Motivation of the topic

On August 7, 2014, the Russian government imposed an embargo on a range of agricultural and food products imported from the European Union (EU), the United States, Canada, Australia and Norway. The products covered include bovine meat, pig meat, processed meat, poultry, fish and other seafood, milk and milk products, vegetables, fruits, and nuts. The ban was a reaction to sanctions imposed by Western countries in the course of the political conflict over Ukraine, including the annexation of the Crimea by the Russian Federation earlier in 2014. In the initial statement, the embargo was announced to last for 12 months. According to FAO estimates, it affects a trade volume of approximately US$ 8.3 bln in terms of 2013 import figures, or 35.8% of all food products imported to Russia in that year. Considering trade volume by product groups, dairy products, fruits, pork, and fish are the four most affected groups, with an annual trade volume of more than US$ 1.5 bln each. It is thus likely that significant effects will materialise for Russian consumers, exporting companies and countries, as well as third countries and world food markets in general.

It was not by accident that the Russian administration chose the agricultural sector as an arena for import restrictions. Against the collapse of the domestic livestock herd after the dissolution of the Soviet Union, worldwide food price increases, and recurrent droughts in some of the main agricultural regions, self-sufficiency in food has become a key political goal of the Russian government. It was already codified in the 2010 “Doctrine on Food Security” and became the major objective of the current multi-year State Programme for the Development of Agriculture (2013-2020). The Doctrine sets specific goals for self-sufficiency ranging from 80% to 95% for grains, sugar, vegetable oil, meat, dairy, and fish products. From this perspective, the political conflict with the West was a possibly welcome cause for the Russian government to reinforce its long-term strategy of import substitution.

The ban raises the immediate question of who are the winners and losers of this drastic policy measure. To what extent do the sanctions imply price increases and welfare losses for Russian consumers? Which previous exporters were hit most? To what extent and how fast will they be replaced by other sources? Will the ban be instrumental for
boosting domestic productivity in agriculture? Which are the consequences for Russia as a future partner in world food trade?

Within the first three months of the embargo, a number of preliminary effects and reactions became visible that shall be scrutinised further during the symposium. In September 2014, according to official statistics, imports of dairy products had declined by 75% compared to the previous year, and vegetables by 50%. Domestic retail prices for food went up by about 10% on average, but with significant regional variation within the Russian Federation. Among the exporters most strongly hit by the embargo were dairy producers in Finland and Lithuania as well as fruits exporters in Poland. They were offered compensation payments by the European Commission. Although import quotas to Russia remained untouched so far, producers in the two other member countries of the Eurasian Customs Union next to Russia, Belarus and Kazakhstan, hope to scale up exports to Russia in the future. Russian meat importers turned to sources from Brazil or China, the political ties to which Russia seeks to strengthen. Meanwhile, the Russian government announced a significant rise in public capital subsidies to the agricultural sector, in order to strengthen the domestic production capacities.

Scope and contents

Against this background, the symposium seeks to present and discuss current facts and analysis on pertinent issues emerging from the import ban. At the time of the conference, it will just have become clear whether the embargo was actually lifted after 12 months and, if so, which alternative policies took its place. Moreover, evidence on the effects of the ban from an entire year will be available, thus allowing more substantial analysis of its implications.

The schedule will include four paper presentations, each about 15 minutes. Among the four papers, each focuses on one main aspect of the crisis: (1) the effects on domestic consumers in Russia, (2) the impacts on global food markets and the direction of trade streams, (3) the potential for short- and long-term increases in domestic production in Russia, including an assessment of recent policy measures (4) the potential of third countries to step into the void left by the banned imports, from the perspective of a member country of the Eurasian Customs Union. Presentations will be followed by a panel discussion with the auditorium.

Individual contributions

#1: Who pays for Russian food sanctions? The embargo effects on domestic consumers

Authors: Andrei Yakovlev, Andrey Tkachenko, Alexander Bashlyk

Abstract: In this paper we show that food sanctions stoked price inflation in domestic food markets, both in private retail markets and in public procurement. Using available data of Russian Statistical Office’s weekly price monitoring for the most important consumer goods as well as data of the Russian public procurement portal zakupki.gov.ru before and after the ban, we estimate the increase in prices for fish, milk and potatoes in different regions of the Russian Federation. Taking into account the volume of relevant markets and the value of public procurement, we demonstrate the heterogeneity of effects across goods and regions and show that private customers in general pay higher
prices than public entities. In addition, we estimate the effect of the sanctions on domestic production of relevant goods.

Bios: The authors are professor and researchers, respectively, at the National Research University Higher School of Economics in Moscow, Russia.

#2: The international context of the Russian import ban on food products
Author: Ekaterina Krivonos

Abstract: The paper argues that domestic production in Russia is unlikely to pick up sufficiently to compensate for the constrained supplies from abroad, as the ban came late in the season for fruits and vegetables and because the production cycle in animal production does not allow rapid increases in meat and dairy production. Imports are therefore more likely to be sourced from other countries. A range of potential future suppliers are analysed and their export potential to Russia is assessed. In order to understand market reactions, the paper also takes into account the destination of exports diverted away from Russia. Moreover, it locates the recent food embargo in the context of earlier trade restrictions imposed by Russia and their relation to Russia’s commitments within the World Trade Organisation (WTO).

Bios: Ekaterina Krivonos is an economist at the Trade and Markets Division of the Food and Agricultural Organisation of the United Nations (FAO) in Rome, Italy.

#3: The prospects for Russian food self-sufficiency in the short-, medium- and long-term
Author: Martin Petrick

Abstract: The paper analyses Russia’s progress in the restructuring of the former Soviet agrarian economy and the agricultural policy approach of the Putin administration. It attempts to make qualitative predictions about the country’s future ability to reach the self-sufficiency goals set by its political leadership. While Russia has exported grain in most of the years after the collapse of the Soviet Union, the output of meat, dairy products, fruits and vegetables have lagged far behind domestic demand. The paper identifies some deeply rooted structural weaknesses of the farming sector that make productivity jumps in the short- to medium-term unlikely. Among these are a business environment that inhibits productive entrepreneurial activity, a feeble rural financial sector, and a one-sided political emphasis on capital injections as a panacea for productivity increases.

Bios: Martin Petrick is a deputy head of department at the Leibniz Institute of Agricultural Development in Transition Economies (IAMO) and a professor at Martin-Luther-University, both in Halle (Saale), Germany.

#4: Impacts within the Eurasian Customs Union: the case of Kazakhstan
Author: Dauren Oshakbaev

Abstract: Among the third countries related to the trade conflict between Russia and the West, Kazakhstan is likely to be most affected by the Western sanctions against Russia and by the Russian ban on food imports from the West. Kazakhstan was already anticipating increased food exports, especially beef, to Russia following implementation of the Belarus-Kazakhstan-Russia customs union, and its preferential edge in Russian
markets will be greater if there is reduced competition from food imports from the West. The paper identifies the products in which Kazakhstan may be able to increase existing exports or develop new food exports to Russia, and estimate potential gains. Moreover, it analyses secondary economic effects such as trade deflection, if banned imports are redirected from Russia to Kazakhstan and either are transshipped to Russia or satisfy domestic demand while Kazakh goods are exported to Russia.

Bios: Dauren Oshakbaev is with the National Economic Chamber of Kazakhstan Atameken, Astana, Kazakhstan.

Discussion