

Internal Market and the EU-Russia Sanctions: Examination of Practice in Visegrád Countries One Year On

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Executive summary

This paper focuses on the impact of the EU – Russia sanction regime on the four countries of the Visegrad Group. In the short term the most visible impact was in the sector of agricultural production due to the Russian food ban. A deeper and longer impact could be connected with the overall deterioration of the Russian economy, the decline of its purchasing power and the larger changes in the Russian society and business environment.

The analysis of the impact of the Russian food ban on the Visegrad Group countries must distinguish between the direct impact and the indirect impact. Poland was, after Lithuania, the second Western country most directly hurt by the Russian food ban. The direct impact on Hungarian exports of agricultural products is somewhere between the heavy damage to Poland and the almost negligible direct impact in the case of the Czech Republic and the Slovak Republic. The food ban resulted in the collapse of apple prices in Poland and also damaged other sectors such as mushrooms or tomatoes. Poland was also the only V4 country seriously affected in cheese exports. In the case of Hungary, the pork and poultry sectors were hit especially hard.

The whole EU internal market with agricultural products was, however, hit by the indirect impact of oversupply, in particular with meat and fruits. This influenced agricultural producers in all V4 countries. The EU responded with market interventions for perishable fruit and vegetables, a scheme to aid private storage for butter and skimmed milk powder and exported cheeses and to increase the financing of promotions of agricultural products and the search for new markets.

The following noticeable trends in response to the sanction regime were identified. Hungary is seeking markets in the East, including Russia, despite the sanctions. Slovakia was successful in the process of the formulation of the EU sanctions so that they exclude Russian owned financial institutions based in the EU and later used the sanctions as a useful justification for national production preferences that were considered even before the sanctions. Poland was the most damaged by the Russian food ban and fought strongly for higher EU support and also was among the countries that employed the most of the financial resources provided at the EU level. The Czech Republic adopted several measures so it would not lose the Russian market before its exporters could find new markets elsewhere.

One region, different stories

This paper focuses on the impact of the EU – Russia sanction regime on the four countries of the Visegrad Group (V4) Poland, Hungary, the Slovak Republic and the Czech Republic.¹ These countries are in the region of the EU that borders with Russia and this determines the significance of their relation with Russia in the area of security, in their energy dependency on Russian supplies and also with regard to other important and now threatened links with Russia ranging from tourism, investment expansion and trade. In spite of these regional similarities each V4 country found its own way to adapt to the sanction regime. This calls for a comparative analysis that would examine the relevant adaptation policies and their background in each V4 country. The paper aims to contribute to the sometimes heated debate on this issue and supply it with rational arguments and observations.

The sanction regime between the EU and the Russian Federation is a rather ambiguous topic for liberally-thinking scholars, politicians or business representatives. On the one hand sanctions represent a clear state intervention into trade and investment relations between subjects of the private sector. Investments and trade connections were sometimes established in an environment in which politicians preached the desirability of the diversification of exports and the establishment of trade links to the East. Then, suddenly, they are forced to cope with a new situation imposed from the public domain due to changed political relations. Moreover, the significant lowering of economic interdependence (i.e. less trade and less investment relations) could lead to the further alienation of the two sides that are affected by the imposition of the sanctions, the result being the further worsening of the mutual relationship. Furthermore, the theory on international sanctions established that the logic of an international sanction may not always be solely to change the behaviour of its target but also to send a condemning signal to the international community or the domestic political scene in the country sending the sanction.² Domestic players that need to hear that something has been done in reaction to the target behaviour sometimes play a key role in the imposition of sanctions and their continuation.

On the other hand, in a time when liberal democracy and Western values are increasingly targeted by Russian propaganda and Russia suffers with a significantly low level of freedom of the press,³ even many liberal thinkers take the position that the Western sanctions (including sanctions sent by the EU) on Russia could be understood as an inevitable reaction to the unprecedented threat to the international order and peace from Russia in the Crimea and Eastern Ukraine.

The Russian food ban on the EU may look as if Russia shot itself in the leg. An alternative view is to look at the Russian intention of the ban composition as targeting the soft underbelly of the EU. The agricultural sector is traditionally filled with existing animosities between the individual EU member states and Russia could be aiming at taking the EU further apart in this field. Was this also the case in the V4 region?

¹ The impact of the sanction regime on Russia is not under scrutiny in this paper.

² For more detailed information on purposes behind the imposition of sanctions in general see e.g. Giumelli (2010).

³ Kruliš (2015a).

This comparative study starts with an overview of the sanction regime between the EU and Russia. It continues with an examination of the measures adopted at the EU level in order to mitigate the impact of the Russian food ban. The EU reaction focused only on partially offsetting the impact of the Russian sanctions. Broad space has been left for individual member states to react to the remaining impact of the sanction regime and the impact of the deteriorating economic situation in Russia on European exporters. The four case studies focus on the individual V4 countries and analyse these responses at the state level and scrutinize the extent to which the adopted measures were consistent with the EU internal market acquis.

The EU-Russia and Russia-EU sanctions

In response to the Russian actions against Ukrainian sovereignty and territorial integrity the following main **EU restrictive measures** have been gradually adopted since March 2014:

- **Travel bans and asset freezes (targeted sanctions)** against 151 Russian officials and 37 entities responsible for actions against Ukraine's territorial integrity or that benefited from a transfer of ownership contrary to Ukrainian law in the Crimea and Sevastopol.⁴
- **Broad restrictions concerning territory of *Crimea and Sevastopol*** that involve a prohibition of imports originating from these territories unless they are certified by the Ukrainian authorities; a prohibition of investments into real estate and companies including the provisioning of financial and other related services; a prohibition of services in tourism related to those territories (including harbouring EU cruise ships) as well as a prohibition of exports of specified goods and technologies directed to the targeted territories.⁵
- **“Economic” sanctions** represent the remaining measures that target sectoral cooperation and exchanges with Russia as a whole. They include sanctions on the *financial sector* (a prohibition of trading with bonds and equity with a maturity of over 30 days issued by the major state-owned banks, energy and defence companies); an import and export *arms embargo* and prohibitions of exports of *dual use goods and technology* for military use; and subject exports of *energy-related equipment and technology* to prior authorisations (with automatic denial in case of exports of products for deep water oil, arctic oil or shale oil exploration or production).⁶

⁴ Council Regulation (EU) No. 269/2014 of 17 March 2014 concerning restrictive measures in respect of actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine, as amended.

⁵ Council Regulation (EU) No. 692/2014 of 23 June 2014 concerning restrictions on the import into the Union of goods originating in Crimea or Sevastopol, in response to the illegal annexation of Crimea and Sevastopol, as amended by Council Regulation (EU) No 1351/2014 of 18 December 2014 amending Regulation (EU) No 692/2014 concerning restrictive measures in response to the illegal annexation of Crimea and Sevastopol.

⁶ Council Regulation (EU) No. 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, as amended.

The following main **Russian retaliatory measures** have been adopted in response:

- The **food ban** against imports of beef, pork, fruit and vegetables, poultry, fish, cheese, milk and dairy products from the EU (and USA, Australia, Canada and Norway) with the exception of baby food products and purchases made by individuals in accordance with the Russian custom rules, for a duration of one year.⁷
- The **travel ban** targeting 89 politicians and military and intelligence officials from EU countries (similar list exists for some citizens of the USA).⁸

The Russian food import ban impact

In 2013 the Russian Federation was the second biggest market for exports of agricultural products (with a 10% share of the total EU agricultural exports, second place after the USA with a share of 13%).⁹ For Russia the EU represented the biggest supplier of agricultural products (with a share of 42% of Russian agricultural imports, far ahead of the second-place Brazil with a share of 7.8% in 2013).¹⁰ The EU exports are mostly final agricultural products (83% of total agricultural exports).¹¹ For years fruit, cheese and pork were the top EU export products to Russia.¹² Apples and pears exports were worth 0.5 billion EUR and represented half of the EU fruit exports to Russia and the Russian market was a destination of approx. 46% of EU apple and pear exports.¹³

If the 2013 exports in product categories falling under the Russian food import ban are used to depict the impact of the Russian retaliatory measures, Poland is by far the most damaged country in the V4 region.¹⁴ Hungary is damaged to a much lower degree and the direct impact of the Russian food import ban on the GDP and total exports of the Czech Republic and the Slovak Republic is statistically negligible.

Exports in 2013 in product categories falling under the Russian food import ban

	Value of exports, EUR million	Share in total goods exports, %	Share in GDP, %
Poland	832	0.5	0.2
Hungary	76	0.1	0.1
The Czech Republic	10	0.0	0.0
The Slovak Republic	6	0.0	0.0

Source: Bank of Finland, Simola (2014) based on Eurostat, UN Comtrade, Russian Government.

⁷ The Russian Government, 7 August 2014. Besides the food ban Russia applies various partial bans on selected agricultural products from specific countries based on various claims connected to phytosanitary standards.

⁸ Reuters, 30 May 2015.

⁹ European Commission (2013) p. 15.

¹⁰ European Commission (2013) p. 11.

¹¹ Ibid.

¹² Ibid.

¹³ Ibid.

¹⁴ According to Simloa (2014) the country most damaged by the retaliatory food ban was Lithuania in whose case the products impacted by the ban represented the biggest share of total exports (3.7%) as well as of GDP (2.6%). With the value of the impacted exports at 910 million EUR, Lithuania was also the most severely impacted country in absolute terms.

EU measures in response to the Russian food ban

The EU internal market with agricultural products is a highly-regulated market. This is a result of the interventionist character of the Common Agricultural Policy (CAP) that remains even in its new post-2013 reform version and other regulatory provisions (including a high level of food safety and environmental standards required in the EU) that limit non-EU imports of agricultural products. The Russian food ban thus targeted a sector where the market powers function in only a limited way. It came suddenly and caused further artificial market distortions. The EU market interventions came as a short-term response to possible oversupply problems. In September 2014 the prices of fruit, vegetables and dairy products in some EU member states plummeted by more than 50%.¹⁵

In order to respond to the Russian food ban, the EU activated the instruments of the reformed CAP and the European Commission adopted several exceptional measures that are allowed in cases of such market disturbances.¹⁶ It also increased funding for projects promoting agricultural products.¹⁷

On the EU level the following measures were adopted:

- **Exceptional measures for perishable fruit and vegetables** consisting mostly of market withdrawals for free distribution (e.g. charities, schools, hospitals), for non-food use (e.g. composting, energy conversion) and for options of non-harvesting or green harvesting (before ripe products) in several programmes.¹⁸ After the initial measures were developed to assist peach and nectarine producers (worth 32.7 million EUR),¹⁹ on 18 August 2014 the European Commission announced the general emergency market measures for perishable fruit and vegetable markets (worth 125 million EUR).²⁰ The ill-conceived conditions of this first general scheme however allowed abusive submissions of claims that, in the cases of some agricultural products, exceeded the total EU average annual exports to Russia by several times.²¹ The financial ceilings were thus quickly reached and on 29 September 2014 the European Commission introduced a new programme (worth an additional 165 million EUR).²² This time the measure was accompanied with an annex that outlined eligible volumes in individual EU member states with specific figures per product group that reflected export volumes in the last 3 years and took into account the volumes already claimed under the first €125 million scheme.²³

¹⁵ Kraatz 2014.

¹⁶ The exceptional measures were adopted by delegated acts of the European Commission based on Article 219 of Regulation (EU) No. 1308/2013 of the European Parliament and of the Council of 17 December 2013 establishing a common organisation of the markets in agricultural products.

¹⁷ European Commission (2014f).

¹⁸ European Commission (2014g).

¹⁹ European Commission (2014a), the measure was already in preparation in response to negative weather conditions that led to the more intense availability of products at the start of the season than usual.

²⁰ European Commission (2014b).

²¹ Ibid.

²² European Commission (2014c).

²³ Ibid.

- **Exceptional measures for support of the milk sector** included private storage aid for butter and skimmed milk powder and exported cheeses to cover the cost of the temporary storage of these products for 3-7 months in a programme announced by the European Commission on 28 August 2014.²⁴ The measure had to be repealed (on 23 September 2014) for cheeses as a result of the disproportionate interest from cheese producers located in regions that had not been traditionally involved in cheese exports to Russia in any significant quantities.²⁵
- **Promotion of EU agricultural products within and outside the EU** as a medium-term response to the Russian food ban included the insertion of an additional 30 million EUR (60 million EUR in total with co-financing by the EU member states) to the already foreseen budget of 60 million EUR.²⁶ The promotional activities co-financed by this funding should help producers to find new market possibilities within or outside the EU. In reflection of the Russian food ban, priority went to schemes for products that “might otherwise have been exported to Russia”.²⁷ There has been a visible trend to orient promotion programmes on non-EU markets. In 2015 the European Commission approved 24 promotion programmes targeted at third countries and 17 focused on promotion in the EU, which is a substantial change from previous programme waves in which two thirds of the programmes usually targeted the internal EU market.²⁸

The limited interventions could be considered as a lesser evil than doing nothing and leaving the empty space for the development of different national schemes in individual EU member states as this would have resulted in the compartmentalization of the market with agricultural products. The initial market intervention schemes were not prepared well and the schemes allowed various abuses. This led to the introduction of new stricter rules which made the intervention more targeted. It is, however, important to distinguish two things. The first is when the interventions allowed market withdrawals of specific agricultural products in the amount exceeding banned exports. This is clearly an ill-designed scheme that caused market disturbance on its own and could have provided artificial price signals. As the total funds of the scheme were limited, it also damaged the intended intervention impact on other products. The second thing is when the demand for the use of the scheme was not extensive in the total amount but came from different locations than those influenced by the Russian food ban. The place where the market withdrawal is made should be considered to be less relevant. For instance, apples withdrawn for free distribution in schools in Portugal or Spain would empty the space on the internal EU apple market in the same way as if they were withdrawn in the countries most influenced by the food ban (Lithuania or Poland). This claim, however, depends on the smooth functioning of the internal market.

²⁴ European Commission (2014d).

²⁵ European Commission (2014e).

²⁶ European Commission (2014f).

²⁷ Ibid.

²⁸ European Commission. (2014h).

In 2015 the market interventions should be gradually avoided even if the Russian food ban continues. This year the rationale of the short-term reaction could hardly be used. The aid from the EU side, if still needed, should be focused on the trade promotion of the targeted agricultural products.

The impact on the Visegrad countries and the adopted national measures

The aforementioned sanction regime and the schemes provided by the EU were complemented by various measures and the level of individual EU member states. The Visegrad countries were not an exception. Despite being regional neighbours, the sanction regime had substantially different economic impacts on these countries. The political environment in which the response was formed also differed. The following sections provide an overview of the sanction impact and analyse the national measures that were adopted in response to the installed sanction regime.²⁹

The experts were required to identify national “measures” defined as any measures and policies ranging from support in finding new export destinations and additional money for export agencies or export banks, to campaigns promoting the consumption of national agricultural products. A measure may even consist of a speech or open declarations by political leaders (if significant influence can be attached) or an administrative practice.

The analysis focused on whether the adopted practice was effective and how, whether it was compatible with EU law, and in particular, how the practice influenced functioning of the internal EU market? The analysis distinguished between ad hoc and systematic measures, between ex ante and ex post measures and also the legal base for such measures.

The analysis is used in the final part to highlight the good practice (particular measures and policies) that were effective and at the same time without negative effects to the internal market and to make related policy recommendations.

Hungary: The trend to look east remains despite the sanctions

Between 2010 and 2013 the Hungarian exports to Russia stagnated at a level of 2.5 billion EUR, but in 2014 it decreased by almost 16% and reached only 2.13 billion EUR. The Hungarian imports from Russia dropped by almost 15% to 5.46 billion EUR in 2014 from 6.42 billion EUR in 2013.

²⁹ Each section is based on a research contribution provided by the country's experts: Norbert Szijártó (Hungary), Peter Plenta (Slovakia), Liwiusz Wojciechowski (Poland) and Kryštof Kruliš (the Czech Republic).

Hungarian Imports/Exports from and to Russia.

Period of time	Import	Export	Bilateral Trade
2013	6 421.2	2 537.6	8 958.8
2014	5 463.6	2 132.7	7 596.3

Source: Hungarian Central Statistical Office

The Hungarian imports from Russia are dominated by imports of fuels and electric energy and Hungary is highly dependant on Russian supplies of oil and gas.

Hungarian import dependency of mineral fuels on Russia

Russia's import share in given categories (%)	Fuels, electric energy	Petroleum, petroleum products and related materials	Gas, natural and manufactured
2012	60.7	77.9	61.0
2013	61.6	72.8	69.1
2014	52.2	63.4	56.4

Source: calculations by Norbert Szijártó based on Hungarian Central Statistical Office

The direct impact of the Russian food ban on Hungarian exports with agricultural products was estimated at between 76³⁰ to 100³¹ million EUR. The Hungarian pork and poultry sectors were hit especially hard, but all the banned products in total represented less than 30% of the Hungarian agricultural exports to Russia (and only 1% of all Hungarian agricultural exports).³² The comparison of the statistics of agricultural exports to Russia between 2013 and 2014 show that in the case of most commodities the exports grew despite the sanctions and the only significant decreases were in the “Meat and meat preparations” and “Live animals” categories.³³ Total food and live animals exports decreased from the situation in 2013 but were still at significantly higher level than in the years between 2009 and 2012. The direct impact of the food ban on Hungary is somewhere between the heavy impact on Poland and the negligible impacts in the Czech and Slovak Republics.

³⁰ Simola (2014).

³¹ Rehder (2014).

³² Ibid.

³³ Besides the food ban this may also be partly influenced by the fact that between September 2014 and March 2015 the Russian Federal Veterinary and Plant Protection Service, the Roszszelhoznađzor, argued that there were signals of the presence of bird flu virus in poultry in Hungary which resulted in the further loss of poultry exports to Russia.

Hungary's food, beverages, tobacco export to Russia (detailed table, M EUR)

Chapters of the SITC	2009	2010	2011	2012	2013	2014
Food, beverages, tobacco	141.95	163.36	179.10	195.82	239.21	217.47
Foods and live animals	138.35	158.48	174.92	188.91	233.60	211.33
Live animals	37.16	25.43	8.52	12.02	13.28	9.17
Meat and meat preparations	18.76	31.62	34.57	53.46	92.22	30.66
Dairy products and birds' eggs	0.42	3.43	7.38	10.46	9.51	13.94
Fish, crustaceans, molluscs	0.00	0.00	0.00	0.00	0.00	0.00
Cereals and cereal preparations	8.10	17.92	28.95	27.78	30.05	53.10
Vegetables and fruit	40.64	42.26	50.36	49.10	40.65	41.52
Sugar, sugar preparations and honey	2.33	3.10	4.54	4.11	6.82	7.23
Coffee, tea, cocoa, spices	1.26	0.65	0.69	0.65	0.94	1.87
Feed for animals	22.58	26.23	31.65	25.15	34.71	45.21
Edible products and preparations	7.10	7.84	8.27	6.20	5.42	8.64
Beverages and tobacco	3.60	4.88	4.18	6.91	5.62	6.13
Beverages	2.61	3.42	2.88	5.49	4.62	4.16
Tobacco and tobacco manufactures	0.99	1.46	1.30	1.42	1.00	1.98

Source: Hungarian Central Statistical Office

The Hungarian reaction to the sanction regime was to keep to the systemic changes of its foreign trade policy which could be considered an *ex ante* strategy that could mitigate some of the impact of the sanctions. This was accompanied by several ad hoc measures mostly in reaction to the indirect impact of the Russian food ban and oversupplies in agricultural products, in particular the influx of apples from Poland which collided with a predicted record crop of 780-800,000 tons in Hungary in 2014 (about 40% more than in previous years).³⁴ The measures included **support for purchases of apple storage bins and storage facility for apple concentrate** and calls for increased apple consumption.³⁵

Hungary also relied on its “**Eastern Opening**” foreign trade strategy that had already been initiated already in 2011.³⁶ This policy attempts to boost exports to Eastern countries – Russia, China, South Korea, Japan, and other countries in order to reduce Hungarian dominant dependency on trade with other EU countries (approximately 75% regarding both import and export) and to cope with the perceived economic weakness of the West in the aftermath of the global financial crisis. The sanction regime between the EU and Russia did not stop the implementation of this systemic policy and the policy towards Russia has even intensified. Four Hungarian trade houses will open in 2015 in Yekaterinburg, Kazan, Rostov and St. Petersburg. In February 2015 Hungary also announced a new bilateral agreement

³⁴ Diplomacy and Trade (2014).

³⁵ Ibid. The opposition Socialist party in Hungary also suggested to lower VAT on apples from 27% to 5%.

³⁶ Hungarian National Trade House (2015). By late 2014 Hungarian National Trading Houses had been established in 25 countries (Azerbaijan, Kazakhstan, Russia, China, Turkey, the United Arab Emirates, Saudi Arabia, Jordan, Singapore, Vietnam, Laos, Macedonia, Ghana, Brazil, Armenia, Iraq, Egypt, Mongolia, Morocco, Sudan, Zambia, Mexico, Botswana and the Republic of South Africa). Their aim is to seek out and represent Hungarian enterprises that create products and services of competitive potential on foreign markets, and to gauge market needs through trading houses on foreign markets.

that should secure Russian gas supplies after expiration of the current contract later in 2015 and signed five bilateral agreements with Russia providing for regional, healthcare and higher education cooperation, training in energy matters and the opening of a consulate in Kazan.³⁷ While these steps were not directly connected to the EU-Russia sanction regime they indicate the effort of the Hungarian government to balance the impact of the sanctions with strengthened cooperation and ties with Russia. In February 2015, at the Moscow International Agricultural Expo, the Hungarian Minister of Agriculture and the Russian deputy Minister of Agriculture agreed that Hungary and Russia have to boost agricultural trade ties. In March 2015 the first signals appeared that Russia may partially curtail its food ban and allow certain selected companies from Hungary (as well as from Greece and Cyprus) to export banned agricultural products to the Russian market again.³⁸

Allowing access to EU agricultural products on such a selective basis would lead to the creation of artificial obstacles to the detriment of the smooth functioning of the internal EU market. Selected companies would have preferential access to a market that is closed to other EU companies. Russia can also use this as leverage on Hungary, Greece and Cyprus to achieve its political goals for a change of the EU sanctions. On the other hand, the agricultural products exported to Russia from Hungary or other EU countries would vacate space on the EU internal market and ease the situation with oversupplies that would generally be advantageous for the agricultural producers in the EU.

Slovakia: Sanctions as a useful justification for national production preferences

The direct impact of the EU-Russia and Russia-EU sanction regime on Slovak economy was very limited.³⁹ The only study quantifying the impact of the Ukrainian conflict on the Slovak economy estimated that the Slovak GDP may lose between 0.2% and 0.3% due to the uncertainty caused by the crisis in 2014 and 2015.⁴⁰ The share of Slovak exports to Russia on total Slovak exports fell from 3.97% in 2013 to 3.21%.⁴¹ Such a decline was in line with the shrinking trend of the Slovak exports to Russia already in place since 2012.⁴² Besides the sanction regime, the fall of the Russian rouble and weakening of the Russian purchase power also played a role in this decline. Also, the decrease of Russian tourists in ski resorts in the Tatry mountains was in line with the trend of previous years.⁴³ But this trend was mitigated by foreigners from other countries and the total number of foreigners accommodated in the 2014-2015 winter season increased by 3.6%.⁴⁴

The mild direct impact of the sanctions on the Slovak economy may be partly explained by the successful diplomacy of the Slovak government during the drafting of the EU sanctions on Russia. As a result, the sanctions excluded subsidiaries of Russian financial institutions (which are present in Slovakia, e.g. *Sberbank Slovensko*, a. s.) and also

³⁷ Hungary today (2015).

³⁸ Russia Today (2015).

³⁹ See also Slovak Ministry of Foreign and European Affairs (2015).

⁴⁰ Garbarčík (2014).

⁴¹ Slovak Ministry of Foreign and European Affairs (2015).

⁴² Garbarčík (2014).

⁴³ Ibid.

⁴⁴ Czech Press Agency (2015).

minimized the coverage of *dual use goods and technology* that Slovakia exports to Russia.⁴⁵ The Slovak exports influenced by the Russian retaliatory sanctions were worth only 6 million EUR.⁴⁶ The indirect impact resulting from oversupplies on the EU internal market was several times higher. Apple producers only estimated their loss in the amount of 12 million EUR due to the additional cost of storage, the cancellation of contracts and a fall in prices.⁴⁷ The prices of agricultural products in Slovakia fell from between 20% to 45% when the prices of 2013 and 2014 are compared.⁴⁸

The oversupply resulting from the Russian food ban triggered several Slovak national measures. A monitoring committee has been established at the Slovak Ministry of Agriculture to control the direct and indirect impact of the sanctions. Several measures that focused on the support of the domestic consumption of Slovak agricultural products were put in force. In all cases these measures were identified as an ad hoc reaction aiming ex post to mitigate some of the indirect impact of the Russian retaliatory sanctions. However, some of the measures could be considered to be a reincarnation of measures also applied by the previous Fico government (2006-2010) and the sanctions just served as an argument for their reintroduction or for their increased funding. None of the measures have yet been identified by the European Commission as breaching the EU law, nor subjected to a substantive scholarly discussion in this regard. Their exclusive support for Slovak domestic production, however, led to their categorization in this study as “partially restrictive” to the functioning internal market.

The strengthened controls of safety and quality of food on the Slovak market that included increased border inspections and inspections focused on foreign supplies of agricultural products. Funding: 827 790 EUR for October 2014 till December 2014 (not prolonged).

Official requests directed to retail chains for solidarity with Slovak agricultural producers and fair treatment in regards to agricultural commodities declared by the Slovak Ministry of Agriculture. The retail chains were also requested to publish information on a weekly basis on the share sales of apples of Slovak origin. The request also demanded the cessation of the practice when the retail chains demand additional payments from agricultural producers (e.g. for marketing) at least till the end of 2014.

Official suggestions addressed to state institutions, local authorities and schools to prefer Slovak agricultural production and exploiting existing financial resources for the propagation of fruit, vegetables and dairy products at schools.

Most of the Slovak exports of agricultural products are directed to markets within the EU. The Slovak government was also involved in arranging contacts between Slovak suppliers and buyers from other countries. Possibilities to connect exporters of dairy products with buyers from Belarus were examined. The Slovak agricultural products were however found not suitable for increased exports to Mexico or Argentina for various administrative reasons (including costs of certification or differing phytosanitary regulations). Thus the Slovaks did not use the EU promotion schemes for expansion on the non-EU foreign markets with agricultural products.

⁴⁵ Slovak Office of the Government (2014).

⁴⁶ Simola (2014).

⁴⁷ Garbarčík (2014).

⁴⁸ Ibid.

Poland: Highly damaging Russian food ban and severe fights for higher EU support

Poland has a larger domestic market and has a comparably less export-driven economy than the rest of the V4 countries. Polish exports of goods and services represented 46% of the Polish GDP in 2013, while in the other V4 countries this share was twice as big.

Exports of goods and services of the V4 countries (in % of GDP)

country	the Czech Republic	Hungary	the Slovak Republic	Poland
in 2013	77	89	93	46

Source: *The World Bank*.

Most of the exports of the V4 countries are destined for the internal EU market and Poland was the only country of the region which had Russia among its top five exporting partners (with 5.2% of the total Polish export value in 2012).⁴⁹ In 2014 Russia moved to the sixth position as Poland's exporting partner (with exports worth 9.3 billion USD and a 4.3% share of the total Polish export value).

Poland is, after Lithuania, the second most hurt Western country by the Russian food ban. The value of banned Polish agricultural exports is expected to be 832 million EUR.⁵⁰ The food ban resulted in collapse of apple prices in Poland (about 40% of Polish apple exports went to Russia) and also damaged other sectors such as mushrooms or tomatoes.⁵¹ The Russian ban resulted in a 2.5 time decrease in year-on-year apple prices.⁵² Poland was also the only V4 country seriously affected in cheese exports, when its exports to Russia represented 43% of total cheese exports and corresponded to approx. 4% of Poland's entire cheese production.⁵³ In 2013 Poland exported 976,000 tons of food to Russia and this decreased by 42.5% to 561,000 tons in 2014.⁵⁴ Moreover, the amount of exports is distorted by the exports during the first months of 2014. At the end of 2014 the agricultural exports went down to 500 tons of food products a month and if this continues during all of 2015, the amount of agricultural exports would diminish further.⁵⁵

Poland's primary concern was thus to cope with the impact of the Russian food ban. They used a mixture of strategies, including reimbursements of farmers, broad popular campaigns promoting Polish agricultural products at home and the active seeking of new markets outside EU.

Polish farmers were the most active applicants in the first EU scheme of exceptional emergency market measures for perishable fruit and vegetable markets (worth 125 million EUR).⁵⁶ A total of 85% of the applications under the first scheme were from

⁴⁹ Kruliš (2015b).

⁵⁰ Simola (2014).

⁵¹ New Europe Investor (2015).

⁵² Fruit-inform. (2015) The prices however were decreasing during the last four seasons by 10% on average in reaction to the 70% growth in Polish apple production since 2010.

⁵³ European Commission (2014e).

⁵⁴ New Europe Investor (2015).

⁵⁵ Ibid.

⁵⁶ European Commission (2014b).

Poland.⁵⁷ The subsequent suspension of the scheme by the European Commission due to the rapid reaching of the financial ceilings for apple and pears was strongly criticized by Polish Agricultural Minister Marek Sawicki. In his letter to the President of the European Commission, Mr. Sawicki claimed that the suspension was “further evidence of a clerical lack of understanding of the production processes in agriculture and principles of market functioning” and demanded a further increase of the intervention funds.⁵⁸ Polish claims, however, were not met as the second scheme, with an additional 165 million EUR, dedicated only a small part to the Polish farmers in order to reflect their dominance in the first scheme.⁵⁹

Further support to farmers who suffered losses as a result of the Russian food ban was granted through funds of the **Polish Agency for the Restructuring and Modernisation of Agriculture (ARMA) in the form of *de minimis* aid**.⁶⁰ The aid was paid by ARMA upon the farmers’ requests whereas onion and cabbage producers could receive 450 PLN per hectare (106.42 Euro) and apple farmers received 800 PLN per hectare (189.09 Euro).⁶¹

Poland (and to a lesser extent Hungary in some years) has been identified in academic literature as the only country of the V4 region that has comparative advantages for the agricultural trade in relation to global markets; while the agricultural trade of the Czech Republic and Slovak Republic is (only with certain product exceptions) mostly uncompetitive even within the V4 countries region.⁶² The strategy to exploit its comparative advantages on the global markets seems to be the optimal reaction to the Russian food ban. Poland was the most active V4 country in **submitting agricultural product promotion programmes co-financed from EU funds** that were increased for 2015 in a medium-term response to the Russian food ban.⁶³ With 4 programmes approved by the European Commission it was also among the most successful EU countries after Greece with 6 approved programmes and at the same level with France (also with 4 promotion programmes).⁶⁴ The total sum of the EU co-financing of Polish programmes is 5.1 million EUR which is around 8% of the total EU co-finance provided in this programme wave.⁶⁵ Three promotion programmes target markets outside the EU⁶⁶ and one is targeted on promotion on the domestic Polish market and in the Slovak Republic.⁶⁷ The orientation of the promotion programmes to a large extent follow the map of export opportunities for Polish agricultural products that was developed in second half of 2014. Poland also applied 20% reduction of the rate of export insurance and guarantees for agricultural exports to 26 selected countries until the end of the first quarter of 2015.

Besides looking for new markets, a broad campaign (also with the use of social media)⁶⁸ supporting the consumption of Polish apples started in Poland. While the overall

⁵⁷ Rucinski (2014).

⁵⁸ Ibid.

⁵⁹ European Commission (2014c).

⁶⁰ The state support given to businesses that do not require notification to the European Commission and may not exceed 15 thousand EUR per recipient counted together with any previous state aid in the form of the *de minimis* aid over the last 3 years, see COMMISSION REGULATION (EU) No 1408/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid in the agriculture sector.

⁶¹ FreshPlaza (2014).

⁶² Smutka (2014).

⁶³ European Commission (2014f).

⁶⁴ European Commission (2014i).

⁶⁵ Ibid.

⁶⁶ Japan, North America, Kazakhstan, Africa, New Zealand, South-East Asia, Belarus and China.

⁶⁷ European Commission (2014i).

⁶⁸ Eat Polish Apples (2015).

impact of such a campaign was at that time beneficial to the oversupplied internal fruit market in the EU as such, the nationalistic accents of the campaign stressing that the embargo is on “Polish production” and thus supported consumption of “Polish apples” was not an ideal way to intervene in consumer behaviour on the internal market in the long run. In February 2015 the President of the Association of Polish Fruit-Growers announced that the entire Polish apple production of the 2014 season had found an outlet.⁶⁹

The Czech Republic: Fear of losing the Russian market before new markets could be found

Czech exports to Russia amounted to approx. 4.2 billion EUR in 2013, which was only 3.7% of the total Czech exports in 2013.⁷⁰ It represented, however, about 20% of the total Czech exports outside the EU in 2013 and consisted mostly of relatively high added value exports.⁷¹ In 2014 it decreased by some 2.5%.⁷²

The EU sanctions on Russia on their own are expected to have only a limited direct impact on the Czech economy.⁷³ A stronger impact could be the result of the overall deterioration of the economic situation in Russia, the slump in Russian purchasing power due to the rouble devaluation and the larger changes in society and the business environment due to tension between Russia and the West. A further negative impact on the Czech economy could also be expected through the stagnation of Czech supplies to exporting companies in other EU countries (Germany in particular) that were oriented on the Russian market.⁷⁴ Also, the general **Russian refocus on imports from non-Western territories (e.g. South Korea or China)** is indicated by representatives of the Czech industry as more endangering the Czech export position in Russia than the mere sanction regime.⁷⁵ The Russian strategy to develop its own domestic industrialization may be threatening for Czech exports of final products as well, but could at the same time be an opportunity for Czech exports in the mechanical engineering sector.⁷⁶ The negative impact of the worsening economic situation in Russia is also reported in the sector of tourism, with a **drastic fall by almost half (-47.8%) in overnight stays of Russian tourists** in the Czech Republic in the first quarter of 2015 in comparison to the first quarter of 2014.⁷⁷

The Czech government adopted a highly **organized systemic approach** in analysing the situation and subsequently developing measures in response to the sanction regime. One day after the Russian food ban, the Czech government created a working group for the assessment of the impact of the sanctions led by the state secretary for European affairs. This working group was charged with monitoring the situation, informing the public and

⁶⁹ FreshPlaza (2015).

⁷⁰ Pospíšil et al. (2015), p. 2.

⁷¹ Ibid.

⁷² Ibid.

⁷³ Ibid.

⁷⁴ The Committee on Eastern European Economic Relations (2015), a representative of German business, estimates that German exports to Russia in 2015 may slump to half of the record year 2012, threatening 150 000 jobs in Germany.

⁷⁵ Denková (2015).

⁷⁶ Working group (2014).

⁷⁷ Czech Statistical Office (2015).

with various coordinative tasks. The initial assessment paper was already produced in August 2015 suggesting short- and medium-term measures. It was followed by the implementation plan for measures in response to the sanction regime which was adopted by the government in October 2015. In December 2015 the government examined the adopted measures and noted that all of them are adopted according to the planned schedule, the only exception being a moderate delay in the implementation of measures in regards to the economic diplomacy.

A separate working group has also been created at the Ministry of Industry and Trade in relation to measures of the Implementation Plan within the competence of this ministry. In the area of industrial exports the Ministry of Industry and Trade adopted several measures, mostly targeted at preventing the further deterioration of Czech exports to Russia and finding alternative markets for Czech exports. The measures focused on the **preservation of Czech exports to Russia**, including official Czech representation at four big industrial fairs⁷⁸ as well as through the CzechTrade agency at various other expositions and fairs in Russia during 2015.⁷⁹ The strategy of approaching various regions of the Russian Federation will also be employed and the Czech Minister of industry and trade or his deputies have scheduled official visits in 6 selected regions.⁸⁰ This endeavour aims at preserving the Czech position in exports to Russia that are still allowed within the limits of the sanction regime. **The development of new markets** focuses primarily on territories where there is demand for similar products as in Russia and the Czech companies can redirect their exports there more easily (mostly states of the Commonwealth of Independent States) and in the second tier on states of BRICS, South America and Persian Gulf, where higher costs for the adaptation of Czech exporters are expected.⁸¹ The specific measures include an increase of personnel responsible for economic diplomacy at Czech embassies or assistance provided to exporters through the recently established Client Centre for Exporters⁸², which is a joint project of Czech ministries and agencies responsible for trade that started its operation in 2014.⁸³

The direct effect of the Russian food ban on Czech exports was only marginal (the estimated value of affected products is only 10 million EUR).⁸⁴ The Czech market was however hit by **the indirect impact of the oversupplied internal market with agricultural products**, in particular with meat and fruit.⁸⁵ The banned meat exports to Russia from the Netherlands, Belgium and Germany were imported to the Czech market at very low prices which were hard for the Czech farmers to meet.⁸⁶ The year 2013 was the first year of growth in the number of livestock in the Czech Republic after five years of steady decline.⁸⁷ The Ministry of Agriculture tried to respond with budget increases in the existing national

⁷⁸ The fairs in the sectors of mechanical engineering, electronics and aircraft industry in Moscow and mining engineering in Novokuznec.

⁷⁹ Pospíšil et al. (2015), p. 7.

⁸⁰ Ibid, p. 6-7.

⁸¹ Ibid, p. 8.

⁸² See BusinessInfo.cz (2015).

⁸³ Pospíšil et al. (2015), p. 8.

⁸⁴ Simola (2014). Most of the agricultural products exported to Russia from the Czech Republic, such as beer, non-chocolate sweets or eggs, were not covered by the sanction ban. Milk and milk product exports from the Czech Republic to Russia were most directly affected by the ban.

⁸⁵ The foreign meat supplies could be threatening to the profitability of domestic livestock and thus have a broader negative impact on the whole agricultural sector as well as on the environment. Decreases in livestock (cattle in particular) result in lower field fertility and weaker water retention ability of the countryside.

⁸⁶ Kütner (2014).

subvention schemes. The impact of cheap foreign meat exports has partly been compensated by an additional approx. 11 million EUR (an increase of about 50% for the year 2014 only) provided by the Czech government to pig and poultry farmers in the national scheme for disease prevention.⁸⁸ In 2014 the whole sector of livestock farming was able to sustain these negative impacts and its production grew by 10% on a year-on-year basis.⁸⁹

The European Commission monitors market prices of all products covered by the Russian food ban on a weekly basis.⁹⁰ In order to have relevant information for this monitoring the Czech Republic temporarily prolonged the period in which the import of agricultural products had to be notified to the public authorities (from the original 24 hours to 48 hours). This also helped the authorities to increase time for their reaction and for planning the inspections of imported agricultural products. In December 2014 the Polish Minister for Agriculture pointed to an internal document of the Czech administration which requested a particular focus on agricultural products imported from Poland. It called for controls on Polish agricultural exports redirected from Russia (due to the food ban) to the internal market and warned that the products may not comply with EU standards as they were originally produced for the Russian market where different standards are applied. After meeting with the Czech Minister of Agriculture, who claimed that Polish producers are not statistically controlled more often than Czech and other foreign producers, the Polish Minister agreed not to send an official complaint to the European Commission. In January 2015 the time period for announcing agricultural imports was shortened to 24 hours and the Czech Minister recognized that there was no case of dumping prices discovered and the fall of the food prices on the Czech market is smaller than in Poland or the Baltic states.⁹¹ The issue, however, remains traditionally highly sensitive for both sides.

The Czech Republic and Poland are the only V4 countries that employed the **EU 2015 funding of agricultural product promotions**. In contrast to 4 Polish programmes, the Czech Republic has only one program (of 3 years duration) that is focused on an information campaign on the EU quality systems (PDO, PGI and TSG)⁹² **within the Czech Republic and Slovakia**.⁹³ The project is a continuation of a project already in place in the 2012 to 2015 period.⁹⁴ The quality systems that are promoted by the programme in the Czech Republic include food products covered by the Russian ban (e.g. specific cheeses and meat products) but also food products that are not covered (e.g. specific beers or sweets).⁹⁵ The campaign thus cannot be considered to be a specifically-designed response to the Russian food ban and only its specific parts may be relevant for the banned products. The domestic consumption of Czech agricultural products has also been supported in several speeches by the Minister of Agriculture, especially in the aftermath of the Russian food ban and the oversupply crisis. In August 2014 the Council of the South-Moravian Region also adopted a decision to organize roundtables with regional agricultural producers

⁸⁷ Ibid.

⁸⁸ Jordán (2014a).

⁸⁹ Jordán (2015).

⁹⁰ European Commission (2014g).

⁹¹ Czech Television 24 (2015).

⁹² PDO - Protected Designation of Origin; PGI - Protected Geographical Indication; TSG - Traditional Speciality Guaranteed.

⁹³ European Commission (2014i).

⁹⁴ SZFI (2015).

⁹⁵ SZPI (2015).

in order to support the distribution of their products in local supply-chains and in organizations funded by the regional authority (e.g. schools, hospitals and retirement homes).⁹⁶ The regional authority also increased the funding of the local farmers markets that allow regional producers to sell food directly to customers in cities.⁹⁷ For the expansion of agricultural products on markets outside the EU the Czech Republic did not use the promotional funding, but started its own national programme of the “agri-diplomats”, experts in the area of agriculture, the food industry and related technologies, that will be dispatched to the Czech embassies in Ukraine, Russia, China, Saudi Arabia and Serbia during the year 2015.⁹⁸ The regions were selected based on their growth potential and in reflection on the preferences of Czech food producers.⁹⁹

The Czech measures consisted mostly of enhanced financing through existing subvention schemes to ex post mitigate the impact of the sanction regime and the exploration of possibilities that would help coping with the deteriorating economic situation in Russia in the middle and longer term. None of the measures led to an infringement procedure against the Czech Republic. The tension over administrative controls that the Polish side claims to be directed in an enhanced way at Polish agricultural exports remains a latent source of possible dispute.

Identified trends and conclusions

The following noticeable trends were identified. Hungary’s primary concern is to remain on the path of seeking the markets in the East, including Russia, despite the sanctions. The sanctions even brought a larger focus on Russia than in the time before their imposition. One of Slovakia’s main goals was fulfilled in the process of the formulation of the EU sanctions when the EU sanctions excluded subsidiaries of Russian financial institutions based in the EU (in Slovakia’s case e.g. *Sberbank Slovensko, a. s.*). Later, the Slovak government used the sanctions as a useful justification for national production preferences that were considered even before the sanctions. Poland was the most directly damaged V4 country by the Russian food ban. It loudly demanded higher EU compensations for agricultural producers and was among the countries that utilized the most of the financial resources provided at the EU level for this purpose. The Czech Republic adopted several measures so that it would not lose the Russian market before its exporters could find new markets elsewhere.

The measures adopted by the V4 countries were sometimes on the edge of legal acceptability within the rules of the internal market. However, the European Commission has not started any infringement proceedings in this regard or even any substantial debate about compliance of the measures with the internal market acquis. The only reported exception was the tension over the intensity of Czech controls of Polish agricultural products, but even in this case the Polish side has decided not to file an official complaint to the European Commission.

⁹⁶ South-Moravian Region (2014).

⁹⁷ Ibid.

⁹⁸ Jordán (2014b). In the case of the last two countries the agri-diplomats will cover several countries of the whole region.

⁹⁹ Ibid.

Policy recommendations

1. The promotional campaigns for agricultural products should focus more on promotion of consumption of specific products and less on playing the patriotic/nationalistic card. While it may have been tolerable in the short term in order to fight with the sudden impact of the Russian food ban, in the long term the internal EU market would function better without the creation of patriotic (country of product's origin) campaigns.
2. In 2015 the market interventions should be gradually avoided even if the Russian food ban continues. This year the rationale of the short-term reaction could hardly be used. The aid from the EU side, if still needed, should be focused on the trade promotion of the targeted agricultural products.
3. Specialized agricultural trade diplomats ("agri-sections" of embassies or "agri-diplomats" as in case of the Czech Republic) could be a useful way for entering new markets outside the EU. They can actively seek new market possibilities and assist exporters in dealing with various administrative requirements in the targeted foreign markets (e.g. the phytosanitary rules).
4. With exception of Poland the V4 countries do not use EU funds for the promotion of agricultural products in non-EU markets. The "agri-diplomats" should suggest viable areas to producers and their organizations where EU funds may be used to start promotional campaigns.
5. The oversupply problems should preferably be dealt with from the perspective of the whole internal market and not from a national perspective. Both the EU and national intervention measures should adopt a pro-internal market approach and adhere to the principle that agricultural products on an oversupplied internal market should have no nationality. Every apple eaten or otherwise processed (regardless of from which EU country) empties the market space in the same way.
6. The measures dealing with oversupplies of perishable fruit should respect the different quality of production and offer producers a broad range of alternatives. Decisions as to whether to store the fruit, to squash it into juice or to green harvest the fruit production should be made based on the fruit quality and not on the obscured motivations resulting from intervention schemes.
7. It has been seen in the reactions to the Russian food ban that patriotic campaigns may lead into a spiral of similar campaigns in neighbouring countries which may end up in the unnecessary compartmentalisation of the internal market. Campaigns oriented on support for fresh local or regional agricultural production, if based, for instance, on ecological reasons, seem more acceptable.

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