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Economic sanctions and agriculture in Finland

A research into economic sanctions in the context of the Ukrainian crisis, and their effects on Finnish agriculture

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<p>The purpose of this research is to observe economic sanctions and their usefulness in modern international politics. Additionally, the effects of economic sanctions imposed by both the Western world and Russia against each other in 2014 will be discussed. Furthermore their impact on the European agriculture will be examined with the focus on the Finnish agricultural sector.</p> <p>Economic sanctions have been imposed on countless occasions over the course of years and their effectiveness has been questionable at best. Generally, there are primary goals and secondary goals for the sender countries or organizations when imposing of sanctions is considered. More often than not, it seems that the primary goals are rarely reached. However, other goals are usually reached through sanctions, even if they are not always the intended ones. Sometimes economic sanctions might even be used for domestic purposes rather than affecting the target country.</p> <p>The sanctions imposed by both the Western world and Russia seem to have both positive and negative effects on both sides. The interconnectivity and global nature of the modern markets causes the economic sanctions imposed in 2014 to impair both the east and the west.</p> <p>The Finnish agricultural sector, alongside the European agricultural sector, has been struggling because of the Russian sanctions targeting the groceries from the European Union. Negative effects of the sanctions can be seen in the market as prices of agricultural products are falling and possible wave of unemployment is looming over the agricultural industry. A secondary plan of action should be devised, such as searching for alternate markets, so that if the industry faces similar difficulties in the future, the negative effects can be nullified, at least to some extent.</p>	
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1 Introduction

1.1 Research topic selection

The topic for this research was developed soon after the Crimean crisis had started and the tensions between the western world and Russia started to heat up in late 2013, leading up to the crisis in Eastern Ukraine and economic sanctions being imposed by both parties against each other in 2014. It started to seem like the situation was becoming somewhat of a stalemate with neither of the parties backing down. News relating to the crisis was frequently reported with more and more emphasis on the economic effects in relation to both Russia, the European Union as a whole as well as Finland. How would the economic sanctions actually affect the situation and the parties involved? Would they be effective or just pointless efforts to try to strong-arm the opposing party to give in to the demands of others?

1.2 Background

The starting point for the Ukrainian crisis can be considered to be November 2013 due to a treaty between Ukraine and the European Union – the agreement was supposed to bring Ukraine closer to the Union. Ukraine getting closer to the European Union was perceived as a threat to Russia, so the then-president of Ukraine, Viktor Yanukovich, ended up not signing the association agreement. This sparked a large-scale demonstration in the capital of Ukraine, Kiev, where the western-minded Ukrainians protested against the regime. Mid-February in 2014 the protests took a turn for the worse as the riot police and the protesters clashed resulting in several deaths. After the violent clashes the then-president Viktor Yanukovich escaped from Kiev and a new, temporary president was elected. The new regime was considered more western-minded, which, in turn, caused protests in the Crimean peninsula, as the majority of population in Crimea originated from Russia. (Hannula & Zidan, 2014)

The reasons that led to the clash in Ukraine in the early 2014 are not only based on the disputes on whether Ukraine was going to shift towards the west or the east. There are several underlying factors that have further affected the situation in Ukraine, such as the fact that there is a significant Russian-speaking population in Ukraine. Such a linguistic divide within the country had negatively impacted the unity of the country well

before the crisis started developing in the late 2013. The heritage of Soviet Union still remains relatively strong in certain parts of Ukraine, boosting the division of the country in ethnic, as well as linguistic, aspects. Additionally, the Ukrainian dependency on Russian energy also fed fuel for the flames. (Langley, 2015)

In the late February Ukraine announced that Russia had sent thousands of troops into Crimea. United States interpreted this in a way that Russia had occupied the Crimean peninsula. A referendum was held in mid-March in the Autonomous Republic of Crimea about joining to Russia, which passed, and then only a few days later the president of Russia, Vladimir Putin, confirmed it. Thus, Ukraine was forced to pull its troops out of Crimea. At this point the first actions of the west had already taken place – finances were being frozen and travel restrictions were imposed on several people who were close to the Russian leadership. Additionally, NATO ceased all cooperation with Russia. (Hannula & Zidan, 2014)

In the beginning of April a Russian energy company, Gazprom raised the price of gas it had been selling to Ukraine for a discounted price – only two days later the company raised the price of gas for the second time. The total increase in the gas price was 80%. Later on president Putin also threatened to cut off the selling of the gas to Ukraine, unless Ukraine settled its debts with Russia. Some days later there was civil unrest in the Eastern part of Ukraine as the protesters demanded a vote for the independence of the areas in Eastern Ukraine. During these events the protesters also took over some of the government buildings in Donetsk, Luhansk and Kharkiv. (Hannula & Zidan, 2014)

The civil unrest in the Eastern part of Ukraine quickly escalated into a civil war between the Ukrainian government forces and Russia-minded separatists. The fighting continued until June, when the recently-elected president Petro Poroshenko declared a ceasefire, which lasted until the end of the month. After the ceasefire the fighting continued. Ukraine signed a treaty with European Union in the late June bringing it closer to the Union. In July a civilian aircraft of the company Malaysian Airlines was shot down while it was flying over the conflict zone in the Eastern Ukraine. (Helsingin Sanomat, 2014)

In August Russia imposed its first counter-sanctions against the European Union, forbidding the import of foodstuffs and later in the same month Russia moved troops into

Eastern Ukraine. The presidents of Ukraine and Russia, Porosenko and Putin, met with the leader of the separatists and signed another ceasefire in the beginning of September. (Helsingin Sanomat, 2014)

The Russian gas supply to Ukraine, which was cut off in June, was continued in the late October after negotiations involving Russia, Ukraine and the European Union. The coming winter posed a threat to the civil population in Ukraine, as well as in other Eastern European countries, as heating in those countries heavily relies on Russian gas. Similar situations had already taken place earlier in 2006 and in 2008, when Russia cut off the gas supply. The reason for disconnecting the gas had been price disputes, as it was in 2014 as well. It was agreed by Russia, Ukraine and the European Union that the supply would continue for now and Ukraine would settle their outstanding debts to Russia as soon as possible. To back up the deal, the European Union acted as a guarantor for Ukraine. The gas dispute is to be finally settled in the summer of 2015 by the Stockholm Chamber of Commerce, to which both Ukraine and Russia took their cases. In order to make the deal work, the European Union had to postpone its free trade deal with Ukraine. Russia saw the deal as a threat to its domestic market as through the free trade deal Russia feared that cheap European Union goods would start flowing into Russia through Ukraine. (Kirby, 2014)

The situation in Ukraine is generally portrayed to be the fault of Russia and the Russian president Vladimir Putin's expansionist foreign policy regarding the former Soviet Union states. However, this might not be the case. There are opposing views, supported by historical data, that events leading up to the annexation of Crimea, and events before that, suggesting that, rather than Russia, the ones to blame here are the United States as well as the European Union. The security issues for Russia became apparent when NATO started to expand its reach towards the east, trying to bring both Georgia and Ukraine closer to the west. The systematic spreading of NATO to the east sparked a reaction in the Russian regime. Admitting Georgia and Ukraine into NATO posed a geopolitical risk for Russia, as both of those countries held a strategically important role in Russian foreign policy. While some argue that the main reason behind the events regarding Ukraine and Georgia are due to the attempt of rejuvenating Soviet Union, there is evidence contradicting this school of thought. Firstly, the Russian economy is suffering, and has been, for some time now, which effectively means that the country could not finance a conflict of such scale. Second, it was already proven in Afghanistan that invasion can be very costly, and holding the country afterwards nearly impossible,

especially in Russia's current state. Therefore the actions of the Russian government can be interpreted as desperate measures to ensure their own safety. The reason was to make sure that countries, such as Ukraine, which can be considered as a buffer zone between the east and the west, do not slip into the sphere of influence of the west. Such a shift in the political atmosphere of the neighbouring countries would create a constant security threat for Russia. (Mearsheimer, 2014)

1.3 Research problem

Defining the research problem was a relatively challenging task, as the subject itself is very wide and it could be approached from countless different directions: defining the research problem in regards to what has lately been one of the hottest topics during the crisis in relation to Finland, and it is as follows: How are the economic sanctions related to the Crimean crisis affecting the agricultural industry in the European Union and in Finland in particular? The main goal of this study is to provide the reader an overview into the current situation of the economic impacts of the crisis and to clarify how the crisis has affected the Finnish agricultural sector, as well as to discuss, to some extent, about what the effects are and will be in a bigger perspective in all of Europe.

This particular research problem was chosen mostly because of its topical nature. As the crisis in Eastern Ukraine shows no signs of quieting down, and as the sanctions imposed by both sides are still in place, the research problem relates to all of Europe, as the effects of the crisis can and will be felt all around the European Union as well as in Russia. The importance of the research topic resides in the fact that the agricultural sector is still an important part of the Finnish as well as European economy, and disruptions in that sector will be felt in some scale by everyone.

1.4 Research methods & process

The main research method chosen for this study was desk research, or secondary research. Unlike in primary research, where the researcher gathers the data first hand through, for example, interviews and questionnaires, desk research utilizes already published material such as articles, case studies and internet sources. The reason desk research was chosen as the research method here is because the study is at-

tempting to understand a complex situation with different points of view, and it is therefore important that data is gathered from various different sources. Trying to see the bigger picture requires synthesizing the ideas from different sides to form a comprehensive idea of what is actually going on. The downside of using secondary research is that the researcher has to exercise constant criticism when considering their information sources. In this case, another disadvantage for using secondary research is the vast amount of data available – choosing the relevant information and dismissing the irrelevant material is crucial for this type of study to be valid and accurate. (Food Standards Agency, 2014 & Cambridge Dictionaries Online, 2013)

While desk research is being used as the main method of gathering information, it is not the only method utilized during this study. In order to form a more comprehensive picture and more accurate results some primary research is also carried out in the form of interviews. The idea is to use secondary research in broader sense and to build a foundation and then create a comprehensive understanding of the situation – primary research is then carried out to go more in-depth into the subject and to support the findings of the secondary research to provide additional, supplementary information for the study. The interviews will focus on the producing side of Finnish agriculture, providing first hand perspectives of the situation on the ground-level. The interviews were compiled from several different on-going discussions with Finnish agricultural producers from 2014 to 2015. These producers have worked in the Finnish agricultural industry for decades, and thus their experience provides a valuable insight into the situation.

Literature regarding economics in general and more specifically international economics has been studied to support the study. This literature is used as the main research material. This theoretical approach is crucial for the research as it is important to understand the economic theories related to economic sanctions and their effects. Additionally, several newspaper and internet articles have been included to support the research and to create a better, broader view of what is going on between Russia and the western world.

Firstly, this study will focus in the overall situation of the struggle between Russia and the west. The economic effects of the sanctions will be observed and discussed to create a more comprehensive general view of what is happening in regards to economics in the area. After an understanding of the situation is reached, the study will continue to dig deeper into the issue, focusing on the effects of the sanctions on the agricultural

sector in Europe. While the agricultural sectors of other countries will be briefly discussed, the main focus will be on the Finnish agricultural industry. As the situation between Russia and European Union has not yet settled down, and so far only some short-term effects can be observed, parts of this study will be highly theoretical as no data exists concerning the case at hand. Older cases, where economic sanctions were used, can be used as a frame of reference; however, there is no guarantee that the effects will be the same with the Crimean crisis as the circumstances vary in each individual situation.

2 Economic sanctions

2.1 Economic sanctions in general

Economic sanctions refer to “any actions taken by one nation or group of nations to harm the economy of another nation or group, often to force a political change” (The Free Dictionary, 2014). While potentially providing economic benefits to the imposing party, the general motivation for economic sanctions is, more often than not, trying to force the change in the political situation within the government or group of governments that the sanctions are being imposed on. The foreign policy goals can be divided into five different categories, which are as follows:

- a minor change in the target country’s policies, which would still play a major part in terms of the goals of the participating countries
- destabilization of the government in the target country (including the minor political change)
- hindering a minor military campaign of the target country
- undermining the military power of the target country
- a major political change in the target country’s policies

There are generally two main parties involved when economic sanctions are imposed. These two parties can be referred as “senders” and “targets”. These two parties can consist of several different sub-parties such as nations and international organizations. The sender side is the one imposing the economic sanctions towards the target side. Generally, on the sender side, there is one main party acting as the leader of imposing the sanctions. There may be other countries or organizations involved on the sender side, but usually one of them acts as the main author for the sanctions while bringing others along. Sometimes countries or organizations can also share leadership in imposing the economic sanctions thus making both of them the main sender. The target side can also consist of more than just one country or organization. (Hufbauer, Schott & Elliot, 1990)

There are essentially three main types of sanctions that are used to result in costs to the target country. These are limiting exports, restricting imports and impeding finance of the target. More often than not the different types of sanctions are used as some sort of combination in order to maximize their effect. The limitation of exports causes direct costs to the target country as they are blocked from the export market of the products

affected by the sanctions. Import restrictions are not used as frequently as export limitations or financial impediment because they are easier to circle around. Import restrictions can be dodged to certain extent by finding alternate markets to replace the blocked ones. These restrictions can sometimes be circumvented by using “middlemen” not directly affected by the sanctions, such as third-party countries not taking a part in imposing the sanctions – at times it can be relatively difficult to determine the origin of the imports, especially when it comes to bulk goods. Impeding finance refers to actions such as freezing the target country’s foreign assets in the sender country or countries. This negatively affects trade as the financial flow is frozen. (Hufbauer, Schott & Elliot, 1990)

When economic statecraft is considered economic sanctions can potentially play an important role. Economic aid or economic incentives can be seen as carrots and sanctions as a stick in foreign policy. As mentioned before, sanctions can be used to affect the domestic politics of a target state. In 1974 the United States had a dispute with the Soviet Union regarding human rights issues so the United States denied all trade benefits with the Soviet Union to encourage a change in Soviet policies. Change in the foreign policy of a target country can also be encouraged through the use of sanctions, which is what United States did in the 1990s when attempting to stop Iran and Libya from supporting international terrorism. (Beach, 2012)

In order for economic sanctions to be effective, their costs and benefits have to be carefully observed. As the purpose of imposing economic sanctions is essentially a political shift, the cost of political change in the target country has to be lower than the cost of the sanctions imposed in order for them to work. More often than not, however, the economic effects of the sanctions imposed are relatively small when compared to the cost of political change. (Beach, 2012)

Sanctions have always played an important role in foreign policy as a tool to influence others and their policies and decision-making. Imposing sanctions seems to be an applicable method when an action must be taken, but the action must not be too soft or too strict. The popularity of sanctions in international policy has been falling, as, more often than not, they seem to not have a very drastic effect, or at least not the wanted effect. Looking at historical data regarding situations when sanctions have been imposed, the result has usually been something else that what was intended. While the usage of sanctions might have been going down, they are still employed in the modern

foreign policy. However, their efficiency can be considered questionable at best, as in the modern world countries and economies are very much dependent on each other – using sanctions might as well become relatively harmful for the party imposing them. (Hufbauer & Schott, 1985)

At the very core, more than anything else, economic sanctions can be considered to be a part of coercive politics, even more so before they have actually been implemented. What this essentially means is that often the effectiveness of economic sanctions lies in the threat of the sanctions being imposed rather than them actually being put in place. Simply by threatening to impose sanctions against the target might work as enough leverage to result in the goals of the sender, or senders, being met. Using the threat of sanctions as coercion can be considered more preferred method than actually imposing them, because it causes much less inconvenience for all parties involved. (Lacy, 2004)

2.2 Economic sanctions in European Union

The use of economic sanctions and their effectiveness varies from case to case, obviously, but in general they can be a very useful tool in global politics. When, for example, European Union is considered, the use of military force is somewhat more complex, due to the 28 different member states all having a say in which direction the union should be moving, as well as the fact that European Union does not have a military force of its own. Economic sanctions, however, can be a very powerful tool for entities such as the European Union, which currently represents around 500 million people. What this means is that economic sanctions, or even the threat of imposing them, can potentially have massive effects as the economy of European Union area is the largest in the world. (Lehne, 2012)

Holding the line is extremely vital in order to ensure the effectiveness of economic sanctions when European Union and its member states are considered. Firstly, the collective action sends a much stronger message – if some member states stray from the sanctions, the effectiveness and credibility suffers. Granted, if an individual country was to impose sanctions, the result would be loss of business with the target country, which in turn would mean that the business became available for other countries to pick up. Such a situation deters individual states, especially smaller countries, from imposing sanctions. However, when the European Union is considered, all the coun-

tries are in the same situation, and due to the large scale and importance of the economic area, it is significantly harder for the lost business to find an alternate place to operate. Looking at the European Union as a bigger picture, it might seem that the foreign policy of the union is not very strong, but as the sanctions can be such a burden for an individual country, sticking together when sanctions are considered seems like the only smart choice. (Lehne, 2012)

The European Union has used sanctions in the past for a few times, but only in the recent years have economic sanctions established their place in the arsenal of the union. There are several reasons for this, the most important ones being the fact that sanctions can be efficiently targeted and the costs related to imposing of sanctions are relatively low, if not even non-existent. What targeting sanctions means is that measures such as travel bans and asset freezes are imposed on certain individuals sparing the population from things such as trade embargos which could potentially disturb the life of an average person greatly. The fact that in such sanctions there are very few collateral victims lowers the threshold of imposing sanctions even further. Unfortunately it can be argued that even though targeted sanctions do have their upsides, they have weaknesses as well, and imposing travel bans and such on individuals might only cause minor inconvenience rather than an actual change in political atmosphere or behaviour. (Lehne, 2012)

The current economic downturn makes planning and executing assistance programs, military crisis management operations or such a much less desirable option. Granted, imposing economic sanctions can trigger a backlash for the sender country, or countries, causing some economic loss, but imposing them costs virtually nothing, making them a very viable option in such an economic situation. (Lehne, 2012)

The effectiveness of economic sanctions can be considered questionable at best, yet they are quite commonly used all around. Using such an unreliable method in international politics might suggest that the purpose of using economic sanctions is not their stated goal but something else. It is possible that in today's politics sanctions are used, while well aware of their potential ineffectiveness, as something one might call "crowd pacifier". If there is a public outcry against a state violating civil rights for example, and it seems that actions such as declarations are not strong enough, sanctions may be used. In cases like this, the behind-the-scenes political goal might be reached, but there is a downside to such use of sanctions – it undermines the actual effectiveness of

economic sanctions in situations when they are actually needed for reasons other than just calming the domestic political atmosphere. If such use is advocated too much, the credibility and authority of the European Union is at risk. (Lehne, 2012)

2.3 Examples of economic sanctions and their effectiveness

2.3.1 Indian sanctions

In 1998 India conducted nuclear tests and claimed itself to be a nuclear power. This caused a strong opposition in the international community – the tests were widely condemned by several parties such as the United Nations, the United States of America, Pakistan and Japan. The tests also led into sanctions being imposed on India. (BBC News, 1998)

United States imposed several sanctions on India, such as ending all assistance of United States to India, with the exception of humanitarian aid. At that time the assistance of United States amounted to 142 million dollars per year, both economic and humanitarian aid combined. United States also imposed a ban on export on some defence and technology material. In an effort to further impact the Indian economy, American credit and credit guarantees to India were stopped, and United States started opposing any lending to the Indian government by international financial institutions. (CNN, 1998)

The aim for the sanctions against India is somewhat unclear. Their aim was clearly not to deter India from conducting the nuclear tests, as the sanctions were imposed only after India had already conducted its testing. Additionally, United States was planning on expanding the sanctions even after the Indian government had already agreed on stopping the tests and to stop stockpiling plutonium, were the sanctions lifted. (Lukas, 1998) The goal might have been to try and force India to give up its nuclear arsenal, which it now clearly had, and to sign the non-proliferation treaty of nuclear weapons. If this is the case, the sanctions were not very effective as still, to this day, India remains outside of the treaty. (Godsberg, 2014)

The Indian relations with United States suffered a blow due to the Indian nuclear testing which led into economic sanctions being imposed against India under the administration of President Bill Clinton. As India and Pakistan had both become new nuclear

powers, their long-time dispute over the area of Kashmir could have potentially escalated into a nuclear war. (Riedel, 2002) President Clinton later on summoned the Pakistani leader for an emergency meeting to settle down the situation, and later on travelled to India. The trip to India can be considered a sign of the relations between India and United States starting warm up, and finally in 2001 the George W. Bush administration lifted the remaining sanctions that United States had imposed against India. (Council on Foreign Relations, 2014)

2.3.2 Iraqi sanctions

The United Nations Security Council imposed a wide range of sanctions against Iraq after the invasion of Kuwait by Iraqi forces under the command of the then-president Saddam Hussein in August 1990. The sanctions consisted of a total ban of “free trade, financial dealings, flights and the import of any goods but food and medicine”. (Daily Mail Online, 1996)

The primary goal of the sanctions was to force the retreat of Iraqi forces from Kuwait. After this goal was reached, the sanctions became leverage to pressure the Iraqi administration to comply with the terms in the cease fire agreement composed by the United Nations. The cease fire agreement included, among other things, a term for Iraq to destroy its weapons of mass destruction. The recognition of the sovereignty of Kuwait by Iraq was also included in the agreement. While the official cease fire agreement mentioned no such thing, it became apparent that United States and United Kingdom strongly opposed the regime of Saddam Hussein, and that those two parties, primarily, would prevent the sanctions from being lifted as long as Hussein remained in power. (Shah, 2005)

The sanctions were finally lifted in 2003 after the regime of Saddam Hussein had been overthrown through the invasion of Iraq by the United States-led coalition forces. The United States and the United Kingdom acted as the main influences in lifting the sanctions, which raised a great deal of controversy in several peace organizations as well as non-governmental organizations, because it indirectly justified the invasion and the occupation of Iraq, a member state of the United Nations. (Shah, 2005)

Even though the sanctions used against Iraq can be considered to be successful, as their primary goal was achieved by relieving Kuwait and forcing Iraq to cooperate by

the terms of the cease fire agreement, they definitely took their toll on the country. The conditions of the civil population deteriorated greatly because of the combined effect of the sanctions and war, leading to what could be described a humanitarian disaster, as vital imports to Iraq, such as food, medicines and other goods were blockaded from entering the country. The sanctions also led into increased poverty and unstable social conditions in Iraq. Additionally, it was stated by the International Law Association in February 2000 that the sanctions were illegal as they, among other things, targeted the civilian population and used starvation as a method of warfare, both of which are forbidden as per the Geneva Protocol. (Shah, 2005)

2.4 Sanctions in the context of the Ukrainian crisis

2.4.1 Sanctions by United States and European Union against Russia

The first sanctions by United States were imposed against Russia in March 2014 after the tensions in Ukraine, especially the Crimean region, had increased, and United States had interpreted that Russia was highly involved in the situation. According to United States, Russia was violating the sovereignty of Ukraine, and thus it was considered that there had to be a reaction against Russia, a consequence for the Russian actions, in order to discourage its military campaign in Ukraine. The sanctions included both Russians and Ukrainians, who had participated in breaking against the state of Ukraine, helping in the occupation of the Crimean peninsula. The first sanctions consisted of banning and denying visas from certain individuals as well as the freezing of their financial assets in United States. United States had already employed similar methods earlier when it banned the visas of certain individuals involved in the human rights violations and oppression during the revolution in Ukraine. (Niskakangas, 2014) Later in the same month the European Union imposed its first sanctions against the Russian Federation. These sanctions, being very similar to the sanction of the United States, consisted of travel bans and freezing of assets of certain Russian and Ukrainian officials. (European Union, 2014)

In May 2014 the European Union expanded their list regarding the individuals being affected by the sanctions by adding 12 additional names on it, as well as two businesses. At this point the list consisted of the inner circle of Russian president Vladimir Putin, as well as politicians, military personnel and a media representative. The measures against the names on the list were very similar to the ones applied earlier restricting

travel and freezing of assets. The primary goal of the additional sanctions was to prevent Russia from affecting the situation in Ukraine, especially the approaching presidential election, as it was suspected that Russia might try to disrupt the election. (Niemeläinen, Peltomäki & Huusko, 2014)

Later on in the year 2014 both the European Union and the United States continued to expand their sanctions lists, by targeting individuals as well as companies using travel restrictions and asset freezes. European Union further expanded their sanctions on Russia in July, September and December. Similar actions were taken by the United States as they expanded their sanctions in July and September. In addition to travel bans, businesses in Russia were also affected. For example, Russian state banks were no more allowed to raise long-term loans. Export of military equipment, as well as oil industry technology, was also prohibited and the future arms deals between the European Union and Russia were ceased for the time being. (BBC News, 2014)

2.4.2 The Russian counter-sanctions

As a response to the sanctions imposed by European Union and the United States on Russia, Russia announced its own counter-sanctions in August 2014. The Russian sanctions were set to stay in place for one year after implementation. Consisting of an import ban on several different groceries and foodstuffs, such as dairy products, meat, fish, fruit and vegetables, the sanctions hit the exports from the European Union, the United States as well as from Australia, Canada and Norway. (STT, 2014b)

The Russian government officials were aware of the strong possibility of food prices going up in Russia in result of the counter-sanctions. In relation to food prices going up, it was noted that the market for foodstuffs in general was going to take a hit, Russia being one of the biggest markets for food in Europe. Additionally, Russia also restricted the import of European pork in early 2014, dropping the amount of pig meat exports to only three quarters of what it used to be. This, of course, as agreed by the European Commission, caused losses to European farmers dealing in pig meat. (Rankin, 2014)

2.5 Sanctions and agriculture in Europe

A great deal of European agricultural products, such as apples, pork and peaches for example, is exported to Russia every year. Ever since Russia imposed the import ban on agricultural products from the European Union and United States among others, the European market for agricultural products has been struggling. Poland, usually exporting roughly 700 000 tons of apples to Russia, is now left with a massive surplus and nowhere to dispose it. Greek fruit producers are facing similar problems, as their trucks were denied entry to Russia due to the ban. Producers are now forced to either sell their products to other markets in Europe, most likely causing prices to fall, or destroying their products. Neither option seems very viable, as flooding the market with new products will affect the demand of the agricultural products usually in the market, and slashing prices will only negatively impact the economy. Farmers all around will also suffer losses as the farmers usually supplying the Russian market cannot collect the usual fee for their products, and farmers usually servicing other markets in Europe are losing profits as prices are falling due to oversupply. Then again, being forced to destroy their products would create even greater losses for the Polish and Greek farmers, to name a few. It is likely that, for example, a big part of the Polish apples currently heading nowhere, will go to Asia and Middle-East along with markets in Western Europe. According to the French meat trade union, there will be an additional million tons of meat, mainly beef, pig meat and poultry, in the European market as the meat cannot enter Russia in the current situation. Dutch fruit and vegetable producers have also been in trouble, with their produce prices plummeting – a representative of a Dutch trade association focused on fruit and vegetable said that some prices in their agricultural sector have gone down roughly 75% to 80%. (Euractiv & Reuters, 2014)

For the European Union Russia is the second most important market for agricultural products. Second in market size only to the United States, Russia takes in roughly 10% of the agricultural exports, valued at 11.8 billion euros in the year 2013. A bit less than half of the 2013 figure, 5.2 billion, is affected due to the food embargo. Almost all parts of the agricultural sector were impacted but some were more than others: dairy products, fruit and meat took the biggest hit in regards of the absolute value of the products. On the other hand, vegetables, cheese and butter suffered the most in relation to the amount exported. It is clear that in the very beginning the import ban of Russia caused the most damage to perishable goods, due to the timing of the sanction. Russia imposed its embargo in the time of the harvest for several fruits and vegetables, resulting in great numbers of fresh, perishable products having nowhere to go. Some products, of course, had potential secondary markets to go to, but rerouting the goods to the new

target was time-consuming, to say the least. There were 11 countries altogether that were affected the most in regards to their agricultural trade with Russia, including Lithuania, Poland, Denmark and Finland, to name a few. (Kraatz, 2014)

When the effects of the Russian ban on agricultural products concerning the European gross domestic product, the result is not catastrophic – the agricultural products account for a only a small part of the gross domestic product of the European Union, being only 1.7% in 2012, and decreasing ever since. In this sense, the biggest hit is suffered by Lithuania, as 2.6% of Lithuanian gross domestic product consists of exports to Russia. Lithuania and the other Baltic states, along with Nordic countries are in a tricky position altogether, as all of them are somewhat dependent on Russian energy production and all of them rely heavily on the trade with the east. (Kraatz, 2014)

For the time being it seems that Russian ban on agricultural products is going to run its course of one year, and the short-term losses being suffered by producers are severe. Rerouting the products to other potential markets will help, of course, but in such a short time period it is nearly impossible to completely even the results out as the products in question are perishable. Additionally, producers all over the Europe suffered income losses as the excess produce on the market pushed the prices down. The European Farmers/European Agri-Cooperatives claim that in some countries the prices of such products as fruit, vegetable and dairy have fallen to half of what they used to be. Additionally, the price of milk, in particular, has dropped by 30%. The food embargo has not only affected the producers themselves – while there have not been too many workers laid off in the beginning because of the sanctions, there are still few cases, such as the Finnish dairy producer Valio, which announced in April 2015 that they are going to lay off hundreds of employees. It seems that if the situation drags on and producers, food processing plants and other such operators are going to have to turn down their production, it is highly likely that more workers will be laid off, if not even a wave of lay-offs. This would result in a sudden rise in unemployment, if other such news follows. (Taloussanommat, 2015) However, with the agricultural industry being such a small part of the bigger picture, it is probable that there will be no significant changes in statistics even though some job losses might occur due to the Russian food ban. (Kraatz, 2014)

After the oversupply in the market the producers of agricultural products in Europe asked the European Union to withdraw the surplus produce from the market to prevent

further damage on the agricultural sector and the economy. The European Union agreed to withdraw the products and compensate the farmers for their losses, at least to some extent. In Russia, the food prices were rising as the import ban hit the domestic market hard – around half of the fish, beef, cheese and milk consumed in the country were previously covered with imported foodstuffs. The import ban was loosened up a bit to allow some import of European Union-originated products to counter the shortage in the market and to try to ease and control the rising prices. To help the situation in Russia, products with raw materials from European Union, but which were processed in some of the neighbouring countries, namely Belarus and Kazakhstan, would be allowed to enter the country in an effort to alleviate the struggle with price rises. (Euractiv & Reuters, 2014)

2.6 The Finnish-Russian trade

Foreign trade plays a vital part in the Finnish economy. While other trading partners are, of course, very important, Finland is highly dependent on the trade towards the east as Russia is one of the biggest trading partners of Finland. The Finnish exports to Russia, as well as imports from Russia, have been steadily growing ever since the recession in Finland in the early 1990s. This growth continued until 2009 when both exports and imports dropped for about 20%. Still in 2014 the effects of the drop of 2009 can be seen and the Finnish export business has not recovered after suffering such a blow. (Kangasniemi, 2014)

Both the economic and political development has been stable most of the 21st century which has encouraged Finnish businesses to move towards the market in the east. It is estimated that over 600 Finnish businesses are operating in Russia, employing roughly 50 000 workers. Even though the economic situation in Russia has been going downhill ever since 2013, Russia is still a very important market with untapped potential in commerce, services and industry as proven by the direct investments amounting to about 12 billion euros done by Finnish businesses. (Laukkanen, 2014)

In 2014 4.6 billion euros worth of exports to the east Russia ranked the third largest export market for Finland, while 8.7 billion euros worth of imports granted Russia the title of biggest importer to the Finnish market. The worth of both imports and export decreased compared to the year 2013 imports falling 14% and exports dropping 18%. (SVKK, 2014)

2.7 Agricultural sanctions and Finland

The agricultural sanctions imposed by Russia against the European Union and others in August 2014 hit the Finnish agricultural sector hard. The sanctions caused a significant fall in the Finnish export business to Russia, amounting close to 60% drop compared to year 2013. The total amount of Finnish exports to Russia had fallen about 20% when compared to August 2013. (STT, 2014a)

While meat export business to Russia suffered as well as a result to the Russian food ban, the biggest impact was on the Finnish dairy product sector. Finland exported roughly 80800 tons in 2012 and 87000 tons in 2013 of dairy products to Russia. Russia is by far the biggest export market for Finland for such products as butter, of which exports amounted to almost 17 million kilograms in 2013, and cheese, of which exports amounted to 35 million kilograms in the same year. (MTK, 2014) The agricultural products that were exported to Russia valued at roughly 430 million euros in the year 2013, of which the portion of cheese was 128 million euros and butter 73 million euros. Of the total sum of 430 million euros, the share of Valio, the largest dairy producing company in Finland, was around 350 million euros. (Valtiovarainministeriö, 2014)

It is highly likely that due to the Finnish agricultural products not being able to access such an important market as Russia, there will be severe consequences. It can already be seen that prices are going to drop, as there is a surplus in the market, especially regarding dairy products. As the situation is very similar in all of Europe, all of domestic markets will be affected. Soon after the sanctions were put in place Valio had to drop its purchasing prices to stabilize its potential drop in profitability, which in turn caused the producers, in this case the farmers, to suffer a loss in profitability. Falling prices are a severe threat to the Finnish dairy production, as it is the most important part of the Finnish agricultural sector measured by both total turnover as well as export income. The problem with the Russian food ban is that the raw milk which was previously refined to high-standard, high-yield products to be sold in Russia, had to now be found an alternate market, or be partly refined into other products to the Finnish market or other European markets, yielding lower profits. Essentially, as a result to the Russian food ban, there was now a surplus of agricultural products in the European market amounting to 5.3 billion euros, part of which was staying in the domestic European market and

the rest trying to find alternate markets outside of Europe other than Russia. (Valtiovarainministeriö, 2014)

From the producer's, in this case farmer's, point of view, the impact on the dairy sector was near to catastrophic – it was estimated that the producer's price would drop roughly 10%, which puts the farmers, already in a challenging situation due to the economic crisis, in a very difficult position. According to the chairman of MTK Northern Finland, or Central Union of Agricultural Producers and Forest Owners of Finland, Harri Peltola (Veräjänkorva, 2014), even such a short term disruption in the dairy market will most likely lead into the closing of several smaller dairy farms, and it is a strong possibility that the prices will continue to fall in the future. Peltola suspects that there might be thousands whose livelihood might be in danger due to the crisis. The ripple effect of dairy farms can also potentially be very severe, as in Northern Finland as well as in Eastern Finland the dairy farms can be considered to be the backbone of the agriculture, and trouble in dairy farms will surely be reflected both up- and downstream in their supply chains. It is assumed that if the situation persists, there will be a wave of unemployment in the agricultural sector, especially related to dairy production, as the first negotiations are already underway regarding the possible laying off of the workforce. As discussed earlier, the dairy products are not the only ones struggling with the Russian food embargo. The Finnish potato industry is struggling as well, even more so after the implementation of the sanctions, as the sector was already in trouble with its exports to Russia already before the crisis in Ukraine broke out. (Veräjänkorva, 2014)

As mentioned earlier, the Finnish potato industry has been in a difficult situation in relation to the trade towards the east. All potato exports towards Russia were halted already in the year 2013 as Russia was concerned due to the degraded state of plant health in the European Union area. However, through negotiations, the situation was eased up to some extent, as Russia allowed seed potato to be imported from Europe in the spring of 2014. This was, however, not a long-lasting state of matters, as potato was included in the Russian-imposed economic sanction of banning the import of agricultural products in August 2014. Despite the sanctions imposed by Russia, and thanks to active negotiations with Russian officials in late 2014, it was agreed that seed potato would again be able to be exported to Russia in starting in January 2015. (Antila, 2015)

Due to the difficulties with the plant health as well as the Russian counter-sanctions, potato producers have hit a rough patch. Compared to years 2011 and 2012, the pro-

ducer price of potato has been 0.10€ lower per kilogram during these past two seasons when potato exports towards Russia have been halted. This has caused an approximate of 40 000€ income loss per year to an average potato producing farm, which has plunged several producers into financial distress. As the demand for potatoes has greatly decreased due to the Russian food ban, and the producer price is plummeting, several producers are now in a situation where there are not enough factors of production for the next year's crops, putting the farmer in an increasingly difficult financial predicament. As Russia has been refusing to take in the potatoes usually aimed into its markets, there are essentially two destinations for the surplus: either it is found an alternate market, or it is destroyed. If an alternate market is found, which in this case most likely is the domestic Finnish market, most of the potatoes would end up in stores. If, however, the market cannot take in the surplus, the excess amount of potatoes will most likely end up being destroyed, once again not providing any income, but rather a loss, to the producers. (Antila, 2015)

While the potato sector of the Finnish agricultural industry has suffered a significant impact due to the economic sanctions, it is evident that the industry suffering the most is definitely the Finnish dairy industry. On an average, a Finnish dairy producing farm has suffered a loss of 10 000€, and while compared to the loss suffered by an average potato farm, the loss might not seem that significant, the impact to the industry as a whole is massive. Given that the numerical value is higher for the average potato producer, but the numbers of producers in Finland differ greatly – there are roughly 900 potato producers in Finland, while there are almost 10 000 dairy producing farms in Finland. When these facts are taken into consideration, it is clear that Finnish dairy industry is indeed struggling. The situation is not about to change, either, as Russia has declared that the food import ban will not be lifted as long as the European Union has not alleviated its sanctions against Russia. (Antila, 2015)

3 Conclusions

Do economic sanctions work? Are they a viable tool to be used in international politics? Is using sanctions justifiable and is there a time and place for them? The answer to all of those questions is yes and no. Granted, when observed the total of cases when sanctions have been used, the vast majority of those cases have resulted in the primary goal of the sanctions not being achieved. However, more often than not other goals and other wanted results have been reached. Thus, the effectiveness of sanctions can be argued. However, there definitely still is use for sanctions in international politics. When it is obvious that traditional methods alone are not enough, sanctions act as quite a handy tool to make a stronger point in a political standoff. It is obvious that sometimes conventional means are simply not strong enough, and all-out military conflict is out of question, and in those cases sanctions act as a fairly good mid-ground method to boost your political arguments and to try and bend the opposing party to your will.

Altogether the struggle between the western world, namely United States and the European Union, and Russia is extremely tricky, to say the least. In the modern world, where nations and economies are interconnected and interdependent, such events carry alongside of them a huge amount of inconvenience for all parties involved. As countries become more and more tied to each other in regards of trade, using sanctions as political leverage, while maybe bringing the wanted result, will, more often than not, be harmful for both senders and targets. What the sanctions used in the wake of the Ukrainian crisis only prove, is that in a situation like this using them might not be the best option. This point is extremely well exhibited in the fact that the European markets were flooded by domestic products which were originally supposed to go to Russia, resulting in a surplus in the market, which in turn caused the producer prices to fall. The chain reaction is easily followed there, because as soon as the producer prices dropped, there was instantaneous talk of laying off some of the workforce, which would then result in rise in unemployment.

It is relatively difficult to say at this point how the situation between the west and the east will develop from here on out. The tensions due to the Ukrainian crisis are still high as ever showing no signs of relenting. As for Russia, it is difficult to see if the travel bans and asset freezes have actually had a concrete effect on the involved individuals other than some minor inconvenience. In a bigger perspective the part of the western

sanctions that had the biggest impact was the fact that through the sanctions the Russian banks were no longer able to lend money from the west which caused a negative impact on the Russian economy. It can be argued that the hoped result of imposing travel bans and asset freezes on Russian president Vladimir Putin's inner circle would have caused a kind of a peer-pressure to force Russia to re-think its actions in Ukraine to alleviate the sanctions. It is quite possible, that while harming the economy in European Union, the Russian counter-sanctions resembled Russia shooting itself in the foot. As a large part of foodstuffs, particularly specialized groceries, consumed in Russia were imported, the Russian food ban caused prices to climb higher as there was a shortage of certain goods in the market. It can be argued that as the prices went up, the food ban acted partially as the reason for accelerated inflation in Russia in 2014.

As for the European Union area, it is evident that the current situation is unsustainable, as the European Union has made the decision to compensate the losses of farmers, at least to some extent due to the crisis (RT Business, 2014). For the time being, finding alternate markets for the excess food produced in the European Union should be the first priority, if a swift resolution to the crisis cannot be reached. If the surplus was to remain in the domestic European Union markets, the result would be increased fall in prices, which in turn would result in even lower income to the whole production chain, from the farmers to manufacturers. On the other hand, downshifting of the production will lead into workers being laid off to maintain roughly the same level of profitability, which then causes a wave of unemployment in the agricultural sector. The long-term effects for the European agricultural sector would most likely not be too severe. It all now depends on how the struggle between the east and the west develops. If an agreement is reached, and the sanctions are alleviated, then the disruption to the economy will only have lasted for a short while. If, however, the crisis continues, and the situation is not resolved, the losses for the agricultural sector could be drastic – lower producer prices could drive smaller producers and production facilities out of business, further increasing the economic problems in the European Union area.

The short-term effects to the Finnish agricultural sector can be seen already, after a bit more than a half a year has passed after the imposing of the sanctions. The fall in prices can be witnessed in regards to several Finnish agricultural products. It is also becoming more and more apparent that the sanctions, while perhaps not being the original reason for part of the Finnish agricultural sector struggling, have definitely boosted the effect, making the already difficult situation even worse. Then again, for others sec-

tors within the industry, the Russian-imposed economic sanctions were the very reason for the current hardships. The dairy industry is a very good example of this – things were looking good for Valio in 2013, and the beginning of year 2014 was fine as well, but the sector really hit a wall in August 2014 when the Russian counter-sanctions were imposed. The situation was fairly similar to other agricultural sectors, such as the potato industry, which was struggling well before the Ukrainian crisis. For the potato industry, the sanctions acted as an additional force pushing matters for the worse.

The price changes and significantly reduced demand will surely cause trouble on a larger scale, potentially leading to increased unemployment within the Finnish agricultural industry as well as related sectors. It is highly likely that several already struggling producers might be forced out of business if definitive actions are not taken. Additional governmental or European Union grants could help alleviate the situation, however it is obvious that these stimulus packages would only act as a temporary relief. If the sanctions were to be imposed for another year in 2015, or if such a situation was to take place again at another time, there would need to be a secondary plan of action. Scouting for alternative markets would probably be the first and best solution. Additionally, diversification of products could potentially help in some cases, as then certain types of products would not be dependent in one single market being closed off. Of course, this would only work part of the time, as some products are only aimed at certain markets. Regardless, the shifts in the political atmosphere in 2015, both in Finland and in international context, will very much define what will happen to the Finnish agricultural sector in relation to the current situation.

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