

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Voluntary Public

Date: 12/22/2015

GAIN Report Number: RFATO030

Russian Federation

Post: St. Petersburg

Russia Bans Turkish Produce Starting January 1 2016

Report Categories:

Agriculture in the Economy

Agriculture in the News

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Report Highlights:

Russia announced on December 1 a ban on Turkish fruits, vegetables, and poultry. The list affects a range of agricultural goods that Russian officials believe they can source from other trading partners. Analysts note the new measures affect a large portion of certain segments of the Russian market and may cause inflation to tick up.

Russia Bans Turkish Agricultural Imports

On November 30, 2015, Russian Prime Minister Dmitriy Medvedev signed Decree No. 1296 “On Implementation of the National Security of the Russian Federation and on Implementing Special Economic Measures Against Turkey”,

<http://government.ru/media/files/GRARiHdNIWbl10wUg3LyPSAJPIDeTnLX.pdf>. According to the Decree, starting January 1, 2016, Russia bans the importation of a number of agricultural products originating from Turkey including frozen turkey and chicken, carnations, tomatoes, onions, cauliflower, broccoli, cucumbers, oranges, mandarins, grapes, apples, pears, apricots, peaches, plums, strawberries, and salt.

In 2014, Turkey exported \$ 1.7 billion in food and agricultural products to Russia, according to the Russian Customs Data. From January through October 2015, Turkish exports to Russia declined by 21 percent compared to the same period of 2014, to \$891.1 million. At the same period overall Russian imports of agricultural products dropped even more, by 34 percent, due to a decline in consumption. In some product categories the market share of Turkish products is very high. Despite the drop in 2015, Turkey remains the biggest supplier of vegetables and second biggest supplier of fresh fruits to Russia. For the first 9 month of 2015, Turkey supplied (by value) 52 percent of all imported tomatoes to Russia, 47 percent of strawberries, 35 percent of grapes, 28 percent of peaches, 16 percent of cucumbers, and 15 percent of mandarins.

Minister of Agriculture Alexander Tkachev told reporters that Russia would be able to substitute newly-banned goods with products from Iran, Morocco, Israel, Azerbaijan, and Uzbekistan; however, importers have only one month to find new suppliers and increase imports from other destinations. Industry specialists worry that this is not enough time to find new supplies.

Russian retail relies on imported fruits and vegetables offseason

In 2014, Russia produced 15 million metric tons (MMT) of fresh vegetables, which covered around 86 percent of total domestic consumption needs. The vast majority of all vegetables in Russia (70 percent) are grown by households and do not enter modern retail channels.

Local production of greenhouse vegetables covers only 30 percent of consumption, according to the official sources. On December 3, Russian Prime Minister Dmitriy Medvedev signed a decree allocating 946.9 million rubles (\$ 13.9 million) for reimbursement of part of the direct expenses for construction and modernization of greenhouses, which is expected to increase greenhouse vegetable production in the future. Currently, however, the retail sector is highly dependent on imported vegetables during off-season, January to June.

Russia relies on imported fruits and Turkey is the largest supplier of such products as grapes, citrus, strawberries, and some stone fruit varieties.

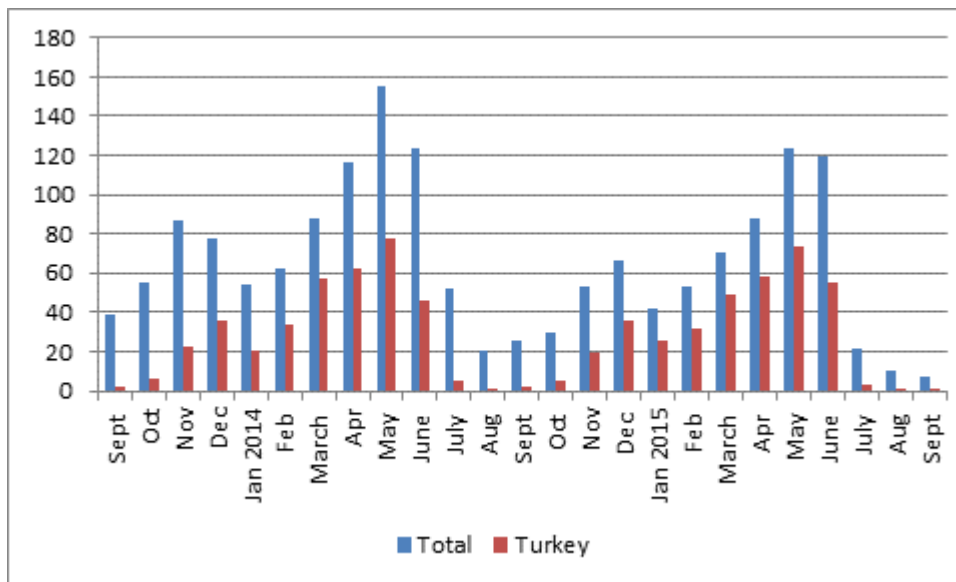
Tomatoes (HS Code 0702 00):

Russia is the second largest importer of tomatoes in the world and Turkey is the biggest supplier of tomatoes to Russia. In 2014, Russia imported 847,182 MT of tomatoes for \$1 billion, from which Turkey shipped 43 percent, or 365,557 MT. For Jan-Sept 2015, Russian imports of tomatoes dropped by 23 percent in volume and 38 percent in value compared to the same period in 2014 due to reduced consumption. At the same time, imports from Turkey declined only 4 percent in volume to 292,834 MT (\$ 281.3 million), which means the market share of Turkish tomatoes in the first 9 months of 2015 increased to 52 percent.

Usually, Turkey supplies over 50 percent of all imported tomatoes from December to June each year. According to food industry contacts it will take time to increase tomatoes production in greenhouses as well as to arrange the supply from alternative exporters. The supply of greenhouse vegetables from Stavropolskiy and Krasnodarskiy Kray (the South of Russia) improved in the past year and can partially substitute for Turkish produce, but wholesale prices have already increased by 20 percent for local tomatoes, according to press publications, and so food experts suspect that the ban on Turkish vegetables will add to seasonal price increases. According to the Russian Statistics Service, prices for tomatoes increased by 6.6 percent in the first week of December and by 9 percent in the second week.

Importers can seek to increase supplies from open countries like China (12 percent share of overall imports in 2015), Belarus (12 percent), Azerbaijan (7.5 percent), and Morocco (6.4 percent).

Chart 1. Russia: By Month Import of Tomatoes, Sept. 2013 – Sept. 2015, in thousand MT



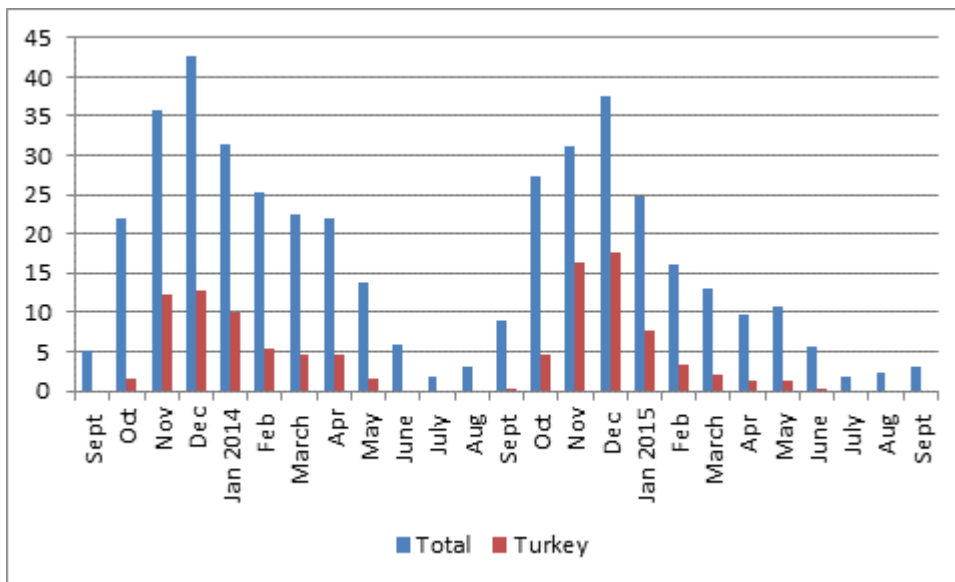
Cucumbers 070700

Russia is the third biggest importer of fresh cucumbers in the world and Turkey is one of the top exporters of cucumbers to Russia. In 2014, Russia imported 230,927 MT of cucumbers for \$284 million. Of that, Turkey exports amounted to 64,954 MT (\$ 80.5 million), or 28 percent of the total

import volume. For the first 9 months of 2015, Russia’s overall cucumber imports dropped by 35 percent and by 40 percent from Turkey. In 2015, Turkey shipped 15,628 MT of cucumbers valued \$ 16.2 million.

Turkey supplies cucumbers to Russia almost year around, with the exception of June, July, and August. Last season, the share of total imports of Turkish product was 52 percent in November, 46 percent in December, 31 percent in January, and 20 percent in February. The missing Turkish cucumbers will mostly likely be substituted with locally grown greenhouse cucumbers or product from alternative suppliers like Iran (26 percent of imported cucumber market in Russia), China (13 percent), Belarus (9 percent), Ukraine (6 percent) and Azerbaijan (6 percent). Rosstat reports that prices increased for cucumbers by 4.4 percent during the first week of December and by 6.6 percent during the second week.

Chart 2. Russia: By Month Import of Cucumbers, Sept. 2013 – Sept. 2015, in thousand MT



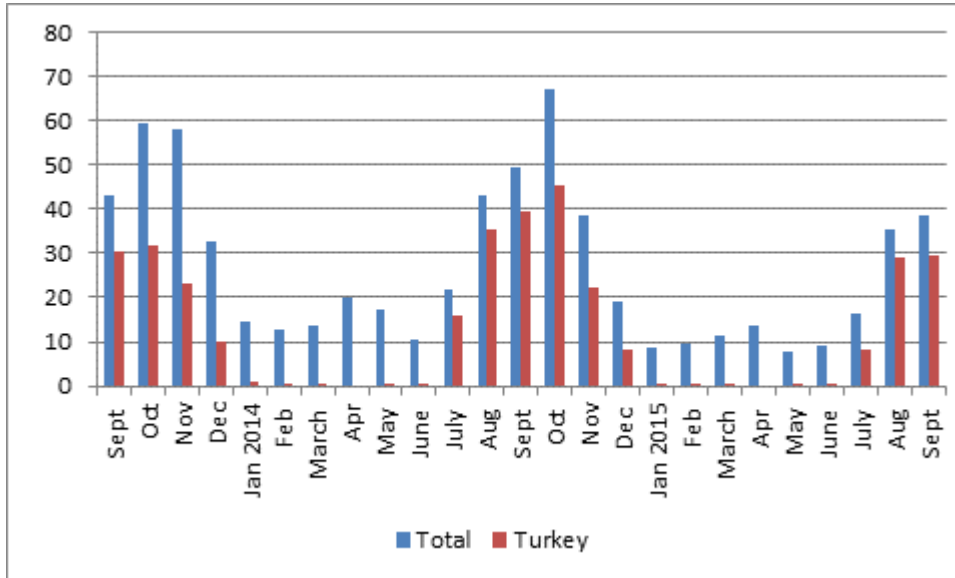
Grapes: 080610

Russia produces only 26 percent of table grapes for consumption and relies greatly on imports. Russia is the third biggest importer of grapes in the world, and Turkey is the major supplier of fresh grapes to Russia with around 50 percent of import market share. In 2014, Russia imported 328,279 MT of grapes valued \$402.7 million; from Turkey 168,347 MT grapes for \$ 181.1million. For Jan-Sept 2015, Russian overall imports and imports of Turkish grapes decline by 26 percent, as a result of declining consumption. In these 9 months Turkish exports account for 67,968 MT for \$ 66 million.

Most Turkish grapes, 75 percent, are shipped and sold during July-December, when Turkish grapes dominate on the Russian market. Turkish grapes share in these months varies from 50 to 82 percent. Chile, South Africa, and India, other big suppliers of grapes, export grapes starting from the first half of January and can’t substitute for Turkish product. Moldova (8 percent of grapes imported to Russia in 2014), Peru in November and December, China (3 percent), and Uzbekistan are the most likely

alternative suppliers of grapes to Russia in the July-December period.

Chart 3. Russia: By Month Import of Grapes, Sept. 2013 – Sept. 2015, in thousand MT

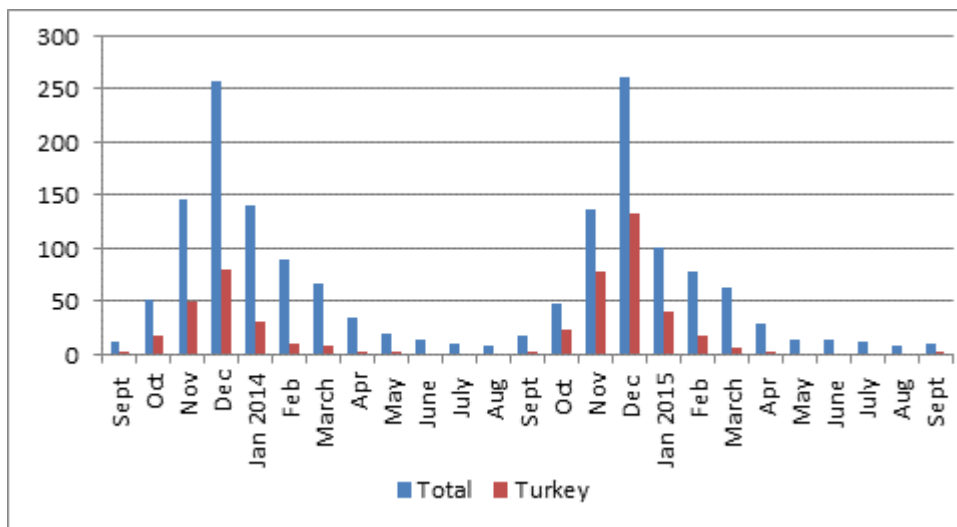


Mandarins 080520

Turkey is one of the three top suppliers of mandarins to Russia, the largest importer of mandarins in the world. In 2014, Russia imported 846,589 MT of mandarins for \$ 728.2 million, from which 33 percent came from Turkey. For Jan-Sept 2015, Russian imports declined by 18 percent in volume and 27 percent in value compared to 2014 and account for 328,262 MT for 286.6 million. Turkey increased exports by 26 percent in volume to 65,367 MT within the same period of time.

The season for Turkish mandarins is October- February with peak sales in November and December, when the share of Turkey product varies between 40-50 percent. Possible alternative suppliers within these months could be Pakistan (30 percent market share in 2015), Morocco (22 percent), China (3 percent), and Abkhazia (0.5 percent).

Chart 4. Russia: By Month Import of Mandarins, Sept. 2013 – Sept. 2015, in thousand MT



Strawberries 081010

Russia imports annually around 54 thousand MT of strawberries. Turkey is one of two major suppliers of strawberries to Russia and in 2014 exported 10,664 MT valued \$ 20.8 million. From January to September 2015, Turkey sold to Russia 27 percent of Russia’s imports and partially substituted the missing volumes from Greece and Spain.

Almost all, or 90 percent, of Turkish strawberries is supplied to Russia in April-June and the share of Turkish product during this period is around 30 percent in terms of volume. As consumption patterns in Russian shift to more economical options and the strawberry is not the first choice of fruit on the Russian table. The volumes can be partially substituted by locally grown strawberries and from the main alternative exporters, Belarus and Serbia; moreover, Belarussian product is much less expensive than product from Turkey.

Prices may increase for some products

Business expects to survive the ban for Turkish products less painfully than the embargo of European foods because there are alternative suppliers for Turkish products. Local producers increase the production of vegetables, including greenhouse vegetables, off season. Traditional suppliers from former soviet republics Armenia, Georgia, Azerbaijan, Uzbekistan, Kazakhstan, Belarus, and Moldova can increase shipments. Other countries as well show readiness to export to Russia fresh produce. For example, United Arab Emirates (UAE) is interested in exports of vegetables, fruits, dates, camel milk, and ice-cream to Russia, as Mr. Al Hammadi, Deputy Minister of Environment and Water of UAE informed during the negotiations with Mr. Nepoklonov, Deputy Head of Rosselkhoznadzor on December 10.

However, finding new suppliers and creating new logistical processes will take time. The withdrawal of

50 percent of product from the market can result in price increases in this category. Analysts at JP Morgan were quoted in the financial daily Vedomosti as believing the ban could cause prices of the banned food to rise up to 40 percent, and lead inflation to increase by 2-3 percentage points. Alfa Bank suggested a somewhat lower number of 1.5 percentage points, adding that during peak periods, Turkey's share of imports accounts for up to 20 percent in some segments of fruits and vegetables. The Central Bank of Russia considers that restriction on imports of Turkish products may lead to an additional increase in consumer prices by 0.4 percentage points in 2015-2016. The Ministry of Economic Development agrees with the Central Bank that the Turkish embargo can add 0.2-0.4 percent in inflation and consider that it will affect inflation in the next year, according Vedomosti publication.

Measures to protect Russian market of possible re-export of banned Turkish products

Meanwhile, there is concern that Turkish products could be re-exported via Azerbaijan, which borders Turkey and Russia, or Kazakhstan, a member of the Eurasian Economic Union. According to Izvestuya publication, the Public Chamber of the Russian Federation asks the Federal Customs Service, the Ministry of Agriculture, and the Federal Service for the Protection of Consumer Rights and Human Well-Being (known as Rospotrebnadzor) to strengthen control over the supply of Turkish vegetables and fruits through Kazakhstan and Azerbaijan. Rospotrebnadzor reported that Sanitary Service plans to strengthen controls against banned Turkish produce at the border crossing points and in retail establishments. The Federal Customs Service reported that mobile teams of post-customs monitoring work on the roads at the border areas with Belarus and Kazakhstan and have the appropriate authority to inspect trucks for embargoed products. According to the same source, neither Rosselkhoznadzor nor the Federal Customs Service consider shipments from Azerbaijan a possible conduit for Turkish re-export, however, both departments intend to monitor import flows after the embargo comes into force.