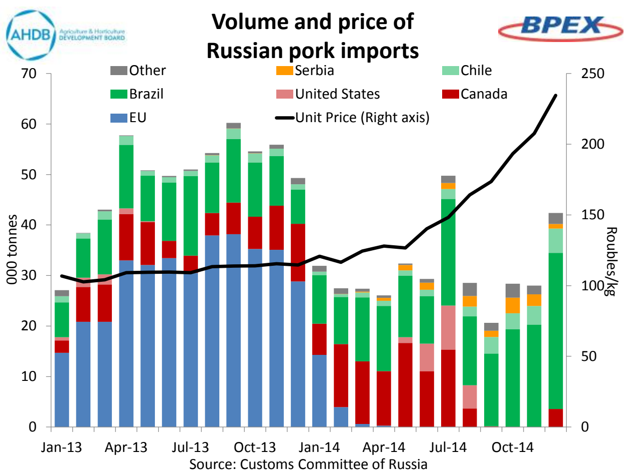
Trade bans disrupt Russian pig sector

The Russian pig market has often been unpredictable. However, even by Russian standards the last year has been unusually eventful. With pork imports banned from the EU since this time last year and from Canada & the US, among others, since the summer, supplies have been particularly tight. More recently, the devaluation of the rouble and the collapse in the global oil price have hit the Russian economy.

Russian trade data have recently become available for the first time since April. The new figures show that, while Russia imported 592,000 tonnes of pork in 2013, during 2014 this dropped by 220,000 tonnes, or nearly 40%, to 372,000 tonnes. This decrease has been stepped, due to the successive trade bans based on product safety and international politics.

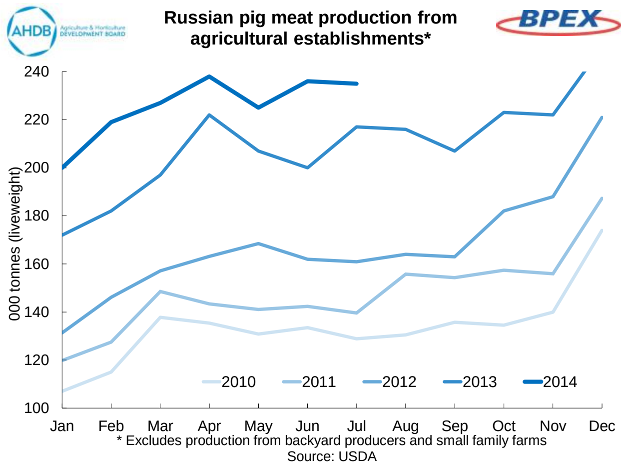
Firstly, imports from the EU were banned in February due to concerns over ASF; shipments decreased from 332,000 tonnes in the first 11 months of 2013 (over 60% of all imports) to just 19,000 tonnes (6% of the total) last year. Canada and Brazil subsequently increased their deliveries but they could in no way fill the deficit.

In August, sanctions were enforced on Canada and the US, among others, on political grounds. This allowed Brazil to expand shipments, going some way to compensating for the loss of US and Canadian pork but leaving the deficit from the EU untouched. Russia expanded trade with some of its smaller partners as well, including Chile and Serbia. Deals with China, India and South Korea are thought to be in progress but had not come into effect by the end of the year.



As a result of the bans, import prices rose steadily and by December, they were more than double those a year earlier in rouble terms, partly due to the devaluation of the Russian currency. This has inevitably driven pig prices higher on the Russian market. Reports suggest that Russian pig prices are currently over 100 roubles per kg (liveweight); this time last year they were around 70 roubles. Inevitably, rises on this scale mean that retail pork prices will have increased too, at a time when Russian consumers will be feeling the pinch from economic slowdown and currency devaluation.

Price rises might have been even more dramatic had it not been for another sharp increase in domestic production. Pig slaughterings in 2014 were reportedly 12% up on 2013, continuing the strong growth trend of recent years. This has been driven by major investment in modern production, encouraged by the Russian government, which aims to become self-sufficient in the next few years. New operations are gradually replacing "backyard" production, which has been badly affected by African Swine Fever in recent years. The switch means improved productivity and heavier carcase weights, so pig meat production is growing even faster.



However, developments in the Russian economy in recent months may limit further investment in pig production, despite the strong returns currently on offer. The sharp decline in the value of the rouble means many Russian investors will have moved their money out of the country. In addition, the falling oil price has reduced one of Russia's main sources of income. This could slow or even stop production growth in the years ahead.

These developments are important because the Russian market will eventually reopen for exports. When it does, it is likely to require less pork (and other pig meat products) than it did historically. However, any slowdown in investment may extend the time before Russia becomes self-sufficient in pork production, meaning export opportunities could be available for some years to come.

From an EU perspective, this will be welcome, given the impact the Russian ban has had on pig prices. This is partly because Russia was a particularly important market for by-products, such as fats, for which there are few other buyers globally. Without these sales, the value of pig carcases is lower, affecting everyone in the supply chain. Anything which gives hope that the market for these products could return, even on a smaller scale than before, will be welcome.