

TRADE TENSIONS BETWEEN EU AND RUSSIA: POSSIBLE EFFECTS ON TRADE IN AGRICULTURAL COMMODITIES FOR VISEGRAD COUNTRIES

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The paper includes overview of the current state of the EU-CIS and the EU-Russia trade flows with particular attention to trade in agricultural commodities, as well as contemporary tendencies in agricultural production and foreign trade in agricultural commodities and food in Russia. The paper specifically addresses the possible effects of the trade restrictions between the EU and Russia, particularly the imposed ban on agricultural trade, on the Visegrad countries. The paper is concluded with an overview of the expected influences of the trade tensions on Russia's domestic agricultural market, including consumers, producers, and retailers.

Keywords: trade restrictions, ban, agricultural commodities, Visegrad countries

Introduction

In the conditions of globalization, the effectiveness of agricultural production and sustainability of rural development are increasingly influenced by foreign economic and trade relations. Current uncertain political and economic relations between Russia and the neighbouring countries (the tensions with Ukraine, perspectives of economic and trade relations with the EU, the economic and trade sanctions against Russia, etc.) transform market patterns and affect agricultural production, rural development and food security in the macro-region of Russia, CIS, and the Visegrad region.

Countries of the Visegrad region, which are Slovakia, Poland, the Czech Republic, and Hungary, are traditionally trading partners of Russia in the sphere of agricultural trade. In 2013, the Visegrad countries exported over 1.4 bln Euro worth of agricultural commodities and food to Russia, which was about 4.2% of the total agricultural export of the four countries. Poland and Hungary are big exporters of meat, fruit and vegetables to Russia. The share of Russia's market in the Visegrad's external trade has been growing over the past decades, as Russia's domestic market has been becoming more dependent on agricultural imports.

According to the FAO, the share of imported agricultural commodities and food on Russia's domestic market exceeds 40%. However, in spite of such a high dependency, Russia has decided to ban most imports of Western food products in retaliation for Western trade and economic sanctions. Such measures will definitely hit the EU-Russia trade relations, including the Visegrad-Russia agricultural trade flow. Not only big food producers, processing plants and retailers, but also a number of small and medium agricultural producers and rural households in the Visegrad countries are expected to experience losses. Such unilateral actions in the conditions of globalized markets completely distort trade patterns and destroy trade links between countries and regions. Trade liberalization definitely opens up new growth opportunities, but also brings threats to sustainable development of national agriculture and food security. Trade restrictions threaten sustainable development not only because of their direct effects (market volatilities, destruction of trade linkages, etc.), but to a greater extent because of their hidden effects (distortion of natural economic order, establishment of artificial market environment, overprotection, etc.).

Material and methods

In order to review the current state of the EU-Russia trade in agricultural commodities, and estimate effects of trade wars, the paper is divided into three parts. The first part includes an outlook of the EU-CIS trade in agricultural commodities. Data on twelve CIS countries and combined EU-27 statistics are investigated. The EU-CIS trade in 2012 is analyzed based on AMA/NAMA product classification. The AMA includes agricultural products, while the NAMA refers to all products not covered by the WTO Agreement on Agriculture. In practice, it includes manufactured products, fuels and mining products, and forestry products. They are sometimes referred to as industrial products or manufactured goods. The second part includes an analysis of foreign trade in agricultural commodities and food in Russia. The analysis is conducted for export and import, the analysed period is 2003–2013. Export and import of selected agricultural commodities, as well as top trading partners of Russia, are considered. The expected effects of trade restrictions for the Russia-Visegrad trade in agricultural commodities are evaluated in the third part of the paper. The analysis includes four Visegrad countries, namely Slovakia, Poland, the Czech Republic, and Hungary. The research approach is following: calculation of agricultural exports from the Visegrad countries to Russia in 2013, banned in 2014, and comparison with the total agricultural exports of the Visegrad countries to Russia and to the world in 2013. The analysed period is 1995–2013, the estimations were made for 2014 based on calculated volumes of banned agricultural exports from the Visegrad countries.

Besides trade statistics itself, Russian and foreign researchers and experts have been addressed in the spheres related to the recent developments in the Russia-EU relations and Russia's accession into the World Trade Organization (Tarr and Volchkova, 2010; Ushachev, 2012); influences of trade integration on interregional trade and regional development (Estevadeordal, Freund, Ornelas, 2008; Anderson, Jha, Nelgen, 2013; Josling, Anderson, Schmitz, Tangerman, 2010); sustainable rural and agricultural development in the conditions of fluctuant international environment (Erokhin, Ivolga, Andrei, 2014; Zykova, Ikonnikova, Kononov, 2011; Ivolga, 2014; Ivolga and Erokhin, 2011; Garnik and Sokolnikova, 2014; Savkin and Pervykh, 2013); contemporary

tendencies of agri-food trade between Visegrad countries and the EU (Bielik, Smutka and Horska, 2012; Bozsik, 2014).

Dialectic, abstract, logical and comparative methods are implemented, as well as factor and correlation analysis of the official statistic data, and study of scientific publications. The data are obtained from the UNCTAD and the Trading Economics databases, as well as from the European Commission reports.

EU-CIS trade in agricultural commodities: outlook

The EU enlargements in 2004 and 2007 moved the EU external borders to the East and Southeast, changing radically the EU's economic and trade perception of the CIS region and its potential importance as a trading partner (particularly for the new EU member states). Russia, Ukraine, Belarus, and Moldova became the direct EU neighbours. In the perspective of Turkey's accession, three other countries (Armenia, Azerbaijan, and Georgia) will also border with the EU. These changes have caused growing integration of the CIS countries towards the world markets. However, two major factors have shaped the pattern of trade openness. The first one is the recovery from the initial transitional slump, not completed until now. There are still incomplete reforms in a number of CIS economies. The second one is the significantly lower level of openness (ratio of foreign trade (export plus import) to GDP) and different barriers to trade in the CIS compared to the rest of the economies in transition (Figure 1).

High growth rates, both for import and export are observed, except 2009. Total trade increased almost threefold and reached 357 bln Euro. Such high level can be explained primarily by growing import from Russia, Kazakhstan, Azerbaijan, and Ukraine.

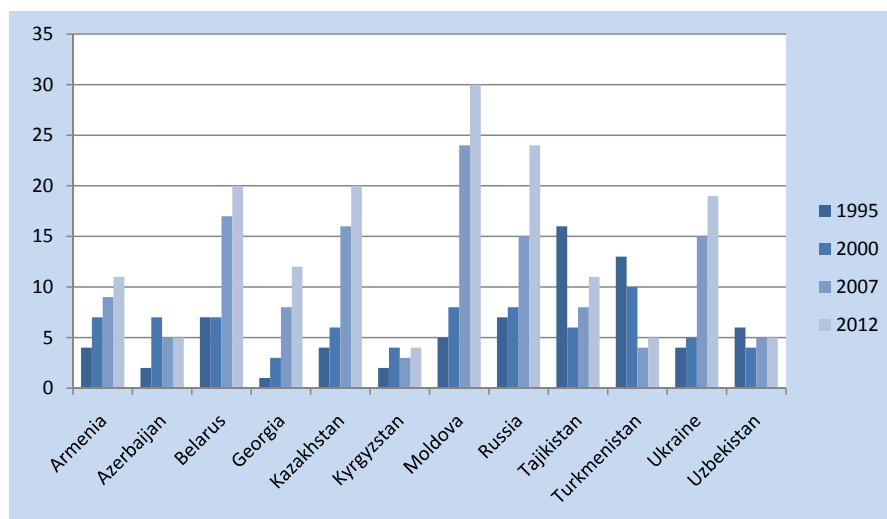


Figure 1 Ratio of foreign trade (export plus import) to GDP in the CIS in its trade with the EU in percentage
Source: author's own processing based on (Koparanova and Li, 2011) and Trading Economics data

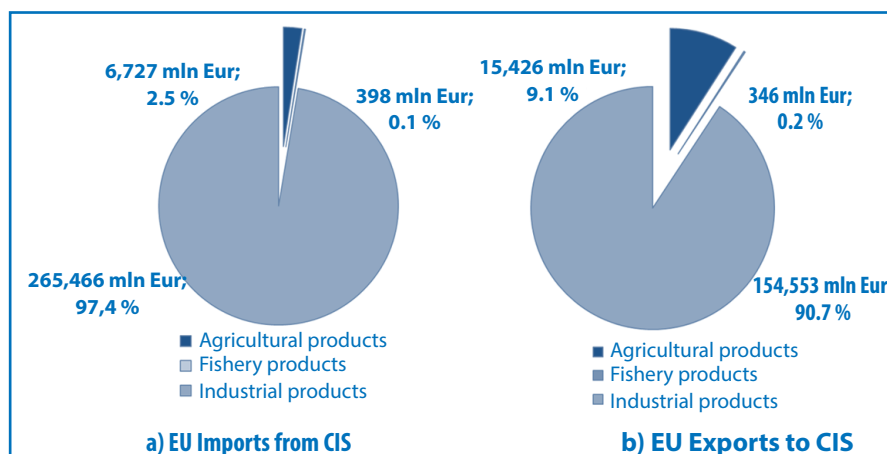


Figure 2 EU-CIS trade in 2012, structure (AMA/NAMA product groups)
Source: author's development based on (European Commission, 2013)

Estimating separate product groups, we may see the domination of industrial products both in exports and in imports (AMA/NAMA

product group is considered). The AMA includes agricultural products, while the NAMA refers to all products not covered by the WTO Agreement on

Table 1 EU-CIS trade flows and balance

Period	Imports by EU from CIS			Exports by EU to CIS			Balance in mln Euro	Total trade in mln. Euro
	Value in mln Euro	Growth in %	Share in Extra-EU in %	Value in mln Euro	Growth in %	Share in Extra-EU in %		
2002	80,192		8.6	48,765		5.5	-31,427	128,957
2003	84,736	5.7	9.2	52,291	7.2	6.1	-32,445	137,027
2004	101,339	19.6	10.3	63,245	20.9	6.9	-38,094	164,584
2005	131,013	29.3	11.9	75,881	20.0	7.7	-55,132	206,894
2006	162,908	24.3	13.1	96,291	26.9	9.0	-66,617	259,199
2007	165,150	1.4	12.9	113,408	17.8	10.3	-51,742	278,558
2008	201,146	21.8	14.7	129,962	14.6	11.3	-71,184	331,108
2009	128,474	-36.1	12.3	82,641	-36.4	8.7	-45,833	211,115
2010	171,569	33.5	13.2	103,592	25.4	9.0	-67,977	275,161
2011	213,317	24.3	15.0	124,569	20.3	9.7	-88,748	337,886
2012	219,978	3.1	15.2	137,450	10.3	10.1	-82,528	357,428

Note: Presented financial figures are real (price level 2002), inflation is considered. Inflation figures are obtained from StatBureau.org.
Source: European Commission, 2013

Agriculture. Naturally, share of the NAMA products is over 90% in exports, and even close to 98% of the EU imports from the CIS (Figure 2). That is the global tendency. Over the past years, the NAMA products have accounted for almost 90% of the world merchandise exports.

Russia is the major trading partner in the region. Import from Russia to the EU has been growing significantly, including the period of global economic recession of 2008–2009.

Foreign trade in agricultural commodities and food in Russia

Today, with the escalating political conflict between Russia and Ukraine, the economic sanctions imposed by the EU and the USA, and Russia's reorientation on its Asian partners, it is not clear how further progresses can be achieved between Russia and the EU. Nevertheless, the EU is still the major trading partner of Russia, with the share of over 40% on Russia's external trade turnover. The trade between Russia and the EU grew steadily and reached record levels in 2012. However, there is a slowdown in 2012 followed by the negative trend in 2013. The trend continues in 2014. For the four months to April, the exports to Russia were down by 13% from the period in 2013, while imports from Russia declined by 9%. That drop does not seem to be entirely due to the tensions between the EU

and Russia over Crimea and eastern Ukraine. It began in 2012, well before those tensions and introduced sanctions. The decline in exports from the EU to Russia (see Table 2) is largely caused by a sharp slowdown of Russia's economy in 2013, while the decline in imports to the EU from Russia reflects a mild start to the year across the Euro area, which has reduced the demand for natural gas.

In 2012, the volume of Russia's GDP in agriculture exceeded 85.5 bln Euro. Russia remains a net-importer of agricultural commodities. Moreover, its dependency on imports has increased. Russia's Import Quota was 41% in 2012, which means that 41% of Russia's agricultural GDP is produced by imports, with average EU and USA levels at around 20%. The largest Russia's import items in 2002–2012 were meat, milk, dairy products, beverages, and sugar. The import deliveries of meat and cheese increased threefold and fourfold respectively during 2002–2012 (Table 3).

However, in spite of such a high dependency, Russia still decided to ban most of Western food products in retaliation for the Western trade and economic sanctions. Russia banned beef, pork, poultry, fish, fruit, vegetables, cheese, milk and other dairy products from the USA, Canada, the EU, Norway, and Australia for one year. Russia imported about 33 bln Euro worth of food products in 2013, of which the banned goods accounted for nearly 7 bln Euro, or 21.2%. The top ten suppliers to Russia include the countries of the Latin

Table 2 EU-Russia trade flows and balance

Period	EU imports from Russia			EU exports to Russia			Balance in mln Euro	Total trade in mln. Euro
	Value in mln Euro	Growth in %	Share in Extra-EU in %	Value in mln Euro	Growth in %	Share in Extra-EU in %		
2003	71,283		7.6	37,270		4.3		108,553
2004	82,917	16.3	8.3	45,034	20.8	4.9	-37,883	127,951
2005	108,809	31.2	9.6	54,118	20.2	5.4	-54,691	162,927
2006	133,615	22.8	10.5	67,795	25.6	6.3	-65,820	201,410
2007	130,668	-2.2	10.2	80,950	19.4	7.2	-49,718	211,618
2008	161,193	23.4	11.4	93,770	15.8	8.0	-67,423	254,963
2009	105,829	-34.4	9.7	58,147	-38.0	6.0	-47,682	163,976
2010	140,280	32.6	10.6	74,702	28.5	6.4	-65,578	214,982
2011	169,462	20.8	11.6	91,400	22.4	7.0	-78,062	260,862
2012	177,068	4.5	12.0	101,574	11.1	7.3	-75,494	278,642
2013	168,512	-4.8	12.3	97,751	-3.8	6.9	-70,761	266,263

Note: Presented financial numbers are real (price level 2003), inflation is considered. Inflation figures are obtained from StatBureau.org.

Source: European Commission, 2014

Table 3 Imports of selected agricultural commodities by Russia in 2002–2012 in bln Euro

Item	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2012 to 2002 in %
Beef	0.40	0.37	0.29	0.45	0.64	0.63	1.23	0.99	1.04	1.10	1.11	277.5
Beverage	0.23	0.28	0.36	0.57	0.49	0.68	0.81	0.49	0.66	0.71	0.69	300.0
Pig meat	0.65	0.51	0.45	0.64	0.97	0.99	1.38	1.15	1.21	1.26	1.24	190.8
Milk	0.01	0.02	0.04	0.04	0.02	0.03	0.04	0.03	0.15	0.21	0.22	2200.0
Tobacco	0.63	0.53	0.50	0.64	0.53	0.57	0.66	0.65	0.69	0.69	0.68	107.9
Sugar and honey	0.05	0.05	0.06	0.05	0.05	0.05	0.04	0.05	0.08	0.08	0.09	180.0
Poultry	0.77	0.54	0.47	0.66	0.63	0.63	0.83	0.65	0.53	0.67	0.66	85.7
Cheese	0.22	0.28	0.30	0.47	0.38	0.47	0.62	0.50	0.80	0.83	0.82	372.7

Note: Presented financial numbers are real (price level 2002), inflation is considered. Inflation figures are obtained from StatBureau.org. All financial numbers are calculated in Euro based on average Euro-Ruble ratios for each year

Source: author's development based on Trading Economics data (<http://www.trademap.org>)

Table 4 Top ten suppliers of agricultural commodities to Russia in 2002–2012

No.	Country	2002		2005		2008		2012	
		volume in mln Euro	share in %	volume in mln Euro	share in %	volume in mln Euro	share in %	volume in mln Euro	share in %
1	Turkey	67.8	0.7	379.0	2.8	599.4	2.7	742.3	4.0
2	Netherlands	90.5	0.9	191.4	1.4	547.9	2.5	674.9	3.7
3	Brazil	5.4	0.1	135.8	1.0	380.9	1.7	530.8	2.9
4	Poland	70.0	0.7	315.6	2.3	160.8	0.7	482.7	2.6
5	Norway	0.9	0.1	122.0	0.9	232.7	1.1	380.2	2.1
6	Argentina	13.4	0.1	178.3	1.3	260.4	1.2	356.4	1.9
7	China	45.7	0.5	221.7	1.6	446.7	2.0	315.4	1.7
8	France	24.4	0.2	129.6	0.9	249.3	1.1	288.3	1.6
9	USA	96.7	1.0	91.4	0.7	142.4	0.6	276.6	1.5
10	India	409.4	4.1	250.9	1.8	218.9	1.0	263.0	1.4

Note: Presented financial numbers are real (price level 2002), inflation is considered. Inflation figures are obtained from StatBureau.org. All financial numbers are calculated in Euro based on average Euro-Ruble ratios for each year

Source: author's development based on Trading Economics data (<http://www.trademap.org>)

Table 5 Volumes of Visegrad agricultural exports to Russia in 2013, banned in 2014

Commodity group	Slovakia		Poland		Czech Republic		Hungary		Visegrad total	
	mln Euro	%*	mln Euro	%*	mln Euro	%*	mln Euro	%*	mln Euro	%*
Meat and meat preparations	4.16	18.18	115.58	10.52	1.39	1.66	61.82	28.23	182.95	12.85
Fish, crustaceans, molluscs and preparations thereof	0.00	—	2.08	0.19	0.10	0.12	0.00	—	2.18	0.15
Fruit and vegetables	0.05	0.22	564.23	51.38	3.96	4.74	41.82	19.09	610.06	42.85
Milk, dairy products and cheese	3.94	17.23	121.27	11.04	16.36	19.56	7.85	3.58	149.42	10.50
Total	8.15	35.62	803.16	73.14	21.82	26.09	111.48	50.90	944.61	66.35

Note: Presented financial numbers are real (price level 2013). All financial numbers are calculated in Euro based on average Euro-USD ratios for each year, obtained from www.bloomberg.com

* Percentage in total agricultural export to Russia

Source: author's development based on UNCTAD statistics (<http://unctadstat.unctad.org/>)

America, Europe, and Asia (Table 4). Five out of the top-ten are banned, which are the Netherlands, Poland, Norway, France, and the USA.

The ban is expected to hit about 7% of the EU agricultural exports to Russia. However, for certain EU countries, i.e. Poland, France, and Norway, losses may be more essential. Russia used to be a large market for Polish fruits, French cheese and Norwegian fish. The United States do not expect any serious losses, since Russian market is less than 1% of the total US agricultural export. Russia considers Brazil and Turkey as the most likely alternative suppliers. Indeed, beef, pork and poultry products from Brazil could serve as substitutes. New Zealand could help make up for the banned cheese, while Turkey could ship more fruits, vegetables and dairy products.

Expected effects of trade restrictions for the Russia-Visegrad trade in agricultural commodities

Slovakia, Poland, the Czech Republic, and Hungary were also hit by the trade restrictions. Russia banned three kinds of meat and meat products,

fish, fruit and vegetables, and all dairy products. As of the UNCTAD, those commodities are included into four commodity groups (Table 5).

Poland is the worst-hit country among the Visegrad countries, since over 73% of its

agricultural exports to Russia (which is over 803 mln Euro), are turned out to be banned. The expected losses of Hungary are far lower: 111 mln Euro, or 50% of the total agricultural exports to Russia. The Czech Republic and Slovakia do not

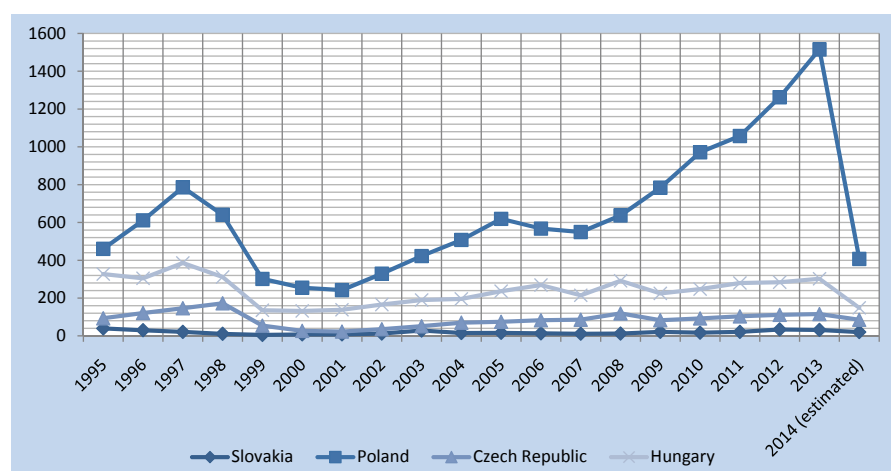


Figure 3 Dynamics of Visegrad agricultural exports to Russia in 1995–2013 and the estimated cutback in exports in 2014 due to the ban in mln Euro

Note: Presented financial numbers are real (price level 1995), inflation is considered

Source: author's development based on UNCTAD statistics (<http://unctadstat.unctad.org/>)

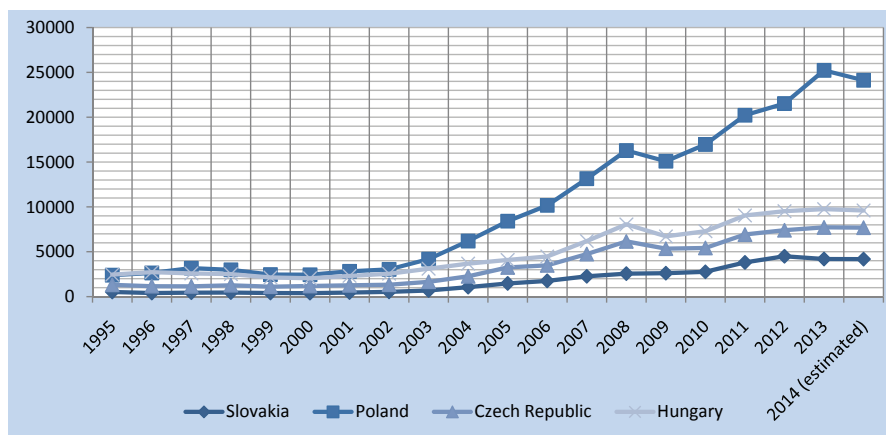
Table 6 Volumes of Visegrad agricultural exports, banned by Russia, and their shares in overall Visegrad agricultural exports to the world in 2013

Commodity group	Slovakia		Poland		Czech Republic		Hungary		Visegrad total	
	mln Euro	%*	mln Euro	%*	mln Euro	%*	mln Euro	%*	mln Euro	%*
Meat and meat preparations	4.16	0.14	115.58	0.63	1.39	0.02	61.82	0.87	182.95	0.54
Fish, crustaceans, molluscs and preparations thereof	0.00	–	2.08	0.01	0.10	0.01	0.00	0.01	2.18	0.01
Fruit and vegetables	0.05	0.01	564.23	3.09	3.96	0.07	41.82	0.59	610.06	1.80
Milk, dairy products and cheese	3.94	0.13	121.27	0.66	16.36	0.29	7.85	0.11	149.42	0.44
Total	8.15	0.27	803.16	4.39	21.82	0.39	111.48	1.58	944.61	2.78

Note: Presented financial numbers are real (price level 2013). All financial numbers are calculated in Euro based on average Euro-USD ratios for each year, obtained from www.bloomberg.com

* Percentage overall agricultural export of the country

Source: author's development based on UNCTAD statistics (<http://unctadstat.unctad.org/>)

**Figure 4** Dynamics of the Visegrad total agricultural exports in 1995–2013 and the estimated cutback in exports in 2014 due to the Russia's trade ban in mln Euro

Note: Presented financial numbers are real (price level 1995), inflation is considered

Source: author's development based on UNCTAD statistics (<http://unctadstat.unctad.org/>)

have such strong trade links with Russia in the sphere of agriculture as Poland and Hungary, that is why their damages are expected to be slight – about one third of the total agricultural exports to Russia. We may expect the Poland – Russia and the Hungary – Russia agricultural trade flows to be rebound to the levels of the early 2000s, while the Slovakia – Russia and the Czech Republic – Russia trade flows are not expected to be affected seriously (see Figure 3).

However, the shares of agricultural exports, banned by Russia, in overall agricultural exports from the Visegrad countries to the world are very small. That is why the losses do not seem to be crucial. The worst-hit Visegrad country is again Poland, which has the biggest agricultural turnover with Russia. Russia's ban is accounted to approximately 4.4% of overall Poland's agricultural exports (see Table 6).

Russia is an important market for Poland, but not a crucial one. Poland sells six times as much to Germany. The figure is even lower for Hungary – 1.6%, while Slovakia and the Czech Republic may even not notice Russia's restrictions and easily reorient their exports or pass through the ban. The dynamics of the Visegrad-world

trade in agricultural commodities shows that only Poland may experience sensible cutback of its agricultural exports in 2014 due to the Russia's trade sanctions (Figure 4). Poland lost a big market for its apples, but vegetables is even the greater cause for concern. Apples can be stored for several months while vegetables (especially peppers and cabbage) have to be sold immediately after harvesting. Since about 40% of paprika, produced in Poland, used to be exported to Russia, the losses for particular branches may be essential.

The trade war with Russia could shave around half a percentage point of the Polish economic growth in 2014. The government previously expected the growth of 3.3% this year (Walker and Dalton, 2014). There are two options for Polish farmers: to wait for the EU compensations, or to rapidly reorient their exports. The EU agriculture commissioner Dacian Cioloș promised to speed up compensation procedures regarding the most sensitive Polish agricultural products, namely those which cannot be stored for longer periods of time (Kassam et al., 2014). The European Commission already declared that it was drawing on provisions in the reformed

Common Agricultural Policy (CAP), which includes an emergency reserve of €420 mln Euro in total to compensate EU farmers for market disruption. The money will be available between August and the end of November 2014 (EurActiv, 2014). However, until compensations come, many of the Polish fruit and vegetables will head for the EU market, potentially displacing their more expensive European rivals. Others will go to markets in Asia and the Middle East, traditionally supplied by EU countries such as France. The same situation is expected to happen in the other Visegrad countries: Hungarian, Czech and Slovakian farmers will either seek for alternative markets inside or outside the EU, or claim compensations from national and EU officials.

Conclusions

Despite certain expected losses of the Visegrad countries and the other EU member states due to the Russia's agricultural ban, Russia itself may turn out to be damaged in a greater extent. Regardless of the world's biggest territory and high volumes of domestic agricultural production, Russia remains a net-importer of agricultural commodities. Moreover, its dependency on imports has increased. Currently, over 41% of Russia's agricultural GDP is produced by imports, with average EU and USA levels at around 20%. Russia received up to 55% of its agricultural imports from the countries it has so far sanctioned, including the EU. Almost 50% of Russia's meat imports and about 95% of Russia's dairy imports in 2013 came from countries it has now banned, with its biggest suppliers until now being the Netherlands, Germany, Lithuania, Finland, and Poland (Jalonic and Baetz, 2014).

Taking into account the high Russia's dependency on foreign agricultural products and food, the imposed agricultural ban is like a double-edged sword for Russia. On the one hand, it is an opportunity for domestic producers to fill a market gap. However, Russian farmers are not

able to increase their production rapidly, their facilities are outdated, financial resources are limited, and quality of their products is low (Erokhin and Ivolve, 2012). On the other hand, the ban would definitely backfire by driving up domestic food prices, at least in the short term. Unfortunately, the biggest losers in this will be Russian consumers, who will pay more for their food now as well as in the long run. They will definitely not be compensated anyhow, contrary to the EU farmers. The ban will hit consumers, along with a number of Russian industries, including food processing plants, shippers and retailers. Growth of unemployment and bankruptcies of food processing enterprises are expected.

Until recently Russia was not among the WTO members. Russia's accession to this global trading system in 2012 and membership of some CIS countries in the WTO are considered as preconditions for essential structural changes in interregional and even international trade. However, latest trade sanctions imposed on both sides between Russia and the Western countries demonstrated that the WTO had not much to do with those changes. The real threats for the Russia-Visegrad and the Russia-EU trade are unilateral actions, which completely distort trade patterns and destroy trade links between countries and regions.

The WTO experiences of most of the CIS countries in relation to agriculture have not been very positive until now. Trade integration has resulted in growing competition on domestic markets and inflow of foreign food and agricultural products. However, trade restriction is even a bigger evil, since it distorts natural economic order, creates artificial market environment and drives overprotection. Domestic agricultural producers have to be protected and supported, but not through trade bans. One of the tools to protect national economies and ensure sustainable development is integration of agrarian markets into the inter-regional market and establishment of the common agrarian market. There is the Customs Union of Russia, Belarus and Kazakhstan already. This common market should be developed into the alternative to the EU, USA and Asian markets. But it should grow naturally, through higher competitiveness of domestic agricultural producers, bigger exports, integration of the best Western practices and technologies into domestic production, and not through any imposed restrictions.

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