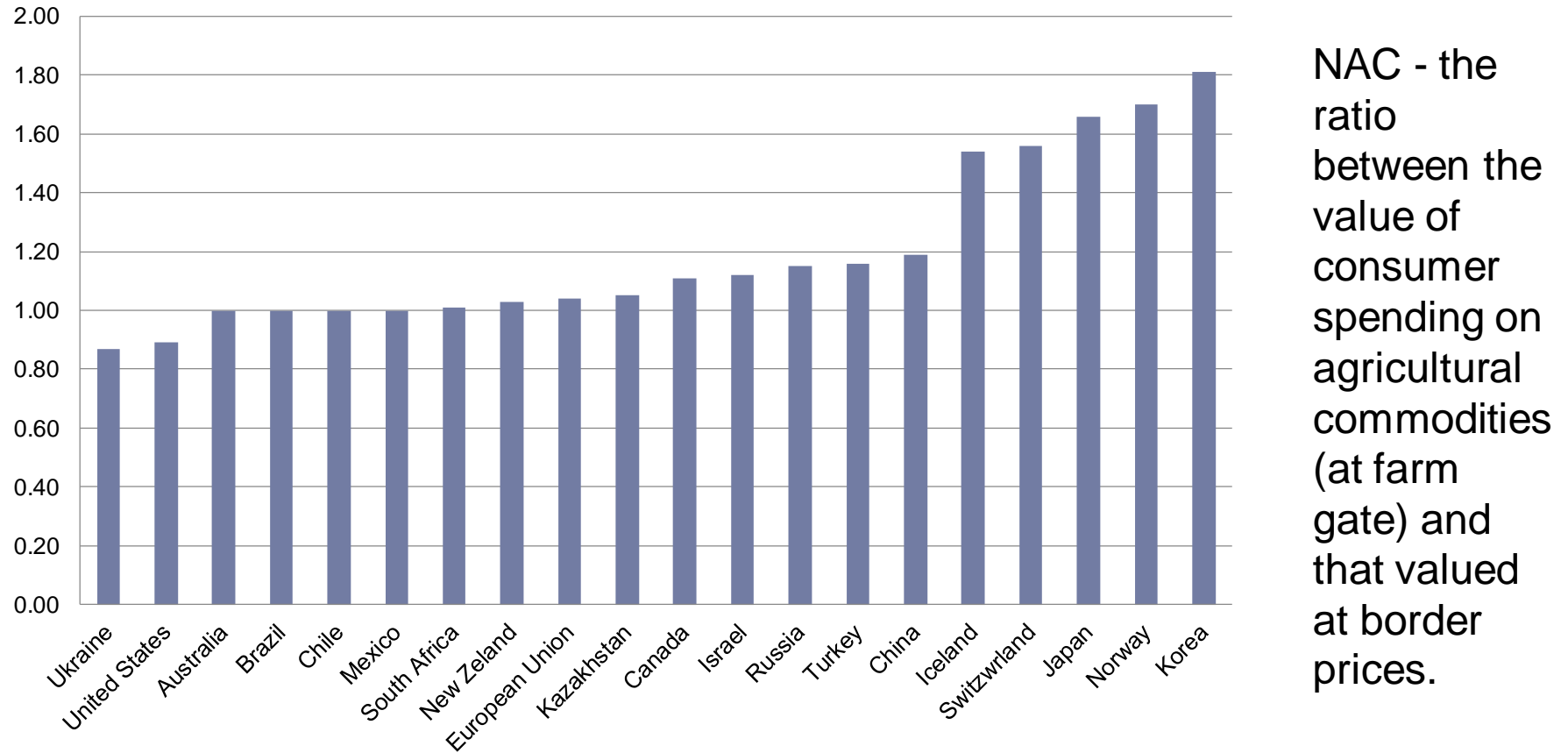


Food Caught in the Sanctions War: is Food Security a Casualty?

Elena Zhiryaeva

Consumer assistance is not the aim of the Government: Consumer NAC, 2014



After embargo introduction the Government accepted action plan on import substitution in the agriculture for 2014-2015. Consumer NAC grew from 1.11 in 2012 to 1.15 in 2014, reflecting a reduction in consumer assistance.

Some indicators characterizing food security in the RF

Indicator	2014 by 2013,%	Estimation
Agricultural production, million rubles	117	Physical availability grew
Import: HS groups 1-24	93	Physical availability reduction – embargo and currency depreciation
Consumer price index, food products, Dec. by Dec. of the previous year	108	consumer prices grew by 8%, having reduced the economic availability of meat and milk
Consumption of meat per year, kg	99	
Consumption of milk per year, liters	98	



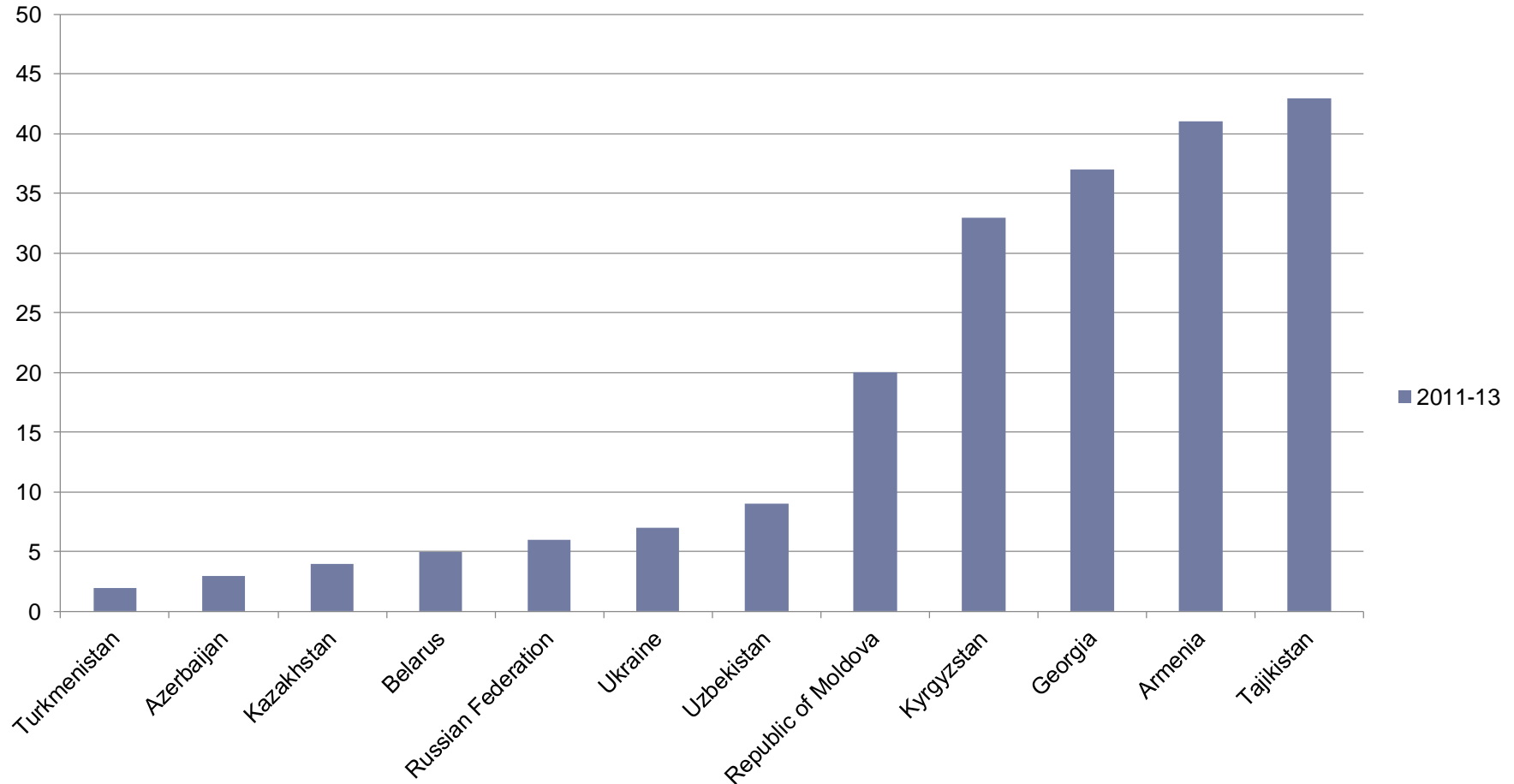
The product-specific AMS, 2014, million \$

basic products	AMS	%	basic products	AMS	%
Plant Products			Livestock Products		
Flax and Hemp	11.85	1	Cattle	218.27	19
Wheat	0.13	0	Sheep and Goats	19.87	2
Buckwheat	0.03	0	Deer	40.76	4
Potatoes	2.38	0	Horses	5.09	0
Rye	0.06	0	Swine	23.14	2
Rice	0.53	0	Poultry	21.03	2
Maize	0.09	0	Milk	671.34	60
Barley	7.11	1	Meat	63.17	6
Grapes	14.36	1	Eggs	24.78	2
Sugar Beet	2.57	0	Wool	0.04	0
Effective rate of protection as estimated by the new economic school: (% VA) cattle – 76,52, milk – 42,02			Total	1126.60	100

FAO Indicators of food security

Indicator	2013		2014		2015		
	RF	W	RF	W	RF	W	
Average dietary energy supply adequacy	136	122	136	122	136	123	exceeds the world by 11%
Domestic food price index	4.25	2.93	4.30	2.85	n.a.	n.a.	world's average increase was 1.5 times lower than in the RF
Value of food imports over total merchandise exports	6	5	n.a.	n.a.	n.a.	n.a.	measure of the adequacy of foreign exchange reserves - difference with the world is far from critical

Value of food imports over total merchandise exports for CIS countries



On comparison with CIS countries there is no serious dependence on import



We shall see: the food insecurity of Russia is caused by an increase in prices

Under embargo	Others
Bovine meat	Beef and pork tinned
Pig meat	Canned fish
Poultry	Sunflower oil
Sausages	Eggs
Fish	Sugar
Butter	Black tea
Milk	Wheat flour
Cheese	Bread and bakeries
Potatoes	Rice
Cabbage	Pasta
Onion	
Apples	

Embargo was introduced on August 7, 2014. Here we group commodities for the purpose of price analysis

Commodity prices

Under embargo	2015 by 2013	Others	2015 by 2013
Bovine meat	1.3	Beef and pork tinned	1.5
Pig meat	1.3	Canned fish	1.5
Poultry	1.2	Sunflower oil	1.4
Sausages	1.1	Eggs	1.1
Fish	1.4-1.5	Sugar	1.6
Butter	1.3	Black tea	1.6
Milk	1.2	Wheat flour	1.2
Cheese	1.3	Bread and bakeries	1.2
Potatoes	0.9	Rice	1.6
Cabbage	1.3	Pasta	1.3
Onion	1.2		
Apples	1.4		

The analysis result marks out the following types of commodities:

Under embargo

1. An increase in prices is connected with an introduction of embargo (beef; fish frozen, salty, marinated, smoked; apples). The highest values of growth were in fish and.
2. An increase in prices was connected with the embargo, but then stopped (pork, poultry, potato, cabbage and onion).
3. Price increase started in a previous period (butter, milk and cheese).

At the same time: ruble devaluation for 2013-2015 was 1.8 times

Others

- Consumer prices on some foods which didn't undergo embargo grew even more. We shall mark out the following categories:
1. An increase in prices that can be connected with the embargo because of the general source of raw materials (canned fish and beef). In this group there is a strong increase in prices.
 2. There is a binding of internal prices to the dollar (sunflower oil).
 3. Fluctuations at world markets for commodities having a high dependence on import (rice, tea, sugar).
 4. Commodities with a stable price level.

Annual food price indices (2002-2004=100)

Year	Food Price Index	Meat Price Index	Dairy Price Index	Cereals Price Index	Oils Price Index	Sugar Price Index
2011	229.9	183.3	229.5	240.9	254.5	368.9
2012	213.3	182.0	193.6	236.1	223.9	305.7
2013	209.8	184.1	242.7	219.3	193.0	251.0
2014	201.8	198.3	224.1	191.9	181.1	241.2
2015	164.0	168.1	160.3	162.4	147.0	190.7
2016	161.6	156.6	153.8	146.9	163.8	256.0

According to FAO food price indexes were decreasing at the world market.

Competitiveness of the RF at the world market

Product	market share	Rang e	Product	market share	Rang e
Wheat and flour	9.3	5	Milk powder	< 0.0	< 38
Coarse grains	3.6	8	Bovine meat	0.1	27
Rice	0.4	18	Pig meat	0.5	11
Oilseeds	0.5	12	Poultry	0.2	20
Vegetable oils	2.7	7	Sheep meat	< 0.1	< 19
Oilcakes	2.6	10	Live animals	0.1	42
Sugar	< 0.3	< 35	Eggs	1.6	12
Butter	0.3	22	Wine	< 0.1	< 26
Skim milk powder	0.1	20	Fruits & Veg.	0.4	35
Cheese	0.9	16	Tobacco	1.9	12

We assume that the government introducing embargo operates freely with those goods which are widely produced and are exported.

Grouping of the studied products

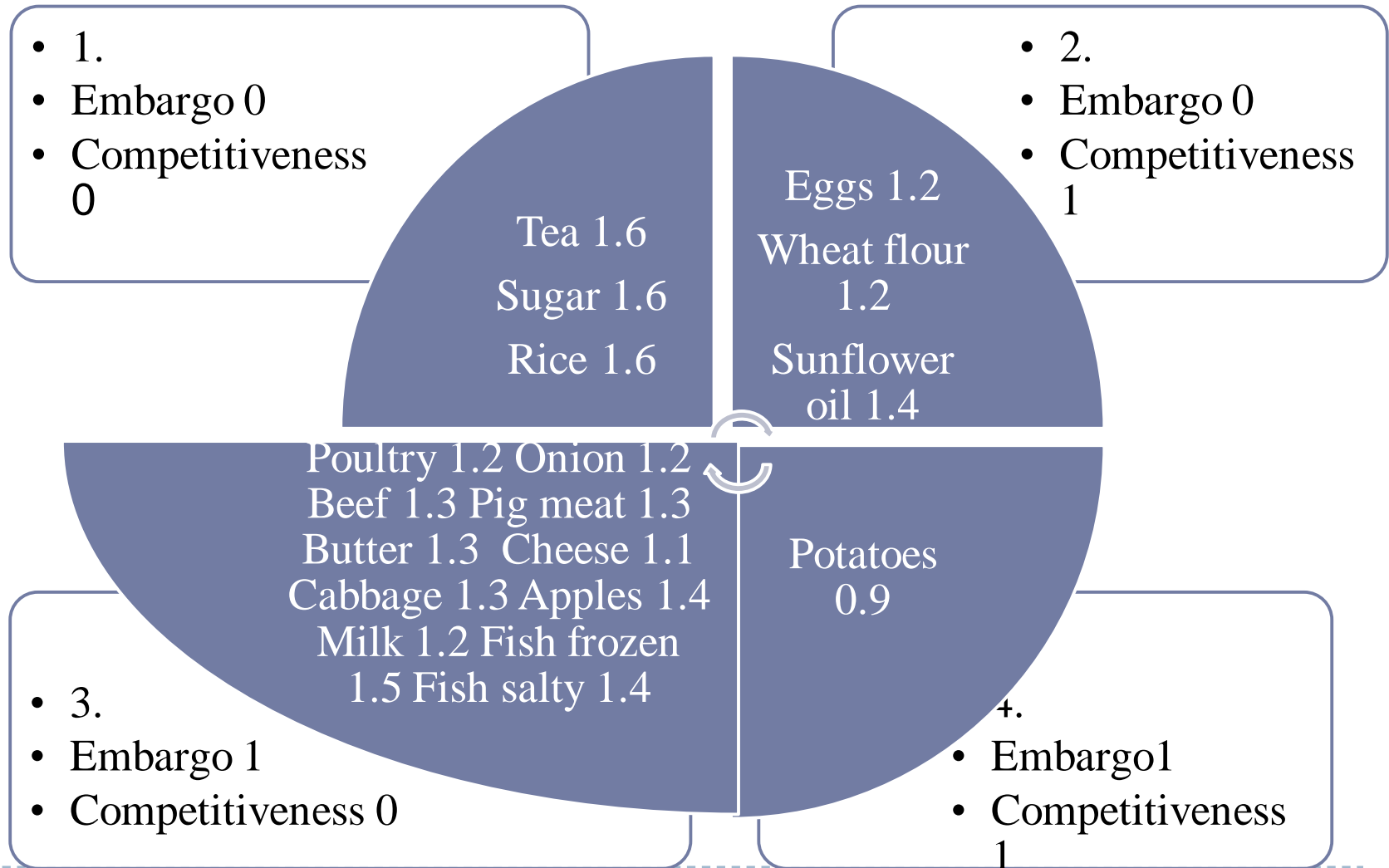
We assign to the products, having different price indexes, values of the indicators as 0 or 1 characterizing:

- the fact of embargo existing and
- competitiveness.

Grouping of the studied products

Commodity category	HS code	Price index	Embargo	Competitiveness
Potato	0701	0.9	1	1
Poultry meat cooled and frozen	0207	1.2	1	0
Whole drinking milk pasteurized	0401	1.2	1	0
Onion	0703	1.2	1	0
Eggs	0407	1.2	0	1
Wheat flour	1101	1.2	0	1
Bovine meat	0201, 0202	1.3	1	0
Pork	0203	1.3	1	0
Butter	0405	1.3	1	0
Cheese	0406	1.3	1	0
Fresh white cabbage	0704	1.3	1	0
Apples	0808	1.4	1	0
Sunflower oil	1512	1.4	0	1
Sugar	1701	1.6	0	0
Black tea	0902	1.6	0	0
Rice	1006	1.6	0	0
Fish frozen not cut	0303	1.5	1	0
Fish salty, marinated, smoked	0305	1.4	1	0

Distribution of the studied food with price indices



Distribution of the studied food with price indices

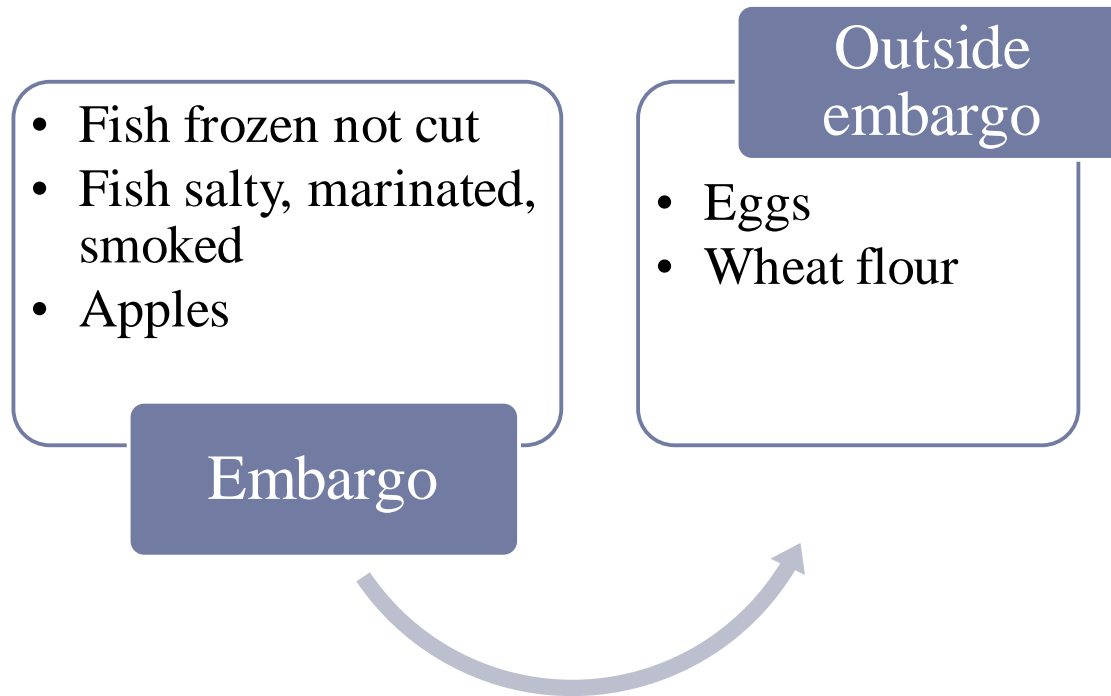
1. The highest increase in prices was observed in cell number 1. Russia depends on import of products of this category. These goods cannot be involved in geopolitical strategies.

2. In the second cell there are goods with high competitiveness. There is no severe need to import, and they could be easily placed under embargo. But they were not.

3. There are apples and fish in the third cell. In this case embargo is most problematic because of the strong rise in price.

4. In the last cell we meet the least sensitive goods (potato) which, owing to a high self-sufficiency, were the subject of embargo.

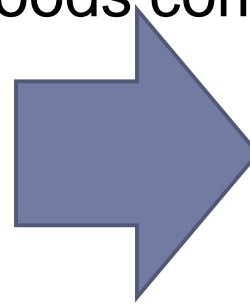
Desired rearrangement of commodity groups



Because of a strong rise in price of fish and apples these products, in our opinion, should be allowed on the market. At the same time eggs and wheat flour could undergo embargo.

As we can see

- ▶ Russia introduced an embargo on those goods which had (except for apples and fish) no tendency to rise in price.
- ▶ Cell 3:
- ▶ On the majority of these goods competitiveness in the world market was small.



- ▶ What will happen:
- ▶ Change of the trading partners (competitiveness is still low) or
- ▶ Rise in the competitiveness and import substitution?

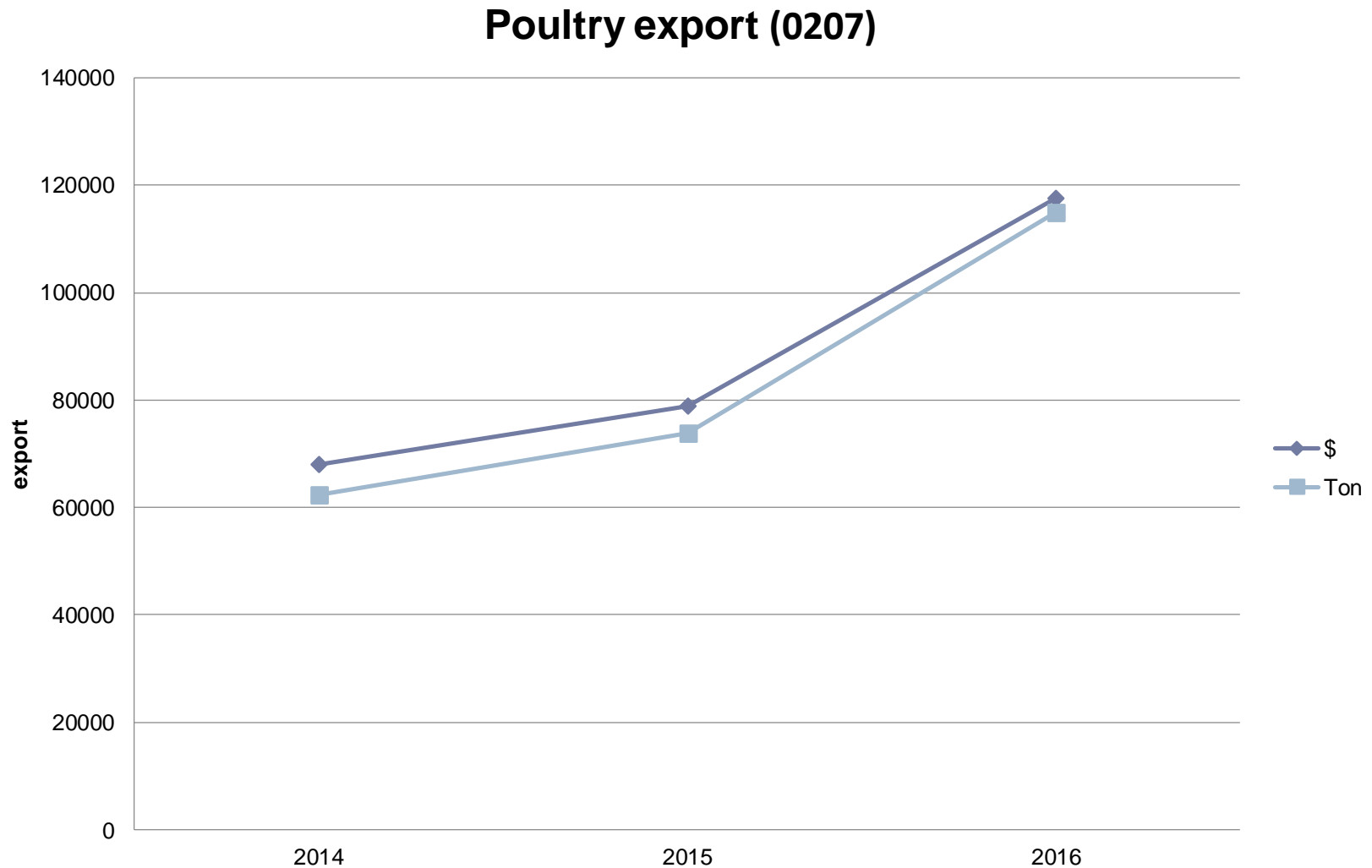
A remark: When government insists on an import substitution in sectors with low competitiveness it lowers the quality of food which has an adverse effect on food security

After two years we have import substitution (import 2016/2012)
 One obvious correlation is between the fact of embargo and import substitution (sum effect of embargo and currency depreciation)-----

2	Meat and edible meat offal	31%
7	Edible vegetables	56%
16	Preparations of meat, of fish or of crustaceans	57%
3	Fish and crustaceans, molluscs and	59%
8	Edible fruit and nuts	61%
4	Dairy produce; birds' eggs; natural honey	67%
19	Preparations of cereals, flour, starch or milk	67%
10	Cereals	70%
17	Sugars and sugar confectionery	72%
11	Products of the milling industry	77%
15	Animal or vegetable fats and oils	84%
9	Coffee, tea, maté and spices	93%

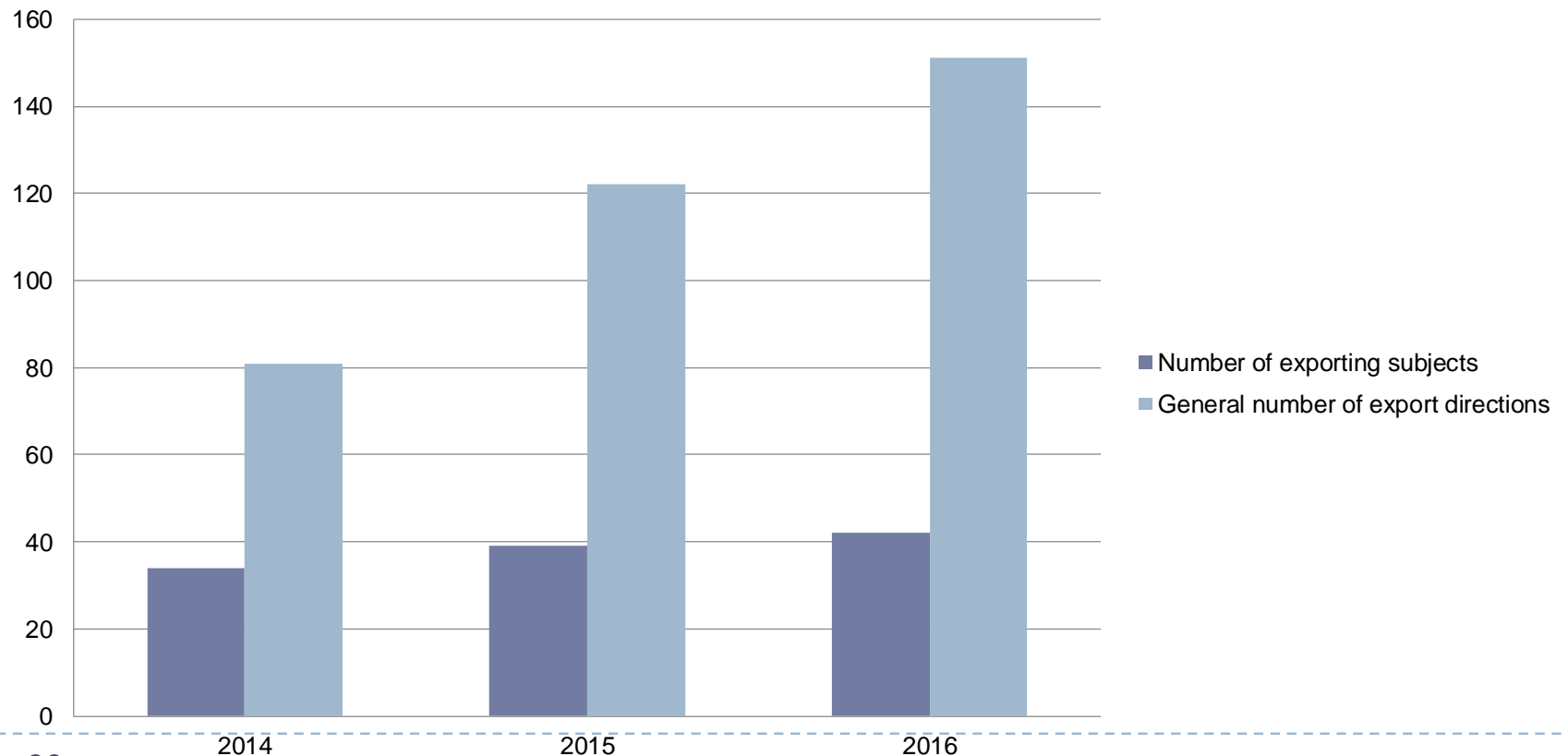


Export is growing (example: poultry, 0207, under embargo)



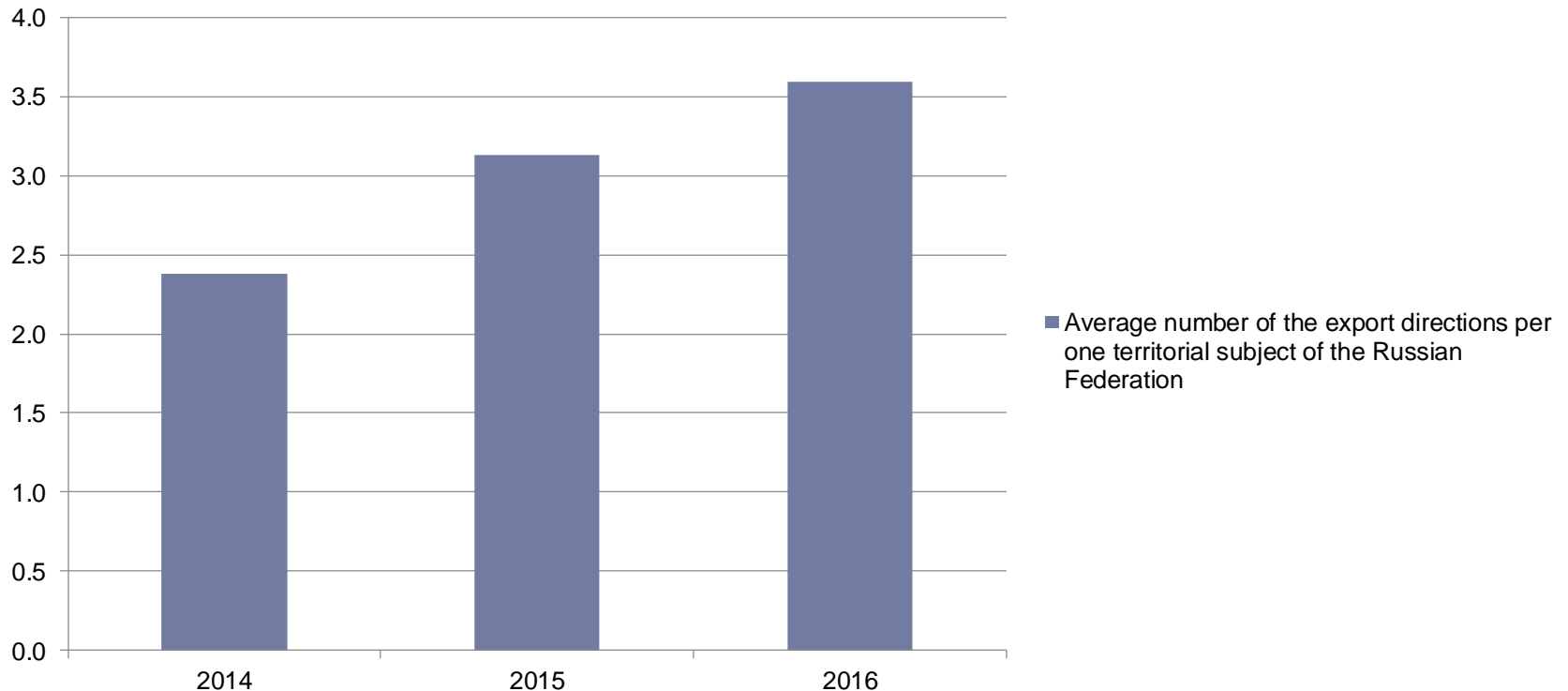
Number of exporting subjects of the RF has increased from 34 to 42. General number of export directions increased from 81 to 151.

Poultry export by subjects of the Russian federation



In 2014 one exporting region had as average 2.4 directions of export, in 2016 this number becomes 3.6.

Average number of the export directions per one territorial subject of the Russian Federation



Why did it happen:

Embargo or currency devaluation?

Two events coexist and work together.

Situation for Government is comfortable.

Consumers choose domestic cheese.

Brand “Just a cheese” is the most popular.

Thank you for your attention!

