

EU agricultural trade relations with Eastern Neighbours: current state and future perspectives in a changing policy framework

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1. Introduction

The aim of this paper is to sketch EU's trade policy frameworks in which trade in agricultural and food products takes place with Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Moldova, Russia and Ukraine. These eight post-Soviet republics are EU's Eastern neighbours to which the EU seeks to intensify its trade and investment relations. The EU has built economic relationship with each of these CIS countries² during the 1990s, shortly after the breakup of the Soviet Union. With the enlargement of the Union in 2004 and 2007 the EU's border shifted eastwards, prompting the Union to launch the European Neighbourhood Policy (ENP) as a cooperation strategy to deepen its political and economic relations with its new eastern neighbourhood. One of the key goals was to achieve the regulatory convergence by exporting the single market rules beyond its new borders (Commission of EC, 2004). The convergence with the EU acquis and market rules is one of the key elements of an Association Agreement (AA) the EU offers its neighbours under the ENP³. A Deep and Comprehensive Free Trade Agreement (DCFTA) is part of an AA that covers the bilateral trade issues.

The structure of the paper is as follows. Section 2 presents trends in bilateral trade between the EU and the CIS region and key developments and features of trade are explained. Section 3 describes the policy framework under which bilateral trade in agricultural products takes place. Section 4 continues to discuss the possible implications of DCFTA's for agricultural trade between the EU and partner countries in the eastern region in the near future. Section 5 concludes.

2. Trade relations in agri-food products

Trade relations between the 8 CIS countries and the EU member states have been evolving positively in the last two decades. EU25/27⁴ agricultural exports to the 8 countries valued 7 billion euro in 2005, reaching more than 18 billion euro in 2013, while imports increased from 4 to 8 billion euro over the same period (see figure 1).⁵ Trade evolvments show the impact of the (global) economic crisis in

¹ Acknowledgement: thanks to Olivier Chartier and Gabrielle Despres for providing the data for figures 8-11 and A1-A2

² Commonwealth of Independent States (CIS), established in December 1991, is a regional organization whose participating countries are former Soviet Republics, formed during the breakup of the Soviet Union. Ukraine (since March 2014) and Georgia (since 2008) are no CIS member anymore, yet for the sake of simplicity we keep the indication 'CIS' for all 8 countries we are talking about in this paper.

³ The ENP framework is proposed to EU's 16's closest neighbours in the east and the south of the Union, regionally divided into the Eastern Partnership and a Euro-Mediterranean Partnership (EUROMED). The Eastern Partnership includes the countries Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

⁴ We choose 2005 as the first year to present trade data. Data and trends before and after 2005 are importantly affected by the fact that the number of EU member states has grown significantly in 2004.

⁵ In this trade analysis agricultural products include the chapters 1-24, 29, 33, 35, 38, 40-45 and 51-53 of the Harmonised System.

2008/2009, which hit both the EU and the major CIS economies. Since 2009, however, bilateral trade has increased again. Figures up to and including 2013 show EU's exports having regained the upward trend quickly from 2010 onwards. On EU's import side, growth also resumed but at a slower pace.

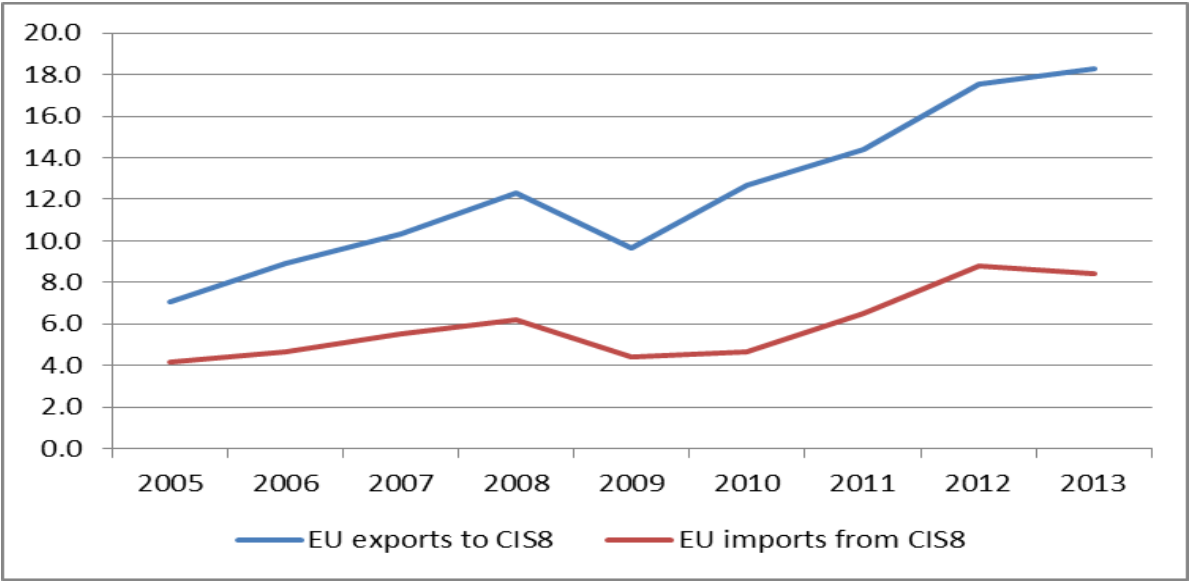


Figure 1. EU 27 agricultural trade with CIS8, 2005-2013 (billion euro). Source: Eurostat, Comext

Importance of bilateral trade for each of the partners

As a bloc the eight CIS countries are an important trade partner to the EU, claiming a gradually increasing position in EU's agri-food trade portfolio (see figure 2). In 2013 agri-food exports of the EU to CIS8 were close to 12% of EU's total export to third countries (which totals 150 billion euro in 2013), coming from around 10% in 2005. On the import side, the region shows to range between 4.5% and 6% of EU's total agri-food imports over the period 2005-2013.

Figure 2. The share of trade with CIS8 in EU's trade with third countries (%).Source: Eurostat Comext.

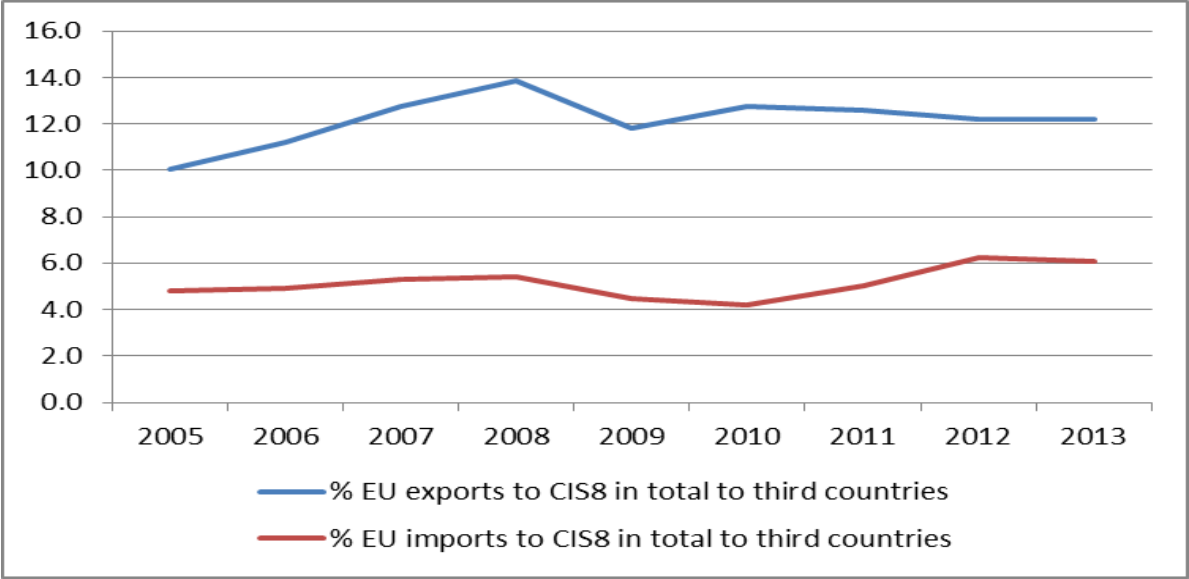


Table 1 indicates the importance of the EU for CIS in their agricultural imports and exports. The EU is one of the main trading partners of Moldova, representing more than one third of the import and export of agri-food products. Russia and Ukraine, by far the two major economies in the region, import a large share of their total agricultural imports from the EU, like Belarus and Azerbaijan. Five of the CIS export 20% or more of their total agricultural export to the EU.

Table 1 Interdependency of countries' trade relations: share of the EU27 in CIS' country's agricultural imports and exports (2012 data)

	Share of EU in the country's imports	Share of EU in the country's exports
Armenia	12	2
Azerbaijan	25	2
Belarus	29	8
Georgia	19	22
Kazakhstan	11	20
Moldova	32	33
Russia	36	22
Ukraine	35	24

Source, UNCOMTRADE

Russia is by far EU's major trading partner in the region. Three quarter of EU's agricultural export to the CIS8 is heading for Russia, with 15% to the Ukraine, 6% to Belarus and 3% to Kazakhstan (remaining 4% to other CIS8 countries). Figure 3 shows the developments over the last decade, indicating that the relatively importance of each of the CIS in the EU's agricultural exports did not change much over time.

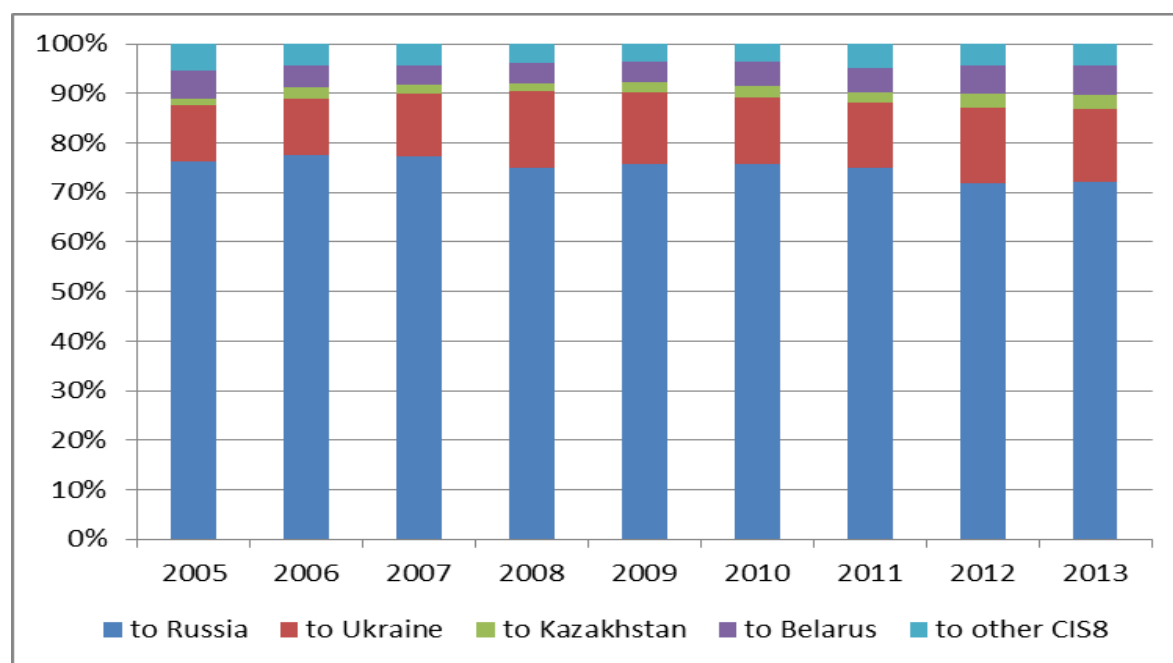


Figure 3. Share of EU exports to each of the CIS countries in total agricultural exports to CIS8 (%). Source: Eurostat Comext

In 2013, EU's agricultural imports from the region have their origin mainly in Ukraine (50% of EU's imports) and Russia (37%). Figure 4 shows the change over time, indicating that imports from Russia have become much less and Ukraine much more important in EU's agricultural imports from the region.

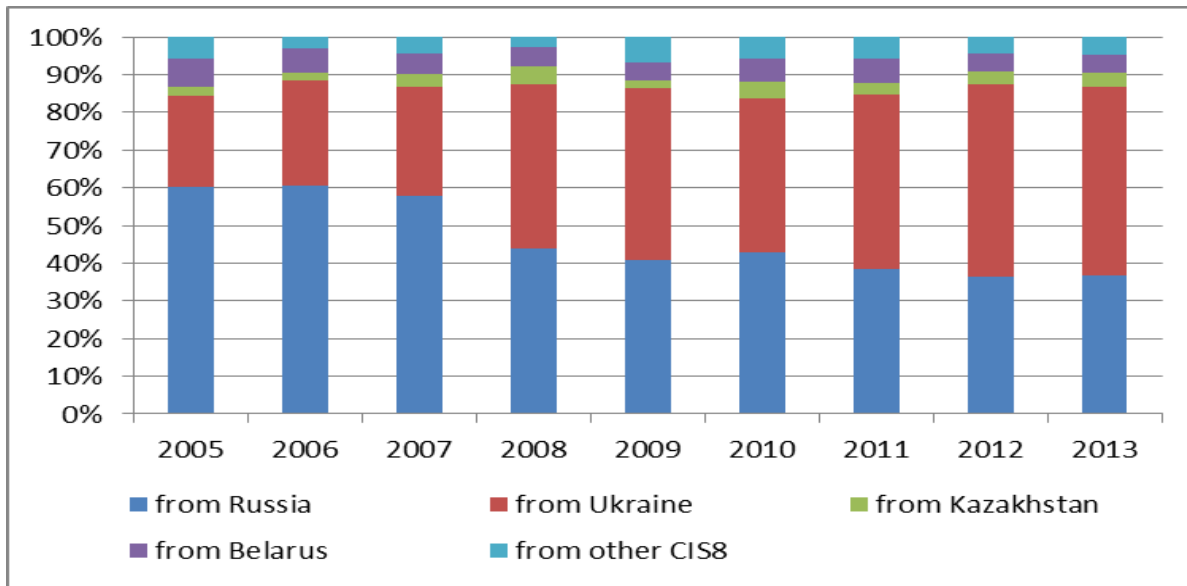


Figure 4. Share of EU imports from each of the CIS countries in total agricultural imports from CIS8 (%). Source: Eurostat Comext.

Trade balance

The agricultural trade balance between the EU and the 8 countries has been positive throughout the period between 2005 and 2013. The EU trade balance is positive with each country, except with Ukraine in which the EU has a negative balance of 1.5 billion euro in 2013. Figure 5 presents the agricultural trade balance of the EU with the four major eastern neighbours and the group of four small economies. This overview shows EU's positive trade balance with the region accounted for about 10 billion euros.

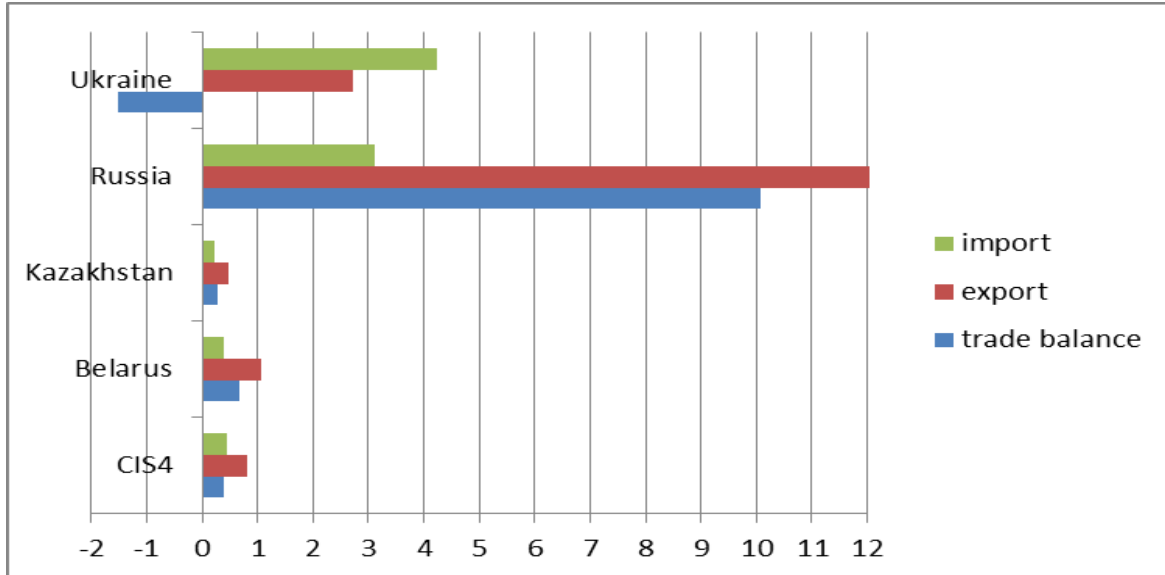


Figure 5. Trade balance between the EU27 and CIS8 in 2013 (billion euro). Source: Eurostat

Figures 6 and 7 provide the evolution of exports and imports with Russia and Ukraine, the two main trading partners of the EU in the region. Figure 6 shows that EU's agricultural trade balance with Russia is mainly influenced by the increase of exports from the EU to Russia: between 2005 and 2013, EU exports increased from 5.4 to 13.2 billion euros while imports from Russia remained fairly stable at around 3 billion euros annually.

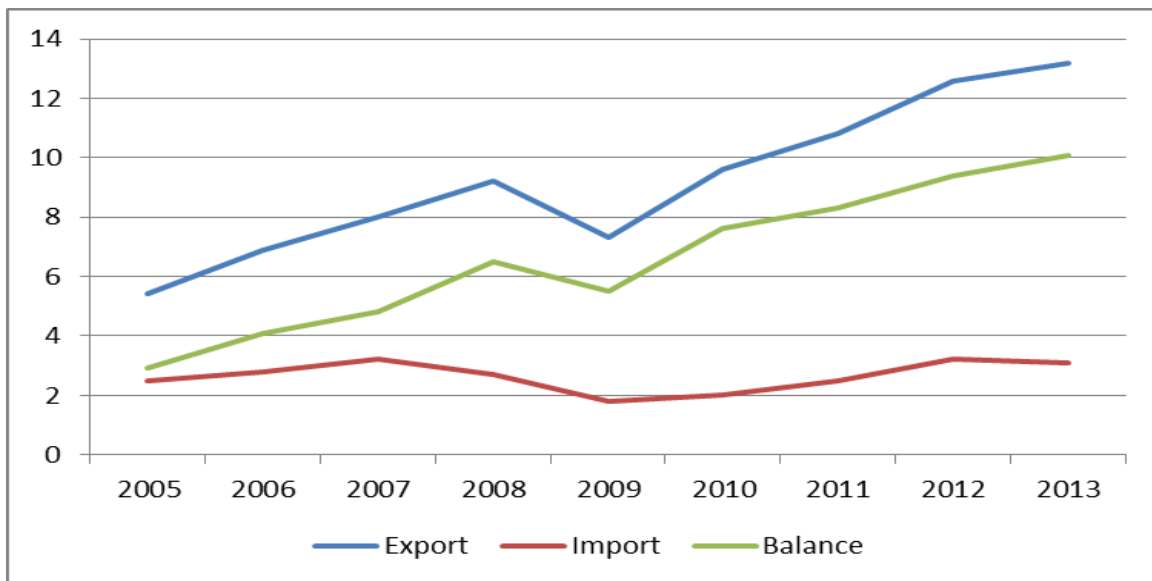


Figure 6. Evolution of the trade balance EU and Russia (billion euro). Source: Eurostat

Regarding the exchanges with Ukraine (figure 7), both imports and exports increased since 2005. Since 2009, imports from Ukraine increased at a much higher pace than exports to Ukraine: EU imports rose from 1 billion euros in 2009 to 4.2 billion euros in 2013 while EU exports to Ukraine rose from 0.8 to 2.7 billion. This pattern leads to an increase of the Ukrainian surplus of its agricultural trade balance with the EU between 2009 and 2013.

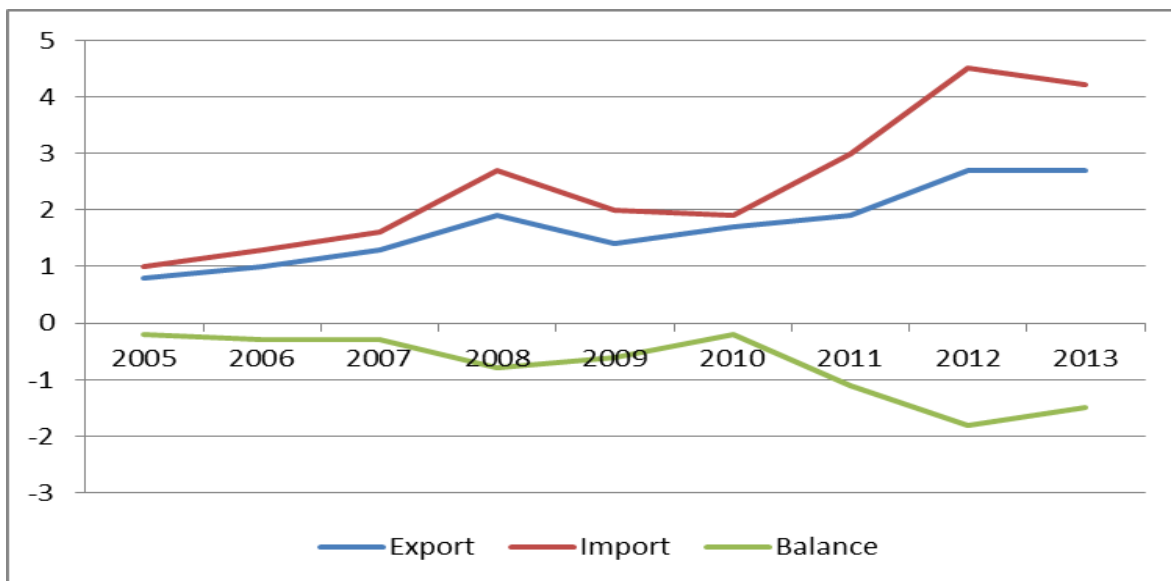


Figure 7. Evolution of the trade balance between EU and Ukraine (billion euro). Source: Eurostat

Structure of the exchanges with the main trading partners

Figure 8 and 9 below illustrate the exchanges between the EU and Ukraine according to four categories of products⁶ (commodities, intermediate, final and other products). The EU exports mainly final products and imports commodities and intermediate products. The main final products exported by the EU are meat and dairy products and the main commodities imported are cereals (mainly wheat in the case of

⁶ <http://ec.europa.eu/agriculture/agrista/tradestats/annexes/annex4.htm>

Ukraine). The other products exported by the EU in 2012 are mainly pesticides (a.o. fungicides, herbicides). The EU imports intermediate products from the oilseed industry.

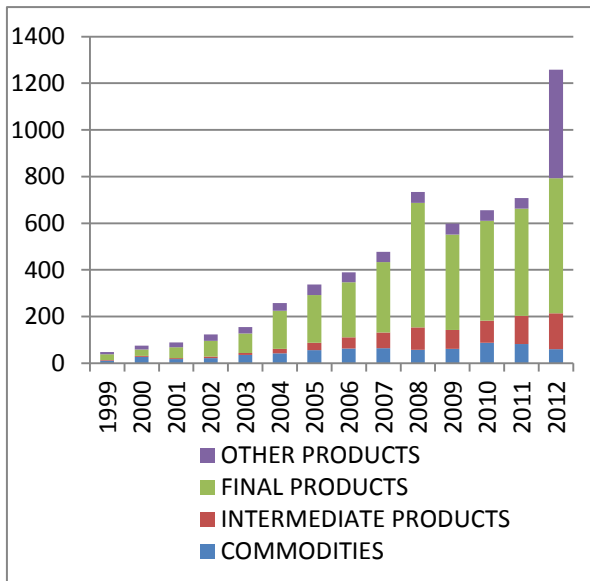


Figure 8. EU exports in Ukraine by category of products (EC definitions) (million euro). Source: Eurostat

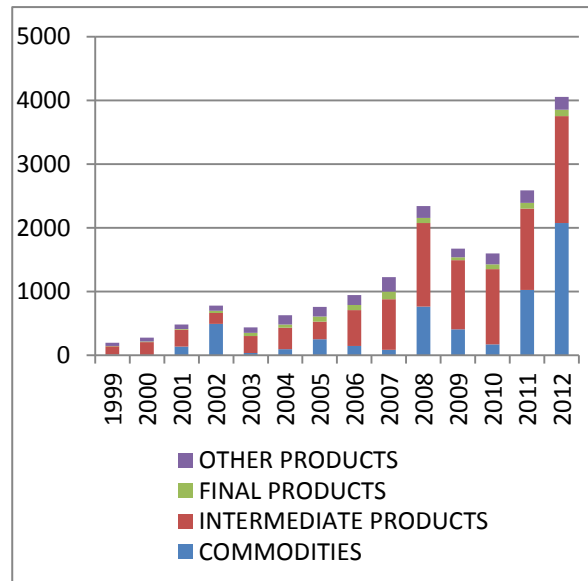


Figure 9. Imports from Ukraine in EU by category of products (EC definitions) (million euro). Source: Eurostat

The pattern is similar for the trade with Russia: the vast majority of EU exports are final products (mainly meat and dairy products – see Figure 10 and 11). Regarding imports, the importance of the category “other products” is mainly explained by the importance of wood products.

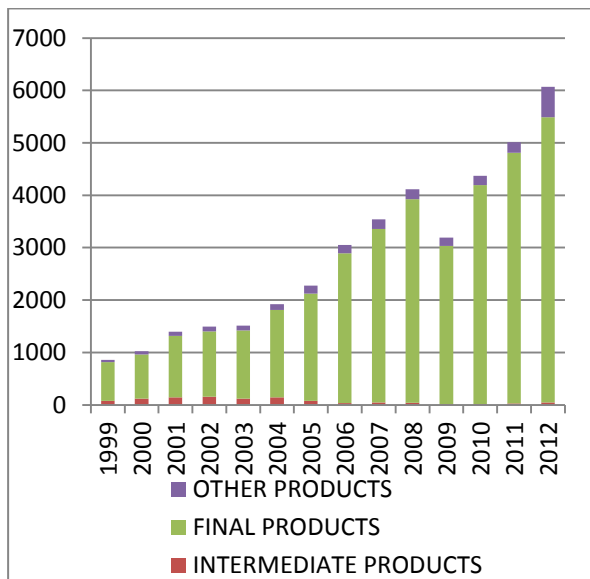


Figure 10. EU exports in Russia by category of products (EC definitions) (million euro). Source: Eurostat

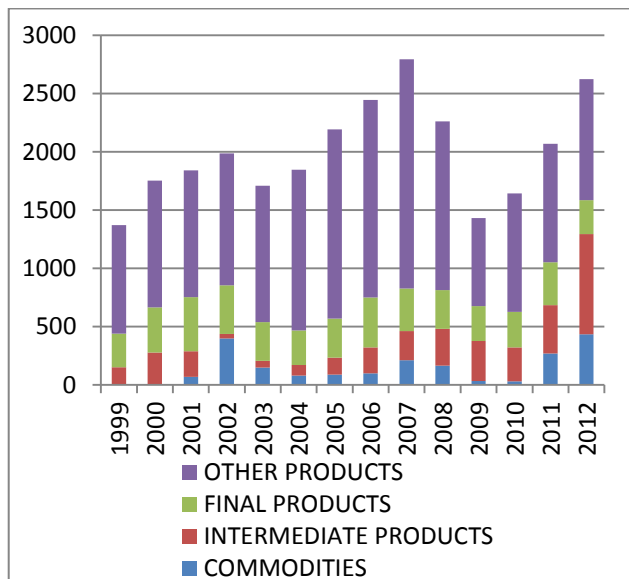


Figure 11. Imports from Russia in the EU by category of products (EC definitions) (million euro). Source: Eurostat

More details on products traded can be found in the annex of this paper.

3. Policy framework for bilateral trade relations between the EU and its Eastern neighbours

Policy framework

The overall policy framework of the EU's foreign relations with its eastern neighbors is set by the European Neighbourhood Policy (ENP) that was developed in 2004 and reviewed in 2011. The ENP objective is twofold: to avoid the emergence of new dividing lines between the enlarged EU and its neighbours and instead to strengthen the prosperity, stability and security of all (European Commission, 2011). The Eastern Partnership (EaP) was launched in Prague in May 2009 between the (then) 27 EU member states and the six partner countries - Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The EaP works in the framework of the ENP, as the regional and multilateral component of the EU with eastern neighbours within the ENP. However, the EaP goes beyond the original ENP package as it deepens bilateral co-operation, and introduces new mechanisms for regional co-operation.⁷

Central to the ENP/EaP are the bilateral Actions Plans or Association Agendas between the EU and each ENP partner, which are agreed with all Eastern Partners except for Belarus in the course of 2005 and 2006. These set out an agenda of political and economic reforms with short and medium-term priorities of 3 to 5 years. ENP Action Plans/Association Agendas reflect each partner's needs and capacities, as well as their and the EU's interests. The implementation of action plans intends to advance the approximation of an ENP partner's legislation, norms and standards to those of the EU, and opens perspectives for further economic integration.⁸

The Association Agreements (AA) are set to replace the Partnership and Co-operation Agreements (PCAs) which the partner states (except for Belarus) concluded with the EU in the late 1990s. This will form a framework for co-operation on a wide range of issues. The AAs are also aimed at bringing the partner countries closer to EU standards of governance. Each country negotiates its agreement individually with the EU. The AAs contain four parts, each representing the main areas of co-operation. The first three are: a) political dialogue and foreign and security policy; b) justice, freedom and security; c) economic and sectoral co-operation. The fourth part is a Deep and Comprehensive Free Trade Agreement (DCFTA), which is negotiated separately. The DCFTA is something more than a normal free trade agreement.⁹ It concerns not only the liberalisation of trade in all areas, by lifting customs barriers and trade quotas, but also the harmonisation of the partner countries' trade-related legislation with EU standards and the *acquis communautaire*. Membership of the World Trade Organisation is a precondition for entering negotiations on the DCFTA; therefore Azerbaijan and Belarus, which are not WTO members, cannot start negotiations on DCFTA with the EU.

State of affairs in bilateral policy relations

Among the eight countries, five are member of the WTO: Armenia, Georgia, Moldova, Russia and Ukraine. EU's economic links with CIS are largely framed by Partnership and Cooperation Agreements (PCA – a non-preferential trade and investment agreement), which are in force since the late 1990's. In 2007 the EU started talks with Ukraine to replace the PCA with a future Association Agreement, including a DCFTA. The start of negotiations about an AA with Armenia, Azerbaijan, Georgia and Moldova followed swiftly. As Russia established a Custom Union with Belarus and Kazakhstan in 2011, another type of agreement than DCFTA is discussed with Russia. For Belarus is not a member of WTO, while the PCA with the EU concluded in 1995 has not been ratified, implying that the standard non-preferential rate for Belarus import in the EU applies. An overview of the relevant trade policy agreements of the EU with the CIS is presented in Table 3. Important developments in this area took place in June 2014, when the EU signed AA's with Ukraine, Moldova and Georgia. All three agreements are set to enter provisionally into force, pending ratification both at the EU Parliament and EU member state level (Bridges Weekly, 3 July

⁷ See for more details: <http://www.easternpartnership.org>.

⁸ See http://eeas.europa.eu/enp/documents/action-plans/index_en.htm for more details

⁹ There are two main types of FTA (Free Trade agreements): the first generation of FTA's were quite limited in their scope. The new generation of FTAs cover on many other issues beyond market access: Geographical Indications, rules of origin, GMOs, Sanitary and Phytosanitary Measures (SPS) and non-trade barriers (NTB). For sensitive products, Tariff Rate Quotas (TRQs) and safeguard clauses are implemented. A "negative list" approach is also implemented sometimes.

2014). Updates on EU's trade relations and negotiations with CIS can be found on the EU DG Trade Website¹⁰.

Table 3 Overview of EU bilateral agreements with CIS8 countries

Country	Framework of trade agreement	DCFTA negotiations state of play	Remarks
Armenia	Partnership and Cooperation Agreement since 1999; benefits from EU's GSP/qualified for GSP+	DCFTA negotiations completed in July 2013, yet not signed	Implementation of the DCFTA withheld following Armenia's decision to join the Customs Union of Russia, Belarus and Kazakhstan in August 2014
Azerbaijan	Partnership and Cooperation Agreement since 1999; lost GSP status under reformed scheme in 2014	Not yet started as Azerbaijan is not a WTO member	Applied for WTO membership; its accession process is ongoing. Azerbaijan is receiving technical assistance from the EU to help it to prepare for WTO membership
Belarus	Partnership and Cooperation Agreement concluded in 1995, not ratified by the EU; temporary withdrawn from GSP since December 2006	Not yet started as Belarus is not a WTO member	Bilateral trade relations covered by Trade and Cooperation Agreement concluded by EU and Soviet Union in 1989; applied for WTO – its accession process is ongoing
Georgia	Partnership and Cooperation Agreement since 1999; benefits from EU's GSP/qualified for GSP+	DCFTA negotiations concluded; talks on AA which includes provisions of DCFTA initialled in November 2013. AA was signed on 27 June 2014	
Kazakhstan	Partnership and Cooperation Agreement since 1999	Not included in the ENP	Negotiations for a new enhanced PCA were opened in November 2011; Kazakhstan is in the process of working towards accession to the WTO.
Moldova	Partnership and Cooperation Agreement since 1994; benefits from EU's GSP/qualified for GSP+ and entitled to Autonomous Trade preferences (ATPs) (see Remarks in this table)	DCFTA negotiations concluded; talks on AA which includes provisions of DCFTA initialled in November 2013. AA was signed on 27 June 2014	Moldova's exports to the EU are already liberalised to a large extent under the EU Autonomous Trade Preferences. This preferential regime (together with GSP+ scheme) grants Moldova unlimited and duty free access to the EU market for all products originating in Moldova, except for certain agricultural products (for which tariff rate quotas are defined).
Russia	Partnership and Cooperation Agreement since 1997	Not included in the ENP	Russia is WTO member since August 2012; negotiations on a new EU-Russia Agreement started in 2008 and stopped in 2010.
Ukraine	Partnership and Cooperation Agreement since 1998	DCFTA (and AA) negotiations completed in 2012, signed on 27 June 2014	Autonomous Trade Measures: unilateral elimination or reduction of EU's customs duties (as anticipated in the DCFTA), entered into force on 23 April 2014

Source: DG Trade website www.ec.europa.eu/trade, information retrieved on 28 July 2014

¹⁰ www.ec.europa.eu/trade

4. Future relations set by a DCFTA?

A DCFTA includes all trade-related areas (such as services, intellectual property rights, customs, public procurement, energy-related issues, competition, et cetera) and will also tackling the so-called "beyond the border" obstacles through deep regulatory approximation with the trade-related EU *acquis*. As several of these countries already benefit from preferential access to the EU market through the EU Generalised System of Preferences (GSP) this means that for them existing import duties are already very low. Hence, the benefits of the DCFTA are expected to lie predominantly behind the border, in the regulatory area.

Benefits of a DCFTA

DCFTA ex-ante evaluations for Georgia, Moldova and Ukraine show a significant positive overall economic impact on these countries (Ecorys & CASE, 2012; Movchan and Giucci, 2011; Movchan and Shportyuk, 2011; ECORYS, 2007). Economic gains in terms of higher incomes are brought to the countries by better access to a higher variety of products, new business opportunities and more efficient resource allocations, and better access to the EU and other markets through the harmonisation of EU and therefore internationally accepted standards. Although beneficial for both sides the potential gains are bigger for each of EU trading partners than for the EU, due to the huge disproportion between the size of the EU and the partner market, and the importance of the trade relations for both sides (the EU is a more important trading partner for each CIS country than the other way around).

Anticipated effects on the agricultural and food sector are mixed, depending on each country's agricultural commodities' export position. Ecorys & CASE (2012) project Georgia will be able to export more animal products and fruits and vegetables to the EU, while the EU will export more meat products to Georgia. For Ukraine available DCFTA ex-ante evaluations (ECORYS, 2007) do not point at agriculture and food sector impacts in detail. Yet, an indication of possible effects could be found in Nekhay et al. (2011) showing that a FTA (*not* a DCFTA) between the EU and Ukraine will negatively affect Ukraine's net trade position to the EU for wheat, coarse grains, butter, skimmed milk powder, pork and poultry, and positive for rice, cheese and beef and veal. The EU, however, claims that Ukraine will be able to export much more food products to the Union as a result of the DCFTA (DG Trade website). This claim is supported by the results of Sadowski (2012) that indicate that the food (production) sector is among the branches of the Ukrainian economy which could benefit from a DCFTA agreement in the long term. In turn, the primary agriculture would face a decrease in income, according to this author.

Impacts of regulatory approximation difficult to measure

Typically a DCFTA envisages considerable converge of the CIS partner's regulatory framework in the non-tariff measures (TBT and SPS) area, including approximation to EU procedures in standardisation and conformity assessment. Economic effects due to this legal approximation will come through reducing transaction costs in trade. Little research has been done to estimate the possible consequences of a FTA or DCFTA for trade costs; ECORYS & CASE (2012) simply assumed a percentage reduction of tariffs as a result of regulatory approximation and used that tariff reduction in their estimation of future DCFTA effects. Malewski et al. (2009) refer to some studies using indirect estimates of non-tariff measures (NTMs) obtained through a gravity model approach (calculating ad valorem tariff equivalence of barriers to trade and FDI). The authors conclude that in case of CIS countries, available NTM datasets are poor and consequently the empirical evidence on the impact of NTMs on trade flows between CIS and the EU is very limited.¹¹ In most cases the existing international datasets contain rather outdated, or incomplete (in terms of country coverage) or highly aggregated data on NTBs. For example, CIS countries are included into the UNCTAD's Trade Analysis and Information System (TRAINS) but the latest NTB data are from 1997 for most of them. Malewski et al. solved this issue by using a survey of Ukraine exporters to the EU for estimating costs of non-tariff measures, and applying their findings on costs of compliance to all other CIS countries in their study (which is an investigation of economic effects of reducing on NTMs in Russia, Ukraine, Armenia, Azerbaijan and Georgia).

The above review of existing studies illustrate how little we know about the cost of trade that are the result of standards and regulations that are different and not aligned between the EU on the one hand

¹¹ A relevant case study that confirms this conclusion is by Pocrivcak et al. (2013), in which the impact of several non-tariff measures on EU dairy exports to Russia is analysed.

and each of the CIS on the other hand. Therefore, this project would increase its value and usability in the policy arena if it would be able to add knowledge to current trade costs analyses caused by regulatory differences. It is – according to the DoW – the project's ambition to improve the empirical base of non-tariff measures that affect agricultural trade. Business surveys in each CIS country are pointed at to be a main source of information of cost of compliance, and the main source for assumptions with regard to the impact of the reduction of NTMs following a DCFTA. The collected and processed data will be used to improve the database of the modelling tool MAGNET, with subsequent implications for model parameters that indicate transaction costs. Project activities to collect and process data on non-tariff barriers to trade are part of WP5 and WP1; to date further decisions of how each partner will be engaged in this activity are still to be made.

Will DCFTA lead to regulatory harmonisation?

A different but relevant question is how effective a DCFTA agreement will be to achieve regulatory convergence? Basically, within the framework of a DCFTA the EU expects their neighbour countries to align their trade related legislation with EU standards and its *acquis*. However, the speed of adapting EU standards will relate to the level of adaptation costs and the expected benefits. Importantly, too, is to identify and understand to whom these would accrue. Regulatory organisation and convergence may imply more transparency and accountability in terms of rights and doing business practices. Companies seizing control of markets and assets may not be interested in enhancing legislation frameworks, afraid as they are of losing their positions. Langbein (2014) examines EU's integration strategy towards its eastern neighbours via its ENP and argues that the EU may not be very effective in promoting the EU *acquis* in these countries. The reason is that the EU does support state authorities to adopt and enforce new rules but neglects to engage firms, business associations or private regulators (e.g through capacity building). Langbein points at the importance of the latter groups of private, non-state domestic actors in a reform process, showing the impact international financial institutions and donor organisations have had so far supporting private companies in Ukraine who in turn demand and enforce new rules in their home country. Langbein also underlines the importance of linking policy-specific rewards, such as market access, to regulatory convergence; if there is no reward for regulatory reforms, there is little incentive to change – which was the reason why EU assistance programmes aiming at the convergence of food safety requirements between the EU and Ukraine were not effective.

The above qualifies the impact of a DCFTA on improved welfare for eastern neighbours; it may take much longer than anticipated and will take place only at a higher costs to each of the eastern economies involved, if rewards of regulatory convergence are not clearly linked to the efforts of each of the state and non-state actors and EU's support programmes are not well targeted. Movchan and Shortyuk (2012) discuss short-term costs of regulatory approximation by comparing current (2012) standards and regulations in each of the 5 eastern countries eligible for an AA¹² with those in the EU *acquis*. Referring to issues such as trade defence measures, intellectual property rights, competition policy, technical barriers to trade and sanitary and phytosanitary measures (to name just a few of the policy areas for which provisions have been included in the AA with Ukraine, Georgia and Moldova) the authors conclude that all countries have to implement extensive reforms to harmonise its national legislation and practices with the EU *acquis*. Without these changes, benefits of the DCFTA related to non-tariff barriers reduction would not accrue. The authors point at the possibility that some of these costs are likely to be shared with the EU as it is ready to provide necessary technical assistance, through the European Neighbourhood Policy Instrument.¹³

¹² WTO membership is a condition, which excludes Belarus. Azerbaijan is in a process to become WTO member

¹³ More information on the regional projects and programmes can be found on the EU Neighbourhood Info Centre website <http://www.enpi-info.eu>. The total amount available for both cooperation programmes with Eastern European Partners has been € 2.5 billion for the period 2010-13.

5. Recent developments in EU-Russia relationships and some concluding remarks

Through the ENP/EaP policy framework, the EU and its eastern neighbours are building long-term relationships, yet the current political tensions centring around the Ukraine crisis may disrupt the intended East-West integration significantly. Strains between the EU and Russia have increased significantly since a Malaysian passenger airliner was shot down in Ukraine on July 17, 2014. This calamity was followed by the introduction of trade sanctions of both sides against each other.

Political tensions between the EU and Russia have increased much since the Ukraine government concluded an AA with embedded DCFTA in the first half of 2012. The proposed signing of an AA caused a political crisis in Ukraine, that turned into combats between government and 'separatists', the latter targeting for joining the Russian Federation. Diplomatic and economic ties between the EU and Russia have significantly soured in the months since the start of the Ukraine crisis, with the effect that bilateral trade has declined in the first quarter of 2014. Since then, trade relations have been further upset. For instance, both sides have accused each other applying 'unnecessary' trade interventions that hampers bilateral trade, and by the end of July 2014 two trade disputes (one on Russia's import ban on pigs and pork, one on EU's anti-dumping duties on various goods) have advanced to WTO panel stages (BW 27 July 2014). Moreover, also in the last days of July 2014 the EU announced economic sanctions on Russia because of the country's assumed involvement in the separatist uprising in eastern Ukraine.

In response to the signing of the AAs with Ukraine, Georgia and Moldova, Russia has announced to take steps to protect its economy. (BW18-23, 26 June). Whereas EU officials, such as Commission President José Manuel Barroso, have stressed that the deals are not meant to harm the three AA signatories respective ties to Russia, and that the AAs would be 'perfectly compatible' with existing trade agreements with the Commonwealth of Independent States (BW 18-23, 26 June), Russia is complaining that the EU creates 'new dividing lines, openly drawing in our common neighbours into its zone of political and economic influence without taking into account the interests of Russia' (BW 26 June 2014). Russia had been hoping to bring Ukraine, Moldova and Georgia into a Eurasian Economic Union that it has established with Belarus and Kazakhstan (Bridges Weekly, 3 July 2014). With the signing of the AAs Russia fears the opportunity to strengthen economic and political ties with the former Soviet Republics disappears beneath the horizon. Unless the EU is able to convince Russia that its intentions are only to increase welfare and prosperity for all, including Russia, the country will remain suspicious towards EU's intentions and against any further increase of EU influence in its common neighbour countries. Currently, at the time of closing the writing of this paper (1 September 2014) positions are hardening; e.g. Russia announced import bans on a set of food products from the EU, US, Ukraine and Moldova in response to EU and US sanctions for the period of one year (Interfax, August 7, 2014).¹⁴ How these counterstrokes and the icing of the political relationship between the EU and Russia will affect EU's eastern partnership policy on the medium to long-term is difficult to project but, obviously, current events have a disruptive effect on the process of transnational market integration between Europe's East and West.

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¹⁴ On 7 August Russia announced the list of prohibited to import products (beef, pork, poultry, fish, dairy products, fruit and vegetables) from the EU, US, Canada, Norway and Australia. The list of products was slightly revised (Government of the Russian Federation Resolution of 20 August 2014 No.830).

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Annex

Main EU products exported to its Eastern Neighbours

Figure A.1 provides details of EU's principal products exported to the 8 countries at its eastern borders. The main exported products to the eastern neighbours include meat (pork but also other meat), fruits, dairy products (especially for Russia), alcohol beverage (spirit & liqueurs and wine & vermouth), waters and coffee extract, soup, sauces and vinegar. Russia and Ukraine are the main markets of the EU, though Belarus is also a noticeable partner on several products like pork meat, preparation used for animal feeding, fruits, and yeast. Azerbaijan imports mainly cigarette and cigars from EU.

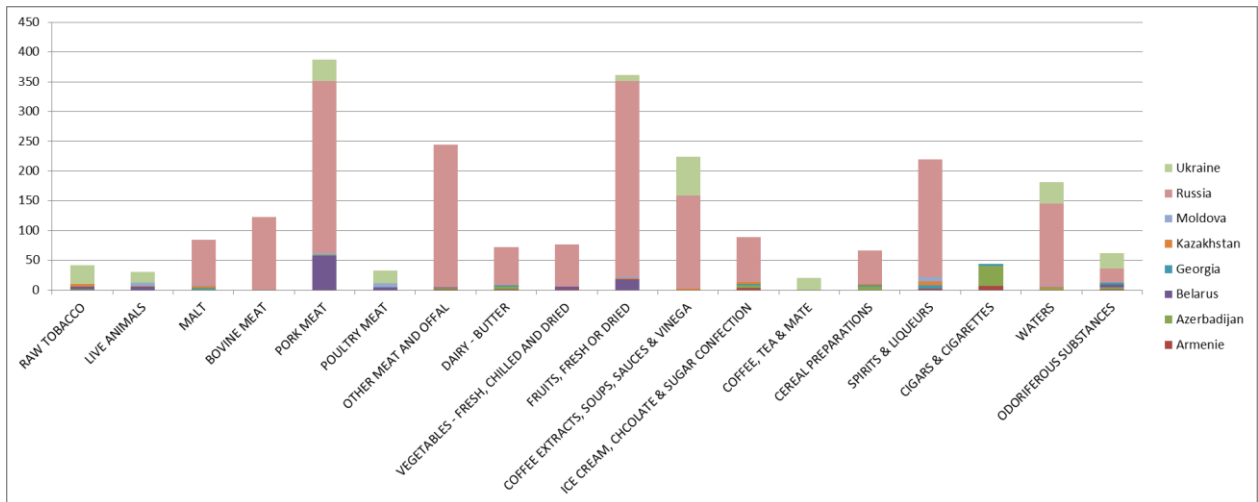


Figure A1. Main European products exports to Eastern bloc, annual average over the period 1999-2012 (million euro). Source: Eurostat

Main imported products in the EU from its Eastern Neighbours

Figure A2 provides the detailed of the principal products imported in EU from the 8 countries. The main imported product is Wood. The principal supplier is Russia, followed by Ukraine and Belarus. Other significant EU imports are animal/vegetable oils, oilseeds, fish products, wheat and other cereals. Kazakhstan is an important partner for fish products, wheat and cotton.

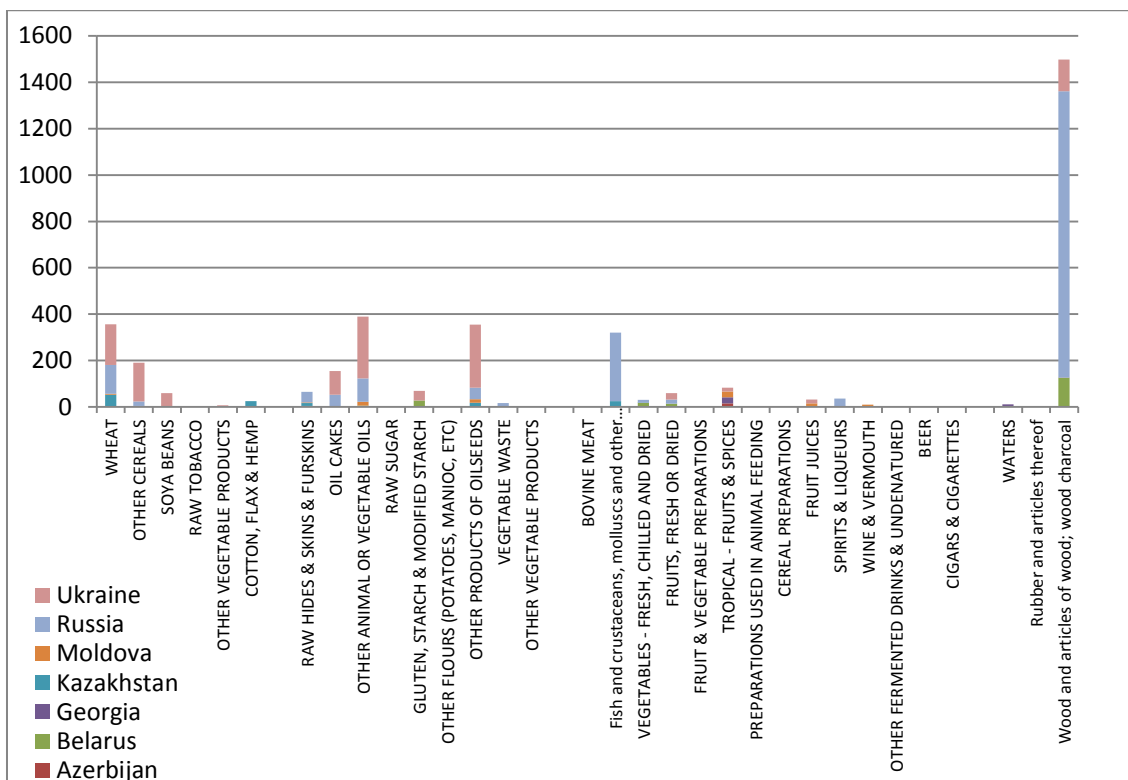


Figure A2. Main European products imported in EU from Eastern bloc, annual average over the period 1999-2012 (million euro). Source: Eurostat