Agricultural Policy Monitoring and Evaluation 2013
OECD Countries and Emerging Economies

PART II

Chapter 19

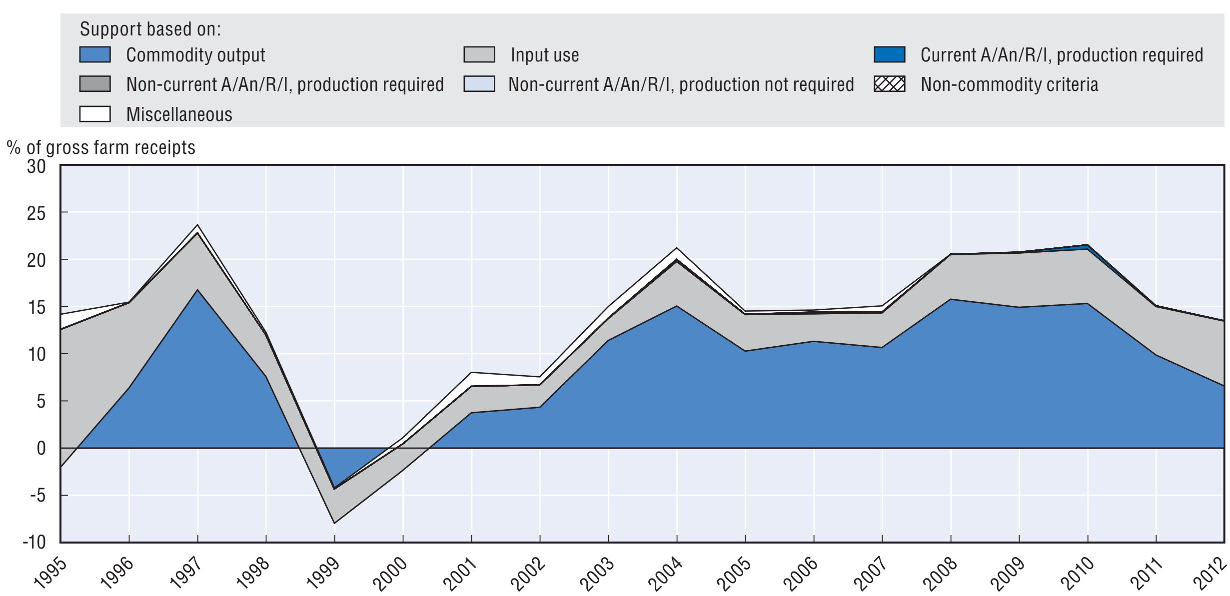
Russia

The Russia country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2011-12 and in the longer term perspective, and a brief description of the main policy developments in 2011-13.

Evaluation of policy developments

- Support to agricultural producers tended to increase in the 2000s, reaching the OECD average level in 2008-10. This reflected a tightening of border protection and increased budgetary transfers within the planned and exceptional measures of that period. However, in 2011 and 2012 the level of support declined to below the OECD average.
- Russia acceded to the WTO in August 2012 and began to implement its liberalisation commitments under the WTO package, although some recent SPS measures have raised concerns from trading partners about application of undue trade restrictions. The main national agricultural programme expired in 2012 and was succeeded by the next one up to 2020. The new programme maintains the orientation to production growth and import substitution, but this will have to be pursued along with the gradual lowering of trade barriers to comply with WTO conditions to accession.
- Achieving the stated growth targets in such conditions would require fundamental improvements in the international competitiveness of Russian producers. The policy directions formulated up to 2020 demonstrate some increased focus on long-term efficiency improvements, as evidenced by new measures to stimulate the adoption of modern technologies, R&D, investments in market and production infrastructure, and land improvement. However, the policy re-focussing has so far been modest and is unlikely to enable substantial improvements in the competitiveness of Russia's agriculture.
- A stronger shift is required from a policy based on subsidy and import protection to one focussed on strategic investments in long-term productivity improvements and sustainable resource use. This will also be essential to ensure that the planned high levels of agricultural spending are in compliance with Russia's WTO commitments. This policy re-orientation would also benefit consumers for whom a more competitive domestic food system would provide cheaper food.
- Risk in agriculture and its effects on consumers have become important policy concerns in Russia in recent years. Until most recently, the government responded by trade restrictions and ad hoc relief measures. Policy response to production and price risks in agriculture needs to be diversified to avoid recourse to ad hoc actions. This involves better information and knowledge systems for producers development of adapted tax and social security mechanisms to help them through difficult times. Disaster insurance may need to be complemented by the exceptional assistance, but which should be triggered and provided based on a well-defined set of rules. Adequate monitoring and encouragement of competitive insurance services and other market tools for risk management should also be part of a diversified policy response to risk in agriculture.
- The re-instrumentation of support should go along with progress on the overall business climate to attract increased private investment, including foreign investment, skills, and know-how
- Efforts to stimulate an efficient and modern agriculture must be complemented by substantial enhancement of policies and programmes to improve living conditions in rural areas and to diversify rural incomes.

Figure 19.1. **Russia: PSE level and composition by support categories, 1995-2012**



Source: OECD, *PSE/CSE Database*, 2013.

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Contextual information

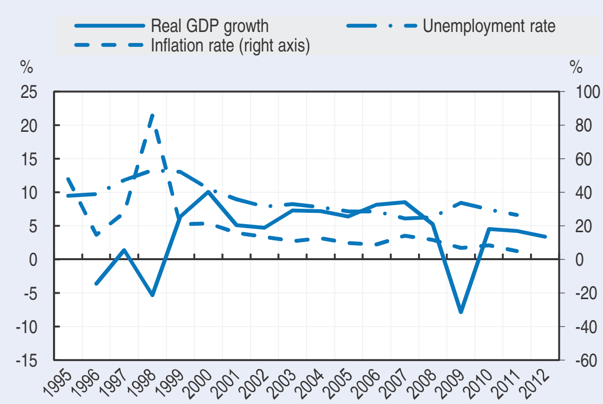
Russia has the largest land area in the world and considerable diversity in natural, economic, and social conditions. It is a federation of 83 sub-national territorial units where both federal and regional policies are implemented. Russia is the ninth largest world economy, with per capita income in purchasing parity terms (PPP) almost quadrupling since the mid-1990s. However, in per capita PPP terms it ranks 47th in the world. The economy, strongly affected by the global economic crisis, returned to growth in 2010. Agriculture contributes around 4% of GDP and 8% to employment. Russia is one of the world's top importers of meat and sugar, and is a large wheat exporter since the early 2000s. Agricultural output has recovered steadily from a deep recession in the 1990s, with the exception of an 11% fall in 2010 following a severe drought and an almost 5% fall in 2012, also due to drought. The farm structure is dual, with commercial operations co-existing with small household units, the latter oriented mostly to self-consumption. These two sectors contribute in roughly equal shares to total agricultural output. Over one-quarter of the population lives in rural areas, many of these areas are suffering economic and social decline and depopulation. Households spend around 30% of their final consumption expenditures on food.

Table 19.1. **Russia: Contextual indicators, 1995, 2011***

	1995	2011*
Economic context		
GDP (USD billion)	310	1 856
Population (million)	152	147
Land area (thousand km^2)	16 378	16 377
Population density (inhabitants/ km^2)	9	8
GDP per capita, PPP (USD)	5 599	21 093
Trade as % of GDP[1]	19.1	22.2
Agriculture in the economy		
Agriculture in GDP (%)	7.2	4.3
Agriculture share in employment (%)	15.7	7.9
Agro-food exports (% of total exports)[1]	2.1	1.7
Agro-food imports (% of total imports)[1]	18.1	12.2
Characteristics of the agricultural sector		
Agro-food trade balance (USD million)[1]	-9 214	-28 438
Crop in total agricultural production (%)	53	52
Livestock in total agricultural production (%)	47	48
Agricultural area (AA) (thousand ha)	216 400	215 561
Share of arable land in AA (%)	59	56
Share of irrigated land in AA (%)	..	..
Share of agriculture in water consumption (%)	..	..
Nitrogen Balance, Kg/ha	..	..

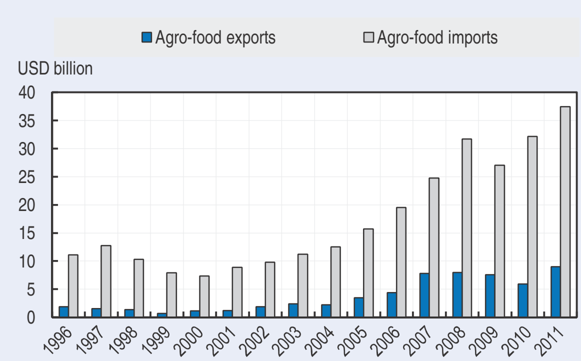
* or latest available year.
1. Data listed in 1995 refers to 1996.
Sources: OECD statistical Databases, UN COMTRADE, World Development Indicators and national data.
StatLink http://dx.doi.org/10.1787/888932876919

Figure 19.2. **Russia: Main macroeconomic indicators, 1995-2012**



Source: OECD statistics.
StatLink http://dx.doi.org/10.1787/888932875893

Figure 19.3. **Russia: Agro-food trade, 1995-2011**



Source: UN COMTRADE Database.
StatLink http://dx.doi.org/10.1787/888932875912

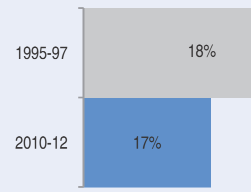
Note: Detailed definitions of contextual indicators and their sources are provided in Annex II.1.

Development of support to agriculture

Support to agriculture fluctuated over the long-term, but declined in 2011 and 2012. The decline in 2011 was largely due to the effects of export restrictions depressing domestic grain prices, while in 2012 developments in the livestock sector dominated: protection of this sector decreased, in part reflecting WTO-committed tariff reductions, and also because livestock producers benefitted less from cheaper feeds. Around 60% of producer support (PSE) derives from market price support, largely due to border protection. Livestock producers also benefit from domestic grain prices being below the world levels, although these benefits eroded in 2012 as domestic prices moved up closer to world levels. Budgetary transfers to producers are dominated by subsidies to variable inputs and investments. Over four-fifths of total support to agriculture (TSE) is provided to producers individually, with the rest directed to general services for agriculture.

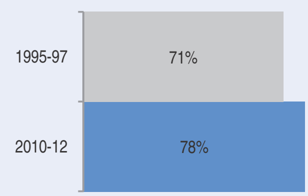
PSE as % of receipts (%PSE)

%PSE was at 17% of producer gross receipts in 2010-12 and below the OECD average (19%). This level of support is slightly below that observed in 1995-97 (18%).



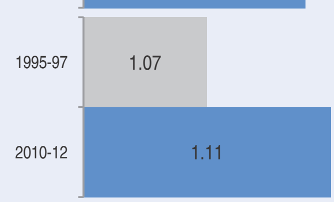
Potentially most distorting support as % of PSE

The share of the potentially most production and trade distorting forms of support increased from 71% to 78% of the total PSE. None of those transfers are provided with environmental, consumer safety, or other conditionalities.



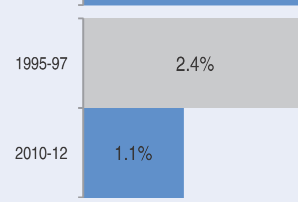
Ratio of producer price to border price (NPC)

Prices received by farmers were on average 11% above those observed on world markets in 2010-12, compared to 7% in 1995-97. This reflects an increase in border protection for several key import competing commodities over the long-term. However, protection was reduced in 2012, with the average NPC falling from 1.09 in 2011 to 1.06 in 2012.

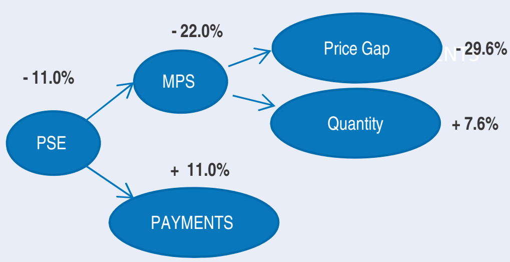


TSE as % of GDP

Total support to agriculture (TSE) as a % of GDP declined from 2.4% in 1995-97 to 1.1% in 2010-12 as GDP increased more than total support. General services account for 19% of the TSE.
Transfers to specific commodities (SCT) vary considerably, with livestock products receiving support, and crop products, except sugar and sunflower, facing negative transfers.



Decomposition of change in PSE, 2011 to 2012



The PSE decreased in 2012 due to a fall in market price support (MPS), but a half of that fall was offset by higher budgetary payments. MPS decreased as positive price gaps for livestock products narrowed. Although domestic grain prices moved up closer to world levels, less grain was produced. A decrease in quantity of grain produced and an increase of livestock output had an upward effect on the aggregate MPS.

Transfers to specific commodities (SCT), 2010-12

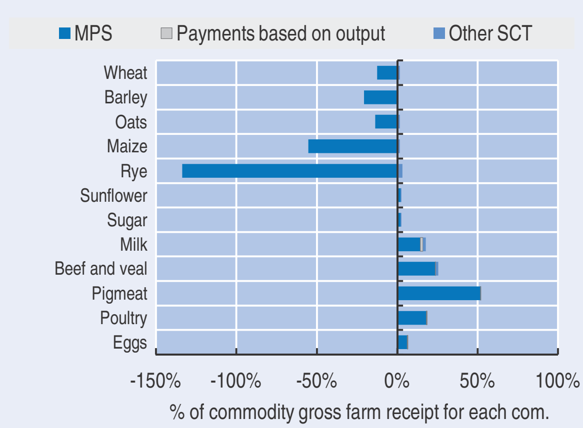


Table 19.2. **Russia: Estimates of support to agriculture**

RUB million

	1995-97	2010-12	2010	2011	2012p
Total value of production (at farm gate)	**179 431**	**2 610 678**	**2 104 051**	**2 895 557**	**2 832 425**
of which: share of MPS commodities, percentage	94	75	75	76	74
Total value of consumption (at farm gate)	**218 375**	**3 216 493**	**2 774 178**	**3 350 401**	**3 524 901**
Producer Support Estimate (PSE)	**36 394**	**452 851**	**485 183**	**462 070**	**411 299**
Support based on commodity output	14 858	282 860	345 295	302 495	200 791
Market Price Support	10 121	272 890	334 676	292 911	191 082
Payments based on output	4 737	9 971	10 619	9 584	9 709
Payments based on input use	19 943	165 510	129 772	157 014	209 746
Based on variable input use	11 959	74 269	55 375	78 387	89 045
with input constraints	0	0	0	0	0
Based on fixed capital formation	7 826	87 125	70 687	74 758	115 932
with input constraints	0	0	0	0	0
Based on on-farm services	159	4 116	3 710	3 869	4 769
with input constraints	0	0	0	0	0
Payments based on current A/An/R/I, production required[1]	0	4 480	10 116	2 562	762
Based on Receipts / Income	0	4 051	10 000	2 153	0
Based on Area planted / Animal numbers	0	429	116	409	762
with input constraints	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	0	0	0	0
With variable payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
With fixed payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0
Miscellaneous payments	1 593	0	0	0	0
Percentage PSE	**18**	**17**	**22**	**15**	**13**
Producer NPC	**1.07**	**1.11**	**1.18**	**1.09**	**1.06**
Producer NAC	**1.22**	**1.20**	**1.27**	**1.18**	**1.16**
General Services Support Estimate (GSSE)	**10 639**	**103 218**	**98 362**	**124 728**	**86 563**
Research and development	329	8 622	7 950	9 515	8 402
Agricultural schools	934	19 256	16 978	19 039	21 750
Inspection services	827	18 119	18 087	18 257	18 012
Infrastructure	1 639	17 002	23 004	12 576	15 426
Marketing and promotion	139	20 178	20 311	19 824	20 398
Public stockholding	0	1 679	5 038	0	0
Miscellaneous	6 771	18 362	6 994	45 518	2 576
GSSE as a share of TSE (%)	**19.2**	**18.5**	**16.9**	**21.3**	**17.4**
Consumer Support Estimate (CSE)	**-14 270**	**-438 368**	**-513 129**	**-501 270**	**-300 706**
Transfers to producers from consumers	-7 684	-243 550	-315 489	-265 620	-149 542
Other transfers from consumers	-4 151	-167 671	-182 203	-200 995	-119 816
Transfers to consumers from taxpayers	0	0	0	0	0
Excess feed cost	-2 435	-27 147	-15 437	-34 655	-31 349
Percentage CSE	**-6**	**-14**	**-18**	**-15**	**-9**
Consumer NPC	**1.06**	**1.15**	**1.22**	**1.16**	**1.08**
Consumer NAC	**1.07**	**1.17**	**1.23**	**1.18**	**1.09**
Total Support Estimate (TSE)	**47 033**	**556 068**	**583 544**	**586 798**	**497 862**
Transfers from consumers	11 835	411 221	497 692	466 615	269 357
Transfers from taxpayers	39 349	312 518	268 056	321 179	348 321
Budget revenues	-4 151	-167 671	-182 203	-200 995	-119 816
Percentage TSE (expressed as share of GDP)	**2.38**	**1.06**	**1.29**	**1.08**	**0.81**
GDP deflator 1995-1997=100	**100**	**1 511**	**1 328**	**1 538**	**1 666**

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

Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Russia are: wheat, maize, rye, barley, oats, sunflower, sugar, potatoes, milk, beef and veal, pigmeat, poultry and eggs.

1. A (area planted) / An (animal numbers) / R (receipts) / I (income).

Source: OECD (2013), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database).

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Policy developments

Main policy instruments

The multi-year State Programme for Development of Agriculture is the main framework that establishes agricultural support measures in Russia. It is based on the principle of co-financing of measures by the federal and regional governments, with significant regional variations in the co-financing rates. In addition to support included in the State Programme, regions implement their own, strictly regional policy measures.

A sequence of developments, such as global food price surges, the global economic crisis and strong local droughts brought the issue of food security to the forefront of the policy agenda. A Doctrine on Food Security was issued in early 2010 as part of the Strategy for National Security of the Russian Federation up to 2020. The Doctrine introduced a concept of "food sovereignty" understood to be a "stable internal production of food products at levels sufficient to secure the threshold shares to be occupied by domestically produced foodstuffs in total market supplies". The Doctrine thus places the emphasis on self-sufficiency as a way to ensure the country's food security. This document appeared when the preparations of the next State Programme for Development of Agriculture begun and has had significant influence on the future agricultural policy objectives.

In August 2012, after 18 years of negotiations Russia became a WTO member having signed a comprehensive package of liberalisation commitments in agriculture to be implemented by 2020. These concern both domestic support and trade policies, including the harmonisation of domestic trade regulations and procedures with international standards, in particular in the sanitary and phyto-sanitary area.

Prior to the official WTO accession, a package of support measures for the adaptation of agriculture to WTO membership conditions was submitted to the Russian Parliament for consideration. These included proposals on an agricultural tax regime, the introduction of a concept of less favoured areas in agriculture, and a new mechanism to support the acquisition of agricultural machinery and equipment. Some of these proposals have been adopted, while others are still being considered.

Drought again hit 20 regions in 2012 – the total grain crop was the second-lowest in a decade after the historically record low of 2010. During the last quarter of 2012, grain stocks fell rapidly, while prices rose considerably leading also to significant increases in feed costs. This has become one of the arguments for the Ministry of Agriculture to seek additional funding for 2013 on top of the initial budget allocation.

A key policy challenge for the future is that production enhancement and self-sufficiency objectives set in the new State Programme must be reached in the context of agricultural trade liberalisation foreseen by the country's WTO commitments.

State Programmes for Development of Agriculture

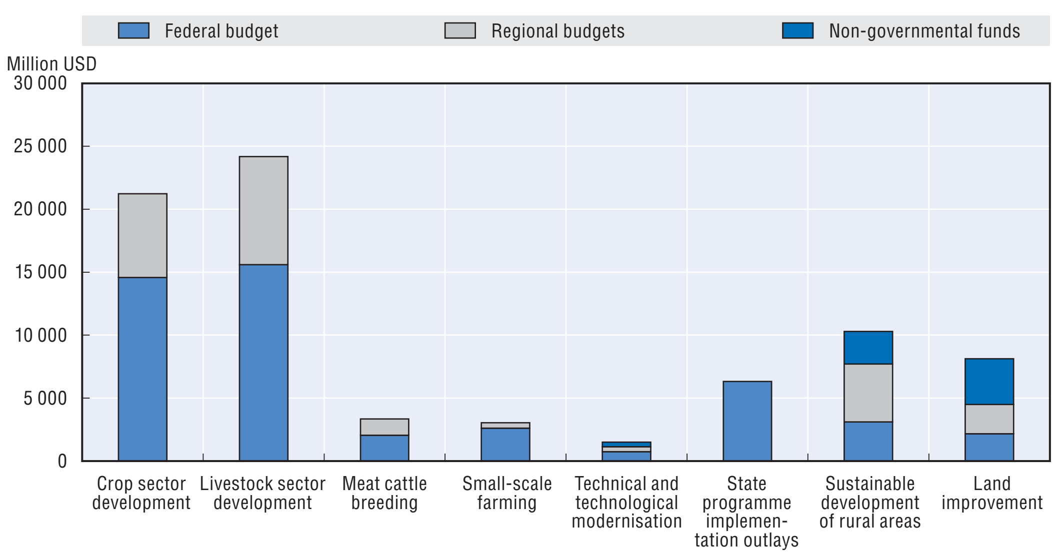
The State Programme for Development of Agriculture for 2008-12 (the State Programme) was the principal policy framework under implementation during the monitored period. Approximately RUB 861 billion (USD 29 billion) were allocated over the five-year implementation period. In 2013, this programme was succeeded by a new one for 2013-20.

The new 2013-20 State Programme is strongly inspired by the 2010 Doctrine on Food Security. Reaching the self-sufficiency targets set by the Doctrine is stated as the primary objective.* This is followed by objectives largely carried over from the previous programme, such as the sustainable development of rural areas and improving the living conditions of the rural population; enhancement of competitiveness of domestic agricultural products in the context of WTO membership; and a more efficient and ecologically sound use of natural resources in agriculture. Among the newly formulated objectives are the development of agro-food market infrastructure, promotion of innovation-based development, and the improvement of the state governance of agricultural development. Emphasis is also given to improvements in the animal and plant health systems and the environmental performance of agriculture, aspects which have emerged in view of Russia's WTO commitments. The scope of the new State Programme has been broadened, but most of the Programme's targets represent growth rates in agricultural output, investments in production, and the use of land and labour resources in agriculture. The new State Programme is fundamentally a plan to boost domestic agricultural production.

The State Programme for 2013-20 consists of six sub-programmes and has inherited most of the previous measures (Figure 19.4). A new component is the sub-programme on technical and technological modernisation of agriculture; two previously separate programmes on rural development and on land improvement will now be implemented as parts of the 2013-20 State Programme. Total outlays over the eight-year period of implementation, covering all its components and all sources of financing, are estimated to be RUB 2 498 billion (USD 78 billion), of which 61% is to be provided from the federal budget, 31% from regional budgets, and 8% from private sources (the latter will only be used for the programmes on rural development, land improvement, and modernisation).

Figure 19.4. **Budgeted outlays for the State Programme for Development of Agriculture for 2013-20 by sub-programmes and sources**

Aggregate spending for 2013-20



Source: Ministry of Agriculture of the Russian Federation, *State Programme for Development of Agriculture and Regulation of Markets for Agricultural Food and Fibre Products and Foodstuffs for 2013-20*, Moscow (2012).

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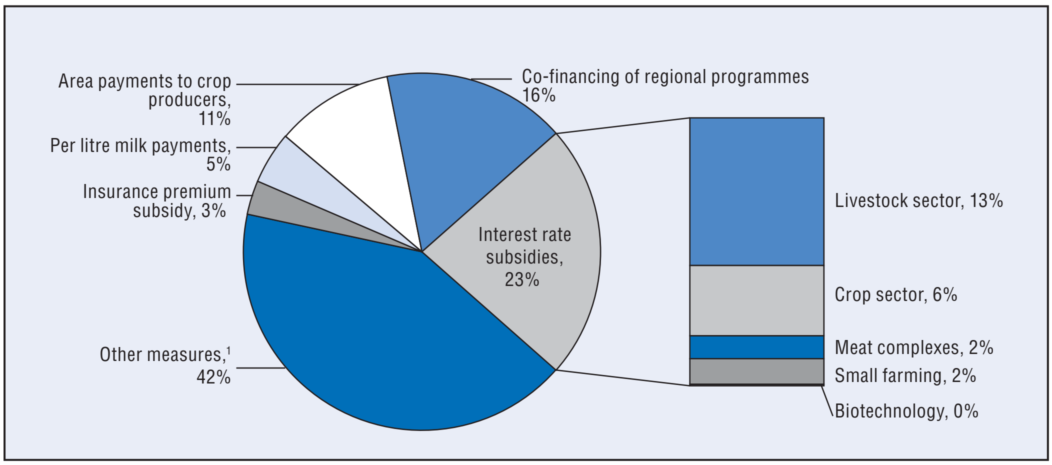
* These targets are set at not less than 80-95% and cover the following products: grains, sugar, vegetable oil, meat and meat products, milk and meat products, fish and fish products and salt.

On an annual basis, the Programme's financing will rise from RUB 281 billion (USD 9 billion) in 2013 to RUB 370 billion (USD 11.5 billion) in 2020. Russia's commitments to the WTO limit most trade and production-distorting support at USD 9 billion in 2012 and 2013, which is to be gradually reduced to USD 4.4 billion by 2018. This implies that spending under the State Programme will have to be steered for compliance with WTO domestic support commitments.

Figure 19.5. **Financing of the State Programme for Development of Agriculture for 2013-20 by specific types of support**

Percentage of the aggregate spending for 2013-20



1. Measures with the share in total outlays of 2% or less each.

Source: Ministry of Agriculture of the Russian Federation, *State Programme for Development of Agriculture and Regulation of Markets for Agricultural Food and Fibre Products and Foodstuffs for 2013-20*, Moscow. (2012).

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Over 50 specific support measures are foreseen across the Programme components, but more than half of total outlays are to be allocated to only five measures (Figure 19.5). The largest one will continue to be interest rate subsidies, which will absorb around one quarter of the overall Programme financing. The second largest support item is the co-financing of economically important regional programmes, defined as programmes that may "considerably contribute to sustainable social and economic development of rural territory of a region." A new area payment to crop producers is introduced driven by the considerations of compliance with the WTO limits on most distorting domestic support. Another new feature is the opening of federal co-financing for per litre milk payments. Following the recent series of droughts, subsidies to insurance premiums have also become one of the most important spending items and increased attention will be given to the grain intervention system. Of the outlays for "other measures," more than half will be allocated to rural development and land improvement programmes, mainly in the form of investment.

Summing up, the new State Programme maintains the principal objective of boosting domestic production and self-sufficiency, and largely continues the previous support structure. However, a number of changes are introduced in view of WTO commitments along with a modest increase in investments to improve the longer-term performance of the agricultural sector. The new Programme further extends the scope of support beneficiaries to cover more downstream and infrastructural activities. It also increases support for projects which will be developed by the regions. It can be expected that the initial financing targets described above may undergo adjustments in response to economic and market developments, as was the case with the previous State Programme. For example, in February 2013 the Ministry of Agriculture requested an extra

RUB 42 billion (USD 1.35 billion), or 26% of the initial federal funding target, for additional assistance in 2013.

Domestic policy developments in 2011-13

The majority of domestic policy measures described below were implemented within the framework of the State Programmes 2008-12 and are continued under the State Programme 2013-20.

The main instrument of price support in Russia is border protection (see the overview of trade policies below), but there are also several domestic policies, such as market interventions and output payments.

Market interventions can be implemented for grains (feed and milling wheat, feed barley, rye and maize), whereby the government can withdraw or purchase this product if the market price moves outside the established band between minimum and maximum prices. Prices at which market interventions are implemented, however, do not play the role of price guarantees. Restrictions on imports or exports can be imposed during the intervention periods. Grain intervention has been active since the 2008/09 season, in particular in 2010/11 to mitigate the consequences of the 2010 drought on food and feed prices. The low 2012/13 grain crop (70.7 million tonnes), combined with active exports in the last quarter of 2012 (13.5 million tonnes), led to rapid depletion of grain stocks and increases in grain prices, particularly for feed grain. The government intervened to ease the effects on bread prices: between October 2012 and January 2013, 1.45 million tonnes of milling wheat were released from the Intervention Fund. Grain prices, however, were rising rapidly and by January 2013 were around double their levels a year ago. It is expected that in addition to food wheat, the Intervention Fund will start selling feed grain, while the government considered a proposal to lift the 5% duty on grain imports from non-CIS area.

Payments based on output are provided from regional budgets for marketed meat, milk, eggs and wool, with milk accounting for nearly 80% of the total output payments directed for livestock products in 2010-12. As of 2013, regional financing of per tonne milk payments will be complemented by federal funds. This measure is viewed by the government as the most efficient instrument to stimulate growth in milk output, which is, together with the increase in meat output, the top priority of the Programme. However, this represents a move towards support that is subject to WTO domestic support disciplines. The overall annual outlays on payments per tonne of milk are estimated to approximately double in 2013-20 compared to the 2008-12 period. In the crop sector, producers of flax and hemp received per tonne payments in an effort to revive this sector, while some regions also provided support for grains, potatoes and other crops. Per tonne payments were relatively small, accounting for 2% of the total PSE and 6% of the budgetary transfers in the PSE in 2010-12.

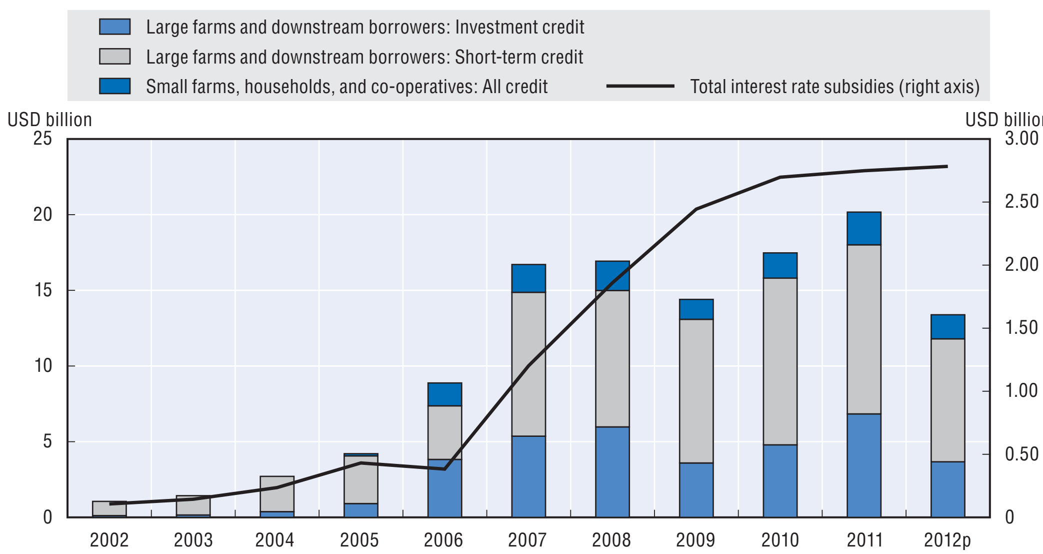
Concessional credit is one of the most important agricultural support measures, contributing 14% to the total PSE in 2010-12. It is also one of the largest budgetary transfers in the PSE, accounting for 35%. Concessions take the form of subsidies on interest payments, which are co-financed from federal and regional budgets. The subsidy is set as a fraction of the central bank refinancing rate, with the fraction varying by type of beneficiary and type of loan. The estimates for the period between 2007 and 2012 indicate that the subsidy reduced the interest rates of concessional loans by approximately two-thirds.

Originally, the concessional credit programme focussed mainly on subsidising short-term loans to large-scale farms, usually for sowing and harvesting works, and short-term loans to processors. Since the mid-2000s, the programme has substantially expanded in scope and scale:

smallholder agricultural producers, their co-operatives, and new types of downstream operations have become beneficiaries; smallholders can also receive subsidies on loans to develop non-agricultural activities. In addition, interest subsidies were made available not only for short-term but also investment credit.

The amount of concessional credit provided each year increased from RUB 119 billion (USD 4.2 billion) in 2005 to RUB 595 billion (USD 20.2 billion) in 2011. However, it was reduced to RUB 416 billion (USD 13.3 billion) in 2012. About 90% of concessional credit in 2010-12 was directed to large-scale farms and downstream borrowers, with almost two-thirds representing short-term loans (Figure 19.6). The expansion of concessional lending was accompanied by a substantial increase in government outlays on interest subsidies. The total amount (including all types of borrowers, all types of credit, and federal and regional funds) rose from RUB 12 billion (USD 0.4 billion) in 2005 to approximately RUB 86 billion (USD 2.8 billion) in 2012. This reflects the increase in new lending each year, an accumulating stock of long-term loans that mature after five to ten years, and additional concessions granted as part of relief assistance in 2009-12.

Figure 19.6. **Russia: Concessional credit allocations in 2002-12**



Source: Ministry of Agriculture of the Russian Federation.

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In the new State Programme for 2013-20 a further broadening of beneficiaries is foreseen to include investors in downstream infrastructure, trading and processing facilities. Interest subsidies for modernisation and construction of biotechnology facilities will become newly available, although with a small budget allocated for this purpose. Nevertheless, credit support will not increase as was the case for previous state programmes. Concessions for new investment loans for poultry complexes will be stopped as of 2015, and for pig complexes as of 2017. No subsidies on new loans for planting and harvesting works will be provided; this support will shift to the new area payment (see below).

In addition to interest subsidies, a range of **subsidies for variable inputs and investments** are provided. This group of support accounted for almost one quarter of the total PSE and over one half of budgetary transfers in the PSE in 2010-12. The main payments included subsidies to purchase mineral fertilisers and chemicals, diesel fuel for seasonal works, and mixed feed, subsidies to transport seeds of feed crop to areas with adverse climatic conditions, the leasing of machinery and livestock at preferential terms, and subsidies to crop insurance premiums. The federal law "On State Support in the Area of Agricultural Insurance" (2011) made all support payments conditional on producers being covered by catastrophic insurance. It stipulates a 50% insurance premium subsidy for insurance of catastrophic crop risks (crop losses in excess of 30% for arable crops and 40% for perennials). In the State Programme 2013-20, an insurance premium subsidy is to become available for livestock starting from 2013. Beyond direct budgetary support, agricultural producers benefit from **discounted fuel prices**. This support does not involve budgetary disbursements and is based on agreements between fuel suppliers and regional authorities whereby the former sell fuel to agricultural users at a discounted price. This measure was introduced in 2009 as part of the financial relief package, maintained following the drought in 2010, extended to 2011 and again applied in 2012 due to drought.

The sector received additional input subsidies as exceptional assistance. After the 2010 drought extra input subsidies were provided to farms that maintained their cattle numbers through the 2011 winter. In 2012, an extra RUB 14 billion (USD 0.45 billion) were allocated to drought-affected regions as relief assistance to support the purchase of seeds for winter planting and feeds. Agricultural producers, mostly small individual farmers, were able to purchase machinery from *Rosagroleasing* with a 50% discount. The company received RUB 3.7 billion (USD 126 million) from the federal budget in 2011 and approximately the same amount in 2012 as compensation for the revenue foregone.

Some input subsidies are also delivered within the economically important regional programmes. In 2011, 53 of the 83 regions received federal co-financing for their programmes, amounting to 6.5% of total federal outlays budgeted in the 2008-12 Programme for that year. Around half of that support went to projects for the development of meat and milk farming.

Up to 2013, **area payments** were insignificant, consisting of small subsidies to maintain permanent crop plantations. This support amounted to only 1% of the total PSE and 2% of the budgetary part of the PSE in 2010-12. Starting from 2013, crop producers will receive new area payments which will replace a number of previous support items: mineral fertiliser and chemicals subsidy, fuel subsidy, interest rate subsidies on sowing and harvesting loans, and the small per tonne payments for flax and hemp. The amount of federal funding to be allocated to a particular region depends on its total crop area in the previous year, its land fertility score, and its crop yields. Other things being equal, regions with higher crop yields receive higher allocation per hectare. The procedures for allocation of the funds within the regions are not yet known, but it may be expected that the majority of regions will employ a similar method as at the federal level.

Agricultural producers benefit from a number of **tax preferences**. As part of the package to assist domestic producers to adapt to WTO membership, the previously existing tax concessions have been maintained at least until 2017.

Agricultural producers that have the status of legal entities, i.e. agricultural organisations and individual entrepreneurs, can select a Single Agricultural Tax (SAT) regime. This tax is set at 6% of the difference between the value of gross receipts and the value of costs of the enterprise. Those who pay the SAT are exempt from income tax, property tax, and, except in specified cases, VAT. Producers who have not opted for the SAT regime benefit from a zero income tax on earnings from primary agricultural and processed products (compared to standard rate set at 20%), but are eligible for property tax and VAT. A zero income tax concession for those who are eligible for SAT regime was initially granted up to 2012; the tax was to be raised to 18% in 2013-15 and aligned with the standard 20% rate as of 2016. However, as part of the WTO adaptation package, this concession was maintained for an indefinite period. Some additional concessions were also granted to heads of the individual farms on income tax on physical persons. Rural households are not considered as businesses, and thus are not eligible to pay tax on income from sale of agricultural products; they can also benefit from certain concessions on land tax.

In addition to concessions associated with the SAT, there are other VAT preferences related to the agro-food items. A reduced VAT rate of 10% (compared to a standard 18% rate) is set for live cattle and poultry. The same preferential rate is applied to a range of key foodstuffs. A number of agricultural inputs, including feed grains and some feedstuffs, are sold with a 10% VAT rate. In 2012, this list was extended to include pedigree animals, their embryos and semen, and pedigree hatching eggs.

Trade policy developments in 2011-13

In the lead-up to the WTO accession, harmonisation and unification of the trade regime continued within the Customs Union with ***Belarus*** and ***Kazakhstan*** (CU) which came into effect on 6 July 2010. All customs borders between these three countries were removed and replaced by a single external customs border on 1 July 2011. The objective of CU members was to complete the harmonisation of SPS norms and technical regulations by mid-2011, but this process is still on-going.

Russia's WTO accession is the major development for the period under the review. The 18-year accession negotiations were formally closed on 16 December 2011 and the country officially became a member of the Organisation on 22 August 2012. Russia's main WTO commitments related to the agro-food are summarised in Box 19.1. These commitments should also be viewed within the context of the CU; in areas which fall under the competence of the CU they become part of the CU's legal system. For example, common CU tariff must not exceed the rates bound by a CU member at the accession to the WTO, except in cases specified by the WTO Agreement. Furthermore, ***Belarus*** and ***Kazakhstan*** are not yet WTO members and are currently in the process of individual WTO accession negotiations. Their future WTO commitments will also have implications for all CU participants.

Russia's meat imports are subject to **tariff rate quotas (TRQ)** on imports from the non-CIS area (Table 19.3). Between 2008 and up to mid-2012, Russia has been tightening the TRQ regime, but with different speed and intensity for different types of meat. Conditions for market access were particularly tightened for poultry imports with a significantly reduced quota and much higher over quota tariff. TRQs for all three basic meats typically remained under-filled, in particular for fresh and chilled beef and for poultry, partly due to restrictions imposed on deliveries from some suppliers on food safety grounds (see below). Upon WTO accession Russia will maintain country-specific quotas for fresh and chilled beef (72% of total quota to be allocated to the ***European Union***); frozen beef (the ***United States***, the ***European Union*** and ***Costa Rica*** altogether receiving 30% of the total); and frozen boneless poultry cuts (80% allocated to the ***European Union***).

Following WTO accession, Russia's total in-quota imports and bound tariffs will remain the same over the implementation period for all three types of meat. However, the WTO schedule of commitments contains a number of changes compared to the pre-accession conditions. In-quota imports of fresh and chilled beef are slightly increased, but with a higher tariff bound for over-quota imports. In-quota imports of chilled, fresh or frozen poultry are slightly increased as well. Tariffs on pigmeat imports are brought to 0% and over-quota tariff reduced. As of 2020, pigmeat TRQs are to be eliminated and a bound tariff rate of 25% will apply. No commitment to eliminate beef and poultry TRQs is included, but if Russia chooses to move to a tariff-only regime, bound rates of 27.5% and 37.5% shall respectively apply, both higher than the current in-quota tariffs, but lower than the pre-accession over-quota tariffs.

Dairy products represent another of Russia's key agro-food imports. Skim milk powder is imported duty free from the CIS area, with deliveries from Belarus subject to an inter-governmental agreement (similar to sugar). At accession, tariffs for milk products were reduced, and are to be decreased further due to WTO commitments. For example, tariffs for skim milk will decrease from 20% to 15% by 2015; combined tariffs will be maintained for butter, and brought down to 15% but not less than EUR 0.22 per kg (from 20% but not less than EUR 0.29 per kg), also by 2015. Tariff reductions for imported cheeses are to be implemented by 2015-17.

Table 19.3. **Russia's meat import quotas before and after WTO accession**

	2010	2011	2012[1]	2013[1, 2]	WTO comminments		
					Bindings at accession		Final bindings
				Beef fresh and chilled			
			0201		**0201 10; 0201 20; 0201 30**		
TRQ, th. tonnes	30.0	30.0	30.0	40.0	40.0	40.0	27.5% if TRQ is eliminated
In-quota tariff		15%, n.l. 0.2 EUR/kg		15%	15%	15%	
Over-quota tariff		50%, n.l. 1.0 EUR/kg		50%, n.l. 1.0 EUR/kg	55%	55%	
				Beef frozen			
			0202		**0202 10; 0202 20; 0202 30**		
TRQ, th. tonnes	530.0	530.0	530.0	530.0	530.0	530.0	27.5% if TRQ is eliminated
In-quota tariff		15%, n.l. 0.2 EUR/kg		15%	15%	15%	
Over-quota tariff		50%, n.l. 1.0 EUR/kg		50%, n.l. 1.0 EUR/kg	55%	55%	
				Pigmeat fresh, chilled or frozen			
			0203		**0203 11 to 02 03 29**		
TRQ, th. tonnes	472.1	472.1	400.0	400.0	400.0	400.0	25% and TRQ eliminated as of 2020
In-quota tariff		15%, n.l. 0.25 EUR/kg		0%	0%	0%	
Over-quota tariff		75%, n.l. 1.5 EUR/kg		65%	65%	65%	
				Pigmeat trimmings			
TRQ, th. tonnes	27.9	27.9	30.0	30.0	30.0	30.0	25% and TRQ eliminated as of 2020
In-quota tariff		15%, n.l. 0.25 EUR/kg		0%	0%	0%	
Over-quota tariff		75%, n.l. 1.5 EUR/kg		65%	65%	65%	
				Poultry meat fresh, chilled or frozen			
			0207		**02 07 14; 02 07 27**		
TRQ, th. tonnes	780.0	350.0	330.0	364.0	354.0	354.0	37.5% if TRQ is eliminated
In-quota tariff		25%, n.l. 0.2 EUR/kg		25%, n.l. 0.2 EUR/kg	25%	25%	
Over-quota tariff		80%, n.l. 0.7 EUR/kg		80%, n.l. 0.7 EUR/kg	80%	80%	

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

1. Tariff rates shown for 2012 are those effective up until 23 August 2012, and tariff rates shown for 2013 are those effective as of 23 August 2012.
2. The volumes shown do not include additional TRQs allocated in 2012 following WTO accession: 3.33 thousand tonnes for fresh and chilled beef, and 10 thousand tonnes for poultry meat.

Source: Resolutions of the Government of the Russian Federation.EurAsEc Commission, WTO.

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Russia frequently resorts to **non-tariff restrictions on agro-food imports**, in particular with respect to livestock products. For example, measures taken shortly before and after WTO accession included: bans due to alleged violation of veterinary requirements on live animal imports from all ***EU*** countries and on meat or meat products from ***Paraguay***, ***Australia***, ***Netherlands***, ***Czech Republic***, ***Germany*** and ***Ukraine***; a ban on beef and pork imports from ***Canada*** and the ***United States*** based on concerns over ractopamine use; and ban of imports of cattle from ***Finland*** and ***Australia*** due to alleged presence of Schmallenberg virus, and most recently, a ban on imports of a broad range of livestock products from ***Spain***. Current SPS requirements applied by Russia within the CU present considerable challenges to exporters and in general are subject to international controversy, while with respect to some SPS measures taken recently WTO trade partners expressed concerns over their undue trade restrictiveness.

Russia's imports of sugar traditionally face high border protection. For **white sugar,** a duty of USD 340 per tonne is set for imports from outside the CIS. CIS deliveries are duty free if sugar is processed from sugar beet. However, imports of white sugar from Ukraine are excluded from the CIS duty-free regime; this exclusion remains active "until the next agreement", as foreseen by a new Agreement on Free Trade in the CIS Area ratified in 2012. Until then, both countries will mutually apply their MFN tariffs. Belarus is the main supplier of white sugar to Russia. Belarusian deliveries are regulated by inter-governmental agreements on annual import quantities, import prices, and the authorised Belarusian suppliers (all belonging to the Belarusian State Concern).

For **raw sugar,** imported mostly from Brazil, a different tariff regime is applied. An import duty is set on the basis of a reference price for raw sugar which is derived from the average monthly price of the New York Mercantile Exchange (NYMEX). The levy can vary between the fixed minimum and maximum boundaries. A higher NYMEX price commands a lower levy and vice versa. Prior to WTO accession, this regime underwent frequent adjustments, including within the CU framework. These concerned the range delimiting the levy variations, the parameters of the seasonal duties and the range of NYMEX prices underlying the variable levy. As a WTO member, Russia will maintain its floating levy regime indexed to the NYMEX, but in the Report of the Working Party, Russia expressed its intention to consider reforming the sugar tariff regime in 2012, with a view to its further liberalisation. In the negotiations, Russia agreed to cut the upper rate of the floating levy from USD 270 to USD 250 per tonne, if the average monthly price of raw sugar at the NYMEX is below USD 100 per tonne. The minimum rate of the floating levy remained unchanged at USD 140 per tonne. Russia's WTO Schedule of Concessions and Commitments, also includes a provision on lowering of the NYMEX price boundaries that trigger the application of the maximum and minimum levies, implying that lower rates of levies are charged at the same level of NYMEX prices.

The Russian sugar market experienced two consequent historically high sugar beet crops, amounting to 48 million tonnes in 2011 and 43 million tonnes in 2012. This was almost double the average for the decade between 2000 and 2010, and such high harvests had not been seen in any year since the mid-1980s. This abundant supply put a cap on domestic price increases; they did not follow the considerable price increase on world sugar markets in 2011, with the result that domestic prices remained below world levels both in 2011 and 2012. Reduced market price support for sugar contributed to the fall in Russia's PSE for these two years.

Russia's **grain export regulations** change between restriction and stimulation in response to fluctuations in the domestic supply of grains and in food prices on the domestic market. The typical export stimulation measure consists of temporary **reductions in railway tariffs** for transportation of grains from producing regions to Russian export outlets. As part of its WTO obligations, Russia has committed to unify its domestic and foreign operating tariffs for railways by no later than 1 July 2013. According to the Report of the Working Party on Russia's accession to the WTO, over the period between accession to the WTO and 1 July 2013, Russia would gradually reduce the existing differences in rail transportation charges.

However, the most recent period was featured by grain exports restrictions. Following the 2010 drought, a **ban on grain exports** was imposed between 15 August 2010 and 30 June 2011. It covered wheat, wheat and rye mix, barley, rye, maize, wheat flour and mixed wheat and rye flour (the ban on flour exports was lifted in January 2011). This acted as a disincentive for domestic grain producers, and had spill-over effects on international markets. In 2012, when drought again hit Central Russia the government refrained from recourse to export limitations.

The interaction between grain trade restrictions applied and the grain supply situation in 20110/11 helps to understand the decrease in Russia's PSE in 2011. A taxing effect of the 2010/11 export ban on domestic prices was already visible in 2010. In 2011, domestic grain prices fell further below the world levels; the export ban was maintained throughout the first half of that year, followed by a high new crop in the second half, coming onto the market in the situation when above average carry-over stocks had accumulated. The negative gap between domestic and border prices opened widely, particularly for thinly produced and traded grains, such as maize and rye; the latter was also subject to local price controls because it is used to produce low-cost staple bread. In the PSE estimates this was reflected as a considerable increase in an aggregate negative market price support for grains, as stronger price taxation was coupled with the higher quantities produced. This was the principal driver of the fall in the total PSE in 2011. The fall in support was even more pronounced in relative terms (%PSE), since a smaller value of support transfers was coupled with higher value of gross producer receipts.

The price situation in 2012 was the opposite: grain export restrictions were not imposed after the drought, so that by the end of the year grain prices rose substantially. The aggregate value of the negative market price support for grains was nearly halved, but this also reduced the benefits of livestock producers for whom feed prices moved up closer to the world levels. The livestock sector also saw lower price protection, partly related to WTO accession and evidenced by the fall in nominal protection coefficients for all livestock products in 2012. Market price support for livestock products thus decreased. The effect of these changes in market price support for grains and livestock products was a reduction in the aggregate market price support and the total PSE in 2012. In relative terms (%PSE), the fall in support was not as pronounced as in 2011 as it occurred along with a reduction in the total value of gross receipts in agriculture due to the low grain harvest.

Since 1992, **export duties** have been applied on **oilseeds**. Prior to WTO accession the duties were set: for sunflower at 20% but not less than EUR 30/tonne; for rapeseed and soybeans at 20% but not less than EUR 35 per tonne; and for mustard seed at 10% but not less than EUR 25 per tonne. As part of Russia's WTO commitments, duties on sunflower seeds will be reduced from to 6.5% (but not less than EUR 9.75/tonne) within four years of accession and on rapeseed to 6.5% (but not less than EUR 11.4/tonne) within three years. Duties on soya beans will be eliminated within three years following accession and on mustard seeds within one year.

In the area of regional trade integration, Russia ratified a new **Agreement on Free Trade in the CIS Area** in 2012 (see Chapter 23), and as a member of the CU is involved in negotiations of a Free Trade Agreements with the ***European Free Trade Association (EFTA)*** and ***New Zealand*** (see Chapter 19).

Box 19.1. Russia's key WTO commitments in agriculture

Import tariffs: Russia will bind tariffs on all products. For agriculture, most tariff reductions will be implemented as of Russia's accession, covering over 60% of agricultural tariff lines. By 2016, final tariff bindings are to be reached on 94% of tariff lines, with all the remaining bindings (including for pigmeat) becoming effective by 2020. The average of final bound rates on agricultural goods is estimated at around 10.8%, compared to the current average applied tariff rate of 13.2% (the corresponding rates for industrial goods are 7.3% and 9.5% respectively). Zero final binding tariffs are agreed for certain live animals, soya beans, soya cake, and colza seeds. The highest final bound rate is set for over-quota imports of beef meat (55%, HS 0201 and HS 0202) and poultry meat (80%, HS 0207), provided these quotas are maintained (see below).

Tariff rate quota (TRQ): Upon accession to the WTO, Russia will maintain its meat TRQs, with pigmeat TRQs to be eliminated in 2020. No commitment to eliminate beef and poultry TRQs is included. Apart from meat, a small TRQ is also opened for whey in specific forms.

Domestic support: The total trade distorting agricultural support, as measured by an Aggregate Measurement of Support (AMS), will not exceed USD 9.0 billion in 2012 and 2013 and will then be reduced in equal parts over the following five years to USD 4.4 billion in 2018. As an additional commitment to limit trade distortions, from the date of accession to 31 December 2017, the annual sum of all product-specific support shall not exceed 30% of the agricultural support that is non-product specific.

Export competition: Russia has agreed to bind subsidies on exports of agricultural products at zero.

Quantitative export restrictions: In relation to quantitative restrictions on agricultural products, Russia has committed to act in accordance with Article XI of the GATT 1994 and Article 12 of the WTO Agreement on Agriculture. With respect to the Customs Union (CU) regulations, a CU party may unilaterally impose a temporary non-tariff measure if it, among other specified cases, is aimed at the "prevention or reduction of the critical shortage in the domestic market for food or other goods essential for the domestic market". However, the party concerned must solicit approval of the EurAsEC Commission to apply the measure across all CU territory, failing which the unilaterally introduced measure may be maintained no longer than six months since its introduction (EurAsEC, 2009).

Export duties remain outside the competence of the CU and are subject to national regulations. As far as agricultural goods are concerned (in the WTO definition), at the date of accession Russia is allowed to apply export duties on oilseeds, certain fish products, and ethanol. Depending on the product, duty reductions or eliminations will be implemented within the periods from one to four years.

Sanitary and phyto-sanitary measures (SPS): all SPS measures would be developed by Russia or the competent CU bodies in accordance with the WTO SPS Agreement. In particular, in line with Article 3.1 of the WTO SPS Agreement, Russia committed that all SPS measures, whether adopted by the Russian Federation or the competent bodies of the CU, would be based on international standards, guidelines or of the World Animal Health Organisation (OIE), the International Plant Protection Convention (IPPC), and the Codex Alimentarius (Codex), when either no mandatory domestic or CU requirements exist or when domestic standards are more stringent, but no scientific justification exists to support higher requirements (WTO, 2011). Russia's commitments in the SPS area entail substantial post-WTO accession work, most of which will be carried out within the framework of the CU. This will concern further harmonisation of SPS measures with international standards, improvements in risk assessment practices, transparency, control, inspection, and approval procedures.

Technical Barriers to Trade (TBT): Russia has agreed that all legislation related to technical regulations, standards and conformity assessment procedures would comply with the WTO TBT Agreement.

Source: Report of the Working Party on the Accession of the Russian Federation to the World Trade Organization, WT/ACC/RUS/70, WT/MIN(11)/2, 17 November 2011, WTO, Geneva; The Schedule of Concessions and Commitments on Goods Resulting from the Negotiations between the Russian Federation and WTO members, Part 2, WT/ACC/RUS/70/Add.1, WT/MIN(11)/2/Add.1, 17 November 2011, WTO, Geneva.

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