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Article

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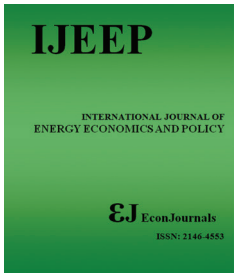
Reference: Kolomeytseva, Angelina A./Maksakova, M. A. (2019). Integration potential in energy sector : Eurasian Economic Union case. In: International Journal of Energy Economics and Policy 9 (2), S. 174 - 181.
doi:10.32479/ijeep.7426.



International Journal of Energy Economics and Policy

ISSN: 2146-4553

available at http: www.econjournals.com

International Journal of Energy Economics and Policy, 2019, 9(2), 174-181.

Integration Potential in Energy Sector: Eurasian Economic Union Case

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Received: 04 December 2018 **Accepted:** 06 February 2019 **DOI:** https://doi.org/10.32479/ijeep.7426

ABSTRACT

Using the potential of regional integration in different spheres may enhance the overall integration effect for the member states and contribute to more intensive modernization of the union economy. Due to historical conditions and a certain number of economic factors energy sector is one of the priority areas of cooperation for the Eurasian Economic Union countries. This study aims to assess the interconnection of the integration and energy Eurasian Economic Union (EAEU) agendas, based on the theory and practice of regional economic and energy integration. The findings from the research illustrate how formation of a common energy space due to integration of resource, economic, scientific and technological potential, will contribute to the deepening of integration processes and improving the competitiveness of the EAEU countries in the foreign markets.

Keywords: Energy Sources, Eurasian Economic Union, Integration
JEL Classifications: F02, Q40

1. INTRODUCTION

Growing interdependence of the countries, gradual erasure of borders between states and formation of the global market have led to the need of creating unions where the member states can interact with each other and with third countries on favorable terms, without compromising the rights and interests of each other.

The conditions of growing contradictions with worsening external economic and political conjuncture determine the need for more active use of the integration potential within the Eurasian Economic Union (EAEU) that is becoming increasingly important and more obvious every year. The year 2015 saw the creation of the EAEU, the organization that united the former Soviet republics of Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia. At the same time, the Union focuses not only on the development of intraregional relations, but also having an international status, may conclude international treaties with third countries, including far-abroad countries and strategically important partners in the Asian and Balkan directions. So far, the EAEU and Vietnam have signed an agreement on free trade and economic integration, besides, negotiations with Serbia, India and other countries are in progress (Eurasian Economic Commission [EEC], 2016).

This integration union came into existence with the signing of the Customs Union Agreement in 1995 by Belarus, Kazakhstan and Russia. In 2000, a new international organization, the Eurasian Economic Community (EurAsEC), was established with the aim of unifying the regulatory framework and harmonizing the economic restructuring processes of the member countries. The next stage of integration dates back to 2007, when the Treaty on the Establishment of the Common Customs Territory and Formation of the Customs Union was signed. By 2010, with the Common customs tariff introduced and the Unified Customs Code adopted under the Treaty, the Customs Union came into operation, which ensured free circulation of goods within the single customs territory. In 2012, the member states formed a single economic space (SES).

2014 witnessed the signing of the Eurasian Economic Union Treaty, with its regulatory basis drawing on the legislation of the

Customs Union and the SES modified to conform to the rules of the World Trade Organization (WTO). The Treaty stipulates the powers of the key integration institutions: the Supreme Eurasian Economic Council (heads of states), the Intergovernmental Council (heads of governments), the EEC (Eurasian standing regulator), Court of the Eurasian Economic Union (adjudication of economic disputes).

SES implies not only free movement of goods, services, capital and labor force but also coordinated actions in the key areas of economy regulation including significant energy sector. The idea of creating common markets for electricity, oil, gas and coal first appeared within the EurAsEC, but at that time no specific deadlines have been defined. In 2003, the Interstate Council approved the Basics of the Energy Policy of the EurAsEC member states, the main goal of which was to ensure the energy independence and energy security of the countries due to the creation of a common market for energy resources. It was also envisaged to deepen cooperation in the development of new energy deposits, their processing, transportation, as well as expanding the transit potential of the member states. The EurAsEC Treaty was terminated on January 1, 2015 in connection with signing of the Treaty establishing the EAEU, which, among other things, provides for the formation of common energy markets, and fixed deadlines for the implementation of energy projects.

2. THEORY AND LITERATURE REVIEW

At the contemporary stage of the world economic development, the tendency towards regionalization is greatly intensifying and acquiring new outlines, many countries consider this process as one of the ways to uphold national interests in the world market. Regional economic integration involves joint activities of several states at the regional level, leading to the unification of their economies into the single regional economic complex of one type or another, allowing countries to realize common economic and political interests, strengthen their regional competitive advantages in the global economy.

Profound forms of economic integration, such as a customs union, a common market, an economic union, and various forms of preferential relations without creating supranational institutions (FTA, EIA) reflect two currently dominant concepts of integration - the so-called "closed" ("old") and "open" ("new") regionalism. Together, they form situation of integration processes in the modern world.

The term "old regionalism" was used by Ethier in 1998 and was a synonymous with the term "First Regionalism", introduced by Bhagwati in 1991 to refer to the first wave of active development of regional integration (late 1950s - 1960s) (Ethier, 1998; Bhagwati, 1991).

The concept of traditional (closed, old) regionalism is based on European experience and implies a consistent deepening of the integration level and expansion of number of areas in which interaction takes place in a preferential mode with the formation of supranational regulatory bodies. In context of traditional regionalism, creation of a free trade zone is interpreted as an intermediate step towards deeper forms of integration, as the first step in the classification proposed by the well-known American economist of Hungarian origin Bela Balassa, who identified five stages of integration and showed that this process is aimed at eliminating various kinds of discriminatory and restrictive actions and develops from simpler forms of economic interaction between countries to more complex ones: free trade zone, customs union, common market, economic and monetary union, full economic and political integration.

The inherent characteristic of traditional regionalism is the dirigisme doctrine, i.e., the need for a combination of "negative" and "positive" integration, the removal of barriers to the movement of goods and production factors, as well as constructive coordination of economic policy that go beyond general liberalization. Thus, traditional regionalism is aimed at creating a deeply integrated common market, acting as a single subject of the world economy.

The terms "open regionalism" and "new regionalism" are synonymous and are used to refer to the second wave of integration initiatives (late 1980s, 1990s to the present time) (Bergsten, 1997; Bhagwati, 1993). Initially, the term "Open Regionalism" was used to describe economic interaction and the approach to trade liberalization within the APEC framework in the late 1980s and early 1990s and implied the elimination of barriers for the sake of regional cooperation development and its promotion without discrimination of outsiders of the integration process. The basis for the emergence of "Open Regionalism" was the specificity of cooperation in the Asia-Pacific region, the development of which was forced not by intergovernmental agreements ("formal integration"), but by business initiatives interested in deepening interaction at the micro level.

Within the framework of the "open regionalism" concept, it is intended to agree on common approaches, but not to develop a single market policy. The emphasis is on expanding rather than deepening the integration process. This approach is aimed at maximizing the level of mutually beneficial trade and economic cooperation between countries, while fully preserving their sovereignty in all areas and does not imply the development of deep integration forms. The phenomenon of "open regionalism" has been studied extensively, but discussions about its essence and prospects still going on. Currently, both concepts (old and new regionalism) are implemented in parallel, often within the framework of one integration project. In our opinion, in real practice this situation can be observed within the Eurasian integration model, where a number of approaches inherent in closed regionalism are combined with the model of multi-level and multi-speed integration.

The 1991 collapse of the Soviet Union left many economic ties between the republics destroyed. The 12 former Soviet Republics (with the exception of 3 Baltic States which joined the EU) formed the Commonwealth of Independent States (CIS) aimed at creating favorable conditions for regional integration development. However, liberalization of foreign trade and access to competitive foreign markets engaged these post-Soviet states in

international exchange of goods and made them interested in global rather than intra-regional trade. Nevertheless, it is worth noting that despite a decline in the CIS intra-regional trade share in the 1990s - early 2000s, the intensity of intra-regional trade remained relatively high and a large-scale Russian market continues to be a favorable factor for achieving the goals of trade diversification and structural reforms aimed at modernizing the economies of the EAEU countries (Gurova et al., 2018).

Much academic attention has been paid to another feature of the EAEU, namely, Russia's dominant position in it. Russia accounts for the larger part of the region's GDP and its foreign trade turnover and, therefore, is often seen as the regional hegemon seeking domination. However, Libman and Hancock who consider this issue in terms of comparative regionalism, point out that many regions do have economically dominant states who offer financial and other incentives to their neighbors, encouraging them to enter into integration agreements (Hancock and Libman, 2016). At the same time, considering the prospects of Eurasian integration, Libman and Vinokurov claim that asymmetry and the smaller economies' fears of growing dependence may hinder the development of post-Soviet regionalism (Libman and Vinokurov, 2012).

It took considerable time to harmonize the interests and overcome the contradictions that attract attention of many authors (Hartwell, 2013; Benešováa and Smutkaa, 2016). When created, the full-fledged integration union consisted of 5 member states and was notified to the WTO in December 2014 as a customs union and an economic integration agreement, in conformity with Article XXIV of the GATT and Article V of the GATS.

Nowadays, researchers have different deliberations regarding objectives and motives for establishing the EAEU, its peculiarities and prospects. One of the main objectives stated in the Treaty on the Eurasian Economic Union, is "to ensure comprehensive modernization, cooperation and more competitive national economies within the global economy" (EAEU, 2014). The primary task for all the EAEU countries is to modernize and diversify their economies and overcome specialization in commodities, fuels and power, formed as a result of joining the global trade. Indeed, when it comes to modernization and diversification, it is regional opportunities that the EAEU states mainly rely on. Intra-regional integration is viewed as a tool for achieving economic development goals by joint efforts. Modernization, in its turn, could be a positive factor in making the integration deeper.

International competition has revealed post-Soviet States' competitive advantages and has resulted in their 'deepening' commodity specialization, especially in Russia, whose reserves of mineral fuels are estimated as extensive. Undoubtedly, the issues of energy policy and trade in mineral fuels are, indeed, crucial to the EAEU. In particular, Art. 81, 83, 84 of the Eurasian Economic Union Treaty provides for the creation of common electricity markets (no later than July 1, 2019), gas (no later than January 1, 2025), oil and oil products (no later than January 1, 2025). Annex 22 to the Treaty establishes the basic principles of cooperation between Russia, Belarus and Kazakhstan in the gas sphere, including the fundamentals of pricing and tariff policy. It is envisaged to ensure equal access to gas transmission systems and the services of natural monopolies of member states to ensure the supply of gas to domestic markets. It is also planned to unify transit tariffs, ensure equal profit gas prices, develop long-term mutually beneficial relations in gas transportation across the Union member states territories, and intensify activities on the construction, operation and reconstruction of gas infrastructure facilities.

The studies of Russian researchers examine various aspects of the Eurasian integration energy agenda, assess the main risks and prospects for integration in the energy sector, the state and prospects of the Russian fuel and energy complex development (Akhmetshin et al., 2018), the role and importance of Russia in the development of oil refineries in both domestic and foreign markets (Guliyev et al., 2017). However, there is a certain gap in the systemic research of the connection between the integration and energy agendas of the Eurasian Economic Union, that is the main purpose of this study.

3. RESULTS AND DISCUSSION

The Eurasian Economic Union has a powerful energy potential, having a leading place in the world in terms of production and exports of hydrocarbons. The EAEU member states have been closely cooperating in the field of production, transportation, refining, and trade of energy resources for many years.

3.1. Energy Potential of the EAEU Countries

Today, the EAEU countries account for 8% of the world's oil reserves and 15% of its production and exports, 18% of natural gas reserves and 25% of its world exports, 18% of world coal reserves and 6% of its world production, as well as 5% of world electricity production.

The geographical distribution of hydrocarbon reserves in the EAEU countries is as follows: the main part of the reserves of mineral raw materials and fossil fuels is concentrated in Russia, Kazakhstan also has significant reserves of natural resources. Minor oil and gas reserves have been explored in Belarus. At the same time, there are practically no proven hydrocarbon reserves in Armenia and Kyrgyzstan. It should be noted that the development of hydrocarbon deposits in Kyrgyzstan is complicated due to geological features, as well as poorly developed infrastructure.

In 2016, oil production in the EAEU amounted to 624.7 million tons, gas - 671.9 billion m^3, electricity - 1238.46 billion kWh. At the same time, the authors note that the export of energy resources of the EAEU countries is mainly focused on third countries, and the share of mutual trade is quite low (Table 1).

Fuel and energy complex share in the GDP of the EAEU countries is 17%, its' share in the industrial production is about 33%. This potential is the basis for the development of integration processes, so the economic integration in the EAEU began from energy sector. However, today the EAEU countries and the post-Soviet space are facing both with problems common to the world economy, and with very specific challenges (Zhukov, 2016).

Table 1: General indicators of the energy sector of the EAEU member states in 2016

Indicator	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	EAEU
Gas (billion m³)						
Reserves	-	3.0	1500.0	6.0	32600.0	34109.0
Production		0.2	33.9	0.03	637.8	671.9
Total exports	-	-	9.5	-	201.4	210.9
Exports to third countries	-	-	0.4	-	177.0	177.4
Total imports	2.3	18.6	5.0	0.2	8.9	35.0
Imports from third countries	0.4	-	1.1	-	-	1.5
Domestic consumption	2.3	19.3	13.1	0.2	484.1	519.0
Oil (million tons)						
Reserves	-	60.0	3900.0	11.0	14100.0	18071.0
Production	-	1.6	75.5	0.1	547.5	624.7
Refining	-	18.4	16.3	0.2	280.7	315.6
Total exports	-	1.6	60.8	-	254.2	316.6
Exports to third countries	-	1.6	60.0	-	235.6	297.2
Total imports		18.4	0.0	0.1	0.7	19.2
Imports from third countries	-	-	-	-	-	-
Oil products (million tons)						
Total exports	-	16.8	4.8	0.1	171.5	193.2
Exports to third countries	-	16.7	4.6	0.1	168.7	190.1
Total imports	0.3	1.4	1.8	1.5	1.2	6.2
Imports from third countries	0.1	-	1.0	0.6	1.1	2.8
Electricity (billion kWh)						
Capacity (GWh)	3.3	9.8	22.0	3.6	244.1	282.8
Production	7.3	33.3	94.0	12.8	1091.0	1238.4
Consumption	6.3	36.3	92.3	12.9	1078.5	1226.3
Exports	1.2	0.1	3.1	0.2	16.0	20.6
Imports	0.2	3.1	1.4	0.3	3.5	8.5

Source: Eurasian Economic Commission (2017). EAEU: Eurasian Economic Union

Among the special challenges all the EAEU member states are facing with, we can distinguish the lack of competitiveness, high dependence on the energy sector and imports. Thus, mineral raw materials and fossil fuels account for more than 70% of Russia's exports, while more than a half of its' imports consists of high-tech goods. This situation is also typical for another exporter of energy resources - Kazakhstan. Today, the oil and gas complex of Kazakhstan does not fully meet the country's energy needs, which makes it necessary to import energy resources from Russia and other countries. Another challenge for the EAEU countries is the downward trend in the world energy markets caused by the fall in oil prices. It is a common knowledge that the budget of Russia and Kazakhstan - the main oil exporters in the EAEU - directly depends on the world oil prices.

The formation of common energy markets involves ensuring the free movement of energy resources through the territories of the EAEU member states, the creation of a competitive environment in the energy sector, ensuring equal access to services of natural monopolies in the field of transportation and transit of energy resources, joint development of infrastructure of energy markets and the implementation of a coordinated tariff policy (EEC, 2015).

It is indicated that the priority areas for cooperation in the oil and gas sector are the following ones:

- Gradual formation of common markets for gas, oil and oil products;
- Development and coordination of indicative balances of gas, oil and oil products;
- Ensuring unhindered access of economic entities of the member states to gas, oil and oil products transportation systems;
- Unification of norms and standards for gas, oil and oil products;
- Creation of information exchange systems for the supply and consumption of oil and gas resources.

Among the key areas for cooperation in the gas sector the EAEU member states representatives have concentrated on the following: Transportation of gas through the member states territories; construction, reconstruction, and operation of gas pipelines, underground gas storage facilities, as well as other gas transportation infrastructure; provision of services necessary to meet domestic gas demands.

There were also introduced the main cooperation principles in the electricity sector:

- The use of technical and economic advantages of parallel operation of electric power systems;
- The absence of economic damage in the implementation of the parallel operation of electric power systems;
- The use of mechanisms based on market relations and fair competition as one of the main tools for the formation of a sustainable system to meet the demand for electricity;
- Step-by-step formation of the common electric power market on the basis of parallel operating electric power systems, taking into account the peculiarities of the existing models of electricity markets;
- Gradual harmonization of legislation in the field of electricity;
- Harmonization of technical regulations.

3.2. Analysis of Mutual Trade Relations in Commodities between the EAEU Countries

Russia is the undisputed leader in reserves, production, consumption, and exports of natural gas among the EAEU countries, providing 95% of production and export supplies. The volume of bilateral gas trade between the EAEU member states in 2016 amounted to 33.5 billion m^3. The Russian monopoly "Gazprom" operates in almost all countries of the EAEU, with the exception of Kazakhstan - this company owns gas pipeline networks in Armenia, Belarus, and Kyrgyzstan (Table 2).

The first finding of the present research revealed that mutual gas trade in the EAEU is developing in a bilateral format - Russia is an exporter of gas of Russian origin (to such countries as Armenia, Belarus, Kazakhstan), as well as an importer of gas of Central Asian origin. The share of mutual gas trade is low - there are no gas supply contracts between Armenia, Belarus, Kazakhstan, and Kyrgyzstan, so they all import gas from Russia.

Besides, the dependency of the EAEU countries from natural gas supplies from Russia varies. Belarus is mostly dependent on Russian gas, while Kazakhstan is the least dependent. This is mainly due to the availability of its own natural gas production capabilities in Kazakhstan, where Russian gas is supplied solely because of the technical characteristics of the gas transportation system to provide the southern regions. As well as gas supplies from Russia, Armenia also imports gas from outside the EAEU - from Iran, while Kyrgyzstan imports gas from Uzbekistan (in the southern part), Kazakhstan (in the Northern part), and Russia.

The second finding of the present research revealed that another feature of the gas industry in the EAEU is a pronounced orientation of gas exports to foreign markets, as the volume of gas production exceeds significantly its consumption. This leads to a high dependence of gas-producing countries (Russia, Kazakhstan) on exports to third countries. In this regard, we note the special importance of transit countries.

It is indicated that Belarus is an important transit country for Russian gas exports to Europe. As it was already mentioned, "Gazprom" owns the Belarusian gas transportation system. Besides, a major gas pipeline "Yamal-Europe" with a capacity of 33 billion m^3 crosses the territory of this country. Another major gas transit country is Kazakhstan due to its geographical position. The territory of this country is used for the transit of Central Asian natural gas to Russia, and vice versa. The existing network of gas pipelines in Kazakhstan is a part of the former Soviet gas pipeline system. The main transport corridor through which gas of Central Asian origin is exported to Russia and further to the CIS and EU countries is the "Central Asia-Center" gas pipeline with a capacity of 55 billion m^3.

Table 3 shows that Russia is the main oil exporter to the EAEU, providing 95% of mutual exports. The volume of mutual oil trade between the EAEU states in 2016 amounted to 19.2 million tons, 18.4 of which were exported by Russia. Russia also imports oil from Kazakhstan, however, in very small volumes - 0.8 million tons in 2016. A year earlier - in 2015, Russia has also exported oil to Kazakhstan in the amount of 0.5 million tons, but in 2016 Kazakhstan managed to get self-production.

As in the gas trade, oil supplies between Russia and Kazakhstan are carried out under a swap scheme - Kazakhstan exchanges its oil for Russian oil in the same volume, and Russia in its' turn exports it to China.

The results have shown that the volume of mutual trade in oil products leaves cold. In 2016, mutual trade in oil products of the EAEU countries amounted to 3 million tons, and Russia accounts for 90% of it. This country exports oil products to all EAEU countries, as well as imports them from Belarus and Kazakhstan. At the same time, bilateral trade between Russia and Belarus accounts for 50% of the mutual trade in oil products.

It is also indicated that the most sensitive issue of integration of energy markets in the EAEU is the establishment and procedure for the collection of export duties. As a result of the formation of the Customs Union between Russia, Belarus and Kazakhstan in 2011, goods imported from third countries became subject to customs duties at the border of the Customs Union. Duties were distributed in the following proportion: Belarus - 4.7%, Kazakhstan - 7.33%, Russia - 87.97%. After the accession of Armenia to the EAEU in

Table 2: Mutual gas trade of the EAEU member states in 2016 (billion m^3)

Indicator	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	EAEU
Armenia						
Exports		-	-	-	-	-
Imports		-	-	-	1.9	1.9
Belarus						
Exports	-		-	-	-	-
Imports	-		-	-	18.6	18.6
Kazakhstan						
Exports	-	-		0.2	8.9	9.1
Imports	-	-		-	3.9	3.9
Kyrgyzstan						
Exports	-	-	-		-	-
Imports	-	-	0.2		0.0	0.2
Russia						
Exports	1.9	18.6	3.9	0.0		24.4
Imports	-	-	8.9	-		8.9

Source: Eurasian Economic Commission (2017). EAEU: Eurasian Economic Union

Table 3: Mutual trade in oil and oil products of the EAEU member states in 2016 (million tons)

Indicator	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	EAEU
Armenia						
Oil exports		-	-	-	-	-
Oil imports		-	-	-		-
Oil products exports		-	-	-	-	-
Oil products imports		0.0	-	-	0.1	0.1
Belarus						
Oil exports	-		-	-	-	-
Oil imports	-		-	-	18.4	18.4
Oil products exports	0.0		0.0	-	0.1	0.1
Oil products imports	0.0		0.0	-	1.4	1.4
Kazakhstan						
Oil exports	-	0.0		-	0.8	0.8
Oil imports	-	-		-	0.0	0.0
Oil products exports	-	0.0		0.1	0.0	0.1
Oil products imports	-	0.0		0.0	0.8	0.8
Kyrgyzstan						
Oil exports	-	-	-		-	-
Oil imports	-	-	0.0		0.0	0.0
Oil products exports	-	-	0.0		-	0.0
Oil products imports	-	0.0	0.1		0.5	0.6
Russia						
Oil exports	-	18.4	0.0	0.0		18.4
Oil imports	-	-	0.8	-		0.8
Oil products exports	0.1	1.4	0.8	0.5		2.8
Oil products imports	-	0.1	0.0	-		0.1

Source: Eurasian Economic Commission (2017). EAEU: Eurasian Economic Union

2014 and Kyrgyzstan in 2015, the redistribution of duties occurred mainly at the expense of Russia. Today, the income received from import duties is divided between the EAEU members in the following proportion: Armenia - 1.11%, Belarus - 4.56%, Kazakhstan - 7.11%, Kyrgyzstan - 1.9%, Russia - 85.32%.

At the same time, each EAEU member reserved the right to determine the amount of export duties on oil, oil products, and gas independently, which are levied when exporting to third countries and are not paid in mutual trade between the EAEU member states.

Furthermore, it can be understood that some oil products produced on the territory of Belarus from raw materials of Russian origin are intended for re-export to third countries. Until 2015, the export duties levied by the Belarusian side were partially compensated to the Russian budget, but after the Treaty on the functioning of the EAEU entered into force, the procedure has changed. Today, when exporting oil products from Belarus to third countries, the amounts of export customs duties paid in full are transferred to the budget of Belarus in US dollars. In the case of a short supply of gasoline by more than 10% of the stipulated volume, Russia has the right to cut the volume of oil products supplied to Belarus. This interdependence of the volumes of gasoline supplies from Belarus to Russia and crude oil from Russia to Belarus serves as a guarantee to prevent gasoline shortages in the Russian market.

Thus, the third finding of the present research revealed that the benefits of participation in the EAEU are distributed among the countries unevenly. On the one hand, the system of distribution of incomes from import customs duties brings significant income to Russian partners. On the other hand, the absence of export duties on oil, oil products, and gas in the EAEU is also beneficial for industries that use energy resources.

Another important sector of energy integration of the EAEU countries is the electricity industry. After the collapse of the Soviet Union in many post-Soviet countries, along with the economic crisis, the energy crisis occurred. In the 1990s, in Armenia, Belarus, Kazakhstan, Kyrgyzstan, there happened regular power outages. Due to the inflow of Russian investments in the 2000s, the generating capacities and transport infrastructure in the EAEU countries were gradually modernized.

The total installed capacity of electricity in the EAEU in 2016 amounted to 282.8 GW. Russia accounts for 86% of it, Kazakhstan - 8%, Belarus - 3.5%. Today, in almost all the EAEU countries, with the exception of Belarus, generating capacities of power plants are sufficient for self-production of electricity. In 2016, mutual trade in electricity of the EAEU countries amounted to 7.6 billion kWh (Table 4).

More than 90% of the production potential of the Russian electric power industry is integrated into the Unified energy system. Today, Russia exports electricity to countries near and far abroad. The highest level of integration in the electricity sector has been achieved in bilateral relations between Russia and Kazakhstan, which have traded electricity on a reciprocal basis since 2001.

Electricity generation in Belarus is almost totally provided by the use of natural gas imported from Russia. Through the territory of Belarus export supplies of electricity from Russia and transit supplies to Kaliningrad pass.

Armenia remains highly dependent on Russian supplies in the energy sector. Many energy facilities in Armenia are owned or managed by Russian companies. For example, in 2002 power distribution networks were privatized and in 2005 became the

Table 4: Mutual trade in electricity of the EAEU member states in 2016 (billion kWh)

Indicator	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	EAEU
Armenia						
Exports		-	-	-	-	-
Imports		-	-	-	-	-
Belarus						
Exports	-		-	-	0.0	0.0
Imports	-		-	-	3.2	3.2
Kazakhstan						
Exports	-	0.0		0.3	2.8	3.1
Imports	-	0.0		0.2	1.1	1.3
Kyrgyzstan						
Exports	-	-	0.2		-	0.2
Imports	-	-	0.3		0.0	0.3
Russia						
Exports	-	3.2	1.1	0.0		4.3
Imports	-	0.0	2.8	-	-	2.8

Source: Eurasian Economic Commission (2017)

property of RAO UES. Russia owns Razdan thermal power plant (which was transferred in 2002 to pay off the state debt of Armenia), which supplies electricity not only to Armenia, but also to Iran and Georgia.

After the collapse of the Soviet Union, Kyrgyzstan was perhaps in the worst economic situation. During the 1990s - 2000s this country was in the energy blockade from the neighboring republics for technical reasons. Only in recent years, the situation gradually began to improve.

It should be noted that Kyrgyzstan has a unique potential in the electricity industry - the hydropower potential of this country is about 142 billion kWh of electricity. Currently, not more than 10% of this potential is used, and it is hydropower that should become the locomotive for the development of electricity industry in Kyrgyzstan (Telegina, 2017). This country also serves as a transit territory for electricity supplies from Tajikistan and Kazakhstan - one of the largest exporters of electricity to the EAEU.

The study of the economic interdependence of the EAEU countries through the prism of the analysis of mutual trade in energy resources shows that the degree of integration of the economies of the EAEU countries has significant potential for future dynamic development. Today, the share of mutual trade of the EAEU countries accounts for only 16% of gas exports, 6% - oil, 1.6% - oil products, as well as 37% of electricity. At the same time, Russia accounts for more than 90% of energy trade. Creation of the common energy market of the EAEU countries by 2025, should accelerate the development of mutually beneficial cooperation in the energy sector, the promotion of bilateral relations between the EAEU countries (in addition to Russia - EAEU relations), the deepening of economic relations between the EAEU countries, as well as generally contribute to strengthening the position of this integration union in the foreign markets.

4. CONCLUSION

In its development, the integration processes in the EAEU follow the path of other major world integration associations - the EU, NAFTA, MERCOSUR, for which cooperation in the energy sector is one of the main directions of integration strategies.

We have no doubts that energy integration in the EAEU will lead to a strong growth of production in the energy sector, accelerate the investment flows within the EAEU, increase the availability of energy for consumers, and encourage R and D.

Given the fact that the share of mutual gas trade is low, and exports are focused mainly on third countries, the key problem of the creation and functioning of a common gas market is the coordination of the export policy of the EAEU countries. Key exporters - Russia, Kazakhstan, as well as the importer - Belarus have identified geographical and commodity diversification of energy supplies as the main goals in their energy strategies. And this reason indicates centrifugal rather than centripetal trends of the energy agenda in the EAEU. At the same time, from our study, we can infer that the most sensitive issues for the gas exporting countries - related to the regulation of gas exports to third countries - are beyond the brackets of integration processes, and this fact indicates the flexible approach of the EAEU countries to the most controversial issues of energy cooperation.

The formation of common markets for oil and oil products will allow the EAEU countries to use the existing resource potential more effectively, ensure non-discriminatory access to the markets of the member states, improve the reliability of oil and oil products supplies, expand export opportunities and optimize transit flows. The use of oil as a fuel should be combined with highly efficient oil refining, the products of which have high added value and are in demand both in the domestic market of the EAEU countries and in the foreign markets. It was found that the integration of oil markets does not provide for the unification of tariffs for the transit of oil and oil products, that is, the EAEU countries will keep the right to determine the rates of transit tariffs on their territory independently.

The emergence of a common electricity market will undoubtedly have a positive impact on the functioning of the electricity industry in the EAEU countries. It will be possible to respond in a timely manner to disruptions in the supply of electricity in some countries

(for example, in Kyrgyzstan) due to the transfer of its' capacity from the others. The development of common safety rules, standards, norms for the construction and operation of electric power infrastructure facilities will contribute to the expansion of joint projects and attract additional investments from the EAEU member states for the development of the electricity industry. The long-term goal may be electricity exports from the EAEU countries to foreign markets - European, Asian, post-Soviet.

The creation of a common energy space due to the integration of resource, economic, scientific and technological potential, will undoubtedly contribute to the deepening of integration processes, increasing the competitiveness of the EAEU countries in the foreign markets, as well as ensuring energy security in this integration union.

We believe that the current foreign policy situation should be the starting point for changing the structure of trade of the EAEU countries. Today, there is a unique opportunity to move from a model based on the use of raw materials to the innovative and industrial application for the development of the economies of the EAEU countries. In the long term, the energy industry can become the basis of industrial cooperation of the EAEU countries, turning the transfer of oil and gas revenues into the added value of final technological goods.

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