Russia's Import Embargo: What it means for ACP Agro-Food Sectors

Summary
In response to the Russian import embargo introduced on 8 August 2014 the EU has adopted a range of policy measures intended to minimise adverse effects on EU agricultural producers and agro-food processing companies. However the danger exists that this EU policy response could displace necessary adjustments onto the shoulders of non-EU producers, including those in some ACP countries.

This analysis seeks to provide an overview of the possible effects of EU policy measures on three agricultural markets of importance to ACP producers: dairy; poultry; and horticulture. It also seeks to identify the possible scope for an ACP initiative, implemented in close association with concerned ACP governments and stakeholders association, designed to minimise the adverse knock-on effects of policy measures on ACP producers and traders.

This agricultural trade alert is produced for the Ramphal Institute by Dr Paul Goodison of GDC-Partners.

The Main Areas of Impact

In 2013 Russia was the second biggest export market for EU agricultural products. The import embargo introduced on 8 August 2014 affects "*certain meat, dairy, fruit, vegetable and processed food products from the EU, USA, Canada, Australia and Norway*"[1]. The EU however is the worst affected trade partner, accounting in 2013 for 86% of the imports affected by the embargo.

The Russian import ban covers EU products valued at €5.1 billion in 2013. The most important product categories were:

- **dairy products** - mostly cheese exports from Holland (24%), Germany (14%), Lithuania (14%), and Finland (13%);
- **fruit** - mostly apples pears and quince exports from Poland (52%), Belgium (19%), and Lithuania (12%);
- **meat** – mostly pork from Germany (25%), Denmark (21%) and Poland (10%), and beef from Lithuania (28%), and Poland (27%);
- **vegetables** - mostly tomatoes from Lithuania (48%), Poland (17%) and Spain (16%);
- **food preparations** – some 10% of affected exports to Russia, with Germany (33%) being the most severely affected

EU exports to Russia by Product category in 2013 (€ millions and % of affected exports)

	€ Value	% affected Export	Main Products
Dairy	€1,349	26%	Cheese – 73%, Butter – 11%
Fruit	€1,258	25%	Apples, pears, Quinces-42%
Meat	€1,233	24%	Pork -79%, beef - 9%
Vegetables	€769	15%	Tomatoes -33%
Food preparations	€489	10%	

The EU Policy Response

[1] EC, 'Questions & Answers on the potential impact of the Russian measures against EU agricultural products and the EU response so far', 3 September 2014

As soon as the Russian import embargo was announced, the EC established a Task Force to assess the impact of the embargo on the affected product markets. Working closely with member states, the Task Force monitors on a weekly basis the market effects of the Russian embargo. Despite the volume of trade involved, in September 2014 the EC remained optimistic that "*alternative sales outlets can be found for much of the produce, in particular in the medium term*". However it has been acknowledged that certain producers from certain regions of the EU will face severe difficulties in the short term.

The EC's primary policy concern has been to ***ensure products previously exported were not sold cheaply on the EU market, thereby severely undermining EU market prices in the affected products***. To avert this outcome normal market management tools and exceptional measures have been deployed.

At the policy level the EU system of agro-food sector support is well equipped to deal with market crisis situations. In addition to normal support measures a special facility has been built into the CAP to deal with market crisis situations, consisting of an annual financial facility of a nominal €400 million.

In response to the Russian import embargo the EC response has focussed on setting in place programmes to take produce off the EU market, thereby averting a severe price collapse. These measures consist of:

- support for withdrawals, early harvesting or the ploughing-in of crops to keep them off the market (mainly in the horticulture sector);
- internal disposal programmes implemented largely through producer organisations (free distribution to charities and schools)
- support for private storage to take produce off the market while alternative market outlets are found (mainly in the dairy sector);
- a 50% expansion in promotional measures for 2015 focused on the affected products.

Beyond these measures the EC has also set in place compensation measures for the worst affected producers in those products and regions most severely affected.

The implementation of some of these measures have faced problems, with this requiring a reformulation of some support programmes towards more targeted schemes. The implementation challenges faced means that the main financial cost of EU response measures will fall on the 2015 EU budget.

To date the new crisis facility has not been used, with unutilised funds having been found elsewhere in the agricultural budget. This means no deductions from direct aid payments to farmers will need to be made to finance emergency measures linked to the Russian embargo.

Possible Areas of Impact on ACP Countries: An Overview

Of these EU policy responses those related to support for private storage and additional promotional measures could potentially impact on certain ACP countries. This could result in production adjustments required in response to the Russian embargo being displaced from EU producers to non-EU producers.

The ACP sectors potentially most affected include:

- the **dairy** sector (notably via the impact of increased skimmed milk powder (SMP) exports on the functioning of local milk-to-dairy supply chains);
- the **poultry** sector, where a new market for nearly 100,000 tonnes of poultry meat (7.6% of EU exports of poultry meat) will need to be found;
- the **horticultural** sector, where for products such as **onions**, West African markets play a major role for the main affected EU exporters and **apples** where competition for South African suppliers could increase on African and Middle Eastern markets.

Potential Dairy Sector Impacts

ACP countries are not major markets for EU cheese and butter exports, but provide a major outlet for EU SMP exports. Based on the volume of annual exports to Russia in 2013, the embargo has left EU dairy companies looking for an alternative outlet for the equivalent of 2.2 million tonnes of milk[2]. As the EC points out "*milk powders offer the easiest and cheapest way of transporting milk*", indeed in 2013 over half of EU dairy product exports were traded in the form of powders.

Immediate corporate responses, alongside EU programmes in support of private storage of skimmed milk powder and butter, are projected to contribute to a 43% increase in EU SMP exports in 2014[3] (up from a December 2013 projection of a 12.7% increase), with a further 14.8% increase in 2015.

This trend is of most immediate relevance in West Africa. Since 2009 imports of SMP from the EU have more than doubled, while EU dairy companies are increasingly investing in the region in milk powder reconstituting facilities, thereby securing a ready outlet for expanding milk powder production. This underlying trend is being exacerbated by the Russian embargo. This could carry serious implications for efforts in West Africa to develop local milk-to-dairy supply chains.

The dilemma faced by the Dutch cooperative FrieslandCampina (FC) is illustrative in this regard. Since 2008, through FrieslandCampinaWamco (FCW) efforts have been underway to expand local milk procurement operations in Nigeria. This saw an agreement reached with the Nigerian government in 2011 to establish milk collection centres, with a target of 10% local milk procurement being set in 2013. However in May 2012 FCW executives acknowledged that it was cheaper to import raw materials than to purchase raw milk locally. Even with SMP prices at relatively high levels (US$3,313/t) it was still between 12% and 23% cheaper to import and reconstitute milk powders, than it was to procure milk locally[4].

With SMP prices in October 2014 being 24% below the levels of early 2012 (having first risen strongly in the intervening period and then having fallen 40% between March and October 2014), the level of intra-corporate cross-subsidisation required to sustain FCW's local milk procurement arrangements in

[2] EC, 'Milk- Russia' 4 August 2014
[3] EC, 'Prospects for EU agricultural markets and incomes 2014-2024', December 2014
[4] Guardian (Nigeria), 'Nigeria needs robust agric framework to grow dairy industry, says Steetskamp', 21 May 2012

Nigeria will have increased considerably. The dilemma this poses needs to be seen in a context where:

- the French dairy company Danone, is looking to increase its milk powder operations in Anglophone West Africa, having purchased in October 2013 the major West Africa reconstituted milk products company Fan Milk International[5];
- the Danish dairy company Arla has launched in Cote d'Ivoire its new mobile 3-container based milk powder repackaging facility, in association with an Ivorian soup manufacturer[6];
- Nestle has announced the launch of a similar low cost/quick assembly powder repackaging and processing facility, targeting African markets[7].

All of these recent investments would appear to be laying the basis for increased competition on West African dairy markets, based on increased milk powder imports. This reality appears to have made itself felt within FC, for at the time of the announcement of its take-over of Olam's dairy interests in Cote d'Ivoire in September 2014, FC representatives highlighted how the deal provided "*an opportunity to export milk powder from the Netherlands to the Ivory Coast*"[8].

Against this background it should be noted that from January to October 2014 actual EU SMP exports to Nigeria were reported to be up 26.8% compared to the corresponding period in 2013. This needs to be seen in the context of the 24% decline in global SMP prices from March to July 2014 and further price declines of 28% from August to October.

Such rates of increase in EU exports of SMP to Nigeria and Ghana had not been seen since the last EU milk sector crisis, which eventually gave rise to the new emergency financing facility under the CAP, aimed at supporting measures to reduce the impact of global price volatility on EU farmers. The implementation of EU policy measures could potentially lead to a displacement of the adjustment costs associated with price volatility onto the shoulders of non-EU dairy producers, including in the ACP.

Given patterns of EU corporate investment in the dairy sector in Southern Africa (where Danone and Lactilis/Parmalat play a major role) and in Eastern Africa (where Danone has taken a shareholding in the major Kenyan dairy company Brookside and Arla is exploring investments in Ethiopia), the possible knock-on effects of the EU's policy response to the Russian import embargo on the development of local milk-to-dairy supply chains could reach well beyond West Africa.

Potential Poultry Sector Impacts

ACP markets, or more specifically certain African markets, are an increasingly important destination for EU poultry meat exports. Between 2010 and 2013 the four main African markets (South Africa, Benin, Ghana and DRC) increased their

[5] Danone/Abraaj Group, 'Danone to join the Abraaj Group in the acquisition of Fan Milk International, a leading dairy products player in West Africa', 24 October 2013
[6] Arla, 'First joint venture partner found in Africa', 4 September 2013
[7] Foodproductiondaily.com, 'Nestlé on why Africa will be its focus for modular factories', 9 July 2014
[8] Dairyreporter.com, 'FrieslandCampina strengthens W African presence with Ivory Coast dairy deal', 1 September 2014

share of total EU poultry meat exports from 16.2% to 28.2%, in the context of a 12.8% expansion of total EU poultry meat exports[9].

Compared to the corresponding period in 2013, exports to the two main African markets in the first nine months of 2014 (South Africa and Benin) increased 33% and 16% respectively. Between 2010 and 2013 in the case of South Africa and Ghana imports of EU poultry meat increased 467% and 87% respectively. This led both governments in 2014 to use trade policy measures to restrict imports of EU poultry meat, so as to prevent the undermining of the local poultry sector[10]. This provides the background in the ACP to the Russian import embargo in the poultry sector.

The EC has argued that the Russian import ban is unlikely to have a major effect on EU and global poultry markets since EU exports were already on the decline prior to the ban (falling 61% between 2010 and 2013). Nevertheless, EU poultry traders will still be searching for new markets for nearly 100,000 tonnes of poultry meat previously exported to the Russian market (in 2013 Russian accounted for 7.6% of EU poultry meat exports).

In addition, despite the Russian import embargo, EU poultry meat exports in 2015 are projected to be 2.26% above the levels estimated for 2014. This increase in export volumes, alongside the re-direction of poultry meat exports previously destined for the Russian market, will all need to find non-Russian markets, mainly in Sub-Saharan Africa and the Middle East.

It should be noted that the trade policies adopted by African governments play a critical role in patterns of EU poultry meat exports. The EU trade in poultry parts is "footloose", targeting markets where the costs of entry are lowest. With South Africa and Ghana introducing new restrictions on poultry imports from the EU in 2014, EU traders are likely to be looking further afield.

Other sub-Saharan African countries traditionally targeted by EU poultry meat exporters include: the DRC, Gabon, Congo, Togo and Angola. However, given the need to find new non-Russian markets, ***depending on progress made in removing non-tariff barriers to trade under the EPA agreements, EU poultry meat traders may choose to target non-traditional markets across the ACP***.

Potential Horticulture Sector Impacts

- **Onion Exports to West Africa**

According to Copa-Cogeca some 29% of fruit and vegetable exports are normally sent to Russia, with the embargo seeing price declines of up to 50% in some cases[11]. In terms of the need to redirect vegetables exports, Holland and Belgium appear to be most directly affected[12]. In 2013 Holland exported some 43,758 tonnes of onions to Russia (around 6.8% of total extra-EU exports)[13].

[9] EC, 'EU market Situation for Poultry', Committee for the Common Organisation of the Agricultural Markets, 11 December 2014
[10] See respectively: The poultrysite.com/Ghanaweb, 'Poultry, livestock import policy to be enforced in Ghana, 3 April 2014 and
[11] Copa-Cogeca, 'Copa-Cogeca calls for targeted measures to alleviate pressure on producers hit by Russian ban on EU farm products, '13 October 2014
[12] Freshfel, 'Trade mostly from Netherlands and Belgium', 8 September 2014
[13] Fruit and Vegetables facts' Factsheet Netherlands; International trade 2013 (March 2014),

The impact of Dutch onion exports to Senegal and other West African countries has been a matter of concerns since 2011, given the efforts underway to develop local onion production. Senegal alone accounted for 22.3% of Dutch extra-EU onion exports in 2013, while collectively 8 West African destinations accounted for 54.8% of total extra-EU Dutch onion exports.

The Senegalese government has variously sought to use seasonal import restrictions and import quotas as a means of ameliorating the impact of imports (largely from Holland) on local onion sector developments. Dutch onion exporters have expressed concern over the use of these trade measures by the Senegalese authorities.

In the coming months Dutch onion exporters may look to the activation of the new provisions of the EU-West Africa EPA agreement prohibiting the use of quantitative restrictions in EU-West Africa trade, in order to secure the removal of such quantitative restrictions in the face of the market difficulties arising from the Russian import ban.

- **Increased Competition on African Apple Markets**?

In recent years South Africa has been seeking to reduce its dependence on the EU market for its deciduous fruit exports, by developing export markets for apples in Sub-Saharan Africa and the Middle East. For example, South African apple exports to the seven main sub-Saharan African destinations increased 35% between 2011 and 2013. Since 2011 Nigeria in particular has emerged as a major market for South African exports (up from 2.3% of apple exports to sub-Saharan African market in 2011 to 29% by 2013). All in all "one-fifth of South African apple exports now go to sub-Saharan African markets[14]".

Given West African markets often become 'markets of last resort' at times of market crisis in the EU, South Africa could face increased competition on these markets in 2015. This could exacerbate the financial challenges arising from the direct effects of the Russian embargo on prices for apples on the EU market. What is more the August 2014 closure of the Russian market to EU exports, came on top of existing market problems arising from a 9% increase in global availability of apples in 2014[15]

Of course the closure of the Russian market to imports from the EU, USA, Canada, Australia and Norway could also open up new opportunities for South African apple exports, with the Russian authorities having identified South Africa as a potential alternative supplier. While South African apples exports to Russia, grew 50% year on year between 2012 and 2013, this still constitutes only a small volume compared to South African exports to African and Middle Eastern markets (less than 2%) and an even smaller volume of overall exports (less than 0.5%). What is more the collapse in the value of the Rouble is likely to have undermined the commercial attractiveness of the Russian market.

Scope for ACP Policy Initiatives

[14] Agritrade, 'South Africa seeks to diversify its fruit export markets', 12 October 2014
[15]' Freshfruitportal.com, 'High EU apple volumes could affect South African stonefruit deal', September 10th, 2014

The first level on which a policy response need to be built, is an understanding of the market effects of the policy changes introduced. The EU has an increasingly comprehensive monitoring system in place in the product categories of greatest production and trade interest to ACP countries[16].

The operation of these services could potentially be extended to cover data collection and data sharing on current developments in ACP-EU trade flows in product categories affected by the Russian embargo. This information could then be shared with ACP governments and stakeholders associations in the affected sectors, with a view to ***assessing the impact of new trade flows on local markets and local agro-food sector development strategies***.

Issues arising from the EU's use of agro-food sector policy tools in response to the Russian embargo could then be raised in the dialogue structures established on agricultural issues under the various ACP-EU EPA agreements. While initially it was envisaged that this policy dialogue could deal with issues such as the use of export refunds, the EU now makes little or no use of export refunds. Indeed, increasingly it is the use of other EU policy tools, particularly in times of market crisis situations, which is likely to carry the greatest implications for ACP-EU agro-food sector trade relations in the sectors affected.

This could form part of the activities of a specially convened ACP Working Group on Agro-Food Sector Trade Relations. Such an initiative can be seen as particularly relevant for two reasons. Firstly, the coming years the market effects of the EU CAP reform process will be increasingly felt through: the direct market effects of EU reforms (e.g. in the sugar sector); the EU corporate repositioning strategies adopted in response to CAP reforms (e.g. in the dairy sector); the growing importance of the specific modes of implementation of non-tariff measures in the agro-food sector (e.g. in the horticulture sector).

Secondly, while within the various EU-ACP EPAs concluded, commitments on tariff liberalisation for agro-food sector products vary considerably and are in some cases limited, all agreements include provisions related to the elimination of non-tariff barriers to trade. In some instances the commitments on the elimination of quantitative restrictions on trade are intended to take effect from the date of entry into force of the agreements. ***It is likely to be through the changes in the permitted use of non-tariff measures that the EU-ACP EPA agreements will first make themselves felt in the agro-food sector***.

How these various provisions are interpreted will have an important bearing on the policy space ACP governments retain for dealing with the trade consequences of the EU's evolving deployment of its agro-food sector trade policy tools. This could be an important area for pan-ACP information sharing.

In addition, similar issues arise with regard to the interpretation of the various tariff stand-still provisions included in the ACP-EU EPA agreements. An issue vividly illustrated when in October 2013 the South Africa authorities were able to

[16] For example, the Eurostat led Commodity Price Dashboard price and the newly established Milk Market Observatory

raise import duties on poultry meat imports within their 'bound' ceilings on imports from all origins **except the EU**[17].

Annex 1

EPA Provisions on "Prohibition of Quantitative Restrictions "

EAC-EU EPA
Article 17: 'Prohibition of Quantitative Restrictions'.

1. Unless otherwise provided in this Agreement, all prohibitions or restrictions on the importation, exportation or sale for exports between the Parties, other than customs duties, taxes, fees and other charges provided for under Article 6, whether made effective through quotas, import or export licenses or other measures, shall be eliminated upon the entry into force of this Agreement. No new such measures shall be introduced in trade between the Parties. The provisions of this Article shall be without prejudice to the provisions of Title IV of this Chapter.
2. The provisions of paragraph 1 of this Article shall not extend to the following:
   (a) Export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party;
   (b) Import and export prohibitions or restrictions necessary to the application of standards or regulations for the classification, grading or marketing of commodities in international trade

West Africa-EU EPA DRAFT JOINT TEXT February 2014
Article 34: 'Prohibition of quantitative restrictions'
Upon entry into force of this Agreement, all prohibitions or restrictions on imports or exports affecting trade between the two Parties shall be removed, apart from the customs duties, taxes, fees and other charges referred to in Articles 7 and 8 of Chapter 1on customs duties, whether implemented through quotas, import or export licences or through other measures. No new measure shall be introduced. The provisions of this Article shall be without prejudice to the provisions concerning trade defence instruments and balance of payments.

Central Africa-EU EPA (November 2008 text)
Article 22: 'Prohibition of quantitative restrictions'
Upon entry into force of this Agreement, all prohibitions or restrictions on imports or exports affecting trade between the two Parties shall be eliminated, apart from the customs duties, taxes, fees and other charges referred to under Article 18 of this Chapter, whether made effective through quotas, import or export licenses or other measures. No new measures may be introduced. The provisions of this Article shall apply without prejudice to the provisions of the Chapter of this Agreement on trade defence instruments.

CARIFORUM-EU EPA
Article 26: Prohibition of quantitative restrictions
No import or export prohibitions or import or export restrictions on originating imports or exports, other than customs duties and taxes, and fees and other charges provided for under Article 13, whether made effective through quotas, import or export licenses or other measures, shall be maintained as of the entry into force of this Agreement. No new such measures shall be introduced. The provisions of this Article shall be without prejudice to the provisions of Articles 23 and 24.

Pacific-EU EPA
Article 22: 'Prohibition of Quantitative Restraints'
Unless otherwise specified in this Agreement, all import or export prohibitions or restrictions in trade between the EC Party and the Pacific States, other than customs duties and taxes, and fees and other charges, whether made effective through quotas, import or export licenses or other measures, shall be eliminated upon the entry into force of this Agreement. No new such measures shall be introduced. The provisions of this Article shall be without prejudice to the provisions of Chapter 2 of Part II

SADC-EU IEPA
Article 35: 'Prohibition of quantitative restrictions'
While the revised text is still subject to 'legal scrubbing' and is not yet publicly available, according to the Namibian Minister of Trade and Industry, the Namibian government secured a wording which it was felt ensured the retention of the right to "use such restrictions on imports as long as they are compatible with our obligations under the WTO"[18].

[17] See Agritrade, 'South Africa selectively raises duties on five poultry items within WTO bound ceilings', 17 November 2013. This saw poultry meat imports from the EU increase, complaints from other trading partners over discrimination and a need to invoke anti-dumping provisions under the bilateral FTA agreement.
[18] Statement by C.H.G. Schlettwein, Minister of Trade and Industry, to the Namibian Parliament, 16 July 2014, http://www.tralac.org/news/article/5906-speech-by-namibian-trade-minister-to-parliament-on-epas.html