

# Revisiting Sanctions on Russia and Counter-Sanctions on the EU: The economic impact three years later

Daniel Gros and Mattia Di Salvo

On June 28<sup>th</sup>, the European Council took a decision to prolong the [economic sanctions](#) imposed on Russia until 31 January 2018. These sanctions: 1) limit access to EU capital markets for major Russian state-owned financial institutions and energy and defence companies, 2) ban both the export and import of arms, 3) ban the export of dual-use goods for military use to Russia and 4) curtail Russia's access to certain sensitive technologies and services that can be used for oil production and exploration.<sup>1</sup>

As expected, Russia has mirrored the EU's decision by imposing counter-sanctions of its own. These involve introducing travel bans against a [blacklist](#) of 89 EU politicians and military leaders as well as blocking imports of selected categories of agro-food products from the EU and other countries that had previously imposed economic sanctions on Russia (e.g. the US, Australia and Japan). More specifically, the economic part of the counter-sanctions imposed by Russia focused on five categories of western agro-food products (namely fruit, vegetables, meat, fish and dairy products), which [were originally adopted in August 2014 for a period of two years](#). But Russia recently [re-imposed these counter-sanctions](#) in response to the latest extension of EU sanctions decided by the Council in June.

This Commentary is a follow-up to [Gros and Mustilli \(2016\)](#), drawing on more recent data on trade flows and analysing more closely the impact on the agro-food export categories, which is the target of Russian counter-sanctions.<sup>2</sup>

<sup>1</sup> For further information on EU sanctions on Russia, see [EU restrictive measures in response to the crisis in Ukraine](#).

<sup>2</sup> Note that the analysis is carried out at two-digit levels and, therefore, is not comprehensive of products impacted by counter sanctions at a more disaggregate level of analysis (i.e. six-digits or beyond). These products are Sausages (1601 00) and Food or finished products (1901 90 11 00, 1901 90 91 00) and their mixtures

Daniel Gros is Director of CEPS and Mattia Di Salvo is Research Assistant at CEPS.

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Using data up to mid-2015, [Gros and Mustilli \(2016\)](#) showed that EU exporters did not lose market share in overall Russian imports. It is important to first look at the development of overall (and agro-food) Russian imports to disentangle the impact of the recession caused by lower oil prices from the impact of the sanctions/counter-sanctions. Indeed, the decline of Russian imports coincided with the occurrence of two key developments: the fall in oil prices (triggering a recession in Russia) and the adoption of bilateral sanctions in mid-2014. Looking only at Russian import values from the EU would thus give a distorted picture of the impact of bilateral sanctions on EU competitiveness in the Russian market.

Table 1 below presents the basic data. In the two-year period after implementation of the bilateral sanctions (July 2014-July 2016), overall monthly Russian imports fell by about 44%), whereas imports from the EU fell by about 48%, i.e. by a similar order of magnitude. The decline in overall Russian imports of food was higher, e.g. -68.3% for meat and -65.4% for vegetables. But in those agro-food categories affected by Russian counter-sanctions, EU producers were practically excluded from this declining market. As shown in Table 1, Russian imports of EU agro-food have been reduced almost to zero over the two-year period July 2014-July 2016.

*Table 1. Change in overall Russian imports and Russian imports of counter-sanctioned goods, July 2014-July 2016*

|  | Imports from the World<br>% change July 2014-<br>July 2016<br>(decrease in \$ mil) | Imports from the EU28<br>% change July 2014-<br>July 2016<br>(decrease in \$ mil) | Value of imports<br>from the world<br>July 2016<br>(\$ mil) |
|--|--|---|---|
| <b>Total imports</b>                               | -43.9%<br>(-12,028.4)  | -48.7%<br>(-5,528.7)  | 15,400.5  |
| <b>All categories subject to counter-sanctions</b> | - 56.5%<br>(1015.4)  | -96.8%<br>(419.5)   | 781   |
| <i>Meat (02)</i>                                   | -68.3%<br>(-424.6)   | -97.7%<br>(-37.6)   | 197.0   |
| <i>Fish (03)</i>                                   | -54.6%<br>(-118.3)   | -97.6%<br>(-11.6)   | 98.4  |
| <i>Dairy (04)</i>                                  | -48.9%<br>(-171.9)   | -92.5%<br>(152.9)   | 179.4   |
| <i>Vegetables (07)</i>                             | -65.4%<br>(-104.4)   | -99.7%<br>(-53.6)   | 55.2  |
| <i>Fruits (08)</i>                                 | -43.9%<br>(-196.1)   | -100.0%<br>(-164.0)   | 250.9   |

Source: Authors' own elaboration based on [International Trade Centre, Trade Map monthly series](#).

(2106 90 920 0, 2106 90 9804, 2106 90 9805 and 2106 90 9809). See [https://ec.europa.eu/food/sites/food/files/safety/docs/ia\\_eu-russia\\_ru-eu-import-ban\\_20140820\\_unoff-trans-en.pdf](https://ec.europa.eu/food/sites/food/files/safety/docs/ia_eu-russia_ru-eu-import-ban_20140820_unoff-trans-en.pdf) for more information.

Nonetheless, as observed above, one has to analyse the situation in relative terms. Total Russian imports of these agro-food products fell by over \$1 billion, while imports from Europe fell by about \$420 million, or 40% of the total.

If one wants to calculate the impact of the counter-sanctions on European exports, one could assume that, in the absence of the counter-sanctions, the EU would have a share of about one-half of total Russian imports in these categories in July 2016, or about \$400 million. This is not an important figure for an economy the size of the EU.

Moreover, food is a relatively homogenous commodity and the cheese that is no longer shipped to Russia can presumably be sold elsewhere. EU exporters of the affected food categories have in the meantime found other outlets. Any harm that had been done initially must thus by now have been repaired.<sup>3</sup> In fact, overall (extra-)EU exports of these agro-food categories have increased since mid-2014.<sup>4</sup> Russian counter-sanctions do not seem to have had much effect in the overall development of these sectors.

The relatively limited share of these categories of goods in the European exports basket destined for Russia explains why the EU, overall, has not significantly lost market share in the Russian market. In fact, the EU's share in total Russian imports decreased very little and only gradually since the implementation of bilateral sanctions. In the year prior to implementation of bilateral sanctions (i.e. August 2013-July 2014), the EU's market share in total Russian imports was, on average, 42%. This share has decreased by 4.8% points when compared to the average market share in the six-month period August 2016-January 2017.

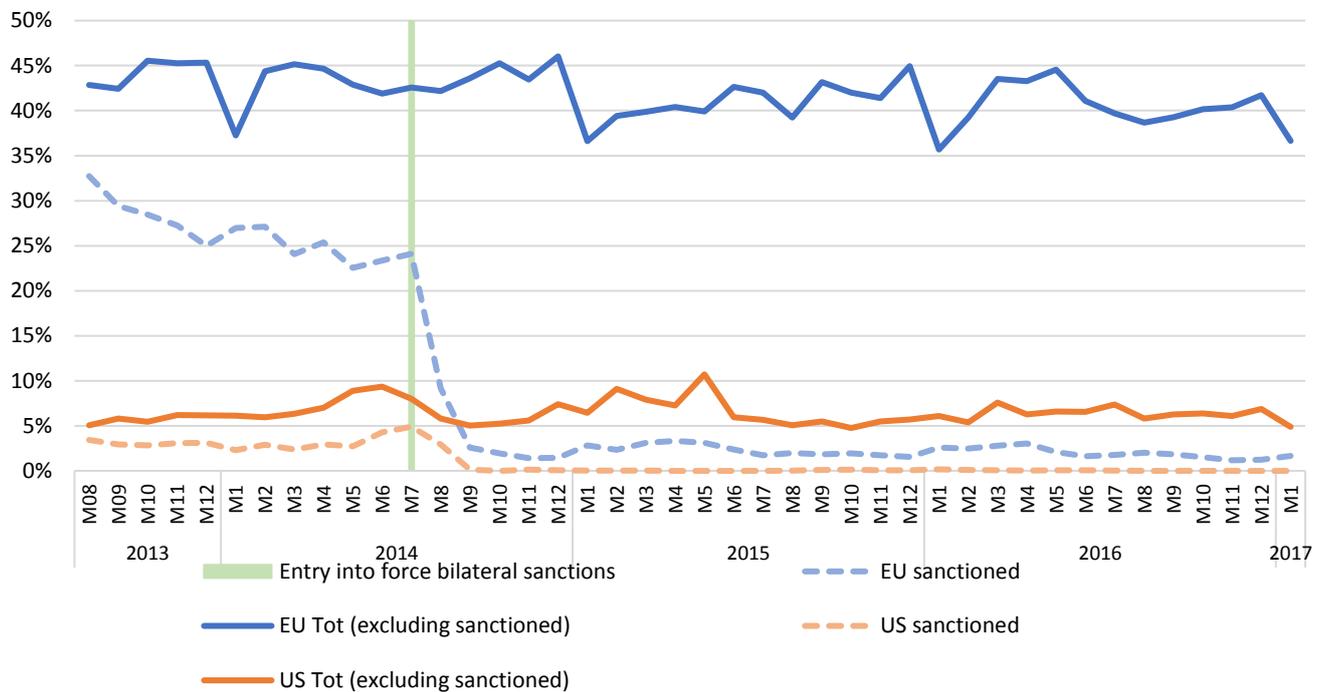
On the other hand, the share of EU goods affected by counter-sanctions in total Russian imports of such categories collapsed in July 2014, and not recovered since. Figure 1 shows the development of the EU and US market shares in Russian imports of both counter-sanctioned goods (dashed lines) and all other goods.

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<sup>3</sup> See Daniel Gros, "[A European sanctions compensation fund?](#)", CEPS Commentary, CEPS, Brussels, 12 August 2014.

<sup>4</sup> In August 2014, overall extra-EU exports of Meat (02), Fish (03), Dairy (04), Vegetables (07) and Fruits (08) together reached €2 billion. In March 2017, the same categories of goods registered an extra-EU export value of €3 billion.

Figure 1. Shares of the EU and the US in Russian imports of counter-sanctioned goods and other goods

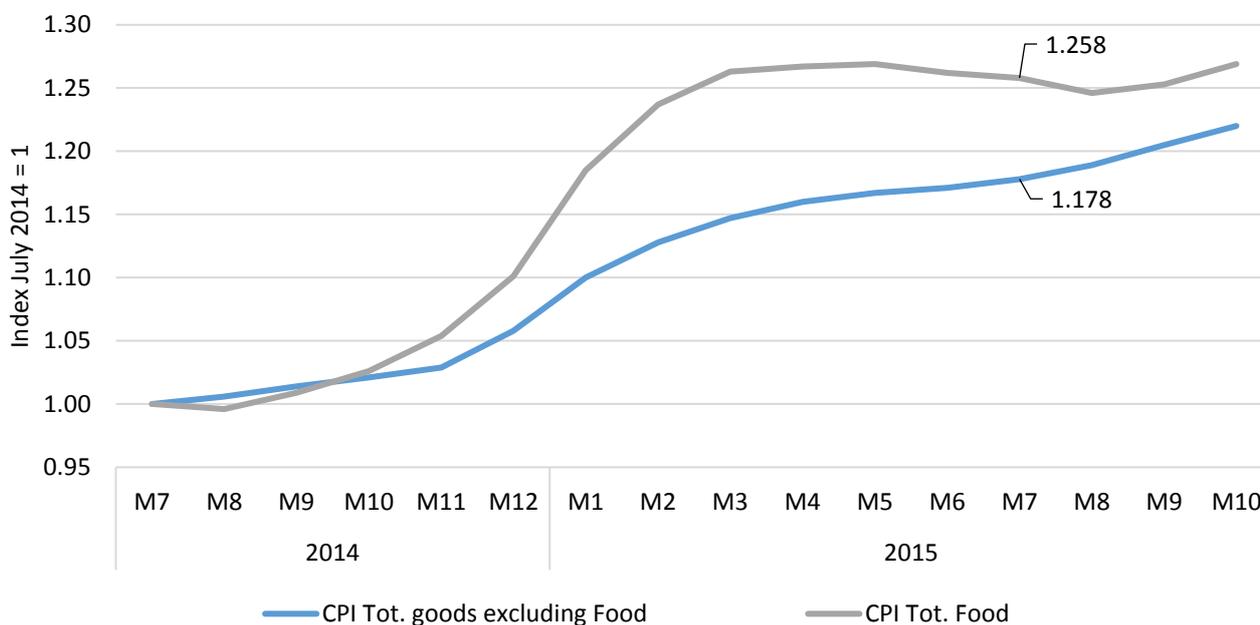


Note: The category sanctioned includes the following HS categories: Meat (HS 2), Fish (HS 3), Dairy (HS 4), Vegetables (HS 7) and Fruits (HS 8).

Source: Authors' own elaboration based on [International Trade Centre, Trade Map monthly series](#).

President Putin has claimed that the counter-sanctions regarding agro-food imports were good for Russia. In reality, however, they might have contributed to the reduction of the purchasing power of Russian consumer. Consumer prices increased significantly in the year following the adoption of sanctions, and more interestingly, the part *including food only* has increased more than the CPI *excluding food*. Food prices increased 8% more than the prices of other goods between July 2014 and July 2015 (see Figure 2).

Figure 2. Russian Consumer Price Index since adoption of sanctions (Index July 2014 = 1, not seasonally adjusted)



Source: Authors' own elaboration based on [FRED](#) and OECD, "Main Economic Indicators - complete database".

That the Russian counter-sanctions had a significant impact is not surprising, given the dependency of Russia on agro-food imports coming from the EU. For instance, in 2012, Russian domestic production of goods subject to counter-sanctions satisfied around [75% of the country's consumption of meat and milk](#)

Summing up, it is evident that the position of European exporters in the Russian market has not been infringed (at least not significantly) since the adoption of bilateral sanctions. The impact of the Russian counter-sanctions on agro-food imports from the EU has been minimal. Russian imports of these goods have fallen by about €400 million, which is less than one-third of one percent of EU GDP. But overall EU exports of these goods have actually increased, showing that exports could quickly be redirected and that the sector has not suffered any overall damage from the sanctions.