

ANALYSIS OF THE IMPACT OF RUSSIAN EMBARGO ON THE EU AGRICULTURAL AND FOOD SECTOR

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Abstract

The Russian government adopted a list of products that are banned for a period of one year from the EU, United States, Norway, Canada and Australia. These products cover almost all milk and dairy products, meat products fruits and vegetables, as well as fish and crustaceans. These restrictions put a serious pressure on the European agri-food sector because of the temporary loss of a significant commercial market and because of possible cascade effects leading to oversupply on the internal market given the volumes involved and the quantity of perishable products banned in full harvesting season. Some sectors and Member States are more heavily affected - i.e. 31% of EU milk products export, 29% of fruits and vegetables export. The overall temporary restrictions currently applied by Russia potentially jeopardize 5 billion EUR worth of trade and affects the income of 9.5 million people in the EU working on the holdings most concerned.

Key words: embargo, agri-food sector, oversupply, European Union, market.

The global economy has entered into a new stage of geopolitical instability after the financial and economic crisis from 2007/2008, a stage with intensified economic uncertainty. The sanctions imposed on Russia by the European Union and also by the United States, Australia and Norway, have led the Russian authorities to impose their own restrictions in return.

On 7th August, The Russian Federation imposed an embargo on agricultural products from Europe, the United States, Canada, Australia and Norway as an answer to the sanctions in the context of the situation in Ukraine. The restrictions have been issued for a period of one year and cover almost all meat products (beef, pigmeat, poultry, and certain sausages), milk and dairy products, fruits and vegetables, as well as fish and crustaceans. Some processed agricultural products are also banned (Cenusa et al., 2014).

Exceptions are introduced for goods destined to baby food, certain animal products (fat, meat offal) and live animals, as well as preparations in the fruit and vegetables sector (such as fruit

juices, canned fruit or prepared vegetables). Since end of August, lactose-free milk and milk products, seed potatoes, onion sets, hybrid sweet corn and nutritional supplements are also lifted from the ban.

Although the latest bans add to a long list of import restrictions already in place, the scope of the bans, involving a large range of products from the main exporters to the Russian market raised concerns that supplies of key commodities to the Russian market would be further constrained, with negative implications for Russian consumers across all income levels, at least in the short run.

Russia is one of the world's largest markets for agricultural and food products, being the fifth largest importer after EU, US, China and Japan. As reported by FAO, Russia represents the second most important destination for EU agri-food exports (after the USA) and according to the European Institute for Statistics it absorbs 10% of EU's agricultural and food exports. The agri-food products recently banned by The Russian Federation represent a total value of 5.06 billion Euros (i.e. 43% of EU agri-food

exports to Russia), while agricultural and food exports from the EU to Russia annually reach about 11.8 billion Euros (Table 1).

The EU agriculture and food sector is put under serious pressure because of the temporary loss of a significant commercial market in main agricultural sectors (almost all meat products, milk and dairy products, fruits and vegetables). An oversupply on the internal market is likely to happen, given the volume involved and the quantity of perishable products banned.

Table 1. Agri-food exports of the main member state towards Russia in 2013 (million Euros)

	Agri-food exports	Products under embargo
Lithuania	1374	922
Poland	1267	840
Germany	1649	589
The Netherlands	1551	503
Denmark	627	341
Spain	572	326
Belgium	558	281
Finland	464	273
France	756	229
Italy	705	163
Greece	158	114
Austria	247	103
Hungary	266	77
Ireland	216	70
Estonia	228	60
EU-28	11864	5064

Source: www.ec.europa.eu

In the case of sudden drop in demand – or oversupply, markets will react and this could lead to a price decrease that might exceed the level at which prices tend to stabilise after the shock is absorbed. The current theory is applicable for perishable products, that are non-storable, and also for those that are at the early stage of the marketing year, when prices are at the highest under normal conditions.

An immediate negative impact on prices is already felt in some sectors and this is both related to oversupply situations (e.g. rerouting of seasonal products and perishable towards the EU markets, combined with difficulties in identifying alternative markets) and to "psychological" effects of the announcement of the ban.

According to several analysis made so far by different bodies it is shown that not only

countries which were traditionally exporting substantial quantities to Russia are affected, and that also oversupply may spread into the internal market.

A significant external trade disruption will take time and may imply costs for private operators and producers on short or medium term.

The current restrictions are affecting in the first place the perishable products sector. Taking into account that Russia is considered an important destination for EU fruit and vegetables and that for many products the harvest was ongoing or about to start in the EU, this effect is immediate.

The EU fruit and vegetables sector represents about 17% of the total agricultural output value, of which 10% corresponds to vegetables and the remaining 7% to fruits. In most of the southern Member States this sector has a higher importance and it represents between one third and one quarter of their total agricultural output (on average for the period 2011-2013, more than 30% in Greece, Cyprus, Malta and Portugal, and between 25% and 30% in Spain, Italy and Romania).

Only 15% of the total fruit production and 7% of the vegetables production is exported in third countries, while most of the EU's production of fresh fruit and vegetables is consumed internally. Russia absorbs only 5% of total EU fruit production and 2% of the vegetable production (about 9% of the production of pears and kiwis, 6-7% of apples and nectarines and 3-4% of the production of peaches and mushrooms).

The Russian market represents however one of the main export markets for the EU's fruit and vegetables sector, currently purchasing about 34% of our fresh fruit exports (1.225 million EUR) and 26% of the fresh vegetable exports (734 million EUR). This market was the top destination for products like: cherries, mushrooms and cabbages (70% of extra-EU exports, in quantities), pears, peaches, eggplants, tomatoes and carrots (60-64%), nectarines, strawberries, apples and cucumbers (around 50%), and apricots, potatoes and sweet peppers (40%). Also 30% of lemons and table grapes exports are sent to Russia.

Poland, Spain, Greece, Italy and Belgium are the main EU fruits suppliers and the Netherlands, Poland, Spain and Belgium are the

main vegetables suppliers (Table 2). Lithuania is considered an important channel for re-exports to Russia of fresh fruit and vegetables imported from other EU producers such as Spain, the Netherlands and Germany; Poland and Belgium play a similar role for specific products.

According to latest rumours Russia intends to purchase vegetables and fruit in particular from Turkey, Serbia, Azerbaijan and Uzbekistan.

Table 2. Production, total exports extra-EU and exports to Russia of fresh fruit and vegetables – average 2011-2013

Quantities	Production		Exports extra EU		Exports to Russia			
	1000 tonnes	% of EU-28	1000 tonnes	% of production	1000 tonnes	% of EU-28	% of production	% of exports extra_EU
FRESH FRUIT								
Belgium	545.3	1.6	197.9	36.3	171.8	12.9	31.5	86.8
Greece	3076.0	8.9	313.3	10.2	92.9	7.0	3.0	29.6
Spain	8511.0	24.6	415.0	4.9	133.4	10.0	1.6	32.1
France	2871.0	8.3	267.4	9.3	29.0	2.2	1.0	10.8
Italy	9766.0	28.2	497.4	5.1	85.1	6.4	0.9	17.1
Lithuania	59.6	0.2	206.1	346.1	167.0	12.6	280.4	81.0
Netherlands	681.0	2.0	134.9	18.9	55.1	4.1	8.1	40.9
Poland	3284.0	9.5	860.8	26.2	549.7	41.3	16.7	63.9
Romania	1379.0	4.0	2.6	0.2	1.1	0.1	0.1	41.2
FRESH VEGETABLES								
Belgium	4300.6	4.4	80.3	1.9	56.3	7.3	1.3	70.1
Germany	12642.6	12.8	94.2	0.7	33.5	4.3	0.3	35.5
Spain	9871.4	10.0	134.5	1.4	41.9	5.4	0.4	31.1
France	9435.4	9.6	76.8	0.8	17.4	2.3	0.2	22.7
Italy	13075.8	13.3	26.1	0.2	2.1	0.3	0.0	8
Lithuania	733	0.7	211.1	28.8	192.2	24.8	26.2	91
Netherlands	10997.3	11.2	1227	11.2	261.3	33.8	2.4	21.3
Poland	12316.4	12.5	215.5	1.7	124.7	16.1	1.0	57.9
Romania	5168.4	5.3	3.1	0.1	0.3	0	0.0	10.3
U.K.	6760.2	6.9	13.4	0.2	5.4	0.7	0.1	39.8

Source: www.ec.europa.eu

The EU milk production is around 20% of the world production, approximately 153 million tonnes of milk were produced in 2013. This sector represents 15% of the total EU agricultural output with a value of production close to 55 billion EUR. Germany and France are the main producers covering around 40% of EU's production and they are followed by United Kingdom, Poland, the Netherlands and Italy.

Only 11% (in milk equivalent) from the EU's dairy production is exported while the rest is consumed domestically. Cheese is the main dairy product obtained, using 50% of EU's milk

production and only 8% of the EU cheese production is exported. The main exported milk products are powders (50%), butter (6%) and fresh dairy products. The Netherlands, France, Germany, Belgium, Poland and Denmark are exporting more than a million tonne of milk equivalent each and they gather more than 70% of the EU exports (Table 3). Russia's main suppliers are the EU followed by Belarus, both supplying 80% of the Russian dairy imports.

EU exports to Russia only account for 1.4% of the EU cow's milk production in milk equivalent, which is a significant share of the total 11% of exported EU milk production. The Baltic countries have the highest export share: Finland (22%), Lithuania (14%), Estonia (8%) and Latvia (5%)¹. It is to be noted that the share is much higher in the case of cheese 32% and butter 24%. Finland, Germany, the Netherlands, Lithuania, Poland and France being the main EU exporters to Russia.

Table 3. Production, total exports extra-EU and exports to Russia of milk and milk products

MILK	Average 2011-2013 Quantities							
	Production		Exports extra-EU		Exports to Russia			
	million tonnes	% of EU-28	million t. in milk eq.	% of production	million t. in milk eq.	% of EU-28	% of production	% of exports extra EU
EU-28	152.4	100	16.5	10.8	2.1	100	1.4	12.8
Germany	30.8	20.2	2.1	6.7	0.4	19.3	1.3	19.7
Estonia	0.7	0.5	0.1	9.9	0.1	2.7	7.9	80.1
France	24.7	16.2	3.1	12.4	0.2	7.2	0.6	4.9
Italy	11.4	7.5	0.5	4.4	0	1.7	0.3	7.1
Lithuania	1.8	1.2	0.4	20.5	0.2	11.7	14	68.6
Netherlands	12	7.9	3.2	26.8	0.3	14	2.5	9.1
Poland	12.6	8.3	1.2	9.7	0.2	8.3	1.4	14.5
Finland	2.3	1.5	0.8	32.7	0.5	24	22	67.3
U.K.	14	9.2	0.5	3.3	0	0.4	0.1	1.8

Source: www.ec.europa.eu

Cheese is the most affected product by the ban and the exports to Russia accounted for close to one third of extra-EU exports of cheese. Since 2011, EU exports of cheese to Russia have increased by 24%, more rapidly than the total EU cheese exports. For Finland and the Baltic countries Russia is an exclusive trading partner with regard to cheese (about or over 85% of these countries' cheese exports), which also represents for each of these countries around or

¹ Some of these exports can originate from other EU Member States.

above 20% of the national cheese production. Other main cheese exporters to Russia are represented by: Netherlands with 42% (about 8% of national production), Germany with 38% (about 2% of national production) and Poland with 43% (corresponding to less than 4% of national production).

Regarding the butter production approximately 6.1% of was exported outside the EU and 1.5% to Russia (31.6 thousand tonnes). Half of the butter exported to Russia comes from Finland (17 000 tonnes covering 95% of Finland's butter exports). Close to 50% of the powder production was exported outside the EU and only 1% to Russia (19 000 tonnes). Germany, France and the Netherlands are covering 53% of the total EU production. Although Russia is a minor destination of the EU powder exports, the prices have decreased significantly since the implementation of the embargo (by 19% for SMP and 15% for WMP).

Since early 2014, a downward pressure had been registered on prices for dairy products, due to increased supply both in the Union and in the main milk producing regions of the world. European average prices remain above intervention levels. At Member States' level, the situation is variable: those Member States who are the primary suppliers of dairy products to Russia undergo deeper price drops.

Almost all the dairy products designed for the Russian market have to find their way on the internal market, increasing pressure on European prices. As an additional burden to this immediate impact on the internal market, while looking for alternative outlets, some of the volume of milk that would have been used for cheese production will have to be channelled to butter and powder production, increasing the risk of unbalancing those markets.

At world level, EU is the third largest producer of beef/veal (12%) after the USA (17%) and Brazil (13%) and before China (10%). The share of EU in world beef/veal trade amounts to 2% both in exported quantities and value while it represent 5% in imported quantities and 9% in value. Due to a weak internal demand and a declining production, the beef sector has been facing structural difficulties. Over the last ten years EU beef production decreased by more than 1 million tonnes due to the combined effect of the impact of animal diseases (Bovine

Spongiform Encephalopathy - BSE, Food and Mouth Disease - FMD), higher feed costs and policy changes, and structural decrease of the dairy herd associated to increasing milk yields. After a period of two years with high prices in 2012 and 2013, average prices for adult male bovine have decreased in the first six months of 2014. Beef represents 8% of the total EU-28 agricultural output value.

The main producing Member States are France, Germany, Italy, the United Kingdom, Spain and Ireland (producing 5.6 million tonnes, approx. 72% of the EU-28 beef production and 75% of the value of beef production). With a very limited domestic production (around 40 000 tonnes) Lithuania is an important channel for re-exporting beef of different EU origins. (Table 4)

Table 4. Production, total exports extra-EU and exports to Russia of beef

Beef	Average 2011 -2013 - Quantities					
	Production		Exports extra_EU		Exports to Russia	
	1000 tonnes	% of EU-28	1000 tonnes	% of production	1000 tonnes	% of production
EU-28	7716.4	100.0	232.8	3.0	67.6	100.0
Denmark	128.9	1.7	8.6	6.7	5.4	7.9
Germany	1145.7	14.8	41.6	3.6	11.3	16.7
Estonia	10.2	0.1	0.1	0.7	0.0	0.0
Ireland	519.9	6.7	11.2	2.1	5.0	7.3
Spain	592.1	7.7	15.6	2.6	7.2	10.6
France	1494.9	19.4	17.0	1.1	1.2	1.8
Italy	948.5	12.3	18.0	1.9	7.0	10.3
Latvia	17.2	0.2	0.1	0.2	0.0	0.0
Lithuania	40.2	0.5	16.7	41.6	14.9	22.0
Poland	371.6	4.8	61.6	16.6	11.8	17.5
Finland	82.0	1.1	0.1	0.1	0.0	0.0
U.K.	888.6	11.5	5.8	0.7	0.0	0.0

Source: www.ec.europa.eu

Even before the introduction of the current ban the EU meat sector has been confronted with sanitary related trade restrictions from Russia. The immediate impact of the current ban was limited due to relatively high producer prices for all meats, moderate feed costs and good export demand from other markets than Russia. The first destination of EU exports for beef meat is Russia, rising to 25% of all EU beef meat exports. Breeding animals and low value products (offal, trimmings and fats) are EU's most relevant beef products for the Russian market. France, Spain, Ireland and Italy made up for around 30% of total EU exports to

Russia, despite being major beef producers. British beef has been banned on BSE grounds since 1986. The products affected directly by the ban represent less than 1% of EU production. The ban affects the export of fresh, chilled and frozen beef but not the exports of live animals, offal or fats. In order to avoid significant drops in prices, which could generate an additional drop in European production, it is essential to search for alternative export markets. Asia can be an alternative market for EU beef exports and needs to be encouraged.

The EU is the main world pig meat exporter and the world's second producer of pig meat with a share of 20% from the global production, after China (with a share of 47%). The EU exports around 3.2 million tonnes of pig meat (fresh, frozen, salted meat, offal, fats and preparations) to the extra EU countries with main destinations as Russia (24% of pig meat exports) followed by China (17%), Hong-Kong (14%), Japan (8%) and South Korea (5%). The pig sector accounts for approximately 9.5% in total EU-28 agricultural output value. Germany, Spain, France, Italy, Poland, Denmark and the Netherlands are the EU's main producer countries, representing altogether around 76% of EU-28 value of pig production at producer prices. These countries altogether are supplying the Russian market with 80% of EU pig meat exports to Russia.

Since February 2014 EU pig meat exports to Russia are banned after the discovery of a few cases of African swine fever (ASF) in the wild boar population in Lithuania and Poland. The Commission started a WTO procedure against this unjustified measure. Therefore, pig prices did not show any reaction after the announcement of the new Russian embargo. Products affected directly by the ban represent 1.9% of EU production. Most exported products to Russia are the frozen meat (43%), lard (32%) and offal (15%).

Through increased exports to Japan, South Korea and the Philippines operators have been able to partially absorb the drop of exports to Russia. The Russian ban now also affects other pig meat exporters on the world market (USA and Canada) that are now looking for new outlets.

The least affected of the meats sector is poultry meat, being a well-integrated sector with a short cycle of production (less than 2 months for broilers). In the last years, the poultry meat sector has been growing as demand is increasing worldwide. The European Union is a large producer of poultry meat (around 12% of world production), after the USA (19%) and China (17%) and a net exporter of poultry products with a self-sufficiency rate at 104%. France, the UK, Poland, Germany, Spain and Italy are the leading producers, altogether producing 70% of total EU poultry meat. Russia ranks on fifth place in EU export destinations with 8%, mainly fresh and frozen and exports amount to 0.7% of EU. The EU broiler price even increased after the Russian ban to 194 €/100 kg.

CONCLUSIONS

According to the European Parliament, the impact on GDP is supposed to be modest for almost all EU-countries, despite considerable values affected by the food ban, as agriculture accounts for a decreasing and low part of the EU's GDP (1.7 % in the EU 27, OECD 2012).

The risk of a negative macroeconomic impact is highest for Lithuania (2.6 % share of exports to Russia in GDP 2013) followed by Estonia (0.4 %) and Latvia (0.3 %); assuming that no alternative markets can be found. For seven further EU-countries, the share of exports in GDP was 0.1 % in 2013 (Belgium, Finland, Greece, Hungary, Ireland, Netherlands and Cyprus).

Even if the national overall share in national GDP is zero, in countries showing a considerable absolute value of food exports to Russia, certain regions with a high concentration of agriculture may be affected as well as the related exporters and transport services.

Within the one-year period for which the food embargo has been imposed short-term losses could be considerable and a full compensation is not very probable.

Additionally to the loss of external markets, producers are suffering even more from income losses due to falling prices on the internal market as banned (perishable) agricultural products are being offered for domestic use. According to Copa-Cogeca prices in the EU

fruit and vegetable and dairy sectors have decreased by over 50 % in some Member States in early September, and milk prices were down by up to 30 %.

Several countries consider job losses as probable, while there is, so far, no evidence to corroborate this. For example: in Belgium, the Meat association estimates 500/5000 job losses due to the Russian embargo; for Greece, economists state that the food ban will hit Greek farmers hard and that seasonal workers will need alternative employment.

The status-quo can be explained through a number of factors which have implications for the future monitoring of changes in the employment situation due to the Russian food embargo:

- In EU-28 most farm work is carried out by the farmers and members of their family, mainly spouses (92.2 %), whilst many farmers combine farm work as minor activity with work as employee.

- Even if the loss of the Russian market will cause job losses in the future, numbers may be too small to be reflected in national aggregate labor market statistics, as the share of agriculture in GDP is low in most countries. Agricultural and food products only count for 1.7 % of GDP, 6.6 % of all EU exports and 4.5 % of employment (2012). According to initial estimates by ING Group NV from 22 August 2014, the Russian food ban could cost the EU 130,000 jobs corresponding to an increased unemployment rate of approximately 0.1 %.

The sanctions directed at the financial sector by the EU, together with Russia's weak economic development, have tightened the financial situation in Russia and are particularly impacting sales of the EU's technology industry's investment goods in Russia. In addition, the uncertainty increased by the Ukraine crisis is weakening the investment climate in Russia. Decline in demand for investment products in Russia will impact EU's economy and exports more extensively than the import restrictions imposed by Russia on the food sector.

Overall, the review of accessible European and national information within the scope of this article shows that a targeted in-depth analysis of

affected sectors and regions would be necessary to detect the real impact of the Russian food ban on the employment situation, which might be limited to certain regions and specialized exporters.

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