

# Western agricultural and potash sectors suffers more from anti-Russia sanctions than Russia itself

✘ Russia has delivered a textbook response to the growing list of sanctions that the West and NATO countries have adopted, with more or less conviction, over its inevitable interventions in the Ukrainian civil war. Russia has banned food imports from several Western countries including Italy, Germany and Canada. It has also banned Western investment projects in the Russian agro-food sector just as Russian food tastes and consumption habits have been expanding to include a wide variety of products. From the Western perspective that Russia should modernize politically, the sanctions will have adverse effects, delaying that very process of modernization, forcing a resumption of cultural and political insularity. Russia will put planned projects on hold or cancel them outright, hurting Western companies in the process.

Western companies – especially German and Italian – have been providing the modern technologies and know-how to modernize the Russian agriculture and processing industry. Germany alone has invested over a billion Euros in Russian agribusiness, which have enabled Russia to vastly improve plant production, resuming its role as a primary exporter of wheat along with the USA, the EU and Argentina. The increase in the production of wheat and other crops has also allowed for improvements in poultry and pig production, which has raised demand for such minerals as potash and phosphate. Meanwhile, as late as 2013, several European small and medium enterprises in the agricultural sector had asked their EU representatives to significantly expand their corresponding commitments in Russia, facilitating ties further. The crisis and the Western

(especially from the EU) promise to include Ukraine in NATO or even the EU have contributed greatly to the crisis. Not surprisingly, trade relations and problem-resolution mechanisms must be in place to build trust in trading partnerships and now both are in short supply. It will be difficult, but the EU must pursue a more diplomatic line with Russia in order to avoid completely cutting political level discussions and opportunities to continue working in favor of Russia's agricultural and food industry modernization, which benefit western companies directly.

The Russian government has chosen to ban imports of several food products from the EU and the USA not only as a means of political pressure, but also to highlight their positive impact on the development of Russian agriculture and food industry. It is therefore in the mutual interest of all powers concerned that the Ukraine conflict does not escalate further.

The effects of the embargo imposed by Russia have already been felt. Entire containers of EU food products have been blocked and sent 'back to sender', while Russian importers are advised have been terminated several contracts for the shipment of fruit and vegetables. The list of banned products covers the entire range of diets and tastes including beef, pork, chicken, fish, seafood, milk and dairy products, fruits and vegetables from the EU, USA, Norway, Australia and Canada, with the exception of alcohol and children's products. It is a sharp brake on the increasing demand for EU products on the dinner tables of all countries that made up the former Soviet empire that had begun to appreciate such gastronomic delights as Parmigiano Reggiano and prosciutto, not to mention all manner of oranges, grapes and legumes. In the first quarter of 2014, Russian imports of EU food products had actually risen in the first quarter of 2014. Countries such as Italy, which are relying on exports to lead the path out of the economic crisis, consider agriculture as a very important economic sector. It is estimated that Italy alone will lose over 200

million Euros in lost agri-business with Russia alone. Now we are facing a worrying escalation of the conflict with a trade war, which confirms the strategic importance of food especially during periods of economic recession. Russian leaders are master chess players and they have not chosen to target food imports casually; they are very aware that agriculture is a primary pillar of growth for the European Union at a time of economic stagnation. Indeed, worldwide agricultural exports from Italy alone grew by 5 percent in 2013, reaching a record high value of 34 billion Euros, even as other sectors suffered.

As for Canada, while Prime Minister Harper engages in smug tirades against Russia, the sanctions and growing trade 'Cold War' may have consequences for the potash sector. Russia is part of the block of BRICS (Brazil, Russia, India, China and South Africa) countries, all of which have high potash and phosphate demand driven by their respective agriculture and food sectors. As western borders close in response to decisions in Bruxelles, Ottawa or Washington doors open to Russia's East and South. In potash terms, the world's largest potash producer Uralkali expects to be able to implement price increases by as much as 10% in the 2015 supply contracts with China. Uralkali is considered the clock for the fertilizer industry, which also includes Canada's Potash Corp of course.

The People's Republic of China is the world's largest consumer of potash and now pays Uralkali USD\$ 305/ton. Technically, this should be good news for Potash Corp and its CANPOTEX partners (Mosaic, Agrium), but China may well decide to increase its share of supply from Russia in solidarity over Western sanctions. In turn, Russia will replace Western imports with meat and dairy products from Brazil, Argentina, Ecuador, Chile and Uruguay, which are more than willing to step up to the opportunity. China has also indicated that it can increase the supply of fruits and vegetables to Russia. Uralkali also has close ties to India and if it should see it

advantageous, it could slash potash prices below contract rates, revamping the 'quantity' model by increasing production and undercutting CANPOTEX. Moreover, Russia may decide to trade in local currency when dealing with other BRICS members, further damaging the potash market.