Agricultural Policy Monitoring and Evaluation 2015


*Chapter 19*

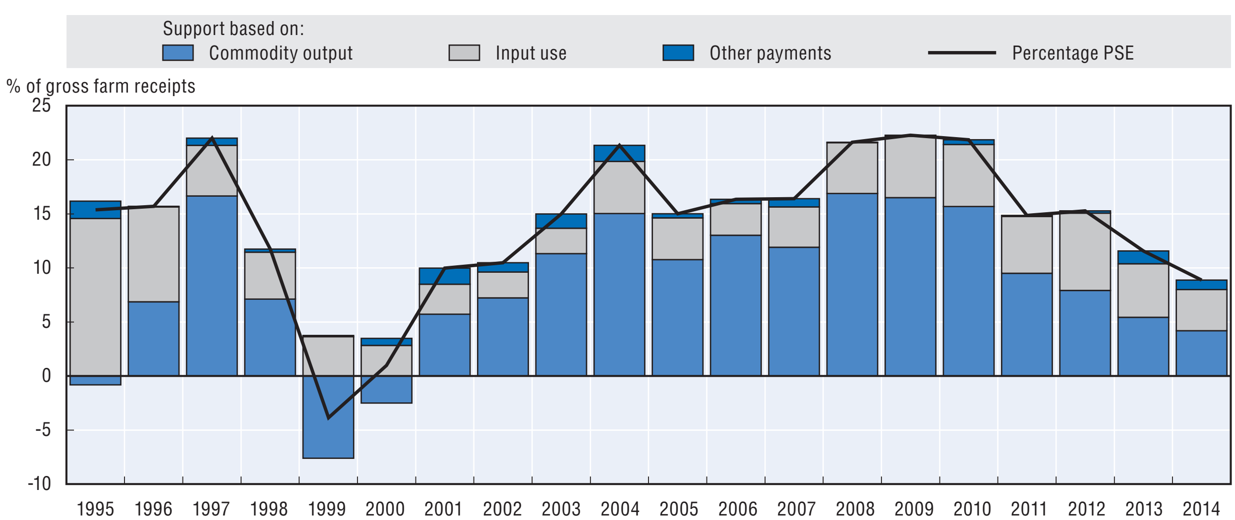
# Russian Federation

*The Russian Federation 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 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2013-15.*

### Evaluation of policy developments

- Support to agricultural producers has declined since 2010 and in 2014 it is below 10% of gross farm receipts, which is approximately the level observed at the beginning of the 2000s. The current relatively modest aggregate support level, however, disguises cross-commodity variations, with protection of import competing sectors and taxation of exporting ones.
- Agricultural policy formulated at the inception of the State Programme for Development of Agriculture for 2013-20 aimed at boosting agricultural production and agro-food import substitution. The exchange of sanctions between a number of countries and the Russian Federation in the difficult political context of the Ukrainian crisis has likely intensified the Russian Federation's import substitution orientation into a long-lasting self-sufficiency policy in agro-food area.
- Non-tariff border protection based on sanitary and phytosanitary and technical regulation continued to be an active policy, in certain cases raising concerns among trading partners about the Russian Federation's application of unjustified trade restrictions.
- Domestic policy has been concentrated on increasing the flows of financial resources into agriculture, particularly to support investments in import competing sectors. In late 2014, government action was also aimed at cushioning the effects of general recession and tightened financial markets on the agro-food sector.
- A new emphasis has been made on the development of domestic seed production and pedigree livestock breeding to reduce dependence on imports of these agricultural inputs, as well as on improvements in downstream infrastructure.
- Overall, distorting subsidy measures and import protection continue to prevail as policy instruments to achieve the stated goals. This in turn implies reliance on transfers from consumers and taxpayers to the agricultural sector in a situation, which at least in the short term, is characterised by macroeconomic risks and falling consumer incomes.

Figure 19.1. **Russian Federation: PSE level and composition by support categories, 1995-2014**




*Source:* OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234942

# Contextual information

The Russian Federation has the largest land area in the world and is a country with very diverse natural, economic, and social conditions. According to the World Bank, it is the ninth largest world economy, with per capita income in purchasing power parity terms (PPP) more than quadrupling since the mid-1990s. In per capita PPP terms it ranks 44th in the world. Economic growth considerably decelerated in 2013 and 2014. Agriculture contributes around 4% of GDP and 8% of employment. The Russian Federation is one of the world's top importers of meat and has been a large wheat exporter since the early 2000s. Agricultural output has recovered steadily from a deep recession in the 1990s, with the exception of significant drops in 2010 and 2012 following severe droughts. The farm structure is dual, where commercial operations co-exist with small household units, the latter oriented mostly towards 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 of these areas suffering economic and social decline as well as depopulation.

Table 19.1. **Russian Federation: Contextual indicators, 1995, 2013[1]**

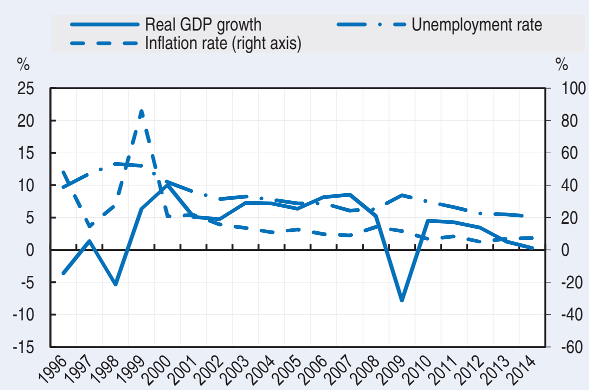
| | 1995 | 2013[1] |
|---|---|---|
| **Economic context** | | |
| GDP (billion USD) | 310 | 2 095 |
| Population (million) | 148 | 144 |
| Land area (thousand km$^2$) | 16 378 | 16 377 |
| Population density (inhabitants/km$^2$) | 9 | 8 |
| GDP per capita, PPP (USD) | 5 612 | 25 366 |
| Trade as % of GDP[2] | 19.1 | 20.1 |
| **Agriculture in the economy** | | |
| Agriculture in GDP (%) | 7.2 | 3.9 |
| Agriculture share in employment (%) | 15.7 | 7.0 |
| Agro-food exports (% of total exports)[2] | 2.1 | 2.6 |
| Agro-food imports (% of total imports)[2] | 18.1 | 12.9 |
| **Characteristics of the agricultural sector** | | |
| Agro-food trade balance (million USD)[2] | -9 214 | -27 109 |
| Crop in total agricultural production (%) | 58 | 54 |
| Livestock in total agricultural production (%) | 42 | 46 |
| Agricultural area (AA) (thousand ha) | 216 400 | 214 350 |
| Share of arable land in AA (%) | 59 | 56 |
| Share of irrigated land in AA (%) | .. | 2 |
| Share of agriculture in water consumption (%) | .. | 24 |
| Nitrogen balance, kg/ha | .. | .. |

1. Or latest available year.
2. Data listed in 1995 refers to 1996.

*Sources:* *OECD Statistical Databases*, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235469

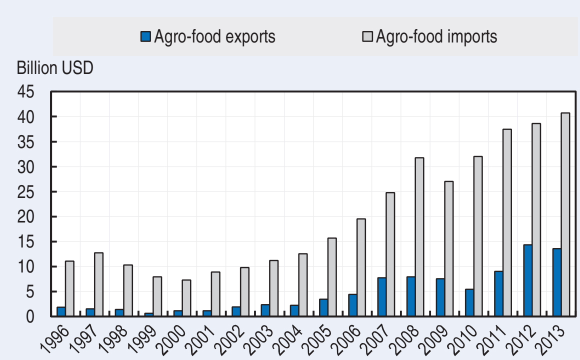
Figure 19.2. **Russian Federation: Main macroeconomic indicators, 1996-2014**




*Source:* *OECD Factbook Statistics.*

StatLink http://dx.doi.org/10.1787/888933234952

Figure 19.3. **Russian Federation: Agro-food trade, 1996-2013**




*Source:* *UN Comtrade Database.*

StatLink http://dx.doi.org/10.1787/888933234964

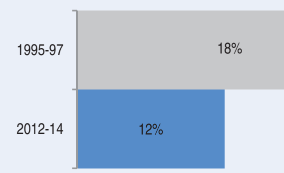
*Note:* Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

# *Development of support to agriculture*

Support to agriculture fluctuated over the long-term and declined in 2013 and 2014. Around 87% of producer support (PSE) derives from market price support, with border protection for imported livestock products and sugar and taxation of exported grains and oilseeds somewhat offsetting each other. Livestock producers also benefit from domestic grain prices being below the world levels. Budgetary transfers to producers are dominated by subsidies to variable inputs and investments. Over four-fifths of total support to agriculture (TSE) is provided to producers individually, with the rest directed to general services for agriculture.

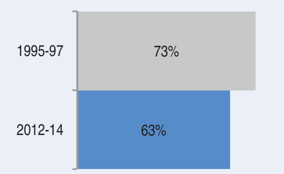
## PSE as % of receipts (%PSE)

*%PSE was at 12% of producer gross receipts in 2012-14, below the OECD average of 18% and below the level observed in 1995-97 (18%). % PSE decreased from 15% in 2012 to 12% in 2013 and further to 9% in 2014 – the lowest level since the early 2000s.*



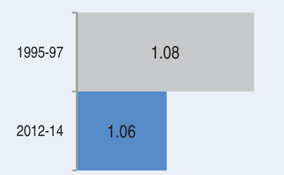

## Potentially most distorting support as % of PSE

*The share of the potentially most production and trade distorting forms of support (based on output and unconstrained input use) decreased from 73% to 63% of the total PSE between 1995-97 and 2012-14. This in part reflects the replacement of some previous input subsidies by per hectare payments.*



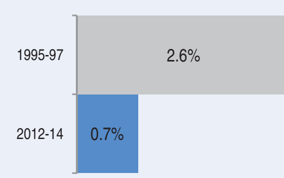

## Ratio of producer price to border price (NPC)

*Prices received by farmers were on average 6% above those observed on world markets in 2012-14, compared to 8% in 1995-97. Price protection has been declining in recent years in part due to tariff reductions related to WTO commitments and also due to the weakening of the national currency.*

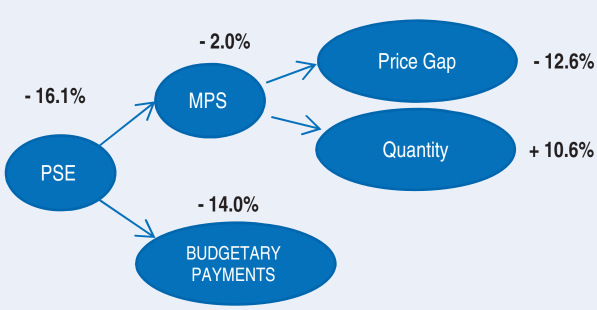



## TSE as % of GDP

*Total support to agriculture (TSE) as a % of GDP decreased from 2.6% in 1995-97 to 0.7% in 2012-14 as GDP grew more than total support. General services account for 16% of the TSE.*

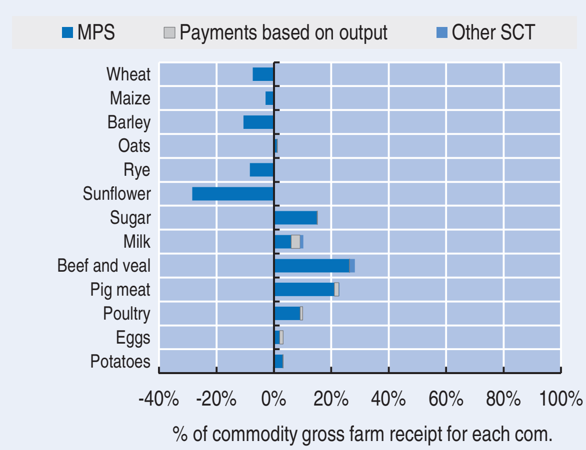



## Decomposition of change in PSE, 2013 to 2014




*The PSE decreased in 2014 reflecting largely a reduction in budgetary support against the high level of the previous year. Market price support (MPS) declined only slightly because the decreases in the price gap were offset by higher quantities receiving support. The average price gap narrowed as domestic prices weakened against border prices, in part due to a depreciation of the national currency.*

## Transfers to specific commodities (SCT), 2012-14




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

## Table 19.2. **Russian Federation: Estimates of support to agriculture**

*Million RUB*

| | 1995-97 | 2012-14 | 2012 | 2013 | 2014p |
|---|---|---|---|---|---|
| **Total value of production (at farm gate)** | **200 360** | **3 108 596** | **2 753 825** | **3 099 869** | **3 472 094** |
| ***of which:*** *share of MPS commodities (%)* | 82.0 | 76.6 | 75.7 | 75.2 | 78.9 |
| **Total value of consumption (at farm gate)** | **245 824** | **3 744 916** | **3 533 123** | **3 623 599** | **4 078 027** |
| **Producer Support Estimate (PSE)** | **40 710** | **389 646** | **455 735** | **387 745** | **325 460** |
| Support based on commodity output | 19 174 | 190 660 | 236 012 | 182 103 | 153 864 |
| Market Price Support[1] | 14 437 | 165 218 | 226 215 | 138 661 | 130 776 |
| Payments based on output | 4 737 | 25 442 | 9 797 | 43 442 | 23 088 |
| Payments based on input use | 19 943 | 172 548 | 213 293 | 165 395 | 138 958 |
| Based on variable input use | 11 959 | 56 210 | 87 987 | 45 818 | 34 825 |
| with input constraints | 0 | 0 | 0 | 0 | 0 |
| Based on fixed capital formation | 7 826 | 112 618 | 120 250 | 116 093 | 101 511 |
| with input constraints | 0 | 0 | 0 | 0 | 0 |
| Based on on-farm services | 159 | 3 721 | 5 057 | 3 484 | 2 622 |
| with input constraints | 0 | 0 | 0 | 0 | 0 |
| Payments based on current A/An/R/I, production required | 0 | 26 438 | 6 430 | 40 247 | 32 638 |
| Based on Receipts / Income | 0 | 2 242 | 5 423 | 1 277 | 26 |
| Based on Area planted / Animal numbers | 0 | 457 | 584 | 415 | 373 |
| with input constraints | 0 | 0 | 0 | 0 | 0 |
| Payments based on non-current A/An/R/I, production required | 0 | 0 | 0 | 0 | 0 |
| Payments based on non-current A/An/R/I, production not required | 0 | 0 | 0 | 0 | 0 |
| With variable payment rates | 0 | 0 | 0 | 0 | 0 |
| with commodity exceptions | 0 | 0 | 0 | 0 | 0 |
| With fixed payment rates | 0 | 0 | 0 | 0 | 0 |
| with commodity exceptions | 0 | 0 | 0 | 0 | 0 |
| Payments based on non-commodity criteria | 0 | 0 | 0 | 0 | 0 |
| Based on long-term resource retirement | 0 | 0 | 0 | 0 | 0 |
| Based on a specific non-commodity output | 0 | 0 | 0 | 0 | 0 |
| Based on other non-commodity criteria | 0 | 0 | 0 | 0 | 0 |
| Miscellaneous payments | 1 593 | 0 | 0 | 0 | 0 |
| **Percentage PSE (%)** | **17.7** | **11.9** | **15.3** | **11.6** | **8.9** |
| **Producer NPC (coeff.)** | **1.08** | **1.06** | **1.08** | **1.06** | **1.04** |
| **Producer NAC (coeff.)** | **1.22** | **1.14** | **1.18** | **1.13** | **1.10** |
| **General Services Support Estimate (GSSE)[2]** | **10 625** | **77 303** | **62 210** | **101 705** | **67 994** |
| Agricultural knowledge and innovation system | 1 268 | 32 634 | 30 225 | 33 608 | 34 069 |
| Inspection and control | 824 | 20 261 | 20 161 | 19 732 | 20 890 |
| Development and maintenance of infrastructure | 1 639 | 9 682 | 6 997 | 12 278 | 9 771 |
| Marketing and promotion | 119 | 327 | 51 | 398 | 531 |
| Cost of public stockholding | 0 | 316 | 0 | 448 | 500 |
| Miscellaneous | 6 774 | 14 083 | 4 775 | 35 242 | 2 233 |
| **Percentage GSSE (% of TSE)** | **17.4** | **15.9** | **11.6** | **19.7** | **16.3** |
| **Consumer Support Estimate (CSE)** | **-20 372** | **-276 555** | **-377 485** | **-246 043** | **-206 138** |
| Transfers to producers from consumers | -12 636 | -161 923 | -205 941 | -149 106 | -130 721 |
| Other transfers from consumers | -5 891 | -130 122 | -173 947 | -124 203 | -92 214 |
| Transfers to consumers from taxpayers | 15 | 23 124 | 20 313 | 25 660 | 23 398 |
| Excess feed cost | -1 859 | -7 635 | -17 909 | 1 606 | -6 601 |
| **Percentage CSE (%)** | **-6.0** | **-7.6** | **-10.7** | **-6.8** | **-5.1** |
| **Consumer NPC (coeff.)** | **1.07** | **1.09** | **1.12** | **1.08** | **1.06** |
| **Consumer NAC (coeff.)** | **1.08** | **1.08** | **1.12** | **1.07** | **1.05** |
| **Total Support Estimate (TSE)** | **51 349** | **490 073** | **538 258** | **515 110** | **416 851** |
| Transfers from consumers | 18 527 | 292 044 | 379 889 | 273 310 | 222 935 |
| Transfers from taxpayers | 38 712 | 328 150 | 332 316 | 366 004 | 286 130 |
| Budget revenues | -5 891 | -130 122 | -173 947 | -124 203 | -92 214 |
| **Percentage TSE (% of GDP)** | **2.6** | **0.7** | **0.9** | **0.8** | **0.6** |
| **GDP deflator (1995-97=100)** | **100** | **1 810** | **1 694** | **1 793** | **1 943** |

*Note:* 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

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

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

*Source:* OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink *http://dx.doi.org/10.1787/888933235470*

# *Main policy instruments*

The Russian Federation applies a range of price policy instruments. The main one is **border protection**, including through Tariff Rate Quotas and non-tariff measures. Border measures are in large part implemented within the framework of Customs Union of the Eurasian Economic Union (EAEC). There are also domestic price regulation policies, such as **market interventions**. They can be implemented for grains, whereby the government can withdraw or purchase this product if the market price moves outside the established band between minimum and maximum prices. Prices at which market interventions are implemented, however, do not play the role of price guarantees. Restrictions on imports or exports can be imposed during the intervention periods. Grain intervention has been active since the 2008/09 season.

**Payments based on output** for marketed livestock products have been traditionally provided from regional budgets, but recently a new payment for milk was introduced, which is co-financed by the federal and regional governments. **Concessional credit** is one of the most important support instruments. Concessions take the form of subsidies on interest payments to borrowers of loans. The subsidy is set at a fraction of the central bank's refinancing rate, with this fraction varying by type of beneficiary and type of loan. In addition to interest subsidies, a range of **subsidies for variable inputs** are provided. Support is also provided through **leasing of machinery, equipment and livestock** at preferential terms. **Per hectare payments** is a new measure which replaced several previous nation-wide input subsidies. Agricultural producers also benefit from a number of **tax preferences** and **concessions on repayment of arrears** on federal taxes and social contributions.

The majority of support measures described above are implemented within a **multi-year State Programme for the Development of Agriculture** – the country's main agricultural policy framework. It is based on the principle of support measure co-financing by federal and regional governments, with significant regional variations in the co-financing rates. In addition to support included in the State Programme, regions implement their own, strictly **regional support measures**.

The on-going State Programme 2013-20 has entered the third year of implementation in 2015. It incorporates several sectoral sub-programmes related to the crop and livestock production, including two new ones introduced in 2015 (see below). Other components are cross-sectoral sub-programmes on technical and technological modernisation; development of small farming; support for pedigree livestock breeding and seed production; development of wholesale and distribution centres and food aid system; and development of financial and credit system. The last three cross-sectoral sub-programmes are also new and are implemented as of 2015. The State Programme 2013-20 also includes two federal "targeted" programmes on rural development and on land improvement.

## Domestic policy developments in 2013-15

At its inception, the State Programme 2013-20 has been strongly inspired by the 2010 Doctrine on Food Security. Reaching the self-sufficiency targets in key foodstuffs set by the Doctrine was stated as the Programme's primary objective.* The exchange of sanctions between a number of countries and the Russian Federation in the context of the Ukraine crisis further strengthened a self-sufficiency orientation for agricultural policy. Towards the end of 2014, the government's actions were also focused on cushioning the impacts of a deteriorated macroeconomic situation,

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

with a substantial slow-down of the overall economy, tightening of budgetary resources, and accelerated inflation. The rouble's value against the US dollar more than halved during 2014; although this increased the competitiveness of local products domestically and internationally, it also fuelled inflation, raising costs of inputs and borrowing.

At the end of 2014, the government amended the State Programme 2013-20. The overall budget was increased, new sub-programmes were introduced and funds re-allocated within and between sub-programmes. The revisions were aimed to support an "accelerated import substitution" for priority products taking into account also the deteriorated economic conditions. The priority products include milk and meat, greenhouse and early vegetables, seed potatoes, fruits and berries. The Programme's revision also foresees increased investments in marketing infrastructure and more support to seed production, crop selection and pedigree livestock breeding. These amendments translate into an additional federal funding of RUB 570 billion (USD 9 billion) for 2015-20, beyond RUB 1 189 billion (USD 19 billion) of federal funds earmarked for this period in the original version of the Programme. However, the revised financing is with a proviso that in view of macroeconomic uncertainty the financial targets of the State Programme may be further reviewed.

The **government intervened on grain markets** in 2012/13 to ease the effects on bread prices of a reduced grain crop and strong exports in late 2012: between October 2012 and July 2013, 3.4 million tonnes of grain were released from the Intervention Fund. In 2013/14, grain in contrast was withdrawn from the market (0.6 million tonnes) to stabilise falling prices after a large crop; purchases were renewed in the 2014/15 season following another good crop and virtual suspension of grain exports in late 2014 (see below). By March 2015, 0.43 million tonnes of grain had been purchased.

Regional budgets continued payments based on output in 2013-14 for marketed meat, milk, eggs and wool, with milk accounting for nearly 60% of the total. Starting from 2013, a **new per tonne milk payment** is provided, co-financed by regional and federal funds. This is implemented as a new instrument to stimulate growth in milk output, which is, together with meat output, the top priority of the State Programme. The overall annual outlays on the national milk payment are foreseen to increase up until 2017, but continuation beyond is uncertain. From the WTO perspective, the new per tonne milk payment increases the amount of support subject to domestic support disciplines. In 2013, exceptional assistance was provided to pig meat, poultry and egg producers. They received per tonne payments for their products to compensate for significant increases in feed costs after the 2012 drought. With the introduction of new milk payment and exceptional assistance in 2013, per tonne payments gained in importance, accounting for 9% of the total PSE in 2013-14 compared to 3% in 2010-12.

**Concessional credit** is the largest producer support category of the State Programme which in 2013-14 accounted for 38% of total Programme spending (federal and regional, but excluding costs of the Programme's administration). Over three quarters of total allocations for interest subsidies came from the federal budget in 2013, with the rest co-financed by regional budgets. Since the mid-2000s, the programme has substantially expanded in scope and scale. About two thirds of concessional credit issued in 2013-14 was directed to primary livestock and crop producers, the rest went to downstream borrowers. Around 78% of total concessional credit issued during this biennium was related to long-term loans.

The total amount of interest subsidies provided to all types of borrowers, all types of credit, and from federal and regional funds, rose from RUB 12 billion (USD 0.2 billion) in 2005 to approximately RUB 100 billion (USD 1.6 billion) in 2014. This reflects the increase in new lending each year, an accumulating stock of long-term loans maturing after five to fifteen years, and additional concessions granted as part of relief assistance during this period.

Developments related to concessional credit reflect the intention to limit the long-term commitment of federal and regional governments, i.e. those arising from subsidising on-going and new investment borrowings. Thus, in 2013 the federal contribution to interest subsidies was reduced for most types of credit (except credit provided for milk and meat production). Procedures for access to concessions on investment credit were tightened, notably the selection of eligible investment projects is now approved at the federal and not at regional levels. These decisions were integrated into the State Programme 2013-20 at its start. Furthermore, in 2015 investors were enabled to opt for direct capital grants (from 20% to 30% of investment depending on the activity) shifting away partly from interest subsidies on investment loans.

However, an earlier orientation towards constraining credit support commitments seems to have been reversed in late 2014. The pledge to accelerate import substitution changed prior plans to stop new concessional investment loans for poultry complexes as of 2015, and for pig complexes as of 2017. It was decided to continue subsidising investment loans in these sectors until 1 January 2019 with the focus on Trans-Ural, Siberian and Far East regions. Another factor was the sharp deterioration of lending conditions, with Central Bank of Russia interest rate rising from 5.5% to 17.0% between December 2013 and December 2014. Although the situation has stabilised since, with the rouble appreciating and the Central Bank bringing its rate down to 12.5% in May 2015, the risk of volatility remains high. The largest agro-food lenders, such as *Sberbank* and *Rosselkhozbank*, reviewed their standing credit contracts, a process in which the government requested them to maintain the conditions unchanged for previously approved contracts with agro-food borrowers. The government also decided to transfer RUB 86.7 billion (USD 1.4 billion) to *Rosselkhozbank* for capitalisation over 2016-20. Other crisis-management measures included increases in initial federal allocations for interest compensation on short-term loans, mainly for sowing. An agreement was also reached with *Sberbank* and *Rosselkhozbank* to cap interest on such loans, so as to reduce the part effectively borne by borrowers. It was also decided to raise again the rate of federal contribution to interest subsidies on investment loans taken in 2015.

**Subsidies for variable inputs** were provided at regional level to purchase mineral fertilisers, chemicals and diesel fuel for seasonal works. There have also been national subsidies for electricity, mixed feed, high quality seeds, and subsidies to transport seeds of feed crop to areas with adverse climatic conditions. In the end of 2014, as part of anti-crisis measures and in view of rapid input price inflation, the government brokered an agreement for fertiliser producers to sell fertilisers domestically with a 10%-15% mark-down on their export prices, a concession which was gradually increased, reaching up to 30% by March 2015.

Support is also provided through **leasing of machinery, equipment and livestock** at preferential terms operated by the state-owned *Rosagroleasing* company. In 2013, it received RUB 2 billion (USD 33 million) from the federal budget for purchase of items destined for further leasing. The State Programme 2013-20 foresees more budgetary transfers to the company in 2016 and 2017. In addition to the national leasing programme, 39 Russian regions implemented their own programmes to support machinery acquisitions in various forms.

The federal law "On State Support in the Area of Agricultural Insurance" (2011) stated that support payments may be made conditional on producers being covered by catastrophic insurance. It stipulates a 50% **insurance premium subsidy** for insurance of catastrophic crop risks (crop losses in excess of 30% for arable crops and 40% for perennials). In 2013, the insurance premium subsidy also became available for livestock.

Up to 2013, **area payments** were insignificant, consisting of small subsidies to maintain permanent crop plantations. In 2013, a number of previously important nation-wide input subsidies (mineral fertiliser and chemicals subsidy and fuel subsidy) were eliminated and new area payments introduced. The amount of federal funding allocated to a particular region depends on its total crop area in the previous year, its land fertility score, and its crop yields. The subsidy rate formulas and payment procedures within the regions remain at their discretion. According to the information available for the main crop producing regions, these employ a generally similar method as at the federal level to set subsidy rates and allocate subsidies within the region, although there are variations in the complexity of formulas establishing the payment and related parameters.

Beyond the support above, assistance is delivered within the **economically important regional programmes**. In 2013, more than two-thirds of the Russian regions received federal co-financing for their programmes, with around 80% of aggregate federal and regional funding going to projects for the development of meat and milk farming and most of the remaining directed to the vegetable and potato sectors, as well as land improvement. In 2014, part of the initially budgeted allocations for the livestock projects were re-directed to credit subsidies, while the reduced funds were mainly spent for control of African Swine Fever.

Agricultural producers benefit from a number of **tax preferences**, including a zero income tax rate, and for certain group of agricultural taxpayers, exemptions from property tax and Value Added Tax (VAT). As part of the 2012 package to assist domestic producers to adapt to WTO membership, the previously existing tax concessions have been maintained. Up until 2011, a zero VAT rate applied to pedigree animals, their embryos and semen, and pedigree hatching eggs, but was set at 10% to be effective up to 2017. A proposal to bring VAT on these products back to zero awaits official decision.

Households spend around 28% of their final consumption expenditures on food. Food price inflation has been an increasing government concern during the period under review. In December 2014, food prices were 15% above their levels a year before. Administrative measures across the regions were applied to control wholesaler and retailer mark-ups. Anti-monopoly procedures were used, with large retail chains in particular coming under the spotlight. In January 2015, a number of large food retailers announced a temporary voluntary moratorium on increases of mark-ups on certain food items. RUR 2.4 billion (USD 39 million) were allocated in 2015 for organisation of a new food aid system, including the required infrastructure.

## Trade policy developments in 2013-15

The Russian Federation's **meat imports** are subject to **tariff rate quotas (TRQ)** on imports from the non-CIS area. Upon WTO accession in July 2012, the Russian Federation maintained country-specific quotas for fresh and chilled beef, frozen beef; and frozen boneless poultry cuts. Total in-quota imports and bound tariffs remain the same over the implementation period for all three types of meat. However, tariffs on in quota pig meat imports were brought to 0% and over-quota tariff reduced in the first year of WTO accession. In 2020, pig meat TRQs are to be eliminated and a bound tariff rate of 25% will apply. No commitment to eliminate beef and poultry TRQs is included, but if the Russian Federation chooses to move to a tariff-only regime, bound rates of 27.5% and 37.5% shall respectively apply, both higher than the current in-quota tariffs, but lower than the pre-accession over-quota tariffs.

**Dairy products** are another of the Russian Federation's key agro-food imports. Skim milk powder is imported duty free from the CIS area, with deliveries from ***Belarus*** subject to an inter-governmental agreement. At WTO accession, tariffs for milk products were reduced, and for certain groups are to be decreased further. In 2013-14, import tariffs were brought down for milk powder and certain types of whey. Tariffs for the majority of cheeses are predominantly combined: they were changed during the monitored period typically towards an increase in *ad valorem* rates and a reduction in specific components of the tariffs setting their minimum value. WTO scheduled tariff reductions for imported cheeses are to be implemented by 2015-17.

The Russian Federation's imports of sugar traditionally face high border protection. For **white sugar**, a duty of USD 340 per tonne is set for flows from outside the CIS. CIS deliveries are duty free if sugar is processed from sugar beet. However, imports of white sugar from ***Ukraine*** have been excluded from the CIS duty-free regime from its inception and both countries mutually apply their MFN tariffs. Belarus is one of the main suppliers of white sugar to the Russian Federation. These deliveries are regulated by inter-governmental agreements on annual import quantities, import prices, and the authorised Belarusian suppliers. For **raw sugar**, an import duty is set on the basis of a reference price for raw sugar which is derived from the average monthly price of the New York Mercantile Exchange (NYMEX). The levy can vary between the fixed minimum and maximum boundaries. A lower NYMEX price commands a higher levy and vice versa. In 2014, the levy corresponding to a lower NYMEX price boundary was bought down from USD 270 per tonne to USD 250 per tonne.

The treatment of tariffs has been questioned by some WTO members in terms of their consistency with the Russian Federation's WTO Schedule of Concessions and Commitments. In October 2014, ***the European Union*** initiated consultations with the Russian Federation on this issue as foreseen by WTO procedures. It referred to the Russian Federation applying duties "in excess of bound rates, in several different ways" for certain agricultural products. To date, the Russian Federation has provided clarifications to trade partners on the issues concerned, according to Russian officials.

The Russian Federation frequently resorts to **non-tariff restrictions** on agro-food imports, in particular with respect to livestock products. Current SPS requirements applied by the Russian Federation within the Customs Union of the Eurasian Economic Union present challenges to exporters and sometimes are subject to international controversy. On the request of ***the European Union***, a WTO panel was established in July 2014 on the legitimacy of the Russian Federation's import ban on EU live pigs, their genetic material and pig meat, reportedly introduced over SPS concerns.

An important event in agro-food imports occurred in the difficult political context of the Ukrainian crisis. Following the imposition of sectoral sanctions on the Russian Federation, the country responded by **banning imports** of agro-food items from ***the European Union***, the United States, ***Canada***, ***Australia***, and ***Norway***. The ban was introduced as of 7 August 2014 for a period of one year and covered a broad range of agro-food items, including meat, milk products, fruits and vegetables, prepared foods and fish. Live animals remained outside the ban. Based on 2013 trade data, an estimated 20% of all the Russian Federation's agro-food imports were affected with a value of USD 8.4 billion. This measure necessitated urgent actions on all sides. The Russian Federation re-allocated initial country quotas for meat TRQs to countries not subjected to the ban (according to the WTO agreement, ***the European Union*** receives 72% of total quota for fresh and chilled beef, and 80% for frozen boneless poultry cuts, while ***the United States***, ***the European Union*** and ***Costa Rica*** altogether receive 30% of the total quota for frozen beef). The Russian Federation also initiated arrangements on various agro-food items with other exporters, such as ***Brazil***, ***China***, ***India***, ***Mongolia***, ***Turkey***, ***Belarus***, ***Azerbaijan***, to establish alternative supplies. The ban affected, in particular producers, and agro-food companies in the European Union, triggering emergency measures (Chapter 9). Beyond short-run effects, this ban may result in longer-term changes in mutual trade flows. Nevertheless, in January 2015 there were contacts between **EU** and Russian sanitary and phytosanitary authorities, as well as bilateral talks with several EU member states, on the prospects of resuming trade in pig meat and some beef products.

MFN import duties on a range of Moldavian agro-food imports were introduced in September 2014 following the ratification by ***Moldova*** of the Association Agreement with the European Union, with a Deep and Comprehensive Free Trade Area concluded. Previously these products entered the Russian Federation duty free based on the Agreement on Free Trade in the CIS Area.

The Russian Federation's grain export regulations change between restriction and stimulation in response to fluctuations in the domestic supply of grains and in food prices on the domestic market. In 2013, when drought hit Central Russia the government refrained from limiting grain exports but provided subsidies to livestock producers affected by the high cost of feed. Considerable depreciation of the rouble towards the end of 2014 acted as a strong export stimulus, raising government concerns about the outflow of grain from the domestic market and the impact this may have on food prices. The government intervened to limit grain exports, which were effectively restrained since late 2014 by administrative means, followed by an **export duty on food wheat** as of 1 February 2015 (15% plus EUR 7.50 per tonne but not less than EUR 35 per tonne). Grain traders and producers questioned the appropriateness of this measure, particularly in the situation of a relatively high supply. This duty was removed on 15 May 2015 ahead of the scheduled expiration date of 1 July 2015, but a new duty will be imposed as of that date, set at 50% of the customs value per tonne minus RUR 5 500 (around USD 100), but not less than RUR 50 per tonne.

Since 1992, **export duties** have been applied on **oilseeds**. As part of WTO commitments, the Russian Federation implemented subsequent oilseeds duty reductions, the most recent one in September 2014. Export duties on sunflower were brought down to 13.24% (but not less than EUR 19.88 per tonne) compared to a bound rate of 6.5% (but not less than EUR 9.75 per tonne) and for rapeseed to 11% (but not less than EUR 19.26 per tonne) compared to a bound rate of 6.5% (but not less than EUR 11.40 per tonne). Duties on soya beans were reduced to 6.67% (but not less than EUR 11.76 per tonne). Bound rates for sunflower are to be reached within four years after accession and on rapeseed within three years, while on soya beans duties are to be eliminated in 2015.

In the area of regional trade integration, a **Treaty on the Eurasian Economic Union (EAEC)** came into effect on 1 January 2015, with ***the Russian Federation***, ***Belarus***, ***Kazakhstan*** and ***Armenia*** as members and ***Kyrgyzstan*** to join officially in May 2015. Beyond free trade and common customs territory EAEC foresees free movement of capital and labour and a "co-ordinated, agreed upon, or common" economic policy in member countries. As part of the EAEC's Customs Union Russia is also engaged in bilateral free trade negotiations (see Chapter 14).


**From:**
# Agricultural Policy Monitoring and Evaluation 2015

**Access the complete publication at:**
https://doi.org/10.1787/agr_pol-2015-en

**Please cite this chapter as:**

OECD (2015), “Russian Federation”, in *Agricultural Policy Monitoring and Evaluation 2015*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/agr_pol-2015-22-en