AGRO-FOOD SECTOR POLICY IN OECD COUNTRIES
AND THE RUSSIAN FEDERATION

A Seminar organised by the OECD/CCET with the
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The Russian agro-food sector has undergone dramatic changes, including substantial contraction, since 1990. The Russian Federation is nevertheless likely to remain a major player, both as a producer and trader of agro-food sector products, because of its production capacity and the size of its market. Russian policy makers are confronting issues relating to the structure of the agro-food sector and affordable support policies, which are parallel to those faced by policy makers in OECD countries.

Within the programme of the Centre for Co-operation with the Economies in Transition, the OECD Directorate for Food, Agriculture and Fisheries has been co-operating with the Russian authorities in addressing these issues. The latter have been examined and discussed recently at a three-day seminar, which was organised by the Division for the Economies in Transition in Moscow in October 1995.

The seminar, the third to be organised jointly with the Russian Federation's Ministry of Agriculture and Food Supplies, examined possible policy scenarios for the Russian Federation's agro-food sector taking into account the experiences of OECD countries and other transition economies. The seminar also laid the groundwork for a major qualitative and quantitative study of the country's agro-food sector, using OECD methodology for determining Producer Subsidy Equivalents and Consumer Subsidy Equivalents (PSEs/CSEs), to be carried out in 1996-97.

The papers prepared for this seminar are presented in this report; they highlight the variety of policy approaches adopted in OECD countries with respect to these issues. It emerges that a major conceptual gap still exists between agro-food policy makers in the Russian Federation and those in OECD countries: market logic is generally taken for granted in the latter, while this is not always the case in the Russian Federation.

The report is published on the responsibility of the Secretary-General of the OECD.

Salvatore Zecchini
OECD Deputy Secretary-General
Director of the CCET
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INTRODUCTION

Sixty-five years after collectivisation the Russian countryside and Russian agriculture are undergoing rapid, severe changes driven by market forces. The institutional and political barriers that separated the countryside from urban areas are crumbling.

The end of the Soviet command economic system has made it impossible to continue the administered transfer of real resources between sectors with little or no regard to economic rationality. By the late 1980s, one-third of the Soviet state budget was being spent on the agro-food sector. At the end of 1990, the Russian Supreme Soviet similarly resolved that no less than one-third of the Russian budget should be devoted to agriculture. But those amounts of resources are no longer available for supporting the countryside. It is not surprising, therefore, that one common thread in almost all the papers by Russian authors in this collection is the demand that the government subsidise the agro-food sector as it did in the past. Yet it is clear that the government cannot do so, and that the agro-food sector’s share of the budget will continue to decline.

Opening to the world economy

Soviet cities ordinarily had enough food, but the products were not generally very appealing to those who consumed it. Moreover, the precise amounts available per head depended on each city’s place in the hierarchy of distribution, with Moscow best supplied, St. Petersburg and republican capitals next, provincial capitals third, and other cities trailing behind. Long waits and shortages almost always imposed effective rationing, and, after the mid-1980s, increasing areas resorted to formal rationing as well.

So it is hardly surprising that the transformation of the Russian economy led to a demand for better-quality, more attractive imported processed foods. The location of Moscow and St. Petersburg, relatively distant from the main agricultural production areas but at the hub of relatively good transportation networks, combined with a generally poor rural infrastructure, provincial restrictions on “exports” of food supplies to their neighbours, and the growth of racketeering made such imports even more appealing to urban authorities and entrepreneurs. To some Russian producers, however, the loss of their urban markets to imports represents “food intervention”. Some authors in this collection even seem to see increasing Russian imports of high value-added processed foodstuffs as a deliberate effort to destroy the country’s ability to feed itself. The Russian Federation put some protective tariffs on such imports in mid-1995. But the only long-term answer to this challenge is for Russian agriculture to become more competitive.

The argument that attempts to retain old-style subsidies simply serve to give producers distorted market signals is a reminder that in practice Russian agriculture is now becoming increasingly market-oriented. This change is part of a global trend. As several of the OECD contributions emphasise, not only in Russia but in all the OECD countries as well agriculture inevitably has been becoming more market-oriented. International trade agreements, especially the conclusions of the Uruguay Round of the GATT, are requiring all countries to limit the protection of their agriculture. If, as the Russian Minister of Agriculture and Food Supplies affirms, Russia is to join the World Trade Organisation, it will also have to limit whatever agricultural protection it might now put in place.
Macroeconomic reform and the Russian agro-food sector

The Russian Federation began changing land tenure and giving limited property rights in land to individuals who wished to acquire unused land for individual farms in late 1990. At the end of 1991, decrees of the Russian president and Russian cabinet required all collective and state farms to re-organise legally and assign entitlements to shares of their land and property to all eligible workers, retirees, and certain other categories of rural residents. The papers provide an overview of these changes in agricultural land tenure and property rights.

This sectoral reform was overtaken by events. The dissolution of the USSR in December 1991 and the general abolition of consumer price controls and planned allocation of resources to industry in early 1992 fundamentally changed the macroeconomic environment for Russian agriculture. The terms of trade between agricultural producers and up- and down-stream enterprises, as well as the rest of the economy, changed rapidly and greatly to the disadvantage of the producers. Retention of some controls on consumer food prices made the squeeze even worse for producers. As a result, many of the Russian authors in this collection insist that the state should restore price parity between primary producers and the rest of the agro-food sector by legal regulation.

The unleashing of previously repressed inflation and subsequent changes in relative price levels made obtaining investment and working capital for agriculture increasingly difficult. Very little of what state-subsidised or commercial credit is available helps farmers, since only 3 per cent of it is extended for as long as a year. These conditions are perfectly understandable given the current high inflation rate in Russia and the high transaction costs in agricultural lending. But as the agro-food sector becomes more closely integrated with the rest of the national economy, there will be few institutions that specialise narrowly in lending for farms. Such specialised institutions cannot survive high inflation in any event. In OECD countries, even banks with a long history of operations in agriculture, having developed substantial expertise in agricultural lending, carefully examine business opportunities, refusing many requests for agricultural credit. In addition, these banks spread their risk by doing substantial or even most of their business in non-farm lending. The history of the United States Farm Credit System does suggest that there is a role for state-supported finance in agriculture, but it is in setting policy, regulating the system, and perhaps providing seed capital for financing rather than in direct ownership of banking institutions or direct lending. Most importantly, as all the financial papers here emphasise, government regulation of agriculture should ensure that everyone involved in the agricultural credit market understands that loans must be repaid.

The need for state financing of agriculture seems especially great to many of the Russian authors because they are deeply concerned about the severe fall in the gross volume of output of the Russian agro-food sector since 1990. In particular, they are worried that the drop in the production of livestock products threatens actual hunger for some part of the population, especially as income differentiation grows. Protection of the most vulnerable parts of the population from the effects of rapid economic change is certainly a reasonable public policy goal. But OECD countries’ experience suggests that it is less costly, in terms either of absolute amounts of transfer payments or economic distortions and foregone opportunities, to do so by means of direct payments to those individuals or households affected rather than attempting to reach them indirectly by price supports or distribution of unconditional or preferential credits to farming enterprises.

About a one-third fall in the physical volume of output and the share of agriculture in total national product has been normal in the central and eastern European countries which began the process of macroeconomic and sectoral reform earlier more definitively than did the Russian Federation. In value terms, the drop may represent in part the adjustment of relative prices to market conditions. In volume
terms, too, the drop represents not only real production difficulties but an adjustment to market demand rather than production for the sake of fulfilling volume indicators set by planners on the basis of their a priori judgment about the amount “needed”. Calls to restore production levels and ensure profitability also reflect the ingrained practice of cost-plus pricing in the former command economy.

The Czech Republic’s experience of the agro-food sector’s dependence on the overall economy suggests that there should not be a separate, special reform strategy for agriculture. However, as a former Russian Federation Minister of Agriculture notes, that conclusion does not mean that macroeconomic policy makers should ignore or dismiss the predictable impacts of their policy on the sector. That problem is potentially especially grave in Russia, since economics training and research has, as a result of the institutional and physical isolation of agriculture, been strictly divided between “big economics” and “agricultural economics”.

As all the papers on agricultural education and training point out, the educational system has repeated the divide between agriculture and the rest of the economy. Within the agricultural schools education has been extremely narrow and technically-focused. Farm restructuring is severely hampered by the lack of competent managers who can function in a market economy. This narrow technical focus also makes it easier to uncritically accept the Soviet-era assumption that the sole purpose of agricultural enterprises is to maximise output without regard to market demand or opportunity costs.

Farm restructuring

Restructuring of the former very large collective and state farms has attracted a great deal of attention in the West and generated a great deal of controversy in Russia. As one Russian participant points out, how farms should be legally structured, managed, and operated has historically been a political question in Russia. The assertion that a change in the social system has always brought in its train the universal imposition of a single form of farm organisation and management certainly holds true for the collectivisation era. The apparent assumption that it holds true in the post-Soviet era as well not only reflects popular perceptions of the post-1990 agrarian reform in Russia, but also suggests a continuing confusion between forms of legal ownership and forms of business operation. Market economies require clear property rights, but those rights may be limited. Leasehold, rather than outright ownership, may affect the producer’s decisions to some extent, but the difference is usually marginal in a stable market system, if the contracts are sufficiently secure and long-term.

The more important point of privatisation and restructuring is, as several authors point out in different contexts, that the property rights are understood and contracts are enforced. There is no unique form of farm business organisation that is always superior. Nor can the preferable form of farm business organisation be determined a priori, since it will depend on the legal and market environment.

Farm restructuring is a concern of all sides in the current Russian debate on agro-food sector policy. On the one hand there is the viewpoint suggested in this collection that despite the legal reorganisation of the collective and state farms there has been very little real change in the operation -- and efficiency -- of the former collective and state farms, so that the major effect of the reorganisation has been managerial take-overs of much of the farm property. Some Russian authors even go so far as to imply that the formal reorganisation has done little more than threaten many former farm workers with loss of their land, which would force them to become impoverished agricultural labourers. Preventing such an outcome is one purpose of the pilot project in farm farm restructuring in Nizhnii Novgorod oblast’. Unless the procedures for farm restructuring are given precise legal form and carefully worked through it will be impossible
either to create new farm businesses which can survive in a market environment or to ensure that the kinds of machinations others see happening in the reorganisation do not continue and worsen.

A major issue in this debate is how far western-style family-owned and operated farms can and should be encouraged to develop in Russia. The 1990 Russian legislation encouraged them, offering substantial state aid, but they have not, despite the calls of some Russian and Western commentators, generally supplanted the large farms. Some OECD-country papers agree that family farms do have important managerial advantages, and can provide important competition for large farms. But farm workers have often been reluctant to leave the large farms to set up on their own in other countries besides Russia. For instance, despite the German Federal government’s expectations and support there was no rapid movement to create family farms in the former GDR after German reunification.

One reason family farms have been slow to develop is that they, like all other farms, continue to face substantial difficulties in marketing their products. Food processors often retain a monopoly position because of the way the Soviet regime constructed the rural transportation infrastructure. Several authors argue that farmer co-operatives should be encouraged to own and operate the downstream enterprises, although others suggest that the problem of the processors’ monopoly has been misunderstood and that farmers’ co-operatives are not very acceptable to the farmers themselves in post-Soviet Russia.

The large farms in the Russian countryside have been responsible for the construction and upkeep of most of the social-service facilities available. As the farms have encountered economic difficulties, these facilities have deteriorated or been sold off for other uses. Many of the Russian authors are very concerned about this process, often arguing that only re-vitalising the large farms can save these services. However, the problem of providing services and social development in rural areas is common to the OECD countries as well. But OECD countries separate those development and service functions from the economic activities of the agricultural producers. Local governments are likely to need help in taking over these functions, but, those services are still better provided by government or specialised private enterprises than by agricultural producers directly. On the other hand, it would also be fundamentally unfair to require the large farms both to maintain those services and to expect them to compete with other farm enterprises -- at home or abroad -- which do not bear such a burden.

Some observations

Specialists from transition economies sometimes suggest that the policy prescriptions for agriculture advanced by OECD-country experts are not followed in the OECD countries themselves, and some central and east European countries have tended to adopt agricultural protectionism based on what they see as the western model. In arguing for increased state support, some Russian authors also point out that western countries have protected their agriculture. However, many of those protectionist measures can no longer be economically supported even in the OECD countries, which have agreed among themselves to dismantle their systems of protection. The foreseeable expansion of the European Union is likely to accelerate this process. Moreover, it is not yet clear that such Russian innovations as the Federal Foodstuffs Corporation or local subsidies to producers operate like their western “models”, where market intervention agencies operate in a market context, subject ultimately to market discipline. Moreover, local subsidies have the effect of fragmenting the market, reducing the effective demand and over the longer term making the “protected” producers even less competitive.

The papers in this volume suggest that there is still a very large conceptual gap between the OECD countries, where market logic is generally taken for granted, and the Russian Federation, where the attitudes ingrained by the command economy continue to exercise considerable influence over policy-
makers and economic theorists alike. Many of the Russian papers assume that the real answer to the problems of agriculture is government intervention. Few of them yet are aware of the potential costs of such programmes or such intervention, and fewer still ask the hard question about where the money can be found to finance them. It may be hoped that the interaction in the course of the conference, and the publication of these papers have contributed to better mutual understanding and helped to close that conceptual gap.
THE CURRENT STATE OF AGRICULTURAL PRODUCTION IN THE RUSSIAN FEDERATION

Aleksandr Nazarchuk

The very large territory, population and economic potential of the Russian Federation are located in the eastern part of Europe and the northern part of Asia. The country encompasses 17 million square kilometres and a population of 148.4 million. The country’s expanse includes several natural zones -- arctic, tundra, forest, forest-steppe, steppe and semi-desert. The climate varies from oceanic in the far Northwest to sharply continental in Siberia and monsoons in the Far East. The average January temperature on Russia’s territory ranges from -1 to -40 Celsius. In July the average ranges from 1 to 25 Celsius. Depending on the zone, there is annual precipitation of from 100 to 1000 millimetres.

The Russian agro-food sector is the largest sector of our country’s economy, accounting for about a third of the country’s gross social product, a quarter of the fixed capital and 28 per cent of all workers in material production.

Farms of all kinds occupy an area of agricultural land of 210.6 million hectares, of which 129.5 million hectares are arable land. Since 1990, the area occupied by farms has declined by 5 million hectares, of which 2.9 million was arable. Certain difficulties complicate working the land in many regions of the country. Of the total agricultural land, 15 million hectares (7.3 per cent) are salinated, 16 million hectares (7.8 per cent) are excessively wet, 9.6 million hectares (4.6 per cent) are swampy and 12.2 million hectares (5.5 per cent) are stony. Specialists and scholars say that about two-thirds of the total cultivated land is located in areas of insufficient or irregular precipitation.

Data from the most recent round of agrochemical studies in the Russian Federation show that 41 million hectares of arable land (32 per cent) are excessively acidic, 36 million hectares (28 per cent) have an insufficient phosphorus content, and 70 million hectares (54 per cent) have insufficient humus content. Most of the Russian Federation’s soil cover is podzolic and turf-podzolic soils. They make up 52 per cent of the arable land, while 15 per cent of it is black-earth soil, 15 per cent is grey and brown forest soil, and 11 per cent is chestnut soil.

About 50 per cent of the sown area is under grain crops, 40 per cent is forage crops, and the remaining area is occupied with industrial crops, fruits and vegetables, and potatoes.

The leading role among grain crops cultivated in Russia is played by wheat, which is the basic food crop. Its sown areas, yields and gross harvests in recent years, despite the sharp fall in usage of fertilisers and plant protection chemicals as well as work to improve soil fertility, has been maintained at the average annual level of 1986-1990. Even in this extremely dry year a wheat harvest of almost 30 million tons will be gathered from an area of almost 24 million hectares, which is extremely important in a situation where there will be an insufficient total grain harvest.

The forage-grain crops, barley and oats, also occupy a significant area. In 1995 they were planted on 23 million hectares, or 44 per cent of the total sown area. In addition to these crops, legumes, rye, millet, rice and corn are also cultivated in Russia. But these crops occupy an insignificant proportion of the total grain sowings. We believe that corn must play an important role in solving the problem of increasing grain production in the country. But for several reasons, principally the low level of seed corn production and the antiquated equipment and technology for seed processing, we have not yet been able to increase the area sown to corn to what it should be.
The most significant areas of industrial crops are occupied by sunflower and sugar beet. Sugar beet is sown on more than a million hectares. However, considering the demand for sugar, we are attempting to increase the area under this crop.

In previous years, sunflowers occupied an average of 3 million hectares annually. However, as a result of the great demand for oilseeds both domestically and on the world market, and the high price for them, the sown area of sunflowers has begun to increase and in 1995 reached more than 4 million hectares. Sunflowerseeds have begun to be grown in Siberia and the Southern Urals, where it was not previously cultivated. However, we see that in general increased crop production must first of all result from increased crop yields.

The agrarian reform

The agrarian reform being carried out in Russia anticipates the complex restructuring of agro-food production, multiple forms of organisation and management in agriculture, multiple forms of property in land and productive assets, the technical and technological re-equipping of the agro-food sector, the development of co-operation and integration, and the formation of a market infrastructure.

The distinctive feature of the transformation in agriculture was the transfer of land and non-land assets of the transformed collective and state farms to their labour collectives and individual workers free of charge. For social justice, land was given at the average district norm to all workers in the village, including pensioners and workers in the social sphere. The non-land assets of the reorganised farms was given to the workers of the former farms in proportion to their labour contribution. They were given freedom to choose how to use their land and non-land asset shares. A worker could take them when leaving the farm in order to form a peasant (western-style individual) farm, could use them as his contribution to the establishment of a partnership, a joint-stock farm or an agricultural production co-operation, or he could sell or lease them out to other share owners.

At the present time the majority of state and collective farms have been reorganised and reregistered in accordance with applicable legislation. They have become enterprises based on private ownership of land and non-land assets. As the following table shows, most of the reorganised farms have become closed joint-stock societies and partnerships.

<table>
<thead>
<tr>
<th>New legal-organisational forms adopted by reorganised collective and state farms (per cent of all reorganised farms)</th>
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<tbody>
<tr>
<td>closed joint-stock societies and partnerships</td>
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<tr>
<td>collective farms which retained their status</td>
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<tr>
<td>agricultural production co-operatives</td>
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<tr>
<td>collective enterprises</td>
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<tr>
<td>associations of peasant (individual western-type) farms</td>
</tr>
</tbody>
</table>

The privatisation of processing and service enterprises has been practically completed. The share of the state sector in the agrarian economy at the present time is not more than 10 per cent. State enterprises, first of all, carry out government policy in seed production and stock breeding, the introduction of new techniques, the conduct of scientific research and other state measures.

The development of individual farmers is an important part of structural adjustment in Russian agriculture. The peak of the farmers’ movement came in 1992, when 134 000 farms were established. In 1993 87 000
were set up, and in 1994, 2,000. Because of increasing prices for equipment and inputs, the increasing
cost of credit, worsening of the financial situation and for other reasons in 1994 270,000 individual farms
ceased operating. As of 1 July 1995 284,400 peasant (western-style individual) farms were operating in
the country, which held more than 12 million hectares of land, or 6.2 per cent of the total area of
agricultural land. The average size of an individual farm is 43 hectares. In addition to workers of
reorganised farms, many urban residents, migrants, and demobilised military men have become individual
farmers.

State support

In the process of carrying out the agrarian reform the government of the Russian Federation and the
Russian Ministry of Agriculture and Food Supplies have sought the most effective ways to stabilise the
agro-food sector, including measures for state support of agricultural producers. The decisions taken have
been reflected in the resolutions of the government of the Russian Federation, in legislation and in other
normative acts.

Subsidies for the production of the basic kinds of livestock and crop products, including stock breeding
and elite seed production, as well as partial compensation for expenditures on electrical energy, various
forms of fuel, the acquisition of mineral fertiliser, compound feed, and other things, were introduced in
1993 and continue to operate. Help from the federal budget is given to enterprises struck by disasters such
as droughts and floods.

The procedure for acquiring the federal and regional food stocks is established each year considering the
decline in the volume of deliveries to them. A method for stimulating deliveries of agricultural products
to them has been determined. In 1995 a federal law established state-guaranteed levels of purchase prices
for all the products for which a state order was issued. The guaranteed prices were subject to re-
examination and indexation for inflation in the course of the year so that the agricultural producers could
be assured that they would be compensated for all their expenses and receive an income sufficient to
maintain production.

Issues of financing, giving credits, equipment and input supply to the agro-food sector have been dealt
with in the course of the agrarian reform. In 1995, in order for the agricultural producers to obtain fuel
and lubricants for the spring sowing and harvesting operations, a temporary procedure for issuing trade
credits through extinguishing energy sector enterprises’ indebtedness to the federal budget was
introduced. In cases where the indebtedness was insufficient, the credits were backed by these enterprises’
anticipated 1995 tax payments into the federal budget under obligations from the Russian Ministry of
Finance. The Ministry of Finance and the regional governments concluded agreements on providing
budget loans for trade credit. Overall, these credits amounted to 12 trillion roubles. In accordance with
these procedures, on the basis of contracts on the enterprises’ joint activity, the joint-stock oil companies
and the state “Rosneft” company organise the extraction of the crude oil, its refining, and the delivery of
petroleum products for trade credits against the mutual forgiveness of their indebtedness. In the first nine
months of this year 43 per cent of the gasoline and 46 per cent of the diesel fuel delivered to the village
were provided under these trade credits.

In order to improve the supply of agricultural equipment to the agro-food sector, in 1994 a special leasing
fund was created. It is constantly being replenished. This fund was established with appropriations from
the federal and regional budgets, the resources of the machine-building industry that delivers agricultural
equipment to the agro-food sector, and other legally permitted sources. The budget appropriations are
allocated on a repayable basis to the Russian Ministry of Agriculture and Food Supplies. The conduct and
The co-ordination of the leasing operations are entrusted to the open-type joint-stock company “Rosagrosnab” (AOOT “Rosagrosnab”) which carries them out on the basis of contracts with agro-food sector enterprises and organisations as well as contacts with the suppliers. In 1995 the village received about 50 per cent of the tractors, 40 per cent of the automobiles, 70 per cent of the forage combines, practically all the grain combines and a good deal of other agricultural equipment under the leasing programme.

In order to stabilise the financial situation of the agro-food sector enterprises and improve their operations, in 1995 the state assumed as part of its domestic debt and stretched out for 10 years payments on the loans given to agriculture in 1992-1994. Half of the indebtedness of the agricultural producers for interest payments on those loans, an overall sum of 8.4 trillion roubles, was written off. For the agro-food sector as a whole, an indebtedness of 25 trillion roubles was stretched out and assumed as state debt to be paid off at 10 per cent annual interest.

Creating market infrastructure

Work on a market information system continues. This information infrastructure is a necessary condition for market relations to exist. In March of this year a seminar for price monitoring reporters was held. Textbooks and recommendations, video cassettes and software have been developed. In co-operation with the US Department of Agriculture, the appropriate organisations have been set up in a number of regions.

At present, information on price levels and volumes of agricultural production and foodstuffs offered for sale is periodically collected and processed. A mechanism for the creation and functioning of wholesale markets is being set up. Other price, tax, credit, budget and customs regulators of the agrarian economy are being put into practice.

As a result of the agrarian transformation the rights and powers of the agricultural producers have been expanded. Enterprises of all legal and organisational forms independently determine the type, structure and volume of production, sell it anywhere, even on the world market and independently dispose of the profits (revenues) they receive.

The agricultural produce market is currently marked by a widening of the market channels for the sale of produce. Market relations in the village are developing through a gradual reorientation of the agricultural producers away from selling their produce to the procurement organisations towards alternative channels of sale. Among these alternatives are sales in the markets, sales through farms’ own networks of stores and restaurants, barter, etc. The monopoly of the crop procurement enterprises and organisations is being noticeably weakened. Thus, if in 1992 procurement organisations acquired 64 per cent of the total volume of grain, and in 1993 they also acquired 64 per cent, in 1994 they acquired only 33 per cent. The procurement agencies acquired 78, 48 and 36 per cent of the oilseed crop, and 98, 98, and 68 per cent of the total volume of sugar beets, in the corresponding years.

Current issues for the market transition

In the course of the agrarian reform it has not been possible to solve a number of questions that would assist with the development of market relations in the agro-food sector. For example, it has not been possible to eliminate the monopoly position of the processing and service industries in relation to the agricultural producers. The agricultural producers have encountered in the market a highly monopolised industry delivering equipment and other inputs to the village.
The underdevelopment of the market infrastructure and the absence of competition in industry, trade and processing does not allow the market mechanism to function and leads to the dictatorship of neighbouring subsectors (up- and downstream) over agricultural producers. This situation has caused the farms to develop their own processing capacity, which has cost a substantial amount. For the sector as a whole this development of on-farm processing has proven not to be very effective as a way to exert competitive pressure on the processors.

In a number of regions, the privatisation of processing and service enterprises has been done taking into consideration the interests of the agricultural producers. As a rule they have not yet become the real managers of the activities of these enterprises in their own interests. This still must be done.

The agrarian reform in Russia is going on in a complex socio-economic situation, marked by the instability of production and management relations, the loss of state control over prices and wages, inflation, the increasing cost of credit, a reduction in state financing, a drop in the purchasing power of consumers of agricultural produce and a growth in arrears on payments among enterprises, the lack of competitiveness of the agro-food sector’s products on the world market, inadequate legislation, etc. Precisely these circumstances, not the fact of agrarian transformation itself, are the basic reason for the fall in production of raw materials and foodstuffs, the reduction in the sown areas of grain and other crops, the fall in the size of the livestock herds, the increasingly unequal exchange in the economy, the worsening of the financial position of the agricultural producers and the food-processing industry, the decline in their solvency and increase in the indebtedness to the banks, the cut in investments, the formation of uncivilised food markets and other negative results. The agro-food sector of Russia is becoming unprofitable.

**Results of 1995**

The gross grain harvest this year is less than the 1994 level by almost 16 million tons, 63 per cent of the average level in 1986-1990. In comparison with 1994 the gross harvest of sunflowerseeds has increased by 747 000 tonnes, of sugar beet by 5 million tonnes, of flax by 5 000 tonnes, of potatoes by 3 200 tonnes and of vegetables by 379 000 tonnes.

The situation in animal husbandry, the basic subsector of agricultural production, continues to be complicated. In most regions the fall in production and the cut in herd size continues.

Preliminary results of the operations of the food and processing industry for the first nine months of 1995 show that in a number of branches the volume of food-production production is stabilising or growing in comparison with the same period of 1994. The output of whole-milk powder, macaroni products, common salt, non-alcoholic beverages, mineral water, synthetic detergents, raw alcohol from food raw materials, vodka and liqueurs, champagne, and cognac has increased. Granulated sugar production from sugar beets has increased by 11 per cent over last year’s level. At the same time, however, the situation is still worrisome in the meat, dairy, oil-and-fats, fruit-and-vegetable, starch, and concentrated food industries, where the decline in output volume continues.

The decline in volume of production in the agro-food sector is accompanied by a worsening in the condition of productive potential. Equipment deliveries to agriculture in the last 5 years have been reduced by 8 to 10 times. In 1995, by comparison with 1990, only 13 per cent as many tractors, 12 per cent as many automobiles, and 3.5 per cent as many grain combines were delivered. The agricultural equipment producers’ capacity significantly exceeds the volume of output. In particular groups capacity exceeds output tenfold: in cultivators, by 68 times; in seeders, 22 times; in mineral fertiliser spreaders, almost by 10 times. But even in this situation what is produced cannot be sold. The reasons for the
difficulty in sales of agricultural equipment are the insolvency of the potential buyers, the high prices for the products and the gulf that had developed earlier between the subsectors. At the same time the machinery producers consider that their products are competitive.

The Russian peasant, who is confronted with worse natural and climatic conditions than farmers in the most economically-developed countries of the West, now has noticeably less agricultural machinery available than they do.

<table>
<thead>
<tr>
<th>Availability of agricultural machinery in various countries, 1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>number of tractors per 1000 hectares of arable</td>
</tr>
<tr>
<td>Canada</td>
</tr>
<tr>
<td>USA</td>
</tr>
<tr>
<td>Great Britain</td>
</tr>
<tr>
<td>Germany</td>
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<tr>
<td>Russia</td>
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</table>

A similar situation is developing for other kinds of machinery and equipment.

In 1990-1995 investment in the Russian agro-food sector effectively stopped. The decline in capital investment in inputs and equipment and the social sphere occurred at a more rapid rate in the agro-food sector than in other sectors of the economy. Specialists estimate that in 1995 capital investment in the agro-food sector is about 12 per cent of total investment in the economy. It was 31 per cent in 1991.

The federal budget’s share in financing of investment is declining. In the current year the federal budget is providing only 1.9 per cent of overall investment funds (excluding the federal fund for financial support, which is providing 19.8 per cent). In 1991 the budget provided 28.8 per cent of overall investment. The share of financing from local budgets has grown from 1.7 per cent in 1991 to 22.1 per cent in 1995.

Agro-food sector production may be further stabilised and developed only if investment grows. Agricultural and food-processing enterprises must receive investment for their development if the new structures are to begin to function. Investment from domestic and foreign investors as well as the enterprises’ own resources must be attracted by giving it incentives and paying it a return. The approaching discussions on the draft 1996 budget make this even more necessary.

The Russian Cabinet and the Ministry of Agriculture and Food Supplies give priority to those spheres and directions of joint activity in developing and carrying out investment in the agro-food sector which are aimed at the development of infrastructure and stable agro-food sector production under conditions of the developing market economy. These are farmers’ co-operatives, the banking network, credit and insurance partnerships, local wholesale markets, agricultural services, leasing, consulting, as well as increasing the production of vegetable proteins (soy, turnips, sunflower, etc.), sugar, seed corn, and the processing of agricultural raw materials with modern equipment. Intensive work is being done in these areas.

Thus, a project for co-operation in the realisation of agricultural reform (ARIS) which is being carried out jointly with the International Bank for Reconstruction and Development (IBRD) encompasses industrialised seed production, the development of wholesale markets for agricultural produce and the formation of an information-and-consulting system in the agro-food sector. The cost of the project is US$ 325 million, of which the foreign contribution will be US$ 240 million.
Preparatory work for the development of a project on regional development of agriculture, which is also proposed to be done jointly with the IBRD, has begun. The project is intended to reorganise and restructure farms and processing enterprises, to create new jobs, and to build and strengthen the institutions of a market infrastructure in the village.

Further agrarian transformations will be aimed at strengthening property rights, improving forms of organisation and management, and creating production structures optimised for market production which are the most competitive in the conditions of the market and assure the maximum realisation of the capabilities of the participants in their economic activity. Efforts will be concentrated first of all on completing the transformation of land relations, at creating the institutions of a land market, at supporting various integrated agro-food formations and co-operatives of agricultural producers.

These policies have been reflected in the “Program of stabilisation and development of the agro-food sector in the Russian Federation in 1996-2000” approved by an All-Russian economic conference on 17 March 1995 and the Federation Council of the Russian Federal Assembly on 4 May 1995.

At the present time Russia’s agro-food sector is on a path of integration with the CIS countries. The need to form a single economic space of the CIS countries is becoming more and more obvious. This is not only because of the historically-developed economic ties that exist, but also because of the real current situation in the agro-food sectors of our countries. In September 1993 the treaty on the creation of the CIS Economic Union was concluded. In October 1994 the majority of CIS countries signed an agreement on the formation of the Interstate Economic Committee of this union. A customs union is being set up, and a payments union is being formed, and an economic court has been established.

The creation of a full-fledged market economy in our country objectively demands its effective integration in the European and world economies. This integration is inconceivable without participation in the multilateral trading system of the World Trade Organisation (WTO). We understand the natural desire of many countries for a stable and predictable Russia as a business partner. In part by using international expertise, Russia has worked out in a short time and adopted a series of laws and regulations based on the fundamental principles of the GATT/WTO for the regulation of foreign economic activities. We intend in the future to continue work to harmonise Russian legislation with the corresponding WTO requirements.

The most important consequence of our adherence to the WTO is the effective inclusion of the vast Russian market in the system of international trade. Within the framework of the obligations which Russia will take upon itself at the conclusion of the negotiations, our partners will get stable and predictable access to the Russian market for goods, services and capital.

We hope that the ways of improving market relations in the agro-food sector which we have outlined, given the appropriate state support of the agro-food sector, will permit the stabilisation of agricultural production and solve the problem of supplying the country with foodstuffs basically from its own resources.
THE CURRENT STATE OF AGRICULTURAL POLICIES IN OECD MEMBER COUNTRIES:  
A CASE FOR FURTHER REFORM

Herbert Raidl

When addressing the issue of agricultural policies in OECD countries one point to underline, especially to outsiders, is their diversity. This is a result of differing natural conditions (geographical as well as historical), quite different structural constraints and developments, as well as, in certain cases, a difference in conception about the role and functions of agriculture in our present societies. Thus, if there is no homogeneity in approach, a number of the basic problems are nevertheless the same.

But any differences that exist must not make us disregard the communalities. Agricultural sectors in OECD countries are operating within free market economies and competitive conditions, which in principle are to be applied to all sectors of the economy. Factors of production and farm operations are privately owned; people are free to move in or out of agriculture as they wish.

Looking back only a few years, i.e. during the long and difficult negotiations under the Uruguay Round, the problems of agriculture were a major obstacle towards finding a solution and the main difficulties in this respect were amongst OECD countries: Europe, North America, Japan, Australia/New Zealand. The round has now come to an end and an agreement has been reached which is to be implemented. This does not exclude that some countries within OECD have quite different views on how to proceed.

Looking at agriculture in OECD countries from a purely technical point of view gives a picture of success. A wide variety of generally high-quality products are produced and offered on the market, many of them at prices (at least for basic products), which most consumers can afford. Food consumption data quite clearly underline these facts. Productivity, when measured in technical terms is generally also very high and the level of know-how applied by farmers is in line with steadily advancing technology. In addition farmers in all OECD countries can rely upon a well established and well functioning organisational infrastructure, as regards, for instance, financial and marketing institutions.

Where then are the problems -- if problems there are? The problems lie in the socio-economic area. The farming sector in many OECD countries continues to be heavily supported. Subsidies, granted in direct or indirect form and through a large variety of measures, are a heavy burden on national budgets. The consumer could gain from more and open trade in farm products but such trade is still often prohibited or distorted by existing regulations. Production, though abundant, is not always oriented towards optimal market outlets; and resource allocation, from a general economic standpoint, is not the best either. And -- paradoxically -- although many measures taken were aimed at improving farm incomes, the income gap within the farm sector has generally widened. In addition, though land prices are high, the liquidity situation of many farmers is not very satisfactory.

To understand better the current situation one should briefly look back over the past evolution. For quite a long time agriculture in the majority of OECD countries has been isolated from market conditions through policies which originated generally from the period immediately following the second world war and which were based essentially on price support. These policies emphasised the need to increase production, to provide quality food products to consumers, and to help farmers to modernise their operations. Over the last decade, agricultural production increased much faster in OECD countries than domestic food demand, and faster than commercial demand from other regions of the world. The result has been the appearance of serious economic, social and trade distortions. The distortions created by OECD
agricultural policies are numerous and well known, such as mounting surpluses, and export subsidies which destabilise the world market.

In the OECD Secretariat we constantly observe and analyse the agricultural sector of our Member countries. We evaluate the costs of the farm sector, we look at the impediments prohibiting a better flow and adjustment of resources, and we assess the situation in the international trade area, particularly in view of the outcome of the Uruguay Round. (On the latter topic we have just published our evaluation of the impacts of the agreement on agriculture).

In view of these past developments and especially the continuously rising costs of support, policy makers in OECD countries saw the need for a change. Ministers of Finance and Trade were the first to speak out; but also Ministers for Agriculture realised that a change was necessary. The question was which direction such a change should take. OECD played an active role in this debate at the international level. There is now a common understanding among OECD that a reform of agricultural policies is absolutely necessary. A major decision was taken by the OECD Ministers in 1987, who agreed that agriculture should be more influenced by markets signals through a progressive and concerted reduction of support and protection. This commitment is also reflected in the process of the Uruguay Round negotiations as well as in some actions taken recently by OECD countries individually. But much more needs to be done, both domestically and internationally, in order to implement the principle of market orientation in OECD agriculture.

If the main objective of the reform is the reduction in support and protection, that process requires also that greater attention be paid to structural adjustment, environment and rural development. These topics were highlighted by the OECD Ministers for Agriculture when they met in March 1992. The reform of agricultural policies in OECD countries requires inter alia:

• a reduction in price support and trade distortion;
• the possible development of specific measures, such as direct payment not linked to production, which could facilitate the process of structural adjustment or help farmers to achieve environmental objectives;
• the implementation of comprehensive rural development policies, which would help the expansion of modern industry, handicrafts, services or tourism in rural areas.

Furthermore, the process of adjustment concerns not only the farm sector itself, but the whole "agro-food chain", from inputs delivery to processing and distribution of food products.

When considering the current state of agriculture one thinks of output markets, income, subsidies, etc. Reference to this has been made. Let me just highlight the aspect of support and subsidies with some figures from our well known annual report *Agricultural Policies, Markets, and Trade: Monitoring and Outlook* for the OECD Countries. Thus for 1994 we estimated the sum of total transfers to the agricultural sector in OECD countries (transfers from consumers and taxpayers) to be about 350 billion US$. This may not be considered much when compared to total GNP; but the picture changes when we compare it to countries’ budget deficits or sectorial spending (i.e. for social measures). This overall sum also hides strong national differences where low support countries stand against those with very high support. For small economies with high agricultural support (and there are several such cases within OECD), the subsidies given to agriculture can become a considerable burden for the national budget and for economic development in general. It is also interesting to note that when looking at the various components of agricultural support (direct as well as indirect) the share of market and price support still remains the highest by far. Other measures of assistance, e.g. direct payments, environmental payments, etc. may gain in importance in the future, hopefully at the expense of price and market support. (Example: market price
support declined to 68 per cent in 1994 from 70 per cent in 1990; direct payments increased their share from 13 per cent to 18 per cent within total support as calculated by OECD).

The reform of agricultural policies in OECD countries has to be seen within a world-wide context. The inter-dependence between OECD countries and the various groups of non-Member countries should be fully taken into account. We are convinced that more market-oriented agriculture within OECD would facilitate the process of transition in other countries, including yours, by providing progressively more open, stable and predictable world market conditions. This would also contribute to a more rational use of economic resources in OECD countries, which should make it easier for them to pursue assistance programs to non-Member countries, both in the "East" and in the "South".

This growing interdependence of policy actions at international level is of course also a reflection of policy interaction at national level. OECD was amongst the first, some twenty years ago, to point out that agricultural policies, domestically, cannot be seen and pursued in isolation. General economic development and all the policies related to this effort (monetary, fiscal, social, etc.) will and do affect agriculture and its development. This leads us to one important consideration, namely that it is generally advisable to treat social, labour, or certain structural problems through appropriate measures in these respective policy areas, and not through a general policy of high price support, which was in the past often considered as the solution to all problems.

And this linkage of the farm sector with other sectors of the economy is also one element that pushes agriculture in the direction of policy reform and adjustment. Progress on this way towards reform has been made in several countries. The Common Agricultural Policy of the European Union (EU) has been modified in its application. Canada has introduced a series of interesting reform measures; the US is considering drastic changes for the new farm bill. New Zealand has set an example in integrating the farm sector into an overall economic reform package aimed at making its economy more competitive and independent from public support. Some consider that in certain cases the reforms undertaken did not go far enough, and more needs to be done. Thus, for instance, with respect to the common agricultural policy, several EU Member Governments have recently published reports, or are about to do so, where the questions of further reform measures are quite openly discussed and where such reform is considered a necessity.

One should also not be distracted from the reform path by an apparent change in market situation in certain commodity areas. At present, for instance, the situation on world grain markets has strongly changed; the EU, almost for the first time (except for a short period in the late seventies) not only exports cereals without subsidies (as also does the U.S.) but there is even talk of imposing an export tax. This situation is the result of several factors, e.g. supply and stock shortages (droughts), increasing demand (China), less domestic support, as well as new trade rules and obligations resulting from the Uruguay Round agreement, etc. Therefore the present situation on certain commodity markets, is considered to be largely conjunctural, and not yet a result of more basic structural changes. The major part of OECD agricultural production continues to respond predominantly to support policies rather than to international market price signals. However, we assume that for coming years the outlook of commodity markets is for less subsidised exports and a larger share of world trade secured by more market oriented producers. We therefore should carefully analyse all these factors, assess their relative importance in order to base our proposals for future measures to policy makers on sound judgement. The challenge for continuing adjustment of policies within a generally market oriented economic setting is as topical as it was five years ago and policy makers still have to address the more fundamental causes of market distortion. (The appendix to this note highlights some of the present trends in the cereals and meats markets).
Let me give one example where we believe that OECD has substantively contributed in changing the policy perspective in an important area of agricultural policies. This concerns price and incomes policies. We have, since the mid-eighties, advanced the case for a change from general, product-related price support to better targeted, selective direct income payments. Production neutral, decoupled support was the objective which we put forward. After being criticised, neglected, called policy irrelevant and inapplicable, this idea has now been generally accepted, has become a major instrument of policy reform in many countries and is tried out in various variants linked with environmental considerations, regional policy aspects, etc. We never pretended to have found the solutions to all problems; but we have contributed to asking the right questions and to confront policy makers with possible alternatives. Similarly, since the seventies OECD has spoken out in favour of appropriate structural policies as a longer-term solution for the agricultural sector and its problems, and against a policy of general price support.

What is generally called globalisation does not only mean that movements on capital markets affect domestic capitals within seconds, or that we have access to goods and services without limitations around the globes -- it also means that for a sector as important as agriculture no basic decision can or should be taken in isolation. To avoid isolation we have to cooperate. Co-operation however, implies recognising the position of others, to offer advice, if asked, that is based on concrete successful examples, and to refrain from imposing solutions not suitable under specific circumstances. But it also implies pointing out what, after thorough analysis and evaluation, are potential risks and consequences of a given policy action. OECD, being a forum of policy discussion and co-operation is well equipped to play such a role in an impartial manner.

Therefore also with respect to Central and Eastern European countries our main purpose is to establish a multilateral dialogue on the major economic and policy issues which arise in the context of the transition to a market economy. A particular feature of this dialogue, which is well-reflected in the present Workshop, is that a number of experts from individual OECD countries (and other international organisations) are taking an active role in the discussions in addition to the OECD Secretariat itself. The purpose of OECD is to act as a catalyst, to use the expertise available in the Secretariat and in Member countries in order to provide policy advice, technical assistance and policy dialogue, which are as essential as financial assistance. Financial assistance is, of course, also necessary, but in order to be useful it requires an adequate and efficient policy and institutional framework.

Brief reference has already been made above to some of the new aspects and policy concerns that need to be considered when talking about reform. This relates to questions about environment, bio-technology, sustainability in the widest sense, societal aspects in general, etc. Only a few years ago some of these concerns were, at best second ranking -- they have now become priorities.

In our work at OECD we are asked to address these priorities -- and we do it the best way we can. Having the privilege to work in an environment which provides access to politicians, national administrations, as well as academic research and professional experience (i.e. farmers’ representatives), we are in a good position to see and judge the various factors at work and the way the policy making machinery works. We have responded by advancing work especially on agriculture and the environment, on rural development, on questions of sustainability, etc. We are also trying to make policy makers aware of the importance for agriculture to understand better the linkages with the up-stream and down-stream sectors of the agro-food industries. With see this as a very important aspect for the future and we are working on it.

As said, we may know many of the right questions to raise -- we certainly don't have all the answers. But we are here to share our information and experience with you and let us therefore use this meeting as a forum for reaching a better common understanding on problems which concern all of us.
APPENDIX

Current market situation and outlook for grains

A tighter global supply/demand balance for cereals (comprising wheat, coarse grains and rice) is likely to occur in 1995/96. World wheat production increased slightly; but this is not expected to be sufficient to cover consumption requirements, resulting in a draw down in global ending stocks to their lowest level in twenty years. In the case of coarse grains, the smaller world harvest in 1995/96, following a record crop in the previous year, is also expected to fall short of annual consumption requirements, and result in a rundown in ending stocks to an historically low level. These prospects have resulted in sharply higher export prices of wheat, presently over US$190 per tonne for soft wheats, or more than double the level of two years ago, and coarse grains (e.g. US yellow maize US$127 per tonne) in 1995/96. At these price levels, the EU can export without the use of subsidies, but it has not done so to any large degree so far because of the need to ensure adequate supplies for domestic markets. International trade volumes of both grains are expected to increase only slightly in 1995/96 from last year's level due to the higher international prices.

Total OECD production of wheat is forecast to increase by around 6 per cent, while that of coarse grains is expected to decline by over 8 per cent in 1995/96. Wheat production in 1995/96 is forecast to be higher in Australia, following recovery from widespread drought last year, the EU, Turkey and Canada, but lower in the United States and Mexico. Production of coarse grains within the OECD is expected to increase in the EU, despite hot and dry conditions in a number of southern producing regions, Mexico and Australia, but to decline in both the United States, following last year's record crop, and Canada.

The medium term outlook for cereals to the year 2000 is for a strong increase in demand and imports in the non-OECD region outside the new independent states of the former Soviet Union (NIS) and countries of Central and Eastern Europe (CEEC). This prospect, when coupled with lower production growth in the OECD, as well as some reduction in aggregate stocks and subsidised exports as GATT Uruguay Round commitments are implemented, is expected to result in relatively high world wheat and coarse grain prices, by the close of the decade.

Current market situation and outlook for meat

Pacific beef trade continued to show strong growth in 1994 and 1995, fueled by rapid expansion in import demand by Asian countries, notably Japan and Korea. The increase in Asian import requirements were mostly met by larger exports from the United States and New Zealand. However, there were also larger beef exports from Argentina to a number of Asian destinations. Some important changes have occurred in the Atlantic beef market. EU beef intervention stocks have nearly disappeared; exports from Ireland to markets in North Africa and the Middle East have resumed. Furthermore, there has been a sharp drop in Argentine beef exports under the GATT quota to the European Union, as Argentina has shifted exports to other destinations. However, the level of subsidised beef exports in Atlantic trade has remained very large. This continues to distort trade.
In the past lower feed costs have stimulated strong growth in pork and poultry production in main OECD producing countries. This has resulted in low prices for these meats, improving their price competitiveness. EU exports rose to an all time high of nearly 1 million tonnes in 1994, and US poultry exports grew by 40 per cent in 1994 and continued to expand in 1995. Rising coarse grain prices may effect this trend, but strong demand may absorb the resulting higher meat prices.

Most of the increase in pork and poultry exports was absorbed by growing imports in Japan, but there was also a strong increase in poultry imports by Russia and Hong Kong. Lamb and mutton prices in international trade are increasing due to lower export availabilities of sheep meat in Oceania.

Over the medium term, market access will continue to improve in the Pacific region, and EU subsidised exports will fall. This should strengthen the world price for beef. With higher feed costs, white meat prices should also be on an upward trend.
I need to start with some definitions, so that what I say can be understood as clearly as possible. For the purposes of this paper, I take the State to be the government. The primary role of the government is to put in place the legal basis upon which society and the economy will operate. The government must also set economic policy, which will have a major influence on interest and inflation rates as well as the exchange rate between the rouble and other currencies. An important part of economic policy will be trade policy which will influence market access for imports as well as the export arrangements for domestic producers.

The government will also have a key role in deciding upon agricultural and food policy. An important issue here is the degree to which the government will intervene in the marketplace for agricultural products and for the various factors of production used in the agro-food sector. The history of OECD countries is that governments have played a significant role in determining the economic conditions for agriculture over many decades. They have done this by protecting their agricultural sectors through trade barriers and by public investment in technology.

In more recent years, there is a trend in OECD countries to reduce the role of government in the agro-food sector. There is, of course, a considerable variation between OECD countries in this regard. Countries such as New Zealand, and to a lesser extent Australia, have very little government intervention. In other countries, including EU countries and to a lesser extent the USA, government intervention continues to be important, in the form of price supports (which are decreasing) and income supports and environmental payments (which are increasing).

I must, of course, be very clear as to what I mean when I speak of government intervention. I speak of price or market support arrangements for particular commodities while income support and environmental payments are frequently linked to the farmer meeting certain conditions in farming practices.

I should also be clear as to what is not part of government intervention in the agro-food sector in OECD countries. There are practically no examples of the government being involved in production at farm level and few examples of being involved at agro-processing level. Neither is there any significant direct involvement by government in input supplies to the agricultural sector, whether of inputs or of credit. The upstream and downstream sectors to the agro-food industry are operated by the private sector and, in certain OECD countries, by cooperatives.

When I speak of a market oriented agro-food sector, I mean a sector which will over time be less influenced by government policies and more influenced by market forces. This is the trend which is occurring in OECD countries. This policy direction has been decided at political level because it has been recognised that the more protectionist and interventionist government policies were very expensive, in terms of budgetary transfers to the agro-food sector, the cost to consumers of higher food prices and the international trade tensions which were created by subsidised exports of the main agricultural commodities. The shift to lower levels of government intervention in agro-food policy has been underpinned at international level by the Uruguay Round GATT Agreement, which entered into force in 1995. Over the six years of the Agreement to the year 2000, GATT members have agreed to increase market access for agricultural products, reduce the level of subsidised exports and reduce the level of support to domestic agricultural sectors. The likelihood is that the current GATT Agreement on agriculture will be followed by another such Agreement which will go a number of steps further in the same direction as the current Agreement.
So in attempting to provide some definition of the topic which I was asked to address, I have also provided a brief background of the main policy developments in OECD agricultural policy in recent years. I have also tried to indicate the broad direction of policy, in terms of support arrangements for agriculture and trade policy, which will apply over the next 5-10 years. This will represent the international background against which many of you, as key policy makers in the Russian Federation, will have to formulate your national policies during the coming years.

In offering some thoughts on possible policy directions in this paper, I do so acknowledging the very different current economic circumstances between the Russian Federation and OECD countries, as well as the different historical and political experience which has applied. Despite this, I think that some of the experience from OECD countries will be relevant to the Russian Federation. At the very least we must try to arrive at a common language for describing and discussing the problems which you face and a common understanding of what are the steps, short and long term, which can contribute to agricultural and economic development.

Given the time constraints, I will restrict myself to highlighting four areas where I think government has an important role, as follows:

- the legal/institutional framework
- macroeconomic policy
- the Economic Framework for Agriculture and the Rural Economy
- promoting the Development Process.

The Legal/Institutional framework

The historical experience in OECD countries has been that a clear resolution of the land ownership issue was either a pre-condition or a major assistance to the process of agricultural development. Establishment of individual title to land has been associated with investment in the land and farming enterprise and with increased productivity. The role of government in this process has traditionally been the provision of a clear legal basis for private ownership as well as land registration and associated services.

I am aware that the issue of private ownership of land is a very important political issue right now in Russia. I am also aware that some of the hopes for increased production, which were expressed at the time of the original land reform in 1990, have not been realised. There are many reasons why production has fallen since 1990, related to general economic circumstances, shortage of inputs and weather conditions.

I certainly do not know enough about the Russian legal, political and economic system to suggest what is the best model of land ownership and use. I do know that in other countries, such as my own, where a major transformation in land ownership occurred about one hundred years ago with a move from a landlord/tenant system to a private ownership system, the benefits in terms of increased production and productivity were not achieved in the short term. But such benefits were achieved in the medium and longer term, when other factors such as improved technology and education of farmers came into play.

I would also strongly agree with what was written in the OECD's 1995 Monitoring and Outlook Report for the CEECs and NIS on the Russian Federation. The report noted that an exclusive emphasis on land
privatisation is not enough to promote agricultural development. The experience of Western market economies suggests the importance of the reorganisation of the up and downstream services to agriculture.

The need to stimulate effective markets for agricultural products is vital. In this regard, the OECD report noted that Western experience suggested that the removal of barriers to free marketing of agricultural goods was an effective way of stimulating demand. The report noted that, within the various states of the Russian Federation, there is a considerable fragmentation of the market, due to government controls and a badly deteriorated infrastructure.

Improving the infrastructure will take investment and time. The removal of government controls is a political and policy choice. The clear OECD experience of making such a choice is that it will pay off, even in the short term, in creating a more efficient economy with benefits both to producers and consumers.

**Macroeconomic and Agricultural Policy**

Sound macroeconomic management is of critical importance to the agricultural sector, whether it be in an OECD economy or an economy in transition. Macroeconomic management will target interest and inflation rates and currency stability as among its key objectives. The targets to be sought in respect of each of these will, of course, depend on the particular economic situation and the stage of the economic reform process in a country. Trying to reduce interest and inflation rates, while maintaining inflation and government deficits in check, has been at the centre of the economic challenge for the Russian government in recent years.

In the current situation of the economies in transition, high inflation and interest rates produce demands from the agricultural sector for additional subsidies and credits, which can only be met by increasing government deficits which in turn produce inflation. The role of government is to somehow find a way to break this vicious cycle.

There is, of course, a dilemma here for agricultural policy makers and leaders in the sector. It is inevitable that agricultural interests will seek to maximise the share of national budgetary resources which go to the sector. This applies in all countries which I know of. At the same time, the experience in all OECD countries, which I am sure is also relevant in the Russian Federation, is that it is the agricultural sector which will suffer most if the macroeconomic situation goes out of control. Given the price/cost squeeze, whereby the cost of agricultural inputs tend, in general, to increase at a faster rate than the price of commodities, the agricultural sector in any country is very vulnerable to interest rates and inflation rates which are higher than is absolutely necessary.

The budgetary allocations within Russia to the agricultural sector in the coming years will obviously have a major bearing on the type of agricultural support policy which can be implemented. As I explained earlier, the international background is of agricultural policy reform, with a reduction in support levels and a shift in the type of support away from support of commodities and towards income support for farmers. The important questions which I expect this seminar will discuss will include: (i) what type of agricultural policy is most appropriate for Russia in the short, medium and longer term and (ii) what is the most appropriate sequencing for different policy measures, given that resources are limited and there are a number of acute short term problems to be faced in the agricultural sector.
The Economic Framework for Agriculture and the Rural Economy

The key objective of the government in planning the framework for the agricultural and rural economy should be to increase the competitive nature of the markets for the factors of production used by agriculture and the outputs produced by agriculture. If this is achieved, it will improve the price/cost situation for farming. This could have the further effect of reducing the demand for subsidies to the agricultural sector with beneficial consequences for government finances.

The government must find ways of promoting more competition in both the upstream and downstream industries to agriculture. I am aware that the role of the government in both input supply and in purchasing produce from farmers has reduced in recent years in Russia.

However, in the context of a move towards a more market oriented economy, it would seem that the steps which have been taken can only be considered at first steps. If this view is accepted, then the policy challenge for government is to consider other ways of increasing the level of genuine competition at both input supply and produce purchasing level. This can be done by ensuring that there are additional operators in both the upstream and downstream sectors. In addition, mechanisms to promote the availability of market information which will assist managers of farms and private farmers in making choices about what is best for their business would be part of such a policy.

A key lesson which OECD countries have built into their policy making over the past decade is the importance of rural development. In some OECD countries over recent decades, there was a tendency to equate agricultural policy to rural policy. It is now clearly recognised that such an equation was too simplistic and that policies for agricultural development and for rural development have to go hand in hand.

All possible resources for increasing income and employment possibilities in a rural economy have to be exploited. Many farmers in OECD countries work part time outside the farm and it is the income earned from farm and non-farm work which enables them to have an adequate income.

The OECD has facilitated a sharing of rural development experiences among its different member countries. I am sure that a useful dialogue on these experiences could be instituted between the Russian Federation and the OECD.

Promoting the Development Process

There are a number of things which the government should do to promote development. Based on OECD experience, I have indicated above some of these. However, it is also vitally important that there should be an understanding of what the government should not do, or what it should do only indirectly.

The critical component in securing long term economic and social development is that people themselves take responsibility for their own development and the development of their communities. The government can support this through providing a basic legal system. Investing in education -- both through the formal system and through informal adult education -- is also a vital long term requirement for development. A key lesson of development in OECD countries is that improved information systems -- through radio and TV, through local and specialised newspapers -- are vital both for economic development and for democratic development.

If I was asked to identify one single factor which contributed most to Irish agricultural and rural development over the past 40 - 50 years, I would identify the combined effort of local independent
farming organisations, an independent paper for farmers (which was often critical of government), a gradually improving standard of education and the widespread dissemination of information on the prices for farm products and farm inputs and improved agricultural techniques. It was the combination of these factors which enabled people to improve their own circumstances and in so doing to improve the rural communities they formed part of. The government played its role by being broadly supportive but, for the most part, by not being directly involved.

There are many areas where the government services can work in partnership with farmers, farmer groups and local communities to promote development. Raising standards of production and improving quality is one such area. Livestock breeding is an example where benefits will be secured only in the medium to long term. Government services will have to have a role in supporting research in this area and possibly in providing an overall system of registration and monitoring of genetic improvement. But the economic benefits of such breeding work can only be realised in tandem with improved standards of husbandry, which in turn will be influenced by the provision of extension services and improved education of farmers.

In Ireland, as in many other OECD countries, the growth of local agricultural shows, at which farmers compete against each other to show their best animals, has proved an important means of raising standards. There are other significant benefits in such shows, in that they promote local leadership capacity and the development of a civic culture and pride. They are thus crucial in assisting a process of development, the benefits of which will most clearly manifest themselves in the medium to longer term.

The economic and social context within which the Russian Federation seeks to develop over the coming decades are very different to the Irish situation and to other OECD countries. But I believe that some of the basic approaches to development which I have described must be relevant -- even if your manner of implementing the approaches will differ. I hope we will have the opportunity during this seminar to discuss how we can learn from each other.
THE ROLE OF THE STATE IN REGULATING THE AGRO-FOOD SECTOR IN A MARKET ECONOMY

Ivan Starikov

The legal basis for new structures in the agro-food sector has been successfully established and a fundamentally new sector of individual western-style farms has appeared. The reorganized agricultural enterprises are approaching a genuine economic transition to market-oriented entities. Privatization has covered most manufacturing branches and food trade. Some new structures are also emerging in wholesale trade. The state is gradually withdrawing from direct distribution of agricultural products and its influence on price formation is weakening.

The state strategy of agro-food sector policy

State support of the agro-food sector aims mainly:

• to subsidise incomes rather than prices;
• to encourage demand for products rather than production for production’s sake;
• reasonably to protect national producers from external pressure; and
• to support the sector’s scientific and technological potential.

This strategy is intended to cut the amount of subsidies to the agro-food sector in the medium term by increasing the sector’s efficiency and promoting demand for its products. It also seeks to create an efficient market system of distribution of agricultural and food products.

Results of state support of the agro-food sector in 1994-1995

The Russian Federation government’s policy for financial support of the agro-food sector for 1994-1995 stipulated the following measures:

• to introduce guaranteed minimum purchase prices for the most important agricultural products beginning in 1994;
• to refrain from other administrative intervention in this sphere;
• to develop a system of state credits for agricultural producers’ seasonal expenses;
• consistently to cut imports of those agricultural products which can be produced or partially are being produced in Russia;
• to streamline customs tariffs; as well as
• to redistribute available sums for development of the domestic agricultural market and for some other purposes.
In line with the concept of traditional budgetary support of the agro-food sector the Federal budget is financing measures supporting pedigree stock-breeding, partial compensation for purchasing mineral fertilizers and compound feed, as well as subsidizing the production of wool, flax, hemp and some other products.

Allocations for agriculture during previous years have not brought adequate returns. In 1994 agricultural enterprises had the worst results in the whole period since economic reforms began. Total 1994 agricultural output decreased from the preceding period by one tenth.

Implementation of state financial support of agriculture has had substantial deficiencies. During 1994 only three-fourths of the Federal funds appropriated were actually issued for the needs of the sector. Over half of this sum was received in the fourth quarter of the year, so becoming overdue. The price disparity between agricultural output and inputs -- which has been aggravated in the course of price liberalization -- is closely connected with the level of agricultural subsidies. The more the growth of prices is covered by subsidies to producers, the larger the disparity becomes.

The past practice of distributing centralized credits through non-financial institutions, the Russian Federation Ministry of Agriculture and Food Supplies and its local agencies, has proven to be unjustified. All the centralized credits were distributed through Rosagroprombank to commercial banks which often arranged their purposeful and efficient utilization as they saw fit.

State regulation of the agro-food sector in the government programme “Reform and the development of the Russian economy in 1995-1997”

There are objective reasons for the acute crisis in agriculture. First, agriculture, as a seasonal branch, is highly vulnerable to inflation. Second, this sector has had to deal with monopoly of service and input suppliers as well as trade. Therefore the agro-food sector in 1995-1997 will need state support on both the Federal and regional levels. Government policy will strive to overcome delays in building up the social infrastructure in rural areas, to bring agricultural and industrial workers’ income levels closer, to renovate processing capacities in agriculture and to adapt them to a market economy.

Efficient state support of agriculture is to be aimed at financing state measures for raising soil fertility, improving veterinary services, basic research and development, subsidizing pedigree stock-breeding; financing high efficiency projects drawing state investments through tenders; rendering assistance to agriculture enterprises (farms); and improving credits and payments to agro-food sector enterprises by engaging commercial resources.

Efficient agricultural producers will have priority for support. A special mechanism is planned for distributing appropriations to agro-food sector enterprises and to provide other state assistance in order to secure appropriate distribution of resources, mainly on a competitive basis, provided that the need is properly substantiated and programmes are efficient.

Establishing goals and improving methods for state support of the agro-food sector

The goals and methods of channeling state resources for supporting the agro-industry must be clarified. Support of animal husbandry from regional budgets seems to be very inefficient. In this case, essentially all the enterprises are being supported regardless of the extent of their market adjustments, cost-cutting measures or increased efficiency. This practice does not promote long-term economic growth. It offers only temporary relief to retard the fall in output. We consider it more reasonable to accumulate those
funds within the Federal budget in order to channel state support to pedigree stock-breeding and poultry farming, to raise the subsector’s productivity and the quality of its products, to cut costs and to make its products more competitive.

There are also some alternate methods, or combinations of them, to distribute budgetary allocations for income support. First, these funds may be used to lessen the negative effects of the reduced purchase prices paid to the farms resulting from demand limited because the processing plant keeps its prices artificially high. This occurs when the primary producer does not own a controlling share in the processing plant to which it sells its output and so is unable to force a reduction in the price of the final product in order to increase sales. For the primary producers, the timing of the payment is becoming even more important than the nominal price. Second, these funds may be used directly to facilitate the sale of agricultural products, purchasing them for distribution to the needy population, which will be appealing to the population.

In the course of economic reforms the importance of state purchases of agricultural products has changed considerably. The share of products delivered to Federal and regional stocks has fallen sharply. Previously the whole output of kolkhozes and sovkhozes was distributed to consumers through those stocks. These stocks now have a more modest function, to ensure deliveries only to those consumers whose supply cannot yet be done through market channels, particularly the army and areas of the Far North.

This year’s experience indicates that funds allocated for the Federal Food Stocks are not fully recovered. Competitive purchasing for state needs for these food stocks through tender offers would be appropriate. This mechanism fully corresponds to the general approach to government purchases adopted in the Russian Federation.

Leasing operations should also be improved. Experience so far leads to the conclusion that allocating credits to combine-harvester plants through leasing funds disorders leasing operations and irreparably harms agriculture. The combine plants, while getting and using those credits and remitting money to the account of AO “Rosagrosnab” at low prices, are at the same time inflating the sale prices of their combines. This difficulty could be avoided if agricultural-equipment plants were to sell their machinery directly to the farms rather than through AO “Rosagrosnab”.

It has also been suggested that some state support to agriculture take the form of commodity credits against the 1996 crop. The idea is to replace direct centralized state financing with state guarantees to suppliers of inputs. These guarantees would be backed by Federal budget allocations earmarked to cover non-payments to agricultural producers in specified cases. In this way the state retains the budget funds at its disposal throughout the year and may use them only after the agricultural year ends. Moreover only the part of the allocations amounting to the budgetary non-payment for agro-food sector support of the next year may be spent. With certain modifications this scheme of state support may be applied to commercial leasing operations.

Accelerating the adoption of legislation establishing rights of owners and users would facilitate financing of the agricultural sector through giving credit against the security of property in land and improvements.

We also think that some proposals by agro-food sector executives and specialists to locate additional sources of financing for agriculture in 1996 deserve consideration.

It seems reasonable to increase payment for land in order to cover expenses for maintaining social assets in rural areas and to relieve agricultural producers of these non-economic functions.
The proposal to issue a food bond in 1996 also deserves approval. We think that securing the bond issue with commodities, with the bond value expressed in kind (in a quantity of third class wheat corresponding to the value of the bond) would make the issue more attractive and competitive in the securities market and would facilitate placing it.

We would also agree to keeping the amount of budgetary support of agricultural producers in 1996 at the level stipulated by the Federal budget in 1995. This is of paramount importance for the economic and financial stabilization of agricultural sector.

A proposal to use the shares of processing plants belonging to the state as security for credits from commercial banks should be implemented in accordance with the special procedure stipulating open tenders based on a appraisal of the true mortgage value.

The question of concessions to the banks giving credit for inputs for the agro-food sector should be discussed with the Central Bank of Russia. It should be borne in mind that the Russian Ministry of Finance gives guarantees up to the amount of budget appropriations for supporting commodity credits to agriculture to the Central Bank. The Central Bank in its turn reduces the limits of prescribed reserves for banks which give credit against commodity deliveries.

In general, curbing inflation, restricting the money supply and reducing the Central Bank’s refinancing rate to 30-50 per cent would greatly help the agro-food sector’s economic and financial stabilisation. It is important that the amount of state support really should be at the level of 1995 budget appropriations.

Outlook for state regulation of the agro-food sector in 1996-2000

At the instruction of the Government of the Russian Federation the Ministry of Economics, in cooperation with the Ministry of Agriculture and Food Supplies, the Russian Academy of Agricultural Sciences and several other Ministries and organisations, is working out a draft “Programme of stabilization and development of the agro-food sector in 1996-2000”.

A meeting of the collegium of the Russian Federation Ministry of Economics on 14 August 1995 approved the programme’s basic outlines. The programme starts from the need to shift from extensive to intensive factors of economic growth. Making this transition requires structural adjustment, producers’ rapid adaptation to market requirements, conversion to resource-saving technologies, the full utilization of crop and animals’ potential, the reduction of waste of raw materials in the food industry and an increase in output of high-quality products.

This Programme seeks to work out and implement a system of measures to overcome the decline in agro-food sector production, to secure its stabilization, to improve its financial position and generate economic growth, to streamline the sector’s administrative organizations on the national and regional levels and increase their market orientation. Work on the draft Programme embodying our efforts to improve the forms of state support of the agro-food sector will be finished soon.
MARKET ORIENTED AGRICULTURAL PRICE, TRADE AND SUPPORT POLICIES

Ken Ash

I have been asked to share with you some of Canada’s experiences in agriculture and food policy, and in particular to talk about how public policy might contribute to greater market orientation and economic sustainability in the agriculture and food sector. This is not at all to suggest that the Canadian way is the best way. You will have to decide for yourselves what lessons from our experiences might be relevant for your own situation.

There are three basic messages that I would like to communicate.

First, and this is widely recognized, current agricultural price, trade and support policies in most OECD countries are not market oriented. Agriculture is heavily supported around the world; within the OECD, for example, in recent years the level of government assistance has averaged about 43% of the value of production. The average level of support in Canada is somewhat lower, at about 30% of the value of production.

This support is not just substantial, it also takes many forms. As a result, farmers in general are responding less to market signals, and more to government rules. For example, a major element of Canadian farm policy for almost one hundred years has been regulations that subsidize the rail transportation of grain to export markets by about $20 per tonne. This effectively raised the price of grain for sale in Canada by an equivalent amount (that is, without the subsidy a grain farmer would receive the world price for grain exported, less the $20 per tonne cost of transporting the grain to an export shipping point... consequently, without the subsidy that same farmer would have been as well off by selling the grain in Canada at the world price minus transportation costs). This higher domestic price discouraged domestic purchase and use of grain, whether for feeding livestock or processing into other foodstuffs. This in turn resulted in less production of the higher value products that the market required.

Another major component of Canadian farm policy has been direct farm income support programs. Generally, these programs attempted to ensure that farmers received a fixed or minimum price for their products through some form of generally available support payment based on output. As a result, larger farms which produce more (and are generally more profitable) received a high total support payment, while smaller farms which obviously produce less (and are often less profitable) received only a small support payment. In short, income support went mostly to those who needed it less. At the same time, production patterns responded, at least in part, to government program criteria, regardless of actual market preferences.

This is clearly ineffective. Governments and bureaucrats do not know what farmers and food processors should produce. Consumers, whether they are industrial users or individual households, understand best what they want, when they want it, and how much they are willing to pay for it. And producers are best able to decide how to adjust their production plans in response to changing demands.

My second message is that there is widespread commitment to reforming agricultural policies, although the pace of that reform is uncertain. The conclusion of the Uruguay Round introduced international disciplines, for the first time, in the area of agricultural policy. Other multilateral and bilateral trade negotiations, including those related to the formation of regional trading blocs, all point inevitably to freer trade and fairer global market access for agricultural and other products.
Policy reform is not just being driven by concerns about the effectiveness of some past policy measures or by pursuit of the economic benefits of freer trade. It is also being driven by financial necessity; high levels of government spending on agriculture are no longer affordable. In Canada, for example, our spending on agriculture and food peaked in 1991 at $9 billion, or 3 per cent of all government spending; recent reductions mean that our current spending is about $5.5 billion per year, and that in 1997 our spending will be further reduced to about 1.5 per cent of all government spending, or $4.5 billion. This represents a decrease of 50 per cent in nominal terms. This reduced level of spending is also far below that which we would be permitted to spend and still comply with the GATT agreement.

The third message I would like to put forward is the most important. A more market oriented and sustainable agriculture and food sector might best be achieved not through maintaining the high levels of support and protection that have characterized past public policy in many OECD countries, but through a reduced and less interventionist role for governments.

This is easy to talk about, but not so easy to accomplish.

One general guideline seems important. If one is trying to get somewhere, it is better to look ahead and begin to move towards where you want to be, rather than to look behind and worry about where you (or others around you) have come from.

In Canada, as we look ahead to the year 2000 it is clear that we will all be much further along the road to freer world trade. Governments will spend even less public money on agriculture, industry will be less isolated from global competition, and foreign investment and trade will continue to increase. To prepare for this more liberal global environment, it is important to act now, to introduce new policy measures that attempt to ensure that individual businesses have an opportunity to better position themselves to respond to market demands by exploiting whatever competitive strengths they might have.

How can we do this?

In Canada, as in many other countries, we are blessed with abundant natural resources, a well trained and productive workforce, a stable and transparent system of government, and a widely understood and consistently enforced system of law and order. These, of course, are necessary, but insufficient conditions for a well-functioning market economy.

Stable macroeconomic and structural policies are also essential to ensuring that Canada (or any other country) can attract and retain the domestic and foreign investment necessary for economic growth. As such, responsible fiscal and monetary policies are required to control inflation and to limit interest and exchange rate fluctuations. Transparent and predictable employment, property and tax laws are essential to reduce investment risks. Social policies, including health, welfare and education systems, are needed to ensure a prosperous and productive citizenry. Competition and investment laws are required to encourage individual initiative and innovation. Increased productivity can also be encouraged through on-going training, research and development policies.

In Canada, as elsewhere, it is becoming increasingly apparent that establishing an appropriate operating environment for all businesses - getting the fundamentals right - is essential to the future international competitiveness of agriculture, or any other sector of the economy.

Over time, the agriculture and food sector around the world will be considered less as a “special case”, requiring special policies. This change is not going to happen overnight. But farm policy will
increasingly rely on highly targeted and often temporary measures that address the specific and unique needs of the sector.

For example, Canada recently eliminated the long-standing grain transportation subsidy I mentioned earlier. In its place, we provided a one-time cash payment to farmers, and we put in place a temporary adjustment fund to provide infrastructure improvements and to assist farm families exploit alternative economic opportunities, farm or non-farm related. We have also reduced our expenditures on farm income support programs and, more importantly, have replaced output-based supports with a more comprehensive program that stabilizes farm income levels, without linking government payments to product prices.

These kinds of decisions are not ones which can be taken lightly. Public policy discussions in Canada involve all participants in the agri-food sector - federal and provincial governments, academics, private sector policy researchers, input suppliers, farmers, processors, distributors and consumers. In our experience, good policy development results from a solid understanding of the impact of alternative decisions on all players in the sector. Effective policy reform can only be achieved and sustained when these impacts are widely understood, and accepted, in industry and in government. The special needs of farmers or other groups need to be taken into account, and this sometimes requires targeted assistance of some type. But long term farm policy objectives, to be effective, must satisfy the needs of society as a whole. An open and participative policy development process takes time, but the results are worth waiting for.

In summary, then, it is clear that while the agriculture and food sector in most countries is and has been characterized by a very high level of support, this situation is changing. As countries attempt to position themselves for the more liberal trade environment of the future, new public policies will be needed. Governments will rely less on directly managing or controlling economic sectors, and will rely more on creating a stable and predictable environment in which farms and other businesses can exploit their competitive strengths and pursue emerging market opportunities. As a practical matter, movement towards this more market oriented policy environment will be gradual, and will be accompanied by special transitionary measures that address clearly defined constraints to industry development. But whatever the pace of change, policy advisors and decision makers can begin now to prepare for this more liberal future environment.
THE MAIN ISSUES OF STRUCTURAL ADJUSTMENT, PRIVATISATION AND RURAL DEVELOPMENT IN AGRICULTURE IN OECD COUNTRIES: IMPLICATIONS FOR POLICY IN THE RUSSIAN FEDERATION

John M. Slater

INTRODUCTION

Russian agriculture is undergoing a period of transformation. The success of this transformation in creating an efficient agricultural industry will depend on the policies introduced and the commitment of government to those policies. Much can be learned from the experiences of other countries as to the policies which facilitate structural adjustment and the policies which impede the efficient use of resources. By structural adjustment, we mean the process by which factors of production: -- land, labour and capital -- move to their most economically productive use. In other words, the process enabling resources to be released from sectors where they are unproductive and directed to areas where they can be employed more effectively, either elsewhere in agriculture or in other sectors of the economy.

In this paper, it is intended to consider briefly the fundamentals of the market economy approach to structural adjustment as adopted in OECD countries. Attention is then given to the implications of such an approach for Russian agriculture, with particular emphasis on the critical issues of privatisation and land ownership. Finally, some general lessons for policy formulation are offered based on OECD experience.

STRUCTURAL ADJUSTMENT IN A MARKET ECONOMY

In the market economies of OECD countries, the basic philosophy is that if resources are allowed to move freely in response to price signals, this results in an efficient allocation of resources. This is because individuals, whose incomes or well being are directly affected by the outcome, are likely to take better decisions than organisations, where those responsible for the decisions are only indirectly affected or not affected at all. This does underline the importance of adequate systems to ensure that information, for instance on market prices, is accurately recorded and widely disseminated so that those making the decisions have access to all the information. It is also crucial that impediments to the movement of resources are eradicated wherever possible. This means that the legislative and institutional framework must be geared to facilitating movement of resources rather than controlling their movement. In other words, where institutions have been set up to direct supplies, there will need to be a change in emphasis, to enabling (rather than controlling) supplies to move to where price signals indicate the supplies are needed. This is a critical change in emphasis which, if ignored, will impede structural adjustment.

Land

Land is, of course, a key resource for the agricultural sector. Because a large proportion of the population have some interest in land in most countries, issues relating to the ownership of land create political tensions. However, the political problems associated with land ownership do need to be kept in perspective. While returns accrue to the owners of factors of production, and therefore to the owners of land, there are many measures, especially fiscal measures, which can be used to bring about a re distribution of income or wealth. Moreover, it is the control over the use of land, rather than the
ownership, which is of critical importance. This implies the need for an institutional system to allow land to be sold or leased to those who can make the best use of it.

**Labour**

While introducing measures which will enable land to be used more productively is likely to be an early priority, this needs to be done in conjunction with measures to enable effective utilisation of other resources. Labour is an equally valuable resource and skilled labour is likely to be a very scarce resource. Training is, effectively, a way of increasing the utilisable supply of this scarce resource. This points to the need for adequate emphasis to be put not only training but on providing the incentive for the workforce to seek out and utilise training. Unless workers are able to move to jobs where their skills are recognised and rewarded, there will be little incentive for them to acquire the skills. This is a continuing problem that faces agriculture just as much in OECD countries as it does elsewhere.

**Capital**

Economic instability and currency weakness erode the capital base of agriculture. This makes it even more crucial that erosion is prevented by keeping the economy as stable as possible. Even so, there will be competing demands within the economy for limited supplies of capital. Investment of capital in agriculture will be needed to support change. However, it is not just a question of capital being available to the sector, it must be accessible to those who are able to utilise it effectively. Just as training increases the effective supply of labour, so can research and development effectively increase the effective supply of capital. One option, given the high cost of agricultural research, would be to draw heavily on existing research, concentrating more on development and its application.

**IMPLICATIONS FOR RUSSIAN AGRICULTURAL POLICY**

The Russian Federation is pursuing an ambitious programme of price liberalisation, coupled with the reduction or elimination of the subsidies that supported the previous system. Price liberalisation is a necessary, but not sufficient, condition for an efficient agricultural sector. Policies are needed to create an environment which not only allows, but also encourages, the free movement of resources. This means policies which allow flexibility in farm business structures, policies which enable scarce capital to be accessible to those who can use it most productively and policies which encourage labour to acquire new skills.

**Privatisation**

OECD experience indicates that a private farm sector is essential for an efficient agriculture. Hence continuation of the legal process of establishing property rights in the Russian federation, especially in respect of agricultural land, is important. This will provide the legal certainty and security necessary to encourage farmers to invest. At the same time, a market in land must be established to enable the more efficient farmers to increase the size of their farms.
While it is control over the use of land, rather than land ownership, which is of particular relevance, those who actually farm the land need to be certain that their rights will not be arbitrarily terminated. In the United Kingdom, about half the area of land is leased and this has proved an effective means of allowing farmers with limited resources to expand their businesses and to manage relatively large farms. This system is covered by legislation which enables rents to be agreed which reflect market conditions. The legislation also provides legal protection both to tenants and to landlords.

The operation of such a system does require certainty of the legal title to ownership, whether this be the state or private owners. In practice, experience has shown that the lack of flexibility afforded by state ownership of land impedes efficient agricultural production and practically all agricultural land in the United Kingdom is in private ownership.

Business Structure

There is inevitably some concern that privatisation of land will result in fragmentation and a less efficient farm structure. Certainly, this will be the case if land is split into small units and farmers do not have adequate skills or resources, nor are they able to expand or leave the industry because of the lack of a land market. However, there are a range of alternative business structures which can allow a transfer from state to private ownership without fragmentation. Some of these are indicated in Table 1 together with suggested advantages and disadvantages of the different structures. As the chart indicates, there is a trade off between the individual incentive which characterises family farms and the greater size and security afforded by state or co-operative structures.

**TABLE 1**

<table>
<thead>
<tr>
<th>Farm Type</th>
<th>Pros</th>
<th>Cons</th>
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<tbody>
<tr>
<td>State Farm</td>
<td>size gives potential for security, economies of size and bargaining power</td>
<td>lack of individual and management incentives and slow to change in part due to financial structure</td>
</tr>
<tr>
<td>Production Co-operative</td>
<td>size opportunities as above, democratic structure and shared responsibility</td>
<td>democratic structure may prevent change and conflicting views on investment strategy</td>
</tr>
<tr>
<td>Purchasing or Marketing Co-operative</td>
<td>individual production incentives but opportunity for specialised management for buying and selling</td>
<td>members may not fully support co-operative elements, may be conflict of objectives within group</td>
</tr>
<tr>
<td>Farming Company</td>
<td>potential for size economies, business approach to production and marketing</td>
<td>requires high quality management and willingness of shareholders to provide adequate capital</td>
</tr>
<tr>
<td>Partnership</td>
<td>largest structure with direct economic incentives, sharing of skills and resources</td>
<td>legal complexity and potential conflict of objectives</td>
</tr>
<tr>
<td>Family Farm</td>
<td>simplest form to organise strongest individual economic incentives</td>
<td>units may be too small to benefit from scale economies, limited capital and lack of security</td>
</tr>
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</table>
In the Russian Federation, joint stock companies are being formed from state and collective farms. Where the farm workers and their families are the shareholders, these approximate to production co-operatives. Such joint stock companies or production co-operatives are rare in the West. Experience has shown that they give rise to significant problems. First, because ownership may be nominal in the sense that any individual member has little say in the decision making process, there is little individual incentive for efficiency and often little opportunity for members to realise assets. It is also difficult to avoid friction when members have different objectives for their assets and hence disagree on what proportion of income should be paid out or re-invested. Furthermore, existing managers may be retained even though they do not have the financial and marketing skills necessary to operate in a more market oriented system. The management structures, coupled with an unwieldy collective decision making process, often prevent such co-operatives from responding effectively to market signals. Nevertheless, the size of the business provides a degree of security which will appeal to farmers facing the challenge of the market for the first time and, even where owners do not exercise close control, they may provide a useful means of exploiting the particular expertise that is available. It will be interesting to observe whether such structures prove to be viable and durable.

The most successful co-operatives in OECD countries are purchasing or marketing co-operatives where farmers pool resources not in the production process but rather in order to buy inputs or to market their output. Purchasing co-operatives provide economies of size and bargaining power which enable members to obtain inputs, such as seed, fertiliser or machinery, at prices which are lower than individual farmers would have to pay. Similarly, marketing co-operatives provide the same opportunities to obtain better returns for their produce. The employment of managers with suitable entrepreneurial skills to buy inputs and market products leaves farmers free to utilise their knowledge and experience in making their own production decisions. In some cases, this has resulted in substantial vertical integration with co-operatives owning and managing processing facilities. However, once again, it has been the experience in OECD countries, that such ventures require highly skilled professional management and must be capable of competing with other independent processors. Furthermore, few co-operatives can raise the capital and manage modern highly complex food manufacturing processes.

The majority of private agricultural production in Russia appears to come from private plots of less than half a hectare. Such units will continue to have a vital role in the short term and may have a role as part-time enterprises in the longer term. However, for a viable structure, there is a need to encourage the growth of larger private farms. This will require access to capital and an adequate infrastructure.

In practice, there is no unique type of farm business which will guarantee efficiency and it is usual in OECD countries to find a range of business structures. The role of Government is to ensure that legislation is in place to enable different types of business to be constituted with adequate legal certainty and to ensure that resources, including infra-structure, are available to allow these businesses to operate effectively.

**Farm Structure**

It is understandable that there should be concern in Russia about the break-up of large farms. However, research also indicates that optimum production is usually reached at a relatively small (not very small) farm size and that a limiting factor is managerial ability; even in the United Kingdom, there is limited availability of the skills needed to manage very large farms. Furthermore, optimum size is different for different enterprises and changes with changing technology. What this means is that care should be taken...
to avoid the introduction of policies which are aimed at maintaining a particular farm size or farm structure. Production will be much more efficient if policies are directed at ensuring efficient markets for the sale and leasing of land and allowing farm size to be determined by market forces.

Privatisation and the Input Supply and Food Processing Sectors

Without transformation in upstream and downstream industries, the improvements in productivity in the farm sector will not benefit farmers. In fact, this is probably a major cause of the current uncertainty in the farm sector. Production has not increased as it had been hoped, in part because producers have been caught in a cost-price squeeze with input prices rising much more rapidly than output prices. A major reason is the relative inefficiency of these sectors and the poor service they provide to farmers.

The principles of a market economy apply equally to these sectors. While privatisation will help to improve efficiency, it is important that firms compete with each other. Without such competition, producers will not receive prices for their products which reflect market conditions. Competition legislation, designed to ensure that firms do not fix prices to the disadvantage of producers and consumers, must accompany privatisation. Even these measures will be ineffective, however, unless the infrastructure, such as transport and storage facilities, is in place so that competition in these sectors is effective and producers have practical alternatives for the purchase of inputs and the sale of production.

Training and Research

A major Government role is to undertake the education, extension and research that may be slow to emerge in the private sector. A skilled workforce will be essential to the successful development of Russian agriculture. A range of training programmes is already in place. However, the most acute shortage is likely to be in entrepreneurial and managerial skills. As indicated earlier, existing managerial skills may be unsuitable for new emerging structures. These are not easily taught, particularly where there is little domestic experience of operating in a market economy, and it will take time to develop a sufficient pool of managers. However, it must also be stressed that unless workers and managers are able to move to jobs where their skills are recognised and rewarded, there will be little incentive for them to acquire the skills.

There is already a network of institutions carrying out technical research. Added to which, there is a vast amount of research material on agricultural production techniques available from institutions around the world. While technical research will continue to be important, especially to account for local soils and climate, consideration should be given to placing greater emphasis on implementation through improved provision of information and extension to help farmers to modernise and improve their efficiency and competitiveness.

Finance

Capital is a major agricultural input and finance is of particular importance during a period of restructuring. Because of the uncertainty created by the transformation process, banks may, understandably, be reluctant to lend money. Banks are quite likely to have security requirements which new farmers will not be in a position to meet or where punitive interest rates are charged. It is widely recognised that policies are needed to ensure not only that agriculture receives an adequate share of the capital which is available but that this is utilised most effectively. It is not essential that banks are the only
source of finance; in OECD countries, a wide range of institutions have emerged which provide credit to agriculture. There is also a case for credit policies which encourage farmers to invest and provide a degree of protection in periods of high inflation and unstable interest rates. It is, nevertheless, important that policies on lending should be no less rigorous in agriculture than in other sectors. Experience has shown that encouraging farmers to take on debt that they will have difficulty in financing is counterproductive. These issues will be considered in greater detail in a further session of this seminar.

SOME LESSONS BASED ON OECD EXPERIENCE

It is difficult in a short time to cover the whole range of work on structural adjustment which has occupied OECD in recent years. Other papers will, in any case, be considering these issues in more detail. However, it is possible to identify some of the facets of policy which appear to command general support. These are as follows:

− **Use Policies which Target Specific Objectives.** A fundamental problem of agricultural policy in OECD countries in recent years has been that policies, particularly price support policies, have been aimed at trying to achieve a wide range of objectives. An emerging conclusion is that agricultural policies should be used to tackle agricultural production problems and social, rural or environmental policies should be used to achieve objectives in these areas; price support policies have proved to be an inefficient means of providing adequate incomes for farmers.

− **Support for Agriculture has a Cost.** Farm support policies in OECD countries are often seen as a success. In practice, because they have resulted in relatively high returns to factors of production used in agriculture, this has drawn resources into agriculture at the expense of economic growth in other sectors, at a cost to the consumer and taxpayer and to the detriment of world commodity markets. Furthermore, the benefits of the high returns have often accrued to the owners of factors of production outside agriculture, for instance suppliers of agricultural inputs. Alternatively the benefits have been capitalised into asset values which have been difficult for farmers to realise or to service.

− **Minimise Interference in Markets.** There is general recognition that providing that there is reasonably free movement, factors of production will move, in response to price signals, to the areas which yield the highest returns. There is a need, therefore, for legislation and institutions to provide the environment within which the markets can operate with a minimum of controls. Free markets do mean that the outcome may be an inequitable distribution of returns because of the uneven distribution of the ownership of factors of production. However, as noted above, this should not be regarded as an insurmountable problem given that corrections can be made through suitable fiscal measures.

− **Recognise the Horizontal and Vertical Inter-dependence of Sectors.** Whenever there is interference in the market for one commodity, this impacts indirectly on another. For instance, restrictions on the use of land for one crop will divert land into other crops. There are benefits, therefore, in having consistent policies applied across a range of commodities. Similarly, liberalisation of agricultural production may totally fail unless there is similar liberalisation in the markets for inputs and in the food manufacturing and distribution system. Indeed, the structural and technological developments in the marketing of foodstuffs have had a major impact on improving the efficiency of agricultural production.
Choose Policies which Minimise Distortions. OECD work has prompted most member governments to recognise that the same objectives of supporting agricultural incomes can be achieved with less distortion to markets by direct income policies than by policies of price support or subsidies to inputs or to consumption. Recently, there has been a major switch in emphasis to policies which provide income support without having a direct impact on production. Furthermore, while quantitative constraints on production, such as quotas, can offer quick solutions to market imbalances, if they are accompanied by excessive price support, this becomes capitalised into the value of quota which makes the policy less effective and difficult to reverse. Added to which, they introduce a rigidity in the production process which prevents the movement of resources to more efficient producers.

FINAL THOUGHTS

Finally, the following might be concluded from experience in policy formulation.

- Effective policy makers will look at policies in other countries, observe the costs and benefits and adapt those policy to their own circumstance.

- Producers, particularly in the agricultural sector, are remarkably adaptable. If policies are properly planned, it is surprising how quickly farmers can adapt to new policies. It is also the case that if policies are badly planned, farmers will be quick to take advantage of any deficiencies in the policy.

- On the other hand, institutions are slow to change. In some cases this may be a good thing as it provides economic and political stability. However, even here, there is a periodic need to ask the question, what is the purpose of this institution, is it necessary?

- The more simple and straightforward the policy, the easier it is to administer and the more difficult it is for it to be exploited at a cost to the consumer and taxpayer.

- It is not easy to change bad policies. This has been clearly demonstrated by policies in some OECD member countries where temporary measures to ameliorate the consequences of change have proved to be far from temporary and have, in some cases, exacerbated the problem. Such policies often prove, for political reasons, very difficult to reverse.

- It takes courage on the part of politicians to implement change. Their efforts will be wasted, however, unless policies are properly planned, unless the implications of policies are recognised and unless the framework is put in place to allow the policies to operate effectively. This dialogue between OECD and Russian policy makers is aimed at facilitating this planning process.
The agrarian reform in Russia is being implemented within the general framework of economic restructuring undertaken in the country in recent years. The goal of the reform is to saturate the domestic market with domestic foodstuffs and agricultural raw materials. The planned transformations are supported through the creation of the relevant institutional, economic, financial and legal conditions.

The reform envisages a comprehensive restructuring of the agro-food sector, permitting different forms of ownership, various forms of organisation and management, the technological re-equipping of the sector, and the development of market infrastructure based on the principles of co-operation and integration.

The transfer of lands and assets of kolkhozes and sovkhozes to their labour collectives (that is, to their members or employees) or to individual workers which is being done free of charge has become a characteristic feature of the transformation of ownership in the Russian agricultural sector. Those who get their land allotments and shares of non-land assets are free to use them as they wish. These allotments and shares can be withdrawn and used for setting up a western-style individual farm or as a contribution to a newly-established partnership, joint stock company or agricultural co-operative. They can be sold or leased to other share owners.

The institutional transformations envisaged in the Russian Federation Agrarian Reform Programme for 1994-1995 mostly have been implemented. The majority of kolkhozes and sovkhozes have now been reorganised. Dozens of different types of agricultural businesses have developed. The following forms can be identified on the basis of their institutional and legal characteristics: state-owned enterprises on the federal level; sovkhozes with state ownership of land and assets; kolkhozes; open-type joint stock companies; closed-type joint stock companies; limited-liability partnerships; silent partnerships; agricultural co-operatives; collective agricultural enterprises; peasant farms and associations of peasant farms, partnerships and co-operatives.

As a result of the reform the share of the state sector in agriculture has decreased to 10 per cent. This sector includes agricultural enterprises owned either by the federation or by the subjects of the Russian Federation. State-owned enterprises’ activity is mostly concerned with implementing government policy in seed growing and livestock breeding, introducing state-of-the-art technologies, the organisation of research and other government-sponsored activities.

Most farm enterprises are based on private ownership of land and assets. Among them private joint-stock companies and partnerships are predominant (about 55 per cent), agricultural co-operatives account for up to 10 per cent, collective farms 4 per cent and the farm associations are 3 per cent. Kolkhozes which are retained their status but had their lands and assets divided into shares constitute one-fourth of all agricultural businesses. There are 280,000 newly-established individual farms. Small-scale rural production -- mostly villagers’ household plots -- has been expanding. The number of orchards and vegetable gardens belonging to city dwellers also has been growing.

The state establishes equal economic and legal conditions for all types of agro-food businesses and supports agricultural producers. This support goes primarily to the most competitive businesses to implement viable projects and the most important social and economic activities.
In order for the new production relationships to be firmly established and to use with maximum effect the existing production capacities, attention at present is focused on improving the organisational and economic ties between businesses on the basis of the principle of co-operation. The Russian Federation government Programme “Reforms and development of the Russian Economy in 1995-1997” regards co-operation between agricultural producers, establishment of their co-operatives for production, processing, marketing agricultural services, mutual credit and insurance, as one of the most important objectives of structural policy in the agro-industrial sector. Co-operatives are being formed and function on the principles of voluntary membership, mutual support and economic profitability. Profits are divided between their members on the basis of their personal labour participation. Associated membership is limited. Decisions are made by democratic vote (one member-one vote).

The processing and service sub-branches of the agro-food sector have also undergone considerable transformations. More than 90 per cent of processing plants, 66 per cent of agricultural service enterprises and 86 per cent of bakeries have become private.

There is an ongoing search for more flexible and deeper integration of agricultural and processing enterprises and trade which allows for a more fair distribution of profits between them. The processes of co-operation and integration in the agro-food sector are being pursued more actively primarily because in the course of the agrarian reform we failed to eliminate the monopolism of the processing and servicing enterprises vis-à-vis agricultural producers. Between 1991 and 1994 the share of agricultural producers in the final price of foodstuffs went down from 60-70 per cent to 20-40 per cent. This resulted in a situation when the processing enterprises began losing their supply bases and could not operate at full capacity. On the other hand, construction of small-scale processing plants by agricultural enterprises in general is not economically sound and requires considerable investments.

The Ministry’s attitude is clear: it is necessary to create conditions for the more efficient utilisation of the existing capacities in the food processing industry on the basis of production and trading co-operatives, development of contractual relationships and participation of the agricultural producers in management of those enterprises. The Russian Federation Presidential Decree of December 20, 1994, No. 2205 “On the specific characteristics of privatisation of the processing and service enterprises of the agro-food sector” allows the transfer of a controlling interest in processing and service enterprises to agricultural producers to begin.

The land reform is the central element of the agricultural transformation. Its underlying principle is that the agricultural land should belong to those who use it for agricultural production, care for it, and improve its productivity. Ninety-five per cent of all agricultural land was transferred directly to the agricultural producers. Land plots are offered to foreign citizens and legal entities on a lease basis. The rights of private ownership have been laid out in the Constitution of the Russian Federation, Civil Code and other legislative acts of the Russian Federation. Thus were established the prerequisites for the turnover of land, as well as the attraction of domestic and foreign private capital to the agricultural sector for the establishment of joint ventures and development of leasing relationships.

As a result of the transformation of agriculture, the rights and authority of the agricultural producers have been enhanced. Since they have become the owners of the land and assets, they have the right to engage in production independently, to dispose of their output and profits and to set prices for their products. It should be noted that, as a result of restructuring, the system of state management of the agro-food sector has been dismantled. Under the new conditions it is being replaced by market-type influence mechanisms. The Federal Foodstuff Corporation was established with the Ministry of Agriculture with subsidiaries in different regions of the country in order to regulate the food market. Research is being co-ordinated and there is a unified system of veterinary and quarantine control.
At the same time the system of state regulation should be further improved and adapted to the new situation. The role of the Ministry of Agriculture and Foodstuffs as a federal executive body exercising the function of the state management in agriculture and food processing industry should be strengthened.

Subsequent transformation of production relationships in agriculture will be aimed at the establishment of rational productive entities which can be the most competitive under market conditions. The legislation guarantees freedom of choice of the forms of business enterprise by the producers. At the same time it is recommended that the producers take into account domestic and foreign experience of efficient production -- including large-scale industrial production -- which is the major source of supply of agricultural raw materials and foodstuffs to the domestic and foreign market.
DEVELOPING THE AGRO-FOOD SECTOR’S FINANCIAL AND CREDIT SYSTEM

Viktor Khlystun

The lack of a clearly determined financial policy meeting the requirements of agricultural producers has become one of the major reasons for the drastic drop of agro-food sector output and, what is especially dangerous, of the unprecedented decline in the agro-food sector’s economic potential. Economic policy agencies have made superficial judgments without going into a deeper analysis of the situation and without taking into account the opinions of agrarian experts. Subsequent decisions based on those snap judgments have harmfully affected the sector, discredited its institutional transformations, negated the benefits of reforms in property rights and cancelled out the advantages of more effective forms of organisation and management.

At the outset of the agrarian reform the agro-food sector required (technically, technologically and climatically) the maintenance of at least the same level of state financing. This support needed to be targeted to resolve the following main tasks of the agro-food sector’s transition to a market orientation:

- development of a market infrastructure;
- credits to agricultural producers on affordable terms;
- promotion of co-operatives in agriculture;
- promotion of new agricultural technologies;
- financial tools to maintain price parity on industrial and agricultural goods and energy resources;
- state promotion of measures to increase soil fertility;
- promotion of elite seed-growing and pedigree breeding;
- financial and organisational support to agricultural producers willing to participate in the privatisation of processing, storage, service and trade businesses; and
- promotion of priority branches of agroscience and education.

But state financial policy was actually aimed at damning a rapidly degrading agriculture. Funds allocated from the federal budget were sufficient to take only the most urgent measures to carry out seasonal work and save the weakest subbranches. Nothing else could have been done given the federal budget. In 1991, agriculture’s share in the federal budget amounted to 19 per cent. In 1994 it was 8.5 per cent; in 1995, 37 per cent. Its share in the draft budget for 1996 is 3.16 per cent.

Budget funds are only a part of financial policy in the agro-food sector. It is also determined by the terms on which the resources of Russian commercial banks, investment funds, international financial institutions, foreign banks and firms might be placed in the sector. But the problem is rooted in the fact that the government failed to use budgetary policy measures to make the agricultural sector more attractive for potential non-state investors.

The actual economic situation in agriculture undermines the creditworthiness of agricultural producers and makes both long- and short-term investments in the sector quite risky. Politically the country is not entirely stable and the government is almost unable to take the risk of providing sufficient guarantees to potential investors. All these factors shut off the sector from foreign investments and make it almost impenetrable for Russian banks and other financial institutions.

To find the way out of this situation, three closely intertwined problems have to be resolved:
a) To allocate more budget funds for the solution of the tasks mentioned above, increasing the agro-food sector’s share in budget expenditures to 8-10 per cent annually, out of which at least 60 per cent should be targeted to resolve the said tasks;

b) To make the agro-food sector more attractive for non-state Russian and foreign financial institutions;

c) To create a banking system able to meet the requirements of the market economy in general and agricultural producers in particular and to provide a wide range of services.

To resolve problem (a) additional sources of budget revenues have to be found and its expenditures have to be redistributed. This is naturally a task for the government and the legislature, though some of the ways to do so are quite obvious: to improve the collection of excise duties on alcoholic beverages, to differentiate the rates of personal income tax, etc.

To resolve problem (b) a powerful insurance system has to be created with the help of the state to secure investments in the agro-food sector and to set up legal guarantees for investors.

To resolve problem (c) commercial banks working in the agricultural sector (first of all Agroprombank with its network, the most powerful agricultural bank in Russia) have to be restructured and their field of activities widened. To this end the following measures are to be taken:

- to develop Agroprombank’s network by creating co-operative banks in large populated areas, while the existing branches will play the role of methodological centres and subsequently be transformed into second-level co-operative structures;
- to develop mortgage lending;
- to promote the leasing of agricultural machinery, equipment, and technologies;
- to form financial-industrial groups comprising commercial banks, producers of raw materials, processors, storage facilities and traders;
- to develop agro-financial consulting;
- to create a system of seasonal credits secured by pledges of agricultural commodities.

Measures to be taken to expand agrarian banks’ activities are connected with their organisational restructuring. Agroprombank, for example, will be transformed into a holding company. Its core will be financial and credit institutions, around which it will be necessary to create a trading house, financial, insurance, leasing, and consulting companies, 5-6 financial-industrial groups at the federal level and many FIGs at the regional level.

Priority is given in agro-food sector financial and credit policy to the attraction of credits from international financial institutions (IMF, IBRD, EBRD, etc.). Co-operation with these institutions in 1992-1995 lacked systematic and coherent organisation. Drawing up projects and programs took an unjustifiably long period. Russian professionals’ skills were insufficient to draft project documents meeting international standards. To speed up the process, to make our projects more targeted and to open real financing projects we consider it expedient to set up working groups of experts from different agencies, ministries and commercial banks.

It is necessary to point out that neither the provision of centralised credits in 1991-1994 nor commodity credits in 1995 met our expectations. We do not think it expedient to choose only one of these options. Both of them should be combined, in a different way.
In 1993 and 1994 experts from the Ministry of Agriculture proved to the Ministry of Finance and the Central Bank that loans with annual interest of 210 per cent and higher would aggravate the economic situation in the sector. They demonstrated that such rates would have a negative impact on the financial system of the country, causing more damage that any extension of credits through a credit line at one-third of the Central Bank’s interest rate. In that case, the costs to the state would have been much lower than the cost of rescheduling debts. Moreover, the existing procedures of extending credits, collecting and rescheduling debts depraved the borrowers. As a result, the most efficient farmers and co-operatives suffered more than others because as soon as revenues were credited to their accounts they were debited immediately to repay their debts. But borrowers who earned nothing or did not put their money in the bank had their debts stretched out for a 10 year period.

Commodity credits have not met our expectations either. Their terms have been too severe, and preliminary estimates suggest these credits will not be repaid on time. This will have a negative impact on the suppliers of chemicals, fuel and lubricants, thus making it more difficult to get them involved in extending credit to agriculture in 1996.

We believe that this mechanism should not be rejected, but its application should be reasonable and combined with the provision of ordinary loans through special credit lines with a maximum interest equal to one-third of the Central Bank’s rate. At the same time, the procedure for extending credits should be changed. We should move away from distributing them in the regions on the basis of producers’ needs. Instead, they should be extended based on an evaluation of borrowers’ creditworthiness and secured by pledges.
AGRICULTURAL CREDIT PROBLEMS DURING THE TRANSITION TO A MARKET ECONOMY IN CENTRAL AND EASTERN EUROPE

Johan F.M. Swinnen

As a result of economic reforms in Central and Eastern Europe (CEE) new structures in agriculture are emerging. The changes in agriculture together with macroeconomic uncertainty have created difficulties in financing agricultural activity. At the same time the banking sector is undergoing a major transformation, and so credit markets are underdeveloped, inhibiting the effectiveness of monetary, credit and trade policies (Calvo and Frenkel, 1991).

The problems in the credit market for agriculture stem from both demand and supply forces. Lack of collateral, low profitability and macroeconomic uncertainty make banks view the agricultural sector as a high risk consumer. Expected declining profitability and macroeconomic uncertainty are discouraging borrowing at high nominal interest rates. Immediate plans of farmers are uncertain because of the lack of working capital. There is also the long-term problem of ensuring adequate funds to facilitate structural adjustment and to enable farmers to apply effective technologies.

In this paper we assess the problems of financing CEE agriculture during the transition and the role of government in this process. We first discuss why credit markets work imperfectly even in well developed market economies, leading to widespread government intervention in this sector. Then we discuss additional credit market problems that emerge during transition of CEE agriculture. Afterwards we discuss the potential role for governments and review actual government intervention in CEE countries.

Imperfections of agricultural credit markets1

Credit and risk markets even in the most market-oriented countries work imperfectly, largely due to imperfect and costly information. Problems of imperfect information and incomplete risk markets are particularly important in agriculture. Agricultural production incorporates time lags inherent in biological processes, and is subject to the random influence of weather, diseases and pests. Producers can trade away some price risk on futures markets, but farmers are typically at an information disadvantage relative to larger trading companies. Even in the most developed economies, farmers make relatively little use of futures markets. While informational asymmetries limit the ability to insure against price risk, yield risk cannot be fully covered without attenuating incentives. In general, the ability of farmers to share risk is extremely limited.

Economists have increasingly recognized that loan (credit, capital) markets are not like ordinary markets of conventional goods and services. A loan entails an exchange of current cash (of goods) for a promise to pay cash (or goods) in the future. That promise is sometimes broken. Lenders have to screen different loan applications to determine who is more likely to repay; lenders also have to monitor the use of funds to ensure that they are used to increase the likelihood of repayment.

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1 This section is based on an excellent discussion by Stiglitz (1993). His discussion is based on his earlier work (see e.g. Stiglitz and Weiss, 1981) and the research on the interlinkage between rural credit, labour and land markets (see e.g. Bardhan, 1989).
As a result of informational imperfections, credit markets often do not seem to function well. Credit markets are often characterized by credit rationing, meaning that some individuals or groups cannot obtain loans at any interest rate. For example, farmers in some regions or in some time periods may have only limited or no access to credit, even if some of them might propose good investments to the financial institutions (or lenders in general). Even when they obtain loans, they may have to face high interest rates.

Two key problems of markets with asymmetric information are adverse selection and moral hazard. Adverse selection in financial markets occurs when potential borrowers who are the most likely to produce an undesirable (adverse) outcome (i.e. the bad credit risks) are the ones who most actively seek loans and are therefore most likely to be selected, as lenders may not know the borrower at all or only some of his characteristics. Since adverse selection makes it more likely that loans might be made to bad credit risks, lenders may decide not to give any loans even though there are good credit risks in the marketplace. The access to credit is rationed and credit allocation is not efficient in the market. As a result even agricultural producers with good projects may not obtain the loans they need to invest for a particular activity.

Moral hazard in financial markets occurs when the lender is subjected to the hazard that the borrower has an incentive to engage in activities that are undesirable from the lender's point of view. If the borrower does not have enough incentives to manage as well as possible the capital resources for particular purposes or may change the purpose for which a loan is granted, this may lead to an increase in the risk of the borrower's ability to repay the loan. Depending on the lender's capability to monitor the borrower's activities, credit rationing may result.

Some of these supposed imperfections reflect real economic costs. Credit rationing and high interest rates may not be due to exploitation by banks and money lenders, but instead may be a rational and efficient response to the information problems that are inherent to agricultural credit markets. High interest rates may reflect high default rates or high costs associated with screening and monitoring loans. At the same time, information imperfection generally gives rise to imperfect competition, so that there may be some scope for lenders to exploit borrowers.

Limited credit and high interest rates often appear as an impediment to agricultural development, inhibiting the acquisition of capital necessary for modern agriculture. This seeming market failure often results in pressure for government intervention.

**Agricultural credit markets during transition**

Agricultural credit markets in well-developed and functioning market economies work imperfectly. In addition, a series of specific, transition-related, problems worsen the problems of financing the Central and Eastern European agricultural economy since 1989.

**The role of credit**

The nature and role of "credit" is quite different in a planned and a market economy. In a market economy, the main monetary policy instrument is the control of the total money supply, leaving the allocation of credit inside the economy largely to independent financial institutions which base their lending policies on assessments of risk and financial returns. In centrally planned economies the main monetary policy instrument was credit allocation. A financial plan ensured the realization of physical
targets as expressed in the state plan. The plan specified quotas for working capital, long term loans for financing investment and public money holdings. Frequent undersupply of public goods and services caused savings balances to exceed plan targets and generated excess liquidity.

One could even argue that under the centrally planned system, credit was less a monetary than an accounting instrument. This different role of credit is a factor in explaining agricultural producers' strong insistence on preferential credits, i.e. credit at low interest rates: why does one need to pay for using an 'accounting mechanism'? Therefore, addressing the 'credit issue' includes, besides the economic allocation problems, also a psychological/educational factor in explaining the role of credit in an economy and that the use of credit has a price, i.e. the interest rate.²

Reform of the banking system

Simultaneously with the other reforms, the financial institutions in CEECs are undergoing a major reform. While under central planning most of the banks were mere branches of one bank, with very little independent decision-making, the restructuring of the banking system creates a system of (increasingly) independent banks.

Bad debts accumulated during the centrally planned period create problems in two directions: they ration the supply of credit and hamper the speed of privatization and land restitution. As long as this debt problem is not solved, a well defined system of property rights and incentives, necessary for efficient decision making and investments, will not develop.

Credit supply in the system is further limited because of the decline of the economy during the transition. The CEE countries cannot generate enough of the capital needed as a basis for development of their economies. Reduced international financing in addition has hampered the speed of reform.

Banking officials’ lack of experience and skills create additional problems for efficient operation of the intermediary institutions. The market mechanism requires a different approach for the evaluation of loan applications. For the agricultural sector, bankers need additional knowledge relevant to the cash flows in the sector.

Lack of clear property rights and incomplete land reform

In most CEECs land reform is still incomplete. In other words land is not fully tradable and this inhibits the creation of a land market and the possibility for the use of land as collateral. Agricultural credit supply is limited due to this reason in comparison with a well developed market structure. Legislation typically prevents the pledging of assets when they are in the process of privatization and restitution. As long as property rights are not fully determined for all kind of assets, there will be a demand for government guarantees for the loans.

² Similarly, the attitude towards trading and marketing is very different in planned and market systems. While marketing and trading are considered vital elements of a well functioning market system, traders ("speculators") are often blamed for increasing prices and reaping profits on the back of "producers" without producing anything for the economy. For a historical review of the public attitude towards and the "respectability" of moneylenders and bankers, see Galbraith.
Problems with pledging of the loans

Farmers have to give long-term assets as collateral for short-term loans. Banks typically require residential property in urban areas, because the market for real estate in rural areas is thin and they will not be able to sell the property when the borrower defaults. In several CEECs, banks refuse agricultural land as collateral even when property rights are fully restored, because of the absence of a land market, or because land prices are too low. For example, in Bulgaria, bankers accept about 80 per cent of the market value of fixed assets in urban areas and 60 per cent in rural areas as collateral. This increases the required capital for loan pledging.

To avoid higher risk and uncertainty during the transition period, banks further require a very high level of collateral. One important reason for such a high collateralization of loans is the high rate of inflation and the variation of the assets value given as collateral. In Bulgaria, the amount of the request for pledging loans may be from 150 per cent to 180 per cent of the total loan amount.

Increased transaction costs for monitoring and screening loans

Costs for monitoring and screening loans are higher during the transition in comparison with a relatively stable market structure. The continuous reorganization of agricultural enterprise structures and difficulties for monitoring agricultural operations makes agriculture an unattractive sector for investing from the banker’s point of view. The lack of a well developed accountancy system leads to a low level of information and creates difficulties for monitoring loans.

Indebtedness of the producers

The agricultural sector in all, or almost all, centrally-planned economies accumulated large bad debts. During the period of central planning, the credit supply for agriculture was organized through national banking systems. Credit worthiness of the borrowers was estimated on the basis of cash flow requirements without pledging of loans. Because of the lack of property rights and responsibilities for the decisions which were taken, the state wrote off unrepaid loans. This reduced incentives for better management and obscured the difference between credit and subsidies. Indebtedness inhibits the provision of new loans and the process of land restitution and restoration of property rights.

Depressed farm income

Farmers have difficulties selling their products due to stagnation of the domestic markets and the collapse of the former CMEA trading system. Trade relationships with the European Union and EFTA are at a low level of development and expectations for future developments are uncertain. Farm incomes have fallen in all CEE countries as input prices have increased much more than output prices.

Another important factor which can influence the level of the farm income is the monopsonistic power of the wholesale firms. They often purchase the products but postpone payments. The payments are not adjusted for inflation between the time when the products have been delivered and when producers are paid.
Producer price index and inflation level

In general, the increase in agricultural product prices is lower than the general price index. While real interest rates may be negative compared to the consumer price index in some CEE countries in some years, the interest rate has -- with some exceptions -- been positive in comparison with the agricultural-producer price index. In addition, high nominal inflation causes uncertainty, which is worsened for agricultural producers in some CEE countries by uncertainty about future government policies.

The role of the government in agricultural credit markets

The transition to a market economy in agriculture involves not a withering away of the state, but a fundamental redefinition of its role. The role of government is, however, not always clear. For instance, capital market imperfections give rise to a demand for government intervention, but government is not necessarily at an informational advantage relative to private lenders.

Governments often intervene in agricultural credit markets, e.g. by providing guarantees to banks for loans, by setting up special credit institutions for agriculture and by subsiding credit to agricultural producers. Is this a response to a market failure, or to pressure from those in the agricultural sector for hidden subsidies? Stiglitz (1993, p. 33) argues that "[t]here is a growing consensus that if the government goes where the private market fears to tread, it should do so only cautiously and with safeguards. The government faces the same (and sometimes worse) information problems; it is no better a screener of loan applications, and no better monitor. Worse still, it often faces political pressures."

Let us review some of the basic economic arguments on the most frequently used government interventions in agricultural credit markets. From a pragmatic perspective, we believe it is important to keep several criteria in mind:

- Do the policies solve the problems in the short run?
- How much distortion do they induce?
- Do the policies address the symptoms or the causes of the problem?
- (How) can they be targeted?
- Are they consistent with the development of a long run viable and efficient rural financial system?

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3 This section is based on the empirical and theoretical research following the evaluation studies of large scale (often World Bank supported) rural credit programs in the 1960s and 1970s, by, among others, Dale Adams and John Von Pischke (see e.g. Von Pischke et al. (1983); Adams et al. (1984), Adams and Fitchett (1992)). Excellent non-technical summaries of their insights are Von Pischke (1991) and Fry (1988). See also Karp and Stefanou (1994).
Credit subsidies

Providing credit at "preferential interest rates" to agricultural producers makes credit cheaper for them. As such they are input (credit) subsidies. The main disadvantages of such programs are:

- The subsidies are paid for by the government. They will therefore tend to increase the budget deficit or induce increased government borrowing, which will have a negative impact on inflation and nominal interest rates. This effect is directly related to the impact of the program, i.e. the total amount of subsidies. As the main reason for their initiation is high nominal interest rates, this effect is counterproductive.
- The funds could be used for investment in public goods or infrastructure, stimulating long-term development of the agricultural sector;
- Short-term crisis interventions and "temporary" programs tend to become permanent programs. This is because (a) they create expectations on the part of the producers (and possibly also other groups) that they will be continued or repeated under certain circumstances; (b) they tend to create their own constituency and for political-economic reasons it is difficult to remove them afterwards; and (c) they get incorporated in prices for less mobile production factors (e.g. land values), raising production costs for new producers and therefore demand for the continuation of the programs;
- They have a negative effect on the development of alternative sources of agricultural credit (such as credit from up- and downstream industries), because those alternative sources face uneven competition from the subsidized credits;
- They tend to give the wrong signals to the reforming enterprises. Economic adjustments that eventually will have to be made might be postponed, making their implementation later on even more difficult. For example, if preferential credit is given to structures that are to be reformed and restructured, they might reduce the incentives for those organizations to proceed with the reforms, and thereby have an adverse impact on the reform process.\(^4\);
- As credit is fungible, credit intended for agriculture may flow to other, more profitable activities;
- Unless the problem of collateral is addressed as well, credit subsidies will have little effect on the rationing problem. For example, the 1992 credit subsidy program in Bulgaria had little effect. The banks continued to refuse to lend to agriculture because they could not obtain sufficient collateral. Then, the government obliged the banks to accept future crop output (backed by crop insurance) as collateral. In case of default the law specified the sharing of collateral risk between banks and government. When the banks were still reluctant, the government included a regulation that would penalize bank managers for obstructing loans to agriculture.
- Depending on the allocation procedure, they might induce (opportunities for) corruption.

Discussions with local specialists suggest that some countries also see credit subsidies as a way of supporting agriculture without conflicting with their GATT agreements, as might be the case when they would use price supports (see Tangermann and Josling for a discussion of CEEC price policies and GATT agreements).

Besides the obvious subsidy effect for agricultural producers, the main argument in favour of credit subsidies is that -- if the collateral problem is addressed as well -- the fall in agricultural production and disruption "below a long-run equilibrium" may be mitigated or reversed. A second argument is that, as state enterprises and production structures under liquidation or restructuring typically care less about repaying loans (as their debts are often regularly cancelled) their demand for credit may have a crowding-out effect on private farmers or enterprises facing hard budget constraints. In this way the latter face unfair

\(^4\) See Swinnen (1994) for a discussion of this effect in Bulgarian agriculture.
competition from the former on the demand side of the credit market. Credit subsidies may mitigate this
effect.

If governments decide to pursue credit subsidies as an answer to the financing problems during transition,
some constraints are to be recommended:

• develop a credible mechanism to limit the duration of the program;
• target the program to the post-reform enterprises;
• restrict the amount of subsidies;
• use commercial financial institutions for channelling the subsidies to reduce administration;
• devise simple rules to reduce opportunities for government discretion in allocating subsidies, so
  avoiding opportunities for corruption;
• require individuals receiving assistance to demonstrate that the loan will be used for the intended
  purpose.

**Government loan guarantees**

Given the acute problems of collateral in CEE agricultural finance, many CEE governments have set up
loan guarantee programs. Partial loan guarantee programs are common in Western agriculture. They are
typically used to support medium and long term investment in farms by guaranteeing a large share of the
loan (e.g. 10 per cent of the loan is backed by collateral provided by the farmer, 20 per cent by the banks
and 70 per cent by the government). In case of default this is the order in which payments to cover the bad
loan are collected. The idea is to keep the appropriate incentives both for the farmer to repay the loan and
for the banks to monitor the application. Typically, such programs are not used for working capital.

In general, government guarantees soften the budget constraints for lending institutions and therefore for
the borrowers. This problem might be less acute in a situation of Western agriculture where monitoring is
strong, the banking system is well developed and loan guarantees are centrally managed. (However, an
argument to the contrary is the 1980s collapse of the savings and loan system in the USA.) However,
under an emerging banking structure, with many different production structures, some under current
restructuring or even liquidation, the danger is much more acute that these guarantees (especially for
working capital) will induce more bad loans. The incentive for those structures to repay the loan is now
even less than before.

In addition, government guarantees negatively affect the development of a viable rural financial system as
they (a) discriminate against alternative credit sources; (b) might reduce the incentives for banks to
monitor and analyze loans; and (c) might induce lobbying and crowding-out effects when the guarantees
are limited.

So, while the guarantee programs might provide some solution for the problem of collateral for medium
and long run investment programs, they may not solve the short run financing problem, besides their
negative impacts as discussed here. In any case, it is important in setting up such loan guarantee programs
as much as possible to prevent the diminution of incentives for the agents involved. Therefore, one
should be careful to ensure that the borrower has to provide the first part of the collateral and is forced to
repay as much as possible in case of default. The bank has to take its share of the risk in order to stimulate
the bank to monitor and screen the loans sufficiently. Furthermore, the program should allow several
banks to participate in order to induce competition. Finally, the government should limit its involvement

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to setting general simple and transparent rules, and should not be allowed to interfere with specific applications or actual loan decisions.

**Creation of specialized agricultural credit institutions**

Specialized agricultural credit institutions are widespread in Western countries (Credit Agricole, Raiffeisen institutions, etc.). Many have developed into large banks from rural credit cooperatives. However, their effect in resolving CEEC agricultural financing problems in the short run may be limited.

Specialized credit institutions for agriculture can be credit cooperatives, state owned agricultural funds, mutual or development funds. These various institutions have different characteristics, affecting their efficiency. However they have some important advantages and disadvantages in common.

The most important advantages from the creation of specialized agricultural credit institutions are lower transaction costs and a better knowledge of agricultural activities. The idea is that this will reduce rationing and stimulate lending to agriculture. The major disadvantage is their higher portfolio risk due to their specialization. All of the Western “agricultural” financial institutions have developed their activities outside agriculture, contributing to the success of these banks by spreading risks of their lending portfolio. For this reason and given the high risks and uncertainties in CEE agriculture, existing commercial banks with a diversified portfolio may be more efficient financial institutions for rural credit.

Such a system takes quite some time to develop. Therefore, it will not be a solution for a short-run problem. Neither will it resolve problems related to incomplete property rights. Finally, an agricultural credit institution under government control is inconsistent with ongoing reform and privatization. It will have a negative impact on the development of a commercial rural financial system in the long run. It reduces the competitive position of commercially viable private banks and informal credit suppliers which cannot compete with cheap credit which is likely to be channelled through this bank.

**Agricultural credit policies during transition**

An overview of government assistance in CEECs shows that they have introduced all forms of government intervention in credit markets. Some general conclusions are that:

- credit subsidies have not stimulated an increase in credit supply unless the collateral problem was addressed as well;
- indebtedness has increased in agriculture, inducing more instead of less government involvement;
- once implemented, the programs have been repeated or expanded (e.g. Polish credit subsidies have increased from 2.4 per cent of the agricultural budget in 1989 to 29.3 per cent in 1995);
- while some government interventions may be consistent with the guidelines for pragmatic policy intervention as discussed above, other policies (e.g. the Romanian case) appear little less than massive producer subsidization programs. Those are likely to be counterproductive given the high inflation levels.

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5 The information in this section was mostly collected from issues of *East Europe Agriculture and Food*, Agra Europe, London; and from Petranov and Roussinov (1994).
Let us now consider the Central and Eastern European countries’ policies in more detail.

**Bulgaria**

Under the centrally planned economy collective farms accumulated unrepaid loans. Two billion leva (US$ 54 million) of bad debts were transferred into state debt at the end of 1993. This reduction was claimed to be justified because this debt resulted from the pre-reform indebtedness of the collectives, which had been run as state-owned farms. As interest rate payments were not included in the transformation of debts, they accumulated after the beginning of the transition period. The Bulgarian Parliament refused to transform the new bad loans accumulated by collective farms under liquidation. Structural reforms started at the end of 1989, installing liquidation councils as a temporary measure, but the farms continued to operate on the basis of unclear property rights and continued to accumulate bad loans during the transition. The same problem will arise in the future if collective farms under liquidation continue to operate. Although the old bad debts were written off, new unrepaid debts amounted to around US$ 46 million.

Post-reform agricultural credit subsidies were begun in 1992 and continue. Autumn sowing for the 1994-1995 crop year will be supported by two commercial banks: the United Bulgarian Bank and the Balkanbank. (Balkanbank is the official distributor for the Agricultural Credit Center in Bulgaria.) Target groups are both private producers and “new” cooperatives. The credit subsidies are 1/2 of the Bulgarian Central Bank interest rate plus a three-point margin. Loans are only for seeds, fertilizers and fuel. Credit subsidies are reduced following a contract between the Bulgarian Government and the World Bank for US$ 50 million. The basic requirement in the contract is the reduction of the loan subsidies. Instead of 2/3 from the basic interest rate for 1994 subsidies have to be reduced to 1/2 from the basic interest rate for 1995. The required reduction for 1996 is 1/3 of the basic interest rate. The total budget payments for credit subsidies for both 1995 and 1996 must not exceed 1.5 billion leva. At the beginning of 1997, the interest rate for farmers will have to be on a commercial basis.

At the beginning of 1992 the government established the Agriculture Credit Center (ACC) as a specialized credit institution. The main shareholder is a public agency. Credits are only given to private farmers and “new” cooperatives. At first the ACC provided loans in relation to the exchange rate. The interest rate risk was transferred to an exchange rate risk. After the dramatic depreciation of the Bulgarian leva at the beginning of 1994 by about 100 per cent, the ACC changed the rules for the loan disbursement. Instead of relating the loan principal to foreign currency and a constant interest rate, it is now related to the interest rate risk. Changes include credit subsidies for 2/3 of the Central Bank loan interest rate. The most recent disbursement of credit from the ACC for the livestock sector amounted to US$ 600,000. Loans will not exceed 250,000 leva (US$ 4,000) per approved loan application. Maturity is between one and four years. The interest rate will be 1/3 of the Central Bank basic interest rate for refinancing commercial banks.

A project for the creation of agricultural mutual credit societies is now under way. The establishment of these societies will support the development of specialized agricultural lending for Bulgarian farmers.

**Czech Republic**

The State Fund for Market Regulation (SFMR) was created in the first stage of the reform. The fund is to support agriculture during the transition mainly for oversupplied products. The government’s attempt during 1990-1993 to subsidize new farmers’ investments has not been efficient because of the state bureaucracy. Since 1994 the Czech government has created the Support and Guarantee Fund (CGF) for Agriculture and Forestry to provide cheaper working and investment capital for farming. The CGF capital
is about Ckr 3.5 billion. A part of this fund is to cover losses from downstream industries - 60 per cent to 80 per cent when they are indebted and still did not repay their debts to farmers.

The state sector in agriculture created new bad debts. At the beginning of 1994, almost all of the state farms which obtained government guarantees for their loans could not repay them. The Czech Republic’s Land Fund had to come up with more than Ckr 1 billion for the state farm arrears.

Input suppliers are limited as an alternative source for loans to agriculture because of unrepaid payments, mainly from state farms. There are about 0.5 billion Ckr of unrepaid loans from farmers to the Union of Agricultural Suppliers and Purchasers. Future crops as collateral for these loans have less value than payments required by input suppliers. A good example of the management results based on different ownership is a comparison between losses in the private, cooperative and state sector. The picture for the sectors is as follows: the losses in the state sector amount to up to Ckr 8500 per hectare, Ckr 1 051 per hectare in the cooperative sector, Ckr 561 per hectare in private farm companies and Ckr 157 per hectare in private farms.

**Hungary**

Credit subsidies have been available for Hungarian farmers since the beginning of the reform. Because of the requirements for 30 per cent (up to Ft 500 000) loan guarantees of the farmers who applied for preferential credits, the Hungarian Agricultural Development Fund (ADF) could not successfully supply loans for most of the agricultural producers. For 1994 the preliminary amount of Ft 4 billion was increased by an additional Ft 2 billions. Because of these changes the number of applicants increased 1500 in 1993 to 3000 by the end of February 1994. The available funds are for 5000 or 6000 applicants.

The development of the ADF gave better conditions for farmers when they want to buy farm machines. Collateral requirements are only 5 per cent of the total capital for a particular purchase. Government intervention continues with the establishment of the Agricultural Enterprise Credit Guarantee Foundation (AECGF). This fund is established with international donor assistance (ECU 10 million from the PHARE programme) and Ft 100 million from the local commercial banks. Another important assistance from PHARE to the Hungarian farmers is support to the development of rural banking by the integration and modernization of the savings cooperatives.

**Poland**

The government has provided credit subsidies for Polish farmers since the beginning of the transition period. 1993 credit subsidies were approximately 1.5 trillion zloty. The interest rate for working capital was 1/4 of the commercial interest rate for loans with a maturity of 6 months. It was half the interest rate for loans with a maturity of 9 months for storage of agricultural production. To encourage agricultural investments, the Government established the Agency for Restructuring and Modernization of Agriculture (ARMA) for targeted investments including rural infrastructure, private investments and structural changes.

**Slovak Republic**

The Slovak Republic increased the credit supply for agriculture. The Slovak government created the State Support Fund at the beginning of 1994. The Fund provides all kinds of loans for agriculture with loan guarantees and credit subsidies.
**Romania**

Credits for Romanian farmers are subsidized. The interest rate varies from 15 to 75 per cent according to the purpose of the loan. (The commercial banks’ interest rate is 105 per cent.) For short-term credits the annual interest rate is 15-60 per cent and for medium and long-term credits the annual interest rate is 70-75 per cent.

The Romanian government provides credit lines for farm machinery. It requests farmers to put down 15 per cent in order to obtain an additional 85 per cent in credit. The interest rate will be not higher than 70 per cent. Maturity is five years and the grace period is six months. There is also a credit line is 50 billion lei for farmers’ equipment. This credit line has a one year grace period and a 15 per cent interest rate on an annual basis. Besides long-term financing with credit subsidies farmers will have financing for autumn sowing operations with an annual interest rate of 15 per cent.

**Some concluding remarks**

Agricultural credit markets work imperfectly even in countries with developed market economies, and government intervention in the agricultural credit market is widespread. CEE agricultural reform and the simultaneous restructuring of the banking sector create additional problems for financing agriculture. For most banks, financing agriculture is a high risk activity because of low profitability in the sector, high nominal inflation, problems with collateral because of uncertain property rights and ineffective land markets, and the lack of well established relationships between them and new producers.

Stiglitz (1993) argues that the state has a potentially positive role to play in the agricultural economy, but the activities of the governments in developed economies' agriculture frequently reduce rather than augment general welfare. He further suggests that our understanding of the economic and political forces that have given rise to inefficient agricultural policies in the West may enable the economies in transition to design a more rational economic system. However, the previous analysis suggests that political and economic forces have induced the CEE governments to select and implement policies during transition that are similar to the ones that exist in Western agricultural credit markets.6

While one should be pragmatic in evaluating these policies, given the large problems, one should also be careful in promoting government programs which are presented as “temporary measures”, but which may conflict with the longer term objective of creating a sustainable and efficient rural financial system. Many existing distortionary agricultural policies in OECD countries were implemented initially as “temporary measures” to overcome a specific (time-limited) problem. However, agricultural programs tend to create their own constituency and to persist long afterwards, because they are very hard to remove once they have been implemented. This suggests that one can expect the CEE agricultural credit programs to remain.

Finally, it should be stressed that many of the credit programs focus on symptoms rather than on solving the primary causes of the problems. This, in general, is not a good policy. Part of the agricultural credit problems are caused by high inflation, uncertain property rights, ineffective land markets, low profitability in farming, and high transaction costs in financial intermediation. Therefore, optimal government policy should be to address the causes of the problems by reducing the budget deficit and cautious monetary

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6 The political economy rationale behind these developments has been discussed more extensively in the case of price and trade policies by Swinnen (1993).
policies, speeding up the land reform and privatization process, by developing regulations and institutions for a land market to develop, by creating the environment for a private agriculture to function and by investing in rural infrastructure and agricultural research, and by creating the environment for the development of commercial rural financial institutions to develop. To the extent that government credit programs are inconsistent with this, they will have a perverse effect on solving the agricultural credit problem.
References


Free prices, i.e. prices formed under the influence of supply and demand, have existed for agricultural produce and foodstuffs since 1992. For a very brief period in the first half of 1992 price regulation was maintained on some socially important kinds of foodstuffs, but even it was scrapped on grounds of ineffectiveness. In 1993-1994 the government of the Russian Federation took decisions on the centralized fixing of purchase prices for cereals or arranged for the reaching of price agreements on them. However, this kind of price regulation was concerned solely with produce from plant growing for purchase as state reserve stocks, i.e. the State determined the price of the produce that it purchased for its needs. Starting in 1995, pursuant to the Law of the Russian Federation "On purchases and deliveries of agricultural produce, raw materials and foodstuffs for state needs", minimum guaranteed prices have been in effect and must be used by procurement organizations and enterprises only when making purchases for state reserve stocks.

Guaranteed prices for produce to be purchased for Federal stocks are fixed by the Federal authorities. At the present time such prices are fixed at the Federal level for cereals, sugar beet, oil seed crops, fibre flax, cattle and poultry, and for milk. The authorities of subject members of the Russian Federation have the right to fix guaranteed prices for produce purchased for regional food stocks. The aim of using guaranteed purchase prices is to maintain the income of agricultural producers. The prices should enable normally functioning enterprises to cover their production costs and have the income needed for continued reproduction.

Guaranteed purchase prices are indexed quarterly by means of projected price indexes (deflators). These projected price indexes are fixed having regard to the established level of free (contract) prices, the ratio of the prices for the various kinds of agricultural produce, and the level of prices for similar produce in world markets - i.e. what are taken into account are market condition factors and the real relations of demand and supply.

In the absence of financial guarantees of minimum price levels, such levels are looked upon more in the sense of guidelines by those involved in the market. Guaranteed prices should be applied in the framework of State commodity interventions in the food market. Wherever prices for produce fall below the guaranteed minimum level, the State should buy the market surpluses and sell them off in regions where a shortage has arisen. It is for such purposes, first and foremost, that the Federal Food Corporation has been created. At the present time, however, it does not have financial resources and cannot exert any appreciable influence on the state of the food market in Russia.

Consequently, a free price-fixing regime has been and is in existence in the Russian agro-food sector for all marketing channels apart from the State channel, and State purchasing, recommended or guaranteed prices are there seen more in the sense of guidelines. There is not in practice any control of price formation for agricultural produce at the Federal level. Attempts to introduce price regulation and hold down the rise in the price of foodstuffs are to be seen at the regional level, but they must be regarded as illegitimate and running counter to the general trend towards the freeing of prices in the agro-food sector.

We have to consider what factors influence the shaping of price relations in the agricultural market, whether prices are really free from the influence of monopolists, and whether the countryside could avail itself of the advantages of market price formation.
The economic situation in agriculture is characterized first and foremost by the fact that agricultural commodity producers are unable to increase prices for their produce because its production costs increase owing to the limited effective demand of the population, the appreciable monopolism in related industries, especially in the spheres of processing and trading, the underdeveloped state of the market infrastructure, and also bulk imports. This inability to increase prices is one of the main reasons for the declining output to be noted in almost all branches of the agricultural industries complex.

In 1994, for example, gross agricultural output from farms of all categories, in 1983 prices, was 76.6 billion roubles, or a drop of 9 per cent by comparison with 1993 and of 26 per cent by comparison with the mean annual production over the years 1986-1990. The volume of output had fallen respectively by 10 and 22 per cent in plant growing and by 8 and 28 per cent in animal husbandry.

The decline in output could be regarded as a process of the adaptation of agricultural commodity producers to market conditions, but for the fact that the decline in the volume of agricultural produce on offer has been accompanied by a reduction in the profitability of agriculture, which has not succeeded in adapting to the rapidly changing conditions, and imports have been substituted for domestic production. It has been difficult for objective reasons to balance demand and supply in the domestic market. The countryside has encountered continuous difficulty in the sale of its produce with the existing consumer demand for it. In the upshot, the adaptation of agricultural producers to the market has gone on only through an absolute and relative reduction in prices and income without adequate expansion of sales or even their stabilization.

Owing to their lack of resources, many commodity producers are unable to ensure simple reproduction, let alone expansion. The level of wages in agriculture is lagging markedly behind the level in other branches of material production, and above all behind the level in industry, which is giving rise to a serious social, economic and political problem. Thus, the average monthly wage in agricultural production in 1994 was 96,000 roubles, as against 190,000 in industry, i.e. was only 50 per cent, and in the current year it is 183,000 roubles, as against 489,000 in industry, or 37 per cent. It should be recalled that the proportion in 1991 was 81 per cent.

One of the main reasons for the serious economic condition of agricultural producers is the unsettling of the equivalency of exchange between agriculture and industry. Thus, prices for agricultural produce increased by a factor of 8.6 times in 1992 relative to 1991, while prices for the industrial products bought by agricultural enterprises increased by a factor of 16.2 times. Price increases in 1993 were respectively by 69 and 173 times and in 1994 by 209 and 728 times. The rise in the prices of agricultural produce in the first half of 1995 was 365.5 per cent, with the prices of plant produce increasing by 269.9 per cent and those of animal produce by 390.6 per cent, while the prices of the industrial goods and services bought by farms increased by 300 per cent, i.e. changes in prices movements are to be noted in the current year, although it is still too early to say that the established trends have been overcome.

Price disparity is revealed in the reduction in the purchasing power of agricultural produce and in insolvency. As a result of the reduction in the effective demand of agricultural producers they bought 30 per cent less fertiliser in 1994 than in 1993, 25 per cent less concentrated feed and 16 per cent less fuel and lubricants. The trend of not using the services of outside organizations is continuing.

The absolute and relative decline in the purchasing power of agricultural produce may be seen from the following figures. Whereas 49 metric tons of grain were needed to buy one SK5M-Niva combine in 1991, the requirement in 1994 was 289 tons and in the first half of 1995 it was 331.5 tons. The corresponding figures for the meat of beef cattle were 4, 42 and 27 tons. In 1994 three times as much meat as in 1991 had to be sold to buy one ton of concentrated feed.
Whereas in 1991 two tons of petrol, two tons of fertilizer or one ton of concentrated feed could be bought for one ton of grain, in 1994 it bought 0.3 of a ton of petrol, one ton of fertilizer or 0.5 of a ton of concentrated feed.

Specialists of the Russian Ministry of Agriculture and Foodstuffs have calculated that the losses suffered by agriculture as a result of the unsettledness of the equivalency of inter-sectoral exchange in the period 1991-1994 amounted to nearly 59 trillion roubles.

The leasing arrangements for the supply of various kinds of equipment to agriculture introduced in 1994 have only slightly stimulated the demand for it, enabling agricultural enterprises to acquire a limited amount of the acutely needed means of production, and slightly alleviating the problems of the supply of materials and equipment to the countryside. The expected effect has, however, been reduced by the flawed nature of the leasing arrangements, with the channelling of all leasing through a single monopoly body, the "Rosagrosnab" [Russian Agricultural Supply] Joint-Stock Company, and by some other factors. Machinery producers, finding themselves in a difficult financial situation, sharply increased their prices, having reacted energetically to an increase of more than one trillion roubles in the effective demand for farming equipment.

In addition to the limited positive effect, leasing operations have also had an opposite effect. In a number of instances the market for materials and equipment has been disorientated and the machinery of free market price formation has ceased to operate for them. The point is that the share of State purchases of equipment for subsequent delivery to agricultural commodity producers on leasing conditions was between 70 and 90 per cent for some enterprises (the "Rostselmash" Joint-Stock Company, for example).

Price disparity has also developed in the relations of the countryside with processing and trading enterprises. The monopoly position of the processing and trading spheres in the market enables them not only to delay settlements with agricultural commodity producers, but also to increase their share in the structure of the retail price for foodstuffs. Thus, purchase prices for cattle and poultry rose by 53 per cent between January and June of the current year, wholesale prices by 100 per cent and retail prices for beef, for example, by 122 per cent. This is leading to a decline in the income of agricultural commodity producers and a worsening of their position in the food market.

In 1994 the output of agricultural produce (with allowance for subsidies) was unprofitable (-3 per cent), a figure that includes losses of 15 per cent in animal husbandry and up to 39 per cent in plant growing.

Intra-sectoral differences in price movements were a cause of price disproportions between animal husbandry and plant growing. Whereas the price of milk was 2.1 times the price of wheat in 1991, the excess in the current year is only 1.3 times. In 1991 live-weight prices of cattle and poultry were 11-13 times the level of wheat prices, but only 6.3 times in the current year.

The general conclusion that may be drawn is that agricultural production, by virtue of being less organised and having a lower competitive potential, is losing out appreciably in inter-sectoral and intra-sectoral competition. The low-yielding or loss-making sector emerges in a sense as a donor to the more organized and monopolized related industries. It seems evident that the benefits stemming from the freeing of prices in the agro-food sector in the total absence of State price regulation and under competitive conditions and, in part, the receipts from State support for agriculture have gone precisely to these related industries and, in particular, to those standing between the commodity producers and the end consumers of foodstuffs.
An information infrastructure of the market is, in our opinion, a necessary condition for its existence that enables all those involved in the market to make an assessment of the market conditions and arrive at balanced decisions.

An information system on prices and market conditions began to be created in Russia in 1993 as a State system offering its services free of charge to all those involved in the market, who were given access to the information on a common basis. From our point of view, a market information system is a basic necessity, which is why the most serious attention has been paid to it from the outset at both the central and the local levels.

The United States Department of Agriculture has carried out targeted and planned operations in Kaluga oblast and in some other regions of the Russian Federation. The results have been more than impressive -- the information system has become not just a source of knowledge on the market situation, but also a powerful anti-monopoly tool, as has been noted by the State Anti-Monopoly Committee. It ought to be said that we turned to this question at a very opportune moment -- the absolute dearth of information in the market, with all the consequences stemming therefrom, was beginning to be felt. We therefore received assistance and support not only from the administrations of the territories concerned, but also directly from those involved in the agricultural market.

A plan has been prepared concurrently for the creation of a Federation-wide market information system financed by a loan from the World Bank. Financial resources for this plan have already been received in the Russian Federation and the final preparations for its large-scale implementation are being made. The result of carrying out the World Bank ARIS Plan should be the creation of a Federation-wide system of information on prices and market conditions covering all 89 subject members of the Russian Federation.

Really high-quality price information meeting the essential requirements is already being received from more than 15 territories of the Russian Federation. In other regions information continues to be gathered by the State statistical services, but it is collated, analyzed and put out by the State managerial bodies of the agro-food sector, and is therefore relatively available to those involved in the market.

The Russian Ministry of Agriculture and Foodstuffs considers the provision of information services of the agro-food sector to be a priority assignment of strategic importance for the establishment of the agricultural market.

Policy on trade

A common market area governed by standard rules and regulations is being formed within the Russian Federation. The requirements for the unity of the country’s market stem from the Constitution of the Russian Federation. Accordingly, no restrictions should be placed on the movement of goods, with the exception of special cases (narcotics, some medicaments, diseased or substandard produce etc.). In some territories, however, the administrations are attempting to prevent the free movement of goods for various reasons. Such attempts are illegal and are liable to be revoked, as the Russian Ministry of Agriculture and Foodstuffs ceaselessly reiterates. From our point of view, there cannot be any circumstances that justify interfering with the natural rights of those involved in the market to choose their trading partners and where they sell their output. In addition, the common market area is an environment in which normal competitive relations are being developed, and the prerequisites are being established for the concentration of production in areas of specialization, for raising the general efficiency of production and so on.
We are also advocates of freedom in foreign trade. As you are aware, the last administrative restrictions on foreign trade were removed this year. Today anyone involved in the market may buy and sell output in a foreign market. We are, however, also advocates of the use of purely economic (tariff) measures of customs regulation. This is required of us by the actual situation in the agro-food sector. Any State carrying out a conscious economic policy takes measures to protect its own commodity producer. Domestic output is, after all, not only output, but also jobs, the incomes of our fellow citizens and a guarantee of social stability. We therefore consider that the State must carry out a moderately protectionist policy that does not interfere with the normal competition of the foreign and domestic markets, but protects domestic production against unequal competition from outside.

As you are aware, customs duties were increased during the current year within the framework of this approach, and the conditions for the taxation of domestic and imported agricultural produce and foodstuffs were equalized. This decision by the government of the Russian Federation was variously received in the country. There was a lively discussion in the mass media of the possible catastrophic consequences of such decisions -- ranging from a more than 100 per cent increase in food prices to universal starvation. Such fixed attention on what was relatively and absolutely a low level of protectionism was, in our view, unmerited and was instigated by importers and their lobbyists. It goes without saying that nothing of what had been promised by our opponents actually occurred -- from the time when the new customs duties were introduced prices for foodstuffs increased at even slower rates than had been expected, and the price index for them was below the general index of inflation. It should be noted that, despite an average increase in customs duties of from 9 to 15 per cent, they remain low by comparison with those applied in countries with a developed market economy where, as is common knowledge, the conditions of production are more favourable and productive efficiency is greater.

We must obviously continue to work at improving our system of customs regulation, making it more effective. One possible suggestion is to examine here the introduction of the machinery for compensatory customs duties widely used in the West to level out the conditions of competition within and outside the country.

**State support for agricultural commodity producers**

It is impossible to overcome the crisis situation in agricultural production without carrying out a policy of State support for the agricultural sector of the economy. Agricultural production in Russia is, in the main, located in areas in which agriculture is a risky business. There is, therefore, some definite element of risk and relatively higher expenditure is required. In addition, the natural conditions of the Russian Federation are on the whole less favourable for many kinds of agricultural production than in the countries of Europe, and in the United States of America, Canada and Australia, etc. The seasonal nature of production, dependence on natural conditions, an extremely static character, low return on investment and the backwardness of the productive forces in agriculture place it in an unequal situation relative to the other sectors of the economy. This objectively necessitates support for the sector.

State support for agricultural producers is at the same time also a means of maintaining the incomes and living standards of the population, a considerable proportion of whom (some 30 per cent) are country dwellers and connected in some way or other with agricultural production. In addition, agricultural produce and foodstuffs are strategic commodities, and problems over their reproduction adversely affect the country’s national security.

In tackling this problem, it is impossible to disregard the many years of accumulated experience of support for agricultural production in the economical developed countries with a market economy.
agriculture is regarded as a strategic sector and is actively supported from the budget. In Western Europe, for example, a farmer derives only a part of his income from market prices, and the remainder is paid by the Government. Thus, the level of support for agriculture as a percentage of the cost of production is 44 per cent in Austria, 35 per cent in Canada, 38 per cent in the European Union, 72 per cent in Finland, 72 per cent in Japan, 47 per cent in Sweden, 76 per cent in Switzerland, and varies from year to year in the United States between 27 and 40 per cent.

Main trends of State support for agricultural commodity producers

Two main trends are distinguishable in State support for the agro-food sector:

1. Ensuring and maintaining conditions for the production of agricultural produce and foodstuffs by:
   - maintaining adequate minimum profitability in agriculture;
   - promoting the creation of a market infrastructure in the countryside;
   - carrying out an anti-monopoly policy in the agro-food sector and maintaining normal competition in the market;
   - carrying out a moderate protectionist tariff policy.

2. The regulation of public demand by maintaining the purchasing power of the least well off strata of the population.

This trend does assume considerable budgetary expenditure on allowances, on paying for free or subsidized meals, and on the financing of purchases of agricultural produce and foodstuffs under social assistance programmes.

The Russian Ministry of Agriculture and Food Supplies has produced the draft law "On State regulation of agricultural production" in the interests of stabilization of the food market, the formulation of a clear legal framework for the building up of State reserve stocks of food and the creation of a system of State support for the production of the agricultural industries. This draft has already been given its first reading in the State Duma of the Federal Assembly of the Russian Federation.

The draft law covers the whole range of inter-relationships between the State and those involved in the market, including State regulation of demand and supply, support for agricultural commodity producers, promotion of the development of a market infrastructure, measures of tax regulation and financial regulation measures, protection of the domestic market against unequal external competition and other measures.

In accordance with the law as drafted, State support for the agro-food sector should take the following main forms:

- use of guaranteed minimum prices;
- payment of budgetary subsidies and compensation pursuant to decisions of the Government of the Russian Federation and of the subject members of the Russian Federation;
• the carrying out of State mortgaging operations on agricultural produce and foodstuffs with the setting of fixed mortgage rates and support from the State;

• the maintaining of market prices by means of State procurement purchasing and commodity interventions in the markets for agricultural produce and foodstuffs;

• the drawing up and implementation of special State programmes of support for individual branches of the agro-food sector and individual regions;

• the carrying out of measures for the economic protection of domestic commodity producers against unfair competition from the foreign market;

• creation and furtherance of the conditions for normal competition in the domestic market, assistance with the development of its infrastructure, including the information infrastructure;

• budgetary support for the development of the rural social infrastructure.

The machinery of price subsidies and compensation

The use of guaranteed minimum prices in purchases for State reserve stocks or in interventions does not exclude payment of compensation for a part of the expenditure on production and its subsidizing. In 1994 the Federal budget paid out 1 trillion, 143 billion roubles in subsidies and compensation payments to agricultural commodity producers. Payments from the budgets of the subject members of the Federation totalled 2 trillion, 692 billion roubles.

Subsidies for livestock production were paid from local budgets. Payments made in the course of 1994 totalled 2060.2 billion roubles, or 76.5 per cent of the planned volume, including 73.7 per cent for cattle and poultry, 94.4 per cent for milk and 58.2 per cent for eggs. In the first half of 1995 payments to subsidise animal husbandry in the regions totalled 995.6 billion roubles, or 81.5 per cent of the amount needed.

Analysis reveals that the actual subsidy payments made in a number of the territories of the Russian Federation were considerably above the calculated amounts. Such regions include Tatarstan, Karelia, Bashkortostan, Yakutia-Sakha, the Maritime and Khabarovsk territories, and the Ulyanovsk, Novosibirsk, Orenburg and other oblasts. At the same time, subsidizing the produce of animal husbandry was either completely abandoned in a number of regions or carried out on a very limited scale. Such regions include, inter alia, the Leningrad, Kostroma, Kursk, Rostov and Penza oblasts, Daghestan, North Ossetia and Mordovia.

It should be stressed that the level of subsidy has been locally dependent on a number of objective and subjective factors. The factors exerting the greatest influence have been the industrial potential of the region, on which the funding of the regional budget is dependent; the attitude of the heads of the territorial administrations towards agriculture, and so on. Consequently, financing from local budgets has not been controlled by the Federal authorities and has not been done the same way everywhere. That circumstance has prevented the formation of a common market area. In that connection, the Russian Ministry of Agriculture and Food Supplies has repeatedly raised the question of returning to the payment of subsidies on the produce of animal husbandry from the Federal budget.
In addition to subsidies from local budgets, subsidy and compensation payments have been made from the Federal budget. In 1995 such payments, with allowance for 1994 liabilities, should amount to 2290.7 billion roubles. As at 1 September 1995 the amount financed was in fact only 727.5 billion roubles, or 31.7 per cent. Consequently, according to the results for 8 months of 1995, the liabilities of the Federal budget totalled 1563.5 billion roubles, or some 68 per cent.

The lack of a legal basis for its operation is a defect of the existing system of support for commodity producers, and is making it extremely unstable from year to year and dependent on subjective decisions. In addition, the irregular, intermittent and partial payments are being rendered valueless by inflation and are often received not by the agricultural commodity producers but by the monopolized industries related to agriculture.

**Anti-monopoly policy**

A considerable level of monopolization in almost all sectors of the economy and the total absence of a market infrastructure have been inherited from the command economy. Under these conditions, agriculture, which has a relatively low competitive potential, is clearly the loser, as regards earnings and position in the market.

From our point of view, it is essential for an anti-monopoly policy to be carried out in the country, and that should include a policy aimed at local monopolists, whose actions are making the normal functioning of the machinery of the market appreciable more difficult in the agro-food sector. The Russian Ministry of Agriculture and Food Supplies has drafted and repeatedly put forward proposals for the regulation of local and sectoral monopolists, but those proposals have not been adopted at the Federal level.

At the present time provision is in practice made in the country only for regulation of natural monopolies such as the railways, the communications system, electricity etc. The Russian Ministry of Agriculture and Food Supplies has repeatedly made proposals for the improvement of such regulation, which we regard as ineffectual. Prices and charges for the goods and services of natural monopolies are often set under the influence of pressure exerted by them, and in some instances regulation has been handed over to ministries and departments representing the interests of these monopolies (Russian Ministry of Transport, Russian Ministry of Communications).

The Russian Ministry of Agriculture and Food Supplies has concurrently made repeated proposals for the freezing of prices and charges for some other kinds of resources and services, but they have been ignored.

It is evident that the power of dictation of the natural monopolies has led to the setting of prices and charges for their services that are beyond the ability to pay of many categories of consumers, including agricultural commodity producers. Thus, the existing rates for the carriage of agricultural produce increase its cost by 100 per cent. We consider that the charges and prices for the goods and services consumed by rural consumers ought, in any event, to be in line with their ability to pay, especially for those kinds of goods and services that cannot be foregone without the risk of production coming to a halt. Disregard for the real ability of consumers to pay in the State regulation of prices leads simply to chronic insolvency, a reduction in the volume of sales of produce and other adverse consequences. By its Decree No. 997 of 13 October 1995 "On State regulation of prices (charges) for the goods (services) of natural monopolies” the Government of the Russian Federation established that the prices in force on 1 October 1995 for natural gas for production purposes, the charges for electric power and thermal energy, the rates for the carriage of goods and the loading and unloading charges levied on the carriage of goods by rail were not to be increased before 1 January 1996.
The Russian Ministry of the Economy was simultaneously ordered to submit proposals to the Government of Russia by 1 December 1995 on the regulation of prices (charges) for the output of natural monopolies, in which it is to be hoped that the proposals of the Russian Ministry of Agriculture and Food Supplies will also be taken into consideration.
REFORM IN THE FINANCIAL AND CREDIT MECHANISM OF RUSSIAN AGRICULTURE

Evgeniia Serova

The essence of the current agrarian reform is a transition from a centrally planned system to a market-oriented one. Accordingly, the financial system of agriculture is to be reconstructed. Under the old system of agricultural finance:

- the state fixed input and output prices and, accordingly, set agriculture’s terms of trade;
- the planned economy required equal profitability of each crop and in all regions, in turn requiring branch and regional price differentiation;
- the central planners allocated investments and working capital for planned output at symbolic interest rates; and
- central planners also normed costs and profits for production subunits within the farms.

All this logically flowed from the accepted economic paradigm and served the former agrarian order well enough.

It would be unfair to blame all the defects of the entire command agricultural system only on its financial sphere. By the 1980s this system as a whole had exhausted its sources of development. It had become an obstacle to progress in the country’s agro-food sector and an outsized burden for the national budget. But the financial mechanism of command agriculture did have its own specific defects. In particular, the very low cost of inputs for agriculture led to their extremely irrational utilisation on the farms. Zonal price differentiation caused irrational territorial specialisation, defects of which had to be corrected by non-economic methods from time to time. The regular writing-off of the bank debts of kolkhozes and sovkhozes gave rise to financial irresponsibility and indiscipline. Centralised, egalitarian distribution of financial resources violated the natural principle of selection of the most effective producers, that is, discouraged the growth of efficient production.

The state’s macroeconomic policy of food supply for the population aggravated the sector’s situation. The dominant policy was the socially highly attractive but economically absolutely baseless principle of cheap foodstuffs for the Soviet people. For many years consumer prices for basic food products were kept at a low level despite constant growth in the population’s income and low rates of growth of agricultural output.

In spite of all the spending on agriculture, the resulting growth of output was not enough to cover the population’s growing purchasing power, as mounting problems with meat and dairy supply, food consumption rationing, lines, and other attributes of a sharp deficit testified. Under these conditions, due to its own obligations to support low, stable foodstuffs prices, the state kept on subsiding domestic consumers on a growing scale. In 1989 the total volume of subsidies for the main food products amounted to one-third of the Russian budget, and the share of subsidies in the retail prices of the basic products had reached 80 per cent.

The first steps in the general economic reform had to result in sharp changes in the finances of the agro-food sector. These changes touched, first of all, the mechanism of financial relations between the state and the agro-food sector. The old system actually died out, and a demand for state support of agriculture arose, something that had earlier been resolved by the central planned economy’s price and financial regulation. The mechanism of centralised credits has also changed. The financial status of agricultural producers has
sharply changed by virtue of the change in the price structure in the economy. And finally, a market infrastructure has started to emerge, giving the agrarian sector fundamentally different opportunities for access to financial resources.

The first effects of reform

At the beginning of the reforms, price liberalisation and the cancellation of the consumer subsidies in 1992 naturally reduced the purchasing power of the population for foodstuffs. The meat and dairy sector was the first part of the agro-food sector to face a crisis because of unsaleable production. Animal husbandry delivers production to the market relatively evenly during the year. By the spring of 1992 the demand for its products had appreciably constricted. Moreover, meat and dairy production had demonstrated reasonably high elasticity in our society. When the population’s income is reduced, meat and dairy consumption declines first of all. This situation led to a financial crisis in livestock production.

Livestock subsidies

One of the first faulty governmental decisions of the reform period was adopted under pressure from the agricultural producers -- a decision to subsidise livestock production at the farm level. Twice during 1992, in March, when these subsidies had just been introduced, and in August, when they were increased, the procurement prices for meat and milk dropped. This can be logically explained from the point of view of economic theory. The subsidies to the producers created for them a false market signal, overestimating the genuine equilibrium price of the product. This, in turn, retarded reduction of output to the level purchasing power demanded. But the processing industry, dealing directly with consumers, was getting a signal from the market about real demand and, accordingly, held its prices at that level. However, deliveries to the meat and dairy processors from the farms remained higher than the processors needed. Under these conditions, naturally, the procurement price dropped. That decline, incidentally, was in no way connected with any monopoly of the processors. Thus, the state strained the budget seeking funds to support livestock production and had great difficulties to give these subsidies to the farms, but, in the end, through the mechanism of procurement prices, these subsidies were shifted to the food-processing industry.

The processing industry always was a bottleneck in the food-supply chain in the Soviet economy, and consequently the funds it received in this way could at least have served to develop the industry. However, the widespread belief in the processing plants’ monopoly resulted in the introduction of certain mechanisms which have made it impossible to invest the accumulated funds. They simply began to be squandered on trivialities.

In 1993, livestock subsidies were transferred to the regional level to balance the relationship between the regional and federal budgets. Studies done by the Agrarian Policy Laboratory of the Institute for the Economy in Transition in a number of regions of the country have shown that the shift of livestock subsidies from the farms to the processors is typical for the regional level too. But regionalising the livestock subsidies has also become an incentive for the break-up of the common Russian food and agricultural market space. A region which is subsidising its livestock production aims not to allow the export of subsidised products from its territory. This is incomprehensible to economic logic, since all over the world subsidies to producers go together with support of exports of their products and restriction of competing imports, whereas consumers are subsidised through the reverse regulation of foreign trade.

So one of the distinctive features of the present agro-food sector financial mechanism -- the livestock subsidy -- came to be.
In the same period there was a threat that the country’s pedigree stock-breeding would be destroyed, since with the sharp fall in livestock production the genetically-valuable animals had started to be butchered. To preserve the country’s genetic fund in the transitional, crisis conditions subsidies for pedigree cattle and its purchase were introduced. It was planned at the federal level to identify a few dozen farms which possessed genetically valuable animals and to allocate them the targeted subsidies to preserve the breeding stock. In practice, in every oblast today it is possible to find up to a hundred farms which overnight became breeding farms and receive this subsidy. As a result this entirely reasonable state support became an abomination. The already insignificant funds are spread in a thin layer for all livestock producers.

**Compensation for rising input costs**

The second kind of state support to agriculture which began to develop almost as soon as prices were liberalised was compensation for increases in input prices. This compensation has been and is being realised in various forms, but the purpose is the same -- to compensate agricultural producers for the growing price disparity.

As was already noted, in the Soviet economy the output/input price ratios were considerably higher than on average in the world. Examples of inefficient use of inputs are well known. As a result of price liberalisation, the relative prices quickly began to come into conformity with world levels. Besides, in the first moment of the reform restrictions on demand became the main factor in the functioning of those industries which directly market their produce to the final consumer -- certainly including agriculture and the food industry. Input manufacturers in the beginning did not feel a market problem and used the freeing of prices to inflate their prices. As a result, up to the end of 1992 output prices sharply lagged behind input prices. But by 1993 a wave of demand restrictions swept over the agriculture and food-processing industry and reached the input manufacturers. The growth of price disparities was somewhat halted. Had there not been state interference in pricing (of which more below), it would already have been possible to anticipate an evening out of input and output price trends in 1994. In practice this took place only in the first half-of 1995.

As a result of state attempts to compensate for this natural process of evening-out of relative prices, the input manufacturers, having received a falsely overestimated signal about demand for their products, simply inflated prices rather than beginning the needed structural adjustment of production. So the more the state compensated for the rise in input prices the faster the disparity rose and the longer the turning point was delayed. A similar tactic was tried in Belorussia in 1993, when the state tried to compensate completely for the rise in input prices. But during the period of this policy the disparity was increasing at a much higher rate than in Russia and the budget deficit grew catastrophically. Russia has managed to avoid complete compensation for the rise in prices, which has in the end resulted in evening out of price parity.

Originally the compensation was basically done by direct payments to the farms. But in 1994 so-called “leasing” was introduced. This system of state support of the agro-food sector is actually a classic attempt to restore the state system of input supply for agriculture. On behalf of the state an authorised -- unique and selected without any competition -- firm orders the necessary items from the input manufacturers and allocates them to the regions. Regional authorities allocate them to the agricultural producers, who pay for them by instalments. As in Soviet times, the assortment of inputs ordered are determined by a planning centre (Ministry, Committee, regional administration). But this scheme that worked more or less reliably in the centrally planned economy has failed under conditions that already approximate a market. First, the authorised firm becomes a monopolist with unrestricted rights. So, Rosagrosnab (the former state-owned input supply agency) in 1994 increased the mark-up in some regions to 30-40 per cent (at 10-12 per cent on
the average in all branches of the economy), excluded transport costs from the mark-up, and set up its own “house” insurance company -- naturally, with the same monopolistic power. In addition it took a fee from the machinery manufacturers for marketing services. Secondly, since the effective demand for their products had increased, the machinery manufacturers raised prices. Thirdly, the distribution of funds by governmental officers at all levels of the hierarchy become one more point of corruption in the society. As a result, a measure intended to support agriculture became an additional burden for the farms. Unfortunately attempts to expand this systems in the spheres of mineral fertilisers, seeds, and pedigree cattle supply continue.

Changes in state financing for agriculture

The liberalisation of the country’s economy was also displayed in an unprecedented jump of the interest rate. Agriculture, which used to get centralised financial resources from the budget for each seasonal campaign almost free of charge, absolutely was not ready for a transition to a commercial credit system. The situation was aggravated because agriculture has a long production cycle, but under inflationary conditions the length of the credits was reduced to 2 or 3 months. All these difficulties resulted in the establishment of a system of preferential centralised credits for the agro-food sector in 1992. The consequences of these soft loans are well known -- this sphere has become one of the most criminal areas in the country’s economy, and agricultural producers continued to suffer a lack of seasonal credit. The funds at all stages in their distribution were held up by the authorised banks, their targeted use was everywhere infringed, the target credits were easily transformed into cash money and left the area of agriculture, and distribution of credit by governmental officials led to corruption. But the cancellation of the centralised credits did not solve these problems. There was still no adequate system of agricultural credit.

Certain attempts were made and continue to be made in this direction. First of all, they are connected to the creation of new banking institutions. Experience shows that bank names like “Land”, “Peasant” or “Agro-food” are not enough to make such banks elements of an agricultural credit system. Such banks become unprofitable or leave the agro-food sector. Similarly attempts to set up a credit co-operative system have been unsuccessful. Their failure shows the absence of any general concept of co-operation in the Russian countryside. The years of official Soviet collectivism have exterminated even the peasants' natural propensity to communal action. Without a willingness to act in common, the establishment of successful co-operatives, especially financial co-operatives, is very difficult -- even though financial co-operatives could partly resolve the problem of small-sized seasonal credits in the countryside.

The critical situation in the spring of 1995 caused the government to introduce so-called “commodity credit”. The oil refineries would deliver petroleum products to agricultural producers to offset the refineries’ debt to the state budget. The agricultural sector would repay the cost of these deliveries to the government after the harvest. To a certain extent this procedure was an advance in comparison with giving direct credits to agriculture from the budget. The state seemed to have found a way to stimulate supplies to agriculture through such commodity credit. This mechanism did not work very well during the last agricultural year, however. First, it was introduced in March 1995, when sowing had already begun in southern Russia, so there was no time to work out its details. Secondly, by a settled tradition, in practice -- but not according to government decisions -- allocation of this credit was again linked with deliveries to the regional and federal produce stocks. In other words, the commodity credit was given not for seasonal work as a whole, but for deliveries to the state. As a result it is very probable that this debt of the agrarian sector to the budget will be written off.
Long-term credit to the agro-food sector has also been somewhat developed. Investment credits were originally distributed under some decisions -- called, only by a misunderstanding, "complex programmes" -- such as “Russian grain,” “Russian sugar,” and so on. Such distribution of budget-funded investments has been extremely inefficient. Today competitive distribution of medium-term investment funds has been adopted. This mechanism is a little more flexible. It assumes a parallel attraction of investors’ own investments and commercial bank credits, which somewhat reduces risk for the budget. But the criteria of efficiency and national importance for the projects seem not to be worked out in detail. Small projects, projects of regional or even local significance are supported from the federal budget.

Great attention is given today to the mortgage system. In our opinion, this problem is somewhat artificially exaggerated. Certainly, mortgages are one of the main sources of investment capital for agriculture in a market economy, and setting up a mortgage mechanism requires a developed land market. However, under current Russian circumstances, when agricultural production has been reduced by one-third and a great deal of fertile but unclaimed land has been accumulated in the regional land redistribution funds, there is no reason to hope for much bank interest in mortgages on farm land. Mortgages on farm land could be developed in reasonably limited regions with a relatively advanced land turnover, such as some areas near Moscow, some southern regions of European part of the country, etc.

The forgiving of farm debts at the end of 1994 and the beginning of 1995 greatly delayed the emergence of market agricultural credit. It sharply undermined the trust of the banks to this sector of the economy and has restored an atmosphere of financial irresponsibility to the agricultural producers, who had just adapted to the new financial situation. The write-off also increased the internal debt of the state. Since the increased debt will contribute to more inflation, forgiving of this debt will harm agriculture itself because of the sector’s long production cycle.

The emergence of commercial credit

Everything said above concerns the credit and financial relationship of the state and the agro-food sector. But in parallel with the development of state policy commercial credit institutions, offering credit to agriculture and the food industry, have begun to emerge. This phenomenon has become especially significant in 1995.

First, it is necessary to note the emergence of real commodity credit. In the spring of 1995 many private firms, such as fuel and energy companies, middlemen, etc., contracted for the future crop. Naturally they contracted for the most profitable crops -- food wheat, sugar beet, sunflower seed -- and with the most reliable producers. The barter price ratios of these contracts were not always favourable for agriculture, but surveys have shown that those producers who concluded similar deals for the second time insisted on better terms.

The processing enterprises have begun to develop vertical integration. In 1995 the practice of having processing enterprises not only pay agricultural producers in advance for the contracted crops, but also supply them with inputs and equipment, became widespread. Sometimes meat plants pay the debts of livestock barns on the farms or keep their own cattle for feeding on the farms. The main obstacle to this activity is the current sharp shortage of working capital in the processing industry itself.

Input manufacturers also begin to realise the necessity of commodity credits and leasing. In particular, the mineral fertiliser industry, facing restrictions on export abroad, is turning to the domestic market, searching
for ways to adapt to the financial situation in agriculture with the help of deliveries on credit. The Vladimir Tractor plant, for instance, is carrying out serious work on leasing.

Large non-agricultural firms, most often the best-known “natural monopolies” -- Gazprom, Rosenergo, the railroads, etc., have also begun to acquire bankrupt large farms by paying off their debts for them, providing another non-state source of agricultural finance. Having acquired a farm at the price of its overdue debts, the purchaser makes additional significant investments in these farms. Unlike the Soviet-era practice, when such bankrupt farms would have been revived in exchange for providing a secure source of food supplies for the purchasing enterprise, these recent investments do not always require the bailed-out farm to deliver food products in exchange. This situation seems to presage a growth in demand for domestic foodstuffs in the near future.

Conclusions

A number of errors in the reform strategy of reform in financing the agro-food sector have already accumulated which will be difficult to correct. For example, it is more difficult to take away subsidies once granted than not to begin them at all. But the state’s policy in agricultural finance is evolving away from direct allocation of credits and investments towards guaranteeing credits to the agro-food sector from other businesses. However, the elements of a market financial infrastructure in agrarian sector are emerging. Relative prices have reached approximately world levels. These trends are leading to a certain diminution of the financial pressure on agriculture and to the adjustment of the sector to market conditions.

The state’s role in agricultural finance should be further reformed. The state should not participate directly in commodity credits or input leasing. Budget funds should be used to insure financial institutions involved in financing the quite-risky-enough agro-food sector. Moreover, the budgetary funds allocated for these purposes should not be distributed without competitive bidding. Policy-makers should realise that state agricultural purchases are being steadily reduced as the Soviet-era procurement system withers. Having decided to support agricultural producers it should support them whether or not they make deliveries directly into the state stocks.

As was shown above, the financial crisis in agriculture is largely explained by the decline in the effective demand of the population. Under these conditions all attempts to subsidise the producers will not have the anticipated result. The market will continue to be narrow and prices will continue to drop. It would be more rational to subsidise the consumers in some way in order to expand demand and cause a corresponding rise in prices.

For the same reason the mechanism of minimum guaranteed prices in transition conditions will not have the anticipated effects. Minimum guaranteed prices are supported not so much from the budget as at the expense of consumers through an increase in consumer prices. Under current domestic conditions this mechanism will cause a further reduction of per capita consumption of basic foodstuffs and therefore a further narrowing of the market for food and fibres and worsen further the agro-food sector’s financial condition.
THE NEED FOR MARKET ORIENTED POLICIES: OECD EXPERIENCE

Matthew Harley

Role of OECD

OECD countries have a long and varied history of agricultural policies. One of the main functions of the OECD organisation is to analyse that experience. The lessons learned are thereby made available to all OECD countries to help them in their continuous process of formulating better, more efficient, more market oriented policies. OECD acts as a channel for the exchange of experience between OECD countries and increasingly with non-OECD countries as well.

The co-operative nature of this process needs to be stressed. Within the bounds of their international obligations such as WTO/GATT, countries make their own policy decisions. OECD Secretariat work allows them to make those decisions with better information and that hopefully means better decisions. OECD has no leverage over countries to oblige them to go in a particular direction. We can only influence decisions if our analysis is convincing.

A series of individual country studies of agro-food sectors and our annual Monitoring Report for OECD countries are the main publications which come out of this process (1,2). At their request, OECD has also begun recently to look closely at the policies of the economies in transition in order to provide them with the same sort of objective analysis that they may wish to use in their own policy making process. Studies for Hungary, Poland and the Czech Republic have been completed and a Monitoring Report for transition economies is now also published annually (3,4).

Market orientation

Market orientation means allowing market forces, both domestic and international, rather than government intervention in the form of subsidies and price regulation, to determine production and consumption. The international dimension is important because of the extent to which our economic prosperity depends on an open multilateral trading system. While markets do not work perfectly nor solve all problems, they have been so severely restricted for agriculture in OECD countries that our economies lose about US$70 billion a year. There are also big redistributional effects from taxpayers and consumers to producers. OECD estimates that consumers paid about US$190 billion and taxpayers about US$180 billion to support OECD agriculture in 1994. Although these transfers are not economic losses they have many serious consequences, especially for poorer households. It often comes as a surprise to non-OECD countries that OECD market economies, with few exceptions, do not have very market oriented agricultural policies. Internal markets in OECD countries are by and large competitive for agriculture and food products, but they are often very isolated from world markets. Why have most OECD countries maintained such a poorly market oriented policy?
Special treatment

Since the 1920's in the United States and since World War II in Western Europe, governments have treated agriculture as a special case and taken a policy approach very different from that applied to other sectors, especially when it came to trade policy. This divergence became even more noticeable as progressive GATT rounds since the late 1940s made progress in liberalising non-agricultural trade. Agricultural protection in OECD countries is about 50 per cent (border measures add 50 per cent to trade prices) while average tariff protection on industrial goods is about 6 per cent. Only in the latest Uruguay Round can it be said the agriculture was brought fully under GATT rules and disciplines.

Much has been written to justify this special treatment. Common reasons cited include unstable farm prices, low farm incomes and worries about food security. A way of dealing with all these problems simultaneously was to give farmers fixed and relatively high prices. Governments set prices by reference to a cost of production formula or according to some income objective, and guaranteed that price to producers. In the European Community, the basic policy is to set a target wholesale price and maintain it by import controls export subsidies or intervention purchases. The intervention price is set usually from 5 to 10 per cent below the target price. In the early days of the Common Agricultural Policy intervention agencies (governments) had to accept all product offered to them by producers. The intervention price therefore acted as a minimum guaranteed price. In the United States the basic mechanism for grains, before the adoption of a system of export subsidies, was to keep a domestic market price close to the world price but to pay a deficiency payment to producers to cover the gap between that price and a higher target price. A basic difference between this and the CAP system was that taxpayers rather than consumers paid for the programme.

Policy effects

Price rises

In many respects these type of price support systems seemed to be a successful policy. Stable and rising prices raised farm incomes and encouraged production. But problems emerged over time. Producer prices tended to rise because they were rarely adjusted downwards and political pressure pushed them up. Cost-plus pricing contributed to this upward trend. Costs are not absolutes, they are just somebody else's prices. In a kind of spiral, costs adjusted upwards as the intensity of agriculture increased to take advantage of the stable and higher prices. These cost increases were then used to justify even higher prices. When these prices were passed on to consumers they tended to penalise low income households more because they spend more of their income on food. Likewise on the producer side it was the larger, already better off producers who benefited most. The economic reason for low income in agriculture was probably too much labour. Price supports and other income supports just addressed the effects of this resource misallocation and not its cause.

Surpluses, trade tensions and budget pressures

Another unwelcome consequence of these policies in the 1970's and 1980's was the emergence of surpluses and a consequent increase in international trade tensions. Prices in many OECD countries had risen well above the prices in international trade and indeed world prices were also being depressed by domestic price support policies. To maintain prices above world levels some trade measures have to be used at the frontier to keep out the competition. If lower priced commodities could be imported, the higher
domestic prices would be undermined. So trade barriers such as import tariffs, import quotas or bans, state monopoly trading and variable levies were all used. If production exceeded domestic demand -- and it tended to because the high price both stimulated production and discouraged consumption -- that surplus had to be taken off the domestic market or it too would undercut the support price. This could be done in two basic ways. The surplus could be bought up by the state and held as stocks or export subsidies could be given to bridge the gap between the high domestic price and the lower world price. Without this subsidy, exporters would not be willing to pay the high price to farmers and sell at a loss in international markets. Restricting access to domestic markets and undercutting other exporters with subsidies in international markets led to serious tensions. In addition, governments became seriously concerned with the high budget costs of maintaining these supports, either to pay supplementary payments to farmers or to pay for export subsidies. Governments have found it necessary to introduce quantitative restrictions (quotas and set asides) to keep excess supplies within more affordable limits. These type of restrictions, while improving conditions on international markets and reducing government expenditure, reduce the influence of market forces on production.

**Economic costs**

In addition to these more visible problems of surpluses, trade tensions and high government budgets, economists point to more subtle but nevertheless serious effects. Producing at costs above the price for which the product can be imported or at which it can be sold on the international market represents a waste of a country's resources. When export subsidies are used countries are giving away some of their resources: paying others to take their overpriced products. At the same time they are keeping resources tied up in agriculture that would be better used elsewhere. Supply quotas introduce an additional set of economic costs, the most obvious of which is the underutilisation of resources, especially land. High prices also reduce the welfare of consumers by forcing them to pay more for less food. Downstream industries are also consumers and they are also penalised by higher prices that among other things, made it difficult for them to compete on domestic and world markets. Many of the jobs "saved" in agriculture get lost in industries depending on agriculture. Distorting support measures have also undermined the long term viability of agriculture in some countries by shielding producers from market realities and freezing in place low productivity operations. The farmer, quite logically given the incentives, decides to farm the subsidies rather than to produce efficiently for markets. Domestic producers can no longer compete on foreign markets or with imports from more efficient producers abroad.

**Suitability for transition economies**

But could transition economies still not say. "These policies worked for OECD countries when their agriculture was at a stage of development something like that of transition economies now. The problems mentioned are in some ways problems of success. Why not try it until surpluses appear?" It may also be said with considerable justification that OECD countries, in spite of the Uruguay Round agreement, continue to use these type of policies, so why should transition economies not use them also? In my view these are two difficult questions, but I think the second question helps answer the first.

**Stickiness of policies**

One thing that OECD experience has taught is that these policies are extremely difficult to turn off. Those who benefit from them resist fiercely any attempts at reform. As farmers become fewer and fewer in society it becomes easier to give in to their demands. Consumers do not object so effectively when the
burden is spread across many and for the benefit of few producers. That is why OECD countries, in spite of recent reform efforts, have kept such policies substantially in place long after the conditions that inspired them have completely changed.

**OECD countries' inconsistency**

OECD countries lose economically by maintaining these programmes so copying their behaviour is not a rational thing for other countries to do. But it is hard to resist calls from those groups who would benefit from such policies when countries who proclaim themselves to be liberal market economies themselves do not practice what they preach. In this respect the OECD organisation has still a lot of work to do in encouraging OECD member countries to keep up the reform process.

**Interim measures**

But even if we assume that they could be turned off when the surpluses and budget problems emerge, are such policies a good idea for transition economies? While these policies gave an appearance of early success, that was largely an illusion.

**Rural problems not solved**

They slowed structural adjustment and by retaining resources, especially labour, in agriculture contributed to lower earnings. Another spiral: high price and income supports, while seeming to give higher incomes, encouraged people who could have earned more elsewhere to stay in agriculture. This maintained a downward pressure on earnings that in turn was used to justify even more support. For some countries keeping people in rural areas was and remains a priority, so possibly keeping labour in agriculture contributed to that objective. But, the number of farmers has been falling steadily for years in spite of these policies.

**Sectoral trend**

It is one of the best established trends that agricultural sectors contract relatively as economies grow: agriculture's share of GDP falls even if its total value added grows. So trying to keep people in rural areas by supporting agriculture was and still is a costly and largely ineffective policy. There are undoubtedly better and cheaper ways to do it. There is every reason to believe that as transition economies grow as market economies the same trend will be seen: decline in agriculture's relative contribution to GDP and a decline in labour engaged in agriculture. Attempting to stem that outflow with support policies for agriculture would in all probability prove as futile and costly as for OECD countries. Indeed, support policies, if they encourage a substitution of labour by capital may actually have the effect of speeding up the rural exodus. We will hear later how an integrated rural development policy approach can be much more effective in dealing with the problems of rural areas.

**Consumers and taxpayers pay**

Price support policies that operate by using trade measures to keep market prices high force consumers to pay for the support, as already said. In transition economies, where expenditure on food is a very large proportion of household income (30-50 per cent) there would be proportionately more of a burden for consumers, especially in poorer households. If a system of deficiency payments is used so that support
prices are paid by state budgets rather than consumers, the effect on taxpayers have to be considered. The macroeconomic effects of high budget deficits would be greater in economies in transition because of agriculture's larger share of national product.

Policy monitoring

The Producer Subsidy Equivalent (PSE)

If support policies are not to get out of hand, some means must be found to monitor what is going on. Quantification is invaluable for providing the transparency needed by policy makers. Support provided by agricultural is especially complex because of the mixture of two types of support: direct transfers to producers paid out of state budgets and less obvious transfers paid by consumers because of price regulation. The latter always need trade or border measures to sustain them. OECD has been calculating an indicator of total support to agriculture known as the Producer Subsidy Equivalent. In essence this "PSE" measures the money value of the transfers made in favour of primary agriculture from the range of government policies that affects farmers' interests. It is especially effective in identifying those transfers to producers that result from the regulation of market prices (see the attached note for further explanation).

Strengths and weaknesses of PSEs

The strength of this indicator is its comprehensiveness: a single number that shows what has been happening to all forms of support. That same characteristic has one weakness: it hides the fact that different policies can have very different effects whether they be economic, trade or transfer effects. That means that a lot of caution has to be used in interpreting the numbers and that the different components of the PSE have to be analysed carefully.

Use of PSEs

When OECD calculated these PSEs for OECD countries they showed that all OECD countries have, at some time, adopted policies that provide high levels of support to their agricultural sectors. They have done so mostly with the noble intention of relieving perceived problems in rural areas. OECD's measurement and analysis of these indicators also showed that countries would gain from lowering support, especially the most distorting support. If this reduction is made by all countries together, the gains would be greater and the pain of adjustment would be less. OECD ministers were convinced by the results of this work and agreed in 1987 that support -- especially the type that is linked to production -- should be gradually reduced in order to help make agricultural production more market oriented and improve the allocation of economic resources. This agreement gave an important impetus to the agricultural negotiations in the Uruguay Round. The methodology of the PSE was adapted by the negotiators to produce the Aggregate Measurement of Support that was used to formulate the commitments on domestic support.

Since the 1987 agreement which included a set of principles to guide policy makers OECD has been monitoring the evolution of policies and reporting on the extent of progress towards the agreed objective of a more market oriented agriculture. As part of this monitoring process the PSE estimates are updated and published. Estimates have now been made by OECD for Hungary and Poland and published as part of reviews of those countries' agricultural policies mentioned earlier. Similar work is ongoing for the Czech Republic and the Baltic States.
The PSE results for transition economies indicate the aggregate support for agriculture is now lower than the OECD average but is rising. Some commentators in transition economies have argued that their support should be increased to OECD levels so they can better "compete". This view shows a misunderstanding of the negative effects of most support. If my neighbour smokes 40 cigarettes and I smoke 10 per day, should I increase to 40 to compete in a lung cancer race? Obviously as smoking harms us both we should be encouraging one another to cut even more.

The reviews of transition economies also include a description and analysis of the transformation of the whole agro-food chain. We expect to begin work next year on a similar review for Russia, including estimation of PSEs. We are convinced that this review, as for other countries, will be a useful, practical input for Russian policy makers. It will provide the same type of systematic review of Russian policies, with the discipline of quantification of their transfer effects, that OECD countries now use as the basis of their policy analysis.
NOTES


2. See the series Agricultural Policies, Markets and Trade: Monitoring and Outlook, OECD: Paris, that began in 1988. These reports deal predominantly with OECD countries and since 1993 have been accompanied by the companion report dealing with economies in transition referred to in reference 1. The latest report was published in June 1995.


4. See the series of OECD country studies that begun in 1987 with National Policies and Agricultural Trade, Country Study: Austria. All OECD countries have now been covered except Mexico, for which a study is in progress.
ANNEX: PRODUCER AND CONSUMER SUBSIDY EQUIVALENTS (PSES AND CSES)

OECD developed the PSE and CSE methodology to provide an indicator of the total subsidising effect of agricultural policies on primary agriculture, capturing money subsidies and the subsidy equivalent of measures to support market prices. Previously, a common method used to monitor government intervention in agriculture was to look at government budget expenditure and revenues foregone. In this way, total government expenditure in favour of agriculture, plus some less transparent subsidies such as those arising from special tax concessions for agricultural producers could be taken into account. In the run-up to the Uruguay Round these estimates were seen to suffer from one major defect: they did not take account of the subsidising effect (subsidy equivalent) of trade measures on producers. One country could have very low budget expenditure and instead use trade measures to help producers while another with higher government expenditure (say on deficiency payments) could have a liberal trade regime. A "common yardstick" with which to compare total transfers to producers from both types of intervention was needed.

Border or trade measures in OECD countries were always part of a system to maintain high prices for producers, typically a minimum guaranteed price often based on a cost-plus formula or some farm income objective. The high domestic price could only be maintained if lower priced foreign competition was neutralised by import protection such as bans, import quotas, variable levies or tariffs. Moreover, countries producing more than the requirement for domestic consumption could only maintain the high domestic price if the excess supplies were taken off the market by government purchase for stockholding or by giving export subsidies.

To get a more complete estimate of the total subsidising effect of agricultural policies in money terms, the subsidy equivalent of such measures had to be quantified in such a way that it could be added to the money amount of budget expenditures to give a comprehensive total. The method adopted was to assume that all of the supported domestic price above the level of the world trade price was a subsidy. The economic rationale for this is the standard one that the marginal cost to the economy of producing at this high price was equal to the gap between the domestic and world price. If all units of production are paid at the support price, all production is assumed to get this "market price support" subsidy. The total (the price gap multiplied by total production) is known as total market price support for the commodity in question.

Government expenditure and revenue forgone on other agricultural programmes are added to the market price support. These programmes typically include direct payments such as deficiency or supplementary price payments, credit subsidies and such more general items as research and development. Many of these government programmes are not commodity specific and the total amount for the programme is shared between individual commodities in proportion to the share of the value of a commodity's output in total agricultural output. A selection has to be made of appropriate programmes. For example, social type programmes such as farmer pensions or payments to remove resources permanently from agriculture are not included.

The total is known as the gross PSE for a given commodity. Before adding the PSEs for all commodities together, an adjustment is made to the gross PSEs of livestock products to correct for the implicit tax on animal feed that results from supported feedgrain prices. The result for a commodity is the net PSE and when aggregated for all commodities is called the country net total PSE. To show the result in relative terms, the net PSE for one product or for all products can be divided by the appropriate value of production plus direct payments. This gives the percentage PSE.
All consumers of agricultural products are taxed implicitly by market price support. The rate of the tax is usually the same price gap that was measured on the producer side and the total tax is that gap multiplied by consumption. From this "market transfer" figure, expenditures on other government programmes affecting consumption are added or subtracted. These expenditures are almost always in the form of a direct subsidy to keep prices down for consumers and therefore reduce the tax on consumers due to market price support. The resulting total figure is called the Consumer Subsidy Equivalent or CSE.

The OECD Secretariat now estimates PSEs and CSEs annually for all OECD countries (not yet for Mexico). They are used to monitor the progress of OECD agricultural policy reform towards the more market oriented policy framework to which OECD ministers have repeatedly committed themselves. Estimates have also been published for Hungary and Poland. Some recent country results are shown in the following table. The method also proved useful in the Uruguay Round agreement where it formed the basis for the Aggregate Measurement of Support commitments.
## Table 1. Producer and Consumer Subsidy Equivalents

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<th>CSE (^2)</th>
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<td></td>
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<td>1 481</td>
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<td>1 082</td>
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<tr>
<td>ECU mn</td>
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<td>909</td>
</tr>
<tr>
<td>%</td>
<td>11</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td><strong>Austria</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A$ mn</td>
<td>36 194</td>
<td>36 953</td>
<td>37 473</td>
</tr>
<tr>
<td>US$ mn</td>
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<td>3 177</td>
<td>3 281</td>
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<tr>
<td>ECU mn</td>
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</tr>
<tr>
<td>%</td>
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<td>59</td>
<td>62</td>
</tr>
<tr>
<td><strong>Canada</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A$ mn</td>
<td>7 203</td>
<td>6 376</td>
<td>5 475</td>
</tr>
<tr>
<td>US$ mn</td>
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<td>4 942</td>
<td>4 008</td>
</tr>
<tr>
<td>ECU mn</td>
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<td>4 219</td>
<td>3 368</td>
</tr>
<tr>
<td>%</td>
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<tr>
<td>ECU mn</td>
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<td>67 237</td>
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<tr>
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</tr>
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<td>%</td>
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<td>50</td>
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<td><strong>Japan</strong></td>
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<tr>
<td>¥ bn</td>
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<td>4 741</td>
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<tr>
<td>%</td>
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<td>73</td>
<td>74</td>
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<tr>
<td><strong>United States</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>US$ mn</td>
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<td>27 215</td>
<td>26 227</td>
</tr>
<tr>
<td>ECU mn</td>
<td>20 298</td>
<td>23 233</td>
<td>22 036</td>
</tr>
<tr>
<td>%</td>
<td>22</td>
<td>23</td>
<td>21</td>
</tr>
<tr>
<td><strong>OECD</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US$ mn</td>
<td>175 523</td>
<td>166 504</td>
<td>175 003</td>
</tr>
<tr>
<td>ECU mn</td>
<td>135 609</td>
<td>142 145</td>
<td>147 038</td>
</tr>
<tr>
<td>%</td>
<td>42</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td><strong>Hungary</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>HUF mn</td>
<td>21 624</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>US$ mn</td>
<td>274</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>ECU mn</td>
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<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>%</td>
<td>8</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>Poland</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ZLOTYS bn</td>
<td>16 310</td>
<td>22 916</td>
<td>n.a.</td>
</tr>
<tr>
<td>US$ mn</td>
<td>1 195</td>
<td>1 274</td>
<td>n.a.</td>
</tr>
<tr>
<td>ECU mn</td>
<td>923</td>
<td>1 088</td>
<td>n.a.</td>
</tr>
<tr>
<td>%</td>
<td>15</td>
<td>16</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

n.a.: not available.  
\(^e\): estimate.  
\(^p\): provisional.  
Source: OECD

\(^1\): a negative figure means the result is a tax on consumers.
Poland is in a period of transition and building a market economy. The key role is played by privatisation and formation of new market institutions. The tax system has also been affected as a result of a new income tax and the value added tax (VAT). Thus the tax charge has been transferred from direct sources to indirect ones and from enterprises to households.

Since 1992 the macroeconomic indicators have been increasing after the difficult initial period of reforms had passed. After a 12 per cent drop in 1990 and a 7 per cent fall in 1991, economic growth has occurred at the rate of 1.5 per cent in 1992 and 4 per cent in 1993 and over 5 per cent in 1994. The annual inflation rate, which peaked in 1990 with a sixfold price increase, dropped to 35 per cent in 1993 and in 1994 amounted to 30 per cent. Unemployment, officially absent before 1989, reached 16 per cent of human resources in 1993. However, with economic growth the unemployment rate has decreased and in 1995 is expected to decrease further. The budget deficit increased from 0.2 per cent of GDP in 1990 to a peak of 6 per cent in 1992. It is expected to decrease to 3.5 per cent in 1995.

Despite the decreasing tendencies, agriculture’s share in GDP in 1994 still amounted to 6.8 per cent. Overall 25 per cent of employed people were hired in the agricultural sector. This share has slightly decreased during the last decade. In 1989-1994 agricultural production, considering the increasing trends, has shown big disturbances resulting from climatic conditions (drought in 1992 and in 1994) and in 1992 was 16 per cent lower than in 1986. Due to improved climatic conditions in 1993 and 1994 a farm production increase was reported. Plant production constitutes over half of overall agricultural production, but it is only one-third of commodity production. Pig production constitutes almost one-third of agricultural commodity production.

Purchase prices grew more slowly than expenditure prices which has made price relations for agriculture notably worse in 1985-1994. Real agricultural income per farm has showed the same tendencies as changes in price relations, and in 1993 was about 43 per cent lower than in 1985. By the late 1980s agricultural income per person in a peasant household were higher than in non-agricultural households, but in 1991-1993 it was lower by 20 per cent. Many farmers have other income sources, and due to this the average agricultural income in 1992 was less than half of farm income.

The main objectives of agricultural policy

Changes in size and structure of demand for agricultural produce, changes in the labour market as well as changes in the state agricultural policy are the main factors that have affected concept of changes in agriculture after 1989.

In the transition period from a centrally-planned economy to a competitive market one since 1989 the main agriculture policy objectives have been:

- to modernise agriculture and adapt it to market mechanisms; this should help to improve productivity and effectiveness of agricultural sector and to increase living standards in rural areas.

- to sustain appropriate conditions of price and trade policies for producers and buyers of agricultural products in order to stabilise price fluctuations on agricultural products markets step by step.
- to speed up state enterprises’ privatisation and co-operatives’ transformation in order to expand the non-state sector as well as co-operatives and private enterprises in trade and agricultural processing sectors.

In the "Concept of Social and Economic Policy for Rural, Agricultural and Food Economy Sectors till Year 2000", published in June 1994, the Ministry of Agriculture and Food Economy has confirmed the above objectives and has emphasised the importance of objectives of modernisation and development of rural areas as well as natural environment protection.

**Policy instruments for the agricultural sector**

The specific instruments for the agricultural sector and the overall economy are the main policy instruments to reach the above objectives. The objective of forming a competitive environment for agriculture has been reached by general reforms of the economic system rather than by agriculture-oriented reforms. These economic reforms mainly aimed at:

- liberalising the prices of goods and services
- replacing subsidies to reduce retail prices (including prices in the agricultural sector)
- introducing realistically advantageous rates of interest
- introducing convertibility of the zloty currency and its devaluation, and
- the liquidation of state and co-operative monopolies.

The direct or indirect implementation of these main policy objectives in the agro-food sector have led to a prevalence of actions aiming at development of market institutions, the liquidation of monopolistic practices, the stimulation of state enterprises and banking system privatisation and restructuring.

Policy instruments specific to the agricultural sector can be divided into two main groups. The first one consists of instruments to maintain market prices including domestic price regulations and tariff policy as well as social instruments affecting directly the increase of farm incomes. Due to the extension of the range of pensions, budgetary expenditures for social assistance to individual farmers have severely increased, constituting over two-thirds of budgetary expenditures for agricultural policy in 1991-1994. The second group of instruments consists of structural policy means and instruments to increase the effectiveness of plant and animal production. A last way of assistance is given mainly by budgetary subsidies for research and development as well as by subsidising means of production, credits for modernisation and restructuring the agricultural sector and the purchase of means of production.
### Tab.1 Budgetary expenditures for agriculture and food economy in 1989-94 according to classification used in OECD publications

<table>
<thead>
<tr>
<th>Expenditures for:</th>
<th>current prices, billion old zls</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Price &amp; income support&lt;sup&gt;b&lt;/sup&gt;</td>
<td>229,1</td>
</tr>
<tr>
<td>2. Subsidies to means of production&lt;sup&gt;c&lt;/sup&gt;</td>
<td>1018,1</td>
</tr>
<tr>
<td>3. General services&lt;sup&gt;d&lt;/sup&gt;</td>
<td>594,0</td>
</tr>
<tr>
<td>4. Subsidies to food product prices</td>
<td>3449,8</td>
</tr>
<tr>
<td>5. Subsidies to farmers’ social security</td>
<td>1050,1</td>
</tr>
<tr>
<td>6. Education, culture and art</td>
<td>180,4</td>
</tr>
<tr>
<td>7. Others</td>
<td>426,2</td>
</tr>
<tr>
<td>8. Expenditures Total = 1+2+3+4+5+6+7</td>
<td>6521,5</td>
</tr>
<tr>
<td>9. Expenditure total without farmers’ social security</td>
<td>5471,4</td>
</tr>
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<td>10. Budgetary expenditures</td>
<td>33697,1</td>
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<tr>
<td>11. Budgetary incomes</td>
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<td>12. Relation (5)/(8)</td>
<td>16,1</td>
</tr>
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<td>13. Relation (8)/(10)</td>
<td>16,1</td>
</tr>
<tr>
<td>14. Relation (9)/(10)</td>
<td>16,2</td>
</tr>
</tbody>
</table>

#### fixed prices in 1989<sub>r</sub>, billion zls

| Expenditures Total = 1+2+3+4+5+6+7 | 6521,5 | 2340,6 | 2105,0 | 2070,52 | 1990,0 | 2108,1 |
| Previous year = 100 | 34 | 90 | 98 | 96 | 106 |
| Expenditure total without farmers’ social security | 5471,4 | 1210,7 | 768,445 | 645,2 | 608,4 | 586,4 |
| Previous year = 100 | 34 | 90 | 98 | 96 | 106 |
| Subsidies to farmers’ social security | 1050,1 | 1129,1 | 1336,593 | 1425,2 | 1381,6 | 1516,4 |
| Previous year = 100 | 34 | 90 | 98 | 96 | 106 |

---

<sup>a</sup> Estimates  
<sup>b</sup> Includes budgetary expenditures for activity of Agency for Agricultural Markets and direct subsidies  
<sup>c</sup> Includes subsidies to credits, fertilisers, fuels, pesticides, forages and machinery  
<sup>d</sup> Includes expenditures for agriculture research, extension, training and rural infrastructure  
<sup>e</sup> Includes among others expenditures for administration and defence  
<sup>f</sup> The consumptive commodities and services prices rate (data of Main Statistical Office - GUS) was used as a deflation rate for 1989-1994
The Polish economic transformation launched in 1989-1990 was closely related to a significant decrease in the share of budgetary expenditures for agriculture and food economy in total budgetary expenditures -- from ca 19 per cent in 1989 to ca 9 per cent in 1994 (see table 1). In real terms these expenditures decreased by 66 per cent in 1990 as compared to 1989. In 1991 they decreased slightly and became stable at a level ca 70 per cent less than in 1989. In 1994 a slight increase (by ca 6 per cent) took place as compared to the previous year. The share of expenditures for agriculture and food economy in the total budget, excluding subsidies to farmers' social security, decreased in 1989-1994 by much more, from 16.2 per cent to 2.5 per cent. The most remarkable decrease took place in 1990. In real terms these expenditures constituted 22 per cent of their value in 1989. In the following years this relation dropped to 14 per cent in 1991 and 11-12 per cent in 1992-1994.

Since 1989 subsidies for farmers' social security have become more and more important. These subsidies increased by 44 per cent in 1989-1994, and the total share of expenditures for agriculture and food economy increased from 16 per cent in 1989 to ca 72 per cent in 1994.

Tariff policy

In the first months of 1990 Poland had one of the most liberal tariff systems in Europe because it had eliminated the majority of non-tariff barriers to access to the Polish market and left the tariff level unchanged. In 1990, agricultural and food tariffs (CN sections I-IV) ranged from 5 per cent to 25 per cent. The simple average tariff rate for these products was 11.9 per cent and the trade-weighted average rate (according to 1990 import structure) amounted to 13.2 per cent. It should be noted, however, that due to the "leap" devaluation of the zloty at the end of 1989 and as of 1 January 1990 the exchange rate of the zloty was strongly undervalued which -- especially in the first half of 1990 -- stimulated export and effectively weakened propensity to import.

When the Customs Law was amended in the first half of 1991 the level of tariff rates for agricultural and food products was raised. The next tariff increase took place in August 1991. In consequence, in 1991 the simple average tariff rate for agricultural and food products was 13.3 per cent (up by 1.4 per cent), while the trade-weighted average rate went up by 4.6 per cent to 17.8 per cent.

In 1992, the simple average tariff rate went up substantially and amounted to 26.1 per cent, which was related to the increase of ad valorem tariffs for selected products (poultry, eggs, potato starch, beer and sugar) in March 1992. In October 1992, the tariffs for these products were bound with specific rates, from May 1993 set in US dollars, and from July in ECU. The trade-weighted average tariff declined slightly to 17 per cent.

As of 17 December 1992, import of all products was charged an additional tax at 6 per cent of duty. On 5 July 1993, this tax was replaced by an additional 6 per cent duty. As of 1 January 1994, this duty was again turned into a 6 per cent import tax and as of 1 January 1995 reduced to 5 per cent. As of 1 January 1996 it is anticipated that it will be reduced to a 3 per cent tax.

Both in 1993 and 1994, the simple average tariff rate for agricultural and food products (CN 01-24) amounted to 26.2 per cent; that is, it remained unchanged as compared with 1992. On the other hand, the trade-weighted average rate increased from 16.2 per cent in 1993 to 18.7 per cent (as of 20.09.1994). The above average tariffs have not been adjusted for other specific measures of agricultural sector protection, including variable levies.
The Law on Variable Levies enacted on 4 February 1994 came into effect as of 21 June 1994. Variable levies emulate the system of variable levies applied in the European Union. They are aimed at protecting domestic farmers against heavily subsidised agricultural and food imports. As opposed to variable levies applied in the EU their value is constant and they operate like specific tariffs. Initially variable levies were imposed on eight commodity groups. In 1994 the value of agricultural and food imports covered by variable levies amounted to approximately 8 per cent.

**Intervention activity of the Agency for Agricultural Markets**

The Agency for Agricultural Markets (ARR) was established in 1990. Its main objective is to stabilise agricultural prices on the domestic market and to support farmers' incomes. The Agency makes interventions first of all on the markets of grains, sugar, milk and dairy products and live pigs. Since 1992 the minimum purchase prices for wheat, rye and milk have been fixed every year by the Government as a result of negotiations between the farmers and the ARR, the Ministry of Agriculture and Food Economy and the Ministry of Finance. The Agency supports minimum prices, which are realised by purchases of cereals at intervention prices 20-30 per cent higher than the minimum prices. Milk prices are supported by purchasing butter and skim-milk powder at intervention prices from the dairy plants which pay farmers a purchase price for milk that is not less than the minimum price. In 1995 the range of intervention prices versus minimum prices was limited to 10 per cent. The Agency's range of intervention varies based on the product and particular years. The Agency's highest ratio of volume is in purchase of cereals, sometimes exceeding 60 per cent (for instance after harvesting in 1994). For other products this ratio is less than 10 per cent.

In contrast to the initial fast growth in 1990-1991, the subsidies for the intervention activity of the Agency for Agricultural Markets have become lower. As a consequence the ratio of subsidies for ARR activity in the global volume of budgetary expenditures for agriculture and food economy (excluding subsidies for farmers' social security) has decreased from 21 per cent in 1991 to 14.7 per cent in 1994. However it should be noted that the decrease of subsidies for ARR activity since 1992 could have taken place while the agricultural production decreased and strengthened by the drought results in 1992 and 1994. Surplus agricultural products on the domestic market remaining from 1990-1991 disappeared generally in 1992. The decrease in agricultural production allowed the Agency to get a significant part of resources back by sales of surplus commodities purchased in the previous period. The foreign agricultural and food products trade balance has reverted from a positive one in 1990-1991 to a negative one in 1993-1994. As a consequence the pressure for intervention activity by the ARR has noticeably declined.

**Level of support for domestic agricultural producers**

The total support for agriculture measured by the percentage PSE decreased from 28 per cent in 1986-1988 to 15 per cent in 1992-1993, which is less than half the OECD average (41 per cent). However the PSE evolution indicates the increasing importance of sustaining market prices in 1986-1993. After the period 1986-1988 when the market price support was relatively small, in the following three years it was negative, followed by a positive one, constituting the majority of the total support to agriculture in the years 1992 and 1993. At the same time those consumers who were subsidised at some level in 1988-1991 have been charged an implicit tax amounting to an average 13 per cent in 1992-1993 (34 per cent in OECD) that is presented by the percentage CSE. As compared to the OECD countries the level of agricultural support in 1993 in Poland was low. The PSE rates show that the level of support was lower only in New Zealand and Australia.
The effects of the economic reforms initiated in 1989 can be illustrated by the rapid PSE decrease to 2 per cent in 1989 and by the effective taxation of agriculture in the following two years. The progressive growth in import tariffs, starting in the first half of 1991, has caused the sustained growth of support to agriculture prices and an increase in the percentage PSE to 16 per cent in 1993. Such growth in agricultural support, significantly revealed in the increasing level of domestic and world prices, was also evident in terms of the growing number of transfers from consumers to producers measured by the CSE. However changes in the level of support were influenced by the Government policy aimed at sustaining low prices for food in the 1980s and elimination of such assistance in 1990; they was achieved mainly by direct budgetary subsidies to the processing industry.

**Changes in price relations and the income situation of agricultural producers**

In 1990-1991 the price relations for agriculture became much worse. The price scissors index amounted approximately to 40 as compared to 1985-1988 (table 2), and as compared to the highly valuable relations in 1989 only 31. The ratio of disposable income per person in peasants’ households in relation to incomes in workers' households decreased from 115.9 in 1989 to 102.5 in 1990 and 84.2 in 1991. Simultaneously in 1991 incomes in agriculture were reduced almost by half and by 60 per cent as compared to 1985 and 1989 respectively. This caused a substantial decrease in the purchase of inputs, including fertilisers, which affected the decrease in agricultural production. The first symptoms of the decrease appeared in 1991 (mainly milk and dairy products and potatoes). In 1992 this fall was intensified by drought. Considering the inflexible demand this caused growth of food purchase and retail prices. As a result price relations for agriculture became more favourable. The price scissors index was 113.8 in 1992. In 1993 price relations for agriculture became slightly worse. However they were more favourable than in the years 1990-1991. In 1994 these relations improved as compared to 1993 (table 2).
### Tab. 2 Price and incomes rates in Polish agriculture in the years 1986-94

<table>
<thead>
<tr>
<th>Year</th>
<th>Producer’s prices</th>
<th>Prices of means of production</th>
<th>Price scissors</th>
<th>Incomes in agriculture</th>
<th>Wages in non-agricult. sector</th>
<th>Income disparity b</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Previous year = 100</td>
<td>1985=100</td>
<td>Previous year = 100</td>
<td>1985=100</td>
<td>1985=100</td>
<td>1985=100</td>
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<tr>
<td>1986</td>
<td>112,2</td>
<td>115,1</td>
<td>97,5</td>
<td>97,5</td>
<td>98</td>
<td>103</td>
</tr>
<tr>
<td>1987</td>
<td>126,8</td>
<td>125,9</td>
<td>98,2</td>
<td>100,7</td>
<td>88</td>
<td>99</td>
</tr>
<tr>
<td>1988</td>
<td>183,5</td>
<td>178,5</td>
<td>100,9</td>
<td>102,8</td>
<td>110</td>
<td>113</td>
</tr>
<tr>
<td>1989</td>
<td>354,9</td>
<td>274,0</td>
<td>130,7</td>
<td>129,5</td>
<td>124</td>
<td>124</td>
</tr>
<tr>
<td>1990</td>
<td>378,7</td>
<td>899,9</td>
<td>55,0</td>
<td>42,1</td>
<td>62</td>
<td>93</td>
</tr>
<tr>
<td>1991</td>
<td>129,4</td>
<td>177,9</td>
<td>40,0</td>
<td>72,7</td>
<td>51</td>
<td>93</td>
</tr>
<tr>
<td>1992</td>
<td>159,8</td>
<td>140,4</td>
<td>45,6</td>
<td>113,8</td>
<td>58</td>
<td>91</td>
</tr>
<tr>
<td>1993</td>
<td>132,6</td>
<td>138,4</td>
<td>43,7</td>
<td>95,8</td>
<td>65</td>
<td>88</td>
</tr>
<tr>
<td>1994c</td>
<td>134,0</td>
<td>125,0</td>
<td>46,3</td>
<td>106,0</td>
<td>64</td>
<td>89</td>
</tr>
</tbody>
</table>

a  prices of commodities and services purchased for current agricultural production

b  incomes per person in peasants households in relation to incomes per person in workers’ households: home budget research by GUS

c  estimated values

d  values for three quarters 1994.

### Foreign trade in agricultural and food products

The Polish economy, including its agriculture, is poorly linked to the world market -- the value of exports per capita in Poland is more than ten times lower than in highly-developed countries.

In the years 1990-1995 Poland's international trade agreements significantly changed. Previous close trade linkages with former Soviet Union and Central and Eastern European countries broke down as the Council for Mutual Economic Assistance collapsed. New trade agreements were made as a result of the Association Agreements with the EU member states and EFTA countries. Moreover new conditions of access to GATT were established in accordance with the results of negotiations of the GATT Uruguay Round. As of 1 July 1995 Poland is a member of the World Trade Organisation (WTO).

Macroeconomic conditions significantly affected trade in agricultural and food products, which traditionally constituted a major item in Polish foreign trade. In 1986-1993, their share in exports ranged between 10.6 per cent and 16.6 per cent, and in imports between 7.0 per cent and 13.9 per cent. In the first quarter of 1994, theses shares amounted to 10.9 per cent and 11.9 per cent respectively. During 1986-1993, agricultural and food exports (first 4 CN sections) reached their highest level in 1991, US$ 2468.6 million, and the lowest level in 1986, US$ 1284.4 million (Table 2, Fig. 1). In turn, imports reached their highest level in 1993, US$ 2255.7 million, and their lowest level in 1990, US$ 666.0 million. In 1986-1994, the balance of trade in these products was negative in only three years -- in 1988 (US$ -44.7 million), in 1993 (US$ -609.7 million) and in 1994 (US$ -302 million).
The agro-food product trade balance could have deteriorated, first of all, because of the decrease in agricultural production, the decreased competitiveness of Polish agriculture -- mainly as a result of domestic price increases, often to a level higher than the world price, that has been affected since 1990 by the sustained tendency of the zloty to appreciate -- as well as the protectionist trade practices of our main trade partners.

In 1993-1994 Polish exports to the former Soviet Union countries substantially increased, mainly to Russia, which took 74 per cent of the total volume of exports to this area. Poland has sustained a high level trade balance with the former Soviet Union countries. Their volume of agricultural and food products exports increased from 19 per cent in 1993 to 28 per cent in 1994. Trade with other groups was not affected by any remarkable changes in the years 1993-1994. Export and import volumes amounted to approximately 10 per cent with the EFTA countries, approximately 3-4 per cent with the USA and approximately 2-3 per cent with the CEFTA countries. Poland has had a trade deficit with these countries for a few years.

Poland is not interested in one-way enforcement of agricultural export. Poland has already been, and could be, a better importer of means of production -- elite seeds, pedigreed stock and nursery materials -- which enables access to the results of technical and biological progress. We can also see a favourable impact of imports from the EU in quality improvements in some subsectors of Polish processing industry.

We cannot be satisfied with the functioning of trade component of the European Agreement, which, contrary to both sides’ expectations, gives advantages to the EU rather than the asymmetry that had been predicted for Poland. In order to lower the future costs of Polish agriculture adjustments it is necessary to fulfil the spirit and letter of the European Agreement, which has an asymmetry in agro-food products commercial exchanges written in as Poland's advantage. This problem is also visible to our partners from the Union and we hope that it will be reflected in the trade negotiations carried out in relation to the EU extension by the three EFTA countries and the results of the GATT Uruguay Round. We believe that the best solution is the abolition of import barriers for selected Polish agricultural products rather than modification of the contingencies system.

To intensify linkages with the world market we anticipate the chance for trade with the Eastern markets. This is a great chance for Poland and the European Union. EU assistance to develop our institutional and credit linkages with the former Soviet Union would be of great importance. In spite of this we often find
competitiveness. In the Eastern market we often compete unequally with highly subsidised agro-food exports from the EU. Abolition of the EU subsidies for agricultural exports to CEECs or the third countries, such as the countries of the former Soviet Union, may help Polish agriculture to develop export.

Poland’s accession to the World Trade Organisation (WTO) makes possible use of the effects of a world-wide liberalisation of trade. In consequence, in the long term it will mean an increase in the size of foreign turnovers. This concerns also the agro-food sector.

The maximum admissible customs duties to be used by Poland accepted in the GATT are very high. They guarantee high customs protection of agriculture when necessary, and that they shall not limit room for manoeuvre in economic policy. It is necessary to distinguish the maximum level of customs duties, the so-called “bound” rate, from the one used, which is much lower than the maximum one.

As a matter of fact the customs tariffs are lower than the maximum in accordance with the Polish concept of customs tariffs after 1 July 1995. This means that the real customs protection of agricultural and food products amounts approximately to the one as of 1 July 1995 and is much lower than in the European Union.

As of 1 July 1995 the customs tariff has increased for some commodities charged customs duties and requiring import licences. The application of higher customs tariffs required opening the customs contingencies, with access conditions not worse than as of 15 December 1993.

In fact the new customs tariff which would consider the results of the Uruguay Round of GATT leads to general liberalisation of Polish agricultural and food products’ import. The general elements of changes include:

- Abolition of variable levies and appropriate increases in customs tariffs. Some commodities charged customs duties were charged contingencies including custom tariffs without the variable levy element.

Import of goods from outside the continent will be charged customs tariffs higher than the current one by the variable levy equivalent. However this customs tariff will still be much lower than the maximum possible top level under GATT.

Considering the first commodity group, a small group of agri-food commodities particularly sensible for Polish agricultural sector was also provided an improved border protection level. This group concerns among others, beef, some processed foods, yeast, sauces, alcohols, tobacco and tobacco products.

- Customs tariffs for the third part of Polish agricultural and food imports would be sustained at the level hitherto.

This group includes among others fruit (including citrus), fresh and processed vegetables, cereals, different kinds of plant oils, chocolate and its products, and butter.

- The current customs tariffs for almost half of our agricultural and food imports would be decreased.

This group includes a series of important items in Polish agricultural and food imports such as oilcakes, coffee and tea, nuts which are not produced in Poland, melons and watermelons and cotton.
Summary and conclusions

The agricultural production volume and structure is becoming adjusted step by step to the changing demand. After 1989 the speed of food-price growth in general was slower than of commodities and consumption services as a whole. This is a typical phenomenon in a market economy. As a consequence food expenditures in the overall volume also drop.

The substantial problems of the agricultural sector in Poland, which have led to a decrease in agricultural households’ revenues, include: low productivity as a result of farm structure -- small and dispersed private farms; the still limited abilities of private farmers and public services to cope with the challenges of a market economy; as well as underdeveloped market institutions and private trade channels particularly in wholesale trade. Moreover, insufficient infrastructure is still a considerable obstacle to the development and economic diversification of rural areas.

Moreover total support for agriculture expressed in the PSE is small, though its evolution indicates an increase in the importance of market price support in recent years.

The successful conclusion of the Uruguay Round shapes further possibilities to strengthen the reform process in Poland. However the Uruguay Round agreement allows using means of support (other than price supports) that are necessary for Polish agriculture modernisation. The high priority is to direct resources carefully for the best use of available budgetary funds.

The increasing transparency of the Polish agricultural support system is a matter of high importance both in terms of its impact on agricultural markets functionality and in terms of its influence on consumers, Government budget, financial markets in general and inflation.

To reach the agricultural policy objectives in the conditions of the current economic reform requires both a separate, well targeted policy in terms of general economic stabilisation, and an appropriate balance between policy goals addressed to the agricultural and processing sectors, and rural problems, environmental protection and providing the real possibilities of employment.

To summarise one can say that the changes which took place in agriculture in the first period of transformation have tended in the right direction. The main problem remains excessive employment in agriculture and consequent dispersed agrarian structure, low yields of marketable agricultural production, low labor productivity in agriculture and generally low revenues of those people who get incomes only from agriculture. Change in this situation will be slow and possible only when job demand in non-agricultural sectors increases.

Sources of information:


Publications by: Agricultural Policy Analysis Unit (SAEPR), Institute of Agricultural Economics and Food Economy (IER&G), the Ministry of Agriculture and Food Economy (MAFE), Central Planning Office (CUP) and Main Statistical Office (GUS).
THE DRAFT RUSSIAN FEDERATION LAW “ON STATE REGULATION OF AGRO-FOOD PRODUCTION”

Sergei Starikov

The agro-food sector is not only a vitally necessary sector, but precisely the economic sector that, given an appropriate relationship of the state to it, can become the lever for revitalising the entire economy and pulling it out of crisis. Two thirds of retail trade is in agricultural products. For each worker occupied directly in agriculture there are four people occupied in related branches.

In creating a market, it is necessary also to create a system of state regulation. A market has not yet been created in Russia, nor has a system of state regulation been created. But there is state regulation. Presidential decrees, decisions of the Federal Assembly and the Cabinet are constantly being adopted. Most of these decisions are directed at particular, specific problems. So a draft law “On state regulation of agro-food production” has been worked out to systematise this legislation. The draft law identifies the areas in which the state should interfere and establishes a framework for the functioning of the agro-food sector under self-regulating market conditions.

The law specifies the mechanism for resolving those issues of development of the agro-food sector which the market cannot resolve and is incapable of resolving. The first such problem is the price “scissors” between industrial and agricultural production. The draft law provides for a system of regulation of price formation which would include three types of prices for agricultural production. The target price is a conditional price for calculation. Such a price is needed in order to know how much agriculture needs and how much it will receive. The next type of price is a guarantee price. Such prices have now been introduced for the sale of products to the federal foodstuffs stocks. The law provides for the use of guarantee prices for all marketed agricultural production, irrespective of where and to whom it may be sold. The draft provides for the regulation of input prices and the redistribution of income between upstream industries and primary agriculture.

The second problem with which the law is designed to deal is the regularity of food supplies in the market, the balancing of supply and demand. As distinct from other goods, foodstuffs are absolutely necessary, the first condition for life. Therefore in all developed countries the state takes upon itself the regulation of the foodstuffs market (whereas it is not concerned with the market in televisions, refrigerators, etc.). In order to wall off the consumer and the producer of foodstuffs from destructive variations in prices and support market equilibrium, most countries have created state foodstuffs companies. For this purpose, Russia has created the Federal Foodstuffs Corporation. The draft law on state regulation of the agro-food sector legally specifies its functions in regulating the foodstuffs market. The formation of a unified national foodstuffs market in Russia is impossible without a policy of state protection against external expansion. The draft law therefore includes a section on foreign relations.

The third problem is providing credits and finance to the agro-food sector. The draft law provides for the centralised allocation of credits and sources for their repayment in order to provide production credit for seasonal agricultural expenditures as well as long-term credits for agro-food production. However, a Presidential decree and a Cabinet resolution have abolished centralised credits. Agriculture, as a seasonal industry, cannot exist without concessionary credits, especially in inflationary conditions.
At the present time the state must create a system for providing seasonal credits that would include:

- advances for produce to be delivered to federal and regional foodstuffs stocks;
- trade credit;
- and mortgage operations.

Mortgage operations are a new market form that has not yet been used in Russia. They provide for credit to be extended to any farm on the security of the future crop.

The basic form of state support in financing investment must be targeted programs in the agro-food sector. Financing to preserve soil fertility and improve land is a particular issue. As a form of financing work to preserve soil fertility, we have considered it necessary to establish in the law the payment of compensation to the agricultural producers of up to 50 per cent of their expenditures to acquire mineral fertiliser. The draft law also specifies the state’s participation in the system of agricultural insurance.

It is only possible to move from chaos in trade to an organised national market with the aid of legislatively-adopted regulators and the active participation of the state in the formation of market institutions.
THE REGULATED MARKET AND THE NECESSITY OF STATE SUPPORT OF AGRICULTURE

Gennadii Bespakhotnyi

The historical experience of all the developed countries testifies that it is possible to insure the stability of the market in foodstuffs only through a powerful, multi-channel system of state regulation of the agro-food sector of the economy.

Agro-food production, by its nature, is a weakly monopolised sector of the economy. Under conditions of free competition, prices in more monopolised branches grow more rapidly. As a result the agricultural sector is caught in a price-cost squeeze by industry and becomes insolvent. To prevent the disequilibrated market from causing a crisis for the whole economy, state agencies must limit the monopoly rent extracted from production agriculture or else redistribute it from the industrial -- up- and down-stream -- subsectors to production agriculture.

Because of the Russian economy’s high level of monopolisation, price liberalisation placed agriculture in an extremely unequal position. Prices for industrial production required for agriculture in 1994 had risen by more than 2 000 times over the 1990 level, although prices for agricultural output had risen by only 368 times. The income received by production agriculture is redistributed to other subsectors. Agriculture has become a donor to input producers, processors and sellers of agricultural production and to the financial and banking sectors. Only a part of the losses are compensated through the state budget. The insolvency of agriculture has caused a chain-reaction fall in output in neighboring sectors. Reduction in the output of industrial enterprises in turn has led to a reduction in the income and purchasing power of most of the population.

In order to restore and then to support parity in economic relations of agriculture with other sectors, it is necessary:

• to legally enact state guarantees;
• to take measures to subsidise particular kinds of agricultural production and foodstuffs;
• to compensate part of expenses for technically-required energy and inputs; and
• to regulate the prices of enterprises that occupy a dominant position in the market for agricultural inputs and processing of agricultural products.

The foodstuffs market requires state regulation. Demand for foodstuffs, unlike demand for other consumer goods, is not directly related to the price level and income of the population. A conjunctural increase in prices for particular products that are generally consumed can lead to social disorders. As a result of the sharp decrease in the population’s income in our country there has occurred a reduction in the consumption of animal protein. Artificial overproduction of animal products caused a reduction in the livestock herds. Restoring the livestock sector will demand many years and large capital expenditures. In order to protect consumers and producers of food supplies from destructive fluctuations in prices and to support market equilibrium most countries have created state foodstuffs corporations. They buy and sell in order to stabilise the market. State agencies also control wholesale foodstuffs markets.

The most important government task in regulating the foodstuffs market is to defend it from foreign expansion to ensure the country’s food security and independence. Countries with relatively worse conditions for agricultural production take protectionist measures for their agriculture. In the European
Union import tariffs for particular foodstuffs are as high as 200 per cent. At the same time exporters receive subsidies for foodstuff exports, while internal purchase prices for agricultural products exceed world ones severalfold.

Liberalisation of foreign trade and the practically duty-free import of foodstuffs have caused enormous damage to domestic producers. In 1994 foodstuffs worth 24.4 trillion roubles were imported. In that year, domestic agricultural producers realised from sales about 20 trillion roubles.

The return on capital is lower in agriculture than in other sectors, and the time required to recoup the investment is longer than in industry. Tractors, combines and other agricultural machines and facilities are used a few days a year. Private capital has no incentive to invest in agricultural production. State agencies must assure evening-out of conditions for long-term loans for capital investment. To develop agricultural production, conditions for investment that are no worse than the average ones for the whole economy must be created through offering centralised loans, having the state budget buy down the interest rate of the commercial banks, and giving tax advantages to capital.

Most investments in agricultural production are related to land, since land is the basic means of production in agriculture. Whatever the form of ownership and management may be, all countries consider land to be a national resource and designate funds in the state budget to maintain its fertility and improve it. These activities require national programming and planning since from the viewpoint of market relations and profitability it is better for the producer to make use of existing soil fertility than to increase it. The soil in our country is being degraded as a result of the eight-fold decrease in the use of fertiliser and the effective cessation of work on land improvement.

Expenditures to improve territorial infrastructure are a necessary condition for the normal functioning not only of agriculture but of the whole economy. Therefore the state must take upon itself a significant part of the expenses related to creating the rural infrastructure. The weak tax base in rural districts does not permit social assets to be financed by the local authorities alone.

The utilisation of the natural wealth of the Far North and Siberia demands additional expenditures in order to put the territory into agricultural production. The decrease in state support of production in areas with less-favourable conditions has destroyed the unique dairy herd in the Far North and other assets that were created over decades.

Agricultural is a seasonal process and is directly dependent on the weather. In order for the sector to function normally state support for credits to cover seasonal expenditures and product insurance is necessary.
MARKET REGULATION AND SUPPORT POLICIES: THE CASE OF FINLAND

Antero Tuominen

Introduction

When discussing market support and market regulation in European agriculture I find it useful to focus on the experience of some particular country in supporting its farmers and its rural population. In this case I will concentrate on the experience of Finland which is a fairly typical case and which can be used to illuminate all the different aspects of the problem. We can use this example to show why the government has chosen to support agriculture and farmers, how this policy of support has evolved and how it has been adjusted to meet new problems, what the long-term consequences of the chosen support policy have been and why it has lead to an impasse, why the pressure for change has increased and what kind of changes in my view will be inevitable. I could just as well describe the experience of Sweden or Norway or the common agricultural policy of the European Community, but I have chosen the case of Finland because I know it best.

Governments have always tended to support agriculture, although only in a limited way before the 1930's. Governments have aided research, training and by providing certain services because they have seen the benefits to be derived from increased productivity in agriculture. In fact there existed in the 18th century a French school of economists, called the physiocrats, who considered agriculture to be the source of all economic wealth. Government efforts to increase productivity by encouraging research or by making research results available to farmers by training and extension services are generally approved methods of supporting agriculture, and I will not deal with them, although strictly speaking they are an important form of support. This type of support can create external benefits and thus properly belong to the sphere of government responsibility.

Another type of government intervention are measures designed to meet public health concerns, e.g. legislation on which products can be sold, how their production will be controlled, which veterinary measures are obligatory to prevent the spreading of epidemics harmful to people or animals. These measures are necessary in every economy even if we otherwise emphasise the role and functioning of market mechanism. Agricultural administration in Finland originally was responsible for just this kind of work; the policy of supporting farm income by government intervention came much later.

Early attempts to support agriculture

Indeed, around the turn of the century agricultural production and the processing of agricultural products took place in a market economy environment both in Finland and in Russia, that is to say that part of the production that was intended to be commercialised. An important share of production was intended for own or strictly local consumption outside the monetary economy.

Agricultural support mechanisms in the sense of the theme of this discussion were first put in place during transitional periods in economic development or during severe economic crises. Support mechanisms aimed at increasing production were first put in place in Finland when the country became independent and the Bolshevik Revolution disrupted trade relations between Finland and Russia. Finland at that time was an agricultural country with well over half the active population employed in agriculture and forestry. It exported e.g. butter to the United Kingdom very competitively and without subsidies of any kind -- as
New Zealand does to-day. In the early 1920’s the government considered it necessary to increase the production of cereals to increase self-sufficiency in this sector and to make up for disrupted trade. Supply could only be increased by making cultivation more profitable which in this context meant guaranteeing farmers higher prices. This was realised by introducing customs tariffs on imports. The tariffs raised the price of imported cereals and thus made domestic production competitive.

This policy change -- shifting reliance from imports of cereals to domestic production of them -- was quite reasonable and understandable when we consider the situation faced by policy-makers at the time. Although Finland was only indirectly involved in World War I the economic situation had continuously worsened from the beginning of the war and from 1916 on there was a real shortage of food which contributed to social and political unrest, and to the civil war that broke out in 1918. When trade relations were disrupted with Russia after the October Revolution it was quite natural to encourage farmers to produce cereals by imposing import tariffs that made it possible to get higher domestic prices for farmers. It was also felt that increased self-sufficiency in the cereals sector was necessary to defend the newly-gained independence of the country.

Thus agricultural resources were reallocated towards producing grain. One should note also that the competitive dairy sector had lost one important export market, i.e. the St.Petersburg area, although exports to the United Kingdom continued and increased.

It is important to realise, however, that this increase in grain production was not achieved without paying a price for it. The price paid, of course, was an increase in the relative consumer price of cereals and bread -- an important part of the daily diet at the time. This cost was clearly understood at the time, and the consequences of protective tariffs were an important political issue. In fact, Finland's first Social Democratic government fell in 1926 on this very issue when it tried to reduce import tariffs on grain to make bread cheaper for consumers in the cities, but did not find sufficient backing in a Parliament dominated by rural interests.

This policy of protection can be considered traditional policy which was in no way different from those pursued by a majority of European countries. It did not yet involve any elements of market regulation or support. Domestic prices were determined by import prices at ports of entry plus the tariff. Transport costs constituted a kind of natural import barrier -- much more important than to-day. Consequently, prices in the local markets -- even within the country -- could show some variations.

To put the same idea differently: there was no attempt to shelter domestic production totally from fluctuations in world market prices, or to attempt to fix the income of agricultural producers in any way. This would also have been impossible considering the large share of farmers in the total employment.

The creation of the support system

The long period of market regulation and market support -- which continues even to-day -- did not begin until the end of the decade. The world economic crisis -- and also the economic policies pursued by some governments -- lead to a severe depression, to deflation and to a fall in world market prices of agricultural products.

Governments -- not only in Finland -- wanted to prevent the price fall and restore the old price level, or at least mitigate the effects of the fall by paying subsidies to exporters so that they could continue to pay the old price to farmers. The introduction of export subsidies was explicitly considered to be a temporary measure -- when the crisis were over subsidies would be scrapped. It was also strictly an ad hoc measure --
not yet part of a well thought out market regulation system. Import tariffs were also increased. At first, subsidies were paid only on exports of butter, but later also on cheese and pork. Government was also authorised to increase certain import tariffs to maintain the domestic price level despite a fall on world market prices. This authorisation created a tariff that was a predecessor of the variable levies that were an essential part of the agricultural policies of many countries, including Sweden, Finland and the European Community. One should perhaps add that similar support measures were introduced by many governments in the 1930s as a response to the world agricultural crisis, e.g. in Sweden and in the United States where we can already speak of a market regulation system including set-asides and efforts to reduce production.

Although the measures were introduced as temporary measures they soon became more or less permanent. Because the price level in the world market did not increase subsidies on exports continued to be paid and import tariffs were increased at regular intervals.

During the second half of the 1930s there was already some criticism of the continuous use of export subsidies. Angry debates took place in Parliament where it was pointed out that the temporary first-aid measures were rapidly turning into a permanent support mechanism. This support would have negative long-term consequences for the allocation of scarce national resources, and subsidised exports would thus only be a waste of taxpayers’ money. Incidentally, at the time some influential farm organisation leaders shared this opinion, although the organisations later became ardent advocates of support and market regulation.

It is difficult to say what direction policy would had taken if World War II had not intervened. Anyway, after the war the policy environment had completely changed. Oversupply in Europe had turned into underproduction. Wartime malnutrition, lack of foreign currency, disrupted trade relations, the settlement of refugees were only some of the factors that contributed to the policy decisions. Finland e.g. lost 12 per cent of its territory to the Soviet Union, including an important share of agricultural land. Consumption of food was rationed, and this continued for several years after the war. The above-mentioned factors all were good reasons for pursuing a policy of increased production. Protectionism became totally dominating in trade of agricultural products which were treated in a special way in the General Agreement on Tariffs and Trade. Nevertheless, Finland was a net importer of agricultural products in the immediate after-war period. A land reform increased the number of small farms, and average farm size declined leading to a decrease in productivity.

Producer prices had to be raised to keep up with inflation and to encourage production. Subsidies were also given to small farmers to lower their input costs, e.g. on fertiliser. But fairly soon in the 1950s the situation changed, and production of dairy products (butter, cheese) and eggs and pork exceeded domestic consumption. Export subsidies were again utilised. In the 1960s there was also excess production of beef, and also of coarse grains, and later also of wheat.

**A mature market support and regulation system**

A formal market regulation and market support system was created. First, the domestic price level was maintained above world market prices by quantitative restrictions on imports and by variable import levies which automatically increased if world market prices fell or domestic prices were raised so that imports could not come in below the pre-determined domestic price. Second, for those products that were in oversupply, export subsidies were paid to prevent the domestic price level from falling. Third, the domestic prices were determined by government on principles to be described later. The result was that domestic producer prices including relative producer prices could be and were effectively isolated from
variations in world market prices and the difference between average world market price and average domestic price increased.

The original objective of support mechanisms was to stabilise prices received by farmers. Gradually this objective evolved into a requirement to stabilise average farm income and increase it at par with industrial workers. This meant that in determining producer prices cost increases in input prices were first taken into account and passed on to output prices. At the second stage output prices were increased to compensate farmers for the wage increases received by other groups in the society. Sometimes agricultural productivity increases were taken into account as a deduction, sometimes not. Sometimes direct subsidies were paid to farmers out of the state budget so that price increases for consumers could be reduced.

This system could work because there was no alternative supply, or pressure on domestic prices from import competition. The farmers had a guaranteed market either through the use of export subsidies and dumping the excess production on the world market or the government buying in excess production of cereals and using the intervention stocks to smooth variations in cereals production due to climatic conditions or exporting it, whichever was required. Farmers did not really have to face market risks. Neither had they any collective interest in controlling costs because on average increases in costs would always be compensated by higher output prices. Only adverse weather conditions constituted a risk because losses due to bad weather were only partially compensated.

Over time the objective of increasing farmers’ income at least as fast as wages increased started to dominate the other objectives. Consequently, and because the system itself was inflationary, Finnish agricultural product prices increased at a faster rate than elsewhere in Europe -- with a few exceptions -- and the difference between Finnish prices and European Community prices increased considerably in the 1970s and the 1980s so that at the beginning of the 1990s Finnish prices were double the European Community level. The domestic price decisions were taken in negotiations between the government and farmers' organisations. The government was represented by Ministry of Agriculture which anyway was favourable to farmers, and consumers were not really represented. Later the situation became more complicated when the amount of direct, government-funded support increased, because then the word of the Ministry of Finance became decisive and budgetary restrictions had to be taken into account.

One can defend the objective of trying to assure that farmers' incomes increased at par with industrial workers by pointing out that large income differences would have led to social conflicts and at a minimum to reduced social cohesion. But this could also have been achieved by a smaller farm population with larger and more productive farms. But the policy of increasing productivity by increasing the average size of production units and letting the number of farmers diminish was not encouraged. Farmers' organisations and their political representatives soon had a vested interest in trying to maintain their electoral base and their political clients in order to maintain their political power. Farming ceased to be an economic exercise whose results would be judged on the market and turned into an exercise in lobbying government officials and politicians to get more support from the government. This had adverse effects on the flexibility and adaptability of the farm sector.

Because farm prices were administratively determined they also became, as a consequence of lobbying and political decisions, artificially inflated. This fed domestic inflation, other groups claimed wage increases to compensate for increased consumer prices, productions costs increased and farmers wanted compensation for these cost increases as well as for wage increases. Consumers’ preferences were distorted because price relativities were distorted due to protection and the relatively free import of some products that were not produced in Finland and were not substitutes for domestic production. Consumption was restrained by high prices. Incidentally, this is proven by the fact that this year, after Finland joined the European Union on January 1, food prices have declined by close to 10 per cent on average, but more on
products like eggs, pork, poultry etc., the consumption of some items (e.g. pigmeat and poultrymeat) has increased very rapidly. Quality production was not encouraged because the producers received a high price even for standard products, and consumers were not willing to pay extra for quality differences because food prices were too high even for standard quality products.

**Problems created by support mechanisms**

High guaranteed producer prices lead naturally to increased production. The farmers did not always benefit from the high prices, however. Input suppliers could increase their prices, particularly if the product or service sold was sold on a market that was not open to import competition. This was the case of fertiliser prices or construction costs. Part of the rent produced was captured by higher prices for agricultural land, and land prices in the late 1980s in Finland were ridiculously high compared with those of France or Denmark where yields were much higher. This increased the costs of young starting farmers but produced a nice retirement benefit for old farmers. The downstream industries were also inefficient because import competition for processed agricultural products was also limited; the agricultural raw materials contained in an imported processed product were liable to the same duty that would have been paid if the raw materials themselves had been imported. So farmers did not always benefit from increased prices but part of the benefit was captured by upstream and downstream industries or increased land prices.

The increased production led to excess supply and ever-increasing export subsidies. The need to limit the growth of export subsidies led to attempts to reduce the supply. Letting prices decrease which would also have led to more farmers ceasing to produce, and structural readjustment in the farm sector was not deemed possible from a political point of view. Therefore the government tried to reduce supply by administrative means. It set up restrictions on the numbers of cows, pigs, chickens a farm could at most have and thus slowed down productivity increases and reduced the options available to farmers. A permit was required from new producers and so on. But the export subsidies continued to increase, mainly because the world market prices were depressed. One reason for the depressed prices was precisely the widespread use of export subsidies by many countries. Internationally this development led to the GATT Uruguay Round Agreement on reducing the use of export subsidies as part of the agricultural agreement, so the future playing field will be different from that of the 1960s, 1970s and 1980s.

So new restrictions had to be introduced, most notably milk quotas which set the maximum amount of milk a farmer could produce, and set-aside requirements concerning arable land where it was required that 20 per cent (or some other figure decided by government) had to be left uncultivated in order to be eligible for direct support payments from the state budget. The government also made special payments to producers who decreased their production or ceased production for a fixed period of years or ceased production altogether. Early retirement schemes for farmers were designed. The common factor in all these attempts was that the basic cause, high domestic prices was not dealt with but instead the government tried to reduce production by either administrative decrees or by offering bribes to farmers for reducing production. Neither attempt was successful. Although in particular milk quotas were effective they at the same made it extremely difficult to improve farm structures and productivity.

The system became gradually more and more complicated, and it was very difficult to get an overall view of the system and in particular of its effects. It was clear, however, that the amount of support paid to farmers increased continuously. This is shown in the OECD studies on agricultural policy in member countries and in particular in the annual monitoring reports where the amount of support is measured in a comparative way (the PSE figures). This total support in Finland amounted to roughly 4 to 4.5 per cent of...
Gross Domestic Product in some years, which considering the share of agricultural production in gross domestic product is a very high figure indeed.

It is also very clear that the options available to an individual farmer to develop his enterprise in a business-like way were very few. In fact, he became dependent on the annual price negotiations and a client of the government. But the high budgetary cost of export subsidies, sundry direct support measures, the high administrative costs and consumer discontent at high consumer prices in the end were creating a complete impasse where something had to be done. It had only been possible to continue so long the policy of high and increasing support because the number of farmers was -- notwithstanding all I have said -- declining and because the share of food in consumption expenditure had also decreased.

We do not know what forms the inevitable change would have taken had Finland not joined the European Union at the beginning of this year. Although the union uses all the same forms of support Finland used -- in principle -- its regulatory system leaves much more room for the market mechanism. Secondly, the level of support, although high, is much lower than in Finland. Thirdly, the GATT Uruguay Round agreement and the Community budget set limits on future developments; the support can only decrease, not increase if I somewhat simplify the situation. This has meant that now Finnish agriculture has to adjust to lower producer prices, in some cases prices are reduced by 50 per cent, farmers have somewhat more leeway in planning their production and are encouraged to find new opportunities. The number of farmers will decrease, the average farm size will increase, there is more European competition on the product market, and there will be some reallocation of resources to more productive uses within the economy. This will take place despite the fact that the Common Agricultural Policy of the European Union is a fairly rigid market support and regulation system which in itself will certainly undergo changes in the future.

Some conclusions

What can we learn from this process? What conclusions can be drawn?

First, agricultural policies in general had objectives that seemed reasonable from a political point of view. But attempts to regulate the market and support farmers had a momentum of their own. Once put in place it was difficult to remove them or even to change them. Production increases could be achieved by high supported prices, and an excess demand situation could fairly quickly be transformed into an excess supply situation. However, if support was not removed progressively the excess supply situation perpetuated itself. High support is difficult to reduce progressively, and politically it is difficult to cut farm prices -- even if consumers applaud -- because government support itself has created an agricultural lobby to press for more support and clients and an electoral base for some important political party. Administrative attempts to reduce supply may be to some extent successful (milk quotas) but they create new distortions in the market (the quota becomes a valuable asset for its owner) and are an obstacle to structural change. Direct support payments to farmers are costly for a government, particularly at a time when there is a need to reduce fiscal deficits. In the end one will very easily end up with a complex system of price support, direct payments to farmers, huge export subsidies, administrative restrictions, like quotas, set-asides, early retirement systems and investment and input subsidies.

The complexity of the system is a consequence of approaching one objective at a time. When the balance moves too much in one direction, attempts to correct the situation generally lead to new problems which are then corrected by new distorting measures and so on. The support and regulation system is built up piece by piece, gradually, normally by choosing the politically least costly option and in the end you have a very costly system which is difficult to change because too many vested interests are involved. The
misallocation of resources and the consequent welfare loss for the economy as a whole can over time be very large.

It is not my conclusion, however, that all support at all time and in all forms is bad and should be avoided. The point is rather that it has to be carefully thought out to avoid temporary measures becoming a permanent mechanism, to avoid creating political clients and an agricultural lobby that resists all changes to policies. One has rather to work within a system where there is large room for the market and competitive forces to play, where the world market developments are reflected at least partially in domestic prices, and where the farmers have an incentive to try to find solutions to their problems in the market and not by lobbying government or Parliament.

The government has a role to play. Not only in the fields that I outlined at the beginning of this paper but also by well-targeted, transparent support measures designed to meet a particular problem in the least distortive way. The new World Trade Organisation and the Uruguay Round agreements on agriculture set the international rules by which governments have to play. Now it is easy to say that many countries do not practise what I suggest here, but at the same time one has to realise that we in Finland or policymakers in the European Union would no longer build up the kind of regulation and support mechanisms that still are in place if we were starting to design a common agricultural policy to-day. They have been created in another time, in different circumstances, and their very longevity should be kept in mind when trying to find solutions to to-day’s problems.
The transition to the market, price liberalisation and foodstuff intervention through imports from abroad have disrupted the agricultural sector of the economy. During the four years of the reform the aggregate price index for industrial goods and services has grown four to five times faster than the price index for agricultural goods. Because of delayed payments the agricultural producers have had to borrow on extremely harsh terms while waiting for the state to pay them for the products it has ordered.

The country’s leaders have chosen to remove themselves from the management of food resources and this very important sphere of the economy has been practically handed over to private businesses and middlemen.

The farmers do not have the money to pay wages. They cannot purchase equipment, fertilisers, or construction materials, nor support the social infrastructure. Their equipment is becoming more and more obsolete and the area of uncultivated land is getting larger all the time. Manufacturing industries, in turn, cannot sell their output and have to shut down. Hundreds of thousands of workers are thrown out into the streets.

The civilised West regulates market relationships very strictly. For instance, the European Economic Community limits the amount of land under cultivation, establishes threshold and guarantee prices and regulates the volume of production through quotas. The state controls the development of the social infrastructure and environmental conservation as well as regulating exports and imports. In the West it is clearly understood that agriculture is not competitive for objective reasons and therefore Western governments consider support for this sector as a mandatory and unconditional component of their national policy. Protection of domestic producers against imports of foodstuffs and export subsidies for major goods form an integral part of this policy.

Under such conditions the Russian producers, abandoned to fend for themselves, can not compete with the Western agricultural sector with its huge governmental support. Certain politicians and publicists, protesting the introduction of customs tariffs for imported foodstuffs, do not see that it makes any difference who feeds the Russians -- domestic or Western producers. This is a very dangerous view that could lead to the loss of the country’s food security, which is among the major social values and national policy objectives and has no less priority than military security.

Foreign methods of market regulation prove the need to make radical adjustments in Russia’s agrarian policy.

Among the major strategic objectives of production stabilisation which need to be written into law are the following.

Government regulation of intersectoral exchange should be strengthened in order to make it more fair and maintain price parity. The system of guarantee and commodity-pledge prices should provide an acceptable level of profitability for agricultural producers in order to find a way out of the crisis. The profitability of livestock raising should be increased as a first priority.

The state should assume responsibility for the implementation of protectionist measures for the agro-food sector. As a first priority all the adopted decisions aimed at the support of producers should be implemented and funding of those measures should be provided unconditionally. This applies to input supply and capital
investment, conserving the soil and increasing its fertility, maintaining livestock genetics, and developing various kinds of melioration. Government abdication of responsibility for finding solutions to these problems will, in the near future, require increasing appropriations many times over to regain what has been lost.

The state should maintain and develop the social infrastructure in rural areas. Producers do not have funds for these purposes. If this problem is not solved, then, inevitably, the social demands of the rural population will turn political. Uncomfortable living conditions in rural areas may lead to the deterioration of the human resources in agriculture, to the ageing of the population and to the reduction of the supply of highly-skilled specialists and workers. As a most serious result of all these problems the agricultural economy may become much less commercialised and revert to subsistence production.

Tax and fiscal policy vis-à-vis rural producers should be reviewed. Conditions inducing potential investors, including commercial investors, to invest in production development should be created. At present they are interested only in the purchase of land. The producers do not have financial means to upgrade production and funds from the state budget funds are insufficient.

The mechanism of imports from the world market should be seriously adjusted. The structure and volume of imported goods should not undermine the agricultural economy. Under the existing conditions only those foodstuffs should be imported which are not produced in sufficient quantities domestically, and the customs duties should be economically justified.

The state, instead of just attempting to manage the existing crisis, should practice preventive measures. Decisions should be made concerning not only individual activities but a system of measures providing for comprehensive solutions aimed at the improvement of the situation in agriculture.

The hidden economy exerts heavy pressure on production agriculture and the agro-food sector in general. A system of economic measures to lessen this pressure must be developed. Current methods for fighting organised crime are not working. The hidden economy is interested in export-import transactions and obstructs the sale of goods produced in the republics and regions. As an example, the director of the Mtsensk livestock feed lot in Orel province in June of this year tried to sell a large lot of cattle to the Moscow meat processing plants. His offer was refused because meat products made from frozen meat imported from European countries for hard currency were more profitable.

Because of the complexity of the reform process in agriculture and the existence of various forms of ownership and management, scientific and methodological support of the reform process must be strengthened. In this connection the state should finance research. Recommendations should be developed on the basis of Russian experience. The recommendations of Western scientific schools are ineffectively implemented in Russia. Attempts to save money at the expense of science result in much greater losses in production.
Nowadays we all live in a rapidly changing world. But particularly in Central Europe, in my country, the Czech Republic, we have an exciting, unique opportunity to make our world better than it was before. And I believe that any opportunity, like this conference, to meet, exchange views, share experience and knowledge, will enable all of us to do our jobs better than they are done now.

What main lessons can we derive from the case study I want to talk about -- the Czech Republic? We have learned two vital lessons. First of all it pays to apply only a general transformation strategy even to agriculture. Or to say it the other way: it does not pay to prepare and apply any special transformation strategy, which would differ in terms of the basic transition cornerstones, to agriculture. The second very important lesson is that within the general framework of the transformation strategy, applying the same general principles to agriculture in exactly the same way as to industry or services, it pays to devote special attention and effort to maintaining the agricultural market’s stability.

It is the main purpose of this presentation to inform you about major problems we had to cope with during the last five years, about the solutions we chose and about the results we reached. My contribution has four parts: First: This introduction; Second: Identification and description of the problems; Third: The tools we use when trying to overcome our problems; Fourth: The future.

The problem

When transforming our agriculture during the last five years we had to cope with an immense number of problems and questions. I shall try to explain to you only three selected questions, but I do not mean to say that these were the only issues. I only want to say that these three represented the essence of the transformation.

We have to start with the basic question and, of course, with the answer to it. Do we really believe, are we really, truly convinced, that a functioning market mechanism is the best solution in agriculture? The answer to this fundamental question is, without any doubt, YES in the Czech Republic. In my country we all -- the only exception is of course the communists -- discovered that only after our positive answer to this basic question, only after the agricultural market had been established, could we can think about and discuss various issues of regulation, stabilization and support policies in agriculture.

When forming the agricultural market in the Czech Republic the very first problem we had to cope with was the problem of the agricultural market’s stability. The second crucial problem was the profitability of the business of agriculture -- the simple economic survival of our farmers. And the third problem was the question of the non-production functions of agriculture, of farming.

Stabilising the agricultural market

I should like to define the basic problems of agricultural market stability, then to describe the situation on the market by several figures and finally to explain how we tried to cope with our problems.
First of all, let me clarify the idea of market stability and regulation of the market. This idea is very frequently misunderstood. By a stable agricultural market I understand a market where fluctuations in market prices become smaller and smaller over time regardless of the trend line of price development. By regulation I understand keeping price fluctuations in a reasonably narrow band. Regulation does not in any case mean to control or directly to manage a trend line in price development.

For many reasons, during the last five years food consumption in the Czech Republic and demand both in the Czech Republic and from abroad for practically all agricultural products have dropped very sharply while production and supply declined only very slowly. The results of this process were obvious, a deep disequilibrium with a huge surplus of supply over demand. The logical consequence was a sharp downward pressure on farmer prices.

How did we cope with this problem? We tried to remove surplus production from the Czech market and at the same time we tried to make the price fluctuations smaller through the operations of the State Fund for Market Regulation in Agriculture. I shall give you a detailed description of the operations of this Fund in the third part of my presentation intended to cover the tools.

**Lack of capital and investment**

Again -- as in the case of agricultural market stability -- for many reasons, the prices which farmers received when selling their products (milk, cattle, pigs, cereals) rose very slowly when compared with the prices they paid when buying inputs (fertilizers, machinery, fuel, etc.) and even more slowly when compared with the prices the citizens of the Czech Republic paid for food.

The situation was good from the point of view of macroeconomic stability but bad from the standpoint of farmers. On the one hand, prices of agricultural producers, farmers and food prices served as a BRAKE on INFLATION. On the other hand farmers suffered heavy losses and commercial banks were very reluctant to give credit to agriculture. Due to heavy losses from current operations -- farmers had to sell their products in 1990-1993 for prices which did not cover the costs of production -- farmers were not able to invest in land, machinery, equipment and technology using their own resources. I mean profits, because they did not make any profits.

How did we cope with this problem? The Farmers and Forestry Support and Guarantee Fund was founded in 1993 and started operations in 1994. And again, I shall give you detailed description of the operation of this Fund in the third part of my presentation intended to cover the tools.

**Non-production functions of farming**

In the Czech Republic, just as in the rest of the world we have discovered that under market conditions farming does not pay on hills. I mean that it is a hard task to make a profit from farming when land is less fertile -- on hills in the Czech Republic -- and weather conditions are unfavorable -- again on hills in the Czech Republic. So, we had to make it possible for farmers to live and farm on hills when they could not make a profit on classical farming, because expenses are too high while yields are too low. The solution we chose is obvious and well known all over the world: To support income of the farmers on the hills thorough payments for taking care of the landscape, the system of direct payments.
The tools

When talking about tools, let me remind you of our three crucial problems for which the tools were created. We have tried to stabilize the agricultural market through the operations of the State Fund for Market Regulation in Agriculture. We have tried to increase the flow of capital into agriculture through the operations of the Farmers and Forestry Support and Guarantee Fund. We have tried to compensate farmers for taking care of the landscape by a system of direct payments.

The State Fund for Market Regulation in Agriculture

The Fund was established by act No. 472/92 of the Collection of Acts. It started its operations on 1 January 1993 as the successor to the former Federal Fund of Market Regulation in Agriculture which had been established in 1991. In order to stabilize the agricultural market, which means in practice to try to make the band of farmers’ and consumers’ price fluctuations reasonably narrow, the Fund simply buys and sells the agricultural products subject to regulation. The Fund is involved in two kinds of operations, intervention purchases and sales on the domestic market, and subsidized exports.

Let me first describe very briefly the so-called intervention purchases and sales on the domestic market. The Fund reacts to situations of supply dominating demand, which result in a sharp drop in farmer prices, through these purchases. The Fund enters into operations of this type when it can reasonably expect that within a horizon of one or two production cycles of a particular product the opposite situation will arise. By this I mean the demand dominating supply which would lead to a sharp rise in consumer prices. In such situations, the Fund then sells the goods on the domestic market. A good example of an operation of this type is the purchase of breadmaking wheat during the 1992 harvest and its sale before the harvest in 1993.

So called subsidized exports are the second type of operation in which the Fund is involved. With these exports, the Fund again reacts to situations where supply is higher than demand which would again result in a sharp drop in farmer prices. Of course this is only the case if it can be reasonably assumed that the situation of excess supply will be a long-term one. In such situations, it is essential to move surplus production out of the Czech market. The export subsidy is, then, intended to cover the difference between the so-called “minimum guaranteed price” -- this is the price at which the Fund makes its purchases on the domestic market -- and the market price receivable on the foreign market at the moment.

In 1990 and 1991, when the Ministry of Agriculture was in charge of operations which were moved to the Fund later on, the list of products subject to regulation was very long. At the beginning, breadmaking wheat, milk, cattle and beef, pigs and pork, poultry, sugar, potatoes and potato starch were subject to regulation. Gradually, depending on improving market situation, this list become shorter and shorter. Now, for 1995, only two products, bread wheat and milk, are subject to regulation.

The Farmers and Forestry Support and Guarantee Fund

The Fund was founded in 1993 and started its operations in 1994. The Fund is a stock company owned by the state. The only shareholder is the Ministry of Agriculture.

There are two main operations through which the Fund tries to make the inflow of money, capital, investment into agriculture easier and smoother. First, the Fund, instead of the individual borrowers themselves, pays a certain portion of the interest on loans and credits extended to farmers by commercial banks. This simply means that the money becomes cheaper for the farmers. Second, the Fund guarantees
the principal of the loan made to the farmer. This second operation makes the commercial banks less reluctant to lend money to farmers. The Fund can give any individual applicant a guarantee or an interest payment subsidy or both on a particular project.

There are 16 general conditions under which support can be granted. The most important among them are:

- Support can be granted only for projects fully meeting the requirements of the programs announced by the Fund.
- Support can be granted only to entrepreneurs registered as farmers.
- For each project, support can be granted only once.
- Support cannot be granted to subjects who do not pay their liabilities to the state.
- Support cannot be granted to subjects with unsolved requirements and liabilities coming from laws on restitution and transformation.
- There is no legal obligation for the Fund to support projects submitted.

The Fund guarantees the loan principal, depending on the loan period, as follows:

- up to 50 per cent of the principal when the loan is paid off within 2 years
- up to 70 per cent of the principal when the loan is paid off within 5 years
- up to 85 per cent of the principal when the maturity of the loan is longer than 5 years.

The Fund pays an agreed portion of the interest. The Fund announces the proportion which it pays as a per cent of the interest paid by the borrower quarterly. This rate is valid for the whole principal of every loan arranged in that particular quarter.

How is an application dealt with? An applicant (farmer) prepares a entrepreneurial project and asks any commercial bank for a loan. Then if the bank is willing and able to lend the money this bank submits an application to the Fund. If the Fund then approves the application the interest payment subsidy and/or guarantee is granted.

In 1994 -- during the very first year -- the Fund operated four programs. For 1995 the list of programs has been extended. The “current operations”, “farmer”, “countryside” and “young farmer” programs are described here.

**Current operations.** This program is intended to provide access to money necessary for the purchase of:

- seeds
- fertilizers
- herbicides and pesticides
- animals
The usual period for which money is lent under this heading is one marketing year.  

**Farmer.** This program is intended to provide access to money needed for the purchase of:

- machinery and equipment for farming
- investment in fixed assets like reconstruction and modernization of buildings
- machinery and equipment for processing raw agricultural products
- investment in land

**Countryside.** This program is intended to provide access to money needed for farming on arable land subjected to special regimes, such as limits on farming to conserve water supplies. For this program an additional condition is that the farmer must participate in one or both of the basic programs “current operations” or/and “farmer”.

**Young farmer.** This program is intended to make it easier to start with farming. Therefore in addition to the general conditions, the following special condition have been set:

- the owner of the farm must be not more than 35 years old
- he (or she) must accept the obligation that he (or she) will continue as a farmer for at least 10 years.
- the farmer must participate in one or both of the basic programs “current operations” or/and “farmer”.

During the very first year of its operations, the Fund took guarantees for roughly 7 billion CZK. This sum of money represented a substantial increase in the capital inflow into agriculture because practically all of this money went into agriculture through the second basic program, “farmer”. The average interest farmers paid was 2.6 per cent while the usual commercial interest rate was 14-15 per cent per annum. In 1995 roughly 1 billion CZK of credit goes into agriculture every month through the support of the Fund.

**The direct subsidy system**

A system of direct payments was established in 1990 to compensate farmers for farming in less favorable conditions. This system has changed many times during the last five years.

At the beginning the money was channeled through this system for two purposes, to support improvement in the genetic potential of animals and seeds, and to compensate for loss in income. Over time the role and significance of this system has generally become smaller and smaller. In terms of money particularly, the role of the direct subsidy system focused on improvement of genetic potential has declined. Most of the money is spent on payments to farmers for a hillside set-aside program.

**The future**

The future of agricultural market regulation and support policies in the Czech Republic will depend on two groups of factors.
First of all, the need for support and regulation will be determined by our ability to utilize the three comparative advantages which we have at the moment when increasing the competitiveness and effectiveness of our agricultural production. The more we are able to make our agriculture competitive and effective, the less regulation and support we will need.

And last but not least, changes in our regulation and support policies will be influenced by the development of the Common Agricultural Policy of the European Union. It is well known that the Czech Republic intends to join the European Union as soon as possible. And it is obvious that we shall have to follow the rules of the game effective at the time of our joining the European Union. Nevertheless, during the pre-accession period we shall do our best to persuade our future colleagues in the European Union that CAP requires changes toward a more liberal policy with less support and regulation.

I am convinced that until full membership of the Czech Republic in the European Union is reached we shall have to cope with all three problems I have tried to describe. I am convinced also that probably we shall not find basically different tools than the tools I have tried to describe. Of course the agricultural products subject to regulation could change and programs enabling farmers to get credits could change too, but all these changes will not dismantle the architecture of the system.
DEVELOPING AND IMPROVING INTERSECTORAL ECONOMIC RELATIONS IN A MARKET ENVIRONMENT: THE SHIFTING PRICE-COST RELATIONSHIP BETWEEN AGRICULTURE AND ITS SUPPLIERS

Akhiiar Gataulin

Market demand and a complex of organizational and economic factors are causing radical changes in the structure of production and so in sectoral relations in the economy. A systematic analysis of these processes' effects on production costs and accordingly on the demand for inputs from other sectors is an intrinsically important problem. In the new economic environment both relations within production agriculture itself and its connections with technologically-related economic activities need to be systematically studied. Within production agriculture, important changing relationships include those between crop production, animal husbandry, and non-agricultural activities, as well as with infrastructure. At the more general level of the entire agro-food sector, changes in the terms of trade between upstream suppliers and production agriculture, on the one hand, and production agriculture with downstream industries on the other, need examination. This paper considers only the second area, changes in the relationship of production agriculture with its suppliers and customers.

Regional differences

Because Russian agriculture spreads over a large territory, regional differences in agro-food production units' locations, production costs, and production volumes substantially determine agriculture's relations with other industries. The resulting flows of goods among regions are conditioned by: 1) the zonal specialization of agricultural production according to each region's natural and economic circumstances; and 2) the relationship between the volumes of production and consumption of agricultural products within each region, which in turn depends on the distribution of the urban and rural population. Therefore intersectoral relationships should be examined against the background of regional variations in the distribution of those economic factors which fundamentally determine the economic health of the agrarian sector.

Regional differences in the volume of production and the level of costs depend first of all on available resources. There are even sharper differences within individual regions. Thus, the energy available per hectare varies from 2.9 horsepower in the Volga valley to 9-13 in some provinces in the Central region. As a result of the extremely high rates of increase in input costs, in districts where there has traditionally been intensive production the rate of increase in costs exceeds the increase in output. In Leningrad oblast, for example, costs per hectare of arable land are 3.3 times more in crop production and 8.3 times higher in animal husbandry than the average for all of Russia. But per-hectare output of crops is only 2.7 times higher, while livestock production per-hectare is only 6.9 times higher.

An increasing market orientation should have promoted more effective zonal specialization. But the proclamation of the questionable slogan of regional self-sufficiency and the sluggish rate of development of a true market orientation have slowed this development. In recent years there have been no substantial improvements in the territorial and locational structure of agricultural production.
Increasing price disparities

The fundamental factor determining the trend of relations in the agro-food chain has been the sharp increase in price disparities. Although overall prices for agricultural products have increased by 334.5 times in 1994 in relation to 1990, the growth in prices for industrial inputs was 1383 times over the same period. Electricity costs grew by 9308 times during that period. Boiler fuel increased by 4435 times, and machinery fuel by 5744 times. The data in table 2 suggest the extent to which price parity has been violated.

So price parity in relation to grain has become substantially worse in Russia than it is in the US. Prices for fertilizer have risen 6 times faster than those for grain, while prices for diesel fuel and gasoline have risen 3.4 and 3 times faster respectively. The overall financial losses of production agriculture in the whole range of exchanges with other sectors just as a result of the violation of the parity of prices which existed in 1990 (although even then the exchange was not equivalent) in 1991-1994 amount to 59 trillion rubles in current prices.

The make-up of production costs by sectoral origin strongly differs both by kind of production and by region. This results in the large differences observed in the rate of increase in the prime cost [sebestoimost'] of production (Table 3). Analysis of the level and composition of production costs shows that all farms, regardless of their organisational and legal forms, must pay about the same amount for a particular kind of input. As a rule production-cost differences are determined only by the availability of resources and the related technical possibilities of production.

Conclusions

Given Russia's vast territorial expanse and significant zonal differences, transportation has a special significance for the optimization of relations in the agro-food chain. Only relatively cheap transportation among regions can secure the advantages of deep zonal specialization and the utilization of inexpensive local resources. Considering that the product created by one employee in agriculture creates jobs for several workers in other economic activities and has a corresponding multiplier effect in adding value, freight rates for agricultural goods (including inputs) must be subsidized. Prices for energy must be regulated considering real socially-necessary production costs. Attempts to explain away the extreme rate of growth of energy prices by the necessity of bringing them up to world levels have no serious scientific basis since, first of all, our composition of production costs is absolutely different, particularly in so far as wages are concerned, and secondly, the essence and motor of world trade is precisely differences in the formation of domestic production costs. For an effective, balanced development of our whole economy with optimal intrasectoral ties, considering the country's endowment of its own resources, it is necessary for us to create our internal system of prices and intrasectoral ties.
Table 1
Regional differences in the distribution of some factors and results
of agricultural production, 1993

<table>
<thead>
<tr>
<th>economic region</th>
<th>regional share of arable, %</th>
<th>GAO, %</th>
<th>arable per able-bodied worker, ha</th>
<th>energy per ha of arable, hp</th>
<th>expenses per ruble of gross output as a % of average Russian level crop production</th>
<th>livestock production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>100</td>
<td>100</td>
<td>5.35</td>
<td>3.70</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>North, North-western</td>
<td>2.6</td>
<td>6.8</td>
<td>2.0</td>
<td>8.0</td>
<td>124.2</td>
<td>110.6</td>
</tr>
<tr>
<td>Central</td>
<td>11.0</td>
<td>14.2</td>
<td>4.7</td>
<td>4.9</td>
<td>102.5</td>
<td>99.5</td>
</tr>
<tr>
<td>Volga-Viatka</td>
<td>5.9</td>
<td>5.5</td>
<td>5.2</td>
<td>4.3</td>
<td>88.9</td>
<td>81.4</td>
</tr>
<tr>
<td>Central-Blackearth</td>
<td>8.2</td>
<td>9.3</td>
<td>6.2</td>
<td>4.3</td>
<td>89.6</td>
<td>101.7</td>
</tr>
<tr>
<td>Volga</td>
<td>19.0</td>
<td>15.0</td>
<td>8.9</td>
<td>2.9</td>
<td>104.7</td>
<td>94.4</td>
</tr>
<tr>
<td>Northern Caucasus</td>
<td>12.2</td>
<td>12.6</td>
<td>3.3</td>
<td>3.9</td>
<td>73.7</td>
<td>88.6</td>
</tr>
<tr>
<td>Urals</td>
<td>16.7</td>
<td>13.6</td>
<td>6.9</td>
<td>3.3</td>
<td>122.5</td>
<td>95.8</td>
</tr>
<tr>
<td>Western Siberia</td>
<td>15.0</td>
<td>11.3</td>
<td>7.1</td>
<td>2.9</td>
<td>96.2</td>
<td>92.3</td>
</tr>
<tr>
<td>Eastern Siberia</td>
<td>7.2</td>
<td>6.1</td>
<td>5.7</td>
<td>2.9</td>
<td>132.0</td>
<td>109.9</td>
</tr>
<tr>
<td>Far Eastern</td>
<td>2.2</td>
<td>5.6</td>
<td>2.2</td>
<td>5.6</td>
<td>190.5</td>
<td>220.2</td>
</tr>
</tbody>
</table>
Table 2

Changes in the parity of prices for grain and some inputs in the USA and Russia

(quantity of grain in tonnes that must be sold to purchase 1 tonne of the given input)

<table>
<thead>
<tr>
<th>input</th>
<th>Russian Federation</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>mineral fertilizer</td>
<td>0.2</td>
<td>1.2</td>
</tr>
<tr>
<td>diesel fuel</td>
<td>0.7</td>
<td>2.4</td>
</tr>
<tr>
<td>gasoline</td>
<td>0.9</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Table 3

Rates and relations of the dynamics of the prime cost of basic agricultural products in some economic regions of Russia

(changes in prime cost over the base year, times)

<table>
<thead>
<tr>
<th>Product</th>
<th>year</th>
<th>Russia (average)</th>
<th>Central region</th>
<th>Urals region</th>
<th>Eastern-Siberian region</th>
<th>Far Eastern region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grain</td>
<td>1994/1993</td>
<td>5.2</td>
<td>5.1</td>
<td>4.5</td>
<td>5.7</td>
<td>7.0</td>
</tr>
<tr>
<td></td>
<td>1994/1990</td>
<td>702.6</td>
<td>519.4</td>
<td>740.2</td>
<td>990.8</td>
<td>1072.2</td>
</tr>
<tr>
<td>Potatoes</td>
<td>1994/1993</td>
<td>6.9</td>
<td>7.0</td>
<td>6.3</td>
<td>6.2</td>
<td>7.9</td>
</tr>
<tr>
<td></td>
<td>1994/1990</td>
<td>797.6</td>
<td>626.9</td>
<td>1070.1</td>
<td>1189.8</td>
<td>1483.4</td>
</tr>
<tr>
<td>Vegetables</td>
<td>1994/1993</td>
<td>5.9</td>
<td>7.9</td>
<td>7.3</td>
<td>5.9</td>
<td>7.9</td>
</tr>
<tr>
<td></td>
<td>1994/1990</td>
<td>1523.5</td>
<td>2367.8</td>
<td>2018.3</td>
<td>2429.8</td>
<td>3107.8</td>
</tr>
<tr>
<td>Milk</td>
<td>1994/1993</td>
<td>4.3</td>
<td>4.5</td>
<td>4.2</td>
<td>4.0</td>
<td>5.4</td>
</tr>
<tr>
<td></td>
<td>1994/1990</td>
<td>623.1</td>
<td>609.6</td>
<td>585.8</td>
<td>665.9</td>
<td>1140.5</td>
</tr>
<tr>
<td>Hog weight</td>
<td>1994/1993</td>
<td>4.4</td>
<td>4.2</td>
<td>4.3</td>
<td>4.4</td>
<td>5.5</td>
</tr>
<tr>
<td>gain</td>
<td>1994/1990</td>
<td>932.9</td>
<td>931.8</td>
<td>874.6</td>
<td>1178.9</td>
<td>1783.4</td>
</tr>
</tbody>
</table>
The 117-nation trade agreement signed in December 1993 concluded the Uruguay Round of trade negotiations under the General Agreement on Tariffs and Trade (GATT). Despite long and often bitter negotiations, stalemates, seemingly irreconcilable differences, and several earlier deadlines missed, the Uruguay Round has been declared a success. In 1986, at Punta del Este, agricultural trade reform was to be a central issue with the goal of substantial liberalization. However, it is obvious that real liberalization was not achieved. The bold proposals by the United States and Cairns Group for near elimination of trade-distorting practices became watered down by the time of the submission of the Dunkel text in December 1991, further reworked by the Blair House agreement in December 1992, and all but negotiated away in the Uruguay Round Final Act of December 1993. The great hopes of the midterm review in April 1989 were reduced to grudging concessions four years later. Where's the success?

Agriculture was one of fifteen major sectors included in the Uruguay Round discussions. Although other sectors had conflicts, some of which were postponed until future rounds, the agreement made some important strides in several areas including finance and intellectual property. The Uruguay Round was conducted in, and contributed to the environment which encouraged regional trade agreements such as the North American Free Trade Agreement (NAFTA) and unilateral policy changes such as Common Agriculture Policy (CAP) reform in the European Union (EU) and PROCAMPO in Mexico. Expansion of several free-trade areas is currently under consideration. These reductions in trade distortion can be considered as fruit of the Uruguay Round.

Within agriculture, the idea of tariffication of import barriers was accepted, making trade barriers transparent for the first time. Schedules for reductions of tariff equivalents have been submitted by GATT member countries. Although the end tariff equivalents will still be largely prohibitive, the stage is set for future meaningful reductions. Perhaps the largest reason that the Uruguay Round can be considered a success for agriculture is that the round ended with agriculture included. An agreement including agriculture indicates that countries are finally willing to graze domestic agriculture's sacred cows in a global pasture.

The implications of the Uruguay Round for sectors other than agriculture are beyond the scope of this study and will not be considered here, except for the assumption that combined impacts from all sectors will lead to increased income growth around the world. Other trade agreements that have not yet been negotiated are not assumed in this analysis, but NAFTA is incorporated in the baseline against which this analysis is compared. Therefore, the benefits of such agreements are not counted as Uruguay Round benefits.

The tariffication of non-tariff barriers and their subsequent reduction result in tariff equivalents which are still mostly prohibitive above quota levels. Over the life of the Uruguay Round agreement, little impact will be felt from tariffication. Any such benefits are likely to come from future tariff reductions. The direct impacts on agriculture resulting from the Uruguay Round are primarily derived from import access.

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7 Additional Center for Agricultural and Rural Development (CARD) staff that contributed to this analysis were Mike Helmar, John Kruse, Karen Oerter, V. Premakumar, and Darnell Smith. This material is based upon work supported by the Cooperative State Research Service, U.S. Department of Agriculture, under Agreement No. 92-38812-7261.
and subsidized export quantity and expenditure commitments. This study evaluates prospects for world agriculture under a scenario that incorporates import access commitments, constraints on subsidized export quantities and expenditures, and increased income levels resulting from the Uruguay Round GATT agreement.

Analytical System and Procedures for the Quantitative Analysis

To assess the impacts of the Uruguay Round Final Act, results for agriculture are compared under three alternative scenarios:

- A baseline scenario that incorporates CAP reform, PROCAMPO, the Blair House oilseeds agreement, NAFTA, and existing policies in other major trading countries;

- A GATT scenario A that incorporates proposed changes in the agricultural policies of major trading countries as per submitted country schedules and assumptions about increases in income resulting from GATT;

- A GATT scenario B which is identical to scenario A except that no increases in income above baseline levels are assumed to result from a GATT agreement.

To get a better perspective on the direct impacts of the Uruguay Round, GATT scenario B is compared to the baseline. In this way, the "pure" effects of GATT constraints are assessed. Using this perspective, a greater appreciation for the impacts of GATT constraints is obtained, especially since projections of income increases stemming from a GATT agreement vary widely. Using different assumptions about income increases can produce substantially different results. The difference between the two GATT scenarios can be viewed as the impacts attributable to the income increase assumptions used in this analysis.

This analysis is conducted by utilizing the agricultural commodity models of the Food and Agricultural Policy Research Institute (FAPRI). For major trading countries, the FAPRI models are econometric models that estimate the supply, utilization, net trade, and prices of wheat, feed grains, rice, soybeans and products, sugar, cotton, beef, pork, poultry, and dairy products. (Devadoss et al. 1993). All the components of the modeling system used in this analysis are dynamic, meaning that both short- and long-term effects of policy changes can be identified. Policy instruments are explicit in these models so import, export, and domestic support policies can be modified as required by proposed GATT provisions. The models are calibrated to reproduce recent historical data as closely as possible and to generate projections for the next ten years.

Model Simulations

FAPRI 1994 Baseline

FAPRI baseline projections are based on assumptions about the general economy, agricultural policies, technological change, and the weather. The baseline scenario includes the CAP reform already implemented by the EU and the Blair House oilseeds agreement. It also includes PROCAMPO, the new producer support policy recently implemented in Mexico. NAFTA is incorporated into the baseline, as
well. The policy regimes in the United States and other developed market economies are assumed to continue according to the provisions of current law. The macroeconomic outlook assumed for this baseline is the one published in October 1993 by the WEFA Group for Argentina, Saudi Arabia, and the Republic of South Africa; in December 1993 for the United States; and in November 1993 by Project LINK for other countries of the world. A detailed description of the baseline scenario is in FAPRI 1994a and FAPRI 1994b.

GATT Scenarios

The GATT scenario assumptions are based on submitted country schedules of commitments for Uruguay Round disciplines for agriculture. These commitments, although negotiated reference values sometimes supplant discipline description amounts, are generally based on the Dunkel text with revisions and adjustments as specified in the Blair House agreement of November 1992.

Proposed changes to trade-distorting policies as outlined in the Dunkel text are aimed at four areas: internal support, export subsidies, market access, and sanitary and phytosanitary measures. The Blair House agreement modified internal support and export subsidy restrictions. Under the Uruguay Round Final Act, actual commitment levels do not always reflect agreed-upon rules and may be substantially different from calculated values based on the Dunkel text or Blair House agreement. Implementation of trade-distortion reduction commitments is to take place from 1995 through 2000 for developed countries and from 1995 through 2004 for developing nations. Table 1 presents general descriptions of the Uruguay Round disciplines for market access, export subsidization, and internal support.

Market access is to be achieved in various ways. For developed nations with non-tariff barriers, those barriers are converted into tariff equivalents and reduced over six years by a simple average of 36 percent over all agricultural goods from the 1986-88 average tariff equivalent. Tariffs for individual commodities are required to be reduced by a minimum of 15 percent over six years. Any tariff reduction of more than 15 percent that would result in increased imports of that commodity is assumed to revert to the 15 percent minimum. It is further assumed that the simple average reduction of 36 percent will be met through higher tariff reductions on minor commodities. Also, where import barriers are in place, access to the domestic market is required to be 3 percent of domestic consumption in 1995, increasing to 5 percent by 2000 (minimum access), or current access of 1986-88 average import levels, whichever is greater. However, in some cases, market access commitments different than those implied by the minimum and current access rules were submitted. Import access commitments have two components: a tariff rate quota that allows a specified quantity of imports at a low tariff and tariffication that specifies a tariff rate for "out-of-quota" imports (Figure 1). The tariff rate quota (TRQ) is based either on beginning at three percent of domestic consumption in 1995 and expanding to five percent in 2000 or on "current" imports, whichever is greater. A low tariff rate is specified for these imports.

Export subsidization is subject to potential constraint in two ways. Expenditures are to be reduced 36 percent from the 1986-90 reference period average level, and quantities exported with subsidies are to be reduced 21 percent from the 1986-90 average level (Figure 2). The proposed quantity reductions were 24 percent in the Dunkel text, but were changed to the current 21 percent in the Blair House agreement and maintained at that level in the Uruguay Round Final Act. These reductions are made from 1995 to 2000 in equal increments. However, the beginning level for reduction of either quantities or expenditures can be from 1986-90 average levels or 1991-92 average levels, whichever is greater. In either case, the final reduction commitment must be no less than the specified percent of the 1986-90 average level. This is the "no front loading" feature which does not necessitate a large adjustment in the first year and permits
reduction of large stocks of grain via export channels for the EU. Export subsidies under a bona fide food aid program are not subject to reduction.

Internal support, as measured by an aggregate measure of support (AMS) using fixed reference prices, is reduced by 20 percent from the 1986 level (Figure 3). According to the Dunkel text, the AMS reductions were to be commodity specific, that is, each commodity was subject to AMS reductions. With the Blair House agreement, this was changed to an agricultural sector-wide AMS, allowing the AMS for some commodities, such as U.S. sugar, to avoid reduction as long as the aggregate AMS reduction is at least 20 percent. With the Blair House agreement, U.S. deficiency payments and EU compensatory payments of the reformed CAP were exempted from inclusion in AMS calculations, and therefore from reduction. This is consistent with the final agreement. The AMS is evenly reduced from the 1986 level from 1995 through 2000. If obligations under export competition or import access require that internal prices be less than the support price calculated under the internal support rules, the support price is allowed to be maintained at a level greater than the internal price through mechanisms such as deficiency payments so long as the AMS reduction requirements are met. Because credit is allowed for reductions in AMS since 1986, many countries have already met the AMS requirements through unilateral policy changes. Thus, strong instruments for discipline, introduced in the cases of market access and export subsidization commitments, are not imposed on internal supports. Countries are, however, constrained from expanding internal support indiscriminately.

The benefits of reducing trade barriers include more efficient allocation of resources leading to increased productivity and higher incomes. Assumptions about the increase in the level of incomes resulting from the Uruguay Round are from a study by Data Resources International (DRI). Table 2 presents the assumptions used in this analysis. Care should be taken to interpret these numbers correctly. They do not represent increases in income growth, but merely the increase in income levels in a specific year. The initial rates of growth are expected to be very small. These assumptions were applied to GATT scenario A only. GATT scenario B utilizes baseline levels of income. This is the only difference between the assumption sets used in the two GATT scenarios.

Results of the GATT Scenarios

With assumptions incorporated to reflect commitments contained in the submitted country schedules, FAPRI models of world agriculture are solved to obtain results for the GATT scenarios. This section reports results for major country net trade and world prices. Because the Blair House agreement changed AMS calculations to agricultural sector-wide and not commodity specific, and this was part of the final act, most countries are expected to be GATT-legal in this respect by the beginning of implementation of new GATT rules in 1995. Because of this, there will be little change in production of major producing countries, except as would be necessary to reduce excess supplies to meet subsidized export quantity restrictions and market access commitments. Only the results for grains and meat are summarized here, since these are the main impacts on Russia.

Agricultural Commodity Trade Impacts

Wheat, Feed Grains, and Rice

Results for trade and world prices for wheat, feed grains, and rice are reported in Table 3 for 1995-1999 and 2000-2002 for scenario A. Since the changes in income resulting from a GATT agreement are expected to be relatively small in the first several years, the differences between scenario A and scenario B
are small during the 1995-99 period. For this reason, results for scenario B are reported for the 2000-2002 period only. GATT implementation begins on July 1, 1995 and the final year of implementation is 2000. Changes in trade levels are primarily the result of export subsidy and market access restrictions in the 1995-1999 period when income increases are relatively small. In the 2000-2002 period, however, income increases begin to have significant impacts on world grain markets. The EU is required to reduce subsidized wheat exports from the 1991-92 average level of 20.2 million metric tons (mmt) to 13.4 mmt in 2000. It also must increase market access slightly. The EU exceeds the export subsidy expenditure and quantity commitments through 1997/98 as a result of set-aside requirements under CAP reform. Beginning in 1998/99, however, subsidized export quantities from the EU are constrained by the GATT commitments. For the 2000-2002 period, the constraints on subsidized export levels result in a nearly 5 mmt reduction in net exports by the EU compared to the baseline. The EU is expected to be below the export subsidy expenditure constraints as a result of reduced prices introduced with CAP reform. This result is the same for scenario A and scenario B because domestic market prices are above world prices and insulated from them, and because both subsidized export quantity and import access restrictions are binding. However, production, consumption, ending stock, and domestic prices are not identical in the two GATT scenarios due to the difference in income assumptions.

The United States is also required to reduce subsidized wheat exports. The export enhancement program (EEP) resulted in a level of subsidized exports from 1986-90 of 18.4 mmt. However, during the 1991-92 period, average subsidized exports were 21.4 mmt. This is the quantity from which subsidized export quantity reductions will begin. Not only will the quantity of subsidized exports be reduced, but export subsidy expenditures are subject to reduction as well. In order to meet both criteria, it is assumed that the United States will abandon the use of EEP in some markets and reduce subsidy levels in others. It was further assumed that the United States will continue to use EEP, although at reduced rates, in the former Soviet Union, Chinese, and North African markets. Per-unit subsidies are expected to decrease to meet the expenditure constraints.

Reductions in export subsidization by the EU and the United States are expected to add strength to world wheat prices. In the 2000-2002 period, world prices are projected to increase by nearly 14 percent relative to the baseline in scenario A and by 10 percent in Scenario B. However, because the United States will be required to reduce EEP subsidies, the impact on U.S. price will be much smaller. In scenario A, U.S. price increases are less than 2 percent and in scenario B, U.S. wheat price increases are below 1 percent. Both world and U.S. prices would increase more but a decrease in the Acreage Reduction Program (ARP) rates is assumed in the GATT scenarios. Despite the small increases in price, the United States is expected to be able to take advantage of markets abandoned by the European Union and increase exports by idling less land. U.S. wheat exports increase 2.0 mmt in scenario A, but approximately 700 tmt in scenario B, illustrating the effects of the income assumptions during the 2000-2002 period.

Canada, Argentina, and Australia are beneficiaries of higher world prices and respond with increased wheat production and exports. Australia and Argentina have no export subsidization constraints and will be able to take full advantage of world price increases. Canada must reduce subsidized export quantities and expenditures from the Western Grains Transportation Act (WGTA) and will have a smaller price increase than Australia and Argentina, but a larger increase than the United States. Wheat price increases for Canada will average 9 percent and 5 percent for scenarios A and B, respectively. In scenario A, Canada increases wheat exports more than 400 tmt, Australia approximately 300 tmt, and Argentina 200 tmt above baseline levels. Smaller price increases in scenario B result in each of these countries expanding exports, but by less than in scenario A. Because wheat prices increase more than feed grain prices, and because there is competition for land between wheat and feed grains in these countries, some of the wheat production and export increases will come at the expense of production and exports of feed grains.
The former Soviet Union (FSU) also reacts to higher world prices, resulting in reduced net imports, and is expected to be a net exporter in the 2000-2002 period. Much of the increase in net exports by the FSU is offset by lower feed-grain net exports, although there is an increase in total grain net exports in both scenarios relative to the baseline. Developing countries, as a whole, import roughly the same quantities of feed grains in scenario A as in the baseline because income increases offset higher prices. In scenario B, however, net imports of feed grains are 1.4 mmt lower from 2000-2002, indicating a significant income effect. Much of the increase in imports is likely to be in Asia where the largest income increases are assumed.

With respect to feed-grains trade, GATT primarily affects imports of corn by the EU. Subsidized export quantity restrictions are based on total coarse grains with no specific limits for any particular grain. (Because of the effects of CAP reform, feed-grain exports in the baseline are well below GATT constraints.) As wheat exports are restricted beginning in 1998/99, less wheat area is planted and land shifts towards barley production, particularly in northern EU countries. The increase in barley production results in larger exportable surpluses and barley exports increase in both scenarios A and B. By 2000, coarse grain export constraints become binding, but at a level considerably higher than under the baseline. This has a price-reducing effect on barley for the 2000-2002 period, but eventually barley prices would rise with other feed grains prices. The increased imports of corn required by the GATT commitments more than offset the barley export increases, however, and net feed grain exports decline nearly 300 tmt from 2000-2002.

Much of the remaining impact on world feed-grain markets results from increased incomes in scenario A and from trade-offs with wheat in both GATT scenarios. Major feed-grain exporters such as Argentina, Australia, and Canada are expected to reduce feed-grain exports as land is shifted to wheat and wheat exports increase. A similar situation occurs in the FSU. Impacts on feed-grain trade in most regions are greater in scenario A than in scenario B because income increases drive demand for livestock and dairy products higher, ultimately resulting in greater meat and dairy production and thus, greater feed use. The United States picks up the majority of the feed-grain market vacated by other exporters because it has excess capacity and a comparative advantage in corn production. There are also no corn EEP subsidies, so the United States will be able to take full advantage of any gaps in world feed-grain markets. Because of excess capacity in the United States and because EEP subsidy expenditure adjustment is necessary only for barley in the United States, most of the increase in exports is absorbed with relatively little price rise for corn, barley, and sorghum under this scenario, as compared to wheat. From 2000-2002, corn prices are projected to rise less than 4 percent in scenario A and virtually not at all in scenario B. Upward pressure on corn and sorghum prices is dampened by reductions in ARP rates beginning in 1999/2000. Barley prices are unchanged in scenario A and actually decline 1.5 percent in scenario B where there are no income-induced demand increases to offset the larger barley exports by the EU. Sorghum prices generally follow the same pattern as corn prices.

The largest direct impact of the Uruguay Round on the world rice situation is expected to be from Japanese minimum access commitments of more than 750 tmt by 2000/01. This amounts to 8 percent of domestic demand in the 1986-88 reference period. This proportion of domestic market access differs from other current access commitments because a higher access quantity was negotiated as a trade-off for no tariffication of non-tariff barriers through the year 2000, and is subject to further negotiation after that time. The Republic of Korea has also agreed to open its domestic market to rice imports. Although access quantities for Korea are much smaller than for Japan, the opening of the domestic market is a significant shift in rice import policy.

Although more than 500 mmt of rice worldwide (rough basis) are produced each year, relatively little is traded. Because of the thinness of the world rice market, increased market access in countries such as
Japan, the Republic of Korea, and to a lesser extent the EU, are expected to have a substantial impact on world prices. Prices of substitute food grains, such as wheat also put upward pressure on rice prices. Finally, the income increases assumed largest for Asian countries which are major rice consuming nations, also contribute to increased demand, leading to higher prices. World rice prices are projected to increase more than 10 percent and 7 percent in scenarios A and B, respectively, during the 2000-2002 period.

Although there has been some evidence of Thailand increasing production of other crops on former rice area, the price increases expected with the implementation of Uruguay Round commitments will likely return some of this land to rice production. Thai rice production is projected to increase with an accompanying 200 tmt rise in rice exports by 2000-2002 in scenario A. Countries which can produce japonica varieties are expected to be the main beneficiaries of the opening of new rice markets. Producers in the United States, especially California, will likely increase production. China can also be expected to increase production and exports of japonica rice in scenario B, but income increases in scenario A are projected to increase consumption more than production and China will export less rice under this situation. Because of higher world prices in both GATT scenarios and increased rice trade stemming from increases in income in scenario A, however producers of lower quality rice, such as Vietnam, are also expected to gain some increased exports.

**Beef, Pork, and Poultry**

The effects of GATT on world trade and prices of meat are presented in Table 4. The EU and Japan are the two countries which historically have had the most trade-distorting policies for meat. Under the baseline, Japan completes the 1988 beef liberalization agreement by tariffying import quotas and reducing the tariff equivalents to 50 percent by 1993. However, increased Japanese import access has been offered. Japan has agreed to further reduce the tariff on beef imports to 38.5 percent by 2000. The EU is assumed to reduce beef intervention prices as a result of CAP reform, so that production and export reducing impacts have already occurred. Further impacts on the EU beef market will be the result of changes to substitute meats. Canada has committed to increasing market access for beef to 79 tmt per year. Countries which are expected to increase beef exports in both GATT scenarios include Australia, New Zealand, and the United States. For Brazil and Argentina, increased beef production occurs with both scenarios but because of the effects of increasing domestic incomes in scenario A, consumption increases more than production and net exports decrease. Net exports by Brazil and Argentina increase slightly in scenario B.

Binding market access commitments for meats in the EU are on a total meat basis. Some commodity specific commitments were made, but they are not binding relative to baseline levels of imports. The EU can decrease beef imports as compared to baseline levels and remain in compliance with market access commitments. Subsidized export reduction commitments would require the EU to decrease subsidized pork exports. Specialty pork products such as high-quality hams from Denmark are currently exported without subsidies, therefore requiring no limitations on this type of trade. However, reductions in pork that is exported with subsidy results in reduced domestic pork prices. As subsidized export commitments affect EU pork markets, beef imports are expected to decline and the EU is projected to export slightly more beef under GATT than in the baseline during the 1995-1999 period. However, in the 2000-2002 period, beef net exports decline more than 85 tmt per year. The decrease in pork exports by the EU combined with increased incomes in scenario A results in higher world pork prices. Income increases are large enough to more than offset higher prices and net imports of pork increase significantly in Japan, as well as other countries. The United States is expected to pick up much of the pork market lost by the EU. Other countries which are expected to expand pork exports are Canada and Eastern European countries.
GATT requires some restrictions on EU poultry meat trade similar to those for pork. Other countries such as Canada will also be required to meet commitments on trade, but baseline net imports of poultry are larger than the market access commitments, requiring no further increase in either GATT scenario. The reduction in exports by the EU contributes to slightly higher world prices. Other countries increase imports in the medium to long term, mainly due to import access requirements and increased incomes in scenario A. The United States substantially increases poultry meat exports under both GATT scenarios. Brazil increases net exports slightly under scenario B, but decreases net exports in scenario A because of increased income.

**Implications for NIS and CEEC**

The impacts of the GATT agreement will be positive for many countries in the NIS and CEEC but they are not likely to be very large and will certainly not be a panacea for income growth and trade problems faced by most of these countries. Those countries that are GATT members have made commitments to abide by the new GATT rules based on submitted schedules of specific commitments on internal support, import access, and export subsidies (Meyers and Kolbasova). These commitments will eliminate non-tariff barriers, such as export and import quotas and licensing, and will constrain the use of export subsidies and internal support measures. Import access is specified by quotas of goods that can be imported with relatively low tariffs, and higher bound tariffs can be used protect the domestic market from imports beyond the quota levels.

The in-quota tariff rates and bound rates for out-of-quota tariffs are compared for a few main products in Tables 5 and 6. There is more similarity in the lower tariffs set for the tariff rate quotas than in the maximum bound rates, though Hungarian TRQs for wheat and potatoes are considerably smaller than the others. For the out-of-quota rates, the Czech and Slovak Republics tend to be lower than the others, Hungary has higher rates for most products, and Romania has the highest rates in percentage terms. Poland is a special case, since many of its commitments were actually bound as specific tariffs in ECU and designed to align with those of the European Union. For example, although the percentage rate for beef is 30 percent, the bound rate in 1995 is 4740 ECU/mt, which exceeds any of the others. The quantitative restrictions on export subsidies for selected groups of products are summarized in Figures 4 to 6. Hungary dominates these quantity figures, although Romania has a significant level of subsidized poultry and meat exports. The most significant export subsidy restriction for most of these countries is the expenditure restriction (Figures 7 to 10). All of these countries except Poland made expenditure commitments in nominal domestic currency. With relatively high inflation rates between the base period and 1995 levels, these levels declined substantially. Even from 1995 to 2000, the limits continue to contract significantly. Poland avoided this problem by binding its subsidy expenditures in U.S. dollars. This should give them substantial flexibility in domestic currency subsidies, though they are more likely then the others to be bound by the quantitative restrictions.

The AMS commitments were also made in nominal domestic currency by the Czech and Slovak Republics and Hungary. Poland made its commitments in U.S. dollars, and Romania was not required to do so because of its developing country status. The AMS commitment is or soon may be a constraint in the countries that specified commitments in domestic currency. The levels have already been substantially reduced by inflation (Figure 11). Due to the different size of economy and population, a better comparative picture can be obtained by analyzing the commitments in per capita terms (Figure 12). Even with the population adjustment, Poland is less constrained than the others; and Hungary is the most constrained in this group.
Those countries in this region that are now in the process of accession will also be required to make commitments of a similar nature. However, indications are that commitments of countries now seeking accession are facing more careful scrutiny than was applied to CEE country members during the Uruguay Round negotiations.

These policy constraints are offset by benefits that derive from the global implementation of the agreement. The first benefit to the transition economies of NIS and CEE is the expected increase in GDP resulting from increased trade and related economic activity. These effects will certainly vary by country, but the conservative average impact estimated by DRI and used in this study for the region is a 1.23 percent increase in GDP by 2002. The second benefit is the increase in the prices of agricultural products in the world market. This will mainly benefit exporting countries, but producers in importing countries will also benefit if these higher prices are transmitted to the domestic market. The third benefit for exporters is the potential increase in the quantity of exports, as export subsidy and import access constraints reduce the net exports of countries like the EU and the US. Since Russia is an importer of some of these subsidized commodities, it is likely to see a decline in the availability of these subsidies in future years. Although this may be seen as a disadvantage to consumers, it would likely be advantageous to producers who face less competition from subsidized imports.

The examples of Ukraine and Russia (Table 7) offer a picture of the effects and interactions of wheat and feed grains markets. Since world wheat prices increase more than feed grains, Ukraine is projected to export more wheat and Russia is expected to import less. The expected change in relative prices of wheat and feed grains leads to a substitution of feed grains for wheat in animal feeding, so feed grain exports of Ukraine decline and feed grain imports of Russia are expected to increase. Some countries of the CEEC could benefit from improved world demand for meat, especially pork. The extent to which these opportunities are realized will depend on how well these countries progress in improving product quality and competitiveness of the production and marketing system.

Thus the GATT agreement cannot be seen as a substitute for the efforts that are needed in developing more efficient production and processing systems, improved marketing infrastructure, and improved quality and diversity of products. The benefits of GATT seem to outweigh the constraints imposed by the agreement, but these impacts are likely to be only incremental among all the factors that determine the future performance of agriculture in these countries.

**Summary and Conclusions**

The United States is expected to respond within the framework of existing commodity programs for crops by reducing ARP rates within the disciplines negotiated under the Uruguay Round. In subsequent rounds, if deeper cuts are made in export subsidies and if market access becomes greater, the United States may not be able to respond in the same manner as these GATT scenarios suggest. Idle land in the United States is not a limitless resource. When ARP rates reach zero, world price increases will rise more sharply giving other countries more of an opportunity to respond. Grain exporters such as Canada, Argentina, and Australia would likely benefit more from future rounds. It might also be possible for the EU to gain substantially because of the idle land resulting from CAP reform. Future reductions in trade-distorting policies will produce different distributions of benefits.

It is possible that other countries will respond in ways not assumed here. The case of the EU grains programs is just one example. Since one of the goals is to eventually put world agriculture on a level playing field with opportunities for competition, this must be viewed as a fair result. There are some important implications of reaching these goals, however. Efficient producers will have advantages over
less efficient ones. Where agriculture has been heavily protected, significant structural change might be necessary not only to compete on world markets, but merely to remain in business. Resource allocation is likely to shift to the efficient producers, or even to other industries. In the long run, countries must be willing to accept these changes as agriculture becomes more open. In the short run, these implications will probably become reason for cautious negotiations, just as they were in the Uruguay Round.

While the final agreement is viewed in a positive light, there are also going to be some negative impacts. Income growth will offset world price increases only in those countries with industries which benefit from the Uruguay Round. These countries will be able to increase import expenditures. Those countries which do not benefit sufficiently from the GATT agreement may not be able to import necessary quantities of food and other products. Often, these are already among the world's poorest countries. Many of these countries are currently beneficiaries of subsidized exports of agricultural commodities. Reduction of these subsidies will reduce their import abilities. At the same time, higher world prices will not often stimulate their domestic agriculture to respond sufficiently to offset smaller imports.

While Russia is not in the developing country category, it is a country that has received a large amount of subsidized imports from exporting regions, including CEECs. As these subsidies decline, domestic producers should gain at the expense of consumers. However, reduced distortions in world markets should be seen as a net economic gain for Russia. As Russia negotiates accession to the WTO, some may view the commitment to constrain policy interventions and market distortions as a disadvantage to domestic agricultural interests. A longer term view, however, would suggest that such policy constraints will reduce current market distortions and limit the distortions that could be introduced in the future, thereby increasing the competitiveness and efficiency of domestic agriculture. At the same time, the global effect of the WTO commitments reduces the degree of unfair trade practices in other countries.

Arriving at an international trade agreement that includes agriculture, even a compromise agreement, is the first step in what promises to be a long process toward achieving real trade liberalization for what has been one of the most protected industries in many countries. The impacts of the Uruguay Round will include some surprises. Because implementation of commitments to reduce trade barriers have only just begun, the scenarios presented here are only a best guess of what might happen. As the actual impacts of the Uruguay Round begin to unfold toward the end of the 1990s, countries will adjust their expectations and their negotiating positions for future rounds. There will be more international pressure to reduce trade distortions just as certainly as there will be continued domestic pressures to maintain protection. However, the Uruguay Round ended with agriculture included, and future rounds will likely build on what has been accomplished to this point. This is perhaps the greatest success of the Uruguay Round.
REFERENCES


THE WORLD TRADE ORGANIZATION (WTO)

Christopher Carson

The World Trade Organization is the legal and institutional foundation of the multilateral trading system. It was established on 1 January 1995 and administers some 29 legal texts -- texts agreed and adhered to by almost 130 countries. Although the WTO itself was established this year, its predecessor, the General Agreement on Tariffs and Trade (GATT) has been in operation since 1948. The legal texts -- agreed to by all parties in the Uruguay Round of trade negotiations that were concluded at Marrakesh in Morocco in 1994 -- cover everything from trade in goods to trade in services to trade in "ideas" or intellectual property rights. The focus of this paper is on the agricultural side -- the Agreement on Agriculture and the individual commitments made by various countries in this sector.

The basis behind both the WTO and the GATT is the need for predictable international trading relationships. The concept is to provide the environment -- for investors, employers, employees and consumers -- that encourages trade and thus economic growth. While the purpose of this paper is not to make the case for open trade, it is clear that over the last 50 years, freer and more predictable trade has been a catalyst for the economic growth evident in many economies. All countries have assets -- industrial, agricultural, human or financial -- which they can employ to produce goods and services for their own markets and for export. Depending on its asset endowments, each country can produce certain products more efficiently than other products, thus each has a "comparative advantage" in the production of certain goods. (This does not imply an "absolute advantage" -- the good concerned is produced with fewer resources than in any other country -- but merely that the good concerned makes the best use of the available resources in the producing country). The GATT was established to ensure that countries could export the goods for which they have a comparative advantage, and import the goods produced elsewhere. The result is higher levels of income in both exporting and importing countries alike.

The fundamental mechanism for ensuring that the best use can be made of comparative advantage is itself the fundamental rule (Article I) of the GATT which deals with the concept of "most-favoured-nation" (m.f.n.). Simply put, this clause means that countries can not discriminate in their trading relationships between other parties to the agreement (although certain exceptions are made in the case, for example, of customs unions). It does not mean that there must be free trade, but any border measures (tariffs or any other type of measure) must be applied equally to all. In addition, imported products must not be discriminated against after they enter the domestic market. These "national treatment" provisions (Article III of the GATT) prevent higher taxes or more stringent safety regulations being applied to "foreign" as opposed to domestically produced goods. This means that the scene is set for all countries to make use of their comparative advantage and that trading relationships will be predictable. The fundamental mechanisms of the GATT have been carried over into the series of agreements that make up the WTO package.

When the Agreement Establishing the World Trade Organization (WTO Agreement) was finalized, Ministers declared that the package would "strengthen the world economy and lead to more trade, investment, employment and income growth throughout the world". The system determines how governments frame and implement their domestic trade legislation and regulations. It is also the platform on which trade relations among countries evolve through collective debate, negotiation and adjudication.

The WTO Agreement also formed the Organization itself. The Organization is based in Geneva and provides a forum for administering and implementing the agreements, for ongoing negotiations, the
resolution of trade disputes, and for cooperation with other international organizations involved in global policy-making. The WTO Secretariat consists of around 450 regular staff.

When the WTO Agreement entered into force on 1 January 1995, there were 127 countries or territories which, subject to domestic ratification procedures, could become Members of the Organization (as of 20 September 1995, 109 had completed procedures and were Members). Almost 30 more countries are in the process of acceding to the WTO as provided for in the Agreement -- the Russian Federation is one of these countries.

The accession process

The Russian Federation applied to join the GATT in mid-1993. Following the conclusion of the Uruguay Round, the application was "up-graded" to Membership of the WTO -- including all of the agreements such as the Agreement on Agriculture. While WTO membership entails a considerably broader application of rights and obligations, this paper will focus on the possible nature of those rights and obligations in the agricultural area.

Following the application for the accession of any country, a "working party" is established to examine all facets of economic and trade policy in the country concerned. On the basis of a "Memorandum of the Foreign Trade Regime" prepared by the acceding government, the working party undertakes a detailed examination of all the policies affecting trade in the goods and services sectors and other areas such as the protection of intellectual property rights (copy rights, etc.). Existing WTO Members may request additional details of particular aspects at subsequent meetings of the working party in order to assist it completing its 3 main objectives -- the drafting of: a "Protocol of Accession" which set out the legal terms of WTO membership; a working party report, which can add more detailed definitions to such terms; and the specific schedules of concessions in the areas of trade in goods and services. Legally, it should be noted that a Protocol of Accession and the working party report can include various clauses that allow a phased introduction of some WTO rules if this is agreed during the accession negotiation. Likewise, a Protocol of Accession can place commitments on an acceding country that may be more stringent than those applying to other Members.

Concerning the schedules of concessions, each WTO Member must have an agreed (with trading partners) list of tariff and other concessions on the goods side, along with schedules of concessions made concerning trade in services. All three elements -- the Protocol, the report and the schedules -- form an integral part of the acceding country's WTO commitments. When these elements are complete and presented to the General Council of the WTO, the acceding country is free to sign its Protocol of Accession after two-thirds of the existing Members have voted in its favour (and, of course, following any domestic ratification procedures required in the acceding country).

In the case of the Russian Federation, the "Memorandum of the Foreign Trade Regime" was prepared under the conditions of accession to the GATT, hence only covered the relevant areas for that agreement (principally the foreign trade regime in goods -- both agricultural and non-agricultural). The working party has undertaken a detailed examination of the trading regime and existing WTO Members have requested, and received, further details in many areas. Information on the WTO aspects of the foreign trade regime such as trade in services and intellectual property rights was not submitted to the Working Party at the same time because of the transformation from the GATT to the WTO. That information is expected to be submitted by the Russian Federation authorities shortly and, if this is indeed the case, it
will be discussed at the next meeting of the Working Party which could take place in December of this year.

Given that the main aspects of the goods trading regime have been exposed to discussion in the Working Party already, from the agricultural point of view the next major step will be the negotiation of the specific commitments in agriculture that the Russian Federation will have to take on to secure membership.

The following paragraphs focus on the agricultural sector by examining the Agreement on Agriculture and looking at the types of concessions that have been made by existing WTO Members.

**Agreement on Agriculture/Specific Commitments**

There are no strict rules as to how an accession process is completed in terms of the negotiation of specific commitments. While the schedules of existing Members have been dictated by the negotiating "modalities" of the Uruguay Round, these modalities play no role in the process of accession. In general, the acceding country initiates the bilateral negotiation process leading to its final schedule by presenting a draft that, like the Agreement on Agriculture itself, covers the three main areas in which concessions are made: "market access", "domestic support" and "export subsidies".

In the sense of the Agreement on Agriculture "agricultural products" consists not only of unprocessed products, e.g. wheat and meat, but more processed items such as sausages and biscuits. Alcohol and tobacco products are also included in the definition of agricultural products. The coverage is defined as Chapters 1 to 24 of the Harmonized System plus several products from other Chapters, but it excludes fish and fish products.

**Market Access**

As with the GATT itself since 1948, rules in the market access area (i.e. the access of other countries into domestic markets) have been the most important element. There are two fundamental factors that will have to be taken into account during the bilateral negotiations of the concessions of the Russian Federation -- one which is evident in the Agreement on Agriculture itself, and one which is implied from an examination of the tariff schedules of existing Members.

Firstly, the Agreement on Agriculture (Article 4:2) prohibits the use of any border measures other than ordinary customs duties (tariffs) on agricultural products unless they are justified by other WTO provisions (such as those allowing for the use of quantitative border measures in emergency balance-of-payments situations, for example). This means that instruments such as quantitative import restrictions, import bans, "variable levies" and non-tariff measures maintained through state trading enterprises will be prohibited on accession into the Organization.

Secondly, the schedules of existing Members show that effectively all agricultural tariffs must be "bound" -- the Russian Federation is likely to be requested to do the same. To "bind" a tariff means setting a tariff for each product which cannot legally be exceeded in the future. Such a tariff can be set in ad valorem terms (i.e. a percentage of the value of imports), or specific terms (a certain number of currency units per tonne, for example). The current WTO Members’ schedules also indicate widespread reductions in agricultural tariffs to take place over a number of years. Obviously, in the case of the Russian Federation, the current customs tariff will provide an important input into the negotiation of the tariff bindings that will enter into force on accession.
It is through the knowledge of the maximum tariff that can be applied, plus the fact that no non-tariff measures can be introduced, that stable trading relationships can develop. It should be noted that this is not free-trade -- the tariffs can, and in some cases do, provide a considerable level of market protection for importing countries for certain products.

In the agricultural area, many countries have bindings for most tariffs at low tariff rates, but for some products that may be "sensitive" in the domestic economy or that may be developing industries in the country concerned, the tariffs could be higher than the norm. The higher tariffs may restrict trade, but cannot prevent trade if commercial considerations (the relationship between domestic and world prices or the existence of "niche" markets that can only be filled by imports, for example) warrant trade taking place.

These are the factors that the Russian Federation must take into account when it establishes its draft list of concessions to be introduced into the bilateral negotiation process -- it should consider the current situation along with prospects for the coming years from the point of view of the agricultural sector, consumers, the economy generally (optimal resource allocation, etc.) and the desires of exporting nations. It is not an easy task to establish the "right" market access concessions. An examination of current schedules shows that in order to balance different views some countries (about 25) have resorted to "tariff quotas". These allow a certain quantity of product to be imported at a low tariff rate, while quantities in excess of this pay a higher bound tariff. While this mechanism is fraught with problems of its own (principally concerning how the right to import at the low tariff rate is allocated to importers or supplying countries), in some cases it provides a means for balancing positions between importer and exporter interests. It is not a right of acceding countries to opt for such an approach, however, but one that can only result from negotiation.

In summary, in the market access area, the Russian Federation will have to remove all of its non-tariff import measures (if there are any at the time of accession) in line with the Agreement on Agriculture, and negotiate and bind the maximum tariff that it can apply on the importation of each agricultural product in the future. While the commitments are made at the Federal level, they apply equally to all transactions governed by sub-national authorities and state trading entities.

The implications of the market access concessions for Russian Federation policy-makers, when the schedule enters into force, are that a natural limit is placed on intervention in the domestic pricing system. Domestic prices cannot exceed the level implied by the world market plus the import tariff for any significant length of time without domestic production being at least partially displaced by imports. This provides security for exporting countries -- in the same way that their own market access concessions provide security for Russian Federation exporters of both agricultural and non-agricultural products -- and also ensures a stable domestic environment which is a necessary part of attracting investment in the sector.

**Domestic support**

The second area for consideration under the Agreement on Agriculture is that concerning domestic support measures, i.e. any domestic measure which results in transfers in favour of agricultural producers. In this case, the rules in the Agreement on Agriculture itself provide most of the disciplines although an examination of current schedules show that some countries (about 30) have also undertaken reduction commitments (i.e. they must reduce annually the level of subsidy provided to farmers) as set out in their individual schedules.
The Agreement on Agriculture differentiates between those domestic support measures that have "no, or at most minimal, trade-distorting effects or effects on production" and those that do not fit into this definition. Measures that are considered to be non-trade-distorting include the general agricultural services functions of governments such as the research and extension functions, the provision of pest and disease control and quarantine services, relief from natural or man-made disasters and domestic food aid operations. Specific criteria that must be met in order for measures to fall into this category are in the Agreement. In addition to general services, a wide range of direct payments to farmers are in this category if they are not linked to the volume of production or the factors used in production (e.g. to the area of land cultivated), i.e. if they are "decoupled" from production. These decoupled measures include direct income support, some environmental measures, regional measures and structural adjustment programmes, etc. This category of domestic support measures is called the "green box" and is set out in Annex 2 of the Agreement on Agriculture.

Measures that do not fit into the green box can also be exempt from more stringent requirements in certain circumstances. In this light, some developmental measures in developing countries are not subject to reduction (Article 6:2 of the Agreement on Agriculture). Nor are some direct payments to farmers which, although not fully decoupled in the sense of the green box, do not encourage farmers to produce more and more. Most such direct payments are based on the requirement that farmers produce on no more that a certain proportion of their total land. They are covered by Article 6:5 of the Agreement on Agriculture and are sometimes called "blue box" measures.

Beyond these exempt subsidies is a category of measures that are very important in some WTO Member countries and OECD countries in particular -- measures that support the prices received by farmers for their production. The most common form of such a measure is that carried out through the use of "administered prices" set by governments that, for example, trigger the purchase of farm goods if domestic market prices fall below them. In some cases, all agricultural production is purchased at a fixed price level -- a level that does not necessarily conform to the market return that could be expected. These measures encourage production levels in excess of those that would occur without them. Imports are thus displaced and in some cases surpluses are accumulated that are often placed on the world market at low prices.

Current Members have generally taken commitments on such measures via an "Aggregate Measurement of Support" (AMS), details for the calculation of which are in Annex 3 of the Agreement on Agriculture. In order to calculate an AMS for a specific product, the difference between the domestic administered price and a representative world price (e.g. the export or import price for the product concerned) is multiplied by the quantity of production. The calculation is carried out product-by-product. The reduction commitments shown in the schedules of commitments of existing Members are generally based on such AMS calculations for the 1986-88 period although this period would not apply to acceding countries like the Russian Federation even if it was agreed that the concept of the AMS did. Where a product-specific AMS does not exceed a "de minimis" level (5 per cent of the value of production of the product concerned in the case of developed countries), it, like green box and blue box measures as noted above, is exempt from more stringent measures (Article 6:4 of the Agreement on Agriculture). Current Members have aggregated all other product-specific AMS into one figure which is subject to reduction commitments on an aggregate basis.

In order to establish the likely requirements in the domestic support area, therefore, acceding countries like the Russian Federation must undertake a detailed study of the agricultural measures that may provide domestic support to farmers. This includes both support provided at the federal level and support provided sub-nationally by states or provinces, etc. Measures should be described in detail in relation to the relevant criteria in the Agreement on Agriculture where appropriate. At least initially, a description of
measures is more important than the value of the measures. There is no prescribed base period for such an analysis, hence a "representative" period should be selected by the acceding country -- although this, like many other aspects in the accession process, is negotiable.

In summary, the Russian Federation should prepare a listing of domestic support measures in line with the categorisation in the Agreement on Agriculture. Should additional commitments be implied by such a listing, the nature of such commitments and the period over which they could take place are negotiable.

The main implication for domestic policy-makers results from the fact that there are likely to be specific commitments negotiated on the level of non-exempt domestic support measures maintained. This could place a limit on the use of, mainly, market price support measures such as administered, intervention or compulsory state purchase prices. On the other hand, the Agreement on Agriculture does not prevent ongoing support to the agricultural sector -- it does, however, encourage the provision of these subsidies via means less "coupled" to the production decisions of farmers. Likewise, the Agreement does not prevent an increase in production levels. Any increases in production should, however, be in response to market demand and not solely as a result of government intervention in the sector.

Export subsidies

As with domestic support and market access, the export subsidies area involves rules-based commitments in the Agreement on Agriculture and in some cases (about 30) country-specific commitments set out in the schedules of existing Members.

The Agreement on Agriculture (Article 3:3) states that no export subsidies may be used by a Member unless that Member has undertaken a specific subsidy reduction commitment on the products concerned. In this context export subsidies are defined in Article 9:1 -- it includes subsidies paid directly for the export of agricultural products, sales of non-commercial agricultural stocks for export by governments at prices lower than those charged on the domestic market, export subsidies financed by producer levies, marketing cost subsidies and certain transport subsidies. Measures that do not fit into the Article 9:1 category, but are contingent on export, cannot be used in a manner that circumvents commitments (Article 10).

As in the domestic support area, acceding countries must examine all measures at both the federal and sub-national level that could fit into the definition of export subsidies. Any specific commitments for acceding countries generally are the subject of negotiation. In the case of the Russian Federation, it appears that no export subsidies are currently applied on agricultural products. As no specific reduction commitments will thus be entered into, the commitment that the Russian Federation will have to take under the Agreement on Agriculture is not to introduce such export subsidies in the future. It should be noted, however, that the Agreement on Agriculture does not place any quantitative limit on exports per se -- only on subsidised exports. Any WTO Member is free to export as much as commercial considerations dictate.

Dispute settlement and other WTO Agreements

Agricultural commitments as set out in preceding paragraphs are monitored and administered by a Committee on Agriculture which has met 3 times since the inauguration of the WTO on 1 January of this year. The Committee provides a forum for discussing implementation issues that have arisen and aspects
such as areas for further discussion or negotiation. WTO Members have notification requirements concerning the implementation of their commitments. As well as generic issues, specific bilateral problems are often raised in the Committee and, in some cases, can be resolved through a clarification of implementation programmes or through relatively minor changes in domestic regulations etc. If they cannot be resolved in this manner, they can be referred to the formal "dispute settlement" process.

The Understanding on Rules and Procedures Governing the Settlement of Disputes (known as the Dispute Settlement Understanding or DSU) applies to agricultural products as well as most other areas of the WTO. This DSU sets precise rules as to how disputes between WTO Members are settled. While there are options such as arbitration by the Director-General of the WTO, the most common means of resolving disputes is through the establishment of an independent "panel" which examines the legal issues involved and makes recommendations to the Dispute Settlement Body (DSB). Panels can be requested if bilateral consultations have not been successful after a period of 60 days. Strict time limits apply for the submission of evidence of both parties and the preparation of the report of the panel. The panel's report, including its recommendations which, as appropriate, will state that a country bring its measures into line with relevant WTO agreement, must be "adopted" by the DSU unless all Members decide, by consensus, against adoption. Should the country that has been found to be acting inconsistently with WTO rules not rectify the situation, it must offer compensation and, if this cannot be agreed, the complainant may, after a certain period and subject to confirmation by the DSB, take retaliatory action against the trade of the country acting inconsistently. This is a brief indication of the dispute settlement process as it is generally applied, but it is important to note that in most cases, disputes do not go to such lengths. Some may be resolved in the various committees (such as the Committee on Agriculture) while some may be resolved by the countries concerned bilaterally.

This paper has concentrated on the likely concessions that will be required by the Russian Federation and other acceding countries under the Agreement on Agriculture. It should be noted however, that many other agreements that make up the WTO also impinge on trade in agricultural products. One of the most apparent is the Agreement on the Implementation of Sanitary and Phytosanitary Measures (which, put very simply, recognises that border measures may be required to protect plant, animal and human life and health, but the measures concerned must not act as disguised protection and they must be scientifically justified), and others include those relating to customs valuation procedures (which specifies how goods should be valued in terms of the application of tariffs) and state trading enterprises (which, while not prohibiting the use of state trading, makes it clear that the general provisions such as non-discrimination and "commercial considerations" apply equally to state traders), etc. also apply equally to agricultural products and all other products.

Summary

The Russian Federation has shown its commitment to integrating more fully in the world trading system through its application for WTO membership. This paper has looked at the practical steps and their implications in the area of agricultural trade. The requirements under the Agreement on Agriculture cover all areas of agricultural trade and domestic agricultural measures at both the Federal and sub-national levels. Nevertheless, sufficient scope is incorporated in the Agreement to allow any WTO Member to carry out the measures necessary to fulfil its domestic agricultural objectives.
ORGANIZATION OF THE CIS COMMON AGRICULTURAL MARKET

Aleksandr Serkov

The world system of distribution of agricultural products and food supplies is characterized by contradictory tendencies. On the one hand the process of forming a unified economic space is underway. On the other hand, individual states are forced to defend their domestic producers in order to maintain their food security. At the same time a union of countries which are not in a condition to independently to act against the trade expansion of those states that have better, more beneficial natural-economic conditions and a highly efficient agriculture is being formed. Market relations are appearing in a more and more harsh form. An outlet to the world market of foodstuffs and agricultural raw materials for new partners is very difficult.

The necessity of reestablishing a unified economic space on the territory of the member states of the Commonwealth of Independent States (CIS) is dictated by a number of objective factors, among which the most significant are:

- the situation on the international market of agricultural products and foodstuffs;
- a historically-developed division of labor based on natural-economic conditions and local traditions;
- the general character of the changes which are occurring in the agro-food sector.

In recent years there has been a fall in production. In the CIS as a whole gross production of agriculture in the three years after its creation fell by 21 per cent. Supplies of domestic produce to the market worsened. The per capita consumption of meat and meat products in 1994 in comparison with 1991 was less by 24 per cent, of milk and dairy products by 19 per cent, of vegetables by 19 per cent. The flow of food stuffs among the commonwealth countries has substantially declined.

The basic principles for creating a common agricultural market are the following:

- each state in it participates voluntarily, which predetermines the forms and methods of entry into and exit from the common agricultural market;
- the equality of member states of the common agricultural market;
- the guaranteeing of priority to the producers as those most fundamentally affected by the market;
- the observance of the economic interests of the participants in the accord in order not to damage each other or the Commonwealth as a whole;
- the stage-by-stage formation of the common agricultural market, beginning with the coordination of decision making through the subsequent working out of joint agrarian policy, joint programs and projects.

Some of the most important questions in the formation of the common agricultural market include:

- Assuring the free movement of goods and services. This presumes the step-by-step elimination of import and export customs duties and other unequal charges, as well as quotas and licenses. At the
present time a Customs Union between Russia, Belarus and Kazakhstan has been concluded. Similar agreements with other states are being prepared.

- The coordination of price policies. This must support the principle of the action of market prices for all agricultural producers along with the use of mechanisms of government supports for their incomes.

- Cooperation in the area of financial measures of common interest for the member states of the common agricultural market. For this purpose the step by step formation of a special Foundation of orientation and development is proposed. This foundation's funds are intended to realize price regulation of the common market of agricultural products and food supplies, to assist the effective utilization of natural and industrially-produced inputs, and to support the incomes of agricultural producers in the branches and the regions, if this is considered necessary by the participants in the Agreement. Assistance in organising and carrying out the activities of joint ventures in the agrarian sector is also foreseen.

The basic form of utilizing the funds of such a Foundation will be concrete programs, including the creation of an information system for the common agricultural market.

The common agricultural region presupposes the free entry into it either in whole or in part of all states that are not members of the CIS. This may be formulated in agreements which determination the conditions of such entry, including the rights and responsibilities of associate members of the CIS.

The formation of a common agricultural market of the CIS member states has no direct analogue in world practice. It will demand the development of many normative acts to work out the details of the basic agreement, and a deep and even-handed approach to the difficult problems of its operation.
THE ADJUSTMENT PROCESS AND POLICIES IN THE OECD COUNTRIES

Herbert Raidl

A continuing process of adjustment, structural or otherwise, is considered a key element for development and prosperity in market economies. The development pattern of advanced industrial societies is characterised by the ability to adapt production capacities in line with market driven demand factors. This means stopping, replacing or upgrading certain activities by relying upon the distinctive competences of each sector and of each country. Such advantages may be based upon geographical positioning (transportation costs, market access conditions), technical innovation, managerial and marketing know-how, or other factors. This adaptation of economic activities within and amongst countries has become an integral part of economic behaviour in most countries, but proceeds with varying speed and large sectoral differences.

It seems important to keep this overall picture in mind when speaking about structural adjustment and adjustment policies in agriculture. The increasing integration of the agricultural sector with the rest of the economy has been a predominant theme and message to policy makers over the past four decades. It does not only relate to the linkages of the sector with its upstream and down stream industries important as they are, but it relates to the overall interaction of all sectors of an economy in the social, labour, fiscal, monetary, trade, environment, etc. fields. None of the developments in any of these areas is totally without effects on the others. And when implementing policy measures in any such areas, the consequences thereof for and throughout the economy as a whole have to be considered. Agricultural support policies affect the behaviour of production factors (land, labour, capital/technology) within the sector, and by its combined result also affect the adjustment process in other sectors.

An article published in a Western economic journal some time ago came up with more than a dozen definitions for the notion of economic "structure" or "structures". The term “adjustment” may be somewhat less difficult to define, but also means different things to different people and under different circumstances. Some of the definitions offered for both notions are even conflicting. In a general way, however, structural adjustment describes a process whereby the factors of production (land, labour, capital) respond to the changes and competitive forces emanating from market oriented economies. This is a fundamental criterion of economic development; if structural adjustment is prevented economic performance will suffer. OECD has done work on several of the aspects related to structural adjustment and has analysed the underlying policies at work and their effects. The OECD analysis was not only limited to the agricultural sector; evaluations of the adjustment process in other main sectors of the economy have been made. Some of this work is still underway.

The main features of the adjustment process in agriculture are:

- continuous decline in employment in the agricultural sector,
- slow but continuous increase in the average size of farm,
- substitution of labour by capital,
- rapid technological change leading to increases in productivity,
- big changes in product mix and in the regional patterns of production,
- continuous decline in the share of agriculture in the economy,
- significant movement towards part-time farming and a diversification in the sources of income of farm families.
These trends can be illustrated through various indicators. The most often referred to of such indicators are data about farm size (average size and growth rates over a certain period), evolution of capital/labour ratios (capital productivity), employment figures, trends in total factor productivity, etc. (The OECD publications listed at the end contain these and other quantifiable indicators.)

Without, therefore, providing too much statistical detail it should nevertheless be stated that probably the most significant change within OECD countries in respect to the factors mentioned above occurred in the field of employment/manpower in agriculture. If, for instance, one looks at the 1970-1990 period, the agricultural labour force was reduced in many OECD countries by about one half. Also when expressed in absolute figures this decrease was quite considerable. In Japan, for instance there were 4 million people less employed in agriculture at the end of this period; labour force in agriculture fell to about 6 per cent of total, with agriculture’s share of GDP being about 2.6 per cent. A similar picture emerges for the EU (12 Member states) where employment fell to just over 6 per cent, with agriculture accounting for 3 per cent of GDP. There are of course significant differences amongst countries in this respect. In Ireland the labour force in agriculture decreased from 27 per cent to 10 per cent of total. In the U.K. the level of active population engaged in agriculture was already low (3.2 per cent) but decreased further to about 2.2 per cent by 1990, with the sector now contributing slightly more that 1 per cent to UK GDP. During the same period from 1970 to 1990 the German agriculture sector shed 1.3 million workers.

What the figures accumulated and computed by OECD show is that over the past quarter of a century output in the OECD farm sector rose steadily; capital input also increased with capital productivity however lagging somewhat behind in certain cases. Labour, as shown, has left agriculture at rather high rates in some countries. The land area under production also decreased, albeit at a relatively slow rate in most countries, but with some significant regional variations. Farm size has only changed slowly at the beginning of the period; but this process seems to have gained some momentum in recent years, especially in certain European countries where percentage rates of increase in average size per farm show a clear upward trend.

OECD calculations also show that total factor productivity in agriculture increased steadily in all OECD countries. For the period 1973-89 the average annual growth rate of TFP was about 2 per cent (ranging from 2.2 percent in Denmark; to 1.6 in Germany, with only 0.6 in Sweden).

One might be tempted to continue quoting figures and trends. But this would go beyond the scope of this note which is too look at the underlying policies and their consequences.

The above indicators, as well as certain others related to technological change, seem to indicate a rather positive trend which underlines the adjustment changes which occurred as well as the existing capacities to adjust. There is, however, another side to this coin. Support provided to agriculture in almost all OECD countries also increased; in some countries quite considerably. At present, just to quote this one figure, total transfers to the farm sector from consumers and taxpayers stand about 350 billion US$ for 1994; in 1986 this figure was 264 billion $.

It is against this perspective and background of ever increasing subsidisation of agriculture, and what this implies for the economy as a whole, that structural adjustment has its full meaning. Structural adjustment under market oriented objectives should lead to a more cost efficient farm sector.

As said already in another context, this volume of support to agriculture may appear small compared to total volume of output, or total national wealth of all OECD countries. But it becomes significant at sectorial level and when compared to assistance to other sectors. At present - at this very moment - some OECD countries are facing a political crisis because of their domestic economic policies and budgetary
situation. The question is how to adjust policies in general so that public expenditure and support can be brought in line with the productive results and contributions of the individual sectors to the society at large. Such adjustment has been delayed for years in many cases; especially subsidies granted in the social area are almost out of control in some countries. Redirecting the course followed in the past and re-adjusting and better targeting assistance where and when it is needed, has become a painful and politically risky undertaking.

In such a situation of general re-assessment and re-orientation of public support, agriculture cannot be left outside. It has to be integrated into the process and make a contribution. This contribution is to be seen in lesser reliance by the farm sector on public support, in more competitive output with the market playing a stronger role, and in a larger share of viable farm enterprises overall. This adjustment process has started with differing speeds in different countries. To make its effects less harmful to the individual farmer accompanying, time limited, assistance programmes can be provided. Such assistance is to be tailored to the real needs of the recipients. Those responsible for agricultural policies in most OECD countries seem to have realised that the time for open-ended, general product support, preferably via guaranteed producer prices, has reached its end. This support did not solve the basic problems of the sector, it held back the adjustment and is increasingly becoming indefensible in the context of all the competing demands made for public aid and assistance.

When speaking about the delays of the adjustment process in agriculture, one often tends to overlook the strong adjustment capacity and willingness by farmers themselves. In most cases when farmers don't adjust it is because the policies applied do not make them adjust. Why blame farmers if they reacted to high prices coupled with take-over guarantees and border protection by producing maximum amounts, without considering what a competitive market could really absorb? With more market orientation becoming apparent through a new set of policies, farmers are beginning to react accordingly.

The best example how farmers can and did react positively to changing economic circumstances on their own behalf is provided by the expansion of part-time farming in OECD countries. Technology and better management techniques permitted farmers, especially those on small holdings, to reduce the required labour input considerably. The resources thus becoming free were shifted to employment elsewhere. At present in most OECD countries about one-half to two-thirds of farmers work part-time off the farm; in Japan this figure is 80 per cent. This evolution has foremost considerably improved the household income situation of farm families. This process has not been without some critical aspects; especially as concerns the burden on farmers' wives or on the mobility of other resources, land in particular. But without this adjustment - largely unsupported by public measures - rural depopulation would have gained serious dimensions. Through part-time farming is has been possible to maintain in many regions a viable countryside.

In widening this perspective of viable rural communities OECD countries are increasingly paying attention to comprehensive Rural Development policies. The main idea behind this approach is that the problems agriculture is facing cannot be solved by purely agriculture targeted measures, plus the fact that even when measures are aimed at assisting agriculture they should more than in the past validate the contributions agriculture can make to the outside (provision of amenities, tourism, positive environmental effects, etc.). At the OECD Secretariat we are specifically studying these rural development issues and we are working on the proper responses and action scenarios for policy makers in order to achieve the full potential from our rural areas under a market oriented, resource competitive economic environment.

The sum up (in a somewhat simplified manner) with a few of the main ideas and issues we have learned from the adjustment process so far, and the advice that can be given to policy makers for shaping the future:
• the adjustment capacity of the farm sector is larger than what is generally perceived; if given proper advice and accompanying assistance farmers will respond positively;

• the past adjustment that has occurred, in the labour market for instance, seems to validate the above assumption;

• sectorial adjustment will become easier if proceeding along with overall economic adjustment;

• one essential measure in the context of this adjustment process are proper training and education programmes for farm family member for non-farm occupations;

• technological change is a driving force for structural adjustment, it will enhance and re-order comparative advantages among farm sectors and countries;

• factor market mobility is a prerequisite for the adjustment process to show its full positive effects; the land market is of importance in this respect; an active land market should permit free access to land and encourage proper leasehold arrangements;

• but farm size by itself is certainly not the only criteria for adjustment; the size structure is to be seen with respect to patterns of production, regional/topographical conditions, available technology, environmental concerns, etc.

• market intervention, in the forms practised in many OECD countries, has not halted or reversed the structural adjustment process; attempts to stop this process risk to make rural poverty more widespread;

• the linkages between the primary agricultural sector and its upstream and downstream sectors will be major determinants for farming; the signals to farmers of changing supply and demand conditions will in the first instance come from these industries;

• rural development policies should therefore aim to achieve an integrated, comprehensive policy approach (taking all the above factors in to account) for the areas they are targeting;

• present conditions on commodity markets plus those likely to prevail over coming years might provide a window of opportunity for advancing and facilitating the structural adjustment process of agriculture in OECD countries;

• avoiding impediments and strengthening the incentives of policy measures aimed at structural adjustment is facilitated through accompanying evaluation and analysis of results, preferably within an international setting, and observing the principles of transparency, flexibility and efficiency.
Appendix

Recent Publications

A. Agricultural Policies Markets and Trade

Series CCET.
222 pp. - January 1994

Review of Agricultural Policies: Poland.
Series CCET.
286 pp. - January 1995

National Policies and Agricultural Trade.
Country Study: Turkey
244 pp. - December 1994

National Policies and Agricultural Trade.
Country Study: Iceland
214 pp - August 1995

Agricultural Policies, Markets and Trade in OECD Countries. 1995:
Monitoring and Outlook.
298 pp. - May 1995

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Selected New Independent States, Mongolia and China, 1995:
Monitoring and Outlook.
Series CCET.
232 pp. - May 1995

98 pp. - February 1995

The Uruguay Round: Preliminary Evaluation of the Impacts
of the Agreement on Agriculture in the OECD Countries.
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Countries.
180 pp. - February 1995
To appear before the end 1995:

Review of Agricultural Policies: Czech Republic.  
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The Chinese Grains and Oilseeds Sectors: Major changes underway.

**B. Structural Adjustment of the Agro-Food Sector**

Agricultural Policy and Reform and Adjustment: The Swedish Experience.  
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116 pp. - April 1995

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**D. Agricultural Statistics**

Dairy Sector Indicators.  
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144 pp. - August 1994
E. Agricultural Codes and Schemes for International Trade

International Standardisation of Fruit and Vegetables: Apricots.
Series International Standardisation of Fruit and Vegetables.
78 pp. - November 1994

International Standardisation of Fruit and Vegetables: Witloof Chicories.
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Series International Standardisation of Fruit and Vegetables.
74 pp. - March 1995

F. Fisheries

Fisheries Enforcement Issues.

338 pp. - December 1994

To appear before the end 1995:

Review of Fisheries in OECD Member Countries. 1993.
December 1995.
PRACTICAL ASPECTS OF INSTITUTIONAL REFORM
IN THE AGRO-FOOD SECTOR OF THE RUSSIAN FEDERATION

Valentin Denisov

The initial step of the agrarian reform in the Russian Federation was characterised above all by changes in:

- ownership of non-land property, land and other assets in the agro-food sector; and
- legal-organisational form of the agricultural enterprises.

Farm reorganisation

In accordance with Russian Federation Presidential decree number 323 of 27 December 1991 “On immediate measures for the realisation of the land reform in the RSFSR” and Russian Federation Cabinet resolutions number 86 of 29 December 1991 “On the process of reorganising collective and state farms” and number 708 of 4 September 1992 “On the process of privatisation and reorganisation of enterprises and organisations of the agro-food sector”, at the present time more than 95 per cent of agricultural enterprises have been reregistered. Of the total number of reregistered farms, 31.5 per cent -- 6025 collective farms and 3592 state farms -- retained their status. Collective and state farms that kept their previous status reregistered according to the Russian Federation Cabinet resolution number 138 of 6 March 1992 “On the course and development of the agrarian reform in the Russian Federation”.

From the reorganised collective and state farms were formed:

- 13 300 joint-stock societies (limited-liability partnerships);
- about 2 200 agricultural production co-operatives;
- 800 associations of individual (peasant) farms; and
- 2 200 agricultural collective enterprises.

Some 284 400 western-style individual (peasant) farms have been established. They comprise only 5 per cent of agriculture’s production potential.

Land-ownership certificates have been received by 95.5 per cent of the agricultural enterprises. Eight million people, 71.6 per cent of the overall number of owners of land shares, have received certificates of property rights in land.

Documented rights of land and non-land asset ownership are an important result of the agrarian transformation. They assure the defence of the interests of the agricultural producers and create the material basis for the establishment and development of market relationships in the agro-food sector.

The agricultural producers have received complete productive independence. They can dispose of their production and income, engage in any line of business, determine the prices for their production, etc.

Along with the changes in the forms of ownership there has also been a transformation in the form of organisation and management to create market-oriented production structures that to the greatest possible extent aid in realising the interests of the owner-workers as independent producers.
Present legal types of farm organisation

In practice there have developed dozens of various models of organisation and management. A classification according to legal forms of organisation distinguishes:

- federal-level state enterprises;
- state farms with state-owned land and non-land assets;
- state farms with state-owned land and common joint ownership of non-land assets;
- collective farms;
- open joint-stock societies;
- closed joint-stock societies;
- limited-liability partnerships;
- silent partnerships;
- agricultural production co-operatives;
- collective agricultural enterprises;
- individual (peasant) farms;
- partnerships; and
- co-operatives.

Most state agricultural enterprises are breeding farms, teaching-and-experimental (experimental-and-production) farms, livestock feed lots, broiler factors and wild-animal farms.

Collective farms which retained their previous status were reregistered mainly in accordance with the recommendations approved by the Russian Ministry of Agriculture and Food Supplies. During this process, many farms determined land and non-land asset shares for the collective farmers. But the production structure, the farms’ economic mechanism and management structure, as a rule was not significantly altered.

Collective agricultural enterprises were created by means of reorganising collective and state farms mainly during the first stage of the agrarian reform (1991) on the basis of the then-operating USSR legislation and recommendations of the Ministry on the creation of agricultural collective enterprises. Their distinguishing feature was the division of the non-land assets into basic and growing share funds and the establishment of limits on the disposition of the basic share. But after Russian Federation Cabinet Resolution number 86 appeared, these enterprises were required to bring their non-land asset relations into accord with the new legislation. As a result they become in many ways the same as the reregistered collective farms that had determined land and non-land asset shares.

Agricultural production co-operatives were mainly created from collective farms and especially from state farms by uniting their founding land parcels and non-land asset shares. They either continued to operate within the boundaries of the previous collective or state farm or created small co-operatives from divisions or brigades. The main distinguishing features of their functioning are the administration of the co-operative on a democratic basis (one co-operative member -- one vote), a requirement to participate in the co-operative’s work, and the distribution of income among its members considering participation in work.

Joint-stock societies (limited-liability partnerships) occupy the major place among the new production entities created in the course of collective and state farm reform. The general creation of stock companies from agricultural enterprises was done on the basis of the then-operating RSFSR Law “On enterprises and
entrepreneurial activity” because there was no other choice. But in their economic essence joint-stock societies are not characteristic of agriculture. Their use leads to the separation of the workers from ownership of the land and so leads to the formation of a stratum of citizens who do not participate in the production of agricultural output but who, as founders of the joint-stock societies, receive dividends in the form of differential rent.

Silent partnerships (partnerships on trust) have not been widely used in agricultural practice. The majority of them have been established in Nizhni Novgorod oblast’. The distinguishing feature of this legal-organisational form is the fact that, along with its participants, who carry out business activities in the name of the partnership and are liable for the obligations of the partnership with their non-land assets (full partners), there are also several investors who bear the risk of losses from the partnership’s activities only up to the limit of the amount they have invested and who do not participate in the administration and conduct of affairs of the partnership.

The limited number of full members who have voting rights in mixed partnerships means that the real administration of their affairs is concentrated in a small circle of people. For example, in the Nizhnii Novgorod oblast’ silent partnership “Niva” the director has 25.4 per cent of the charter capital and the full partners have 66 per cent. In the silent partnership “Zaria” the director has 2.34 per cent of the partnership’s charter capital and full members hold 54 per cent.

One radical possibility for reform of agricultural enterprises -- which permits avoiding the inadequacies of the “Nizhni Novgorod model” -- is to transform them into associations of individual (peasant) farms, co-operatives, and partnerships. In this case, having realised their right of free choice of utilising their land and non-land asset shares, the workers create new businesses, mainly on the basis of formerly operating production subunits within the farm, while at the same time retaining the necessary co-ordinating functions in the association.

At the beginning of this year the Russian Ministry of Agriculture and Food Supplies together with the Russian Academy of Agricultural Sciences carried out studies in nine provinces of Russia. This investigation showed that the chopping-up of large-scale producers into many small ones destroys production and technology. Each new formation is weaker than the whole was. The small scale of marketed production does not permit becoming economically stronger in a short period of time, since each new economic unit needs significant funds to create productive potential and new infrastructure. The hasty break-up of farms that had developed over many years has extremely negative effects on the village’s social assets, since the absence of sufficient subsidies from the Federal and local budgets may lead to the rapid closure of cultural and consumer services.

Effects of the new Civil Code

Further agrarian transformations should seek:

- to strengthen property rights;
- to improve forms of management and organisation
- to create optimal market-oriented production structures that will be most competitive in a market environment; and
- to assure the maximal realisation of the capabilities of the participants in their economic activities.
In the opinion of the Russian Federation Ministry of Agriculture the improvement of forms of management and organisation is connected to the introduction of new legislation on those questions.

In connection with the adoption of the Russian Federation Civil Code the Russian Ministry of Agriculture and Food Supplies, in agreement with the Russian Ministry of Justice, has sent to the regions letter no. 1-14/189 of 2 February 1995. This circular requires that the founding documents of the agricultural and other agro-food sector enterprises be brought into accord with the norms of the Civil Code of the Russian Federation. The letter, in particular, affects the agricultural production co-operatives, collective farms that have retained their status, state farms that have retained their status and own their non-land assets as common-joint or common-share property, and collective agricultural enterprises. They must bring their founding documents into accord with the norms of chapter 4 of the Code in a way and a period that will be determined when the Russian Federation Law “On agricultural co-operation” is adopted (article 14 of the law).

The open and closed joint-stock farms and limited-liability partnerships must bring their founding documents into accordance with the norms of the Code in a way and a period that will be determined when the laws on joint-stock farms and limited liability societies is adopted (paragraph 4, article 6 of the law).

So the further transformation of agricultural enterprises must be based on the Civil Code of the Russian Federation. At the present time, transformation is being held up by the absence of laws on agricultural co-operation, on joint-stock societies and on limited-liability societies.
Analysis and evaluation of the practice of reform of the collective and state farms, industrial and other enterprises of the agro-food sector indicates that the on-going transformation is being done without sufficient analysis. Its social consequences have not been fully understood.

The normative acts that have been adopted do not consider the multiplicity of natural and climatic, production, economic, or historical circumstances of the Russian Federation. They are aimed at the hasty formation of a class of private property owners, the artificial stimulation of the process of dividing agricultural enterprises, and the general establishment of western-style individual farms in the countryside. This leads to a deepening crisis, the creation of an atmosphere of instability, and increasing difficulty in managing agricultural production.

The studies that have been done, as well as domestic and international experience, show that the state, collective, and private sectors must harmonise with and complement each other in an economy with multiple forms of ownership and management. As a result of hasty privatisation state-sector property is practically destroyed. It now produces only about 10 per cent of gross agricultural output, and it occupies less than 5 per cent of agricultural land. In order to assure the country’s food security, to preserve an active state role in scientific and technical development, and to support a guaranteed level of deliveries of food supplies and agricultural produce to the Federal foodstuffs stocks, the state sector’s share in the agrarian economy should be increased by 150-200 per cent. The current right of the Russian Federation State Committee on the Management of State Property (GKI) to administer state property in the agro-food sector has not justified itself and should be deleted from the legislation. This right must be given to the state agricultural authorities, in order that their rights, duties, and responsibilities should correspond.

Analysis of the tendencies of reform of agricultural enterprises leads to the conclusion that in the foreseeable future, despite the current policy of giving priority to various forms of state support of private and small-group proprietors, collective enterprises will occupy the major place in the agrarian sector. They include collective farms, limited-liability companies, joint-stock companies and other legal-organisational forms of enterprises based on collective (joint) or collective-share ownership. In such enterprises, profit from the production and sale of output, which is mainly distributed proportionally to work, rather than property rights in land and non-land asset shares, will be the principal material incentive.

At the very beginning of the agrarian reform many agrarian scholars and agricultural practitioners indicated it was a mistake to wager on a significant increase in marketed production on individual (peasant) farms. The experience of four years of agrarian reform supports this. An analysis of the tendency of establishment of the individual-farm sector allows forecasting that its share in the overall volume of the country’s agricultural output by the year 2000 will be 5-7 per cent.
The fundamentals of a state policy for creating an economy with multiple forms of ownership and management must be:

- to develop and adopt legislation on the legal-organisational status of agro-food sector enterprises;
- to give the collective of workers in each enterprises the right to independently, on a voluntary basis, determine the form of ownership;
- to develop large-scale agricultural production in harmony with a small-scale private sector;
- to create conditions for the use of the achievements of science and best current practice by all economic actors whatever their form of organisation and management; and
- to stimulate the development of co-operation and integration in production, processing and sales of agricultural products, agricultural services and credit.

The effective operation of various legal-organisational forms of farm enterprises may be achieved by a balanced economic relationship to the agro-food sector from other parts of the economy, by observing equivalent terms of trade, by establishing a market infrastructure, and by real state support for the social development of the countryside.
CREATING AN AGRO-FOOD SECTOR WITH MULTIPLE FORMS OF OWNERSHIP AND MANAGEMENT: RESULTS, PROBLEMS, PROSPECTS

Vladimir Kuznetsov

The so-called “reforms” -- the social and economic transformations being implemented in rural areas -- are accompanied by a catastrophic fall in production of the major agricultural outputs, a decrease in production efficiency and the destruction of the production capacity and social sphere in rural areas. All this is being done under the beneficial-sounding pretext of creating an economy based on various types of ownership and management in rural areas. Four years ago, at a command from above, former kolkhozes and sovkhozes were hastily reorganised into various partnerships, joint-stock companies, associations, and so on. Hundreds of thousand of peasant (individual western-style) farms were set up. According to the notions of the reformers all this ought to have resulted in an increase in production and higher efficiency of the agro-food sector. However, in practice the opposite happened. The statistics confirming a catastrophic production decline and destruction of the agro-food sector’s material and technical base are well-known.

Moreover, the major thrust of the reform of the agro-food sector was not in reality aimed at an increase in output and labour productivity as a basis for the growth of the material prosperity and social development of the village but at the destruction of the already existing capacities and the forced implantation of new forms of organisation and management. As a result of the so-called reforms the development of Russian agriculture has been thrown back 25-30 years.

What measures are in our opinion necessary in order to stop the destruction and ensure a stably developing agro-food sector? First of all it is necessary to insure state regulation of all sectors of the national economy, including the agro-food sector with all the consequences that flow from such regulation:

• to guarantee the manageability of the national economy;
• to re-establish the real parity of prices between agricultural and industrial products;
• to change the tax and financial and credit policies,
• to restore the provision of soft loans to agricultural producers, whatever their form of ownership and management;
• to ensure state financing of the most important programs to modernise production, improve techniques and equipment, increase soil fertility, develop seed growing and stock breeding, strengthen agricultural science and develop the social assets in rural areas.

While creating an agro-food sector based on different forms of ownership the transformations to be undertaken should be developed on the basis of the “niche theory” in accordance with which each of the forms of ownership and management should take its place in the economy. Formation of such an economy should be accompanied by an active state policy aimed at creating equal economic conditions for market agricultural producers of all forms of management and ownership, taking into account natural and economic conditions in different Russian regions. The forcible division of large agricultural enterprises must be stopped, since large-scale production always was, is and will be more efficient than small-scale production. Creation of a mixed economy by itself eliminates the question of the exclusive advantage of one type of ownership over another.

In order to increase the efficiency of all branches of the agro-industrial complex the artificially created barriers in the economic relationship between primary agriculture and up- and down-stream industries must be removed. The agro-food sector should be developed as a unified whole on the basis of co-
operation and integration. A clear system of state and economic management organs must be established. A program of organisational and economic measures for the development of large agro-food and agricultural enterprises, collective farms, individual farmers, household plots and collective gardens must be worked out and put into practice.
In recent years the importance of the population’s small-scale agricultural production has greatly increased from the standpoint of the national economy and well-being of the people. Such production comes from household subsidiary plots, collective orchards and vegetable gardens. Its share in the gross output of agriculture increased from 24 per cent in 1990 to 38 per cent in 1994 in comparable prices. This increase can be attributed not only to the growth in this category of the agricultural sector but also to the decline in production of large-scale agricultural enterprises which automatically increased the share of subsidiary plots in the gross agricultural output. However if we take a look at the figures showing the physical volumes, not the prices, they would also be quite impressive. The subsidiary plots of the population (excluding peasant farms which accounted in 1994 for only 2-3 per cent of total agricultural gross output) produced 88 per cent of all potatoes, 65 per cent of all vegetables, about 80 per cent of all fruit, 95 per cent of all berries etc.

Of course, these plots produce only a minuscule share of grains and technical crops but this only demonstrates that there still is a natural division of labour between large-scale agricultural production represented by big enterprises of different types and the population’s plots which is appropriate from the standpoint of public interest. The subsidiary plots account for a considerable share of labour-intensive and fast-spoiling products. As a result of the increasing production of subsidiary plots their importance in total household incomes has grown and the number of families for which it is a significant source of foodstuffs has also increased.

Between 1985 and 1994 13.6 million more families received garden and orchard plots. By the beginning of 1995, a total of more than 22 million plots had been given out. Including the owners of household subsidiary plots, a total of 43 to 44 million Russian households are small landholders. There are some 50 million households, including households of only one person, in Russia.

From the standpoint of the number of people employed, no such massive sector producing agricultural output in such quantities primarily as a food supply for the household exists in western economies. So Western countries’ researchers and publications do not pay attention to it. However, even more distressing is the fact that in this country we are not doing so either. The economic and social importance of this sector would seem to be reason enough for the government to take it into account in its agricultural policy and support it. Nevertheless, this is not happening. High hopes are being placed on the rapid spread and high productivity of new agricultural business entities -- which often has been our undoing in the past -- whether joint-stock companies or individual farms. Not enough attention is being paid to such forms as household subsidiary plots, collective vegetable gardens and orchards, which proved to be real life-savers during difficult periods of our history.

Since the 1930s, collective and state-farm workers have received small garden plots, usually a maximum of 0.5 hectare, for their own use in return for work on the large farms. The limits on the size of such farm workers’ “household plots” (formally termed “personal subsidiary farms” [lichnoe podsobnoe khoziaistvo]) began to be lifted in 1988. City dwellers have also been allowed small plots for orchards and gardens since the 1930s. The number of allotments to city dwellers were greatly increased as part of preparation for the Russian land reform in 1990. Users of rural household plots or city dwellers’ orchard and garden plots have been allowed to privatise them since 1992. -- Secretariat.
A policy adequate to the importance of the population’s plots for the national economy is needed. A state programme for the support of the population’s agricultural production should be drawn up and approved. It should provide for the creation of special funds to provide assistance to people who work these plots from the land tax and local duties and taxes.

The government should restore the draft law “On household subsidiary farms” to its list of federal legislation to be submitted to the parliament for approval. This law would provide a firm legal basis for the development of such small-scale agriculture. Until recently there was no legal framework for this type of farming and the official attitude to it has changed unpredictably and arbitrarily during the recent history of the agricultural sector.

Special attention should be paid to the development of co-operation between individual subsidiary plots. Special service centres providing machinery and equipment to them should be established based on the structure of reorganised large-scale agricultural enterprises.

Other priority measures to assist collective orchard-growing and gardening should include tax privileges which would take into account the nature of their output -- mostly for household consumption -- and the fact that the owners of such plots are there only during the growing season. Unless the revenues are used in some way for their needs, they should also be exempt from taxes and local duties.

Small-scale orchards and urban residents’ gardens are managed by small local associations. Some rural household plot owners are associated as well. Membership dues support these local groups and their district and regional associations. Except when they have full-time employees, these associations should not be paying percentages from their wages as contributions to pension and other federal funds.

Legal guarantees of the land use by the garden owners should be strengthened.

These measures, among others, would support the individual subsidiary plots of the population at a time when their major goal is to survive under the conditions of social and economic crisis.
FARM RESTRUCTURING IN HUNGARY

Gyorgy Raskó

Agriculture is being transformed all over Eastern and Central Europe. The conditions of its operation change daily. The transformation of agriculture is a logical and necessary task, as part of the placement of the whole society and economy on a new, market-economy basis.

Transformation can however be successful only when the agro-food sector and its production become more competitive, market-oriented and above all more efficient as a result. These aims require comprehensive economic policy measures. The financial stabilisation of the economy, the liberalisation of the domestic market and foreign trade, the restoration of real prices, the transformation of large-scale agricultural enterprises, and the determination of land ownership are all basic conditions for the realisation of a successful agricultural reform.

Experience gained so far in the transformation of agriculture in Hungary and other Central European countries unambiguously shows that reform of the agricultural sector cannot be separated from reforms involving the whole of the national economy. At the same time the consistent implementation of the set of reform policies is of basic importance for ensuring sustainable agricultural development.

In future the development strategy of agricultural production has to be redesigned to aim not just at increasing yields and production volume but also to consider the requirements of sustainable agricultural development. An agricultural policy is needed which:

- allows continuously maintaining the effectiveness of production;
- preserves as far as possible the original state of the natural resources for the coming generations;
- provides the opportunity of labour and living for the largest possible part of the population.

The transformation in the Central and Eastern European countries shows that, whether a given country chose a step by step or a shock therapy method, the adoption of a market economy involved a greater regression than expected. Agricultural production decreased by 30 to 35 per cent even in those countries where the transformation of the economy began already in the early 1980s -- Poland and Hungary.

Despite severe difficulties, the majority of the Central and Eastern European countries are making progress in their transformation. The rate of change varies but it is continuous. There is no way back. The delay of reforms may ensure that the lagging country remains backward.

In order for economic policy implementation to exert the desired effect in the economies in transition, it is not enough for the macroeconomic conditions to change, however. The participants in the production sector must change as well. It is therefore inevitably necessary for the transition economies to adapt ownership conditions and firm structure to a market economy. Farms and entrepreneurial management are needed which are able to react to constantly changing market conditions and government economic policy measures flexibly, rapidly and effectively.
Experience gained during the transformation of agriculture in Hungary

The ownership, interest and enterprise organisation structure established in the years of the socialist economic and social system was in a deep crisis at the time of systemic change. The majority of state farms and co-operatives was severely indebted and nearly a third of them were unprofitable.

Centralised state monopolies dominated food processing and trade of agricultural products. They probably hindered the effects of the domestic and foreign markets to get across. The economic environment, badly reflecting real market conditions, established an organisational and structural scheme in agriculture which resulted in distorted industrial and agricultural price relations, overemployment, lagging efficiency and other production problems.

Settlement of land ownership, privatisation of productive land

The Hungarian parliament hotly debated whether to "reprivatise or privatise". The parliamentary parties in Hungary reached a solution unique in Central Europe. The essence of the historic compromise was that instead of restoring the original ownership of properties, expropriated for various reasons, Parliament decided on partial compensation of the owners. The question of both land reform and privatisation became subordinated to short-term political interests because the partial compensation scheme covering two-thirds of the productive land of the country did not consider the need of agricultural employees and currently operating farms for land. The privatisation of land implemented through compensation did not really promote the improvement of the conditions of private entrepreneurship or the economically rational distribution of large agricultural firms. The new landowners acquired rights to an average of barely 4 hectares of agricultural land through compensation. Private farmers needed to lease an additional 20 to 25 hectares to reach a viable production size. That is very difficult, however. As a result in Hungary there are now more than one million small household plots/farms of between 1 and 15 hectares, some 50,000 family farms of 20-25 hectares -- the size typical for Western Europe -- and some 1500 completely privatised large-scale farms leasing an average of 2000 hectares.

In spite of the initial legal and economic difficulties the family and small farms are undergoing spectacular development. While in the year of system change (1990) hardly 10 per cent of the land was cultivated by individual farmers, this proportion increased to 41 per cent in 1994. By the spring of 1995 it exceeded 50 percent according to official statistics. (It should be mentioned that in the production of livestock products and fruits and vegetables the private farms played an important role also in the previous system.)

Privatisation of state-owned farms

In Hungary state-owned farms were the leading production units in socialist large-scale farming. Some of them were even close to the standards of the giant American farms, but in size and revenues than organisation or efficiency. The first step in the privatisation of state-owned farms was to divide them into 4 to 6 smaller independent units. The majority of their debt was assumed by the State Property Agency. Then the Agency offered for sale the state-owned farms’ non-land assets free of legal and financial charges. The sale was effected in all cases by tender. The land used by the state-owned farm was not sold but remained state property. Despite that limitation, there was very keen interest in the privatisation of the state-owned farms. The sales began in 1992 and will effectively come to an end in the autumn of 1995. The present socialist government, however, intends that approximately 20 state-owned farms will remain state property.
Privatisation of state farms created agricultural enterprises of viable size -- averaging 1500 hectares per farm -- reasonably situated and well equipped with agricultural machinery. These farms have an average of 100 to 150 full-time employees. In addition, they have business contacts with several hundred, sometimes even several thousand, small producers in the region.

Most of the new owners come from among the management and the employees. A smaller part consists of large domestic and foreign investors. In the course of privatisation the Property Agency signed a contract with the winners of the tenders on the lease of the land for a period of 10 to 30 years. Among the terms of the lease were the right of pre-emption and as well as a purchase option.

The previously state-owned privatised farms show an exceptional increase of productivity of labour and efficiency. As a result these farms are able to produce reasonable profits despite disadvantageous market conditions. Their capital strength and market share (at present between 18 and 20 per cent) grow at a similar rate as on the private family farms.

**Transformation of co-operatives (collective farms)**

Under the previous regime many of the large agricultural units were formally co-operatives. As a result of politically forced mergers in the 1970s, giant collective farms were created spreading over several villages. In these “co-operatives” not only were the classic principles of co-operation pushed into the background, so were the requirements of effective farming. By the middle of the 1980s it was clear in Hungary that these co-operatives were incapable of flexibly adapting to constantly changing market conditions. By the time the system changed the majority of them were badly indebted, not creditworthy, and insolvent.

Thus it did not happen by chance that among the first legal measures to lay the basis for the transition to market economy was the act on the obligatory transformation of production co-operatives. This act (II/1992) offered a wide range of opportunities by impartially allowing:

- withdrawal through the distribution of the means of production among members wanting to entirely leave the co-operative;
- division of the co-operative into several smaller units;
- transformation into a joint-stock company; or
- transformation into a new co-operative functioning by the Rochdale principles.

In most cases, however, the transformation of collective farms was only a formal action. The members and especially the leaders believed that the future of the production co-operatives could be ensured by minor internal reforms and rationalisation even in a market-oriented economic environment.

Only 8 to 10 per cent of the members chose withdrawal. Under the rules determined by the 1992 act for the distribution of the co-operatives' properties, the heirs of the founding members received an average share of 20 per cent, the retired members 50 per cent and the active members a 30 per cent share in the property. The property was valued at book value rather than a business appraisal. This has become a source of severe conflicts because those owners of shares of the farm's property who want to sell their shares, receive a cash value of only cash some 10 to 15 per cent of the nominal value. The original property (according to the balance of 1992) has lost incredibly much of its value since transformation. This is very difficult for the rank-and-file co-operative members to understand. They accuse the leaders of the co-operative, and not least the politicians, for their loss of property.
In Hungary one is free to sell and buy co-operative business shares as true shares. The government furthers the concentration of business shares by special allowances, e.g., the sale is free of property tax and duty on conveyance, and with the purchase a long-term credit with a concessionary interest rate can be requested.

**The future of collective farming**

Hungarian agricultural experts and politicians have different views regarding the future organisational structure and operating-unit size in agriculture. One group of experts, whose views are based on the past successes of state-owned farms and co-operatives, insist that the structure of collective farming should be maintained and even extended. They are convinced that the bigger the business unit is, the more efficient and competitive it can be.

The other view, influenced by the historical development and results of the developed market economies, holds that Hungarian agriculture's structure should be adjusted to that of the European Union, if for no other reason than to make easier accession to the EU. According to this view many small, medium-sized and large family enterprises, as well as western-type collective farms should be established because they have already proved to be viable under the conditions of market economy. This second view assumes that there is a significant contradiction between a market economy and collective production. Therefore production co-operatives' division into smaller independent units or their transformation is unavoidable.

The experience of the past four to five years in Hungary confirms that it will be very difficult for the collective farms to survive if economic policy subjects agriculture to unfettered competition. The disadvantages, coming from the nature of the old “co-operatives” -- low efficiency of labour, lack of initiatives and independent thinking of members, the low capital interest and the confusion of social and economic aims and functions -- probably cannot be compensated by the advantages deriving from joint farming and marketing.

The collective farms, especially those sticking to working their land co-operatively, are continuously and unavoidably losing their markets. Their share of crop cultivation has dropped to 1/3 and of livestock products to 1/4. Since the autumn of 1993, in parallel with the speeding up of the privatisation of land, an almost incredibly rapid emergence of family and corporate farms producing for the market can be seen.

There are, however, significant obstacles to the further spread of family-type farming in Hungary. On the one hand, the number of agricultural producers able to have their own business is small. The large farms and industries under socialism were interested first of all in the training of skilled labourers specialised for single tasks. On the other hand, the lack of capital and credit common in East-Central Europe also hinders the strengthening of private companies.

For these reasons, even the most committed political opposition cannot be truly interested in the quick elimination of collective farming. Even now, production co-operatives still provide a daily living for approximately 200 thousand agricultural workers. The right solution is therefore for the political and economic authorities to assist them in achieving real transformation. They must be transformed into market-oriented enterprises in order to be viable in the long term. That requires that the co-operatives simultaneously be demanding purchasers, effective cost managers -- including managers of labour costs -- and successful sellers of their own products. The co-operatives must integrate both horizontally and vertically, if they wish to have a balancing power and strong negotiating positions in the market.
Temporary compensation for taking over social tasks

Especially in the former Soviet Union and also in Hungary collective farms undertook, in addition to production, several functions which fall within the category of social services. They ran kindergartens, schools, sport and health institutions. They supported their active and retired members by financial and other means (fodder, animals for breeding), etc. If the co-operatives continue in the future to fulfil such social functions, they will be at a disadvantage compared to businesses operating on a clearly profit-oriented basis. After a few years this may result in a serious enough lag that it would be fatal for the business activities and living of the entire community. Therefore it may be justified that these co-operatives should be given preference and support by the state until the local governments or other national administrative institutions become capable of entirely taking over these social functions. In the transition period an act should exempt them from paying the enterprise tax and/or provide them a support for income maintenance. It is important to underline that this assistance should be given only for a definite transition period and when precisely-specified conditions are fulfilled, not automatically.

Hungarian experience shows that without this discriminating economic regulation the co-operatives' long-term viability is questionable because of their social expenses and high general costs.

Transformation of the food industry and the distribution chain

In the previously socialist countries enterprises, especially in the food-processing industry and agricultural equipment supply, were generally organised in the form of trusts. These trusts enjoyed almost without exception a monopolistic position. The breaking down of these monopolies and the division of the trusts into independent units is necessary for the creation of an agro-food sector based on real competition.

In Hungary the trusts and trade monopolies in the food-processing industry began to be dismantled on the second day of systemic change. In the first round, 1990-1991, the trusts were split up into independent units and transformed into companies. In the second round the independent companies were privatised, mostly through tenders. Many of the input supply and food-processing enterprises were in great demand. As a result privatisation was completed in this field by autumn 1995. The privatised enterprises' supply of capital, their financial position, and their technological level significantly improved. As a result, the Hungarian food industry has been able to improve its position on the foreign markets in a way unique in the region. Today more than 70 per cent of Hungarian agricultural exports are highly processed food products.

The privatisation of the firms marketing production equipment and supplies was equally successful. The monopolistic positions were eliminated as a result of competition between the new companies. The agricultural producers, too, are likely to enjoy the advantages of that competition today. The gap between the prices of agricultural and industrial products stopped increasing in 1993 and it has been continuously decreasing since that time. Thus the terms of trade have changed in favour of agriculture in the past two years, and that, in addition to the improvement of production efficiency, helped agricultural production to become profitable again in Hungary.

A further advantage of the transformation is that the new firms in the food-processing industry and trade are well provided with capital to integrate the large and small agricultural producers. It has become very common for the processing and trading companies to finance production costs -- seeds, fertilisers, pesticides, animals for breeding, fodder -- for the producers in the form of short-term credits. This is particularly advantageous for the new entrepreneurs because most of them are not yet credit-worthy in the eyes of the large banks. Under socialist farming the collective farms played the role of integrator for the
small producers. Now, however, processing and trading companies working on a strictly commercial basis have assumed this function. Of course several former collective farms, especially those which had earlier been transformed into joint-stock companies (so ceasing to be co-operatives) also act as integrators. They integrate first of all the small farms and household plots marketing just their surplus products.

**Conclusions**

Hungarian experience has shown that modest size family farms and privatised state farms are proving to be viable under the more market oriented conditions. However, the new co-operatives are performing less well. In particular they are burdened by the maintenance of much of their old social function as well as a poor management decision making process. If that social function is transferred to the responsibility and expense of public authorities where it belongs, the co-operatives will be given an opportunity to compete on a purely commercial basis, allowing their future viability and evolution to be determined by market forces.

The transformation of the ownership and production structure of agriculture had been completed by 1995 in Hungary. In coming years it will become clear which form of farm organisation will prove more competitive, effective and viable in the long-term: the family farms producing for the market; the middle- and large-size private companies; or the transformed collective farms. Since under present conditions in Hungary a competitive, less state-supported, export-oriented agriculture that gives preference to high quality production is needed, agricultural policy must not hinder competition between forms of farm organisation and market participants. All these things are needed so that Hungarian agricultural producers should bear the test against their foreign competitors in both the domestic and the foreign markets.
The natural and historical peculiarities of Russia’s agricultural development should be taken into account in analysing the results of agricultural reform and Russian government policy. The biological and climatic conditions are not very favourable. Agricultural production is extensive but quite labour-intensive. As a result Russia has been 20 to 30 years behind the developed countries in building a modern agro-food sector based on new technology, industrialisation, more efficient resource use, and accelerated progress in the up- and downstream sectors. By the time the agrarian reform got under way, these processes of development, which reflected global tendencies and would have made the agro-food sector more efficient and competitive, were still in their initial phase, having affected no more than 20 per cent of the farms, up- and down-stream industries and territories.

Because the agrarian reforms were pursued amidst social and economic recession accompanied by major blunders and miscalculations, these strategically important processes suffered a series of setbacks. Moreover, the degree of agricultural capacity utilisation, which had never exceeded 50-70 per cent as it was, further declined to 30-45 per cent. Normal agricultural production cycles have been disrupted, and productive potential has continued to deteriorate -- in some cases irrevocably -- with all the ensuing negative consequences for the nation’s economy and security.

Between 1990 and 1995 agricultural output declined by more than 30 per cent, and the production capacity of farms declined by nearly one half. Cropland shrank by almost 14 million hectares; livestock herds diminished by more than 35 per cent; the stock of pigs, sheep and goats by more than 40 per cent; the dairy herd -- the last thing any farmer would reduce -- by 10 per cent.

Fixed assets and farming equipment are wearing out. The level of mechanisation and labour-intensity is declining. As a result, crop yields, livestock productivity, and the efficiency of labour -- in which we are far behind the industrialised nations -- have greatly dropped. Costs have risen, while the demand for, and the competitiveness of, produce on the domestic market has declined.

The Russian Federation Government outlined the agro-food sector’s restructuring in article 9 of the agrarian reform programme approved by RF Government resolution No. 791 of 6 July 1994. The programme envisages the development of all sectors in a balanced way on the basis of accelerated and re-equipped production within a framework of targeted government programmes. But it has been purely declarative and remained on paper. So have social-development programmes for rural areas. Most government agencies, politicians and economists view reforms in ownership, new types of farm organisation and management, and the development of markets, including land markets, as their primary goals. They have totally disregarded the well-known conclusion -- many times confirmed both theoretically and practically -- that the problems of rural regions need to be addressed in a comprehensive way, since attempts to deal only with the organisational and political aspects of agricultural and agro-food sector development have long since been proven futile and fraught with negative consequences.

The current situation in the agro-food sector demands a breakthrough to get out of the crisis. While the heavy responsibility for preserving, developing and improving production capacity rests primarily with the newly independent agro-food sector producers, the government must review the approach to agrarian reform. Government involvement and support must be assured.
The main task consists in normalising the agricultural production cycle and overcoming the donor/recipient relationship between the rural and urban areas. The highest political levels, in the Federal Assembly and the Russian Federation Government, must acknowledge that the socio-economic interests of the 110 million urban residents which fuel this disparity both directly and through their representatives in the legislative and executive branches would strategically suffer much more in terms of unemployment, loss of income, decline in living standards and social tension if the agro-food sector collapsed than if pressure were applied to cope with the disparity now. Such mechanisms as guaranteed prices, price limits, subsidies, and special funds to support the agro-food sector must be introduced and maintained. The up- and down-stream sectors, food processing and finance must be demonopolised. A means must be found to end the constant decline in production agriculture’s share of the price of processors’ final output. The market itself cannot eliminate the disparity. Even if it could do so, it would take too much time and the costs would be inordinately high.

We must draft and implement a series of targeted federal and regional programmes to protect rural productive capacity -- to preserve the land, maintain soil fertility and livestock genetics, restore the agro-food sector’s machine-building capacity and retool production as a basis for improving labour efficiency and competitiveness and for meeting the social needs of rural areas. The suggestion in the draft 1996 federal budget that only two agro-food sector-related programs worth a total of 413 billion roubles (a mere 0.1 per cent of total spending) should be implemented is unacceptable. The overall share of expenditures on agriculture does not exceed 2.8 per cent, although the sector produces more than 6 per cent of GDP.

Loss of soil fertility causes especially profound concern. Soil nutrients have been depleted by several orders of magnitude more than they are being restored by fertiliser use -- and this at a time when mineral fertiliser is still being exported in large amounts, often at dumping prices.

Russia’s stock of improved (irrigated or drained) land is rather modest. By the time reform began such lands made up some 5 per cent of the total, which was 3 times less than in the former Soviet republics excluding Kazakhstan and 10 times less than in many developed nations that enjoy better climatic conditions. This stock is steadily shrinking. Between 1990 and 1993 the gross crop yield from improved land declined by 39 per cent. Russia has been losing its capacity to stabilise the harvest, as was vividly proven in 1995 when the crop yield went down because of unfavourable weather conditions.

Lack of machines and equipment, as well as their redistribution to small farms where the norm of machinery per hectare of land is 3 to 5 times higher than on large farms, has caused a direct decline in the volume of work done, led to flagrant violations of good agronomic practice and disrupted the use of appropriate technology. It has also pushed up the per-hectare cost of crop production and per-head cost of animal production. The productivity of crops and livestock is steeply declining, which leads to higher costs and lower profits.

It is important to strike a balance between large-, medium- and small-scale production. Large-scale production potential must be preserved. The disproportionate spread of smaller farms must be avoided. The socio-economic conditions are not right for the normal development of the newly formed family-farming sector, which emerged during a crisis when all aspects of the production cycle were extremely distorted. Circumstances will hardly allow family farms to assume a leading role in Russian agriculture. Although they have some 5 per cent of all agricultural land and 6 per cent of the arable, nearly 8 per cent of the industry’s labour force, and over 15 per cent of the tractors and trucks, individual western-style farms produce barely 2 per cent of total output. In 1994 the individual farms’ output even fell by 13.8 per cent in comparable prices. It is necessary today to focus not on creating new individual farms, but rather on strengthening the existing ones, particularly on the basis of co-operation.
Household ("private") plots have expanded considerably during the reforms. The land under private plots has nearly doubled, their livestock has increased by 17 per cent, and labour expenditures on them have increased by 20 per cent in 1990-1994. But these increases have yielded only a 15 per cent growth in gross agricultural output from household plots in the same period, too little to compensate for the simultaneous 43 per cent decline in productivity of the large farms. For some groups of rural and urban residents expansion of rural household plots and urban gardens was merely a way of surviving the crisis. The household plots have proven to be literally supported by, closely connected to, and dependent on the large public farms.

The prospects for further expansion of household-plot production have been nearly exhausted. Family labour on the plots cannot be increased any further. Land to expand the household plots is nearing its limit. So is their involvement in the production of potatoes, vegetables, fruits and berries. The number of households that own household and garden plots is decreasing. Fifty-eight per cent of the household plots have no livestock at all, and this percentage has been fairly steady. There are no conditions for developing livestock-breeding, since soaring fodder prices are inflating those of the end products. Moreover, the ever-weakening large farms can no longer help household plot owners with equipment, fodder, young livestock, etc. As a result, production growth rates on household plots declined by 8.7 per cent in 1991, 8.1 per cent in 1992, 2.7 per cent in 1993, and 4.7 per cent in 1994.

Objectively speaking, large farm enterprises remain the major producers as well as the main source of support for the majority of household plot owners and many family farmers. The large farms’ capacity has been considerably undermined by the re-allocation of resources, the general crisis, the groundlessly discriminatory attitude toward large-scale production, and the lack of official support. The changes in property ownership and the institutional and legal status of the farms have created the conditions for a review of intra-farm relations, of the worker’s role in production and the distribution of produce and profits.

In implementing the new Civil Code and observing the rights of the owners of land and property shares, it is important not to focus on the rate of reform or to encourage workers to quit, even for the purpose of launching new co-operatives. Rather, the emphasis should be on preserving, strengthening and developing the already existing co-operative potential of units within the large farms such as production teams, livestock barns and shops that can produce finished products through concentrating, specialising and integrating their production facilities and securing at least some social and ecological efficiency amidst the numerous disruptions in the production cycle. What is really needed is comprehensive political, legal, ideological and economic support for such large-scale co-operative production. It is comparable to the largest Western farms in terms of its potential, but lags far behind them in equipment, discipline, motivation, and economic efficiency.

It is important to do everything possible to encourage the economic independence and responsibility of such production units within the large farms, to tap the full potential of the new property relations, and to develop entrepreneurship as far as possible, until these workers turn into independent producers who are eager to co-operate with one another. One should resist those methods of reforming agricultural enterprises that lead to their total liquidation and replacement with newer entities suggested by individuals who are capable of talking responsibility upon themselves, but unable to guarantee the sensible use of the production capacity, a higher degree of efficiency, or to ensure the social protection of rural residents. The government must help protect large-scale producers, staff the reformed units with new managers -- who are selected at random today -- and provide the agencies at all levels implementing the agrarian reform with scientific and consultative advice drawing on the rich domestic and foreign experience.
STRUCTURAL CHANGE IN EAST GERMAN AGRICULTURE SINCE 1990

Eberhard Schinke

The state of GDR agriculture on the eve of reunification of Germany

On the eve of the reunification of Germany, GDR agriculture presented itself as both a uniform and a unique model. About 95 per cent of agricultural land was in the hands of 1242 large-scale state or collectively owned enterprises organised according to one pattern, all of similar size and strongly specialised in crop production, while animal husbandry was concentrated on 3184 enterprises dealing with animal production exclusively and having no or negligible plots of land. Besides these predominant groups of so-called socialist enterprises, small scale private farm production also existed, mostly in the form of part-time farming of both agricultural and non-agricultural workers. The share of private production in all major products was negligible, however.

Inputs in farm production were quite high. The share of agriculture in capital investment was more than 7 per cent; about 9 per cent of all persons employed were engaged in agriculture; supply of mineral fertiliser reached 290 kg/ha. Farm input prices were subsidised: in 1988, these subsidies amounted to 9.4 billion marks, while taxes paid by agriculture reached 12.5 billion marks. However, inputs demanded by farms became available only if planning authorities were able and willing to allocate them, and only if requirements were based on state plans. Both planning and allocation suffered from chronic shortage of many kinds of inputs. Thus, farms were forced to seek ways to get urgently needed production inputs, and they built up their own capacities in repairing or even in making spare parts by hand.

This was one reason why farms held an extremely high labour force of more than 12 workers per 100 hectares. A second reason was an inflated administrative apparatus, a third a high specialisation of workers dealing with only a very limited number of operations. And, it must be remembered that large-scale farms in the GDR carried out some functions which in other countries belonging to municipal or state government, such as road building, water supply, social welfare, etc. Thus altogether more than 800,000 people were engaged, nearly the same number as in West German agriculture with area and livestock being twice as much.

As compared with other countries, the GDR had at its disposal a relatively large agricultural area of 6.2 million hectares, equalling 0.37 hectare per inhabitant. Yields were stable and high compared with the world average, but low against West German levels. Production per inhabitant was higher than in West Germany for most commodities, however. Animal husbandry was carried out even more intensively than crop production. Related to both agricultural area and population, density of livestock was high. Consequently, despite high crop production, GDR agriculture was not able to feed its livestock with domestically produced feedstuffs only. Based on imports of 3.3 million tonnes of grain and 0.8 million tonnes of oilcakes annually the GDR exported large quantities of slaughter animals, meat, milk, and dairy products. Most of them were delivered to the Federal Republic of Germany.

Farm gate prices were subject to adjustment for increasing production costs from time to time. In 1989 they were above the 1960 level by 120 per cent for wheat, 148 per cent for sugar beet, 130 per cent for pigs, and 228 per cent for milk. Thus, farm prices expressed in GDR marks were higher than corresponding prices in West Germany as expressed in DEM: by 40-200 per cent for crop products and 100-300 per cent for animal products. At the same time, prices paid by GDR farms for production inputs were higher than in West Germany (again comparing Mark/DEM) by 20-40 per cent, but wages paid to both state farm workers and collective farm members were less by at least 50 per cent.
Increases in farm gate prices were not shifted to consumer food prices. Almost all food retail prices remained stable from 1958/1960 until June 1990. Increasing costs of food production, as well as processing and distribution, were covered by subsidies which in 1989 amounted to about 33 billion marks, i.e. nearly 2,000 marks per inhabitant. However, consumption was high, even as compared with West German levels, for several reasons. The quality of foodstuffs was poor, and therefore, relatively high losses arose in preparation of meals. Other goods than food were in short supply. Bread and potatoes were used for feed because of the relatively low food prices and high prices for livestock.

**Direct consequences of reunification for agriculture**

As of 1 July 1990, the day when the treaty between the two German states on the economic, currency, and social union came into force, prices of agricultural commodities were no longer fixed by the state, but were now to be found on a market established according the rules of the European Community. Granting West German price levels to be valid in the GDR, too, it was expected that prices for crop products would decrease by 49 per cent and for animal products by 66 per cent. Even if it was assumed that subsidies, taxes, depreciation, wages, and interest would not change, the net farm income of GDR agriculture would change from plus 16 billion marks to minus 10 billion DEM. However, the assumption that West German prices could be obtained in East German agriculture turned out to be too optimistic. Immediately after 1 July 1990, prices for most products dropped rapidly and became ruinous even from the point of view of a West German farmer. In retail shops there was a run to food products now imported from the West without limitation. Domestic products, even those of the same quality, were hard to sell. Wholesale organisations were not in a position to place them on the market, not only because of the changing consumer demand, but also due to inability to manage distribution under conditions of a free market. The processing industry was left with stocks and refused to take deliveries from the farms. Consequently, farm gate prices declined below the optimistically expected West German level. Thus, the impact of price decontrol on farm results was much more dramatic than experts in both East and West had expected, and some farms were no longer solvent already in July.

The budget of the Federal Ministry of Agriculture originally included a 2.2 billion DEM subsidy in order to mitigate the consequence of the transitional processes in GDR agriculture. Already in August it became clear that this amount was not nearly sufficient to avoid collapse and liquidation of even those farms that in the longer run seemed to have relatively good chances of survival. Thus, in autumn, a second and a third supplement of the 1990 budget each included about the same sum bringing the total subsidy in 1990 to 6.5 billion DEM.

The price crash was not the only difficulty farms found themselves confronted with. Many other problems had to be solved simultaneously. Initially as the first stage the subject of discussion in most of the collective farms (LPG) was a splitting up of the oversized crop production enterprises, holding as a rule the area of five or more villages, and, at the same time, a recombination of the artificially divided branches of crop and animal production. The future legal and corporate status of LPG caused a lively discussion among their members as well among politicians and scholars. In principle, there were open options for the numerous corporate forms which the German law offers. Not all of them could be used easily, however (see below).

The most urgent problem for people living in rural areas was the necessity to reduce the farm labour force. It was quite clear that East German agriculture would become able to pay wages comparable to those in both the West and in other branches of East German economy only if the number of workers could be reduced drastically by at least 50 per cent. Thus, nearly everybody feared losing his job.
Even with a reduced labour force East German agriculture was expected to be able to produce a large oversupply. Therefore, the production potential - land as well as livestock - had to be reduced, too. Already in summer, 1990, a set-aside-programme for agricultural land was introduced, and in 1990/91 about 600,00 hectares (12.8 per cent of all arable land) were set aside. An additional program for the 1991 harvest provided compensation for farms that lowered the intensity of cropping by reducing yields by at least 20 per cent. As far as animal husbandry is concerned, there were different means and pressures to encourage farms to reduce their production. Firstly, the crash of prices and the difficulties to sell animal products even at lower prices forced farms to cut their herds back. Furthermore, production quota as they were valid in the EC were introduced for milk. Additionally, some large-scale pig and poultry fattening enterprises that polluted the environment had to be cut back or even closed. Thus, by 1 May 1991, the number of cows had decreased by 42 per cent as compared with December 1989, that of pigs by 53 per cent.

Development since 1990

Unlike the situation in the Soviet Union, only part of the land was owned by the state in the GDR. Over two-thirds of the agricultural area, including the greater part of the land farmed by the Agricultural Production Cooperatives (Landwirtschaftliche Produktionsgenossenschaft - LPG), was in private hands in 1989. It was therefore widely expected that the majority of the LPG members would take their share of the land out of the big farm structure and that there would be a return to individual smallholdings. This was also the opinion of the Federal Government in Bonn, which declared that in its structural policy it did not wish to specially promote or disadvantage any form or size of farm, in fact, a special programme was developed to support the creation of new family farms or the recreation of old ones. It turned out, however, that only relatively few LPG members were prepared to return to farming on their own account, the majority preferring to continue working together in cooperatives. The most important reasons for this were: most families had only a little land, so that the individual farms would have been very small; despite state support, there would still have been a shortage of start-up capital; many feared that they were not capable of running a farm on their own; there was great uncertainty about the future of agriculture in general and hence of small family farms.

Thus by the end of 1990 there were only about 2 000 new farms. By spring 1992 there were already some 16 000, however, and there are now about 25 000, of which some 22 500 are worked by individual families and the rest by partnerships (not cooperatives). Among these farmers there are some who came from West Germany or from other countries. The average size of these farms is 88 hectares and together they amount to some 40 per cent of the agricultural area in use. This land comes partly from the former LPGs and partly from former state farms.

Somewhat less than one-third of the agricultural area in use in the GDR was state-owned in 1989, part of this land being in the form of state farms and part being worked by LPGs. Like other state property, this land was placed under the administration of the Treuhand establishment in autumn 1990. Its task was to return land which was illegally confiscated during the existence of the GDR to its former owners and to privatise other state land, i.e. to sell it or lease it. For the attribution of the land, individuals were given preference over legal entities and local applicants over others. According to a law which came into force on 1 December 1994, there are also certain ceilings on the amount of formerly state-owned land that can be sold to a single applicant. Since in many cases, however, it has not yet been possible to fully establish the ownership rights over former state land, up to now the greater part of the total of 1.3 million hectares of agricultural land to be privatised has not been sold but has been leased for 12 years.

In the case of the LPGs a law was already adopted by the GDR parliament in July 1990 (and amended by the German parliament in June 1991) that they could either be converted into cooperatives under the
German law on cooperatives of 1989 or be dissolved and then perhaps be recreated in a different legal form. In both cases it was possible to divide the LPG into several smaller units or to merge with successor enterprises emerging from other former LPGs or with parts of such enterprises. Thus by the end of 1991 some 3 200 big farms had been created, including 1 700 cooperatives, 1 200 joint stock companies and 300 partnerships. Among them there are some which at first continued all the activities of the LPG from which they stemmed and undertook the necessary adjustments of size and organisation only later. In many cases however, the old LPG was split up and run as a number of smaller units. In most cases the separated crop and stock farms were reintegrated.

Structural policy did not influence the decisions taken by meetings of LPG members in any way. On the contrary it was always stressed that farm size, structure and production programmes must be decided by the farms themselves solely according to business principles. However, the above-mentioned law did influence other aspects: up to the amendment made in June 1991, direct transformation was allowed only in the form of a cooperative; if some other legal status was decided upon, the LPG had to be liquidated before the creation of the new farm. This meant tackling the problem of ownership and assets. In many cases the farms were heavily in debt or their fixed assets were of little value. In such cases it was impossible to pay members for their share of the assets and there was no capital available for a new start. The only alternative still open was therefore to continue running the farm as a cooperative in the hope of consolidating it, or to dissolve the cooperative without the members receiving any payment. In many LPGs the views and wishes of individual members were very divergent and decisions were reached only after heated argument and not always by common accord.

According to the latest census made at the end of 1994, there were on the territory of the former GDR a total of 27 783 farms. By far the greatest number (18 196) were small farms with an average size of 48 hectares, accounting for barely 20 per cent of the agricultural area in use; more than half of them (44.3 per cent of all farms) were smaller than 10 hectares, while a further 22.0 per cent were between 10 and 50 ha. Most of these small farms were run as secondary occupations. Farms run by partnerships accounted for 8.6 per cent of the total, with an average size of 469 hectares, and 20 per cent of total agricultural land. The biggest category in terms of area were cooperatives, with 35.9 per cent of the total area even though they accounted for only 4.8 per cent of the total number of farms. Their average size was 1 461 hectares. There was a somewhat larger number of farms with other legal statuses, such as joint stock companies (GmbH, AG, etc.). These represented 5.6 per cent of all farms and covered 23.7 per cent of the agricultural area. The size of the individual farms in this category varied enormously and it included a few extremely large farms.

At present the number of farms is again tending to increase slowly, with the number of cooperatives falling and that of partnerships increasing. As compared with 1989 the number of farms has significantly increased, but nowhere near as much as many observers were expecting. Their sizes vary greatly, but large farms are of considerable importance, with 93.9 per cent of the agricultural area accounted for by farms of over 100 hectares (in West Germany the corresponding figure is only 13.9 per cent). The 1 753 farms of over 1 000 ha. occupy 58.8 per cent of the agricultural area.

The number of people employed in agriculture has fallen steeply. The biggest fall, of some 50 per cent, occurred in 1990-91, though this includes many people who were recorded as being in the agricultural sector in the GDR statistics even though they were not directly engaged in agricultural work. However, even after this initial phase the agricultural labour force declined still further, and this trend is continuing today, though at a slower rate. Converted to labour units (= a person between 16 and 65 working full time) the agricultural labour force again fell by over 50 per cent between 1991 and 1994. By no means all of the people who had to leave agriculture or enterprises counted within the agricultural sector were able to find another job. For those who became unemployed, whether public employees or LPG members, an
allowance was immediately paid (and still is today) under the rules of the (West) German unemployment insurance system. At the same time, so-called job creation measures were (and still are) organised, through which the state unemployment fund fully or partly financed temporary jobs. Lastly, for older people the possibility for early retirement with a pension was created. In this way it was possible not only to ensure a basic living allowance for farmers who lost their jobs, but also within a fairly short time to give them an income that was higher in real terms than the wage they had received up to 1989. It was obviously possible to do this only thanks to transfers of the necessary funds from West to East Germany. These payments by the unemployment and pension systems for people formerly employed in agriculture in East Germany are not included in the total of DEM 17.2 billion paid since 1990 from the budget of the Federal Ministry of Agriculture to East German agriculture, and the flow still continues.

If the agricultural labour force is considered in relation to the area, then a difference can be seen between farms run by individuals and those run by legal entities: while the former employ roughly 1.3 labour units per 100 hectares, the latter, and above all the cooperatives, employ more than twice as many, with an average of 2.8 labour units. Even if we take into account the fact that the cooperatives have relatively high livestock numbers and many of the farms run by individuals concentrate on extensive crop farming, it must be considered that there is potential for further reduction of the workforce in the cooperative sector. Overall however, with an average of 2.4 labour units per 100 hectares, East Germany is already considerably less labour-intensive than West Germany with 5.1.

The difference in employment levels between farms run by individuals and those run by legal entities is scarcely surprising however if we take into account that the former are newly established farms which only employ as much labour as really necessary, whereas in the case of farms created out of LPGs, and these include above all the cooperatives, there is a core of older workers who are for the most part members and cannot simply be thrown out. On the contrary, most of the farms emerging from LPGs make every effort to maintain jobs for their members. Since there are only limited possibilities for this in agriculture itself, alternative forms of employment are sought in building, processing industry, trade and elsewhere. Many farms which have emerged from LPGs now have subsidiary undertakings outside agriculture, in which members can find jobs where it is often possible to earn more than in the original farm enterprise.

Losing a job in agriculture therefore does not in all cases mean completely breaking with the old enterprise. The solution of finding a job for the member concerned is not only in the interest of this individual but also that of the enterprise. Members who lose their jobs in the cooperative frequently resign their membership and request the payment of their share of the cooperative's assets. If many do this, the enterprise may become insolvent. In particular where a cooperative is already in financial difficulty, the management has to avoid such a development. It must on the contrary try to retain as members even people who have voluntarily sought work elsewhere and those who have retired. This is facilitated by the fact that members of the former LPG have an emotional attachment to their cooperative which induces them in a critical period not to insist on the repayment of the capital and interest of their share. This cannot be generalised however, any more than the cases of fraudulent bankruptcy in which the management cheats members out of their shares.

The great majority of East German farm enterprises adapted very quickly to the new conditions under which they now have to work. Factors which helped here are the rapid creation of an effective agricultural administration and advisory system and the availability of precise and up-to-date information as a basis for farm management decisions. In crop growing, new production programmes adapted to the location and the sales possibilities have been developed, modern production methods introduced and unprofitable land taken out of production. Crop yields are now at the same level as in West Germany, but the cost of achieving them is generally less thanks to the larger areas. Investments in crop growing have been very rapidly amortised. Stock farming has not yet recovered from the setback of the early 90s. Stock numbers
are still stagnating, except for poultry. Yields per animal have in fact also reached the West German level, but the costs are higher in the old animal barns, and frequently no return on capital is to be expected for new installations. The intensity of East German agriculture has therefore declined as compared with the 80s, and not only as regards labour intensity.

The rules of the European Union's Common Agricultural Policy fully apply to East German agriculture. This of course means on the one hand a degree of certainty regarding the prices and sales possibilities to be expected in the short term, but on the other hand there are comprehensive regulations, for example in land use (set-aside), crop areas (sugar-beet) and livestock numbers (upper limits), and not least the certainty that prices for certain important products will fall further. Because of their size, East German farms are certainly not the worst placed for coping with such difficulties, but they are having to face these problems at a time when they are still having to struggle with the consequences of the collapse of the GDR. One of these consequences is that many former LPGs are deeply in debt because of the demands imposed in the past by the GDR planning authorities. These debts are still on the books of the successor enterprises and no final decision has yet been made regarding wiping them out.

An analysis of the latest accounts available (for the 1993-94 farm year) shows positive results for the great majority of farms. On many farms the upgrading or restructuring had not yet been completed and the figures still included special state aid for East German agriculture, but it can be concluded that the financial situation of most farms was considerably better and more stable than in the initial phase of 1991-92. The figures show the farms run by individuals had on average better results than those run by legal entities. The latter had a higher gross income per unit area, but their income per labour unit was only about half that of the first category. This was obviously due to the high labour-intensity (and hence high wage costs) in the cooperatives, as discussed above. The results of individual farms in both groups varied enormously, with financially very successful farms alongside unsuccessful ones in both groups. It would therefore be mistaken to make any conclusions regarding the advantages or disadvantages of a given legal or organisational form simply on the basis of the average figures. Instead it seems to be true here, as elsewhere, that the decisive factor for durable success is management quality.
### Farms(1) in the new Länder according to legal form

<table>
<thead>
<tr>
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<th>1992</th>
<th></th>
<th>1993</th>
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<tbody>
<tr>
<td></td>
<td>number</td>
<td>total area (000 ha)</td>
<td>average size (hectares)</td>
<td>number</td>
</tr>
<tr>
<td>Individual farm</td>
<td>14 602</td>
<td>674.0</td>
<td>46</td>
<td>22 505</td>
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<tr>
<td>Partnership</td>
<td>1 123</td>
<td>706.3</td>
<td>629</td>
<td>2 379</td>
</tr>
<tr>
<td>Registered cooperative</td>
<td>1 464</td>
<td>2 250.6</td>
<td>1 537</td>
<td>1 336</td>
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<tr>
<td>Limited company (GmbH)</td>
<td>1 178</td>
<td>1 314.2</td>
<td>1 116</td>
<td>1 335</td>
</tr>
<tr>
<td>Joint-stock company (AG)</td>
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<td>97.4</td>
<td>1 546</td>
<td>64</td>
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<tr>
<td>Other legal entities(2)</td>
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<td>17.3</td>
<td>393</td>
<td>86</td>
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<td>Public law entities</td>
<td>101</td>
<td>48.7</td>
<td>483</td>
<td>78</td>
</tr>
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<td>Total</td>
<td>18 575</td>
<td>5 108.6</td>
<td>275</td>
<td>27 783</td>
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1. Farms with at least 1 hectare of land.
2. Including LPGs in liquidation.

### Areas of farms in Germany by size class in 1994

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<th>Size class(1)</th>
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<th>New Länder</th>
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<td></td>
<td>Number</td>
<td>Area</td>
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<tr>
<td>1-10</td>
<td>251 780</td>
<td>1 054.9</td>
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<td>10-50</td>
<td>239 703</td>
<td>5 827.2</td>
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<tr>
<td>50-100</td>
<td>48 546</td>
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<tr>
<td>&gt; 100</td>
<td>10 942</td>
<td>1 640.5</td>
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of which:

<table>
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<tr>
<th>Size class(1)</th>
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<th>New Länder</th>
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<td>200-500</td>
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<td>-</td>
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<tr>
<td>1000-3000</td>
<td>-</td>
<td>-</td>
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<tr>
<td>&gt; 3000</td>
<td>-</td>
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</table>

Total 550 971 11 796.7 27 783 5 436.2

1. Agricultural area in use.
2. Including East Berlin.

Labour force in East and West German agriculture

(thousand persons and labour units)

<table>
<thead>
<tr>
<th>Year</th>
<th>Persons</th>
<th>Labour units</th>
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<tr>
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<td>Full-time</td>
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<tr>
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<td>256.1</td>
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<td>1994</td>
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<tr>
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<td>1994</td>
<td>345.0</td>
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LAND REFORM AND THE REORGANISATION OF AGRICULTURAL ENTERPRISES

Vasilii Uzun

Land reform in Russia has permitted the transfer from state property into the hands of the citizenry of 63 per cent (140 million hectares) of agricultural lands. The basic forms of land holding are now:

- individual farms’ land (11 million hectares);
- rural residents’ household plots and other citizens’ garden plots (8 million hectares); and
- agricultural-enterprise members’ common-share property in land (121 million hectares).

In the course of the agrarian transformation most collective and state farms were changed into limited-liability societies and closed joint-stock companies -- or retained the status of a production co-operative (a collective farm or collective agricultural enterprise). Russia now has about 26 000 such agricultural enterprises with an average of 6 000 hectares of agricultural land and 300 workers. The farms’ size, the makeup of their workforce, and forms of organisation, management and incentives have remained as they were before.

However, the process of establishing private landholding is not completed. More than 30 million hectares of agricultural land remain state property. That amount is significantly more than needed by state agricultural enterprises and municipal authorities. Most of the agricultural land that has been transferred into citizens’ property is used with collective property rights, but the relations of the owners among themselves and with the agricultural enterprise which uses their lands are not legally regulated.

Land legislation has not yet become fixed. The State Duma has adopted on the first reading a version of the Land Code that provides for lands held as citizens’ common property to be transferred to the property of the agricultural enterprises as legal entities. In this way 26 000 large latifundia can be created. They will not be divisible, since it is proposed to forbid land mortgages and sales.

All the agricultural enterprises changed their charter documents during the reform under which the agricultural enterprises’ land and non-land assets were distributed to the members as their property. Two thirds of the agricultural enterprises have changed their legal-organisational form, while one third preserved their former form as collective or state farms.

This process has come to be called reorganisation, although on the great majority of farms there was actually no reorganisation done. That is, there was no general division, exit by splitting off, merger or amalgamation. The transformation of legal-organisational forms was also done only on paper. The collective and state farms, renamed joint-stock farms, partnerships or collective agricultural enterprises, actually function like the former collective farms. Each member has his vote, but there is no payment for the commitment of land and property to the farm. If there is a profit, it is distributed proportionally to labour. As a rule, there is no inheritance of property. When a worker quits the farm he receives nothing.

These practices contradict the law but attempts to legally challenge the situation that has developed are not commonly found. The only difference from the former collective and state farms is the ability to leave the agricultural enterprise and receive a tract of land to organise an individual farm. The mechanism for receiving a share of the farm’s non-land assets is not worked out and it is a rare person who, even after appealing to a court, has been successful in obtaining a share of non-land assets or fair compensation for a share of non-land assets.
The Civil Code, adopted in 1994, was to go into effect as of 1 January 1995.\footnote{Only some sections of the Russian Federation Civil Code went into effect on 1 January 1995. As of December 1995, the sections dealing with land ownership remained inoperative, due to a conflict between the provisions of the Civil Code and the draft Land Code, still being debated in the Russian Federation State Duma. OECD Secretariat.} It defines the legal-organisational forms of commercial and noncommercial organisations. The charters of the great majority of the currently operating agricultural enterprises are not in accordance with the provisions of the Russian Federation Civil Code.

The main conflict is the indeterminacy of property rights. The joint stock farms have not issued stock shares or certificates. The limited-liability farms have not calculated their members’ proportional shares in the charter capital or their corresponding voting rights in meetings. The collective farms and agricultural collective enterprises have calculated land entitlements and non-land asset shares but they are not considered either when voting at meetings or when distributing revenues.

Many collective farms, state farms, and other organisational-legal forms of agricultural enterprises created from them as a result of reregistration cannot resolve the problem of how to reward people who have invested property and money, managers, and workers. These enterprises are not sufficiently competitive in the market. Every year their share of the total volume of agricultural production declines, losing ground to household plots and other private forms of agricultural production.

In Russia there are many very large (in number of employees and land area), territorially dispersed and difficult-to-manage farms. On such farms reorganisation may be done by giving internal subunits (divisions, brigades, livestock barns, leasing groups) the status of legal entities and having them subsequently organise service co-operatives on the basis of production facilities that are common to all the subunits.

On some farms there are conflicts: between leaders, each of whom are supported by a group of workers; as well as between residents of outlying villages and the farm centre. In such cases, reorganisation may be done by creating legally independent entities from the groups of workers, the outlying villages, and so on. Issues of using common infrastructure are resolved by agreement of the parties, by the desire, possibility and ability of particular subunits to create independent enterprises or individual farms.

Reorganisation may be done as a one-time measure or as a lengthy process in the course of which particular managers, groups of specialists, workers, neighbouring individual farmers or industrial enterprises accumulate land entitlements and non-land asset shares, increasing their proportion of the agricultural enterprise’s charter capital. Step by step they may come to dominate the enterprise or its part and to carry out its reorganisation. This process can be assisted by a precisely defined mechanism of carrying out transactions with land and non-land asset shares. Russian Federation Cabinet Resolution number 96 of 1 February 1995 confirms recommendations on putting into practice the rights of owners of land entitlements and non-land asset shares. This mechanism, in accordance with the Russian Federation Civil Code, requires legislative regulation.

The further development of the agrarian reform in Russia will require an extended period and significant efforts both on the part of the state and by the workers of the agricultural and other enterprises of the agro-food sector.
Proposals for major improvements in the land and agrarian transformation

Law on agrarian reform

The adoption of a law on agrarian reform defining the sequence, mechanism and periods for realising the land and agrarian transformation. The absence of such a law has led to a situation where the reform is being carried out on the basis of Presidential decrees, Russian Federation Cabinet resolutions, and methods recommended by the Russian Federation Ministry of Agriculture and Food Supplies. These documents are dispersed and sometimes contradictory, fail to encompass the whole problem, and do not indicate the time period for carrying out particular stages of reform.

Since most agricultural land will continue for a long time to be held as common share property, it is necessary to further improve the legislation regulating the disposal of such lands. In accord with the Russian Federation Civil Code it is necessary to obtain the consent of all owners when determining how to use, sell, mortgage or lease such lands. The same requirement must be met when physically delimiting a parcel as a land share.

When there are two or three owners it is possible to carry out this requirement of the Russian Federation Land Code. However, if the group of owners includes 400 to 800 people, as is the usual case for agricultural enterprises, it is practically impossible to obtain everyone’s consent, if only because some of the owners are missing -- they have left, or died, or heirs have not yet taken possession of an inheritance, and so on.

Farm bankruptcy procedures

The unfavourable general economic situation in the country and the low efficiency and weak competitiveness in the market of many agricultural enterprises has caused them to become practically bankrupt. About 50 per cent of all farms are insolvent. It is necessary to develop a mechanism of bankruptcy restructuring and reorganisation for these farms and not to allow the theft or the sale of the liquid part of their assets, since this would cause the complete devaluation of the remaining non-land assets, the reduction of agricultural production and the appearance of an enormous army of rural unemployed.

The reorganisation of such farms may be done in accordance with procedures indicated in the “Law on insolvency (bankruptcy)”. The main problems in doing so are:

- The search for the financial means to pay off the debts of the insolvent farm enterprise. In particular cases the funds for restructuring and reorganisation of insolvent agricultural enterprises may come from outside investors. Most debts, clearly, will have to be paid off by the state and the banks. At both the federal and regional levels, funds to support the reorganisation of agricultural enterprises should be set up and their procedures defined.

- The training of outside management. The managers of insolvent farms cannot, and sometimes do not want, to carry out the reorganisation of their enterprises. Creditors can, but when they appeal to the arbitration (economic) court to declare their enterprise-debtors bankrupt, they must name an outside manager. The Federal and regional Bankruptcy Agencies must organise the training outside managers and teach them reorganisation procedures. In doing so handbooks on privatisation and reorganisation developed on the basis of the experience of Nizhnii Novgorod, Orel, Riazan’ and Rostov oblasts may be used.
The training of rural entrepreneurs. Active specialists and workers are needed during the reorganisation of agricultural enterprises. They must be able to take on themselves responsibility for a part of the reorganisation. The experience of reorganisation so far shows that given the current complex economic conditions it is very difficult to find such people in the village. One reason why active people fear to take the responsibility on themselves is their lack of knowledge and entrepreneurial experience. It is appropriate to organise training courses for rural entrepreneurs and to prepare specialists. Beginning entrepreneurs should serve internships on successful farms in Russia and abroad.

The 1996 Russian Federation budget ought to include a specific line item for funds for restructuring and reorganisation of bankrupt agricultural enterprises. The Federal and regional bankruptcy authorities should develop legal procedures for using these funds and organise the training of arbitration managers for bankrupt agricultural enterprises.

Transformation of up- and down-stream industries into co-operatives

The reform of agricultural enterprises is necessarily bound up with the reform of processing, service and trade enterprises. Together with their transformation into stock companies and sale to private entrepreneurs, it is appropriate for most of these enterprises to be transformed into co-operatives as provided in the law “On agricultural co-operatives”, preserving for the members of the work group the status of associate members of the co-operatives and the right to have assigned to them a part of the property.

Tax benefits for agricultural services

Co-operatives and private service enterprises are created when agricultural enterprises are reorganised. Those enterprises do not receive the tax benefits given by Russian Federation legislation to the agricultural enterprises, which brakes reorganisation and the creation of co-operatives. The same benefits should be given to co-operatives and other agricultural-service enterprises.

Budgetary support for social assets

When agricultural enterprises are reformed, Russian Federation legislation provides that social assets and public utility infrastructure should be transferred to the local government. Because local budgets lack the money, the transfer process is going on extremely slowly, and in regions subsidised by the regional and Federal governments it is not happening at all. Each year the Federal budget appropriates funds for the maintenance of the social assets and public utility infrastructure that has been taken over by the municipal authorities. However, the budget does not explicitly divide the appropriations into urban and rural parts, and these funds are mainly spent on the cities.

The budget should include a line item for funds for the maintenance of social assets taken over from agricultural producers.

Tax benefits for rural small businesses

A number of small enterprises for agricultural production and services may be formed from reorganised agricultural enterprises. These enterprises do not receive the tax benefits given to newly-created small enterprises. The legislation should be changed to correct this uneven treatment.
Retraining managers and specialists for a market environment

Many managers and specialists of agricultural enterprise and their subunits are not appropriately trained for modern management conditions. The great majority of managers and specialists do not know how to manage in a market environment. They are not familiar with current Russian Federation legislation. Large-scale free retraining for managers and specialists should be organised. Doing so also requires preparing in advance new textbooks, training manuals, and demonstrations of practical experience, as well as retraining teachers.

In 1996-1999 all Russian commercial and noncommercial organisations will be reregistered. In order that the organisational structures should be brought into accordance with the Russian Federation Civil Code, precise property rights should be established, to avoid the purely formal reregistration of charters, it will be necessary to carry out the large-scale retraining of managers and specialists of agricultural enterprises and their internal subunits.

That is approximately 1.5 million people. There are neither textbooks, nor manuals, nor teachers to retrain such a number of people. One of the most important tasks of the Ministry of Agriculture and Food Supplies in coming years must be the organisation of this training work. It must be started in 1996. First of all it is necessary to prepare teachers and demonstration farms of various legal-organisational forms on which juridical and economic relations are set up strictly according to the law.
FORMS OF ORGANISATION AND MANAGEMENT AND THE EFFICIENCY OF AGRO-FOOD SECTOR ENTERPRISES

Ivan Burobkin

The historical experience of the organisation of agricultural production in Russia demonstrates that various forms of farm organisation and management have been used in the country. A particular type of ownership and management has tended to change to another immediately upon a change in the political system, although each type has included different variations (such as the present common-joint ownership, common-share ownership, etc.).

This evolutionary, and in some cases revolutionary, process of change and transformation of one form of production organisation into another has been predetermined by the dialectic laws of the evolution of social relations as well as other general social and economic processes. Therefore, bearing in mind general laws of social evolution, we should recognise that no form of farm organization and management -- including kolkhozes, sovkhozes, machine-tractor stations, and interfarm enterprises -- can be permanent and unchanging. The old forms, however fiercely defended, as a rule cannot be reconstructed because of the accumulated radical changes in the agro-food sector. The old forms of organisation and management, which were adapted first to the command economy, then to the market economy, just cannot accommodate those changes.

Bringing the institutional structure of agricultural production into conformity with the new economic relationships within a stable economy greatly increases productive efficiency. The transition to the contract and leasing forms of work organisation begun in the mid-1980s confirmed this. Contracting with the production units (brigades, divisions, work teams) within the collective and state farms, and leasing the formerly state-owned, co-operative and kolkhoz assets to them, strengthened the connection between work done and payment for it.

The accelerated legal and institutional reorganisation of kolkhozes, sovkhozes, interfarm enterprises and other farm structures into partnerships, joint-stock farming companies, production co-operatives, collective farms, and western-style individual farms and their associations which began in 1991 did not bring about the intended results, however. The expected outcomes were not achieved because during just this period the agrarian crisis was becoming deeper due to the disruption of interbranch relationships in the economy, mutual arrears, a sharp decline by as much as 50 per cent in the resource and machine-building sectors, and the price disparity between industrial and agricultural goods (an average difference of more than 5 times between 1991 and 1994 for the goods supplied by those industries).

For instance, in one of the better-off provinces of Central Russia, Orel oblast’, the number of profitable farm enterprises of all institutional and legal forms decreased from 441 in 1991 to 125 in 1994 while the number of unprofitable farms increased from 8 to 318. The average loss per unprofitable farm in 1994 was 173 million roubles. The average loss per farm -- including the profitable ones -- in that year was 64 million roubles. All the province’s farms earned total profits of 26.8 billion roubles in 1994, while their aggregate losses amounted to 55.1 billion roubles. So the farm enterprises ran an overall loss of 28.3 billion roubles. Inflation is not the only reason for this situation. During the four years of crisis use of mineral fertilisers has decreased by 6.2 times. In 1992, 186 kilogrammes of active ingredients were applied per one hectare of cultivated land while in 1994 only 37 kilos were applied per hectare. Consumption of fuels and lubricants has decreased by two times. The overall consumption of feed has declined by almost 70 per cent, while compound feed consumption is down by 2.4 times.
From the institutional and economic standpoint the present day limited liability partnerships, joint-stock companies and other forms of farm enterprises function as the old kolkhozes and sovkhozes did. Many of the so-called new institutional and legal forms of farm enterprises can hardly be called “new” because in reality only the names were changed. Former kolkhozes are now called limited-liability partnerships while sovkhozes became joint-stock companies. Shares of land and non-land assets formally determined for each person employed in production or the social sphere as well as pensioners do not play a significant role in the incomes of former or present employees. Dividends usually account for no more than 10-14 per cent of a total family budget. The existence of many small shareholders does not help to rationalise the management of joint stock farm enterprises.

This continuity in the reorganised farm enterprises’ institutional and economic functioning is both good and bad. It is good because these farms’ labour collectives did not suffer from serious restructuring and their production follows the old familiar pattern. Under the crisis conditions such an organisation allows concentrating on overcoming the crisis or at least deterring it. This continuity is also bad, however. Since the institutional and economic transformation of the farm enterprises began the old organisational and management principles and methods have begun to be replaced by new market ones. But many managers and specialists are not prepared to adapt to market conditions. So they are unable to counter unfavourable external factors such as delays in payments for the shipped goods, disparity of prices, high interest rates, tax burdens and others. They cannot pursue a consistent policy at the enterprise level nor maintain an organisational discipline which would allow rational use of the existing resources or finding substitutes if necessary, for example using organic fertilisers instead of mineral ones. Nor do they have the entrepreneurial skills to locate sources of possible investment in their farm enterprises.

Not all managers have been unable to adapt, however. In the Orel region there are dozens of agricultural enterprises which have a billion or more roubles in their bank accounts, where the grain yield is more than 5000 kilos per hectare, the annual milk yield per cow is from 4500 to 5000 kilos, feeder cattle gain an average of up to 1000 grams and more daily, where the average monthly wage exceeds 300-400 thousand roubles, and dividends on shares are paid out regularly. Examples of such farm enterprises include the cooperative enterprise “Yeropkinskoe”, Mtsensk cattle feeding complex, joint stock company “Pokrovskoe” of Korsakovo district, limited liability partnership “Maslovo”, company “Slavianskoe” of Verkhovo district, collective agricultural enterprise “Duby” of Novoderevenkovo district, and the association of western-style individual farms “Rodina” of Orel district.

The current situation in Russia’s agro-food sector is very difficult. The reform process continues. The departments concerned are offering new versions of stabilisation and agricultural development programmes all the time. At the moment the Ministry of Economy is working out a draft “Programme for stabilisation and development of the RF agro-food sector for 1996-2000.” Earlier in 1995 a similar programme was drafted by the Ministry of Agriculture and Foodstuffs and the Russian Academy of Agricultural Sciences with the participation of other institutions and departments.10

The agrarian crisis persists and production continues to fall, however. This situation clearly explains why so many different programmes are appearing -- none of them have brought about an improvement in the agro-food sector. So the search for reform priorities, objectives, principles and criteria continues. It is now quite clear that the agrarian reform should be linked to solutions to the crisis in agriculture. The agro-food sector in Russia does not need models of reforms and ways of doing business which would be in strict conformity with the spirit and the letter of legislative acts defining the agrarian reform (whether the

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Nizhnii Novgorod or Ul’ianovsk or Riazan model\textsuperscript{11}, but models of enterprise and association forms and structures which can successfully survive crisis conditions and increase their output, productivity and competitiveness.

\textsuperscript{11} The author is referring to the joint effort of the International Finance Corporation and the Agrarian Institute of the Russian Academy of Agricultural Sciences, financed by the UK Know-how Fund, to develop techniques of farm restructuring that was first put into practice in the Nizhnii Novgorod province and subsequently adapted in the two other provinces mentioned. The procedures were based on existing Russian concepts and legal acts, but spokesmen for the project have emphasised that much of the effort has gone into refining Russian legislation in order to make restructuring processes fully legal and transparent while clarifying and securing property rights. OECD Secretariat.
POLICIES TO ACCOMPANY THE CHANGES TAKING PLACE IN RURAL AREAS IN OECD MEMBER COUNTRIES

Marie-Christine Kovachschazy

The term "rural areas" is here taken to mean the people, land, resources and small settlements outside the immediate economic influence of major urban centres. Rural areas represent between 75 and 90 per cent of the land area of OECD Member countries, and between one-quarter and two-fifths of the population, so they are important in terms of both territory and population. In recent decades, rural society and the rural economy in OECD countries have undergone profound changes that have prompted Member countries to re-examine traditional policies and the role that the Organisation can play in this area.

The situation of rural areas in the OECD countries

Economic activities in rural areas are becoming more diversified but agriculture and forestry still use most of the land in rural areas in Member countries

Agriculture, which employs about one-quarter of the rural population, no longer dominates the economy, either in terms of jobs (6 per cent of the labour force in France, 2 per cent in England) -- and the number continues to fall -- or of GNP (3 per cent of GNP in France). The rural economy is becoming more diversified: industrial activities are growing but also, and especially, service activities, which increasingly account for the bulk of jobs and GNP in line with the general trend in the developed countries, though they still lag behind in terms of their stage of development and the quality of the services provided (Table 1). However, agriculture and forestry (despite obvious agronomic and climatic differences between countries) still occupy and use most of the territory of Member countries (57 and 24 per cent for the Europe of the Twelve). These rural areas contain our primary resources (agricultural potential, mining), environmental resources and a large part of our cultural heritage. Most of them are covered by vegetation, have a low degree of urbanisation and are sparsely populated.

The demand for rural areas is becoming more complex

The growing diversification of the rural economy is accompanied, in many countries, by a strong demand for rural areas stemming from excessive and sometimes chaotic urban concentration (40 per cent of the population of the OECD is concentrated on less than 3 per cent of the territory) and new patterns of human and corporate organisation (decentralisation of enterprises, tourism, spas, etc). While rural areas still have their food-producing function, new economic and social functions have sprung up in them.

The situation of rural areas is far from uniform

Increasingly, Member countries are framing land use policies for their whole territory (France, Sweden and Germany) or at Community level (European Community development plan) which embrace both towns and the countryside or in which rural areas are given a new importance.

Rural areas differ -- fortunately -- in terms of their geology, geography and history. Their level of development also varies widely. Some areas are prosperous while in others the picture is more mixed. Sometimes agriculture is thriving, but often it has difficulty adjusting to the changes arising from the globalisation of production and trade and the introduction of new technologies. Industries in rural areas, though often long-established, are sometimes faced with an uncertain future, so they have to adapt new
forms of organisation. All too often the service sector consists of non-market and/or unskilled services. Some areas are obviously prosperous while others are beset by unemployment and underemployment, low incomes and inadequate basic services -- whether personal services or services to business.

The OECD accordingly distinguishes between three types of areas according to their degree of development and their difficulties: economically integrated areas that do not have any real difficulties; intermediate areas that are going through a process of change or development; remote areas that are having real difficulty converting to other forms of activity, for a whole set of reasons: dominance of uncompetitive agriculture, inadequate training, obsolete infrastructure.

**The distinctive features and diversity of rural areas call for specific policies**

To facilitate the inevitable and necessary diversification of activities in rural areas, to satisfy the strong demand for social amenities in those areas, to overcome the disparities in their level of development, and to integrate them more closely into the national and international economy and society, it is necessary to:

- place their development on new foundations;
- exploit their existing potential with new economic and policy instruments.

Many countries have implemented specific policies to restructure their rural economies. The hallmark of these policies is that:

- they are specifically aimed at rural areas,
- they embrace these areas, the activities within them, and also the men and women who live and work in them, in a single approach;
- they are thus interministerial.

**The OECD and rural areas**

Since 1981, a number of OECD Member countries -- first seven, then eleven and seventeen -- have compared their experiences, tools and needs, and the way in which rural policies can accompany agricultural policies. This work made it possible to clarify the complementarity of the two types of policies in the report “New trends in rural policymaking.”

Drawing upon this work, the Group of the Council on Rural Development compiled a report entitled “What Future for Our Countryside”, which provided a clear analysis of the transformations and diversification of rural economies, pinpointed their strengths and the ways in which they can be exploited to promote a pattern of rural development encompassing the three sectors of economic activity, as well as the impediments to such development, and underlined the need for approaches that are simultaneously:

- interministerial,
- territorial
- and global.

This work is being continued today in the Territorial Development Service under the auspices of the Group of the Council, which comprises seventeen Member countries. At the request of these Member countries, the programme of work is focusing on a few specific areas. I shall describe three of them: rural indicators, employment in rural areas, and the development of rural amenities.
**Rural indicators**

The aim is to devise appropriate internationally comparable indicators to help Member countries keep better track of the changes and trends in rural economies, and to provide them with the reliable information they need to frame new policies. A territorial scheme for the collection of statistical data has been adopted. The regions of Member countries have been classified according to their degree of rurality: predominantly rural, significantly rural, predominantly urbanised. This work has made it possible to gauge the importance of the various economic sectors in rural areas (Table 2). It has also made it possible to define a number of basic rural indicators permitting reliable, internationally-comparable analysis (Table 3). By compiling and collecting these data on a uniform basis, a rural database for all the countries participating in the programme can be gradually built up.

**Employment in rural areas**

Member countries list and compare existing and desirable government measures to promote job creation in rural areas, distinguishing between: direct measures by Member countries to reduce employment and create jobs, and indirect measures relating to the economic, financial and technological environment, development of human resources, training, tangible and intangible infrastructure policies. They have also, and especially, analysed employment situations in greater detail in accordance with the typology of rural areas (predominantly rural, significantly rural, predominantly urbanised), drawing upon the preliminary work done on rural indicators (Table 4).

**Rural amenities**

This term covers all the natural or man-made features of rural areas that have a value but not necessarily a price. The aim is to bring closer to one another the research and the work being done to put on a price on natural and cultural resources in rural areas, either as public goods, or as private goods that have a potential market value. The current programme of work of the Group of the Council on Rural Development has been drawn up in response to a strong demand from Member countries wishing to develop specific policies for rural areas in a process of change. In view of its political and economic importance, it has just been renewed for a further three years. The programme involves discussion and comparison, enabling progress to be made at international and national level. Some Member countries also ask the OECD to appraise new policies they are developing for rural areas.
BIBLIOGRAPHY


Creating rural indicators for shaping territorial policy, OECD, 1994.
Table 1. Employment in predominantly and significantly rural regions (PR+SR), 1990

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Notes:
- not available

1. Typology of regions according to the share of rural population in the regional total:
   "predominantly rural (PR), more than 50 per cent; "significantly rural (SR) between 15 and 50 per cent;
   "predominantly urbanised" (PU), below 15 per cent.
2. Agriculture: agriculture, hunting, forestry and fishing. Industry: mining, quarrying, manufacturing,
electricity, gas, water and construction. Services: trade, transport, finance, consumer and producer services.
Source: OECD Rural Data Surveys.
Table 2. Classification of regions by degree of rurality:
share of population and area in national totals

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<td>52</td>
<td>49</td>
</tr>
<tr>
<td>OECD average**</td>
<td>28</td>
<td>32</td>
<td>40</td>
<td>87</td>
</tr>
</tbody>
</table>

"Rural" communities = local communities with population density below 150 inhabitants/km², 500 inhab./km² in the case of Japan.
Classification of regions according to the share of rural population: "predominantly rural" = more than 50 per cent; "significantly rural" = 15-50 per cent; "predominantly urbanised" = below 15 per cent.

* Calculations based on most recent data available.
** Japan not included.
Table 3: A basic set of rural indicators

<table>
<thead>
<tr>
<th>POPULATION AND MIGRATION</th>
<th>SOCIAL WELL-BEING AND EQUITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>density</td>
<td></td>
</tr>
<tr>
<td>inhabitants /km²</td>
<td>absolute % rural population area</td>
</tr>
<tr>
<td>change</td>
<td></td>
</tr>
<tr>
<td>total change</td>
<td>absolute % per annum housing crowding equipment % households with flush toilets etc absolute</td>
</tr>
<tr>
<td>natural change</td>
<td>% per annum net migration % per inhabitant education post-secondary % pop (&gt;25)</td>
</tr>
<tr>
<td>balance</td>
<td></td>
</tr>
<tr>
<td>net migration structure</td>
<td>% pop. sex health infant mortality death rate of pop. (&lt;1)</td>
</tr>
<tr>
<td>demographic ratios</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>households</td>
<td></td>
</tr>
<tr>
<td>size classes</td>
<td>persons per household safety crime rates per inhabitant</td>
</tr>
<tr>
<td>single parent</td>
<td>% children</td>
</tr>
<tr>
<td>communi-ties</td>
<td>% pop. by class</td>
</tr>
<tr>
<td>ECONOMIC PERFORMANCE</td>
<td>STRUCTURE AND PERFORMANCE</td>
</tr>
<tr>
<td>----------------------</td>
<td>---------------------------</td>
</tr>
<tr>
<td>labour force</td>
<td>participation % pop. (15-64)</td>
</tr>
<tr>
<td></td>
<td>% female</td>
</tr>
<tr>
<td>employment</td>
<td>total change</td>
</tr>
<tr>
<td></td>
<td>unemployment %</td>
</tr>
<tr>
<td>sectoral employment</td>
<td>% primary agriculture, forest, etc.</td>
</tr>
<tr>
<td>value added</td>
<td>% secondary</td>
</tr>
<tr>
<td>productivity</td>
<td>total (national currency)</td>
</tr>
<tr>
<td></td>
<td>growth (constant prices) per worker</td>
</tr>
<tr>
<td>investment formation</td>
<td>total private % GDP public</td>
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<tr>
<td></td>
<td>emission</td>
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<tr>
<td></td>
<td>air quality balance</td>
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Table 4. Sectoral employment shares* by type of region (1990)**

<table>
<thead>
<tr>
<th></th>
<th>essentially rural regions</th>
<th>relatively rural regions</th>
<th>essentially urban regions</th>
<th>national average</th>
</tr>
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<tr>
<td></td>
<td>Agriculture</td>
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<td>Services</td>
<td>Agriculture</td>
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<td>15</td>
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<td>Austria</td>
<td>19</td>
<td>40</td>
<td>41</td>
<td>6</td>
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<tr>
<td>Belgium</td>
<td>11</td>
<td>18</td>
<td>71</td>
<td>3</td>
</tr>
<tr>
<td>Canada***</td>
<td>11</td>
<td>23</td>
<td>66</td>
<td>3</td>
</tr>
<tr>
<td>Denmark</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Finland</td>
<td>15</td>
<td>32</td>
<td>53</td>
<td>6</td>
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<tr>
<td>France</td>
<td>11</td>
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<td>57</td>
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</tr>
<tr>
<td>Germany</td>
<td>11</td>
<td>45</td>
<td>44</td>
<td>6</td>
</tr>
<tr>
<td>Greece</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
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<tr>
<td>Iceland</td>
<td>37</td>
<td>21</td>
<td>42</td>
<td>32</td>
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<tr>
<td>Ireland</td>
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<td>Italy</td>
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<td>--</td>
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<tr>
<td>Japan***</td>
<td>14</td>
<td>31</td>
<td>55</td>
<td>9</td>
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<tr>
<td>Luxembourg</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>Netherlands</td>
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</tr>
<tr>
<td>New Zealand</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Norway</td>
<td>8</td>
<td>26</td>
<td>64</td>
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<td>Portugal</td>
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<td>42</td>
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</tr>
<tr>
<td>Spain</td>
<td>34</td>
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<td>43</td>
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<tr>
<td>Sweden</td>
<td>6</td>
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<tr>
<td>Switzerland</td>
<td>18</td>
<td>32</td>
<td>50</td>
<td>12</td>
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<td>Turkey</td>
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</tr>
<tr>
<td>United Kingdom</td>
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<td>--</td>
</tr>
<tr>
<td>United States***</td>
<td>6</td>
<td>23</td>
<td>71</td>
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</table>

"Rural" population density threshold: 150 inhab./km², 500 in the case of Japan.
Classification of regions according to the share of rural population: "pred. rural = more than 50 %; "significantly rural" = 15-50%; "predominantly urbanised" = below 15%.

* AGRICULTURE = agriculture, forestry, hunting and fishing; INDUSTRY = mining and quarrying, manufacturing, electricity, gas and water, construction; SERVICES = other.


*** Utilities (electricity, gas and water) included in services.
SOCIAL PROBLEMS OF RURAL DEVELOPMENT DURING THE AGRARIAN REFORM

Liudmila Bondarenko

During the late Soviet era, the declared aim of rural development was to overcome the historically-created socio-economic differences between the city and the countryside. Now the “pulling-up” of the village to the city has not only ceased, but a rapid fall from the level achieved earlier can be observed. Given overall great social difficulties the economic policy being carried out has struck most strongly at the peasantry.

The "scissors" between the city and the village have once again opened. The deindustrialization of agricultural labor is going on at full speed. The difference in the income level of the rural and urban populations is increasing. In the incomes of rural residents, the share of wages -- which motivates them to work in collective production -- has fallen to the pre-World War II war level. The social infrastructure has ceased functioning. As a result negative demographic trends have accelerated.

Increasing economic differentiation between city and countryside

Data from family budget surveys for 1990 show that the income per household member for agricultural workers was less than that of an industrial worker’s family by 13 per cent. In 1993, the difference was already 31 percent. But these data exaggerate rural household consumption and understate the hours of work needed to acquire any particular item because of the role of the household plot in agricultural households.

First, overall household income for agricultural families includes net income from the household plot. But many production costs connected with household-plot agriculture are not deducted. About half of these costs are therefore counted as household consumption of non-food consumer goods and services. In fact, these are expenses for household-plot inputs, in particular, fuel, as well as livestock and poultry, as well as building materials, electricity, natural gas, water, transportation and other costs. Of course, considering such production expenses to be non-food household consumption exaggerates the true level of rural residents’ consumption or income.

The second reason is labor. Obviously, given the stratification by economic sector characteristic of society, it matters at what consumption value labor is priced. We have calculated that the overall expenditures of labor per household member in a rural worker's family are higher than those of an industrial worker's family member by one-third.

If that part of the overall household income which is used for productive needs is excluded and the the amount of the remaining net income is calculated, then the income per hour of a member of a rural family is one-half that of an urban family member.

Changes in the demography of the village

Changes in the demographic situation of the village in recent years have had a jumpy, qualitative character and show that the village has suffered demographic catastrophe. Since 1992 there has been a natural decline in population in the city and in the village. This indicator is increasing in the city and in the village, but for the village it is increasing twice as fast as for the city. The basic reason for this is not the heritage of the past, nor the age structure of the population, but the regime of reproduction -- that is, the decline in birth rates and an increase in the death rate per thousand residents in all age groups. And none
the less the number of the rural population has been increasing since 1991. Apologists for the current reform policy claim this increase shows that the village has become an increasingly attractive place to live. But the mechanical growth of the rural population is a consequence of two things: the legal and statistical reclassification of "urban-type settlements" into villages and the flow of refugees and forced migrants from the near abroad.

In 1991-1993 about 1 million city dwellers became rural residents. Under the conditions of the command economy it was preferable to have the legal status of a city, since a city received higher levels of goods and capital investments per thousand population. Now this advantage no longer exists. But in rural areas there are still concessionary prices for electricity, low land-tax rates, and fewer restrictions on land use.

It is important to note that the migratory mobility to urban areas of the rural population itself has increased, from 23 persons per thousand in 1991 to 28 per thousand in 1993. But this migratory outflow from the village is masked by a contrary flow of refugees.

It should be taken into account that the social processes, particularly demographic ones rather than economic ones, are inertial. Therefore the social consequences of the deadly overall-economic and agricultural policy will be very drawn-out.

**Conclusions**

How should the peasants themselves react to the situation that has developed in the village? What is their level of socio-political activity and readiness for action aimed at changing the present policy? Surveys and expert judgments indicate that most peasants are suffering great social tiredness and apathy. They have adapted to the situation by walling themselves off and considering only the interests of their own households. The household economy still permits the peasant to feed himself, since it is supported from collective production. But it must be remembered that this support is becoming exhausted.
The Agricultural Education and Training system in Russia is at present confronted by a number of serious difficulties and problems. First of all there is the overall problem of severe budget cuts and the trend of steady decline in spending on education in general including AET. Spending on education in the RF. has according to recent reports fallen to a level which is considered to be at present among the lowest in the world. In addition teachers are paid wages which rank among the lowest in the country. As a result many of the young and most promising teachers quit their jobs for better paid occupations in the private sector. The present situation is a serious matter of concern, as scientific studies provide clear evidence about the importance of human capital for overall economic performance and a very close correlation between investment in education and economic productivity performance.

However AET is not only confronted with general budget constraints but also with a number of sector specific problems. In more general terms AET must adapt to the requirements of a more market oriented and private based Agro-food sector, with emerging new clients and increasingly complex problems to be solved. Very significant shifts have occurred in the recent past in the organisation of agricultural production and in the upstreams and downstreams linkages. The evolving market orientation had fundamental consequences for what we call today the Agricultural Knowledge System (AKS) composed of Agricultural Education and Training (AET), Agricultural Research (AR) and Agricultural Advisory Services (AAS). In adapting to the fundamental and ongoing changes in the agro-food sector AET has in particular to address the emerging new requirements in such areas as agricultural economics, business management, marketing, food processing and storage, as well as those related to ecology and sustainable agriculture.

Although the provision of education and training has largely a public good character requiring public funding, there is no doubt that AET itself is becoming more and more exposed to market forces with the entire AKS becoming increasingly demand driven and market led. A careful market analysis of the newly emerging needs will therefore become an important tool for AET and the whole AKS both, for defining its tasks and for securing funds for its operation be it from public or from private sources.

The ongoing changes and newly emerging professions require graduates who have completed a more broadly based education programme which is different from the former highly specialised training experience. The new managers in the agro-food sector will need to be able to establish cost-benefit analyses in a market environment, with profit orientation becoming the main criteria for decision making in contrast to production maximisation and centrally planned supplies as in the past.

This does not only require some revision of curricula to prepare future graduates but also a revision of retraining and upgrading programmes for farmers and others involved in food production, processing and distribution. In order to adjust the programmes, structure and organisation of AET, a number of decisions have already been taken by the Russian Government to facilitate the necessary adjustment. However, substantial changes throughout the AET system are still required to fulfil the emerging educational needs and to take account of the comparative advantages of regions and localities.

A recent OECD analysis of the Russian AET systems contains a number of recommendations for adjustment of the AET system taking into account the ongoing socio-economic transformations in Russia
in general and in the agro-food sector in particular as well as relevant experience in various OECD Member countries.\textsuperscript{12}

The recommendations are structured into 5 main areas:

\textbf{I. Better Linkages between agricultural education, research and extension services need to be developed}

Strong co-ordination, leading to integration between regional research institutes under the Ministry of Agriculture and the Russian Academy of Agricultural Sciences (RAAS) and regional agricultural universities (VUZes) is recommended. Integration is of course a difficult process but certainly worthwhile to strive for since it enhances the possibility of eliminating inefficiencies which now exist and of unleashing considerable synergy from more effective integration of activities, personnel and facilities of institutions, currently operating separately. Closer ties will facilitate for example better knowledge transfer from research institutions to practical implementation by graduates from AET institutions and those whom graduates advise. For example to address problems related to sustainable agriculture, being defined as farm practices and systems which are economically profitable, socially acceptable and environmentally friendly, as well as those related to integrated development of rural regions require nowadays in all countries a close co-operation and concerted action from the components of the AKS, with an interdisciplinary and multifunctional approach in which no single component of the AKS can be expected to meet all needs. A regional focus is recommended for these co-ordination activities in order to develop a number of strong regional centres which have the capacity for sustained leadership in the generation, transmission and application of knowledge related to individual Russian agro-ecological zones or economic regions. The potential more efficient use of resources of such co-operation or integration would seem of crucial importance at a time of severe resource constraints.

Improving linkages and co-operation between the 3 main functions of AKS is not only an issue for the Russian Federation but is also featuring high on the agenda of OECD countries. A very recent OECD Joint Conference of Directors and Representatives of HEA, AR and AAS has formulated the following recommendations:

Greater functional integration of the three components of AKS was seen as highly beneficial for achieving synergy and was, in fact, regarded as a prerequisite for AKS progress in enhancing efficient contribution to its client needs, especially in seeking a balance between perceived needs of today and anticipating the future, particularly for dealing with issues requiring an increasingly complex understanding of economic, biological or social systems and drawing on interdisciplinary activities. The conference recommends that the promotion of co-operation be approached on the basis of sophisticated collaboration, leading to various forms of partnerships or even to complete structural integration. This is being seen as the key to improved linkages among AKS components, and involving a variety of market and non-market mechanisms specifically designed to elicit inter-institutional co-operative activity on a horizontal or vertical basis with a view to increasing the efficiency and effectiveness of AKS activities and sharing of costs.

\textsuperscript{12} Agricultural Education and Training (AET) Study.
II. More and better integrated programmes are needed on agricultural and food economics, management and marketing as well as on agricultural ecology and sustainable agriculture

More instruction on agricultural and food economics and marketing issues with emphasis on a problem solving approach must be integrated into all AET courses so that students will develop a greater awareness and understanding of the business environment within which their particular agricultural and food knowledge will be applied. Practically all current first degree AET programmes in Russia still contain too little emphasis on economic decision making principles. One of the more apparent and critical deficiencies in current food and agricultural economic education is in particular that the marketing and distribution system is still being largely defined from the perspective of supply rather than demand. It is therefore of specific importance to incorporate consumer oriented marketing concepts as integrated components of students' courses.

Material and courses in agricultural ecology and sustainable agriculture should in general be covered by integrating them into existing course programmes rather than by creating separate undergraduate specialisations in ecology.

Despite the current efforts to retrain and upgrade agricultural teachers and other agricultural professionals, there appears to be a very significant need to greatly enhance the Knowledge base of both current and future teachers to educate students in agricultural economics, management and marketing. Main focus should therefore be on measures to raise as quickly as possible a widespread basic knowledge on market economic skills among teaching staff at all levels. For this purpose, upgrading courses should be concentrated in a number of agriculture universities and academies involving co-operation, exchange of literature and teaching staff from OECD countries and a broadly based programme of visiting fellowships.

III. The need to develop broader based educational programmes

Despite the recent significant reduction in the number of educational specialisations, there are still too many rather narrowly defined educational specialisations in the total taxonomy of AET offerings with too much emphasis on technical and technological subjects. Farm managers and specialists need nowadays to perform tasks that are determined by markets and profits and hence require distinctly different qualifications than under the old system of production maximisation and administratively determined prices and distribution systems. Future entrepreneurs will therefore be better served by a broader based education that will enable them to analyse complex management problems and to synthesise and adopt efficient solutions to multidimensional problems. Such broader based programmes would cover specifically economic and ecological aspects by integrating them in various course programmes rather than developing new specialisms. Such integration of economic aspects and an understanding of markets should already start in the first two years of basic studies. Also synoptic courses at the beginning of the course programme should provide students with a basic overview of questions related to the entire agro-food sector and its place in the overall economy. This type of broader based AET should be accompanied by sufficient practical training opportunities not only in practical agricultural production occupations but also in food processing administration, agricultural marketing and trade, input supply etc.

Consideration should also be given to the establishment of mechanisms to monitor the progress of various kinds of AET graduates in the professional labour market. Together with an institutionalised permanent dialogue with potential employers, it should provide better guidance as to the qualifications which various clients of the AET system are expecting from young graduates.
IV. Integration of programmes concerning storage processing and distribution of agricultural commodities and food

There has been in the past too little emphasis in AET institutions on courses or programmes dealing with the storage of agricultural commodities and the subsequent processing and distribution to various kinds of consumers. Although courses on food technology and processing exist in specialised food processing and technology VUZes subordinate to the State Committee on Higher Education, they have been oriented to train graduates for the large scale state owned food processing enterprises. There are however, key educational and research deficiencies at the agricultural vuzes in relation to technology and the efficient organisation of food storage and smaller scale processing activities, compatible with the newly emerging types of farms and processing units.

It would therefore seem an advantage if the food technology and food processing vuzes now not under the supervision of the Ministry of Agriculture were more closely connected to and co-ordinated with local agricultural vuzes in order to avoid unnecessary duplication of expensive facilities and to ensure educational coverage of the full range of food processing scales of operation.

V. Adequate training programmes for private family farmers

The Russian AET system has not been organised to provide the broader and more general forms of education which is required by private family farmers. Likewise, teachers were not prepared to conduct respective programmes. Although at present institutions at all levels (such as the VUZes, colleges, tekhnikums, state farm colleges, SPTU's) including retraining and upgrading centres are in the process of providing training to private farmers, it does not appear that there is adequate co-ordination and harmonisation of such programmes. This is a crucial shortcoming that could seriously inhibit the growth and success of private peasant farms in Russia. The involvement of various government departments and ministries in the development and provision of private farmer training (such as the Ministry of Agriculture, the Ministry of Labour, the Ministry of Education, the Ministry of Science and Technology Policy, as well as regional executive authorities, may also not facilitate such co-ordination.

For the foreseeable future, it would appear that the rural vocational education institutes (SPTUs) are best postured to provide requisite training for the new private farmers. While many of their programmes are closely linked to the necessary practical training, the SPTU institutions are widely distributed over the principal agrarian regions of Russia and therefore relatively accessible and can best provide training on subjects that are of regional or local importance. More sophisticated training programmes for private farmers may be conducted by the secondary vocational education tekhnikums and colleges, while the vuzes should rather focus on preparation programmes for teachers and instructors of private farmers.

As trainees with different backgrounds in education, training and professional experience will require private farmer training, different training modules will need to be offered, taking due account of such differences. However, each combination of modules should lead in the end to the same standard and level of qualifications. A strong focus of these programmes should be on economic aspects, decision making and management of private farms while leaving sufficient time for practical training in crop and livestock production technology. Courses should be scheduled in a way that would permit already operating private farmers to participate during periods where there is less work on the farm.
CONCLUSION

In dealing with the ongoing changes and new interdependencies in which agriculture and food production is taking place, in Russia today agricultural education institutions and the entire AKS need to address demands for new types of services and graduate skills, from their traditional clients such as farmers and government and must at the same time adapt to the demands from new clients such as food processor and distributors, input supplies, rural residents and consumers. A careful analysis of these new requirements should enable AET institutions to adjust and to turn out graduates who will be able to address these requirements appropriately.

It needs to be recognised that a number of positive steps have been taken so far in Russia to adjust AET to current and future needs which should be further encouraged. These include:

- Firstly, the adoption of a bachelor/master type of education at a number of VUZes, thus replacing the traditional monolithic 5-year higher agricultural education. This system has the advantage of shortening and streamlining education for those students who move into more applied and practical or technical jobs while at the same time providing an opportunity for others to further specialise and to become more research-oriented for their future professions.

- Secondly, the change in a number of secondary agricultural education institutions from the traditional 3-4 year tekhnikum courses to a 3-step college type of education which is leading to junior engineer graduation would seem to serve better present needs while providing an improved bridging to the higher vocational education where junior engineers can enrol in the third year.

- Thirdly, the trend towards a reduction of too narrowly focused specialisations and the increasing number of free choices for students to select and compose their course programmes, as well as the higher degree of freedom for AET institutions to adapt curricula to local needs.

While such positive trends should receive continued support, a major effort should be made to create in Russia a number of strong regional agricultural and food Knowledge centres by means of a better co-ordination and integration of the activities and facilities of the main components of the agricultural Knowledge system (research, education and extension) with a view to provide a more efficient and effective service to Russia's various agro-economic zones through the regionally focused use of scarce resources reinforced by the development of an enhanced decision making responsiveness in these regional centres.
EDUCATION AND TRAINING FOR THE AGRARIAN REFORM

Aleksandr Medvedev

A new strategy of education and training for the agro-food sector must become dominant in the course of the agrarian reform. In order to realise this strategy concepts for the legal, financial, material and equipment and organisational mechanisms of market-oriented education, which will permit flexible management of employment processes in a changing economic situation, are needed. The “Programme of education and training for the agrarian reform” considered and approved by the Russian Federation Ministry of Agriculture and Foodstuffs in November 1994 sets out these basic conceptions and practical measures.

The programme is to guide the provision of adequate human resources for the main fields of the agrarian reform, trained personnel who can effectively, professionally and vocationally assist in realising the goals and understanding the forms and methods of change in the agrarian sector. Implementation of the programme will qualitatively change state influence on personnel policy in the agro-food sector mainly through making educational and employment policies coherent in the reform environment.

The system of personnel training is to be adapted to meet the requirements of the agrarian reform by reducing state interference, ceasing to apply command methods to human resources management, and expanding the independence and responsibilities of local authorities, farms, enterprises associations and other entities in their personnel policies. The top level of management is concerned with the issues of formation and development of the educational system, the main guidelines of human resources management for the agrarian reform on the basis of the thorough studies of the labour market, improvement of the legislative framework and financial mechanism which regulate the relations between and responsibilities of all the links of the human resources management system of the agro-food sector.

To these ends the Russian Federation “Farmer training programme” and “Agro-food sector manpower programme” have been drafted and are being carried out. The first one is aimed at developing vocational training for individual, western-style farmers to promote the farmers’ movement. The second seeks to integrate labour market policy with agricultural resources.

Development of the educational system must take into account changes in agricultural employment. So agricultural higher educational institutions have introduced curricula for new specialities: “Natural resource use”; “Economics of natural resource use”; “Environmental protection of territories”; “Mechanisation of agricultural output processing”; “Land rehabilitation, recultivation and protection”; “Management”; etc.

The system of secondary vocational schools is being redirected to train farmers. This training is done in 141 schools, 3 self-financing courses -- established in the best technical colleges and state farms -- and in 3 regional centres. Businessmen-technicians, managers, auditors and accountants are trained in 40 technical colleges.

In rural areas vocational schools and agricultural high schools train workers in integrated agricultural vocations. The vocations are grouped by common labour characteristics (related professions) or common organisational and technical requirements (combinable jobs). In all 1 157 vocational schools (out of which 1,052 agricultural vocational schools) train people for the Russian agro-food sector. Moreover agricultural vocational training is done through 145 vocational courses and a wide network of training points and classes at production sites.
303,000 qualified workers were trained for the agro-food sector in 1994, including 140,000 in daytime vocational schools and 163,000 in night classes. To improve the quality of training the federal government has begun to draft national vocational standards.

Different types of agricultural training institutions are being integrated. New high schools, colleges, agricultural universities and academies are being created to increase training of workers with more general vocational skills and higher vocational mobility.

The programme focuses special attention on the system of training in additional vocational skills. It is a very flexible system which allows giving people while they continue their work some knowledge of the market economy, business, foreign trade, information systems, law, sociology and psychology, modern energy-saving, labour-saving and environmentally-friendly technologies, culture of personal communications and business etiquette.

In recent years much work has been done to improve the quality of training in the institutions supplying specialists to the agro-food sector. In 1994 4 branches of academies were reorganised into institutes and management schools developed into 5 new institutes. As of the beginning of 1995 there were 75 educational establishments in Russia providing additional vocational training, including 4 academies, 32 institutes and 6 branches thereof, 24 agro-food sector management schools, 3 schools for professional upgrading and 6 training centres. In 1995 this work has not been stopped.

The policy to develop the network of educational facilities and to convert the agro-food sector’s management schools into qualitatively new and independent educational establishments which train people to work in the new environment has proved to be successful. It has met the requirements of the Russian Federation’s agro-food sector.

One of the main elements of education and training is a comprehensive evaluation of each employee to determine his receptiveness to new knowledge and demands, his readiness and professional capability to be an independent and competent manager, and to take into account state-of-the-art achievements of science and practice. To this end the first personnel selection centre in the agro-food sector has been created as part of the All-Russian scientific-research institute of education and training (RosNIIKadry). Similar centres are to be established in the future in all the educational institutions of the vocational-training system in each republic, province and district.

Co-operation with other countries in vocational training has recently been expanding. Joint workshops have been organised on agribusiness, management, marketing, agroservice for farmers and on other issues of agrarian reform. Joint agribusiness and consulting centres for farmers and experts have been opened. Trainers, agricultural workers and administrators have been trained abroad.

The Russian Academy of Management and Agribusiness has initiated many of these measures. In particular, the academy’s experts have done a great deal to organise the selection of farmers for training abroad. They have also organised joint seminars on market economics. The first part of such seminars are held in Russia with the participation of foreign trainers, while the second, practical, parts are held abroad. Together with European Community experts the academy has organised 6 centres to “train the trainers” from vocational upgrading schools and technical colleges in market economics. Training institutions for professional upgrading in Leningrad, Novgorod, Pskov, Tula, Iaroslavl, Kursk and other regions have experience in co-operation with foreign partners.

In 1994, the plan for scientific and technical co-operation with organisations from other countries provided that 185 farmers should be trained abroad for 4-6 months each. This number of foreign-trained farmers is
definitely not enough for Russia, but such work should be organised by experts from personnel departments.

Personnel departments are the weakest link in agro-food sector administrations. Their continuous reorganisations result in constant reductions of their staffs. In the past 5 years the personnel departments of local agro-food sector administrative agencies have been cut from 700 to 305 employees, i.e. by 2.3 times. Even in such large provinces as Volgograd, Belgorod, Orel, Orenburg, Riazan, and the Krasnodar and Maritime territories, personnel administrations have been staffed with only 3 or 4 employees. The situation is similar in personnel departments in individual agro-food sector enterprises. One-fifth of all the sector’s organisations lack their own personnel manager (inspector). But in a market economy personnel departments should become co-ordinating links regulating the market to prevent and reduce the social tension that goes hand in hand with drastic changes in production relations and the restructuring of the agro-food sector.

Nowadays targeted financing of educational institutions is most appropriate. The following sources of finance should be used:

- the federal budget (wages for trainers, teachers and support staff, stipends, capital investments, material and technical support, basis for new promising professions);
- local budgets (public-utility and electricity bills, major repairs, expenditures on culture and sports, one-time benefits to war and labour veterans, prize stipends for the best trainees); and
- revenues from production, commercial and business activities of training farms and workshops;
- funds from educational foundations

Such an approach is quite possible provided the Ministry of Agriculture signs appropriate multilateral agreements with local authorities.

In summary, the “Programme of education and training for the agrarian reform” provides for:

- developing a system of continuous vocational training for the agro-food sector with a wide range of educational and consulting services and high throughput capacity;
- improving the quality of training and increasing graduates’ competitiveness on the labour market by increasing material and technical support, building new training facilities and laboratories and providing new educational technologies;
- establishing a mechanism to forecast and regulate training for agriculture corresponding to labour market conditions, and a system to inform customers about the status of professions, the quality of educational institutions and demand on the labour market;
- financing the system of training and retraining for the agro-food sector more steadily by optimising the use of budget appropriations and finding additional sources of financing;
- setting up a new institutional and legal framework which provides guarantees, incentives and conditions to make the work of agro-food sector workers and training institutions more productive;
- decentralising management to divide areas of responsibilities between different levels of personnel administration by establishing personnel departments which will be in charge of studying the labour market, drafting proposals to adapt vocational schools to the requirements of those markets, evaluating personnel skills and qualifications, and setting targets for the use of labour resources;
- creating an international exchange system for students, postgraduates, and personnel administrators, carrying out international projects and programs, and attracting foreign investors.

13 Each Russian province has, as part of its government, an “Administration for the agro-food sector.” The author is referring to the personnel departments [otdel kadrov] of those government agencies. -- Secretariat.
The pattern suggested for the programme is not universally obligatory. The programme offers great opportunities for creative work to allow shifting the focus to the bottlenecks of personnel management, education and training for the agrarian reform, taking into account the features of different regions, territories and republics, and to activate the efforts of all administrative levels.
VOCATIONAL TRAINING AND RETRAINING FOR A MARKET-ORIENTED AGRO-FOOD SECTOR

Mariia Trifonova

Agricultural higher education is a historically developed social institution which inherits, accumulates and reproduces scientific agricultural knowledge, forms and disseminates cultural values and norms. Agricultural higher-educational establishments promote education, science and culture by carrying out basic and applied scientific research and teaching at all levels of higher, postgraduate and adult education. Nowadays, all agricultural higher educational institutions play the role of leading scientific and methodological centers for the system of vocational training for the agro-food sector in their regions.

The system of agricultural higher education consists of 62 higher educational institutions (VUZy), 5 branches, 61 scientific-research facilities, 9 scientific-research institutes, one scientific-and-production center, and 93 training and testing enterprises including 71 experimental farms with 353 400 hectares of land.

These higher educational establishments are staffed with 20 000 scientists and teachers. Forty-seven per cent of them are candidates of science/senior lecturers, and 7.7 per cent are doctors of science/professors. In 1994 they had 240 800 students (about 9 per cent of all students in Russia) of which 145 200 were full-time students. Students are trained in 54 professions.

The social and economic transformations in the country and development of the agrarian reform and market relations require drastic restructuring of the system of training and retraining for the agro-food sector. The major reforms now under way in agricultural higher education are:

- renovating the structure of agricultural higher education in accordance with the strategy of the economic and agrarian reform and the requirements of the agro-food sector. Courses of study and the definition of the professions to which they lead are being broadened. A multilevel system of education and an elective system of teaching in higher educational establishments is being introduced. Scientific research results and technologies are being actively utilized in teaching. The focus of teaching is being shifted to the more effective, independent, creative work of students. The load of hours in class on teachers and students is being reduced. High intellectual technologies are being introduced in the process of teaching and training.

- increasing the effectiveness of teaching by introducing new information technologies. Information from the international network of distributed data bases is being used. Students and teachers are being given free access to the system.

- developing agricultural higher educational institutions into regional and national educational scientific-and-production complexes, of their teaching facilities and material support. The status of agricultural higher educational establishments is being increased in accordance with their educational and scientific tasks.

- providing conditions to develop science in agricultural higher educational institutions. Priority is being given to the development of basic research, and to the support schools of scientific thought in higher educational institutions.

- integrating agricultural higher education in the international system of education and division of labour;
improving the system of management of higher educational institutions. A multichannel system of financing including priority budget financing for educational programs at all levels is being established.

The transition to a market economy has increased the demand for experts in forecasting, finance, law, agricultural land improvement, etc. As a result 1994, compared to 1985, saw an increase in admissions to departments of economics by 44 per cent and a decline in admissions to departments of agronomy by 29 per cent, to departments of agroengineering by 26 per cent, and to departments of agrotechnology by 32 per cent. In the same period admissions to departments of land surveying increased from 700 to 1 700 people. The training of veterinarians and livestock engineers in a 5.5 year curriculum annually admits 400 students.

To improve the quality of the graduates, admissions to correspondence courses have been reduced. In 1994 the number of students taking correspondence courses was lower than in 1985 by 31.5 per cent.

The tensions in the labour market have affected our higher education and the attitude of secondary-school graduates to agricultural higher education. The professions that offer good opportunities for employment and long-term professional careers enjoy the highest demand which has resulted in a growing number of applicants to study economics, management, finance, law, etc.

The transition to a multilevel structure of higher education is an important and quite new field of activity. It envisages a stronger stress on fundamental general education in the natural sciences and the arts and a more flexible reaction to the requirements of agriculture.

In 1992, 14 higher educational institutions experimented with a multilevel structure in 13 professions: agronomy, agricultural economics, agrochemistry and soil science, agroengineering, land tenure management and land surveying, construction, geodesy, architecture, management, zootechnics, veterinary medicine, and vocational training.

According to the program of development of agricultural higher education the Russian high school has aimed at providing more general training. Such an approach will rationalize the distribution of general scientific, general professional and special disciplines as well as their practical training. Thus in agricultural higher educational establishments 22-24 per cent of the time is spent on arts, social sciences and economics, 11-13 per cent on on natural sciences and 15-21 per cent on on general professional disciplines. For engineers, 18 per cent of their time is scheduled for natural sciences, 25 per cent for general professional disciplines and 30-33 per cent for special disciplines. The agrarian universities and academies have become more persistent in increasing the share of the liberal arts in the education of engineers and the share of technical subjects in the education of liberal arts graduates. To bring the contents of education closer to the requirements of future professional activities we had to make the practical part of training more intensive and start looking for better options to incorporate practical studies in the process of training.

The national educational standards for vocational training which are currently being introduced in the system of higher education are to play an essential part in improving the quality of training. They set certain requirements for the minimum contents and level of education of college graduates in professions taught by higher agricultural education. According to these standards the disciplines are divided into compulsory and optional. Such an approach will allow us to react promptly to the requirements of the labor market and to customize training programs. In agricultural higher educational establishments
optional disciplines amount to 12-18 per cent of the curriculum. Such a comprehensive interdisciplinary approach improves the quality of training.

The agricultural high school (SPTU) is becoming more and more actively involved in national and regional scientific and technical programs which has helped to develop new links with science and production sectors. Recently higher education establishments have made an increasing contribution to the development of fundamental science. This work is diversified by fields of research and sources of financing.

The socio-economic transformation, development of an economy with multiple forms of ownership and management in the agro-food sector with different modes of production, and dynamic changes on the labour market, have given a special priority to retraining and upgrading the skills of teachers, trainers, and specialists employed in the agro-food sector.

Due to the decline in status of employment in agriculture and living standards of high school teachers it has become more difficult to supply skilled workers to the agricultural sector in recent years. The latent migration of highly qualified teachers is underway. To earn their living they have to do things which are not related to the process of training. As a result they lose qualifications and become less interested in and responsible for the results of their main work which negatively affects the quality of training.

High school teachers are growing older. Ten per cent of all teachers are at their retirement age and this proportion is growing. Only eight per cent of teachers are under 30. Thirty-two per cent are between 50 and 60 years old.

1994 saw a drop in the flow of postgraduates and people with doctoral degrees to the high schools: only 74 doctor and 235 candidate degrees were issued. So retraining and upgrading of skills become even more important. The first positive changes emerged in 1994: 178 teachers were retrained at special economic courses, more than 2840 teachers upgraded their skills at high school conferences and workshops.

Seminars and workshops assisted by foreign scholars on market economy issues for teachers of agricultural high schools, the participation of teachers and students in conferences, exhibitions, training at enterprises and universities abroad play a very important part in this process.

In 1994 180 teachers upgraded their skills at workshops and training programs abroad. Thirty-seven per cent of all high school teachers, 6462 people, were covered by different forms of training. In recent years the system of training and retraining has tended to accumulate unresolved problems and negative phenomena. The main reasons for this condition are:

1. The content of education do not correspond to the modern level of science and knowledge.
2. The gap between the contents of education and the requirements of students, society and the agro-food sector.
4. A growing imbalance between the educational system and the labour market.
5. A growing gap between the costs of education and the funds allocated from the federal budget.

To get out of the crisis the system of education has to be reformed. The processes of integration and diversification have begun in the system of agricultural higher education; new types of higher educational
establishments have appeared. The vocationally-targeted sector of academic and university education has gained wider and wider social support. The level and status of agricultural education are growing.
I am pleased to participate in this seminar on Agro-Food Sector Policy in the OECD countries and the Russian Federation. I hope our experience in the United States can be useful to private and public sector policy makers as they build a new system of agricultural credit institutions to address the needs of the Russian Federation. That task is a daunting one and all the more so because of the brief time frame within which a system is to be created and become effective.

In the United States we have had two centuries in which to develop our financial system. Even then, our experience has not been without problems. And, we continue to learn from our own experiences and from that of others.

In this brief paper, I will discuss a few significant events in the evolution of the U. S. agricultural credit system. I will then discuss a number of issues that seem likely to promote further evolution in that system. Finally, I will attempt to relate the U. S. experience to changes underway in the Russian Federation.

Evolution of U. S. Agricultural Credit Markets

Those unfamiliar with our credit markets quite naturally assume changes have all been the result of private sector response to market conditions. Clearly that is an important force for change in the markets. However, at critical junctures in the development of these markets, federal and state government policies have played major roles in shaping our credit markets.

Early Challenges

Through most of our history, states have had authority to charter and regulate banking institutions. For a long time there was a great deal of chartering occurring, but very little regulating. As a result, lending practices in these banks were often not very sound. These loose lending policies contributed to a mounting problem of successive cycles of economic booms and financial panics throughout the last century and the first three decades of this century.

However, economic historians credit state chartered banks with spurring the country’s settlement and economic development through the provision of easy credit. Legislative efforts to put banking on a sounder basis were met with suspicion in the countryside. People on the American frontier preferred the more free wheeling access to expansionary credit under the poorly regulated state chartered banks.

Adding to economic instability, many of these thinly capitalized state chartered banks issued their own currency during the last century. The currency typically was accepted only by those living and doing business close to the bank. Few people had any confidence in paper money issued by these banks.

By 1863, the U. S. Congress created the Comptroller of the Currency. This agency became the chartering entity for national banks, as well as the regulator for safety and soundness of these banks. Nationally chartered banks began to grow in number. They typically were larger in size and played a more important
role in the nation’s payment system than did state chartered banks. This legislation was intended to bring greater stability to the U. S. banking system.

However, the federal government still relied upon the largest commercial banks in New York City to fulfill the reserve bank role in stabilizing the banking system in times of financial stress. This did not work well. Through the end of the nineteenth century, successive economic booms were followed by increasingly severe financial panics. Widespread bank failures during the panics amplified the financial stress involved.

**Bringing Order To Financial Markets**

By early in the twentieth century, the need for sounder financial markets became sufficiently apparent to cause the U. S. Congress to again consider creation of a central bank for the nation. Two earlier experiments with a national bank were each short-lived. This time, however, the Federal Reserve System was created in 1914 to fill the role of central bank. The System has served the nation well since then, in part because of its independence from political pressures. A more stable banking system and a discretionary monetary policy proved helpful in the growth of agricultural credit markets. Over time these agricultural credit markets have become increasingly interlinked with the broader financial market in the nation.

Two fundamental changes in the nation’s agricultural sector early in the century spawned new government action. First, the American frontier was closing and future access to free land under the Homestead Act of 1862 would come to an end. Thus, the need for long term mortgage credit to support farm real estate purchases by farmers would be needed. Second, American agriculture was beginning its transition from being horse powered to machine powered. That, too, would require broader credit access and new credit products for farmers.

To address the credit access issue, a presidential commission explored the agricultural credit markets of major European countries. Commission recommendations to the President and the U. S. Congress led to creation of the cooperatively organized and farmer owned Farm Credit System (FCS). Its role was to bring properly structured, fully amortized farm loans to rural America, using funds acquired in the nation’s financial markets. The FCS sold its debt instruments in what has come to be known as the U. S. Agency Market. This is a market in which government sponsored entities raise funds.

The FCS initially started as a system of banks and lending cooperatives making farm real estate loans to farmers. Over the next two decades, the U. S. Congress added a bank for financing production and intermediate term credit. In the 1930s, the Congress rounded out the FCS authorities by adding local lending cooperatives making production and intermediate term loans to farmers with the lendable funds coming from the earlier created Federal Intermediate Credit Banks. The U. S. Congress also created the Banks For Cooperatives, empowered to lend to farmer cooperatives. Since its creation, the FCS has been a leader in developing new innovations in agricultural credit.

Commercial banks, although the primary lenders to agriculture, remained very cautious in their lending standards. Moreover, these banks generally were not in the forefront in creating new agricultural credit products. Most loans were short term and were required to be repaid on schedule or renewed, if the bank was able to do so. Loans were seldom fully amortized and usually had a large balloon payment at maturity.
Insurance companies became important lenders to agriculture during the first three decades of this century, focusing on extending mortgage credit for farm real estate financing. In response to FCS competition, these companies began to offer long term, fully amortized loans. However, insurance companies found it necessary to foreclose on many agricultural loans during the 1920s and early 1930s as farmers found they could not repay their loans. It was not until the 1940s that insurance companies again became important lenders to U.S. agriculture. By the 1980s, other more attractive investment opportunities caused most insurance companies to leave agricultural lending.

**Innovation To Address Problems Of The Depression**

The Great Depression of the 1930s became a defining time for government policy related to agriculture. Private sector and public sector institutions were severely stressed during the 1930s. The nation’s economy had fallen into a deep depression and struggled toward recovery throughout the balance of the decade. Out of that period came several important public sector innovations regarding agricultural credit. The institutional framework established at that time has had only limited change since then, until 1995 when much of that framework currently has come under assault in the U.S. Congress.

As indicated earlier, additions were made to the authorities of the FCS creating a full service lending system for agricultural credit to farmers and their cooperatives.

A second public policy change was the creation of a federal government corporation, the Commodity Credit Corporation (CCC). Created as part of system of subsidies for farmers and protection against farm price drops, the CCC loans money to farmers, secured by a mortgage on their commodities. To the present time, government farm programs have provided a minimum price for the farmer produced commodities covered by the program. This is the price at which farmers can borrow on their crops. These loans are non recourse, meaning farmers can fulfill the repayment of principal and interest by turning over to the CCC the commodities covered by mortgage in the event that crop prices are not high enough to repay principal and interest at loan maturity. This program remains an important part of the federal government safety net for farmer producers of the crops eligible for loan under the CCC. Separately, the U.S. Department of Agriculture supported dairy product prices through open market purchases by the CCC.

Still another innovation was the formation of the Farmers Home Administration, a government agency to serve as a lender of last resort to financially troubled farmers. Widespread financial problems in agriculture prompted its creation. The agency, now the Consolidated Farm Services Agency (CFSA), continues to provide assistance to financially troubled farmers, as well as to new entrants into farming and to certain rural economic development projects. Although previously a direct lender to its customers, the agency now primarily functions as a guarantor of credit extended by private sector lenders.

A final noteworthy innovation was creation of the Federal Deposit Insurance Corporation (FDIC) by the federal government. This agency provided federal insurance to protect deposits in commercial banks, subject to a maximum limit. FDIC insurance greatly increased depositor confidence in the nation’s banking system and was an important force in stabilizing the banking system during the Great Depression. Very quickly, FDIC insurance coverage became necessary to win customer confidence in a bank. Since the FDIC examined for safety and soundness all banks offering deposit insurance, it also was effective in upgrading the quality of bank supervision and regulation, especially among state chartered banks.

By the early 1930s, the FCS had exhausted its capital. To prevent its collapse the federal government infused new capital into the institutions. That capital was not repaid in full until the 1960s.
Addressing The Stress Of The 1980s

Widespread financial stress returned to agricultural credit markets as an aftermath to unwise lending practices of agricultural lenders during a decade of rapidly rising inflation rates. When the Federal Reserve System took action to bring inflation under control, interest rates rose dramatically, resulting in many borrowers being unable to repay their loans. A large proportion of farm real estate loans carried adjustable interest rate provisions that permitted escalation in interest rates on existing loans. Additionally, as inflation subsided, reductions in the inflationary expectations that were previously built into farm land prices caused those prices to decline sharply, by as much as two-thirds within a few years. Similar mis-judgments created credit problems across the U. S. real estate and credit markets.

During that period, the United States experienced the largest number of bank failures since the Great Depression. The FCS also suffered large losses in its loan portfolio. Farm real estate debt made up the majority of that portfolio. Federal legislation was necessary to provide capital infusions into several financially troubled FCS banks and to improve the Farm Credit Administration’s regulation of FCS institutions for safety and soundness.

To prevent future circumstances in which FCS banks might be unable to repay investors in their securities, the U. S. Congress created the Farm Credit System Insurance Corporation to protect the timely repayment of principal and interest on FCS debt sold in the U. S. Agency Market. This insurance fund protects the investors in FCS system securities, thus protecting FCS access to the Agency Market for purposes of raising lendable funds.

Banks and thrift institutions outside of agriculture also suffered large losses on their lending activities. Billions of dollars of federal financial assistance was required to re-stabilize or liquidate the troubled institutions. As a result, bank regulatory agencies and lenders have become much more attentive to safety and soundness issues. More prudent management policies have enabled both the FCS and commercial banks lending to agriculture to recover their financial strength.

I have focussed on a few events in the evolution of agricultural credit markets in the United States for two purposes. First, they illustrate that improvements in these markets have come gradually, and often in response to financial crisis. Second, they recognize the important and generally constructive role of public policy in helping to create a sound and innovative framework for U. S. agricultural credit markets. The productive partnership between private sector lenders and public policy makers has been an important factor in creating a sound and efficient agricultural credit market.

The Market Players In Agricultural Credit

U. S. Farm businesses utilized $148.1 billion in debt capital at the end of 1994. Since agribusiness lending activity is not separated from other business lending, we do not know the full magnitude of that lending. We do know, however, that it is very large. Hence, data available probably understate the U. S. agriculture sector’s use of credit.

Commercial banks are the largest lenders to farm businesses with $59.3 billion in loans outstanding. Banks hold a dominant position in providing non real estate credit with 54 percent of the market. Banks hold 27.2 percent of the real estate credit to farm businesses.

The FCS is the second largest lender group to agriculture with $36.3 billion in loans outstanding. The FCS is the largest provider of real estate credit with 31.9 percent of the agricultural real estate debt market. The FCS holds 16.5 percent of the non real estate credit extended to farm businesses.
Life insurance companies hold $9 billion in agricultural loans, all in real estate lending. They hold 11.7 percent of the real estate debt outstanding to farm businesses.

The Consolidated Farm Service Agency has $11.1 billion in loans outstanding. The agency holds 7 percent of farm real estate debt and 8 percent of non real estate debt outstanding to farm businesses. CCC crop loans to farmers amounted to $4 billion.

The balance of agricultural credit to farm businesses is extended by individuals and other institutions. $32.4 billion is extended in credit by this category of lender. The category holds 22.2 percent of real estate debt and 21.4 percent of non real estate debt outstanding to farm businesses.

The U. S. agricultural credit markets are quite efficient. In the fourth quarter of 1994, farm businesses paid an average of 8.2 percent on non real estate loans to all banks, 8.96 percent to the FCS and 7.25 percent to the CFSA (regular loans). In that same quarter, the average interest rate on 6 month U. S. Treasury bills was 6.02 percent.

In the third quarter of 1994, farm businesses paid an average of 9.26 percent on agricultural real estate loans to all banks, 8.7 percent to the FCS, 8.13 percent to life insurance companies and 8 percent to the CFSA (regular loans). In that same quarter, the average interest rate on U. S. Treasury bonds was 7.66 percent.

**Current Issues In U. S. Agricultural Credit Markets**

A number of current issues will further shape U. S. agricultural credit markets. Five such issues are discussed here.

**Integration Of Capital Markets**

The agricultural credit market, which once was very segmented, has become interconnected, both within the market and with the broader U. S. financial market. Agricultural lenders routinely participate in loans with other lenders, for risk management purposes and because of capital based lending limits. Participations are with neighboring banks, banks of the same holding company or ownership group, regional banks and sometimes with national banks. Loan participation can be among unlike financial institutions, as well. For example, FCS associations sometimes participate in loans made by commercial banks. Where participation occurs, the lead bank in the loan will typically retain servicing rights on the loan. As loan sizes grow, more participation of loans can be expected.

Commercial banks currently are authorized to purchase stock in Federal Home Loan Banks (FHLBs) and to borrow lendable funds from these banks. FHLBs, originally chartered to lend for housing, raise lendable funds in the U. S. Agency Market and have access to large volumes of attractively priced funds. Commercial banks, lending to agriculture, have asked the U. S. Congress to provide them the authority to invest in and to borrow lendable funds from FCS banks. The FCS currently opposes this idea, but has tentatively discussed the terms upon which such lending might occur.

Larger commercial banks and many non bank lenders such as John Deere Credit Corporation and Farmland Industries sell commercial paper in national financial market to raise lendable funds to support their own lending activities. Loans such as those for automobiles, farm equipment, and credit card receivables are often packaged by the lender for sale to investors.
Finally, the Federal Agricultural Mortgage Corporation (Farmer Mac) provides a secondary market for farm real estate and rural housing loans.

**Industrialization In U. S. Agriculture**

Commercial farms in the United States are steadily growing in size. Moreover, these farms are becoming more complex in their ownership and in their products. Multiple owners are common. In addition to complex farm production enterprises, some farms are adding processing activities.

These larger scale farms and associated agribusiness firms require more credit and a broader array of other financial services than community based agricultural lenders can supply. As a result, most banks smaller than $100 million in deposits will have difficulty serving the needs of those firms. Smaller banks have little experience in providing complex loan project analysis or financial services such as lease financing, cash management, merger and acquisition and lock box services. The larger size of FCS associations and their close linkages to FCS banks could be helpful in their competition with commercial banks if the FCS is granted broader charter authorities. Moreover, community banks’ local presence may not be as important to their ability to make and administer large and complex loans as once expected. Larger regional banks and foreign banks are targeting large and complex farm businesses as preferred customers.

Finally, large farms are often more interested in controlling assets used in farm production than in owning the assets. That has two implications for agricultural lenders. First, they can expect more demand for performance based, rather than collateral based, loan products from their customers. Second those who do choose to own farm assets are more likely to be outside investors. Lenders will need to develop credit products to meet the needs of these investors.

**Emergence Of Nontraditional Lenders**

A fast growing segment of U. S. agricultural lending is the non traditional lender. This firm may be a marketer of farm inputs or a farm equipment manufacturer. It may also be a marketer or processing firm, often a farmer owned cooperative. These firms have several reasons to extend credit to farmers. First, credit can give the firm a marketing advantage over competitors. Point of sale credit has become an important marketing advantage for implement dealers and the manufacturers they represent. Second, manufacturing firms can use credit incentives to smooth sales and to help manage manufacturing flows. Third, credit may link a customer or supplier more closely to the firm, facilitating cross-selling of other products and services. Finally, credit services may be used as a new profit center for the firm.

Non traditional lenders typically are not chartered or regulated for safety and soundness by bank regulatory agencies. They must, however, keep their stockholders fully informed about the financial performance of the business. None the less, they have proven to be nimble in seeking out business opportunities. They are free to pick and choose among customers, rather than serving an entire market area, as is usually the case with banks and the FCS.

U. S. branches of foreign banks and financial services companies have become very active in specialized lending to U. S. agriculture. Together with firms other than banks, they are among the fastest growing, most innovative, and least understood segment of the agricultural credit market.
**Customer Friendly Banking**

Lenders are focusing on new ways to interact with customers. Bank branches in shopping malls and computerized teller or cash machines in supermarkets are now common. Some lenders are placing these machines in farm supply firms. Loan officers travel by automobile to customers’ farms and use laptop computers to link into customer records at the home office or carry that information stored on CD-ROM disks.

Lenders continue to search out technology to reduce the cost of interacting with customers and performing back office activities. Some lenders believe customers will conduct most of their banking via personal computer within a few years. Others are convinced that face to face contact will continue to be desired by customers. None the less, all lenders expect business customers to be using computer linkages to their lenders for much more of routine business transactions. All of which suggests that geographic proximity of a bank to its customers is no longer as important to either the bank or its customers.

The array of current issues for banks is indicative both of the continued evolution within the U. S. credit industry and of a quickening in the pace of that evolution. Again, current issues are the result of changes in market forces and the attempts by public policy makers to rationalize laws and regulations that govern the behavior of lenders, both to the general business community and to agriculture. A consistent theme across these changes is that agricultural credit customers and their lenders are becoming more and more like other business customers and their lenders.

**Implications For The Russian Federation**

The evolution of the agricultural credit market in the United States suggest some guiding principles that may prove useful for the Russian Federation.

**Public Policy Framework**

Public policy has been very important in developing the U. S. agricultural credit market. The market has responded creatively to changing circumstances in forming new institutions and the framework within which these institutions function. Public ownership, on the other hand, has not been nearly as successful in operating credit institutions. Publicly owned credit institutions such as the CFSA have frequently been subject to political pressures that have resulted in poor management decisions.

**Regulating For Safety And Soundness**

Agricultural lenders have proved best able to serve customers and maintain their own financial stability when subjected to appropriate and judicious safety/soundness regulation. Though often unpopular with lenders, without it U. S. financial firms have tended to gravitate toward lending practices that jeopardize their own financial stability. Solving the problems that result has proved costly to both depositors and taxpayers. In the United States, costly private sector problems often result in taxpayer financed solutions. Finally, U. S. experience indicates it is much easier and less costly to address the problems of financially troubled lenders when those problems are small and manageable.
**Special Versus General Purpose Lenders**

The United States has utilized several special purpose lending systems to provide credit for agriculture. The FCS and Farmer Mac are two examples. Special systems and institutions have filled important roles in credit market development, agricultural development, farm ownership, and technological change. However, as agricultural credit systems mature and as they inevitably become more integrated into the national credit market, special purpose lenders have asked for broader authorities. This has been true with the thrift industry, the FCS and Farmer Mac. Even commercial banks, facing competition from non-regulated firms offering credit and financial services are asking for broader charter authority in order to add new product lines for customers.

In short, while special purpose lenders may be important during part of the credit market evolution, it is important that their charters be reviewed periodically to determine whether new authorities should be granted. Otherwise, these entities tend to become less and less relevant to the market they were created to serve.

**Strong Capitalization**

U.S. experience is clear -- both lenders and the firms to which they lend must be attentive to building and maintaining strong financial structures. Inadequately capitalized lenders will not be able to stay with customers through difficult periods. That in turn will add to financial instability of farms and agribusinesses at a time when they may already be under financial stress.

**Appropriate Size**

It is important to recognize the role of scale in the success of lenders and of their customers. In the United States both farms and agribusiness firms are becoming much larger. That in turn likely means that lenders providing credit and other financial services to these businesses must also grow larger, or develop strategic linkages to provide the products required and to manage the risk associated with doing business with larger firms. In the United States, lending institutions in and out of agriculture are scrambling to create, through mergers and strategic partnerships, the critical size needed to meet customer needs.

Policy makers sometimes attempt to restrain the size of farm firms to a preconceived ideal. Yet, where agriculture production is structured around very large firms and infrastructure such as roads is limited, larger may be better than smaller. Rather than breaking up large farms, it may be more productive to establish performance/profit oriented management and control systems. Often in land reform, the scale of production needed for business success is lost to the ideal of small family owned businesses.

Conversely, large size is no assurance of economic success. Largeness, in fact, may simply mask inefficiency and management failures that would more quickly surface in a smaller or less complex firm.

In a competitive environment, it is essential that firms, including farms, be well managed. Elements of good management include information systems that provide adequate and timely business performance data to furnish a sound basis for management decision making. Secondly, control systems that assure timely decision making and operational oversight are essential.
Conclusion

The U. S. agricultural credit market has continued to evolve as external circumstances required. That has enable the market and its lenders to adapt to new opportunities and challenges over time. These changes often have been the result of public policy changes or a partnering of public policy with private sector lenders. The more the marketplace and its lenders adapt to new circumstances of farms and agribusinesses, the more closely the market and its lenders are integrated into and come to resemble the broader national credit markets and lending sector.

It is unlikely a single model of credit institution or agricultural credit market will serve the Russian Federation well. Instead, the U. S. experience may be instructive. Here, different models were developed to address different needs. Successful experiments tended to become more integrated and inter-linked over time.

Finally, there is simply no substitute for sound capitalization and business practices by lenders. These are the keys to building constructive, durable and efficient credit markets.
References


In Germany credit facilities for agricultural companies or entrepreneurs are usually granted by banks. The state is involved in this by giving financial support and possibly by acting as guarantor, but only if the particular case fulfils some specific conditions and qualifications.

As regards the granting of credit facilities to the agricultural sector, 7 cooperatively organized banks have by far the most important share of the market, followed by the public-owned institutions. The rest of some 20% falls to the remaining banking institutions.

Our bank, WGZ-Bank - Westdeutsche Genossenschafts-Zentralbank -- is the biggest cooperative central bank, which also exists under the legal form of a cooperative. So, members -- respectively associates of our bank -- are all cooperative banks in our business area which is the Western part of Germany.

Usually, WGZ-Bank does not grant credits directly to agricultural companies or entrepreneurs and their families, but these loans are made by our local cooperative member banks located in the vicinity of the particular agricultural customer.

In our bank I, being an expert in agricultural matters, have been deeply committed for years to the agricultural sector as well as to those areas which are related to this sector. In my function, I basically work in two fields:

1. financial consultation for our cooperative member banks and

2. consultation for our member banks’ agricultural customers in business management and financial matters, i.e. for agricultural companies as well as for entrepreneurs who are engaged in this field and for their families.

As a highly specialized agricultural management consultant, I often work for companies and entrepreneurs whose futures are especially characterized by uncertainty. Their number as well as this tendency is considerably increasing, not only in Germany but also in the whole of Europe.

Regarding this, I have the impression that this and other negative developments of regional and supraregional agricultural economies are not noticed to the entire extent, and no forward-looking conclusions are drawn.

However, this is exactly what responsibly working management consultants should do in a moreurgent and detailed way, but also more carefully than ever.

For this reason, I would like to take this opportunity to put across some constructive suggestions for the optimization of future conditions in the agricultural economy or your country - if I may do so.

I would therefore ask you to “listen carefully between the lines”. In this way we will understand one another better and hopefully later on enter into constructive discussions with one another.

At this point I do not wish to define financing - especially in agriculture. This definition can be the result of my remarks. I would much rather begin to find access to it, in particular to correct and appropriate financing.
1. Financing is firstly a specific and important task and function for banks. But if banks devote themselves to this task alone they reduce their function to that of simple traders with capital. Then they should not be surprised if customers only deal with them on this level, e.g. haggling over conditions.

2. Financing really represents much more important tasks and functions for banks. (Incidentally, this should apply particularly for internationally active banks.) Banks should be willing and able to share responsibility for the provision of capital in suitable quantities for particular objects/areas/projects in the economy (here agriculture) to ensure their realisation and existence in the long term.

The most important objects for financing are single agricultural companies and cooperations. Both should be managed on a profit basis by responsible entrepreneurs or cooperation members - subjects.

That is to say: as economic results, long term profits and own capital accumulation must be possible - instead of loss and own capital reduction. With this in mind companies and cooperatives only differ in that the respective economic result - positive or negative - can in the one case be ascribed to a single capital owner and in the other to several capital owners.

Single agricultural companies and cooperatives are active in various areas. The most important is - understandably - production; this is preceded by the buying of production materials and followed by the sale or products. Indirect and/or direct financing is necessary in all named areas.

In most of the aforementioned cases potential borrowers and banks come to largely independent agreements on the necessary financing. Basic state requirements can by all means have a positive influence on these agreements, although this is not obligatory.

In addition to this, however, there are numerous more extensive agricultural projects to be financed which cover several areas. This applies in particular to regional or national agricultural developments considered to have a promising future, but also to internationally required adaptations of structures, concepts, strategies etc.: this calls above all for the state to work out a basic financing for each specific project together with interested banks and then put this into practice.

I think that it should now be clear that financing is not an isolated but a highly interactive process. Specific tasks fall to all those involved. (In Germany we call these the 4 B’s in the state):

1. Farmers, as individual or family businesses or in cooperation with other entrepreneurs, are primarily responsible for successful farming. The farmers’ must repeatedly and emphatically reminded of their central responsibility as entrepreneurs. This permits the very important differentiation between more or less successful economic objects and subjects and therefore between those which are more or less safe and good to.

2. The above responsibility is usually borne particularly well by those entrepreneurs who make relatively regular use of suitable advice from expertly qualified consultants. In this way the consultants should be included - at least partially and/or temporarily - in the responsibility. Private and special consultants can be easily motivated here: but official consultants should also be able to be put under an obligation to be more performance oriented.

3. Farmers and consultants - but also banks, see below - can only manage with more economical success if they have regular access to up-to-date, detailed figures from experienced accounting companies. In this context business accounting is of primary economic relevance; this alone is above all capable of
reproducing economically realistic results. Fiscal and statistical accounting are of secondary, complementary significance.

4. The state should determine the framework for dealing with economic tasks in such a way that this can be relied upon in the long term wherever possible. This includes in particular the fixing of economic priorities, the indication of economically prudent and the prevention of economically pointless concentrations as well as the active encouragement of economic integrations.

5. Finally, banks have the central task of financing. They will only do justice to this task, however, if they fulfil their function as detailed financial advisors to potential borrowers in advance. This should be primarily directed towards a strengthening of self-financing. The necessary outside financing is then to be dimensioned and agreed on this basis.

Financing and those who reach agreements on such have certain aims in view and invest time and money in their realisation.

1. Central individual economic aims of the company or collective are:
   - safeguarding of the assets
   and
   - profit or own capital change

2. The most important national economic aim should be the optimization of markets for buying and selling and of the conditions prevalent within them.

3. In addition a third aim is becoming increasingly important: economical and ecological farming and the safeguarding of rural areas. However worthwhile this aim may be it is best realised by economically sound companies in economically stable economies. But this is not taken into account by all those with responsibility.

Financing to achieve these aims must be in line with them as far as possible. This is particularly true with regard to their planning and differentiation, the choice of suitable strategies and finally their realisation with subsequent analysis of possible deviations.

Financing demands indispensable preconditions:

1. Information and communication between one another and on all relevant facts must be complete and sufficiently differentiated and details.

2. Initial training and further training must of course be guaranteed.

3. Motivation and creativity are to be actively initiated and encouraged; cooperation between one another is to be primarily based on this.

The use of electronic data processing will also be of prime importance in future for agricultural entrepreneurs. Like-minded entrepreneurs are already using them intensively for calculations and simulations. Expert decision making systems are being increasingly developed and used alongside these systems.

Financing is based on fundamentals.

These relate primarily to the following aspects with reference to value:
1. Value of the assets to be financed.

Decisive in this context are:
- Division into capital, animal and current assets
- Allocation to owners, users and labours
- Evaluation of the use, capacity utilisation, profitability etc.

The calculation of value follows directly: the most up-to-date so-called market values are to be estimated, wherever possible as objects comparable to buying or market prices.

These market values are to be shown on an appropriate business balance sheet on the ASSET side.

The bank’s loan officers correct these values taking bank-related credit guidelines into account, normally downwards. The reason for this is the banks’ long term need for security. The so-called loan values result from the above value adjustment.

2. Capital that the financing is to serve.

The division here is clear: Own and outside capital.

The calculation of value, however, follows indirectly:
+ evaluation assets (value calculation see above)
- total outside capital (calculation from banks and other creditors)

result: = own capital

Both positions are to be shown on the DEFICIT side of the business balance sheet.

Further fundamentals relate to the following aspects:

1. Profit-earning capacity

Profit or loss and their calculation are decisive here, namely:
- on the one hand as part of the profit and loss account as the margin between revenues and expenditures,
- and on the other as part of the profit contribution account as the margin between total profit contribution and overheads.

If there is a profit then the agricultural company in question is credit-worthy.

In both cases, however, it is of decisive significance for any financing which may be based on these whether the actual long term achievable profit - loss is irrelevant - is greater than the required minimum profit for the company or entrepreneur in question.

I would not like to go into more detail on this problem at this point but rather in the discussion.

2. Capacity for service of capital
Here the own capital change and its calculation is decisive and namely as follows:

+ profit
+ sums paid in from the private sector
- sums paid out into for the private sector

result:

= own capital change, i.e. increase or loss.

Another decisive point is whether the area “private assets” (change in the entrepreneur’s own capital) is included in the calculations or not (change in the company’s own capital).

If there is an increase in own capital then the agricultural entrepreneur in question is in principle credit-worthy.
In both these cases, however, it is also of decisive significance for any financing which may be based on this whether the actual long term achievable equity increase - equity loss is irrelevant - is greater than the required minimum equity increase for the company or entrepreneur in question and whether this long term financing can supplied.

I would not like to go into more detail on this problem at this point either but rather in the discussion.

On the basis of the above remarks the types of agricultural financing should now be briefly shown:

They usually represent a combination between

- self-financing
  by
  own capital (cash financing)
  and if necessary
  self-rendered services

and

- outside financing
  by outside capital (cash financing)
  and if necessary
  outside services (non-cash financing)

Sound financing is characterised by an appropriate and primarily long term share of self-financing calculated specifically for the company and a share of outside financing which is merely supplementary.

Financing is often distinguished by statistics.

Financial statistics are usually given for the following areas:

1. Stability
a Capital assets cover
   = ratio of own capital + long term outside capital to capital assets.
   (this ratio should be greater than 100%)

b Outside capital cover
   = ratio of assets which can be freed immediately if necessary to short and medium term outside
   capital.
   (this ratio should also be more than 100%)

c Quotas or shares of own capital or outside capital in the overall capital or balance sum.
   (No recommendation possible)

2. Liquidity

The various degrees of liquidity are generally shown here. In agriculture, however, these are generally
of no particular significance.

It is more important that - especially at the start of a heavy phase of investment - there is a sufficiently
detailed liquidity plan.

3. Rentability

i.e.: rentability of own capital/outside capital/overall capital

plus net earning power

and rate of profit

These statistics fix the profit in relation to the established and now evaluated factors “capital” and
“work” and to the turnover. They should not be negative: and the larger they are the better the
financial conditions are considered to be.

4. Favourable financing

Financing is also to be judged by the costs it causes, i.e. the interest.

Self-financing doesn’t cause direct interest costs but it can cause indirectly lost interest on alternative
uses of own capital: these costs are termed utility costs.

Outside financing causes direct interest costs.

In both cases it should be the aim of financing to effectively minimalise both these types of costs when
they occur.

Furthermore, the costs of financing are principally dependent on the following single factors:
- type of financing
- financial promotion
- nominal interest
Financing - especially outside financing - takes place within certain (credit) limits. The most important limits for financing exist under the following aspects:

1. ... under the aspect of security,

   which the borrower can make available to the lender as a deposit.

   This limit is the so-called lending limit.

   It results from the lending value (see above) by adjustment according to the bank’s specific lending guidelines.

2. ... under the aspect of capacity for service of capital,

   which the borrower can guarantee the lender in the long term by management of the company.

   This limit is the so-called capital service limit.

   The long term capital service limit results from the sum of own capital change + outside capital interest. If it is made up entirely of outside capital interest then no further interest contributions are possible on one’s own account for additional outside financing. This limit may, however, be exceeded under certain conditions.

   The short term capital service limit results from the long term capital service limit + depreciations. If it is made up entirely of depreciations then no further repayments are possible on one’s own account. This limit, however, may not be exceeded.

3. Assurances

   are the banks’ standard securities which a third party who agrees on a lender with the bank provides as guarantor for the bank.

   There are private, regional, federal and international assurances.

   Sureties usually broaden the scope especially for outside financing.

In the above remarks agricultural financing was described at least as it should be carried out - but also as it is often realised in my country.

But correct and appropriate financing cannot always be carried over to the field of agricultural financing practice. This is already the case in my country and will be all the more so in yours.

In my opinion therefore it is especially important that you and/or we together should work out a strategy or concept for the realisation of sound financing in your agriculture.

1. The areas most in need of consideration in this context are the following:
- detailed analysis of all the given conditions of agricultural financing in your country.
- Differentiation of the requirements for agricultural financing.
- planning of initial strategies and concepts.

2. Following this, intensive discussions about the work to be done should begin. These should in particular serve to
- include all relevant persons and institutions involved from the start so as to obtain near unanimous approval from then on,
- to agree on a generally valid timing of the process and
- to coordinate the process itself effectively.

3. And finally it is time for the realisation. During the phases of introduction and execution maximum initiative and motivation of those involved should be particularly emphasised. Deviations resulting from regular analysis could be taken as ideas for possible variations.

To conclude my remarks I would like to point out some human aspects which in my opinion haven’t yet been given sufficient attention.

1. I have the impression that the further east one goes the more the currently rigid and inflexible organisations are transformed into vital factors of economic evolutions. This is how it should be:
   - People approach institutions more confidently.
   - The citizens’ opinions have an ever increasing influence on the laws made by the administration.
   - Communities become more important in relation to the state.

2. I hope that the processes which are beginning so positively will continue. They cannot be left to fend for themselves: instead they require the people who actively accompany them. Thus, these people who make up a society are called upon to put their knowledge, will and work into this task and to make it a success with well considered strategies and enormous motivation.

3. We must not forget that there will be those persons among us who will be passed over by processes which change the society. They will be the suffering, dependent, people and those without prospects. I therefore call on the successful, independent and content people not to give in their efforts to repeatedly stand by as many of the others as possible with particular understanding.

Especially in consideration of what I just said as to the people, I am clearly aware of the fact that the perspectives and developments I revealed have a strong long-term character. Thus, such serious changes will of course not be put into effect in the near future. However, if you do not put actual will for changes into action, real changes cannot be expected. Therefore, any change has surely to be planned as concretely as possible. At the same time any activity which is required for this in the agricultural economy has to be supported by a clear framework or concept. Finally, I would like to explain my ideas as suggestions in this matter.
In my opinion, future agricultural activities in your country should be pursued as consistently as possible within the scope of three strategic organizational areas, which have to be oriented in a long-term way:

1. The following areas should rather be organized as private enterprises:
   1. production
   2. accounting/bookkeeping
   3. consultation
      especially: financial/business management
   4. public relation/marketing
   5. training/further education
   6. documentation/statistics

2. The following areas should rather be organized cooperatively:
   1. provision of means of production
   2. sale of products
   3. storage/drying/etc.
   4. processing/manufacturing
   5. organization of joint institutions
   6. neighbourhood support
   7. machine rings

3. The following areas should be organized institutionally:
   1. agricultural (self-) administration
   2. professional representation (of interests)
   3. documentation/statistics
   4. (handling of) demand
   5. training / further education

With regard to the future development of the agricultural economy in your country, I consider these three organizational areas to be central and important aspects. Exactly these organizational fields again and again play a decisive role in consultations of companies in your country and in other comparable countries: the better an integration of these organizational areas into the entire national economy of your country and especially into the agricultural economy is managed, the faster and smoother you respectively will jointly be able to progress in our cooperation.

I wish you good luck and every success in this matter. At the same time I trust that as many people from or two countries as possible, who are in the above sense committed to this cooperation, will participate actively in this.
Before describing the agricultural credit system in Denmark it is appropriate to give some information about the role of the agricultural sector in the Danish economy. Furthermore the degree of Danish agriculture’s dependence on borrowed capital will be discussed and illustrated with statistics.

The Role of Agriculture in the Danish Economy

Danish agriculture, not including value added by processing through dairies, slaughterhouses, canneries etc., amounts to about 4 per cent of gross domestic product. During the past few years agricultural production has been stagnating. Animal production has increased slightly, while vegetable production has decreased. The harvest has varied considerably in the 1980s and the beginning of the 1990s.

The importance of agriculture to Danish economy is brought out in full relief in relation to the foreign trade. About 70 per cent of agricultural production, which is based mainly upon animal production, is exported.

A net calculation -- i.e. after deducting the import of raw-and ancillary materials for agricultural production -- shows that agricultural export during the 1980s and the beginning of the 1990s has, roughly, amounted to about 15 per cent of the Danish export of goods. It should, however, be taken into consideration that Danish agricultural production depends, to a limited extent only, on imported raw materials, and also that the export subventions to Danish agriculture from the European Union’s agricultural fund FEOGA have been included in the export income.

The structure of Danish agricultural exports has changed since Denmark entered the Common Market in 1973. Up to the beginning of the 1980s the United Kingdom was the principal single market purchasing about 30 per cent of exports. The distribution between European Union countries and so-called third countries -- that is countries outside of the European Union -- was about 60 per cent to 40 per cent.

In the 1980s third countries have been more important as buyers of Danish agricultural products. In the second half of the 1980s and the beginning of the 1990s about half of exports were channeled to European Union countries while the other half were sold to third-countries. At the same time the importance of the British market has diminished. Today the German market is most important for Danish agricultural exports.

The position of agriculture in respect to production is illustrated fairly accurately by the share of agriculture in total employment. Agricultural employment has been declining during the 1970s and the 1980s and the beginning of the 1990s. About 4 per cent of the Danish labour force is employed in agriculture at present.

By far the main part of agricultural employment consists of independent farmers, while only a minor part -- 15 per cent -- consists of hired labour from the market. A clear tendency for agricultural employment to follow developments in the number of farms can be discerned. Today there are barely 70,000 farms with an average area of about 40 hectares. In 1960 the number was close to 200,000. Of those 70,000 farms, only some 30,000 are worked by full-time farmers. The rest are part-time or dwelling farms. Full-time farms produce 90 per cent of the country’s total agricultural output.
Ownership in Danish agriculture differs from conditions in most other European countries. Owner-occupancy -- meaning that the cultivator and owner of a farm is one and the same person -- has been absolutely the predominant mode of tenure. The development in the operational structure towards larger units has had no impact on this state of affairs. About 98 per cent of the farms in Denmark today are held in owner-occupancy. So unlike the situation in several of the other European Union countries, the tenancy system has only a very limited extent. Only about 2 per cent of Danish farms are held by tenants.

One type of tenancy -- land tenancy -- has however during the last 15-20 years been growing from 12 per cent of total arable land in 1960 to about 20 per cent in the beginning of the 1990s. Typically, a farmer leases an area of land to a neighbouring farmer. Such leasehold is often covered only by a verbal agreement, the contents of which are subject to current adjustments. The rising use of land tenancy must be understood mainly against the background of the age structure of the active farmers in Danish agriculture. Generally the average age (today about 51 years) is relatively high in Danish agriculture. There has been a tendency for elderly farmers to choose a rather extensive form of operation centred around grain cropping or to lease large or smaller areas of land out to other farmers, primarily young farmers. Other ownership arrangements, as for instance company or association ownership, are of no importance at all in Danish agriculture.

The next point is to illustrate how dependent Danish agriculture is on foreign capital.

At the end of 1994, total agricultural assets were about 210 billion dkr., while the total liabilities were about 124 billion dkr. The percentage of debts in proportion to the assets was about 60 per cent. Compared with agricultural sectors in other European Union member states the indebtedness of the Danish agricultural sector is relatively high.

This heavy indebtedness results from events during the 1970s. Positive expectations from the Danish entry into the EEC in 1973 caused an increasing demand for farms, a demand which during the 1970s started to assume a speculative character. The idea was that the longer one waited to buy a farm, the more expensive it would become. Investment in real property was found to be the best safeguard against inflation. The result was an overheated market for real property and property-prices went up more than the general prices in society. At the same time, given the liberal Danish credit system, there were no problems involved in financing the increasing prices of property.

Another reason for the heavy indebtedness of Danish agriculture is that in Denmark trade in agricultural holdings takes place at free market prices, and the economic advantages in family transactions are rather limited. About 60 per cent of the deals in real property in Denmark are made in the open market, while the remaining 40 per cent are family transactions.

Many of the new establishments in the 1970s were followed by considerable investment activities during the second half of the 1970s.

Again in the middle of the 1980s a boom took place in the prices of farms, partly because of a high income level in agriculture, partly because of a substantial fall in the interest rate in Denmark.

In Denmark a substantial number of different financing institutions are involved in the finance process of Danish agriculture. A considerable part of the credit facilities is based on the fact that the creditor can obtain security for the loan granted, in that the farmer mortgages his property. A range of creditors offer loans to Danish agriculture. The main part of the credit is granted by the mortgage associations and the Agricultural Mortgage Bank. Together the mortgage associations and the Agricultural Mortgage Bank had a market share of over 75 per cent at the beginning of the 1990s.
The commercial banks and the savings banks have a share of about 12 per cent. There is a division of labour between the mortgage institutions at the one side and the commercial/savings banks on the other side. While the mortgage institutions manage the long-term credit the commercial banks and the savings banks manage the short-term credit.

The Danish State and private persons are only involved in financing Danish agriculture to a very limited extent. Totally they have about 3 per cent of the market.

The final means of financing are trade credits and amounts from different forms of taxes, for instance value added tax, where the farmers have a credit facility before the amounts should be paid to the tax authorities.

**Financing the individual farm**

The next question is which rules are followed in financing the individual farm. First it should be underlined, that the financing of Danish agriculture is based on market conditions. That means that the farmer must cover his financial needs at the actual rate of interest. Public support is only used in relation to young farmers’ first establishment. Interest-subsidies are furthermore to a limited extent used in relation to investments. In both cases the rules are in accordance with European Union directives.

The Danish system of agricultural credit is built up as a “layer-cake” of five layers.

**The Mortgage Associations**

Due to Denmark’s European Union obligations, the market for offering mortgage loans in Denmark was liberalised as of December 1989. Generally the mortgage associations -- in competition with one another -- are authorised to grant loans to agriculture and horticulture up to the first 45 per cent of the commercial value of the holding. The mortgage associations are now organised as joint-stock companies.

The starting point for the lending activity of the mortgage institution is a cash valuation of the holding in question. This valuation includes land, buildings with fixed installations, livestock, machinery, implements and equipment -- all items assessed at the actual current sales prices.

Loans granted by the mortgage associations must, according to the Danish legislation, have what we call first priority -- meaning that the individual loan should be secured by the first 45 per cent of the cash value of the holding. Only if the mortgage associations grant loans based on indexed bonds equal to at least 20 per cent of the value of the holding, the associations have access to finance up to 70 per cent of the commercial value of the holding. The maturity period for a loan to agriculture is up to 30 years. It is normally repaid by the annuity method. The mortgage association loans are granted primarily for the purpose of investments, soil improvements, changes of ownership and for re-scheduling debt.

The mortgage associations are general institutions. The associations grant loans to housing and to the manufacturing sector as well as to agriculture. The associations obtain the funds for the lending operations by issuing bonds. In order to avoid risks there should be a balance between loans granted and bonds issued to finance the loan operations. The associations are not entitled to accept deposits. The rate of interest which the farmers have to pay reflects the rate of interest on the bond market. The bonds are quoted at the Copenhagen Stock Exchange. For the moment the effective rate of interest on the bond market is about 9 per cent per annum. The bonds issued are normally fixed-interest bonds. Bonds with variable rate of interest are not very common.
The Agricultural Mortgage Bank (DLR) (self-governing financial institution)

The Agricultural Mortgage Bank is authorised to grant loans up to 70 per cent of the cash value of the holding. In principle, the Agricultural Mortgage Bank can offer loans from 0 to 70 per cent, but the common practice is to offer a loan secondary to the maximum mortgage association loan, which means a loan with security in the area ranging from 45 to 70 per cent of the commercial value of the property. The reason is that it is a little cheaper to get a loan in a Mortgage Association than from the Agricultural Mortgage Bank.

Most of the Agricultural Mortgage Bank loans are granted for specific purposes; mainly to finance a change of ownership and to finance investments. The loans are given on the basis of the borrower's credit worthiness, which is tested in accordance with common banking practice. The Agricultural Mortgage Bank gets its funds by issuing bonds like the mortgage association. The rate of interest on the bonds is at the moment about 9 per cent per annum. The Agricultural Mortgage Bank is not entitled to accept deposits. The maturity period for the loan is up to 30 years. The actual period of repayment is fixed depending on the purpose of the loan. At the same time the loans are granted with a fixed rate of interest during the whole repayment period.

The commercial banks and the savings banks together with the Central Bank of Denmark have a considerable influence on the policy of The Agricultural Mortgage Bank. An application for a loan in the Agricultural Mortgage Bank should go through a bank or a savings bank because these financial institutions, as a part of the lending operation, subscribe guarantee capital amounted to 7 per cent of the size of each loan. Together with the Agricultural Mortgage Bank’s own basic capital these guarantees make up the capital base of The Agricultural Mortgage Bank. The Agricultural Mortgage Bank depends on the commercial/savings banks and the Central Bank of Denmark.

As mentioned before, the funding of both the mortgage associations and the Mortgage Bank is based on bond-issuing. Experience has shown that this kind of funding is a very cheap and flexible way to procure capital. The buyers of the bonds are primarily pension funds, life insurance companies, banks and other financial institutions.

Banking Institutions

While the mortgage associations and the Mortgage Bank provide the agricultural sector with long-term credit; the banking institutions provide the sector with short-term credit -- operational credit -- often in the form of an overdraft. Furthermore the banking institutions provide funds to furnish the cash payment which a young farmer must make to buy his farm. For the moment, the interest on bank loans is about 10-12 per cent per annum -- meaning a higher rate of interest than the rate on a bond-based loan. The funds are provided from deposits. The banks also play a certain role as mediators negotiating the loans from a mortgage association and from the Agricultural Mortgage Bank.

Private Mortgage Deeds

Private lending mainly takes place in connection with the transfer of ownership of agricultural properties, where the seller leaves part of the price as a mortgage on the farm. Typically, a son will owe his father a sum of money when he takes over the family farm. The sellers’ mortgages are, as a rule, annuity loans and the repayment period will cover about 15 years.
State Loans

The State grants loans -- provided the recipient’s professional farm training is satisfactory -- for a first-time establishment of a new farmer. A loan with a repayment period of 20 years is granted on favourable conditions. No service (interests/installments) is paid the for the first 4 years. During the following 3 years the state subsidy will be reduced, while the farmer himself pays the full service calculated in market conditions during the remaining 13 years of the maturity of the loan. The loan covers about 15 per cent of the price of a full-time farm holding and considerably helps the farmer's first purchase of a property. It should be stressed that the conditions for obtaining this favourable state-loan are in accordance with common European Union rules. State support of initial settlement is practically the only existing element of Government involvement in the Danish agricultural credit system.

What happens if the farmer in question cannot fulfill this obligations

As mentioned earlier it is a common practice in Denmark that farmers let their property serve as collateral for borrowing. All kinds of long term credit are secured by mortgages on real property and the same is the case for the majority of the short term credit. When the farmer, for instance, gets his loan from a mortgage institution he mortgages his property by issuing a mortgage-deed to the mortgage institution. The mortgage deed is registered in the Land Register.

If the farmer cannot fulfill his contractual obligations, the mortgage institution has, as the owner of the mortgage deed, the right to ask for the property of the farmer in question to be sold by order of the Court. A sale by order of the Court, or a forced sale, takes place at the local Registry of a Court. The sale is public, and the highest bidder amongst the creditors or others who are interested gets the deed to the property. Normally, the highest bidder at such an auction will be one of the farmers’ creditors, for instance a financial institution. According to Danish legislation, mortgage credit associations, banks and the like are not allowed to own farms. These institutions therefore have to try to sell the property bought at the forced sale to a person who, according to the Danish legislation, may own a farm.

In most cases the prices obtained by the creditors when reselling properties which have been acquired at such forced sales are lower than the registered liabilities of the former owner. This is due to the fact that the new owner only wishes to take upon himself a liability which does not spoil his prospects of profitable production.

Generally speaking, the Danish system of forced sales contributes to reorganisation or elimination of the part of the debt which exceeds the production potential. The problems connected with these forced sales are primarily of a social character, as the previous owner quite often has to leave his property.

To illustrate further the extent of the debt problem in Danish agriculture in recent years it should be added that during the period 1979 and until now there have been held about 9 900 forced sales of farms, a figure which should be seen in relation to the fact that there are about 130 000 farms in Denmark. A substantial number of other farmers have made agreements with their creditors with a view to writing down their debt without putting the property in question up for auction.

The illustrated development in the number of forced sales, reorganisation or elimination of part of the debt has caused considerable losses by the credit institutions which have lent money to the agricultural sector. Naturally this development has given cause to a reconsideration of the lending to this sector. To put it a bit more clearly, one might say that until the beginning of the 1980s the lenders have followed the philosophy that agriculture, to the greatest possible extent, was to receive the credit which it demanded.
This way of thinking was supported by the fact that because of its increasing gross assets, agriculture was more than able to supply sufficient security for the contracted loans.

During recent years, today, and in the future lending to agriculture rests on a "professional" foundation. This implies that the criteria used when granting loans to other sectors of economic life -- for instance the manufacturing industries -- also are used when granting loans to agriculture. The lending depends on the profitability of the investment to be financed. This means that the farmer and the lender will have to jointly estimate whether or not a planned investment will contribute to increased income. It must furthermore be assumed that, in general, the lender will demand a larger financial co-responsibility from the individual farmer, such as a certain personal or own capital when carrying through investments. At the same time, the lending will to an increasing extent be based on accounts and budgets, just as the lenders will follow the management of the individual farm more closely. The fact that all full-time farmers keep books and draw up budgets means that, as a rule, the farmer will be able to meet such demands from the lender.

This reorientation of lending to agriculture, where more weight will be attached to personal credit rather than to credit secured by mortgage on real property, will probably be supported by the general development within the agricultural sector of the European Union, where the policy is going to be more and more market-oriented.
Holland (or The Kingdom of the Netherlands) has an area of 150 by 265 kilometres, or 40 000 square kilometres, but a population of 15 million people. It has a flat countryside with more than 300 kilometres of shores and beaches, and water plays quite a role in Dutch history and economy. It was and is also surrounded by mighty neighbours like England, France and Germany. It was occupied by Germany during World War II and the economy and infrastructure were completely destroyed in 1945. Fortunately after a period of reconstruction of approximately 10 years started a long period of prosperity until today.

The country is suitable for all types of farming. Thanks to the skills and organisation of the Dutch farmers and strong support from education, research and information they reach the highest levels of productivity in animal husbandry, commercial gardening and arable farming.

Holland is the second largest exporter of agricultural products in the world after the U.S.A..

History of financing of agriculture in Holland

Since farming started in Holland in medieval times it has been a hard life. Farmers had to irrigate large swamps and reclaim lakes with their famous windmills to obtain arable land and build the famous Dutch dikes to prevent rivers and sea destroying harvests and threatening the lives of farming families. But these thresholds laid also the basics for a mentality of taking calculated risks and co-operation to survive together. These basics are -- I still believe -- the keys to the success of the agricultural sector in Holland today.

Until about 1800 finance was not an important issue on the farm. During the nineteenth century things slowly changed. The farmer had to invest more and more in buildings, machinery, livestock etc.. If he could not provide the money himself he could borrow it from lessors and merchants. When in 1880 the markets in Europe were flooded with cheap products from overseas, the farmers went into a period of poverty and as a result of this became victims of all sort of lending abuses.

A state committee examined the financial situation of the farming community and recommended that farmers should form credit-unions based on the ideas of Friedrich W. Raiffeisen. These ideas were to collect savings from private persons and lend to individual farmers who are members of the bank and personally liable to the whole bank. In 1896 the first local co-operative bank in Holland -- without any government intervention of support -- was established. A few years later the first co-operative central bank was formed by the new local banks. Now -- almost one hundred years later -- we can say that after the start our bank organisation went through decades of depression in the 1930s, even of times of war and disaster in the 1940s and 1950s without any serious financial trouble and without any government assistance. In the meantime another co-operative banking organisation was set up for shopkeepers and small industry but it failed in the depression of the 1930s and was transformed by the Ministry of Finance into a commercial bank under payment of the deficit.

At the end of the 1950s it was necessary to provide adequate finance for the enlargement of scale that was foreseen at the start of the European Union. It was predicted that farming was going to be a technologically and economically complicated sector and that only the professionals among the farmers would stay in business. It was therefore decided that the bank should employ experts who could analyse
and assess investment and credit schemes for farmers on their agricultural, technical and financial merits. Moreover the local banks should have short and direct credit procedures with a minimum of persons involved to secure confidentiality. This led to a big enhancement of investments in agriculture and industry and the local banks also prospered. Nowadays the local banks are entitled to grant credits up to Nlg. 4.0 million (US $2.5 million) without approval from the central co-operative bank or any other institution.

Although the Rabobank organisation still provides 90 per cent of lending to agriculture in Holland it is successful in other areas as well. Its market share in non-agricultural, small and medium sized enterprises in Holland exceeds 40 per cent and in mortgages for house-owners 30 per cent. Moreover 40 per cent of all private savings in our country are entrusted to the bank. The total assets exceed Nlg. 250 million (US $170 million). The bank’s equity is over 7 per cent and its sound record has led to a AAA rating in the financial markets, an honour that is only shared by one other bank in the world.

How does the Rabobank system work? 600 local banks and a central bank

Local Rabobanks -- I had the honour to be the General Manager of two of them -- are constituted by members. For those who seek credit from the bank for their professional activities membership is compulsory. Members are entitled to attend and to vote in the Annual General Meeting of the bank. In this meeting the Annual Report, approved by the auditors of the Central Rabo Bank, is discussed and members of the Board and the Supervisory-board are elected. The Board is an essential body in the bank. The Board appoints the General Manager and decides how far his mandate will go. The General Managers will be responsible for the day-to-day business after his annual policy paper has been approved and he reports to every board meeting about the decisions he has taken. The Board itself takes the most essential decisions like investment in building, equipment, employment of staff and last but not least on ALL loans and credits that exceed the mandate of the General Manager. A Supervisory board oversees these decisions and has the power to remove incapable board members.

The local bank carries the full responsibility for efficiency in its operations, credit policy, generation of sufficient profit and a good financial position. Members accept liability for the failure of the bank but as profits must be added to the reserves every year and there is a cross liability for the whole organisation this is not considered as a risk.

Tasks of the Central Co-operative Bank (Rabobank Nederland)

Local banks are direct shareholders and have direct contact with Rabobank Nederland. They elect representatives to policy making bodies and meet these representatives at least twice a year. Moreover all local banks attend the General Meeting of Rabobank Nederland in June and vote on proposals, approve the annual report and elect Board members.

The central bank has a legal duty to supervise the solvency and liquidity of all banks, and the task to organise the infrastructure, such as computer systems and other networks, to do the national marketing, and to finance and render other banking services to clients that operate on a national or international basis. For the local banks the possibility to obtain all sorts of advice and assistance is the most important feature. These services are given on a commercial basis: local banks pay for advice or assistance from the central bank.
Funding

Funding of the organisation can be obtained in the local office network from private persons or companies or on the national and international financial markets. No government support was ever given. It was therefore from the start essential to have the confidence of the general public. Up till approximately 1950 saving in rural areas were the main funding of the banks because the offices were easily accessible, often just a room in a farm were the cashier was working alone. Later, the local banks opened more adequate offices, also in the cities and take now all sorts of savings, deposits and investments in competition with all commercial banks. Still the bank has a big share in savings although deposits -- private and commercial -- are growing every year. It was essential that from the start the public recognized that the bank’s credit policy was careful and solid. Nowadays control of banks is so tight that the public takes the solvency of the banks in Holland for granted and Rabobank has to compete by means of other arguments such as the still very widespread network of 2000 offices -- more than all other banks together -- and expert advice by its staff of 35,000 employees.

Local banks must fund the central co-operative bank, partly to support the funding, partly to monitor the liquidity of the whole organisation. The central bank also operates on capital markets and can provide local banks with loans.

Operations on the financial markets are only supplementary to the banking business and are only done by Rabobank Nederland. The triple A-status enables Rabobank to deal with any party in the world.

Other services

To broaden the funding base and to generate synergy the bank also offers full insurance to agricultural and non-agricultural enterprises and private persons. The local bank also has a travel agency and can handle transactions on stock markets for clients.

Cross financial relations local-central bank

The financial relations between the local banks and the central bank need a very delicate balance. If this balance is too much in favour of the local bank the central bank cannot function properly internally neither on the financial markets. If it is too much in favour of the central co-operative bank the bureaucracy will prosper and inefficiency will grow.

Local banks pay a commercial price for services of the central bank. Therefore they will not ask more advice than necessary. The central bank must make a reasonable profit on its own banking operations i.e. in corporate banking, operations abroad, leasing and factoring etc. Still there is a remainder for central management, national marketing, etc.. This remainder is settled in the interest paid on the balance of the accounts-current where local banks are obliged to put at least 17 per cent of their funding in the central bank. Thus it can easily be checked if the central organisation is efficient, and if not, cost-cutting measures can be imposed by the local banks.

To protect local banks against losses that might occur from bad loans or insolvency as a result of losses out of their normal operations all banks must contribute every month to a mutual fund from which these deficits are paid. Of course, payment will only take place after an investigation and adjustment of the management and organisation of the local bank and advised changes in policy have been made.
Risk management in granting credit

Risk management is essential for a bank organisation but also for the development of the agricultural sector. A fair credit policy leads to a shake-out of inefficient enterprises, it keeps interest rates low for good borrowers and maintains the confidence of providers of funding.

In the Rabobank organisation, where losses on a portfolio of agricultural loans of $15 billion are below 10/000 (10 basispoint) per annum, we reached this by the following system:

1. acceptance of written general principles of credit-policy by local banks. This policy has to give enough room to meet competition of other banks but should also give guidance to prevent irresponsible credit.
2. Standard requirements for financial and non-financial information of applicants which must be available in the files in all cases.
3. Every credit needs the approval of the Board of the local bank. A mandate can be given to the General Manager. He will report all credits approved by him to the Board.
4. Big credits also need special individual approval by the central bank.
5. Local banks carry full responsibility and see the results in their profit and losses and their own balance sheet.
6. Big losses can only be claimed from a mutual fund if all credit requirements were met from the beginning.
7. The auditors of the central bank investigate the whole credit portfolio in their survey every year.
8. The central bank offers legal and expert assistance (at a price) in case of difficulties or non-payment.

Principles of financing farming operations

We feel that a successful approach to financing in the agro-food sector and a shockproof financial position of the bank are connected with the same principles of credit accommodation.

First. Since the family-owned-farm is most common in European agriculture, the first and main requirement for accommodation must be the moral and technical level of the farmer. The moral level can be assessed by earlier experience, experience with relatives, the social environment and -- not least -- by the judgement of fellow-farmers who were elected to the Supervisory Board of the local bank. They can also give a second opinion on the technical skills of the debtor. The first opinion comes from the credit-officer who is an expert in agriculture and finance and will have visited the farm.

Second. Another important and compulsory standard is the forecast of the earning capacity of the operation which must show a surplus above the required payment of interest and redemption as well as a reasonable living for the farmer and his family. The forecast can be an extrapolation of the past -- a farmer has to make up and present his annual reports -- or is made by an agricultural expert or counsellor as a result of a planned investment.

Third. The equity must be at least 30-40 per cent of the total assets after investment. Loans of relatives that are subordinated count as equity.
Fourth. The collateral must meet certain standard: p.e. redemption

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<tr>
<th>Collateral</th>
<th>Minimum Value</th>
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<th>Maximum Years</th>
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<td>Mortgage on land and buildings</td>
<td>60 - 80% of assessed value</td>
<td>30 - 50 years</td>
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<tr>
<td>Equipment</td>
<td>50% of book value</td>
<td>5 years</td>
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<tr>
<td>Livestock</td>
<td>50% of book value</td>
<td>5 - 10 years</td>
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<td>Debtors</td>
<td>60% of value</td>
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The role of the bank in agricultural support policies

The Agricultural Loan Guarantee Fund

For almost forty years a guarantee fund founded by the Ministry of Agriculture has enabled successful farmers who meet requirements of moral and economic standards to get a guarantee to serve as collateral for the banks. If a bank is willing to grant credit on a normal collateral basis but this collateral is not sufficient to cover the total of credit required the missing piece comes in the form of a guarantee from the fund. The bank assists the farmer in making the application and the final decision is made by a committee in which officials of the bank participate. Government officials do not interfere at all. If there are difficulties during the lifetime of the guarantee the bank may only report this. If the bank makes a claim under the guarantee it must prove that the enterprise has been liquidated and there is a loss. The bank also has to make clear that it did everything possible to avoid the loss and that it fulfilled all conditions in general and particular.

In this way it is very efficient for both Government and farmer to use the infrastructure and skills of the bank to enable good farmers to extend their operation and for the bank that can help her client without violating a prudent credit-policy. Since its foundation more than 60,000 farmers have benefitted from this system.

Interest subsidies

These subsidies, which are part of European Union agricultural policy and apply only to investments to improve quality of production and environment, have also favoured bank loans for successful and therefore investing farmers. They leaves all the handling and survey of credit tot the bank and farmer. According to the conditions the investment plan of the farmer needs approval from the Ministry of Agriculture and the subsidy is paid upon a statement of the bank. It is also a very efficient and almost fraud-proof instrument.

The bank's support arrangements

The close relationship between Rabobank and the agricultural sector in Holland have also led to some arrangements that are at the cost and risk of the Rabobank organisation.

Young farmers

Young farmers, who of course have had little opportunity to build up equity, are allowed to buy land and buildings with loans that have a lifetime of 50 years with a grace period up to five years and have modest interest. This loan can be combined with a guarantee from the fund.
Stimulation fund

Rabobank uses a part of its own equity to offer subordinated loans to enable promising starting or expanding farmers and other entrepreneurs to realise their plans. This contribution to equity is handled by a special committee that is not involved in the normal bank operations. The total amount of loans must not exceed the total that has been allowed by the executive board every year. Since the foundation of the fund 7 years ago more than 24,000 applications have been handled.

Project fund

The project fund offers contributions to research projects, development of plans, pilot operations or information projects that are of extraordinary significance for the agro-food sector or groups of farming families. The fund has supported projects of rural societies, environment improvement, alternative crops and biotechnology.

Conclusions and follow-up

I have tried to give you an idea what a specialised and dedicated bank organisation can do to stimulate agriculture developments, how this was organised inside the Rabobank organisation and how it can easily make its expertise and infrastructure available for an efficient and fraud-proof operation of government support policies.

Since Rabobank has the feeling that other organisations in economies in transition or in development may benefit from its experience, it has made several services available to transfer this know-how for example. by education, by management support, and traineeships. This is co-ordinated by Rabobank International Advisory Services (RIAS) which has been active in many countries for many years.
In recent years the financial situation of agricultural producers has catastrophically deteriorated and, as a result, it has become impossible for many of them even to maintain their production at the same level, let alone to increase it. In 1994 the aggregate result of the financial and business activity of the Siberian agricultural enterprises was negative. That is, they had a loss of 11 per cent, while in 1993 the level of profits was 38 per cent and in 1990 it was 55 per cent. Sixty-five per cent of agricultural enterprises ran a loss in 1994. One per cent had done so in 1990 and 12 per cent in 1993. Many farms, even though nominally profitable, became insolvent. Debt of agricultural enterprises for credits received has been growing.

The low solvency of agricultural enterprises, and insufficient support of agriculture from the republican and regional budgets, sharply limit investment in the agricultural sector. Rates of replacement and retirement of fixed assets have considerably decreased, so that fixed assets in the agro-food sector are now only 30-40 per cent of the normative. In 1992-1994 less than half as many new cattle- and poultry-sheds were put into use as in 1990 and construction of buildings for pig- and sheep-raising practically stopped. There are now only 65-70 per cent of the 1991 numbers of tractors and many types of agricultural equipment. Financial and economic instability has caused the social sphere in rural areas to suffer especially severely: the average annual commissioning of housing in 1991-1994 decreased 1.7 times in the Siberian villages as compared with 1986-1990; commissioning of general schools by 3 times, children’s pre-school institutions by 3.2 times, and clubs and recreation facilities (“houses of culture”) by 3 times. Non-productive investments per capita in rural areas of the region in 1994 were 82 per cent of this figure for the whole of Russia although the living conditions and level of development of social infrastructure in Siberia demand greater financing.

To promote investment activity the volume of centralised investments must be increased. The provinces of the Federation should create conditions for accumulation and investment by the agro-food sector enterprises as well as for an inflow of funds from industrial and entrepreneurial capital -- including foreign capital. If the state pursues a reasonable tax policy then an inflow of private investment into the Siberian region can be expected.

Each region should develop its own, scientifically-based, policy of selectively implementing the state policy of supporting the development of priority sub-branches and the most efficient types of businesses. Real financing must be secured for the local and regional development programmes of the agro-food sector from both the federal and local budgets as well as from trade and commercial enterprises and organisations engaged in intermediary activity in the region. It is necessary to consolidate budget financing and the financial potential of the largest commercial entities (investment funds and companies, commercial banks, insurance and pension funds) in order to decrease financial risks for individual investors and diversify investments. The traditional mechanism of channelling budget funds and using investment credits should be improved, and new forms of investment should be developed to organise the investment process in the agro-food sector.

The existing credit market combines different forms and methods of accumulation and turnover of the loan funds which do not ensure the financial stability of agricultural enterprises. In the absence of their own sources of funding, the farming enterprises -- of whatever form of organisation and management -- cannot
attract loans in a balanced way and then vigorously invest because their financial position becomes less stable.

In order to reverse the catastrophic drop in production as a result of excessively high inflation and the resulting shortage of working capital, the agricultural credit system should be adjusted and upgraded along the following lines:

- Soft loans should be provided to agricultural enterprises. Credit policy should become a logical extension of state support of agro-food sector enterprises through the provision of centralised credits with concessionary interest rates.

- The credit system should incorporate elements of economically efficient management.

- Territorial administrative bodies, marketing departments of banks and enterprises of different institutional forms, should be oriented to attract, disburse and utilise credits for the needs of economically-efficient enterprises and high-priority investment programmes.

- Credits should be given based on business plans which have undergone expert approval within the framework of regional investment programmes. This procedure would help to concentrate resources on high priority economic development objectives, to create local zones of business stability and gradually expand them.

- To provide incentives for investment, a preferential tax and credit policy would be very important both to local investors and to attract outside businesses -- including foreign ones -- which could finance agricultural and other activities in the agro-food sector.
The economic reform underway in the country demands the development of financial-and-credit, price and tax regulators. The current state of the economic system, including state regulation, is not capable of controlling the situation in agro-food production in the oblasts and republics of the Volga region. Agro-food sector finance, credits, taxes and price formation lack the necessary organisation. They are not directed to resolving a unified task and they insufficiently co-ordinate the sector’s economy. The overall problem of finance and credit for the Volga region’s agro-food sector is how to transform it from one situation to another. If in the past financing was done by means of centralised funds and resources, then now it is basically done with the sector’s own internal resources.

The unfounded growth of prices leads to the freezing of enormous financial and material resources in incomplete production, the growth of above-norm stocks, and a general shortage of financing. The governments of the Volga region’s provinces and republics attempt through their directives to regulate financing and credit by means of the interest rate and the price level, to stimulate producers and consumers, to introduce premia and subsidies by means of the provincial budgets, and to compensate costs for oil and fuels, natural gas, breeding stock, etc.

However, these measures and the means for carrying them out are insufficient. For instance, Saratov oblast’ received 18 per cent less in budget funds than planned for the support of agricultural products. The volume of appropriated capital investments is clearly inadequate not only for expanding production, but for simply maintaining it. Price parity for products and services consumed and sold by the village has not been achieved. As a result of the growth in prices for industrial products, wage rates and services, many farms are unable to acquire the needed quantities of energy, equipment, mineral fertiliser or to ensure even minimal incomes for their employees. The average wage in agriculture is two times lower than in industry. In addition to this disparity between economic sectors, there is also disparity between subsectors within the agro-food sector.

Starting in 1991, compulsory insurance of agricultural enterprises was replaced with voluntary insurance. However, as a result of the difficult financial situation, the grave lack of working capital and the extremely high insurance premia, not all agricultural enterprises chose to insure themselves. The current system of insurance for agriculture does not assure coverage for natural disasters.

In 1995, when the Federal Foodstuffs Corporation was created, the practice of advances to the agricultural producers was introduced as part of the procurement of agricultural products. The state, in the form of the Corporation, advances payment equal to 25 per cent of the value of the delivery contracts concluded before the sowing and 25 per cent on presentation of the statistical reports on the results of the sowing. Final payment is made after the produce is delivered. Advances may be in kind, in warrants, in treasury obligations, or in cash as the two sides concluding the contract agree, depending on the availability of those forms of payment at the moment the advance is given. If the producers fail to fulfil their obligations, they must return three times the amount of the advance and the producer forfeits the right to receive compensation for input purchases.

Banking institutions have been established to carry out the financial activities of the agricultural enterprises of the Volga region. The bank provides short-term credits for a period of one month to one year and long term credits for a period of up to two years for working capital, equipment purchases and
incomplete production. The interest rate varies on a daily basis. Concessionary credits are available only to family farms.

The state’s credit policy does not assist in the development of the agro-food sector. High interest rates for credits (203 per cent or more) do not allow the producers to expand production. Only 3 per cent of credit is given for a year. The rest is available only for periods of three months or less. The sharp growth in interest rates for credits and the doubling of interest rates for credits which are in arrears are unprofitable. The producers’ profits are significantly less than the interest they pay for credit.

In this situation the federal and regional governmental organs are taking a number of measures to improve the economy’s financial health, such as non-returnable financial support of particular enterprises (breeding and seed-growing farms) and regions, the provision of credits to carry out the most import agricultural operations and the purchase of seeds, pure-bred cattle, necessary materials, as well as the supply of equipment to the agricultural enterprises by leasing, etc.

However, these measures are not always particularly effective. It is necessary to reform the entire system of financial, credit, price and tax policy. First of all it is necessary to restore price parity between agricultural and industrial products. Among other measures for improving the agro-food sector’s economy are:

- giving the agro-food sector tax and credit concessions at a rate of 10-20 per cent;
- paying off the debts of the federal and regional budgets, as well as the processing, wholesale and retail enterprises, to the agricultural producers;
- providing long-term credits for the formation of regional programs which can survive competition for the development of particular enterprises or market branches of the agro-food sector;
- appropriating targeted financing (subsidies) for the purchase of elite seeds and pure-bred cattle and the reconstruction of the enterprises; and
- financing the necessary amount of scientific research, seed selection and cattle-breeding work.
WORKSHOP I

Russian Federation Co-chairman’s summary

Three groups of topics were discussed:

− Policy on prices and trade
− Market regulation and the policy of support for agriculture
− Trade in agricultural produce

In all there were the 12 reports included in the programme and 7 interventions in the course of the discussion; many questions were raised from the floor. In all of this there was no pressure exerted by the co-chairmen. A lively discussion took place. Various points of view were expressed in the ensuing discussion.

The main topics were:

− The problem of equivalency in exchanges within the sector, price parity; two opposing viewpoints.
− The need for and desirability of State intervention in market processes. The cost of such intervention and its limits. Two opposing viewpoints.
− State support of the agro-food sector. Consumer subsidies.
  − The level of such support.
  − Two opposing viewpoints.
− The country's food security.
− The problem of the development of a market infrastructure. Provision of market information services
− Bodies exercising State regulation of the food market - Poland, the Czech Republic, Russia.
− Foreign trade and its economic regulation. The problem of protectionism.
− The agricultural lobby and the part it plays in the shaping and carrying out of State policy in the agro-food sector.
  − Formation of the CIS common market, and the problem of Russian entry into the ITO.

Other matters

It was noted in the contributions made in the section that a free pricing regime is in operation in the agro-food sector as a whole in the Russian Federation, and that the task of establishing a free market area
predetermines the freedom of trade. Nor are there today any restrictions other than tariffs on foreign trade. The main question at issue - the need for support for the agro-food sector - was not rejected as a whole, but the amount of that support and the forms that it should take were discussed. Could agriculture avail itself of the advantages of the market and benefit from support? The answer was no - for various reasons.

It is obvious that the transition to a market economy in agriculture is an excruciating and difficult process, frequently with unwarranted costs. There are many reasons for that: structural differences, the historical division of labour in the USSR, the former complete taking of the land into public ownership and the almost total absence of a private enterprise commodity exchange economy, and the factor of production is something of a novelty... and it manifests itself in an incomparably greater competitive potential. Under these conditions inter-sectoral competition will have quite predictable results - it has already placed a competitively weak sector in an extremely difficult economic situation. Returns are falling, efficiency is on the decline, and it is apparent that production is becoming despecialized and reverting to subsistence farming. It is, of course, possible to look upon the upsetting of the former proportions of inter-sectoral exchange as a healthy development but, in the absence of an adequate increase in efficiency, such an abrupt rupture of the parity established over many years will signify real disaster for the sector.

We are, unfortunately, noting indications of this at the present time. The market mechanism for the balancing of demand and supply operates weakly in an agricultural market - the impetus of end demand has little effect on supply, and vice versa. There is shortage in abundance. What is to be seen in this situation is the country's agricultural production being most intensively swept out of its own market.

Lack of an adequate market infrastructure is emerging as a thorny problem. In this respect there is an appreciable difference between Russia and the Eastern European countries.

The following conclusions and proposals stemmed from the majority of the reports:

− agriculture is in need of support generally and in the Russian Federation in particular. For a variety of reasons of a historical, natural, environmental, social, economic and political nature the sector is losing out in a rough contest with other sectors. This problem is even more acute in Russia - agriculture must be given the possibility of accommodating, surviving and adapting to the market, without becoming lost in the process;

− what kind of support. We not only can, but must modify and improve its forms. What we cannot do from either the social or the economic point of view is to renounce it entirely. That would be considerably more expensive. There must be improvements in the machinery of subsidies, leasing with State backing, and credit against goods, etc.

− An active anti-monopoly policy must be pursued, and normal competition must be encouraged.

− Although monopolism is a novel experience for us, it is still monopolism

− with all its consequences - and that is why it is lethal:

− it is essential to carry out a policy of judicious, moderate protectionism, without hampering competition and the play of market mechanisms, but creating the conditions for normal fair competition;

− under Russian conditions the State is obliged to stimulate and assist the development of a market infrastructure in the agro-food sector and to develop a market information system;
– a policy of intervention must be carried out with the aim of stabilizing market conditions and smoothing seasonal fluctuations.

– Use of the machinery of guaranteed prices.

– In this context the official market regulatory body - the Federal Food Corporation - must become a State regulatory authority in reality;

– freedom of trade must be ensured and the creation of a common market area encouraged, i.e. any attempt to put obstacles in the way of the inter-regional movement of goods must be dealt with;

– given the above conditions and some others the machinery of free market price formation will become a reality for the countryside;

– Russia should enter the WTO, but must adopt a very responsible and attentive attitude towards it.

Etcetera, etcetera.

Many speakers noted the need to give legislative expression to State policy in the agro-food sector.

This will save us from the libertarianism of lobbying groups on the right and the left, and from decisions taken under the influence of the political situation, and provide us with clear ground rules and guidelines for the State and for commodity producers.

In that connection we are bound to agree that the drafting and adoption of a special law is desirable. Laws of this type exist in most countries throughout the world. The draft law "On State regulation in the agro-food sector", many of the provisions of which are open to dispute, will undoubtedly exert a positive influence.
Within Workshop 1, there was a general point of agreement: no one questioned the need for reform or advocated a return to the old system. The process of reform has thrown up many problems and the agricultural sector has had to face a number of severe difficulties. These include the widespread existence of monopolies in the Russian economy which pass on their inefficiencies to the agricultural sector through high prices for inputs and a small share of the final price paid by the consumer which goes to the farmer. There has been the drop in purchasing power in society which is linked with inflation. There is the lack of market infrastructure. A number of people emphasized the effect which imports were having in reducing prices and in market opportunities for Russian farmers. All of these factors have contributed to the major problem of probability which exists for Russian farming at present.

My approach to reporting on the discussion is to identify what people saw as the problems and to identify what people saw as the solution.

A key problem raised by many speakers was the deterioration of the “price/cost scissors”, i.e. the tendency for the price of agricultural inputs to rise faster than the price of agricultural outputs. In recent years, the price/cost scissors has worked to the disadvantage of the agricultural sector. The rapid rise in input costs was due, in certain cases, to the fact that there had previously been major cost and economic distortion. The current relativity between input and output price is now much closer to world prices and so the most severe part of the adjustment to world prices -- and the removal of the major distortion -- may be completed.

The key link between the price/cost situation facing agriculture and the economic performance of the sector is productivity. The poor economic performance of the sector and its lack of competitiveness is substantially due to low productivity. I will come back to the question of how to improve productivity later in my presentation.

While many speakers focused on the deterioration on the price/cost scissors, it has to be recognized that agriculture is just one part of the whole agro-food chain, from supply industries through to the final consumer of food. The whole chain is in need of fundamental reform, which would, among other things, improve the price/cost scissors for agriculture itself and reduce the need for input and output price distorting subsidies. In reforming the upstream and downstream industries, competition policy has a role it play in reducing the monopoly power of the old structure, and facilitating the emergence of wholly new private enterprises will also promote greater competition and bring new skills and technologies. Accurate and timely market price information is also a component of well functioning agro-food chain. Some of the pilot projects in this area were discussed and point the direction for future progress. These types of information systems also reduce the need for price regulation.

Trade

The difficulties of trade in agricultural products, whether in terms of internal or external trade, were raised by a number of speakers. At the international level, many concerns were raised about the use of export subsidies by OECD countries and the possible undermining of the domestic market for local producers through imports of subsidies products.
The current and future (up to the year 2000) international trading arrangements for agricultural products have been determined by the outcome of the GATT Uruguay Round. It was agreed in this Round that OECD countries may continue to subsidize exports, but at a reduced level. The view was expressed during the Workshop that the policy of export subsidization could be part of a strategy by major agricultural exporters to undermine the productive capacity of Russian agriculture. It must be pointed out that all the historical evidence is that it is in the interest of agricultural exporters to trade with growing and healthy economies. In the Russian case, a healthy economy requires that the agricultural sector increases its productive capacity.

There can also be a positive aspect for agricultural imports. It was noted that imports can provide the needed stimulus for domestic producers to improve the competitiveness and the quality of their products. The Polish experience in the early 1990s was that, after an initial surge in food imports following trade liberalization, the domestic industry responded within a short time and reclaimed market share.

One of the speakers assessed that the overall outcome of the Uruguay Round for Russia, given its probable impact on world trade in agricultural products and reduced levels of subsidized exports, would be positive, if modest. Joining the World Trade Organization, as the Russian Federation has indicated it wishes to do, should over time produce further benefits and should assist the country in adhering to the disciplines of a market economy.

On internal trade, it was agreed that regional price subsidization and price regulation are creating regional trade barriers and is reducing market orientation. If such developments were to increase, they would undermine the major task of creating a common market for agricultural and food products within the Federation.

**Subsidies**

The whole question of subsidies for the agricultural sector was a central concern to the group. A number of Russian speakers felt that in current circumstances, the profitability of Russian farming was so low that if subsidies continue to be reduced, agriculture would not survive as a viable industry. The fear was also expressed that Russian products could not compete with imported products. Alternative views on subsidies were expressed. Many recent subsidies had not really benefited agriculture to a significant extent (examples: leasing and commodity credit). It was noted that there was a need to evaluate and discriminate between different types of subsidies to be employed. In particular, subsidies which distort input or output prices, and in consequence production decision, should be avoided. On the other hand, carefully judged spending on targeted areas is likely to be more effective.

The advice offered by OECD on the question of subsidies is based on real experience. A number of OECD countries maintain high levels of the type of support which distorts production and consumption by distorting input and output prices. Although support expanded production, it brought many problems, including high costs for consumers and taxpayers, and it has not solved the problems of low incomes on smaller farms or of the rural exodus. There is now a generalized move in OECD countries to both reduce support and to change its nature, away from price support, and this move is underpinned by the commitments made in the GATT Uruguay Round.

In deciding on a policy of subsidies, to agriculture or to other sectors in the economy, the reality that they have to be paid for by taxation must be constantly borne in mind. In Russia’s situation, this is of particular concern, given the high budget deficit, the difficulties in raising and collecting tax revenue and
the need to reduce inflation. A reduction in inflation and interest rates is particularly in the interest of the agricultural sector.

Before introducing any subsidy program it has to be kept in mind that such programs have everywhere proven to be extremely difficult to dismantle afterwards, when the real need had passed. In addition, it was noted that it was important to distinguish between economic and social functions of agriculture. The financing of the latter is clearly a government responsibility. Government needs to facilitate economic development but in a market economy the private sector had the major role in financing its own development.

**Productivity**

The difficult price/cost situation for agriculture, the pressure which will exist on government to reduce subsidies and the competition which will come from international trade all point towards the need to have a sustained policy and program to improve productivity in Russian agriculture. The Workshop did not address in any detail how productivity could be improved. A policy for improved productivity needs to have both a short term and a longer term dimension. There are short term measures which can be taken -- using existing resources -- which will increase productivity. The Workshop heard of one such measure (a better way of making hay leading to improved animal performance). The longer term strategy for improving productivity required investment in education and training and the development of a market infrastructure, including a widespread dissemination of market information.

Finally, policy makers have to be conscious of getting the sequence of policy initiatives correct. Some policy initiatives could produce results in the short term: others, by their nature, require much longer. For instance, changing land ownership and use is a long term process, although it will be critical to take certain key decisions in the short term. The area in which policy change would appear to have the potential to make positive changes in the shorter term is in relation to developing a market infrastructure, and in particular in promoting genuine competition in the upstream and downstream sectors of agriculture.
Structural adjustment is the process by which resources, land, labour and capital move to their most productive use. In a market economy, optimum efficiency is achieved when this movement is in response to price signals.

A wide range of papers was presented to the workshop reflecting experiences of structural adjustment in OECD countries and in the Russian Federation. These papers focussed largely on land privatisation and farm structure although it was recognised that structural adjustment in upstream and down stream industries was equally important. Papers also covered rural development and education.

A number of contributors drew attention to inevitable concerns over developments stemming from land privatisation although it was also recognised that it is control over use of land rather than ownership that is critical to the structural adjustment process. The implication is that leasing of land can play an important role.

In OECD countries, practically all agricultural land is in private ownership although, in some countries, a substantial proportion of land is leased. However, a leasing system does, itself, require that the title to land is clearly established. It also requires legislation to provide protection for the assets of landowners and the opportunity to make a reasonable return on assets while at the same time providing security to the tenant to encourage investment.

Clear title to ownership of land and appropriate legislation in OECD countries has enabled active markets to be established in the sale and leasing of land which reflect its earning potential. The outcome is that land moves to those farmers who can use it most effectively and this in turn determines the size structure of holdings.

In the Russian Federation, progress has been made in the privatisation of agricultural land. There is understandable concern over the problems which a free market in the transfer of land would create in the short term, both in the exploitation of small owners and in the fragmentation of holdings. Furthermore, it is clear that the transition to a market economy has not produced the results many had hoped for. Some see this as a failure of the market economy approach. However, the institutions and the rules necessary for the establishment and controls of markets were not in place. Added to which, macro economic factors, and the slow pace of transformation in upstream and down stream sectors have exacerbated the problems faced by agriculture. It was also suggested that failure to issue land ownership certificates had impeded transition and that there was a lack of entrepreneurial expertise.

It is not clear what farm business structure will best meet the needs of Russian agriculture. Many state enterprises have been transformed into joint stock holding companies. These have the advantage of preventing fragmentation and providing security to shareholders. It remains to be seen whether they will prove to be viable structures in the longer term because of the need for a high level of management skills and the conflicting interests of shareholders.

There were interesting comparisons with developments in the former East Germany and in Hungary. A system seems to have emerged in East Germany which allows different farm business structures to co-exist. In Hungary, there had also been problems with privatisation but there is now general acceptance that
new structures are needed. The process had been helped by privatisation of the food processing sectors and the replacement of the state purchasing monopolies by more competitive private companies. Transformation had led, initially, to a fall in production but production was now increasing and was meeting domestic needs with higher quality produce and exports are higher than under the previous system.

There was lively debate over the issue of economies of scale. Quite rightly, there were questions as to why increases in farm size were seen as good in the West while some have recommended the splitting up of large state enterprises in the East. There is no doubt that economies of scale in agriculture are important. However, experience in Hungary and East Germany has shown that units, smaller than those which existed before, could achieve the same level of output at lower cost.

The social problems in rural areas were widely recognized. Unemployment had increased not only because of the shedding of labour from agriculture but also the inflow of labour from urban areas. In Hungary, there had been some success in retraining labour and creating new jobs in related sectors. There was general agreement that, in the new environment, agriculture could not be expected to support the rural economy and to take responsibility for the social services previously provided by collective farms. In the West, it is increasingly being seen that agricultural policies should be used to address agricultural production and market problems and that separate policies were needed to tackle social and rural development issues. The distances between rural communities in some parts of the Russian Federation make rural social problems more acute but inevitably resources to assist those areas would be limited.

There was a wide measure of agreement on the importance of education and the need for training to address new areas. Well-trained managers were a particular need and a broader education to address the multi-dimensional problems was seen as important. This would require trainers to be trained and the provision of adequate funding for education. At the same time, educational institutions would have to adapt to these changed educational needs.

At the end of the day, it has to be recognised that structural adjustment is a long-term process. Systems will have to be put in place which recognise the characteristics of Russian agriculture. This will require policies which provide stability and continuity but also policies which encourage rather than impede the structural adjustment process.
The Russian specialists outlined the severe problems of the Russian agricultural credit sector. High interest rates, a lack of credits and unfavourable price developments induced a severe decline in production.

Several Russian experts expressed the need for more government intervention, including input price regulations, credit subsidies and increases in budget allocations to agriculture.

The western experts cautioned against these interventions. They explained how the agricultural system worked efficiently in four western (European and American) countries. While there were important differences between the countries, all the systems included a number of basic conditions which need to be fulfilled to have an efficient agricultural financial system.

There is an important role for the government, but the role of the government is not direct involvement in credit allocation. In fact, all the successful credit systems explicitly excluded government intervention in loan decisions. Instead, the government should occupy itself with the creation of the legal and institutional framework in which a market system can develop, also in the credit market. This includes strengthening of the private property rights, ensuring strict legal procedures for lenders and borrowers, etc.

Furthermore, experience from OECD countries clearly indicates the importance of macro-economic stability for a successful credit system. In addition, high interest rates will decline if macro-economic stabilisation improves, together with declining inflation. Because of this, increasing the budget deficit by massive interest subsidies might worsen the problem, instead of improving it.

1. Other factors that were underlined as crucial for the development of a well-functioning credit system were:

   – the need to finance only good projects
   – the need for a balance between equity and debt in financing
   – the importance of combining saving and lending in one institution
   – the gradual development into other sectors to spread the risk
   – the importance of competition between various financial institutions, such as co-operative banks, commercial banks and others.

In all the western countries various agricultural financial institutions co-exist and this was indicated as a sound factor. Competition amongst banks kept prices low and forced banks to serve their clients (the producers and the consumers) well. Moreover, the institutions have undergone substantial changes over time and it had taken quite some time to develop the present system.

There was agreement among all participants that it would take quite some time for a sound agricultural finance system to develop in Russia, and also on the need to address problems outside agriculture, more specifically the macro-economic instability, in order to solve the agricultural credit problems.
Finally, several examples and suggestions raised during the presentations and the discussion deserve a closer and more detailed analysis than was possible during the workshop. Therefore it was suggested to continue this co-operation with the OECD and a suggestion was made to organise another seminar focusing solely on credit, banking and insurance problems in agriculture.
Seminar on “Agro-Food Sector Policy in the OECD Countries and the Russian Federation: The Role of the State, Trade, Prices, Financing and Structural Adjustment”

Moscow, Russian Federation

23-25 October 1995

Organised by the Division for Economies in Transition of the OECD Directorate for Food, Agriculture and Fisheries within the framework of the work programme of the OECD Centre for Co-operation with the Economies in Transition, with the co-operation of the Ministry of Agriculture and Food Supplies of the Russian Federation.

Official languages for the conference are English and Russian, with simultaneous interpretation.

Monday, 23 October

Morning session chairman: Nikolai Aver’ianov

9:00 AM   Conference opening

9:00-9:30  Welcome to conference participants
Nikolai Aver’ianov, Deputy Minister, Russian Federation (RF) Ministry of Agriculture and Food Supplies
Alexandra Trzeciak-Duval, Head, Russian Federation Programme, OECD Centre for Co-operation with the Economies in Transition

9:30-10:00 The current state of agricultural production in the Russian Federation
Aleksandr Nazarchuk, RF Minister of Agriculture and Food Supplies

10:00-10:30 The current state of agriculture in OECD Member countries: a case for further reform
Herbert Raidl, OECD Deputy Director for Food, Agriculture and Fisheries

10:30-11:00 Discussion

11:00-11:30 Coffee break

11:30-12:00 The role of the state in a market-oriented agro-food sector
Tom Arnold, Chairman of the OECD Committee for Agriculture
Ivan Starikov, RF Deputy Minister of the Economy

12:00-13:00 Discussion

13:00-14:30 Lunch
14:30-18:30  Introduction of main conference topics

Afternoon session chairman: Alexandra Trzeciak-Duval

**Topic No. I. Agricultural price, trade and support policies in a market economy**
14:30-14:45 Nikolai Aver’ianov, Deputy Minister, RF Ministry of Agriculture and Food Supplies
14:45-15:00 Ken Ash, Executive Director, Policy Branch, Industry Performance and Analysis Directorate, AgriCanada

15:00-15:45  Discussion

**Topic No. II. Structural adjustment, privatisation and rural development**
15:45-16:00 John Slater, Chairman of the OECD group of experts on E/W economic relations in agriculture
16:00-16:15 Ivan Ushachev (presented by Valentin Denisov), Deputy Minister, RF Ministry of Agriculture and Food Supplies

16:15-16:30  Coffee break

16:30-17:15  Discussion

**Topic No. III. Financial institutions and credit systems for a viable agro-food sector**
17:15-17:30 Viktor Khlystun, Vice Chairman, Agroprombank
17:30-17:45 Johan F.M. Swinnen, Professor, Catholic University of Leuven, Belgium

17:45-18:30  Discussion

18:30  Adjourn

**Tuesday, 24 October**

The seminar continues in 3 parallel Working Groups (9:00-14:00 & 15:00-19:00)

Working group presentations will be limited to approximately fifteen minutes, and represent the opinions of the speakers. Institutional affiliations are listed for information only.

**Working group I: Market-oriented agricultural price, trade and support polices**
Co-chairmen: Nikolai Aver’ianov
Tom Arnold
9:00-10:45A. Agricultural price and trade policies

“Price and trade policy”, Leonid Kholod, Head, Administration of price policy, RF Ministry of Agriculture and Food Supplies
“Reform in the financial and credit mechanism of Russian agriculture”, Evgeniia Serova, Head, Laboratory of Agrarian Policy, Institute of the Economy in Transition
“The need for market-oriented policies: OECD experience”, Matthew Harley, Principal Administrator, Economies in Transition Division, OECD Directorate for Food, Agriculture and Fisheries
“Polish agro-food sector trade policy”, Jerzy Lach (presented by Zygmunt Smolanski), Deputy Director, Department of Agricultural Marketing, Ministry of Agriculture and Food Economy, Poland
Discussion

10:45-11:15 Coffee break

11:15-14:00 B. Market regulation and support policies

“Market regulation and the need for state support of agriculture”, Gennadii Bespakhotnyi, Deputy Head, Main Administration of Economics, RF Ministry of Agriculture and Food Supplies
“Market regulation and support policies: the case of Finland”, Antero Tuominen, Department Head, Ministry of Agriculture, Finland
“State regulation of the agricultural market in Russia”, Vladimir Miloserdov, Director, VNIETUSKh
“Agricultural market regulation and support policies: the case of the Czech Republic”, Antonin Kalina, First Deputy Minister of Agriculture, Czech Republic
“Developing and improving intersectoral relationships in a market environment: the shifting price-cost relationship between agriculture and its suppliers”, Akhiar Gataulin, corresponding member, Russian Academy of Agricultural Sciences (RAAS)
Discussion

14:00-15:00 Lunch

15:00-17:30C. Regional and international trade relations

“Impacts of the Uruguay Round on agricultural commodity markets: implications for Russia”, William H. Meyers, Professor, Center for Agricultural Research and Development (CARD), Iowa State University
“The World Trade Organization (WTO)”, Christopher Carson, Agriculture and Commodities Division, World Trade Organization
“Organization of the CIS common agricultural market”, Aleksandr Serkov, All-Russian scientific-research institute of agricultural economics (VNIESKh)
Discussion

17:30-18:00 Preparation of working group report
Working group II: Structural adjustment, privatisation and rural development
Co-chairmen: John Slater
Valentin Denisov

9:00-10:30 A. Structural adjustment policies

“The adjustment process and policies in the OECD countries”, Herbert Raidl, Deputy Director for Food, Agriculture and Fisheries, OECD
“Fundamentals of a policy for creating an economy with multiple forms of ownership and management”, Anatoli Ramanov, Deputy Director, VNIESKh
“Creating an agro-food sector with multiple forms of ownership and management: results, problems, prospects”, Vladimir Kuznetsov, Corresponding Member, RAAS
Discussion

10:30-12:00 B. Farm restructuring (1)

“Small-scale agricultural production in Russia”, Gelii Shmelev, Academician, Russian Academy of Agricultural Sciences (RAAS)
“Farm restructuring in Hungary,” Gyorgy Raskó, Committee on Agriculture, Parliament of Hungary
“Structural policy and the use of agricultural production”, Aleksei Zinchenko, Corresponding Member, Russian Academy of Agricultural Sciences (RAAS)
Discussion

12:00-12:30 Coffee break

12:30-14:00 Farm restructuring (2)

“Structural change in East German agriculture since 1990,” Eberhard Schinke, Director, Center for Continental Agricultural and Economic Studies, Justus-Liebig University, Giessen, FRG
“Land reform and the reorganization of agricultural enterprises”, Vasilii Uzun, Agrarian Institute RAAS
“Forms of organization and management and the efficiency of agro-food sector enterprises,” Ivan Burobkin, Deputy Director, All-Russian scientific-research institute of the economics of labor and management in agriculture (VNIETUSKh)
“Comments on the restructuring of agricultural enterprises in the Russian Federation,” Don Van Atta, Administrator, Division for Economies in Transition, Directorate for Food, Agriculture and Fisheries, OECD.
Discussion

14:00-15:00 Lunch
15:00-16:30 D. Rural development policies

“Policies to accompany the changes taking place in rural areas in OECD Member countries”, Marie-Christine Kovachschazy, Vice-chairman, Group on rural development of the OECD council, Chargé des Affaires Rurales, Commissariat General du Plan, France
“Social problems of rural development during the agrarian reform”, Liudmila Bondarenko, sector head, All-Russian scientific-research institute of agricultural economics (VNIESKh)
Discussion

16:30-17:00 Coffee break

17:00-18:30 E. Education and training for a market-oriented agro-food sector in the Russian Federation

“Agricultural education and training for a more private-based and market-oriented agro-food sector in Russia”, Ferdinand Kuba, Head, Division for Economies in Transition, OECD Directorate for Food, Agriculture and Fisheries
“Issues of human resources management for the agrarian reform”, Aleksandr Medvedev, Head, Main administration for personnel policy, training and consulting, RF Ministry of Agriculture and Food Supplies
“Vocational training and retraining in a market-oriented agro-food sector”, Mariia Trifonova, Head, Main administration of higher educational institutions, Ministry of Agriculture and Food Supplies
Discussion

18:30-19:00 Preparation of working group report

Working group III: Financial institutions and credit systems for a viable agro-food sector
Chairman: Johan F.M. Swinnen

9:00-11:15 A. Financial institutions and credit policies (1)

“The evolution and structure of US agricultural credit markets; relevance for the Russian Federation,” Marvin Duncan, Professor, North Dakota State University, former chairman, Farm Credit System and Farm Credit Insurance Corporation
“The agricultural credit system in Germany”, Gerd Wesselman, Head, Agriculture Department, VZG Bank (Germany)
Discussion

11:15-11:45 Coffee break

11:45-14:00 B. Financial institutions and credit policies (2)

“Financial and credit policy on the federal level”, Semen Il’in, Deputy Head, Main administration of financial, credit and tax policy, Ministry of Agriculture
“The agricultural credit system in Denmark”, Bjarne Dyreborg-Carlsen, Deputy Chief Executive, Dansk Landbrugs Realkreditfond (Danish Agricultural Mortgage Bank)
“The agricultural credit system in the Netherlands”, Jan Porte, Group Director Factoring, De Lage Landen International B.V. (Rabobank)
Discussion

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14:00-15:00  Lunch

15:00-16:30  C. Financial and credit policies in regions of the Russian Federation

“Financial and credit policy and the utilization of production capacity,” Iosif Kurtsev,
Director, Siberian scientific-research institute of agricultural economics (SibNIESKh)
“Regional financial and credit policy”, Anatolii Cherminaev, Director, Volga region scientific-
research institute of agricultural economics (Povol’zhskii NIIESKh)
Discussion

16:30-17:00  Coffee break

17:00-18:30  D. Financing agriculture through credit unions and cooperatives

“Agricultural Co-operative Development International’s work in the NIS”, Fred Smith, ACDI
Discussion

18:30-19:00  Preparation of working group report

Wednesday, 25 October

Co-chairmen: Valentin Denisov,
Herbert Raidl

9:30-10:00  Comments
Aleksandr Kalinin, head, Agro-food sector and consumer market department, Apparatus of the
Government of the Russian Federation

10:00-10:45  Summary report and main conclusions from Working Group No. 1
Discussion

10:45-11:30  Summary report and main conclusions from Working Group No. 2
Discussion

11:30-12:00  Coffee break

12:00-13:00  Summary report and main conclusions from Working Group No. 3
Discussion

13:00-14:00  Summary and conclusions
(Discussion of informal, brief written summary of main conclusions)

14:00  Closing of seminar
List of Speakers

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