Special Article

Implications of Russia's New Poultry Import Quotas

The Commission for Protective Trade Measures in the Russian Ministry of Economic Development and Trade (MEDT) has recommended that a number of restrictive measures be imposed on meat imports starting in April 2003 and lasting for 3 years. Included in these measures was a proposal to impose an absolute quota on poultry meat imports. Beef and pork tariff-rate quotas (TRQs) took effect on April 1. Reportedly, the poultry quotas are due to take effect on May 1, but the date has been quite fluid. The original date for implementation of the poultry quota was February 15, and it was then delayed to April 1.

Russia is one of the world's largest poultry meat importers, partly because falling incomes after reforms made in the 1990s led consumers to increasingly substitute lower priced poultry for beef and pork. In 2002, the retail supermarket price of frozen poultry in Moscow was $2.74/kg, about half the price of beef or pork.

Although the financial crisis of 1998 caused a temporary interruption in the flow of poultry exports to Russia, since 1997 Russia has been one of the most important destinations for U.S. poultry meat exports, particularly leg quarters. Roughly 80 percent of Russian poultry imports came from the United States in 2001, totalling a record 1.1 million metric tons (mt), and valued at $666 million. Exports to Russia generated 32 percent of total U.S. value of poultry meat exports in 2001.

Because Russia is one of the largest destinations for U.S. poultry products, the quota could significantly affect U.S. poultry exports and prices.

The New Policy Details

The import restrictions impose a 1.05 million mt annual import quota on poultry meat, and TRQs on beef and pork of 420,000 and 450,000 mt. Above-quota tariff rates rise from 15 to 60 percent for beef, and to 80 percent for pork. The restriction on poultry is a strict quantity quota.

The quotas would be set at roughly two thirds of Russia's 2002 meat imports:

Proposed quotas and 2002 total imports

	Beef	Pork	Poultry
	(1,000 mt)		
Proposed quota:	420	450	1,050
2002 Imports	730	800	1,515
Quota as % of 2002 imports	58%	56%	69%

Source: Interfax and USDA

The restrictive poultry quota will be in place for 3 years from the date of implementation. For the remainder of 2003, the annual 1.05-million-mt quota is prorated to 744,000 mt. The poultry quota was proportioned among traditional exporters according to their share of total poultry exports to Russia from 1999 to 2001. According to this formula, the United States was awarded about 74 percent of the quota, while the EU and Brazil received approximately 19 and 4 percent.

Size of import quota for poultry meat
Quota levels (1,000 mt)

	From April 29, 2003, to December 31, 2003	From January 1, 2004, to December 31, 2004	From January 1, 2005, to December 31, 2005	From January 1, 2006, to April 29, 2006
Poultry Meat	744	1050	1050	306

Source: Interfax

Distribution of import quota for poultry meat among exporting countries in 2003

Country (union of countries)	Size of 2003 import quota Poultry meat (1,000 mt)	Quota Shares (%)
United States	553.5	74%
European Union	139.9	19%
Brazil	33.3	4%
China	3.1	0.4%
Other	14.2	1.9%

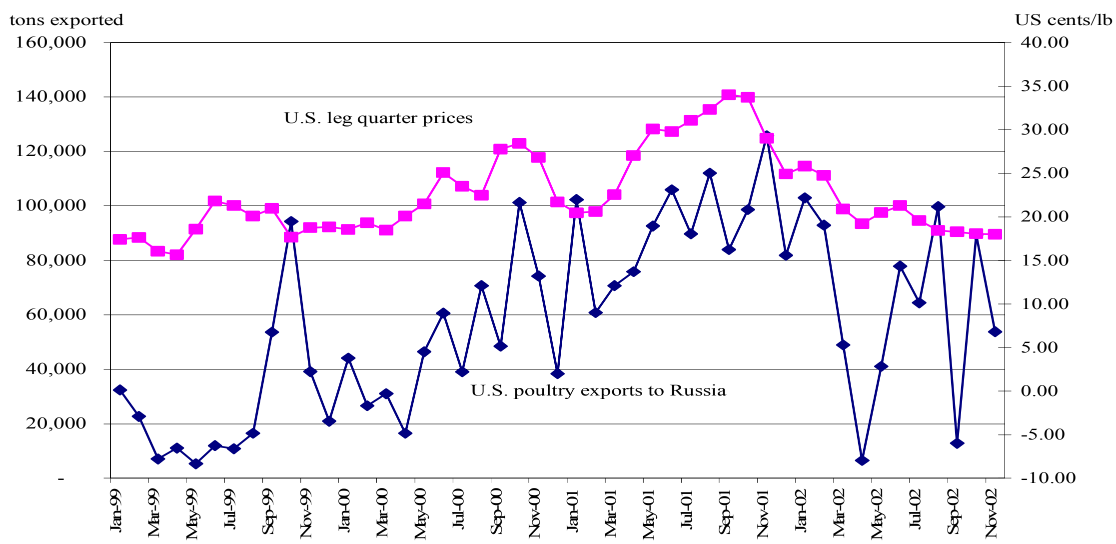
Source: Interfax

Effects of Quota on U.S. Poultry Market

Some understanding of the potential implications of a Russian quota on the U.S. poultry industry can be gleaned from the poultry market's response to the ban Russia imposed on imports of poultry from the United States in 2002. Russia banned imports of poultry from the United States in March 2002, claiming that U.S. poultry products contain substances (mostly antibiotics) that are forbidden by Russian veterinary requirements. The ban was ostensibly lifted in April, but licenses for imports of "new sales" were not granted until September 15, when negotiations on the veterinary requirements necessary for import were concluded. Part of the negotiated agreement was that Russian veterinary experts would visit U.S. poultry plants and certify them for export to Russia. Reportedly, only 86 plants were inspected in the November 2002 round of inspections, and of these only 15 were added to the list of plants allowed to export to Russia. Because of the ban, the United States exported only 721,000 mt of poultry meat to Russia in 2002, versus 1.1 million mt in 2001.

Prices of U.S. leg quarters have been strongly tied to export sales to Russia. In recent years (from 1999 to the present), for every 10-percent change in Russian poultry imports, domestic leg quarter prices changed in the same direction by approximately 1.5 percent. Furthermore, the response of prices to exports to Russia accounts for 35 percent of the variation in prices of domestic leg quarters. The ban in March 2002 significantly reduced sales to Russia and leg quarter prices fell accordingly (see chart). Quotas restricting the volume of U.S. exports to 553,500 mt for May-December 2003, and about 780,000 mt in 2004 and 2005 (assuming the United States is awarded the same proportion of the quota as in 2003) could continue to put downward pressure on U.S. leg quarter prices, which have not yet fully recovered from the effects of the 2002 ban.

Domestic leg quarter prices follow exports to Russia



Longer Term Effects Less Certain

The future course of poultry exports to Russia will depend on how the quotas affect the Russian domestic market. There are two main effects that the quotas will have, a near-term price effect and a longer-term supply response effect.

In the near term, the quotas will restrict the total domestic supply on the market in Russia and prices will rise. ERS analysis indicates that a quota that restricts the supply of poultry meat on Russian markets would raise the price of poultry meat in Russia by 30 percent. However, supply shortages could be tempered by a number of factors. Ukraine, which has been a significant beef supplier to Russia in the past, will not be subject to the higher above-quota tariffs for beef and pork because it is a member of the Commonwealth of Independent States, which is exempt from the TRQs and poultry quota. Consequently, price growth for poultry could be tempered as Russian consumers switch to beef imported from Ukraine. However, in price terms beef from Ukraine is a poor substitute for U.S. poultry. In 2002, the price of beef imported from Ukraine was $1.44/kg, while the price of poultry from the United States was $0.56/kg.

Over the longer term, Russian poultry production will likely be stimulated in response to the price increase. The degree of supply response will determine to what extent domestic prices will change. Predicting the supply response of the poultry sector in Russia is problematic. The technology for efficient poultry production is easily transferable, and the production cycle is much shorter than for other livestock products. The short production cycle makes short-term credit financing easier to secure, which is important in developing and transition economies where credit markets function poorly. Despite these advantages, poultry production in Russia has been surprisingly unresponsive to the favorable market conditions caused by the market reforms implemented in the early 1990s.

What is different now that might allow expansion in the Russian poultry sector? In the early 1990s, Russia's overall economy and the agricultural sector in particular were in steep decline. Investment, particularly in livestock production, was non-existent. The poultry sector was largely geared toward egg production, so that domestic poultry supplies were composed mostly of spent hens. To reorient the poultry sector toward broiler production, the poultry sector needed investment. The necessary investment is now possible, since Russia's economy has posted solid income growth for three straight years, the first time this has happened since reforms began in 1992.

While investors remain cautious because they recall that the optimism accompanying the GDP growth of 1997 was immediately followed by the financial crisis of 1998, some recent investment has gone into the poultry sector as a result of vertical integration. New large agro-food enterprises are developing in Russia, funded by capital from other highly profitable sectors, like oil and aluminum. These enterprises (called "agri-holdings") are vertically integrated, meaning the investors buy assets throughout the production chain, from broiler production through wholesaling to the final retail outlets. Since the agri-holdings are probably taking advantage of unusually profitable opportunities restricted to areas near large urban centers like Moscow and St. Petersburg, it is unlikely that the aggregate contribution to investment in the agricultural sector will be large. However, one of these profitable opportunities is in domestic poultry production, so the contribution of agri-holdings in the poultry sector may be significant. The 13-percent and16-percent growth in domestic broiler production in 2001 and 2002, respectively, following a decade of decline in the 1990s, indicates that domestic supply could respond favorably to trade intervention.

As long as the quotas remain in place, the Russian livestock sector should be able to attract further investment and continue the expansion enjoyed in 2002. Russian policymakers who feel domestic meat consumption is too dependent on imports hope that when the restrictive measures are removed in 3 years, the Russian poultry sector will command a significantly greater presence in the overall Russian poultry market.
Contact: Stefan Osborne (202) 694-5154