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Food Import Ban Changing Russian Far East Food Market

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Agriculture in the News

Agriculture in the Economy

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Report Highlights:

The food import ban introduced last August against the United States, Canada, EU, Australia and Norway resulting from the application of economic sanctions over Ukraine has dramatically changed the food market in the Russian Far East. Domestic manufacturers and suppliers have taken over vast shelf space in retail stores all over the region which previously were occupied by imported products.

Unfortunately, this redistribution was accompanied by sharp jumps in prices for many food products which are causing great concern to the general public. The trend of rising food prices has primarily affected meat products since there is virtually no pork production in the Russian Far East which makes it heavily dependent on imported meat.

General Information:

The information below was taken from an article published in DV Capital website. The link to the article is: http://dvcapital.ru/markets/dfo_18.12.2014_6606_tseny-vzleteli-i-zamerli.html

The food import ban introduced last August against the United States, Canada, EU, Australia and Norway resulting from the application of economic sanctions over Ukraine has dramatically changed the food market in the Russian Far East. Domestic manufacturers and suppliers have taken over vast shelf space in retail stores all over the region which previously were occupied by imported products. Unfortunately, this redistribution was accompanied by sharp jumps in prices for many food products which are causing great concern to the general public. During the first couple of months of the ban, a steady increase in food prices was recorded all over Russia after which a steady trend to stabilize the market was designated. In this regard, the Far East, in general, doesn't differ from other regions of Russia. The growth in food prices is primarily defined by food manufacturers, while retail trade enterprises, as a rule, do not change their margins and only increase their prices to consumers at the same rate as the food manufacturers. Regional retailers are not able to keep prices from going up since they were increased by the suppliers. Grain, vegetables and fruit grew in price due to poor harvest and abnormal weather conditions in Altai region. Suppliers are running out of imported cheeses and they have pretty much disappeared from the shelves. At the same time the demand for Russian products (and products from Belarus) increases, especially for cheeses, other dairy products and meat.

The trend of rising food prices touched here primarily meat products group, since the Russian Far East has almost no pork production and the region is heavily dependent on imported meat. The rise in price ranged from 7 percent in Amur region to 21 percent in Kamchatka since the beginning of 2014. The rise in wholesale prices for imported pork for meat processors of Khabarovsk region ranged from 11 to 23 percent, while for beef this increase was significantly lower – from 2 to 6 percent. The Ministry of Agriculture of the Khabarovsk Territory explains pork price increases by the dollar exchange rate and a rise in prices set by suppliers and importers.

According to the Far East Meat Association, this situation can give impetus to the development of the livestock industry in the region. The main problem of rising prices now is not associated with a deficit of raw materials and not speculative jumps in the currency, but primarily with an unstable ruble. Today, compared to August, the problem of a serious shortage of raw materials for meat processors has been significantly reduced: the suppliers of the "open" countries have been able to adapt to the demand and increase supplies, and a considerable amount of raw material comes to the Far East from the western parts of Russia. Initially it was planned that China would close the deficit but since the number of approved Chinese facilities has not increased, the price of their raw materials is held at a high level. China puts the price which is much higher than the current price in the domestic market both for imported and domestic raw materials. Therefore, experts cannot say that the Far East will get a lot of Chinese meat anytime soon, at least in the nearest future. However such countries as Thailand and South Korea are currently considered as potential suppliers of pork to the Russian Far East. The Thai pork demonstrates good performance in price range, so the geography of pork supplies can be increased which can play a role in the Russian meat market.

Despite a certain deficit of pork, the largest price increase was observed in the segment of chicken meat.

In Kamchatka, it reached 32 percent. In Amur region, according to the regional Ministry of Agriculture, the largest enterprise "Amur Broiler" raised the prices for their products by 20 percent before the embargo. "Khabarovsk Broiler" and Poultry Breeding Plant "Khabarovskiy" also raised their prices and explained it by rising costs for feed and packaging due to the negative exchange rate of rubles. But the greatest public reaction in the Far East was caused by the rise in poultry products prices by "Mikhailovsky Broiler" in the Primorsky Territory. Director General of the enterprise explains that the prices for their products are now at the same level in ruble equivalent as in November-December 2012. When poultry breeding was declared as a priority in Russia, "Mikhailovsky Broiler" began to develop rapidly and almost "closed" the domestic market. Then Russia joined WTO, and cheaper chicken from other countries entered the market. The price for this product plummeted from January to April 2013, and "Mikhailovsky Broiler" had to lower their prices five times. Feed, fuel, vaccines got more expensive for this period. Now the market situation made it possible for the producer to get back a little of the loss. According to Federal Anti-Monopoly Service, as of October 1, poultry prices have been stabilizing in the regions. The Department of Agriculture of Primorsky Krai reports that the rise in prices in general did not exceed the rate of inflation.

Herring suddenly became another product which showed a significant increase in prices for the Far East. In Magadan region, salted herring has risen by almost 62 percent, in Amur region – by almost 20 percent. While the volumes of herring catch are the same this year, its exports to the South Asian region is growing. To adjust deliveries from the Far East to the central regions of the country is not an easy task even under condition of reduced imports from Western countries.

Changing suppliers creates certain difficulties especially for remote northern areas which unavoidably affects the cost of food. While the significant part of Primorsky Krai's needs are now covered due to the supply of food products by rail from Central Russia, the northern territories of the Far East, where products are traditionally delivered by sea from neighboring countries, have certain problems. Getting supplies of Russian raw materials to the Far East is very challenging and expensive in regards to logistics. The State Enterprise of Chukotka Autonomous District "Chukotoptorg", which is the main supplier of food to the region, has changed the traditional plan of product delivery from the United States. The main problem is to find a replacement for US potatoes with a long shelf life which is a major factor when choosing products supplied to Chukotka. As a result of analysis of different options for purchasing vegetables, it was decided to get back to the well-known option and start delivery of potatoes, onions, beets from Primorsky Krai by sea again.