

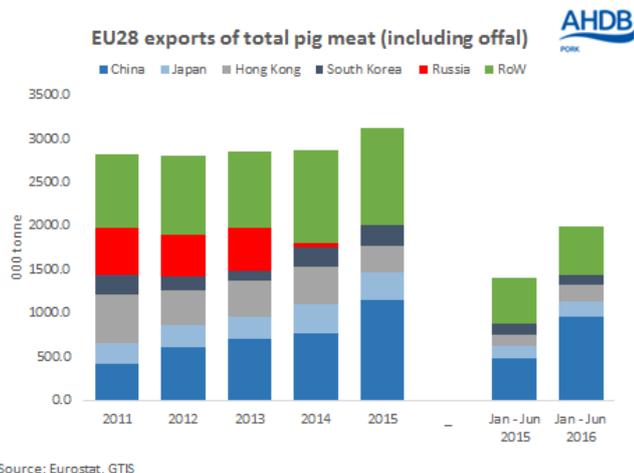
WTO rule Russian ban unlawful

A WTO review panel have declared that the import ban on EU live pigs, fresh pork and other pig products imposed by Russia in early 2014 is against international trade rules. The ban was originally imposed over what the EU stated were a limited number of cases of African Swine Fever (ASF) in areas in the EU close to the border with Belarus.

The panel stated that the EU-wide import ban was not based on relevant international standards and violates the rules of the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement). This ruling can be appealed within 60 days. If no appeal is filed within this deadline, Russia will be bound to comply with the WTO recommendations. However, it is worth noting that most of the products dealt with will continue to be restricted due to the politically-motivated ban imposed on EU agri-food products in August 2014.

Now that the WTO has ruled the ban unlawful, it is worth considering the options that may avail themselves as a result of this decision.

Firstly, Russia may abide with the WTO ruling and lift the sanctions that had been applied. However, the implication of lifting this ban will have less of an impact that it may have had 12 months ago, due to the burgeoning trade with the Far East.



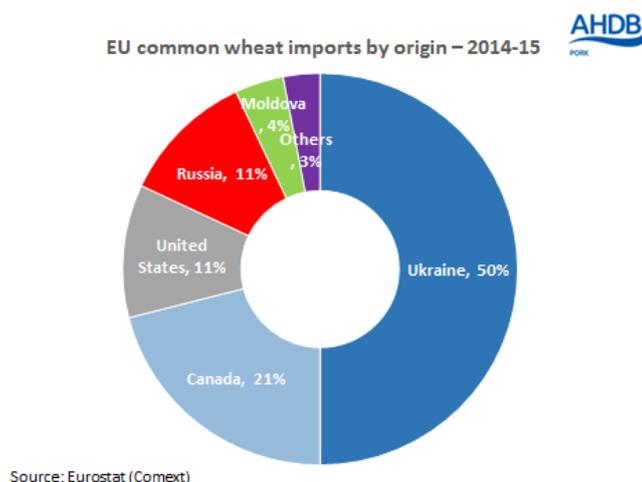
While the trade with the Far East shows no signs of slowing in the short term, it is still not known for how long it will stay buoyant. Thus, should trade with Russia open up again for the EU, it could provide another welcome market. This would be especially true with trade for fats and offal, which are products that have proved difficult to find an alternative market for since the Russian ban.

It is worth noting that Russia has significantly stepped up its production levels since 2014 to satiate the shortfall that was compounded due to the ban. Russia has claimed that it will be self-sufficient by 2020, and there has been significant investment in the pig production industry, with the government heavily subsidising pig production investment

projects. However, at the same time, Russian pork consumption has fallen and, if the current growth rate continues, it runs the risk of over-supply. Imports from non-EU countries have increased since the EU-ban, most notably from Brazil, which almost doubled its export volumes in 2015 versus pre-ban 2013 levels. However, total Russian import levels in 2015 were less than half that of 2013. Therefore, should the Russian market be open to the EU again, it may not be at the size it was previously.

The second outcome that may occur is that Russia may choose to ignore the outcome and keep its sanctions in place. Should this be the case, the EU may impose retaliatory sanctions in place on Russian products. However, what goods might be sanctioned remains a topic for debate, as the impact would need to be greater for Russia than it would be for the EU.

Crude petroleum is the largest Russian export, accounting for 35% of the value of all Russian exports in 2014. However, the European Union has a huge reliance on Russian oil, so any sanctions on this may be potentially detrimental to the EU. If any retaliatory sanctions were restricted to agri-food products, then wheat is the largest Russian agricultural export, accounting for 1.6% of the Russian export value in 2014.



Russia accounted for 11% of common wheat imports for the EU over the 2014-15 growing year. This was down two percentage points against the previous five-year average. However, over the same period, the import volume from Ukraine has increased from 24% to 50%, and reports are that there has been another bumper harvest this year, so there are other viable source countries for this commodity.

In summary, the WTO ruling is more a political win for the EU than one that will see a material step-change in the market flow. Primarily, this is due to the politically motivated ban still being in place. However, the ruling does highlight that members of the WTO must operate within the predefined frameworks, so it is with interest that we wait and see Russia's response.