

## **Economic consequences of Russian embargo on meat and meat products**

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*Abstract.* The present article contains the assessment of scope and cost of import into the Russian Federation of Group 02 goods of Foreign Economic Activity Commodity Nomenclature EEU (further referred to as FEACN) in the embargo context. For the purposes of the assessment, statistical data on external trade of the customs service of Russia has been used. Analysis has shown that Group 02 FEACN EEU commodities are imported with a certain cyclicity. It has been noted that the reduction of the customs duty payment in 2014 as compared to 2013 on commodity item 0201 FEACN amounted to about 23% (5.2 mln US dollars), commodity item 0202 FEACN amounted to 8% (30 mln US dollars), commodity item 0203 FEACN - to 36% (500 mln US dollars), 0207 FEACN - 6% (9 mln US dollars).

*Key words:* meat, meat products, ban, embargo, customs duty, customs payments.

## 1 Introduction

In accordance with the Decree of the President of the Russian Federation № 560 dated August 6, 2014 "On Adopting Special Economic Measures to Provide for Security of the Russian Federation", the Government of the Russian Federation has banned import into the Russian Federation of agricultural products, raw materials and food products. The list of agricultural products, the countries of origin of which are the United States of America, EU countries, Canada, Australia and Norway which have been banned for import in the Russian Federation, includes beef (FEACN 0201 - 0202), pork (FEACN 0203), meat and poultry by-products (FEACN 0207), as well as sausages and similar products made of meat, meat by-products or blood; ready food products based on the above (FEACN 160100).

Table 1

Banned meat products

FEACN EEU	Name of goods
0201	Bovine cattle meat; fresh or cooled
0202	Bovine cattle meat, frozen
0203	Pork - fresh, cooled or frozen
0207	Poultry and poultry by-products specified in commodity item 0105, fresh, cooled or frozen out of 0210** Meat salted, in pickle-juice, dried or smoked
160100	Sausages and similar meat products, meat by-products or blood; ready foods made on their basis

## 2 Problem Formulation

It may be assumed that the introduction of ban and limitations for the import of FEACN 0201 - 0207 may lead to the situation when the Russian budget could short-receive a certain amount of custom payments. Therefore, a topical task today is to evaluate the consequences of embargo enforcement for the receipt of custom payments. At that, it is essential to consider, that in relation to goods coming from the counties of favorable treatment, Russia applies the rates of custom duties of the Unified Customs Tariff of Eurasian Economic Union (EEU). Goods imported for emerging markets are treated by the system of tariff preferences. The Treaty on Unified Customs Tariff Regulation dated January 25, 2008 introduces the unified system of tariff preferences.

## 3 Problem Solution

The unified system of tariff preferences of the customs union is applied for the purposes of facilitation of economic development of emerging markets and the most poorly developed countries and includes: 1) the list of developing countries-users of the system of tariff preferences of the customs union; 2) the list of the most poorly developed countries-users of the system of tariff preferences of the customs union; 3) the list of goods coming from developing and the least developed countries which benefit from tariff preferences in the territory of EEU [4].

In relation to the goods originating from the developing countries-users of the unified system of tariff preferences of the customs union and imported in the territory of EEU states, import duties in the amount of 75% from the import customs duties of the Unified Customs Tariff of EEU are applied. In relation to the goods originating from the least developed countries-users of the unified system of tariff preferences and imported in the unified customs territory, zero rates of import customs duties are applied.

The list of countries-users of the system of tariff preferences of EEU, as well as the list of goods originating from the poorly developed states in relation to which tariff preferences are introduced, are adopted by the Resolution of the Interstate Council of the Eurasian Economic Community dated 27.11.2009 № 18 and the Commission of the Customs Union dated November 27, 2009 № 130. Tariff preferences in relation to goods imported in the customs territory of EEU are provided upon the condition of performing certain terms. Such terms include: 1) the goods originate from a country included in the list of developing countries-users of the system of tariff preferences; 2) the goods originate from a country included in the list of the least developed countries-users of the system of tariff preferences; 3) the goods is in the list of commodities originating from developing and least developed countries in relation to which tariff preferences are granted; 4) direct procurement and transport rule is performed; 5) goods are provided with the certificate stating the country of origin according to form A.

According to the Rules of defining of goods from the developing and the least developed countries, when granting tariff preferences, the goods is considered as directly procured provided that the importer has acquired such goods from the entity registered according to the established order as a subject of entrepreneurial activities in the

developing country falling within the scope of the tariff preferential mode. Direct delivery is the delivery of goods transported from a developing country falling within the scope of tariff preferential mode, into the country which has provided tariff preferences without transit through the territory of another state; as well as goods transported through the territory of one or several countries as a result of geographic, transport, technical or economic reasons provided that the goods in the transit states, including temporary storage in the territories of such states, are under customs control [2].

In accordance with Article 62 of the Customs Code of the Customs Union (CC CU), when importing goods into the customs territory, the document confirming the country of origin, is provided in case the country of origin of such goods enjoys tariff preferences according to customs legislation and/or international treaties of member states of the customs union. In this case, the document confirming the country of origin of goods is submitted to customs authorities together with the customs declaration [5].

Tariff preferences in relation to goods originating from CIS states are granted upon performance of the following conditions [1].

1. Goods are transported according to the agreement between the residents of member states in the Treaty on free trade zone dated 15.04.1994.
2. Goods are imported from the customs territory of one member state to the territory of another member state in the Treaty on free trade zone dated 15.04.1994.
3. To confirm the country of origin in a member state, it is necessary to provide a certificate on the origin of goods, form CT-1 or declaration on the origin of goods.

Therefore, goods imported from developing countries such as Brazil, Paraguay, Uruguay and Argentina are subject to 0.75 rate of the customs tariff. Goods imported from the CIS are subject to 0% duty. Goods imported from mature markets are subject to the basic tariff rate of the Eurasian Economic Community.

Therefore, the change of the customs tariff rates depends on the country of origin of goods and acts as a tool of state management of economics. Its practical use primarily means the evaluation of economic consequences of application of tariff rates. For such evaluation, one needs a respective methodical basis. Construction of such a basis constitutes determination of the measure of economic consequences of the change of the customs tariff rates and forming the way to determine it. For the purposes of this work, the

authors have defined the measure of such consequences being the change of budget income after the application of the rate of import customs tariff [3].

The product of the average value of ad valorem rate of the tariff by the value of the corresponding cost reflects the contributions into the customs payments from the customs duties on FEACN items, that is:

$$Y_j = \bar{X}_j D_j,$$

At that, pro rate contribution of payments from customs duties into the corresponding section of the import customs tariff is calculated according to the formula:

$$\dot{A}_j = \frac{\bar{X}_j * D_j}{\sum_{i=1}^n Y_j} * 100\% \quad (i=1,2,\dots,n).$$

where  $\bar{X}_j$  is the average value of ad valorem rate of duty on the  $j$  item;

$n_j$  – number of rates of duties in  $j$  item of import customs tariff;

$D_j$  – the total value of goods transported across the border belonging to  $j$  FEACN item.

Table 2  
FEACN Codes, value of imported goods  
(mln USD), duty payment (mln USD)

FEACN Code EEU	FEACN Code EEU	0203	0207	
Name of the item	Bovine cattle meat; fresh, cooled	Pork fresh, cooled or frozen	Poultry and poultry by-products	
Duty rate (in % from the customs value (CV) or euro)	15% of CV	65% of CV	Poultry and poultry by-products	
Value of the imported goods (mln USD)/ duty payment (mln USD)	July 2014	234.5/35.2	205.9/133.8	60.5/15.1
	August 2014	257.7/38.7	115.0/74.8	33.0/8.3
	September 2014	249.1/37.4	85.7/55.7	26.2/6.6
	October 2014	232.1/34.8	123.0/79.9	50.3/12.6
	November 2014	220.0/33.0	121.4/78.9	68.3/17.1
	December 2014	237.9/35.7	172.8/112.3	87.6/21.9
	January 2015	17.7/2.7	9.9/6.4	12.7/3.2
	February 2015	50.3/7.6	39.8/25.9	9.3/2.3
	March 2015	77.5/11.6	43.2/28.1	11.5/2.9

Considering the method above, there have been made calculations of budget incomes from the customs duty. Table 2 contains FEACN codes, names of items, duty rate, the value of imported goods (mln USD) and the duty payment (mln USD) from July 2014 till March 2015 without detalization on the country of origin of goods.

Source: data of customs statistics of the Federal Customs Service for 2014-2015 and calculations of the authors

In order to evaluate the effect of the ban imposed by the Government of the Russian Federation and considering the fact that it has started since August 2014, it is possible to relate the value of the imported goods and duty payments by July 2014. Such analysis shows that the value of the imported goods and customs payments on item 0201-0202 FEACN in January 2015 as compared to July 2014, reduced by 18 times, item 0203 – by 20.8 times, and item 0207 – by 7.9 times.

However, can such analysis be objective? Import may be influenced by various factors, namely 1) cyclic fluctuations, 2) imposing of sanctions, 3) drop of national currency rate, and consequently, rising of prices for the products made abroad.

In order to assess the cyclicity, let us consider the cost of import of Group 02 goods FEACN for the years 2013 - 2015.

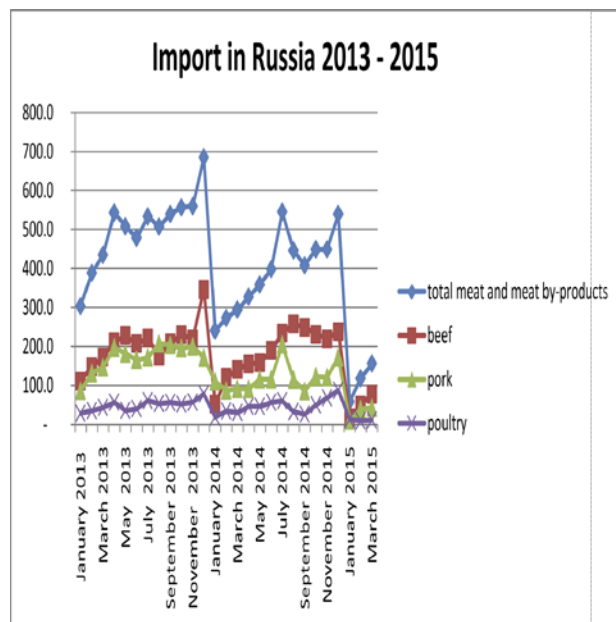


Fig. 1 - Import into the Russian Federation of FEACN 0201-0207 goods

The data shows that Group 02 FEACN goods are imported with a certain cyclicity. December

provides the maximum, and January - the minimum cost of deliveries. However, the maximum cost in 2014 is equal to 68.7% of the maximum of 2013 for the item 0201-0202 FEACN, and for items 0203 and 0207 December data of 2013 and 2014 is almost similar.

Table 3

Exporter states, value of imported goods (mln USD), weight (kg), customs payment (mln USD), item 0203 FEACN, 2013.

Exporter state	Cost (mln USD)	Weight (kg)	Customs duty rate (in % of CV or EUR)	Duty (mln. USD)
Brazil	437.3	128552532	65%*0,75 of CV	213.2
Denmark	318.2	89062640	65% of CV	206.6
Germany	291.6	82723369	65% of CV	189.5
Canada	246.3	79360469	65% of CV	160.1
Spain	132.4	35487629	65% of CV	86.1
Netherlands	108.5	30085134	65% of CV	70.5
France	87.6	27283195	65% of CV	56.9

Source: data of customs statistics of the Federal Customs Service for 2013, calculations of the authors. Meanwhile, January minimum of 2014 and 2015 look as follows. Deliveries on the cost of items 0201-0202 in 2015 reduced as compared to the cost of January 2014 by 4.2 times, item 0203 - by 11.1 times, and item 0207 – by 2.5 times.

Let us assess the incoming customs duty payment on item 0203. In 2013, seven countries: Brazil, Denmark, Germany, Canada, Spain, the Netherlands and France imported 81.0% of meat on item 0203 FEACN.

At that, the import duty was equal to 982.9 mln USD, while on the entire item it reached cirka 1 bln 380 mln USD.

In 2014, seven countries including Brazil, Canada, Chile, Serbia, Belarus, Denmark and Ukraine imported 94.3% of meat in the item 0203 FEACN.

Table 4

Exporter states, value of imported goods (mln USD), weight (kg), customs payment (mln USD), item 0203 FEACN, 2014

Exporter state	Cost (mln USD)	Weight (kg)	Customs duty rate (in % of CV or EUR)	Duty (mln. USD)
Brazil	799.0	185657040.3	65%*0.75 of CV	389.5
Canada	313.5	88624779.5	65% of CV	203.8
Chile	92.3	24460877.2	65%*0.75 of CV	44.9
Serbia	52.0	14065473.6	65%*0.75 of CV	25.3
Belarus	52.0	9908820.1	0% of CV	0
Denmark	21.2	5561136.1	65% of CV	13.8
Ukraine	11.5	4106303.4	0% of CV	0

Source: data of customs statistics of the Federal Customs Service for 2014, calculations of the authors.

At that, the import duty was equal to 677.3 mln USD, while on the entire item it reached cirka 880 mln USD. One may note the reduction of customs payments on the item 0203 FEACN cirka by 36%, which amounts to about 500 mln USD.

Table 5 contains the volumes of meat goods imported into the RF and the major exporters for 2013-2014.

Table 5

Meat and poultry products imported in the RF and the main exporters in 2013-2014

FEACN Code	Major exporters of meat products imported in the Russian Federation		Results
	2013	2014	
0201 fresh or cooled beef	Belarus (54%), Ukraine (13%), Brazil, Lithuania, Poland	Belarus (73%), Brazil, Lithuania, Ukraine, Uruguay	Reduction of the number of exporters by 14%. In volume terms, export was reduced by 12%, in monetary terms by 23%.
0202 frozen beef	Brazil (53%), Paraguay (24%)	Brazil (57%), Paraguay (24%)	Delivery was reduced in volume by 7%, in monetary terms by 8%.
0203 Pork	Brazil (21%), Denmark (14%), Germany (13%), Canada (13%).	Brazil (53%), Canada (25%)	Delivery was reduced in volume by 43%, in monetary terms by 36%. Number of deliveries was cut 1.5 times
0207 chicken	USA (51%), Belarus (16%), Brazil (10%)	USA (30%), Belarus (26%), Brazil (21%)	Delivery was reduced in volume by 14%, in monetary terms by 6%
1601 sausage	Belarus (65%), USA 7%, Poland 7%, Lithuania 6%	Belarus (84%), USA 4%, Poland 3%, Lithuania 2%	Delivery was reduced in volume by 3.7%, in monetary terms by 11%

Source: authors' calculations.

## 4 Conclusion

Calculation shows that for the item 0201 reduction of the customs payments amounted to approximately 23% (5.2 mln USD); for the item 0202 reduction of customs payments amounted to approximately 8% (30 mln USD); for the item 0207 one may note the reduction of payments by 6% (9 mln USD). Considering that the reduction of customs payments on the item 0203 was by about 36%, we may assume that the reduction of the customs duty payment on section 02 FEACN in 2014 as compared to 2013 amounted to more than 544 mln USD.

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