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Russia's Food Ban Is High-Risk, Low-Reward

By Mark Adomanis

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Russia recently unveiled a sweeping new ban on food imports from any country that is imposing sanctions against Russia. This means that Russia will stop importing food from the United States, the European Union, Norway, Canada and Australia. As reported by Bloomberg, the new import restrictions include all forms of cheese, fish, beef, pork, fruit, vegetables and dairy products and will affect about $10 billion of goods.

The ban on food imports strikes me as an extremely high-risk and low-reward move, one that is likely to cause more harm to Russian consumers than to its putative targets. Rather than targeting a specific weak spot in the EU (hint: it's natural gas!), Russia has instead targeted a much more diversified economic sector in which its adversaries are not very dependent on exports.

Like all rich industrialized democracies, agriculture accounts for a tiny portion of the economy in the U.S. and EU, and an even smaller share of exports. In contrast, Russia is quite vulnerable when it comes to food. Why vulnerable? Because Russians spend a very large

percentage of their incomes on food, substantially more than in developed countries, and a significant portion of this food is imported.

According to data from the U.S. Department of Agriculture presented by The Economist, the total amount that Russians spend per person per week on food ($38) is quite close to the level in the U.S. and the U.K. ($45), and substantially higher than in developing countries. Russians consume food that, in quantity and quality, is not all that different than in Europe or the United States. Russian consumption patterns are simply much closer to those of developed countries than to those that characterize the rest of the BRICS.

The problem is that, due to Russia's lower overall level of development, this spending accounts for a much larger portion of earnings (32 percent) than in France (13 percent), the U.K. (9 percent) or the U.S. (7 percent).

Some might protest that the U.S. Department of Agriculture is not the most reliable source of information for data on Russian food consumption. By itself this is a not unreasonable point. But if for some reason you distrust the USDA, keep in mind that numerous other organizations, including Credit Suisse and the Russian Central Bank, have found virtually identical levels of spending. There is a broad agreement among almost everyone who has looked at the issue that Russians spend about a third of their total income on food and that, by international standards, this is quite a lot.

Indeed when you look at other countries, you see that it's simply unrealistic to expect that Russians can spend much more of their incomes on food: Somewhere between 35 and 40 percent seems to be the maximum that can be sustained for any length of time. Consider, among the few countries where relative spending on food is higher than in Russia — one encounters Pakistan, Kenya, Egypt, Cameroon and Belarus — not the type of economic company that anyone would want to keep.

Given Russia's high levels of absolute and relative spending on food, the most likely outcome of the import ban is a modest decrease in total consumption and a general switch from expensive imported products to cheaper, lower-quality and locally produced goods. In and of itself this won't be catastrophic. Indeed it will hardly be noticed by those older consumers who still have memories of the pervasive food shortages that characterized the collapse of the Soviet Union. In the short term, I suspect that the current spirit of nationalism will completely outweigh any dissatisfaction over higher food prices and potential shortages.

It's in the longer term where the real risks for the Kremlin's policies lie. A (totally unscientific!) survey making the rounds on the RuNet got to the crux of the issue when it asked respondents whether they preferred "Crimea or cheese?" While it wouldn't be my choice, for reasons of culture and history, I completely understand why many Russians would opt for Crimea, at least initially. But when asked again and again over the course of many months and years, I have to imagine that public opinion will gradually move away from the symbolic and abstract (Crimea) toward the real and concrete (cheese).

After all, even if Putin still seems to be riding the wave of popularity launched by Crimea's annexation, society's position could shift very rapidly if conditions continue to change. It's worth noting that the independent Levada Center's most recent polling showed that Russians'

overall satisfaction with the country's trajectory actually decreased seven points from June to July (Putin's rating also went down, but by a much smaller amount). Russians are still much more satisfied with their country's course than they were at the beginning of the year, but this was the first downward movement in the polls since the crisis in Ukraine exploded into open conflict.

Russia's ban on imported food will not be decisive by itself. It will neither cause the Kremlin to tumble into ruin nor magically jumpstart Russia's agricultural industry (whose problems run very deep). But the import ban does reflect a worrying decline in the quality of the Kremlin's decision-making as its asymmetric costs will primarily be borne by Russian consumers. At a certain point in time, that kind of thinking is going to backfire.

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