

# Cornhusker Economics

## The Russian Food and Agricultural Import Ban

Market Report	Year Ago	4 Wks Ago	4-3-17
<b>Livestock and Products,</b>			
<b>Weekly Average</b>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight. . . . .	*	124.76	124.00
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb. . . . .	193.84	164.82	166.78
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb. . . . .	158.93	131.26	137.77
Choice Boxed Beef, 600-750 lb. Carcass. . . . .	226.62	205.86	217.15
Western Corn Belt Base Hog Price Carcass, Negotiated . . . . .	61.97	68.19	60.99
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean. . . . .	76.02	80.81	75.47
Slaughter Lambs, woolled and shorn, 135-165 lb. National. . . . .	132.01	140.48	145.56
National Carcass Lamb Cutout FOB. . . . .	346.31	336.71	347.91
<b>Crops,</b>			
<b>Daily Spot Prices</b>			
Wheat, No. 1, H.W. Imperial, bu. . . . .	3.87	3.33	2.84
Corn, No. 2, Yellow <b>Columbus</b> , bu. . . . .	3.42	3.25	3.34
Soybeans, No. 1, Yellow <b>Columbus</b> , bu. . . . .	8.56	9.32	8.47
Grain Sorghum, No.2, Yellow Dorchester, cwt. . . . .	5.61	5.19	5.17
Oats, No. 2, Heavy Minneapolis, Mn, bu. . . . .	2.42	2.95	2.90
<b>Feed</b>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton. . . . .	200.00	117.50	128.75
Alfalfa, Large Rounds, Good Platte Valley, ton. . . . .	77.50	65.00	67.50
Grass Hay, Large Rounds, Good Nebraska, ton. . . . .	85.00	65.00	65.00
Dried Distillers Grains, 10% Moisture Nebraska Average. . . . .	127.50	97.00	100.50
Wet Distillers Grains, 65-70% Moisture Nebraska Average. . . . .	52.00	40.75	42.50
<b>* No Market</b>			

In 2014 the United States, European Union (EU), and several other countries imposed economic sanctions on Russia in response to its annexation of Crimea and support for separatist rebels in eastern Ukraine (Nelson, 2017; Europa, 2017). Prior to the 1990s, the use of economic sanctions to challenge the behavior of foreign governments was fairly rare as the target country could easily turn to the cold-war adversary of the sanctioning country to avoid their effects. With the end of the Cold War, sanctions, usually comprehensive in nature restricting economic relations across the board, became a major foreign policy tool. Because comprehensive sanctions had severe negative impacts on ordinary citizens, the international community has shifted its approach to “targeted” sanctions that penalize specific individuals and organizations as well as non-essential sectors, such as petroleum or financial services as opposed to essential goods such as food and medical supplies (Peterson and Haugen, 2016). The sanctions on Russia follow this pattern freezing assets and restricting transactions of particular individuals, banks, and firms allied with Russian President Vladimir Putin as well as trade in goods related to the petroleum industry and military arms (Nelson, 2017).

In response to these actions, the Russian government banned the importation of agricultural and food products, including fruits, vegetables, meat, fish, and dairy products, from the Western

countries that had imposed the economic sanctions (The Guardian, 2014). Both the Russian ban on imported food and the U.S. and EU sanctions have been extended to at least the end of 2017. The Russian economy has been slowed by lower petroleum prices as well as the effects of the economic sanctions. The economic slowdown in Russia can be seen in the figures in Table 1, which show a decline of real Gross National Income (GNI) of 3.0 percent and a decrease in real per capita GNI of 3.3 percent between 2014 and 2015.

Russia has become an important player in global agricultural markets. In 2016, it was the third largest wheat exporter after the EU and United States (ERS, 2017).

Russian food and agricultural imports are much greater than its exports of these commodities, as shown in Table 1. According to the European Commission, 19 percent of Russia's agricultural exports were destined for the EU, while 42 percent of its agricultural imports were from the EU in 2013 (Leifert and Leifert, 2015). The impact of the Russian ban on EU agricultural exports to Russia can be seen in Table 2, which shows that in 2015, the value of EU agricultural exports to Russia had fallen by 53 percent from the level reached in 2013.

The effects of the Russian ban on U.S. agricultural exports is illustrated in Table 3. Compared to 2013, U.S. agricultural exports to Russia had fallen by almost 80 percent by 2016. The Russian ban has eliminated its imports of some of the more important commodities exported to Russia by the United States, including poultry, beef, and pork, while reducing significantly other important U.S. exports, such as those of tree nuts and live animals. On the other hand, the Russian market has long been less important for U.S. food and agricultural producers than is the case in the EU. While 2013 Russian imports represented about 10 percent of total EU agricultural exports to countries outside the EU, Russian imports from the United States have historically accounted for less than one percent of total U.S. agricultural exports.

Given the relative insignificance of Russian purchases of U.S. agricultural products, the import ban has caused little harm to the U.S. agricultural sector. For the EU, on the other hand, Russia is the second most important market for agricultural products after the United States and the import embargo has been of greater consequence there. In 2015, European farmers protested low prices brought on, in part, by the Rus-

sian embargo (BBC, 2015). By one estimate, the Russian import ban is costing EU farmers about 5.5 billion euro (about \$5.9 billion) in lost exports each year (Michalopolous, 2016).

In addition, given the importance of European food imports for Russian consumers, the import ban has had serious domestic consequences. Russian consumers are facing increased food prices and shortages of specialized food items. According to data from the World Bank (2017), consumer prices in Russia rose by almost 26 percent between 2013 and 2015 and much of this increase was due to higher food prices. Within just three months of the start of the import ban, Russian food prices had increased by 10 percent (Petrick, 2015). The Russian economy was also set back in 2014 by the drop in oil prices as petroleum is Russia's leading export. Finally, these adverse economic developments caused the Russian ruble to depreciate by 58 percent between 2014 and the end of 2016 making all imported goods more expensive (IMF, 2017).

Following the global food price increases and other disruptions of world food trade in 2007-2010, the Russian government sought to increase food self-sufficiency by stimulating domestic production and reducing exports (Leifert and Leifert, 2015). The decision to ban agricultural imports from the West was a natural response given these objectives. Petrick (2015) describes various structural problems in the Russian agricultural sector that make it unlikely that the import ban coupled with policy interventions in the domestic market will be sufficient to bring about dramatic increases in the degree of food self-sufficiency. This hypothesis is reinforced by the fact that the negative impacts of the food import ban on domestic markets have forced the Russian government to seek out new trading partners. For example, Russian imports from Pakistan, Serbia, and Egypt, as well as countries in Latin American, such as Chile, Argentina, and Brazil have grown dramatically (World Food Moscow, 2017a). There is also evidence that some EU products are being smuggled into Russia from neighboring EU members such as Poland, Latvia and Lithuania and legal food exports from Belarus that are derived from raw materials from the EU may help to ease the food shortages (Liefert & Liefert 2015).

**Table 1: Russian Economy**

	2010	2011	2012	2013	2014	2015
<b>GNI, billion constant 2010 \$</b>	1,478	1,541	1,592	1,606	1,622	1,573
<b>Per capita GNI constant 2010 \$</b>	10,245	10,777	11,116	11,191	11,103	10,741
<b>Merchandise imports, billion \$</b>	229.7	305.6	314.2	315.0	286.7	182.7
<b>Merchandise exports, billion \$</b>	397.7	516.5	525.4	527.3	497.9	343.5
<b>Agricultural imports, billion \$</b>	32.4	44.6	47.6	40.3	42.3	27.8
<b>Agricultural exports, billion \$</b>	5.8	9.2	14.1	13.7	16.3	13.9

Source: World Bank (2017) and UN at: (<https://comtrade.un.org/pb/downloads/2015/ITSY2015VolII.pdf>)

**Table 2: EU Agri-Food Exports (million €)**

	2013	2014	2015	2016
<b>EU Agri-food Exports to Russia</b>	12,150	9,254	5,624	5,707
<b>EU Food Exports to Russia</b>	10,996	8,290	4,734	4,803
<b>Total EU Agri-food Export</b>	120,000	121,900	129,200	--
<b>EU Agri-food Exports to Russia as % of total</b>	10.13	7.59	4.35	--

Source: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113440.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113440.pdf)

Note: On March 21, 2017, one euro equaled about \$1.08.

**Table 3: U.S. Agricultural Exports to Russia (million current dollars)**

	2012	2013	2014	2015	2016
<b>Bulk commodities</b>	99	230	245	235	95
<i>soy beans</i>	46	157	184	189	58
<i>tobacco</i>	40	41	30	41	35
<i>other</i>	13	32	31	5	2
<b>Consumer-oriented</b>	1,178	724	502	99	90
<i>tree nuts</i>	124	172	69	13	8
<i>poultry</i>	310	310	144	0	0
<i>beef</i>	299	1	1	0	0
<i>pork</i>	268	18	136	1	0
<i>other</i>	177	223	152	85	82
<b>Intermediate goods</b>	378	254	152	91	65
<i>live animals</i>	267	149	49	17	1
<i>other</i>	111	105	103	74	64
<b>Total to Russia</b>	1,655	1,208	900	426	250
<b>Total U.S. agricultural exports</b>	141,550	144,356	149,983	133,053	134,889
<b>Exports to Russia as % of total</b>	1.17	0.84	0.60	0.32	0.19

Source: <https://apps.fas.usda.gov/gats/ExpressQuery1.aspx>, Foreign Agriculture Service, GATS.

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