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Belarus' membership in the Eurasian Economic Union: An Assessment

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Executive summary

In May 2014, the "Treaty on creation of the Eurasian Economic Union (EAEU) was signed by the Presidents of Belarus, Kazakhstan and Russia. The Union, which will enter into force on January 1, 2015, is the latest stage in the regional economic integration process that started with the establishment of a Customs Union (CU, 2010) and a Single Economic Space (SES, 2012) between the three countries. The Eurasian Economic Union will be "a common space where goods, services, capital and work force can move freely" and in which "the three states will follow a coordinated policy in such key sectors of the economy as energy, industry, agriculture and transport. Armenia has subsequently joined the treaty, while Kyrgyzstan has signed a roadmap for accession; a treaty to include it into the union is to be signed later this year.

The treaty on the EAEU has led to a very intense discussion in Belarus, especially around ratification, which happened in October 2014. Closely connected to this is the question of likely benefits and costs that the country expects from this further integration step. This issue is of crucial importance, as there is no clear-cut positive empirical evidence of the economic effectiveness of the previous integration initiatives (CU, SES). For example, mutual trade among Belarus, Kazakhstan and Russia experience a year-on-year decline during both 2013 and 2014, which runs contrary to the a-priori expectation of more trade between the member states.

For Belarus, there are indeed a number of opportunities and challenges that arise from its participation in the upcoming Eurasian Economic Union. An important short-term benefit for the country is the further access to Russian oil and gas at prices significantly below world market prices. This support was equivalent to almost 13% of GDP in 2013 according to IMF estimations, which is a significant amount for the country. Taking into consideration that in 2015 in the new EAEU 100% of export duties on petroleum products will be kept in Belarus, the total energy support will be further increased and may reach 15.5% of GDP. This is beneficial both for the budget and the external accounts. The EAEU may bring further benefits to the country as it aims to create a common oil and gas market with equal access to transit infrastructure in the longer term; also the interstate transmission of electricity will be possible between member states in a common electricity market. A removal of trade barriers in the transport sector and in government procurement will also be positive for Belarus, as will be the declared removal of existing non-tariff barriers. Apart from goods and service sectors, barriers are also planned to be removed in the labour market, which might facilitate labour migration.

At the same time, a number of challenges arise for Belarus from the EAEU in a number of sectors. In the energy sphere, the prices for oil and gas on the market of the EAEU will gradually be set according to commercial (i.e. market) prices. This limits the future benefits that Belarus will obtain from their current underpricing. The pursued common electricity market requires Belarus to restructure its power system, a process which has not yet started. In the transport sector, which is of importance as Belarus is a transit country, the current (prohibitive) system of permits for international road haulage carriers won't be cancelled. Further challenges lie in the fields of industrial and agricultural policy; especially the latter one is important, as Belarus is required to reduce its relatively high subsidies to agricultural enterprises, which will create short-term pressures.

To conclude, the participation of Belarus in the next stage of Eurasian economic integration, the EAEU, is expected to create both opportunities and challenges for the country. A key issue to watch relates to the correct and smooth implementation of the concluded agreements, as the experience of the previous integration stages clearly demonstrates.

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1. Introduction

On May 29, 2014 the Presidents of Belarus, Kazakhstan and Russia signed the "Treaty on creation of the Eurasian Economic Union (EAEU)", which will come into force on January 1, 2015. The Treaty was enlarged on October 9, 2014 when Armenia joined the Union. The Eurasian Economic Union will be the most advanced regional economic arrangement in the CIS economic space, with a common market of 174 million people. The Treaty aims to bring the countries on a fundamentally new level of integration, as it envisages a closer economic cooperation and interaction. Eurasian Economic Union will be "a common space where goods, services, capital and work force can move freely" and in which "the three states will follow a coordinated policy in such key sectors of the economy as energy, industry, agriculture and transport."¹ The Treaty creates the legal framework for further harmonization of the macroeconomic and monetary, trade, investment and taxation policies. Russian President Vladimir Putin noted that the Eurasian Economic Union would work on universal transparent principles clear for all, including on WTO principles.

The Belarusian Parliament voted on the Treaty on October 9 after a lengthy debate. The Chairman of the Economic Policy Commission of the House of Representatives of the National Assembly of Belarus, Viktor Valyushitsky, pointed out that "some losses and then some gains are involved; therefore, the ratification will proceed rather scrupulously".² Bearing this in mind, the paper aims to examine possible pros and cons of the Eurasian Economic Union Treaty for Belarus. The paper is organized as follows: First it overviews the history of previous integration initiatives. Part 3 considers what was agreed in the new Treaty. Part 4 outlines possible implications for Belarus. The concluding section summarizes the major arguments.

2. History of Integration

2.1. Initial Attempts to Establish a Free Trade Zone

Eurasian economic integration is a long-term process that started from a Free Trade Zone, which should be considered as a first attempt of trade cooperation between CIS countries. The path of its creation took more than 20 years, as CIS countries first agreed on creating a free trade zone in 1994 and managed to bring it into force only in 2012. In parallel with the formation of the CIS FTA, three countries - Belarus, Kazakhstan and Russia - established in 1995 the Customs Union that Kyrgyz Republic and Tajikistan agreed to join in 1996.³ In October 2000, member countries decided to reorganize it into the Eurasian Economic Community (EURASEC). This decision was ratified in May 2001. The countries intended to set a common external tariff with respect to the rest of the world countries (non-CIS) and harmonize the non-tariff barriers. Yet, member states failed to reach the announced aims. The reasons for this were the diverse structures of the economies involved and different levels of economic development in Belarus, Kyrgyzstan, Kazakhstan, Russia, and Tajikistan. As a consequence the countries' willingness to protection or openness to international competition for their economic sectors did not coincide. In 2007, EURASEC member states understood that it remained an incomplete free trade zone with trade discrimination problems (e.g. antidumping investigations), as countries were not able to settle their differences. Therefore, it was decided to implement regional integration initiatives within this Regional Trade Agreement (RTA) at diverse speed and different levels, i.e. Belarus, Kazakhstan and Russia planned to set a common external tariff and to create a customs union, while Kyrgyzstan and Tajikistan intended to stay in the Free Trade Zone.

2.2 Customs Union

In 2009, the Presidents of Belarus, Kazakhstan and Russia reached an agreement on the creation of a Customs Union (CU) that came into effect on January 1, 2010. On November

¹ Press statements following the Supreme Eurasian Economic Council meeting.

²http://eng.belta.by/all_news/politics/Belarus-parliament-to-work-hard-on-Eurasian-Economic-Union-Treaty-ratification_i_76081.html

³ Some other RTAs were created by CIS countries in Central Asia and Caucasus (GUAM, Central Asian Economic Union (CAEU)), but since Belarus has not participated in these regional agreements, we do not consider them in this paper.

27, 2009 the Interstate EURASEC Committee (the supreme body of the Customs Union) approved a Customs Code and a Common External Tariff (unified external duty rates). In addition, the start of the unification of non-tariff regulation was announced. Undoubtedly, the fact that member countries managed to get over certain controversies concerning the type of RTA, its functioning, possible supranational bodies, tariff regimes and introduced the common customs tariffs was an important step towards real integration of the three countries. It should be underlined that all attempts that had been undertaken previously did not bring the desired results, most of all, because member countries (bar from Belarus and Russia) were reluctant to unify national tariff regimes.

2.3 Single Economic Space

In the period after 2010, the integration activities between the three above mentioned countries increased, and since January 2012 Belarus, Kazakhstan, and Russia moved to the next stage of cooperation, the Single Economic Space (SES). This includes the free movement of goods, services, capital and labour, albeit with a number of exceptions in strategic sectors (such as oil, energy transit, etc.). In addition, the countries established a supranational governing body, the Eurasian Economic Commission, with the aim to promote the functioning and development of the Customs Union and the Single Economic Space, and to elaborate proposals for further development of integration.⁴ In its turn, the establishment of the Eurasian Economic Union in May 2014 moved the integration process to a new stage, where coordinated policies in the fields of economy and the common infrastructure were added to the "four freedoms" (freedom of movement of goods, services, labour and capital), which are assumed by the CU and the SES.

Undoubtedly, one of the main objectives of the 2009-2014 integration initiatives is to use integration to achieve economic development. Belarus as well as Kazakhstan view economic integration as a way of keeping preferential access to the huge Russian market, protecting domestic producers from third countries' competitors, conducting modernisation and increasing competitiveness. In addition, these countries consider that membership in SES and EAEU make them more attractive for foreign direct investments (FDI).

For the moment, it is difficult to draw a final conclusion about the economic effectiveness of the latest integration initiatives (CU, SES, and further EAEU), not least because of the rather short time period. The main reason is that the economic performance of the three member states is highly influenced by unfavorable global economic conditions, and structural problems of the Russian economy, further enhanced by geopolitical tension. For example, mutual trade among Belarus, Kazakhstan and Russia experience a year-on-year decline during both 2013 and 2014. This can be largely explained by high volatility in global commodity markets, coupled with the continued softening of Russia's domestic demand due to the current near-stagnation situation in the country's economy.

Table 1. Trade between CU / SES member states, % yoy

	Customs Union, Single Economic Space	of which		
		Belarus	Kazakhstan	Russia
2010	29.1	48.2	66.6	18.7
2011	33.9	45.7	18.4	32.9
2012	7.5	12.7	-12.3	9.1
2013	-5.5	3.5	-4.7	-8.2
2014 Jan-Sept	-10.5	-5.4	-16.9	-11.7

Source: Eurasian Economic Commission

Taking into consideration that machinery, hardware and vehicles amount to around 21% in total SES trade, the decrease in the demand of investment goods in Russia seriously influence the dynamics of mutual trade volumes. In turn, the decrease in trade in mineral products was one of the biggest among aggregated trade group (by 25-6% yoy) that inevitably

⁴ <http://www.eurasiancommission.org/en/Pages/about.aspx>

affected trade performance of SES, as the share of these products accounted for around 33% in total trade.

3. Treaty on the creation of the Eurasian Economic Union

The Treaty is divided into four parts. Part one contains provisions that have general applications, and in particular, categories and areas of the Eurasian Economic Union's competence. The Treaty stipulates that the main objectives of EAEU are the creation of conditions for stable economic development of the member states; establishment of a single market for goods, services, capital and labor within the Union, and carrying out of comprehensive modernization, enhancement of cooperation and competitiveness of national economies. Member States shall coordinate their policies within the arrangements determined by the Treaty and by international agreements concluded within the EAEU. In other economic areas the Member States shall aspire to implement coordinated or harmonized policies in accordance with the basic principles and objectives of the Union.

The second part of the Treaty contains the provisions concerning the functioning of the Customs Union, circulation's regulation of medicines and medical devices, customs regulation inside the EAEU, the areas and principles of foreign trade policy and consumer protection, as well as coherent policy in the field of technical regulations, sanitary, veterinary-sanitary, and quarantine sanitary measures. It stipulates the mechanism of enrolment and allocation of import customs duties between Member States. According to Annex 5 of the Treaty, Belarus obtains 4.70% of the total sum of customs duties, Kazakhstan 7.33% and Russia 87.97%. In this part it is constituted that single customs regulations with EAEU is carried out in accordance with the Customs Code of the Eurasian Economic Union and the provisions of the Treaty. In addition, the articles 45 and 49 determine the common non-tariff measures that are applied in trade with third countries, and conditions for the use of safeguard, antidumping and countervailing measures, while Section X concerns the issue of technical regulation. Article 52 of the EAEU Treaty stipulates that the technical regulations of the Union or national mandatory requirements apply only to the products included in the single list approved by the Eurasian Economic Commission. Annex 9 contains the Protocol on technical regulation within the EAEU. It determines the regulations, policies and procedures of technical regulations in the EAEU, which include, in particular: Single sign of products on the market of the EAEU; single list of products that are the subject to mandatory conformity, single form of issuing certificates of conformity and declarations of conformity adopted by the Eurasian Economic Commission; single register of conformity assessment bodies in the EAEU. Annexes 10 and 11 of the Treaty contain the Protocols on Coordinated policy in the field of uniformity of measurements, and mutual recognition of the results of bodies' accreditation of conformity assessment of the Member States.

The third part of the Treaty refers to the Single Economic Space. It contains 14 sections that cover such arrears as macroeconomic and currency policies, trade in services, establishment and implementation of investment activities, regulation of financial markets, taxes and taxation, general principles and rules of competition, natural monopolies, energy, transport, government procurement, intellectual property, industry and agro-industrial complex, and labour migration. According to the Treaty, the Single Economic Space consists of the Member States' territories on which similar (comparable) and same type of regulation mechanisms based on market principles are applied. The fourth part contains transitional and final provisions.

Table 2. Treaty of the EAEU: Structure of Parts 2 and 3

Part 2: Customs Union	Part 3: The Single Economic Space
Domestic market of goods of EAEU, EAEU Common Customs Tariff, Uniform regime of trade in EAEU goods in the relation of the third parties, free movement of goods between territories of the Member-states without Annex of customs declaring and the government control <i>Section VI of the EAEU Treaty</i>	Coherent macroeconomic policy <i>Section XII of the EAEU Treaty ; Annex 14 to the EAEU Treaty</i>
Circulation of medicines and medical devices <i>Section VII of the EAEU Treaty</i>	Coherent currency market <i>Section XIV of the EAEU Treaty ; Annex 15 to the EAEU Treaty</i>

Part 2: Customs Union	Part 3: The Single Economic Space
Common customs regulation within EAEU <i>Section VIII of the EAEU Treaty Annexes 5, 6, 7, 8 to the EAEU Treaty</i>	Intention to create and provide functioning of the common services market <i>Section XV of the EAEU Treaty; Annex 16 to the EAEU Treaty</i>
Technical regulation within the framework of EAEU <i>Section X of the EAEU Treaty</i>	Regulation of financial market (in particular, intention to create common financial market) <i>Section XVI of the EAEU Treaty; Annex 17 to the EAEU Treaty</i>
	Taxation and tax policy <i>Section XVII of the EAEU Treaty</i>
Coherent policy in the field of sanitary, veterinary-sanitary and quarantine phyto-sanitary <i>Section XI of the EAEU Treaty; Annex 12 to the EAEU Treaty</i>	General principles and rules of the competition <i>Section XVIII of the EAEU Treaty; Annex 19 to the EAEU Treaty</i>
	Natural Monopolies <i>Section XIX of the EAEU Treaty</i>
Coherent policy in the sphere of consumers rights protection <i>Section XII of the EAEU Treaty Annex 13 to the EAEU Treaty</i>	Formation of common energy market <i>Section XX of the EAEU Treaty; Annexes 21,22, 23 to the EAEU Treaty</i>
	Creation of a common market of transport services <i>Section XXI of the EAEU Treaty ; Annex 24 to the EAEU Treaty</i>
	Industrial policy (including industrial subsidies) <i>Section XXIV of the EAEU Treaty; Annexes 27,28 to the EAEU Treaty</i>
	The coordinated (coherent) agricultural policy <i>Section XXV of the EAEU Treaty; Annex 29 to the EAEU Treaty</i>
	Labour migration <i>Section XXVI of the EAEU Treaty</i>

Source: Treaty on creation of the Eurasian Economic Union

<http://www.eurasiancommission.org/ru/Lists/EECDocs/635375701449140007.pdf>

The Treaty on creation of the EAEU presupposes the following areas of economic policy coordination:

- Energy market (Section XX, Annexes 21,22, 23):
 - Creation of common electric power market by July 2019 (Article 104 of the EAEU Treaty)
 - Creation of a common gas market by January 2025 (Article 104 of the EAEU Treaty)
 - Creation of common oil and petrochemical market by January 1, 2025 (Article 104 of the EAEU Treaty)
- Pharmaceutical market (Section VII)
 - Creation of common market of medicines starting from January 1, 2016 (Article 100 of the EAEU Treaty)
 - Creation of common market of medical devices starting from January 1, 2016 (Article 100 of the EAEU Treaty)
- Transport (Section XXI, Annex 24)
 - Stepwise creation of the common market of transport services (Article 86 of the EAEU Treaty)
- Financial market (Section XXVI, Annex 17)
 - Creation of supranational body for regulation of the financial market (Article 103 of the EAEU Treaty).

Coordinated (coherent) economic policies will be conducted in the following areas:

- Industrial policy and the main arrears of industrial cooperation (Section XXIV, Annex 27, 28)
 - Mutual information about plans of industrial development;
 - Elaboration of joint programs for the development of priority spheres of economic activities for the purpose of industrial cooperation;
 - Implementation of joint projects, including projects on infrastructure projects, with the aim of increasing effectiveness of industrial cooperation of Member States;
 - Conducting of joint R&D activities in order to promote the development of high-tech industries;
 - Removal of barriers on the development of mutually beneficial cooperation;
 - Types of industrial subsidies (Annex 28), movement towards the unification and harmonization of legislation on provision of subsidies.
- Agricultural policy (Section XXV, Annex 29)
 - Balanced development of agricultural production and agricultural markets;
 - Ensuring fair competition between the agricultural producers of Member States, including equal access to the common agricultural market;
 - Unification of the requirements concerning circulation of agricultural products and foodstuffs;
 - Protection of agricultural producers of Member States on the domestic and foreign markets;
 - Main directions of the coherent agricultural policy are as follows:
 - Forecasting in the agricultural sector;
 - State support for agriculture;
 - Regulation of common agricultural market: Unified requirements for the production and circulation of products;
 - Promotion of the development of exports of agricultural products and foodstuffs;
 - Promotion of R&D and innovations in the agro-industrial complex;
 - Provision of integrated information support of agribusiness.
- Transport (Section XXI), creation of common market of transport services (Annex 24).
 - Creation of a single transport space;
 - Development of Eurasian transport corridors;
 - Development of the transit potential of Member States;
 - Coordination of the development of transport infrastructure;
 - Creation of logistics centers and transport organizations providing transportation process optimization
 - Promotion of R&D and innovation on transport
 - Liberalization of transport services between Member States
- In the framework of tax policy, the Member States will conduct harmonization (convergence) of excise tax rates on the most sensitive excisable goods.

4. Belarus in the Eurasian Economic Union: Opportunities and challenges

One of the often mentioned advantages of Belarus' participation in the Eurasian Economic Union consists of obtaining low-priced Russian oil by Belarusian petroleum refineries. Only around 1/3 of the amount of imported oil is processed for the internal market, while the rest is refined into products sold to the EU, Russia and some other countries at world market prices. In addition, Belarus buys Russian gas on preferential prices as well, e.g. in 2014 Belarus pays only around 170 USD per 1000 m³ for natural gas. IMF estimations show that the total energy support from Russia amounted to 12.7% of GDP in 2013 (see Table 3). Taking into consideration that 100% of export duties on petroleum products will be kept in Belarus in 2015, the total energy support will be increased and may reach 15.5% of GDP. Moreover, the Ministry of Finance of Belarus announced that the budget will receive additional reve-

nues of USD 1.5 bn due to an agreement with Russia that allows for keeping in Belarus all the export duties on oil products.

Table 3. Energy support from Russia in 2012-2013 (% of GDP)

	2012	2013
Implied subsidy on oil imports	12.6	10.9
Implied subsidy on gas imports	8.3	6.6
Discounted oil product exports to Russia	-0.1	-0.2
Transfer to the Russian budget of the export duty on oil products	-6.0	-4.6
Total support	14.9	12.7

Source: Republic of Belarus: 2014 Article IV Consultation-Staff Report; Press Release and Statement by the Executive Director for the Republic of Belarus. IMF Country Report 14/226

Undoubtedly, Belarus' participation in the EAEU will entail benefits extended beyond preferential prices on oil and gas. It is also important for Belarus that in the framework of the creation of a common oil and gas market, the Member States -within the existing and available technical capacities- should provide unrestricted access of EAEU economic entities to gas and oil transport systems for transit purposes. It will expand Belarus' oil and gas import opportunities in the future.

In addition, the Treaty stipulate the possibility of providing interstate transmission of electricity from the electric power system of one Member State to the system of another Member State through the electric power system of a third Member State. In other words, it means that Belarus, if it needs to, can buy electricity from Kazakhstan. Moreover, it will be possible to transmit electricity from one Member State through the electric system of other Member State in order to fulfill the obligations in respect to electric power industry entities of third countries (Annex 21).

In the transport sector, Annex 24 of the Treaty provides that Member States should ensure the conditions of access of railway transport of one Member State to the internal market of railway transport services of another Member State. The access of carriers of one Member States to infrastructure services of another Member state should also be guaranteed. The treaty also stipulates a liberalization of road freight transport cabotage. The programme of such liberalization should be elaborated by July 1, 2015, and cover the period 2016-2025. Belarusian logistics companies are expected to benefit, as the efficiency of road freight transportation to Russia and Kazakhstan will be increased by reducing empty trips after the unloading of international transport operations.

Among other merits, it should be mentioned that the EAEU membership will improve access to partner countries' markets, and create better conditions for trade by eliminating non-tariff barriers. The EAEU Treaty provides that the participating states do not apply non-tariff measures in mutual trade (except for cases provided for by the Treaty). Belarus, Kazakhstan and Russia have already made a number of steps in this direction, in particular by signing the agreement on common principles and rules of technical regulation, which provides for a coordinated policy, as well as harmonization of national legislation in the field of standardization, accreditation, measurement assurance and state control in the sphere of technical regulation. It will reduce the technical barriers and simplify the entry of Belarusian goods and services to the common market.

It is also important that, according to the Treaty, Member States have to offer to each other national treatment in government procurement, and ensure openness and transparency in the process of conducting government procurement. Taking into consideration that the export of investment and non-energy intermediate goods accounts for around 55% of total merchandise exports to the EAEU market, this clause of the Treaty may provide Belarusian companies an opportunity to compete for government contracts in Member States.

Belarus will also benefit from EAEU membership since Member States will remove barriers to labour migration. The Treaty stipulates that employers of one Member State have the right to hire workers of other Member States without taking into account restrictions on the protection of the national labor market. In their turn, the workers of the Member States are not required to obtain permits for employment in the state of employment. The education

documents issued by educational institutions of the Member States are recognized without the procedures of recognition of qualifications.

However, it should be noticed that the participation of Belarus in the EAEU, despite the above mentioned gains, may bring some challenges:

- Energy market

One of the requirements of the creation of a common energy market is the existence of market prices for energy resources. It means that Russia will constantly move towards the application of commercial principles of natural gas pricing for its domestic market, which inevitably presuppose an increase of prices on gas obtained by Belarus.

In the framework of the creation of a common electricity market, the Member States should reorganize the vertically integrated companies operating at the electric power industry by separating natural monopoly functions from potentially competitive ones. It should be mentioned that Belarus still has not started the process of restructuring its electricity system, despite the fact that programmes for such reforms have been elaborated for almost ten years.

- Transport

The Treaty, and in particular Annex 24 do not contain any provisions regarding the abolishment of the system of permits for international road haulage carriers from one of the Member States to deliver goods to another Member State from third countries. Belarusian transport companies repeatedly offered to cancel this system in the framework of the liberalization of the transport market. The current Russian system of permits for Belarusian carriers is virtually prohibitive. It very significantly reduces the number of shipment from third countries to Russia and from Russia to third countries, carried out by Belarusian transport companies and thus has a negative impact on their volumes of carriage, foreign exchange earnings and exports of transport services.

- Industrial policy

The Treaty establishes the common rules for the provision of industrial subsidies (Annex 28), and defines the prohibited and actionable subsidies. In particular, Annex 28 establishes the rules and procedural requirements that the Member State should fulfill before the provision of specific subsidies⁵. A Member State has a right to appeal to the Commission in order to accord such measures. Normative legal acts regulating the provision of specific subsidies should be forwarded mandatorily by Member States to the Eurasian Economic Commission. Taking into consideration that in Belarus the state renders various type of support of particular companies and even sectors,⁶ it creates some challenges for the current system of provision of subsidies. It should be at least a subject of more discipline.

It also worth mentioning that among the prohibited subsidies, there is a so called "substitute subsidy" ("local content subsidy"), which is provided under the condition to use it for domestic goods. As Belarus has been conducting import substitution policies, the financial stimulation of import substitution projects should be improved, and adjusted to the requirement of the Treaty.

- Agricultural policy

The Protocol on the measures of state support of agriculture (Annex 29) and article 106 of the Treaty establishes a transition period till 2016, during which Belarus is obliged to decrease the allowed amount of agricultural support. In particular, in 2015 this support should be decreased to 12% of total agricultural production value, and in 2016 it should not exceed 10%. According to different assessments the current support of agriculture accounts for 14-15% of total agricultural production value. Moreover, the data from Belstat show that Belarusian agriculture highly depends on such support. For example, the share of lossmaking

⁵ A subsidy that is specifically provided to an enterprise, an industry, or a group of enterprises or industries.

⁶ For example, Russian producers of agricultural machinery and dairy products raised several times the question of the negative effect of Belarus' specific subsidies on these industries in Russia and the issue of unfair competition.

agricultural enterprises would have increased to 54% in January-October 2014 if subsidies would have not provided by the state⁷.

5. Conclusions

The Treaty on the creation of Eurasian Economic Union brings Member States to a new level of integration that presupposes the free movement of goods, services, labour, and capital, as well as a more close coordination of policies in the sphere of industry, agriculture, energy, transport, taxation, finance, applying of non-tariff measures in mutual trade, and other areas.

The participation of Belarus will be beneficial for the country due to the following reasons:

- It obtains Russian oil and gas at prices significantly below world market prices.
- It expands Belarus' oil and gas import opportunities, as within the framework of the creation of a common energy market, Member States will have to provide unrestricted access of EAEU economic entities to gas and oil transport systems for the transit of gas/oil.
- It expands Belarus' electricity import opportunities. The access to electric power transmission system of Member States might be provided for the purpose of interstate transmission of electricity from the electric system of one Member State to the electric power system of another Member State through the electric power system of a third Member State. It also will be possible to use a transmission system of a Member States in order to fulfil obligations in respect to electric power industry entities of third countries.
- Increase in efficiency of road freight transportation of Belarusian logistics companies to Russia and Kazakhstan due to gradual liberalization of road freight transport cabotage, which reducing empty trips after the unloading of international transport operations.
- Provides access of Belarusian carriers to railway infrastructure services of another Member state.
- Simplifies the entry of Belarusian goods and services to the common market by gradual elimination of non-tariff barriers, and harmonization of technical regulation.
- Provides Belarusian companies an opportunity to compete for government contracts in the common market, as Member States have to grant to each other national treatment in government procurement, and ensure openness and transparency in the process of conducting government procurement.

However, at the same time it should be noticed that the participation of Belarus in the EAEU, despite above mentioned gains, may bring some challenges as:

- An increase of prices on Russian gas obtained by Belarus may realize due to the creation of a common energy market and a switch to market prices on energy resources.
- A restructuring of the vertically integrated companies operating at the electric power industry should be conducted in Belarus in the framework of the creation of a common electricity market. However, Belarus still has not started the process of restructuring its electricity system, despite the fact that programmes of such reforms have been elaborated for almost ten years.
- The system of permits for international road haulage carriers from one of the Member States to deliver goods to another Member State from third countries will not be abolished in the framework of transport sector liberalization. This system significantly reduces the number of shipments from third countries to Russia and from Russia to third countries carried out by Belarusian transport companies, and thus has a negative impact on their volumes of carriage, foreign exchange earnings and exports of transport services.

⁷ http://www.belstat.gov.by/bgd/public_bulletin?id=559.

- The system of industrial subsidization in Belarus should be a subject of more discipline. In particular, as Belarus has been conducting import substitution policies, the financial stimulation of import substitution projects should be improved, and adjusted to the requirement of the Treaty that prohibits "local content subsidy".
- The decrease of state support of agriculture in Belarus should be conducted to 10% of total value of agricultural production in 2016. However, according to different assessments, the current support accounts for 14-15% of the total agricultural production value. Moreover Belarusian agriculture highly depends on such support, as the majority of agricultural enterprises would be loss-making without it. Therefore, the efficiency of Belarusian agriculture and the reduction of direct state support to agricultural producers should be one of the main priority areas to be addressed by the government.