

## **Russia's Food Economy in Transition: What Do Reforms Mean for the Long-term Outlook?**

**Joachim von Braun, Eugenia Serova, Harm tho Seeth, and Olga Melyukhina**

Russia's food economy is undergoing a fundamental transition. Rapid changes and adjustments are still taking place in the market and pricing systems, in the subsidies to output and input markets and the credit market, and in the process of privatization and other structural reforms. These transformations have far-reaching effects on domestic supply and demand relationships. And, as part of the still greater economic changes taking place in the former planned economies of central and eastern Europe, these transformations may have extensive ramifications for international food markets.

### **Agricultural Policy Before Reform**

In the Soviet Union's centrally planned economy, agriculture functioned in an environment in which virtually every economic parameter was distorted in some way. In most cases, prices (both levels and ratios), interest rates, and profitability were centrally administered and existed as planned norms rather than as indicators of scarcity and performance. There was hardly any relationship between world and domestic prices. There was no realistic exchange rate. The economy was closed except to other socialist economies. Domestic producers and buyers had no access to markets abroad, and the access of foreign producers and buyers to the Russian market was restricted to government contracts.

### **Reforms and Agriculture Today**

General economic reform provided the framework for reforms in the agriculture sector. The first stage of agrarian reform aimed to create production units capable of operating under market conditions, by establishing the legal bases and incentives for private farming. To achieve this goal, the government introduced special measures for reorganizing collective farms (kolkhozes) and state farms (sovkhozes) at the end of 1991 and beginning of 1992 and stipulated the mandatory reregistration of all farms. Each public farm was required to decide whether it would retain its old status as a public enterprise or become a private one (such as a joint stock company, partnership, or cooperative). It was a formal step that initiated real adjustment. Of the kolkhozes and sovkhozes in existence at the beginning of reregistration, 34 percent opted to retain their old status.

The structural changes in agriculture also included rapid growth in the private family farm sector, consisting of the household plots of rural people, private farms, and dachas (private plots) of the urban population. It was this small-scale farming sector rather than the large-scale farms that helped stabilize the Russian food economy after reforms were initiated. From 1991 to 1994, small family farms made a growing contribution to total agricultural output for all products, and by 1994 these farms produced 89 percent of all potatoes, 68 percent of all vegetables, 44 percent of all cattle and poultry, and 40 percent of all milk.

At present, Russian agriculture is in disarray as a result of the general economic decline and the incomplete restructuring of the agriculture sector. Agricultural production in 1994 was 21 percent below that in 1991. Agriculture, however, was not declining as much as other sectors. Russia's gross domestic product in 1994 was estimated to have fallen 39 percent below that of 1991, with industrial production falling by 44 percent.

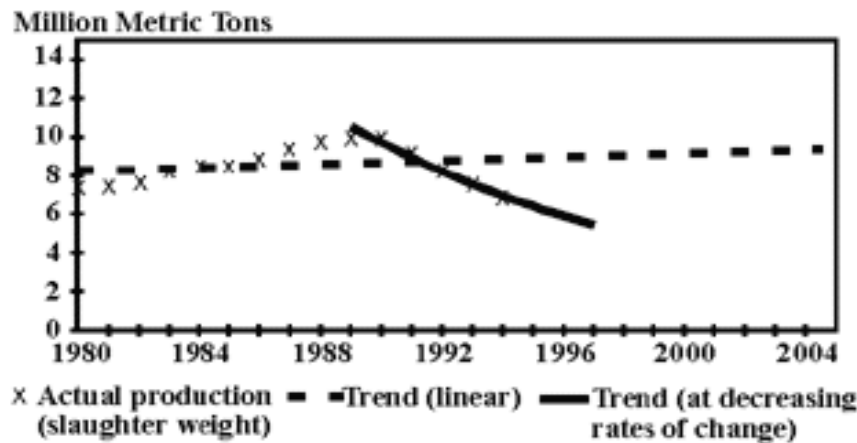
### **Future Food Consumption and Production Trends**

How will the transformation of the Russian economy affect future levels of food consumption and production? Will Russia continue to be a major net importer of food commodities, a marginal exporter, or even a significant exporter of food? The answer will be a function not only of trends in production but also of trends in demand, and domestic institutional issues will be pivotal for both of these. Agricultural trade policy and pressures for protection may significantly affect the outcome as well. At this point, the transition process is far from finished.

In view of the many uncertainties, the projection here is limited to an exploration of trends under alternative assumptions to the year 2005. Because of the multitude of micro- and macroeconomic factors that determine production and consumption trends, as well as the political and institutional uncertainties, any attempt to make a specific prognosis or to extend projections to the year 2020 would hardly be meaningful.

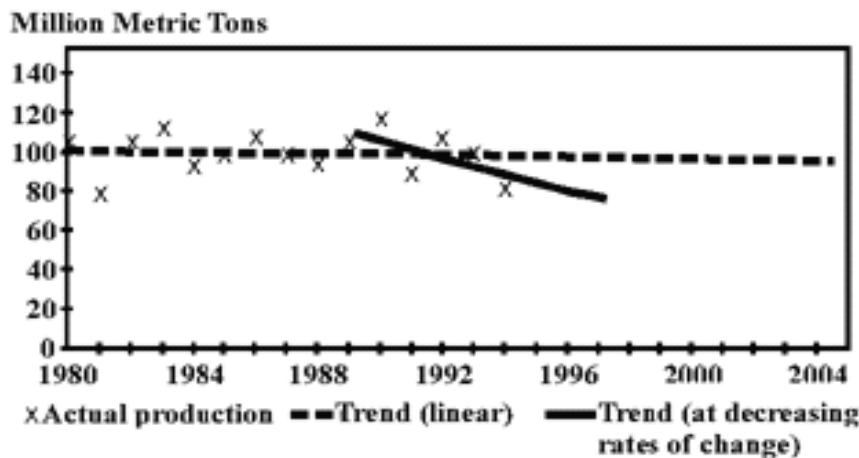
The future consumption scenarios, for instance, are built on past trend lines (1980 to 1993) and then are projected from 1994 onward on the basis of assumed economic growth (income growth) and realistic income elasticities for major food commodities. For the income growth scenario, it is assumed that initially negative economic growth will continue into the second half of the 1990s, to be followed first by a bottoming out of economic development and then by positive economic growth.

**Figure 1--Production of meat, 1980-2005**



Source: Goskomstat, "Data on the Russian Reform in the Agricultural Sector," provided by the Institute for the Economy in Transition and the Centre of Economic Analysis (Moscow: 1995, unpublished).

**Figure 2--Production of grain, 1980-2005**



Source: Same as Figure 1.

The production scenarios for meat and grain presented in Figures 1 and 2 portray two alternative extremes: a long-term trend based on the period 1980-93, and a short-term trend based on the generally disappointing performance during the 1989-93 transition period, though the decline is expected to gradually taper off.

Taking the mean between these two extremes offers more realistic projections of the supply and trade of grain for 1995 and 2000 (Table 1). A projection for 2005 somewhat optimistically returns to the 1995 level. In a scenario that incorporates the trends in consumption of cereal products and

feed use as derived from projected consumption of meat and milk products, Russia's demand for cereal imports declines in the future. These assumptions do not, however, suggest that Russia will soon become a large net exporter of cereals.

**Table 1--Grain production, consumption, and net trade for Russia, 1993-2005**

Indicator	1993	1995 (a)	2000 (a)	2005 (a)
	(million metric tons)			
Total grain production	99.094	90.000	84.000	90.000
Total domestic demand (use + losses)	106.125	95.467	90.201	90.496
Grain used for feed and mixed feed production (b)	58.534	49.722	44.750	44.750
Grain used for seed	16.395	14.756	14.756	14.756
Grain used for food	26.942	27.224	27.229	27.225
Grain used for other industrial processing	2.578	2.341	2.185	2.341
Losses (c)	1.676	1.424	1.281	1.424
Projected balance (d)	-7.031	-5.467	-6.201	-0.496

Sources: A. Manellya, "The Dynamic of Output, Imports, Exports, and Utilization of Basic Food Products in the CIS for 1985-94: The Balances of Some Food Products in the Russian Federation for 1992 and 1993" (Moscow: Centre of Economic Analysis, 1995, unpublished), 27; Food and Agriculture Organization of the United Nations, Trade Yearbook, vol. 47 (Rome: 1993), 89; authors' calculations.

(a) Forecast/estimate.

(b) Number of cattle and pigs for 2000 and 2005 is assumed to be 10 percent below 1995 estimates.

(c) Losses are calculated as a share of estimated production, based on 1993 proportions.

(d) Import requirements and/or stock change.

## A Long Transition

Given the structure of the grain balance, the developments in livestock feed utilization will be central to determining Russia's net trade in grain. Rapid improvement in the competitiveness of meat and dairy production should not be assumed, however. The production of these items has shifted significantly to the smallholder sector. Thus far, this sector has received almost no institutional support such as credit or extension services, and the agricultural research and rural transportation systems are not designed to meet the needs and potentials of this sector. The small-scale farming sector partly depends on the large-scale farming sector, from which it derives some inputs and services, often in an informal way.

Much will depend on how well incentives to increase agricultural production are transmitted to the agriculture and food-processing sector and on the opening up of interregional trade opportunities. Production incentives remain weak because of ineffective price information systems and high transaction costs in the food system. The opportunities for domestic trade are currently limited, given the state of infrastructure, friction in the marketing system, and the increased regional segmentation of food and agricultural policy as authority has shifted to the regions (oblasts). It seems likely that instead of stimulating the accelerated development of domestic food industries, the large metropolitan areas, such as Moscow and St. Petersburg, will become increasingly dependent on food imports. In these cities, where income distribution is increasingly skewed and people's time for food preparation is short, the demand for imported high-quality and convenience foods will rise.

Russian agriculture will remain in transition for a long time. Risky labor and food markets and the inaccessibility of financing are causing the expansion of small-scale farming and the home production of food. Managerial deficiencies and market imperfections are hindering a revitalization of large-scale farming. Certainly the potential for major production increases exists in Russia, as well as in some other countries of the former Soviet Union, especially Ukraine and Kazakhstan. One need not be overly optimistic to assume that efficiency will improve and this potential will be realized over the long term. During the period covered by the projections given here, however, institutional constraints, friction in finance, land, and labor markets, and limited infrastructure will probably prevent farmers and the food-processing sector from responding strongly to incentives and will continue to inhibit the efficiency and growth of the Russian food economy.

---

"A 2020 Vision for Food, Agriculture, and the Environment" is an initiative of the International Food Policy Research Institute (IFPRI) to develop a shared vision and consensus for action on how to meet future world food needs while reducing poverty and protecting the environment. Through the 2020 Vision initiative, IFPRI is bringing together divergent schools of thought on these issues, generating research, and identifying recommendations. The *2020 Briefs* present information on various aspects of the issues.