

The impact of difficulties in EU-Russia trade relations on the Finnish foodstuffs sector



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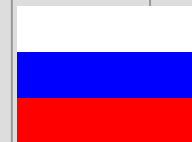
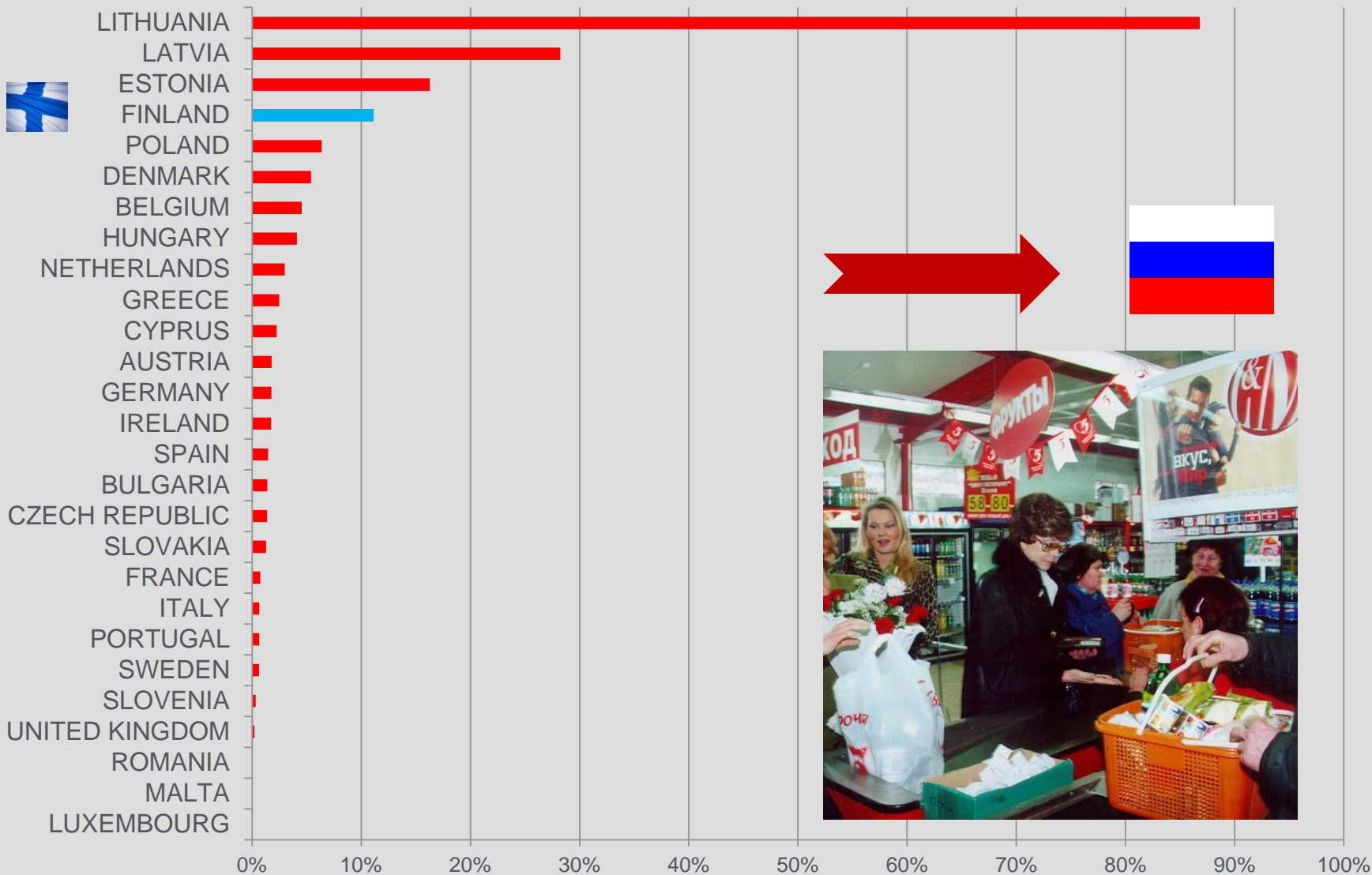
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Background

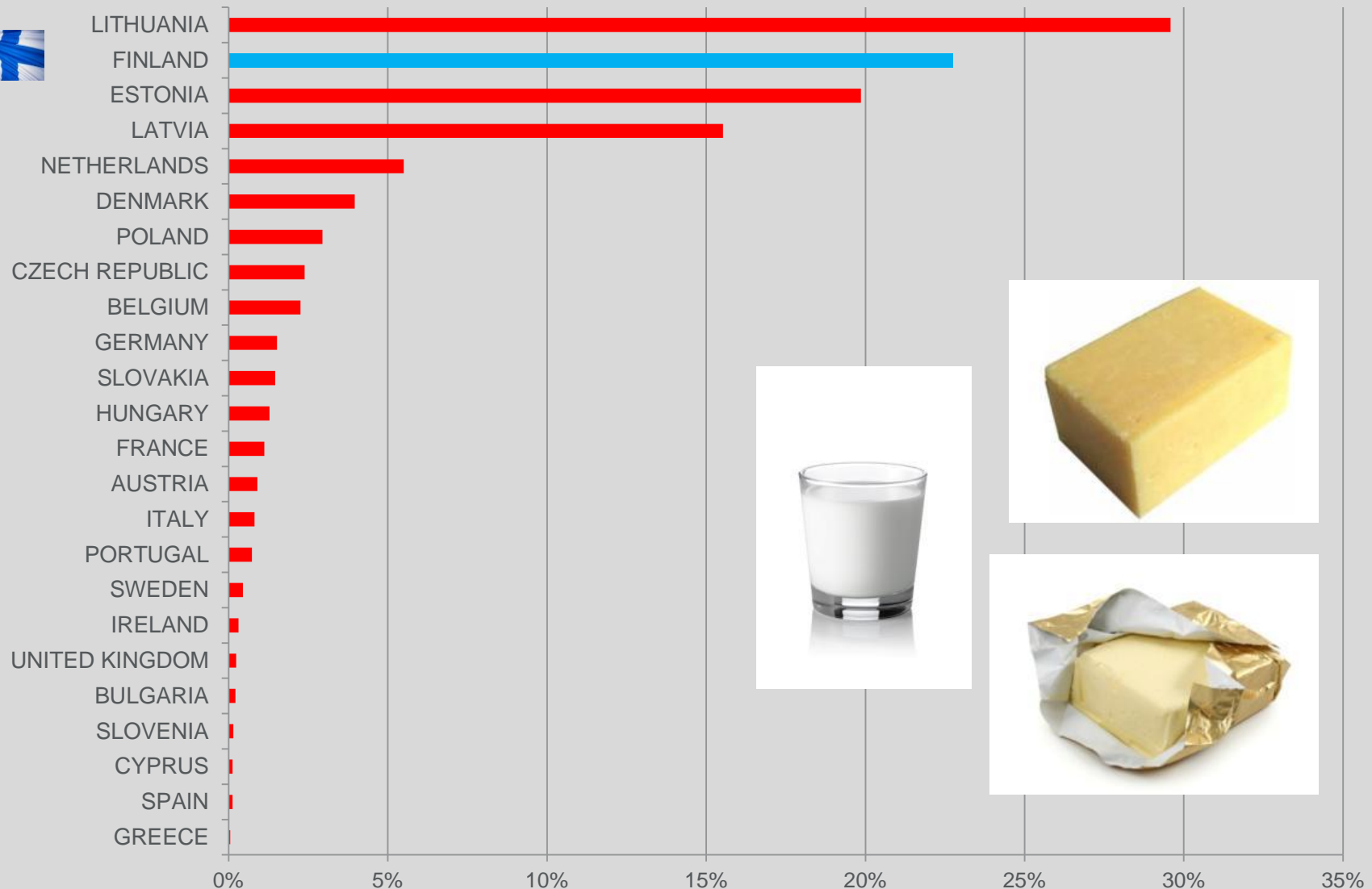
- On August 7, Russia announced that it would impose a ban for one year on imports of fruit, vegetables, meat, fish, milk and dairy products from the EU, US, Australia, Canada and Norway
- The impacts of the ban are not evenly distributed across countries and different products
 - Finland is one of the countries hardest hit by the ban
 - The most affected sector is the dairy industry



Value of banned exports (€) to Russia in relation to output of agricultural production at producer prices in 2013



Value of banned dairy exports (€) to Russia in relation to output of dairy production at producer prices in 2013



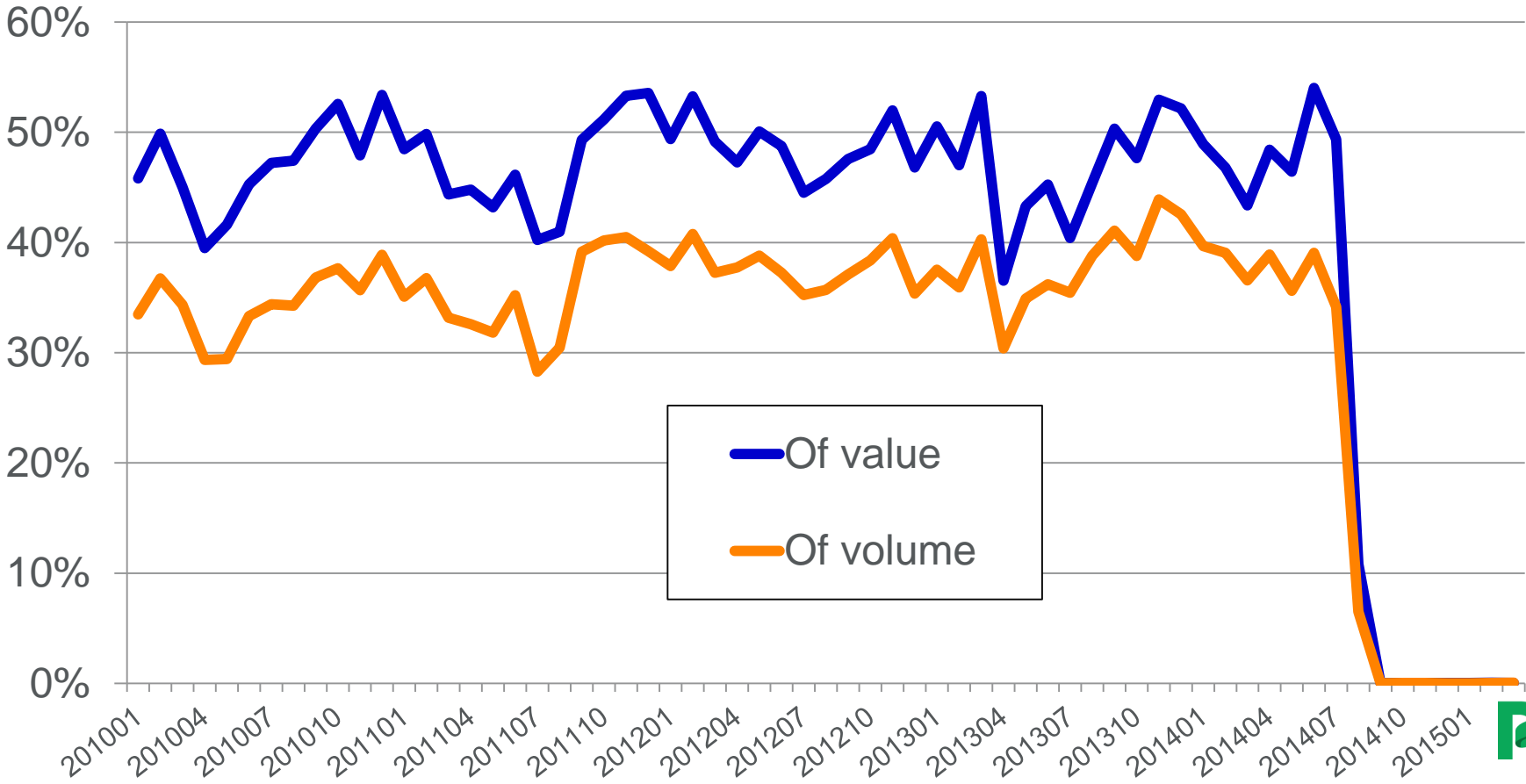
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 - Finland is one of the countries hardest hit by the ban
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- In the following, some figures concerning Finnish dairy sector before and after the ban
 - First, we analyze the changes in the Finnish dairy trade
 - Secondly, we look at the dairy industry and its turnover, profitability and employment
 - Thirdly, we take a producer view on the topic: producer price and its effect on family farm income and profitability



Russia has been the major export destination for Finnish dairy products

The share of Russia in Finland's dairy exports in 2010-2015



Source: Finnish Customs, PTT

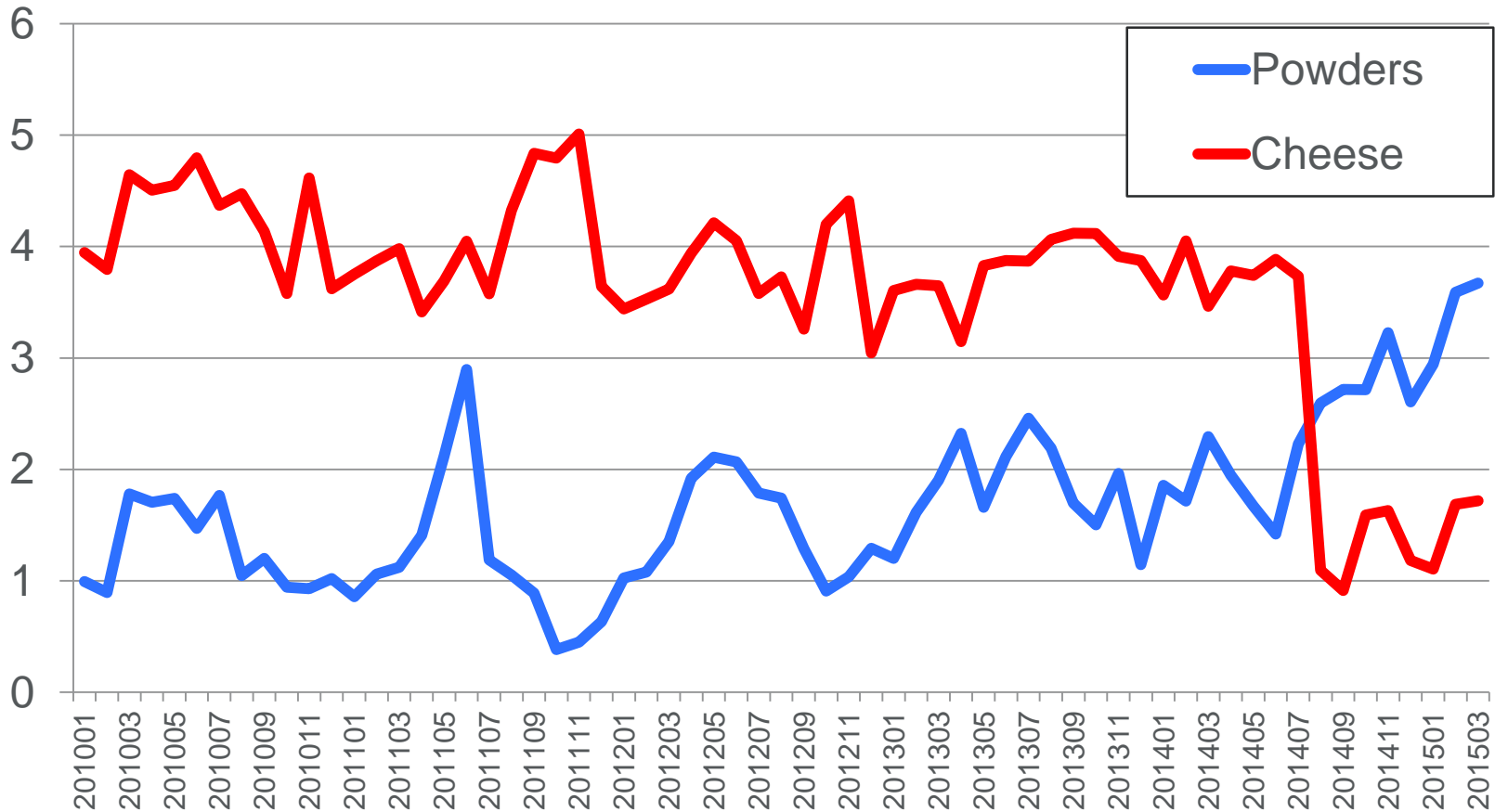


Impact of Russian food import ban on Finnish dairy industry

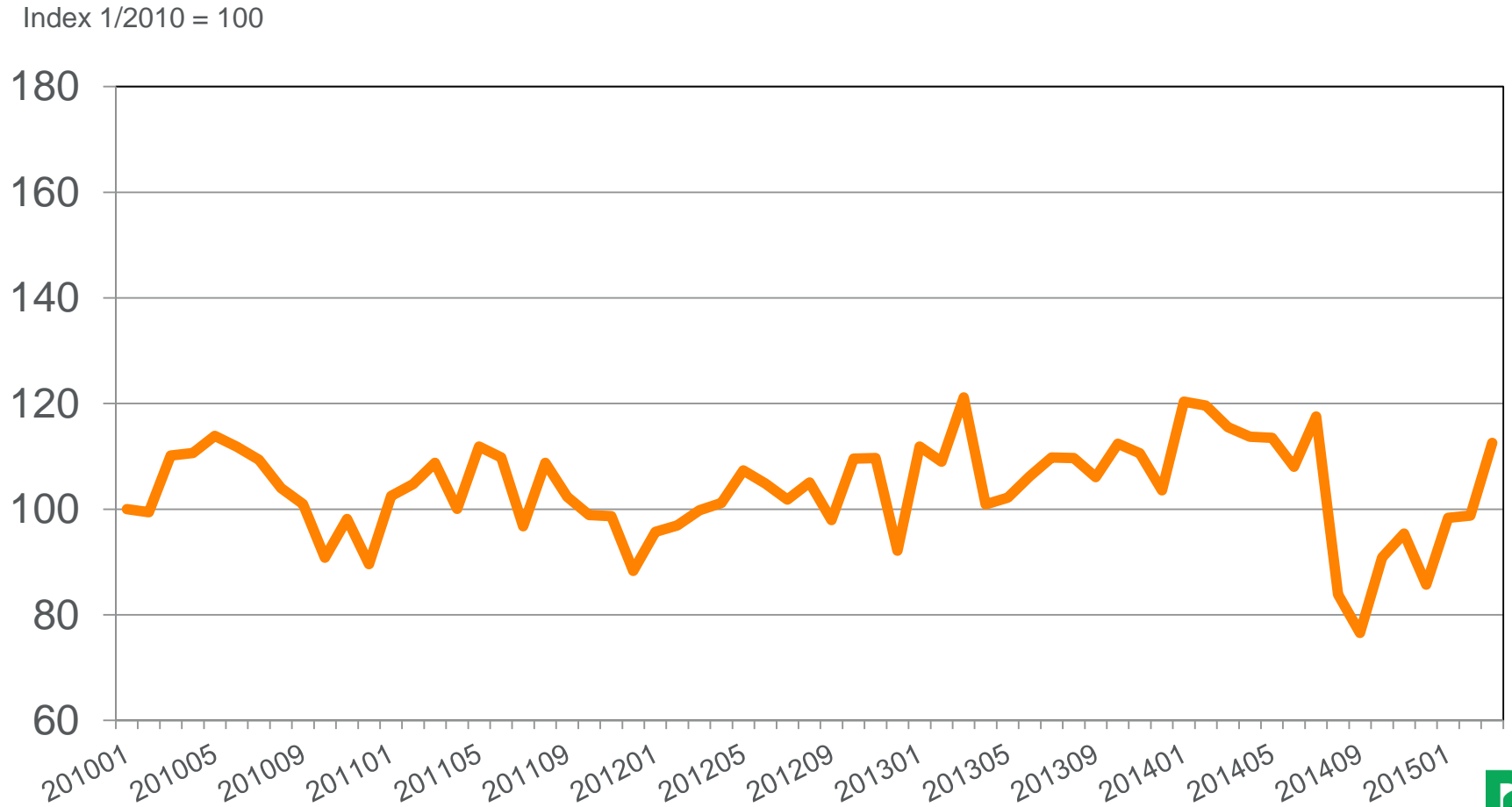
- A direct impact on Finland's milk markets has been that a new destination had to be found for the products exported to Russia
- Finnish dairy exports to Russia has consisted mainly of added-value products, for which substitutive export markets are difficult to find
- Therefore, a large part of the raw milk used for the products exported to Russia are processed to other products
 - In practice, these products are mainly industrial butter and milk powder
 - Their profitability is considerably weaker than that of the range of products exported to Russia

Finnish cheese export to Russia has been replaced by powder export

Monthly export (dairy products from Finland in 2010-2015)



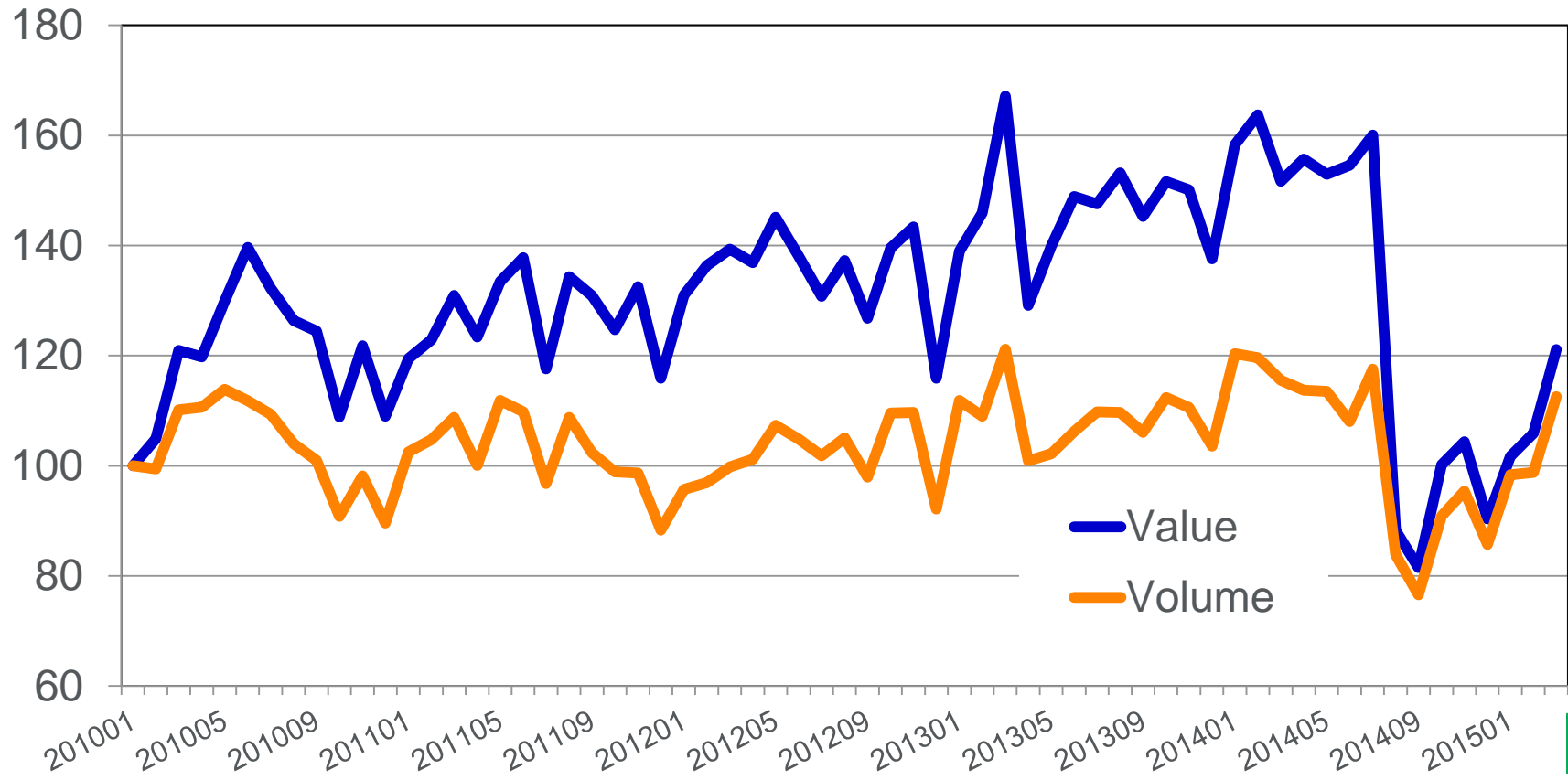
Export volumes have recovered



Source: Finnish Customs, PTT

Export volumes have recovered, but the value of exports is much lower

Index 1/2010 = 100 Value and volume of Finnish dairy exports



Source: Finnish Customs, PTT



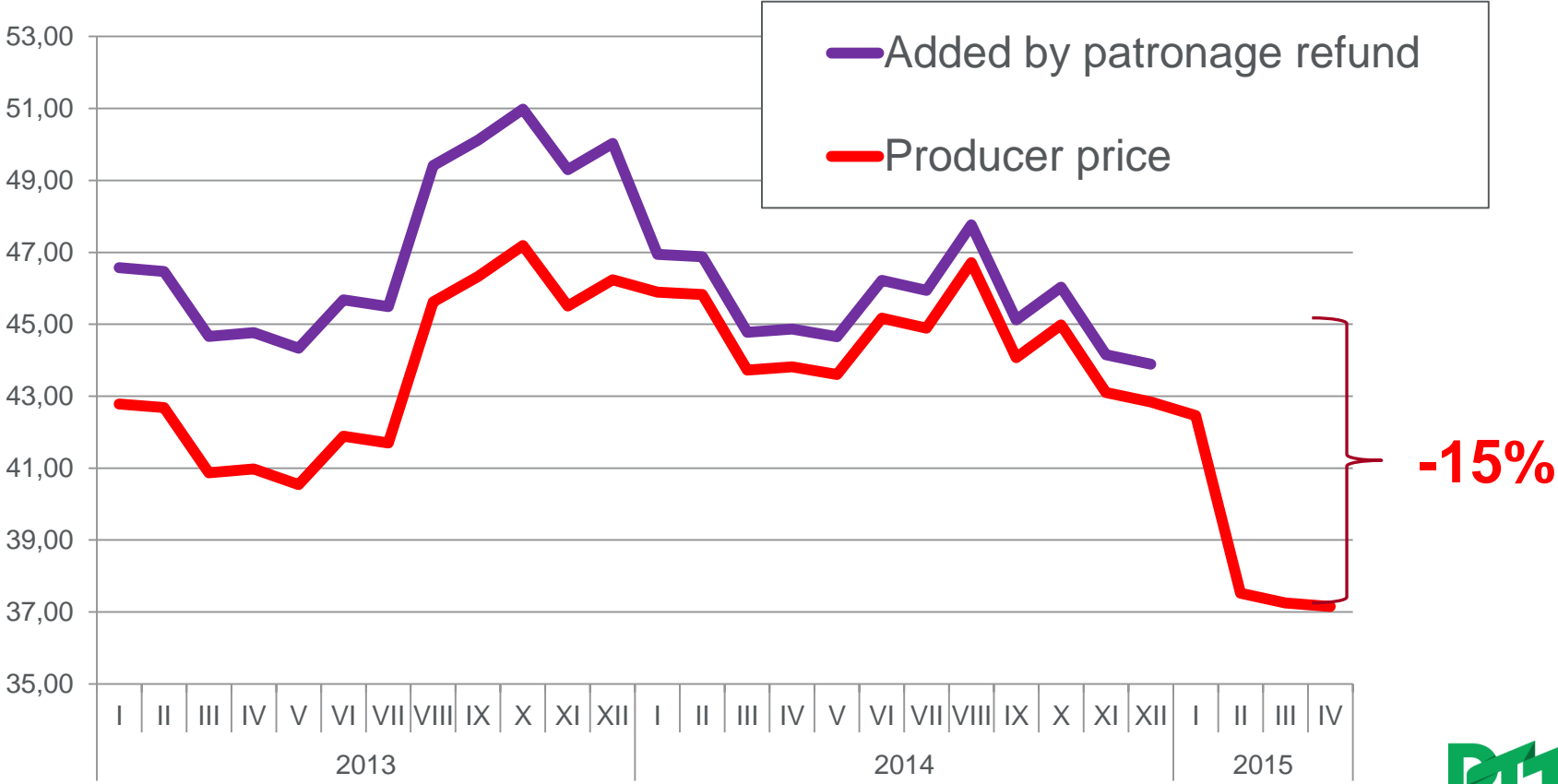
Impacts on dairy farms (1)

- Over the years, the producer price of milk in Finland has been among the highest in the EU.
- However, market losses due to the Russian embargo have had direct effect on producer price



Producer price of milk has been affected by the Russian sanctions

Producer price of milk 2013-2015



Source: Luke



Impacts on dairy farms (1)

- Over the years, the producer price of milk in Finland has been among the highest in the EU.
- However, market losses due to the Russian embargo have had direct effect on producer price
- Current price is 15% less than year before
- Farm income, i.e. the compensation of invested capital, is expected to decrease by 10% in an average-size dairy cattle



Impacts on dairy farms(2)

- Sanctions are not directly affecting dairy farms' structural development, which has advanced with an annual speed of 7% on average during the past years
- In the short term, it is not expected, either, that the decrease in the producer price would affect the produced amount of milk, because it takes time to adapt the production
- The prospects for the amounts of milk produced in Finland in the long term depend on whether the farms continuing their milk production expand it
- Volatility of market prices, to the increase of which the sanctions contribute for their part, creates uncertainty and increases the risk of investment failure



Thank you!