

Customs Union Relaxes Borders

By [Anatoly Medetsky](#)

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Customs offices on the world's longest continuous land border, between Russia and Kazakhstan, will be closed indefinitely starting Friday as a new international free-trade zone comes to fruition.

The finishing touch in their customs union — which includes these two countries and Belarus — removed the last internal customs controls at their borders, scrapping any obstacles for the flow of most goods within their boundaries.

The majority of customs inspections have been taking place on the external borders of the customs union as of last year, but customs officers still stopped some cargoes occasionally when they traveled from one member country to another.

"Transportation will now speed up," said Galina Dontsova, chief of customs and foreign trade practice at Ernst & Young in Moscow.

The more transparent borders are meant to expand the market for existing and potential

businesses and make it more competitive. About 60 percent of people living in the former Soviet Union are residents of the customs union. Russia and Kazakhstan are relatively well off, while Belarus is going through a financial crisis.

The trio agreed to apply unified import and export duties with multiple exceptions, starting in January last year. In the latest progress toward more unity, Kazakhstan recently dropped 321 exceptions.

It reserved the right to apply lower import rates on 88 types of goods including medicine, medical equipment, railcars, greenhouses, foil and polyethylene, a Russian Cabinet source said. The medicine will carry the stamps that it's exclusively for sale in Kazakhstan, while the governments agreed on the ways of making sure the other lower-taxed imports will not end up being sold outside Kazakhstan, the official said.

"We have no doubt that these remaining exceptions will not create a hurdle," the source said.

Dontsova agreed that Kazakhstan's exceptions would not hurt the markets of the other two members.

Vladimir Kobzev, chief lawyer at the Russian-German Foreign Trade Chamber, expressed hope that the closure of the customs offices would enable German companies based in Russia to increase sales to other customs union members.

"We are looking at this date with a cautious optimism," he said.

At the same time, chamber members were concerned about the possibility of more counterfeit consumer goods making their way from China, for example, making their way through Kazakhstan to Russia, taking market share from more expensive German equivalents of higher quality.

The customs union was too quick to eliminate internal customs control, given the risk of contraband and imports of infected food, said Alexei Portansky, a trade policy professor at the Higher School of Economics, a national research university. The European Union member countries watched their borders for some 30 years after forming the organization, he said.

Kazakhstan and Belarus have also recently agreed to Russia's nine anti-dumping import restrictions on such goods as bearings from China and steel pipes from Ukraine, the Cabinet official said. All further anti-dumping investigations will fall under the auspices of the joint Customs Union Commission, the Cabinet source said.

As of September 2010, the three union members have collected customs duties into a single bank account and divided the money. Russia is getting 87.97 percent of the funds, while Kazakhstan gets 7.33 percent and Belarus 4.7 percent.

As the next integration measure, the countries plan to inaugurate a Unified Economic Space this coming January that will open the way for the free movement of capital, services and work force.

They also plan to unify railway rates, natural gas prices, agree on agricultural subsidies

and inflation rate boundaries, the Cabinet official said.

The members also plan to set up a customs union court for any disputes that might occur among them, the source said. That court would be based in Minsk.

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