

# US and EU Supply Chain Strategies to the Food Quality and Security Standards in Russia

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**Abstract**—Supply chain management strategy plays an important role in agriculture industry, which is the most complex topic in negotiations between the United States and the European Union on the agreement to establish the Transatlantic Trade and Investment Partnership. This paper describes the US activity on greater access of American corporations on the European market and differences in approaches of the US and the EU to the quality and security food standards and to the use of genetically modified foods. Strained relationships between the US and the EU in 2016 is a result of the publication of the US intentions to secretly push American standards and rules into the draft agreement. That would mean deviation from the European agricultural regulatory requirements that is why it has caused a backlash among European partners.

**Keyword**—*Transatlantic Trade and Investment Partnership, free trade area, agricultural markets, food safety, supply chain strategy, genetically modified food products, sanctions, food embargo.*

## 1. Introduction

The idea to create the Transatlantic Trade and Investment Partnership (TTIP) was introduced by the US that tries to take economic control over Europe and turn it into an adjunct of the American hegemonistic policy. TTIP serves not only to expand trade and intensify investment cooperation between the parties of the alliance, but also to strengthen the US positions in Europe [1]. According to one opinion that was shared during negotiations, this new agreement may become the major one on free trade. Taking into consideration the differences in legislations of the US and European countries, Americans want to change bilateral trade regime with the help of the agreement and to set multilateral rules for competition

from the perspective of national corporations' interests. The greater scale and effectiveness of the US economy may help American products to replace European ones and tighten US control over Europe. If negotiations are successful and the TTIP Agreement is signed, it will regulate a major part of the world trade and economic cooperation. Within a matter of megaregional trade agreements, the US plans to set norms and standards which can become the norms of the World Trade Organization (WTO) over time. Pursuing this policy, Washington intends to weaken the role of the WTO as a key center of the global trade management and to show the whole world that the US is meant to play the leading role. According to the opinion of the American officials, establishing the new greatest interregional structure in the world will allow to restrain economic "invasion" of the BRICS countries on the European markets. In recent years, western corporations have faced competition from companies of the BRICS countries as well as other states with emerging markets with increasing frequency. Western business community is concerned with foreign trade expansion of China and India that have become world traders. Nowadays, these countries have a new development pathway that implies intensification of external expansion based on internal modernization and implementation of major cross-border infrastructural projects.

## 2. Economic interests of American agrarian lobby in Europe

Agricultural issues tend to be the most complex ones during the negotiation process on the signing of the TTIP Agreement between the US and the EU. Agrarian sector is the most protected by protectionist measures. The average level of custom duties in the US and the EU is 7% and 13% correspondingly. High import duties are imposed on grain, meat and sugar. There are concerns that removal of custom barriers and establishing of

unlimited duty-free trade zone will destroy mechanisms that allow European countries to protect the national agrarian sector of economy. At the same time, it will allow the US to strengthen its influence in the European region by getting competitive advantages on the agricultural markets. For the agricultural producers, this agreement with the US means subjection to the interests of the American agrarian lobby, rejection of European quality standards and principles of food safety.

The opening of the EU market to American agrifood products will lead to the bankruptcy of small European farms oriented on regional and national markets because they cannot withstand competition from American agribusiness. While in the US the average size of an agricultural firm is 170 hectares, in Europe it is only 13 hectares. In these circumstances, only 6 employees work at 1000 hectares in the US compared to 57 employees in Europe. However, such small and medium-sized enterprises with not so big profits provide agrarian sector with new workplaces [2]. Decreasing of the number of farms will lead to the rise of unemployment in European countries where it is already significantly higher than in the US. Mediterranean countries will suffer the most because agriculture plays a big role in their production and export. It is hardly doubtable that the issue of European farmers' welfare, as well as interests of the agricultural producers from other countries, are not included in the US sphere of interests.

Some differences in standards and rules, regulating procedures on the agrifood market, have been also found out during the negotiations. American agrarian lobby insists on elimination of the precautionary principle which is used as a regulation basis in the EU. This principle means that agricultural producers must prove that a product will cause no harm to human health. Detailed product analysis is conducted before the goods are imported to Europe. Unlike the EU, the US uses the scientific evidence principle, e.g. goods may be imported if they are proven not to harm human health, and it provides American companies with competitive advantages. Americans try to bring this scientific evidence principle to Europe to get competitive advantages, but European farmers are against it because they stand out for the precautionary principle as a regulation basis in the EU. One of the most sensitive issues in negotiations between the US and the EU is import of American food products containing genetically modified organisms (GMO). "Foods containing GMO sources should be examined from many perspectives, including social and ethical

aspects, in addition to health and the state of the environment. If we help the Member States of WHO do so at the national level, we can avoid the emergence of "genetic barriers" between those countries that allow and do not allow GMO crops," said Dr. Jorgen Schlundt, director of the Food Security Department of the World Health Organization. While a number of developed countries have established certain sets of rules that require strict assessment of the safety of GMO products before they are released onto the market, many developing countries are not in a position to implement such a system. Unlike Americans, Europeans pay greater attention to the quality of food products exported from the third countries. Food and ecology standards accepted in Europe are much stricter than in the US. Production of food products containing GMO is forbidden in Europe. Despite these existing prohibitions, the US pushes for food market liberalization and elimination of scientifically unjustified barriers [3]. If the agreement is signed, GMO restrictions will be lifted de facto. It would mean departure from the established national food safety principles. Lowering of quality and safety standards of food products will result in cheap genetically modified American ones invading European markets and easy access to state procurements in the EU for American companies. Europeans fear to use genetically modified crops and meat. In the meantime, genetically modified food products are mass produced in the US due to the lack of prohibitive legislative regulations. Inflow of American meat, which costs by 30% less, to Europe may cause higher demands from the poor, especially from the constantly growing number of the refugees. Awareness of possible low-quality of products will not stop people with low income from buying them because it will help to spend saved money on other needs. Under conditions of high inflation and unemployment rates food spending cuts are important to the Europeans.

### **3. Legal differences in the EU and US approaches to regulate GMO**

The EU and the US have different approaches to regulate GMO. Unlike the US, the EU has strong rules and regulations to control the turnover of food products with genetically modified organisms since its foundation. A moratorium on food products containing GMO has been imposed since 2001. American legislation doesn't make distinctions between genetically modified and non-

modified food products and both types are included into trade turnover. Moreover, the US is a world leader in growing genetically modified products that account for 70% of the total food products produced in the country. More than 90% of soy beans, cotton, and corn grown in the US contain GMO, and a significant part is exported. The US, alongside with China and India, is a leading supplier of cotton on the world market. The US has agreed to the repeal of subsidies within the terms of the trade agreement on cotton signed at the WTO conference in Nairobi in December 2015, but opposes the repeal of direct subsidies to national producers, thereby supporting the production of food with GMO. Direct subsidies to cotton producers in the US reached \$490 million in 2014/2015 fiscal year [4].

In January 2015, the European Parliament by consensus adopted a directive on genetically modified organisms. This directive extends authority of the EU countries on the issue of cultivating foods containing GMO. Under the new legislation, the member states of the European Union are able to restrict or prohibit growing of genetically modified crops on their territories, irrespective of whether their growing is prohibited at the pan-European level or not. The directive allows countries to restrict or prohibit cultivation of genetically modified crops because of possible their harm to human health and ecology by reference to the social and economic risks, historically developed national farm policy, and cultural traditions and customs [1]. After the directive was signed, German Ministry of the Environment announced a moratorium on genetic Engineering in the country [5]. Risks connected with GMO cause a lot of fears and concerns among Europeans. It is important for Europe that products with GMO have appropriate marking. Thus, they can be put on the market only after permitting procedures and approval of the European Food Safety Authority (EFSA). Only 52 food products out of all were approved to the import. Legislation on mandatory marking of genetically modified products is adopted only in several American states, particularly in Connecticut, Maine and Vermont. The United States federal law doesn't regulate GMO issues that is why marking of genetically modified food products is not mandatory. A food company is responsible for food safety and that makes it unnecessary for independent agencies to check the quality of a product put on the market. The United States Congress was repeatedly asked to enact legislation on marking genetically modified products. Hearings on the issue took place but

no concrete decisions were made on the legislative level. The only official document on GMO regulation is one adopted by the Food and Drug Administration that allows to not mark products with GMO if their characteristics are similar to non-modified ones. The issue of GMO is a constraining factor in negotiations between the US and the EU on the TTIP. The European Commission has repeatedly stressed that it won't change its food safety policy within the Partnership. The US's attempts to persuade European partners to expand export of American agricultural food products without mandatory marking of genetically modified ones meet resistance from the EU.

#### **4. Complication of relations between Washington and Brussels**

Relations between Washington and Brussels tensed in the spring of 2016. The cooling of relations occurred after the Netherland branch of the Greenpeace had published a significant part of the TTIP Agreement (14 out of 30 chapters) covering agricultural issues and it caused a backlash among Europeans [6]. These published documents revealed that during the April round of negotiations the US tried to push American agricultural regulations and rules in the EU and that would mean destruction of European health and environmental standards, rejection of European rules in agriculture, a decline in the quality of food products and a capture of European food market by American transnational food corporations. In the planned Investor- State Dispute Settlement (ISDS) within the TTIP American food enterprises acquire the right to bring actions straight against European governments [10]. Actions of the US caused a backlash among European partners who oppose American pressure aimed at restriction of the EU sovereignty in agriculture. Mediterranean countries, especially representatives of agrifood business in France, Italy, and Greece, most overtly express their reluctance to support the draft agreement on transatlantic economic union because they don't want to be under control of American food corporations. French agrarian lobby representatives favor maintaining the restrictions on agricultural products imported from the US, and it forces French authorities to take a stricter attitude towards the TTIP. According to the leading officials, France will never change its principles in the sphere of agriculture [6]. French minister for foreign trade, insists on ending the negotiations on TTIP due to the strong disagreements on food and

environmental issues. Vice-chancellor of Germany and minister of economy, and Sebastian Kurz, chancellor of Austria, support the French on these issues. They believe that free trade covers the delegation of authority to major American transnational corporations at a time when American corporations face a dramatic fall in profit. Today it is well-known that the US corporate sector is drowning in debts and that American economy shouldn't expect rapid recovery from the shale oil revenues in the coming years. And, of course, Washington understands it that is why it seeks opportunities to sign the TTIP Agreement as soon as possible.

Farmers and representatives of national agrarian lobby of such Mediterranean countries as Italy and Greece stand alongside the French who are active opponents of the negotiations and participants of the public campaign "Stop TTIP" which embraces more than 500 European organizations. The most sensitive issue for them is the protection of rights on product names. In May 2016, Greece announced imposition of a veto on the TTIP Agreement if Greek Feta cheese is not under the protection. By May 2016, 150 European food product names have been protected after the negotiations although the initial demands included 200 names [6].

The US point of view on the TTIP is still supported by Jean-Claude Juncker, the President of the European Commission, and Angela Merkel, chancellor of Germany [7]. The opinion of the President of the European Commission is a constraining factor which doesn't allow to bloc American demands on further liberalization of the bilateral trade between the US and Europe because authorities to conduct negotiations were delegated to the European Commission and de facto that excluded governments of the EU member states from participation in negotiation process. Interruption of negotiations is possible only when all member states agree, including the new ones. But exactly these new members, particularly Baltic States, press for signing the agreement as soon as possible, although no one doubts that this signing will not result in any economic advantages [8]. Great Britain and Northern Europe have always supported the fastest signing of the agreement despite all arguments of social movements and representatives of the national agrarian lobbies [8]. However, after the Brexit, a lot of members of T. May's new cabinet have started to treat the draft project of the transatlantic economic alliance more cautiously and with growing concerns about economic advantages for national economy.

## 5. The problem of food security of the Russian Federation

Food security is considered one of the main indicators of the socio-economic development of the state. Food security is defined by The 1996 World Food Summit as a condition in which all people of one country or another at any given moment have physical, social and economic access to sufficient, quantitatively and nutritious food that meets their needs and necessary for active and healthy life.

The food security index measures the policies of states and the performance of their institutions on the basis of an analysis of the three main groups of indicators of food security in the world:

- Level of availability and consumption of food;
- Availability and sufficiency of food products;
- The level of quality and safety of food.

In the ranking of countries in terms of food security in 2016, Russia took 43rd place with an indicator of 63.8. Topped the rating: the USA (the value of the index is 89.0), Singapore (88.2), and Ireland (85.4). High ratings were received by European countries, Australia (83.8), Japan (77.4) (table 1).

**Table 1.** The Economist Intelligence Unit: The Global Food Security Index 2016 [5].

Rating	Economy	Index
1	USA	89,0
2	Singapore	88,2
3	Ireland	85,4
4	Austria	85,1
5	Netherlands	85,0
6	Switzerland	84,4
7	Canada	84,2
8	Germany	83,9
9	Australia	83,8
9	France	83,8
...		
21	Japan	77,4
...		
42	China	64,2
43	Russia	63,8
...		
109	Burundi	25,1

At present, the GMP safety assessment system in Russia is considered as one of the most stringent in the world. It covers a wider range of studies than in other countries (for example, in the US and the EU), and

includes long-term toxicological studies on animals - 180 days (in the EU - 90 days), and the application of modern analysis methods, such as determination of genotoxicity, genomic and proteomic analyzes, assessment of allergenicity on model systems and consideration of many other additional factors guaranteeing the safety of registered food products obtained from GMO. The Council of the Eurasian Economic Commission (ECE - the permanent governing body of the Eurasian Economic Union, which includes Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan) decided to oblige the labeling of products obtained with the use of genetically modified organisms (GMOs) on food packages. A corresponding change has been made to the technical regulations of the Eurasian Economic Union (EEA) "Food products in terms of labeling". The sign "GMO" with the content of GMO in the product above 0.9% will appear on food products at the end of 2018.

On July 4, 2016 in Russia, the Federal Law No. 358-FZ "On Amendments to Certain Legislative Acts of the Russian Federation Regarding the Improvement of State Regulation in the Field of Genetic Engineering Activities" was launched. This law has tightened the use of GM plants and animals for food production in Russia. Now the use of GMO is possible only for scientific purposes. Russia can not completely abandon GMO because of WTO rules, so it was decided to ban the cultivation of GM plants and animal breeding, but leave the opportunity to import GMO food. At the same time, the mechanisms of state regulation of the GMO market used in world practice have not been studied sufficiently, and only some of them are applied in our country. Therefore, it is very important for Russia to improve the state policy in the field of regulation of the GMO market.

Both developed and developing countries protect the national agro-industrial complex and its producers. The largest exporters among developed countries are the United States, the Netherlands, Spain, New Zealand, among the developing countries - China, Turkey, and Brazil. One of the current trends, gaining momentum, is organic agriculture, which implies minimal intervention in the cultivation of crops through chemical additives. This trend can be considered by Russia as an opportunity to increase the volume of food production by increasing arable land and offering to the market environmentally friendly products, the demand for which is likely to grow.

Separately it is worth noting the positive trends in the volume of Russian exports of vegetables, meat and meat products, which demonstrates the realization of the competitive advantage that has emerged among Russian producers in connection with the devaluation of the ruble. The Russian situation in terms of food embargo is controversial. Russia has traditionally been the importer of food, and it has been targeted with exporting food, in particular, meat products from countries that introduced and supported Russian sanctions. On the one hand, Western sanctions have positively affected the growth rate of the agricultural sector (3.2% in 2016). Significant growth occurred in the production of crop, which grew by 42% from 2014 to 2016. Livestock production increased by 17% from 2014 to 2016. In 2017-2018 years. Russia took first place in the world for grain exports. On the other hand, there are tendencies to change the consumer strategies of Russians and the loss of Russian consumers as a result of rising prices. A necessary condition for import substitution, from the point of view of ensuring food security, is the industrialization and integration of the agro-industrial complex [9-14].

The impact of the food embargo on the economies of countries applying sanctions is also ambiguous, as these countries lose some of their markets. There is an export reorientation to the countries of the Asian and Middle Eastern regions. It can be improved by the supply chain strategy for providing, finding the costumers and distribution section in a systematic way. The introduction of anti-Russian sanctions and Russian countersanctions led to the need for European producers to seek alternative markets for their products. The Russian-American trade conflict has entered a new stage. In response to the increase of customs duties on the part of Washington, Russia imposed reciprocal duties on US imports by about half a billion dollars. According to analysts' estimates, Western countries lost \$ 8.3 billion from the introduction of the Russian food embargo, at present the restrictive measures are extended to the end of 2019.

The negative consequences of trade wars are known: the reduction in sales markets, a decrease in investment due to the growth of uncertainty, and a reduction in employment. Since it is not necessary to expect the lifting of anti-Russian sanctions in the light of the latest political decisions of D. Trump, Russia implements programs for the development of import-substituting industries [15].

## 6. Conclusion

With the help of the supply chain strategies Washington is planning to offset negative factors that can affect overall situation of the American economic system. Being under control of American food corporations, European markets will open promotion “channels” of low-quality food products from the US. The US and their European partners couldn't reach a consensus on 27 chapters during a lot of rounds of talks. In the context of growing disagreements between the US and the EU, contradictions about rapprochement with American partners are becoming more and more noticeable even between some states of the EU. According to some European politicians, it threatens the sovereignty and economic activity of the EU. Growing disagreements between the countries during the negotiations may lead to the economic fragmentation which will affect political homogeneity of Europe.

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