Assessing Russian Consumers’ Preferences and Willingness to Pay for Domestically Produced Cheese after the Food Import Ban

In response to Western sanctions against Russia in the context of the Ukraine crisis, Russia implemented an import ban on certain food and agricultural products in August 2014. Since then the United States, Canada, EU members, Australia and Norway are not allowed to export fruits and vegetables, dairy products, fish and seafood, and meat to the Russian market (USDA, 2017). While the impact of the ban is considered insignificant to North American companies, EU businesses experienced significant losses. In 2013, Russia was the second most important destination for EU agri-food exports following the United States and China which constituted about 12 billion Euros or 10% of EU exports. Approximately 43% of agri-food exports were subject to restrictions (European Commission, 2014). The sectors mostly affected by the ban include dairy products, fruits and vegetables accounting for 33% and 29% of overall exports, respectively.

About two third of Russian households’ expenditures corresponds to food products reflected in the list of prohibited import items which constitute a sizable share in the weights used in the calculation of the consumer price index (FAO, 2014). Thus, price fluctuations as a result of supply changes may have important implications for the overall cost of food products purchased by Russian consumers. In fact, the consumer price index for the period following the food ban increased by almost 16% being the highest number since 2009 (Rosstat). Moreover, an economic slowdown in the past two years constrained the purchasing power of Russian consumers. These developments are notable factors in food demand that may trigger reallocation of household expenditure such as the purchase and consumption of alternative substitutes with lower quality and less nutritional value (FAO, 2014).

At the same time it is expected that domestic agricultural producers will benefit from the import ban due to the possibility to develop and expand their business opportunities at the local market. Thus, the import ban is in line with the state declared import substitution policy and achievement of self-sufficiency goals on key food categories outlined in the State Program for Development of Agriculture (Russian Ministry of Agriculture 2017).

However, a clear understanding of consumer acceptance and willingness to pay for domestically produced food is important to Russian producers to arrange sound production processes and design effective marketing strategies. This study is the first one providing empirical evidence on consumer preferences and behavior toward domestically produced food at the Russian market that are likely to fill in the gap of the supply of prohibited food products in the future. Thus, it might provide important information to Russian producers and governmental bodies alike.

This study will focus on hard cheese as it is the most popular product variety among Russian consumers. It has been one of the highly imported dairy products to Russia. During 2011-13 EU exports of cheese to the Russian market increased by 24% (European Commission, 2014). However, after the ban was issued the value of cheese exports by EU members to Russia decreased from 534 million Euros in 2014 to 21 million Euros in 2015. During this period the amount of domestically produced cheese products increased from 499 thousand tons to 589 thousand tons accordingly (Rosstat). At the same time it has been reported that following Russia’s ban on European food products the quality of cheese available in Russia has fallen significantly. 1 It has been especially reported that Russian cheese producers have begun to use palm oil as a cheaper alternative to milk since there is a lack of high-quality milk on the Russian

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markets. Rosselkhoznadzor\(^2\) for example estimated that 78\% of cheese in the country could not be defined as truly dairy because of alternative products used in its production.

Therefore, this paper explores consumer preference for domestically produced cheese compared to imported European cheese with a specific focus on risk and quality perceptions of domestically produced cheese. To achieve the goal of the study a contingent valuation (CV) approach, which is a survey based economic valuation technique, was utilized in order to quantify consumers’ WTP for this particular product. Moreover, consumers filled in a questionnaire on perceptions about food safety and quality issues.

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\(^2\) Rosselkhoznadzor is the Federal Service for Veterinary and Phytosanitary Surveillance which is the federal organ of executive power, carrying out functions on control and supervision in the field of veterinary science.