



Agriculture and
Agri-Food Canada

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RUSSIA

Agri-Food Trade Synopsis

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Canada

Executive Summary

Russia has the capacity to become a major agricultural player. Modernization of farms and simplification of agricultural support mechanisms should result in more efficient production, although land reform and better functioning credit markets are also required. Moreover, possible accession into the WTO and increased links with the EU should bring Russia onto the world agricultural stage.

Russia is a large agri-food and seafood importer, with an agri-food trade deficit running more than \$7.5 billion USD. Canada's agri-food and seafood trade with Russia has been variable since 1999. Between 1998 and 2000, Canada was a net agri-food importer from Russia; for 2001 and 2002, Canada was a net exporter, with exports valued at \$72.9 million and imports at \$68.6 million. Canada's main exports to Russia include meat, seafood and oilseeds. Possible opportunities for exporters include the export of meat offal, pet food and water.

1. Overview of Russia

After the fall of Communism in 1991, Russia was plunged into economic and political turmoil. Rapid privatization of state-owned enterprises and uncertainty of the future caused some economic decline, though the agricultural sector did provide some cushioning. Further uncertainty was introduced to the economy in 1998 with a large depreciation of the rouble. Real GDP per capita fell but has more than made up the losses. Agriculture was particularly hard hit with a significant withdrawal of state subsidies. Once self-sufficient for grains, Russia required food aid of more than \$1 billion (USD) in 1999.

Since then, real GDP per capita growth has averaged more than 6.5 per cent per annum.¹ Although some of this can be credited to rising oil prices, the World Bank estimates that GDP growth, holding oil prices constant, still exceeded 4 per cent. Moreover, the inflation and unemployment rates have both been lowered in recent years. Agricultural output has increased and the country appears to be more stable, both economically and politically.

2. Domestic Agricultural Environment

Much like the overall economy, recent developments in domestic agriculture have reversed trends that had started with the fall of

¹ *World Development Indicators*, World Bank.

Communism. These signs of stabilization and possible turnaround are positive for both domestic producers and consumers. Between 1990 and 1998, gross agricultural output fell by 45 per cent but then output increased 27 per cent through 2001. However, levels are still 30 per cent below 1990 levels. Recent statistics released by the Russian government indicate that agricultural productivity increased 1.5 per cent in 2003 over the previous year.²

Government intervention in the agricultural sector is focused more on tariffs and duties than direct producer subsidies. Calculations of Russia's producer support estimate vary greatly between years and products, ranging from -36 per cent on wheat to 67 per cent on poultry. By comparison, the EU subsidy levels were consistently higher but less variable between commodities. Table 1 summarizes Russia's level of support. Although Russian agricultural support remains relatively small, government intervention in the sector to protect domestic supply has been, more often than not, ambiguous. For example, export tariffs on selected oilseeds were increased in 2001 from 10 per cent to 20 per cent in an attempt to make available more supply for the domestic oil and fat industry. The result of this policy exercise was that oilseed production fell and domestic prices rose causing increased imports.³

	1993	1997	2001
Russia	-24.4%	30.1%	10.3%
Canada	24.7%	14.3%	17.4%
EU	37.2%	31.9%	35.0%

Source: OECD

The structure of farms in Russia and the financial health of their producers have become a serious issue for the government. Bankruptcy among farmers is large and with few formal bankruptcies and the ability to continually rollover debt, there is little incentive to produce efficiently. On the other hand, the devaluation of the rouble in 1998 made agri-food imports much more expensive and thus domestic demand was stimulated. Rising domestic commodity prices infused energy and resource companies with additional funds for potential diversification. These factors contributed to the rise of gigantic agricultural enterprises. It is estimated that a few companies now operate approximately 10 per cent of all agricultural land in Russia.⁴

² "Russian Agriculture Productivity Increased by 1.5% in 2003." Russian Information Agency (Novosti): February 5, 2004

³ *Agricultural Policies in Transition Economies: Trends in Policies and Support*, OECD, 2002.

⁴ The full extent of their holding will not be known until 2005 when the first agricultural census will be performed since 1920.

As part of President Putin's reforms, a new land law has been announced. This law will partially free plots to be leased for up to 49 years to others, but not to any foreign person or organization. Remaining is the discrimination in the issuance of permits and restrictions on foreign investment. This is but one step along the path to greater agricultural efficiency and domestic production.

Russia's capital costs relative to wages are significantly higher than most other Western nations and thus it has a comparative advantage in producing labour-intensive crops, although Russia has a comparative disadvantage in almost all agricultural outputs.⁵ As an example of Russia redistributing resources more efficiently, physical capital in the sector has fallen. The number of tractors in use has fallen from 1.3 million in 1992 to 0.8 million in 2001. Furthermore, harvesters have also declined by more than 40 per cent over the same period.⁶ But in a proposed plan to counteract the increasing disrepair of the country's agricultural capital, the government has expressed interest in increasing access to loans from the state agricultural bank.

In a study performed in 2002, it was shown that Russia has a comparative disadvantage in agricultural outputs vis-à-vis agricultural inputs.⁷ Performed using 1996-97 data, the study found that it would be welfare-raising to substitute imports for domestic production in many products, especially meat. Where Russia has a relative domestic comparative advantage is in agricultural inputs (such as fertilizer and energy). Within the country, it is advantageous to substitute meat production for bulk commodity production (such as wheat and sunflower seeds). On the whole, however, Russia is not cost competitive in any of the main agricultural outputs. As the agricultural market matures in Russia, movements to better reallocate resources should change the structure of Russian agri-food import demand.

Despite these factors, it is the policy of the Russian government to increase agricultural output in an attempt to reduce its dependence on agri-food and seafood imports. One measure used to achieve this is the adoption of TRQs on a broader range of high-value products (such as poultry) while reducing import tariffs on corn and feedstuffs (to stimulate high-value domestic production).

⁵ *Agricultural Productivity and Efficiency in Russia and Ukraine: Building on a Decade of Reform*, USDA ERS, 2002.

⁶ FAO Statistics

⁷ Liefert, William M. "Comparative (Dis?)Advantage in Russian Agriculture." *American Journal of Agricultural Economics*, 84(3), August 2002, pp. 762-767.

Investments in Russian agriculture are rising, but they are increasingly coming from domestic sources. Of the CIS countries, Russia already has the third lowest net foreign direct investment (FDI) per capita.⁸ Moreover, FDI directed towards the food industry has fallen considerably year-over-year.⁹ But, as mentioned above, newly-endowed Russian resource companies have invested considerably in the sector. With ongoing reforms, domestic investment should continue to increase. As a sign of possible increasing foreign investment, the governments of Russia and the United States signed a MOU underscoring their commitments to greater investment opportunities in agriculture, among others, in May 2003.

3. The 1998 Economic Crisis

In 1998, Russia faced its most severe economic crisis since the fall of Communism. The effects of the crisis, brought on by the default on government debt and the devaluation of the rouble, were capital flight, higher unemployment, soaring inflation, and shrinking GDP.

The effect of the crisis on food consumption was negative, as domestic prices increased while incomes decreased. For agriculture as a whole, however, the period following was a positive shock to the sector. Where data are available, quantities imported by Russia in most cases doubled between 1999 and 2002. There was a large drop between 1998 and 1999, but the resulting real income increases rekindled demand for foreign foodstuffs. Exports, even outside of grains, saw large increases in quantities shipped between 1998 and 1999, as the devaluation worked in exporters' favour. The full effect of the depreciation was not distributed evenly, as processed food exporters saw large gains and primary producers incurred losses.¹⁰

Because of the problems that the 1998 crisis created for the domestic and foreign affairs of Russia, only data from 1999 to the most recent will be compared in this report.

4. Trade Profile

Currently, Russia is in accession negotiations with the WTO. A major stumbling block appears to be agriculture and resistance to moving away from tariffs to a more direct support system. The process

⁸ *Finance and Development*, World Bank, December 2003.

⁹ Institute for the Economy in Transition, Russia.

¹⁰ Economic Research Service, USDA, March 8, 2001.

by which trade agreements are negotiated and implemented further exacerbates the problem. Like most federal systems, national and sub-national or regional governments share responsibilities that can affect trade, such as health and safety regulations. In Russia, however, some regions have intentionally blocked international trade to pursue protection for local producers. The central government has become more engaged in regional affairs to ensure that a relatively homogenous policy regime exists throughout the country. Not only will this central co-ordination effort satisfy concerns of the WTO but should also improve accessibility of foreign goods into Russia as regional differences decrease.¹¹

Russia is also a member of the Common Agrarian Market (CAM). Composed of most of the Commonwealth of Independent States (CIS), the CAM aims to have the free flow of agricultural products, food, and technologies. Since being signed in 1998, however, little has come of the agreement. Russia unilaterally imposes zero tariffs on fellow CIS countries' agricultural exports but reciprocation is not automatic.¹² This agreement, if implemented, has the dual possibility of further developing Russia's fragmented agricultural sector while diverting trade from the rest of the world to within the CAM.

Links to the European Union have been strengthened following the 2000 presidential election. The EU is keen to improve relations between the two regions. First, the EU is a large net importer from Russia, mainly in the form of energy, and wishes to solidify that relationship. Second, the EU enlargement in 2004 will see the accession of 10 new states, many of them with strong economic and political ties to Russia. These factors have led the EU to pursue the possibility of establishing a common economic space between the EU and Russia. If this path of economic integration continues, there will certainly be some trade diversion away from North America and towards Europe.¹³

¹¹ *Trade Policies in Russia: The Role of Local and Regional Governments*, OECD (2003).

¹² Fock, Achim et al. "Russia's Bilateral Agricultural Trade: First Results of a Partial Equilibrium Analysis" in *Russia's Agro-Food Sector: Towards Truly Functioning Markets* (eds. Peter Wehrheim et al.), Kluwer Academic Publishers: Dordrecht, The Netherlands, 2000.

¹³ *Russia: Country Strategy Paper, 2002-2006*, European Commission of the European Union, 2001.

International Perspective

Russia is an extremely large net importer of agri-food and seafood products. In 2002, agri-food exports were valued at \$2.3 billion (USD), while imports exceeded \$10.0 billion (USD). The trade deficit has risen sharply since the currency troubles in 1998. All of this is despite the fact that domestic agricultural production per capita has increased 19.2 per cent between 1998 and 2002.

Russian agri-food exports in 2002 increased significantly over the previous year due partly to excellent weather which provided for a large wheat harvest. Because of the large devaluation of the rouble in 1998, inter-year comparisons of imports and exports directly around this period are difficult. Where aggregate quantities exist, quantities exported appear to have decreased in 1999 but not to the full extent that values of imports and exports decreased.

	1999 Value	Share		2002 Value	Share	Change (%)
OVERALL	953.0	100.0		2,301.1	100.0	141.4
Fish & seafood	257.4	27.0	Cereals	980.8	42.6	1,554.7
Rawhides & skins, bovine & equine	122.6	12.9	Fish & seafood	382.6	16.6	48.7
Oilseeds	68.9	7.2	Beverages & spirits	110.6	4.8	143.3
Cereals	59.3	6.2	Sugars & confectionary	78.5	3.4	54.2
Sugars & confectionary	50.9	5.3	Cocoa & preparations	75.3	3.3	143.2
Beverages & spirits	45.5	4.8	Tobacco & substitutes	68.3	3.0	1,889.7
Casein & derivatives	44.5	4.7	Misc. edible preparations	64.9	2.8	215.8
Edible prep. of meat and fish	43.2	4.5	Dairy, eggs & honey	61.4	2.7	127.5
Cocoa & preparations	31.0	3.2	Animal & veg. oils & fats	57.1	2.5	128.6
Prep. cereal, flour & milk	27.6	2.9	Edible prep. of meat and fish	55.2	2.4	27.9

Source: World Trade Atlas. Value is in millions of US dollars.

As seen in table 2, the overall value of Russia's agri-food and seafood exports have increased considerably since the devastating effects of the economic crisis. Interestingly, the composition of Russia's exports has changed dramatically. Fluctuations such as these are common in countries in transition as agricultural producers slowly

adapt to free(r) market mechanisms and incentives. Moreover, economic and political uncertainty coupled with inconsistent government policy can blur market signals.

Russia's exports, which were 74.5 per cent non-bulk in 1999, have reverted to only 40.9 per cent non-bulk by 2002. Their regression in agri-food processing may be caused by a better alignment of resources due to capital-to-labour costs.

Exports of wheat can be credited with a substantial portion of the rise in value between 1999 and 2002. 2002 was a record harvest year for Russian grain; 2003 should provide even greater exports of wheat. Although wheat harvests are expected to be down from last year, increased world grain prices are expected to provide incentives for the export of greater quantities of wheat onto the world market. The figure for 2003 is expected to be an increase in quantities exported of 12 per cent over 2002.¹⁴

	1999 Value	Share		2002 Value	Share	Change (%)
OVERALL	8,020.0	100.0		10,021.2	100.0	25.0
Sugar & confectionary	1,256.2	15.7	Meat & offal	2,294.8	22.9	90.4
Meat & offal	1,205.2	15.0	Sugar & confectionary	992.6	9.9	-21.0
Tobacco & substitutes	795.1	9.9	Edible fruits & nuts	802.3	8.0	82.7
Cereals	631.6	7.9	Tobacco & substitutes	753.9	7.5	-5.2
Animal & veg. oils & fats	579.1	7.2	Beverages & spirits	623.5	6.2	102.3
Edible fruits & nuts	439.0	5.5	Animal & veg. oils & fats	599.4	6.0	3.5
Edible veg. & roots	360.7	4.5	Misc. edible preparations	435.7	4.3	60.0
Coffee, tea & spices	313.0	3.9	Prep. fruits & vegetables	425.4	4.2	98.4
Cotton, not carded/combed	310.9	3.9	Dairy, eggs & honey	425.4	4.2	64.1
Beverages & spirits	308.1	3.8	Cocoa & preparations	399.2	4.0	138.7

Source: World Trade Atlas. Value is in millions of American dollars.

As seen in table 3, demand for foreign agri-food and seafood products increased between 1999 and 2002. The largest monetary

¹⁴ *AgraFood East Europe*, October 2003.

gains were in meat and its derivatives, while the largest percentage gains were in cocoa. Of the meat imported in 2002, poultry was the most significant at \$810.7 million, followed by pork at \$672.3 million and finally beef at \$589.2 million. While pork and beef exports have stagnated, poultry imports have flourished, rising more than 425 per cent between 1999 and 2002. The prospect for continuation of poultry import growth is limited. Between 1997 and 2004, domestic poultry production will have increased by 320 per cent. Furthermore, the government of Russia introduced a poultry quota in May 2003 that will limit imports and raise domestic prices, encouraging further expansion of the market by existing producers. Russian imports for 2004 are expected to fall 11 per cent over 2003 levels.¹⁵

Increases in beverage imports are almost entirely explained by the import of wine and spirits, which saw growth of 69.7 per cent and 143.6 per cent, respectively. Wine was predominantly imported from Moldova and spirits, usually in the form of grape brandy, from France.

Exactly opposite the trend seen in Russian exports, the composition of Russian imports became more processed. In 1999, 64.0 per cent of imports were non-bulk while by 2002, the ratio had reached 77.7 per cent. This is probably due to a restructuring of the Russian economy away from capital-intensive processes and towards cheaper, labour-intensive industries. Therefore, import substitution is playing a part in the relative move away from domestic capital-intensive processes.

Identified below in table 4 are selected products that have had large increases in import values in Russia. Some of these, such as shrimp and prawns, are very small markets and can be influenced by changes in domestic supply, such as catch sizes. For shrimp and prawns, the import demand has been constantly trending upwards since 1999. Other products, such as chocolate food and juices, have established markets that have been built upon over the three years.

Table 4 SELECTED RUSSIAN AGRI-FOOD AND SEAFOOD IMPORTS			
	1999 Value	2002 Value	Growth (%)
Shrimp and prawns, frozen	2.4	18.7	679.2
Chocolate food	52.7	158.8	201.3
Apples, pears and quinces, fresh	68.1	166.8	144.9
Fruit and vegetable juice	52.9	128.0	142.0
Frozen fish, not fillets	95.0	226.1	138.0

Source: World Trade Atlas. Value is in millions of American dollars.

¹⁵ *Poultry and Products Annual: Russian Federation, 2003*. Foreign Agricultural Service, USDA.

Canadian Perspective

Canada's agri-food and seafood trade with Russia is quite small, usually amounting to less than \$200 million (CDN). For the years 2001 and 2002, Canada was a net agri-food and seafood exporter to Russia; for the three previous, however, Canada was a net importer. In 2002, Canadian exports were valued at \$72.9 million and imports at \$68.6 million.

As can be easily seen in table 5, Canadian exports to Russia in 2002 were highly concentrated in the meat and meat offal industry. Because the value of overall annual shipments is so small, the percentage change values can be easily inflated with only a minor variance in trade.

	1999 Value	Share		2002 Value	Share	Change (%)
OVERALL	47.5	100.0		72.9	100.0	53.3
Tobacco & substitutes	29.0	60.9	Meat & offal	61.8	84.8	1281.1
Meat & offal	4.5	9.4	Fish & seafood	3.8	5.3	389.6
Misc. edible preparations	3.5	7.4	Oilseeds	1.5	2.1	645.0
Edible prep. of meat & fish	2.9	6.1	Edible prep. of meat & fish	1.4	2.0	-50.4
Beverages & spirits	2.8	5.8	Food industry residues	1.0	1.3	108.8

Source: World Trade Atlas. Value is in millions of Canadian dollars.

Canada's meat exports to Russia in 2002 were primarily derived from pork and pork offal (\$43.7 million) and poultry and poultry offal (\$15.4 million). Canada's beef exports to Russia are close to zero. Frozen shrimp and prawns (\$2.1 million) and fresh lobsters (\$1.0 million) are the main fish and seafood exports to Russia.

5. International Competitors

Surprisingly, Brazil is Russia's single largest supplier. Most of Brazil's exports are pork and poultry. This trend should continue to increase, as the Brazilian government collaborated with industry in

	1999	2002
Brazil	8.4%	12.4%
United States	9.8%	7.4%
Germany	6.5%	6.8%
Ukraine	6.7%	6.2%
Netherlands	4.3%	4.6%

Source: World Trade Atlas

2001 to create a company with the sole purpose of exporting pork and poultry to Eastern Europe and Russia.¹⁶ The United States has lost considerable market share in the span of the three years described. For the US, most of the decline can be attributed to decreased poultry imports.

It is difficult to fully ascertain the relative strength of a country's exports to Russia because of the implementation of tariff rate quotas (TRQs) and import quotas. Country-specific quotas have been used extensively by the government for imports of meat. These provide considerable advantages to quota holders and present trade barriers, which are not easily overcome, to those that do not.

Table 7 lists selected countries that have had noticeable export

Table 7		
SELECTED AGRI-FOOD AND SEAFOOD EXPORTERS TO RUSSIA		
	1999	2002
China	2.3%	3.5%
Turkey	1.1%	1.7%
Norway	0.8%	1.6%
Viet Nam	0.2%	0.6%
Canada	0.5%	0.6%

Source: World Trade Atlas

performance in the Russian market. China's continuing openness to global trade has seen its market share greatly increase in almost all countries. Turkey and Norway, both of which have close ties to the European Union (the first because of

accession negotiations and the second because of a free trade agreement), have a greater presence in Russia, which also has close ties to the EU.

The EU itself has increased its share, going from 26.8 to 28.6 per cent. Other world regions have seen declines, such as Asia, which fell from 23.7 to 19.9 per cent, and, most surprisingly, other countries in the Commonwealth of Independent States. Their representation in the Russian market plummeted from 20.8 per cent to 14.5 per cent. This diversion of trade to EU-affiliated partners may represent future increased trade linkages because of the EU's role in liberalizing trade in that region of the world and the presence of foreign direct investment.

Table 8							
LEADING IMPORTS BY COUNTRY OF ORIGIN							
Poultry		Tobacco		Pork		Frozen Beef	
Country	Share	Country	Share	Country	Share	Country	Share
US	51.4	US	16.3	Brazil	60.3	Ukraine	34.3
Brazil	24.7	Brazil	14.2	China	11.3	Germany	13.8
France	6.2	Greece	6.1	Denmark	5.8	Ireland	12.5
Germany	4.1	India	5.3	Germany	5.1	Spain	6.3

¹⁶ *Brazil Plans to Increase Meat Exports to Russia*. Foreign Agricultural Service, USDA, Nov. 28, 2001.

Belgium	3.2	Turkey	5.3	Canada	3.5	Poland	5.5
Canada	1.5	Canada	0.0	US	2.8	Canada	0.0
Total imp.	\$810.7		\$753.9		\$672.3		\$539.9

Source: World Trade Atlas for year 2002. Value is in millions of American dollars.

Table 8 above outlines Russia's major imports and how Canada's coverage compares to other nations'. Canadian access to the pork market is very strong, especially in comparison to the Americans' market share. In the two other meat markets, beef and poultry, Canada has little presence. Beef exports by Canada have been zero for many years, while the Americans have exported only small amounts in 2001 and 2002. This is surprising, as Russians consume more beef than either pork or poultry. Quotas implemented in 2003 appear to have closed off this market in the short term.

The tobacco market in Russia, although relatively lucrative and untapped by Canadian sources, does not appear to be a growth market. Domestic production has increased substantially – 2003's crop is expected to be one-third higher than the previous year's. Furthermore, following the trend seen in most other developed countries, tobacco consumption is on the wane. These two forces are causing an oversupply within in the country and thus Russia is exporting much more of its crop.¹⁷

6. Market Structure

Domestic Consumption and Imports

Comparing values of domestic consumption to imports, as outlined in Table 9, offers information on the degree to which a country is open to trade. Compared to a more developed entity, such as the European Union, Russia appears to be very inward-oriented. Most notably this occurs in the very basic commodities, such as wheat, milk and potatoes. For the short-term, these

	Russia	European Union
Wheat	8.1	35.1
Rice	55.7	88.0
Meat offal	31.7	27.9
Potatoes	1.5	23.7
Vegetable oils	74.8	155.6
Beef and veal	22.0	24.8
Swine	22.5	25.1
Pulses	38.4	43.7
Milk	5.5	29.7
Fish	53.6	122.1
Seafood (less fish)	35.6	86.5

Source: FAO Statistics for year 2001

¹⁷ *Tobacco and Products Annual: Russian Federation, 2003*. Foreign Agricultural Service, USDA.

indicators will probably remain steady or even drop, as the full effect of the TRQs is felt. In the long-term, however, rising incomes and probable accession to the WTO should drive the imports-to-domestic consumption values closer to those experienced in the European Union. Greater trade opportunities should arise.

Internal Competition

Retail sales following the 1998 crisis have been strong, as revenues increased 25 per cent in 2001 over the previous year. But the retail sector is highly developed only in the Moscow-St. Petersburg corridor, as the rest of the country lacks a formalized system of supermarkets and discount stores. Russia, and particularly Moscow-St. Petersburg, has been favoured as a source of foreign direct investment recently; in 2001, the retail sector was responsible for 19 per cent of all foreign direct investment flowing into the country. There is large growth in these areas both because retail space is significantly cheaper than elsewhere in Europe and currently only about 10-15 per cent of purchases are made in supermarkets. As supermarkets usually attract middle- to high-income earners, expansion of these should further induce consumption of high-value, imported products.¹⁸

Many of the interested foreign firms are from Europe, further strengthening the ties between Russia and the EU. Such corporations include Metro of Germany and Auchan of France. Although there are rumours that Wal-Mart may enter the market, nothing as yet has occurred. This trend has dichotomous results. On the positive side, the entrance of European firms will make market access easier for Western-style goods. Traditional foods will undoubtedly still be sold but products that also sell well in Europe will undoubtedly be introduced to the market. On the whole, prepared and ready-to-eat food products are most likely to be retailed as the profit margin and transportability of these goods is much higher. On the other hand, the presence of Europeans in lieu of North Americans may cause a preference for European-made food products over Canadian or American as sourcing from familiar, domestic suppliers is less onerous on foreign retailers.

¹⁸ *Exporter Guide Annual: Russian Federation, 2003*. Foreign Agricultural Service, USDA.

7. Opportunities for Canadian Agri-food Exporters

Overall agri-food trade with Russia should see sustained increases because of rising domestic demand that cannot be satisfied with domestic supply. Previous econometric studies have estimated that households in Russia allocate between 60 and 70 per cent of total expenditures on food.¹⁹ Furthermore, Russia's income elasticity of food is 0.617. Income elasticity of food measures the change in food expenditures for a given change in income. For example, an income elasticity of food of 0.617 indicates that a 10 per cent increase in income translates into an average 6.17 per cent increase in food expenditures. This value is extremely high – most industrialized countries' values are approximately half this elastic.

To put this in context, real GDP estimates of Russia's growth show that between 2002 and 2006, real GDP is projected to grow by 17.2 per cent. Multiplying this by the income elasticity of 0.617 yields a projected real growth in the demand for food of 10.6 per cent between 2002 and 2006.²⁰ Using a different methodology, Export Development Canada estimates that Russian imports (of all goods) should rise more than 17 per cent between 2002 and 2004.

The Moscow-St. Petersburg corridor is the most highly developed region in Russia and is naturally an entry point for foreign exporters. As the country further industrializes, other regions, such as to the east, where there is a highly skilled labour force, will also provide new opportunities.

As for specific commodities outlined above, there are reasons that the large increases seen in the last three years will not necessarily continue. Poultry exports are expected to decline slightly coming off their large import increases because of sectoral modernization and government intervention in the industry. Much the same situation exists in the fishery sector. Russia is a net exporter of fishery products, but reduced catches and a highly aged fleet have caused imports to rise temporarily. As part of a modernization programme for the sector, the government of Russia plans to distribute quotas in less of an *ad hoc* manner while also boosting incentives for repairs of the

¹⁹ Fock, Achim et al. "Russia's Bilateral Agricultural Trade: First Results of a Partial Equilibrium Analysis" in *Russia's Agro-Food Sector: Towards Truly Functioning Markets* (eds. Peter Wehrheim et al.), Kluwer Academic Publishers: Dordrecht, The Netherlands, 2000.

²⁰ Elasticities and GDP forecasts from *International Agricultural Baseline Data, 2003-2012*, USDA.

fleet, as 70 per cent of ships are below minimum standards. These measures will certainly boost production, but domestic consumption is very sensitive to income levels and the prices of substitutes, such as poultry and pork.²¹

With beef cattle herds falling year after year, the government of Russia has instituted TRQs for the import of these products that are expected to last for several years. These have also been enacted for pork. Their purpose is to raise the domestic price to dissuade further herd depletion. This will certainly reduce imports, as the tariff rate above the TRQ is prohibitive. Meat offal imports have risen steadily and are poised to continue to rise as they are not subject to the TRQ regulations. Because of rising prices of other meats, offal is a low-cost substitute that should see continued growth.²² Since 1999, Russian imports of meat offal have risen from \$45.6 million (USD) to \$111.9 million (USD) in 2002. Not only has Canada increased its value of imports but also its market share. The United States, however, controls 43 per cent of the import market while Canada's influence is only 3 per cent. It is believed, therefore, that there is room for expansion of Canadian exports of meat offal.

Because of the TRQs imposed on beef, pork and poultry, Canadian exports of these products are expected to decline, as mentioned above. Because of the resultant domestic price increases, large investments in those sectors are anticipated. Breeding stock and associated technologies should be in large demand. Attesting to this is the number of visits Russian producers have made to Canadian suppliers of high-quality genetics.

Although slightly different, exports of pet food may be an expanding market. Russia's imports are relatively small – \$22 million USD – but rising incomes and the emergence of the middle class may extend the current increasing trend. Much like pet food, Russia's imports of water are small but also may be growing with the middle class and the profusion of Western supermarkets. In 2002, Canada did not export water to Russia in a market worth more than \$20 million USD.

Dairy imports by Russia will continue to increase, as the OCED projects a rise in imports of over 40 per cent between 2003 and 2008.

²¹ *Fishery Products Annual: Russian Federation, 2003*. Foreign Agricultural Service, USDA.

²² *Livestock and Products Annual: Russian Federation, 2003*. Foreign Agricultural Service, USDA.

Butter imports are expected to rise by 35 per cent over the same period. Canadian exports of butter are zero and cheese is minimal (\$100,000 CDN in 2002). Because of supply management practices in Canada, however, the prospect for this rapidly increasing market will appear to be unchallenged.²³

Vegetable oil consumption per capita in Russia is approximately half that of the United States and Western Europe. Moreover, Russia is a large importer of edible oils, valued in 2002 at almost \$600 million USD. Much of this is soybean oil, which is sourced from the EU and South America. As incomes rise in Russia, there may be increased demand for higher-quality oils, such as canola. Imports of olive oil, for example, grew at more than three times the rate of all edible oils.

Further information on Russia from Agriculture and Agri-Food Canada can be accessed at <http://ats.agr.ca/europe/e2788.htm>. Also, general information on Canada's trading relationship with Russia is maintained by the Department of Foreign Affairs and International Trade at http://www.dfait-maeci.gc.ca/canadaeuropa/country_rus-en.asp.

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²³ *OECD Agricultural Outlook: 2003-2008*, OECD, 2003.