

CHAPTER 7

RUSSIA

Evaluation of policy developments

- The agricultural sector benefited from the overall economic growth, which strengthened demand for food and prices. With increased tax revenues at government's disposal, more direct assistance was also provided. However, these impacts were counterbalanced by a cost-price squeeze due to a rise in fuel prices and by an appreciation of the rouble.
- After a substantial reduction following the 1998 financial crisis, support to agricultural producers rose in 2003-05, but was still below the pre-crisis level. There has been little change in the ways of delivery of support, with market price support, input and output payments remaining the dominant policy instruments.
- The majority of support is provided to the livestock sector. A government's priority is to increase livestock output and halt the decline in animal numbers. These goals, at least in the medium term, will largely determine the set of agricultural measures and the overall level of producer support.
- There has been greater emphasis on improving the sector's efficiency, with more assistance provided for capital and technological improvements on farms. Allocations to general services increased slightly in real terms, but their share in overall agricultural support remains small.
- Broader issues related to sustainable farming, rural development, the quality of agricultural labour and quality of life in rural areas have become more pronounced on the policy agenda, as evidenced by several federal targeted programmes to be implemented in 2006-10.
- Despite greater emphasis being given to the sector's long-term competitiveness, inefficient support, particularly that distorting input and output prices, continues to be the policy mainstream. With the rouble appreciating and negotiations on the WTO entry at important phase, the government will likely be under pressure not to reduce this distorting support.
- However, a substantive reallocation of resources towards measures that improve competitiveness would benefit consumers and in the longer term provide superior gains to producers.

Summary of key policy developments

1. The basic agricultural policy measures remained unchanged in 2004-05. Interest rate concessions, input subsidies and output payments for livestock products constituted the core of domestic support. A fuel subsidy was introduced in 2006 to compensate producers for strong rise in prices for this input. Substantial border protection for livestock markets based on tariff rate quotas was extended up to 2009. The protective sugar regime was maintained. The WTO accession negotiations are underway, with the agreement on agricultural domestic support and export subsidies yet to be reached. A National Priority Project for Development of Agro-Industrial Complex in 2006-07 was launched, providing additional funding for areas, such as investment credit for the livestock sector, credit and development of co-operatives for small producers, and improved housing for young agricultural specialists.

- The %PSE was at 17% in 2003-05, compared to 20% in 1995-97. The producer support has been gradually returning to its levels before the 1998 financial crisis.
- Adjustment of producer prices to strong depreciation of the national currency, tightened border protection for key imported products and some increase in budgetary spending, altogether contributed to this rise in support.
- Around 74% of the PSE was represented by market price support, due mostly to import protection for livestock products and sugar. The livestock sector also received implicit support through feed grain prices being below the world levels.
- Budgetary assistance made up the remaining 26% of the PSE, with input subsidies accounting for almost 57% of total budgetary support, output payments for 11%, while another 10% was due to an implicit subsidy from the debt rescheduling. The latter represented budgetary revenue foregone on postponed or written off taxes and contributions to pension and social security systems.
- Market price support, input and output payments collectively accounted for 92% of the aggregate PSE.
- As measured by the Nominal Protection Coefficient (NPC), producer prices were on average 13% above the world levels. The average NPC disguises considerable variations across commodities, with prices strongly supported for livestock products and taxed for crop products (except sugar).
- The cost of producer support to consumers, as measured by the %CSE, rose to minus 9% in 2003-05 from minus 5% in 1995-97.
- Support for general services to agriculture increased slightly in real terms but its share in total support remained small, at 10% in 2003-05.
- The scale of total agricultural support relative to GDP (%TSE) was 1.4% in 2003-05, down from 2.8% in 1995-97.

Figure 7.1. PSE level and composition over time

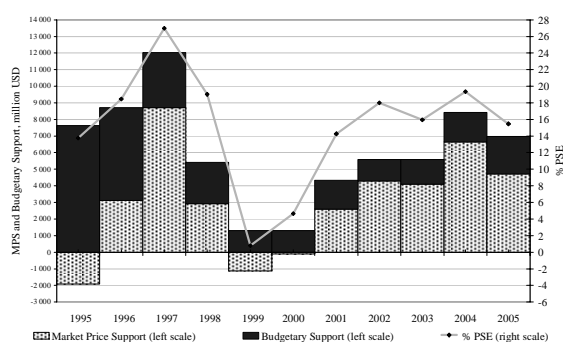


Figure 7.2. Producer NPC by commodity, 2003-05 average

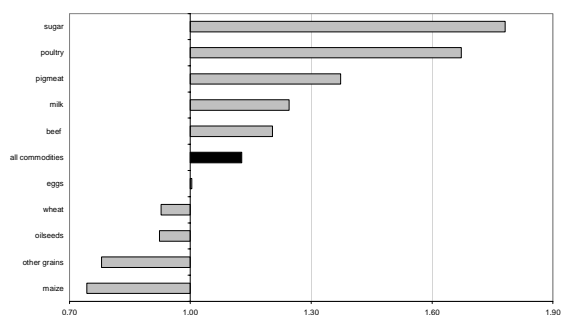


Figure 7.3. TSE composition over time

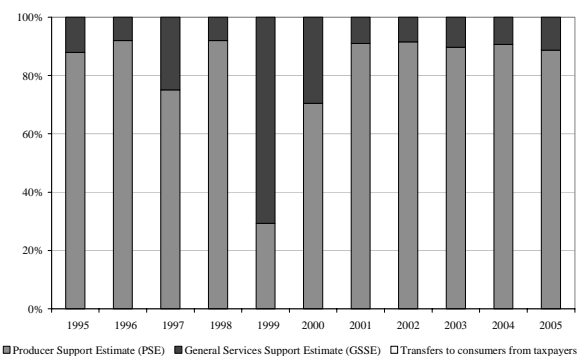


Table 7.1. Russia: Estimates of support to agriculture

(RUR million)

	1995-97	2003-05	2003	2004	2005
Total value of production (at farm gate)	201 986	1 147 699	1 028 882	1 203 708	1 210 507
<i>of which share of MPS commodities (%)</i>	<i>63</i>	<i>63</i>	<i>60</i>	<i>64</i>	<i>65</i>
Total value of consumption (at farm gate)	259 391	1 517 306	1 377 927	1 530 928	1 643 063
Producer Support Estimate (PSE)	46 742	203 634	171 228	242 622	197 051
Market Price Support (MPS)	19 216	150 406	125 976	191 673	133 568
<i>of which MPS commodities</i>	<i>12 542</i>	<i>94 984</i>	<i>75 539</i>	<i>122 557</i>	<i>86 855</i>
Payments based on output	4 737	5 831	6 200	6 027	5 265
Payments based on area planted/animal numbers	0	0	0	0	0
Payments based on historical entitlements	0	0	0	0	0
Payments based on input use	21 086	30 548	22 478	22 404	46 761
Payments based on input constraints	0	0	0	0	0
Payments based on overall farming income	110	5 034	3 767	5 343	5 993
Miscellaneous payments	1 593	11 815	12 806	17 175	5 464
Percentage PSE	20	17	16	19	15
Producer NPC	1.11	1.13	1.10	1.18	1.11
Producer NAC	1.25	1.20	1.19	1.24	1.18
General Services Support Estimate (GSSE)	10 186	23 260	19 747	25 034	24 999
Research and development	329	2 371	1 832	2 487	2 792
Agricultural schools	934	8 225	6 473	8 125	10 076
Inspection services	824	11 006	10 383	13 530	9 105
Infrastructure	1 302	0	0	0	0
Marketing and promotion	124	248	92	70	581
Public stockholding	0	0	0	0	0
Miscellaneous	6 673	1 411	966	821	2 444
GSSE as a share of TSE (%)	17.9	10.3	10.3	9.4	11.3
Consumer Support Estimate (CSE)	-15 805	-133 203	-99 904	-171 149	-128 556
Transfers to producers from consumers	-16 619	-127 131	-88 453	-175 127	-117 813
Other transfers from consumers	2 649	9 578	11 899	14 770	2 066
Transfers to consumers from taxpayers	0	0	0	0	0
Excess feed cost	-1 835	-15 650	-23 350	-10 792	-12 809
Percentage CSE	-5	-9	-7	-11	-8
Consumer NPC	1.05	1.08	1.06	1.12	1.08
Consumer NAC	1.06	1.10	1.08	1.13	1.08
Total Support Estimate (TSE)	56 928	226 894	190 975	267 656	222 050
Transfers from consumers	13 970	117 553	76 554	160 357	115 747
Transfers from taxpayers	40 310	99 763	102 522	92 529	104 237
Budget revenues	2 649	9 578	11 899	14 770	2 066
Percentage TSE (expressed as share of GDP)	2.82	1.35	1.44	1.58	1.03
GDP deflator 1995-97 = 100	100	635	525	630	751

Notes : p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

Market price support is net of producer levies and excess feed costs.

MPS commodities for Russia are: wheat, maize, other grains, oilseeds, sugar, milk, beef and veal,

pigmeat, poultry and eggs. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

Source : OECD, PSE/CSE database, 2006.

Policy context

2. Russian agriculture absorbs around 11% of total employment, and contributes 5% to the country's GDP. Both shares have been falling since the late 1990s, as the non-agricultural sectors grew more rapidly. Russia is large agro-food importer, with agro-food items accounting for 13% of total merchandise imports. Agriculture has important welfare implications, in the economy where 18% of population live below the poverty line, and food and beverages take up 38% of household expenditures.

Macroeconomic situation

3. Russia's economy continued to grow robustly, albeit at decelerating rates of 7.2% in 2004 and 6.4% in 2005. In the first half of 2006 the GDP increased by 6.5%. Significant terms-of-trade gains, owing mainly to strong world prices for hydrocarbons, have fed into domestic demand, which became the major driver of growth. The unemployment rate fell to 7.1% at the end of 2005, from 7.9% in 2004 (and 9.8% in 2000). Real disposable incomes were up by 9.9% and 8.8% in 2004 and 2005 respectively, and private consumption boomed. Investment grew rapidly as well, although still not enough to approach the investment rate observed in other catching-up economies.

4. Russia's current account surplus rose to a record high USD 84 billion in 2005 (11% of GDP), while the merchandise balance reached USD 118 billion, or almost doubled in 2004-05. The positive terms of trade effect more than offset the slowdown in export volumes and strong growth in imports. However, the sustained strengthening of the current account balance, combined with substantial productivity gains, led the rouble to appreciate rapidly. By now, the real effective exchange rate has returned to its pre-1998 crisis level. The currency appreciation squeezed the competitiveness of domestic production, particularly for non-energy exports and import substitutes. The boom in oil and gas markets increased risks of "Dutch disease" for the Russian economy.

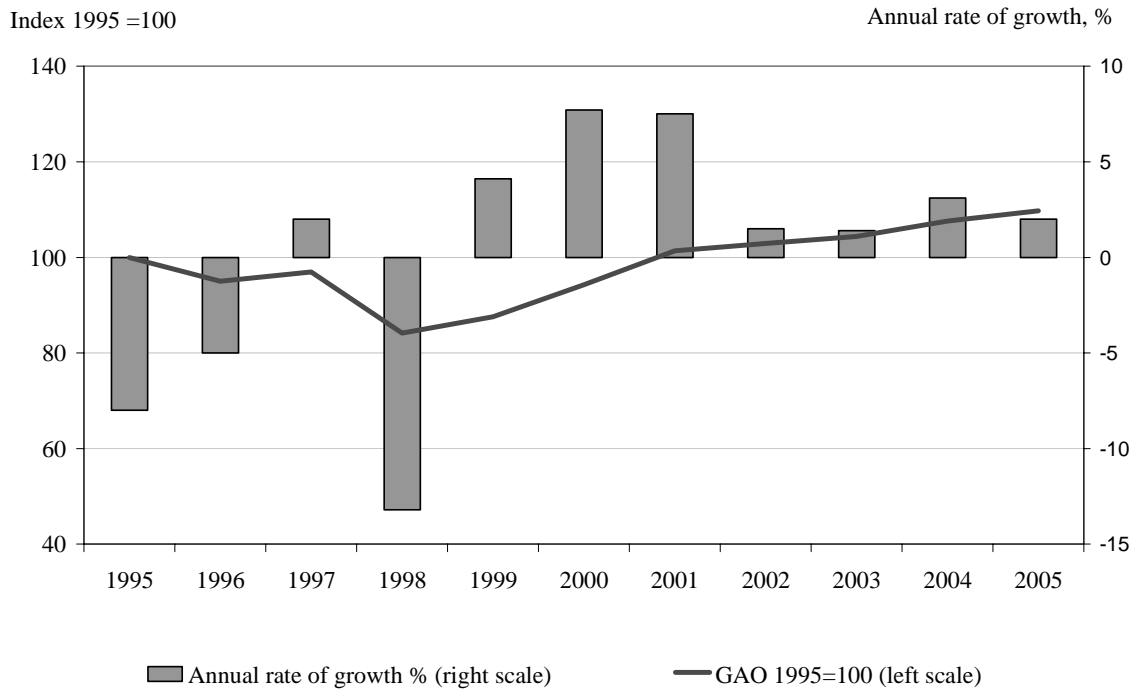
5. Monetary and fiscal management were directed at containing both the real exchange rate appreciation and inflation. Despite growing fiscal surpluses, the government resisted pressures for large tax cuts or strong increases in public spending. "Surplus" fiscal revenues from natural resource extraction and oil exports were sterilised in the Stabilisation Fund and partly used for early repayment of external public debt. Monetary and fiscal prudence helped to hold inflation at 10.9% in 2004 and 12.7% in 2005 (average CPI), although still above the government's inflation targets. The macroeconomic situation continues to demand cautious fiscal and monetary steering, while the need for transition to sustained growth is crucially dependent on acceleration of structural reforms (OECD, 2006).

Agriculture and agri-food situation

Output

6. Agricultural output expanded by 3.1% in 2004 and 2.0% in 2005 (Figure 7.4). The overall growth was moderated by the modest performance of the livestock sector, whose output fell in 2004 and stagnated in 2005. One general factor constraining the growth was the deterioration of the sector's terms of trade, largely due to the rise in fuel prices. Another was the impact of the rouble appreciation, which intensified competition from imports on domestic markets, while weakening position of Russia's exporters on external markets.

Figure 7.4. Evolution and annual changes of agricultural output in Russia, 1995-2005



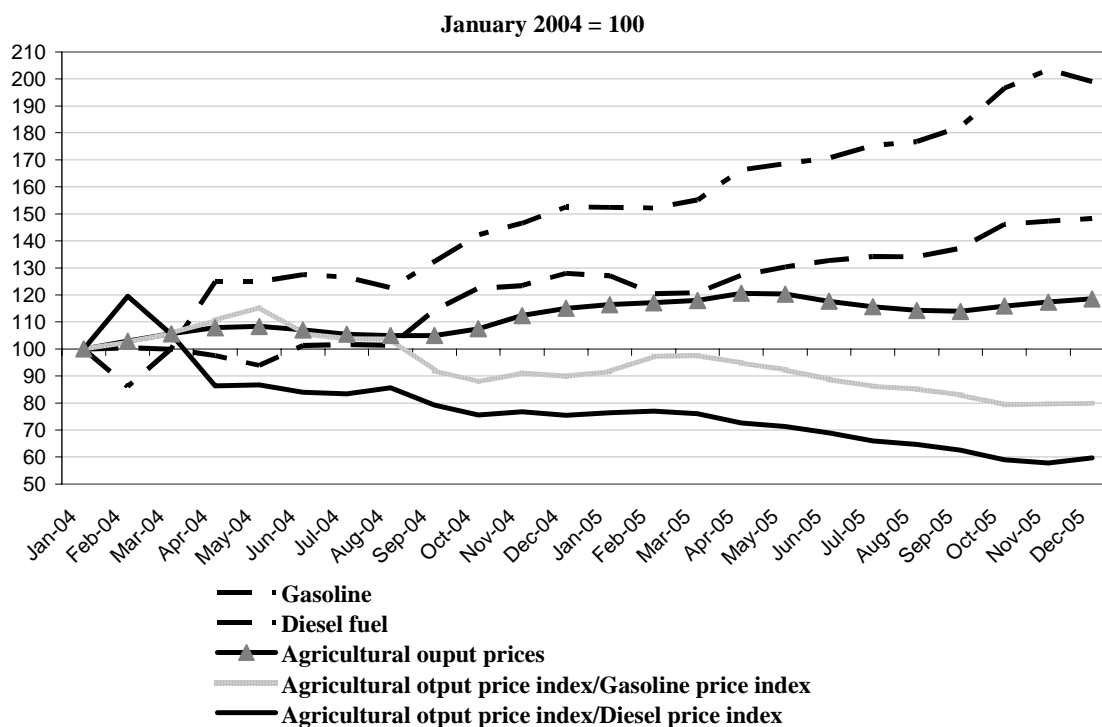
Source: Federal Service for State Statistics.

7. Agricultural prices strengthened by 17% in 2004 (December on December), with crop prices rising by 12.5% and livestock prices by 21.1%. However, in 2005 price growth slowed to 3%, and was mainly driven by the livestock prices, which increased by 9%. Crop prices declined by 6.1% in 2005, with the strongest falls registered for wheat (19.8%), maize (11.5%), and sunflower seeds (11.7%).

8. The weakening of agricultural prices in 2005 coincided with a large increase in fuel prices. As a result, the agricultural sector saw a considerable deterioration of its terms of trade with respect to this key input (Figure 7.5). More comprehensive information on changes in agricultural price-cost structure is not available for the moment.

9. The share of profitable agricultural enterprises fell slightly in 2005, from 62% to 60%. However, this percentage is an improvement over the beginning of the 2000s when only 46% of agricultural enterprises reported profit. The aggregate figures on farm performance and sector's growth, however, disguise highly varied situation across farms and commodity sub-sectors (see below).

Figure 7.5. Agricultural output and fuel price indexes



Source: Federal Service for State Statistics.

Crops

10. Crop yields in Russia depend strongly on weather conditions, causing substantial annual variations in output. The crop sector performed well in 2004 and 2005, with the aggregate output rising respectively by 4.2% and 7.0%. Production of grain, the main crop group in Russia, reached 78.1 million in 2004 and 78 million tonnes in 2005, less than the bumper harvests of 2001 and 2002, but above the 10-year average. The Ministry of Agriculture’s provisional estimate of grain output for 2006 is between 73 and 74 million tonnes. Sunflower production remained almost unchanged in 2004, but rose by 33% in 2005 to 6.4 million tonnes, and expected to drop to 5.9 million tonnes in 2006. Sugar beet harvest was high for the three consecutive years since 2003, and is forecast to increase from 21.4 million tonnes in 2005 to 23.2 million tonnes in 2006. Maize, soybean, flax and vegetable production also expanded. Overall, the crop sector shows the signs of steady recovery since the early 2000s, with yields improving, not least due to increased fertiliser application, better technologies and withdrawal of cultivation from marginal lands.

Livestock

11. The performance of the livestock sector in 2004-05 was mixed. The aggregate output fell by 2.4% in 2004 and in 2005 grew only by 0.1%. Downsizing of animal inventories continued. Milk, beef and pigmeat output fell, while egg production increased marginally in 2005 after the previous year’s fall. Poultry is the only sector to have registered stable growth – with a 75% increase in output between 2000 and 2005. For the most recent years, this can partly be attributed to significant border protection provided to this sector.

12. Livestock production is stagnant or contracting in many commercial units (“agricultural enterprises”), so that a large part of the overall commercial output comes from only a small number of producers, who have adjusted successfully. The strong differentiation in farm performance is particularly manifest in the pigmeat, poultry and egg sectors, where a small percentage of producers account for a disproportionately large share of total commercial production (Table 7.2).

Table 7.2. Share of top 100 producers in total number, output and cash receipts of agricultural enterprises involved in livestock production, 2002-04

	Total number of agricultural enterprises involved in production, 2004	Percentage of 100 top producers* in total		
		number of agricultural enterprises	output volume	cash receipts
Milk	15 854	0.6	6.6	9.4
Beef	16 407	0.6	7.1	8.1
Pigmeat	6 462	1.5	45.0	44.3
Poultry meat	607	9.1	52.0	56.1
Eggs	626	16.0	57.0	55.9

*) Top 55 producers for poultry.
Source: VIAPI, 2005.

13. One positive trend in the livestock sector is the stable rise in animal productivity, reflecting to a certain degree rational downsizing, investment inflows and technical improvements in successfully restructuring farms. This is accompanied by re-location of production to areas with more favourable conditions. Points of growth of intensive milk, poultry and pigmeat production are emerging in the Central, Southern, Volga and Siberian regions of Russia.

Structures

14. The traditional farm classification distinguishes three types of producers: (i) agricultural enterprises (organisations), the privatised successors of the former collective and state farms; (ii) household plots, tiny land parcels in rural areas owned by individuals; and (iii) family (“peasant”) farms, emerging since the early 1990s as a result of policy to develop family-type farms in Russia. According to the official estimate, agricultural enterprises contributed 41% to total agricultural output in 2005, households 53%, and individual farms 6%. There is a distinct “distribution of labour” between the two principal types of producers, with agricultural enterprises producing in 2004-05 the bulk of total grain (81%), sugar beet (88%), and of sunflower seeds (75%), and household plots providing the majority of potatoes (92%), vegetables (79%) and fruits (87%). Livestock output is roughly equally distributed between the two sub-sectors: in 2004-05 agricultural enterprises accounted for 45% of both meat and milk output, while households provided the remaining 55%. It should be stressed though that many households produce primarily for self-consumption, and importance of this sector in marketed output is much smaller than in the overall production.

15. Since the early 1990s, there has been growing differentiation in the performance, size and market activity within both agricultural enterprise and household sectors. Among the agricultural enterprises, a group of successfully developing, investing and self-modernising producers is shaping. In 2002-04, 20% of total marketing receipts and 70% of profits of all agricultural enterprises in Russia were generated by 300 enterprises. The latter represent only 1.5% of total number and 3.5% of farmland in agricultural enterprises (VIAPI, 2005; Uzun, 2004). On the other hand, there are enterprises that become marginalised,

but so far have not been subjected to bankruptcies due to social or political considerations, administrative hindrances, or lack of interested investors. Nevertheless, the process of farm bankruptcies has moved on: in 2004, 3 455 cases were opened, and in 2005, 6 210 cases were under examination (Serova et al. 2006b).

16. Another structural development within the sector of agricultural enterprises is the emergence of so-called agro-holdings and agro-firms. These represent complex arrangements, usually involving take over of assets of insolvent or bankrupt farms by non-agricultural and agribusiness investors. These are highly diversified formations, incorporating agricultural, processing and service units. For example, in the Belgorod region in Russia's black soil area currently exist 4 super-large agro-holdings (one of the four, *Orel Niva*, operates on 277 000 hectares of arable land and employs around 16 000 people). There are also 37 agro-firms in the region, counting in total 581 000 hectares of arable land, 173 agricultural, 37 processing and 36 service enterprises (Gataulina *et al.*, 2006).

17. The creation of agro-holdings and agro-firms intensified with the commodity boom, when oil, gas and other companies began looking for new investment options. Apart from this, the process is driven by the usual motivations for vertical integration within the agro-food system. There is also a political interest. Some local authorities support this process, seeing take over of non-viable enterprises by outside investors as a way of reviving local agriculture and easing social difficulties in rural areas. In some cases local administration hold a stake in the assets of such agro-holdings and provide various preferences to them, such as low-interest credit or credit guarantees. Thus, agro-holdings are additionally perceived by the administrations as vehicles for control and support of local production. (Gataulina *et al.*, 2006; Khramova, 2002; Rylko and Jolly, 2003). On the other hand, there has been a public concern about potential detachment of rural people from control over agricultural assets and excessive market power from such super-companies. Although the "holdingisation" in Russian agriculture received much media attention, the evidence of its actual scale and impacts is yet limited.

18. The sector of small household producers is also undergoing structural change. Originally subsistent, some households are rapidly evolving into small-scale commercial producers and become suppliers of fresh produce, meat and milk for retailing and processing. Between 2000 and 2005, the volume of meat marketed by households almost doubled, while the amount of marketed vegetables grew by 50%, and that of potatoes by 20%.

19. All above indicates that the farm structure in Russia has been undergoing important transformations, which so far have not been well captured statistically. It is expected that the 2006 comprehensive Agricultural Census will shed more light on structural shifts in Russia's farm organisation over the post-reform period.

Inputs

20. Production of agricultural inputs nearly collapsed at the beginning of the 1990s, following the withdrawal of state support to this sector and recession in agriculture. The only sector which avoided collapse – not recession though – was the fertiliser industry, able to switch supplies to external markets. Fertiliser output has been steadily rising throughout most of the 1990s and 2000s, to reach the pre-reform level in 2005. In contrast, the recovery in agricultural machinery has been slow and fragile. There was some growth in the manufacturing of grain harvesters and some other specialised equipment, while tractor production saw an important drop in 2005. Overall, the farm machinery sector needs substantial investment and technological overhaul. The main driver for the recovery in the input sectors would be a sustained improvement of agricultural incentives and underlying demand for investments. Agricultural investment was unstable throughout the 1990s and has been stagnant in most recent years. Structural improvements, such as the emergence of functioning long-term lending to agricultural producers, are also crucial for the

agricultural input sectors to attract resources and withstand competition on the domestic market and abroad.

21. Manufacturer prices for petrol products in Russia nearly doubled between December 2003 and December 2005, which compares to a 30% price rise for the manufacturing industry on average. High petrol prices pushed up automobile transportation tariffs and led to several upward adjustments in controlled railway rates. In order to limit inflation, the government announced a temporary freeze on fuel prices at the end of 2005. The Ministry of Agriculture requested an introduction of compensation to producers for increased fuel prices, which was finally approved.

Food processing and retailing

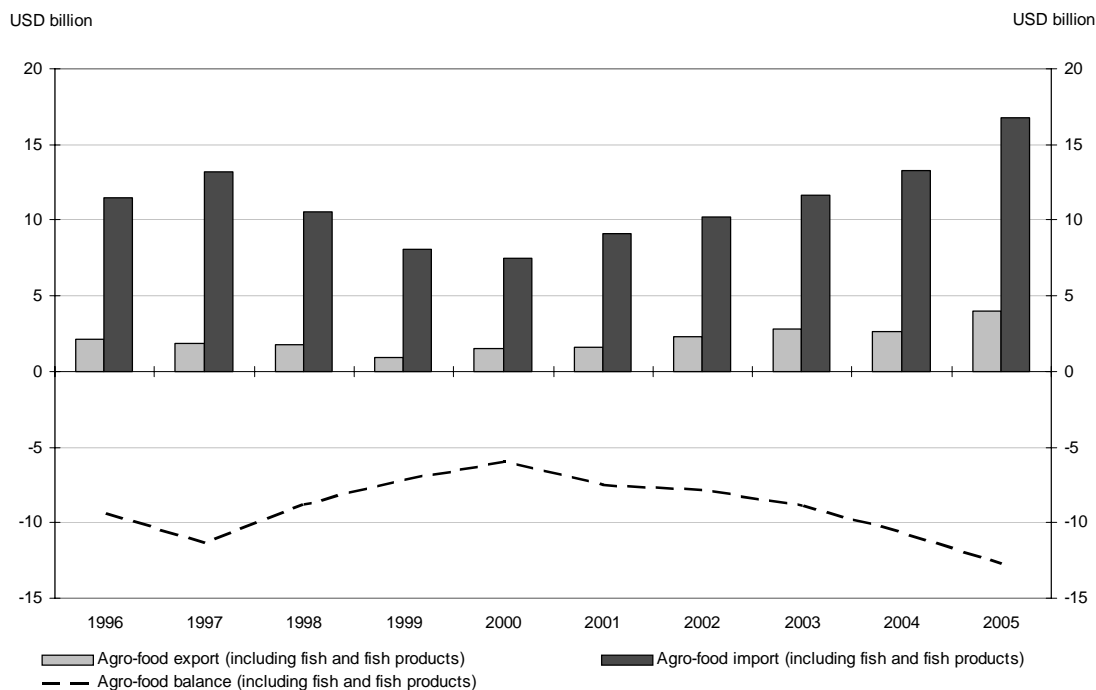
22. Aggregate output in the food and beverage processing has been rising since the late 1990s, although the rate of growth declined in the most recent years; in 2005 it was 4.4%. As in primary agriculture, the situation across food sub-sectors is differentiated. Beverage, flour and bakery, confectionery and vegetable oil industries have been recovering and modernising most rapidly. Meat and dairy processing have longer felt demand constraints, but are catching up thanks to fast strengthening of consumer incomes. Food industry is the part of the agro-food system where structural changes are most manifest. This sector has been consistently attracting a larger amount of investment than primary agriculture. A remarkable trend is a rapid development of supermarkets, representing both national and international food retailing chains. To ensure quality supplies, supermarkets are actively integrating upstream in all agricultural zones of the country.

Agro-food trade flows

23. Russia's agro-food trade turnover – exports and imports combined – was at a record high USD 20.7 billion in 2005 (Figure 7.6). After a significant reduction in 1998-2000 following the financial crisis, both agro-food exports and imports rose consistently to reach USD 4.0 billion and USD 16.7 billion respectively in 2005. Export growth was more than offset by strong expansion of imports due to appreciation of the rouble and strengthening of consumer incomes. The result has been the permanent widening of the negative agro-food trade balance since 2000, which reached USD 12.7 billion in 2005.

Figure 7.6. Agro-food trade in Russia, 1996-2005

(USD billion)



Source: COMTRADE database.

24. Russia's agro-food exports are small relative to agro-food imports and are marginal compared to the country's overall exports. The main export group is grain, which accounted for 30% of total agro-food export earnings in 2004-05. In the current decade the country turned into a consistent net grain exporter with annual exports of 8 million tonnes (12 million tonnes in 2005 and an official estimate of 10 million tonnes in 2006). Russia is also a net exporter of oilseeds and in recent years has been expanding exports of sunflower oil. Infrastructural bottlenecks in export shipments during the bumper grain harvests in 2001-02, prompted private and public investments in export infrastructure, particularly in seaport facilities. Nevertheless, in 2006 exports were again hampered by strong rises in the cost of transportation and port services. Other important agro-food exports are fish (10% of the total), prepared foods (10%), animal and vegetable fats and oils, beverages and spirits, and tobacco products, each of the latter three categories accounting for 5%. Russia's largest agro-food buyers in 2004-05 were Kazakhstan, Ukraine, and Egypt.

25. Agro-food imports constitute 13% of Russia's merchandise imports. Meat products represent the largest import group (18%), followed by fresh and processed fruits and vegetables (17%), and beverages and spirits (9%). Dairy products, sugar and confectionary, and tobacco products each account for 6%. Russia is among the world's largest importers of some agro-food products and a key market for several of its trade partners. For example, in 2004-05 Russia absorbed one third of the United States' exports of frozen cut poultry, and two thirds of Brazil's pigmeat exports. Overall, the European Union is Russia's largest agro-food supplier, followed by Brazil, Ukraine and the United States.

Domestic agricultural policies

Price and income support

26. Output subsidies are traditionally paid to all livestock products, with about 78% of the total going to milk. Originally financed from the federal budget, they are now channelled from the regional budgets. In addition to livestock subsidies, there is also a small subsidy for flax and hemp provided under the programme for recovery of national flax and hemp growing.

27. Since 2001, Russia has implemented federal grain interventions. Purchases are carried out at commodity exchanges in six principal grain producing regions. Interventions have been limited and targeted mainly to smoothing seasonal price fluctuations. In 2005, 1.66 million tonnes of grain were purchased, which amounted to about 3% of total grain marketed.

Input subsidies

28. Input subsidies constitute the majority of domestic support. Most important are interest rate subsidies on working capital loans, various payments for variable inputs, such as fertiliser, elite seeds, and insemination material. In 2006, the federal government introduced a fuel and lubricants subsidy in response to producer pressure for protection against substantial rises in prices for these inputs. RUR 5 billion (USD 178 million) were allocated for this purpose in 2006, and the amount is expected to be doubled in 2007. In 2006, a disaster relief worth RUR 1.5 billion (USD 54 million) was also provided to producers.

29. With increased availability of fiscal resources in recent years, more funds are channelled for support of capital improvements. This area of assistance traditionally includes state machinery leasing and pedigree livestock, capital grants for construction and renovation of livestock complexes, and since 2006, for the purchase of progressive technologies. A variety of activities on land and infrastructure improvements are financed under a Federal Soil Fertility Enhancement Programme. Additional assistance for long-term investment has been introduced in 2006 within the framework of the National Priority Project for Development of Agro-Industrial Complex (see below).

Debt rescheduling

30. Since the mid-1990s, a series of large-scale debt restructurings for agricultural enterprises has been implemented (in 1994, 1998, 2001, and 2002). The majority of schemes concerned overdue federal tax debts and contributions to Pension and Social Insurance Funds. Consequent restructurings often included some re-packaging of previous schemes. Conditions of most recent restructurings provide that beneficiaries carry no overdue debts on current liabilities and fully observe the repayment schedule for restructured debt. Slightly less than one half of the total number of agricultural enterprises are involved in such schemes. In 2004, a new rescheduling was implemented, covering overdue fines and penalties on tax debt to the federal budget. As of end-2006, the overall amount of restructured debt under the 2004 scheme was estimated at approximately RUR 81.7 billion (USD 2.9 billion), of which RUR 71.6 billion (USD 2.6 billion) were fines and penalties (Serova *et al.*, 2006b). The debt restructurings have to a certain degree contributed to a fall in overdue debt in agricultural enterprises and in the number of overdue debtors, observed since 2001.

New distribution of functions between the federal and regional authorities

31. An important policy change concerned the distribution of functions between the federal government and regional (*oblast*) administrations in producer subsidising, informally denoted as the “regionalisation” of agricultural support. This change constituted part of the broad administrative reform

initiated in Russia in 2004. The regional administrations now assume the main responsibility for implementation of agricultural support within the region. This also implies that regional administrations receive full discretion in developing and financing any regional support programmes. The majority of the Russian regions, however, have a limited fiscal base and therefore a limited capacity to develop tangible agricultural programmes. These regions will most probably continue to rely on subventions from the federal budget. However it is clear that the broadening of responsibilities of the regional administrations will further shift the decision making and implementation of support measures away from the federal government. The “regionalisation” of agricultural support bears several risks. First, with the notion of self-sufficiency strong in many regions, there is chance that “rich” regions would provide high support to local producers. This may produce serious inefficiencies in allocation of resources across the country. Second is the potential for aggravation of regional protectionism, including discrimination against outside agents, bans on movements of agricultural commodities in and outside regions, and a perpetuation of command methods. Third, is the danger of reduced policy transparency, which would complicate policy monitoring and effective decision making. Policy monitoring in Russia is already quite complicated, not least due to the existing budget classification which does not allow for clear traceability of agricultural payments, in particular those made at regional levels.

32. Under the new division of responsibilities between the federal and regional levels, it is envisaged that the federal government focuses on formulation of strategic policy directions and the implementation of special (issue) national programmes. In 2006, the federal Ministry of Agriculture was responsible for three large federal programmes:

- Enhancement of Soil Fertility and Rehabilitation of Agro-landscapes as Russia’s National Heritage for 2006-10, which foresees such activities as land reclamation, soil rehabilitation, erosion prevention, creation of forest shelter belts for agricultural lands, and other agricultural land protection measures.
- Social Development of Rural Areas for 2006-10, providing federal co-financing of regional rural development projects, in particular construction of housing, schools and healthcare institutions, as well as development of road, electric, gas, and water networks and telecommunication systems.
- National Priority Project Development of Agro-Industrial Complex for 2006-07 (Box 7.1).

33. In the past few years there have been efforts to create a more stable mid- to long-term regulatory framework for the government’s activities in the field of agriculture. A Strategy of Development of Agro-Industrial Complex for 2006-10, adopted by the Ministry of Agriculture, is seen to serve as a base for mid-term federal budget allocations to the sector. A draft Federal Law on Development of Agriculture, in preparation for over four years, has been approved by the Parliament in the first reading in April 2006. It is destined to provide a comprehensive legal framework for government regulation, containing main definitions, formulation of agricultural policy goals and principles, and measures. The law is intended to introduce the State Agricultural Programmes which would set concrete parameters of agricultural support every 5 years. The preparation of the final version of the Law is still underway.

Box 7.1. National Priority Project for Development of Agro-Industrial Complex

This two-year Project is one of the four National Priority Projects launched in 2006. Approximately RUR 31 billion (USD 1.1 billion) for two years are allocated for its implementation, which represents a 20% increase to the federal budget spending on agriculture. The Project includes three sub-projects: (1) accelerated development of the livestock sector; (2) support of smallholder farms, and (3) provision of accessible housing for young specialists and their families in rural areas.

A sub-project Accelerated Development of Livestock Breeding targets to increase overall meat and milk production by 7.0% and 4.5% respectively over 2006-07 and to stabilise the decline in cattle numbers. It includes the following:

- Eight-year preferential investment loans for construction and modernization of livestock complexes. Investors are to be selected through tender organized by the Ministry of Agriculture. The interest rate subsidy on such preferential loans is set at two thirds of the Central Bank of Russia (CBR) refinancing rate. RUR 3.45 billion (USD 120 million) in 2006 and RUR 3.18 billion (USD 114 million) in 2007 are budgeted for this purpose. Some 1 160 investment projects have been selected, and loans worth RUR 105 billion (USD 3.75) were raised under this facility as of September 2006.
- Additional leasing of pedigree animals and equipment for livestock farms through the existing federal leasing programme, implemented by the state company Rosagroleasing. The leasing margin will be reduced compared to regular operations and the leasing period extended up to 10 years. For this activity Rosagroleasing receives RUR 4 billion (USD 143 million) per year.
- No changes to TRQ schedule for meat imports as currently adopted for 2006-2009; elimination of import duties on livestock equipment having no domestically-manufactured analogues.

The sub-project Support of Smallholder Farms targets to increase the volume of output marketed by this group of producers by 6%. The following main activities are included under this component:

- Subsidised bank loans for individual (peasant) farms and household producers (at 95% of the CBR refinancing rate). The loans are given only for agricultural production, and eligible recipients are selected by the municipal administrations. RUR 2.9 billion (USD 103 million) in 2006 and RUR 3.7 billion (USD 132 million) in 2007 are allocated to the state agricultural bank Rosselkhozbank for such lending.
- Support for setting-up, modernisation and infrastructural development of marketing, supply and credit cooperatives of agricultural smallholders. Rosselkhozbank is to provide loans and technical assistance to these co-operatives, and receives for this purpose a budgetary allocation of RUR 3.6 billion (USD 129 million) in 2006 and RUR 4.5 billion (USD 161 million) in 2007.
- Development of the land mortgage system in rural areas. Rosselkhozbank will implement several pilot projects, for which RUR 100 million (USD 4 million) are earmarked for 2006 and RUR 1.2 billion (USD 43 million) for 2007.

The third component, Provision of Accessible Housing for Young Specialists in Rural Areas, is destined to facilitate inflow of qualified labour to rural areas, mainly in agriculture. It is envisaged to provide financial assistance to rural employers who construct housing for young specialists. The total amount of assistance is to reach RUR 2 billion (USD 71 million) annually in 2006-07. Around 16 200 families of young specialists are expected to benefit from new housing.

Some analysts note imbalances between the short (2-year) budget horizon and the longer-term implementation nature of some key activities under the Project. Another weakness is the exclusivity of state companies (e.g. Rosagroleasing, Rosselkhozbank) in provision of some services foreseen in the Project (Serova *et al.*, 2006b).

Source: Ministry of Agriculture and Food of the Russian Federation; www.mcx.ru/index.html?he_id=909.

Budget

34. The consolidated budgetary expenditures on agriculture, which include disbursements from the federal, regional and local budgets, rose in current terms in 2001-06. However, they tended to fall in constant terms and in per cent of the total consolidated budget (Table 7.3). Up to 2004, approximately one half of the overall spending was allocated at the regional and local level, and one half at the federal level. The federal share declined sharply in 2005, when administrative reform shifted responsibility for implementation of agricultural support to the regional administrations. Much of the incremental regional funding in 2005-06 represented federal subventions to the regional budgets, which had to be allocated to a number of subsidies previously financed from the federal level. Federal subventions are provided on the condition of co-financing of the listed subsidies by the regions from their own budgetary resources.

Table 7.3. Consolidated budgetary expenditures on agriculture in 2000-06

	2001	2002	2003	2004	2005	2006 (allocation)
Consolidated agricultural expenditures in current RUR, mln.	70 700	63 600	68 101	78 589	77 887	87 383
<i>of which the percentage share of:</i>						
Federal budget	39	48	48	53	24	22
Regional and local budgets	61	52	52	47	76	78
Consolidated agricultural expenditures in constant 2000 prices, RUR mln.	58 189	45 204	42 570	44 298	38 955	n.c.
as per cent of overall state budget	2.7	1.6	1.5	1.7	1.2	1.2

n.c.: not calculated.

Source: Serova *et al.* 2006a based on Ministry of Finance and the Federal Service of State Statistics data.

Agro-food trade policies

35. Since April 2003, poultry imports from outside the CIS area have been restricted by a physical quota, while imports of red meat were under a tariff rate quota (TRQ), with all quotas allocated annually to countries based on historical imports. The quotas played the role of a bargaining tool in recent negotiations on Russia's accession to WTO. In 2005, Russia extended the meat TRQ regime up to 2009, but agreed to a gradual increase in the quota volumes and a downscaling of over-quota tariff rates. In addition, as of 2006, the physical quota for poultry is replaced with a TRQ (Table 7.4). Official trade data show that in 2004-05 actual imports of beef, pigmeat and poultry have been above the TRQ. In addition to tariff protection, Russia actively employs restrictions on meat imports on sanitary, veterinary, or technical grounds. These, for example concerned imports of US poultry, meat products (along with some plant products) from Poland, and dairy and meat products from Ukraine. The outbreak of FMD in Brazil at the end of 2005 led to a ban on imports of beef and pigmeat from certain regions in this country (relaxed gradually since then), while the concerns about propagation of bird flu in 2006 prompted bans of poultry imports from a number of EU and CIS countries, Turkey, and Israel.

Table 7.4. Russia's meat import quotas in 2005-09

	2005	2006	2007	2008	2009
Beef fresh and chilled					
TRQ, thousand tonnes	27.5	27.8	28.3	28.9	29.5
In-quota tariff	15%, n.l. 0.2 EUR/kg	15%, n.l. 0.2 EUR/kg	15%, n.l. 0.2 EUR/kg	15%, n.l. 0.2 EUR/kg	15%, n.l. 0.2 EUR/kg
Over-quota tariff*	40%, n.l. 0.53 EUR/kg	40%, n.l. 0.4 EUR/kg	50%, n.l. 0.65 EUR/kg	45%, n.l. 0.6 EUR/kg	40%, n.l. 0.53 EUR/kg
Beef frozen					
TRQ, thousand tonnes	430.0	435.0	440.0	445.0	450.0
In-quota tariff	15%, n.l. 0.15 EUR/kg	15%, n.l. 0.15 EUR/kg	15%, n.l. 0.15 EUR/kg	15%, n.l. 0.15 EUR/kg	15%, n.l. 0.15 EUR/kg
Over-quota tariff*	40%, n.l. 0.4 EUR/kg	40%, n.l. 0.4 EUR/kg	52.5%, n.l. 0.53 EUR/kg	50%, n.l. 0.5 EUR/kg	40%, n.l. 0.4 EUR/kg
Pigmeat					
TRQ, thousand tonnes	467.4	476.1	484.8	493.5	502.2
In-quota tariff	15%, n.l. 0.25 EUR/kg	15%, n.l. 0.25 EUR/kg	15%, n.l. 0.25 EUR/kg	15%, n.l. 0.15 EUR/kg	15%, n.l. 0.15 EUR/kg
Over-quota tariff*	80%, n.l. 1.06 EUR/kg	60%, n.l. 1.0 EUR/kg	55%, n.l. 0.9 EUR/kg	50%, n.l. 0.83 EUR/kg	40%, n.l. 0.55 EUR/kg
Poultry meat					
TRQ, thousand tonnes	1 090.0	1 130.8	1171.2	1211.6	1252.0
In-quota tariff	25%, n.l. 0.2 EUR/kg	25%, n.l. 0.2 EUR/kg	25%, n.l. 0.2 EUR/kg	25%, n.l. 0.2 EUR/kg	25%, n.l. 0.2 EUR/kg
Over-quota tariff*	No over-quota imports	60%, n.l. 0.48 EUR/kg	50%, n.l. 0.4 EUR/kg	50%, n.l. 0.4 EUR/kg	40%, n.l. 0.32 EUR/kg

n.l.: "but not less than".

* Over-quota rates shown for 2005 are those in effect since June. Over-quota rates for 2007-2009 represent the ceiling levels; with the government setting actual rates each year.

Source: GRF, 2005.

36. Sugar is another commodity in Russia under special import regime. White sugar imports originating from areas outside CIS are levied a specific duty of USD 340 per tonne. The CIS imports, accounting for about 58% of total white sugar imports in 2004-05, are free of duty. Raw sugar imports are subjected to a more complex regime. At the end of 2003, a variable import levy was introduced to replace the previous TRQ system. Raw sugar imports are now subject to a specific tariff, whose rate varies between USD 140 per tonne and USD 270 per tonne depending on the level of average monthly price at the New York Board of Trade (NBOT). The higher NBOT price commands lower tariff rate of the range specified above, and *vice versa*. The *ad valorem* equivalent of variable tariff on raw sugar imports was approximately 98% in 2004 and 61% in 2005.

37. There were several changes in the tariff regime. In order to limit rises in bread prices, temporary export duties on wheat and rye were in effect between January and May 2004; the uncertainty which accompanied the introduction of the duties hampered exports for some time. On the other hand, imported maize, soybeans and fish flour were freed from duties. High world prices prompted the elimination of import duties on coffee, cocoa and peanuts in 2006, to the benefit of the booming domestic confectionary industry.

38. In 2006, Russia entered the final stage of WTO accession negotiations. Since Russia's membership application in 1993, 33 meetings of the Working Party on accession to the Organisation have taken place. The preparation of the final report on Russia's accession has progressed significantly, with the majority of Chapters and issues agreed. Bilateral talks have been closed with 55 of 58 members of the Working party, exceptions being Georgia, Moldova and the United States. It is expected that the meeting of the Russian and the US delegations in late October 2006 will help to make principal move towards signing a bilateral protocol. However, in the agricultural area two major issues, subject to multilateral agreement, remain unsettled. These concern the amount of domestic support and export subsidies that Russia will be able to provide to its agricultural sector after the accession.

39. With respect to domestic support, the discussion continues to centre on the base period to define the starting level of domestic assistance for future reductions, and also the amount of this assistance as measured by the Aggregate Measurement of Support (AMS). As it stands currently, Russia has agreed to move the reference period from 1991-93, originally proposed, to 1993-95 and to reduce the AMS from

USD 16.2 billion to USD 9 billion. These parameters continue to be considered disputable by several negotiating parties: the reference period is seen as too distant and the amount of domestic support as highly inflated as regards Russia's current situation. Russia argues that the current situation does not reflect agricultural conditions adequately, given the gravity of recession agriculture experienced in the 1990s. For export subsidies, the corrected Russian position foresees moving the reference period from 1990-92, originally proposed, to 1993-95, and reducing the export subsidy from USD 0.726 billion to USD 0.157 billion (MERT 2006). Several negotiating parties challenge the inclusion of export subsidies in Russia's proposal, while Russia argues that this is not yet prohibited under the current rules, and that export subsidies are justified by the long distances which create natural competitive disadvantage for Russian exporters. These issues will likely be in the focus of future agricultural negotiations on Russia's accession to the WTO.

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