

Russia's Food Trade with the Middle East and North Africa

Heigermoser, Maximilian; Götz, Linde; Jaghdani, Tinoush Jamali

Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

Empfohlene Zitierung / Suggested Citation:

Heigermoser, M., Götz, L., & Jaghdani, T. J. (2022). Russia's Food Trade with the Middle East and North Africa. *Russian Analytical Digest*, 275, 20-23. <https://doi.org/10.3929/ethz-b-000530882>

Nutzungsbedingungen:

Dieser Text wird unter einer CC BY-NC-ND Lizenz (Namensnennung-Nicht-kommerziell-Keine Bearbeitung) zur Verfügung gestellt. Nähere Auskünfte zu den CC-Lizenzen finden Sie hier:

<https://creativecommons.org/licenses/by-nc-nd/4.0/deed.de>

Terms of use:

This document is made available under a CC BY-NC-ND Licence (Attribution-Non Commercial-NoDerivatives). For more information see:

<https://creativecommons.org/licenses/by-nc-nd/4.0>

Russia's Food Trade with the Middle East and North Africa¹

Maximilian Heigermoser, Linde Götz, and Tinoush Jamali Jaghdani
(Leibniz Institute of Agricultural Development in Transition Economies (IAMO))

DOI: 10.3929/ethz-b-000530882

Abstract

The Middle East and North Africa (MENA) region is the top destination for Russian food exports. Focusing on Turkey, Egypt, Iran, and Saudi Arabia, this article shows that Russian exports of wheat, barley, and maize are the key component of these bilateral food trade relationships; Russian food imports are typically minor in comparison. Russia's agricultural trade ties with the MENA countries under study have repeatedly been affected by the improvement and deterioration of political relations. For example, Russia banned most food imports from Turkey over a political conflict in 2016, which prompted counter-measures by the Turkish side. It can generally be observed that Russia is successfully working to open additional destination markets in the region and beyond, while simultaneously impeding imports of specific food products that it aims to produce domestically.

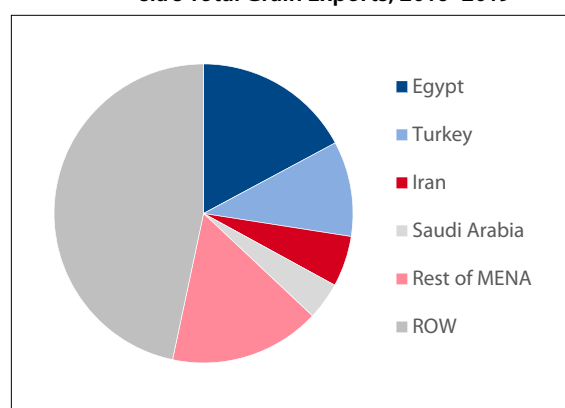
Introduction

As Russia's food and particularly grain exports started to increase with the turn of the millennium, the Middle East and North Africa (MENA) became the country's most important destination region. This article focuses on Russia's top four destination markets within the MENA region, namely Egypt, Turkey, Iran, and Saudi Arabia, which accounted for close to three-quarters of Russia's grain exports to the region between 2016 and 2019 (see Figure 1), as well as 55% of Russia's food imports therefrom. Egypt and Turkey are Russia's top two wheat export markets, while Saudi Arabia is the primary destination for Russian barley. Russia's food trade with Egypt, Iran, and Saudi Arabia is largely unidirectional, while its trade with Turkey—which supplies significant quantities of fruits and vegetables to Russia—is more bilateral. Overall, Turkey is Russia's most important destination market for food exports, followed by China and Egypt; Iran and Saudi Arabia also fall into the top ten. On the list of Russia's most important suppliers of food, Turkey comes in fifth, behind Belarus, Brazil, China, and Germany (UN Comtrade 2022).

Egypt

Egypt is the world's largest wheat importer, buying around 12.5 million tons per season, as its domestic production only covers 42% of its total consumption (IGC 2022). Around half of Egypt's wheat imports are handled by the General Authority for Supply of Commodities (GASC), a state trade enterprise responsible for the procurement of foodstuffs. In fulfilling its mandate,

Figure 1: Individual MENA Countries' Shares of Russia's Total Grain Exports, 2016–2019



Note: In aggregate, Russia's grain exports between 2016 and 2019 amount to 171.5 million tons (UN Comtrade 2022).

the GASC imports as much wheat as the whole of Japan, making the agency a dominant single player on the international market. To purchase wheat, as well as other food commodities such as rice, soy oil or sunflower oil, the agency employs a tender system. The GASC usually issues wheat tenders every two weeks, buying three to four cargoes of 60,000 tons from the countries that are currently most competitive. GASC tenders are closely watched by the global grain trade, as Egypt is geographically located at a vital chokepoint of international trade, namely the Suez Canal. As such, being competitive in GASC tenders typically also implies competitiveness in destination markets beyond the canal, giving the outcome of Egypt's wheat tenders high informational value (Heigermoser et al. 2021).

¹ This article draws on a chapter titled "Russia's Food Trade with the Middle East and North Africa" in *Russia's Role in the Contemporary International Agri-Food Trade System*, eds. Stephen K. Wegren and Frode Nilssen (London and New York: Palgrave Macmillan, 2022).

The wheat the GASC purchases is utilized domestically to produce *baladi* flat bread. This staple food is sold at subsidized prices to Egyptians with lower incomes. Egypt's bread subsidy program is a politically sensitive issue and efforts to abolish or reform the subsidy system have caused repeated uprisings and riots (Ghonein 2015). Over the past two decades, Russia and further Black Sea exporters such as Ukraine and Romania have steadily increased their shares of the GASC tender market, mostly at the expense of the US, which had for decades been the leading supplier of wheat to Egypt. From the 2015/16 season onwards, at least 80% of wheat imported by the GASC originated from the Black Sea region, with Russia alone accounting for between 40% and 80%. This compares to an average share of 33% between the 2005/06 and 2008/09 seasons. As a result of the increasing share of Black Sea wheat in the Egyptian market, the United States Wheat Associates, the U.S. wheat industry's export market development agency, closed their Cairo office in December 2017 (World Grain 2017).

Turkey

Turkey is Russia's most important trading partner in the MENA region, with an average annual food trade volume of \$3.15 billion between 2017 and 2019 (UN Comtrade 2022). Food trade, however, constituted only 13% of total trade between the two countries over the past decade, as Turkey—a country dependent on energy imports—predominantly buys natural gas and crude oil from Russia, making energy trade the primary component of the economic relationship between the two Black Sea countries. Turkey is mostly self-sufficient in wheat and barley production, while total corn consumption exceeds domestic production by around 40%. However, grains—particularly wheat—still account for more than 55% of Turkey's food imports from Russia, with excess wheat quantities being processed into wheat flour, which Turkey exports to destination markets in the MENA region, chief among them Iraq, as well as Syria and Yemen. With a market share of 20% and exports worth \$1 billion per year, Turkey is the world's largest wheat flour exporter, followed by Kazakhstan (10.5%) and Germany (6.5%) (UN Comtrade 2022).

Despite the generally strong economic ties between Russia and Turkey, bilateral food trade has been heavily affected by political tensions between the two countries in recent years. In November 2015, Russia responded to the downing of a fighter jet by introducing an extensive package of sanctions against Turkey, including a ban on imports of Turkish food products such as tomatoes, onions, and cucumbers. After a meeting between the two countries' presidents in St. Petersburg in early August 2016, the intent to "normalize" the bilateral relationship and a gradual lifting of the Russian import

restrictions were announced (Reuters 2016a). However, while restrictions on other food items were lifted, Turkish tomato exports remained impeded. Exempting tomatoes from the resumption of food trade is in line with the logic of Russia's agricultural import-substitution policy, which applies to many agricultural sectors (Götz et al. 2022): tomato imports are banned and the Russian government financially supports domestic tomato production with a view to achieving self-sufficiency.

Saudi Arabia

Until 2016, the food trade between Russia and Saudi Arabia was mostly limited to Russian barley exports. For several decades, Saudi Arabia has been the world's largest barley importer, with annual imports amounting to around 7.5 million tons and a market share of around 30%. Today, Saudi Arabia is entirely dependent on imports of barley, which is used as animal feed in the country. Since the early 2000s, Saudi Arabia has sourced around 40% of its barley from the Black Sea region, primarily Ukraine, followed by Russia. In some years, the Black Sea market share has even exceeded 60%. While Saudi Arabia is still the top destination for Russian barley exports, its share has decreased from 60% between 2011 and 2015 to 40% since 2016, while exports to other MENA countries, particularly Iran and Jordan, have increased substantially.

After years of bilateral negotiations, Russian wheat was approved to be offered in Saudi state wheat tenders on August 8, 2019 (Reuters 2019). The opening of the Saudi Arabian market for Russian wheat must be seen in the context of a steadily improving relationship between the two countries in recent years. After bilateral relations reached a low point due to the two countries being on opposite sides in the Syrian civil war, Saudi Arabia and Russia—the world's two largest crude oil exporters—began to cooperate in oil markets in 2016 when crude oil prices fell to historically low levels (Reuters 2016b). As their diplomatic ties have improved, food exports from Russia to Saudi Arabia, which had halved from around \$500 million annually between 2012 and 2015 to \$250 million in 2016, returned to their previous levels. Going forward, Russian and Saudi Arabian officials have affirmed their intention to further increase and diversify the bilateral food trade.

Iran

Following the collapse of the Soviet Union, there was bilateral political will to expand trade relations between the Russian Federation and the Islamic Republic of Iran (hereafter Iran). The "Look to the East" policy defined by Tehran in 2006 (Adami 2010) promoted the improvement of Iran's economic and political relations with Russia and China after many years of a no-alliance policy

(Tarock 2017). However, while the bilateral economic relationship remains insignificant as a share of total trade, agricultural and food trade has increased substantially since 2017. In 2018, Iran imported food products worth \$856 million from Russia, while food exports to Russia stood at \$450 million.² As such, food trade accounted for around two-thirds of Russian-Iranian trade between 2017 and 2019. Russia and Iran both have large oil and natural gas reservoirs, and both depend on fossil fuel exports. However, Iran has an arid to semi-arid climate and faces severe water scarcity issues. Despite this, Iran has implemented self-sufficiency policies, particularly for its domestic grain production, which is affected by varying levels of precipitation. As Russia turned into a major grain exporter, Iran started to diversify its cereal import portfolio by relying more heavily on Russia, although imports from other countries remain substantial (ITC 2020). In 2018, maize was Iran's primary food import from Russia, followed by sunflower oil and barley. The top food exports from Iran to Russia are fruit, nuts, and vegetables. It must be added that Iranian wheat imports from Russia are highly volatile, as Iran's domestic wheat production varies widely due to fluctuating precipitation levels.

Conclusions

In this article, we have portrayed Russia's food trade with its top four destination markets in the MENA region. Food trade dominates Russia's bilateral trade relationships with Saudi Arabia, Iran, and Egypt, which—like Russia—are net energy exporters. In the case of Turkey, the sole net energy importer of the countries under study, food trade only accounts for 13% of total trade with Russia, as the vast majority of trade is in energy. In all four cases, Russia's food exports clearly outweigh its

food imports. Due to unfavorable climatic conditions, grain production in the MENA countries often does not meet the demand of the growing populations; Russia has thus emerged as a major supplier of wheat, as well as barley and maize, to the neighboring region. Since Saudi Arabia approved the import of Russian wheat in August 2019, only a few MENA countries maintain a prohibition on importing Russian wheat, most notably Algeria, the world's third-largest wheat importer, as well as Iraq.³ Unless Algeria approves wheat imports from Russia, and leaving aside increasing demand due to population and economic growth in the MENA region, Russia's overall grain exports to the MENA region are unlikely to increase substantially in the future, as the region already sources most of its grain from Russia or competing Black Sea exporters such as Ukraine, Kazakhstan or Romania.

By exporting wheat and other grains to the import-dependent MENA region, Russia has managed to build meaningful economic trade relationships with countries that are also primarily energy exporters—and thus competitors. After reaching low points in 2016 due to, inter alia, Russia's involvement in the Syrian civil war, a stand-off in international energy markets, and various disputes over product quality, the food trade relationships with the selected MENA countries have largely improved in recent years. While the food trade has repeatedly been disrupted by political interventions (see Heigermoser et al. 2022 for details), its central component, the grain trade, can be expected to remain stable in the long run due to its unequivocal mutual benefit: because of climatic and geographic advantages, Russia can competitively produce and ship grains to the MENA countries, which lack sufficient grain production of their own to meet domestic consumption.

About the Authors

PD Dr. *Linde Götz* is Deputy Head of the Department of Agricultural Markets at the Leibniz Institute of Agricultural Development in Transition Economies (IAMO) and a Lecturer at Martin Luther University of Halle-Wittenberg. She obtained her PhD in Agricultural Economics from the University of Göttingen and studied at Humboldt University of Berlin and the University of Minnesota in Minneapolis, USA. Her research interests include price formation and competition on agricultural markets and in food supply chains, international trade, and the effectiveness of agricultural policies. She has led several research projects on the development of the agricultural sectors and food industries of Russia and the countries of the Black Sea region and the implications thereof for global food security.

Maximilian Heigermoser joined IAMO as a doctoral researcher in 2017. His dissertation focused on the rise of Russia and further Black Sea exporters as top exporters on global grain markets and the implications thereof for market integration, global food security, and price volatility. He successfully defended his thesis in 2021 and today works at a software company developing risk management and controlling solutions for cooperative banks.

2 The data available in Iranian sources list different trade volumes than the data provided by the UN Comtrade Database. According to these sources, Iran imported \$661 million of agricultural and food products from Russia and exported \$218 million of the same commodity groups to Russia in 2018 (AWNRC 2019).

3 Iraq, however, imports large quantities of wheat flour from Turkey, which in turn imports more wheat than it needs from Russia. Thus, Iraq indirectly imports Russian wheat.

Dr. *Tinoush Jamali Jaghdani* received his PhD in agricultural economics from the Faculty of Agricultural Sciences (with a minor in applied statistics from the Faculty of Mathematics) at the University of Göttingen, Germany, in 2012. He previously earned an MSc. in rural development from the University of Göttingen in 2007. He received his BSc. in agricultural economics from Tehran University, Iran, in 2001. Between 2012 and 2017 he was a postdoctoral fellow at the University of Göttingen on the projects ULYSSES and AgriCareerNet. Before that, he worked as a consultant for the private sector and the World Bank in Iran (2001–2004) and for the FAO in Turkey (2015). He joined IAMO as a research associate on the STARLAP project in October 2016 and has also been working since 2017 on the ongoing VALUMICS project. To date, Dr. Jamali Jaghdani's research has focused on water economics, food price volatility, food supply chains, and agri-food trade.

References

- Adami, Ali. 2020. "Look to the East Strategy in the Foreign Affairs of Islamic Republic of Iran; Perspectives, Basics and Opportunities." *Quarterly Journal in Political Studies* 7: 97–127 (originally in Persian).
- AWNRC. 2019. "Summary of Iran Food and Agricultural Trade in 2018." Retrieved August 30, 2020. <https://bit.ly/2EvvmwY> (originally in Persian).
- Ghonein, Ahmed F. 2015. "The Political Economy of Food Price Policy in Egypt." In *Food Price Policy in an Era of Market Instability*, ed. Per Pinstrup-Andersen. Oxford: Oxford University Press, 253–274.
- Götz, Linde, Maximilian Heigermoser, and Tinoush Jamali Jaghdani. 2022. "Russia's Food Security and Impact on Agri-Food Trade." In *Russia's Role in the Contemporary International Agri-Food Trade System*, ed. Stephen K. Wegren and Frode Nilssen. Hampshire: Palgrave Macmillan, 115–137.
- Heigermoser, Maximilian, Linde Götz, and Tinoush Jamali Jaghdani. 2022. "Russia's Food Trade with the Middle East and North Africa." In *Russia's Role in the Contemporary International Agri-Food Trade System*, ed. Stephen K. Wegren and Frode Nilssen. Hampshire: Palgrave Macmillan, 253–278.
- Heigermoser, Maximilian, Linde Götz, and Miranda Svanidze. 2021. "Price Formation within Egypt's Wheat Tender Market: Implications for Black Sea Exporters." *Agricultural Economics* 52: 5: 819–831.
- IGC. 2022. "International Grains Council: Supply and Demand." Retrieved January 10, 2022. <http://www.igc.int/en/Default.aspx>.
- ITC. 2020. "Trade Map—Trade Statistics between Iran and Russia." Retrieved August 24, 2020. <https://www.trademap.org/Index.aspx>.
- Reuters. 2016a. "Turkey, Russia Agree on Need to Normalize Ties: Turkish Official." August 9, 2016. <https://www.reuters.com/article/us-russia-turkey-erdogan-official/turkey-russia-agree-on-need-to-normalize-ties-turkish-official-idUSKCN10K1EQ>.
- Reuters. 2016b. "Saudi Arabia, Russia Sign Oil Pact, May Limit Output in Future." September 5, 2016. <https://www.reuters.com/article/us-g20-china-saudi-russia-oil-idUSKCN11B0UF>.
- Reuters. 2019. "Exclusive: Saudi Boosts Russia Ties with Welcome for Black Sea Wheat." August 8, 2019. <https://www.reuters.com/article/us-saudi-wheat-exclusive/exclusive-saudi-boosts-russia-ties-with-welcome-for-black-sea-wheat-idUSKCN1UY0ZW>.
- Tarock, Adam. 2017. "Russo-Iranian Relations in the Post-Soviet Era." *Diplomacy and Statecraft* 28: 3: 518–537.
- UN Comtrade. 2022. "International Trade Statistics Database." Retrieved January 10, 2022. <https://comtrade.un.org/>.
- World Grain. 2017. "U.S. Wheat Associates to Close Cairo Office." October 17, 2017. Retrieved August 5, 2020. <https://www.world-grain.com/articles/8814-u-s-wheat-associates-to-close-cairo-office>.