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# Russia Agriculture Policy Review

Vol. 4, No. 2

One in a series of policy notes on work of the OECD of interest to Canada



## Context and Overview

As the country covering the world's largest land mass and with a population of 142 million in 2005, Russia remains a country of significant influence and interest.



The dissolution of the Soviet Union in 1991 marked the beginning of a transition from a centrally-planned to a more market-oriented Russian economy. While significant progress has been made, the transition has not been easy or linear. In fact, in some sectors the state has deemed "strategic", the move toward greater market orientation has been reversed in recent years, with the state taking on a greater role.

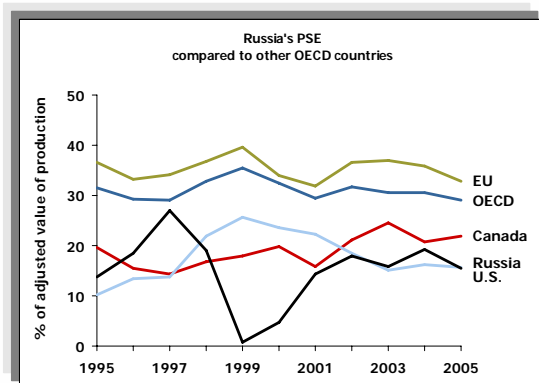
Support to agriculture fell markedly in 1999 and 2000 due to Russia's financial crisis. Russia's pre-crisis PSE averaged 20% between 1995 and 1997. Since then, support levels have rebounded somewhat, with the PSE averaging 17% for 2001-2005. Russia's support has been slightly below Canada's for the latter period. Market price support, input and output payments remained the dominant policy instruments.

This note first touches upon agriculture's place in Russia's economy. Then, trends in domestic support are reviewed. Recent moves to regionalization and the devolution of powers are then discussed. The note closes with a summary of developments and the identification of key issues that will affect Russia's prospects and performance.

## Agriculture within the Russian economy

Since its 1998 financial crisis, Russia's economy has strengthened significantly, growing at roughly 6.7% annually between 1999 and 2005 – propelled largely by a boom in oil and gas markets. This growth fueled demand for higher value food products while oil and gas related revenues also allowed the state to increase its role in other sectors, including agriculture.

Following a period of decline, agricultural output has shown positive growth in recent years. Currently, agriculture accounts for about 11% of total employment and 5% of the nation's GDP. Agriculture has important implications for the welfare of Russian society; some 18% of the population lives below the poverty line, and food and beverages account for 38% of expenditures for low income households. Agriculture's contribution to the overall economy has been



Source: OECD.

falling as agriculture has been growing more slowly than non-agricultural sectors.



Source: OECD.

Russian agri-food imports are substantial and increasing, given the nation's relatively static domestic production and growing consumer demand. Consequently, the import-export trade balance has been widening since 2000. The EU is Russia's largest agri-food supplier, followed by Brazil, Ukraine and the United States. Russia takes one-third of US exports of frozen cut poultry and two-thirds of Brazil's pork exports. Russia is a net-exporter of grains and oilseeds. Leading export destinations include Egypt, Kazakhstan, and Ukraine. The ruble's appreciation has made imports more affordable while undermining the competitiveness of non-energy exports.

### General services and distorting support are modest but increasing

The federal government is now making efforts to improve agricultural efficiency, with more assistance being put into capital and technological improvements. A new Federal Law on Development of Agriculture is being put in place to provide a more stable legal and regulatory framework for the sector.

Agriculture is now benefiting from an improved Russian economy and a return to pre-crisis levels of policy support. Federal programs are being implemented during 2006-10 to emphasize sustainable farming, rural development, and quality of agricultural labour and life in rural areas, including the two-year 2006-07 *National Priority Project for Development of Agro-Industrial Complex*. The Project consists of three main elements:

- (1) The government is providing more support to livestock industries, with a

target of increasing meat and milk production by 7% and 4.5% respectively in 2006-07 through subsidized loans.

- (2) Smallholders will receive subsidies to encourage them to increase output by 6%. Loans, technical assistance and infrastructure are the main instruments.
- (3) Housing assistance will be provided to young farmers in rural areas.

As discussed earlier, support to producers has been gradually returning to pre-1998 financial crisis levels. For 2003-05, 74% of the PSE was market price support, largely from import protection for sugar, livestock and poultry products. Budgetary transfers made up the remaining 26% of the PSE, with input subsidies accounting for almost 57% of total budgetary support, output payments for 11%, while another 10% was due to an implicit subsidy from the debt rescheduling. Hence, market price support, input and output payments collectively accounted for 92% of the overall PSE. OECD research shows that market price support, input subsidies, and output payments are all highly production and trade distorting. This underlines the importance of monitoring Russia's policies, given their potential to impact world markets.

#### RUSSIAN MEAT TARIFFS AND TRQs

	In-quota tariff	Over-quota tariff	TRQ tonnes
<b>Beef, frozen</b>			
2005	15%	40%	430,000
2007	15%	52.5%	440,000
2009	15%	40%	450,000
<b>Pigmeat</b>			
2005	15%	80%	467,400
2007	15%	55%	484,800
2009	15%	40%	502,200
<b>Poultry meat</b>			
2005	25%	No over-quota imports	1,090,000
2007	25%	50%	1,171,200
2009	25%	40%	1,252,000

Note: Specific in-quota and over-quota tariffs also exist.  
Source: OECD.

After sugar, the highest levels of support are provided to the poultry, pork, dairy, and beef sectors. The livestock sector also enjoys substantial import protection in the form of tariff rate quotas (extended to 2009).

## BOX 1: Significant changes to Russia's agri-food chain, including the emergence of super-companies

Since the early 1990s, three types of farms have emerged in Russia (i) privatized successors of former collective and state farms, now called agricultural organizations (ii) small, individually-owned household plots and (iii) family farms that emerged with the policy to develop family-type farms.

In 2005, agricultural organizations represented 41% of total agricultural output, households 53%, and family farms 6%. Agricultural organizations are the main producers of grains, and households produce most fruit and vegetables. While households traditionally produced for self-consumption, some are evolving into small-scale commercial producers.

The performance and size of agricultural organizations is changing, with successful, modernizing producers now developing within this group. Agro-holdings are being created among these organizations, often through takeover of insolvent farms by non-agricultural or agribusiness investors. Agro-holdings can be highly diversified and vertically integrated.

In the Belgorod region of Russia's black soil area, there are 4 super-large agro-holdings, one of which operates 277,000 hectares and employs about 16,000 persons. Altogether in this region, there are 37 agro-holdings, representing 581,000 hectares.

### FEW AGRICULTURAL ORGANIZATIONS REPRESENTED MOST PROFITS, 2002-2004

Share of all agricultural organizations represented by 300 major enterprises

Profits	70%
Market Receipts	20%
Farmland	3.5%
Number	1.5%

Source: OECD.

Agro-holdings have been seen by some local authorities as a means of reviving local agriculture. Local administrations sometimes hold a stake in agro-holdings and may provide preferences to them through low-interest credit.

Food processing and retailing have experienced considerably more structural change than primary agriculture. Supermarkets are developing extremely rapidly, represented by both national and international retailing chains. They are integrating upstream to ensure a constant flow and quality of supplies.

## Regionalization: its benefits and risks

Agriculture administration in Russia is undergoing "regionalization." This change is part of the broad administrative reform initiated in 2004. Under the new division of responsibilities, the federal government will focus more on strategic policy direction and special national programs like the *National Priority Project for Development of Agro-Industrial Complex*.

Regions will now have the lead for implementing agricultural support within their

territory. Therefore, regional administrations will have discretion to develop and finance their own programs. This may help to improve targeting and responsiveness of agricultural policies and programs.

Since the majority of regions have a limited fiscal base, however, most regions will probably continue to rely on federal support. But regionalization could also result in a decline in policy coherency, equity, and transparency. Risks include:

- "Rich" regions may provide high support to local farmers, leading to inefficiencies in resource allocation.



- There is potential for regional protectionism, including discrimination against outside agents, and restrictions on movement of agricultural products in and out of the region.
- Policy transparency is reduced, which further complicates an already complex policy monitoring process in Russia.

This reduces transparency and creates the potential for conflicts of interest, blurring the distinction between the state's commercial and regulatory roles.

## Summary and Prospects

Russia's economy continues to grow on the basis of strong demand for energy and other natural resources. This resource-based growth has also caused the appreciation of the ruble. As a result of this economic growth, Russia is expected to continue to experience stronger food demand and prices for higher value food products, particularly livestock products. This in turn may help boost agricultural output, which has been stagnant for several years.

However, the agriculture sector still faces challenges. While the economy is growing, the energy boom has also resulted in a sharp increase in fuel costs. Producers face a significant price-cost squeeze and the government has introduced a subsidy for this input. The appreciation of the ruble is also undermining the competitive position of Russian exports on international markets.

Increasing tax receipts from a stronger economy allow Russia to become more interventionist and direct more funds towards some sectors, including agriculture. Policy and budgetary support that distorts input and output prices and, therefore, production and trade, continues to make up a significant share of Russia's policy set. The ruble's ongoing appreciation and increased energy revenues leave room for increased support, but the World Trade Organization (WTO) and the Organization for Economic Cooperation (OECD) accession will be a factor.

Russia's prospects, and those of its agri-food sector, depend on developments in a number of key areas: (1) its transition to a more market oriented economy, with a decoupling of commercial and regulatory mandates; (2) international oil and energy market revenues; (3) exchange rate movements; (4) WTO accession and integration with international markets; (5) the ability to cope with a population in decline since 1992.

## Sources

OECD (2006) OECD Economic Surveys: Russian Federation, Paris, November.

OECD (2007) Agricultural Policies in Non-OECD Countries: Monitoring and Evaluation, Paris.

For a link to the OECD reports, please go to: <http://www.oecd.org>

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