Chapter 22. Russian Federation

Support to agriculture

Around 83% of total support to agriculture (TSE) in 2016-18 was provided to producers individually (PSE), with the rest directed to general services for agriculture (15%) and to support agricultural commodity buyers (2%).

Support to producers fluctuated over the long-term, but after 2010 has remained within a band between 12% and 15% of gross farm receipts (%PSE). The largest part of transfers to producers (77%) originates from the most distorting forms of support, such as market price support and subsidies based on output and variable input use. The aggregate market price support disguises strong variations in support across commodities: it represents a mix between the border protection for imported livestock products and sugar, and the implicit and explicit taxation of exported grains and oilseeds. Livestock producers additionally benefit from domestic grain prices being below the world levels. Within support to general services, the agricultural knowledge system, development and maintenance of infrastructure, and the inspection and control system absorb the largest shares of public funding.

Total support to agriculture (TSE) was equal to 0.8% of GDP in 2016-18. This percentage has been decreasing since the mid-1990s, largely reflecting GDP growth and the declining GDP share of the agricultural sector. Taxpayers provide 39% of total support transfers, the remaining 61% coming from consumers. Consumer contribution to agricultural support is due to agricultural prices supported on average 10% above the international levels. Net of the budgetary support to agricultural commodity buyers, this increased their expenditures by 11% (%CSE) in 2016-18.

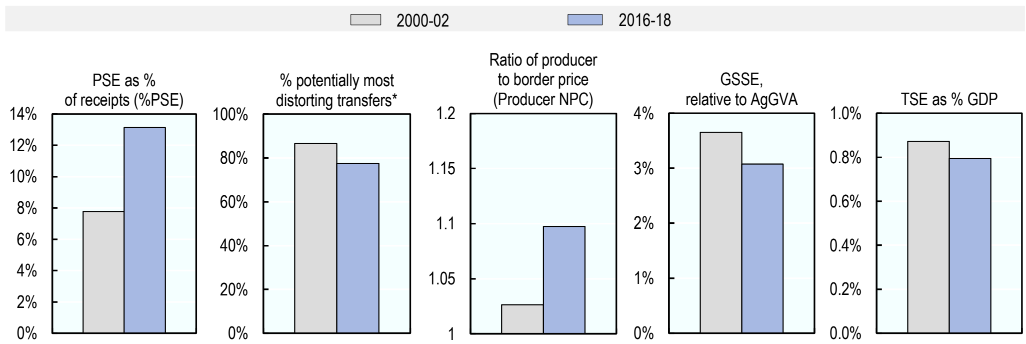
Main policy changes

The State Programme for the Development of Agriculture was revised. Its end year was extended from 2020 to 2025, its structure changed to combine projects and programmes for better administration, and new projects on digital agriculture and agricultural export were included. A substantial increase of state support is foreseen for the development of export infrastructure, facilitation of access to foreign markets through phytosanitary improvements, and product promotion and positioning abroad. Greater emphasis has been placed on family farming, rural co-operation and rural development. Apart from these new features, the current version of the State Programme has maintained the previous directions of support and the underlying measures. As previously, the State Programme is focussed on increasing investments in agriculture and downstream industries and providing production stimulus to import competing sectors. Compared to the first phase (2013-17) it is foreseen to increase the State Programme's financing by 17% per year on average. The ban on agro-food imports from a number of countries imposed in 2014 was extended until end-2019. As one of the parties to the Treaty on the Eurasian Economic Union (EAEU), the Russian Federation implemented a new EAEU Customs Code in 2018 and adopted a number of new EAEU regulations in sanitary and phytosanitary, and technical regulation areas. In 2018, the Russian Federation as a member of the EAEU signed an interim agreement leading to the formation of a free trade area with Iran and a non-preferential agreement on economic and trade co-operation with the People's Republic of China (hereafter "China").

Assessment and recommendations

- The State Programme for Development of Agriculture is aimed at boosting the agricultural production and agro-food import substitution. The political context since mid-2010 has intensified the country's import substitution orientation into self-sufficiency policy in the agro-food area. Most recently, the policy orientation was broadened to also include the development of agricultural export potential and tapping the markets of large agro-food importers.
- Policy making in the past two years was focussed on improving the administration of government funding. The transfer of funds from the federal centre to regions was simplified, which in principle may facilitate tailoring of support to regional needs. Project principle was also introduced into the State Programme to strengthen the connection between policy goals, resources engaged, and desired outcomes. These changes are recent and the extent to which they reduce policy administration costs and enable a more efficient use of funds is yet unclear.
- Although there has been some shift towards area and per head payments, distorting subsidies and import protection continue to prevail as policy instruments to achieve the stated objectives of import substitution and export development.
- These objectives, however, require substantial and sustained improvements in the competitiveness of agriculture, which is more likely to be achieved through prioritising investments in the sector's long-term productivity, such as infrastructure and plant and livestock health systems.
- Research and development (R&D) and knowledge transfer is one more critical field to lever competitiveness, in particular as the recent export development objective requires knowledge and capabilities to seize new demand signals and external market opportunities. The success of the current sectoral programme for support of scientific and technological development will depend, among other things, on the stability of R&D financing, including through mobilising private sources and ensuring that funding and activities respond to business demands. However, apart from creating R&D products, it is also important to enable their uptake by producers. This challenge lies beyond agricultural policy and requires further improvements in overall conditions for investment and doing business.
- Human capital is another key factor of long-term growth. Consecutive targeted programmes directed resources for rural development. A substantial increase of such spending is foreseen within a new State Programme on integrated development of rural territories. This is a positive development, as much remains to be done to improve living conditions in rural areas and secure skills and knowledge for rural economy.

Figure 22.1. Russia: Development of support to agriculture

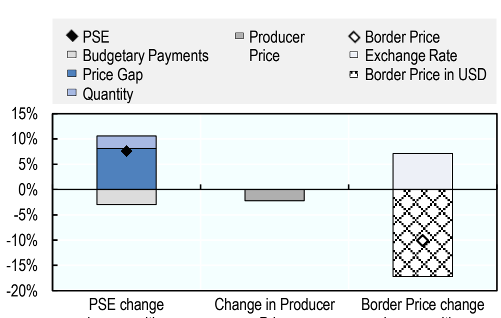


Note: * Share of potentially most distorting transfers in cumulated gross producer transfers.
Source: OECD (2019[1]), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), http://dx.doi.org/10.1787/agr-pcse-data-en.

StatLink https://doi.org/10.1787/888933938669

Support to producers (%PSE) was at 13% of producer gross receipts in 2016-18, below the OECD average and above the level observed in 2000-02 (8%). This total masks negative MPS measured for some commodities, equal to 1.7% of producer gross receipts in 2016-18. The share of gross producer transfers (whether positive or negative) provided in most **potentially distorting forms** declined from 87% in 2000-02 to 77% in 2016-18 (Figure 22.1). The total value of producer support in local currency rose by 8% in the most recent year, largely due to an increase in the market price support as domestic prices fell less strongly than border prices. The effect of higher market price support on the PSE was mitigated by some reduction in budgetary payments (Figure 22.2). Prices received by farmers were on average 10% above those observed on world markets in 2016-18 (NPC), compared to 3% in 2000-02. This aggregate NPC disguises border protection for livestock products and sugar and taxation of grains and oilseeds. Products receiving the highest commodity-specific support relative to the value of gross farm receipts from those commodities (%SCT) are milk (32%), sugar (31%), and beef and veal (21%). Grains and oilseeds are implicitly taxed (Figure 22.3). The share of Single Commodity Transfers (SCT) in the PSE was 72% in 2016-18. The expenditures for **general services** (GSSE) fell relative to the sector's value added – they were equivalent to 3% in 2016-18, compared to nearly 4% in 2000-02, which partly reflects the growth of agricultural output value. **Total support to agriculture** (TSE) as a % of GDP decreased from 0.9% in 2000-02 to 0.8% in 2016-18, mostly being a result of the GDP growth.

Figure 22.2. Russia: Drivers of the change in PSE, 2017 to 2018



Source: OECD (2019[1]), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), http://dx.doi.org/10.1787/agr-pcse-data-en.

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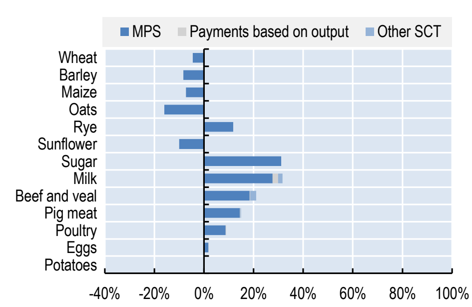
Figure 22.3. Russia: Transfer to specific commodities (SCT), 2016-18



Source: OECD (2019[1]), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), http://dx.doi.org/10.1787/agr-pcse-data-en.

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Table 22.1. Russian Federation: Estimates of support to agriculture

Million USD

	2000-02	2016-18	2016	2017	2018p
Total value of production (at farm gate)	**26 411**	**72 062**	**66 276**	**77 091**	**72 821**
of which: *share of MPS commodities (%)*	78.7	78.1	78.5	77.5	78.3
Total value of consumption (at farm gate)	**32 347**	**73 399**	**67 959**	**78 613**	**73 626**
Producer Support Estimate (PSE)	**2 108**	**9 882**	**9 629**	**10 012**	**10 005**
Support based on commodity output	1 107	6 809	6 601	6 676	7 151
Market Price Support[1]	910	6 496	6 218	6 371	6 900
Positive Market Price Support	2 224	7 715	7 072	7 613	8 459
Negative Market Price Support	-1 314	-1 218	-854	-1 242	-1 559
Payments based on output	198	313	383	304	250
Payments based on input use	719	2 214	2 226	2 244	2 170
Based on variable input use	359	290	400	197	275
with input constraints	0	0	0	0	0
Based on fixed capital formation	318	1 847	1 741	1 983	1 817
with input constraints	0	0	0	0	0
Based on on-farm services	42	76	86	64	78
with input constraints	0	0	0	0	0
Payments based on current A/An/R/I, production required	0	580	510	579	650
Based on Receipts / Income	0	28	1	43	39
Based on Area planted / Animal numbers	0	552	509	536	611
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	282	280	291	514	34
Percentage PSE (%)	**7.8**	**13.1**	**13.8**	**12.4**	**13.2**
Producer NPC (coeff.)	**1.03**	**1.10**	**1.10**	**1.09**	**1.10**
Producer NAC (coeff.)	**1.08**	**1.15**	**1.16**	**1.14**	**1.15**
General Services Support Estimate (GSSE)	**684**	**1 761**	**1 543**	**1 902**	**1 838**
Agricultural knowledge and innovation system	175	583	509	588	651
Inspection and control	203	473	443	503	475
Development and maintenance of infrastructure	230	378	279	469	385
Marketing and promotion	2	34	21	40	40
Cost of public stockholding	1	78	0	102	130
Miscellaneous	73	216	291	200	158
Percentage GSSE (% of TSE)	**24.0**	**14.8**	**13.5**	**15.7**	**15.2**
Consumer Support Estimate (CSE)	**-1 740**	**-8 352**	**-8 089**	**-8 166**	**-8 801**
Transfers to producers from consumers	-541	-6 534	-6 045	-6 556	-7 000
Other transfers from consumers	-865	-1 772	-1 841	-1 676	-1 798
Transfers to consumers from taxpayers	25	212	242	177	216
Excess feed cost	-359	-259	-445	-111	-220
Percentage CSE (%)	**-5.6**	**-11.4**	**-11.9**	**-10.4**	**-12.0**
Consumer NPC (coeff.)	**1.05**	**1.13**	**1.13**	**1.12**	**1.14**
Consumer NAC (coeff.)	**1.06**	**1.13**	**1.14**	**1.12**	**1.14**
Total Support Estimate (TSE)	**2 818**	**11 855**	**11 414**	**12 092**	**12 059**
Transfers from consumers	1 406	8 305	7 886	8 232	8 798
Transfers from taxpayers	2 276	5 321	5 369	5 536	5 059
Budget revenues	-865	-1 772	-1 841	-1 676	-1 798
Percentage TSE (% of GDP)	**0.9**	**0.8**	**0.9**	**0.8**	**0.7**
Total Budgetary Support Estimate (TBSE)	**1 908**	**5 358**	**5 196**	**5 720**	**5 158**
Percentage TBSE (% of GDP)	**0.6**	**0.4**	**0.4**	**0.4**	**0.3**
GDP deflator (2000-02=100)	**100**	**582**	**545**	**573**	**627**
Exchange rate (national currency per USD)	**29.56**	**62.73**	**67.05**	**58.33**	**62.81**

Note: 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.

Source: OECD (2019), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: http://dx.doi.org/10.1787/agr-pcsedata-en

Contextual information

The Russian Federation has the largest land area in the world and is abundantly endowed with agricultural land. Natural, economic, and social conditions are highly diverse. The country is the world's sixth largest economy in purchasing power parity (PPP) terms. Agriculture contributes 4.0% of GDP and 6.7% of employment, both shares significantly declined since the mid-1990s. In 2018, the country ranked second world's largest producer of barley, rye, sunflower seeds and sunflower oil and fourth largest producer of wheat; it is also among world's top ten producers of dairy products, pig meat, and poultry.

The farm structure is dualistic, where commercial operations of different sizes co-exist with household units. Commercial units generate two-thirds of agricultural output and produce virtually all grain, oilseeds, and sugar, 82% of animals for slaughter, and somewhat over 60% of milk. Households engage in agriculture mainly for own consumption and generate one-third of total output value. They grow nearly 70% of potatoes and 55% of vegetables produced in the country.The rural population is 37.6 million (2018) or 26% of the total, a share which has remained stable since 2009. Households allocated on average 36% of their final consumption expenditures to food (2017), this share ranging from 52% for the poorest to 27% for the richest 20% of the population.

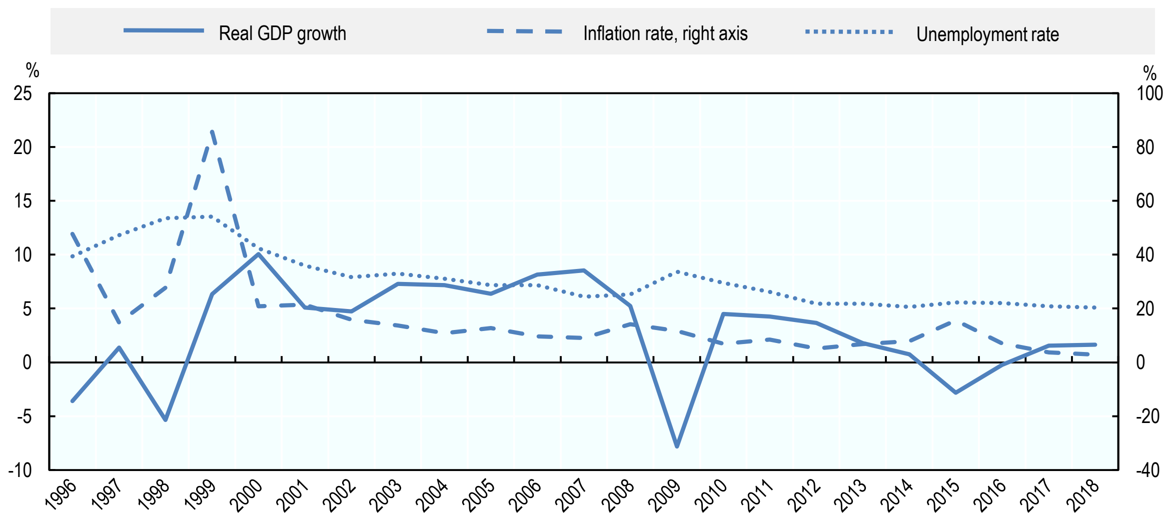
Table 22.2. Russia: Contextual indicators

	Russia		International comparison	
	1995*	2017*	1995*	2017*
Economic context			**Share in total of all countries**	
GDP (billion USD in PPPs)	896	3 532	3.0%	3.4%
Population (million)	148	147	3.8%	3.0%
Land area (thousand km^2)	16 378	16 377	20.5%	20.2%
Agricultural area (AA) (thousand ha)	216 400	217 722	7.2%	7.3%
			All countries[1]	
Population density (inhabitants/km^2)	9	9	48	60
GDP per capita (USD in PPPs)	6 038	24 789	7 642	21 231
Trade as % of GDP	18	19	9.9	14.7
Agriculture in the economy			**All countries[1]**	
Agriculture in GDP (%)	6.7	4.0	3.3	3.5
Agriculture share in employment (%)	12.0	6.7	-	-
Agro-food exports (% of total exports)	2.1	4.8	8.1	7.5
Agro-food imports (% of total imports)	18.1	12.1	7.4	6.6
Characteristics of the agricultural sector			**All countries[1]**	
Crop in total agricultural production (%)	53	51	-	-
Livestock in total agricultural production (%)	47	49	-	-
Share of arable land in AA (%)	59	57	33	34

Note: *or closest available year. 1. Average of all countries covered in this report. EU treated as one.
Source: OECD statistical databases; UN Comtrade; World Bank, WDI and national data.

GDP growth continued in 2018, after picking up in 2017 from the recession of the previous two years. Inflation accelerated in 2018, but remained modest, while the unemployment rate continued to decrease. Agricultural output fell by 0.6% in 2018, on the backdrop of a less abundant grain crop than a year before. The Russian Federation remained the largest wheat and rye, and the third largest barley exporter in 2018. The country was among the top ten meat importers. Agro-food products account for a significant but declining share of total imports and for a smaller, but rising share in total exports. The negative agro-food trade balance has narrowed. The agro-food imports are focussed on supplying domestic final food consumption, while exports are largely destined to agro-processors abroad.

Figure 22.4. Russia: Main economic indicators, 1996 to 2018



Sources: OECD statistical databases; World Bank, WDI and ILO estimates and projections.

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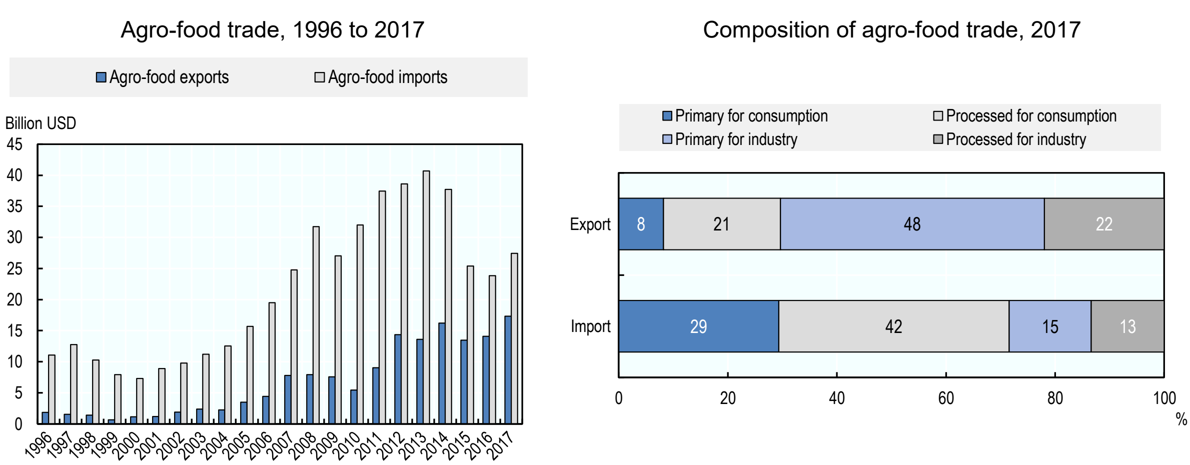
Figure 22.5. Russia: Agro-food trade

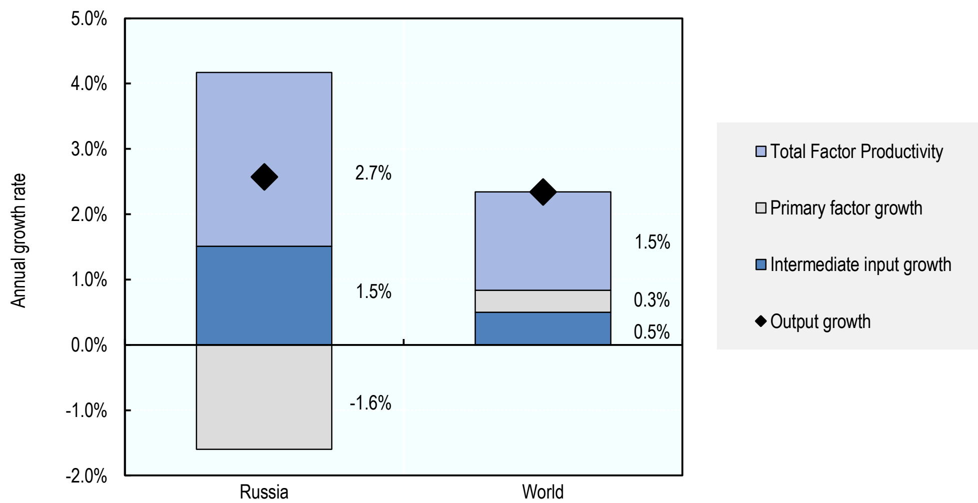


Note: Numbers may not add up to 100 due to rounding.
Source: UN Comtrade Database

StatLink https://doi.org/10.1787/888933938745

Agricultural output has been recovering from a deep recession in the 1990s. Output growth since 2006 has been driven mainly by the improvements in Total Factor Productivity (TFP), significantly exceeding average global TFP growth. The higher use of intermediate inputs contributed to growth to a lesser degree, while the employment of primary factors, in particular of machinery and labour, has declined. The share of agriculture in total energy use decreased since the 2000s and was less than the OECD average in 2017, despite greater importance of the sector in the economy than in OECD countries. Agriculture's contribution to greenhouse gas (GHG) emissions has also declined to below-OECD level. Compared to the OECD area, agriculture accounts for a relatively small share of total water abstractions. Aggregate indicators suggest that water stress is much less of a problem than in many OECD countries. However, preliminary estimates point to the existence of a negative nitrogen balance since mid-2000s.

Figure 22.6. Russia: Composition of agricultural output growth, 2006-15



Note: Primary factors comprise labour, land, livestock and machinery.
Source: USDA Economic Research Service Agricultural Productivity database.

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Table 22.3. Russia: Productivity and environmental indicators

	Russia		International comparison	
	1991-2000	2006-2015	1991-2000	2006-2015
			World	
TFP annual growth rate (%)	0.9%	2.7%	1.6%	1.5%
			OECD average	
Environmental indicators	**1995***	**2017***	**1995***	**2017***
Nitrogen balance, kg/ha[1]	7.4	-9.5	33.2	30.0
Phosphorus balance, kg/ha[1]	2.8	1.2	3.7	2.3
Agriculture share of total energy use (%)	5.3	1.7	1.9	2.0
Agriculture share of GHG emissions (%)	8.7	5.1	8.5	8.9
Share of irrigated land in AA (%)	..	2.0	-	-
Share of agriculture in water abstractions (%)	28.5	28.9	45.4	42.5
Water stress indicator	1.8	1.6	9.7	9.7

Note: * or closest available year. 1. Preliminary data.
Source: USDA Economic Research Service, Agricultural Productivity database; OECD statistical databases; FAO database and national data.

Description of policy developments

Main policy instruments

The Russian Federation applies a range of price policy instruments. The main one is **border protection,** including Tariff Rate Quotas (TRQs) and non-tariff measures. Border measures are in large part implemented within the framework of the Customs Union of the Eurasian Economic Union (EAEU). Domestic price regulation measures are also applied, such as market interventions. They can be implemented for grains and, since 2017, also for milk. The government can purchase or sell these products if the market prices move above or below the established price band. Prices at which market interventions are carried out, however, do not play the role of price guarantees. Restrictions on imports or exports can be imposed during the intervention periods.

Payments based on output for marketed livestock products are provided from regional budgets and there is also a national payment for milk, which is co-financed by the federal and regional governments. **Concessional credit** is one of the most important support instruments, with concessions taking the form of interest subsidies to borrowers. Since 2017, concessions are also granted in the form of reduced interest rates fixed by the government, combined with a financial compensation to lending banks. In addition to interest subsidies, a range of subsidies for variable inputs are in place. Support is also provided through **investment co-financing** and **leasing** of machinery, equipment and pedigree livestock at preferential terms. **Area payments** for crop production began in 2013, replacing several previous nationwide input subsidies provided for sowing and harvesting campaigns. Agricultural producers also benefit from a number of tax preferences and from concessions on repayment of historical arrears on federal taxes and social contributions**.**

Most of the support measures described above are implemented within a multi-year **State Programme for the Development of Agriculture** (hereafter, State Programme) – the country's main agricultural policy framework. It is based on the principle that support measures be co-financed by federal and regional governments, with co-financing rates varying across the regions and individual measures. In addition to support included in the State Programme, regions implement and finance their own, strictly **regional support measures**.

The current State Programme has been undergoing amendments since its launch in 2013 in response to the significant changes in overall economic conditions. Its sub-programmes were reconfigured in 2015 and 2017. The Programme's initial budget targets were also adjusted in terms of the overall amounts of spending and shifts of funds within and between programme components. In 2018 and 2019, the State Programme underwent further changes in terms of structure, spending levels, administration, and implementation horizon.

Domestic policy developments in 2018-19

At its inception, the State Programme has been oriented at the 2010 Doctrine on Food Security. As its primary objective, the Programme stated reaching the self-sufficiency targets in key foodstuffs set in the Doctrine.[1] The political context in the second half of the 2010s further strengthened the self-sufficiency orientation for agricultural policy in the Russian Federation.

The State Programme underwent revisions in 2018 and 2019 (GRF, 2019[2]). Its implementation horizon has been extended from 2020 to 2025. Food security based on import substitution remains the principal agricultural policy objective, however, export development and income growth of rural households are emphasised as additional objectives. The following growth targets are to be met by 2025 relative to 2017, the year ending the first phase of the Programme: increase in agricultural production by 16.3%; increase in agricultural value added by RUB 2 079.6 billion (USD 31.6 billion)[2] to reach a total of RUB 5 774 billion (USD 88 billion); more than a doubling of exports; increase of fixed capital investments in agriculture by 21.8%; and growth in disposable resources of rural households by RUB 3 560 (USD 54) per person per month to reach RUB 21 870 (USD 332).

Another change concerns the Programme's structure. It now distinguishes between "departmental projects" and "departmental programmes". Projects have a fixed timeframe, while programmes represent continuous processes. Starting from 2018, six departmental projects and six departmental programmes constitute the State Programme. The projects include: 1) technical modernisation; 2) stimulation of investment activity; 3) development of the sub-sectors which ensure accelerated import substitution; 4) export of products of agro-industrial complex; 5) support system for family farming and development of rural co-operation; and 6) digital agriculture. The six programmes are: 1) the Programme's administration; 2) sustainable development of rural areas; 3) ensuring general conditions of the functioning of the agro-industrial complex;[3] 4) veterinary and phytosanitary surveillance; 5) scientific and technological support for the development of the agro-industrial complex; and 6) development of land amelioration complex.

Digital agriculture and agricultural export are new components of the State Programme. The new version also emphasises family farming and rural development more explicitly. Thus, being previously included in other parts of the State Programme, support to family farms and rural co-operatives is now presented as a separate component (see above). Starting from 2020, it is also foreseen to raise the activity on sustainable development of rural areas from the status of departmental programme (ii above) to an independent State Programme "Integrated development of rural territories up to 2025". According to preliminary information, it is to receive RUB 225 billion (USD 3.3 billion) of federal funding on average per year, which is a substantial increase compared to an average of RUB 14 billion (USD 212 million) in 2014-19. These resources, as previously, will be complemented by the allocations from regional budgets and extra-budgetary sources, such as profits from commercial activities of public institutions, investments from private businesses, non-governmental organisations, and other sources. Apart from these new features, the current State Programme maintains the previous directions of support and the underlying measures. However, the project-and-programme approach is intended to improve the Programme's administration and efficiency of spending.

It is planned to allocate in total RUB 6 881 billion (USD 104 billion) to the State Programme over the eight-year period of 2018-25. Compared to the levels in 2013-17 (first phase of the State Programme), this means an increase in per year financing by 17% on average. Of the aggregate eight-year funding, around 40% is budgetary sources (federal and regional) and the remaining 60% is extra-budgetary sources. The Programme's six projects account for slightly over 90% of the aggregate eight-year spending, and are to absorb almost all planned non-budgetary sources and over 70% of budgetary spending (GRF, 2019[2]).

In 2018, the federal budget allocated RUB 258 billion (USD 3.9 billion) to the State Programme, 10% more than last year (State Treasury, 2019[3]; MoA, 2019[4]). Around 36% of this expenditure were directed to stimulation of investment activities (project b above) consisting of interest subsidies on investment loans and the co-financing of investment projects, and 25% were spent on development of the sub-sectors (project c above) covering key production subsidies (State Treasury, 2019[3]). This federal spending was topped up by contributions from the regions across the components of the State Programme. In addition, regions provided strictly regional support beyond the State Programme.

The federal funding for the State Programme for 2019 is planned at RUB 303.6 billion (USD 4.6 billion), which is above the similar budget target set at the beginning of 2018 (FL, 2018[5]; State Treasury, 2019[3]). The funding targets are maintained roughly at the previous year level for the departmental programmes, while the main changes in the funding are foreseen for the departmental projects. Thus, the project on stimulation of investment activities is to receive around 20% more than a year before. A substantial increase is also planned for the project on export development, although compared to a relatively limited budget of 2018. The project on digital agriculture will be newly funded. On the other hand, the budgets for the projects on technical modernisation and development of sub-sectors are to be reduced (Fastova, 2019[6]).

After a high grain crop in 2016/17, a record harvest followed in the 2017/18 season, with the result of continued downward pressure on grain prices. Reduced **transportation tariffs** on domestic grain shipments were introduced to stimulate grain shipments from Russian regions with excess supplies to other country regions. The associated loss of the Russian Railways company was compensated from the federal budget. This compensation effectively started in 2018, reaching RUB 1.7 billion (USD 26 million) (State Treasury, 2019[3]). This measure added to the temporary waiver of wheat export duty in force since September 2016. In mid-2018, the subsidising of grain transportation was stopped in view of a less favourable crop forecast for the 2018/19 season.

Interest subsidies on short-term loans and investment credit are one of the principal producer support measures. The policy orientation at the start of the State Programme 2013-20 has been to downsize the new commitments to subsidise credit. However, the pledge to accelerate import substitution and the sharp deterioration of lending conditions in late 2014 reversed the original plans. Support is currently prioritising **investment credit** and is provided in the form of interest subsidies and in the form of preferential fixed interest rates. The latter mechanism was introduced in 2017 and is intended to gradually replace interest subsidies which are now continued only for investment loans taken before 2017. Five large banks, Rosselkhozbank, Sberbank, Gazprombank, Alfa-Bank, and VTB Bank provided 95% of all preferential investment credit to agricultural and agro-food borrowers in 2017-18. Around 57% of this credit was borrowed for production of livestock, 27% for production of crops, 9% for agro-food processing, 4% went to development of small farming, and 3% for purchases of agricultural machinery.

Investment grants is a relatively recent measure in place since 2015. In 2015-17, around 80% of the investment grants were directed for construction of industrial milk production units and greenhouses, the remainder was provided for facilities to store horticultural products, wholesale distribution centres, and for setting-up or modernising selection and genetic centres for livestock and plants. The scope of investment co-financing has recently been narrowed: wholesale distribution centres were excluded from the list of co-financed projects in 2018, and greenhouses in 2019. The government's co-financing rate for other objects is currently fixed at 20%, except for flax and hemp processing plants and industrial milk production complexes for which it is set at 25%.

Leasing of machinery, equipment and livestock at preferential terms is an additional policy supporting investments in fixed assets in agriculture and agro-food industries. It is implemented by the Federal Company RosAgroLeasing. In 2018, RosAgroLeasing received RUB 4 billion (USD 61 million) from the federal budget for recapitalisation (State Treasury, 2019[3]).

The aggregate spending on production subsidies included in the **unified payment** was around RUB 49 billion (USD 741 million) in 2018, which is slightly above the previous year level. Regions contributed approximately 20% to this amount (MoA, 2019[4]). Unified payment was introduced in 2017, integrating 27 previous individual subsidies across different components of the State Programme. This includes several subsidies for crop and livestock production, subsidies for insurance and interest on short-term credit, support of small-scale farmers, and the assistance provided within the previous component on "economically important regional programmes". The purpose of the unified payment had been to simplify the budgeting and transfer of funds from the federal centre to regions. Regions top-up this payment and continue to allocate it across individual supports included in the unified payment, with producers, as previously, receiving the assistance in the form of individual supports. Regions, however, can select every year specific types of individual supports within the unified payment depending on regional priorities.

Some changes in the implementation of the **unified payment** and the **area payment** for crops, were announced, reflecting the efforts to increase agricultural insurance. Insurance covered 5% of total area planted to annual and perennial crops in 2016 and 1.7% in 2017 (MoA, 2018[7]). Crop and livestock insurance subsidies are among the subsidies included in the unified payment. Starting from 2019, they will have separate budgetary earmarks within the unified payment to ensure potential uptake of this support by the regions. Similarly as of 2019, part of the area payment will be earmarked for crop insurance subsidies. Another 15% of the area payment will be allocated to regions in proportion to planned insured areas (Fastova, 2019[6]).

The Russian Federation adopted its first law on **organic products** which is to take effect on 1 January 2020 (FL, 2018[8]). It will regulate production, storage, transportation, labeling, and marketing of organic products. Country's organic food industry is nascent, so this new law is expected to provide impetus to this sector which is believed to have considerable development potential both on domestic and foreign markets. Some estimates indicate that imported organic products currently account for up to 80% of the Russian Federation's organic food market (USDA, 2019[9]).

Trade policy developments in 2018-19

Since the accession to the World Trade Organisation (WTO) in July 2012, the Russian Federation's applied Most Favoured Nation (MFN) agricultural tariff has been reduced to 10.2%, below the average final bound agricultural tariff of 10.9%.[4] In 2017, the applied agricultural tariff was nearly twice the non-agricultural tariff (6.2%). Animals and animal products, sugar and confectionary face the highest import duties within the agricultural group (WTO/ITC/UNCTAD, 2018[10]). Meat imports from the non-CIS area are subject to TRQs. In 2018, in accordance with the Russian Federation's commitments to the WTO, import tariffs in the Unified Customs Tariff of the EAEU were reduced on certain agricultural goods. These reductions concerned mainly processed foods, such as specific prepared and preserved meat items, mango chutney, and certain beer items (EAEU Commission, 2018[11]; EAEU Commission, 2018[12]). As of December 2018, the Russian Federation had not applied any definitive antidumping measures with respect to agricultural goods (WTO, 2019[13]).

In July 2018, the ban on agro-food imports from the **European Union**, the **United States**, **Canada**, **Australia**, **Norway** and several other countries was extended until

31 December 2019. It was initially introduced on 7 August 2014 for a period of one year after the imposition of sectoral sanctions on the Russian Federation in the context of developments related to Ukraine. Sanctions and counter-sanctions have since then been extended several times. The list of products prohibited for imports into the Russian Federation include live swine (except pure-bred animals for breeding), meat and certain meat by-products, milk products, fruits and vegetables, prepared foods, fish, and salt. Since the first introduction of the ban, lactose-free milk and its derived products, seed potatoes and seeds of some other crops, young salmon and trout, and certain molluscs have been removed from this list.

In the difficult context of bilateral political relations, mutual trade restrictions between the Russian Federation and **Ukraine** continued. On 29 December 2018, the Russian government prohibited importation of certain agricultural goods from Ukraine and their transit through the territory of the Russian Federation. The goods concerned are wheat and meslin, vegetable oils, a range of processed foods, beer, vine of grape, and ethanol. These items belong to a broader list which also includes industrial goods. This was announced as part of the "special economic measures related to unfriendly actions of Ukraine towards citizens and legal persons of the Russian Federation" (GRF, 2018[14]). This prohibition adds to the already existing ban on Ukrainian agro-food imports, the same as imposed on the European Union, the United States, Canada, Australia, Norway and other countries described above, which was extended also to Ukraine on 1 January 2016. At that time Ukraine responded by prohibiting imports of a broad range of agro-food imports from the Russian Federation and has maintained and expanded this list since then. On 18 December 2018, Ukraine prolonged its ban until 2020. It covers products such as meats, milk products, certain fish, breads and confectionery, vodka, beer, and other.

On the export policy side, **export development** is a new policy priority. Beyond the longer-term growth in grain and oilseed exports, this re-orientation is also due to more recent increases in production of other agricultural products, notably swine and poultry meat.

The Project on Export of Agricultural Products was included in the State Programme as a new component in 2017. Its implementation in the current version of the Programme is extended up to 2025. The project seeks to increase agro-food exports to USD 45 billion per year by the end of 2024, and formulates the following objectives: generation of new mass of exportable goods, development of export infrastructure, facilitation of access to foreign markets in the sanitary and phytosanitary area, and creation of effective system of product promotion and positioning abroad (Fastova, 2019[6]). RUB 694 million (USD 12 million) of federal funding was allocated to this project in 2017 and RUB 1.43 billion (USD 22 million) in 2018. It is foreseen to increase federal financing of this project to RUB 38.8 billion (USD 589 million) in 2019 (State Treasury, 2019[3]; Fastova, 2019[6]). The Chinese market is regarded as one of the key destinations for export development. In November 2018, the Federal Service for Veterinary and Phytosanitary Surveillance of the Russian Federation and Chinese customs authorities signed protocols on mutual supplies of poultry meat and milk products. The next step will be to agree on the list of enterprises approved for exports. This is an important move, as Russian exports of poultry to China had been stopped since 2005 following the outbreaks of Avian Influenza (RBK, 2018[15]).In addition, in February 2018, China removed its ban on wheat imports from six Siberian and Far-East regions of the Russian Federation which was introduced in 2016 on phytosanitary grounds. Earlier, the Ministry of Agriculture of the Russian Federation announced plans to construct new grain transit points and grain terminals in the regions with country's main export outlets, including the Far East (Izvestia, 2017[16]).

The Russian Federation, together with ***Belarus***, ***Kazakhstan***, ***Armenia*** and ***Kyrgyzstan***, is a member of the **Treaty on the Eurasian Economic Union (EAEU)**. On 17 May 2018, the EAEU signed agreements with Iran and China during the Astana Economic Forum. An Interim Agreement Leading to Formation of a Free Trade Area between the EAEU and its Member States and the **Islamic Republic of Iran** in its part related to agriculture foresees a reduction from 25% to 100% of EAEU import duties on a broad range of products imported from Iran, notably, certain fish products, vegetables and fresh and dried fruits. The EAEU will enjoy from 20% to 75% tariff reductions on products such as beef and veal, butter, certain confectionery and chocolate, mineral waters, oil and fat products. This agreement is to take effect 60 days after its ratification by all parties. At the moment of writing (mid-April 2019), it was ratified by Belarus, **Kazakhstan** and the **Russian Federation**. The parties regard this document as a basis for creation of a free trade area within the next three years (EAEU Commission, 2018[17]).

Another document signed in Astana was the Agreement on Economic and Trade Cooperation between the EAEU and the **People's Republic of China**. It is non-preferential, among its articles of relevance to agricultural trade are: transparency, technical barriers to trade, sanitary and phytosanitary measures, trade facilitation, and sectoral cooperation including in agriculture (EAEU Commission, 2018[18]). In 2018 and early 2019, the EAEU also held negotiations on free trade agreements with **Egypt, Israel**, **Serbia** and **Singapore**.

During the monitored period, the EAEU continued to develop its regulatory base in various areas. On 1 January 2018, the new EAEU Customs Code took effect. Developments in SPS and technical regulations in 2018-19 concerned unified quarantine phytosanitary requirements and quarantine list, veterinary requirements for controlled goods and the list of such goods, amendments to EAEU technical regulations on safety of milk and dairy products and on labelling of food products, maximum residue levels in livestock products, and other issues.

Notes

[1] These targets are expressed as minimum percentages of commercial food supplies originating from domestic production. They are set at between 80% and 95% and cover the following products: grains, sugar, vegetable oil, meat and meat products, milk and meat products, fish and fish products, and salt. In 2018, self-sufficiency rates were above the targets of the Doctrine on Food Security for all products except milk and salt.

[2] All values in roubles are converted into US dollars using an official exchange rate of the Central Bank of Russia in March 2019.

[3] This component covers commodity interventions, anti-epizootic measures including specific measures related to control and prevention of African Swine Fever, disaster assistance and some other activities.

[4] Agricultural tariff corresponds to the WTO definition and covers the HS-codes as specified in Annex 1 of WTO Agreement on Agriculture.

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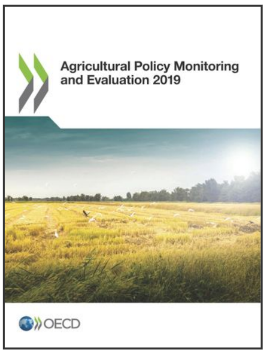

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