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Russia's Agricultural Imports: Will the High Growth of the 2000s Continue?

Les importations agricoles russes : la forte croissance des années 2000 va-t-elle se poursuivre ?

Russlands Agrarimporte: Wird das starke Wachstum aus den 2000er Jahren anhalten?

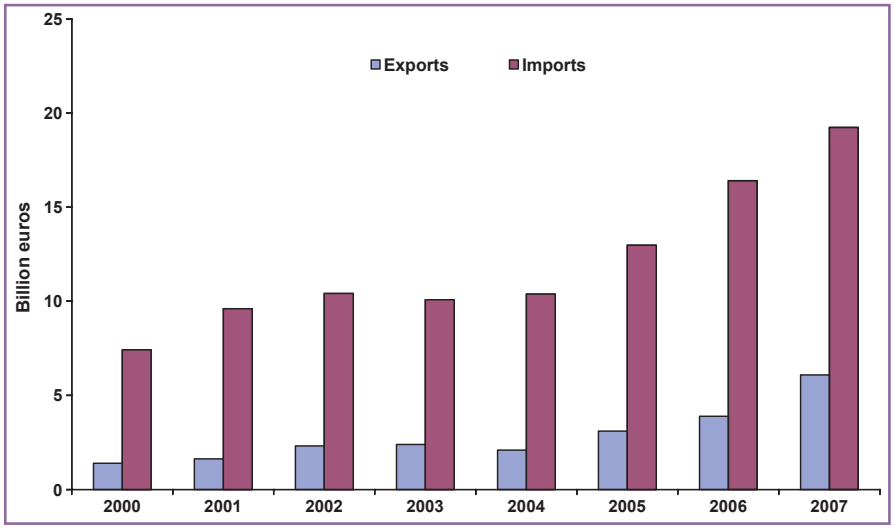
William M. Liefert, Olga Liefert and Mathew Shane

Russia's agricultural imports during the 2000s have grown substantially, from €7.4 billion in 2000 to €19.2 billion in 2007 (Figure 1). The import growth has made Russia the second largest agricultural importer among emerging market economies, after China. The main imports are meat, highly processed products, fruits and vegetables (Figure 2). Russia's agricultural exports have also grown during this time, though from a much lower base in value terms (and with most of the increase coming just from grain).

Europe has benefited strongly from the rise in Russia's agricultural imports. During this decade, Russia has been the EU's second largest foreign market for agricultural products (after the US), in 2007 taking 10 per cent of its agricultural exports worth €7.7 billion (Eurostat). The EU countries together have also been the main foreign supplier of agricultural products to Russia, in most years providing more than a third of total imports, followed by Brazil and the US (World Trade Atlas).

Why have Russia's agricultural imports grown so much? Also, what is the outlook for the country's agricultural imports for the next 4–5 years, especially given that the country is suffering from its own financial and economic crisis that began in autumn 2008? Before answering these questions, though, we will examine whether Russian agricultural imports during the 2000s increased in volume as well as value terms.

Figure 1: Russian agricultural trade



Source: Dollar values from World Trade Atlas, converted to euros.

Have Russian agricultural imports also risen substantially in volume?

The terse answer is 'yes'. The values in Figures 1–2 overstate Russia's import growth in volume terms on one hand, but understate the growth on the other. The overstatement occurs because world agricultural prices have increased since 2000, especially over 2006–07. The price growth has been highest for bulk crops such as grain and soybeans, but not very large for meat and processed foods. Price growth for processed foods has been lower mainly because primary agricultural products typically account for a small share of their total value. For example, despite the more than doubling of world prices for grain over 2000–07, prices for grain-based processed foods (including baked) for US urban consumers rose over this period by only 19 per cent, and just 9 per cent in 2006–07. During the 2000s, Russia has been a negligible importer of grain and oilseeds and a large importer of meat and processed foods. The growth in Russia's agricultural imports in value terms therefore only mildly overstates the growth in volume terms (stemming from world agricultural price inflation).

The reason why the import values in Figures 1–2 understate volume growth is because they are measured in euros. From 2000 to 2007, the euro rose in value (appreciated) in real (inflation-adjusted) terms against the US dollar, Brazilian real, and

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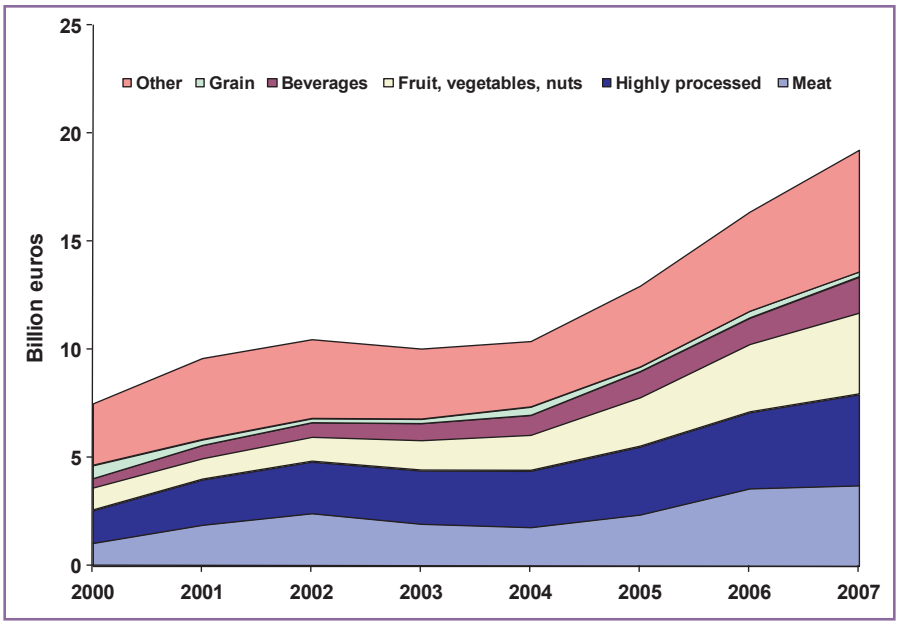
Figure 2: Russian agricultural imports



Note: Highly processed and Other exclude tobacco products.
Source: Dollar values from World Trade Atlas, converted to euros.

currencies of most other countries that export agricultural goods to Russia. For example, over this time, euro real appreciation against the dollar equaled 46 per cent (ERS International Macroeconomic Data Set). If Russian agricultural imports are valued in dollars rather than euros, they increase from US$ 6.9 billion in 2000 to US$ 26.1 billion in 2007, a rise of about 280 per cent. This compares to a 160 per cent increase when the imports are measured in euros.

> “La croissance de ses importations a conduit la Russie à devenir le second plus grand importateur agricole des pays émergents après la Chine.”

One therefore can conclude that imports rose substantially in volume as well as value. For example, in 2007 meat comprised about a fifth of Russia's agricultural imports (in value). Over 2000–07, Russian meat imports (beef, pork, and poultry) increased from 1.81 million metric tons (mmt) to 3.22 mmt.

Why have Russian agricultural imports grown?

There are two main causes of the rise in Russia's agricultural imports during the 2000s, both macroeconomic in nature. The first is high GDP growth, which since 2000 has averaged almost 7 per cent a year. GDP growth has increased consumer income and demand for food, though this benefits not only foreign suppliers but also domestic producers.

The second major cause of rising agricultural imports is change in the exchange rate for the Russian ruble, in a way that has made imports more price competitive compared to domestically produced goods. During the 2000s, Russia's nominal exchange rate (the rate people actually use to buy and sell rubles) has fluctuated to some degree against the euro, US dollar, and other major currencies. But more importantly, Russia has had higher price inflation than the EU, US, and many other countries that export to it. Since 2000, Russia's yearly inflation has averaged 13–14 per cent, which over 2001–07 resulted in total inflation of about 140 per cent (Rosstat). Also over this time, overall inflation in the EU was only 15 per cent, and in the United States 20 per cent. If one considers the real exchange rate of the ruble (its nominal exchange rate adjusted for Russia's level of inflation relative to that of its trading partners), it turns out that in real terms the ruble appreciated against the euro by over 50 per cent between 2000 and 2007, and against the US dollar by over 100 per cent (ERS International Macroeconomic Data Set). As goods produced in Russia became more expensive compared to imports, Russians switched to buying more imported products.

> “Unter den neuen Märkten ist Russland nunmehr nach China dank seines Importwachstums zum zweitgrößten Agrarimporteur avanciert.”

Rising Russian GDP and the appreciating ruble increased Russian consumer demand for imports. Yet, Russian production of agricultural goods also affected imports, given that a rise in domestic output of an imported good will reduce the amount imported. From 2000 to 2007, Russian agricultural production grew by about 25 per cent in volume terms (Rosstat). However, this non-trivial growth did not prevent the much higher growth in agricultural imports. For example, from 2000 to 2007, Russian meat production increased by 25 per cent in volume terms to 4.6 million metric tons (mmt), but imports rose by 78 per cent to 3.22 mmt (World Trade Atlas).

Russian agriculture continues to perform far below its potential, with weaknesses in management, work incentives, adoption of new technology, and market linkages (Lerman, 2008). The dominant type of agricultural producer is still the

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Table 1: Effect of key variables on future Russian agricultural imports

Variable	Expected future status	Expected effect on imports
GDP		
Short term	decreases	↓
Mid term	return to moderate to high growth	↑
Real exchange rate	change unlikely or direction uncertain	?
Inflation	relatively high	↑
Nominal exchange rate	change unlikely or direction uncertain	?
Trade balance	surplus	↑
Capital flows	outflows	↓
Domestic production	increases, especially for poultry and pork	↓
Policy		↓
Import tariffs	change unlikely or direction uncertain	?
SPS-based import restrictions	continue, and perhaps expand	↓
Subsidies	increase	↓

moribund former state and collective farms, with most officially reorganised during the transition period as joint stock companies. The sector suffers from a surplus of aged workers and a shortage of skilled specialists, such as in machinery use and repair, animal care, and management.

Yet, a positive development during the 2000s is the rise of new types of agricultural 'operators', which typically are large vertically-integrated enterprises that bring advanced technology, superior managerial expertise, and investment into the sector (Rylko *et al*., 2008). In the meat industry, poultry production during the 2000s has boomed, increasing by about 250 per cent (to 1.38 mmt) from 2000 to 2007, largely because of the development of large modern enterprises. Beef output, on the other hand, continues its inexorable fall, with production dropping from 1.84 mmt in 2000 to 1.37 mmt in 2007. Russia still has not developed a modern beef-producing industry, with most production coming from the culling of dairy cattle.

What is the outlook for Russia's agricultural imports in the near to medium term?

The main factors and variables that will affect Russia's agricultural imports over the next few years are: (1) GDP growth; (2) the ruble's real exchange rate; (3) Russian agricultural output growth; and (4) Russian agricultural policies. Table 1 gives the likely status of these factors/variables in the near to mid-term, and the probable effect on imports.

The major event that will impact these variables is the economic crisis that hit Russia in autumn 2008. Domestic causes of the crisis include concern that speculation had driven asset prices (especially stocks and property) to unsustainably high levels, worry about the overall strength of the financial system, and unease about the geopolitical consequences of Russia's intervention in Georgia. International-related causes are a contagion effect from the US and Western financial and economic crisis. In particular, the world recession has produced a plunge in prices for oil and natural gas, Russia's main exports. Because of the uncertainty involving both the Russian and world crisis and their effects, projecting the direction and magnitude of change in the key factors and variables that will impact future Russian agricultural imports is challenging. The following predictions therefore are tentative.

GDP growth. Before the economic crisis struck, macroeconomic forecasters were projecting continued high Russian annual GDP growth over 2008–12 of about 5–7 per cent. However, the crisis will almost certainly cause GDP to fall in 2009, and perhaps also in 2010. In May 2009, the macroeconomic consulting firm Global Insight forecast that 2009 Russian GDP would drop 4.7 per cent. Global Insight also forecasts that Russian GDP growth will rebound to 3.2 per cent in 2011 and 4.6 per cent in 2012. If the economy does stabilise within the next few years and then growth of 3–5 per cent resumes, rising incomes will increase consumer demand for food, especially for meat and other high value products.

Sunflower seed is Russia's main oilseed crop.

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Slaughter of dairy cattle is the main source of beef.

The isolated effect will be to boost agricultural imports.

Real exchange rate of the ruble. The change in the ruble's real exchange rate will depend on how high future price inflation is in Russia compared to its main trading partners, as well as change in the ruble's nominal exchange rate. Each year in the 2000s, Russia had inflation of 9 per cent or higher. Although inflation fell from 2001 to 2007, 2008 inflation jumped to 14 per cent (Global Insight). It therefore appears likely that over 2009–12, Russia will experience annual inflation of at least 6–10 per cent (Global Insight in April 2009 forecast average annual consumer price inflation of 10.8 per cent). From 2001 to 2007, average annual inflation in the EU region and US was only 2–3 per cent. Because of the financial and economic crisis that hit the US, EU, and other major Western economies in autumn 2008, inflation in these countries in the near to mid term is not expected to be higher than over 2001–07. Higher inflation in Russia compared to its main trading partners will continue to appreciate the ruble in real terms, making imports less expensive relative to Russian-produced goods. The isolated effect will be to increase imports.

What is likely to happen to the ruble's nominal exchange rate? Nominal exchange rates are determined by both trade flows and capital flows. During the 2000s, Russia has had large overall trade surpluses. To put the surplus size in perspective, in 2005 Russia's trade surplus of US$ 118 billion equaled 15 per cent of GDP (Global Insight). The bulk of Russia's export earnings has come from oil products and natural gas, and the climb in world energy prices from 2002 to 2008 substantially increased the country's trade surplus. In 2008, energy prices fell, with oil dropping from a peak of US$ 147 a barrel in July 2008 to US$ 32 in January 2009, though by May 2009 the price had rebounded to US$ 60. World oil and natural gas prices over 2009–12 will probably remain above the low levels of 2000–02, suggesting that Russia's trade surpluses will persist. The surpluses will strengthen the ruble (because the world demand to buy Russian goods with rubles will exceed Russia's demand to buy foreign goods with foreign currency). The isolated effect will be continued high demand for imported agricultural products.

High GDP growth and relative macroeconomic stability in Russia in the past few years helped motivate large foreign direct investment in Russia, as well as investment in existing assets (such as stocks and property). For example, foreign investment in Russia in 2007 equaled US$ 121 billion (including portfolio and direct; Rosstat). These capital inflows also helped strengthen the ruble. However, Russia's economic crisis of 2008–09 has reversed these flows by triggering capital flight (especially by foreign investors), with net capital outflows in the 4th quarter of 2008 alone equaling US$ 131 billion.

> "Import growth has made Russia the second largest agricultural importer among emerging markets, after China."

The capital outflows have already weakened the ruble, with the ruble/euro exchange rate rising from 36.9 in mid-July 2008 to 44.1 in mid-April 2009. However, the Russian government appears committed to containing the economic crisis. It has injected substantial liquidity into the banking system, as well as taken other steps to prevent major banks or other key financial intermediaries from going bankrupt. The Russian Central Bank has large foreign exchange reserves (earned by the country's trade surpluses), and the government big savings (from previous fiscal surpluses), to support the economy financially. These are reasons why the Russian economy could stabilise within a year or two. Yet, whatever capital flight occurs over the short term will weaken (depreciate) the ruble, with the isolated effect of reducing agricultural imports.

Capital flows and their effect on the exchange rate are the main element of uncertainty in our outlook for Russia's agricultural imports. If capital flight is large, the ruble could continue to depreciate in nominal

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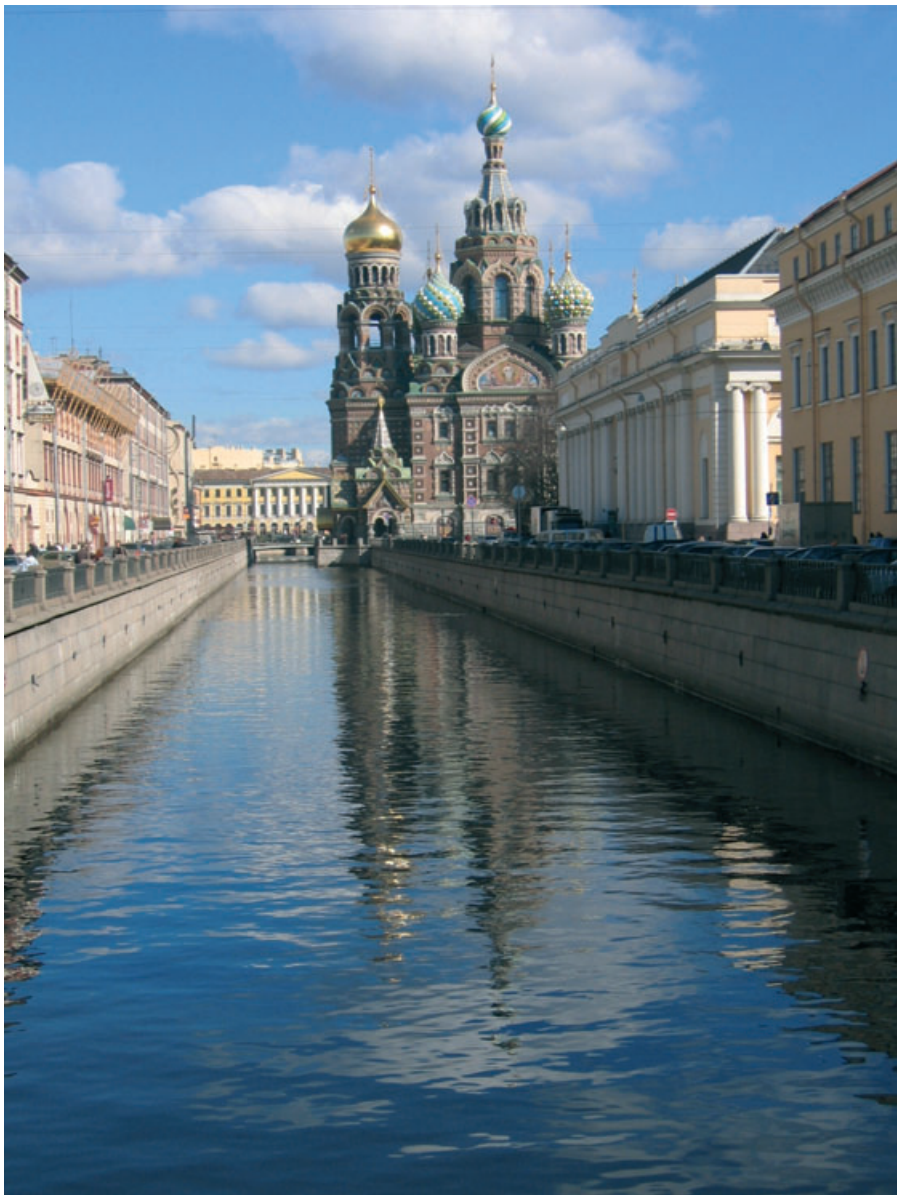

Large city dwellers are the main agricultural import consumers.

terms in the short to medium term despite the country's trade surplus. If the nominal depreciation of the ruble is so high that it exceeds the inflation differential between Russia and its major trading partners, the ruble could depreciate in real as well as nominal terms. This would make imports more rather than less expensive compared with domestic production, and thereby reduce agricultural imports.

Agricultural production. As mentioned before, total Russian agricultural production grew over 2000–07 in volume by a quarter. Poultry output rose impressively by about 250 per cent. Tremendous potential remains in Russian agriculture for productivity and output growth, especially if industries modernise as has poultry. The large 'new operators' have been a progressive development within the sector, and should continue to expand in numbers and influence. Building on the modest progress already made in this decade, agricultural production should continue to grow over the next 4–5 years, with the isolated effect of reducing imports.

Agricultural policy. The last major factor that will affect Russia's future agricultural imports is government policy involving production and trade. In 2005, the Russian government designated health, education, housing, and agriculture as national priority areas that would receive increased funding. From 2005 to 2007, total state support to agriculture (from both the federal and regional governments) rose 87 per cent in nominal rubles and 52 per cent in real (inflation-adjusted) rubles (Rosstat). The government has stated that the main goal of agricultural policy and increased support is to expand the livestock sector, given its large contraction during the transition period.

Statements by the Russian government indicate a strong desire to reduce agricultural imports, especially of meat (Interfax). In 2003, Russia created tariff rate quotas (TRQs) for imports of beef and pork and a pure quota for poultry, later converted also to a TRQ. In January 2009, the government made the TRQ regime more restrictive for poultry and pork, by lowering the low tariff quotas and raising the out of quota tariffs. Growing state support to agriculture and continued use of sanitary and phyto-sanitary (SPS) based import controls would also help decrease imports.

A potential constraint on Russia's ability to reduce imports through state policy would be accession to the World Trade Organization (WTO). Russia officially began its WTO accession bid in 1995 (and to the General Agreement on Tariffs and Trade in 1993), and by early 2009 had concluded bilateral negotiations with almost all countries, including the EU and US.

The three pillars of the Uruguay Round Agreement on Agriculture are market access, export subsidies, and domestic support. With respect to all three, Russia has been asking for *bound commitments* above the existing levels. (A bound commitment is a maximum allowable level for the future.) Russia's current average agricultural import tariff is about 18 per cent, up from 10 per cent in 2000. However, throughout its accession negotiations, Russia has been negotiating for bound agricultural tariffs above actual applied tariffs. Although Russia has not used any agricultural export

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subsidies during the transition period, and such subsidies have been targeted for elimination within the current Doha Development Round of trade negotiations, Russia has been requesting annual bound export subsidies of US$ 726 million (to drop over six years to US$ 465 million). On domestic support, Russia is asking for annual bound support of US$ 9.5 billion, which compares to its 2007 actual support level of US$ 5.7 billion (Russia and World Trade Organization; Rosstat).

In August 2008, the Russian government announced that it was withdrawing from certain commitments made as part of its WTO accession negotiations, and also that the country had little to gain from WTO membership. Yet, by the end of the year it had resumed accession negotiations. If Russia were soon to join the WTO, it is unclear what its bound level of tariffs and support would be, perhaps above current levels as the Russians have been negotiating. Accession on such terms would not liberalise Russian agricultural trade and support policies, and thereby not increase imports, but would benefit the EU and other foreign suppliers in the long run by providing a cap on the rise in tariffs and support. The main gain to Russia's agricultural trading partners from the country's WTO accession might be that it would give them an official forum for challenging Russia's sanitary and phyto-sanitary import restrictions.

Concluding comments

Of the main factors and variables that will affect Russia's future agricultural imports, four should develop in the near term in ways that reduce imports — GDP (fall), capital flows (out), domestic agricultural production, and policy. On the other hand, domestic inflation and the country's overall trade balance (surplus) will probably develop in directions that promote imports. The likely renewal of GDP growth in the mid term would strengthen the import-expanding forces. Capital flows and policy are variables of major uncertainty, in terms of both course and magnitude. Forecasting the path of Russia's agricultural imports in the near to mid term is therefore difficult. Yet, if the Russian economy stabilises within the next few years and GDP growth returns, Russian agricultural imports will also probably resume growth, though at a lower rate than in the past eight years.

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summary

Russia's Agricultural Imports: Will the High Growth of the 2000s Continue?

Russia is the EU region's second largest foreign market for agricultural goods, after the United States, and in 2007 took 10 per cent of the EU's agricultural exports, worth €7.7 billion. During the 2000s, Russian total agricultural imports have grown considerably, from €7.4 billion in 2000 to €19.2 billion in 2007, and imports from the EU have increased accordingly. The import growth has made Russia the second largest agricultural importer among emerging markets, after China. The main imports are meat, highly processed goods, fruits, and vegetables. The main reasons for the import rise are macroeconomic in nature — high Russian GDP growth which has increased consumer income and purchasing power, and a rise in the value of the ruble in real (inflation-adjusted) terms, which makes imports less expensive vis-à-vis domestically produced goods. The economic crisis that hit Russia in autumn 2008 makes the outlook for the country's agricultural imports uncertain. Nonetheless, the Russian economy will probably stabilise within the next few years, such that annual GDP growth could rebound to 3–5 per cent. If so, agricultural imports should resume growth, though at a lower rate than in the recent past.

Les importations agricoles russes : la forte croissance des années 2000 va-t-elle se poursuivre ?

La Russie est le second plus grand marché étranger de l'Union européenne (UE) pour les biens agricoles, après les États-Unis. En 2007, elle a absorbé 10 pour cent des exportations agricoles de l'UE, soit 7.7 milliards d'euros. Au cours des années 2000, l'ensemble des importations agricoles de la Russie a considérablement augmenté, passant de 7.4 milliards d'euros en 2000 à 19.2 milliards en 2007, et celles en provenance de l'EU ont évolué en conséquence. La croissance de ses importations a conduit la Russie à devenir le second plus grand importateur agricole des pays émergents après la Chine. Les principaux produits agricoles importés sont la viande, les biens très transformés, les fruits et les légumes. La principale cause de cette hausse des importations est de nature macroéconomique — la forte croissance du PIB russe a élevé le revenu et le pouvoir d'achat des consommateurs; et la hausse de la valeur du rouble en termes réels (ajustés de l'inflation) a rendu les importations moins chères que les biens produits sur le marché intérieur. La crise économique qui a touché la Russie à l'automne 2008 rend les perspectives sur les importations agricoles du pays incertaines. Cependant, l'économie de la Russie va probablement se stabiliser dans les prochaines années, de sorte que la croissance annuelle du PIB pourrait de nouveau atteindre trois à cinq pour cent. Si c'était le cas, les importations agricoles devraient reprendre leur croissance, mais à un taux moindre que ces dernières années.

Russlands Agrarimporte: Wird das starke Wachstum aus den 2000er Jahren anhalten?

Nach den Vereinigten Staaten ist Russland das zweitgrößte Importland für Agrargüter der EU; 2007 umfassten die EU-Agrarexporte nach Russland zehn Prozent bzw. den Wert von 7,7 Mrd. EUR. Während der 2000er Jahre ist der Gesamtwert der russischen Agrarimporte erheblich angestiegen, nämlich von 7,4 Mrd. EUR (2000) auf 19,2 Mrd. EUR (2007); entsprechend haben die Importe aus der EU zugenommen. Unter den neuen Märkten ist Russland nunmehr nach China dank seines Importwachstums zum zweitgrößten Agrarimporteur avanciert. Zu den Hauptimportgütern zählen Fleisch, hochverarbeitete Güter, Obst und Gemüse. Der Importzuwachs hat vor allem makroökonomische Gründe – ein hoher Anstieg des russischen Bruttoinlandsprodukts, wodurch sich das Verbrauchereinkommen und die Kaufkraft erhöht hat, sowie die (inflationsbereinigte) reale Aufwertung des Rubel, wodurch Importgüter im Vergleich zu einheimischen Produkten günstiger werden. Die Wirtschaftskrise traf Russland im Herbst 2008 und zeichnet eine unsichere Prognose für die Agrarimporte des Landes. Die russische Wirtschaft wird sich jedoch wahrscheinlich innerhalb der kommenden Jahre stabilisieren, so dass sich das jährliche Wachstum des Bruttoinlandsprodukts wieder bei 3–5 Prozent einpendeln könnte. Ist dies der Fall, werden die Agrarimporte wieder wachsen, wenn auch langsamer als zuvor.

summary

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