

## Chapter 6

# Russia

### Evaluation of policy developments

- Russia maintains high border protection for key agricultural imports and budgetary transfers to the agricultural sector are increasing. With high economic growth boosting consumer incomes and raising government revenue, the government has pursued an increasingly protective policy. The level of producer support rose in the current decade compared with the recent low which followed the 1998 financial crisis.
- The majority of producer support derives from border protection. The meat and sugar sectors in particular benefit from high protection, which is tightening further. This support is borne by domestic consumers who buy products at prices above international levels. The export-oriented grain sector, in contrast, faces prices below world levels. Infrastructural deficiencies result in export opportunities being less than fully exploited and in turn depress local prices. Recently, grain exports were also directly taxed as part of efforts to combat food price inflation.
- Around two-thirds of budgetary transfers to producers are directed to support the purchase of inputs and investments, largely through lowering the interest rate for credit. The government's broad goal is to boost domestic production and competitiveness, with stronger emphasis being placed recently on support for improvements in farm technologies, animals and crops.
- A new and welcome feature is the attention to developing services for producers, such as consulting, extension, and information systems. Allocations for agricultural research, education, infrastructure and marketing increased slightly in real terms.
- A stronger policy orientation to broader development issues is notable. Sustainable rural development and sustainable use of agricultural land have been brought to the top of the policy agenda. Special government programmes have emerged to tackle these issues. Large public investments are planned in rural electrification, gas networks and improvement of rural settlements. Rural dwellers have been given access to low-cost credit for housing construction and diversification of activity.
- A longer-term policy framework emerged following the introduction of several large mid-term support programmes. While the federal government maintains a large role in the formulation of key policy objectives and in financing a core set of support measures, regions have discretion in defining their specific sets of support measures, which are now also subject to more clearly defined co-financing rules.
- The new policy programmes foresee a boost in public spending for the agricultural sector. However, there is a concern that the allocation of public funds may become an objective on its own, over-riding an appropriate evaluation of the capacity of potential beneficiaries to absorb funds. Furthermore, much of these public funds are destined for lowering the interest rate for credit to producers and therefore expose the agricultural sector to higher levels of debt. The current financial crisis which has spilt over into the real sector further increases the vulnerability of agriculture to debt risks.
- A strong reliance on state-controlled companies in implementation of some support policies, such as concessional credit and leasing, may impede the development of competitive services in these areas.
- Despite greater emphasis being given recently to the sector's modernisation and sustainable development, inefficient support, which distorts input and output prices, continues to dominate. A substantive re-allocation of resources towards measures improving the efficiency and competitiveness of the sector would in the longer-term provide superior gains to producers, while at the same time benefiting consumers.

## Summary of policy developments

A Programme for Development of Agriculture for 2008-12 was launched to succeed the National Priority Project for Development of the Agro-Industrial Complex implemented in 2006-07. A significant increase in public spending for the sector is budgeted, as well as steps to improve social conditions in rural areas. The meat sector benefited from a tightening of border protection and additional assistance is foreseen. Ad hoc fuel subsidies were provided in 2006-08 to mitigate higher energy prices; in 2008 a five-year agreement on fertiliser price restraint was reached with the fertiliser industry. WTO consultations continued but accession is not imminent. In late 2007, measures to combat food price inflation were applied, including export taxes on grains, a reduction of import tariffs on key foodstuffs and restraints on retail food prices. Since mid-2008, cash flow problems in the agro-food sector have become a preoccupation, prompting the government to contemplate specific relief measures.

- Support to producers (%PSE) was 14% in 2005-07, compared to 19% in 1995-97. After a substantial drop in the late 1990s, the level of support increased, but remains well below the OECD average of 26% (in 2005-07).
- The %PSE fell in 2007 as smaller quantities received price support. There was also a considerable strengthening in world prices reducing the gap between world and domestic prices for import-competing products. Also, taxation on key export commodities increased.
- The most distorting forms of support (based on commodity output and variable input use) accounted for almost 84% of the total PSE in 2005-07.
- Prices received by farmers were on average 10% above those observed on the world markets in 2005-07 (producer NPC), compared to 9% in 1995-97. Farm receipts in 2005-07 were 16% higher than if they had been realised at world prices (producer NAC). This differential is somewhat smaller compared to 1995-97 when it was 24%.
- Single Commodity Transfers (SCT) comprised 69% of the total PSE in 2005-07. Poultry, pigmeat, beef and sugar receive high support, with %SCTs for these products ranging from 24% to 40%. At the same time, the grain sector faces negative transfers. The large variation of %SCT across commodities reveals a misallocation of resources in the sector.
- As shown by the %CSE, agricultural policies placed an implicit tax on consumers of 15% in 2005-07, a significant increase compared to 1995-97 when this tax was 7%.
- In 2005-07, support for general services to agriculture (%GSSE) comprised around 22% of the total support to agriculture (TSE). This share has risen in most recent years.
- Total support to agriculture amounted to 1% of the country's GDP in 2005-07 (%TSE) – a notable reduction compared to 1995-97 when it was almost 3%.

Source: OECD, PSE/CSE Database, 2008.

Figure 6.1. **Russia: PSE level and composition over time**

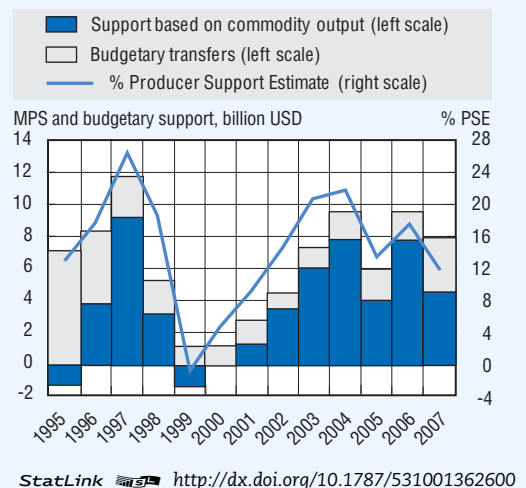


Figure 6.2. **Russia: Producer SCT by commodity, 2005-07**

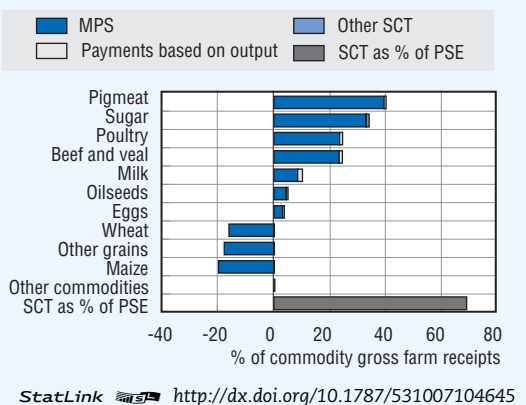


Table 6.1. **Russia: Estimates of support to agriculture**

RUB million

	1995-97	2005-07	2005	2006	2007
<b>Total value of production (at farm gate)</b>	<b>201 986</b>	<b>1 470 096</b>	<b>1 210 507</b>	<b>1 432 949</b>	<b>1 766 834</b>
<i>of which share of MPS commodities (%)</i>	<i>63</i>	<i>66</i>	<i>66</i>	<i>64</i>	<i>67</i>
<b>Total value of consumption (at farm gate)</b>	<b>259 391</b>	<b>1 831 548</b>	<b>1 658 549</b>	<b>1 874 682</b>	<b>1 961 414</b>
<b>Producer Support Estimate (PSE)</b>	<b>45 300</b>	<b>210 499</b>	<b>169 648</b>	<b>260 281</b>	<b>201 570</b>
Support based on commodity output	22 512	147 429	114 131	211 917	116 241
<i>Market Price Support</i>	<i>17 775</i>	<i>140 963</i>	<i>108 746</i>	<i>206 277</i>	<i>107 865</i>
<i>Payments based on output</i>	<i>4 737</i>	<i>6 467</i>	<i>5 385</i>	<i>5 640</i>	<i>8 376</i>
Payments based on input use	20 758	52 318	48 645	40 094	68 215
<i>Based on variable input use</i>	<i>13 211</i>	<i>30 260</i>	<i>30 824</i>	<i>22 664</i>	<i>37 291</i>
<i>with input constraints</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Based on fixed capital formation</i>	<i>7 388</i>	<i>21 348</i>	<i>17 487</i>	<i>16 249</i>	<i>30 308</i>
<i>with input constraints</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Based on on-farm services</i>	<i>159</i>	<i>710</i>	<i>333</i>	<i>1 181</i>	<i>616</i>
<i>with input constraints</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Payments based on current A/An/R/I, <sup>1</sup> production required	438	4 410	2 681	4 965	5 585
<i>Based on Receipts / Income</i>	<i>0</i>	<i>1 282</i>	<i>251</i>	<i>2 115</i>	<i>1 479</i>
<i>Based on Area planted / Animal numbers</i>	<i>438</i>	<i>3 117</i>	<i>2 395</i>	<i>2 850</i>	<i>4 106</i>
<i>with input constraints</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
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
<i>With variable payment rates</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>With fixed payment rates</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Payments based on non-commodity criteria	0	0	0	0	0
<i>Based on long-term resource retirement</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Based on a specific non-commodity output</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Based on other non-commodity criteria</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Miscellaneous payments	1 593	6 342	4 191	3 305	11 529
<b>Percentage PSE</b>	<b>19</b>	<b>14</b>	<b>13</b>	<b>18</b>	<b>11</b>
<b>Producer NPC</b>	<b>1.09</b>	<b>1.10</b>	<b>1.09</b>	<b>1.16</b>	<b>1.06</b>
<b>Producer NAC</b>	<b>1.24</b>	<b>1.16</b>	<b>1.15</b>	<b>1.21</b>	<b>1.12</b>
<b>General Services Support Estimate (GSSE)</b>	<b>10 186</b>	<b>58 217</b>	<b>39 126</b>	<b>63 356</b>	<b>72 168</b>
Research and development	329	3 400	2 792	3 259	4 149
Agricultural schools	934	10 705	10 076	10 450	11 588
Inspection services	827	16 477	10 410	17 560	21 462
Infrastructure	1 639	14 216	13 945	12 111	16 592
Marketing and promotion	124	475	581	376	467
Public stockholding	0	1 308	268	1 067	2 589
Miscellaneous	6 333	11 635	1 052	18 533	15 321
<b>GSSE as a share of TSE (%)</b>	<b>18.4</b>	<b>21.7</b>	<b>18.7</b>	<b>19.6</b>	<b>26.4</b>
<b>Consumer Support Estimate (CSE)</b>	<b>-23 610</b>	<b>-268 260</b>	<b>-211 667</b>	<b>-328 925</b>	<b>-264 188</b>
Transfers to producers from consumers	-14 512	-136 596	-97 833	-195 381	-116 573
Other transfers from consumers	-6 791	-121 625	-103 657	-123 672	-137 546
Transfers to consumers from taxpayers	0	0	0	0	0
Excess feed cost	-2 307	-10 040	-10 177	-9 872	-10 069
<b>Percentage CSE</b>	<b>-7</b>	<b>-15</b>	<b>-13</b>	<b>-18</b>	<b>-13</b>
<b>Consumer NPC</b>	<b>1.09</b>	<b>1.16</b>	<b>1.14</b>	<b>1.21</b>	<b>1.15</b>
<b>Consumer NAC</b>	<b>1.10</b>	<b>1.17</b>	<b>1.15</b>	<b>1.21</b>	<b>1.16</b>
<b>Total Support Estimate (TSE)</b>	<b>55 487</b>	<b>268 716</b>	<b>208 773</b>	<b>323 637</b>	<b>273 738</b>
Transfers from consumers	21 303	258 221	201 490	319 053	254 119
Transfers from taxpayers	40 975	132 120	110 941	128 255	157 165
Budget revenues	-6 791	-121 625	-103 657	-123 672	-137 546
<b>Percentage TSE (expressed as share of GDP)</b>	<b>2.88</b>	<b>0.99</b>	<b>0.97</b>	<b>1.20</b>	<b>0.83</b>
<b>GDP deflator 1995-97 = 100</b>	<b>100</b>	<b>871</b>	<b>752</b>	<b>871</b>	<b>989</b>

NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

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

For the definition of OECD indicators of support to agriculture, see Annex A.1. Market price support is net of producer levies and excess feed cost. MPS commodities for Russia are: wheat, maize, other grains (barley, rye and oats), sugar, oilseeds (sunflower), milk, beef and veal, pigmeat, poultry and eggs.

Source: OECD, PSE/CSE Database, 2008.

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## Policy context: Russia's agriculture at a glance

Agriculture contributed around 5% to GDP and absorbed 10% of total employment in 2007. Russia is a large agro-food importer, with agro-food imports taking up almost 14% of total imports. The sector's output is steadily recovering after a deep fall in the 1990s. The farm structure is dual with large-scale farms existing along with small units producing mostly for own consumption. Large farms ("agricultural organisations") provided 43% of total agricultural output in 2007, with the remaining shares coming from small family-type farms (7%) and tiny household plots (50%). Rural areas account for slightly over one-quarter of the population, and many of them suffer social decline and depopulation. On average, 28% of household consumer expenditure was spent on food in 2007.

**Table 6.2. Russia: Basic economic and agricultural indicators, 2005-07**

	2005	2006	2007
<b>Basic economic indicators</b>			
GDP (USD billions)	765	991	1 291
GDP growth (%)	6.4	7.4	8.1
GDP per capita, PPP (USD)	11 861	13 205	14 743
Inflation (annual average, %)	12.7	9.7	9.0
Exchange rate (annual average, local currency per USD)	28.3	27.2	25.6
Population (million)	144	143	142
Population in rural areas (%)	27.0	27.0	27.0
Share in GDP (%)			
Agriculture	5.4	5.0	4.6
Industry and construction	32.9	31.9	31.7
Services	56.4	58.0	57.9
Share in employment (%)			
Agriculture	11.3	10.8	10.2
Industry and construction	21.7	21.3	21.2
Services	59.6	60.2	60.8
Average share of food in households' consumer expenditures (%)	33.2	31.6	28.4
<b>Basic agricultural indicators</b>			
Agro-food exports (% of total exports)	1.7	1.7	2.6
Agro-food imports (% of total imports)	17.0	15.1	13.8
Agro-food trade balance (USD million)	-12 755	-15 831	-18 518
GAO (% change from previous year)	2.3	3.6	3.3
Total cereal production (million tonnes)	78.2	78.6	81.8
Total meat production (million tonnes)	4.9	5.2	5.6
<b>Natural resources and farm structure</b>			
Agricultural land per farm (ha): <sup>1</sup>			
Large and medium agricultural organisations	n.a.	3 834.0	n.a.
Small agricultural organisations	n.a.	1 164.0	n.a.
Family-type ("peasant") farms	n.a.	85.0	n.a.
Household plots	n.a.	0.4	n.a.
Agricultural land (million ha)	192.6	191.7	190.6
Arable land per capita (ha)	0.8	0.8	0.7
Land sown to crops (million ha)	77.5	77.1	76.4

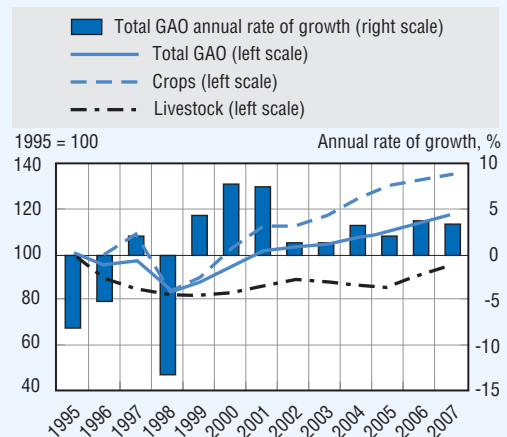
n.a.: not available.


1. As of 1 July, 2006. Based on 2006 Russian Agricultural Census.

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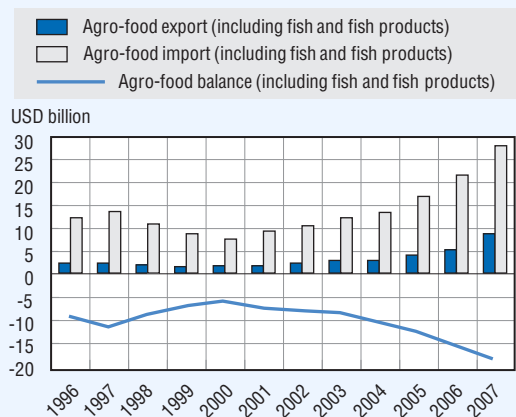
Source: FSSS, Federal State Statistics Service of the Russian Federation, 2008; IMF, *International Financial Statistics*, 2008; UN, *UN Comtrade Database*, 2008; World Bank, *World Development Indicators*, 2008.

**Figure 6.3. Russia: Evolution and annual changes of agricultural output, 1995-2007**



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**Figure 6.4. Russia: Agro-food trade, 1996-2007**



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## Policy developments

### Main policy objectives and instruments

The federal Law on Development of Agriculture (2006) defines six objectives of agricultural policy: i) improvement of the competitiveness and quality of agricultural products; ii) sustainable rural development and improvement of the living standard of the rural population; iii) conservation and reproduction of natural resources used in agriculture; iv) formation of an efficiently functioning agricultural market and development of market infrastructure; v) creation of a favourable investment climate in the agro-food sector; and vi) support of agricultural input-output price parity. This Law is a broad framework document, while the government's action plan is set out in the State Programme for Development of Agriculture for 2008-12 (see below). This programme explicitly takes up the first three of the six objectives above, *i.e.* competitiveness, rural development and resource conservation. These objectives are translated in the Programme into specific targets for implementation over the five-year period with the underlying policy actions and financing. The general thrust of the Programme is two-fold – to stimulate domestic agricultural production and to improve the social and demographic situation in rural areas. Both processes are viewed as mutually reinforcing. Among the means to achieve the stated goals, priority is given to facilitating access to finance for agricultural producers and rural people. A special emphasis is given to capitalisation and technological modernisation of production, and improvements in social infrastructure in rural areas. The Programme also sets out specific assistance measures for small-scale farms and rural households. A new feature is the explicit focus on services to producers, such as consulting, extension, and information.

In recent years, the Russian government has moved to put in place a new regulatory and administrative framework for agricultural policies. First, this concerned new principles of interaction between the federal centre and the regions. With the federal government maintaining a large role in the formulation of key policy objectives and in financing the core set of support measures, regions received freedom to define their specific sets of support measures, but with that, additional financing responsibilities. Second, a series of large federal programmes were launched, meaning that a programming approach was widely applied to the implementation of support (Box 6.1).

Russia uses a wide range of agricultural policy instruments. The country is a large agro-food importer and applies border protection, complemented by direct price subsidies. Market interventions and export duties are used in export-oriented sectors. The bulk of budgetary support is destined for interest rate subsidies, subsidies for purchased variable and capital inputs and capital grants. Agricultural producers also benefit from implicit support through debt forgiveness or restructuring and various preferences on taxes and social contributions.

In 2007-08, food price inflation was one of the major concerns and agricultural policy measures constituted part of the government's anti-inflation campaign (Box 6.2).

### Box 6.1. New regulatory and administrative framework for agricultural policies in Russia

As part of the broad administrative reform initiated in 2004, a new division of responsibilities between the federal and regional levels emerged in the implementation of agricultural policy.<sup>1</sup> Under these reforms the federal authorities remain responsible for the formulation of strategic agricultural policy directions, agricultural market interventions, and the development and financing of federal (nationwide) agricultural support programmes. The implementation of federal programmes in regions is the responsibility of regional authorities. They can adopt any particular set of support measures among those determined in the federal programmes. However, for a large part of these measures regions are required to provide co-financing in order to receive federal funds. The federal part is transferred as federal subventions to the regional budgets. Regions can also implement additional local support measures and finance them from their own resources. This distribution of responsibilities between the federal and regional authorities resembles that between the European Union and its member states in implementation of the EU's Common Agricultural Policy. These administrative changes resulted in the emergence of three broad groups of support policies in Russia: i) those defined and financed by the federal government, ii) those co-defined and co-financed by federal and regional authorities, and iii) support measures defined and financed exclusively by regional authorities.

Along with the administrative changes described above, a longer-term policy framework emerged. Until the middle of the current decade, agricultural support was implemented on the basis of annual laws and government resolutions, usually focused on some specific issues. However, several large documents have been recently adopted, together forming a longer-term policy framework for agricultural policy. This includes the Federal Law on Development of Agriculture (adopted in December 2006), the National Priority Project for 2006-07<sup>2</sup> and the State Programme for Development of Agriculture for 2008-12.<sup>3</sup> Two other federal programmes – on Social Development of Rural Areas and the Soil Fertility Programme,<sup>4</sup> initiated in 2002, were extended for a new term until 2012. Apart from these large programmes, five “special issue” federal programmes were launched in 2008 for the period up to 2010: the creation of a common information space for the agro-food sector; three support programmes for the flax, rapeseed, and wine sectors, and a programme for prevention and treatment of cattle diseases.

1. Here and elsewhere in the text the term “region” is understood to be the sub-federal territorial units forming the Russian Federation – oblasts, krais and autonomous republics (officially named “subjects of the Federation” in the Russian legislation).
2. The National Project for Development of the Agro-Industrial Complex was one of the four so-called federal National Priority Projects implemented in 2006-07; the other three concern health, education and housing (see OECD, 2007 for more detail).
3. The full official name is the State Programme for Development of Agriculture and Regulation of Markets for Agricultural Food and Fibre Products and Foodstuffs for the Period 2008-12.
4. The full official name is the Federal Programme for Soil Fertility Enhancement and Rehabilitation of Agro-landscapes as Russia's National Heritage for 2006-10 and up to 2012.

### Box 6.2. Food price inflation in Russia

High inflation has been an on-going concern in recent years amid high economic growth and rising commodity prices. Monetary and fiscal policies balanced between fighting inflation and constraining the real appreciation of the rouble. From mid-2007, inflation began to rise and particularly accelerated between October 2007 and May 2008 (Figure 6.5). In June 2008, price rises slowed down.

Food (together with energy) was a major inflation driver. Food prices jumped by 15.6% by December 2007 compared to December 2006, and in September 2008 prices were 30% above the end-2006 level. Family budgets were strongly affected given that food takes up 28% of an average household's expenditure and this share rises to 50% for the lowest income group (in 2006).

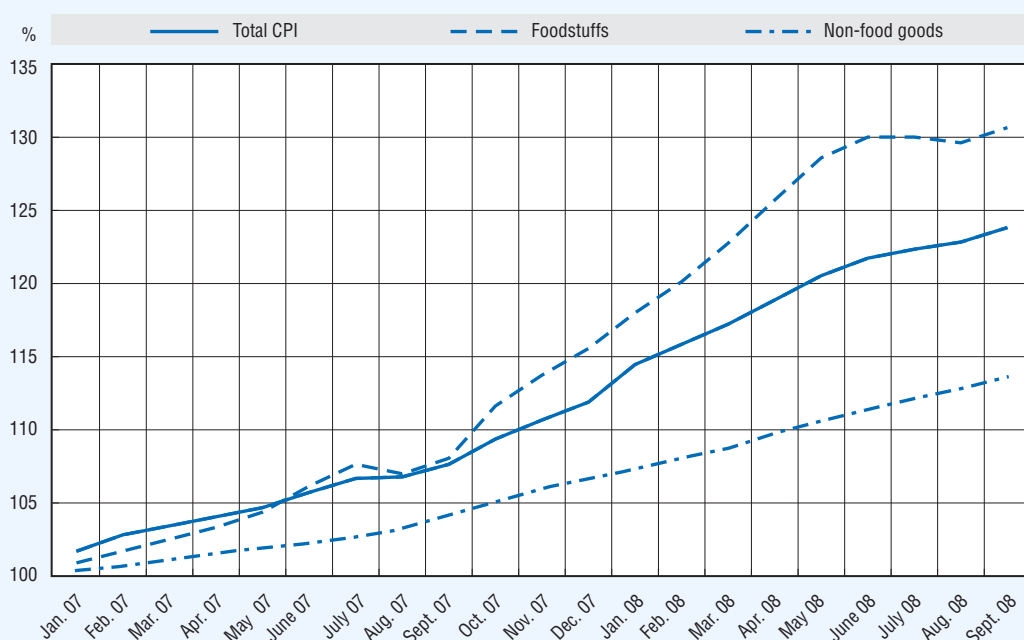
The government responded with a series of anti-inflation measures, including:

- Monetary tightening: the refinancing rate of the Central Bank of Russia (CBR) was increased and the reserve requirements in the banking system tightened.
- Export restraints: duties on grain exports were imposed (between November 2007 and June 2008).
- Import incentives: import duties on several key foodstuffs (milk and milk products, cheese, some types of vegetable oil and vegetables) were temporarily reduced.
- Retail price freezes: an agreement was reached with the large food processors and retailers to freeze prices for six "socially important" foodstuffs, including bread, milk and fermented milk, sunflower oil and eggs; originally the agreement was to be in effect between end-October 2007 and end-January 2008, but was extended until end-April 2008.

Among the principal foodstuffs the strongest price increases in 2008 occurred for bread and bakery products, milk products, sunflower oil and potatoes (Figure 6.6).

Figure 6.5. **Russia: Consumer price indices in 2007-08**

December 2006 = 100

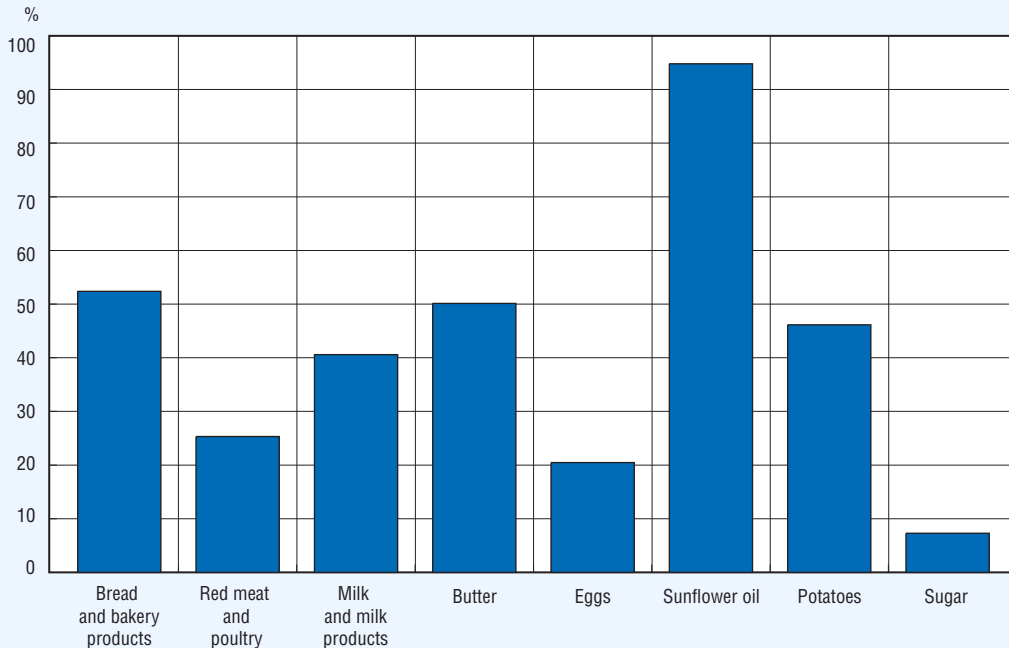


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## Box 6.2. Food price inflation in Russia (cont.)

Figure 6.6. Russia: Retail price growth rates for key food items

Cumulative growth rate between January 2007 and September 2008



Source: FSSS, Federal State Statistics Service of the Russian Federation, 2008.

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## State Programme for Development of Agriculture in 2008-12

The State Programme for Development of Agriculture in 2008-12 is the key document establishing government actions on agricultural support. It succeeded the National Priority Project, which was implemented in 2006-07, and continues the main support measures of that Project. Other policy measures existing over and above the National Priority Project were also incorporated into the State Programme.

It is planned to allocate RUB 551.3 billion (USD 22 billion) from the federal budget for implementation of the Programme over a five-year period. For many items, the federal spending is conditioned by co-financing from the regional budgets and non-budgetary sources.

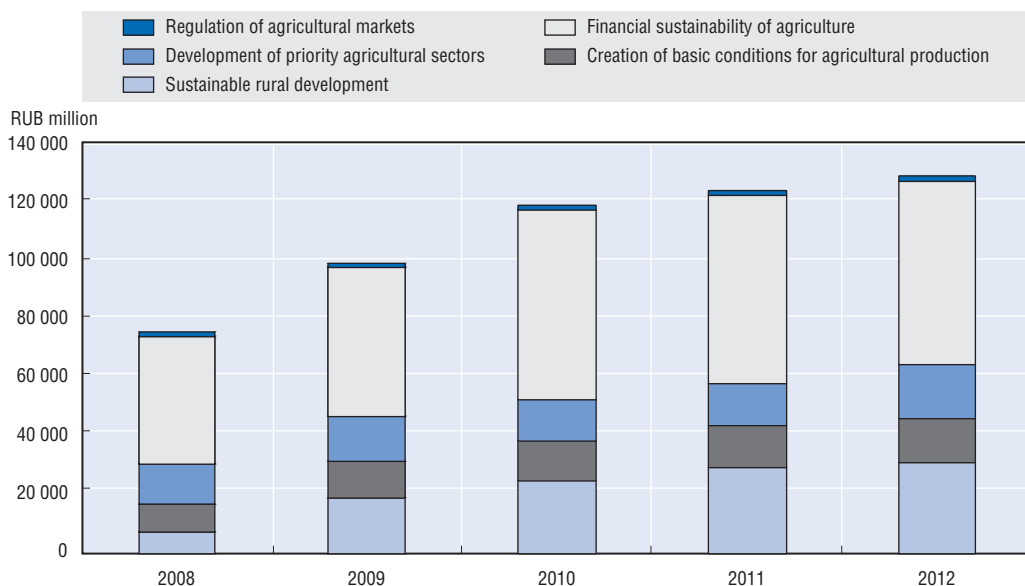
The State Programme incorporates five components: (1) Sustainable Development of Rural Territories; (2) Creation of Basic Conditions for Agricultural Production; (3) Development of Priority Sub-sectors of Agriculture; (4) Achieving Financial Sustainability of Agriculture; and (5) Regulation of Markets for Agricultural Food and Fibre Products and Foodstuffs (Figure 6.7). Each component is further detailed into specific sets of tasks and actions. This is complemented by a five-year budget plan and a set of evaluation criteria for each of the tasks. The execution of financial targets is monitored by the federal Ministry of Agriculture.

The Programme's first component on rural development deals with improvements of rural settlements, infrastructure and housing for rural people. The second component on




Figure 6.7. **Russia: Components of the State Programme for Development of Agriculture in 2008-12**

Budgeted annual spending



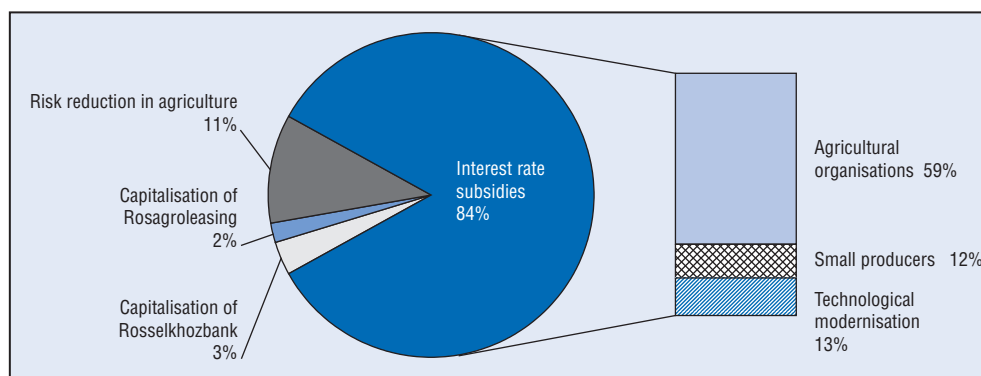
Source: GFR, Government of the Russian Federation, 2007.

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creation of basic conditions for agriculture contains measures for land conservation and development of farm services. The component on development of priority sub-sectors establishes support for breeding of pedigree animals, elite seed production and development of specific activities, such as production of flax, rapeseed, perennial plantations, sheep and horse breeding, and some other activities. The component on financial sustainability is the largest in terms of budget, with most of the spending destined for interest rate subsidies on loans to agricultural producers and rural households (Figure 6.8). The fifth component on market regulation includes financing for grain

Figure 6.8. **Russia: Expenditures under the Financial Sustainability Component of the State Programme**

Percentage of aggregate spending for 2008-12



Source: GFR, Government of the Russian Federation, 2007.

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interventions; development of standards for meat products and monitoring of supply and disappearance situation for key agricultural commodities.

The majority of policy measures discussed in the following sections are implemented within the framework of the State Programme.

## Domestic agricultural policies

### Price and income support policy

The main instrument of price support in Russia is border protection, but there are also several domestic policies.

Direct **per tonne payments** are provided from regional budgets for marketed meat, milk, eggs and wool. About 74% of these payments went to milk in 2006-07. In 2008, following a sharp rise in feed costs, poultry and pigmeat producers received additional per tonne subsidies from the federal budget. In the crop sector, a federal per tonne subsidy is available to growers of flax and hemp, while some regions also provide payments for grains, potatoes and some other crops. Overall, per tonne payments represent a small share of total support to producers – they comprised on average 3% of PSE in 2006-07.

Since 2001, Russia has implemented grain **market interventions**, which are carried out by the Federal Agency for Regulation of Food Market. The mechanism is based on a band between established minimum and maximum prices. When market prices fall below the lower band level, the government begins withdrawals of grain from the market (a purchase intervention). When market prices rise above the upper band level, grain is released onto the market (a commodity intervention). The release of grain is done at maximum prices. The withdrawal can be implemented either through purchasing grain at minimum prices or providing loans against pledged grain. The intervention price bands are established separately for milling wheat, feed wheat, rye, feed barley, and maize. During the purchase intervention the government may restrict imports of grain, while during the commodity intervention exports may be restricted. The possibility of grain pledge loans during the periods of low prices is a new feature stipulated in the 2006 Law on Development of Agriculture. Operational procedures for this mechanism have not yet been defined. Another important change in the intervention mechanism is the exclusion of middlemen/traders from intervention purchases. This involves new logistical arrangements for accepting grain directly from producers, but has not yet been put in place. The exclusion of middlemen may complicate the intervention purchases in the 2008/09 season.

Grain commodity interventions were implemented between October 2007 and June 2008 to restrain domestic prices. Around 1.3 million tonnes were released in the grain market (almost 85% of total intervention stock), predominantly in large industrial centres and grain-importing regions. At the beginning of the 2008/09 season, the situation in the grain market changed radically. The largest grain crop since 1990 was harvested in 2008, reaching 108 million tonnes. Consequently, in mid-2008, grain prices began falling steeply. RUB 34 billion (USD 1.2 billion) were allocated in the federal budget for grain purchase interventions. As of early December 2008, 2.5 million tonnes were purchased, at a cost of around RUB 12.5 billion (USD 444 million). However, grain analysts estimate that the capacity of intervention system to withdraw grain will be limited to no more than 5.5 million tonnes, mainly due to storage and logistical constraints. This situation prompted the government to consider additional measures to enhance exports (see below).

There are several types of **per animal and hectare payments**, but they have small importance in the overall budgetary support. Breeders of pedigree livestock receive payments per animal raised. Since the 1990s, federal per head payments have been provided to breeders of sheep and reindeer, and since 2008, horses raised extensively. These programmes are implemented in the context of policy for maintaining traditional lifestyles of some national minorities in Russia. Per hectare support is provided for maintenance and establishment of permanent plantations.

### **Concessional credit and input subsidies**

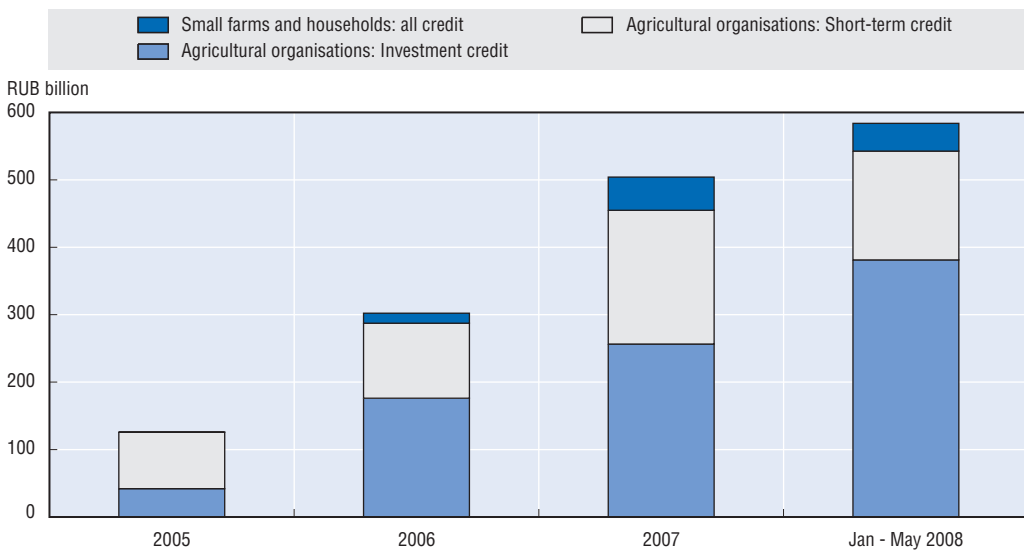
Concessional credit is one of the main agricultural support measures. Support is delivered in the form of **subsidies to interest rates** on bank loans. Allocations for interest rate subsidies were the main spending item under the 2006-07 National Priority Project and take up 45% of the aggregate five-year spending foreseen under the 2008-12 State Programme. Federal funds are transferred to regions for implementation, but for some types of loans this is done on the condition that regions top-up the federal subsidy.

All categories of producers – agricultural organisations, small family-type farms and households – are eligible for interest rate concessions. The subsidy may also be provided on loans issued to producer co-operatives engaged in agro-processing and, in specified cases, to food processors. Loans of different terms are subsidised, including short-term loans (for up to one year) and investment loans (for up to two, five or eight years).

The subsidy is transferred directly to borrowers; its rate is defined on the basis of the re-financing rate of the Central Bank of Russia (CBR) and varies by type of beneficiary. For agricultural organisations and food processors, the subsidy is set at two-thirds of the CBR rate (effective at the date of conclusion of the credit contract). When the loans are given for the construction of livestock complexes or purchase of agricultural machinery, there is a requirement that regional governments co-subsidise no less than the remaining one-third of CBR rate. For small farms and producer co-operatives, the interest rate subsidy is set at 95% of the CBR rate, and the regional authorities are required to top-up the federal part no less than the remaining 5% of CBR. The borrower is to cover the difference between the bank lending rate and the government-subsidised part of the interest.

The launch of the National Priority Project in 2006 provided a strong boost to subsidised credit. A further increase in lending to agriculture is one of the key policies of the State Programme for 2008-12. The scale and scope of subsidised credit substantially broadened in recent years. The policy has been extended to long-term and medium-term lending, whereas before interest rate subsidies were only provided for short-term loans. The list of beneficiaries was broadened to include rural households and producer co-operatives, and the purpose of eligible borrowing diversified. For example, in 2007 and 2008, producer co-operatives and food processors could additionally receive subsidised loans for the purchase of domestically produced flour for bread making and supplementary raw materials, and for financing milk transportation services. Rural households are now eligible for interest rate subsidies on loans to develop non-agricultural business. Between the end of 2005 and mid-2008, the amount of subsidised credit had more than quadrupled in nominal terms, mostly due to a considerable increase in investment credit (Figure 6.9).

The majority of subsidised loans provided to agricultural organisations were obtained for the construction, reconstruction and modernisation of livestock complexes. Work was

Figure 6.9. **Russia: Concessional credit allocations in 2005-08**

Source: Ministry of Agriculture of the Russian Federation.

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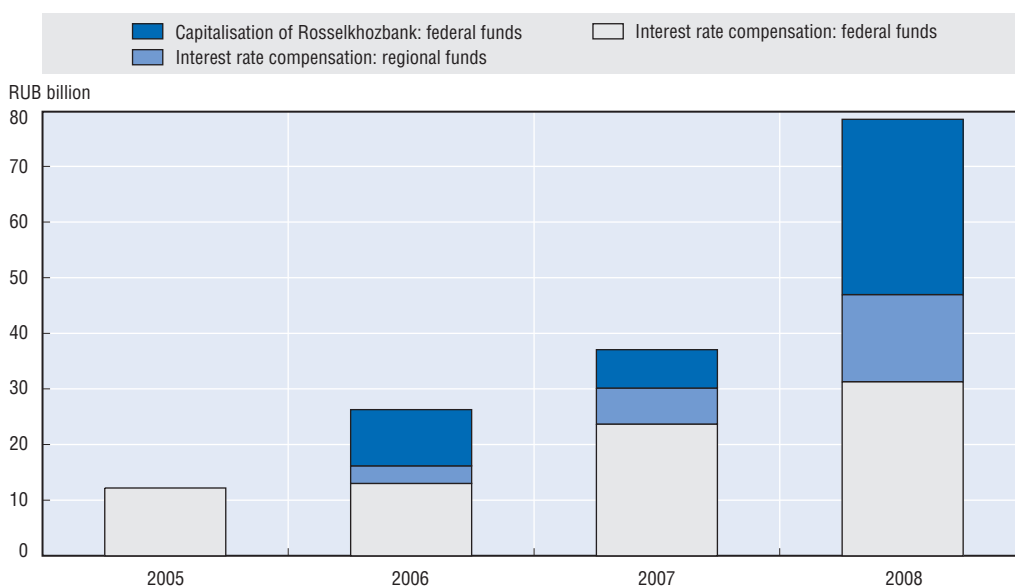
completed in around 510 facilities in 2006-07, and is in progress in 3 000 others. Short-term and medium term borrowings were also much related to the livestock sector, and were used for purchasing machinery, equipment, pedigree livestock and variable inputs required for the functioning of the new and reconstructed livestock units.

Subsidised loans for small family-type farms and households were provided to purchase all kinds of inputs and investments with the objective of increasing the marketed share of production in these units. The amount of subsidised loans provided to small borrowers increased from RUB 300 million (USD 11 million) in 2005 to RUB 49 billion (USD 1.9 billion) in 2007, and had reached almost the same level between January and May 2008. This borrowing, however, is undertaken by only 3% of the total number of small farms and rural households – those that are actively seeking additional finance to commercialise production.


As can be seen from Figure 6.10, the federal and regional expenditures to subsidise interest rates have risen considerably since 2005. This largely reflects the broadening of concessional credit, as well as the fact that the subsidy is cumulative and in part covers loans issued in previous years.

An additional spending element is the capitalisation of the leading agricultural bank – Rosselkhozbank (100% of stock of this bank is federal ownership). According to the Russian Ministry of Agriculture, it currently provides around 60% of the value of concessional credit to the agro-food sector. The allocation to Rosselkhozbank foreseen under the State Programme was originally to develop the banks' capacity to service small borrowers. This includes extension of the network of local branches, recruitment and training of additional staff to service small borrowers. The operations with small borrowers are associated with increased costs and typically do not attract private banks. In 2006, RUB 10.1 billion (USD 0.37 billion) were invested by the federal government into Rosselkhozbank and RUB 6.9 billion (USD 0.27 billion) in 2007. It was originally planned to contribute only additional RUB 2 billion (USD 80 million) in 2008, but according to more recent information,

Figure 6.10. **Russia: Budgetary expenditures related to concessional credit, 2005-08**



Source: Ministry of Agriculture of the Russian Federation.

StatLink  <http://dx.doi.org/10.1787/531244261822>

RUB 31.5 billion (USD 1.31 billion) is to be transferred to the bank from the federal budget. This sum will be used largely to cover the bank's deficit of liquidity to satisfy the applications for concessional credit.

In addition to concessional credit, there is a range of **direct subsidies for variable inputs and investment** (this support is provided to agricultural organisations and small farms, and does not cover rural households). These include subsidies for purchasing mineral fertiliser, chemicals and elite (high quality) seeds, and for transporting seeds to areas with adverse climatic conditions for cultivation of feed crops. In 2006-07, due to a sharp rise in fuel prices, a subsidy for fuel used for sowing was paid. In late 2008, it was decided to provide again RUB 10 billion (around USD 424 million) for subsidising fuel costs. Livestock breeders can receive a subsidy for the purchase of young pedigree livestock and for artificial insemination. The farms specialised in raising pedigree cattle benefit from financial aid for acquiring breeding bulls.

The input assistance also includes such programmes as state leasing of agricultural machinery and pedigree livestock. A state Rosagroleasing company is the implementing agency, which together with Rosselkhozbank receives considerable federal funds for capitalisation (Figure 6.8). There are also capital grants for the construction and reconstruction of farm buildings and improvement of irrigated lands. A major part of all activities above is implemented in the framework of the State Programme and co-financed from federal and regional budgets. Other specific local input support may also be provided in the regions, but the main policies are realised under the umbrella of the State Programme. Aggregate expenditures on all the programmes listed above (excluding interest rate subsidies) comprised, on average, 9% of total PSE in 2006-07, with roughly equal co-financing from the federal and regional budgets.

The most recent development in policies aimed at reducing the cost of agricultural inputs was a “fertiliser marketing pact” concluded in October 2008 between the government and Russian fertiliser producers. The latter will supply minimum quantities of fertiliser to domestic market at prices not exceeding agreed maximum levels. In return, the government undertook to lift the export tax on fertilisers. This arrangement is to be in place until 2012.

In the second half of 2008, the agro-food sector felt the effects of the financial crisis. The immediate impact on agriculture manifested itself in two ways. Retailers and processors, experiencing a credit crunch, began holding back payments to primary producers. At the same time, producers faced difficulties in obtaining credit, both for current operations and investment. The deterioration of the cash flow situation in the sector prompted the Ministry of Agriculture and major agribusiness stakeholders to consider special relief measures. Currently, a stabilisation package for Rosselkhozbank is being established. The Ministry of Agriculture is also proposing to oblige banks not to revise the interest rates under the current loans, as well as not to tighten credit guarantee requirements. Some representatives from agribusiness also made suggestions to relax reserve requirements for banks lending to the agro-food sector and extend the existing agricultural loans. The contraction of bank lending poses a substantial challenge for the implementation of the State Programme. Specifically, this concerns the Programme’s preferential credit component – interest rate subsidising foreseen under this component is fully coupled with bank lending. The provisions of the Programme are expected to undergo changes to reflect the latest financial developments. At the moment of writing no official actions were announced.

### **Tax policies**

A **Single Agricultural Tax (SAT)** was introduced for agricultural organisations in 2003, who could choose to adopt the SAT or maintain the previous tax regime. The SAT is set at 6% of the difference between the value of gross receipts and the value of costs of the agricultural organisation. Those adopting the SAT are exempt from income tax, property tax, Single Social Tax, and, except in specified cases, also from VAT. As of 2008, approximately 65% of the agricultural organisations have adopted this tax.

Those agricultural organisations not adopting the SAT benefit from the preference on income tax applied to their earnings from primary agricultural and processed products. A zero income tax is currently applied in this case compared to a standard rate of 24%. The federal Ministry of Agriculture proposes to extend this preference until 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 the standard 18% rate) is set for live cattle and poultry. The same preferential rate is applied to a range of key foodstuffs, such as meat, milk and milk products, vegetable oil and margarine, refined and raw sugar, eggs, and vegetables. A number of agricultural inputs, including feed grains, feed mixes, oilseed meals and cakes are also sold with a 10% VAT rate.

The total amount of taxes and social payments collected from agricultural organisations at all levels of the budgetary system equalled RUB 82.7 billion (USD 3.2 billion) in 2007. VAT collections comprised the largest part of the total (35%), followed by Single Social Tax (24%), while the share of the Single Agricultural Tax was only 1.5%.

### **Biofuel policies**

Russia disposes of large forestry resources for biomass production as well as non-utilised agricultural land which could potentially be used for production of biofuel crops. The interest in bioenergy has increased in recent years. A State Programme on Priority Directions for Research and Development for 2007-12 allocated RUB 55.8 million (USD 2.2 million) for development of technologies and equipment for production of energy from biomass. A Russian Biofuel Association has been created recently, with the objectives to promote research, develop pilot projects and initiate legislation on biofuel issues.

However, no specific policies that support biofuel production are currently being implemented, although the federal government announced in 2008 an intention to adopt a programme for the development of biofuel production. This programme would envisage an increase in ethanol output to 2 million tonnes per year, as well as construction and reconstruction of 30 ethanol plants. There are some initiatives at the regional level. For example, a regional programme on development of biofuel production was prepared in Rostov oblast (in the South of Russia), which foresees the production of biodiesel for use in agriculture.

### **Land policies and farm structure**

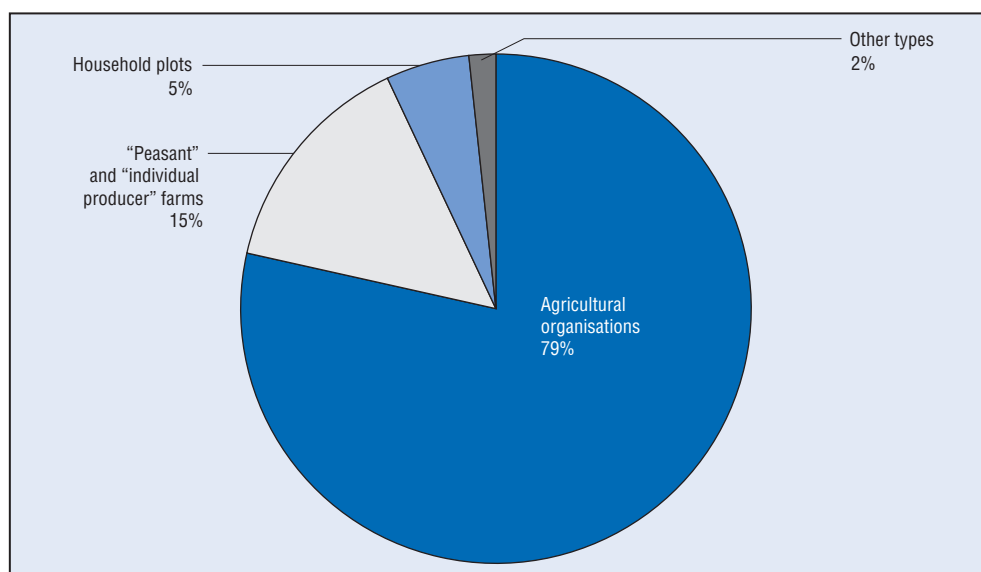
Two basic federal acts regulate agricultural land issues, the Land Code of the Russian Federation (2001) and federal Law on Turnover of Agricultural Land (2002). The latter act has been under permanent development, undergoing numerous amendments since adoption. An important part of land issues, mainly related to the application of broader federal norms, is regulated by regional legislation.

In recent years, some regions began adopting special measures to stimulate the return of agricultural land into cultivation. These include subsidising costs of physical delimitation and allotment of land to owners of land shares; subsidising costs of registration of land ownership rights; as well as simplifying legal procedures concerning transactions with agricultural land. Some regions buy idle land from rural population, a policy targeted in particular to aged persons.

The initial privatisation in agriculture was largely completed in the 1990s and led to the emergence of multiple legal forms of private agricultural enterprise. In the current decade, the ownership arrangements diversified as did the farm structure (Figure 6.11).

According to the **2006 Agricultural Census**, there were 48 179 agricultural organisations, which in large part represented the successors of former collective and state farms. Around 80% of these units had the legal status of joint stock companies or production co-operatives, 5% were state or municipal enterprises and 15% had other legal forms. Agricultural organisations account for nearly 79% of total agricultural land, and are substantially differentiated by size. The 2006 Agricultural Census distinguished “large and medium” agricultural organisations, which had on average 3 834 hectares of agricultural land per unit, and “small” agricultural organisations, which had 1 164 hectares per unit. However, out of the total registered number of agricultural organisations (48 179), 32% reported that they had no agricultural operations in 2006 (Figure 6.12). This includes units which formally ceased agricultural production (27%) and units reporting that they stopped production temporarily (5%). Around 35% of all agricultural land occupied by agricultural organisations was not utilised in 2006 (Figure 6.13). It is important to note that the data on total land occupied by agricultural organisations and average size relate to the total

Figure 6.11. **Russia: Distribution of agricultural land by type of farm, as of 1 July 2006**



1. Other types include subsidiary farms of industrial enterprises and gardening associations.

Source: FSSS, 2006 Russian Agricultural Census.


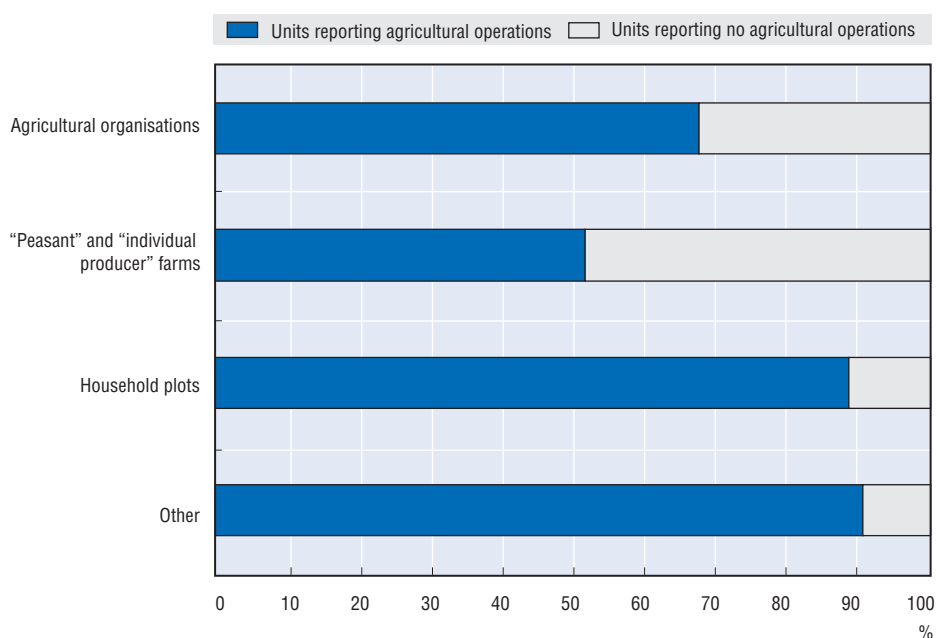
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Figure 6.12. **Russia: Share of farms reporting agricultural operations in 2006**

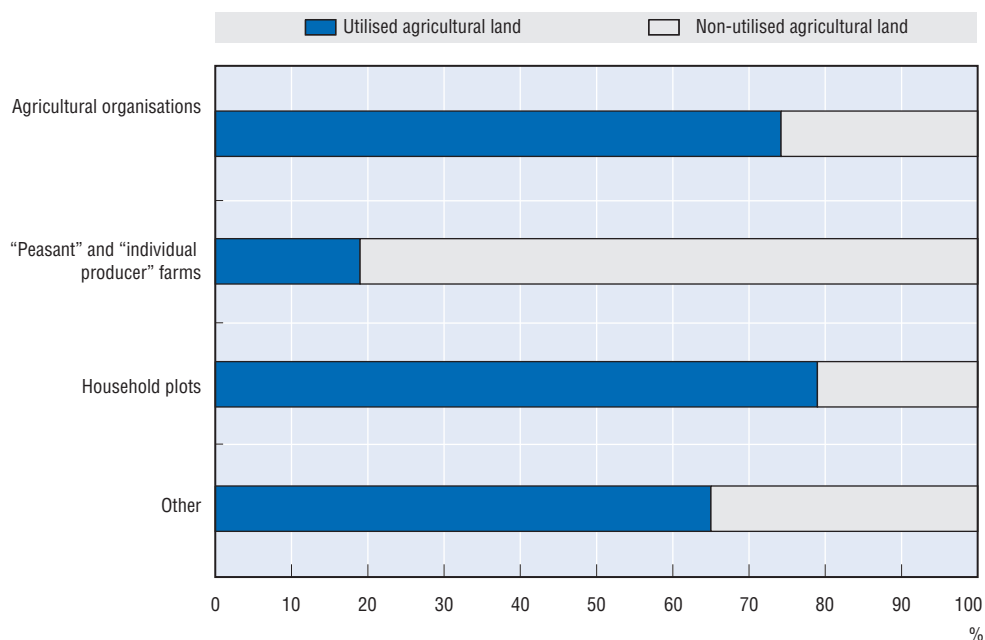


Source: FSSS, 2006 Russian Agricultural Census.

StatLink  <http://dx.doi.org/10.1787/531286667376>




Figure 6.13. **Russia: Share of utilised agricultural land in farms of different type in 2006<sup>1</sup>**



1. In per cent to total agricultural land in farms of different type.

Source: FSSS, 2006 Agricultural Census.

StatLink  <http://dx.doi.org/10.1787/531287516788>

number of units, including those with no agricultural operations reported (this is also the case for other farm types below).

Along with these large-scale farms, there existed 285 141 family-type farms. According to the legal status, they distinguish “peasant” and “individual producer” farms. The former have emerged since the early 1990s, as a result of policies to develop individual family-type farming in Russia. The legal status and the procedures for creating “peasant” farms are regulated by special laws. The “individual producer” farms are those typically created by the owners of household plots (see below) or other investors on the basis of general business legislation. Despite the differences in legal background, these units are similar, in that they all represent small family-type farming. Altogether they dispose of 15% of total agricultural land, with an average “peasant” farm operating on 85 hectares of agricultural land and an “individual producer” farm on 80 hectares. Only slightly more than one-half of “peasant” farms and two-thirds of “individual producer” farms had agricultural operations in 2006, implying that others were either involved in non-agricultural business or remained non-functional. Around 80% of total agricultural land in this group of farm was not utilised in 2006.

Agricultural organisations, “peasant” and “individual producer” farms are the commercially-oriented production units. There also exist 22.8 million households with tiny land plots (0.4 hectare of agricultural land on average). Around 89% of these households were producing agricultural products in 2006, but mostly for own consumption. Nearly 20% of agricultural land in households was not utilised.

Agricultural organisations typically use land and other farm assets on the basis of lease contracts with individual shareholders, which emerged in the process of initial farm privatisation. A notable trend is the transfer of land ownership from physical persons –

original holders of shares – to legal entities through purchase of shares or accepting shares as investment into the company's charter capital. In 2006, for example, 25% of agricultural land was owned by legal entities in the Moscow region, 23% in the Kaliningrad region and 17% in the Republic of Tatarstan, compared to 3% for Russia as a whole.

Another feature of concentration in the sector of agricultural organisations is the emergence of so-called agro-holdings. They represent complex institutional arrangements, usually involving the take-over of assets of insolvent or bankrupt farms by outside investors. In 2006, there existed 318 private agro-holdings, in which 1 247 agricultural organisations participated (agro-holding is understood to be an entity consisting of agricultural organisations, processing, and service units which are independent legal entities, but whose controlling stock belongs to one common holder). Private holdings employed 218 000 people and had 7.8 million hectares of agricultural land. There were also 463 state holdings (83% of them were municipal entities), with participation of 2 444 agricultural organisations and 9.6 million hectares of agricultural land at their disposal (VIAPI 2008b).

## Agro-food trade policies

### Import measures

Russia runs a significant agro-food trade deficit, which reached USD 18.5 billion in 2007. The largest (and expanding) import group concerns meat and meat products. Imports of red meat and poultry from outside the CIS area (Commonwealth of Independent States) are subjected to a **tariff rate quota** (Table 6.3). The quotas are allocated annually to countries based on historical imports. According to the Federal Customs Service, the quota fill rates were 71% for beef, 97% for pigmeat and 92% for


Table 6.3. **Russia's meat import quotas in 2005-09**

	2005	2006	2007	2008	2009 <sup>2</sup>
Beef fresh and chilled					
TRQ, thousand tonnes	27.5	27.8	28.3	28.9	29.5
In-quota tariff	15%, n.l. 0.2 EUR/kg	15%, n.l. 0.2 EUR/kg	15%, n.l. 0.2 EUR/kg	15%, n.l. 0.2 EUR/kg	15%, n.l. 0.2 EUR/kg
Over-quota tariff <sup>1</sup>	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
Beef frozen					
TRQ, thousand tonnes	430	435	440	445	450
In-quota tariff	15%, n.l. 0.15 EUR/kg	15%, n.l. 0.15 EUR/kg	15%, n.l. 0.15 EUR/kg	15%, n.l. 0.15 EUR/kg	15%, n.l. 0.15 EUR/kg
Over-quota tariff <sup>1</sup>	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
Pigmeat fresh, chilled or frozen					
TRQ, thousand tonnes	467.4	476.1	484.8	493.5	531.9
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
Over-quota tariff <sup>1</sup>	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
Poultry meat fresh, chilled or frozen					
TRQ, thousand tonnes	1 090.0	1 130.8	1 171.2	1 211.6	952
In-quota tariff	25%, n.l. 0.2 EUR/kg	25%, n.l. 0.2 EUR/kg	25%, n.l. 0.2 EUR/kg	25%, n.l. 0.2 EUR/kg	25%, n.l. 0.2 EUR/kg
Over-quota tariff <sup>1</sup>	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

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

1. Over-quota tariff rates shown for 2005 are those in effect between June and December.
2. The over-quota tariff levels scheduled initially for 2009 were: 40% but not less than EUR 0.53 per kg for fresh, chilled or frozen pigmeat; and 40% but not less than EUR 0.32 per kg for fresh, chilled or frozen poultry.

Source: GRF, 2005.

StatLink  <http://dx.doi.org/10.1787/532301854545>

poultry meat in 2007. The under-fill of the beef quota is partly explained by the fact that the bulk of it is allocated to the European Union. EU deliveries were restrained by bans on beef imports from these countries on technical grounds and in connection with animal disease. Nevertheless, total imports of all types of meat exceed the quota levels due to over quota deliveries, largely from Brazil and Argentina. In 2006-07, over-quota imports accounted on average for nearly 40% of total imports of beef, 30% of pigmeat and 11% of poultry meat. In December 2008, the government announced changes in meat TRQ regime for 2009. The tariff quota volume for poultry was cut to 952 000 tonnes from the initially scheduled level of 1 252 000 tonnes. For pigmeat, in contrast, the quota was increased compared to the scheduled level – to 531 900 tonnes against 502 000 tonnes foreseen initially. Changes in the initially foreseen over-quota tariffs were also made, involving a substantial rise in over-quota rates for pigmeat and poultry.

Another new regulation concerning meat imports was the introduction in 2006 of the minimum customs valuation for imports of beef and pigmeat. This measure was officially part of the fight against customs fraud, in particular under-reporting of value for customs duty.

A special import regime is applied to **sugar**. White sugar imports from areas outside the CIS are levied a duty of USD 340 per tonne, while CIS imports are duty free (if sugar is processed from sugar beet). The duty free treatment, however, is not extended to trade between Russia and Ukraine – both countries mutually apply their MFN tariffs. The main developments with respect to white sugar concerned trade with Belarus, the largest CIS supplier to Russia. Problems emerged when it was found that sugar imported from Belarus was not locally produced (to be eligible for duty-free entry), but re-exported. In 2007, an agreement was signed between the governments of Russia and Belarus, introducing a strict regulation of white sugar trade between the two countries. The agreement establishes Russia's annual import quantities (180 000 tonnes in 2007 and 100 000 in 2008) and import prices, which should be at the level of Russian wholesale prices for white sugar. A list of authorised companies which can make deliveries to Russian market was established, all belonging to the Belorussian State Concern.

A different tariff regime is applied to imports of raw sugar. A variable import levy is set for these imports, which is pegged to the average monthly price at the New York Board of Trade (NYBOT) and may vary between USD 140 and 270 per tonne. A higher NYBOT price commands a lower tariff and *vice versa*. Some modification was introduced in this regime in 2007. A higher seasonal duty will now be applied for the period between 1 December and 31 May. The duty is established within the range of USD 220-270 per tonne. Thus, from 1 December 2007 to 31 May 2008 the seasonal duty was set at USD 220 per tonne, then it was brought down to USD 140 in June 2008, to the level applied throughout most of the 2007. This measure resulted in a sharp fall in raw sugar imports in the first half of 2008. The seasonal duty was again imposed for the 2008/09 season.

In addition to raw sugar, a seasonal duty was imposed for rice and cereal products processed from rice (EUR 120 per tonne compared to a standard rate of EUR 70 per tonne). This duty was effective between 1 March and 31 May 2007, and 1 October and 31 December 2007. On the other hand, reduced seasonal duties (5% compared to standard 15%) were introduced for some vegetables (cabbage, carrots and red beets) and a duty-free import of tea and nuts was allowed between February and October 2007.

In addition to tariff protection, Russia applied import restrictions on phytosanitary, veterinary or technical grounds. In 2006-08 they concerned a number of countries in the CIS and the European Union, Brazil, India, Pakistan, Turkey, the United States, and Vietnam.

The food price crisis prompted *ad hoc* import regulations meant to reduce pressure on food prices. Import duties on milk and milk products were cut from 15% to 5% between mid-October 2007 and mid-April 2008. For cheese types subjected to a differentiated specific duty of up to EUR 0.7 per kilo it was set at a minimum level of EUR 0.3 per kilo and for all other types of cheese at 5% *ad valorem*. Import duties on vegetable oils were brought down from 15% to 5% for six months starting from 1 December 2007.

### **Export measures**

Russia's agro-food exports are small relative to imports, but they have nearly quadrupled in value terms over 2005-07. The key exported item is grains (mostly wheat), which accounted for 42% of total agro-food exports in 2006-07. Regulation of grain exports changed from stimulation in 2006, to restriction during the peak of food price inflation from the end-2007 to mid-2008, and subsequently back to duty-free exports since mid-2008.

In mid-2006, railway tariffs for transporting grain for export from the Siberian district to the Far-Eastern ports of Russia were halved (this preference was later applied to all grain transportation from Siberian to the Far-Eastern district). However, from late-2007, when domestic food prices soared, export-restricting measures were imposed. On 12 November 2007, **export duties** were introduced for wheat and meslin (10% but not less than EUR 22 per tonne) and barley (30%, but not less than EUR 70 per tonne). This did not bring about a reduction in exports, as prices on world markets continued to climb. Consequently, on 1 February 2008, the export duty for wheat was raised to a prohibitive level (40% but not less than EUR 105 per tonne). In addition, in order to prevent outflows through the duty-free zone of the Customs Union (between Belarus, Kazakhstan, Kyrgyzstan, and Russia), exports of wheat and meslin to Belarus and Kazakhstan were temporarily banned.

Since 1 July 2008, export duties on wheat and barley have been abolished in view of exceptionally high grain harvest. Russia's potential grain exports for the 2008/09 season are estimated at 17-23 million tonnes. Exports are limited, however, by the capacity of the existing infrastructure to direct product to external markets. By mid-November 2008, nearly 10 million tonnes were exported and contracts for shipments of another 4 million tonnes were made. According to grain analysts, another 10 million tonnes would need to be exported in order to stabilise domestic grain prices. In late 2008, the government announced plans to stimulate grain exports. Among possible measures are the shortening of standard terms for VAT refunds to grain exporters and reductions in railway tariffs and port terminal fees (until the beginning of the next crop year). There were also proposals for the introduction of export subsidies either as direct payments to exporters or as credits to importing countries. The export subsidies are actively solicited by grain exporters who argue that this places a smaller burden on the state budget than intervention purchases of grain. In January 2009, a 50% reduction in railway tariffs for grain transportation was announced. This only concerned long-distance transportation of grain to deficit regions inside Russia and transportation to export ports from several producing regions. Regarding other proposals, no official announcement has been made to date. The prospects for introduction of export subsidies become more uncertain as the government faces growing budgetary pressures in the current economic situation. Also, the Ministry of Economic

Development and Trade has noted earlier that this may complicate Russia's WTO accession negotiations (USDA, 2008).

In mid-2008, the Russian Ministry of Agriculture announced plans to reorganise the Federal Agency for Regulation of Food Market (FARFM) and create in its place a Unified Grain Company. Around 28 companies, including grain elevators and grain millers within the FARFM system, and two sea export terminals are to be unified into the Corporation. It is intended to keep 25% plus one stock in the new company's capital as federal ownership, with the remaining shares to be subsequently offered to private investors. The new company may potentially be able to control a large share of Russian grain exports.

Food price inflation prompted export-restricting regulation for other products. In mid-December 2007 a list of food items was published for which the government could introduce temporary export restraints. In addition to grains (wheat and meslin, rye, barley, and maize), this list included milk and cream, flour, oilseeds (rapeseed, soybeans and sunflower seed) and vegetable oils. Oilseeds have been subjected to export duties since 1992 to support domestic oil crushers. The duty is set at 20% but not less than EUR 30 per tonne for sunflower and 20% but not less than EUR 35 per tonne for rapeseed and soybeans. In March 2007, the duty for rapeseed was reduced to 15% but not less than EUR 30 per tonne.

### **WTO accession**

Russia has reached an advanced stage of accession negotiations. A broad harmonisation of the national legislation with WTO requirements was implemented. Numerous laws and regulations related to trade, currency, balance of payments, banking, insurance systems, intellectual property and other issues underwent scrutiny and were brought in compliance with the WTO criteria. New legislation was adopted, a few examples are the federal Law on Special Protection, Antidumping and Compensatory Measures Applied to Imports of Goods (8 December 2003), Law on Technical Regulation (1 July 2003), new Customs Code (1 January 2004), and amended Law on Customs Tariff (2006).

Bilateral agreements on market access for goods and services were concluded with all interested parties. However, the issue of bilateral agreement with Georgia remains open. Georgia has earlier called off its signature under the document. The recent aggravation of political relations between the two countries has complicated the prospects for the agreement.

Overall, the provisions reached to date on market access imply no significant lowering of tariff protection for agro-food items following the accession. According to the Russian Ministry of Economic Development (September 2006), Russia's trade-weighted average import tariff for agro-food items of 21.5% is to be reduced to 18.9% over the implementation period (one to six years according to product) (MERT 2006). Tariff protection for the most sensitive import-competing items, such as meat and sugar, will remain relatively high. The current TRQ regime for meat is to be effective up to 2009; after this term it may be modified or abolished. There will be however a visible reduction in protection for some meat by-products, fruits (oranges, grapes and bananas) and nuts, high-quality whey used in food processing, wines, cognacs and whiskies.

As concerns multilateral issues, an outstanding one is the compliance of Russia's technical regulation on meat with WTO recommendations (this is one of the items in the section on Technical Regulation of the Report of the Working Group on Russia's accession). Another issue awaiting agreement is the amount of domestic support that Russia will be

able to provide to its agricultural sector after accession. The discussion continues to focus on the base period to define the starting level of domestic support and the amount of assistance as measured by the Aggregate Measurement of Support (AMS). Russia maintains 1993-95 as the base period, an AMS of USD 9 billion and an export subsidy of USD 156.9 million. However, several negotiating parties consider the base period too distant and the amount of support inflated with respect to the current conditions. Russia argues that a more recent period and the current amount of support do not reflect the agricultural conditions appropriately, given the depth of recession the sector has gone through in the 1990s. The inclusion of export subsidies in Russia's proposal is also challenged by Russia's counterparts in the negotiations.

Meetings of the Working Group on Russia's accession to the WTO took place in June, July, September and November 2008. They concerned preparation of the consolidated Report of the Working Group. A separate consultation in June 2008 was held on outstanding multilateral agricultural issues.

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## List of Acronyms and Abbreviations

<b>AAY</b>	Poorest-of-the-poor ( <i>antyodaya ann yojana</i> ; India)
<b>ABC</b>	Agricultural Bank of China
<b>ACFTA</b>	ASEAN-China Free Trade Agreement
<b>ACP</b>	African, Caribbean and Pacific
<b>AEZ</b>	Agri-Export Zone (India)
<b>AFC</b>	Family Agriculture ( <i>Agricultura Familiar Campesina</i> ; Chile)
<b>AGOA</b>	African Growth and Opportunity Act
<b>AgriBEE</b>	Black Economic Empowerment Framework for Agriculture
<b>AMS</b>	Aggregate Measurement of Support
<b>APEDA</b>	Agricultural and Processed Food Products Exports Development Authority (India)
<b>APMC</b>	Agricultural Produce Marketing Committee Act (India)
<b>APTA</b>	Asia-Pacific Trade Agreement
<b>ASEAN</b>	Association of South East Asian Nations
<b>BAF</b>	Financial Coordination Subsidy ( <i>Bono de Articulación Financiera</i> ; Chile)
<b>BLNS</b>	Botswana, Lesotho, Namibia and Swaziland
<b>BNDES</b>	National Bank for Economic and Social Development (Brazil)
<b>CACP</b>	Commission for Agricultural Costs & Prices (India)
<b>CASP</b>	Comprehensive Agricultural Support Programme (South Africa)
<b>CBR</b>	Central Bank of Russia
<b>CES</b>	Agreement on Common Economic Space (between Belarus, Kazakhstan, Russia and Ukraine)
<b>CIP</b>	Central Issue Price (India)
<b>CIS</b>	Commonwealth of Independent States
<b>CNR</b>	National Irrigation Commission ( <i>Comisión Nacional de Riego</i> ; Chile)
<b>COMSA</b>	Agricultural Insurance Programme ( <i>Comité de Seguro Agrícola</i> ; Chile)
<b>CONAB</b>	National Food Supply Agency (Brazil)
<b>CONADI</b>	National Service for Indigenous Development – MIDEPLAN, Chile ( <i>Corporación Nacional de Desarrollo Indígena</i> )
<b>CORFO</b>	Economic Development Agency ( <i>Corporación de Fomento a la Producción</i> ; Chile)
<b>COTRISA</b>	Wheat Marketing Enterprise ( <i>Comercializadora de Trigo</i> ; Chile)
<b>CPC</b>	Communist Party of China
<b>CPI</b>	Consumer Price Index
<b>CPI-IW</b>	Consumer Price Index for Industrial Workers (India)
<b>DIPRES</b>	Budget Department ( <i>Dirección de Presupuesto</i> ), Chilean Ministry of Finance
<b>DIRECON</b>	Directorate for International Economic Relations – Chilean Ministry of Foreign Affairs ( <i>Dirección de Relaciones Económicas Internacionales</i> )
<b>DoA</b>	Department of Agriculture (South Africa)
<b>EC</b>	European Commission
<b>ECA</b>	Economic Complementation Agreement (Chile)

<b>ECA</b>	Essential Commodity Act (India)
<b>ECLAC</b>	Economic Commission for Latin America and the Caribbean – United Nations ( <i>Comisión Económica para América Latina y el Caribe – CEPAL</i> )
<b>EFTA</b>	European Free Trade Association
<b>EPA</b>	Economic Partnership Agreements
<b>EU</b>	European Union
<b>FAD</b>	Fund of Delegated Cash Management ( <i>Fondo de Administración Delegada</i> ; Chile)
<b>FAO</b>	Food and Agriculture Organization of the United Nations
<b>FAP</b>	Federal Agency for Regulation of Food Market (Russia)
<b>FCI</b>	Food Corporation of India
<b>FDI</b>	Foreign Direct Investment
<b>FOSIS</b>	Social and Solidarity Investment Fund ( <i>Fondo de Solidaridad e Inversión Social</i> ; Chile)
<b>FSSS</b>	Federal State Statistics Service (Russia)
<b>FTA</b>	Free Trade Agreement
<b>GAO</b>	Gross Agricultural Output
<b>GATT</b>	General Agreement on Tariffs and Trade
<b>GDP</b>	Gross Domestic Product
<b>GEIS</b>	General Export Incentive Scheme (South Africa)
<b>GMO</b>	Genetically Modified Organism
<b>GOI</b>	Government of India
<b>GRF</b>	Government of the Russian Federation
<b>HRB</b>	Basic Irrigation Hectares ( <i>Hectáreas de Riego Básico</i> ; Chile)
<b>IEPA</b>	Interim Economic Partnership Agreement
<b>IMF</b>	International Monetary Fund
<b>INDAP</b>	National Institute for Agricultural Development ( <i>Instituto Nacional de Desarrollo Agropecuario</i> ; Chile)
<b>INE</b>	Chile's National Statistical Office ( <i>Instituto Nacional de Estadísticas de Chile</i> )
<b>KCC</b>	Kisan (Farmer) Credit Card (India)
<b>LARP</b>	Land and Agrarian Reform Project (South Africa)
<b>LRAD</b>	Land Redistribution and Agricultural Development (South Africa)
<b>MAFISA</b>	Micro-Agricultural Finance Scheme of South Africa
<b>MAPA</b>	Ministry of Agriculture, Livestock and Food Supply (Brazil)
<b>MDA</b>	Ministry of Agrarian Development (Brazil)
<b>MEP</b>	Minimum Export Price (India)
<b>MERCOSUR</b>	Southern Common Market
<b>MERT</b>	Ministry of Economic Development and Trade (Russia)
<b>MFN</b>	Most Favoured Nation
<b>MIDEPLAN</b>	Chilean Ministry of Planning and Cooperation
<b>MINAGRI</b>	Chilean Ministry of Agriculture
<b>MIP</b>	Market Intervention Price (India)
<b>MOP</b>	Chilean Ministry of Public Works
<b>MSP</b>	Minimum Support Price (India)
<b>NABARD</b>	National Bank for Agriculture and Rural Development (India)
<b>NAFED</b>	National Agricultural Cooperative and Marketing Federation of India
<b>NAIS</b>	National Agricultural Insurance Scheme (India)
<b>NAMC</b>	National Agricultural Marketing Council (South Africa)
<b>NAP</b>	National Agriculture Policy (India)
<b>NDRC</b>	National Development and Reform Commission (China)



<b>NPF</b>	National Policy for Farmers (India)
<b>NRA</b>	Nominal Rate of Assistance
<b>NREGP</b>	National Rural Employment Guarantee Programme (India)
<b>NYBOT</b>	New York Board of Trade
<b>ODEPA</b>	Office of Agricultural Policies and Studies ( <i>Oficina de Estudios y Políticas Agrarias</i> ; Chile)
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PBS</b>	Price Band System (Chile)
<b>PLAS</b>	Pro-Active Land Acquisition Strategy (South Africa)
<b>PNRA II</b>	Second National Plan for Agrarian Reform (Brazil)
<b>PPP</b>	Purchasing Power Parity
<b>PROCHILE</b>	DIRECON's Department, to promote Chilean exports
<b>PRONAF</b>	National Programme for the Strengthening of Family Agriculture (Brazil)
<b>PRRS</b>	Porcine Reproductive and Respiratory Syndrome
<b>PSS</b>	Price Support Scheme (India)
<b>R&amp;D</b>	Research and Development
<b>RBI</b>	Reserve Bank of India
<b>RRA</b>	Relative Rate of Assistance
<b>SACU</b>	South African Customs Union
<b>SADC</b>	Southern African Development Community
<b>SAFTA</b>	South Asian Free Trade Area
<b>SAG</b>	Agriculture and Livestock Service ( <i>Servicio Agrícola Ganadero</i> ; Chile)
<b>SARB</b>	South African Reserve Bank
<b>SASA</b>	South African Sugar Association
<b>SAT</b>	Single Agricultural Tax (Russia)
<b>SEZ</b>	Special Economic Zone (India)
<b>SINOGRAIN</b>	China Grain Reserves Corporation
<b>SNCR</b>	National System of Rural Credit (Brazil)
<b>SPS</b>	Sanitary and Phytosanitary
<b>SSG</b>	Special Safeguard
<b>STE</b>	State Trading Enterprise
<b>TBT</b>	Technical Barriers to Trade
<b>TDCA</b>	Trade, Development and Cooperation Agreement (South Africa)
<b>TPDS</b>	Targeted Public Distribution System (India)
<b>TICA</b>	Trade and Investment Cooperation Agreement
<b>TRQ</b>	Tariff Rate Quota
<b>UF</b>	Chilean Unit of Account ( <i>Unidad de Fomento</i> )
<b>UN</b>	United Nations
<b>URAA</b>	Uruguay Round Agreement on Agriculture
<b>USA</b>	United States of America
<b>VAT</b>	Value Added Tax
<b>WB</b>	World Bank
<b>WBCIS</b>	Weather-Based Crop Insurance Scheme (India)
<b>WTO</b>	World Trade Organization

**OECD indicators of support**

<b>CSE</b>	Consumer Support Estimate
<b>GSSE</b>	General Services Support Estimate
<b>MPS</b>	Market Price Support
<b>NAC</b>	Nominal Assistance Coefficient
<b>NPC</b>	Nominal Protection Coefficient
<b>PSE</b>	Producer Support Estimate
<b>SCT</b>	Single Commodity Transfers
<b>TSE</b>	Total Support Estimate

**Currencies**

<b>BRL</b>	Brazilian real
<b>CLP</b>	Chilean peso
<b>CNY</b>	Chinese yuan renminbi
<b>EUR</b>	Euro
<b>INR</b>	Indian rupee
<b>RUB</b>	Russian rouble
<b>UAH</b>	Ukrainian hryvnia
<b>USD</b>	United States dollar
<b>ZAR</b>	South African rand

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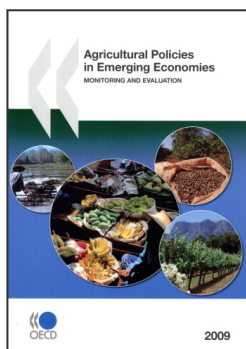
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