

Russia May Soon Return to Soviet-Style Price Controls

By [Alexander Panin](#)

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Apples from Chuvashia are replacing Polish fruit that the Kremlin has banned in retaliation to Western sanctions.

After a 20-year hiatus, direct Soviet-style price controls on the retail sector may be coming back, as the government strives to fight price hikes in supermarkets following Moscow's decision to ban swathes of Western food imports in retaliation for sanctions over the crisis in Ukraine.

The Federal Anti-Monopoly Service — the government's go-to body for browbeating retailers — is showing new vigor in the aftermath of the ban, which barred the import of meat, fish, fruit, vegetables and dairy products from the U.S., the European Union, Canada, Norway and Australia — all of which have slapped sanctions on Russia in response to Moscow's annexation of Crimea and support of separatist rebels in eastern Ukraine.

But it is not the state's only tool to fight price rises caused by the sudden rupture with

European and North American suppliers.

After a series of top-level meetings involving Cabinet ministers, retailers, food suppliers and producers, the government this week produced a list of 40 food categories including meat, dairy products, bread, fruits and vegetables — together accounting for up to half what supermarkets sell. Retailers will have to report daily to the state the quantity and price of these goods, newspaper Vedomosti reported Wednesday, citing sources at two major retail chains.

This monitoring zeal beats even the Soviets, who under the planned economy required weekly stock reports from stores, but it has yet to translate into bona fide price controls.

"So far the government is just monitoring prices, but this could be followed by changes to legislature to put a freeze on them," said Valery Mironov, chief economist at Higher School of Economics' Center for Development.

Any new price controls would be ineffective, analysts said. One way or another, businesses will find ways to cover costs and generate profit.

"Prices will either grow in categories not on the ban list in compensation for the freeze or there will be a delayed price hike for the listed products," said Natalya Kolupayeva, senior analyst at Raiffeisenbank.

The probable outcome would be a change in consumer behavior, both experts said.

"Consumers will likely decide to buy cheaper goods, especially if they are not part of their basic food needs, something that was observed during the previous crisis," Kolupayeva said, adding that this would hit the bottom lines of supermarkets, which make much of their profit on high quality goods.

Mironov pointed to another side effect: growing quantities of smuggled goods traded through small shops and open-air markets, where control of the origin of products and their prices is lax or nonexistent.

That would be a return to Russia's chaotic early capitalism, when markets and kiosks proliferated with small-time traders. Even with the expansion of retail chains over the last years, about half of retail in Russia is still done through small stores, open markets, kiosks and pavilions, Kolupayeva said.

Rises Begin

Despite authorities' efforts, huge price rises began to hit the headlines within days of the ban.

On Wednesday, the Federal Anti-Monopoly Service issued a warning to Russkoye Morye (Russian Sea), one of the country's biggest fish suppliers, after media reports said it had sent out price lists to clients almost doubling the cost of its fresh fish. Russkoye Morye had sourced much of its salmon from Norway before the ban. Now, like businesses across the country, it is scrambling to find alternative suppliers.

One of the country's largest retailers, X5, said this week that some of its suppliers had

informed it of upcoming price increase of more than 20 percent.

According to the government, more than 40 percent of imported food comes from countries effected by the ban. Not all of these imports are hit by the ban, but trade worth an annual \$9 billion has been sunk.

So far, the retaliatory import ban has been popular in Russia, where patriotic feeling is running high. Big rises in the cost of food could reverse that.

Capitalist Russia has tried price freezes before. In 2007 and 2008 the government negotiated price ceilings with producers and retailers to freeze the cost of basic goods such as bread, milk, eggs, vegetable oil as prices for these products started rising. It did not work — over the following months, price rises of the targeted categories outstripped overall food price inflation.

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