



Russia's restrictions on imports of agricultural and food products: An initial assessment

CONTENTS

1	Introduction	1
2.	Implications for the domestic market	1
3.	Implications for exporters and global markets	5
4.	Pending issues	6
	Annex	8

1 Introduction

On 7 August 2014 Russia announced a ban on food imports from Western countries which, in an earlier move, had imposed sanctions on Russian business interests in connection with the crisis in eastern Ukraine. The prohibition was effective immediately, and will stay in place for one year, blocking all imports of affected products from the European Union, United States, Canada, Australia and Norway. The list published by the Russian government covers bovine meat, pig meat, processed meats, poultry, fish and other seafood, milk and milk products, vegetables, fruits and nuts¹.

The import ban came in the wake of other import restrictions imposed by Russia on agricultural and food products earlier this year. In January 2014, Russia banned all pork imports from the EU on the grounds of recorded cases of African swine fever in wild boars in border areas of Poland and Lithuania. Other prohibitions included a ban on dairy exports from the Netherlands, quoting sanitary reasons, and on exports of meat from Ukraine, referring to an inadequate level of monitoring of meat quality standards. At the end of July 2014 bans on milk and milk products from Ukraine and fruit from Moldova were introduced, all on SPS grounds. On 1 August 2014 fruits and vegetables from Poland had already been blocked from entering the Russian market on the basis of unacceptable levels of pesticide residues and nitrates.

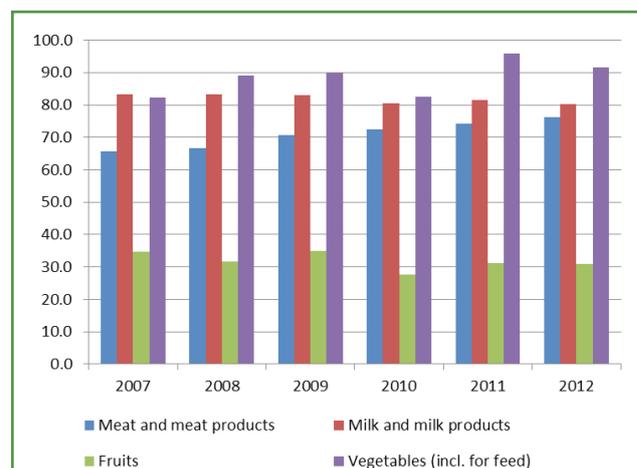
Although the latest bans add to a long list of import restrictions already in place, the scope of the bans, involving a large range of products from the main exporters to the Russian market raised concerns that supplies of key commodities to the Russian market would be further constrained, with negative implications for Russian consumers across all income levels, at least in the short run. This note examines the importance of the affected imports for consumption in Russia and discusses factors which will influence the dynamics of supply and demand response to the ban.

2 Implications for the domestic market

Effects on consumers

Russia is a net exporter of cereals and is able to fully satisfy the domestic demand for most grains except rice, which it imports in small quantities. It is also a major exporter of sunflower oil and produces most of the oils and sugar that it consumes. On the other hand, Russia is a major importer of meat, importing about one quarter of all meat consumed in the country. For milk and milk products, domestic production accounts for approximately 80 percent of domestic demand, with the rest imported. For fruits, the share of own production in total consumption is the lowest among all products on the list at approximately 31 percent in 2012. For vegetables as a group, Russia is largely self-sufficient, although for some products, such as tomatoes, it is a large importer.

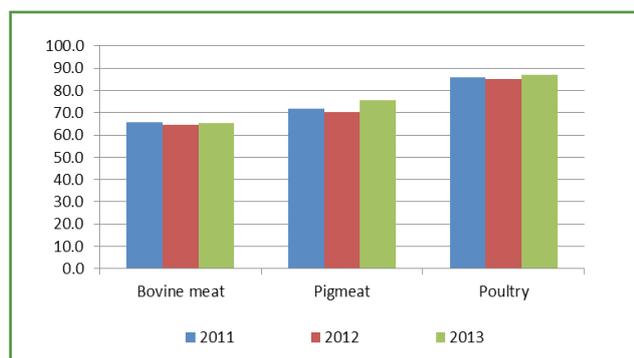
Share of own production in total utilization of products subject to the ban (percentage)



Source: Own calculations based on data from the Federal State Statistics Service

¹ See Annex for the full list with the corresponding HS codes.

Share of own production in total utilization of the main types of meat (percentage)



Source: Own calculations based on FAO-EST data

Although for some meats, like pigmeat and poultry, the share of own production in total utilization has increased from 2011 to 2013, domestic production still falls short of the total demand, and imports are needed to fill the gap. Bovine meat is where imports are particularly important, as only 65 percent of domestic consumption is satisfied by own production. Russia's meat production contracted substantially following the collapse of the Soviet Union, as market reforms triggered reallocation of resources towards the more competitive grain sector and away from less competitive, high cost, meat production².

The products affected by the import prohibition account for approximately two thirds of the total household expenditure on

Weights of products affected by the ban in food CPI (percentage)

Products	Weight (%)
Beef	6.52
Pork	6.51
Chicken	6.46
Prepared meats	13.26
Fish	4.36
Dairy	16.97
Fruits	7.93
Vegetables	5.40
Combined share in food CPI	67.40
Combined share in CPI	22.37

Source: Own calculations based on data from the Federal State Statistics Service

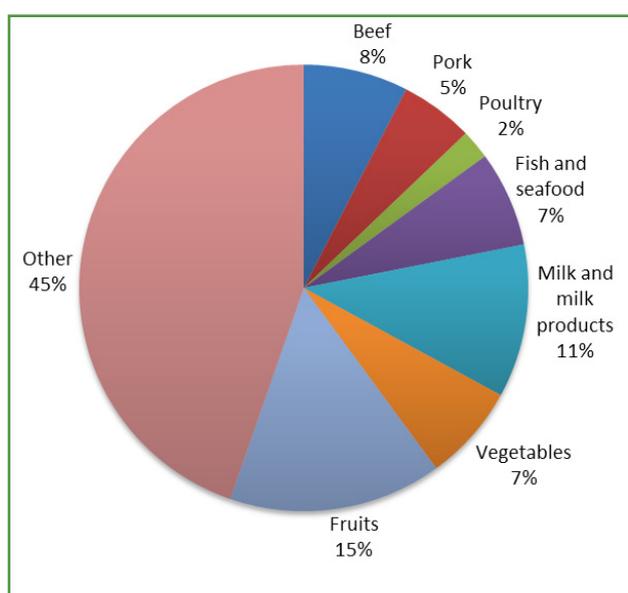
Weekly price changes for meat, fish and dairy products (percentage)

Products	Average weekly Jan-Jul 2014	4-11 Aug 2014	12-18 Aug 2014	19-25 Aug 2014	25 Aug-1 Sept 2014
Beef	0.1	0.4	0.2	0.3	0.3
Pork	0.6	0.2	0.5	0.9	0.6
Chicken	0.5	0.8	0.9	1.4	1.1
Frozen fish	0.3	0.1	0.3	0.5	0.3
Milk	0.3	0	0.1	-0.1	0.1
Butter	0.3	0.2	0.2	0.1	0.1
Cheese	0.2	-0.1	0.2	0.4	0.5

Source: Own calculations based on data from the Federal State Statistics Service

food products as reflected in the weights used in the calculation of the Consumer Price Index (CPI) in Russia. Prepared meats such as sausages and dairy products are the groups with largest weights in the food CPI, with shares of 13.3 percent and 17.0 percent, respectively. Price increases on these products would therefore have important implications for the overall cost of food purchased by Russian households. Combined with the stagnating purchasing power of the Russian population due to an economic slowdown, price increases could lead to a decline in food demand, and/or to substitution towards products of lower quality or less nutritional value.

Shares of banned products (from all sources) in total value of Russia's agri-food imports in 2013 (percentage)



Source: UN Comtrade

Note: Russia does not report imports from Belarus or Kazakhstan. Russia's imports from Belarus were calculated as Belarus' exports to Russia, however imports from Kazakhstan due to data limitations. ²

² Liefert M. & Liefert, O. (2012) Russian Agriculture during Transition: Performance, Global Impact, and Outlook. Applied Economic Perspectives and Policy, 2012, volume 34, number 1.

According to official statistics, in the weeks following the ban there were not any sizable increases in prices of the products for which imports have been restricted, although for some products, like chicken, the weekly changes after the ban was introduced have exceeded the average inflation in the previous weeks¹.

The products affected by the ban account for a large share of Russia's agricultural and food imports, 56 percent in 2013, when they amounted to US\$ 23.5 billion in import value. Fruits constituted the most important import group among these products, corresponding to 15 percent of Russia's total agri-

Value of exports for products affected by the ban. US\$ million 2013

Products	From all sources	From banned countries	Share of banned countries in total
	US\$ million		(%)
Beef	3 164	276	8.7
Pork	2 213	1 570	70.9
Poultry	895	432	48.3
Fish and seafood	2 895	1 541	53.2
Milk and milk products	4 653	1 786	38.4
Vegetables	2 930	946	32.3
Fruits	6 434	1 755	27.3
All affected products	23 185	8 306	35.8

Source: UN Comtrade

Note: Russia does not report imports from Belarus or Kazakhstan. Russia's imports from Belarus were calculated as Belarus' exports to Russia, however imports from Kazakhstan due to data limitations.

Shares of imports from the countries affected by the ban in Russia's total imports of the product in 2013, percentage

Products	Beef	Pork	Poultry	Fish and seafood	Milk and milk products	Vegetables	Fruits
Australia	4.1	0.0	0.0	0.0	0.9	0.0	0.1
Canada	0.0	11.1	0.0	4.1	0.0	0.1	0.0
EU	4.6	58.9	10.6	7.5	37.4	31.9	23.5
Norway	0.0	0.0	0.0	39.0	0.1	0.0	0.0
USA	0.0	0.9	37.7	2.6	0.0	0.3	3.6
Total sanctioned	8.7	70.9	48.3	53.2	38.4	32.3	27.3
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: UN Comtrade

Note: Russia does not report imports from Belarus or Kazakhstan. Russia's imports from Belarus were calculated as Belarus' exports to Russia, however imports from Kazakhstan due to data limitations.

food imports, followed by milk and milk products at 11 percent of the total.

The value of total Russian imports of the banned products from the affected countries amounted to US\$ 8.3 bn in 2013, with milk and milk products being the biggest category, followed by fruits. Of total imports of products covered by the prohibition, 35.8 percent originated in either US, EU, Canada, Australia or Norway.

Thirty eight percent of Russia's poultry imports come from the US, while the EU supplies most pork to the Russian market at 58.9 percent of imports. The EU is also an important supplier of milk and milk products (37.4 percent of imports from all destinations), vegetables (31.9 percent) and fruits (23.5 percent). Thirty nine percent of Russia's fish and seafood imports come from Norway. Most beef is imported from South America, in particular Brazil and Uruguay, and therefore the share of the banned countries in Russia's beef imports is quite low.

Effects on producers

Russian agricultural policy places strong emphasis on import substitution, with instruments that include border measures and input subsidies to provide incentives to agricultural producers and boost domestic production. Self-sufficiency is one of the central goals of the Doctrine on Food Security adopted in the wake of food price increases during 2007-2008. The State Programme for Development of Agriculture for 2013-2020 sets self-sufficiency targets for the main food categories to be achieved by 2020: 99.7 percent for grains, 93.2 percent for sugar, 87.7 percent for vegetable oil, 98.7 percent for potatoes, 99.3 percent for meat and 90.2 percent for dairy.

Subsidies for seeds, chemicals and fuel were the main instrument for supporting agricultural producers until 2013. Starting in 2013, the bulk of subsidies have been provided through per hectare payments, complemented by additional

³ The accumulated increase in chicken prices in the period 4 August – 1 September was 4.3 percent, which is double of the monthly average registered from January to July 2014.

Self-sufficiency targets for the main food groups in the State Programme
Share of domestic production in total supplies (percentage)

Products	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cereals	98.8	98.4	99.5	99.6	99.6	99.6	99.6	99.7	99.7
Sugar from sugar beet	77.9	79.9	79.3	80.7	82.0	83.5	88.6	91.7	93.2
Vegetable oil	83.6	81.1	83.0	83.8	84.6	85.7	86.4	87.0	87.7
Potatoes	96.8	97.5	98.2	98.5	98.6	98.6	98.6	98.7	98.7
Meat and meat products	74.8	77.8	78.9	80.9	84.3	85.9	86.9	87.8	88.3
Milk and milk products	78.9	76.6	81.0	81.9	83.0	84.3	85.9	87.8	90.2

Source: Ministry of Agriculture of the Russian Federation

subsidies such as payments per litre of milk. Producers are also protected through border measures, most notably tariff rate quotas for different types of meat. Pig meat, bovine meat and poultry are the most protected products in Russia.

To implement the State Programme, the Federal budget for support to agriculture is set to increase from RUB 170.2 bn in 2014 to RUB 217.9 bn in 2020, with an additional one third of this level provided for agricultural development by regional authorities.

The ban has brought support to agriculture to the forefront of the political agenda, with renewed calls for greater self-sufficiency. To stimulate domestic production the government has pledged additional funding following the introduction of import restrictions⁴. For example, poultry subsidies, which were expected to be phased out this year, as well as pork subsidies, in place until 2016, could now be extended⁵.

Even with government support and increased investment the domestic supply response could be limited as it could be more feasible and efficient to increase imports from other sources than to increase production. Low levels of competitiveness in general and underdeveloped commercial and logistical channels place domestic producers at a disadvantage vis-à-vis foreign suppliers.

In the particular case of pork production, the Russian industry is constrained by pork import restrictions due to cases of African swine fever, since the ban includes live pork from the EU. The Russian pork industry relies on live pig imports to remain competitive. Another sector which would be at a disadvantage is the meat processing industry as it utilizes imported lower-cost beef, pork and poultry meat in production.

Effects on imports

In the short run some decline in total supplies of the banned products would occur as contracts are cancelled and goods already in transit are prevented from entering Russia, with resulting losses to importers and intermediaries. To mitigate diminishing supplies, traders and retailers will look to source food products from domestic producers and countries not

covered by the restrictions, in particular among the countries in the Customs Union, the Middle East, North Africa and South America.

In the short run supplies will be constrained as new business relations shape up and contracts are negotiated. Expanding supplies also requires that the corresponding permits, including SPS certification of exporters, are granted reasonably fast. This calls for government action to strengthen the existing trade ties, develop new ones and reduce the red tape. Development of new shipping channels for sourcing from new commercial partners may also be required.

Imports from existing partners who continue to supply the Russian market may not immediately replace the banned shipments, as it would mean diverting supplies from other customary markets, and most of production and processing, especially in the meat sector, is undertaken with contracts already in place. Therefore, imports from countries not affected by the ban can only increase gradually. This delay in diversifying import sources, with a corresponding temporary drop in shipments, will put upward pressure on retail prices.

To counter the negative effects on consumers, government agencies were instructed to closely monitor market developments and take appropriate measures to avoid price spikes, although it is not clear what steps will be taken to control the possible price fluctuations. An inter-agency working group has been established by the prosecutor's office to counter any "illicit" price increases. However, if price increases at the retail level are contained by administrative measures, while import prices rise, traders' and retailers' margins would be squeezed with possible consequences for supplies on retail markets.

A few weeks after the imposition of the ban, shortages of chilled fish in Moscow supermarkets were reported as most fish were originally sourced from Norway. However, retailers are planning to replenish supplies with products from Chile, Morocco, Turkey, and in particular, Iceland. According to media reports, berries and fruits that were previously sourced from Poland, Spain and Greece, will be replaced with imports from Azerbaijan and Turkey⁶. Dairy imports from Belarus, which is already one of the main exporters of milk products to the

⁴ http://www.gazeta.ru/business/news/2014/08/12/n_6388877.shtml

⁵ <http://ria.ru/economy/20140822/1021046219.html>

Russian market, are likely to increase, and Israel could also become an important supplier. Meat is already mostly imported from South America, and shipments are likely to increase over time given the intensification of political and economic ties with Russia in recent years.

The biggest push to diversify the base of potential suppliers of agricultural and food products came from the sanitary authorities. In the weeks following the ban, the Russian government dispatched missions to inspect and certify exporters in a number of countries. Rosselkhoznadzor, the Federal phytosanitary and veterinary service, held talks with representatives of Ecuador, Brazil, Chile, Mexico, Colombia, Uruguay, Paraguay, Argentina, Turkey, Peru and several other countries with a view to increasing supplies to the Russian market. As of 18th August, six new Brazilian companies were certified, 13 companies in Peru, one company in Armenia and 12 in Chile⁷. Five additional companies expanded the list of products that they were certified to supply. Several Serbian companies producing milk products were also approved for exporting to Russia. The certification procedures are now following a fast-track: according to Rosselkhoznadzor, requests from importers and exporters are processed within a day after they have been received by the authorities.

In some cases even companies that were previously denied access to the Russian market due to sanitary issues are now gaining market access. For example, the list of companies in Brazil certified for exports of pork has been expanded, including companies which were initially denied access due to ractopamine content⁸. Ractopamine, a hormone used in meat production, is banned in Russia. Reportedly, Chinese pork, which was not certified for exports before, will also be allowed on the Russian market.

Bilateral trade talks are also taking place at the government level. For example, consultations were held with Turkey to facilitate trade in agri-food products through mutual recognition of veterinary certificates. Turkey is proposing to expand supplies of meat, fish, dairy, grains, fruits and vegetables to Russia⁹. Talks on increasing exports were also held with Ecuador, Brazil and Argentina.

Another plausible development with regard to imports is an increase of re-exports from Belarus and Kazakhstan from external suppliers to Russia. Russia has a customs union with both countries and therefore lower internal barriers to trade, and the Russian authorities are now taking steps to check the origin of the products entering the Russian market from these countries. Customs officials have recently encountered and blocked Belorussian re-exports of apples, peaches, plums and tomatoes originating in Poland and other European suppliers¹⁰. At the same time, European producers who lost markets due to the latest prohibition are reportedly looking for ways to export food products to Russia through companies in Switzerland¹¹. Import controls would have to be reinforced for the ban to be effective in blocking the inflow of all products from the

restricted countries through other countries, in particular with the Customs Union. At present the risk of these re-exports entering Russia is quite high.

In the medium-term, the transaction costs of switching providers will diminish and the pressure on food prices will be eased as importers switch to new providers or expand their existing contracts. However there are also structural losses to consider if the ban remains in place. Trade diversion from competitive to possibly less efficient exporters would imply an efficiency loss and a lower consumer surplus due to higher domestic prices.

3. Implications for exporters and global markets

Russia is one of the world's largest markets for agricultural and food products, being the fifth largest importer after EU, US, China and Japan. In 2013 it imported 8.3 percent of all beef traded worldwide and accounted for 7.5 percent of global pork imports, while for other products on the list the share has been lower.

For countries whose producers of the affected goods are concentrated in exports to the Russian market, the ban will certainly have serious economic implications. For example, 32.4 percent of the EU's exports of fruits went to Russia in 2013, implying that almost one third of fruits produced for export will now have to find new outlets, either domestically or in third country markets. The sudden and unexpected nature of the ban meant that agricultural producers and traders were not prepared to cope effectively with these losses.

Russia is the number one market for Norway's fish and seafood, in particular salmon, with the value of exports in this category reaching US\$ 1.1 bn in 2013. Other countries where the value of agricultural exports to Russia is high are Canada, Denmark, Germany and Netherlands for pork, Finland, France and Lithuania for milk and milk products, and Poland for fruits. Dairy products from Finland are particularly affected since almost half of all exports were destined for Russia. Exports of dairy products from Lithuania and fruits from Poland are

Share of Russian imports in global import, by affected product. 2013

Products	(%)
Beef	8.3
Pork	7.5
Poultry	4.3
Fish	3.1
Milk and milk products	5.7
Vegetables	4.6
Fruits	6.7

Source: UN Comtrade

⁶ <http://ria.ru.economy/20140818/1020467946.html>

⁷ <http://mcx.ru/news/news/show/27778.355.htm>

⁸ <http://www.rbc.ru/rbcfreenews/20140814145759.shtml>

⁹ <http://agromedia.ru/news.aspx?type=1&id=12556>

¹⁰ <http://www.gazeta.ru/business/2014/08/19/6181309.shtml>

¹¹ http://www.gazeta.ru/business/news/2014/08/18/n_6403017.shtml

Share of exports to Russia in the total value of exports of the affected product, by exporter. 2013 (percentage)

	Beef	Pork	Poultry	Fish and seafood	Milk and milk products	Vegetables	Fruits
USA	0	0.4	6.2	1.6	0	0.1	1.5
EU*	20.1	25.4	4.9	4.6	6.6	25.3	32.4
Canada	0	9.6	0	2.8	0	0.2	0
Australia	2.8	0	0	0	3.3	0	0.9
Norway	0	0	0	11.0	3.6	0	0

* Intra-EU trade is excluded

Source: UN COMTRADE and Global Trade Access database

also highly concentrated in the Russian markets with shares reaching 27.3 percent and 30.4 percent, respectively.

According to estimates by ING Groep NV. (INGA), the latest prohibition could cost the European Union an annual euros 6.7 billion (US\$9 billion) in lost production and 130,000 jobs¹². To compensate some of these losses, exceptional support measures for EU producers of perishable fruit and vegetables were announced. These measures will apply until the end of November with an estimated budget of €125 million¹³.

The European Commission has also filed a WTO complaint over Russia's embargo on pork imports from the EU on the grounds of African swine fever. Poland also announced that it would file a complaint to the WTO over the separate prohibition that it faces.

4. Pending issues

At present there is still a lot of uncertainty as to how long the ban will actually stay in place, how strictly the controls will be enforced and what the response of the market players will be, all of which will influence the final outcomes for consumers and producers as well as the effects on world markets. Broadly speaking, import restrictions would be expected to result in higher prices for consumers and less competition for domestic producers, at least in the short run, although the exact magnitude of the price increase depends on many factors.

The key questions are how fast the supply will adjust, which countries will expand exports to Russia and whether domestic producers will seize the market opportunity offered by less import competition. In the short run it is unlikely that domestic production will pick up sufficiently to compensate for the constrained supplies from abroad, given that the ban came too late in the season to increase fruits and vegetables production and the productive cycle in animal husbandry does not allow for rapid increases in meat and dairy production. Domestic production could grow in the medium

term, but would require substantial additional investments. Private investments are constrained, to some extent, by the financial sanctions imposed by the West which limit the inflow of capital to the Russian banking system. There may also be limited scope for the government budget to increase substantially to stimulate agricultural growth.

The more likely scenario in the short run is that imports will be sourced from other countries. How fast this reallocation happens will depend on the agility of traders in establishing new business relations, the ability of the existing trading partners to increase supplies (possibly diverting them from other destinations) and the readiness of the Government to facilitate the necessary permits and certificates to new suppliers. Switching suppliers takes time as commercial relations and logistical routes have to be consolidated. Moreover, for some products, finding a different supplier is more difficult than for others. For example, Azerbaijan and Turkey may not be able to supply the Russian market with sufficient quantities of apples, while imports from more competitive producers such as Argentina and Chile would only pick up in the first half of next year, when apples are in season in the Southern Hemisphere. Consumers in Russia could face initial price increases as these adjustments take place.

It is too early to tell whether the prohibition would have any longer terms effects on market dynamics, although clearly the countries that are gaining access to the Russian market in absence of competition from some of the established major exporters as well the countries that are able to direct re-exports to Russia stand to gain.

Another unresolved issue concerns the destination of exports that have to be diverted from Russia. As contracts with the original trading partners are cancelled, including those for which shipments to Russia are already underway, exporters are forced to look for different outlets for these goods. The products blocked by Russia may end up being sold at below cost of production in third countries, with temporary, but potentially sizable impacts on their markets. Unexpected

¹² <http://www.bloomberg.com/news/2014-08-20/russian-sanctions-seen-giving-eu-9-billion-hit-in-ing-estimate.html>

¹³ http://europa.eu/rapid/press-release_IP-14-932_en.htm

The biggest losers: Value of exports of the affected products in 2013 for export over US\$ 100 mn, by origin

	Products	Exports to Russia	Total exports	Share of Russia in total exports (%)
		US\$ million in 2013		
Canada	Pork	247	2 556	9.6
	Fish and seafood	106	3 864	2.7
Denmark	Pork	265	3 393	7.8
Finland	Milk and milk products	336	691	48.6
France	Milk and milk products	132	8 042	1.6
Germany	Pork	318	5 290	6.0
	Milk and milk products	211	11 217	1.9
Lithuania	Milk and milk products	211	774	27.3
Netherlands	Pork	101	2 290	4.4
	Milk and milk products	443	11 232	3.9
	Vegetables	115	7 906	1.5
Norway	Fish and seafood	1 109	10 126	10.9
Poland	Milk and milk products	187	2 091	8.9
	Vegetables	231	1 168	19.8
	Fruits	451	1 486	30.4
Spain	Pork	106	3 171	3.4
	Fruits	210	9 260	2.3
United States	Poultry	307	4 982	6.2

Source: UN COMTRADE

supplies at a lower price could severely undermine domestic producers, in particular in the case of developing countries where agricultural production could be struggling to compete with imports.

Some proportion of displaced exports could also end up in domestic markets, bringing down the prices and benefiting consumers. However, the scope for this is limited as consumption of main products in the mature markets such as the EU is near to saturation levels. An increase in exports to third countries is the more likely scenario.

Exporters to Russia not affected by the ban might indeed gain a greater share of the Russian market but they may also face greater competition from the displaced exports of other countries in their domestic markets. Serbia, for example, is competitive in pork and would be able to expand exports to Russia. However, displaced EU pork exports could well compete with domestically produced pork in Serbia, gaining market share that domestic producers may struggle to regain after the Russian ban has been lifted.

ANNEX

The list of products for which imports from the United States, the EU, Canada, Australia and Norway are prohibited from 1 year as per Decree No. 778 of the Government of the Russian Federation.

HS code	Code description
0201	Meat of bovine animals, fresh or chilled
0202	Meat of bovine animals, frozen
0203	Meat of swine (pork), fresh, chilled or frozen
0207	Meat and edible offal of poultry (chickens, ducks, geese, turkeys and guineas), fresh, chilled or frozen
Parts of 0210	Meat, salted, in brine, dried or smoked
0301-0308	Fish and crustaceans, molluscs and other aquatic invertebrates
0401-0406	Milk and milk products
0701, 0702 00 000, 0703-0706, 0707 00, 0708-0714	Vegetables and edible roots and tubers
0801-0811, 0813	Fruit and nuts
160100	Sausages and similar products, of meat, meat offal or blood; food preparations based on these products
1901 90 110 0, 1901 90 910 0	Food preparations, including cheeses and curd, based on vegetable fats
2106 90 920 0, 2106 90 98 4, 2106 90 98 5, 2106 90 98 9	Food preparations, based on vegetable fats and containing milk

For further information on FAO's trade related activities, please visit: <http://www.fao.org/trade/en/>

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September 2014

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