TURKISH LESSONS: EMBARGO-RELATED RISKS

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Russia's embargo on food imports from Turkey will trim Turkey's exports to Russia by some $1bn, nearly 60% of Turkey's total agri-food exports to Russia. Produce exports will be hit hardest. The embargo may have a severe impact on Russia's tomato, grape and tangerine markets. Turkish supplies accounted for 34–50% of Russia's imports of these products. Turkish supplies represented 11% of Russia's yearly average consumption of tomatoes. The share was reportedly much bigger at various months.

Furthermore, the embargo may also pose the risk of Turkish counter-sanctions against food imports from Russia (Russia's food supplies are bigger in value than Turkish supplies to Russia). Additionally, substitution of imports from Turkey with supplies from other countries or with domestic produce may boost prices in the Russian market. None of the EEU allies has joined Russia's food embargo, which is fraught with strained relations between Russia and some of the EEU member states over supplying the sanctioned products to the Russian market.

Agri-food trade relations between Russia and Turkey has recently been growing steadily (*Table 1*). Turkish supplies during the period under review accounted for about 4% of Russia's total food imports, whereas Russian supplies represented 10.6–12.5% of Turkey's food imports.

Table 1

RUSSIA–TURKEY IMPORTS/EXPORTS OF FOODS AND AGRICULTURAL PRODUCE

	2012	2013	2014	January–October 2015
Russia's imports from Turkey, million US dollars	1515	1752	1765	1038
Russia's exports to Turkey, million US dollars	1938	1721	2369	1390
Turkish share of Russia's imports, %	3.7	4.0	4.0	4.9
Russian share of Turkish exports, %	9.9	10.3	9.8	7.7
Turkish share of Russia's exports, %	11.6	10.6	12.5	10.8

Sources: the calculations hereinafter rely on the data released by Russia's Customs Service: http://stat.customs.ru/; the data released by the Turkish Statistical Institute: http://www.turkstat.gov.tr/PreTablo.do?alt_id=1046.

In the first 10 months of 2015 Russia total food imports, including from Turkey, were curtailed drastically. Nevertheless, the Turkish share of Russia's imports increased to 4.9% during the same period.

The situation changed drastically after 24 November 2015[2], when Russia's President issued a Decree on 28 November 2015, No. 583, introducing economic measures targeted against Turkey. The Russian government issued an

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2 On 24 November 2015, Turkish Air Force shot down a Russian warplane in Syria.

executive order[1] containing a list of agricultural produce and foods subject to a food import ban to come into force on 1 January 2016. The list includes the following foods and products:

- turkey and chicken meat cuts and meat offal, frozen;
- vegetables (tomatoes, cucumbers, onions, cauliflower);
- fruits (oranges, tangerines, grapes, apples, pears, apricots and peaches (including nectarines));
- fresh cloves.

The ban covers the foods which in 2014–2015 accounted for nearly 60% of Russia's food imports from Turkey (*Table 2*).

Table 2

THE SHARE OF SANCTIONED FOODS/PRODUCTS OF TOTAL VALUE OF IMPORTS FROM TURKEY

	2014		January–October 2015	
	million US dollars	%	million US dollars	%
Russia's imports from Turkey	1765	100	1038	100
including sanctioned foods and products,	1074	60.9	614	59.2
of which: fruits	502	28.5	270	26.1
vegetables	544	30.8	324	31.2
flowers	2.9	0.2	5.2	0.5
meat and meat foods	25.1	1.4	15	1.4

Turkey's cumulative losses will worth nearly $1bn due to the Russian sanctions. The bulk of the losses will be caused by banned produce imports. Imports of products worth $600–700m are not subject to sanctions. These are basically fish, tobacco, produce offal as well as various types of fresh produce. It is noteworthy that the ban covers the products of insignificant value and volume (e.g., fresh cloves, certain types of meet foods), but no ban was applied to imports of the products of significant export volumes and value (e.g., grapefruits – 40,000 tonnes or 5% of Turkey's total grapefruit production).

Tomatoes is the principal item of Turkish food exports to Russia. In 2014, 366,000 tonnes of tomatoes worth $439m were supplied from Turkey (3.1% of Turkey's total tomato production). This accounted for 43% of Russia's total tomato imports or 11% of Russia's tomato consumption. The share of Turkish tomatoes of Russia's consumption increased considerably in off-season period.

The ban on Turkish supplies may disarray considerably the Russian tomato market if the Turkish niche is not occupied by other importers. For now it is impossible to provide such a volume of import substitution. Furthermore, Russian greenhouse tomatoes are priced much higher than Turkish ones.

Tangerines is the second important Turkish export item covered by the ban. Turkey was the principal exporter of tangerines to Russia. In 2014, Russia imported 847,000 tonnes of tangerines worth $206.7m, including 286,700 tonnes from Turkey (34% of total imports). In 2015, tangerine imports from Turkey shrank most compared to other countries: the Turkish market share shrank to 25% in volume terms and to 18.7% in value terms. To offset the lost volumes, Morocco – the second largest exporter after Turkey – should increase its export volumes to Russia 2.4 times, to 500,000 tonnes. Such a scenario is unlikely to realize.

1 Russian government executive order No. 1296 of 30 November 2015.

Grape imports from Turkey (more than 50% of Russia's imports) more than doubled the Russian production of table grapes. A new supplier is therefore needed to maintain supply volumes, because imports in this case can only be substituted in the long term. New vineyards have to be planted, and it takes four years until they can be harvested.

The decision to ban imports of certain types of Turkish foods will pose some risks for Russia. The main risks are as follows:

1. Turkey's counter-sanctions on imports of foods and agricultural produce from Russia. Given the fact that Russia's food exports to Turkey are bigger than Turkey's food exports to Russia, Turkish counter-sanctions would bring about heavy losses on the Russian agrarian sector. Such sanctions would first of all hurt Russian producers and exporters of food grains and feed grains, sunflower and sunflower oil.

2. Re-export of Turkish foods to Russia via EEU member states. None of Russia's allies within the Eurasian Economic Union has joined Russia's sanctions against Turkey. Businesses of EEU member states will not wait to reap benefits from re-exporting Turkish foods to Russia. The re-export risk is likely to heighten because it is difficult to identify the country of origin for many types of produce.

It has been known from the past experience that the risk is not improbable. For example, after Russia banned food imports from the EU, U.S. and some other countries, many of the sanctioned foods were re-exported via Belarus. Before sanctions, Russia in 2013 imported 86,000 tonnes of apples from Belarus and 706,000 tonnes from Poland. In 2015 no apples were imported from Poland, whereas 318,000 tonnes of apples were supplied from Belarus (according to the data on the first 10 months of 2015). It is highly unlikely that Belarus within a year could have planted and harvested tens of thousands of hectares of gardens.

Spain and Greece were major exporters of peaches (including nectarines) to Russia before sanctions were imposed. In 2013, Russia imported 155,000 tonnes of peaches (including nectarines) from these countries. No peaches and nectarines were imported from Spain and Greece in 2015, whereas 121,000 tonnes were supplied (in the first 10 months of 2015) from Belarus, which in 2012 supplied to Russia merely 1,000 tonnes of these fruits.

The same thing happened to wild and garden strawberries: Russia in 2015 closed down major exporters (Greece, Poland, Spain) from its markets, whereas Belarus supplied to Russia 27,000 tonnes of these products (compared with merely 0.1 thousand tonnes in 2012). In 2015, the Republic of Belarus also represented a big share of Russia's imports of kiwi fruits (20%), date plums (10%), cherries and sour cherries (31%), whereas as early as two years ago the share was nearly zero (less than 1%).

To assess this risk, one should remember that Turkish businesses maintain close trade and commercial relations with their counterparts from Kazakhstan, Kyrgyzstan, Azerbaijan, meaning that new channels may be used for supplying the sanctioned products.

3. Russian consumers face higher produce prices. Turkish foods are in most cases priced lower than foods from other countries (*Table 3),* except perhaps grapes from the Republic of Moldova. However, Moldovan grape exports to Russia include mostly vine grapes, which are lower in quality and cheaper than table grapes. Quite apparently, Russian consumers will have to pay higher price if Turkish foods are replaced with foods of the same type and comparable quality from other countries.

Table 3

IMPORT VOLUMES AND AVERAGE PRICES OF IMPORTED FOODS

Types of foods and top suppliers	2012		2013		2014		January–October 2015	
	volumes, thousand tonnes	price, USD per tonne	volumes, thousand tonnes	price, USD per tonne	volumes, thousand tonnes	price, USD per tonne	volumes, thousand tonnes	price, USD per tonne
1. Tomatoes: Turkey	361	994	335	1346	366	1202	301	958
China	79	1175	81	1303	91	1320	72	1303
Morocco	62	1440	71	1426	78	1424	35	1401
2. Cucumbers: Turkey	55	1179	44	1382	65	1107	17	1016
Iran	55	1291	64	1318	62	1307	31	1337
China	30	1213	30	1285	31	1283	20	1270
3. Tangerines: Turkey	159	1060	201	1019	287	721	97	662
Morocco	192	941	222	928	223	946	77	978
China	87	930	87	981	80	988	32	1021
4. Fresh grapes: Turkey	146	1285	144	1297	168	1076	100	980
Chile	33	1585	38	1589	25	1589	18	1586
Moldova	21	972	25	846	28	815	14	876

4. Import substitution may boost produce prices. The Russian government took measures to partially substitute the sanctioned foods and products with domestic ones. However, domestic produce were often priced higher than imported ones (*Table 4)*.

Table 4

PRICES OF DOMESTICALLY PRODUCED FOODS AND IMPORTED TURKISH FOODS (2015)

	Agricultural producer prices, roubles per kilo (earlier in the month)		Prices of imports from Turkey, roubles per kilo	
	Greenhouse cucumbers	Greenhouse tomatoes	Cucumbers	Tomatoes
January	105.0	93.0	66.5	60.9
February	139.9	139.7	67.0	65.5
March	145.8	156.8	61.9	58.0
April	118.7	153.3	50.3	53.4
May	100.3	137.7	46.2	49.4
June	80.9	109.8	32.7	46.7
July	45.7	67.7	0.0	48.4
August	38.9	55.5	0.0	56.9
September	37.1	48.0	0.0	51.3
October	44.0	52.3	52.8	54.8

Turkish products were 1.5–3 times cheaper than domestic ones throughout the entire off-season period, except the summer and fall of 2015, when Russian and Turkish suppliers offered comparable prices.