RUSSIA'S IMPORT BAN ON UKRAINIAN FOODS: MAGNITUDE AND IMPLICATIONS[1]

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The Russian government will impose a ban from 1 January 2016 on the import of foods from Ukraine[2].

None of the two countries however will be affected substantially by the ban:

- *Ukrainian imports in Russia play an insignificant part in terms of both total volume and as per each article of foods import (1.2%);*
- *Ukraine saw its share of Russia's foods import structure (which as early as in 2012 was more than 5%) begin to shrink even prior to what happened in 2014. Russia's Rosselkhoznadzor (Federal Service for Veterinary and Phytosanitary Surveillance) and Rospotrebnadzor (Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing) were largely responsible for creating the foregoing situation by complaining heavily about Ukrainian products, thereby making Russia-Ukraine trade relations become nontransparent and unpredictable;*
- *Ukraine managed in large part to refocus to other markets after its Russian market share shrank.*

Russia-Ukraine trade relations were complicated even prior to imposing sanctions and Russia's tit-for-tat measures in 2014. For instance, with Russia increasing its total food imports in previous years[3], the volume of imports from Ukraine already saw a decline (*Fig. 1*). Foods import from Ukraine kept declining in absolute and relative terms compared to other countries after Russia imposed an import ban on foods from certain countries, which initially did not cover Ukraine (*Fig. 2*).

In 2015, Ukrainian imports to Russia decreased to $235m (6.2 times less than in 2012).

The Rospotrebnadzor and the Rosselkhoznadzor were responsible for taking measures which affected the decline in the foods import from Ukraine even before Russia imposed tit-for-tat sanctions; in particular, the measures were aimed to increase control over the imports of raw materials and meat and dairy products[4]. As a result, imports of dairy

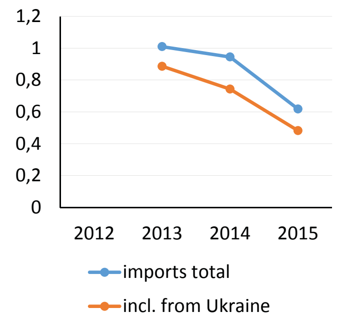

Fig. 1. Food supplies as compared year-on-year basis

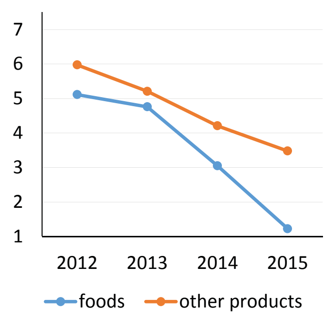

Fig. 2. Ukraine's share in Russia's imports, %

1 This paper was originally published in *Online Monitoring of Russia's Economic Outlook* No.17.

2 On the expansion of the list of countries covered by the ban on imports to Russia of agricultural products, raw materials and food products. http://government.ru/docs/19265/

3 Analysis hereinafter is made by years according to a comparable time frame of January–September.

4 For example: http://www.agroinvestor.ru/markets/news/16163-rosselkhoznadzor-ostanovil-partiyu-sukhogo-moloka-iz-ukrainy/, http://161.ru/text/newsline/779277.html?full=3

Table 1

UKRAINIAN FOODS THAT ACCOUNT FOR THE BIGGEST SHARE OF RUSSIA'S IMPORTS (BY GROUP OF FEACN)

2012			2015		
	Millions of US dollars	As a percentage of group's total imports in Russia, %		Millions of US dollars	As a percentage of group's total imports in Russia, %
18. Cocoa and cocoa-containing foods	290.43	32.1	14. Vegetable matter for busket-ware and wickerwork	0.12	6.32
19. Finished products of cereal grains	99.03	14.1	02. Meat and edible meat subproducts	89.11	3.90
20. Vegetables and fruits by-products …	129.35	11.6	11. Grain mill products; malt; starch; inulin	2.93	3.38
11. Grain mill products	15.46	11.6	18. Cocoa and cocoa-containing foods	21.11	3.20
17. Sugar and confectionery	58.69	11.2	23. Animal feeds leftover and by-products	19.26	2.77
04. Dairy products	249.89	10.7	22. Alcoholic and other beverages	31.75	2.69
22. Alcoholic and other beverages	203.38	10.3	12. Oilseeds and oleaginous fruit	20.05	1.82
Total	1463	5.2	Total	235	1.2

Source: Russia's Federal Customs Service.

products saw a cut from $250m in 2012 to $7m in 2015, and the Ukrainian share of Russia's foods import dropped from 5% to 1.2%. The decline rates have been faster than those of supplies of nonfood products (the Ukrainian share fell from 6% to 3.2%).

Ukraine indeed used to be a major trade partner for Russia. For instance, the Ukrainian share in 2012 was more than 10% for seven of the 24 groups of foods (*Table 1*). Ukrainian entrepreneurs managed to arrange for regular supplies to Russia of foods that are not produced in Ukraine. For instance, Ukraine accounted for more than 32% of Russia's imports of cocoa and cocoa-containing foods.

Ukraine's trade positions have been restricted to an extremely insignificant level for the past few years. Only six groups of foods remain in 2015, which account for 2% or less of Ukraine's total imports to Russia. Meat is the biggest in value among the groups of foods ($89m, or 3.9% of meat imports to Russia), by share of imports – meat filaments (6.3%).

The structure of the foods imported from Ukraine to Russia has seen substantial changes. For instance, most essential in 2012 were cocoa and cocoa-containing foods (19.9%), dairy products etc. (code 04) (17%), alcoholic beverages (14%), meat (11%), vegetables and fruits by-products (about 9%), finished products of cereal grains (7%), vegetables, sugar and confectionery (4% each). The rest of the foods accounted for less than 4%. The following groups of foods have been found to prevail in 2015: meat (about 40%), alcoholic beverages (13.55%), cocoa and oleaginous foods (9% each), animal feed (8%).

The new restrictions on Ukrainian imports to Russia will therefore result in nearly invisible potential losses.

One of the arguments advanced during discussions on Ukraine's accession to the European Union was that Ukrainian goods will see no demand in new markets if the Russian border is closed. Indeed, Ukrainian exports have been declining since 2012. However, the decline in foods import cannot be regarded as critical, which in 2015 is by 15% down from 2012, whereas the nonfoods import has been facing much more problems (*Fig. 3*). At the same time, the foods export to Russia has indeed seen a major cut by more than 6 times (from $1.45bn to $0.24bn). In 2015, Ukrainian exports to Russia were merely 0.26 of the level seen in 2014 (*Fig. 4*).

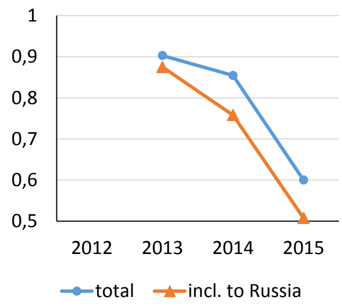

Fig. 3. Nonfood export from Ukraine compared to the previous period (January–September) last year

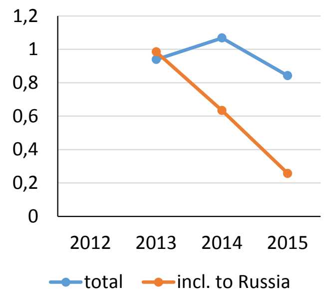

Fig. 4. Food export from Ukraine compared to the previous period (January–September) last year

Overall, comparing the decline rates of Ukrainian foods export to Russia is evidence that Ukraine has already refocused to other markets. Russia's ban on Ukrainian foods will bring about problems only for specific items, not the Ukrainian economy as a whole. For instance, the value of the most essential article of export to Russia – meat and meet foods – is about $89m (32% of Ukraine's total meat exports), but this is merely 0.9% of Ukraine's foods export. The increase in the share of meat of the Ukrainian foods export structure (1.8% in 2012, 2.2% in 2013, 2.7% in 2015) indicates that Ukraine has found new markets and not cut the production of the foods which were previously exported to Russia. Total volume in the cost estimate increased 30% in 2012 to 2015, whereas exports of this product to Russia in 2015 nearly halved during the same period. The fact that Russia's foods import ban covers Ukraine is rather more of informative nature. Since Russian consumers have already experienced cuts in import volumes, disappearance of relatively cheap Ukrainian foods in the Russian market, it is unlikely that this will seriously affect the same consumers amid the recent overall appreciation of food prices and cuts in consumption.