

Russia Prepares Economic Retaliation Over Moldova's EU Deal

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Chisinau, the capital city of Moldova.

As Ukraine, Georgia and Moldova move ever nearer to Europe, much to Russia's dismay, the board of the Eurasian Economic Commission assembled Wednesday with plans to discuss imposing "protective measures" on trade with Moldova.

While the results of Wednesday's meeting are yet unknown — the Commission's press office said that they will be revealed Thursday — Russia's First Deputy Prime Minister, Igor Shuvalov, said last week that the topic was on the board's agenda, ITAR-Tass reported.

The underlying issue is the same one that inspired months of anti-government protests in Ukraine, culminating in the ouster of pro-Russian Ukrainian President Viktor Yanukovich, Russia's annexation of Crimea and the ongoing separatist insurgency in the country's east that has claimed hundreds of lives: an association agreement with the European Union.

Georgia, Moldova and Ukraine have all signed association agreements with the EU, but on July 2 the Moldovan parliament became the first and only one of the three to ratify it, immediately drawing the attention of top Russian officials.

Prime Minister Dmitry Medvedev declared shortly after that Russia must respond "in the very near future" by decisions reached with Belarus and Kazakhstan, its fellow Eurasian Economic Commission and Customs Union members, ITAR-Tass reported.

"It is clear that this will seriously impact [Moldova's] trade and economic relations ... which includes countries of the Customs Union and participants in the agreement on a free trade zone in the Commonwealth of Independent States," Medvedev said. Ukraine, Moldova and Russia are all part of a free trade zone within the CIS, a loose alliance of post-Soviet republics. Georgia was once part of the union as well but withdrew in 2009.

As for what the measures may look like, Russia's Economic Development Ministry on Wednesday published a draft bill that would levy a customs duty on an array of key imports from Moldova, including meat, fruits, vegetables and wine. If approved by the government, the bill will go into effect within one month of its signing.

Any actions taken now against Moldova would serve as a precedent if Ukraine and Georgia similarly ratify the agreements, Medvedev said.

"Naturally, if events in Ukraine and Georgia develop in the same way, the collection of measures will be similar ... but of course with consideration to the volume of trade and economic relations and the consequences for the Russian market," RIA Novosti quoted Medvedev as saying.

Ukraine is a significantly larger concern for Russia, both economically and politically. About 24 percent of Ukraine's exports, or \$15 billion in products, go to Russia each year — more than the entire GDP of Moldova, Europe's poorest nation, which the World Bank estimated at \$7.25 billion in 2012.

Risk for Russia?

As the ratification of the association agreements grew nearer, Russia repeatedly protested that free trade zones with the EU would pose a threat to the Russian economy, by allowing markets glutted with cheap European goods to pass more of their own products on to Russia or even to re-export European goods to the Russian market.

But according to analysts, there is no real economic threat lurking behind the association agreements.

"Just as with Ukraine, you can say of Moldova that [instituting protective measures] is hardly substantiated from an economic point of view, since Moldovan production presents no threat to the industry of the Customs Union," said Alexander Knobel, head of the Gaidar Institute's international trade laboratory.

As for the threat of a flood of European imports, the origin of goods is established when they cross the border. Tariffs are then applied accordingly, which effectively precludes the influx

of cheap European goods that politicians have repeatedly evoked.

"The issue is somewhat politicized," said Dmitry Bolkunets, an economist at the Higher School of Economics. Russia imports large amounts of fruits and vegetables from other countries such as Israel, the Netherlands, Morocco and even China, and wine as well is largely imported — "so what is there to protect?" he said.

Strength in Numbers

Shuvalov, who represented Russia in today's meeting, said previously that Russia could take actions without the consent of its Customs Union allies to protect its market from the impending association agreements.

Citing an unidentified source familiar with the situation, Interfax reported Wednesday that the Russian government — and not the Eurasian Economic Commission — will decide whether to implement limitations on trade with Moldova.

But the very value of the Customs Union depends on its members acting in unison on matters of external trade, Knobel said. Unfortunately for Russia, Kazakhstan and Belarus do not appear to share its position toward their Western-moving neighbors.

"Neither Kazakhstan nor Belarus share Russia's position on this issue. Without a doubt they are both prepared to protect their national markets from European products, but each has completely their own position," Bolkunets said.

History of Bans

Even if the Customs Union partners decline to take measures to restrict trade, Russia still has "a heap of ways" to unofficially limit trade with Moldova, Knobel said — as it already has for many years.

Sanitary and veterinary rules are not legislated by the Customs Union or Eurasian Economic Commission, meaning that Russia can continue, as it has in the past, to informally ban Moldovan imports on the pretext of health code violations.

Most recently, Russia's state veterinary watchdog banned key Moldovan meat imports in a move that the EU viewed as politically motivated. Prime cuts and processed meat products were all banned, leaving only exports of full carcasses and certain bone cuts.

Russia also cut off imports of Moldovan wine a month before the Eastern Partnership summit in Vilnius in November 2013, at which Moldova and Georgia nonetheless went on to sign association agreements with the EU.

Georgia has suffered similar restrictions: Just last year, Russia finally lifted a ban on imports of Georgian wine, fruit and mineral water that had been in place since 2006.

Limited Impact

But no matter whether limitations on trade are formal or informal, their impact on the Moldovan economy will be limited.

"If the customs duties are raised, of course it will cause some damage, but it will not be very significant since Moldova's trade with Russia is not very large. It trades a great deal more with neighboring countries," Knobels said.

Moldova exported \$192 million worth of products to Russia in the first five months of this year — about 20 percent of its total exports in that time. The EU is by far Moldova's largest trading partner, consuming 54 percent of its exports — worth about \$522 million — over the same period, according to data from Moldova's National Bureau of Statistics.

There is another blow that Russian could strike to the Moldovan economy, however, one which has not yet been discussed but which would have a more significant impact.

"Much more damage could be done if Moldovan citizens were banned from entering Russian territory as they do now. If there are limitations on workers coming from Moldova, then Moldova could lose significantly more," Knobels said.

See also:

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