Circulation: Date: 28th January 2015

Ref: Economics
Contact: Lucia Zitti

Economist

Tel: 024 7685 8516

Impact of Russian trade ban.

Russian meat matters

On 6th August 2014, Russia issued an order banning certain agricultural imports from the EU, the United States, Canada, Australia, and Norway for one year. These products cover almost all meat products (beef, pigmeat, poultry, and certain sausages), milk and dairy products, fruits and vegetables, as well as fish.

It is fair to say that the Russian trade ban has put pressure on the countries affected. They are the ones to have applied sanctions to Russia in response to the fighting in Ukraine. However, due to the fact that Russia is not self-sufficient on all food items, imports are needed from somewhere to fill the gap.

Bovine meat is one sector where imports are particularly important to Russia. Only 65 percent of domestic consumption is satisfied by its own production. Therefore it is fair to say that some countries have seen their trade flows towards Russia grow in the last 5 months. Brazil is one of those.

The impact on the UK

The UK exports relatively little food to Russia. In 2013, for example, UK total food and drink exports, including alcohol, equated to just £115 million so any risk to Britain's farmers of Russian ban was predominantly going to be through the indirect impacts as a result of a congested market in Europe as Russia closed its doors to imports from all European countries.

The impact on the EU

Russia is the second most important destination for EU agri-food exports (after the USA), representing in total a value of about € 11.8 billion in 2013, i.e. 10% of all EU agri-food exports. The agri-food products covered by the Russian ban represent a value of € 5.1 billion in 2013 exports, i.e. 43% of EU agri-food exports to Russia. In a global perspective, the ban affects 4.2% of total EU agri-food exports but, depending on the sector, this share can represent a considerable part of EU exports in the sectors concerned.

In the period 2011-2013, EU exported around 233 000 tonnes of beef of which the largest share (68 000 tonnes) went to Russia (29%), 13% to Switzerland and 11% to Bosnia Herzegovina. However, since 2010 volumes to Russia have been declining (60 000 tonnes less recorded in 2013 compared to 2010) as South American beef became more attractive to the detriment of the EU; yet, before the ban, Russia has been the EU's beef main destination. UK is not part of the exporting countries to Russia.

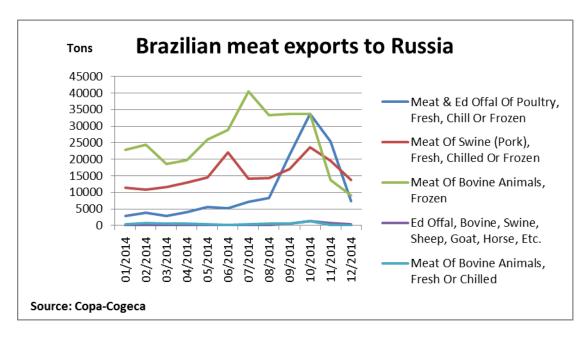
Who is benefitting?

Since the ban has been put in place, meat exports from Brazil to Russia have been increasing at fast pace, with peaks in November 2014 followed by marked decreases until the end of the year due to the compromised buying power of the Russian economy.









What it all means for Russia?

The state of the Russian economy has been deteriorating due to a combination of the impact of Western sanctions, weaker energy prices and the counter effect of the ban on domestic food inflation. Russian annual inflation rate increased to 11.4 percent in December of 2014 from 9.1 percent in the previous month, mainly driven by higher food cost. Year-on-year, food prices rose 16.4 percent in December, following a 12.5 percent increase in the previous month. Sugar recorded the highest increase (40%), followed by fruit and vegetables (22 %) and meat and poultry (20.1 %). Just in terms of comparison, in the UK food prices have been falling since May 2014 and latest figures show prices fell 1.9% compared to December 2013.

The Russian Ruble is now worth half as much as a year ago and the economy is expected to contract by 4 to 5 percent this year for the first time since 2009, when the economy was hit by a global crisis. Moreover, Russia's efforts to boost domestic food production are being hampered by high interest rates, which have driven many companies to put their expansion plans aside.

How's the EU relationship with Brazil?

Brazil has been one of the main proponents of a free trade agreement with the EU as part of the Mercosur block. However talks are currently stalled. Argentina is often cited as the main bloc member holding back a deal being reached.

Brazil's recently appointed agriculture minister Katia Abreu said she remains critical of the Mercosur bloc and its role in preventing third-party trade agreements, but she said her country will persevere with the union as long as it does not become a "burden".

One of the main tasks of Dilma Rousseff's second term as President of Brazil is to widen Brazil's commercial horizons and to strengthen their presence in international markets." The Prime Minister is keen to boost exports of Brazilian produce following the country's first annual trade deficit for 14 years in 2014.



