The Russian Food Embargo: Impact on the National Agri-Food Sector
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BORIS FRUMKIN, PhD (Econ), Associate Professor, Head of the Agri-Food Sector Research at the Institute of Economics, Russian Academy of Sciences
“Who controls the food supply controls the people...”
(Henry Kissinger, 1973.)

The Russian State Food Security Doctrine and The State Program of Agricultural Development of Russia for 2013 – 2020 rr. put forward the following priorities:

- In the production sphere – the development of import substitution agricultural branches, including vegetable and fruit farming, dairy and beef cattle, using the competitive national advantages, first and foremost substantial agricultural land areas;
- In the foreign trade sphere – increasing the export of agricultural goods and raw materials along with saturation with them of the domestic agricultural market;
The tasks and dynamics of the food counter-sanctions (embargo) of the Russian Federation

Embargo stipulated import-substitution in the agriculture and food industry of the agri-food sector (AFS)

The tasks:
• To “respond” the Western countries for imposition of sanctions
• To decrease the dependence on the imports of food, seed and breeding materials, in particular from non-CIS countries

Dynamics:
• The scale: August 2014 г. – August 2015 г. – 32 countries (EU28, USA, Canada, Australia, Norway), August 2015 – August 2016 г. – 36 countries (plus Iceland, Albania, Montenegro and Lichtenstein), from January 2016 г.-38 countries (de facto Ukraine and Turkey joined)
• The scale of goods: by structure – beef and veal, pork, meat and poultry offal, fish, milk and milk products, number of vegetables, fruits and nuts. Number of milk products was added (June 2015). Exempted – seed potatoes, fry salmon, vitamins (August 2014), meat and vegetable raw materials for baby food (May 2016). The embargo covered 43% of the EU agri-food export to Russia value as of 2013
• The terms – year (till August 2015), year (till August 2016), year and half – till December 2017 (under preparing)
The nomenclature "sanctioned" products

Embargo on import of products from the EU, Canada, Australia and Norway is imposed to Russia for one year.

0201 Muscle meat of pork, beef, veal, chicken, turkey, pig liver, beef liver, pig kidney.
0202 Muscle and liver of pork, veal, chicken, turkey.
0203 Sausages with added meat extender, sausages with added meat extender.
0204 Muscle and liver of pork, veal, chicken, turkey.
0205 Muscle and liver of pork, veal, chicken, turkey.
0206 Muscle and liver of pork, veal, chicken, turkey.
0207 Muscle and liver of pork, veal, chicken, turkey.
0301 Fish and seafood.
0302 Fish and seafood.
0303 Fish and seafood.
0304 Fish and seafood.
0305 Fish and seafood.
0306 Fish and seafood.
0307 Milk from cows, sheep, goats, cows, sheep, goats.
0401 Milk and dairy products.
0402 Milk and dairy products.
0403 Milk and dairy products.
0404 Milk and dairy products.
0405 Cheese and dairy products.
0406 Cheese and dairy products.
0501 Meat, fish, eggs, seafood.
0502 Meat, fish, eggs, seafood.
0503 Meat, fish, eggs, seafood.
0504 Meat, fish, eggs, seafood.
0701 Fish, cheese, dairy products.
0702 Fish, cheese, dairy products.
0703 Fish, cheese, dairy products.
0704 Fish, cheese, dairy products.
0705 Fish, cheese, dairy products.
0706 Fish, cheese, dairy products.
0707 Fish, cheese, dairy products.
0708 Fish, cheese, dairy products.
0709 Fish, cheese, dairy products.
0710 Fish, cheese, dairy products.
0711 Fish, cheese, dairy products.
0712 Fish, cheese, dairy products.
0713 Fish, cheese, dairy products.

In addition to the above-mentioned products, controlled products are also embargoed.

Source: State Duma of the Russian Federation.
The impact of counter-sanctions on foreign trade and investments in 2014 - 2015

Ambivalent trends in trade:

- Value of AFS commodities import compared to “pew-sanctions” 2013 r. dropped by 38% down to $26.5 bln
- The volume of agri-food imports fell even more (from 34% on butter to 52% on poultry meat)
- Mostly suffered the products ‘under sanctions’ (the import fell more than 40%) and countries (the imports from the EU fell by 66% to $5.1 bln, and its share in Russia’s import of AFS products fell mostly twice, down to 19%)
- Value of export of AFS goods stabilized on the level of 2013 $16.2 bln, with the growth of its share in the entire export by 1.6 times up to 4.7%
- The share of Russia in the world export increased (wheat, barley, sunflower), expanded nomenclature of export-added corn, rice, soy, potatoes, meat
- Import dependence remains - the share of agri-food products in total imports increased by 0.9 percentage points to 14.5%
- The import and export of the Russian AFS is still dominated by countries outside the CIS (84% and 74%, respectively)
- The coverage of agri-food import by export increased by 1.6 times – up to 61.1%, including from the EU –by 2 times to 27.5%, but remains low

Such trends are likely to continue and in 2016 – 2017.

The generally positive trends in foreign investment:

- attracting FDI in agriculture and food industry increased by 33% to $7.2 billion
- the excess of inflows over outflows has increased in 2.2 times up to $1.2 billion.
### Dynamics of foreign agri-food trade of Russia (food and raw materials for its production, $ bln.)

<table>
<thead>
<tr>
<th>Activity/year</th>
<th>2011</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2015 к 2013, %</th>
<th>2016 forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Import of AFS commodities</strong>, of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>share of total commodities import, %</td>
<td>42,5</td>
<td>43,1</td>
<td>39,7</td>
<td>26,5</td>
<td>61,5</td>
<td>24,0</td>
</tr>
<tr>
<td>EU28 share of AFS commodities import, %</td>
<td>13,9</td>
<td>13,6</td>
<td>13,8</td>
<td>14,5</td>
<td>106,6</td>
<td>14,0-15,0</td>
</tr>
<tr>
<td>Export of AFS commodities, of which:</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>share of total commodities export, %</td>
<td>13,3</td>
<td>16,2</td>
<td>18,9</td>
<td>16,2</td>
<td>100,0</td>
<td>18,0</td>
</tr>
<tr>
<td>EU28 share of AFS commodities export, %:</td>
<td>2,6</td>
<td>3,1</td>
<td>3,3</td>
<td>4,7</td>
<td>151,6</td>
<td>4,8 -5,0</td>
</tr>
<tr>
<td>Export to import cover ratio, %, of which:</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>- for EU28, %</td>
<td>31,3</td>
<td>37,6</td>
<td>47,6</td>
<td>61,1</td>
<td>162,5</td>
<td>75,0</td>
</tr>
</tbody>
</table>

**Sources:** Rosstat, Federal Customs Service, Eurostat, Institute for Agricultural Market Studies
The geographical distribution of agro-food imports of Russia has changed dramatically in favor of "not-under-sanction" countries.
The effect of counter-sanctions in industrial measurement – positive but not yet sufficient

• production specifics and import dependence on a number of the means of production led to a stabilization (of 3.0-3.5% per year for agriculture and 2.0 to 2.5% for food industries), and not the acceleration of growth in agriculture

• however, agriculture becomes one of the drivers of the Russian economy. In 2013 – 2015 agriculture and food industry growth was ahead of GDP growth
Index of agricultural output
in % to monthly average (2012)

Индекс производства продукции сельского хозяйства
в % к среднемесячному значению 2012 г.


1) Оценка данных с исключением сезонного фактора осуществлена с использованием программы "DEMERA 2.2". При поступлении новых данных статистических наблюдений динамика может быть уточнена.
The dynamics of food production, including beverages and tobacco in % to monthly average (2012)

• In physical terms the growth is more visible: cattle and poultry for slaughter and vegetables – by 10%, poultry meat -by 18%, pork – by 28%, cheeses- by 25%
• Predominantly "inertial - point" nature of the growth was observed mainly in the industries invested by 2014
The impact on the physical availability of food in Russia:

- incomplete compensation of import reduction by domestic production, e.g., cheese 80%, butter-by 70%, fruit 15%,
- increasing the share of domestic products in basic food resources,%

<table>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Grains</td>
<td>99,4</td>
<td>99,3</td>
<td>98,8</td>
<td>98,4</td>
<td>98,9</td>
<td>99,6</td>
<td>99,2</td>
<td>95</td>
</tr>
<tr>
<td>Vegetable oil</td>
<td>76,6</td>
<td>78,0</td>
<td>83,6</td>
<td>81,4</td>
<td>85,0</td>
<td>83,8</td>
<td>83,9</td>
<td>80</td>
</tr>
<tr>
<td>Sugar (of sugar beet)</td>
<td>57,6</td>
<td>62,4</td>
<td>77,9</td>
<td>84,3</td>
<td>81,9</td>
<td>80,7</td>
<td>83,5</td>
<td>80</td>
</tr>
<tr>
<td>Potatoes</td>
<td>96,3</td>
<td>95,3</td>
<td>96,8</td>
<td>97,6</td>
<td>97,1</td>
<td>98,5</td>
<td>97,3</td>
<td>95</td>
</tr>
<tr>
<td>Milk and milk products (in milk)</td>
<td>79,7</td>
<td>79,9</td>
<td>78,9</td>
<td>76,5</td>
<td>77,0</td>
<td>81,9</td>
<td>81,2</td>
<td>90</td>
</tr>
<tr>
<td>Meat and meat products (in meat)</td>
<td>71,4</td>
<td>73,4</td>
<td>74,8</td>
<td>77,3</td>
<td>81,9</td>
<td>80,9</td>
<td>87,4</td>
<td>85</td>
</tr>
</tbody>
</table>

Source: Rosstat
The dynamics of government support and the distribution of the effect of counter-sanctions

- in 2014-2015 agriculture received from the Federal budget by only 50% less than in the previous 6 years, although the dollar maintenance funding greatly reduced
- investment lending was down 18%, and short-term increased by 5%, with the decline in the dollar terms
- remains the uneven distribution of state support – by the beginning of 2015, it was received only by 40% of the agricultural organizations and only 25% of farms
- increased profitability of agricultural production. The profitability of agricultural enterprises (including subsidies) had tripled to 22.3%. In 2015, the share of profitable enterprises in agriculture amounted to 83.3%, in the food industries-78.5%, with average in economy of 70.7%
- the main beneficiary of the counter-sanctions is big business. He got 80% of the state support and increased dominance on the domestic market – the 10 biggest agri-holdings control about 5 million hectares of farmland (equal to 40% of grain crops area in the Visegrad group), 8 food companies -40% of the market of dairy products
- a new organizational AFS model is under formation with the core of large vertically integrated agri-holdings with minimum 35 thousand hectares of land
- the formation of the Russian agri-holdings ("agribusiness") of world-class ("Miratorg") begins. Intensifies the transformation of Russian subsidiaries of foreign TNCs into the organizational units of their added value chains (PepsiCo, Danone, McDonalds, Auchan)
Market-consumer effect of counter-sanctions on the population is clearly negative – the economic accessibility of food has decreased

- the closure of the Russian AFS market from the major foreign competitors and the depreciation of the rouble caused a jump in consumer food prices for 2014 – 2015 by 31%, and some products even higher
- food prices spurred inflation, although the contribution to it of counter-sanctions have already dropped

Input to inflation

Input of main factors to inflation

Source : Bank of Russia

Source : Russian Ministry of Economic Development
Dynamics of prices for consumer goods food and services

The increase in producer prices and consumer prices

Source: Bank of Russia

Source: Rosstat
Market-consumer effect of counter-sanctions on the population is clearly negative – the economic accessibility of food has declined - II

- Purchasing power of average per capita money incomes in 2015 as compared to 2013 increased for 3 of 24 main products (salt, lamb, wheat bread) and decreased for the rest, in particular “under-sanction” products (for 10-20%);  
- for the first time since the crisis year of 2009 the food exceeded 50% of retail trade turnover, while the share of "food poor" , with incomes below the subsistence minimum had increased to 19.2 million people (13.5% of population), though caloric intake stable;  
- deteriorated the quality of the products. According to polls by ROMIR, it is notices by 16% of respondents for vegetables, up to 33% for cheese. Increases a proportion of counterfeit, according to some estimates, at least 25% for dairy products, 50%- on sausages;  
- growing "naturalization" of food consumption – by 2015, it was 7% for meat, 12% eggs, 30%- vegetables and 49% for potatoes. According to polls by ROMIR, in 2015, 37% of families, homework was 33-50% of their grocery cart;  
- on a number of products the "ceiling" of prices has been reached and even deflation (meat, fruits and vegetables). Forecast food inflation show reduce from 14% in 2015 to 6.2% in 2016 and 4% in 2019  
- measures are elaborated for the implementation of the adopted in 2014 the Concept of internal food aid. They may be implemented in 2017-2020 years and will require from the budget additionally about $ 6 billion (at the average rate, 2015)
### Russian Ministry of Health and Social Development

**Recommended food intakes aren’t achieved yet**

#### Consumption of some basic foodstuffs (per capita, kg per year)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>USA 2011</th>
<th>Poland 2013</th>
<th>Russia 2013</th>
<th>Russia 2015</th>
<th>Recomme nd.</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>2011</td>
<td>118</td>
<td>71*</td>
<td>69</td>
<td>67</td>
<td>70-75</td>
</tr>
<tr>
<td>Poland</td>
<td>2013</td>
<td>58</td>
<td>13</td>
<td>13.7</td>
<td>14</td>
<td>10-12</td>
</tr>
<tr>
<td>Russia</td>
<td>2013</td>
<td>271</td>
<td>302</td>
<td>248</td>
<td>235</td>
<td>320-340</td>
</tr>
<tr>
<td></td>
<td>2015</td>
<td>56</td>
<td>102</td>
<td>111</td>
<td>114</td>
<td>95-100</td>
</tr>
<tr>
<td>USA</td>
<td>2011</td>
<td>110*</td>
<td>56*</td>
<td>64</td>
<td>…</td>
<td>90-100</td>
</tr>
<tr>
<td>Poland</td>
<td>2013</td>
<td>88</td>
<td>108</td>
<td>118</td>
<td>119</td>
<td>95-105</td>
</tr>
</tbody>
</table>

**Source:** Rosstat
Vox Populi

The attitude of Russians to the Western sanctions and Russia's counter-sanctions (according to polls "Levada-Center", % of respondents), the Majority of Russians have adapted to the embargo, expect of successful import substitution, with a significant part in favor of lifting the embargo

<table>
<thead>
<tr>
<th>Year</th>
<th>March 2015</th>
<th>August 2015</th>
<th>May 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>How Russia should react in response to the Western sanctions:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• to continue its policy, notwithstanding sanctions</td>
<td>72</td>
<td>68</td>
<td>75</td>
</tr>
<tr>
<td>• To look for a compromise, to make concessions to avoid sanctions</td>
<td>21</td>
<td>20</td>
<td>17</td>
</tr>
<tr>
<td>• undecided</td>
<td>6</td>
<td>12</td>
<td>8</td>
</tr>
</tbody>
</table>

| Whether Russia in the coming years to achieve import substitution for food: | | | |
| • yes | … | … | 74 |
| • to a certain extent | … | … | 18 |
| • no | … | … | 6 |
| • undecided | … | … | 3 |

| Whether to lift the ban on food imports from EU countries: | | | |
| • yes | 48 | 38 | 47 |
| • no | 31 | 43 | 40 |
| • undecided | 20 | 20 | 13 |
Conclusions

• food counter-sanctions have caused a noticeable (though not devastating) damage producers of food from countries that imposed anti-Russian sanctions, especially the EU (the trade loss for 2014 – 2015 of about $7 billion.)
• they contributed to the restructuring of Russian foreign trade relations on agri-food products and increase domestic production. On a number of goods Russia has achieved (cereals, oilseeds) or close to the access to (poultry, pork) leading positions at the global market
• given the increasing production of these products by 2020, it is possible to balance the value of agri-food exports and imports, and in the long term – to transform Russia into a net exporter
• meanwhile this effect is accompanied by decrease of economic access to food in the Russian market, therefore, requires the organization of internal food aid (approximately 15 million people)
• provided such assistance is rendered and the stabilization of the ruble, food embargo can be saved, at least up to 2018, simultaneously with the intensification of state support of AFS, including its competitive exports
Thank you for attention and Welcome to even more profitable and competitive Russian Agri-Food Sector!