



Prospects for ‘Lisbon to Vladivostok’ Limited by a double asymmetry of interests

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Since the question of the EU opening official relations with the Eurasian Economic Union may soon become more topical, it is worthwhile considering the politics and economics of a hypothetical agreement. But on both accounts, there are basic difficulties for one party or the other.

The forthcoming Austrian Presidency of the EU Council in the second half of 2018 is reportedly intending to propose an opening of a dialogue between the EU and the Eurasian Economic Union (EAEU)¹. In a related vein, the new Italian government says it will block any renewal of EU sanctions against Russia. The question of how the EU might relate to the EAEU may thus become topical, and so it is worth giving some thought to the conceivable content of such interactions.

Of the EAEU’s competences, the most relevant for the EU are tariffs and non-tariff barriers, notably technical product regulations and standards. The EAEU also has an extensive agenda for the development of a single market, whose chapter headings are all familiar to the EU. Some of these are operationally important, notably for the movement of people, while others are works in progress at this stage, but in general they are internal measures, rather than a matter for international agreements.

For years, President Putin has been making speeches about the case for a common economic space from ‘Lisbon to Vladivostok’, without being specific about its possible content. If one is to take the slogan at face value, however, it would seem to imply at least a free trade agreement (FTA), whose core features might involve the cutting of tariffs and non-tariff barriers. Business interests in the EU are supportive of such a proposition and have undertaken some lively lobbying efforts along these lines.

But is an FTA between the EU and the EAEU plausible on political and economic grounds for each side?

¹ The member states of the EAEU are Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia.

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Asymmetry of interests in tariff-free trade

For the EU, an FTA with the EAEU would be an advantageous proposition from an economic standpoint, since it would give preferential access to an important market. But one would expect the pre-conditions posed by the EU for the opening of negotiations to be several and stringent. The key political conditions would be real progress towards peace over the Ukraine conflict and improved trust over related but broader foreign and security policy matters ('information war', etc.). A formal economic pre-condition for an FTA would be the accession of Belarus to the World Trade Organization (WTO), which is still nowhere in sight. The EU also has a long list of complaints over Russia's poor compliance with WTO rules, which is related to the wider issue of Russia's highly protectionist industrial policies.

This last point raises the fundamental question whether Russia would consider an FTA with the EU to be in its interests or not. Is the 'Lisbon to Vladivostok' idea serious, or just a nice-sounding diplomatic slogan? So far, the answer is far from clear. In Russia, one hears the argument that an FTA with the EU would be too imbalanced, or asymmetric in favour of the EU, which is confirmed by various econometric studies. Indeed, most Russian exports to the EU, such as oil and gas, are already being traded without tariffs. Also, the challenge for any petro-economy to sustain a substantial and competitive industrial sector is a tough assignment. It should be noted that the EAEU is currently negotiating a 'non-preferential' agreement with China, which means that tariffs would not be eliminated. It is therefore highly uncertain whether the 'Lisbon to Vladivostok' idea would be sustained on the Russian side as and when the practicalities of an FTA are considered.

However, it would still be possible for the EU and EAEU to negotiate an FTA that would be sensitive to the latter's concerns over asymmetry of its benefits, by making the tariff elimination schedules themselves asymmetric. While the EU could scrap its tariffs immediately, the EAEU might do this gradually over a transition period of several years. A version of this model exists with the EU's deep and comprehensive free trade agreement (DCFTA) with Ukraine, which grants transitional delays to Ukraine for its most sensitive sectors of up to ten years.

This issue of tariffs is of high political and economic significance, but it is still a conceptually simple matter. By contrast, the removal of non-tariff barriers is immensely complex, involving dozens or hundreds of regulations and thousands of product standards.

Technical products standards already significantly harmonised

Surprising as it may seem, the harmonisation of product standards has already progressed as a result of the autonomous policy of the EAEU and its member states to adopt increasingly international and European standards. Around 30 sector-specific framework regulations have been adopted by the EAEU, which were based on EU directives, and backed up by some 5,830 product-specific standards, which are identical to those of the EU (to a large degree EU

standards are identical to those of the International Standards Organization).² It is interesting to note that while Russia in particular is politically averse to adopting 'European standards', in this particular case it judged that the necessary modernisation of its obsolete GOCT standards is best done not by trying to reinvent the wheel, but by profiting from the technical investments already made by the European and international standards organisations. This large-scale adoption of European standards has been done unilaterally, without negotiating any agreement with the EU, although it has been supported by an EU technical assistance project. In addition, the EAEU now has a memorandum of understanding with the two key European standards organisations, CEN and CENELEC.

A mutual recognition agreement for conformity assessment?

Therefore, at least for industrial products, there is already a promising basis for cooperation between the EU and EAEU. This could in principle be built on with an important further step in the form of a mutual recognition agreement (MRA) for conformity assessment. This would mean that each party's accredited standards agencies would be empowered to certify the conformity of their exporters' products with standards required by the importing state, without further testing or certification in the importing country. An MRA would thus significantly reduce the cost of non-tariff barriers. An example of this type of agreement is the one between the EU and the US that has been functioning effectively without the scrapping of tariffs as in an FTA.

Such an agreement requires a high order of trust between the accredited standards organisations and conformity assessment bodies, both for their professionalism and freedom from political interference. These conditions cannot be taken for granted. To facilitate the proposition from an EU standpoint, an MRA with the EAEU might cover only those goods for which both the EU and the EAEU apply identical standards, and the list of accredited agencies would have to be agreed one by one. For example, the agencies of Kyrgyzstan might not be included, since its economy does not export many products in question, and its agencies may therefore not have adequate capacity. The basic issue for both sides to come to terms with is that an MRA would mean that each side's agencies would relinquish competence over conformity assessment of its imports to the accredited agencies of the exporting country.

Would both sides agree to this? While such an agreement cannot be taken for granted, in principle it would not only be possible, but it would even be more plausible for one specific reason: a stand-alone MRA between the EU and the EAEU could be achieved earlier than as part of a wider-ranging free trade agreement that also scrapped tariffs. Whereas under the rules of the WTO, member states cannot enter into a tariff-free trade agreement with non-member states (i.e. the Belarus problem), this limitation under WTO rules does not apply to MRAs of the type mentioned. This invites a scenario in which a first-stage agreement might be limited to an MRA, with the possibility that a full FTA would come later.

² For a detailed account, see M. Emerson and J. Kofner, "[Technical Product Standards and Regulations in the EU and EAEU – Comparisons and Scope for Convergence](#)", IIASA Report, International Institute for Applied Systems Analysis, Laxenburg, Austria, 2018.

The double asymmetry of interests

Overall the prospects for an operationally significant free trade agreement between the EU and EAEU are limited by a pair of basic asymmetries of interest. Economically the EU can see the advantages in an FTA, but on the EAEU side and in Russia in particular, there are doubts to say the least whether this would be considered to be in their interests too. As regards the political aspect, the EAEU would welcome a formal opening of relations with the EU and the exploration of a possible agreement, whereas the EU side has serious reservations and would hardly be interested in an agreement without real economic content. If this correctly represents the basic position of the two parties, there would be little prospect of useful dialogue. For a more positive development to materialise, there would need to be breakthroughs both on the EU's pre-conditions and an expression of interest by Russia in at least an asymmetric free trade deal.