

Russia's Food Embargo

By Stephen K. Wegren, Dallas

Abstract

Russia imposed an embargo on food imports from countries that participate in sanctions against it. Import substitution from domestic producers and other countries will lessen the impact on Russian consumers.

Russia's Food Embargo

On 6 August President Vladimir Putin issued Decree no. 560 that stated that Russia would take special economic measures to protect its national security. The decree banned importation of food from Western nations that had imposed sanctions on Russia.¹ A day later, the Russian government issued Resolution no. 778 that specified commodities that would be banned.² The ban includes beef, pork, fruit and vegetables, poultry, fish, cheese, milk and dairy products from the European Union, United States, Australia, Canada and Norway. On 19 August, the Ministry of Agriculture submitted modifications to the list of prohibited products, exempting certain products from the banned list. Among the items were seed for potatoes, peas, hybrid corn, onion, protein and protein mixture concentrates, food additives and lactose-free dairy products, and young salmon or trout less than two years of age.³ Two days later, the government issued Resolution 835 that allows members of the WTO who are not participating in sanctions to export meat to Russia up to the quota level established by Russia.⁴ In mid-October the ban was expanded to include various kinds of animal fat and meat byproducts.

The import ban is to be in effect for one year, although Prime Minister Medvedev held out the possibility of ending the embargo if sanctions are lifted. Under the radar is the fact that Russia was already limiting food imports from certain countries even before the August ban was announced (Table 1).

Russia's Food Trade War

In a politicized move that struck at an iconic symbol of American culture, in July 2014 McDonald's came into

the crosshairs of Russia's agency responsible for food safety inspections (Rossel'khoznadzor). Originally, in April 2014 some nationalist Russian politicians called for all outlets in the country to be closed after McDonald's closed its restaurants in Crimea following the annexation by Russia in March. In July, McDonald's, which operates 438 restaurants throughout Russia, was charged with health and sanitation violations for its Caesar wrap sandwiches. In addition, Rossel'khoznadzor questioned the stated nutritional value of McDonald's shakes and ice cream. Rossel'khoznadzor also challenged the advertised energy value of cheeseburgers, fish sandwiches, and chicken burgers. McDonald's responded by saying that it had not received any complaints and uses methodologies approved by Rossel'khoznadzor. On 26 August a Moscow court ordered that the McDonald's located on Manezh square—at the foot of the Kremlin—be closed for 90 days due to sanitary violations. By the end of August, 12 McDonald's had been closed nationwide including three in Moscow, and more than 100 inspections were underway in the regions. In mid-September, McDonald's announced the temporary closure of 22 restaurants in Russia for modernization, and also removed two salads from its menu. In early October, Russian prosecutors announced that they were opening an investigation into the Ronald McDonald House Charities on suspicion of money laundering.

Russia's food trade war is also directed at Ukraine. Putin's vision to create a free trade zone with Ukraine as a partner in the new Eurasian Economic Union (EEU) is gone. Instead, there is a clear intent to punish Ukraine by banning the importation of certain food products into Russia. On 25 July, Rossel'khoznadzor banned the importation of milk from Ukraine, effective 28 July. The same day, Ukraine banned the importation of pork and pork products from Russia. Russia retaliated by banning plant products from Ukraine carried in hand luggage, luggage, or by mail. On 27 July, Russia announced a ban on all dairy products from Ukraine, beginning 4 August. On 29 July, Russia added juice, including children's juice drinks, to the list of banned items from Ukraine. On 19 August Rossel'khoznadzor banned the export of food products from Ukraine into the Crimea, effective 1 January 2015. The list includes milk, meat, eggs, and canned meat and milk. Russia also banned the import

1 "Ukaz o primenenii otdel'nykh spetsial'nykh ekonomicheskikh mer v tselya obespecheniya bezopasnosti Rossiyskoy Federatsii," 6 August 2014, <www.kremlin.ru>.

2 Postanovlenie ot 7 Avgusta 2014 no. 778, "O merakh po realizatsii Ukaza Prezidenta Rossiyskoy Federatsii ot 6 Avgusta 2014 no. 560," 7 August 2014, <<http://government.ru>>.

3 Postanovlenie ot 20 Avgusta 2014 no. 830, "O vnesenii izmeneniy v postanovlenie Pravitel'stva Rossiyskoy Federatsii ot 7 Avgusta 2014 g. no. 778," 20 August 2014, <<http://government.ru>>.

4 "O dopolnitel'nykh merakh po regulirovaniyu importa myasa rogatogo i myasa domashney pitsy," 21 August 2014, <<http://government.ru>>.

of confectionaries from Ukraine effective 5 September. In October, all exports of plant products from Ukraine into Russia were banned.

Moldova is also targeted. Moldova has a pro-Russian separatist breakaway region, Trans-Dniester. The situation is complicated by the fact that the country faces elections in November that will determine whether it stays on its pro-Western course or pursue a course that is friendlier to Moscow. In early July, meat exports from Moldova into Russia were restricted, and in October meat exports from Moldova were banned. Previously, in July, fruit exports had been banned. Moldova depends heavily on its trade with Russia. Fruit is its largest export, and 90 percent of its apples were sold to Russia before the ban. The lost revenue from apples alone is expected to reach \$50 million. Moldova is one of Europe's poorest countries. The average monthly salary is only \$300 (225 euros) and 30 percent of its GDP comes from remittances sent home by the 600,000 Moldovans who work abroad (15 percent of the total population).

Russian Food Imports

Although the Western press reports that Russia imports 40 percent of its food, this is a misleading statistic because Russia is basically self-sufficient in basic food commodities except for meat, meat products, and milk, which are high-cost commodities (Table 2). In 2013, Russia imported \$17.2 billion of food from the countries targeted by the ban, of which \$9.2 billion was in the affected categories.

Roughly 10 percent of EU agricultural exports go to Russia, worth around 11 billion euros (\$14.7 billion) per year according to the European Commission. Russia is also a major purchaser of American poultry meat, importing about \$300 million recently. The food ban is expected to cost EU farmers as much as 6 billion euro. In the wake of the food ban, the European Commission met to discuss the impact on small farmers in the EU. Some European leaders criticized the sanctions as creating too great a cost for their countries. Poland asked the US to buy its apples that no longer can be sold to Russia. It is estimated that 9.5 million farmers in the EU will be affected by the ban.

Overall, Russia imported food valued at more than \$43 billion in 2013 (Table 3), a statistic that only includes food that passed through customs, but does not include food that was carried into Russia for personal consumption. Putin's decree of 6 August does not forbid Russians to travel abroad and bring back foreign food for personal consumption, a threshold that was not defined and led to some people testing the upward limit in the early weeks after the ban.

Responses to the Food Embargo

During the past 20 years Russia has developed its own food industry. Many processed products that appear to Russian consumers to be imports are actually made in Russia. The food ban will benefit Russian food companies by limiting alternative choices and by familiarizing the Russian consumer with domestic brand names. Moreover, the government has increased financial support for agricultural producers by R87 billion in 2014 to spur domestic production and to help them cope with the embargo. *Russian* Agriculture Minister Nikolai Fedorov also suggested that production subsidies for poultry meat and pork be extended to 2018, instead of ending in 2015 as originally planned. On 13 August, Prime Minister Medvedev instructed the Ministry of Agriculture to develop "a new strategy for the development of agriculture," so that Russia can end its dependence on imports. In late August the government announced the transfer of R239 billion to the bank VTB and the agricultural bank (Rossel'khozbank). In the case of the agricultural bank, the purpose is to ensure adequate capital reserves and sufficient funds for lending to food producers. In early October Medvedev signed instructions to work out a "road map" for substituting imports with domestic production. Later that same month the draft of the new version of the government's program to support agriculture prioritizes animal husbandry and private farming.

There are some banned imports that Russian agriculture cannot easily replace. Russia cannot, for example, simply plant apple trees to replace Polish apples in one year. The same is true for beef and dairy cattle, both of which continue to have depressed livestock numbers compared to the early 1990s. Consumer products most affected by the food ban are high-end edibles that cater to the upper-middle class and above, products such as Norwegian smoked salmon, French, cheese, or Italian processed meats. For basic food commodities, replacements are relatively easy. A number of countries have indicated a willingness to increase food exports to Russia in order to compensate for banned products from the US and EU. Specifically, Argentina and Brazil have indicated a willingness to supply beef, and the day after Putin's decree Rossel'khoznadzor approved the export of beef from 90 meat processing plants in Brazil. Chile is ready to sell more salmon to Russia, replacing the losses from Norway. Ecuador is ready to sell more shellfish to Russia. Belarus said it is willing to increase the export of cheese, milk, and other dairy products; and has said it can replace Polish apples and Dutch potatoes. Central Asian nations are ready to provide fruits and vegetables. Turkey, which in 2013 sold \$1.7 billion worth of food to Russia, predicts that the value of food exports

may double. China, which does not support US-backed sanctions against Russia, indicated a readiness to “fully” meet Russian demand for fruits and vegetables. Likewise, Armenia expressed an interest to increase its food exports as well.

Embargoes and bans typically give rise to an underground economy. There are reports of an emerging black market whereby banned products from the West are being transported into Russia from Belarus or Kazakhstan. Russian officials have promised to be vigilant, but exporters have indicated that for small quantities it is easy to change the country of origin in the paperwork and to replace labels. Russian media has joked that Muscovites will see supplies of oysters and shrimp from landlocked Belarus.

How Much will Russian Consumers Suffer?

The impact of the embargo has the potential to be significant, the real question is on whom. Food products constitute about 37 percent of Russia’s “consumer basket.” Compared to developed nations, food costs are a large portion of household budgets in Russia. For all households nationwide, about one-third of the family budget goes toward the purchase of food. Families with children under 16 spend a little less. The amount spent on food, however, varies greatly depending on household income. According to official statistics, the poorest families spend more than 42 percent of their budget on food, whereas households in the upper 10 percent income bracket spend only 15 percent. Urban households spend a much smaller percentage on food than rural families.

Middle class Russian consumers may be squeezed in several ways. Following the introduction of the third round of sanctions, the ruble fell against the dollar and euro, thereby making foreign travel and the purchase of foreign foodstuffs more expensive for Russians who go abroad. In late September the Ministry of Economic Development predicted that food inflation would reach 12–13 percent by the end of 2014, up from its previous estimate of 6–7 percent. Consumer interest rates

rose after the Central Bank raised rates in early August. These factors will reduce purchasing power and disposable income for Russia’s middle class. The cohort that will be most severely affected are the 16 million Russians who live below the poverty line; 28 percent of whom are children aged 15 or less.

In mid-August, the government announced the formation of a commission to monitor retail food prices. The government produced a list of 40 food categories including meat, dairy products, bread, fruits and vegetables. Retailers have to report the quantity and price of these goods on a daily basis. The Ministry of Agriculture monitors food prices on a weekly basis and publishes that information on its website (mcx.ru). Moreover, in late August the chairman of the Consumers Union in the city of Moscow announced that it would create an online database of retail prices that would allow consumers to compare prices for individual products or a basket of commodities. Food stores would have to agree to provide price data, but doing so would permit consumers to find stores with the cheapest prices. In late September, Putin called on governors to monitor food prices in their regions.

There has also been some discussion of introducing price controls. Russia tried price freezes before. In 2007 and 2008 the government negotiated price ceilings with producers and retailers to freeze the cost of basic goods such as bread, milk, eggs, vegetable oil as prices for these products started rising. The strategy did not work. Over the following months, price rises for the targeted categories outstripped overall food price inflation. For now the government is monitoring food prices. Toward the end of September Prime Minister Medvedev said that total price controls are not being contemplated.

Food trade wars seldom generate many winners. The main costs to Russian consumers are a bump in inflation and more limited choice for high-end products. Widespread hunger or malnutrition is unlikely to result from the food embargo, a return to long Soviet-era food lines is also doubtful.

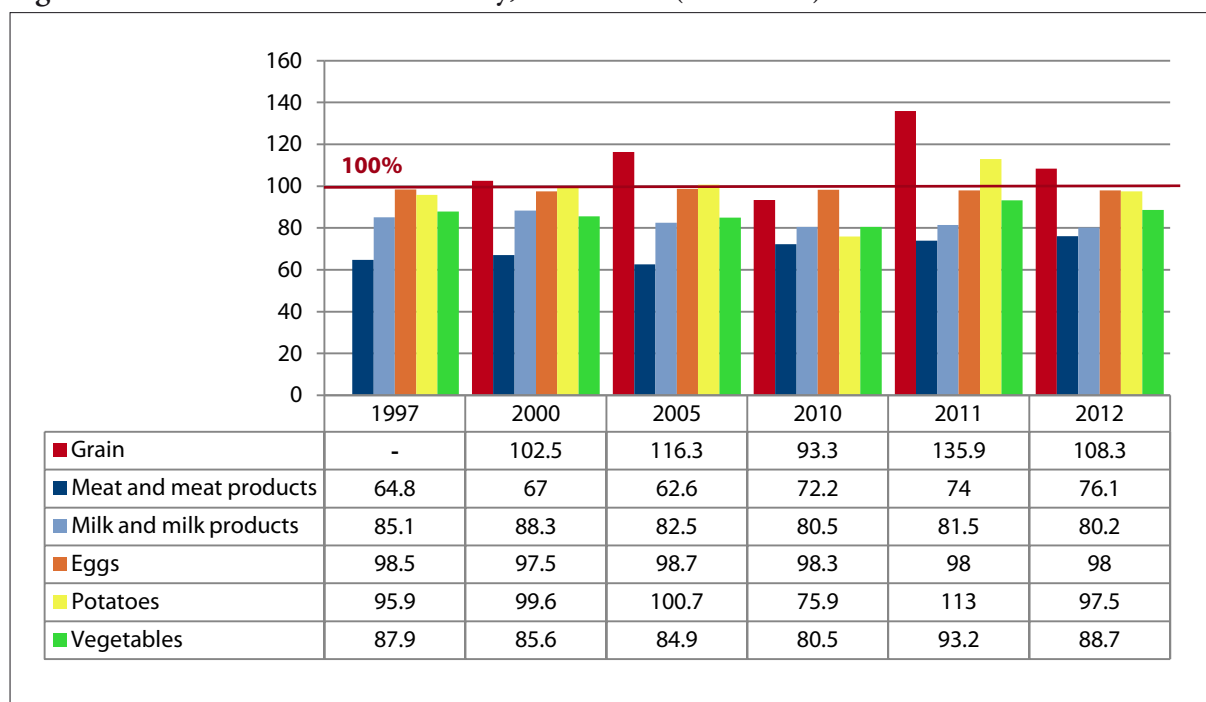
About the Author

Stephen Wegren is professor of political science at Southern Methodist University, Dallas, TX, USA.

Table 1: Food Bans or Limitations on Food Imports by Russia in 2014

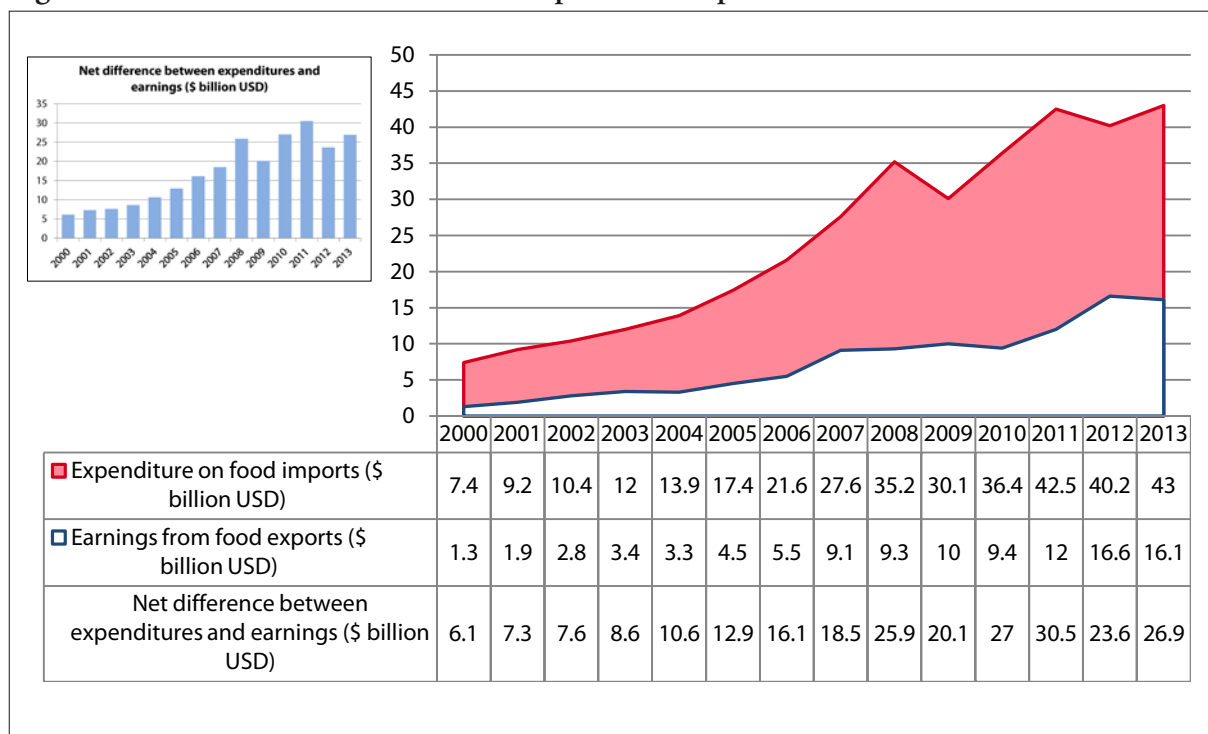
Country (alphabetical order)	Month	Food product
Australia	March	Beef
Austria	May	Beef, milk
California	April	90 day ban on poultry
EU	January	Pork
EU	August	Fruit and vegetables
Hungary	May	Meat, Milk
Latvia	April	Pork meat products
Latvia	May	Pork and pork products
Lithuania	January	Pork
Moldova	July	Fruit, limits on meat
Poland	April	Pork meat products
Poland	August	Fruits and vegetables
Ukraine	March	Animal husbandry products if Ukraine leaves CIS
Ukraine	June	Potatoes, pork
Ukraine	July	Dairy products, juice
United States	August	All food products

Figure 1: Russia's Food Self-Sufficiency, 1997–2012 (In Percent)



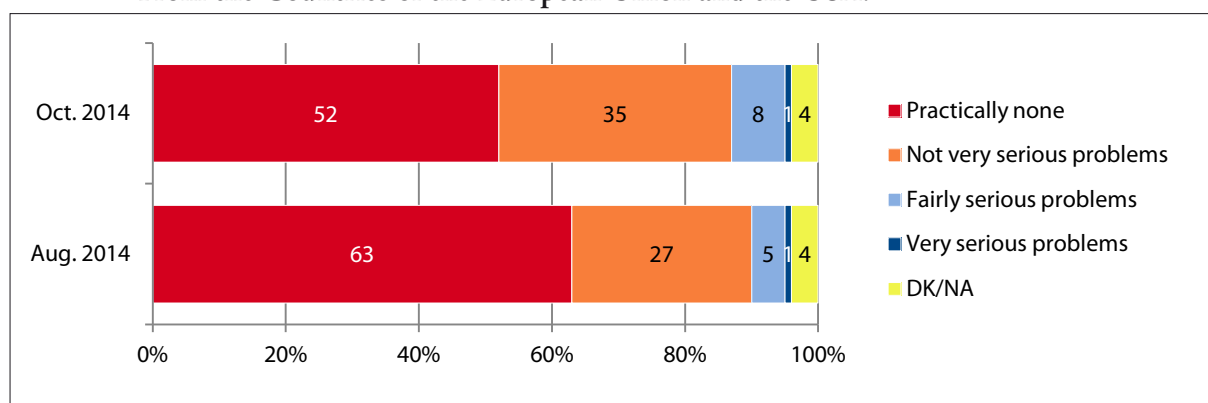
Sources: Ministry of Agriculture; Rosstat.

Figure 2: Dollar Value of Russia’s Food Imports and Exports, 2000–2013



Sources: Ministry of Agriculture; Rosstat; author’s calculations.

Poll: Have You Had Any Problems Feeding Your Family Due To the Ban on Food Imports From the Countries of the European Union and the USA?



Source: representative opinion poll by Levada Center, 24–27 October 2014, N = 1,630, <<http://www.levada.ru/11-11-2014/kontrsanktsii-problemy-i-posledstviya>>