

Impact of sanctions on agricultural policy in European Union and Russia

Zuzana Kapsdorferová¹, Olga Sviridova²

Slovak University of Agriculture in Nitra¹

Orel State Agrarian University

Faculty of Economics and Management, Department of Management

Tr. A. Hlinku 2

Nitra, Slovak Republic

World economy Chair²

General Rodin str. 69, 302019

Orel, Russia

e-mail^{1,2}: zuzana.kapsdorferova@uniag.sk, sviridova.o@list.ru

Abstract

In the springtime of 2014 the USA, the EU, some other countries and international organizations applied sanctions against Russia. This process started after joining of Crimea to the Russian Federation. In its turn Russia imposed retaliatory sanctions, which banned import of some agricultural products, raw materials and food products from the United States of America, the European Union, Canada, Australia and Norway. Authors analyzed international trade of the Russian Federation with the European Union changing for the sanctions period in comparing with previous one, forecasting on 2016. There is also evaluation of structure changing of Russian food products import from Europe in the article. The ban effected 4,2% of total EU agri-food exports. The European Commission's measures for the compensation, storage and promotion of sales market diversification for agricultural products are presented. New destinations and alternative markets for European agri-food export are considered. Impact of sanctions on the food products supply in Russia is monitored according to the internal market price changing. To the end of 2015 in comparing with 2013 the most suffered for embargo production items became frozen fish (with rising of the price on 52%), sunflower oil (on 43%), apples (on 38%), butter and meat of cattle (on 29%). While inflation rate in Russia was 11,36% and 12,91% for 2014 and 2015 years. After all authors reviewed priorities of contemporary agricultural policy of Russia. The main is focus on internal resources of agricultural development, which means broad federal support of agriculture. As a result Russia can become a strong supplier of agricultural and food products on the world market.

Key words: *sanctions, agricultural policy, food products, internal market, international negotiation*

JEL Classification: *F510, F520*

1. History of a question

On the 16th of March 2014 referendum about status of Crimea was organized. More than 80% of its population voted that the Crimea had to become a part of the Russian Federation. The United Nations did not declare the referendum. But Russia did it with regard to experience of Kosovo independence declaration in 2008. And on the 18th of March 2014 Russia signed an agreement with Crimea about joining of the Crimea to the Russian Federation. After that the USA, the EU, some other countries and international organizations applied sanctions against Russia.

Russia responded with a one-year ban on imports of beef, pork, poultry, fish, cheeses, fruit, vegetables and dairy products from Australia, Canada, the European Union, the United States and Norway. (Adriel Kasonta, 2015)

In the current context, the most important is to react in a proportionate and rapid way should the situation arise. (European agriculture commissioner Dacian Ciolos, 2014)

The EU has introduced three waves of restrictive measures against Russia, which are regularly updated. While they hurt the Russian economy, the EU sanctions also have a boomerang effect, especially in conjunction with the countersanctions imposed by the Kremlin on EU food imports. (Tatia Dolidze, 2015)

2. European sanctions against Russia

In spite of the European Union was one of the biggest partners of Russia in the world economy, European restrictive measures were really severe, see table 1.

Table 1: Restrictive measures of the European Union for the Russian Federation after joining of Crimea to Russia

<p style="text-align: center;">Council Decision 2014/512/CFSP (OJ L 229, 31.7.2014, p. 13) http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014D0512</p> <ul style="list-style-type: none">- embargo on arms and related materiel- embargo on dual-use goods and technology, if intended for military use or for a military end-user- ban on imports of arms and related materiel- (arms and related materiel related) ban on provision of certain services- (dual-use goods and technology related) ban on provision of certain services- (deep water, Arctic and shale oil related) controls on export of certain equipment for the oil industry- controls on provision of certain related services- prohibition of procurement from Russia of arms and related materiel- restrictions on issuance of and trade in certain ‘bonds, equity or similar financial instruments’- prohibition to satisfy certain claims made by certain persons, entities and bodies- valid until 31.7.2016.
<p style="text-align: center;">Council Regulation (EU) No 833/2014 (OJ L 229, 31.7.2014, p. 1) Corrigendum (OJ L 246, 21.8.2014, p. 59) http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0833 http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0833R(02)</p> <ul style="list-style-type: none">- embargo on dual-use goods and technology, if intended for military use or for a military end-user- (arms and related materiel related) ban on provision of certain services- (dual-use goods and technology related) ban on provision of certain services- controls on export of certain items for the oil industry (deep water, Arctic and shale oil)- controls on provision of certain related services- restrictions on issuance of and trade in certain securities and money-market instruments- prohibition to satisfy certain claims made by certain persons, entities and bodies

Source: EU restrictive measures in force (updated 15.1.2016).

It is necessary to notice, that from European side there were two amendments in 2014 and two ones in 2015, which added first list of sanctions (#512). As well as there were two amendments of the second list of restrictive measures (#833) in 2014 and one in 2015.

3. Russian sanctions against Europe

In its turn Russia imposed retaliatory sanctions on the 6th of August 2014. They were special economic measures of security assurance of the Russian Federation. The presidential edict banned or limited import of some agricultural products, raw materials and food products from countries, which applied sanctions against Russia. According to this edict the Government formed list of banned import products from the United States of America, the European Union, Canada, Australia and Norway, see table 2.

Table 2: Russian list of banned import products from the United States of America, the European Union, Canada, Australia and Norway

The Customs Union commodity code	Name of product*)***)
0201	Meat of cattle, fresh or cooled
0202	Meat of cattle, frozen
0203	Pork, fresh, cooled or frozen
0207	Meat and edible offal of fowl, listed in commodity item 0105, fresh, cooled or frozen
from 0210**	Salted, in brine, dried or smoked meat
0301, 0302, 0303, 0304, 0305, 0306, 0307, 0308	Fish and crustaceans, mollusks and other water invertebrates
0401, 0402, 0403, 0404, 0405, 0406	Milk and dairy products
0701, 0702 00 000, 0703, 0704, 0705, 0706, 0707 00, 0708, 0709, 0710, 0711, 0712, 0713, 0714	Vegetables, edible roots and tuber crops
0801, 0802, 0803, 0804, 0805, 0806, 0807, 0808, 0809, 0810, 0811, 0813	Fruits and nuts
1601 00	Sausage and analogous meat and blood products, other same food products
1901 90 110 0, 1901 90 910 0	Prepared products, including cheese and curd of vegetable fat
2106 90 920 0, 2106 90 980 4, 2106 90 980 5, 2106 90 980 9	Food products (products, contained milk of vegetable fat)
* The Customs Union commodity code is the main for this list using, name of product is just for ease. ** The Customs Union commodity code and name product have equal meaning for this item using. *** Infant food products are exception.	

Source: Decree of the Government of the Russian Federation from The 7 of August 2014 # 778.

The list was valid during one year, but on the 24th of June 2015 it was prolonged till the 6th of August 2016.

4. Analysis of Russian-Europe food products trade for 2014-2016

As a result of sanctions there is decrease of international trade between Russia and Europe. Dynamic of export from Russia to EU, import to Russia from EU, trade turnover and share in the total Russian trade turnover are presented in table 3.

Table 3: International trade of the Russian Federation with the European Union for 2012-2015, in mil. doll.

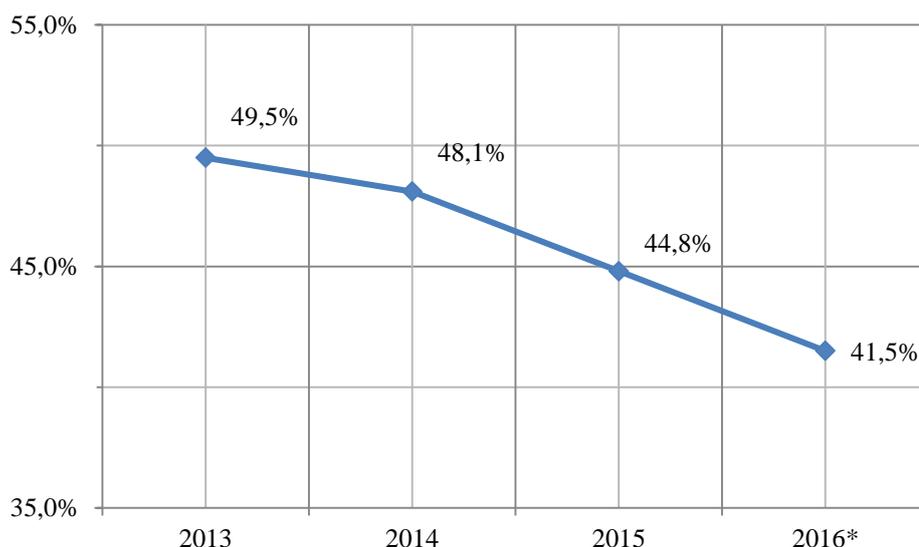
	2012	2013	2014	2015
Turnover	409599,7	416515,9	377538,6	235722,9
Export	277085,8	282237,9	259051,7	165566,2
Import	132513,9	134278,0	118486,9	70156,8
Share in the total Russian turnover, %	48,6	49,5	48,1	44,8

Source: Federal Customs Service of Russia data.

As to trade turnover between Russia and Europe, it fell down on 9% after first wave of sanctions till the end of 2014 and on 38% after second one till the end of 2015. At the same time Russian export to the European countries became on 8% lower in 2014 and on 36% in 2015. When Russian import from the EU fell down till 12% and 41% in 2014 and 2015.

From 2013 to 2014 and from 2014 to 2015 share of international trade with Europe in the total Russian turnover is falling down. The first descending was on 1,4% only, when the second became on 1,9% higher and attended 3,3%. This tendency can lead to the falling on 3,3% more down to 41,5% at the end of 2016 (according to the extrapolation method). It will mean, that the gap will rise up to 8% for last 3 years from 2013, see draft 1.

Figure 1: Dynamic of EU's share in the total Russian trade turnover for 2013-2016, with forecast on 2016



There are no doubts, that this process is a consequence of sanctions. Let's analyze structure changing of Russian food products import from Europe. To the end of 2014 import growth of

- meat products group was about -82,9%,
- fish and crustaceans, mollusks and other water invertebrates was about -40,5%,

- milk products was about -34,1%,
- meat and fish contained food products was about -33,8%,
- fruits and nuts was about -33,1%,
- vegetables was about -32,5%,
- other food products, contained milk of vegetable fat was about -7,8%,
- milk and flour contained food products was about 10%.

From products group to group decrease became different. Last researching group already had a real growth in 10%. This changing reflects only how many products items were banned in the whole products group.

In comparing with 2015, reductions, mentioned above, seem not so enormous, see table 4. Even if we regard data for 9 months of the year, the situation is utterly terrible.

Table 4: Russian import of main food products from the European Union for 2013-2015

CU code	Name of products group	2013		2014		2015*	
		Value, mil. doll	Share, %	Value, mil. doll	Share, %	Value, mil. doll	Share, %
	Total, including:	134278,0	100,0	118486,9	100,0	51120,71	100,00
02	Meat	2124,9	1,6	363,4	0,3	6,23	0,0122
03	Fish and crustaceans, mollusks and other water invertebrates	216,1	0,2	128,6	0,1	0,44	0,0009
04	Milk and dairy products	1897,1	1,4	1250,5	1,1	184,26	0,3604
07	Vegetables, edible roots and tuber crops	935,1	0,7	631,1	0,5	40,81	0,0798
08	Fruits and nuts	1519,6	1,1	1015,9	0,9	0,24	0,0005
16	Meat and fish contained food products	260,6	0,2	172,6	0,1	44,59	0,0872
19	Milk and flour contained food products	815,9	0,6	898,4	0,8	375,17	0,7339
21	Other food products	1039,1	0,8	958,0	0,8	414,22	0,8103

Source: Federal Customs Service of Russia data. * for 9 months.

After the second wave of sanctions the situation changed dramatically. Share of products groups, including banned products, decreased quickly in total Russian import from Europe.

The main descending is accounted for:

- fruits and nuts products group with share in total import 0,0005% for 9 months of 2015 in comparing with 0,9% for 2014;
- fish and crustaceans, mollusks and other water invertebrates products group with share in total import 0,0009% for 9 months of 2015 in comparing with 0,1% for 2014;
- meat products group with share in total import 0,0122% for 9 months of 2015 in comparing with 0,3% for 2014;
- vegetables, edible roots and tuber crops products group with share in total import 0,0798% for 9 months of 2015 in comparing with 0,5% for 2014.

5. Impact of sanctions on EU market

In 2013, Russia was the second important destination for EU agri-food sector exports, after USA, representing in total a value of about 11.8 billion Euro in 2013 (10% of all EU agri-food exports). The agri-food products covered by the Russian ban represented a value of 5.1 billion EURO in 2013 exports, (43% of EU agri-food exports to Russia). The ban effected 4.2.% of total EU agri-food exports. These trade restrictions putted serious pressure on EU agriculture and food sector due to of temporary loss. It is needed to write that this happed in the full harvested season.

For EU it was necessary to ensure 3 main targets:

- to maintain stability of the internal market via effective and properly calibrated market crisis management at EU level (reducing overall supply of exposed products on the European market as and when price pressures become too great)
- to address negative impacts of the restrictions on some vulnerable EU sector by compensation.
- to strengthen the resilience of our agricultural and food sector and encourage reorientation towards new markets and opportunities.

Since August, 2014 the European Commission has introduced a number of measures for the compensation, storage and promotion of sales market diversification for EU agricultural products:

- ✓ Market measures (market withdrawals especially for free distribution and compensation for non-harvesting and green harvesting):
 - 11.08.201442: Exceptional measures to assist peach and nectarine producers (EUR 32.7 million).
 - 18.08.201443: Emergency market measures to support EU producers of perishable fruit & vegetables (up to EUR 125 million to fund withdrawals for free distribution or other destinations), green harvesting and non-harvesting of perishable fruit and vegetable most immediately impacted by the Russian measures, with a ceiling of EUR 82 million for apples & pears and EUR 43 million for the other fruit & vegetables).
 - ✓ Suspended on 10.09.2014, due to application problems and abuse (e.g. Poland). It is to be replaced by a more targeted and coordinated scheme.
 - 29.09.201444: Announcement of a EUR 165 million package for perishable fruit and vegetable market support.
 - ✓ Private storage aid for milk and milk products:
 - 28.08.201445: Emergency market support measures for the milk sector (butter, skimmed milk powder and cheese).
 - ✓ Suspended for cheese on 23.09.201446, due to abuses.
 - ✓ Promotion of EU agricultural products:
 - 03.09.201447: An additional EUR 30 million of EU funding for CAP promotion programs (2015).

The European Commission has currently announced it will extend support measures for the dairy and fruit and vegetable sectors hit by Russia's ban on food imports from Europe, which has been in place for a year. Aid for the dairy sector will be prolonged until 29 February 2016 while support for fruit and vegetable producers will be continued until 30 June 2016, the Commission said on Thursday (30 July). Aid for farmers will be allocated to EU countries that have exported significant quantities to Russia over the past three years.

Over the entire period since the embargo started, the EU agri-food sector has managed to compensate the losses in export sales to Russia by increasing exports to other main destinations and alternative markets. Major gains in export values have been achieved in the

US (+16%), China (+33%), Switzerland (+5%) and in a number of key Asian markets, such as Hong Kong (19%) and the Republic of Korea (+29%). European exporters have increased their exports also to certain Arab countries: Saudi Arabia (+10%), United Arab Emirates (+14%) and Egypt (+26%).

Analysing EU exports to third countries of the sectors affected by the embargo, in the period August 2014-July 2015, export values of bovine and poultry products increased by 23% and 5% respectively while the value of pig meat exports was in line with the previous year. Concerning dairy products, the value of butter exports fully recovered from the initial difficulties and achieved +3 % (compared to the 12 months period a year ago) due to an increase on Middle East markets. For cheese and milk powders, however, export values still lag behind: -14%, -10%, and -24% respectively. Also, concerning fruit and vegetables, the value of exports registered is still around 12% lower compared to the period one year before.

The EU countries potentially worst affected are the Baltic States, Finland and Poland Germany and the Netherlands (in absolute values). However, the share of agriculture in EU GDP (1.7 %) and in EU exports (6.6 %) is relatively low.

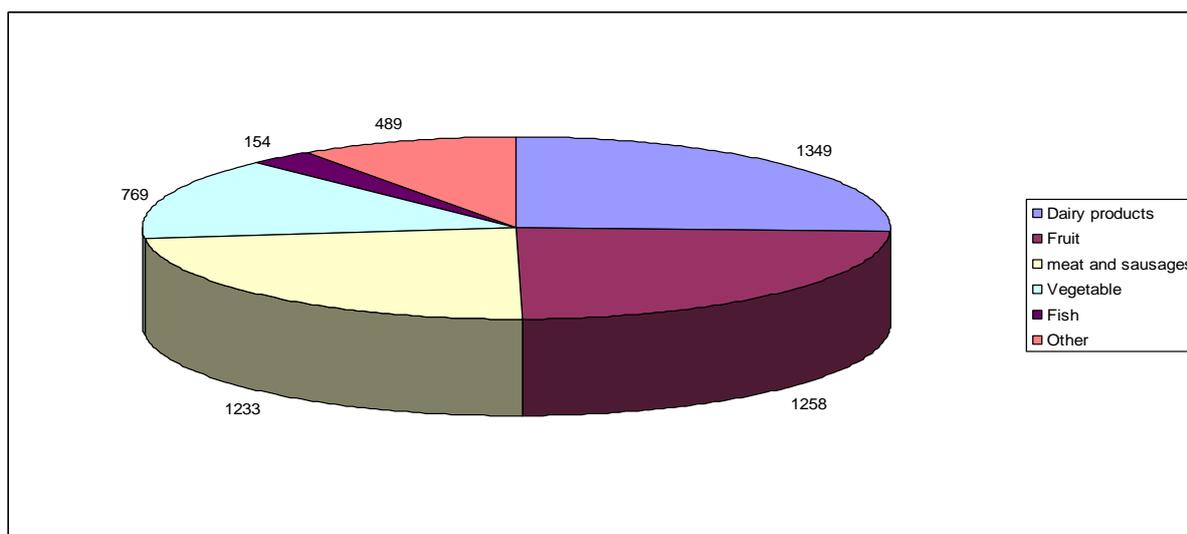
The worst affected countries are:

- Lithuania (vegetables, fruit, dairy products); (EUR 927 million - affected in terms of absolute value in 2013);
- Latvia (fruit and vegetables, dairy products);
- Cyprus (fruit and fish);
- Poland (fruit and vegetables); (EUR 841 million - affected in terms of absolute value in 2013);
- Belgium (fruit and meat);
- Spain (fruit and vegetables);
- Greece (fruit and vegetables, cheese);
- Denmark (dairy products, fruit and vegetables, meat);
- Estonia (dairy products);
- Finland (dairy products);
- United Kingdom (fisheries products/mackerel).

The sectors potentially worst affected in terms of absolute value are:

- dairy products (EUR 1,35 billion in 2013);
- fruit (EUR 1,26 billion);
- meat and sausages (EUR 1.26 billion).

Figure 2: EU goods banned by Russian Federation in EU 28 (m EUR)



Source: The Russian Embargo: Impact on the Economic and Employment Situation in the EU, European Union available doi: 10.2861/73051 (paper)

In the short term, economic damage was most severe in the perishable products sector as harvest was ongoing for many fruits and vegetables when the Russian food ban entered into force.

6. Impact of sanctions on food products supply and agricultural policy in Russia

Impact of sanctions on the food products supply in Russia may be monitored according to the price changing. Average grow of prices on import banned food products in the internal Russian market was 116% for 2014 in comparing with 2013, 114% for 2015 in comparing with 2014 and 132% for 2015 in comparing with 2013. While inflation rate in Russia was 11,36% and 12,91% for 2014 and 2015 years.

For 2014 year of sanctions prices on pork and chicken meat rose on 27% in the internal Russian market, they were items with the biggest price changing. Prices on fish, apples and cheese rose on 22%, 21% and 19%. After the second wave of sanctions items with the biggest price changing became sunflower oil (with rising on 38%), frozen fish (25%), salted, marinated, smoked fish (21%) and meet of cattle (16%), see table 5.

Table 5: Changing of average prices on some food products in Russia for 2013-2015 (at the end of year, in roubles for kilo)

Product name	2013	2014	Growth 2014/2013	2015	Growth 2015/2014	Growth 2015/2013
Meat of cattle (except boneless meat)	244,55	272,28	111%	314,94	116%	129%
Pork (except boneless meat)	214,18	272,36	127%	271,08	100%	127%
Chicken cooled or frozen	107,03	136,14	127%	133,73	98%	125%
Cooked sausage	302,94	310,54	103%	344,81	111%	114%
Fish frozen	90,79	110,65	122%	138,16	125%	152%
Fish salted, marinated, smoked	252,52	292,21	116%	352,58	121%	140%
Butter	308,92	357,54	116%	397,75	111%	129%
Sunflower oil	75,47	78,09	103%	107,62	138%	143%
Milk 2,5-3,2% fat, for a liter	38,64	43,81	113%	47,61	109%	123%
Cheese	326,89	388,81	119%	418,61	108%	128%
Apples	63,26	76,7	121%	87,43	114%	138%

Source: Federal State Statistics Service of Russia data, growth is calculated by authors.

As to the whole researching period at the end of 2015 in comparing with 2013 the most suffered for embargo production items became frozen fish (with rising of the price on 52%), sunflower oil (on 43%), salted, marinated, smoked fish (on 40%), apples (on 38%), butter and meat of cattle (on 29%).

With the aim to cover banned directions Russia starts or expands collaboration with other partners of the world. European meat on the Russian market is changing on it from Brazil, Belorussia, Paraguay, Argentina and Iran etc. European fruits - on them from Ecuador, Pakistan, Morocco, China etc. European vegetables - on them from Egypt, Republic of South Africa, Israel, Azerbaijan etc.

On the other hand there is a large changing in the internal agricultural policy of the Russian Federation. Internal policy of import substitution starts to grow. In the 19-th of December 2014 Government of the Russian Federation increased on 39% expenditures of federal budget on realization of agricultural development program till 2020. The sum was risen from 1,5 trillion rubles in 2012 till 2,1 trillion rubles in 2014.

Before sanctions period main objectives of Russian agricultural development were defined in the Food Security Doctrine of the Russian Federation (2010). Share of Russian agricultural raw materials and food products in total volume of these products on internal market were: [10]

- grain - not less than 95%,
- sugar - not less than 80%,
- vegetable oil - not less than 80%,
- meat and meat products - not less than 85%,
- milk and milk products - not less than 90%,
- fish products - not less than 80%,
- potato - not less than 95%,
- salt - not less than 85%.

But in his annual presidential address to the Federal Assembly of the Russian Federation on the 3-rd of December 2015 V.V. Putin initiated a challenges to provide totally internal market

by Russian agricultural raw materials and food products to 2020 and to move out to external markets with high quality natural products.

He said, that the Government has to support successful farmers and agricultural companies, first of all. All non-cultivated agricultural lands will be withdrawn and sold at auctions. Leading research institutes, the Russian Academy of Science must create Russian technologies of cultivating, storage and treatment of agricultural products.

This focus on internal resources of agricultural development means broad federal support of agriculture. As a result Russia will become really strong supplier of agricultural and food products on the world market in the nearest future.

7. Conclusion.

There is a big regrouping of food products trade flows in the world as a result of European-Russian mutual sanctions of 2014-2016. Both sides must spend a lot of resources to cover lack of demand on agricultural production in case of Europe and lack of agricultural raw materials and food products supply in case of Russia.

Almost two years on, it is clear that the EU agri-food sector has been remarkably resilient. In most regions, most of the affected sectors have been able to find alternative markets, either within the EU or beyond. Whereas Russia accounted for 10% of EU agri-food exports in 2013 (and the products banned amounted to 4 %), the value of overall exports have increased by 5 % from August 2014 to May 2015, compared to the same period of the previous year.

For the Russian side sanctions led to the price increasing. Average grow of prices on import banned food products in the internal Russian market was 132% for 2015 in comparing with 2013. While inflation rate in Russia was 11,36% and 12,91% for 2014 and 2015 years. Besides looking for new agricultural production supplies embargo on import from Europe became one of the driving forces for intensification of governmental support for agriculture.

References

- [1] Adriel Kasonta, Elina Kyselchuk, Max Marioni, Artur Mrówczyński-Van Allen, Paweł Rojek, Nicolai N. Petro. The sanctions on Russia. Bow group research paper. August 2015. Link: <http://www.bowgroup.org/sites/bowgroup.uat.pleasetest.co.uk/files/Bow%20Group%20-%20Sanctions%20on%20Russia%20-%20Adriel%20Kasonta.pdf>.
- [2] Economic impact on the EU of sanctions over Ukraine conflict. [http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/569020/EPRS_BRI\(2015\)569020_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/569020/EPRS_BRI(2015)569020_EN.pdf).
- [3] EU restrictive measures in force (updated 15.1.2016). European Commission. Service for Foreign Policy Instruments. Link: http://eeas.europa.eu/cfsp/sanctions/docs/measures_en.pdf.
- [4] EU-Russia trade, M. Russell, European Parliamentary Research Service, 2015.
- [5] Decree of the Government of the Russian Federation from the 19 of December 2014 # 1421 "About changing of agricultural development program on 2013-2020". Link: <http://government.ru/media/files/Ve0aOWckyGc.pdf>
- [6] Decree of the Government of the Russian Federation from the 7 of August 2014 # 778 "About measures to implement the Presidential Edict of the Russian Federation from The 6th of August 2014 # 560 "About special economic measures of security assurance of the Russian Federation". Link: <http://government.ru/media/files/41d4f8e16a0f70d2537c.pdf>.
- [7] Official web-site of the Federal Customs Service of the Russian Federation. Link: <http://www.customs.ru/>.
- [8] Official web-site of the Federal State Statistics Service of the Russian Federation. Link: <http://www.gks.ru/>.

- [9] Tatia Dolidze. EU Sanctions Policy towards Russia: The Sanctioner-Sanctionee's Game of Thrones CEPS working document. No. 402 / January 2015. Link: <https://www.ceps.eu/system/files/WD%20402%20TD%20Sanctions.pdf>.
- [10] The Food Security Doctrine of the Russian Federation from the 30-th of January 2010 # 120 from official web-site of The Ministry of Agriculture of The Russian Federation.Link: <http://www.mcx.ru/documents/document/show/14857.19.htm>.
- [11] The Russian Embargo: Impact on the Economic and Employment Situation in the EU, European Union available doi: 10.2861/73051 (paper), ISBN: 978-92-823-6139-9.
- [12] Why Russia's Import Ban Has Mostly Failed, August 27, 2015, Stratfor, USA.

* Online full-text paper availability: doi:<http://dx.doi.org/10.15414/isd2016.s3.04>