Agricultural Policy Monitoring and Evaluation 2011
OECD Countries and Emerging Economies

PART II

Chapter 19

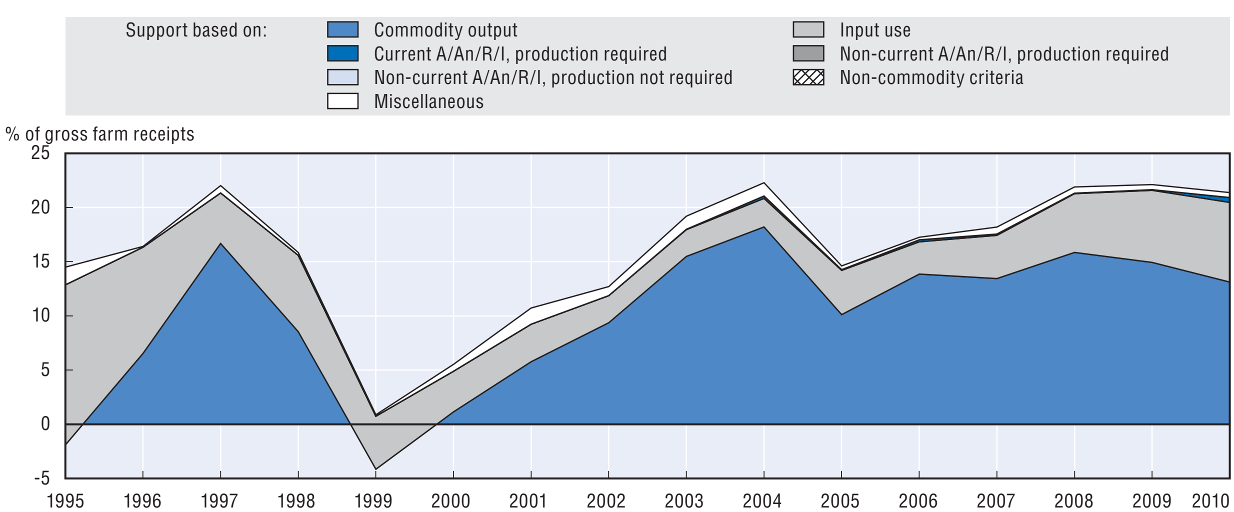
Russia

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 2009-10 and in the longer term perspective, and a brief description of the main policy developments in 2009-10.

Evaluation of policy developments

- Producer support has increased since the mid-1990s to a level that currently exceeds the OECD average. This reflects a tightening of border protection for key agricultural imports and an increase in budgetary transfers to the sector.
- Agricultural support has been driven by a progressive orientation of policies towards import substitution. Particular focus has been placed on stimulating growth of livestock production through border protection and investments. The recent food price surges have increased concerns on import dependency and have further strengthened the focus on increasing domestic food supplies. However, the export ban on grains in place during the 2010/11 season acted as a disincentive for domestic grain producers and has had important spill-over effects on international markets.
- The stated policy objectives have been pursued at a relatively high cost to taxpayers and consumers and transfers from the crop to the livestock sector. The majority of support is provided through output and variable input subsidies, *i.e.* in forms that are potentially the most distorting.
- The recent increase in agricultural support reflects in part the significant relief assistance provided in 2009-10. The global economic crisis in 2009 and local droughts, including a particularly severe one in 2010, triggered additional input subsidies and credit concessions.
- *Ad hoc* assistance, although prompted by exceptional circumstances, has created future risks and associated policy challenges. Credit restructuring has increased producer debt exposure and has led to higher government commitment to provide interest subsidies. A careful steering of the agricultural debt will be required to avoid a debt spiral. Public funds were re-allocated away from land improvement, rural development, infrastructure, and farm services. A momentum in supporting these areas needs to be regained if the objective is to achieve the sustained development of the sector.
- Russia's agricultural policy is at a particular juncture. The main national agricultural policy programme expires in 2012 and preparations for the next one have begun. WTO accession is at an advanced stage and the country's future commitments to reduce distorting support are being established. It is highly opportune to shift the policy focus from subsidising output and input prices to supporting long-term improvements of the sector's efficiency and competitiveness, as well as creating an enabling institutional environment.

Figure 19.1. **Russia: PSE level and composition by support categories, 1995-2010**



Source: OECD, *PSE/CSE database*, 2011.

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Contextual information

Russia has the largest area in the world, with considerable diversity in natural, economic, and social conditions across regions and a combination of federal and regional policies. It is the sixth largest world economy, with per capita (PPP) income more than doubling since the mid-1990s. By *per capita* PPP, the country ranks 69th in the world. The economy was strongly impacted by the global economic crisis, but returned to growth in 2010. Agriculture contributes around 5% to GDP and attracts 8% of employment. Russia is one of the world's top importers of meat and sugar, and has become a large wheat exporter since the early 2000s. Agricultural output has recovered steadily from a deep recession in the 1990s, however it fell by 12% in 2010 following a severe drought. The farm structure is dual, with large-scale commercial operations co-existing with small household units. The latter dominate in potato and vegetable production and account for over one half of total milk output, but are mostly oriented at self consumption. These two sectors contribute roughly equal shares to total agricultural output. Over one-quarter of the population lives in rural areas, with many rural areas facing economic and social decline and depopulation. Households spend around one-third of their final consumption expenditures on food.

Table 19.1. **Russia: Contextual indicators, 1995, 2009***

	1995	2009*
Economic context		
GDP (USD billion)	310	1 222
Population (million)	148	142
Land area (thousand km^2)	16 378	16 378
Population density (habitants/km^2)	9	9
GDP per capita, PPP (USD)	5 612	13 217
Trade as % of GDP	19.2	19.2
Agriculture in the economy		
Agriculture in GDP (%)	7.6	4.9
Agriculture share in employment (%)	15.7	8.3
Agro-food exports (% of total exports)	2.1	2.5
Agro-food imports (% of total imports)	18.1	15.8
Characteristics of the agricultural sector		
Agro-food trade balance (USD million)	–9 235	–19 456
Crop in total agricultural production (%)	53	43
Livestock in total agricultural production (%)	47	57
Agricultural area (AA) (thousand ha)	209 800	190 947
Share of arable land in AA (%)	61	61
Share of irrigated land in AA (%)	n.a.	n.a.
Share of agriculture in water consumption (%)	n.a.	n.a.

* Or latest available year.

Sources: OECD statistical databases, World Development Indicators and national data.

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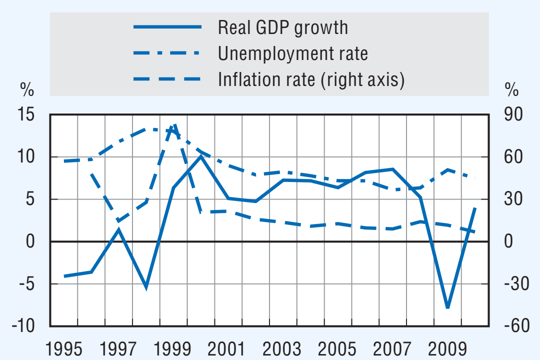
Figure 19.2. **Russia: Main macroeconomic indicators, 1995-2010**



Source: OECD statistics.

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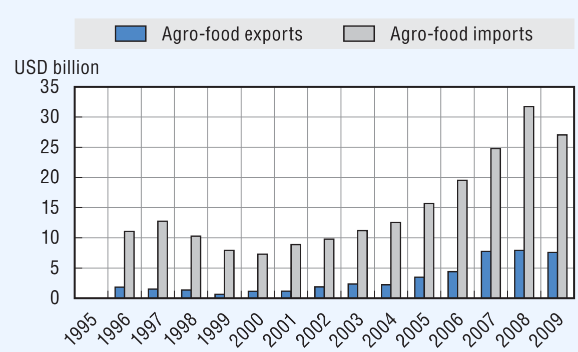
Figure 19.3. **Russia: Agro-food trade, 1995-2009**



Source: International Trade by Commodity Statistics (ITCS) Database.

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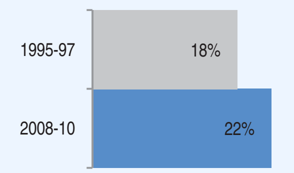
Note: Detailed definitions of contextual indicators and their sources are provided in the Annex II.A1.

Development of support to agriculture

Russia has increased support to agriculture over the long-term. Around two-thirds of producer support (PSE) derives from market price support, which is largely due to border protection. Livestock producers also benefit from the fact that prices of domestic grain are below the world levels. Budgetary transfers to producers are dominated by subsidies to variable inputs and investments. Additional input subsidies and credit concessions were provided as part of the exceptional assistance to the sector in 2009-10, which contributed to higher support levels and to a rising share of most distorting support in the PSE. Nearly one-fifth of the total support to agriculture (TSE) is provided for general services.

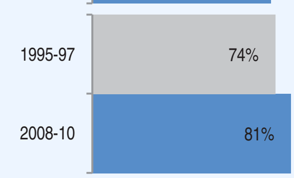
PSE as % of receipts (%PSE)

%PSE increased from 18% in 1995-97 to 22% in 2008-10, and exceeded the OECD average (20%). The overall high economic growth helped to increase consumer incomes and government revenues and made possible the tightening of border regime and larger transfers to agriculture.



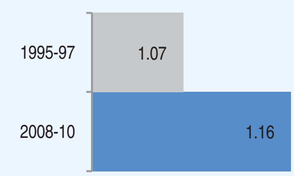
Potentially most distorting support as % of PSE

The share of the most distorting forms of support (based on commodity output and variable input use – without constraints) increased from 74% to 81% of the total PSE. No transfers are provided with environmental, consumer safety, or other conditionalities.



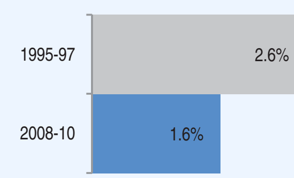
Ratio of producer price to border price (NPC)

Prices received by farmers were on average 16% above those observed on world markets in 2008-10, compared to 7% in 1995-07. This reflects increased border protection for several key import competing commodities. An average NPC for pigmeat increased from 1.15 in 1995-97 to 1.99 in 2008-10; from 1.35 to 1.69 for poultry; and from 1.48 to 1.55 for sugar.

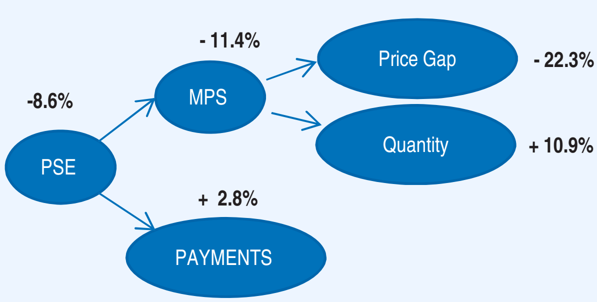


TSE as % of GDP

Total support to agriculture (TSE) as % of GDP declined from 2.6% in 1995-97 to 1.6% in 2008-10 as the GDP increased more than total support.

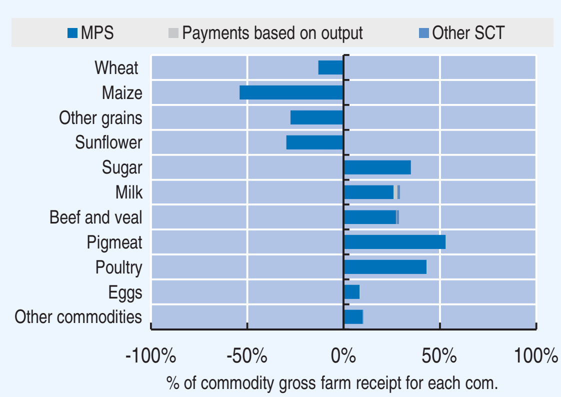


Decomposition of change in PSE, 2009 to 2010



The PSE decreased in 2010, largely due to a fall in market price support (MPS), with budgetary payments offsetting only a small part of that fall. The average positive gap between domestic and border prices narrowed as prices for grains and oilseeds moved further below world levels. However, much less grain and oilseeds were produced in 2010; decreases in the quantities of these products with negative price support had an upward effect on total MPS.

Transfers to specific commodities (SCT), 2008-10



Transfers to specific commodities (SCT) vary considerably, with most of the livestock products receiving high support, and crop products, except sugar, facing negative transfers.

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

RUR million

	1995-97	2008-10	2008	2009	2010p
Total value of production (at farm gate)	**191 374**	**2 125 880**	**2 209 616**	**2 154 139**	**2 013 886**
of which: *share of MPS commodities, percentage*	88	79	79	80	79
Total value of consumption (at farm gate)	**233 694**	**2 616 076**	**2 558 226**	**2 573 149**	**2 716 853**
Producer Support Estimate (PSE)	**39 317**	**501 503**	**517 548**	**515 534**	**471 428**
Support based on commodity output	17 767	337 474	374 822	348 190	289 410
Market Price Support	13 030	326 766	362 905	337 987	279 405
Payments based on output	4 737	10 708	11 917	10 203	10 005
Payments based on input use	19 958	148 376	128 105	155 005	162 018
Based on variable input use	11 973	66 387	64 841	65 494	68 825
with input constraints	0	0	0	0	0
Based on fixed capital formation	7 826	79 621	60 485	87 286	91 094
with input constraints	0	0	0	0	0
Based on on-farm services	159	2 368	2 779	2 225	2 099
with input constraints	0	0	0	0	0
Payments based on current A/An/R/I, production required[1]	0	4 190	1 120	1 450	10 000
Based on Receipts / Income	0	3 537	210	402	10 000
Based on Area planted / Animal numbers	0	653	910	1 049	0
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 variable 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	11 463	13 501	10 889	10 000
Percentage PSE	**18**	**22**	**22**	**22**	**21**
Producer NPC	**1.07**	**1.16**	**1.18**	**1.17**	**1.13**
Producer NAC	**1.22**	**1.28**	**1.28**	**1.28**	**1.27**
General Services Support Estimate (GSSE)	**10 625**	**120 260**	**116 268**	**160 280**	**84 230**
Research and development	329	8 140	6 730	8 691	9 000
Agricultural schools	934	17 193	14 743	18 337	18 500
Inspection services	827	19 298	18 730	20 534	18 630
Infrastructure	1 639	26 994	26 901	27 917	26 165
Marketing and promotion	124	514	363	612	567
Public stockholding	0	5 385	640	9 637	5 878
Miscellaneous	6 771	42 735	48 163	74 553	5 490
GSSE as a share of TSE (%)	**21.3**	**19.3**	**18.3**	**23.7**	**15.2**
Consumer Support Estimate (CSE)	**-18 847**	**-511 515**	**-611 294**	**-526 152**	**-397 100**
Transfers to producers from consumers	-10 715	-293 326	-340 095	-316 752	-223 132
Other transfers from consumers	-5 748	-188 488	-215 026	-191 678	-158 760
Transfers to consumers from taxpayers	0	0	0	0	0
Excess feed cost	-2 384	-29 701	-56 173	-17 722	-15 208
Percentage CSE	**-6**	**-20**	**-24**	**-20**	**-15**
Consumer NPC	**1.06**	**1.23**	**1.28**	**1.25**	**1.16**
Consumer NAC	**1.07**	**1.25**	**1.31**	**1.26**	**1.17**
Total Support Estimate (TSE)	**49 942**	**621 763**	**633 816**	**675 815**	**555 658**
Transfers from consumers	16 463	481 814	555 121	508 430	381 892
Transfers from taxpayers	39 226	328 437	293 720	359 063	332 527
Budget revenues	-5 748	-188 488	-215 026	-191 678	-158 760
Percentage TSE (expressed as share of GDP)	**2.60**	**1.56**	**1.53**	**1.73**	**1.42**
GDP deflator 1995-1997=100	**100**	**790**	**1 171**	**1 200**	**n.c**

p: provisional. nc : not calculated. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient. n.c: not calculated.

1. A (Area planted), An (Animal numbers), R (receipts), I (income).

MPS commodities for Russia are: wheat, maize, other grains, sunflower, sugar, potatoes, milk, beef and veal, pigmeat, poultry meat and eggs. Market Price Support is net of producer levies and Excess Feed Cost.

Source: OECD, *PSE/CSE database*, 2011.

StatLink http://dx.doi.org/10.1787/888932452725

Description of policy developments

Main policy instruments

The State Programme for Development of Agriculture for 2008-12 (the State Programme) is the main framework that establishes agricultural support measures in Russia. It is based on the principle of the co-financing of measures by the federal and regional governments, with significant regional variations in the co-financing rates. There are two other federal programmes which focus on the social development of rural areas and soil fertility. Regions also develop their own agricultural programmes incorporating strictly regional support measures (OECD, 2009).

Among the key agricultural policy objectives outlined in the State Programme are the improvement in competitiveness and the quality of agricultural products; sustainable rural development and better living standards for the rural population; and the conservation and reproduction of the natural resources used in agriculture (see OECD 2009 for more details on the State Programme). The State Programme's orientation is two-fold: to foster domestic production and to stop the social decline of rural areas, both processes are considered as mutually reinforcing. Concerning growth in domestic production, particular emphasis is placed on the livestock sector, whose output fell by one half during the 1990s. The current policy for this sector is based on the progressive substitution of meat imports through border protection and investment support.

The food price surge in 2008 was followed by the global economic crisis in 2009, a local drought in 2009, and a much more severe one in 2010. These consecutive shocks had amplifying effects and severely affected the country's agricultural sector. The government provided considerable exceptional support both in 2009 and 2010, and resorted to various border measures. The crisis management also led to substantial re-allocations in spending under the State Programme compared to the initial targets, with cuts in financing for some Programme blocks. The exceptional events again brought the issue of food security to the forefront of policy discourse. A Doctrine on Food Security was issued in early 2010 and set the criteria to evaluate food security based on the shares to be occupied by domestically produced foodstuffs in total market supplies. These shares 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. Regional governments were requested to develop their agricultural strategies and programmes with reference to this Doctrine. This document, however, does not have an "operational" status as the State Programme, where financing targets are set for each measure, and the execution of these targets is controlled.

Russia applies a wide range of price policy instruments, including border protection, export restrictions, domestic price interventions (effectively limited to grains) and some output subsidies. Various payments based on variable and capital inputs are provided, including in the form of interest rate subsidies. Agricultural producers also benefit from debt restructuring and concessions on taxes and social contributions.

Domestic policy

The main instrument of price support in Russia is border protection, but there are also several domestic policies such as market interventions and per tonne 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. These prices, however, do not play the role of price guarantees. Restrictions on imports or exports can be imposed during the intervention periods. Following bumper crop in 2008 and a relatively high crop in 2009, over 11 million tonnes of grain were purchased into the intervention fund, leading to a sizeable increase in storage and insurance costs. In the first half of 2010, small quantities of maize were released on the market from the intervention fund (155 000 tonnes), and grain was released also in 2011 to mitigate the consequences of 2010 drought.

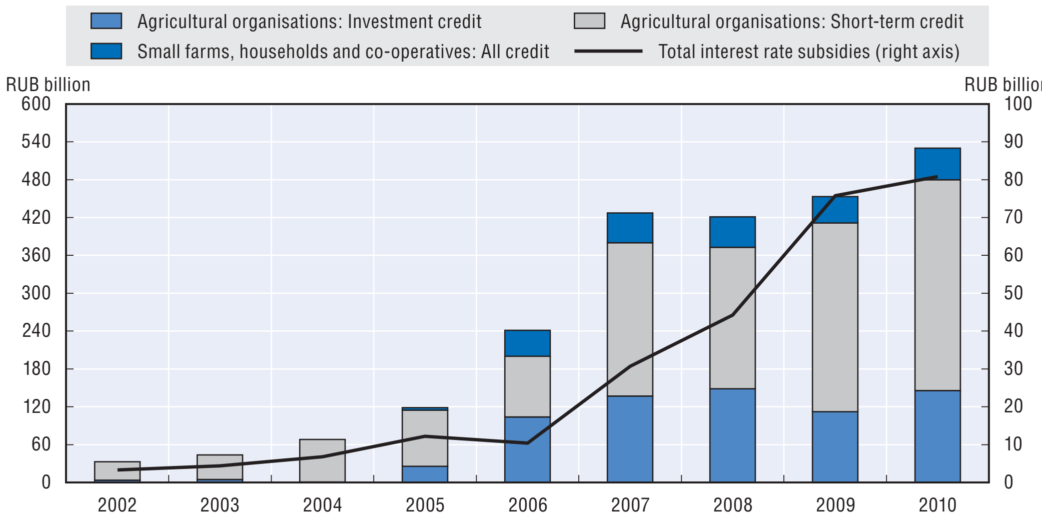
Per tonne payments are provided from regional budgets for marketed meat, milk, eggs and wool, with milk accounting for 80% of the total payments provided for livestock products in 2009-10. In the crop sector, producers of flax and hemp receive per tonne payments as part of the federal programme to revive this sector, while some regions also provide support for grains, potatoes and other crops. Per tonne payments have relatively small importance in the overall support, accounting for 2% of the total PSE and 7% of the budgetary transfers in the PSE in 2008-10. These payments are also a small share of support based on commodity output, the largest part (97%) coming from market price support.

Concessional credit is one of the most important agricultural support measures, contributing 14% to the total PSE in 2008-10. It is also one of the largest budgetary transfers of the PSE, accounting for 43%. Concessions take the form of subsidies on interest payments, which are co-financed from federal and regional budgets. The subsidy rate is set at a fraction of the central bank refinancing rate, with the fraction varying by type of beneficiary and type of loan. The estimates available for the period between 2007 and 2010 indicate that the subsidy reduced the interest rates of concessional loans by approximately two thirds. For example, in 2010 the non-subsidised weighted average interest rate on loans covered by credit concessions was around 13.1% per annum, which was reduced to 4.3% due to the federal and regional subsidies.

Originally, 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 been 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 medium and long-term credit. In 2010 the broadening of the scope of concessional credit continued, with several new investment activities becoming eligible for support (investments in grain handling and storage and plants to produce sugar beet seeds). The amount of new concessional loans provided each year increased substantially compared to the period preceding the State Programme – from RUR 114 billion (USD 4.1 billion) in 2005 to RUR 530 billion (USD 17.4 billion) in 2010. About 90% of those amounts in 2008-10 were directed to large-scale farms and downstream borrowers, with about two-thirds representing short-term loans (Figure 19.4).

The expansion of concessional lending was accompanied by a substantial increase in government spending on interest subsidies (Figure 19.4). The total amount (including all types of borrowers, all types of credit, and federal and regional funds) rose from RUR 44 billion (USD 1.4 billion) in 2008, RUR 76 billion (USD 2.5 billion) in 2009, to RUR 81 billion (USD 2.7 billion) in 2010. 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 crisis relief in 2009-10 (see below). The main part of subsidies originates from the federal budget. In 2008-10 it financed 82% of subsidies destined to large-scale producers and downstream borrowers, and 94% of subsidies to smallholders, with the rest covered by the regional budgets.

Figure 19.4. **Russia: Concessional credit allocations in 2002-10**



Source: Ministry of Agriculture of the Russian Federation.

StatLink http://dx.doi.org/10.1787/888932451756

Some Russian sources highlight the contribution of subsidised investment loans to the capitalisation of the livestock sector, which is an integral part of the policy to increase self-sufficiency in livestock products: between 2006 and 2010, there were about 1 500 livestock complexes that were either modernised or constructed in the milk sector, 600 in the pig sector, 343 in the poultry and 58 in the beef sector. The improved credit availability has likely facilitated the management of cash flow deficits in agricultural enterprises.

In addition to interest subsidies, a range of other **subsidies for variable inputs and investments** are provided. This group of support makes almost the same contribution to producer support as concessional credit – 14% of the PSE and 44% of the budgetary transfers in the PSE in 2008-10. Among the main payments are subsidies for purchasing mineral fertilisers and chemicals, diesel fuel for seasonal works, and mixed feed, subsidies to crop insurance premiums, subsidies for transporting feed crop seeds to areas with adverse climatic conditions for cultivation of feed crops, and leasing of machinery and livestock at preferential terms. In addition to these standard measures, other income and input support was provided in 2009-10 as part of the relief package. Some input subsidies are also delivered within special programmes, such as programmes to support the production and use of elite (high quality) seeds and to support pedigree livestock breeding, and within two new "sectoral" programmes launched in 2009 on "Development of Cattle Farming" and "Development of Dairy Farming". All these special programmes incorporate a range of measures designed to reduce the costs of purchased inputs, services and keeping of livestock.

Per animal and hectare payments are available only for a few specific activities. The shares of this support in the total PSE and its budgetary part constituted respectively 1% and 3% in 2008-10. Support per animal raised is directed to breeders and purchasers of pedigree livestock (within a general programme) and sheep (within a specific programme for that sector). Per head payments are also available to producers of reindeer and horse meat. In the crop sector, per hectare support is provided for maintaining and establishing permanent plantations. All these payments were suspended in 2010 due to budget constraints which re-allocated spending to other activities. This support, however, was reinstated in the 2011 budget.

Agricultural organisations (legal entities excluding household producers) benefit from a number of **tax preferences**. Around two-thirds of agricultural organisations (AO) choose the 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 AO. Those who pay the SAT are exempt from income tax, property tax, Single Social Tax, and, except in specified cases, VAT. AOs which have not opted for this regime benefit from a zero income tax on earnings from primary agricultural and processed products (with a standard rate of 20%). This concession is currently granted up to 2012. 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.

The sector received considerable **exceptional assistance** in 2009-10. An immediate impact of the 2009 financial crisis was the disruption of cash flows in agricultural enterprises, as retailers and processors began holding back payments, while banks cut back on lending and increased interest rates. The 2010 drought hit 43 regions after unprecedented high temperatures persisted throughout July and early August. Total grain output was reduced by 31% compared to the previous five-year average. Barley, the principal feed crop, had a 52% fall in output compared to the average of the previous five years. Furthermore, the prospects for the 2011 season were significantly worsened due to the highly unfavourable conditions for the development of winter crops. Large losses were registered for fodder crops, fruits and vegetables, including key staples such as potatoes. The 2010 drought was preceded by one in 2009, which affected 16 country districts and also necessitated disaster assistance.

A part of exceptional measures focussed on mitigating the credit crunch and providing financial relief for agricultural and downstream borrowers. In 2009, RUR 46 billion (USD 1.4 billion) was transferred for the capitalisation of the Rosselkhozbank, the principal agricultural lender. These funds were provided in addition to RUR 33 billion (USD 1.3 billion) allocated to the bank in 2008. Thirty-seven agricultural and agribusiness enterprises were included in the economy-wide list of priority businesses which could benefit from federal government guarantees on loans. Agricultural organisations and downstream companies holding concessional loans were granted an extension of loan repayments (by 6 months for short-term loans and up to three years for investment loans), together with an increase in the interest rate subsidies from ⅔ to 80% of the central bank refinancing rate (to 100% for milk and beef producers). Producers affected by drought in 2009 received an extension on interest payments. After the 2010 drought, additional loan restructuring was carried out by the banks. This time not only large-scale borrowers, but also smallholders and co-operatives have become eligible. The decision to restructure was a prerogative of the banks. The federal government undertook to subsidise the interest also on such loans. As of March 2011, the loans restructured by the three principal lending banks in connection with the 2010 drought stood at RUR 25 billion (USD 0.8. billion).

Another stream of concessions concerned agricultural machinery and livestock leased within the federal leasing programme. The *Rosagroleasing* company implementing this programme received a federal transfer for capitalisation. The lessees were granted various types of repayment extensions and, in 2010, reductions in the cost of obligatory machinery insurance that constitutes part of the leasing contract.

Exceptional measures implemented in 2009-10 included also disaster payments to producers to compensate crop losses, additional input subsidies for purchasing seeds, mineral fertiliser, and fuel for harvesting and sowing works. Feed supplies were of particular concern. Feed shortages occurred after the 2009 drought in the regions directly affected, while the 2010 drought had much wider effects. The reduced availability of feed created a risk of massive animal slaughter, which, given the investments made in recent years to boost livestock production, the government considered highly undesirable. The exceptional assistance, therefore, included additional subsidies for the purchase and transportation of feed to reduce the cost to commercial livestock producers, in particular feedlots and poultry complexes. Additional funding was foreseen in 2011 to farms that maintained their cattle numbers through the 2011 winter.

All these domestic policy actions were coupled with a set of border measures applied to both exported and imported agro-food products.

The main part of the exceptional assistance was financed by the federal budget. During the crisis, many regions were confronted with considerable budget constraints and had difficulties in meeting the co-financing targets of support. As part of the 2009 "crisis package", the regional co-financing part of the support was reduced, leading to higher federal contributions. These provisions will remain in place until the expiration of the State Programme in 2012. The federal budget also provided zero interest loans and subsidies to the regions to implement other relief assistance described above. The federal spending related to disaster measures, including credit concessions and other support, reached around RUR 98 billion (USD 3.1 billion) in 2009 and RUR 37 billion (USD 1.2 billion) in 2010.

The first three years of the implementation of the current State Programme – the principal framework for domestic support in Russia – is highlighted in Figure 19.5 Its actual financing has deviated from the original targets, both in terms of overall financing and distribution by the main Programme blocks. This is largely due to the fact that concessional credit (the block of the Programme on Financial Sustainability of Agriculture) was used as an important instrument for exceptional assistance. Much of the funding was allocated for this purpose, particularly in 2009.

At the same time, the funding for components of the Programme, such as rural development and development of priority sub-sectors (breeding of pedigree animals, support of perennial plantations, flax and rapeseed growing, and sheep and horse breeding), was cut and further reductions are foreseen for 2011-12. Compared to the original targets, the financing of these two areas over the five years of the Programme will be reduced by 64% and 21% respectively. The financing of the block related to the creation of basic conditions for agricultural production (consisting of measures for land conservation and development of farm services) was also cut in 2010, and will be maintained at the reduced level up to the end of the Programme.

In contrast, spending on concessional credit will nearly double as compared to the original five-year target, and spending on the regulation of agricultural markets (grain interventions and monitoring of supply and disappearance) is to triple. The increased spending on concessional credit in the coming years is in part related to loan restructuring, involving longer periods for the provision of interest subsidies, particularly for investment loans. However, the conditions for access to the new preferential investment loans have been tightened; they will be provided only for projects included in the regional targeted programmes. Starting from 2010, the decision on which of these projects will receive concessional loans will be made at the federal level based on regional proposals (previously both the selection of projects and approvals on provision of interest subsidies were made at the regional levels).

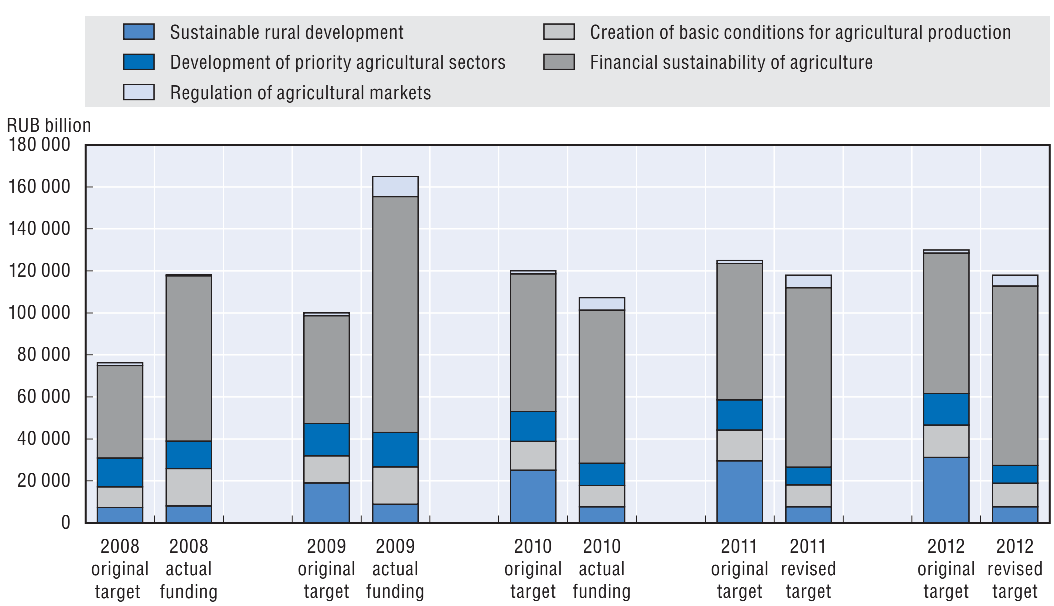
An issue that has emerged after three years is the complexity of the programme's funding procedures. The co-ordination of the overall funding and its co-funding between federal and regional governments for the current year takes several months, creating considerable uncertainties for producers as to what kinds of payments will be available, the amount and the time when these will be received. The eligibility requirements, payment rates, and payment procedures are region-specific, with more regional differentiation taking place in 2009-10. These procedures are often complicated, creating additional administrative barrier for access to support.

The current State Programme expires in 2012, and a new one will succeed it for 2013-20. A series of conceptual documents and special programmes that appeared in 2009-10 provide an indication of future policy priorities. The growth in domestic livestock production will continue to be a government priority, but a stronger emphasis on the cattle and dairy sectors is likely, as evidenced by the launch of the regional programmes on development of dairy and cattle farming and the preparation of the national Strategy on Development of Meat Cattle Breeding up to 2020.

The recent disasters have moved agricultural risk issues higher on the list of policy concerns. According to the government, particular attention will be given to the grain intervention system and more funds will be allocated for this purpose. Furthermore, a draft federal law on subsidised catastrophic insurance underwent its first reading in Parliament in 2010 and represents an effort to shift away from *ad hoc* transfers by introducing a contract-based principle for the disaster assistance. This draft law proposes to make all support payments conditional on producers being covered by catastrophic insurance.

The drought also accelerated the preparation of a concept document on the system of land improvement in Russia up to 2020. Another recent conceptual document concerns the sustainable development of rural areas up to 2020. Expenditures on land improvement and, in particular, rural development, were originally to be the fastest growing in the State Programme for 2008-12, but have been considerably curtailed. It remains to be seen how these conceptual documents will be translated into future programmes and financing targets. Overall, if Russia's WTO accession is completed before 2012, the parameters of the next State Programme will be set in accordance with the country's commitments on domestic support.

Figure 19.5. **Russia: Financing of the State Programme for Development of Agriculture for 2008-12**



Source: GFR, Government of the Russian Federation, 2011.

StatLink http://dx.doi.org/10.1787/888932451775

Trade policy

Import Measures – Russia is one of the largest world agro-food importers and runs a significant agro-food trade deficit. After a fall in 2009, imports recovered and widened the agro-food trade deficit to USD 25.2 billion in 2010. Approximately 90% of total Russian imports originate from outside the CIS (Commonwealth of Independent States). Meat and meat products are the largest import group, with such imports from the non-CIS area being subject to **tariff rate quotas**.

After 2008, Russia has tightened the TRQ regime, but with different speed and intensity for different types of meat (Table 19.3). Conditions for market access were particularly tightened for poultry imports. TRQs for all three meats typically remain under-filled, which was also the case in 2009-10. Partly this is explained by the fact that Russia restrained deliveries from some suppliers on food safety grounds and in connection with animal disease. Recent developments in this TRQ regime concerned the procedures for the allocation of the quotas. Before 2010, a large part of the quotas were allocated based on a country principle. From mid-2010, the Russian authority managing quota allocations has the discretion to re-allocate the country-specific quotas for all meats to other suppliers. Furthermore, as of 2011 the country principle will no longer be applied to

Table 19.3. **Russia's meat import quotas in 2005-11**

	2005[1]	2006	2007	2008	2009	2010[2]	2011[2]
				Beef fresh and chilled, 0201			
TRQ, th. tonnes	27.5	27.8	28.3	28.9	29.5	30.0	30.0
In-quota tariff	15% n.l. 0.2 EUR/kg	15% n.l. 0.2 EUR/kg	15% n.l. 0.2 EUR/kg	15%, n.l. 0.2 EUR/kg	15%, n.l. 0.2 EUR/kg	15%, n.l. 0.2 EUR/kg	15%, n.l. 0.2 EUR/kg
Over-quota tariff	40% n.l. 0.53 EUR/kg	55% n.l. 0.7 EUR/kg	50% n.l. 0.65 EUR/kg	45% n.l. 0.6 EUR/kg	40%, n.l. 0.53 EUR/kg	50%, n.l. 1.0 EUR/kg	50%, n.l. 1.0 EUR/kg
				Beef frozen, 0202			
TRQ, th. tonnes	430.0	435.0	440.0	445.0	450.0	530.0	530.0
In-quota tariff	15%, n.l. 0.15 EUR/kg	15%, n.l. 0.15 EUR/kg	15%, n.l. 0.15 EUR/kg	15%, n.l. 0.15 EUR/kg	15%, n.l. 0.15 EUR/kg	15%, n.l. 0.2 EUR/kg	15%, n.l. 0.2 EUR/kg
Over-quota tariff	40%, n.l. 0.4 EUR/kg	55%, n.l. 0.55 EUR/kg	52.5%, n.l. 0.53 EUR/kg	50%, n.l. 0.5 EUR/kg	40%, n.l. 0.4 EUR/kg	50%, n.l. 1.0 EUR/kg	50%, n.l. 1.0 EUR/kg
				Pigmeat fresh, chilled or frozen, 0203			
TRQ, th. tonnes	467.4	476.1	484.8	493.5	531.9	472.1	472.1
In-quota tariff	15%, n.l. 0.25 EUR/kg	15%, n.l. 0.25 EUR/kg	15%, n.l. 0.25 EUR/kg	15%, n.l. 0.25 EUR/kg	15%, n.l. 0.25 EUR/kg	15%, n.l. 0.25 EUR/kg	15%, n.l. 0.25 EUR/kg
Over-quota tariff	80%, n.l. 1.06 EUR/kg	60%, n.l. 1.0 EUR/kg	60%, n.l. 1.0 EUR/kg	60%, n.l. 1.0 EUR/kg	75%, n.l. 1.5 EUR/kg	75%, n.l. 1.5 EUR/kg	75%, n.l. 1.5 EUR/kg
				Pigmeat trimmings (can also be imported under the quota for fresh, chllied or frozen pigmeat)			
TRQ, th. tonnes	n.a.	n.a.	26.5	28	n.a	27.9	27.9
In-quota tariff	n.a.	n.a.	15%, n.l. 0.25 EUR/kg	15%, n.l. 0.15 EUR/kg	n.a	15%, n.l. 0.25 EUR/kg	15%, n.l. 0.25 EUR/kg
Over-quota tariff	n.a.	n.a.	60%, n.l. 1.0 EUR/kg	60%, n.l. 1.0 EUR/kg	n.a	75%, n.l. 1.5 EUR/kg	75%, n.l. 1.5 EUR/kg
				Poultry meat fresh, chilled or frozen, 0207			
TRQ, th. tonnes	1 090.0	1 130.8	1 171.2	1 211.6	952.0	780.0	350.0
In-quota tariff	25%, n.l. 0.2 EUR/kg	25%, n.l. 0.2 EUR/kg	25%, n.l. 0.2 EUR/kg	25%, n.l. 0.2 EUR/kg	25%, n.l. 0.2 EUR/kg	25%, n.l. 0.2 EUR/kg	25%, n.l. 0.2 EUR/kg
Over-quota tariff	No over-quota imports	60%, n.l. 0.48 EUR/kg	60%, n.l. 0.48 EUR/kg	60%, n.l. 0.48 EUR/kg	95%, n.l. 0.8 EUR/kg	80%, n.l. 0.7 EUR/kg	80%, n.l. 0.7 EUR/kg

n.l.: "but not less than"; n.a.: not applicable.
1. Over-quota tariff rates shown for 2005 are those in effect between June and December.
2. Quotas for 2010 and 2011 are set under the Customs Union of Belarus, Kazakhstan and Russia.
Source: Resolutions of the Government of the Russian Federation and Decisions of the Commission of the Customs Union.

the poultry quota. This provision may lead to the origin of Russian meat imports shifting further away from "historic" to "new" suppliers.

Russia's imports of sugar traditionally face high border protection. **White sugar** imports from outside the CIS are levied a duty of USD 340 per tonne, while CIS deliveries are duty free (if sugar is processed from sugar beet). Imports of white sugar from Ukraine are excluded from the CIS duty free regime; this exclusion is expected to be eliminated before 1 January 2013. 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). Between 2008 and 2010, annual deliveries from Belarus to Russia increased from 100 000 to 184 000 tonnes exceeding the initially agreed levels. In 2011 the agreed imports were set at 200 000 tonnes.

For **raw sugar,** 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 at the New York Board of Trade (NYBOT). The levy can vary between the fixed minimum and maximum boundaries. A higher NYBOT price commands a lower levy and *vice versa*. This regime underwent frequent adjustments in 2008-09 concerning the range delimiting the levy variations and the parameters of the seasonal duties. In 2010 further adjustments were introduced, now in the framework of the Customs Union of Belarus, Kazakhstan and Russia (see below). The range of NYBOT prices underlying the variable levy was changed, and the period of the NYBOT price monitoring was shortened from three months to one. In early 2011, the levy was set within a range between USD 140 and USD 270 per tonne, based on a NYBOT price range between USD 286.60 and 396.83 per tonne. A reduced seasonal levy, which varies between USD 50 and USD 250 per tonne and is based on a NYBOT price range between USD 286.60 and 485.02 per tonne, applies from 1 May to 31 July. As a part of the measures intended to restrain food prices, the period of application of the lower seasonal levy was extended in 2011, to begin from 1 March instead of 1 May.

Milk product imports were subject of active regulation in the context of a considerable fall in milk prices in 2009. *Ad valorem* or specific minimum duty levels (if applied) were increased for various cheeses, skim milk powder, whey powder, and butter. Import duties on vegetable oils that can be used as substitutes for milk fat in food processing were also raised, along with changes in technical requirements on such imports (*i.e.*, a substantial increase in the minimum allowed package volume). Skim milk powder is mainly imported to Russia from the CIS area duty free and in large part, from Belarus. The annual volumes of Belarusian deliveries are subject to an inter-governmental agreement (similar to sugar). Controversies with Belarus emerged in 2009 when its supplies were suspended on grounds of non-conformity with the new Russian technical milk regulation. The resulting compromise provided for a reduction in the volume of skim milk powder, but an increase in the volume of cheese and custard delivered to Russia compared to the initial bilateral agreement. Imports of milk products from some countries were suspended on technical grounds also in 2010 (*e.g.* again from Belarus and from the United States).

Increases in import tariffs were implemented for soybean meal (from 0% to 5%), manioc and maize starch, and rice and rice flour, the latter in response to a large domestic crop in 2009.

Changes in import measures also included reductions in tariffs for certain imported products, in order to reduce pressure on food prices. The drought in 2010 affected all crop sectors severely. For example, the 2010 potato harvest was almost one quarter below the average of the three preceding years. Starting from the last quarter of 2010 and up until mid-2011, zero import tariffs were set for fresh and chilled potatoes, cabbage and buckwheat, all of which are key staple foods in Russia.

Russia has become one of the leading world grain exporters; at the end of the 2000s it ranked as the fourth largest wheat supplier after the United States, the European Union and Canada. Grain accounts for around two-thirds of country's agro-food exports. Grain export regulations change between stimulation and restriction in response to the grain supply and food price situation. The stimulation typically consists of temporary reductions in railway tariffs for transportation of grain from producing regions to the Russian export outlets. Thus, following high crop in the 2008/09 season, railway tariff was halved for a certain period for transportation of grain from the Central federal district of Russia. The possibility of introduction of export subsidies was also discussed. However, as the financial crisis developed, the government faced considerable budgetary constraints and a depreciated rouble increased the competitiveness of Russian exports, such subsidies were finally not introduced.

The grain regulation during the food price peak in 2007-08 developed in the opposite direction: export duties were applied on wheat and barley to limit increases in domestic prices. Following the 2010 drought, a **ban on grain exports** was imposed on 15 August 2010. It covered wheat, wheat and rye mix, barley, rye, maize, wheat flour and mixed wheat and rye flour. Deliveries under the Russia's international agreements and humanitarian aid were exempt from the ban. It was to last until 31 December 2010, but when the magnitude of the harvest loss became more certain, it was extended up to 30 June 2011 (flour was removed from the list of prohibited exports). The ban had immediate spill-over effects on some traditional trade partners, in particular the North African wheat importers who were confronted with the need to look for alternative suppliers. The absence of Russian grain supplies on the world markets in 2010/11 season was also a factor that contributed to a renewed increase in world grain prices. The definitive end date of the ban has remained uncertain, but eventually the lifting of the ban was announced as of July 2011. In early June 2011, total domestic grain stocks exceeded the end-season levels that were observed throughout most of the 2000s, while domestic grain prices were well below world market levels, implying substantial foregone revenue in the grain sector. The imminent opening of exports suggested increases in domestic grain prices, particularly in the situation of high international prices. This strengthened the government's concerns on domestic inflation, which evoked the possibility of introducing grain export duties, assumingly, following the expiration of the export ban. At the moment of writing, no official actions have been announced.

No change was made in the export regime for oilseeds, which since 1992 are subject to export duties. The duties are currently set at 20% but not less than EUR 30 per tonne for sunflower, 20% but not less than EUR 30 per tonne for rapeseed and soybeans, and 15% but not less than EUR 30 per tonne for rapeseed.

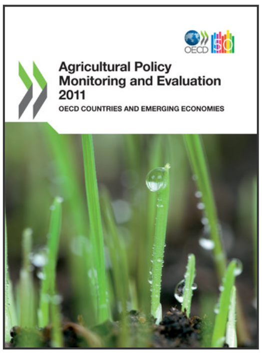
Trade Relations – **A Customs Union**, comprised of Belarus, Kazakhstan and Russia, came into effect on 6 July 2010. The three countries now form a common customs territory with a Unified Customs Code. Approximately 80 to 90% of the total number of tariff lines in the Code corresponds to the levels applied in Russia prior to the tariff unification. For the remaining part, Russia will face higher or lower tariffs. Thus, in the agro-food group, tariffs will be increased for sheep, goat and horse meat, and corned meat, while they will be reduced for alcohol, tropical juice concentrates and baby food. The changes in the Russian border measures described above that occurred after 2009 were implemented as part of the common Customs Union regime. A Commission of the Customs Union is the decision-making body on any border regime issues in the Union.

Further unification within the Customs Union will follow in the sanitary and phyto-sanitary (SPS) requirements and will also concern technical regulations (out of altogether 47 technical regulations that will be applied within the Custom Union, 13 relate to agro-food products). According to Russian officials, the unification in these areas will take into account countries' existing international agreements (*e.g.* with the European Union) and WTO practices.

Russia is at the advanced stage of **WTO accession negotiations**. However, the process lost momentum on the announcement of the plan by Russia, Belarus and Kazakhstan to accede to the WTO as countries forming a common customs territory. After a series of consultations with WTO representatives, the three countries decided to continue separate accession negotiations. The fact that Russia has become a member of the Customs Union means that the majority of sections of the report of the Working Party on Russian accession requires revision.

In 2010-11, the work focussed on reaching agreement on outstanding multilateral issues and revising the report of the Working Party on Russia's accession. As of April 2011, more than 30 sections had been revised, with seven outstanding. The latter include sections on sanitary norms and technical regulations. The results of bilateral agreements on services were consolidated and will be annexed to the Protocol on Russia's accession to the WTO. The consolidated Schedule on tariff concessions on goods is being prepared by the WTO Secretariat.

Important multilateral issues remain on which no agreement has yet been reached. The amount of trade-distorting domestic support that Russia will be able to provide after the accession remains among the central negotiated issues. According to the communication by the Russian Ministry of Agriculture in late 2010, Russia's position is to accede with a commitment on Total Aggregate Measurement of Support corresponding to USD 9 billion and maintain this level until 2012 (the end year of the current State Programme for Development of Agriculture). The commitment level would then decline to USD 4.4 billion between 2013 and 2017. Some negotiating parties consider lower commitment levels to be appropriate from the beginning of Russia's membership, based on the average level of trade-distorting support in recent years, as well as reductions patterned after the Uruguay Round model and other accessions. However, Russia no longer proposes to schedule entitlements to export subsidies in agriculture. Russia's meat TRQs, once it is a WTO member, has also become a prominent issue in the accession negotiations. Russia has a previous agreement with WTO members to renegotiate this issue after 2009.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