

Russian Federation's Double-Edged Sword

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It is not surprising that the Russian Federation can change at any time its trade policy views in relation to its partners, defying the international rules and commitments in this area. This practice is also widely used in relation to the Republic of Moldova, especially after the signing of the EU Association Agreement, which fuelled many trade restrictions on a number of sensitive products.

On the other hand, the 'adjustment' of these restrictions' severity has been used along the way to support some political movements in the country. Thus, we have witnessed, during the last months of 2018, events that overlapped chronologically, with political rather than economic implications. Besides, these trade evolutions were not the result of economic diplomacy, but rather the result of certain geopolitical, sometimes electoral-like, games.

An evolution of this kind – being the result of an agreement between the Moldovan and Russian Presidents, was the cancellation, starting with 1 January 2019, of the customs duties for certain products (unilaterally imposed by the Russian Federation to sanction Moldova for signing the EU Association Agreement). However, the fact that this happened on the eve of the parliamentary elections in February this year is not a coincidence at all. Moreover, this goodwill gesture is temporary and will expire on 30 June.

This trade policy 'victory' was immediately eclipsed by another event. Given the tighter economic sanctions imposed by the Russian Federation on Ukraine, the import of a number of products originating from the latter was

forbidden. Deliberately or not, the imports that transit this country, products coming from Moldova implicitly, were also forbidden.

These two events generated lots of polemics that oscillated between the triumph and the vanity of the exponents who promoted them. In this context, we decided to analyse the net economic result of these evolutions in order to provide an impartial and objective view.

What will be the impact of the temporary cancellation by the Russian Federation of the customs duties on certain imports of Moldovan agri-food products?

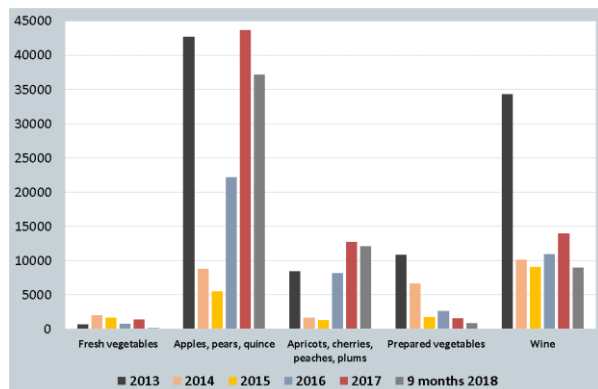
On 30 December 2018, the Government of the Russian Federation approved the Decision No 1786 amending the Government Decision No 736 of 31 July 2014 on Customs Duties for Products Originating from the Republic of Moldova. The new regulatory act refers to five categories of products¹ for which the customs duty is to be '0%'. However, this temporary exemption is valid until 30 June 2019. What is more, it doesn't say anything about a future cancellation of these duties for an indefinite period.

To understand better the magnitude of these temporary benefits, find below the detailed analysis of all these aspects for each product. At the same time, in order to give some benchmarks, Figure 1 shows the evolution of Moldovan exports to the Russian Federation for the categories of products that will be temporarily exempted from customs duties.

¹ Products covered by the Decision of the Russian Federation Government: HS07 – Fresh vegetables; HS0808 – Apples, pears,

quince; HS0809 – Apricots, cherries, peaches, plums; HS2005 – Prepared vegetables; HS2204 – Grape wine.

Figure 1. Evolution of exports to the Russian Federation that will be exempted from customs duties², thousand USD



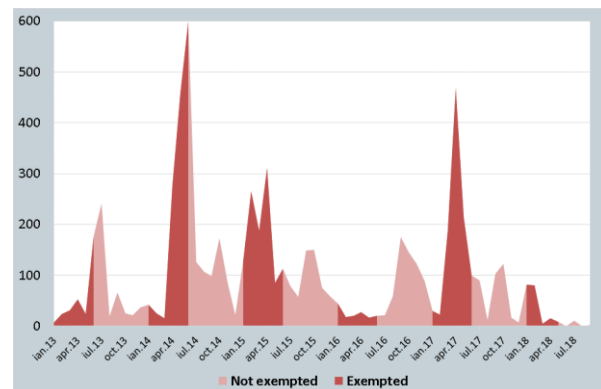
Source: UN Comtrade

As one can see, certain product categories managed to return to the Russian market (such as fruit) even after imposing the customs duties (starting with 2014). Besides, if we were to extrapolate the exemption of customs duties, taking as reference the exports of these products made during the same period of 2017, they would amount to about USD 3 million.

Hence, in absolute value, the customs duties are not the major barrier to export, although they certainly do have an impact (especially on processed vegetables). At the same time, the administrative barriers (in the form of lists of companies allowed to export) limit the accessibility based on general principles of exporters to this market, with a very subjective/selective nature, only a few companies being allowed to export (mainly from certain geographic areas of country).

However, given that these categories of products are seasonal, it is essential to analyse their distribution over a calendar year to highlight the real utility of this Russian measure.

Figure 2. Monthly evolution of Moldovan exports of fresh vegetables to the Russian Federation, thousand USD



Source: UN Comtrade

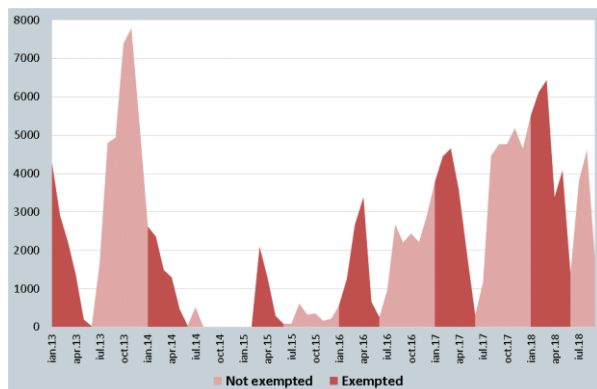
Moldovan exports of fresh vegetables to the Russian market were insignificant both before and after the 2014 restrictions. Moreover, about 93% of the total exports of fresh vegetables (mainly tomatoes) to the Russian Federation in 2013 were in fact re-exports (excluded from analysis) (Figure 2).

Therefore, if the Russian Federation applies the temporary exemptions, their impact will be quite limited (the areas marked in Figure 2). Taking into account the seasonality of these categories of products (with a focus on the second half of the year), their usefulness will be eroded even more.

Hence, these temporary exemptions might have an impact only on a part of these exports, varying depending on the product exported (and implicitly on its harvesting period). Thus, we might anticipate a coverage of 19% of annual exports in the case of 2016 (sweetcorn exports) to 74% annually in the case of 2017 (onion exports).

²Export statistics were adjusted by excluding the re-exports.

Figure 3. Monthly evolution of Moldovan exports of apples, pears, quinces to the Russian Federation, thousand USD



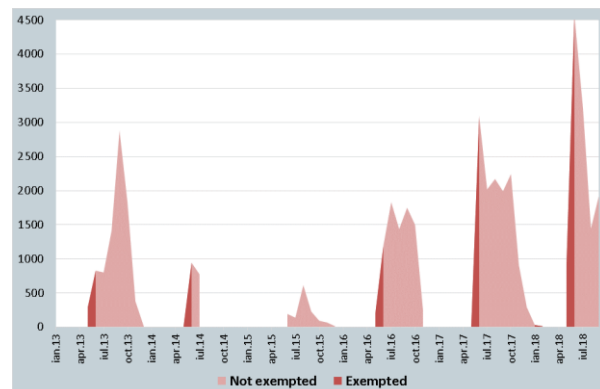
Source: UN Comtrade

Moldovan apples remain the main products exported to the Russian Federation's market. Although one can notice that these exports stagnated immediately after trade restrictions were imposed in 2014, they witnessed an upward trend after that. Eventually they even exceeded the volumes recorded prior to the introduction of these restrictions (Figure 3).

The biggest barrier to accessing the Russian Federation's market is not the customs duty imposed (varying between EUR 0.015/kg and EUR 0.03/kg), but the existing mechanism allowing companies to export, which makes it possible for intermediaries to appear in the distribution chains (having a negative impact on purchase prices). This is one of the pertinent conclusions stemming from domestic farmers' discontent.

At the same time, the monthly distribution of apples exports between 2015 and 2017 (areas marked in Figure 3) shows that about 44% of them might be subject to the temporary exemption offered by the Russian Federation in 2019.

Figure 4. Monthly evolution of Moldovan exports of apricots, plums, cherries, peaches to the Russian Federation, thousand USD

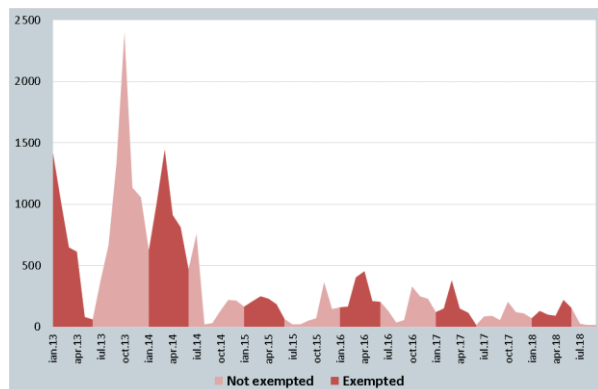


Source: UN Comtrade

When the Russian Federation imposed trade restrictions in 2014, the Moldovan exports of apricots, plums, cherries and peaches were heavily affected. In the meantime, however, their export became even higher compared with the period prior to the introduction of these restrictions (Figure 4).

In addition, the temporary exemption for these exports in 2019 will have an extremely limited impact. Thus, given the monthly developments during 2015-2017, we might anticipate that only 20% of annual exports might be subject to the Russian Federation's temporary exemptions (areas marked in Figure 4) due to the seasonality of these products (most exports consist of plums harvested in the second half of the year), which does not coincide with the period for which the exemptions were made.

Figure 5. Monthly evolution of Moldovan exports of processed vegetables to the Russian Federation, thousand USD

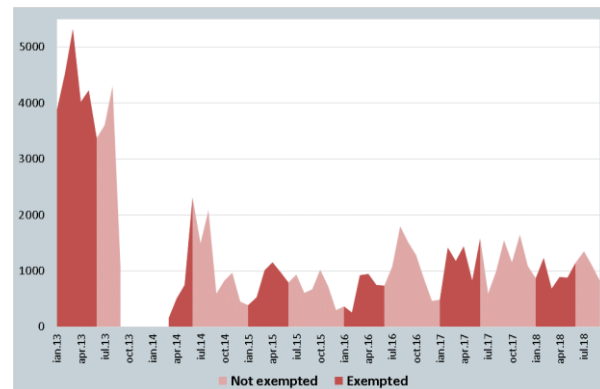


Source: UN Comtrade

As Figure 5 shows, exports of processed vegetables are most affected by the restrictions the Russian Federation imposed in 2014. As in the case of fruit, the problem lies with the poor mechanism allowing domestic companies to export to the Russian Federation. However, if with regards to the last, this problem could be solved by the companies allowed to export, operating as intermediates, such an algorithm was no longer possible in the case of processors.

In addition, analysing the monthly evolution of these exports to the Russian Federation's market (the reference period 2015-2016), we might anticipate that about 60% of annual exports could be subject to the temporary exemptions offered (areas marked in Figure 5). In an optimistic scenario, which would mean having a period prior to the introduction of these restrictions (as in 2013, for instance), then about 35% of annual exports would be eligible for the above-mentioned temporary exemption.

Figure 6. Monthly evolution of Moldovan exports of wines to the Russian Federation, thousand USD



Source: UN Comtrade

Despite the multiple challenges faced by the Moldovan exports of wines to the Russian Federation's market, even before the restrictions in 2014 (e.g. embargo in 2013), they continued to be on an upward trend (Figure 6). Here again, the biggest difficulty for exporters is that only certain companies are allowed to export, and not the tariff policy (the custom duty is 12.5%).

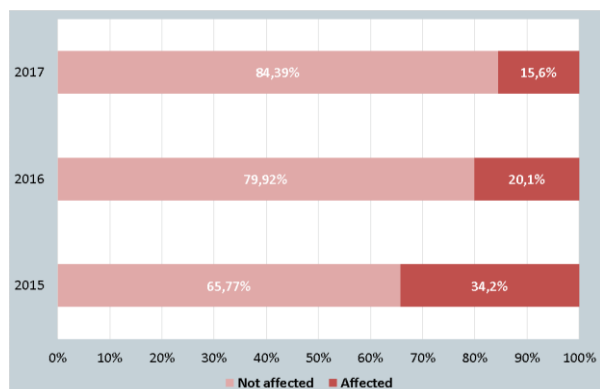
If the temporary exemptions offered by the Russian Federation for this group of products enter into force, about 45% of annual exports could be subject to preferential treatment if we took 2015-2017 as reference period (areas marked in Figure 6).

How will Moldovan exports to the Russian Federation be affected given the Ukraine's transit ban?

On 29 December 2018, with the aim to impose certain economic sanctions on Ukraine, the Government of the Russian Federation approved the Decision No 1716 banning a range of products (56 categories of product) either originating from Ukraine or transiting it.

Therefore, this new regulatory act, with or without premeditation, will also have implications for the Moldovan exports.

Figure 7. Exports of Moldovan agri-food products to the Russian Federation banned from import if they transit Ukraine, %



Source: UN Comtrade

As Figure 7 shows, out of the total exports of Moldovan agri-food products to the Russian Federation's market, according to 2015-2017 data, we might anticipate that about 20% of these products will be affected on average. Thus, depending on the reference year, this figure could range from 34% (in 2015) to 15.6% (in 2017).

Table 1. Exports of Moldovan agri-food products to the Russian Federation banned from import if they transit Ukraine, thousand USD

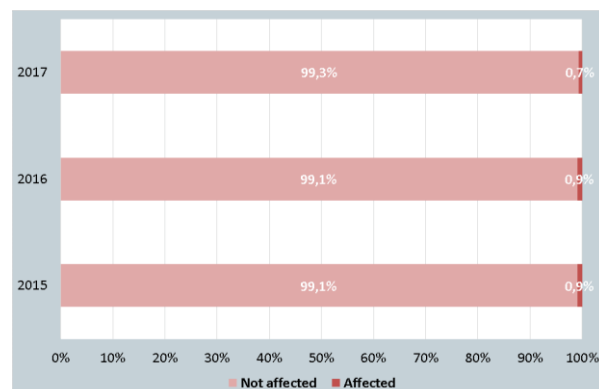
HS	Name	2015	2016	2017
2204	Wines	9123	10997	13959
2005	Processed vegetables	1800	2643	1628
1704	Cocoa-free confectionery	178	144	877
2009	Fruit juices	1637	1635	763
2208	Ethyl alcohol, spirits	188	86	322
1806	Chocolate	388	213	155
1905	Bakery, pastry	179	6	84
2001	Vegetables preserved by vinegar	79	129	64
2007	Jams, jellies, marmalades	12	14	27
2002	Processed tomatoes	0	0	12
Total		13584	15867	17891

Source: UN Comtrade

In absolute terms, exports of about USD 16 million could be affected by the ban on Moldovan agri-food products that are meant for the Russian market and transit Ukraine (Table 1).

The most affected category of products are wines, followed by fresh vegetables, confectionery and fruit juices.

Figure 8. Exports of Moldovan industrial products to the Russian Federation banned from import if they transit Ukraine, %



Source: UN Comtrade

The impact on the exports of Moldovan industrial products to the Russian Federation's market will be quite small. Thus, on the basis of 2015-2017 statistical data, we might anticipate that 1% of such exports would be affected (Figure 8).

Table 2. Exports of Moldovan industrial products to the Russian Federation banned from import if they transit Ukraine, thousand USD

HS	Name	2015	2016	2017
841391000	Parts of pumps	474	345	291
3402	Organic surface-active agents	0	1	41
8701	Tractors	14	0	11
854460100	Electric conductors	0	0	10
843810100	Bakery machinery	0	0	8
854419000	Winding wire	14	6	4
Total		528	487	365

Source: UN Comtrade

Thus, exports of about USD 0.5 million could be affected by the ban on Moldovan industrial products that are destined for the Russian market and transit Ukraine. The export of pump parts will be affected in particular (Table 2).

Conclusions

Trade relations between the Republic of Moldova and the Russian Federation have been unclear for a long time. The latter can generate at any time new 'surprises' for Moldovan exports. Most of the time, however, these

initiatives arise either when it is necessary to penalise the uncoordinated actions of the Chisinau authorities (such as the signing of the EU Association Agreement), or to obviously support certain local political exponents.

The latest evolution of the trade cooperation between the Republic of Moldova and the Russian Federation (aimed at exempting certain Moldovan products from the customs duties) fits perfectly into the stated logic. However, this 'goodwill' act of the Russian Federation does not inspire too much trust in the context of an electoral period.

In addition, despite the agitation this initiative generated, the net economic effect could be limited (given that the other components remain intact), especially when these exemptions are temporary (1 January – 30 June 2019) and target only the categories of seasonal products. Specifically, as regards its scale, this initiative would have an impact on 41% of total annual exports of such products to the Russian Federation's market (taking as reference period the exports from similar periods of 2015-2017). In absolute terms, however, this initiative – if expressed as the amount of customs duties which will not be paid during the exemption period (i.e. 1 January – 30 June 2019), may reach about USD 3 million (for the same reference period of 2015-2017).

However, exports' evolution of the main categories of products targeted by customs duty exemptions (such as fruit and wines) shows an upward trend, even above the values recorded prior to the introduction of restrictions. This clearly proves that producers' biggest problem are not the customs duties, but the non-transparent procedure (preparing lists) allowing only certain companies to export to the Russian Federation, which makes it possible for intermediaries to infiltrate into the distribution channels (thus influencing the purchase price).

On the other hand, the initiative aimed at banning imports from the Republic of Moldova into the Russian Federation that transit Ukraine will further diminish the scale of the customs duty exemptions. In fact, some sensitive products are on the list of banned products (such as wines, processed fruits and vegetables, juices, etc.). In relative

terms, this initiative will affect about 20% of total exports of Moldovan agri-food products destined for the Russian Federation's market (based on the annual exports during 2015-2017).

In these circumstances, the change in rhetoric in the discussions with the Russian Federation on these issues would be more appreciable. Or, the use of commercial blackmail should no longer be a technique for penalising the sovereign decisions of the Republic of Moldova. Otherwise, the trust in a fair and correct partnership gradually erodes in the context of Russian Federation's less 'civilized' commercial behaviour in relation to its trading partners.