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ROLE OF FOOD EMBARGO IN ECONOMIC GROWTH

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Abstract

Russia has resorted to retaliation because of the Western sanctions; on August 6, 2014 an embargo against the EU countries, USA, Canada, Australia and Norway in response to Western sanctions was introduced. Later five more countries have been added to the blacklist. At the moment the embargo was extended until the end of 2018.

The embargo has been introduced into a number of groups of food products. Since 2014, Russia began to use the import substitution policy, which began to benefit recently. (Russian Government, 2014) The objectives of the state program include: development of import-substitution sub-sectors of agriculture including vegetables, fruits, dairy and meat cattle breeding, using the competitive advantages of the country, most notably the presence of large areas of agricultural land. There is an increase in revenues of producers of agricultural products. Sustainable development of rural areas is observed as a precondition for the conservation of labor force and the territorial integrity of the country. Exports of food and agricultural raw materials increase for saturation of domestic agricultural market.

Despite the initial deterioration of the economic situation in the country after the introduction of Russian embargo expressed in the devaluation of the ruble, as a consequence of the increase of the inflation rate, excluding cheap imported goods from shelves, there is a sharp decrease in the purchasing power of the population. At the moment there is a gradual recovery of the Russian economy as a result of the food embargo.

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1. Introduction

The work examines the impact of import substitution policies in connection with the introduction of sanctions against Russia on August 6, 2014 on the economic situation in Russia. Since the food embargo has affected the scarcest areas, an assessment of the development of domestic production and the increase in demand for home-produced goods of Russia is given. An analysis is made of the growth in the share of farms, in the production of agricultural products. The dynamics of the development of import-substituting industries (The Ministry of Agriculture of the Russian Federation, 2017a; Federal State Statistics Service of the Republic of North Ossetia, 2016) in the Republic of North Ossetia-Alania is considered, including the regional plan for import substitution for 2016-2020 (Russian Expert, 2016).

2. Problem Statement

In the modern world, there is the trend of increasing the number of economic sanctions. This is mainly due to the globalization of international economic processes, which are characterized by an increasing degree of integration of both markets of goods and services and capital. At the moment, the stable position of the state is determined mainly by the level of development of its economy. In this regard, the termination or restriction of economic relations can have serious consequences for the normal performance of the state. Some States often use one-way restrictions as an instrument of foreign policy. However, economic sanctions entail costs both on the part of the initiating country and the recipient country.

3. Research Questions

The subject of the study is the factors, conditions and consequences of the introduction of trade sanctions in the context of the food market of the Russian Federation and its regions/

4. Purpose of the Study

The purpose of the study is to analyze the main trends and directions of development of the food market of the Russian Federation in the situation of initiation of economic and political sanctions..

5. Research Methods

The methodological basis of the research is based on such General scientific methods as dialectical, system-structural, logical, analysis and synthesis.

6. Findings

Prior to the entry of the reciprocal sanctions into force, the greatest dependence of Russia was traced in imports of fruit (domestic production accounted for less than 40% of total demand), vegetables, meat and meat products, fish and seafood, milk and dairy products. As you can see, the food embargo affected the most deficient area. Russia could not fully compensate for the shortfall by increasing the volume of purchases in other countries; however, the resulting shortage came out as a domestic producers' protection from foreign competition, providing the impetus to the development of domestic production and the impetus for consumers to buy goods which are produced in Russia. As a result, in 2014 the domestic

production appeared, which was aimed at import substitution of foreign products. All of the above corresponds to the goal of increasing food self-sufficiency that was almost impossible because of the relatively low level of competitiveness of agriculture in the Russian Federation.

In addition to the emergence of new industries, pre-existing agricultural production is actively developing too (table 1).

Table 01. New domestic production of the sanction products that were appeared after the entry into the force of the food embargo as part of the import substitution program (Import substitution)

The name of the product (production)	The location of the production	The date of the beginning of the production
Cheese “Parmesan”	Tatarstan	08.09.2014
Cheese with mold: kalamber, Roquefort, Dor Blue	Smolensk region of Altai Krai	15.09.2014
Hamon (Uncooked jerked pork ham)	Sverdlovsk region	22.12.2014
Cream cheese “Mascarpone”, cheese “Feta”	Altai Krai	20.01.2015
Cheese: mozzarella, buratto, ricotta, etc. strakino and other 10 kinds of Italian cheese.	Vladikavkaz, Republic of North Ossetia-Alania	10.03.2015
The first farm for breeding airbreathing catfish	Belgorod region	24.11.2015
Greenhouse complex with the capacity of 11 thousand tonnes	Belgorod region	11.12.2015
“Caspian sardines in oil” (analogue of “Riga sprat”)	Kamyzyaksky District, Astrakhan region	17.02.2016
Tomato paste	Astrakhan region	02.09.2016
Production of sugar beet seeds	Orlov region	03.10.2016
Production of meat delicatessen products	Belgorod region	06.10.2016
Production of nitrite salt (previously this production that is necessary for the production of sausages came exclusively from abroad)	Leningrad region	05.12.2016

For example, by encouraging the public subsidies in 2015, the Federal State Unitary Enterprise “Manssandra” in one year developed 21 hectares of vineyards in Crimea for the first time in 20 years, which will reduce the shortage of its own grapes several times for winemakers and reduce the supply of imported grapes in the future. Also there was an increase in cultivation of local pumpkins in the Volgograd region, which completely replaced the volume of the previously imported pumpkins from Ukraine. By increasing the amount of support to agricultural producers from 1 to 2.5 bln. Rubles in 2014 and 2015, Vologda region was almost completely able not only to provide itself with basic food, but also to establish the export of food manufacturers from Vologda to 20 Russian regions and 16 foreign countries. In the Tyumen region the volume of cheese production increased by 44%, including the launch of new types of cheeses such as “Adam” and “Gouda”.

Volumes of agricultural products that are produced on private farms and farms of the population form more than half of the industry’s products. There is a steady increase in the proportion of farms in the production of agricultural products including individual entrepreneurs. If in 2013 the volume of the produced products in the above farms was 9.8% of the total production volume, this value increased to 12.5% in 2016 (The Ministry of Agriculture of the Russian Federation, 2017b). Also the number of farms of the start-up farmers who realized the development of their farms increased with the help of state support (3665 units – 2016, 3508 units – 2015). In 2016, the growth of the medium-sized grant was traced for one

farm of the start-up farmer, whose value amounted to 1.26 million rubles, which is by 10.5% higher than the corresponding values in 2015. Moreover, households' grantees created more than 5000 new jobs in 2016 as a whole, in the family livestock farms – more than 2 thousand.

Federal State Statistics Service has implemented a special section “Indicators characterizing import substitution in Russia” that reflects the different indicators, which are related to the sanctions products. As table 2 shows food imports have actively reduced since 2014. Over the past 2.5 years the Russian Federation managed to replace the imported food with domestic products in the amount of 4 billion USD. As a result, in 2016 the Ministry of Industry and Trade of the Russian Federation noted that the share of imports on the shelves of Russian grocery stores is record low in this millennium, which amounted to 22%. For some product types the proportion of domestic products reached the level of 95-100%.

Table 02. The share of imported food products of food resources in retail trade, %. (Federal State Statistics Service, 2017a)

Year	Share, %
2014	34
2015	28
2016	22

Let us consider the dynamics of domestic production of sanctions products from 2013 to 2016 (table 3).

Table 03. Production of basic import-substituting food products in the Russian Federation, thousand tons. (Federal State Statistics Service, 2017b)

Position	2013	2014	2015	2016
Beef	240,6	224,1	254,1	263,3
Pork	1299,5	1525,7	1763	1993
Meat and offal of poultry	3610	3979	4340	4457
Sausage	2502	2476	2445	2411
Fish (all subgroups)	4067	3685	3852	4250
Seafood	104	120	97,8	118,4
Frozen fruits and vegetables	45,3	45,8	55,4	60,0
Canned fruits and vegetables, million conditional cans	7635	7851	7248	6766
Dried fruits, berries and nuts	10,1	12,0	12,2	11,1
Milk production (in terms of milk), million tons	11,5	11,5	11,7	11,9
Liquid processed milk	5386	5348	5447	5490
Cream	103	115	121	125
Cottage cheese	371	387	416	405
Butter	225	250	256	247
Cheese and cheese products	435	499	589	600
Condensed milk products, million conditional cans	860	833	828	847
Dairy products except cottage cheese and sour cream	2521	2520	2445	2480

The increase in production of these products is quite substantial and is 14% in 2013, which is the last placid year. At present there is almost a complete substitution (95-100%) of imported domestic products. It includes bread, milk, sugar, cereals, pork and poultry, fish, eggs and pasta. In addition, the

meat, imported from abroad and subject to the lifting of sanctions, would not be competitive in the Russian market, taking into account the devaluation of the ruble. Imported food is completely replaced by domestic production in the vegetable market due to the emergence of new and modernization of old greenhouses in various regions of the Russian Federation. It shows the greatest growth of fish production, which increased by 11% in 2016 and by 15% - in 2015 compared to 2014. Also there is an increase in production of fruits and vegetables (31%), pork (30%), cheese and cheese products (20%), beef (17%), poultry (12%), cream (8%), whole milk (3%), milk (2%), condensed milk products (1%) (Federal State Statistics Service, 2017). Food products cost 42-44 billion USD before the introduction of Russian reciprocal sanctions; now the costs are 23-24 billion dollars.

In addition, purchases of sunflower oil from abroad almost completely stopped. If sunflower was sold abroad at the rate of 8-9 billion rubles prior to the Russian import substitution policies, getting it back in the form of sunflower oil at a much higher price, at this moment, this practice has virtually ceased.

There is the consideration of the dynamics of the development of import-substituting industries in the Republic of North Ossetia-Alania. The regional plan on import of North Ossetia-Alania to 2016-2020 and a list of priority sectors was approved in 2016 which aimed to organize the production of import-substituting products, the development of enterprises of new products, increase competitiveness and the share of domestic suppliers and export goods republic producers, their integration into global production chains (Regional Government, 2018). In agriculture of the North Ossetia-Alania priority sectors are the production of meat and meat products, milk and dairy products, cultivation of potatoes, vegetables, fruits, production of their processing, production and processing of fish, fry breeding.

In connection with this plan there were projects of companies in North Ossetia-Alania which have the potential for the development of import-substituting production. These projects include the following:

1. Construction of a fully robotic farm for 1,200 head of dairy cattle and milk processing plant with a workshop for the production of cheese. The initiator of the project is LLC "Agribusiness Holding" Master Prime. Birch". The project will produce sour milk products, butter, milk, cream and other dairy products in solid forms.
2. Creation of capacities for the production of tomato paste through the acquisition of additional equipment and farm machinery. The initiator is LLC "Agrofirma" Kazbek". The project includes the production of fruit and vegetable juices, the cultivation of grain and leguminous crops, the production of canned fruits and vegetables.
3. Construction of a loft-room in the 3144 tons of simultaneous storage and workshop for fruit processing. The initiator – the SEC "De Gusto." This project will allow growing grapes, potatoes, table edible roots and tuber crops with a high content of starch, grains and legumes.
4. Expansion and modernization of the enterprise JSC "Mikhailovsky" which is the initiator of the project. It implies the breeding of poultry, the production of poultry and rabbits, wholesale and retail trade of meat, poultry meat, products and canned meat and poultry meat.
5. Construction of a hothouse of 5 hectares that is initiated by the SEC "RA". The project involves the production of vegetables in the greenhouse complex.

6. Garden stowage of intensive type of 600 hectares. The initiator – LLC “Cossack farm”. The project includes the cultivation of fruit, nuts, beverage crops and spice.
7. The complex of fattening, slaughtering and processing of cattle capacity of 1500 tones of meat per year which is initiated by LLC “MITEK”.

Also in the North Ossetia-Alania, it was planned to establish farms for breeding yaks. This offer of the North Ossetian farmers roused interest of the Ministry of Agriculture and Food of the Republic, which provides support for the implementation of this idea.

In North Ossetia-Alania, the number of peasant farms has increased to third. At the beginning of 2017 their number has reached 1500, which is more by 400 farms over the same period of 2015.

Despite the fact that in 2016 the volume of agricultural production of all agricultural producers (agricultural organizations, farmers, population), according to preliminary estimates, decreased by 14.8% and made up to 24.7819 billion rubles, there was the increase in indicators of certain types of agriculture (table 4).

Table 04. Production of main types of livestock and poultry (Regional government, 2018)

Position	Thousands of livestock	2016 to 2015
Pork	26,5	Increase by 26,8 %
Beef	49,8	Decrease by 11,0 %
Poultry	1106,3	Increase by 0,4 %
Sheep and goats	63,9	Decrease by 16,5 %

An increase in the number of pigs and poultry was observed for animal breeding market. At the end of December 2016 the number of cattle in farms of all categories, according to estimates, amounted to 111.2 thousands heads (by 8.7% less compared to the same period of the previous year).

In agricultural organizations the number of pigs increased by 74.9%, poultry – by 19.2%, the number of cattle decreased by 3.1%, cows – by 1.1%, sheep and goats – by 11.8% by the end of December 2016, compared to the corresponding period in 2015.

In agricultural organizations production of livestock and poultry for slaughter (live weight) decreased by 56.8%, milk production increased by 19.3%, egg production – by 46.7% in December 2016 compared to December 2015. Most of the increase in sales occurred in the milk market, butter, cheese.

Also, the yield of grain crops was increased in the North Ossetia-Alania by 100 thousand tons at the end of 2016 in comparison with 2015. It has been collected 584 tons of maize and 98 800 tons of wheat. There is an observation of an increase in rates of potato yield. 98,800 tons of potatoes were harvested in the agricultural organizations. This indicator is higher with 200 tones than the that in 2015.

The turnover of wholesale trade in food products as a whole grew by 69.2% in 2016 compared to 2015. The greatest growth was seen in sales of vegetable oil, cheese, butter and milk (table 05).

Table 05. Sales in the wholesale market of certain types of goods (products) by wholesale organizations (excluding small businesses). (Regional government, 2018)

Position	2016	2016 by 2015, %	2015 by 2014, %
Drinking milk	2390,8	113,7	104,5
Animal oil	471,3	114,6	102,5

Cheese	223,0	127,4	119,4
Vegetable oil	421,3	154,6	158,7
Pasta	77,1	95,4	77,6
Flour	64,7	68,7	31,3
Confectionery	2388,4	114,9	115,5

7. Conclusion

As a result, the action of the food embargo for a number of countries in Western Europe and North America and the growth rate of world currencies against the ruble gave the opportunity to increase the competitiveness of agro-food products in the domestic and foreign markets, to increase production volumes and, as a result, to maintain stable dynamic development of the industry (Bloomberg, 2016). There is the development of import-substitution sub-sectors of agriculture, including vegetables, fruit, dairy and livestock. The authors also noted minimization of imported goods on the shelves of Russia that demonstrates the effectiveness of the import substitution policy of the Russian Federation. In particular, the positive dynamics in some sectors of agriculture of the Republic of North Ossetia-Alania such as the production of pork and poultry, cereals, potatoes, milk, butter, cheese..

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