

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Russian Federation

**Post:** Moscow

### Government Subsidies for Transportation of Herring Will Contribute to Import Substitution

**Report Categories:**

Fishery Products

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**Report Highlights:**

The Russian Ministry of Agriculture drafted a government resolution approving 500 million rubles (\$11 million) of subsidies from the government reserve fund to pay for rail transportation to move 100,000 MT frozen herring from the Russian Far East to the Central District of Russia. The objective of the mechanism is to compensate for the gap in imports of herring from Northern Europe and stimulate local producers to sell in domestic markets rather than export.

**Executive Summary:**

On November 17, 2014, the Russian government released for public comment the following resolution: “On providing subsidies in 2015 from the federal budget to Joint Stock Company ‘Russian Railways’ to compensate for losses in income related to in-country rail transportation of frozen herring from the regions of the Russian Far Eastern Federal District.” The end date for public comment is December 17, 2014.

[http://regulation.gov.ru/project/19767.html?point=view\\_project&stage=2&stage\\_id=14345](http://regulation.gov.ru/project/19767.html?point=view_project&stage=2&stage_id=14345)

The Russian Ministry of Agriculture drafted a government resolution approving 500 million rubles (\$11 million) of subsidies from the government reserve fund to cover transportation by railways of 100,000 MT of frozen herring from the Russian Far East to the Central District of Russia. The objective of the mechanism is to compensate for the gap in imports of Atlantic herring from Northern Europe and stimulate local producers to supply fish to domestic markets rather than export.

Following the issuance of the food ban in August 2014, transportation costs for shipment of fish and seafood from the Russian Far East to the Central District region have caused heated discussions in the government and within the fishing industry. Before the ban, Europe was the major supplier of Atlantic herring to Russia. Herring exports from Norway and Faroe Islands to Russia were estimated at 120,000 MT in 2013, or about 20 percent of total domestic consumption of herring in Russia of 400,000 MT. According to specialists, subsidizing shipping costs to send Pacific herring from the Russian Far East will facilitate covering the gap in imports of Atlantic herring from Europe with domestic supplies.

**General Information:**

According to the Resolution, during the period January 1 to May 31, 2015, the cost of transporting frozen herring by rail from Russian Far Eastern fishery facilities to markets in Central Russia will be covered by the finances from the reserve fund of the government. The government also set a cap on the amount of frozen herring that can be transported free of charge at 100,000 MT. The designated railway, JSC “Russian Railways” has committed to provide transportation priority to suppliers of herring from the Far East when distributing refrigerated cars and containers among suppliers of other products. The government will subsidize the losses to JSC “Russian Railways” for the transport of the herring with subsidies up to the amount of 500 million rubles, allocated in the 2015 reserve fund. The “Russian Railways” press service has stated that, “free transportation of herring will be carried out on tenders from the subjects of the Russian Far East until the 100,000 MT limit is reached. Quantities in excess of the 100,000 MT limit will be carried based on a regular tariff schedule.” The Federal Anti-Monopoly Service is to monitor for any unjustified increases in railway tariffs, and other services associated with transportation.

An Explanatory Note to the draft document states that “the market for herring is characterized by price disparities between the fish harvested in the North Western region and the Far Eastern basin. The wholesale price for Atlantic herring (including imported herring), in the port of Murmansk, is 45-47 rubles per kilo. At the same time, the wholesale price for Pacific herring, in the port of Vladivostok, is 24-27 rubles per kilogram, (given equal production costs for harvesting). According to market participants, the development of such a price disparity was due to the tariff policy for transportation of frozen fish by rail from the Russian Far Eastern ports to the regions of consumption in Central Russia. Additionally, there are lucrative financial preferences for processors and traders, (such as deferred payments, insurance, for import shipments of fish and seafood. As a result, fishing companies in the Far East must export more than 50 percent of all harvested Pacific herring (about 250,000 MT) to China and Korea. Moreover, rail transportation costs for herring account for about 30 percent of the wholesale

price in the regions of consumption.

### **Mechanism Objectives**

According to the Ministry of Agriculture, the suggested mechanism will prevent price surges in wholesale and consumer markets, and remove price disparity between the Pacific and Atlantic herring by shifting it from the Russian Far Eastern to Central regions.

The objective of the mechanism is to speed up import substitution. The Federal Fishery Service believes that the set quota of 100,000 MT will stimulate suppliers to ship herring to the European part of Russia during the months of herring harvest without delays. According to the same source, the cost for rail transportation from the Russian Far East during summer months usually goes up since suppliers have to lease refrigerated containers equipped with a cooling system. Rail tariffs for products shipped in refrigerated containers are 35-50 percent higher than universal containers, given similar expenditures by railways for their shipment. Therefore, fish and seafood producers and suppliers usually “hold” their products in storage facilities in the Russian Far East until November, when the temperature is down, before shipping products to Central Russia. According to specialists from Rosrybolovstvo, subsidized railway shipments of herring in the first half of 2015, will facilitate the process of import substitution, as well as encourage prices that are profitable for producers, but are not likely to cause hikes in prices to consumers.

According to trade contacts, the fishery community is in favor of the decision. They believe this can be a significant step in government efforts to support fishermen and can stimulate a better supply of local fish to the domestic market.