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Trade Impact of Ban on Fishery Sector

Report Categories:

Fishery Products

Agricultural Situation

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Report Highlights:

On August 6, 2014, Russian President Vladimir Putin signed a decree banning a list of agricultural products from the United States, Canada, European Union, Australia, and Norway as a result of the implementation of economic sanctions against Russia due to events in the region. The Government of Russia (GOR) has stated that domestic demand for the banned fish will mostly be met by increasing shipments from the Far East, as well as other markets such as Chile, China, Faroe Island and Ecuador. The United States' share of Russia's total imports of fish and seafood is about three percent. The U.S. is one of the largest suppliers of frozen salmon roe to the Russian market. The share of U.S. fish and seafood products ready for consumption that were not affected by the ban (HTS 1605, 1604), is estimated at \$900,000. Experts estimate that the Russian fish and seafood industry will not be able to make up for the gap in the near term. Businesses expect prices for most affected species, such as salmon and premium seafood, will increase approximately 20-30 percent in the near term.

Executive Summary:

On August 6, 2014, Russian President Vladimir Putin signed a decree banning a list of agricultural products from the United States, Canada, European Union, Australia, and Norway as a result of the implementation of economic sanctions against Russia due to events in the region. The ban takes place immediately, according to the decree, and will be valid for one calendar year. The list of agricultural products include beef, pork, poultry, fruits, vegetables, fish, seafood, cheese, milk and a variety of other products. [1] According to the Russian Customs Committee, the United States' share of total Russian imports of fish and seafood products is currently almost three percent. The share of U.S. fish and seafood products ready for consumption that were not affected by the ban (HTS 1605, 1604) is estimated at \$900,000 per year. Also, an amended decree approved by the Russian Government on August 20, 2014, excluded from the list of banned products, among others, fry of *Salmo Trutta* (HS 030191) and fry of *Salmo Salar* (HS 0301991100).

Trade experts estimate that salmon, mostly chilled, and salmon roe, as well as premium segment seafood, such as oysters, lobster, and prawns will be most affected by the ban. The GOR has stated that domestic demand for banned fish and seafood will mostly be met by increasing shipments from the Far East and other markets such as Chile, China, Faroe Island and Ecuador. In order to substitute this significant amount of imported product, specifically salmon and salmon roe, the GOR has sped up negotiations with potential suppliers in these countries. Among other measures on the GOR's agenda are the possibility of subsidizing the cost of rail transportation for the delivery of fish to the European part of Russia and enforcing price controls in retail. The government has formed a group of representatives of different government agencies that will control food prices nation-wide. However, Russian producers and importers do not share an optimistic mood of the government's plans. They report that local businesses "were hurt" harder by the ban than even the foreign suppliers, and it will take time for the local industry to reorient production to other fish species and get consumers to adjust to new tastes and increased prices.

^[1]For more information please refer to GAIN Report:

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Russia%20Announces%20Ban%20on%20Variety%20of%20US%20Agricultural%20Products_Moscow%20ATO_Russian%20Federation_8-7-2014.pdf^[1]

General Information:

Trade

During CY2013, Russia's imports of fish and fish products reached almost \$3.0 billion, a 16 percent increase from 2012. Norway remains the largest supplier of fish products to Russia, with exports of \$1.1 billion in 2013 (38 percent market share), followed by China with \$326.7 million (11 percent), Chile with \$273.2 million (9.2 percent) and Iceland with \$172.2 million (5.8 percent).

During January-April 2014, fish and seafood imports from the U.S. increased to \$25 million in value, an increase of more than double the same period in 2013. The increase in imports from the United States is mostly attributed to higher imports of frozen Alaska Pollock (HS 030494), which holds a 36 percent import share. This is followed by a 27 percent market share for imports of U.S. fish livers and roes, which experienced a better harvest than expected in Alaska. Imports of U.S. frozen hake (HS030366),

holds an 8 percent market share.

Trade sources estimate annual imports of salmon to Russia from 240,000 to 260,000 MT. In the first half of 2014, Russia became one of the largest markets of salmon and trout from Norway. According to the Russian Fishery Association, the total supply of fish from Norway to the Russian market in the first half of 2014 amounted to 112,750 MT, or \$445 million, 8.6 percent share of the total Norwegian exports of fish and seafood. In the most optimistic scenario, Russia will not be able to produce enough salmon to satisfy demand of the domestic processing industry, Russian production of aquaculture salmon is about 25,000 MT and it may take at least three years to build the necessary infrastructure and to increase production. However, even with infrastructure in place industry believes it will still not be able to satisfy fully the local market.

Government Efforts and Challenges in Substitution

Russian fishery processing facilities will be mostly affected by the ban, since the industry in the Russian Northwest is equipped for processing salmon and other raw material from Norway and other EU countries. As a result, local processors will be forced to shift to Chilean frozen salmon and/or locally harvested salmon and trout, specifically from Murmansk. According to trade sources, prices for salmon and roe will continue to grow as foreign substitution will not be sufficient and demand for the products is traditionally strong. The product assortment will also change as supplies of banned products will eventually disappear from the shelves. Different sources have already reported that prices offered by Chilean producers have increased 20 percent, and suppliers from Faroe Islands have increased prices 60 percent, while prices offered by Russian fishermen in the Far East have increased by 30-40 percent.

Currently Russian Veterinary and Phytosanitary Surveillance Service (VPSS) is negotiating with potential suppliers of fish and seafood to Russia with an effort to cover the local needs in fish. Among suppliers that are expected to increase shipments of fish and seafood are: Chile (current import share in total fish and seafood imports is 7 percent), Iceland (currently a 6.5 percent share); Turkey (currently a 2 percent share); Faroe Islands (currently a 2 percent share), and Ecuador (currently a 1.3 percent share). According to trade, even with increasing shipments from new destinations, the new supply will not be able to fully substitute the needs for the industry and trade, at least not in the short-term.

According to the Russian Minister of Agriculture, the government plans to rely on fish and seafood from the Far East to significantly substitute for banned imported fish and seafood, specifically salmon and salmon roe. The government is considering the possibility of subsidizing the cost of rail transportation for the delivery of fish to the European part of Russia, especially of salmon from the Far East. However, poor port infrastructure and the high export orientation of the industry (almost 70 percent of fish and seafood in the Far East is currently exported to China and Japan) are major challenges.

According to the Head of the Russian Fishery Agency (FFA), Ilya Shestakov, food sanctions have “a positive side” since local fish will have a better chance of finding itself on the shelves.” According to the FFA head, import substitution can take place quickly, however, product assortment will change. Traders will not be able to substitute French oysters, for example, but according to Mr. Shestakov, they can reorient to such locally harvested fish species as black cod, black sea plaice or striped mullet. Imported fish will be substituted with more traditional species such as capelin, haddock, cod and

Pollack. Many market experts believe it will be very difficult to resolve logistical issues and port infrastructure renovation in a short term. As a result, the prices will continue to increase despite government efforts to control prices.

The GOR does not expect any significant price increases for salmon roe this year despite the fact that the volume of harvested salmon to date is estimated at 211,000 MT, or 35 percent lower compared to the same period of 2012. FFA forecasts total salmon catch by the end of 2014 season can reach 320-330,000 MT. This volume should be enough for the production of 15-16,000 MT of salmon roe, equal to the estimated annual consumption of this product in Russia. However, since the sector is very export oriented it is doubtful that fishermen in the Far East will be able to redirect 100 percent of salmon catch to the European part of Russia.

Price Survey

According to Rosstat, prices for fish for the week of August 11, 2014 have increased by 0.3 percent. However, a price survey conducted by FAS staff in the open door market and hypermarket in the western side of Moscow, as well as information from retailers and trade sources, suggested that prices for a number of product groups increased in a range of 3 to 7 percent. Trade sources believe that prices for salmon will increase by 30-40 percent in 3-4 weeks.

On August 19, 2014, OAA Moscow conducted a price survey of main food products, including meat, fish, milk and cheeses in the western Moscow retail outlets and open markets. The survey was prompted by numerous publications in the mass media and feedback from local importers regarding increases in various product categories in retail prices after Russia banned many agricultural and food products from the U.S., the EU, Canada, Australia and Norway.

Post did not observe any speculative demand for any of the products that are on the banned list. While the assortment of products available in the stores and markets continue to be typical, price increases for different product categories in different outlets were quite obvious. Prices for frozen fish in the lower price segment increased by 5-6 percent, while prices for frozen salmon were up by 7-8 percent. Post observed that a wide variety of traditional fish products, (herring, mackerel) as well as exotic products, including squid, mussels, prawns, snails, scallop and oysters continue to be in supply. However, supply of Norwegian salmon is very limited. While frozen salmon is available in out-door-market and hypermarket Auchan, chilled salmon of different cuts were missing.

Also, the choice of ground fish frozen fillet, produced both locally and imported, continues to be rich. However, open markets do not offer such a variety of imported fish and seafood, but rather have a larger choice of either locally produced fish or frozen fillet of pangasius and tilapia, imported from China.

Prices also differ significantly between retail outlets and open markets. The price for 1 kilo of steaks frozen Norwegian salmon in Auchan is almost 5 dollars higher (about 771 Rub) than the same product in the open market "Bagrationovskiy." Auchan offers a huge variety of chilled and frozen fish both

domestically produced and imported, as well as different kinds of processed fish. Given the insignificant gap in prices between open markets and Auchan, consumers tend to make purchases at the retail outlet where the choice is wider and the product is sold in attractive and convenient packages. Average fish prices in upscale supermarkets such as “Perekreyostok” and “Sedmoy Continent,” tend to be 10 to 30 percent higher than that in the open markets. However, neither chilled nor frozen salmon from Norway were available for sale at Sedmoy Continent.

The price for frozen ground fish fillet, such as Pollock, cod and hake, varies by \$1-\$2 between regular convenience stores and supermarkets and open markets and Auchan. Price differences between frozen ground fish fillet domestically produced and imported is from \$3 to \$5.

Product category	Out-door-market Bagrationovskiy	Auchan	7th Continent
Fish and Seafood, rubles per kg			
Chilled salmon (Norway)	N/A	700	N/A
Frozen salmon steak(Norway)	600	771	N/A
Frozen salmon (Norway)	450	N/A	N/A
Frozen pink salmon (Murmansk)	390	355	N/A
Salmon roe	3500	2900	2900
Cod,whole eviscerated frozen	175	190	175 (chilled)
Shrimps, frozen packaged	180-280	240-450	280-470