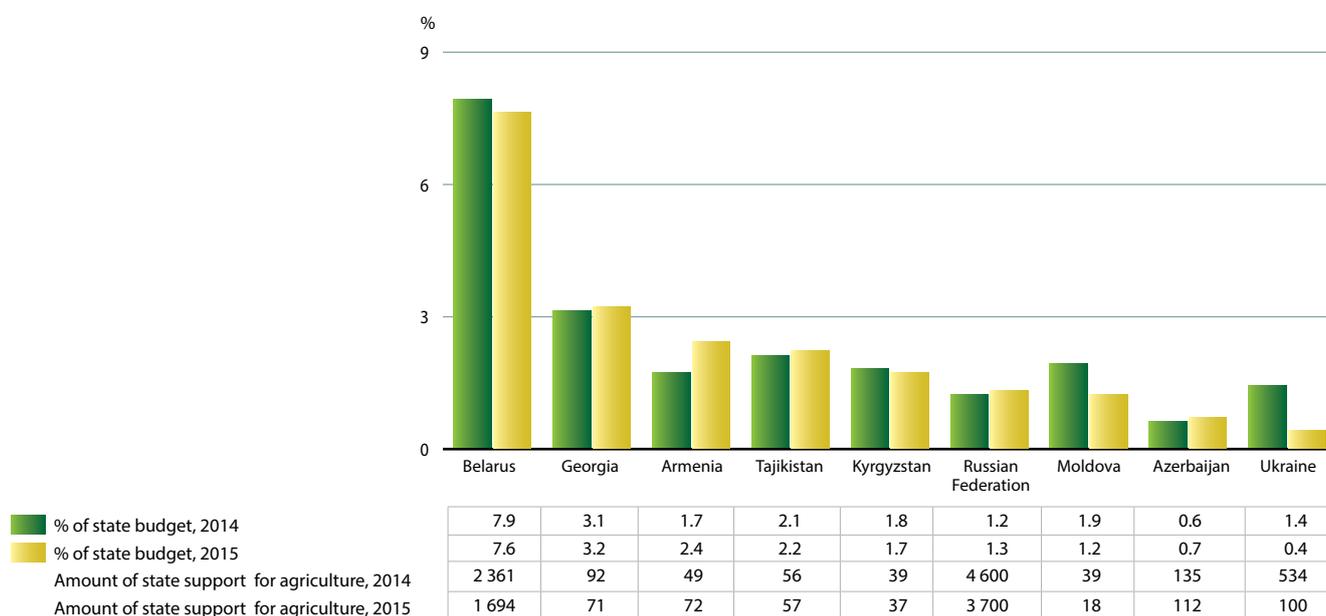
Belarus has the highest share of expenditures on agriculture in its state budget. It amounted to 7.6 percent of the total budget in 2015, and 7.9 percent in 2014. In value terms, state support to the agriculture sector is highest in the Russian Federation, where payments totaled USD 3.7 billion in 2015 (Graph 11).

A more detailed analysis of the budget payments indicates a diverse pattern of domestic support for agriculture in the region (Graph 12). In particular, volumes of state financing for agriculture in terms of national currency increased in most countries in 2015 when compared to 2014. However, due to depreciation of national currencies, absolute figures of state support for agriculture in USD equivalent actually decreased in 2015 in all countries except Armenia and Tajikistan (Graph 12).

There was a considerable reduction of payments for the agriculture sectors in the Republic of Moldova and Ukraine, both in national currency (by 38 and 66 percent, respectively) and USD equivalent. The reductions were primarily caused by dramatic cuts in budget funds due to aggravation of the economic situation in these countries.

GRAPH 11

Patterns of state support for agriculture as percentage of state budget expenditures in the region in 2014 and 2015 (USD millions)



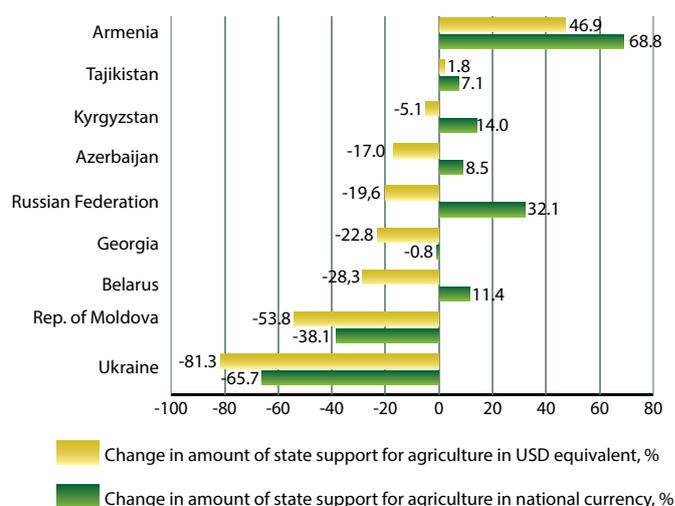
Source: Data by country-chapter authors

Overall, mechanisms of state support for agriculture in the region did not substantially change in 2015-2016 as compared to 2014, with the exception of Kazakhstan. Due to its accession to the WTO, Kazakhstan reduced the level of support for its agricultural producers which is classified as amber-box measures (from 81.4% of total amount of support in 2014 to 63.4% in 2015) but increased financing of green-box measures. Direct monetary payments to agricultural producers to compensate them for the costs of plant and animal production, which earlier acted as key mechanisms of state support, were completely abolished in Kazakhstan in 2016. The funds saved were redirected to investment subsidies, interest rate subsidies, and insurance programmes in plant production.

In other countries of the region, investment support and preferential loans for agricultural producers remained the most used domestic support instruments in 2015-2016. In addition, subsidies were given for the purchase of fixed assets and inputs, and support was provided through lower taxes and agricultural insurance programmes. The governments of Belarus, Turkmenistan, Ukraine and Uzbekistan applied administered prices for some agricultural products.

GRAPH 12

Changes in amounts of state support for agriculture in the countries of the region, 2015 compared to 2014 (%)



Source: Data by country-chapter authors

Conclusions

Macroeconomic instability, falling world prices on agricultural commodities and oil, and a difficult geopolitical situation were key (and often interconnected) factors affecting the development of agrifood trade in the post-Soviet countries in 2015-2016. As noted above, these led to a decrease in the value of agrifood exports and imports in most countries, and to the redirection of trade flows. These factors are expected to continue influencing future directions of agricultural trade in the region as well as agrifood trade policies in 2017.

According to the World Bank projections (2017),⁵ the average real GDP growth rate in the region will increase to 3.2 percent in 2017 (compared to 2.1% in 2016). However, the rate will be higher than the 2014 level only in Georgia, the Russian Federation and Ukraine. Meanwhile, a continued drop in GDP or a slowdown in its growth rate is expected in Belarus and Tajikistan in 2017 as compared to 2016. This indicator will remain negative in Belarus at -0.5 percent (-2.5% in 2016), and will decline to 4.5 percent (from 6% in 2016) in Tajikistan. Due to the improved macroeconomic situation in the region's countries, positive growth rates of agrifood trade can be expected. It will concern imports first of all, promoted by the improvement in both countries' balance of payments and their population's purchasing power. Importantly, however, this expectation relies on the assumption of higher global oil prices and stabilization of the global geopolitical situation. Even minor deviations from this scenario could result in substantial shifts in the economic growth dynamics of the post-Soviet countries, and hence in agrifood trade development.

Global prices of basic agricultural commodities will remain a key factor in the dynamics of agrifood exports in the region, considering that these dominate agricultural exports from the region. According to the FAO-OECD projections (2016)⁶ world prices for agricultural commodities will remain relatively low in real terms in 2017. As a result, it could lead to declining values of agrifood exports from the region in the short run.

With regard to trade policy, one can expect more bilateral trade agreements with countries outside the region and closer integration of agricultural trade policies within the EAEU. The tensions in the political relations between the Russian Federation and Ukraine are expected to continue in the foreseeable future, which will continue to affect the directions of trade within the region.

⁵ World Bank Group. 2017. Global Economic Prospects, January 2017. Weak Investment in Uncertain Times. Washington, DC.

⁶ OECD and FAO. 2016. OECD-FAO Agricultural Outlook 2016-2025. OECD Publishing, Paris.



Impact of macroeconomic factors on agrifood trade in the post-Soviet countries

Roman Mogilevsky

As explained in the previous chapter, during the period of 2015-16, considerable trade policy changes occurred in the 12 post-Soviet countries. Alongside that, major shifts took place both in exports to and imports from the countries of the region: with changes in the values and physical volumes, and commodity and geographical structure of agrifood trade. Apart from the trade policy changes, other important events influencing agrifood trade were also occurring: macroeconomic shocks, movements in global prices of key export/import goods of the region's countries, favourable/adverse weather and climatic conditions for agriculture, etc. In particular, one of the most considerable shocks was caused by the slump in global oil prices that began in 2014 and had a strong direct and indirect impact on the entire regional economy, including agrifood trade. The effects of these macroeconomic shocks seem to have impacted trade more than the changes in trade policies.

The macroeconomic situation in the region's countries before 2014

After making the transition to market economies and recovering from the painful economic crisis of 1998-99, the entire region began to experience rather fast economic growth, which continued until 2013 (except during the global economic crisis of 2008-2009 period). Overall, economic growth rates of most countries in the region (Graph 13) proved to be higher than general global rates and at the level of the growth rates recorded in the region's reference group of middle-income countries.⁷ Clearly, the high global prices of oil, natural gas, metals and some

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other traditional export goods produced in the region were an important factor of that growth. The terms of trade (the ratio of an index of a country's export prices to an index of its import prices) in the oil- and gas-exporting countries (Azerbaijan, Kazakhstan, the Russian Federation, Turkmenistan and, to a lesser extent, Uzbekistan) more than doubled. These economies were strongly fueled by dramatically growing export revenues that served as

⁷ According to the World Development Indicators database, in 2000-2013 the average global annual GDP growth rate was 2.9 percent, and 5.9 percent in the middle-income country group.

an important source of explosive economic growth. The region's countries that had no large energy reserves also managed to benefit from the boom in global hydrocarbon markets by means of oil refining and export of oil products (Belarus), export of non-energy goods to markets of hydrocarbon-exporting countries (almost all countries in the region), and mass labour migration to the Russian Federation and Kazakhstan (countries of origin were Armenia, Kyrgyzstan, Tajikistan, Uzbekistan and, to a lesser extent, Azerbaijan, Georgia, the Republic of Moldova and Ukraine). As a result, the income from foreign operations directly or indirectly related to high prices in global energy markets were rather high in all countries of the region (Graph 14). In 2013, they exceeded 40 percent of GDP in Azerbaijan, Tajikistan and Turkmenistan, amounted to 20-40 percent of GDP in Kazakhstan, Kyrgyzstan and Uzbekistan, to 10-20 percent of GDP in Armenia, Belarus,

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and the Russian Federation, and to 5-10 percent of GDP in Georgia and the Republic of Moldova. Only in Ukraine were these revenues less than 5 percent of GDP.

Economic growth fueled an increase in incomes in all the countries under review,⁸ and considerably expanded regional markets for agrifood trade. Another consequence of the currency inflow to the countries was the significant appreciation of their currencies against the US dollar (Graph 15). The appreciation of the Kazakh tenge, Russian ruble and Turkmen manat were especially strong—currencies of the leading oil- and gas-exporting countries. However, all other regional currencies also appreciated considerably against the US dollar and, importantly, the Chinese yuan. This resulted in explosive growth of imports to those countries generally, including agrifood products.

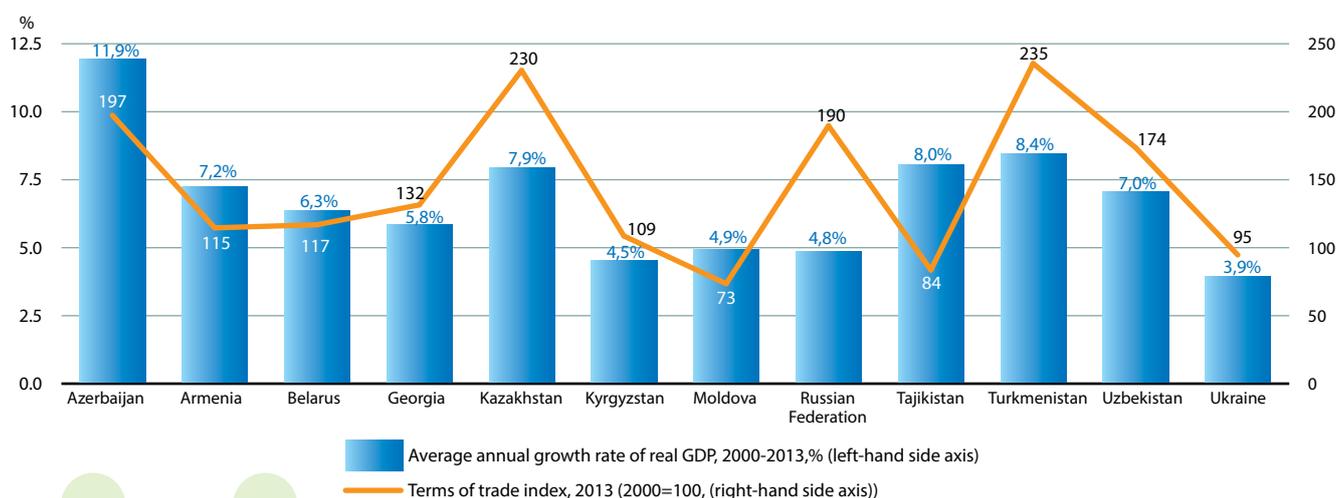
⁸ According to the World Bank's classification as of 2000, eight countries in the region belonged to the low-income group and four belonged to the lower-middle-income group. In 2014, no country in the region was in the low-income group, seven were in the lower-middle-income group, four were in the upper-middle-income group, and one country (the Russian Federation) moved to the high-income group.

Behaviour of macroeconomic indicators amid falling global oil prices

In mid-2014, a decline in global oil prices began and continued until early 2016 (Graph 16a). In 2015 average annual oil prices were half of the level in 2013. This price fall resulted in a drop in export revenues for the countries exporting oil, gas and their products (see Graph 16b); the revenues decreased by almost two times in 2015 as compared to 2013. The decline led to an economic downfall or slowdown in growth in these countries, which in turn decreased the demand for labour and the wage level for labour migrants from neighbouring countries. As a consequence, the flow of remittances arriving from migrants to their countries of origin contracted considerably (Graph 16c). The slump of remittances in US dollar terms in 2015 totaled between 25 percent (Georgia and Kyrgyzstan) and 50 percent (Uzbekistan) less than the 2013 level. All of these factors resulted in a considerable slowdown of GDP growth rates in 2014-2015 in all countries of the region (Graph 16d) except Uzbekistan. A substantial decline in household consumption figures (reduction in domestic demand for goods and services, including imported ones) was recorded in many countries of the region.

A major drop in energy export earnings was followed by a considerable depreciation in the currencies of the

GRAPH 13
Economic growth rates and terms of trade (%)



Notes:

1. Average growth rate of real GDP is computed as a geometric mean of annual growth rates of real GDP for 14 years of the period under review (2000-2013) minus 100%.
2. Terms of trade is the ratio of an index of a country's export prices to an index of its import prices.

Sources: World Development Indicators database, author's calculations

exporting countries vis-à-vis the US dollar (Graph 16a). The depreciation was especially strong in Ukraine (more than three times over three years)⁹ as well as in Azerbaijan, Belarus and Kazakhstan (more than twice). However, of the greatest importance to all the countries in the region was the depreciation of the Russian ruble – the region’s largest country’s currency that also devalued against the US dollars more than twice in nominal terms. National currencies in the region can be divided into two groups: those that depreciated and those that appreciated relative to the Russian ruble. The depreciation of the various currencies was not occurring simultaneously, and hence there were long periods when, for example, the Azerbaijani manat or the Kazakh tenge were stronger than the ruble. These variations in exchange rates changed the price competitiveness of the commodities produced in the countries of the region, both in the domestic and export markets.

Costs and competitiveness were also influenced by inflation driven by:

- decreasing domestic demand that lead to lower inflation;
- ongoing depreciation of national currencies, pushing consumer prices up in these import-dependent countries.

As a result, inflation surged in 2014-2015 because of depreciation in some countries (the Russian Federation and several other countries, see Graph 17b), whereas inflation rates in other countries decreased.

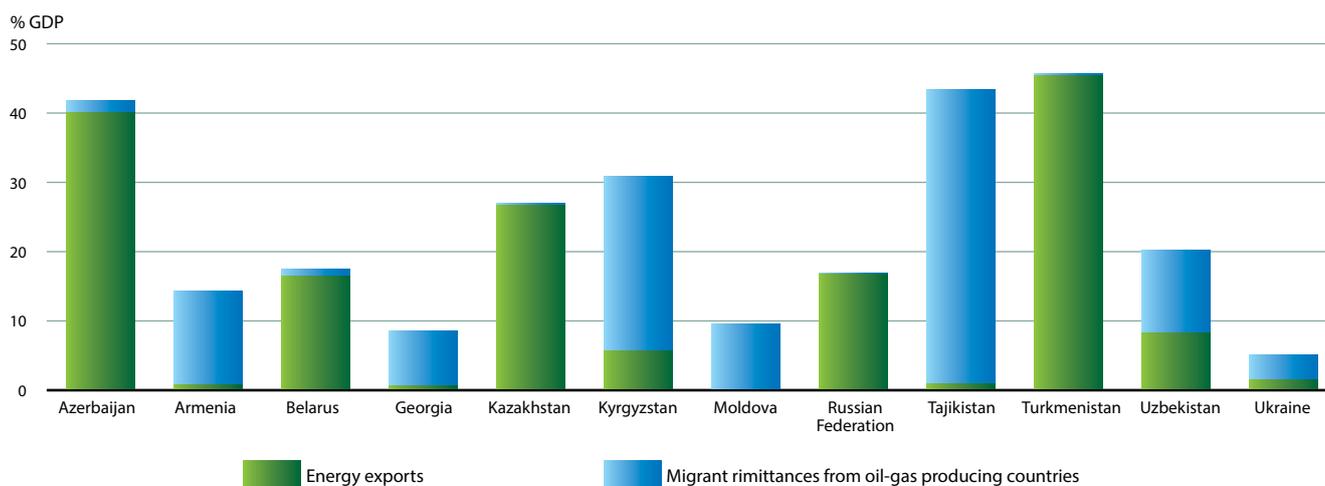
In 2016,¹⁰ the macroeconomic situation became more stable in all the countries, as economic growth rates increased slightly, inflation slowed down, and some currencies recovered their losses vis-à-vis the US dollar to some extent. Nevertheless, national currencies of all the countries in the region remained much weaker in 2016 than in 2013.

⁹ In the case of Ukraine, the exchange rate drop was mainly caused by reasons not related to global oil price decline.

¹⁰ Complete comparable data on macroeconomic dynamics in the region’s countries were not yet available at the time of this analysis.

GRAPH 14

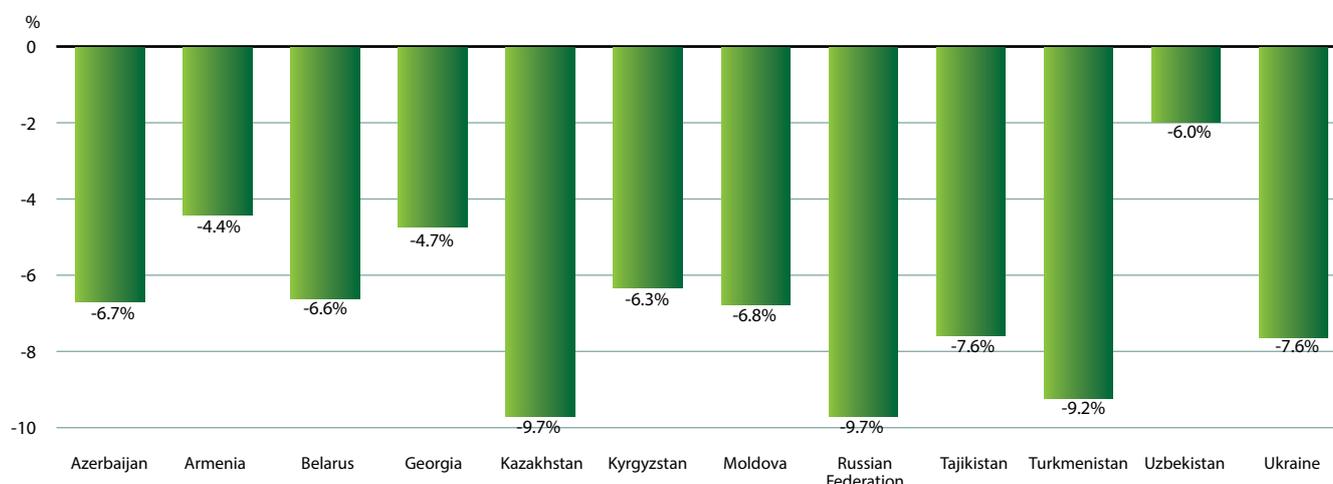
Direct and indirect dependence of the post-Soviet countries on energy exports, 2013



Sources: World Bank, World Development Indicators database, statistical agencies of the region’s countries

GRAPH 15

Average annual growth rate of the real exchange rate index of the region's countries to the US dollar, 2000-2013 (%)



Notes:

1. Index of real exchange rate (RER) to the US dollar is calculated according to the formula

$$RER_{it} = \frac{e_{it} P_{US,t}}{P_{it} P_{US,2000}} \cdot 100\%, \text{ where } e_{it} \text{ - is nominal rate of the } i \text{ country's currency per US dollar in year } t,$$

P_{it} – is i country's GDP deflator in year t , $P_{US,t}$ – is US GDP deflator in year t ; and negative growth rate of RER_{it} means appreciation of the country's currency against the US dollar.

2. Average annual growth rate of real exchange rate for 2000-2013 ΔRER_i is calculated according to the formula:

$$\Delta RER_i = \left(\sqrt[3]{RER_{i2013}/RER_{i2000}} - 1 \right) \cdot 100\%$$

Sources: World Development Indicators database, author's calculations

Changes in agrifood exports and imports in 2014-15

The combined effect of macroeconomic factors (economic downfall/growth slowdown, currency depreciation, inflation), changes in trade policy, and fluctuations in world prices of some products led to a decrease in the trade volumes of agrifood products in the region. With very few exceptions,¹¹ the value of both exports and imports of these goods were lower in 2015 than in 2013 (see index of value (IV) of exports and imports in Graph 18).¹² Imports were especially affected, dropping by 54 percent and 38 percent in Ukraine and the Russian Federation, respectively, and decreasing by more than 20 percent in Armenia, Kazakhstan, Kyrgyzstan and the Republic of Moldova. Exports contracted to a slightly less extent; nevertheless, they decreased by 38 percent

in Kyrgyzstan, and by more than 20 percent in Belarus, Georgia, Kazakhstan and Tajikistan.

The decline in agrifood trade values was related to the fall in both US dollar prices of tradable products and trade volumes. Data on the index of physical volume (IPV) of exports and imports¹³ presented in Graph 18 indicate that the reduction in trade volumes was less than that of the values in almost all the countries. In some cases, the IPV of exports and imports demonstrated growth, and the increase in export volumes from the Russian Federation and Ukraine and imports to Belarus amounted to 20 percent or more.

¹¹ Exports from Armenia, imports from Belarus and Uzbekistan.

¹² Exports (imports) value index means a percentage ratio between the values of exports (imports) expressed in US dollars in 2015 and the corresponding values in 2013.

¹³ The index of physical volume of exports (imports) was calculated in terms of a country-specific basket of basic export (import) goods determined by the six digits of the FEA CC covering more than 90 percent of the country's value of exports (imports) in 2013.

GRAPH 16

Oil prices and macroeconomic indicators



Sources: International Monetary Fund, World Bank, World Development Indicators database, UN Comtrade database, statistical agencies of the region's countries, author's calculations

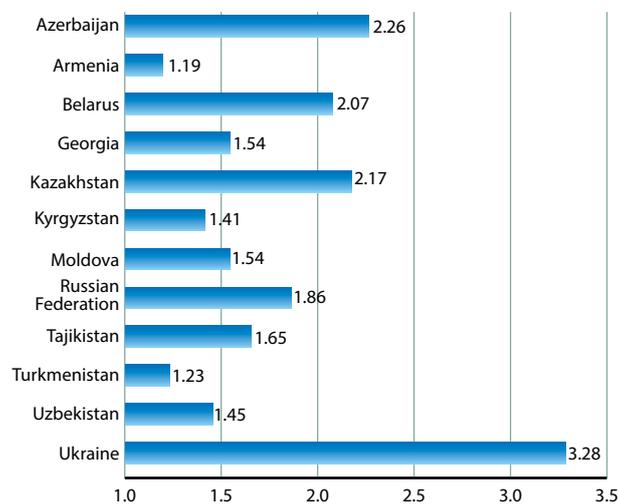
Calculations show that prices of tradable products dropped only if measured in US dollar terms. If one considers the ongoing depreciation of regional currencies, then the import prices expressed in national currency actually increased considerably (except Armenia and Kyrgyzstan). For example, the US dollar price index of imported products in the Russian Federation dropped by 26 percent in 2015 as compared to 2013, whereas the corresponding

ruble price index grew by 42 percent. For Ukraine, the divergence appears even more impressive: the US dollar price index decreased by 21 percent, whereas the hryvnia price index grew by 116 percent. A similar price growth was occurring in most other countries as well. Unsurprisingly, demand for imported goods in the countries under review, expressed by the index of physical volume, contracted substantially.

GRAPH 17
Dynamics of exchange rates and inflation

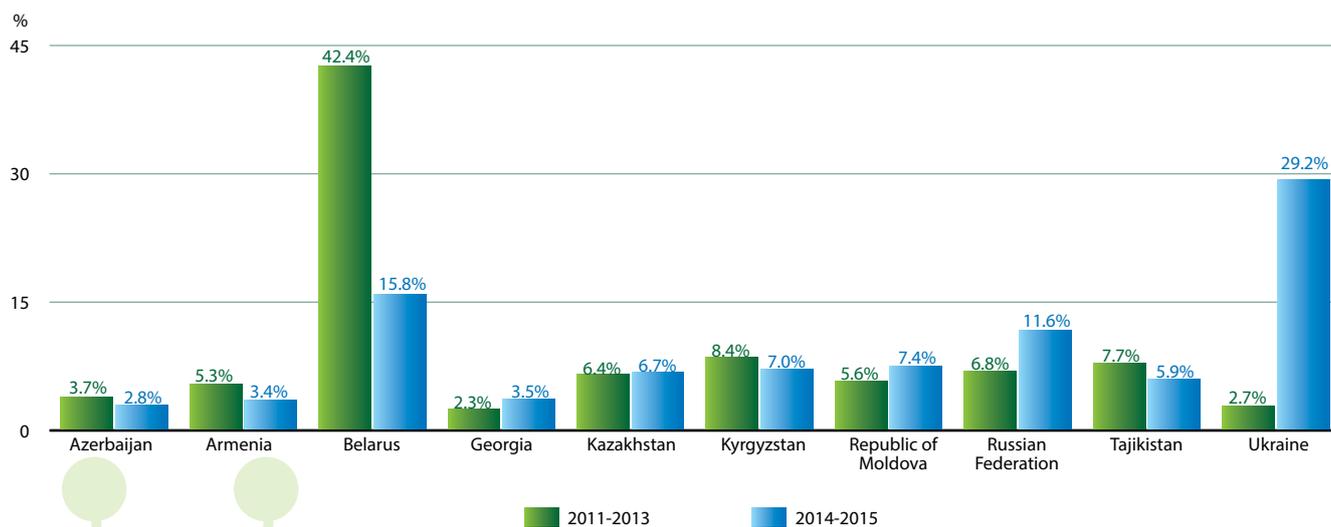
A

Index of nominal exchange rate of the regional currencies to the USD, ratio of values for 31-12-2016 and 31-12-2013



B

Consumer price index-based inflation rates



Sources: www.oanda.com, World Development Indicators database, author's calculations

It can also be noted that in many cases changes in trade did not fit with the objectives of the trade policy pursued. For example, accession of Kazakhstan and Kyrgyzstan to the EAEU was accompanied by a drop in volumes of trade not only with the non-EAEU member countries (which could be expected) but also with other EAEU members. Imports from the European Union to the Republic of Moldova and Ukraine did not grow after the association agreements were concluded. In fact, they decreased. Clearly, trade dynamics in the region over the time period under review cannot be explained solely from changes in trade policy.

Conclusions

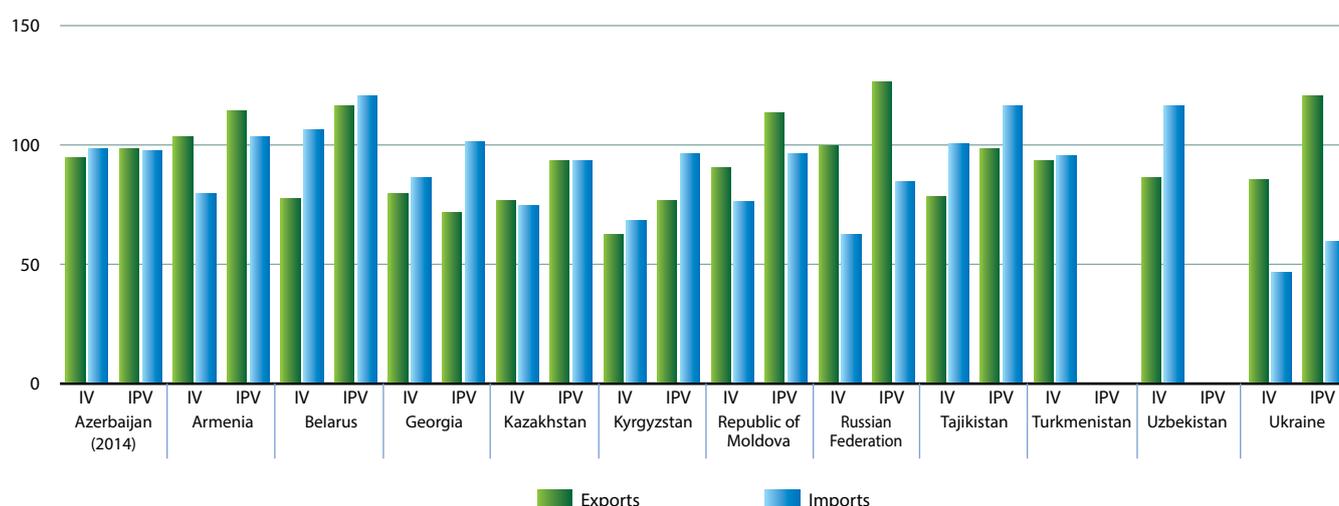
Agrifood trade in the post-Soviet countries underwent major changes in 2014 and 2015. Import volumes dropped in every country in the region both in value and physical terms. Export values generally decreased as well, although some countries managed to expand their export volumes. These developments were occurring amid considerable political, macroeconomic and sectoral shocks. Political shocks affected each of the countries in different ways. In many cases, trade dynamics were at variance with expectations of the trade policy pursued. However, the

nature of the impact of macroeconomic factors was common to all the countries. The agrifood policies of all the countries turned out to be quite dependent on the global energy market environment. The data confirmed that in all the countries for which the data are available, real currency appreciation resulted in a reduction in exports and an increase in imports, whereas GDP decline led to shrinkage of imports, and vice versa.

The analysis of the relationship between macroeconomic changes and agrifood trade dynamics allows the following conclusions to be made:

- The strong depreciation of national currencies, which affected almost all countries in the region, had the same effect as protectionist policy measures, leading to a decrease in imports. The depreciation was therefore more “effective” in protecting domestic producers than increases of import tariffs, introduction of import bans and similar measures. Moreover, depreciation acts indiscriminately, and hence all producers within a country can benefit from the competitive advantages that it offers. At the same time, national currency depreciation is a rather painful policy measure in terms of consumer welfare.

GRAPH 18
Changes in agrifood trade, 2015 as percentage of 2013



Notes:

1. IV – index of value; IPG – index of physical volume

2. No sufficiently detailed data are available for Turkmenistan and Uzbekistan to calculate IPVs

Sources: UN Comtrade database, statistical agencies of the region’s countries, author’s calculations

- Amid macroeconomic shocks of such a magnitude as observed in 2014-2015, trade policy measures proved to have low efficiency: protectionist policies do not add much to the effect of depreciation, whereas trade liberalization does not secure desirable growth in the context of national currency weakening or economic downturn. The lesson from this analysis is that the trade policy pursued must be aligned with the macroeconomic policy; otherwise the efficiency of both can suffer. When assessing trade policy efficiency, one should remember that trade policy is a sophisticated tool that yields results in the medium and long term when the impact of macroeconomic cycles is not that strong.
- Agrifood trade in the region proved to be quite sensitive to price shocks of any nature (e.g. exchange rate fluctuations, variations in global prices of some commodity markets). To some extent, this can be explained by the specifics of products: agrifood products in the region are concentrated in commodities rather than products with value-added. The vast majority of producers compete only on price. The development and promotion of quality and niche products would enable agrifood trade to be more resilient in the face of macroeconomic and other shocks.







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CHANGES IN CULTURAL POLICIES COUNTRY



Armenia

Vardan Urutyun

The value of agricultural exports in 2015 amounted to about USD 412 million, and the value of imports was USD 647 million (3.7% and 29.5%, respectively, less than in 2014). Some growth of agricultural exports and contraction of agricultural imports was observed in 2016. The decline in the value of imports was caused by a worsening economic situation in the country and also by a downturn in household purchasing power. The largest share in the structure of exports in 2015 accounted for cigarettes (42%) and alcoholic beverages (30%), whereas imports were dominated by cereals (15%) and meat products (9%). Exports of fresh fruits and vegetables more than doubled in 2016, which is explained by their high demand in the Russian market. The trade balance for agricultural goods remained negative (USD -235 million in 2015). The key export destinations for agricultural products in 2014-2015 were

the Russian Federation and the Middle and Near East countries.

Since Armenia's accession to the EAEU in 2015, the average rate of import duties on agricultural goods for third-party countries has increased to 4.97 percent (1.7% higher than in 2014). Nevertheless, the duties applied by Armenia to the import of agricultural goods are the lowest among the EAEU member states. This indicator is expected to grow to 7.9 percent by 2020, since the agreement was reached when Armenia joined the Eurasian Union on the gradual increase of customs duties until 2022, following which the EAEU common customs duties are to be applied. In any case, the expected average import tariff rate will not be higher than the maximum tariff rate for this category of goods (8.5%) that was assumed by Armenia as part of its WTO accession. Generally, Armenia during the transitional period applies import duties other than the EAEU CCT rates to 752 commodity items. This category includes, for example, meat and prefabricated meat products, milk and dairy products, rice, sunflower oil and baby food, as well as cattle fodder.

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No quantitative restrictions on imports, import bans, or import tariff quotas were applied in Armenia in 2015-2016. Imports of food products are subject to certification of compliance with standards and technical requirements issued by veterinary, phytosanitary and environmental control bodies. Before 2015, any organization in Armenia had to align its technical requirements with the National Standardization Service. Now, due to the country's transition to the EAEU legislation on sanitary and phytosanitary (SPS) regulation to the EU technical regulations, this procedure takes longer because it has to pass a committee consisting of representatives of several countries.

Armenia does not apply any export taxes. According to its WTO commitments, the country has no right to use export subsidies. No quantitative restrictions or bans on exports were applied in Armenia in 2015-2016. Export growth is promoted by reducing a profit tax for companies: ten times if their exports exceed USD 105 million, or four times if their exports range between USD 84 and 105 million. In addition, some preferences and insurance instruments are granted to exporters.

Armenia has been a member of the WTO since 2003. Negotiations on the Comprehensive Free Trade Area within the framework of the Association Agreement with the EU were suspended after Armenia's accession to the EAEU in 2015. Meanwhile, a preferential trade regime (GSP+) between Armenia and the EU is still valid, allowing Armenia to export more than 7 000 commodity items to the EU at reduced import tariff rates.

The country's policy of support for its agricultural sector in 2015 and 2016 fully complied with the WTO requirements. Overall, the amount of state support for the sector totaled about USD 71 million (2.4% of the total state budget) in 2015, and almost USD 61 million (2.2% of the budget) in 2016. The amber-box support measures amounted to about USD 28 million (1.6% of the sector's gross output) in 2015, and about USD 23.5 million (about 1.1% of the sector's gross output) in 2016. The largest percentage of budget financing in 2016 was allocated to the programme of agricultural resource management and rural community competitiveness implemented with World Bank support.

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Azerbaijan

Elchin Suleimanov

Downward trends in agricultural export and import volumes were observed in Azerbaijan in 2015. The value of exports in 2015 amounted to USD 862.9 million (7.8% less than in 2014). The key reasons for the reduction in export volumes included: the deterioration of the macroeconomic situation in the Russian Federation, and the growing number of inspections at Russian customs, considering that Russia is the main importer of Azerbaijani agricultural products. As in 2014, main export goods in 2015 were fruits (26% of total agrifood product exports), and sugar and confectioneries (25%). Beside the Russian Federation, Kazakhstan and the EU countries were the largest importers of agricultural goods from Azerbaijan. The value of agricultural imports to Azerbaijan in 2015 also decreased, amounting to USD 1.48 billion (13% lower than in 2014). The observed decline in agricultural product imports in 2015 was mainly caused by the worsening macroeconomic situation in the country – the slowdown in national economy growth and considerable depreciation of the manat, which resulted in growing food prices. The

foreign agricultural trade balance in 2015 was negative, USD -618.7 million.

As of 1 November 2016, new import tariff rates were introduced for some agricultural goods to stimulate the development of domestic production: USD 1 per kg of chicken meat; USD 100 per 1 000 chicken eggs; USD 0.2 per kg of onion; USD 0.2 per kg of cucumbers; USD 0.4 per kg of grapes; and USD 0.3 kg per kg of apples, quince and pears. Moreover, duties amounting to at least USD 0.7 are levied for each liter of alcoholic beverages and natural juices. Before that, these products had been liable to duties amounting to 15 percent of their customs value. For hard wheat, an import tariff quota was envisaged for 2015-2016, which applies a zero tariff for import quantities within the quota and a 30 percent tariff for import quantities above the quota. Imports of agricultural products are also subject to a value-added tax (VAT) of 18 percent. However, VAT was not applied for 12 months from 1 January 2016 for the import and sale of wheat, pedigree animals, seeds, mineral fertilizers, equipment for beekeeping and poultry farming, veterinary preparations for prevention, diagnostics and treatment of agricultural

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animals, and equipment and machines directly related to irrigation.

The Law on Antidumping, Countervailing and Protective Measures entered into force in Azerbaijan on 13 October 2016, aiming to protect domestic producers against subsidized imports and dumping. The Law allows import duties to be raised as a measure against dumping. Quantitative restrictions or bans on imports of agricultural goods were not applied in Azerbaijan in 2015-2016.

Since 7 November 2016, the country has introduced customs duties on the exports of cowhide (USD 500 per 1 000 kg) and unprocessed sheep and lamb skins (USD 350 per 1 000 kg) for five years. To encourage exporters of agricultural goods, they have been able to receive additional financing from the state budget since 2016 (3% of customs value); provided that they use local components for the manufacture of exported products. No quantitative restrictions or bans on exports were applied in the country in 2015-2016, except a ban on the export of more than 125 grams of sturgeon caviar per person from Azerbaijan.

Within the framework of international trade cooperation, the Ministry of Agriculture of the Republic of Azerbaijan signed memoranda of cooperation in the agriculture sector with the Ministries of Agriculture of the Socialist Republic of Vietnam and the Czech Republic in 2015, and with the Government of the State of Qatar in 2016. The memoranda provide for the development of agricultural trade between the countries. In 2015-2016, Azerbaijan also signed agreements on cooperation in phytosanitary measures, veterinary medicine and animal health with the People's Republic of China and the Islamic Republic of Iran. On 22 July 2016 in Geneva, the WTO Working Party on the accession of Azerbaijan had its 12th meeting, during which the Azerbaijani delegation confirmed its aspiration for joining the Organization.

State support for agricultural producers amounted to USD 112 million in 2015. Preferential taxation and lending as well as procurement of fertilizers, machines and pedigree cattle at reduced prices were the main instruments of support for Azerbaijani farmers. Furthermore, from 2016 on, cotton producers in Azerbaijan receive a subsidy in the amount of 0.1 manats per kg of cotton brought to cotton-processing factories. In some cotton-collection points, the purchase price is up to 0.5 manats per kg of cotton.

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Belarus

Natallia Kireenko

The value of agricultural product exports from the Republic of Belarus in 2015 amounted to USD 4 449.6 million (21% less than in 2014). Agricultural product exports during January-June 2016 totaled USD 1 835 million, or 13 percent less than during the same period of 2015. The Russian Federation was the main consumer of Belarusian-made agricultural goods (84% of total exports in 2015). The most exported agrifood products include dairy products, eggs, honey, meat and meat products. The value of imports in 2015 amounted to USD 4 463.4 million. Agricultural product imports during January-June 2016 totaled USD 1 967 million, or 12.2% less than during the same period of 2015. The main imported goods in 2015 were fruits and nuts (about 30%) and vegetables (10.8%). The Russian Federation and Ukraine were the largest exporters of agricultural products to Belarus (21.5% and 9.8%, respectively). The foreign agricultural trade balance in 2015 was USD 13.8 million (HS codes 1-24).

In 2015-2016, changes to the Belarusian import duties for agricultural products in the EAEU framework take place in accordance with the schedule for the implementation of the Russian commitments to the WTO. In 2016, import tariff quotas were set in 2016 for cattle meat, pork, poultry meat and milk whey imported from the EAEU customs territory in 2017. The exclusive right of the State to import fish-processing products was abolished in 2015. A new list of imported products subject to state sanitary and hygienic expert examination was approved in the same year. The list now includes food products (in natural or processed form), including those made with the use of genetically modified (transgenic) organisms. During 2015-2016, Belarus occasionally introduced temporary restrictions on the import of some goods, mainly meat and meat products, from Germany, Denmark, the Netherlands, Finland, France, Scotland, some oblasts of the Russian Federation, and Ukraine because of the application of SPS measures.

A number of regulatory legal acts are in force in Belarus that set export duty rates for the goods exported from the Belarusian territory and out of the customs territory of the EAEU member states, namely for rapeseed,

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unprocessed cowhide and tanned leather (HS codes 4101, 4103, 4104, 4106). Export subsidies are not applied in Belarus. The country introduced a ban on the import of unprocessed cowhide out of the EAEU for from 4 April to 4 October 2016 because of modernization of the Minsk Leather Production Association. In addition, the Ministry of Agriculture and Food of Belarus suspended the export of mixed fodder made by the country's largest producer (Ecomol Agro LLC) to the Russian Federation on 10 July 2016.

The negotiation process on the accession of Belarus to the WTO became more active in 2015.

The amount of direct budget support for agricultural producers in 2015 was equivalent to USD 1.1 billion (USD 132 per 1 hectare of farmland), which is USD 0.4 billion less than in 2014. The following measures accounted for the largest share in the support structure in 2015, the same as in 2014: compensation for banks' losses from concessional loans – 39 percent; price reduction to purchase fixed and working assets – 20 percent; price premiums – 16 percent; and implementation of state and regional programmes –

8 percent. Overall, the largest percentage of support for the Belarusian agro-industrial complex was provided via amber-box measures. The amber-box support level was determined by the government at 4.5 percent of the value of agricultural production in 2015, and at 4.2 percent in 2016.

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Georgia

Shalva Pipia

The value of agricultural exports amounted to USD 613 million in 2015, which is 26 percent lower than in 2014, whereas the value of agricultural imports amounted to USD 1.1 billion (15% less than in 2014). The negative agricultural trade balance amounted to USD -494 million in 2015. During the first six months of 2016, imports of agricultural goods continued to go down (by 10% versus the first half of 2015). However, at the same time, some trends in export growth appeared (by 8.3% versus the first half of 2015). Georgia's main export partners in 2015 were Armenia, Azerbaijan, Germany, Italy, Kazakhstan, the Russian Federation, Turkey and Ukraine. Exports to these countries amounted to 67.4 percent of total agricultural exports in 2015 (64.2% in the first six months of 2016). Georgia's main import partners in 2015 were Brazil, Germany, the Russian Federation, Turkey and Ukraine. Imports from these countries amounted to 64.5 percent of total agricultural imports in 2015 (63.1% in the first six months of 2016).

Georgia continued to apply three groups of import tariffs in 2015-2016: 0 percent, 5 percent and 12 percent. The simple average tariff for agricultural goods was equal to 6.4 percent in 2015. Imported goods were also subject to a VAT of 18 percent and excise duties. Georgia did not apply any quantitative restrictions and quotas on imports of agricultural goods during the studied period. In the field of SPS, Georgia continued the process of harmonizing its legal system with the EU legislation.

Georgia applied no export duties, VAT, quantitative restrictions or quotas on exports of agricultural products in 2015-2016. Georgia did not apply any export finance instruments, and does not provide export subsidies. Export support in 2015 mainly took the form of facilitating the participation of exporters in international trade fairs and trade delegation missions.

The Association Agreement between the EU and Georgia entered into force on 1 July 2016, including the Deep and Comprehensive Free Trade Area Agreement that envisages complete removal of tariff and non-tariff barriers for almost all goods as well as substantial liberalization of trade in services. The agreement also

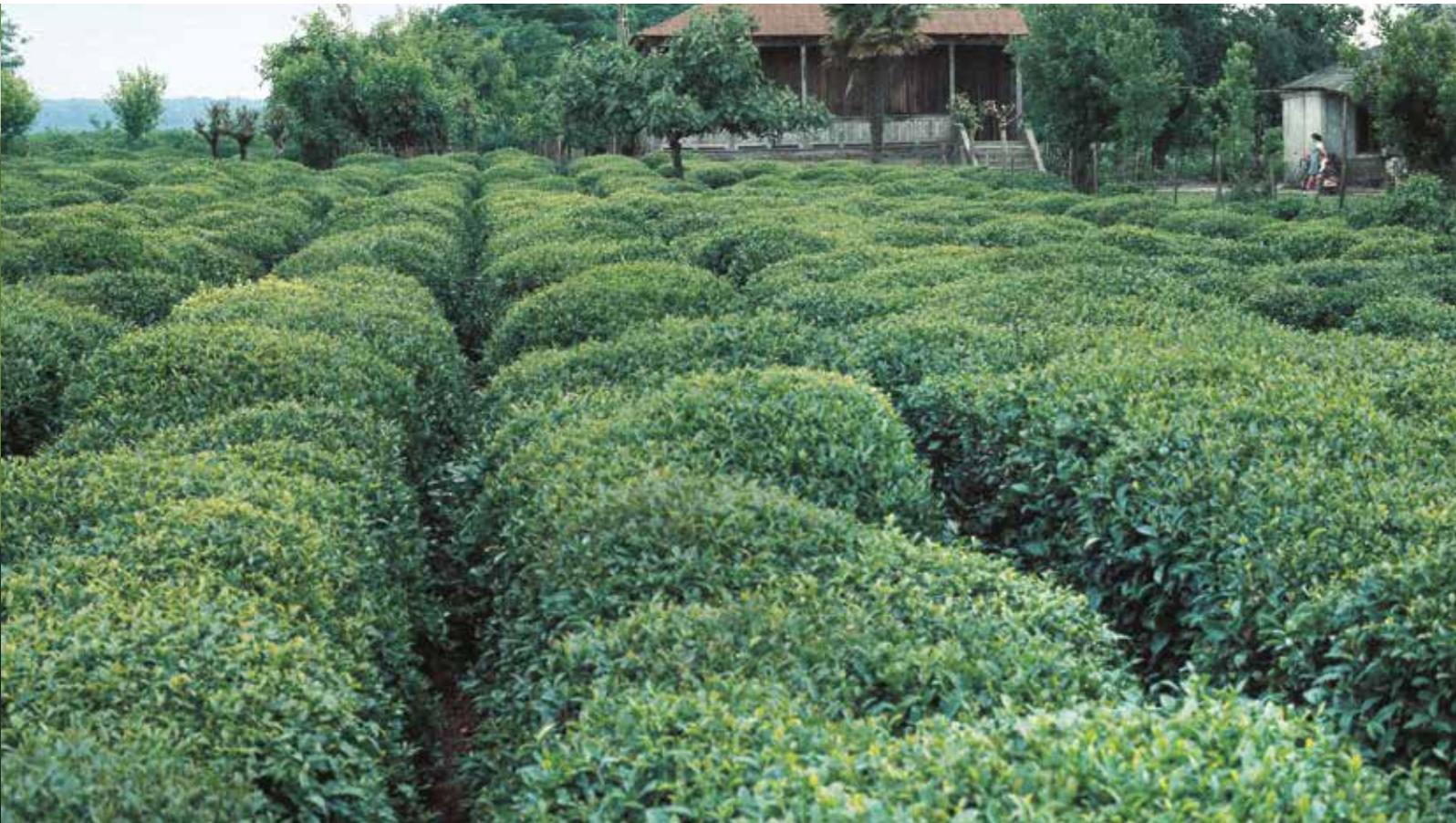
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provides for wide-scale approximation of Georgia's trade legislation with that of the EU. In 2016, Georgia signed a free trade agreement with the European Free Trade Association that includes Iceland, Liechtenstein, Norway and Switzerland, which are EU non-member states. The agreement provides for zero tariff rates for such agricultural goods as mineral waters, wine, hazelnuts, spices, fruits and vegetables. The agreement will take effect upon completion of its ratification procedures by the parties. Late in 2015, Georgia and China launched negotiations on a free trade agreement, which ended in October 2016. The parties expect the agreement to enter into force by mid-2017.

Budget allocations for the development of agriculture have increased from 1 percent to 3.2 percent of the total state budget over the period between 2012 and 2016. The overall state budget for green-box programmes amounted to USD 71 million. Georgia did not apply any amber-box measures of domestic support for agriculture in 2015.

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Kazakhstan

Ademi Yerassylova

Kazakhstan's foreign trade in agricultural goods decreased by 23 percent in 2015, amounting to USD 5.5 billion. The decline over that period was caused by reduction of both export (22%) and import (23%) deliveries. The largest share in the structure of exports in 2015 belonged to wheat and wheat flour (58%). The main destinations of Kazakhstan's agricultural exports in 2015 were Central Asian countries (Tajikistan and Uzbekistan), EAEU states (predominantly Russia and Kyrgyzstan), as well as Afghanistan and Iran. The share of agricultural imports in foreign trade was equal to 61.3 percent. The processed food products comprise 70 percent of total agrifood imports. Key suppliers of agrifood products included the EAEU countries, first of all the Russian Federation, as well as China, Uzbekistan, Ukraine and the USA. The agricultural product trade deficit amounted to USD 1.2 billion in 2015.

According to the country's WTO commitments, the import tariff rates for some agrifood products in Kazakhstan

will be decreasing until 2020. In particular, the following import tariff rates will be reduced as of 2020: rice (from 15% to 10%); lamb (from 25% to 15%); horse meat (from 25% to 15%); pears (from 10% to 5%); and poultry meat (from 80% to 40%) for the imported amount above the import tariff quota. Kazakhstan's accession to the WTO entailed a problem of harmonization of its commitments to the EAEU partners and the WTO. Kazakhstan's adoption of the EAEU CCT does not comply with the country's commitments to the WTO. As a result, Kazakhstan was obliged to withdraw 578 agricultural product lines from the CCT, which complicated their customs regulations in the EAEU. Consequently, the agrifood products imported to Kazakhstan from third-party countries at a reduced import tariff rate can only enter markets of other EAEU countries subject to payment of customs duties for these goods at the CCT rates.

Import tariff quotas for some categories of meat were set in Kazakhstan for 2016: frozen cattle meat – 21 thousand tonnes; fresh or chilled cattle meat – 21 thousand tonnes; and fresh, chilled or frozen poultry meat and food by-products – 128 thousand tonnes. Quantitative restrictions or bans on imports of agricultural goods are not applied

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in Kazakhstan, except temporary import restrictions for SPS reasons. A long-term strategy of veterinary service development was adopted by Kazakhstan in 2016 for the first time ever and approved by the International Office of Epizootics. In addition, the country established a system for tracing the goods subject to veterinary control. In 2015, Kazakhstan was granted the official status of a foot and mouth disease-free country where vaccination is not practiced. This status allows nine oblasts to export animals and agricultural products without any impediments.

Within the framework of its WTO commitments, Kazakhstan will not increase, and instead to reduce, export duties, in accordance with an agreed-upon schedule, on hard and soft wheat, rapeseed and cakes. Kazakhstan did not apply export subsidies and quantitative restrictions or bans on exports in 2015-2016. During that period, export promotion measures remained in force, including partial compensation of export companies' costs and participation in trade fairs. As part of international trade relations, Kazakhstan signed a number of agreements on SPS requirements in 2016 with China, Iran, the United Arab Emirates and the

USA, as well as adopted the Law on Ratification of the Agreement on Enhanced Partnership and Cooperation with the EU.

Domestic support for agricultural producers continued to grow in 2016, and amounted to about USD 518 million, which is 11 percent more than in 2015. Moreover, state support instruments underwent changes: in 2016 direct cash payments to agricultural producers for reimbursement of costs for the production of plant and animal products were phased out. These were previously paid on the basis of the crop area and output in livestock production and were the main mechanisms of state support. Instead, the saved funds were redirected to compensate for capital expenditures in the agro-industrial complex, increasing budget availability to subsidize interest rates on loans, and to insurance programmes in plant production.

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Kyrgyzstan

Roman Mogilevsky

The value of both agrifood exports and imports decreased by 32 percent in 2015 as compared to 2014 (by USD 77 and 275 million, respectively). A decline in exports to the EAEU countries was particularly considerable (USD 51 million, or 44%). The negative agricultural trade balance decreased from USD 619 million in 2014 to USD 420 million in 2015. The trade value contraction was caused by a decrease in physical volumes of agrifood trade and by the changing prices of exported and imported products. The decline in the total volume of agrifood exports was mainly caused by a decrease in exports of dairy products to Kazakhstan (by 21%), beans to Turkey, the Balkan countries and the Russian Federation (by 29%), and other fruits and vegetables. A reduction of imports affected almost all categories of agrifood products and trade partners. There was a notable decline in imports of poultry meat from China and the US (by USD 39 million, or 56%), wheat and wheat flour from Kazakhstan (by USD 45 million, or 39%), and sugar, chocolate and

confectioneries from Russia and other EAEU countries (by USD 31 million, or 27%).

Since the substantial changes in Kyrgyzstan's agricultural trade policy were connected with the country's accession to the EAEU on 12 August 2015, there was relatively not much changed to this policy in 2016. At present, Kyrgyzstan applies the EAEU CCT, which is amended at the Eurasian Economic Commission level rather than at the national level. The country does not apply quantitative restrictions and bans on imports. In 2016, Kyrgyzstan applied tariff quotas on imports of beef, pork, poultry meat and milk whey. To support the flour-milling industry, imports of wheat grain and production of flour from imported wheat were exempted from the 12 percent VAT in 2015.

In the process of accession to the EAEU, the Government of the Kyrgyz Republic approved quarantine phytosanitary rules and immediate veterinary and sanitary requirements to prevent animal diseases, according to the EAEU legislation. In addition, as of late October 2016 the list of Kyrgyzstan-based enterprises entitled to export products to the EAEU subject to

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veterinary control included 19 enterprises mainly engaged in dairy product supplies. Shipments of raw meat and live cattle from Kyrgyzstan to the EAEU are still prohibited for SPS reasons.

Under its export policy, Kyrgyzstan applies duties to the export of unprocessed cowhide and horsehide out of the EAEU and the Commonwealth of Independent States (CIS), amounting to 20 percent or at least EUR 0.2/kg. Quantitative restrictions or bans on exports of agrifood products are not used in Kyrgyzstan, except a ban on the exportation of alcohol and tobacco products by individuals in volumes exceeding 5 litres of alcohol products or 250 grams of tobacco per person older than 18 years of age. In order to enhance export capacity and improve competitiveness of domestic producers, the State Agency for Investment and Export Promotion was established in 2016. Since early 2016, the EU preferences under GSP+ have taken effect, according to which Kyrgyzstan-based producers can supply more than 6 000 commodity items to the EU free of duty, including fresh and processed fruits (canned fruits, juices), dried fruits, nuts, beans, food products and tobacco. To diversify agrifood product exports,

including exports to the Persian Gulf states and other Islamic countries, a Concept for Development of Halal Industry was adopted. The concept set up the basis for developing national halal standards based on international experience, creation and development of the halal industry infrastructure, and improvement of epidemiological, veterinary and SPS systems.

Domestic state support for agriculture remains at a low level: total public expenditure for agriculture amounted to 1.2 percent of gross agricultural production output in 2015. Interest rate subsidies on loans to agricultural producers were the main instrument of support. Another source of support for agriculture was provided by the Russian-Kyrgyz Development Fund established within the framework of Eurasian economic integration.

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The Republic of Moldova

Alexandru Stratan, Victor Moroz

Exports of agrifood products from the Republic of Moldova decreased in 2015 and amounted to 85.9 percent of the 2014 level (USD 915 million). The main reason for the decrease was due to the restrictions on agricultural imports from the Republic of Moldova imposed by the Russian Federation, as well as the declining agricultural production output in the country. The largest importers of Moldovan agrifood products in 2015 included Romania (13.4% of total agrifood exports), Belarus (11.4%), and UK (9.1%). The structure of exports was dominated by wine-making products, fruits, and sunflower and vegetable oil. Imports of agricultural products in 2015 also contracted and amounted to 81.5 percent of the 2014 figure (USD 587 million). The Republic of Moldova's main import sources for agrifood products in 2015 include: Ukraine (28.5% of total agricultural imports of the Republic of Moldova), the

Russian Federation (9.3%) and Romania (6.7%). The Republic of Moldova imported primarily fruits, citrus fruits, various food products, alcohol and soft drinks, meat and edible meat offals. The foreign agricultural trade balance in 2015 amounted to USD -330 million.

The simple average applied rate of import tariff on agricultural goods increased to 13.5 percent in 2015, from 10.4 percent in 2014. Import duties remain within the limits of the Republic of Moldova's commitments to the WTO. In addition, imported goods are subject to VAT and excise duties. Quantitative restrictions and bans on imports of agricultural goods were not used in the country in 2015-2016. Due to a sharp increase in imports of agricultural goods from Ukraine, some restrictive measures to protect domestic producers were taken in 2016. Tariff quotas amounting to between 200 and 1 000 tonnes were set for seven agricultural product items imported from Ukraine to the Republic of Moldova, and duties on above-quota products were raised. These measures were abolished on 1 January 2017.

No export duties, export taxes, quantitative restrictions or bans on exports were applied in the Republic of Moldova

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in 2015-2016. The country's export policy during the period under review was aimed predominantly at bolstering exports, particularly by establishing free economic zones and industrial parks. An action plan for accelerating the development of technical regulations harmonized with international requirements for food products for 2016-2018 was adopted in 2016. To assure the quality of grape and wine-making products, a grape and wine-making registry was established in 2015, enabling products to be traced and identified. In 2016, the Ministry of Agriculture and Food Industry signed several memoranda of cooperation with sectoral agencies, which allowed the utilization of material and financial resources to support exports to be optimized.

Within the framework of international trade cooperation, as of November 2016 Moldova was a member of 14 current regional trade agreements covering 46 trade partners. In addition, the Association Agreement between the EU and the Republic of Moldova, including a Deep and Comprehensive Free Trade Area, entered into force in 2016.

State support for agriculture in the Republic of Moldova is provided by the Agency for Payments and Interventions

in Agriculture. The amount of funds allocated to support agriculture is in the State Budget, which is approved by the country's parliament. Every year, the Government approves the Regulation that guides the Agency in the distribution of state support for priority areas.

In 2015, the Agency's volume of funding amounted to USD 32.4 million. However only 57 percent of the funds were used. Promotion of investments in post-harvesting and processing infrastructure, agricultural machines and irrigation equipment, as well as in perennial plantings, were key programmes of support in 2015.

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The Russian Federation

Renata Yanbykh, Natalia Shagaida

Imports of agricultural goods decreased in 2015 as compared to 2014 and amounted to USD 27 billion (67% of the 2014 level). The largest share in imports comprised fruits, nuts, vegetables and products thereof (25.7%), meat (11.5%), and dairy products, eggs and honey (7.6%). Exports of agricultural goods from the Russian Federation also declined as compared to 2014, amounting to USD 16.3 billion (86% of the 2014 level). The structure of Russian agricultural exports in 2015 was dominated by cereals, mainly wheat (35% of total agrifood exports), fish (17%), and fats and oils (11.6%). The agrifood trade deficit shrank by almost half in 2015, amounting to USD 10.7 billion. Belarus remains an important foreign trade partner for the Russian Federation in agricultural trade. In 2015, it accounted for 12 percent of the Russian Federation's agricultural imports (9.4% in 2014) and 4.8 percent of imports (5.4% in 2014). The

value of Russian agricultural exports to the CIS countries in 2015 amounted to 25.2 percent of total exports of this commodity group; the share of exports to other countries was 54.4 percent. The main exporters of agrifood products to the Russian Federation in 2015 were the EU countries (21.7% of Russia's total agricultural imports), the CIS countries (16.5%) and China (6.1%).

In 2015, the Russian Federation completed the third stage of compliance with the tariff commitments for the accession to the WTO by amending the EAEU CCT. As far as food products, the most considerable amendments concerned alcohol, finished meat and fish products, dairy products and some other goods. Reduction of import customs duties on 429 food product sub-items (24% of those subject to reduction) is scheduled for 2016. The weighted average tariff for HS codes 1-24 was 6.9 percent in 2015 and 6.3 percent in 2016. The share of non-ad valorem tariffs for agrifood products in 2016 was 38.6 percent.

The Russian Federation continued to apply tariff quotas in 2015 to imports of chilled and frozen cattle meat, and pork and poultry meat, while also maintaining

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some individual country quotas. The application of pork quotas will end in late 2019. From 1 January 2020 on, Russia will have to use an ad valorem import duty of at most 25 percent.

In response to economic sanctions imposed by Australia, Canada, EU, Norway and the USA, as well as some other countries, the Russian Federation extended twice a ban on the import of food and agricultural products from these countries in 2015-2016. Most recently, the sanctions were extended from 6 August 2016 until 31 December 2017. The list of prohibited import products included meat products, dairy products, fish, vegetables, fruits and nuts. In 2016, the Russian Federation Government removed some products from the sanction list: baby food and dried vegetables intended for its production, cattle meat, poultry meat and offals, and frozen vegetables (fresh or boiled in water or steamed). Early in 2016, the Russian Federation imposed restrictions on imports of Turkish food products. The ban covered vegetables such as tomatoes, cucumbers, onion and shallot, cauliflower and broccoli, and fruits such as fresh and dried citrus fruits, fresh apples, pears, apricots, peaches, nectarines, plums and blackthorn, grapes, and wild and

garden strawberries. Tomatoes, grapes and mandarins accounted for between 34 and 50 percent of all the Russian imports prior to the ban. Later, in October 2016, fresh and dried oranges, mandarins and other citrus fruits, fresh apricots, peaches and plums were removed from the list.

In 2015-2016, the Russian Federation occasionally introduced temporary restrictions on the import of products made by certain enterprises, territories and countries, due to noncompliance of SPS requirements. Meanwhile, temporary import restrictions imposed earlier on fruits from the Republic of Moldova, animals and animal husbandry products from Kazakhstan, and some other supplies were lifted. In January 2014, Rosselkhoznadzor imposed a ban on the import of live pigs and pork products from all EU countries because of African swine fever outbreaks in Lithuania and Poland. The WTO Panel found that the ban was contrary to the WTO Agreement on the Application of Sanitary and Phytosanitary Measures. The arbitrators also found as improper some of the Russian Federation's bans on live pigs and pork from Estonia, Latvia, Lithuania and Poland because the ban was extended to apply to the countries having no African swine fever epidemic. The Russian Federation filed an appeal on 23 September 2016.

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An export duty on wheat grain was introduced in February 2015, amounting to 15 percent of the customs value plus EUR 7.5 per tonne, but no less than EUR 35. The duty was abolished until 1 January 2017 in September 2016 because of a large yield of wheat in 2016. Quantitative restrictions and bans on exports were not applied in the Russian Federation during the given period.

The Russian Federation remained a member of the EAEU in 2015-2016. Russia also continued to be a member of the Free Trade Agreement of the Commonwealth of Independent States. However it abolished the preferences for Ukraine that had been in force before under the agreement. In addition, the Russian Federation notified the WTO on 1 April 2016 that its free trade agreements with Armenia, Belarus, Kazakhstan, Kyrgyzstan, the Republic of Moldova, Tajikistan and

Ukraine had become invalid. The Government of the Russian Federation actively discussed possible enhancement of its partnership with countries of the Association of Southeast Asian Nations in 2016.

The financing of agriculture under the State Programme for the Development of Agriculture and Regulation of Agricultural Products, Raw Materials and Food Markets in 2015 and 2016 amounted to USD 3.6 billion and 3.5 billion, respectively. Two-thirds of the state financing accounts for various measures for the development of plant growing and animal husbandry. Financing mainly includes subsidies for reimbursement of interest rates on current and investment loans as well as administration of the above-mentioned programme (RUB 30 billion annually).





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Tajikistan

Mavzuna Karimova

Exports of agrifood products from Tajikistan increased by USD 12 million in 2015 as compared to 2014, amounting to about USD 204 million. The largest share in the structure of Tajikistan's agrifood exports in 2015 still belonged to cotton (76%), whose value of shipments totaled USD 156 million in 2015. Over the same period, imports of agrifood products decreased by 10.5 percent as compared to 2014: from USD 942 million to USD 843 million. The main imported agricultural goods still included cereals (31.6% of the total value of agricultural imports), fats and oils (11.5%), sugar and confectioneries of sugar (10.6%), live animals (8.3%) and flour-and-cereals industry products (8.2%). Tajikistan's main trade partners in both exports and imports of agrifood products in 2015 were Afghanistan, China, Kazakhstan, Kyrgyzstan, Pakistan and the Russian Federation. The agrifood trade balance in 2015 was negative: USD -627 million.

Import tariff rates for raw silk were introduced in Tajikistan in 2015 and 2016, amounting to 20 percent, but no less

than EUR 100 per 1 000 kg, as well as for unprocessed hides of cattle (including buffalos) or equids, amounting to EUR 300 per 1 000 kg. These rates were not applied to the countries with which Tajikistan signed free trade agreements. In addition, a 10 percent VAT was introduced for the import of wheat in 2015 (except wheat imported to produce excise goods). Tajikistan did not apply quantitative restrictions on imports of agricultural goods or use import tariff quotas during the period under review. In 2015, the Agency for Standardization, Metrology, Certification and Trade Inspection under the Government of Tajikistan decided to prohibit the imports to Tajikistan of goods having no Tajik-language information on the packaging. As an exception, goods with information presented in Russian are allowed to be imported. Moreover, any products imported in the country must have an exact manufacture date and other marks in the national language.

Exports of silk cocoons, cotton fibre, cotton yarn and raw cotton have been taxed with VAT at a zero tariff rate since March 2015. During 2015, Tajikistan did not have quantitative restrictions on exports of agricultural goods and did not provide direct subsidies to export shipments

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of agricultural products. In 2015, Tajikistan approved the Regulations on the Standing Commission for Enhancement of Import-Substituting Production and Development of Export. The commission was established to improve the state policy in the context of developing import-substituting production and export, and to implement the state policy of promoting domestic production and reducing the national economy's dependence on imported products. In 2016, the Ministry of Economic Development and Trade of the Republic of Tajikistan drafted a Programme for the Promotion of Export and Import Substitution in the Republic of Tajikistan for 2016-2020. As of October 2016, the programme was under discussion with various ministries and agencies. The key objective of the programme is to provide support to domestic production during the next 10 years and to meet, by means of domestic production, the population's demand for bread and bread products, potatoes, eggs and rice (at 90%), for vegetables (at 80-90%), for fruits and berries (at 70-80%), for vegetable oil (at 80%), for poultry meat (at 40%) and for milk and dairy products (in milk equivalent, at 50%). Tajikistan ratified the WTO Trade Facilitation Agreement in 2015 to improve efficiency and decrease costs of customs procedures.

About 16 billion somoni (USD 2.6 million) was allocated to support agriculture in Tajikistan in 2015, representing 2.2 percent of its state budget. In general, the volume of state financing of agriculture support programmes in 2015 did not exceed Tajikistan's commitments to the WTO. Concessional lending and preferential taxation were key instruments of support for agricultural producers.

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Turkmenistan

Yuri Aronsky

The volume of imports of agricultural goods decreased by 11.7 percent in 2015 as compared to 2014. This pattern was to a certain extent connected with the depreciation of the country's national currency, as well as with the introduction of additional import customs duties on some goods to support domestic commodity producers and incentivize production of import-substituting products in the country. The main items of agricultural import in 2015 and 2016 still included meat and meat products, vegetables, fruits and nuts. Food products were mainly imported from the Russian Federation, Iran, Turkey, and the United Arab Emirates.

Exports of agricultural goods from Turkmenistan grew more than 10 times in 2015 as compared to 2014, assisted by state export promotion measures, including support for sales of certain agricultural products. A decrease in the negative trade balance was recorded over the given period: from USD -943.4 million in 2014 to USD -267.2 million in 2015.

Import duties on some agrifood products were increased in 2015-2016. Turkmenistan did not apply quantitative restrictions, quotas or bans on the import of agricultural products during that period. No significant change occurred in the SPS system requirements.

A programme to increase the volume of export products and a programme to organize production of import-substituting products were approved in Turkmenistan in 2015. An important role in both programmes is assigned to the construction of modern enterprises for processing and manufacturing various types of meat and dairy products, fruit and vegetable products, and fish products, as well as to the strengthening of agricultural production.

To support exports, a list of goods that may be exported from Turkmenistan without payment of export customs duties was compiled in January 2015, in particular: pasta, honey, edible salt, tomato paste, ice cream, and other types of edible ice with or without cocoa. The list was extended in May 2015 to include packed vegetable and fruit products, animal casings, and fur products (raw

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items and after primary processing). The exportation of rawhide, leather and wool products, which was banned earlier, has been permitted again since 2015. Meanwhile, cotton and cotton fibre, wheat and wheat flour, silk cocoons and raw silk have been subject to certification for exporting outside the customs territory of Turkmenistan since February 2016.

Turkmenistan held a number of consultations with the WTO representatives in 2015-2016 on the terms of its accession to this international organization. However, Turkmenistan has still not started an official negotiation process towards accession.

As part of state support for agricultural producers, in the period under review Turkmenistan widely used such instruments as state procurement, guaranteed prices, preferential taxation and concessional lending. In accordance with the State Programme for Production of Import-Substituting Products in Turkmenistan, adopted in May 2015, the country has been implementing a plan to build about 40 enterprises in the country for growing and production of agricultural goods. Twenty more

enterprises were being constructed under the State Programme for Increasing Exports of Products Made in Turkmenistan.

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Ukraine

Tamara Ostashko

The value of exports of agricultural goods amounted to USD 14.6 billion in 2015 (87.2% of the 2014 level), whereas the value of imports was USD 3.5 billion (57.7% of the 2014 level). A positive agricultural trade balance amounted to USD 11.1 billion in 2015, representing 4.2 percent more than in 2014. Exports of agricultural goods increased in 2016, while the downward trend of the import value reversed. A change in the geographical structure of agricultural product trade was occurring in 2015 and 2016. A downward trend persisted in the volumes of trade with the Russian Federation, observed since 2012. In 2015, Ukraine exported USD 281.9 million worth of agricultural goods to the Russian Federation (30.8% of the 2014 level). However the results of the first six months of 2016 showed a decrease in agricultural exports to the Russian Federation to USD 45.2 million (35% of the corresponding indicator's value in the first half of 2015). Similar tendencies took place in the dynamics of imports of agricultural products from the Russian Federation. The value of agricultural imports from the

Russian Federation contracted by 59 percent in 2015, amounting to USD 246.4 million. In addition, downward trends were recorded in 2015 in trade with the EU countries. Agricultural exports to the EU declined to USD 3.7 billion (76.9% of the 2014 level), whereas agricultural imports from the EU decreased by 50.1 percent, to USD 1.4 billion. However, growth of both exports to the EU and imports from the EU were restored as early as the first half of 2016. Meanwhile, diversification of geographical areas of agricultural product exports was also enhanced in 2015-2016, towards increasing the share of Asian and African countries.

As of 1 January 2016, Ukraine abolished the additional 10 percent import tariffs on agricultural products introduced in February 2015 to stabilize its balance of payments for 12 months. Between January and August 2016, Ukraine imposed a ban on the import of a large group of agricultural goods from the Russian Federation, in response to a similar measure imposed by Russia. The ban was later extended to 31 December 2017.

In 2014, Ukraine launched a reform of its system of food product safety and quality control by means of

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reorganizing the State Veterinary and Phytosanitary Service to include the State Inspectorate for Consumer Rights Protection and the State Sanitary and Epidemiological Service. Hence, the responsibility for performing the functions related to the implementation of SPS measures was concentrated in a single public authority. Since 2015, a certificate no longer needs to be obtained from the State System of Product Certification to import food products to Ukraine. The primary responsibility for product quality now rests with the producer because of harmonization of the Ukrainian legislation on SPS measures of regulation with the EU legislation. The import of food products and raw materials for the food industry, as well as meat and meat products, must be accompanied by an international certificate or other documents issued by a competent authority in the country of origin, whereas the provision that importers must obtain a veterinary permit to import meat, meat products and live animals was abolished.

Ukraine continues to meet its commitments to the WTO concerning the reduction of export tariffs on oilseeds, live cattle, and skins and hides. According to the Association Agreement with the EU, Ukraine must abolish export

duties in its trade with the EU according to a schedule. Ukraine has no right in the WTO to use export subsidies, and does not practice export lending or insurance at the state level. No quantitative restrictions or bans on exports were applied in Ukraine in 2015-2016. Since January 2016, all entities paying VAT on the export of grains and technical crops have again been entitled to recover VAT from the budget, whereas large companies have been granted VAT refund preferences.

The preferential trade regime with zero rates on the Russian Federation's part for goods originating from Ukraine was replaced on 1 January 2016 with an MFN regime. As a consequence, the common external tariff of EAEU CCT applies to all goods originating in Ukraine. Since 2015, Ukraine has been applying export duties to the export of sunflower seeds, cattle, sheep and horse hides to Tajikistan, whereas the latter applies import duties to the import of water, beer, wine, vermouth, ethyl alcohol and cigarettes from Ukraine. Provisions of the Free Trade Agreement have been applied in trade relations between Ukraine and Uzbekistan since 2016. In July 2016, Ukraine and Canada signed a bilateral Free Trade Agreement that will enter into force upon ratification by the parliaments of the two countries. A free trade area between Ukraine and the EU has been operating in a bilateral mode since January 2016.

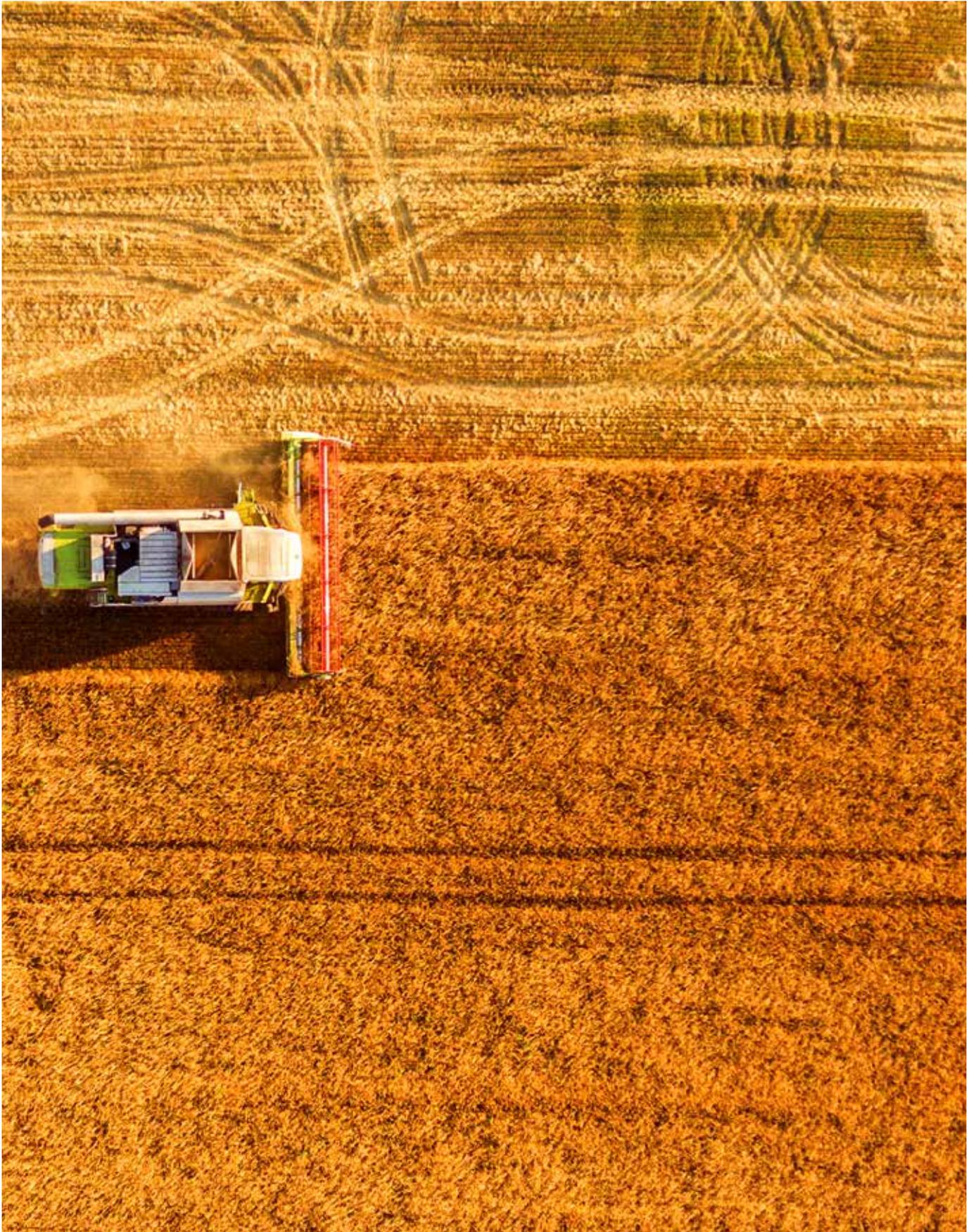
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Domestic state support for agriculture was not at a high level in 2015-2016: total public expenditure on agriculture in 2016 amounted to 2.11 billion hryvnias, which is 96.3 percent of the financing volume of 2015 and 33.2 percent of 2014. About one-third of this expenditure (32.9%) was allocated to finance the State Service of Ukraine for Food Product Safety

and Consumer Rights Protection. Additional items of financing in the period under review included financing of expenses of the Agrarian Fund related to storage, transportation, processing and exportation of the goods subject to state price regulation of the state intervention fund, as well as credit programmes for private farms.





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Uzbekistan

Daria Ilyina

Exports of agrifood products from Uzbekistan in 2015 decreased by 18 percent as compared to 2014 and amounted to USD 2.8 billion. The largest share in the structure of agricultural exports still belonged to cotton (49.5% of the total value of exports) as well as fresh fruits (23.2%) and vegetables (16.9%). In 2015, Kazakhstan was the main importer of agricultural goods from Uzbekistan (38% of the total value of exports). Uzbekistan's imports of agricultural goods in 2015 were 2.5 percent higher than the 2014 figure. Its structure in 2015 was dominated by sugar and confectioneries of sugar (15.7% of the total value of imports), cereals (14.8%), and fats and oils (12.7%). The key exporters of agricultural goods to the country in 2015 were Kazakhstan (33.7% of the total value of imports), the Russian Federation (19.9%) and Brazil (19.3%). The trade balance in agricultural goods in 2015 amounted to USD 855 million, which is almost half of the 2014 level. Deterioration of the trade balance occurred due to a slump in exports of agricultural goods caused by their declining demand among Uzbekistan's

trade partners and by the state policy pursued to reduce exports of cotton.

In response to Ukraine's general increase in import tariffs, Uzbekistan introduced additional import duties on Ukrainian-made products in July 2015 for 12 months: 10 percent for commodity groups HS codes 1-24, and 5 percent for commodity groups HS codes 25-97. This measure was abolished ahead of schedule, in February 2016. Import duties on a number of meat and dairy products, fruits and some other products have been transformed from ad valorem to specific rates per kilogram since September 2015. Customs payments for the import of some animal husbandry and plant-growing products were cancelled from 29 December 2015 to 1 January 2021. Uzbekistan did not apply quantitative restrictions or tariff quotas on the import of agricultural products in 2015-2016.

Export tariffs and taxes were not applied in Uzbekistan in 2015-2016, but a ban on the export of some agrifood products remained, including for grain, flour products, meat and edible meat by-products, and sugar. The Government of Uzbekistan paid considerable attention

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during the period under review to agrifood export promotion measures. A holding company for collection, processing and exporting cotton fibre was established in December 2015. In 2016, the capital of the Fund for Support of Export of Small Businesses and Private Enterprises was doubled, and the list of services provided by the Fund was extended. In addition, a specialized foreign trade company (Uzagroexport) was established for the export of fresh and processed fruit and vegetable products. In the same year, the Government decided to organize an annual International Fruit and Vegetable Fair, which was held in July 2016 in Tashkent. In September 2016, authorities permitted exports of fruit and vegetable products, grapes, melons and watermelons subject to at least 30 percent prepayment of the shipped goods' value (previously, mandatory payment was 100%), and reduced the rate of obligatory exchange of foreign currency proceeds from exports of fresh fruits and vegetables, grapes, melons and watermelons from 50 percent to 25 percent of the total proceeds from exports of these products.

In 2015-2016, Uzbekistan implemented a number of programmes aimed to support the development of

agricultural production in the country: the Programme for Further Modernization, Technical and Technological Re-equipment of Agricultural Production for 2012-2016; the Programme of Measures on Further Improvement of Supply of Highly Skilled Staff with Higher Education to Agriculture and Water Management for 2015-2017; the State Programme for Improvement of the Meliorative Condition of Irrigated Lands and Rational Use of Water Resources for 2013-2017; and the Programme for Further Reformation and Development of Agriculture for 2016-2020. In addition, government orders were introduced for the procurement of fresh fruits and vegetables, potatoes, grapes, melons and watermelons beginning from the 2016 harvest, with advance payment of no less than 40 percent of the contract value at negotiated prices.

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