

Artículo de investigación

Agroindustrial sector of Russia development under sanctions and countersanctions

Desarrollo del sector agroindustrial de Rusia bajo sanciones y contraahornos
Setor agroindustrial do desenvolvimento da Rússia sob sanções e contra-sanções

Recibido: 15 de enero de 2018. Aceptado: 30 de enero de 2018

Written by:
Oksana V. Vaganova²
Natalya E. Solovjeva
Natalya I. Bykanova
Stanislav H. Ivanov

Abstract

In the article they studied the specifics of Russia agro-industrial sector development in connection with the current political and economic instability, they revealed positive and negative aspects for the agriculture sector in conditions of sanctions and counter-sanctions. Besides, they analyzed the indicators characterizing the volumes of domestic product export and import, the losses of individual countries due to sanctions and counter-sanctions. In order to preserve positive shifts and increase the import substitution of agricultural products, they determined problems and possible solutions, offered the trends for the development of Russian agro-industrial sector and the strengthening of food security.

Keywords: agro-industrial sector, import, import substitution, counter-sanctions, food products, sanctions, agricultural products, export.

Resumen

En el artículo que estudiaron los detalles del desarrollo del sector agroindustrial de Rusia en relación con la actual inestabilidad política y económica, revelaron aspectos positivos y negativos para el sector agrícola en condiciones de sanciones y contra sanciones. Además, analizaron los indicadores que caracterizan los volúmenes de exportación e importación de productos nacionales, las pérdidas de países individuales debido a sanciones y contra sanciones. Con el fin de preservar los cambios positivos y aumentar la sustitución de importaciones de productos agrícolas, determinaron los problemas y las posibles soluciones, ofrecieron las tendencias para el desarrollo del sector agroindustrial ruso y el fortalecimiento de la seguridad alimentaria.

Palabras clave: sector agroindustrial, importación, sustitución de importaciones, contra-sanciones, productos alimenticios, sanciones, productos agrícolas, exportación.

Resumo

No artigo que estudaram as especificidades do desenvolvimento do setor agroindustrial da Rússia em conexão com a atual instabilidade política e econômica, eles revelaram aspectos positivos e negativos para o setor agrícola em condições de sanções e contra-sanções. Além disso, analisaram os indicadores que caracterizam os volumes de exportação e importação de produtos nacionais, as perdas de países individuais devido a sanções e contra-sanções. A fim de preservar as mudanças positivas e aumentar a substituição de importações de produtos agrícolas, eles determinaram problemas e possíveis soluções, ofereceram as tendências para o desenvolvimento do setor agroindustrial russo e o fortalecimento da segurança alimentar.

² Belgorod State University, 308015, Belgorod, Pobeda Street, 85, Russia
E-mail: vaganova@bsu.edu.ru

Palavras-chave: setor agroindustrial, importação, substituição de importações, contra-sanções, produtos alimentícios, sanções, produtos agrícolas, exportação.

Introduction

Russia has the intellectual potential and all the necessary resources to increase the pace of economic development. And if they do not restrain the pace of development, it may take the leading positions in the global economic space. Therefore, sanctions were imposed on Russia by the US and the European Union in 2014. In the authors' opinion, sanctions restrictions are a series of activities by other states aimed to discriminate the state and put pressure on it to achieve its economic and political goals. Sanctions can be political, economic and military ones. Economic sanctions are considered in the context of this article, which in its turn are subdivided into commercial and financial ones. Commercial sanctions are aimed at the destabilization in the agro-industrial sector, and financial ones are aimed at the state financial and credit system destruction.

The main effects from such activities are the following ones:

- the reduction of net capital inflow into the agro-industrial sector;
- the increase of the state external debt;
- the decrease of agricultural production volumes;
- the increase of prices for agricultural products, goods and services.

It should be noted that the sanctions imposed by the West against Russia in 2014-2015, are not something new and unexplored for the country. Earlier, Europe and America repeatedly tried to influence the policy of the USSR through the application of various kinds of economic and political restrictions. The countries began to show economic aggression against Soviet Russia immediately after the events of 1917 (Arkhipova, 2016).

The Russian Federation Government recognizes that the sanctions of the West have a negative impact on Russia economic development, so it has taken adequate mirror measures and banned the purchase of certain types of foreign agricultural products, raw materials and food from the EU countries, as well as from the United States, Australia, Canada and Norway, which adopted the decision of economic sanction application in respect of Russia. Counter-sanctions prohibit the import of meat,

poultry, fish, dairy products, vegetables, fruits and other categories of food (Mahanko, 2017).

Later, by the resolution of the Russian Federation Government No. 842 issued on August 13, 2015, the list of countries, for which the ban on the import of agricultural products, raw materials and foodstuffs to Russia was adopted, included Albania, Montenegro, Iceland, Liechtenstein and Ukraine (The resolution of the Government of the Russian Federation of August, 2015). This decision is aimed at the extension of special economic response measures to individual states, taking into account the degree of their involvement in the sanction regime against our country (Tilman et al, 2002).

Materials and methods

This article proposes a systematic approach to identify the impact of sanction and counter-sanction regime on the development of Russian agro-industrial sector, which is based on the assumption of a multiplicity of sources, forms and results of agro-activity, and that the results of agricultural activity largely depend on the success of financing. Therefore, the focus is on the macroeconomic level of the country, via which it is possible to analyze and evaluate the ongoing processes of the Russian agro-industrial sector development under sanctions and counter-sanctions.

It should be noted that all calculations in the scientific and practical research were carried out on the actual reports of Russian Federation Ministry of Agriculture and federal statistical data, as well as with the use of general methods for scientific research: analysis, synthesis, statistical, mathematical, monographic and factor economic analysis.

Results and discussion

In order to minimize the damage from sanctions, the Presidential Decree No. 683, issued on December 31, 2015, approved the National Security Strategy of Russian Federation, where the Art. 54 determined the tasks of food security provision (Strategy of national security of the Russian Federation, 2015).

The strategy should be implemented by:



- the achievement of Russian Federation food independence;
- the rooted development and modernization of agro-industrial and fishery sector, food industry and the internal market infrastructure;
- the increase of state support effectiveness for agricultural producers and their access expansion to product markets.

The prohibition on the importation of food products from the EU member states that joined the sanctions was a sudden and a very sensitive blow for them, as they lost a huge market for agricultural products in Russia. But this fact had a positive effect on the activities of domestic producers of agricultural products. They received an additional stimulus to a sustainable growth. The results of counter-sanctions fully reflect the dynamics of vegetable imports to Russian Federation (Sanctions war, 2018) (Figure 1).

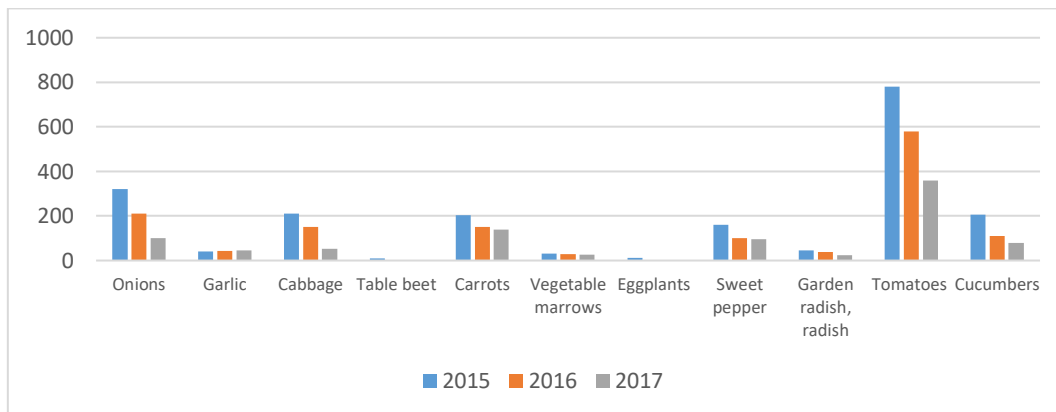


Figure 1. Import of vegetables to the Russian Federation by the form in 2015-2017, thousands of tons

In response to Russian restrictions, Turkey imposed the duties on Russian grain, which had previously been exported without taxes. Import duties on wheat and corn make 130% now, rice - 45%, legumes - 10% (Ponomareva & Magomedov, 2017).

The most developed countries in Europe (Germany, Italy and France) suffered most of all during the first year of sanctions, which also have the most stable economic ties with Russia (Simakov, 2017) (Figure 2).

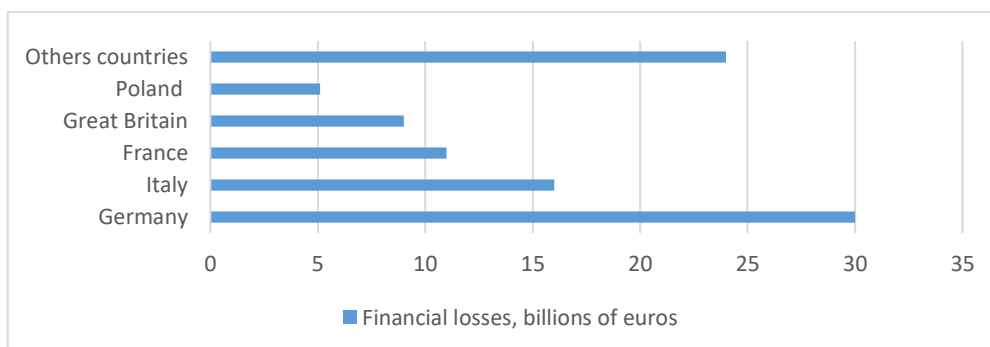


Figure 2. Losses of the certain European Union countries because of sanctions and countersanctions against Russia

The result of sanctions measures is that one of the leading EU countries, Germany, lost about a hundred thousand jobs and suffered the losses of about six billion euros. Another country, Austria, lost a little over half a billion euros and lost seven thousand jobs. Besides, Austrian exports to Russia fell by almost forty percent as compared to 2014 (Export import of the major goods for January, 2015).

If we analyze the current state of the agro-industrial sector of Russia in terms of economic sanctions, we can see a positive growth dynamics in all sectors of the agro-industrial complex. In 2016, record results

were obtained for the main types of agricultural products, in 2018 the increase of 5% at least is expected (RIA Novosti, 2017).

Table 1. Production of some main types of agricultural production in Russia, millions of tons

Product	2014	2015	2016	2017
Corn	104.0	105.3	119.0	107.0
Sugar beet	33.5	39.0	48.3	53.0
Soybean	2.5	2.7	2.9	4.3
Sunflower seeds	8.6	9.3	10.6	10.3
Potatoes	31.2	33.6	31.1	30.5
Meat	12.9	13.5	13.9	16.6
Milk	30.7	30.8	30.8	31.2
Eggs, billion pcs.	40.5	42.5	43.5	44.4
Fish	4.2	4.2	4.4	5.1

This dynamics is explained by ruble rate depreciation in 2016, which stimulated domestic producers to take more active actions in the foreign market and receive revenue in foreign currency. The abolition of export duties on wheat, fish and seafood provided an additional impetus - these products have the largest shares in our exports. Today, wheat accounts for about 36% of all food supplies and agricultural raw materials, fish with seafood - 17% (Review of the market of agriculture, 2017).

In 2017, grain exports grew by 10%, and the wheat yield was 130 million tons. Today, America is the leader in the world market, but according to the forecasts of both domestic and foreign analysts of the agricultural market, Russia may occupy the leading position in a few years.

The export of sunflower oil became another positive factor in the work of the industry. During the year 2017, more than 2 million tons of domestic products were shipped. In 2016-2017, Russia took the first place in the growing of beet sugar, leaving behind France, America and Germany (Gornich, 2015). Nowadays, the country is fully provided with the raw materials of its own production. The export of sugar has

increased in dozens of times, and made about 700 thousand tons.

With regard to livestock, 80% of all profits of agricultural enterprises comes from the selling of products of animal origin. The productivity of the last season was 16.6 million tons, which is 19.4% more as compared to 2016.

However, the achieved results can not be assumed without an active support of the agro-industrial sector by the state. The new measures of the agrarian policy fixed in the State Program are reduced to the active participation of the state in the distribution and redistribution of money incomes from agriculture, the raise agriculture financing level with the strengthening of regional financing role, seasonal and universal lending of the industry in the framework of state support, a compulsory state insurance of agriculture (the insurance of crop and animal loss risks). Figure 3 shows the dynamics of budgetary allocation projected estimate from the consolidated budgets of Russian Federation subjects (The state program of development of agriculture and regulation of the markets of agricultural production, raw materials and food for 2013-2020).

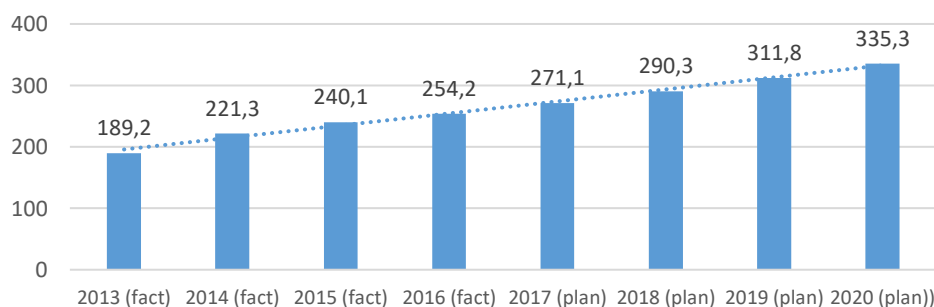


Fig.3. The sum of the means arriving from the federal budget on State program of development of agro-industrial complex for 2013-2020, billion rubles





The diagram shows that this indicator will increased by 1.8 times in 2020 as compared to 2013 and will make 335.3 billion rubles. This increase can be achieved through the subsidizing of the interest rate part on long-term loans and per-hectare support (subsidies are calculated from the yields per hectare). Within the framework of state support, new grants are allocated to start-up farmers for the purpose of farm creation (up to 1.5 million rubles and one-time assistance for household improvement up to 300,000 rubles), they subsidize the investment loans and the part of the first installment for agricultural machinery leasing (Russia in figures, 2017).

In order to increase the efficiency of the Russian agro-industrial sector during the period of sanction pressure, they developed the programs of concessional lending to the industry, offered by Russian banks with state support. Thus, by early 2018, the Bank share in Russian agro-industrial complex lending amounted to 30%, and the loan portfolio approaches the level of 1.2 trillion rubles (Gusakova, 2014).

Within the import substitution program, which has acquired a special significance after the introduction of counter-sanctions, the level of domestic product availability has increased on the shelves of stores, where 80% of food products are produced domestically and only 20% are foreign ones, but one should not stop with the achieved results and the production of cattle meat and poultry, milk, vegetables, fruit and berry products and grapes should be increased. According to the forecasts of domestic economists, in 2-3 years, Russians will solve the problem of import substitution by the production of meat and poultry in the domestic market in 2-3 years, and by the production of dairy products in 7-10 years. Full provision of Russian consumers with domestic vegetables and fruits will take place in 3-5 years. (Gorbatov & Morozova, 2015) (Table 2).

But, despite the increasing volumes of agricultural product export from Russia, their share in world exports remains insignificant, as is evidenced by the data of Table 2 (Morozova & Timashkova, 2015).

Table 2. Dynamics of export and import of production in Russia in 2014-2017, mil. of rubles

	2014	2015	2016	Growth rate, 2016/2014%
Export	497359	343512	285674	57,4
Import	287063	182902	182267	63,5
With far abroad countries				
Export	433173	298420	247944	57,3
Import	253776	161693	162725	64,1
With the CIS countries				
Export	64186	45092	37730	B 5,9 pas
Import	33287	21210	19543	58,7
among them with the EurAsEC countries ¹⁾				
Export	36901			*
Import	20306			*
among them with EAEC countries ²⁾				
Export		28564	25772	*
Import		14106	13836	*

However, the growth rate of the world trade will be decreased in the coming years, so, according to FAO forecast, the greatest decline is expected for pork. If during the period 2014-2015 the volume of commodity exports in the world increased by 41%, then in 2016-2026 the growth of pork trade will not exceed 1%. The rates for wheat will be decreased noticeably from 68% to 10%, and poultry meat rates will be decreased from 60% to 14%. At the same time, the growth rates of milk production and dairy products

attract attention. These rates will persist for quite a long time (Cherdantsev & Zaglyadova, 2015).

Having analyzed the situation with the sanctions restrictions, it can be noted that in domestic stores a Russian buyer needs most of all the following imported food products: cheese (brie, camembert, dor blu); fish and seafood (tuna, salmon); vegetables and fruits; nuts and dried fruits; candy and other sweets (peanut butter)

(Food security of Russia, 2008). According to market analysts, this deficit should produce a strong positive effect on the industry. The embargo has already caused the rise in prices for a number of goods, even on meat and poultry markets that are weakly related to imports. This is certainly good for the Russian producer, but it is bad for a processor and a consumer.

In general, marketing conditions, and product competitiveness have improved for domestic agricultural producers after the introduction of sanctions (Lord, Solntsev, Iyerusalimova, 2018). However, the problems in the agro-industrial sector still exist, therefore, it is necessary to continue the state policy ensuring the balance of commodity markets and managing the prices of agricultural and food products. The main problems of 2017 were the problems of energy resource cost increase, which amounted to 22% and an insufficient solvency of the population, which fell to 20% (Review of the market of agriculture, 2017).

In order to solve the above-mentioned problems, the Ministry of Agriculture of Russian Federation is actively working to simplify the procedure for agro-industrial sector crediting: the working group was established to simplify the lending of the agro-industrial sector, which includes the representatives of the leading credit organizations of Russian Federation and the Bank of Russia. In particular, the introduction of changes and the application of special conditions is considered, taking into account the specifics of agricultural producer activities in the existing regulations and instructions of the Bank of Russia. The changes will make it possible to ensure the liquidity of agricultural lands as a collateral and reduce the amount of bank reserves that need to be formed during credit resource provision, which will result to the lending cost reduction for banks and will enable to increase the volume of issued loans. Consequently, an effective lending mechanism is the guarantee of the agro-industrial sector proper development and, accordingly, of the country economic security (Solovjeva et al, 2017).

Conclusions

Thus, the agricultural industry in Russia is sensitive to the impact of sanctions and a sound public policy can appear to accelerate economic growth, which means that sanction restrictions have been the push for the country growth and are a motivational mechanism for an effective

activity of agricultural producers. But along with the sanctions and the state support the ruble rate influences the sector under study, whose fall had a positive effect on exports, having limited the demand for imports. The products of the local producer became much more affordable for Russians, than the products imported from abroad.

In general, in order to increase the integration of Russian agro-industrial sector into the global economic space, the following things are necessary: to modernize the energy infrastructure, to stabilize the legislative and the regulatory policy, to increase the importance of state support through an efficient logistics, the affordability of financing and the reduction of administrative barriers (Bondarenko & Kulov, 2017).

The implementation of these measures will create new opportunities for the development of domestic agriculture and will contribute to domestic product share increase in domestic market resources.

The performed analysis of the Russian agro-industrial sector state showed that, despite the announced sanctions from the US and Western EU countries, the economic development of Russia remains at a high enough level, as evidenced by the positive dynamics of agricultural production indicators. As for the negative effect of sanctions, it turned out to be diametrically opposed to the expected results and became positive for Russia. If the damage is insignificant within the scale of the European Union, some damage was done to the economies of some countries for which the Russian agricultural market was the main market place, for example, the Baltic countries declared their inability to compensate for the losses from sanctions.

At present, despite the official extension of sanctions against Russia on the part of the United States, the European Union and a number of states that joined them until mid-2018, the movement for the removal of sanction pressure on Russia is expanded within the framework of a number of European states. This movement was initiated by Slavic Eastern European states and individual provinces of Italy. This indicates the prevalence of common sense and the need to establish bilateral mutually beneficial foreign trade and foreign economic relations between our state and Europe.



Reference

- Tilman, D., Cassman, K.G., Matson, P.A., Naylor, R., Polasky, S. (2002). Agricultural sustainability and intensive production practices. 418/ URL: www.nature.com. (accessed: 12.05.2018).
- Arkhipova, V.V., Komolov, O.O. (2016). Development of the international sanctions regimes: historical aspect. The Russian external economic messenger, 3: 53-69 (In Russian).
- Bondarenko, T. G., Kulov, A R. (2017). Objective conditions and directions of formation of development of STP of agriculture in member states of the Eurasian Economic Union. Research Result, 3: 21-31. (In Russian)
- Cherdantsev, V. P., Zaglyadova, M.H. (2015). The factors influencing effective management of agro-industrial complex of the region. Basic researches, 7-2: 436-439. (In Russian).
- Export import of the major goods for January. (2015). The Federal Customs Service. July, 2015 4 Saint. URL: http://www.customs.ru/index2.php?option=com_content&view=article&id=21621&Itemid=1981 (In Russian).
- Food security of Russia. (2008). - M.: I Bend Vniieskh, 2008, 180 p. (In Russian).
- Gorbatov, A.V., Morozova, O. V. (2015). Food import substitution in Russia: results of the first sanctions year and prospects for development. Basic researches, 10(2): 357-361. (In Russian).
- Gornich, E.A. (2015). The factors influencing efficiency of use of financial resources of the corporate sector regional agro-industrial complex (on the example of the poultry-farming enterprises of the Yaroslavl region). Problems and prospects of economy and management: materials IV Mezhdunar. Nauch. Konf. (St. Petersburg, December, 2015). — SPb.: The publishing house, 2015: 88-92. (In Russian).
- Gusakova, E.P. (2014). Import substitution is the priority objective of the development of the AIC. Fundamentals of Economics, Management and Law, 6 (18): 12-17.
- The resolution of the Government of the Russian Federation of August 13, (2015). № 842 «About introduction of amendments to resolutions of the Government of the Russian Federation [Electronic resource]. — URL: <http://www.garant.ru/hotlaw/federal/644760/#ixz33kal7PFTu> (accessed: 10.06.18).
- The state program of development of agriculture and regulation of the markets of agricultural production, raw materials and food for 2013-2020.
- Lord, M. V., Solntsev, D.R., Iyerusalimova, V.V. (2018). Application of tool methods of smoothing of territorial polarization and branch disproportions in economy. Scientific Bulletin of Belgorod State University. Ser. Economy. Informatics, 1(45): 32-39. (In Russian).
- Mahanko, G.V. (2017). Problems of agro-industrial complex of the Russian Federation in the conditions of economic sanctions and a way of their decision. The Scientific magazine of Kubgau, 132(08): 1-20 (In Russian).
- Morozova, O.V., Timashkova, T. E. (2015). Food import substitution in the Russian Federation: realities and the prospects of development of agriculture for 2015. Basic researches, 5 (3), 2015: 658-662. (In Russian).
- Ponomareva, E., Magomedov, R. (2017). Monitoring of an economic situation in Russia: tendencies and calls of social and economic development. 2017., 5 (43). March. Institute of economic policy of E.T. Gaidar, Russian Presidential Academy of National Economy and Public Administration, All-Russian academy of foreign trade. 23 pages [An electronic resource] of URL: http://www.iep.ru/files/text/crisis_monitoring/2017_5-43_March.pdf
- Review of the market of agriculture. (2017). The research center "Deloitte" in the CIS.- URL: http://romir.ru/studies/712_1444078800. (accessed: 10.06.18).
- RIA Novosti. (2017). [Electronic resource]. — <http://ria.ru/economy/20150801/1156910479>. (accessed: 03.05.17).
- Russia in figures. (2017). Federal State Statistics Service (Rosstat). M, 2017. - 834 p. (In Russian).
- Sanctions war. (2018). [Electronic resource]. — URL: <http://www.tvc.ru/news/theme/id/138> (accessed: 10.06.18).
- Simakov, G.A. (2017). Mechanisms of development of investments agro-industrial sector in the Russian Federation. Innovation in science. – 2017, 11(72): 38-40. (In Russian).
- Solovjeva, N.E., Bykanova, N.I., Skachkova, I.V., Naumenko, Yu.V., Suvorov D.A. (2017). Tax control in the system of ensuring economic security of the Russian Federation. Competitiveness in the global world: economy, science, technologies. Krasnoyarsk, 1(1): 189-192. (In Russian).
- Strategy of national security of the Russian Federation. (2015). It is approved by the Decree of the Russian President No. 683 of December 31, 2015 [An electronic resource]. Official publication of legal acts: Official Internet portal of legal information. State system of legal information. URL: <http://publication.pravo.gov.ru> (accessed: 5.10.2017) (In Russian).