

Belarus and Russian Food Embargo: a Success Story?

Belarus became the primary beneficiary of the food embargo, which Russia imposed against Western nations in August 2014. In January – May 2015, Belarus supplied 916.4 thousand tons of embargoed products to Russia, a 53.5% increase over the same period in 2014.

Two weeks after Russia introduced its food embargo, Howard Solomon, the minister counsellor at the US Embassy in Moscow, tweeted: "Last night, I tasted the Belarusian salmon. It reminds me of the one from Norway, but more expensive. I'll taste the Belarusian parmesan next."

What really stands behind this Belarusian commercial success: the hard work of domestic producers or the inventiveness of local smugglers?

Exploring the Klondike

Belarusian farmers, entrepreneurs and officials [moved fast](#) to take advantage of this windfall. The next day after the introduction of the embargo, Leanid Marynich, the Belarusian first deputy minister of agriculture, assured Russia of Belarus' willingness to "substitute Western countries for many food positions" calling this lucrative opportunity a "Klondike".

We must stir and seize the moment to make money

Immediately, several European companies wanted to invest in transforming agricultural products in Belarus. Officials from Latvia, Lithuania and [Poland](#) – Belarus' EU neighbours who are affected by the embargo – came to Minsk to discuss the

opportunities for joint processing and exporting of dairy products.

In August 2015, President Lukashenka gave his blessing to this cooperation in his very direct style: "We must stir and seize the moment to make money... We have not made any commitments [towards the Russians] about our domestic market. We can import products from around the world. We must load, process and sell [them]. "

However, these ambitious projects turned out to be difficult to implement, at least in a legitimate and transparent manner that the officials promised. The production capacity of meat processing and dairy plants quickly became saturated. In addition, any radical increase in the export of food products might cause a deficit in the domestic market.

Lukashenka had to recognise the complexity of the situation at a government meeting at the end of 2014: "Even if we wanted to, we cannot import more meat and milk today for the transformation that we brought from the West [before], because we do not have any spare capacity."

Smuggling Beats Transformation

However, these difficulties never stopped Belarusian entrepreneurs. Many of them engaged in [outright smuggling](#) trying to bypass sanctions on a scale, which can hardly exist without the tacit consent of top-ranking officials. The open border between Belarus and Russia has definitely facilitated these projects.

A week after the introduction of the embargo, the Russian Federal Service for Veterinary and Phytosanitary Surveillance (Rosselkhoz nadzor) reported the first attempt to bypass the embargo from the territory of Belarus. Russian inspectors stopped a lorry with 19 tons of Ecuadoran peaches and nectarines accompanied by forged phytosanitary certificates

issued in Belarus.

by the end of September 2014 the patience of the Russians ran out

Initially, Rosselkhoznadzor tried to solve the problems of smuggling "in family", without much publicity. However, the negotiations failed and by the end of September 2014 the patience of the Russians ran out. Rosselkhoznadzor began reporting on the attempts of Belarusian businesses to circumvent the embargo on an almost daily basis.

The web site of Rosselkhoznadzor has been running what resembles a battle-field situation reporting about attempts to import products "of unknown origin" without certificates or food coming from embargoed countries and accompanied by Belarusian certificates. Thirty tonnes of potatoes, twenty tonnes of tomatoes, forty tonnes of pork, eighteen tonnes of grapefruits, two tonnes of beef ... However, the true scale of contraband certainly exceed these figures, given the extent of corruption in Russia.

this brief trade war ended in December 2014

In November 2014, Rosselkhoznadzor started a trade war with Belarus by banning imports of meat and dairy products from twenty-three Belarusian producers. Moscow also prohibited the transit of Western food products to Kazakhstan through the Belarusian and Russian border. Belarus and Russia de facto [reinstalled customs controls](#) on their common border. In retaliation, Minsk forced Russian trucks to spend long hours waiting at border crossing points.

This brief trade war ended in December 2014 when Russia gradually recalled its import ban. Nevertheless, resourceful Belarusian entrepreneurs have not abandoned their efforts to supply the neighbouring country with European products re-

labelled "Made in Belarus". In January – March 2015, Rosselkhoznadzor identified nearly 200 falsified phytosanitary certificates, which accompanied imports from Belarus.

Contradictory Statistics

Belarusian attempts to substitute the Western food imports to Russia have brought uneven results. While for some positions there has been a spectacular increase in supplies, the most ambitious plans have failed to come true.

In September 2014, an official of the Belarusian Ministry of Economy announced the country's intention to increase its food exports to Russia by \$300m in 2014. In fact, the Belarusian supplies of food products to Russia increased only by 0.9%, which represented a growth of about \$42m.

In January – April 2015, according to Russian statistics, Belarus increased its share in Russia's imports of fresh and chilled beef from 76% to 90% compared to the same period of the previous year and cheese from 26% to 76%. However, in tonnes and dollars these exports grew very modestly. Belarus was more successful in its exports of apples, milk, cream, dried and salted fish to Russia.

In 2014, Belarus increased its imports of fresh fish by 7.1 tonnes, mostly from Norway; its export of dried, salted and smoked fish grew by 6.2 tonnes

Last year, Belarus bought an additional 208 tonnes of apples from the EU and Moldova. Again, most of the fruit the country most likely re-exported to Russia, as its export to this country grew by 198 tonnes representing a 142% increase.

Alongside with the direct re-packing and re-labelling, other transformations also took place. In 2014, Belarus increased its imports of fresh fish by 7.1 tonnes, mostly from Norway. The bulk of this surplus underwent transformation in

Belarusian plants and went to Russia, as Belarusian exports of dried, salted and smoked fish grew by 6.2 tonnes.

On 5 August, the Belarusian minister in charge agriculture and food [Leaniid Zajac](#) claimed that the Russian decision to destroy confiscated Western products never affected Belarus and refuted all accusations of possible contraband. "We will ensure that our products continue to enter the Russian market without any interruption and that there would be not one iota of doubt in our products' country of origin and quality", he said.

The Belarusian success story in becoming the primary beneficiary of the Russian food embargo has been a complex mixture of hard work, honest entrepreneurship and [cunning scheming](#). But even with this combination Belarus gained less from the Russian embargo that it had initially hoped.

Belarus Reinstates Customs Control on the Border with Russia: the End of the Eurasian Union?

The new food war between Belarus and Russia may signal the end the Eurasian Economic Union. In early December Belarus and Russia unofficially resumed customs control on the border, which led to Belarus responding to a Russian imposed embargo against Belarusian meat and dairy products.

The food war shows that the Eurasian Economic Union, expecting to officially launch on 1 January 2015, will be primarily a

political project despite its name. Trade wars will remain the norm in relations between the two countries, in violation of numerous international agreements concluded between Belarus and Russia.

The New Economic War

Over the last decade, [economic trade wars](#) have been an important feature of relations between Russia and Belarus. They affect trade in various sectors – from milk and sugar producers to oil traders and airlines. These wars include conflicts over energy supply deliveries to Belarus that exploded in 2004, 2006, 2007 and 2010. In 2009, Russia banned the import of Belarusian dairy products.

The new food war will be less visible in the media than for instance the [Uralkali and Belaruskali](#)'s divorce, but can still significantly undermine the basis of regional economic integration. Although officially Minsk denies it, multiple reports suggest that in early December the Belarusian authorities resumed customs control on the border with Russia.

Now customs are functioning on both sides of the border

Now customs are functioning on both sides of the border which will have a negative impact on trade between the two countries. Some trucks spend up to eight hours at customs on the border, which Belarus and Russia previously eliminated back in 2011 by creating the [Customs Union](#).

The Belarusian authorities say that they reinstated border control to help Russians identify goods which remain under Russia's sanctions. However, the recently imposed customs control has all the appearances of being a response to the food war launched by the Kremlin on 24 November. Then Russia has imposed an embargo on the importation of goods for nine Belarusian meat processing plants.

Since then, the number of Belarusian enterprises that fell under the Russian ban increased to 23. Russia also checks trucks sent from Belarus through Russia to Kazakhstan and other countries for potential banned goods secretly destined for Russia.

During the first five days of monitoring the border, the Belarusian authorities initiated three administrative investigations on the export of goods from Belarus to Russia and 15 more for imports from Russia to Belarus.

The recent iteration of the trade war was very costly to Belarus. According to the government's estimates, Belarus lost \$160m during the first five days of the embargo alone, a sizeable hit for a small economy. [Alexander Lukashenka](#) said that 'the Russian authorities' behaviour was not just surprising, but dispiriting. Indeed, their actions threatened to dismantle all of the agreements on the Customs Union'.

The government conducts negotiations with their Russian counterparts almost daily, but so far these talks have failed. On 10 December, Belarusian senior official [Siarhiey Rumas](#) announced that both parties agreed to solve the crisis during a meeting of the Eurasian Economic Commission, but time will show when the embargo will be actually lifted.

What the Kremlin Said and What It Means

Russia has two official complaints against Belarus.

First, Russia has declared that Belarusian meat and dairy products contain antibiotics, salmonella and listeria and are therefore dangerous for consumption. The Phytosanitary Service of Russia linked this with the purchase of cheap raw materials from Canada.

Secondly, Russia accused Belarus of [smuggling Western goods](#) into the country which are subject to sanctions. Officially these goods are in transit from Belarus to Kazakhstan through

Russian territory, but in practise they end up in Russia. Russia is now forcing trucks with goods are headed to Kazakhstan to pass through checkpoints on the Russian border.

The true motives of the Kremlin's policy remain obscure

In practise, Russia lacks legal grounds for imposing these kind of sanctions Belarus. Russia's border checks alone cannot confirm the purportedly dangerous nature of Belarusian goods. The requirement that the products coming from Belarus to Kazakhstan through the territory of Russia should pass through border controls is also a flagrant violation of the terms of the Customs Union. Therefore, Lukashenka's [recent statement](#) that "we are not puppies to be taken up by the scruff of the neck" is not without merit.

The true motives of the Kremlin's policy remain obscure. Minsk-based financial analyst [Siarhiej Čaly](#) cites several potential reasons: to demonstrate that Russian sanctions against the EU agricultural sector are working, to protect their own producers and improve the trade balance or simply just to punish Lukashenka for making money on Russia's problems. Whatever the logic of the actions, the latest trade war succeeded in reaching these goals.

Are Countries Dropping the Eurasian Economic Union?

The Belarusian authorities believed that the Customs Union could deprive Russia of the means to carry out this kind of low-level economic warfare. But at the beginning of the conflict, the Kremlin basically ignored the rules of the Customs Union. Officially the Federal Service for Supervision of Consumer Rights Protection, not the authorities themselves, began inspecting shipments on the Belarusian-Russian border. The Kremlin often uses this institution as a political tool to conduct trade wars.

Meanwhile, the Belarusian authorities are trying to fix their

own economic problems. Deputy Prime Minister [Mikhail Rusy](#) proposed to establish a unified supervisory institution, as he explained 'not to have to constantly prove that I'm not bald'. While the countries have the same safety standards, they have not yet created a single certificate that would eliminate these kinds of issues.

However, even the patching up of gaps in the legislation of each country cannot guarantee their peaceful economic coexistence. The treaty establishing the Eurasian Economic Community is silent with regards to any possible sanctions for violating the rules of the economic union. Therefore it is not surprising if countries will continue to break the rules in the future.

For Belarus, this conflict is even more painful because of the shrinking market of the Eurasian Economic Community. The economic crisis in Russia [reduces imports](#) from Belarus and has led to the Belarusian ruble's further devaluation.

Belarusians joined the Eurasian Economic Union to become richer. Now as Russia is itself struggling economically because of falling oil prices many wonder whether Belarus made the right strategic choice.

Belarus Hopes To Cash In On Russian Sanctions

Earlier this month, Russia introduced a full embargo on imports of meat, fish, dairy, fruit and vegetables from the European Union (EU), United States, Australia, Canada and Norway.

Moscow sought to retaliate for the sanctions imposed by the West following the downing of the Malaysian Airlines flight over Eastern Ukraine in July. The food ban went into effect immediately.

Belarus, itself no stranger to [Western sanctions](#), took the news in stride, promising to increase Belarusian food exports to Russia.

Whether the food embargo indeed holds substantial economic opportunities for Belarus, however, is not clear, especially if Russia will be able to fully monitor Belarus' exports and re-exports. Russia has already accused Belarus of lacking capacity to monitor exports, reportedly identifying 11 violations at the Russian-Belarusian border last week.

Even if it does, the benefits for the Belarusian economy in the short run may be outweighed by negative impacts in the long run. Sustained sanctions will eventually produce an economic downturn in Russia that will also ripple through the Belarusian economy.

Belarus Is Getting Ready to Cash in

Last year, Russia imported \$15.8 billion worth of agricultural products from the EU, as well as \$1.3 billion worth of foodstuffs from the US. Following the recent imposition of sanctions, Western media reported that truckloads of fruit had been detained at the Russian border and left to rot.

Reacting to the panic of Greek farmers, who were hit hardest by the embargo, the EU commission promised to compensate peach and nectarine growers.

[Farmers](#) and producers in non-EU states like Belarus are much more cheerful. They view the embargo as a lucrative opportunity to boost exports to Russia. But how exactly is Minsk going to benefit?

On August 11, President Lukashenka said that Belarus, which enjoys a customs-free zone and shares a long border with Russia, would fulfil all obligations to protect the market of the union state as regards the transit of goods across its territory.

He also promised to increase food exports to Russia. At the same time, Lukashenka did not follow Russia's ban. Neither did the third member of the customs union – Kazakhstan.

The Hard Limits of Belarusian Food Industry

Despite Belarus's promises, the opportunities for increasing food exports to Russia without violating the embargo are highly constrained in the short run. Belarus cannot breed more cows or grow more potatoes overnight.

Therefore, any immediate increases of food exports to Russia, short of flaunting the embargo by simply [relabeling](#) European products, will lead to the disappearance of produce in the domestic market.

Product	Belarus' Exports to Russia		
	Jan-May 2013	Jan-May 2014	
Bananas	42 tons	304 tons	\$183,300
Citrus fruit	3,287 tons	11,921 tons	\$4,493,900
Atlantic Salmon	1,020 tons	972 tons	\$1,509,200
Salmon filees	16,500 kg	75,967 kg	\$1,351,600
Crab	5,214 kg	31,628 kg	\$226,400
Canned fish & caviar	9,614 tons	12,418 tons	\$52,390,600

Belarus' reaction to the Russian-Georgian war provides a blueprint that can be followed this time as well.

Back in 2008, Georgian wine and mineral water easily found their way into Russia via Belarus. Russia chose to look the other way because it needed allies.

Whether Belarus will cash in on the embargo depends primarily on Russia's willingness to monitor and enforce food exports from Belarus.

A quick look at the long list of Belarusian food exports shows just how difficult it is to shut down the flow of Western food into Russia without undermining Russia's trade relationship with Belarus.

Data from Belstat, for example, shows that, from January to May of this year, Belarus exported 11,921 tons of citrus fruit, 149.9 tons of Atlantic Salmon, and 304 tons of bananas into Russia.

Even greater quantities of Western produce are exported to Russia after being processed in Belarus. The Belarusian firm Santa-Bremor, owned by the [oligarch](#) and Lukashenka confidante Aleksandr Moshensky, is a poignant example.

The company sells all of its products under the "made in Belarus" label. However, its products contain salmon, caviar, and seafood, which cannot be found in landlocked Belarus. Belarusian media recently reported that Santa-Bremor increased its exports to Russia by 30% over the past week alone.

Belarus is also home to a number of fruit and vegetable processing plants, which rely on Western produce and sell the finished products to Russia. Allowing these companies to continue exports technically violates the embargo. But exports continue under the "made in Belarus" label, in part because Russia knows that prohibiting such exports would hurt the Belarusian economy and crack the foundations of the Customs Union.

Recognizing that a number of vehicles with perishable projects were stuck at the Belarusian border, Lukashenka has already proposed that products banned from entering the Russian market be sent to Belarusian processing facilities.

On August 20, Belarus cancelled ban on live cattle from the EU, which may be a sign that it hopes to increase re-exports of meat to Russia. Officially, however, the ban was scrapped due to lower concern over Schmallenberg virus.

Because the Russian-Belarusian border can be crossed without customs checks, Western products can reach Russia via many other routes. In fact, thousands of Russians may simply choose to go shopping in Belarus more often.

Reacting to the likely increases in domestic food prices, Belarusians, in turn, may increase their shopping trips to Poland, where food is already cheaper than in Belarus.

How far will Russia go to Enforce the Embargo?

Circumventing Economic Customs Union rules when they hurt the national interest seems to be a recurring pattern in Belarus's [behaviour](#). Last year, Russia failed to secure Belarus' and Kazakhstan's support in imposing restrictions on Ukrainian goods in the event that Kiev would sign the Association Agreement.

Russia raised the issue again in June at the meeting of the Eurasian Economic Commission but its proposal, to no avail. Thus, Belarus was able to insulate itself from the economic consequences of Russia's trade war with Ukraine and may even benefit from re-exporting not only Western, but also Ukrainian goods to Russia.

Moscow certainly has enough power to pressure Belarus into compliance. However, it seems reluctant to do so at the time when its influence in the post-Soviet space is threatened and Belarus is a valuable ally.

Early signals from Russia indicate that it is not ready to look the other way. Just this week, Russia's Federal Service for veterinary and phytosanitary control (Rosselkhoznadzor) has said Belarus was unable to control exports of prohibited foodstuffs to Russia. According to Rosselkhoznadzor, Minsk's failure to control exports "threatens Russia's food security". According to UNIAN, the Russian side identified 11 violations of the ban by Belarus between 11 August and 15 August alone.

Tellingly, however, Moscow did not blame Belarus directly. Roselhorn's official statement has placed the responsibility on the EU – for not labeling the products correctly. It decided to warn Belarus rather than criticize it directly.

The Long-term Impact of Western Sanctions

The deterioration of Moscow's relationship with the West has contradictory consequences for Belarus' economy. In the short term, the conflict has opened new export opportunities for Belarus.

Over time, though, Belarus' economic [dependence](#) on its larger neighbour means that Moscow's economic problems sooner or later will ripple through the Belarusian economy.

The Russian stock market and the rouble have already fallen, and Russia's growth forecasts for the year look bleak. Belarus may feel the effects of Moscow's economic downturn in the not-so-distant future.

Russia's economic problems could, for example, weaken the Belarusian machine-building industry. Large export-oriented plants in this sector, such as the Minsk automobile plant, stand to lose a lot of money if Russia's demand slows.

The Belarusian financial sector is also vulnerable. Four Russian state-owned banks that are targeted by Western sanctions – Sberbank, Vnesheconombank (VEB), Gazprombank, and VTB Bank – all have operations in Belarus.