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Oxfam GB

Improving Regional Food Security in the South Caucasus

**The Potential Impact of Membership
of the Eurasian Economic Union on
the Economy and Agriculture of
Armenia**

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Abbreviations

CAP	.	Common Agricultural Policy (of the EEC/EU)
CIS	.	Commonwealth of Independent States
CU	.	Customs Union
EAEC	.	Eurasian Economic Commission
EAEU	.	Eurasian Economic Union
EC	.	European Community
EEC	.	European Economic Community
EU	.	European Union
GDP	.	gross domestic product
GoA	.	Government of Armenia
MERCOSUR	.	Mercado Común del Sur (Common Market of the South, in South America)
NAFTA.	.	North American Free Trade Agreement
SACU	.	Southern African Customs Union
UK	.	United Kingdom of Great Britain and Northern Ireland
U.S./USA	.	United States of America
USSR	.	Union of Soviet Socialist Republics
WTO	.	World Trade Organisation

Executive Summary

The Eurasian Economic Union (EAEU) was established on January 1st, 2015 by Russia, Belarus and Kazakhstan. Armenia joined on January 2nd and Kyrgyzstan later in the year. In place of a free-trade agreement, a Comprehensive and Enhanced Partnership Agreement was later agreed between Armenia and the European Union (EU).

The EAEU comprises a customs union, which provides for free trade in goods and services and the free movement of capital and workers between its members, and common tariffs for all trade with non-member (or 'third') countries. On the face of it, it has made faster progress than the European Community did in its early days, in spite of occasional tensions. It has already embarked on defining unified regulations to create a single market, which the EC did not do until 30 years later. However, Armenia itself is in a difficult position. Its borders with two of its 4 neighbours are closed while any trade through a third, Iran, has been complicated by international sanctions. In no area of life does this matter more than food supplies and rural livelihoods.

How does membership of the EAEU affect Armenia's numerous smallholder farms and food security? In the short term it is via trade, as changes in tariffs influence which nations a country trades with. It will also be through inward investment allowed by the free movement of capital, while rules on subsidies, food safety and other matters will affect what is produced and to what standards. Another factor is Armenia's reliance on citizens who work abroad, mostly in Russia. Monetary remittances from them are worth nearly 20 per cent of GDP.

With Armenia's food imports equal to 22 per cent of total exports, the regime for foreign trade is important for domestic supplies as well as agricultural exports. The common external tariff will increase the prices for food and agricultural inputs imported from outside the EAEU. Fertilisers and other agri-inputs from Russia will be more affordable but those from third countries more costly. Such problems could be reduced if agricultural cooperatives were to become more developed, with essential supporting structures. But they would not be resolved by those means alone.

The government also has to adapt its food-safety and hygiene standards to those of the EAEU. This will require more administration and inspection along with a better quality of produce, all of which can be especially burdensome and expensive for small producers. However, the EAEU so far does not have strict enforcement powers over its member states, so Armenian exporters are likely to attempt to meet Russia's *domestic* standards sooner than those drawn up by the EAEU as the major exports of Armenian agrifood products are directed to the Russian market. This adds to general legal uncertainties the situation.

Smallholders will face further big risks if and when foreign-owned supermarkets invest in Armenia, since they are likely to look to foreign sources of supply, thinking local farmers cannot achieve the scale and reliability that they require. This is a matter of economic power over the supply chains, and most countries find it difficult to support even the most able and businesslike of smallholders in these circumstances.

In response, three main lines of policy for Armenia deserve to be considered:

- The economic literature tends to emphasise the advantages of trade agreements, but trade and investment have opened in both directions and in its vulnerable position Armenia would be unwise to overlook the potential drawbacks.
- Government policy should prioritise agricultural development, promoting economies of scale via agricultural cooperatives and the diversification of the rural economy. This is partly, but not only, to protect smallholders from the risks they face in the EAEU.

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- Armenia might push for the EAEU to widen the group of countries with which it enjoys close relations.

I. The Purpose, Structure, Institutions and Policies of the EAEU

Background and Purpose

The Eurasian Economic Union (EAEU) is the latest in a series of institutions that have been set up to recreate some of the integration between countries that was lost when the former Soviet Union broke up in 1991. It has been a consistent part of Russia's foreign policy since then to restore as much economic and political integration with the formerly Soviet states as possible. The other 14 countries have shared parts of this ambition to varying degrees, motivated by the dislocation caused by the sudden collapse of the USSR as well as commercial and sentimental attachments. First there was the Commonwealth of Independent States (CIS), established in December 1991 and currently having nine member states, including Armenia, and two associate members. It took over a number of integrating functions from the USSR, including technical standards for industry and agriculture. In 2001 Russia, Belarus and Kazakhstan created the Eurasian Economic Community, followed in 2010 by a Customs Union (CU). On January 1st, 2015 the same three countries established the EAEU, and Armenia and Kyrgyzstan joined it very soon afterwards.

The Union's main objectives are defined in Article 4 of the Treaty of Astana, which founded the EAEU:

- 'to create proper conditions for sustainable [*stable*] economic development of the Member States in order to improve the living standards of their population;
- 'to seek the creation of a common [*single*] market for goods, services, capital and labour [resources] within the Union;
- 'to ensure comprehensive modernisation, cooperation and competitiveness of national economies within the global economy.'¹

There are also powerful counter-attractions and pressures from outside the region, where the Western powers, including the European Union (EU), have competed with Russia for advantage. This came to a head in the last five years when the former 'southern republics' of the USSR were offered associate membership of the EU tied to far-reaching trade and investment agreements on one hand, and full membership of the new EAEU with Russia on the other. It was made clear on both sides that it would be difficult to have both. In July 2013 Armenia concluded negotiations for a Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU but the government then decided to join the EAEU, as from January 2nd, 2015. A less far-reaching Comprehensive and Enhanced Partnership Agreement with the EU was later announced in February 2017.

Structure and Institutions

At first sight, the institutions of the EAEU are similar to those of the longer-established EU, including many of their names (see Table 1). Comparisons between the two organisations have frequently been made, not least by President Vladimir Putin of Russia, the strongest personality in the EAEU.² However, it is readily apparent that this is more of a hierarchical structure, with a vertical line of authority – in substance, more like the formal state structures of the USSR and its Union Republics.³ A member state that disagrees with a decision of the EAEC Collegium or Council can appeal to higher bodies – a system that has become known informally as the 'Belarusian elevator' because of the use of it made by Belarus.⁴ To resolve legal disputes there is also a Court of the EAEU in Minsk. On the other hand, there is no current plan for a common parliament or parliamentary assembly, and the reality is in sharp contrast with the separate powers found in the EU's parallel structures of a European Council and Council of Ministers, a European Parliament and an administrative Commission, headed by an indirectly elected President, with the long processes of reports, negotiations and votes that this leads to.

Table 1: Decision-making bodies of the EAEU

Body	Member state representation	Decision-making mode	Frequency of meeting per treaty
Supreme Council	Heads of state	Consensus	Once a year
Intergovernmental Council	Heads of government	Consensus	Twice a year
Eurasian Economic Commission Council	Deputy heads of government	Consensus	Once a quarter
Eurasian Economic Commission Collegium	Professionals (4-year term)	Qualified majority or consensus	Permanent body

Source: Reproduced from Dragneva and Wolczuk (2016), p. 13.

Moreover, while in the EU the European Commission is an independent supranational authority separate from governments, the EAEC is best described as an intergovernmental organisation, with weak powers of enforcement.⁵ There is no jurisdiction to ensure uniform enforcement of the Union’s legislation, or detailed procedures and institutions to put the principles espoused into practice.⁶

The EAEU’s internal politics also differ in that one member is dominant, and there are big differences in the balances of power and histories of the member states. While Germany, France and the UK have been the most influential members of the EU, none of them has ever been predominant or come close to half of the Union’s size by any measure, even in the early years.⁷ But Russia has 84.0 per cent of the EAEU’s land area,⁸ 80.2 per cent of its population and 83.8 per cent of its gross domestic product (GDP). See Table 2 for details. The Eurasian Economic Commission (EAEC)’s offices are also in Moscow. And while the member states cover a large geographical area and their deep historical backgrounds are diverse, from the 19th century until 1991 they were all ruled from Moscow or Saint Petersburg as part of a single state, except for a short period between about 1918 and 1920. Throughout that time Russian was the main or only official language, and in the EAEU Russian is specified as the working language⁹ – unlike the EU, where all important documents are made available in every state’s national language and each language can be spoken at official meetings, giving work to more than 5,000 translators and interpreters.¹⁰

Table 2 EAEU socio-economic development indicators, 2015

Indicator	Arm	Bel	Kaz	Kyr	Rus
GDP – nominal					
Billions of U.S. dollars	10.5	55.0	184.4	6.5	1,331.1
Per cent of total	0.66	3.46	11.6	0.41	83.8
GDP – purchasing power parity					
Billions of U.S. dollars	23.1	164.3	399.6	18.5	3,402.9
Per cent of total	0.58	4.10	9.97	0.46	84.9
GDP – nominal <i>per capita</i>					
Billions of U.S. dollars	3,515.0	5,754.5	10,508.3	1,112.8	9,054.9
Per cent of Kazakhstan	33.4	54.8	100	10.6	86.2
Population					
Millions of people	3.0	9.5	17.7	6.0	146.5
Per cent of total	1.6	5.20	9.69	3.28	80.2
Foreign trade					
Billions of U.S. dollars	4.7	57.0	75.9	5.7	526.3
Per cent of total	0.70	8.51	11.3	0.85	78.6

Source: Vinokurov;¹¹ percentages calculated by this author

Policies

The three-country CU which preceded the EAEU may be compared with the 'common market' of the EEC's six founding members in the 1960s (although without an agricultural policy attached). At present the EAEU comprises a customs union, allowing free trade in goods and services between its five members, the free movement of capital and workers, and common tariffs for trade with other ('third') countries. The members also agreed at the start to co-ordinate their policies on energy, transport, industry and agriculture, and they are developing common regulations to create a 'single internal market' such as the EU has had since the 1990s.

On the face of it, the EAEU has therefore made much faster progress than the EEC did in its early days in the late 1950s and early 1960s, in spite of bilateral tensions that have erupted from time to time. However, much of the EAEU's impact remains unforeseeable. Its early development has been hampered by recent economic problems in its dominant member, Russia. There have also been doubts about Russia's commitment to the principle of national equality on which any trade agreement is based, or the primacy of the EAEU's own rules.¹² The future direction therefore remains somewhat uncertain.

Weakness of Enforcement

Despite the EAEU Court, the EAEC lacks powers of enforcement. In a dispute about Russian meat imports from Belarus, it was acknowledged that the Commission may deem disputed products to be compliant with EAEU standards but it lacked a mechanism to persuade a non-complying member (in this case Russia) to remove punitive measures which it had imposed on another member.¹³ This has consequences as it can lead to a certain arbitrariness of decisions, and therefore uncertainty among producers and traders over what standards might actually be acceptable in another member state. We will see later that this is a problem in Armenia's food trade with Russia.

There have also been disputes about the desirability of trade actions against the Ukraine and the EU. It has been suggested that this is what prompted Armenia to sign a new trade agreement with the EU in 2017, in spite of its refusal to ratify the more extensive one it had negotiated in 2013.¹⁴

In general, because the EAEU does not have strict enforcement powers over its member states, Armenian exporters are quite likely to attempt to meet Russia's *domestic* regulations sooner than those drawn up by the EAEU, for the sake of access to that market; and yet there is no requirement to do so under either Armenian or EAEU law, which adds further ambiguity. EAEU membership might also complicate trade with Georgia, which is obliged to adopt all the EU's technical standards under its Association Agreement (DCFTA) and will eventually refuse entry to imports which do not meet them. If this gives rise to problems for urban businessmen, they are likely to be all the more difficult for semi-subsistence rural smallholders in Armenia.

2. The Needs of Food Security and Smallholder Farmers in Armenia

The Armenian government has been conscious of food security for many years. Food security is an important part of the national security doctrine and a Law on Food Security was enacted in 2002. The law describes food security as one of the essential components of national security and emphasises the need for the accessibility of food both in peacetime and states of emergency, the promotion of local production and the accumulation and use of government food reserves.¹⁵ The needs in Armenia's rural areas are particularly acute. While agriculture accounted for 36.3 per cent of Armenia's employment in 2013¹⁶ (and 75.2 per cent of rural employment in 2012¹⁷), it provides only 19.6 per cent of gross domestic product (GDP),¹⁸ or 26 per cent when food processing is added. From this it can be seen how much lower agricultural incomes are than the average, even when food grown for subsistence (which does not enter GDP data) is taken into account. At the same time, Armenia is very dependent on food imports, especially the cereals that make up most of the elementary ('staple') foods that provide energy. Over the last five years Armenia imported about 40 per cent of its cereal requirements,¹⁹ mostly from Russia.

In most sectors yields remain very low relative to the rest of the world. One-third of arable land is not exploited and there is insufficient irrigation. In general, land exploitation has changed dramatically since Armenia became independent in 1991, its agricultural economy having collapsed in the late 1980s and 1990s as it lost the productive support and sales outlets that the Soviet Union had provided. That brought a shift from the industrialised agriculture of Soviet collective farms to an extremely low-technology, low-input and low-output system worked by smallholders on very small plots of land with no finance and few supportive structures. When agricultural land was privatised, around 340,000 private farms were created, but with a lack of suitable machinery and equipment, water for irrigation or knowledge of good farming practices. The land was divided into more than 1.2 million fragmented plots and in 2012 the average private farm had only 1.4 hectares of farmland (of which 1.06 hectares arable).²⁰

In Armenia's countryside the prevalence of low incomes and low agricultural yields on tiny smallholder farms is a source of inadequate livelihoods for their owners and with them, widespread deficiencies in nutrition. Meanwhile, the country as a whole relies on imports for much of its staple food supply and there are serious inadequacies of nutritional health throughout the population. Food imports are still large although their value has fallen back to the equivalent of 22 per cent of total exports in 2015 from a peak of 50 per cent in 2010, when world food prices spiked.²¹ Faced with such volatility on the global markets, the regime for foreign trade is critical not only for agricultural exports but for food supplies too.

All in all, this presents a complicated set of problems for food security. In response, the government is seeking self-sufficiency in basic foods and, as part of this, wants the proportion of arable land in use to rise from 67 per cent to 90 per cent by 2025. The *Armenia Development Strategy for 2014-2025* aims ambitiously at a doubling of agricultural productivity between 2012 and 2021.²² Guaranteed agricultural prices and subsidised machinery are among the tools that have been offered to achieve this.²³ The government programme published in June 2017 includes plans for 2018-22 to widen access to fertilisers, improve seed breeding, expand pedigree animals, support farm cooperatives and subsidise loans to agriculture and food processing, together with a detailed programme to improve food safety.²⁴

Economic Integration and the EAEU

Many comparable countries have benefited from processes of integration with more powerful economies. But not all have. Experiences vary and it is important to understand

why. The successful integration of smaller and poorer countries after joining the EC or EU since the 1970s is in large part a result of generous benefits available from the EU's Common Agricultural Policy and regional development programmes.²⁵ There is no equivalent of these in the EAEU, nor any current plan to introduce them. These countries were also encouraged to reform and improve their domestic administrative and political systems, and they generally succeeded in doing so. But regarding the EAEU, it has been argued that the way key decisions are taken:

'...is not conducive to those integration decisions that require a transformation of domestic institutions and policies... the required modernization of domestic institutions to facilitate effective integration – such as, for example, dismantling the monopolies controlling the Armenian economy – would disrupt rent-seeking networks and impinge on the interests of those close to political leaders... there is little incentive for it to happen.'²⁶

Meanwhile, small agrarian countries in other parts of the world, when faced with globalisation in recent times, have generally experienced *increases* in food imports and declining self-sufficiency in food, along with few substantial benefits for subsistence and semi-subsistence smallholders. This harms both national food security and a country's foreign trade balance. Part of the reason is a disconnection between the international trade in foodstuffs and the informal local markets used by smallholders, and the very different ways in which food safety and other standards are generally achieved in these different environments.²⁷

So how does membership of the EAEU affect Armenia's smallholder farmers and food security? In the short term it is via trade: with membership, the structure and size of import tariffs changes, influencing which other nations the country trades with and how much. Further down the line – although possibly quite soon – it will also affect international investment as a result of the free movement of capital between the EASEU's member states, while the trading bloc's rules on subsidies, food safety and other matters will affect what is produced and to what standards. Another factor is Armenia's economic reliance on citizens who work abroad and send back monetary remittances, which were worth 19.6 per cent of GDP in 2015.²⁸ Most of these workers – almost 340,000, or 11.5 per cent of the population – are in Russia.²⁹

3. The EAEU and Armenian Smallholders: Trade Issues

Armenia is in a difficult international position. Its situation as a small, landlocked and mountainous country is inherently disadvantageous for international trade. Moreover, the borders with two of its four neighbours, Azerbaijan and Turkey, are closed while any trade through a third neighbour, Iran, has been complicated by international sanctions on the latter. This leaves only airborne trade and road and rail routes through Armenia's northern neighbour, Georgia. Even there, trade can only go through Georgia's small ports of Poti and Batumi, since the railway to the north is closed on account of Georgia's own frozen conflict with Russia in the Abkhazia region. Therefore the official terms on which Armenia trades with other countries are of critical importance – even more so than in most countries. Nowhere is this more vital than in the areas of food supplies and rural livelihoods – which are closely connected.

Tariffs

Before joining the EAEU, Armenia enjoyed tariff-free trade with its other members under CIS arrangements. Therefore the only changes in tariffs were on imports from third countries. These had to be raised to the levels of the EAEU's common external tariffs, which are generally higher as well as more varied between similar categories of product. In effect, in joining the EAEU Armenia undertook to match Russia's higher tariff schedule. The application of higher external tariffs makes imported food more expensive in the shops but enables Armenian produce to compete more easily with it. All else being equal, this will increase government revenues from tariffs. However, all else will not be equal due to the changes in trade and consumption patterns this induces, as explained below.

Armenia had to enter compensatory negotiations for the higher tariffs within the World Trade Organisation (WTO), which has the overriding objective of *reducing* trade barriers. A transition period until 2022 was agreed, providing exemptions for 800 tariff lines covering 40 per cent of non-EAEU imports. During this time Armenia may not re-export to the rest of the EAEU any goods it imports at its previous, lower tariffs. A special mechanism was put in place to monitor the intra-EAEU movement of such goods and the repayment of duties to the Union in cases when entry into the common EAEU market occurs.³⁰

There is also documentation required for customs clearance. The number of documents required has decreased, but Armenia's lack of direct road access to other EAEU member states means that products traded in either direction must cross a third country's borders and, thus, most customs documents are still necessary.

However, with a well-developed strategy, membership of the EAEU should assist the development of the food industry in Armenia. This situation creates opportunities for small producers too, if they can combine with others in cooperatives.

The Direction of Trade

The higher external tariffs increase Armenian domestic prices of goods imported from third countries, including inputs for domestic production. On this basis, small and medium-sized farmers and other consumers are vulnerable in some ways although assisted in others. On the input side, fertilisers imported from Russia and Belarus become more affordable while those imported from third countries are more costly. Likewise with production equipment from Belarus and Russia compared with third-country origins, leading to a redirection of trade towards the new trading bloc. That, after all, is its basic purpose. Higher prices for food imported from outside the EAEU will make domestic produce more attractive, benefiting farmers and domestic processing companies, wherever it can compete on price

and quality with imports from other EAEU members. However, the outcome in many sub-sectors could be that imports from within the EAEU would simply displace those from outside it.

Where agricultural cooperatives can be developed, these problems can be eased by taking advantage of economies of scale in purchasing. At the same time, the government should be able to supply information on substitute agricultural inputs and resources from EAEU member states. Belarus for example specialises in agricultural techniques and technology, providing a real basis for substitution.

Lessons from Other Regional Trade Agreements

A Russian economist, Evgeny Vinokurov, has compared the EAEU 'to other general-purpose regional integration organizations, in particular customs unions or free trade areas — NAFTA, MERCOSUR, Cooperation Council for the Arab States of the Gulf, and the South[ern] African Customs Union [SACU].'³¹ This points to the sorts of difficulty that the EAEU poses for smallholder farmers in Armenia. For example, both the North American Free Trade Area (NAFTA) and SACU are somewhat unsatisfactory trading blocs because they are dominated by one member: the United States in the case of NAFTA and South Africa in SACU. Trade and investment from these two countries has created problems for food security, agricultural development and smallholder farmers in other member states of the trading blocs.

NAFTA, which started in 1994, is hotly contested in both Mexico and the United States. Mexico is a large and diverse country, and NAFTA's biggest success there lies not in food or agriculture but in using the country's skilled and relatively cheap industrial labour force to create an export platform to U.S. markets for global manufacturing firms. This enabled a rapid expansion of Mexican exports and with it, the diversification of trade away from its previous dependence on oil. But it came at a great economic and social cost to Mexico, as well as lower growth in GDP than in other Latin American countries.³²

Armenia is unlikely to develop as an 'export platform' with respect to other members of the EAEU, due to its small size and the length and complexity of the trade routes. But in Mexico, NAFTA also led to a rapid increase in agricultural imports, especially of maize, the main staple food, from the U.S., as well as lower prices for primary producers and greater income inequality. An analysis of rural incomes identified some devastating consequences in this case:

'[I]n 1991, self-employed farmers earned 1959 pesos per month, while in 2003, they earned only 228 pesos [*sic*] for the same amount of work. Conversely, [agricultural] employers' wages rose from 626 pesos in 1991 to 1165 pesos in 2003... [W]hile agricultural employers gained under NAFTA, subsistence farmers suffered a massive loss of income.'³³

The worst consequences were felt by poorer regions and the poorest farmers. Another report reached these harsh conclusions: 'In NAFTA, the Mexican government sacrificed the bulk of the agricultural sector, in exchange for advantages – more theoretical than real – for exports of fruits and vegetables.'³⁴

It is unlikely that the consequences of joining the EAEU for Armenian smallholders will be as severe as that, if only because before its accession the country already imported 40 per cent of its supplies of wheat, the main staple food, from Russia. However, Armenia faces real difficulties because of its small size when compared with other countries in the EAEU, and the lack of a contiguous border with any of them.

4. The EAEU and Armenian Smallholders: Food Policies

Subsidies

The EAEU currently has no common agricultural policy for the benefit of farmers, although in due course policies on agriculture are due to be coordinated among member states, along with other vital sectors. So, at least for now, there is no barrier to the input subsidies which the Armenian government recently introduced. But one day the rules of the internal market might prevent them or compel their modification, either on competition grounds or with the introduction of common policies for agriculture.

Food Safety

An important consideration is the development of food safety and hygiene standards, which the Armenian government has to adapt to those being developed by the EAEU based on the WTO requirements of technical regulation. New standards usually call for more administration and inspection, including at the borders, and an important task is to develop the administrative capacity needed to implement them. Higher safety and other standards are also expensive to achieve and they add to production costs. Besides purely domestic consequences, this will increase the export prices of Armenian produce.

The food-safety obligations within the EAEU are not as demanding as, for example, those required in Georgia under its Association Agreement with the EU. But both follow similar principles of hazard analysis and the Armenian authorities will have to work hard to meet the EU's rigorous standards too if they wish to continue to export food to Georgia. Currently, there are no modern testing laboratories in Armenia. Moreover, food regulations can be especially burdensome for small-scale producers in all parts of the food chain, from smallholder agriculture and animal husbandry through slaughtering to processing and preparation of food, and restaurants and retailers. It is much easier for large firms to introduce procedures, acquire the special equipment that is often necessary and train their staff than for small companies and household units. Administrative resources for this are scarce and Armenian farming units in particular are of very small scale.

The government has acknowledged this to be an important question. Para. 230 of its *Development Strategy for 2014-2025* promised to pay 'special attention' to the development of the food-safety system and outlined eight broad lines of action.³⁵ New laws were passed in 2014 on forage (including safety requirements) and veterinary medicine, adding to a 2006 law on phytosanitary (plant health) rules.³⁶ The 2016 government programme followed this with a three-page plan for food safety, including phasing in the compulsory use of slaughterhouses for livestock, and a two-page plan to improve and expand irrigation, with some loan subsidies.³⁷ The major problem is not so much in the policy as in policy implementation, monitoring and oversight.

However, the compatibility of these and other changes in Armenian law with membership of the EAEU is not entirely clear. Although national regulations may formally remain in force, some of their provisions have already been superseded by obligations under the EAEU. They may not be as demanding as those required in Georgia but they also have less legal clarity, as a German study pointed out in 2016:

'Under Armenian law, where there is a conflict between local legislation and the provisions of an international treaty, the latter takes precedence. Therefore it is not mandatory to amend local legislation to harmonise it with the provisions of an international treaty. However, the situation where local regulations may formally continue to be in force but contain provisions which are now superseded by international obligations is hardly ideal from the point of view of legal clarity.'

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Nevertheless this appears to be the situation ... and the business community may not necessarily be aware of all the provisions of CU or EAEU technical regulations.’³⁸

5. The EAEU and Armenian Smallholders: Inward Investment

In modern international arrangements like the EAEU, the greatest risks – and often the least understood – tend to lie in the area of foreign investment rather than trade. In many parts of the world, food retailing is dominated by West European and North American companies. Now, Armenia has strong ties with Western countries, where there is a loyal diaspora – after Russia, it is largest in number in the USA, France and Germany. But within Armenia, Russian economic influence is very strong and foreign direct investment is most likely to come from there. Russian companies are already dominant in areas such as communications, transport and energy, while the Russian media ‘are the main source of information about the outside world for many Armenians, including a large part of the political and intellectual elite,’ according to one Armenian commentator. He added that remittances from Armenian workers in Russia are ‘vital for keeping the Armenian economy afloat.’³⁹ An Armenian Investors’ Club was recently launched in Yerevan, with the support of the Armenian and Russian governments and the aim of developing ‘joint investment projects aimed at promoting bilateral trade-economic, and investment cooperation, and assisting in Armenia’s integration into the Eurasian economic zone.’⁴⁰

As Russia’s own food retail market consolidates,⁴¹ one or more of that country’s supermarket chains could decide to expand their operations into Armenia in the near future. But for Armenian smallholders this is likely to be a mixed blessing. As the country is already highly dependent on food imports, foreign-owned supermarkets – whatever their origin – are likely to look mostly to foreign sources of supply, since they might think that local smallholders cannot achieve the scale and reliability they require. This already occurs in many countries with similar income levels and agrarian structures to Armenia, including developing countries. The investing companies require volumes, product standards, packaging and deadlines which are beyond the capacity of most local smallholders. They tend to replace existing wholesalers with their own centralised systems and purchase only from large farms or, at most, a small number of smallholders, or alternatively from their own existing supply bases in other countries. That is why consolidation of local small farmers into cooperatives and/or unions is more than urgent for the profitability of Armenia’s agrarian economy.

For example, when a South African-owned supermarket company opened a branch in a town in Zambia, local farmers threatened to ‘burn down the company that had robbed them of their livelihoods’, complaining that:

‘Vegetables that they had regularly sold at the local town market were now being supplied from South Africa at the local Shoprite supermarket... Because the Shoprite supermarket had a better distribution system and a nicer store, the farmers could not compete with this multinational. Previous sources of cash income through the sale of vegetables at the market were now disrupted and, as a result, villagers couldn’t pay for the things they needed.’⁴²

Large supermarket firms have the commercial power to enforce all of this. According to a review of the wider situation,

‘The changes in standards, and the implied investments, have driven many small firms and farms out of business in developing countries... The supermarket chains, locked in struggle with other chains in a highly competitive industry with low margins, seek constantly to lower product and transaction costs and risk – and all that points toward selecting only the most capable farmers, and in many developing countries that means mainly the medium and large farmers.’⁴³

In rich countries the situation is no different. All round the world this tendency has weakened farmers' market positions, even in places where the average farm is quite large and well-equipped.

Most governments find it difficult to support smallholders in these circumstances. The best that may be possible in Armenia is an indirect approach, encouraging cooperative production and marketing. Raising smallholders' standards will also help, subject to the difficulties previously mentioned. In the past the government might have required foreign retail investors to buy from local farms as a condition of investment, but under WTO rules this is no longer possible.

Food production and foreign supermarkets in Slovakia

The problem of foreign-owned supermarkets displacing local produce with imports has been experienced in other countries after they joined wider trading blocs, including the EU. For example, in November 2016 the Slovak Agricultural and Food Chamber found that in Slovakia domestic foodstuffs accounted for only 40 per cent of grocery items on the shelves of retail chains,⁴⁴ where firms from Germany, Great Britain and Austria have a large presence. According to one report,

“Companies are unable to supply big retailers,” retail analyst Ľubomír Drahovský told The Slovak Spectator, adding that Slovak consumers are not very interested in domestic products as they are usually more expensive.⁴⁵

Item by item, Slovakian-produced eggs had the highest share of shelf space at 72 per cent and packaged meat the lowest at 21 per cent. Among staple foods, ‘Only 54 percent of potatoes and 53 percent of bread and rolls sold in retail chains were produced in Slovakia.’

Company by company, the domestic firm COOP Jednota, which has the largest market share, offered the highest proportion of domestic produce, with 59 per cent of what it sold coming from Slovakia. Among foreign-owned retailers, Billa (from Austria) and Tesco (British) had domestic shares of 39 per cent each while Lidl (German) had the lowest with 17 per cent.⁴⁶

This occurred despite a rapid reduction in the number of farms and increase in their size after Slovakia joined the EU in 2004. A Hungarian study found that between 2007 and 2010 the number of farm holdings in Slovakia fell from 69,000 to 25,000, a decline of 64 per cent, while their average size expanded from 28 to 75 hectares.⁴⁷

6. Recommendations for Future Armenian Policies and their Implementation

The needs of smallholder farmers and the problems they face are quite low on the Armenian political agenda. Without compensatory changes in policy for smallholders, there is a danger that while Armenian agrifood exports may expand, mostly in processed products such as alcoholic drinks, canned fruits and vegetables, and tobacco, there will be little or no benefit for most of the farming population as the economic gains accrue to Yerevan and a few other cities. To avoid this, it is vital to work for rapid agricultural and rural development alongside the path of integration with EAEU markets. This is necessary in any case, for the sake of the most hard-hit members of Armenian society.

However, the EAEU has made much faster progress than the EEC did in its early days. It has already embarked on creating unified sets of regulations to create a single market, which the European Community did not do until 30 years later. However, while there are consultations and exchanges of information there is not a common agricultural policy. More widely, progress has been slowed down by Russia's economic downturn and political tensions between members, partly arising from sensitivity over Russia's actions in the Ukraine. All in all it remains unclear how much Armenia will gain in its broad economic relations with Russia under the EAEU in comparison with what it already had through the CIS.

In this situation, three general lines of policy for Armenia deserve special attention:

1. It is hard to see Armenia prospering in the EAEU until it can reopen its borders with its immediate neighbours and remove the sources of diplomatic tensions that exist with some other members of the EAEU. Both Armenia and Kazakhstan see some interest – if for different reasons – in trying to bring Iran into the EAEU, which could help Armenia to diversify its trade and development options. But this runs up against Russia's overriding desire to rebuild its links with other countries of the former Soviet Union in particular. Nevertheless, it might be opportune to push for closer relations of the EAEU with some other countries, including perhaps some that were not part of the USSR.
2. Government policy should prioritise agricultural development, promoting economies of scale via agricultural cooperatives and the diversification of the rural economy. This is partly, but not only, to protect smallholders from the risks they face in the EAEU.
3. It is essential to establish modern testing laboratories that are affordable for small businesses and fully meet EU and EAEU standards in this area.
4. As one of the smallest members of the EAEU, the Armenian authorities should take as much care over what trade negotiators call their 'defensive' economic and commercial interests (such as enabling the substitution of imports by domestic products and seeking the best terms possible on incoming foreign investment) as their 'offensive' ones, which here seem to lie mainly in the expansion of exports to Russia. The economic literature on trade agreements tends usually to emphasise the advantages on the 'offensive' side, painting an optimistic picture of the possibilities. But the opening of trade and investment is in both directions, and in a somewhat isolated and vulnerable country like Armenia it is unwise to overlook potential drawbacks.

of them were in use, for languages including not only English, French and German but, for example, Bulgarian, Danish, Lithuanian and Slovenian.

- ¹¹ Vinokurov, E. (2017), 'Eurasian Economic Union: Current state and preliminary results,' *Russian Journal of Economics*, Vol. 3, No. 1, p. 58, Table 1, which cites the International Monetary Fund, the World Bank and national statistics agencies.
www.sciencedirect.com/science/article/pii/S2405473917300041 (June 2017).
- ¹² See Dragneva and Wolczuk (2017), pp. 11-12.
- ¹³ Dragneva and Wolczuk (2017), p. 15.
- ¹⁵ As described in Advanced Research Group (2015), *Report on the Research Regarding Nutritional Status of RA Population*, Yerevan: Oxfam GB, p. 40, in English and Armenian:
<http://foodsecuritysc.com/publication/report-on-the-research-regarding-nutritional-status-of-ra-population-2/> (January 2017).
- ¹⁶ ICARE, International Center for Agribusiness Research and Education (2015), *Country Report: Armenia*, Yerevan: EU AgriCIStade, p. 11 Table 4, www.agricistrade.eu/wp-content/uploads/2015/05/Agricistrade_Armenia.pdf (February 2017).
- ¹⁷ Avenue Consulting Group (2014), *Agriculture in Armenia: Snapshot*, Yerevan, p. 2, citing National Statistical Service of Armenia,
www.avenueconsulting.am/resources/avenue/uploads/pdf/aafab24852e8b106fd66818c0349bf8e.pdf (June 2017).
- ¹⁸ Central Intelligence Agency, *The World Factbook: Armenia*, 2016 estimate,
www.cia.gov/library/publications/the-world-factbook/geos/am.html (June 2017).
- ¹⁹ FAO (2016), *GIEWS Country Brief: Armenia*, Rome, December 20th,
www.fao.org/giews/countrybrief/country.jsp?code=ARM (February 2017).
- ²⁰ FAO (2012), *Assessment of the Agricultural and Rural Development Sectors in the Eastern Partnership Countries: The Republic of Armenia*, Budapest, for the EU, p. 10,
www.fao.org/europe/resources/assessment-of-agriculture-and-rural-development-sectors-in-the-eastern-partnership-countries/en/ (February 2017).
- ²¹ Knoema, *FAO Food Security Data, 2016*, <https://knoema.com/FAOFSD2017/fao-food-security-data-2016> (February 2017).
- ²² It is not clear if this refers to yields per hectare, value added (which is projected to rise by 99.6 per cent in agriculture in that time) or labour productivity (projected to rise by 99.5 per cent), or a measure that combines two or more of them.
- ²³ Republic of Armenia (2014), *Armenia Development Strategy for 2014-2025*, Yerevan, pp. 51, 55-56 (inc. Table 6) and 54,
https://eeas.europa.eu/sites/eeas/files/armenia_development_strategy_for_2014-2025.pdf (February 2017).
- ²⁴ Republic of Armenia (2017), *Programme of the Government of the Republic of Armenia*, Yerevan, pp. 77-83, www.gov.am/files/docs/2219.pdf (July 2017).
- ²⁵ These benefits have not been extended at all as generously to the 13 new member states, mostly in East and Central Europe, which have joined the EU since 2004.
- ²⁶ Dragneva and Wolczuk (2017), p. 17.
- ²⁷ These issues are fully discussed in Civil Society Mechanism (2016), *Connecting Smallholders to Markets: An analytical guide*, Rome, www.csm4cfs.org/connecting-smallholders-markets-analytical-guide/.
- ²⁸ Hovhanesian, H., and A. Yergenyanyan (2016), *Impacts of Armenia's Eurasian Economic Union Membership on the Local Economy and Agriculture*, Yerevan, for Oxfam GB (unpublished), p. 9.

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- ²⁹ Mchedlishvili (2016), p. 16, citing News.am (2013), ‘Over 300,000 Armenian Citizens Live in Russia,’ Yerevan, October 24th, <http://news.am/eng/news/177525.html> (July 2017).
- ³⁰ Dragneva and Wolczuk (2017), p. 22.
- ³¹ Vinokurov (2017), p. 68.
- ³² See T. Lines and others (2017), *The Global Agreement that Profits the Few: The ‘Modernisation’ of the EU-Mexico FTA*, Brussels: European Parliament, Greens/EFA Group, <http://mollymep.org.uk/2017/06/27/eu-mexico-fta-corporate-tax-avoidance/> (June 2017).
- ³³ White, M., and others (2003), ‘Trade Impact Review: Mexico case study: NAFTA and the FTAA: A gender analysis of employment and poverty impacts in agriculture,’ Women’s Edge Coalition, p. 19, www.iatp-web.us/iatp/files/NAFTA_and_the_FTAA_A_Gender_Analysis_of_Employ.pdf (November 2016).
- ³⁴ De Ita, A., (undated), ‘The Impact of Liberalization of Agriculture in Mexico: from the GATT to NAFTA’, Minneapolis, Institute for Agriculture and Trade Policy, pp. 1-2, www.iatp.org/files/Impact_of_Liberalization_of_Agriculture_in_Mex.htm (August 2015).
- ³⁵ Republic of Armenia (2014), p. 54, para. 230.
- ³⁶ Advanced Research Group (2015), p. 43.
- ³⁷ Republic of Armenia (2017), pp. 73-75, 79 and 81-83.
- ³⁸ Sedik, D., and others (2016B), pp. 42-43. Helpful lists of some of the relevant regulations for the EAEU, Russia and Kazakhstan respectively can be found in English on the European Commission’s website at https://ec.europa.eu/food/safety/international_affairs/eu_russia/sps_requirements_en (April 2017).
- ³⁹ Zolyan, M. (2015), *Letter from Yerevan*, Brussels: Carnegie Europe, November 13th, p. 3, <http://carnegiEAEUrope.eu/strategieurope/?fa=61962> (April 2017).
- ⁴⁰ Tert.am (2017A), *Armenia, Russia to launch joint investment fund*, March 15th, www.tert.am/en/news/2017/03/15/fund/2308968. See also Tert.am (2017B), *Armenia, Russia launch joint investment fund*, March 25th, www.tert.am/en/news/2017/03/25/investment-fund/2320257 (both in April 2017).
- ⁴¹ Hovhanesian and Yergenyanyan (2016), p. 32.
- ⁴² Miller, D. (undated), ‘Food Frontiers in Zambia: Resistance and Partnership in Shoprite’s Retail Empire,’ *Africa Files*, www.africafiles.org/article.asp?ID=18515: (November 2016).
- ⁴³ Reardon, T., P. Timmer and J. Berdeque (2004), ‘The Rapid Rise of Supermarkets in Developing Countries: Induced Organizational, Institutional, and Technological Change in Agrifood Systems,’ *Electronic Journal of Agricultural and Development Economics*, Vol. 1, No. 2, Rome: FAO, <https://core.ac.uk/download/pdf/6557502.pdf> (November 2016).
- ⁴⁴ *The Slovak Spectator* (2017), ‘Market Share of Slovak Groceries is Low,’ Bratislava, February 7th, <https://spectator.sme.sk/c/20453845/slovak-market-share-of-groceries-is-low.html> (July 2017).
- ⁴⁵ Minarechová, R. (2016), ‘Shops Still Sell Mostly Foreign Food,’ Bratislava: *The Slovak Spectator*, July 22nd, <https://spectator.sme.sk/c/20221065/shops-still-sell-mostly-foreign-food.html?ref=av-center> (July 2017).
- ⁴⁶ *The Slovak Spectator* (2017).
- ⁴⁷ Kis, G., and K. Kacz (2014), ‘Analysis of Agricultural Holdings of the Visegrad Four in the Post-Accession Period,’ in *Acta Regionalia et Environmentalica*, No. 1, pp. 36-40, www.degruyter.com/downloadpdf/j/aree.2014.11.issue-1/aree-2014-0007/aree-2014-0007.pdf (July 2017).