Russian restrictions on agri-food imports: Effects on domestic and world markets

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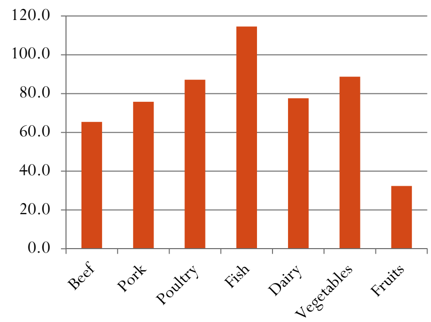
The import ban – the basics

- Announced by the Russian Government on 7 August 7 2014
- The prohibition (valid for 1 year) covers imports of **beef, pork, poultry, processed meats, fish and other seafood, milk and milk products, vegetables, fruits and nuts**
- Exporters affected: European Union, United States, Canada, Australia and Norway.
- Came after a series of other (mainly SPS-related) constraints
- The ban extended on 24 June 2015 for 1 more year

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

	Percent
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**

Share of Russia's own production in total utilization (percent)



Source: Own calculations based on data from the Federal State Statistics Service and FAO-EST

Russia's imports of products affected by the ban in 2013 (US$ mn)

	From all sources	From banned countries	Share of banned countries in total, %
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**

36% of all products (by import value) came from the banned countries. For pork, poultry and fish the share is highest.

Source: UN Comtrade

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

	Beef	Pork	Poultry	Fish and seafood	Milk and milk products	Vege-tables	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

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

		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

The predicted effects of the ban

GTAP CGE analysis based on GTAP 9 Data Base released in March 2015

Technology-like variable is introduced to capture the restricted imports

Changes in Russia's imports, final consumption of imports, sector output, consumer quantities and

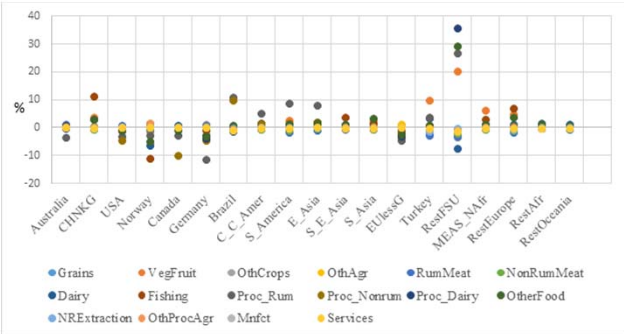
Sector	Imported quantities	Output	Consumer prices	Consump-tion quantities
Grains	4.5	-1.1	0.9	-0.2
VegFruit	-4.4	7.6	6.4	-0.6
OthCrops	2.3	-0.8	0.2	-0.2
OthAgr	3.2	-2.3	1.5	-0.9
RumMeat	5.6	1.9	0.0	-0.3
NonRumMeat	4.9	1.2	2.9	-1.4
Dairy	-16.5	-1.1	3.2	-1.6
Fishing	-60.5	16.5	52.2	-15.4
Proc_Rum	-26.2	2.2	1.8	-1.0
Proc_Nonrum	-46.5	21.4	7.0	-2.9
Proc_Dairy	-24.6	4.5	2.1	-1.1
OtherFood	-32.3	5.7	5.7	-2.0
NRExtraction	-0.2	-0.2	0.0	-0.4
OthProcAgr	1.6	-0.3	0.8	-0.6
Mnfct	-0.1	-0.3	0.0	-0.4
Services	0.0	-0.2	0.1	-0.5

Change in quantities imported by Russia from non-affected countries, by sector and trade partner, % change

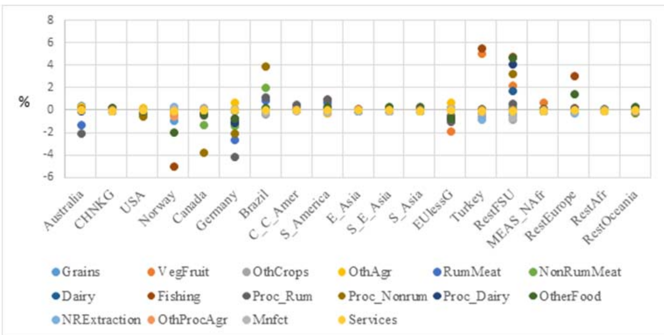
Sector	Brazil	S_America	E_Asia	S_E_Asia	S_Asia	Turkey	RestFSU	CHNKG
Grains	3	3	4	4	4	2	0	4
VegFruit	56	55	58	57	57	54	51	57
OthCrops	2	2	3	2	2	1	-1	2
OthAgr	5	6	7	6	6	6	3	6
RumMeat	3	3	5	5	5	4	1	5
NonRumMeat	3	4	5	5	4	4	2	5
Dairy	60	60	63	62	62	58	48	62
Fishing	773	772	769	771	774	690	709	770
Proc_Rum	53	53	56	56	56	54	51	56
Proc_Nonrum	210	214	218	217	217	212	203	217
Proc_Dairy	51	52	53	53	53	52	48	53
OtherFood	96	97	97	97	97	96	94	97

Impacts on trading partners

Change in exports, by sector and exporting region, %



Change in sector output, by region, %



Change in welfare

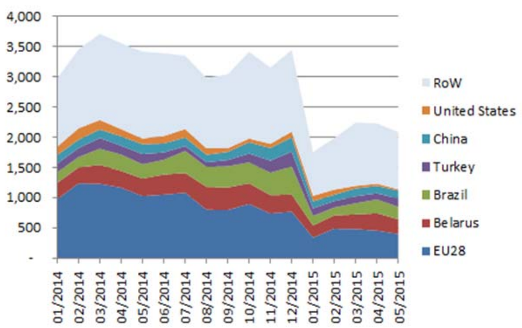
Region	millions US$	Relative to initial welfare, %
Australia	31	0.003
CHNKG	83	0.001
USA	-394	-0.003
Norway	-97	-0.022
Canada	-47	-0.003
Germany	-113	-0.004
Brazil	519	0.025
C_C_Amer	46	0.003
S_America	291	0.019
E_Asia	-110	-0.002
S_E_Asia	145	0.008
S_Asia	89	0.004
EUlessG	-1,185	-0.01
Russia	-8,634	-0.529
Turkey	271	0.038
RestFSU	422	0.082
MEAS_NAfr	166	0.006
RestEurope	133	0.019
RestAfr	104	0.008
RestOceania	31	0.017

The observed changes in imports

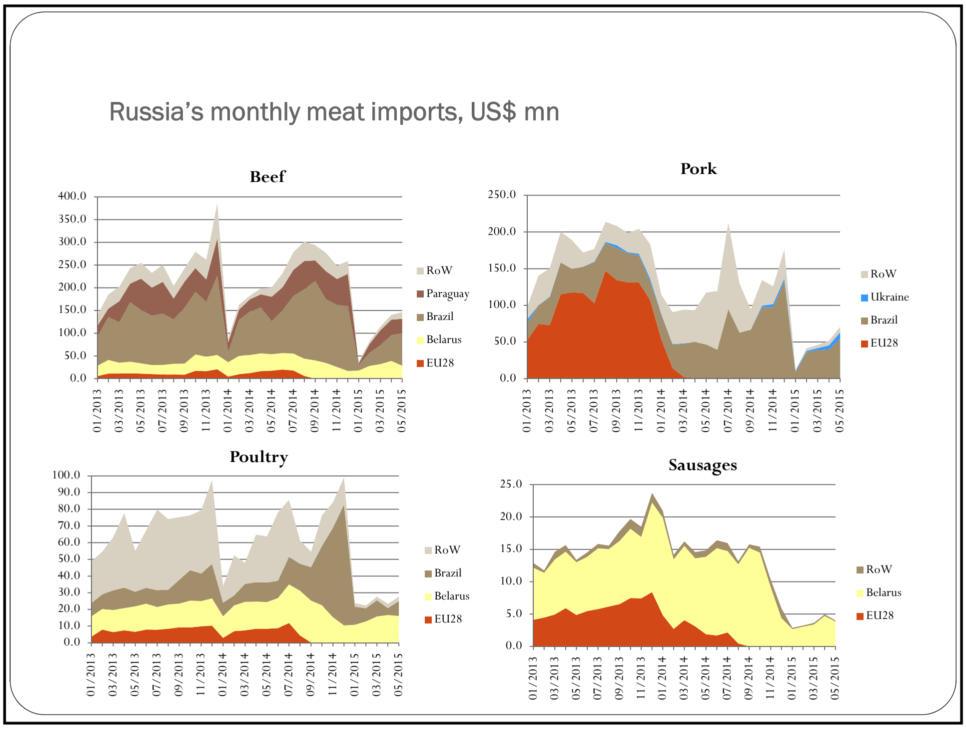
Two main features:

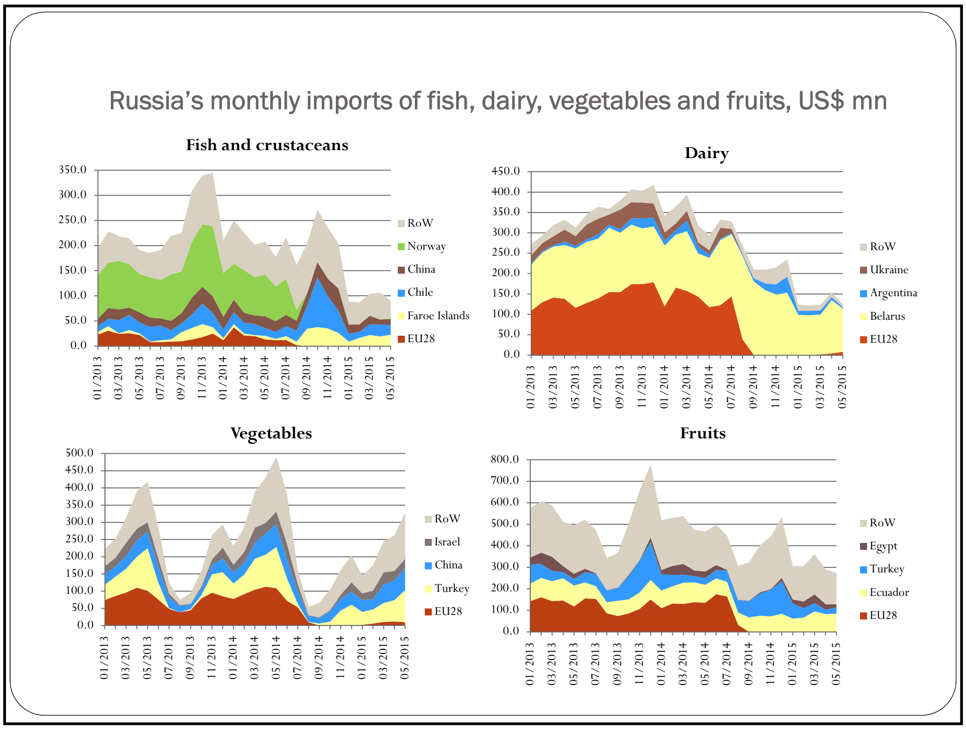
- 26 percent decline in aggregate agricultural imports in the 6 months after the ban (relative to the same period 1 year ago)
- A shift in the import sources: Total agri-food imports from the EU (the largest exporter of food to Russia) declined by half; imports from Brazil increased by 28%.

Monthly value of Russia's agricultural and food imports by source, US$ mn



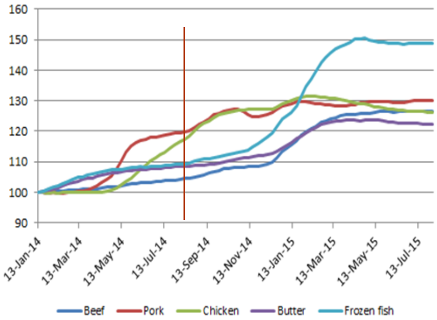
Source: GTIS


Russia's monthly meat imports, US$ mn
Beef
RoW
Paraguay
Brazil
Belarus
EU28
Pork
RoW
Ukraine
Brazil
EU28
Poultry
RoW
Brazil
Belarus
EU28
Sausages
RoW
Belarus
EU28

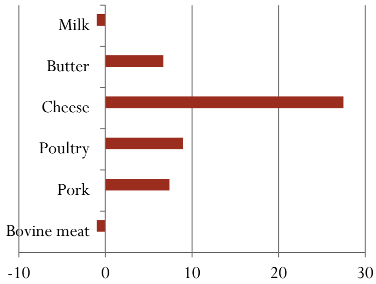

Russia's monthly imports of fish, dairy, vegetables and fruits, US$ mn
Fish and crustaceans
RoW
Norway
China
Chile
Faroe Islands
EU28
Dairy
RoW
Ukraine
Argentina
Belarus
EU28
Vegetables
RoW
Israel
China
Turkey
EU28
Fruits
RoW
Egypt
Turkey
Ecuador
EU28

The observed changes in consumer prices and production for selected products

Consumer prices for selected products, index (January 2014=100)



Change in volumes of production Jan-July 2015 relative to Jan-July 2014, %



Source: Own calculations based on data from the Federal State Statistics Service and Ministry of Agriculture of Russia

The outcomes are highly product-specific

- Pork: The strongest fall in imports during 2014 has been in pork (41% in volume terms). Most imports were coming from the EU, but these were already banned since 1 January 2014. Brazil has expanded the market share from an average of 21% during 2013 to 72% in the last quarter of 2014, replacing the EU as the main exporter of pork. Russia is expected to continue increasing its own production in line with the long-term trend.
- Beef: so far there has not been any major increase in beef imports by Russia as these were already coming primarily from South America before the ban
- Poultry: A large increase in imports from Brazil and Belarus (with market shares by volume increasing from 10% to 30% and from 16% to 56 % between 2013 and the first half of 2015, respectively).
- Dairy: Belarus was already the largest supplier to the Russian market and its share in the total value of imports of dairy products by the Russian Federation went from 39% in 2013 to 85% currently.

Conclusions

- The import restrictions contributed to overall reduced food imports, higher consumer prices and a lower level of consumption in Russia
- Pork and poultry production is increasing consistent with long-term trend. Cheese production expanded substantially in 2015. Additional production will require sizeable investments in agriculture.
- Increases in consumer prices observed in Russia are mostly driven by food import ban and weaker ruble, with the exchange rate and other macroeconomic variables affected by the fall in oil prices and economics sanctions in financial, energy and defense sectors imposed on Russia

Conclusions

- A shift in import sources:
  - South America, already the main exporter of beef to Russia, is now gaining market shares in other products, consolidating their overall commercial ties.
  - Nearby countries, such as Azerbaijan, Belarus, China, Israel, Serbia and Turkey are also gaining ground as suppliers in a variety of products
- Economic effects closely connected to the political process: Russia is consolidating its already strong political and commercial ties with the key agricultural exporters in South America and within BRICS
- This realignment in trade directions may have longer-term implications for global markets