

Russia Bans US Food Imports in Retaliation to Western Sanctions

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MOSCOW (AP) — Russia banned most food imports from the West on Thursday in retaliation for sanctions over Ukraine, an unexpectedly sweeping move that will cost farmers in North America, Europe and Australia billions of dollars but will also likely lead to empty shelves in Russian cities.

The announcement shows that while President Vladimir Putin doesn't appear ready to heed Russian nationalists' calls to send troops into Ukraine, he is prepared to inflict significant damage on his own nation in an economic war with the West.

The U.S. and the EU have accused Russia, which annexed Ukraine's Crimean Peninsula in March, of supplying arms and expertise to a pro-Moscow insurgency in eastern Ukraine, and have sanctioned individuals and companies in Russia in retaliation. Moscow denies supporting the rebels and accuses the West of blocking attempts at a political settlement by encouraging Kiev to use brutal force to crush the insurgency.

The ban, announced by a somber Prime Minister Dmitry Medvedev at a televised Cabinet meeting, covers all imports of meat, fish, fruit, vegetables, milk and milk products from the U.S., the European Union, Australia, Canada and Norway. It will last for one year.

"Until the last moment, we hoped that our foreign colleagues would understand that sanctions lead to a deadlock and no one needs them," Medvedev said. "But they didn't, and the situation now requires us to take retaliatory measures."

That retaliation, however, could hurt Russia as much as the West. Russia depends heavily on imported foodstuffs, most of it from Europe, particularly in Moscow and other large, prosperous cities. In 2013, the EU exported 11.8 billion euros (\$15.8 billion) in agricultural goods to Russia, while the U.S. sent \$1.3 billion in food and agricultural goods.

Chris Weafer, an analyst at Macro Advisory in Moscow, said the ban will likely speed up inflation and further cloud an already grim economic outlook. "Along with higher interest rates, higher food costs will mean that households have less money to spend and that will depress the economy," he said.

The Netherlands, one of the world's largest agricultural exporters, sends 1.5 billion euros' worth of agricultural products to Russia annually and stands among the countries with the most to lose.

Albert Jan Maat, chairman of the Dutch Federation of Agriculture and Horticulture,

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warned that the Russian ban will cause prices to drop across Europe because of oversupply, and called on the Dutch government and the EU to help farmers. Exports to Russia account for about a tenth of EU agricultural exports.

"We're thinking of either removing products from the market or temporarily storing them," he said.

EU Commission spokesman Frederic Vincent voiced regret about the ban. He said the Commission still has to assess the potential impact, and reserves "the right to take action as appropriate."

Medvedev argued that the ban would give Russian farmers, who have struggled to compete with Western products, a good chance to increase their market share. But experts said local producers will find it hard to fill the gap left by the ban, as the nation's agricultural sector suffers from inefficiency and a shortage of funds.

Agriculture Minister Nikolai Fyodorov said the sector would need additional subsidies equivalent to \$3.8 billion in the next few years to pump up production. The government may find it hard to increase funding as it tries to shore up the currency and support banks and companies affected by Western sanctions, which included an EU ban on long-term borrowing for key Russian state banks.

While the government claimed it will move quickly to replace Western imports with food from Latin America, Turkey and ex-Soviet neighbors, analysts predicted shortages and price hikes. The damage to consumers will be particularly great in big cities like Moscow, where imported food fills an estimated 60-70 percent of the market.

Market watchers said consumers in the expensive food segment will suffer the most, losing access to goods like French cheeses and Parma ham, but others will also eventually feel the brunt as food variety will shrink and inflationary pressures increase. With retail chains stocked up for months ahead, the ban will take time to hurt, however.

The measure led to sardonic comments across Russian online media and liberal blogs, bringing reminiscences of empty store shelves during the Soviet times, but there was no immediate indication of consumers trying to stock up.

Russian stock indexes initially fell by about 1.5 percent on the news before recovering most of the losses a few hours later.

Medvedev said Russia hopes the ban will stop the West from ramping up sanctions, which it has done several times this year as the crisis in Ukraine has deepened.

"We didn't want such developments, and I sincerely hope that our partners will put a pragmatic economic approach above bad policy considerations," he said. He said Russia's ban could be lifted before the year is up if "our partners show a constructive approach."

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Weafer said that the import ban was obviously aimed at discouraging the EU from imposing further sanctions. "It was already quite difficult to get the consensus for the last round of sanctions, but now there that there are clearly consequences, especially for some countries more than others, it will make it even more difficult," he said.

If the West doesn't change course, Russia may introduce restrictions on the import of planes, navy vessels, cars and other industrial products, Medvedev warned. He also said that in response to EU sanctions against Russian low-cost airline Dobrolet, Russia is also considering a ban on Western carriers flying over Russia on flights to and from Asia, which would significantly swell costs and increase flight time.

He announced a ban on Ukrainian carriers to fly over the Russian territory.

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