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The review provides a detailed analysis of main trends in Russia's economy in 2012. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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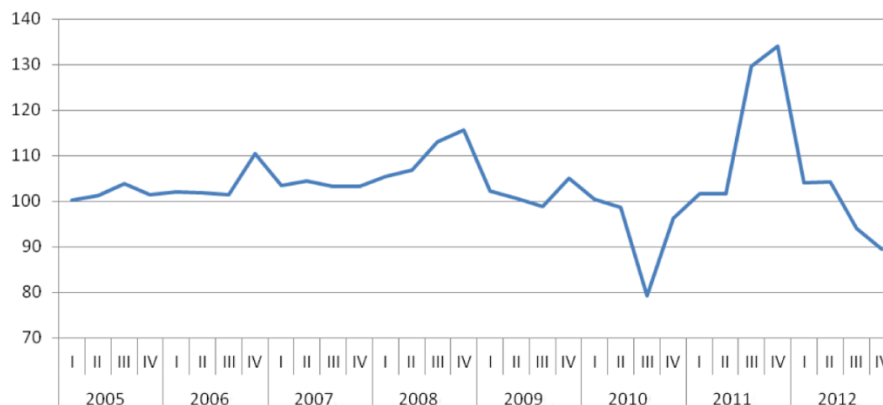
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Russian Agriculture and Agricultural Policies in 2012

General Outline of Agricultural Performance

At present about 4% of Russia's GDP is generated in agriculture; however, the sector still accounts for 9.7% of the total number of employed in domestic economy with 26% of the country's population living in rural areas. The latter indicator has remained actually unchanged throughout the 10 recent years.

From 2006 to 2011 agriculture displayed high development indicators¹: annual output increased at the average rate of 4.4%, production of meat livestock and poultry over these 6 years grew by 53%. In the first and the second quarters of 2012 the increment of output against the respective periods of 2011 also exceeded 4% (*Fig. 38*). However, the spring and summer droughts resulted in a sharp drop of production in the third and the beginning of the fourth quarter of 2012. The most affected was the gross output of grain that in 2012 fell by nearly one fourth as compared with 2011 – down to 70.7m tons. Decrease was also observed in the production of sunflower seeds that reduced by 18% (down to 7.96m tons), sugar beets – less by 9% (down to 43.4m tons), potatoes and vegetables – less by 11% and 2%, respectively (down to 29.1 and 14.4m tons). However, the overall reduction of agricultural output in 2012 versus 2011 was less than 5%.



Source: Rosstat.

Fig. 38. Agricultural Output as % of the Respective Period of Previous Year

Nevertheless, 2013 has all chances to be more successful – farm producers have managed to sow winter crops at actually the same areas as in 2011 (the decrease being as low as 0.8%).

The drop of crop production was partially offset by the increase of livestock production. In 2012 the number of pigs in farms of all types continued growing (by 7.7% up to 19.3m heads) as well as that of sheep and goats (by 6.4% up to 25.1m heads). Cattle inventories did not reduce as compared with 2011 (20.4m heads) and the number of cows even somewhat increased (by 0.5% up to 8.9m heads). As of December 2012 smallholder farms accounted for 45.9% of

¹ Hereinafter – the data of Rosstat.

cattle population, 25.4% of pig population and 47.6% of that of sheep and goats with the respective shares falling over time (in 2011 they reached 46.9, 31.5 and 50.1% accordingly). 2011 was the first year since early 1990s when an increase (albeit small – less than 1%) was observed in the cattle herd. It's notable that this modest increase was ensured by a sizable growth of cattle population in individual private (peasant) farms where it was up by 15%. The increase of livestock inventories in this type of farms is a new phenomenon resulting from the introduction of a new tool of state support to agriculture – the subsidizing of expenditures on the creation of family dairy farms.

The output of meat and eggs continues growing – in 2012 its increase versus 2011 in all categories of farms amounted to 6% and 2.2%, respectively. It was provided by the growth of production in corporate and individual private farms where the overall output of slaughter livestock and poultry was up 11.7% and 3.8%, respectively. Corporate farms increased output of not only pork (up by 13.4%) and poultry meat (up by 13.4%) but also that of beef and veal (up by 3.2%). Individual private farms expanded production of poultry (by 25.8%) and slaughter cattle (by 10.9%). The increment of eggs production (by 2.2%) was also due to their larger output in corporate farms (up by 2.8%) and individual private farms (up by 6.7%). Low aggregate growth rates of milk production in 2012 (0.9%) resulted from the combination of its increase in corporate farms (by 2.5%) and individual private farms (by 12.8%) and decrease in smallholder farms (by 1.8%). The sector of household farms is losing its positions as compared with 2011: it produced not only less milk but also less meat and eggs. In 2012 the share of smallholder farms in the output of livestock products totaled 45.5% while the share of individual private farms – 4.4%. For the first time since 1995 the share of corporate farms exceeded 50%. The structure of meat production continues changing: the share of poultry meat has approached 58%, the share of pork – 29%.

The production of grain, sugar beets and sunflower seeds is largely concentrated in corporate farms but the share of individual private farms therein is growing year after year. In 2012 they already produced 22.3% of grain and 27.2% of sunflower seeds grown in the country. Potatoes, vegetables, fruit and berries are produced mainly by smallholder farms although in recent years the share of individual private farms is expanding at rather high rates.

The production of basic agricultural products is not growing all over the country. Agriculture has ceased to be a sector developed in any region; at present it is rather an activity specific for certain areas. In the post-Soviet period the principles of locating agricultural production have changed. Instead of being targeted at ensuring regions' self-sufficiency (which was the goal of the Soviet agrarian policies and was regarded as an important component of planned and proportional development of all regions of the country), its current location is shaping taking into account economic expediency considerations. The scale of production is less and less tied to the number of population; it's rather being shifted to regions with the highest profitability. These processes are characteristic for those agricultural products the most part of which is produced in corporate farms. For smallholder producers the profit-generation capacity of a specific production is less decisive; instead, other priorities can be of greater importance, such as the need to produce healthy food for the family or the possibility for self-employment in case there are no job opportunities in local corporate farms and individual private enterprises.

The drop of agricultural production after the start of market-oriented reforms in the country was catastrophic. It reached its maximum in 1998 when the output of corporate farms fell down to 35% of the 1990 indicator. However, the output of smallholder farms during this pe-

riod was growing and helped to mitigate the overall drop curbing it at the level of 55%. Live-stock production suffered the greatest damage: it was falling not only in corporate but also in smallholder farms.

By 1995 only 19 regions managed to preserve their production at the level of 80-100% of the 1990 reference point (Table 39). The revival of the sector began in the period from 2000 to 2005 when the number of such regions started growing. By early 2012 the scale of production in 16 regions was already above the 1990 level and in 23 regions it ranged from 80 to 100% thereof.

Table 39

Distribution of Regions by the Percent Ratio of Annual Farm Output to the 1990 Reference Point

Intervals, %	1995	2000	2005	2010	As of 1.01.2012
160 and more				1 (Belgorod oblast)	2 (Belgorod oblast, Dagestan)
140 and up to 160				1 (Dagestan)	3 (Lipetsk oblast, Kabardino-Balkaria, Tatarstan)
120 and up to 140			1 (Dagestan)	1 (Kabardino-Balkaria)	3 (Tambov and Voronezh regions, North Ossetia-Alania)
100 and up to 120			1 (Tatarstan)	2 (North Ossetia, Astrakhan oblast)	8 (Astrakhan, Penza, Kursk, Tyumen oblasts, Udmurtia, Bashkortostan, Mordovia, Krasnodar krai)
80 and up to 100	19	4	9	11	23
60 and up to 80	35	35	31	28	24
40 and up to 60	20	31	28	23	8
20 and up to 40		4	4 (Arkhangelsk, Kamchatka, Sakhalin and Murmansk oblasts)	7	3 (Murmansk and Sakhalin oblasts, Kamchatka region)
less than 20	2	2	2 (Magadan oblast and Chukotka autonomous district)	2 (Magadan oblast and Chukotka autonomous district)	2 (Magadan oblast and Chukotka autonomous district)
Total	76	76	76	76	76

Source: Rosstat.

Agriculture is slowly restoring in some regions of the country. However, for a long time there have remained regions where no signs of restoration after a more than 60%-drop are observed. It's quite explicable if one looks at the list of such territories: Magadan, Murmansk and Sakhalin oblasts, Chukotka autonomous district, Kamchatka region. On the whole, the growth of production has so far failed to offset the overall decline of agricultural sector (in 2012 farm output reached about 92% of the 1990 level).

Agricultural production is concentrating in progressively diminishing number of regions – constituent members of the Russian Federation. While in 1990 the 15 largest regions-producers accounted for 40% of the total country's output, by 2012 their share increased up to 50%. The list of such producers was changing but the leader remained the same – Krasnodar krai (in 1990 it accounted for 4.5% of the total domestic output and as of January 1, 2012 – for already 7% thereof). By the beginning of 2012 Moscow oblast ranked 7th after being 2nd in 1990. Nijny Novgorod, Leningrad, Novosibirsk and Sverdlovsk oblasts and Krasnoyarsk krai have left the ranks of the 15 largest regions-producers. By early 2012 their positions were occupied by Belgorod, Voronezh, Chelyabinsk, Omsk and Tyumen oblasts.

The analysis of labour use dynamics in agriculture leads to the conclusion that the sector's adjustment to market conditions has prompted the improvement of labour productivity coupled with the reduction of the number of employed. In corporate farms the latter fell almost 6

fold during the reform years while the productivity of labour by the end of 2011 was more than 4 fold higher than in 1990. The official statistics estimates labour productivity in both family and corporate farms enabling to see cardinal changes that have taken place. For instance, in 1990 gross output per average annual employee in family farms was 3.7 fold higher than that in corporate farms while by the beginning of 2012 – 3.3 fold lower. It implies qualitative changes in the productivity pattern: corporate farms with better mechanization of labour started to employ far less workers than households using predominantly manual labour.

The data on corporate farms allows to evaluate the changes in labour productivity for some sectors of agricultural production: by the beginning of 2012 direct labour inputs for producing slaughter pigs and sugar beets dropped 8-10 fold as compared with 1990, those for producing potatoes, vegetables and poultry meat – 3.3-4.5 fold, for producing milk, grain, sunflower seeds and eggs – 1.6-2 fold.

At the same time the decrease of employment and the rise of labour productivity in agriculture were not accompanied by state programs aimed at adaptation of rural population – such as retraining, fostering of investments in the development of non-agricultural business in rural areas, encouragement of entrepreneurial self-employment of population. It produced a devastating effect on the rural community. At present advanced corporate farms face the problem of skilled labour shortage despite quite a stable share of rural population over the recent decade: the most qualified and active workers were forced to migrate from rural areas. Such developments have not been duly regarded by the state support policy which is traditionally aimed at the supporting of farm production versus development of rural areas thus aggravating the degradation of depopulated territories.

Up till 1998 the efficiency of farmland use in all categories of farms was falling but in later years it switched to growing. However, the trends for corporate and smallholder farms were different. In corporate farms the shrinking of farmlands was accompanied by the growth of gross output resulting in higher efficiency indicators of their use. The efficiency of land use by family farms in the first years of reforms was rapidly decreasing as their areas expanded. The per hectare output of these farms stabilized only in recent years.

Despite the difference in efficiency trends, small businesses use land much more efficiently than corporate farms. Each hectare used by them generates twice larger gross agricultural output as compared with that of corporate farms.

Yields were falling from the beginning of 1990s. In 1998 they were below the 1990 level for all crops. But in 2011 they already surpassed the 1990 indicators: for fruit and berries – 1,8 fold, for sugar beets – 1.6 fold, for soybeans, potatoes and vegetables – 1.3-1.4 fold, for grains – 1.2 fold¹. Even in 2012 with its unfavourable weather conditions not all crops demonstrated a drop of yields against the 2011 level and this drop was not dramatic: for grains it amounted to 17%, for sunflower seeds – to 3.6%. Meantime, the yield of sugar beets exceeded the 2011 indicator by 1.6%. Yields are relatively stable despite the sharply decreasing use of mineral and organic fertilizers (*Fig. 39–41*).

The yields of grains and sugar beets were growing along with the shrinking of areas sown in them. Production was falling mostly in those areas where yields were the lowest. One more factor of higher total grain yields was the increasing share of winter crops that are generally more productive than spring ones. The rise of sugar beet yields was due to the progressive

¹ Wheat yields reached their maximum in 2008 – 24.5 centners per hectare.

spreading of up-to-date technologies of their production¹. The trend for sunflower seeds was an exception with areas sown expanding 2.8 fold as compared with 1990. Production of this crop has shifted to new cultivation areas with less favourable conditions.

The issue of potential growth of farm output is traditionally tied to the need to involve abandoned lands in agricultural production. However, the comparison of yields in Russia with those in developed countries of the world evidences that there is a potential for increasing the output employing only the currently cultivated areas.

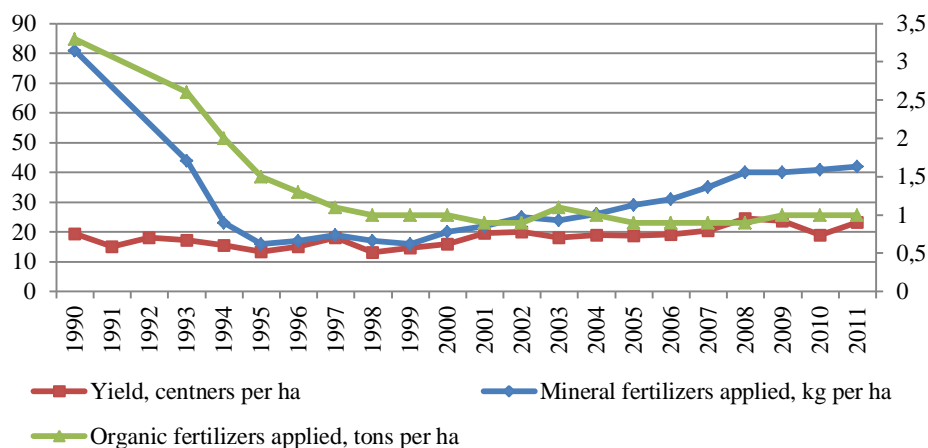


Fig. 39. Grain Yields and Application of Fertilizers in Corporate Farms

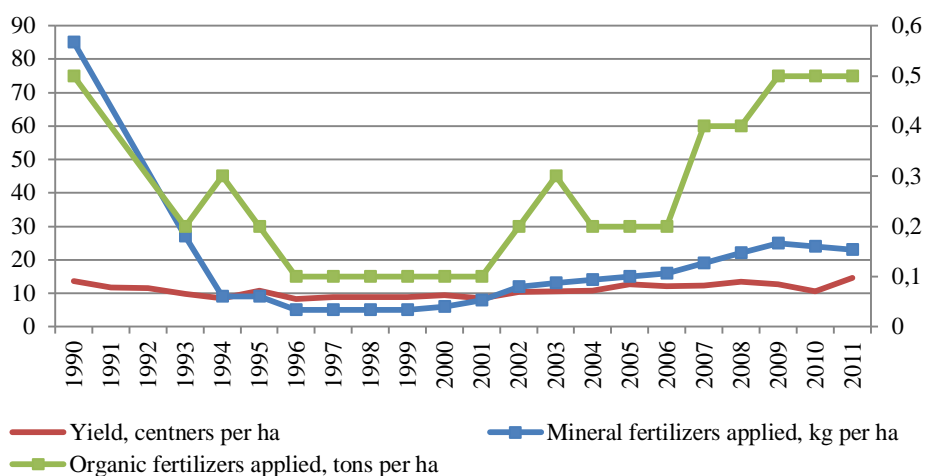


Fig. 40. Sunflower Seed Yields and Application of Fertilizers in Corporate Farms

¹ The yield was maximal in 2008 – 366 centners per hectare which was twice above the 2000 indicator. But it still remains below the level of developed countries of the world. For instance, in Canada it reached 603 centners per ha in the best years, in the US – 646 centners per ha.

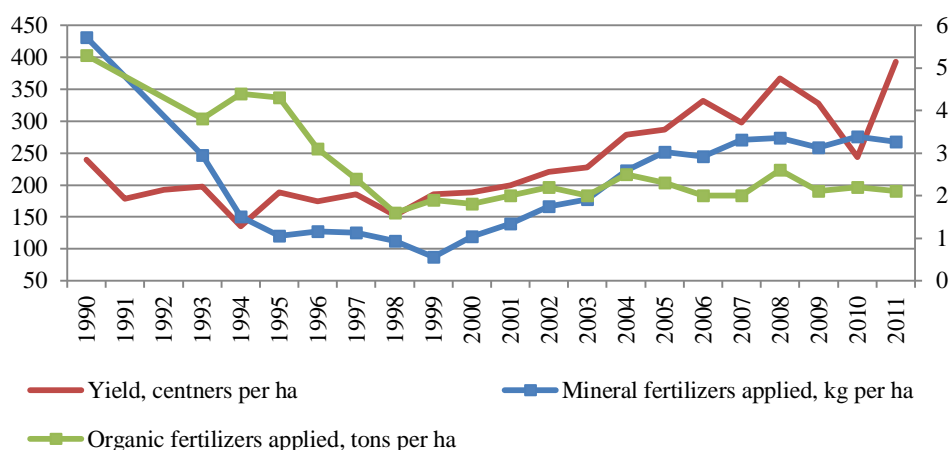


Fig. 41. Sugar Beet Yields and Application of Fertilizers in Corporate Farms

The growth of productivity was observed in all sectors of livestock and poultry production. Uncontestable leaders by this parameter were poultry and pig breeding: as compared with 1990 daily weight gain for broilers was up almost 2.5 fold, for pigs – 1.53 fold. Production of milk per cow grew by 38.3%, production of eggs per laying hen – by 30.9%. In January-October 2012 the per head production of milk reached 4 243 kg which is 6% above the respective indicator for 2011¹.

A clear evidence of the improving efficiency of livestock production is the reduction of per unit feed inputs: while in 1990 830 kg of feed units were needed to produce 100 kg of pork, at present this rate is almost twice lower – 420 kg. Required feed inputs per 1 kg of milk fell by nearly 31%. In beef production high level of feed consumption that formed back in the Soviet times has failed to reduce so far due to the use of high-input technologies of cattle raising in livestock complexes. Lower feed input requirements are attained in case farms use technologies of loose pasture keeping of calves together with meat cows with further fattening in feedlots. It's noteworthy that in regions traditionally practicing grazing livestock management (Altai, Dagestan and Kalmykia republics) the number of meat cattle has been growing for already several years.

The productivity of inputs has been steadily improving while their consumption has been falling. Beginning from 1992 prices for inputs have been rising at much higher rates than those for agricultural products². In these conditions only farms that succeeded in resource saving and efficient utilization have managed to remain profitable. Electric energy consumption dropped in both absolute terms (almost 5 fold) and per Rb 100 of gross output (in 2011 it was three times lower than in 1990). The total application of fertilizers over these years fell almost 5 fold and their use per Rb 100 of gross output – 3.3 fold.

Despite certain annual fluctuations, in 2000-2010 the nominal indicators of aggregate farm support in Russia grew 10 fold in ruble terms and 9 fold – in dollar terms³. The ratio of aggregate farm support to the gross value added in agriculture over this period rose from 11.8% in 2000 to 33.8%.

¹ The total for 11 months exceeds the annual output in 1990.

² Such a trend was observed in all countries but in Russia the disparity between the growth of prices for farm inputs and those for farm products was most dramatic. OECD, 1998.

³ The data on aggregate farm support in 2011 and 2012 are not available.

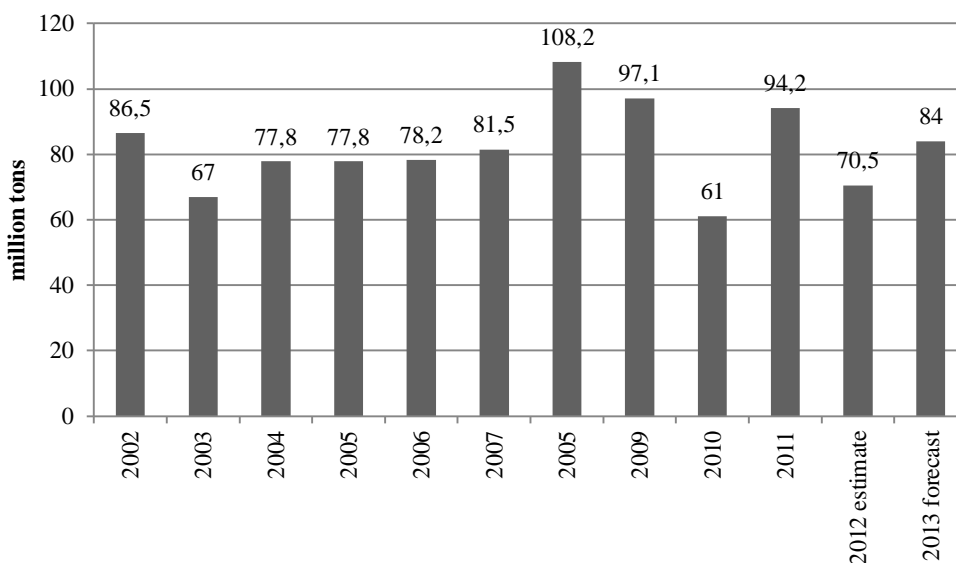
The prevailing component of support structure are consumer transfers to producers (about 70%) implying that in Russia support is mostly rendered at the expense of consumers of farm products rather than at the expense of the state budget¹. Estimates show that the growth of support is accompanied by the lowering of its efficiency: in 2000 the gross output per Rb 1 of state support reached Rb 7.4 but later it fell down to Rb 2-2.6.

In 2012 some changes took place in Russia’s agricultural policies. They were fostered by two events. The first of them was the country’s accession to the WTO implying the need to adjust the measures of national agrarian policies to WTO requirements. The second was the termination of State program for agricultural development and regulation of agricultural, input and food markets for the period of 2008-2012. A new program may envisage new measures of agricultural policies that meet both the requirements of WTO and the new realities of situation in agriculture and development of rural areas.

Situation on Selected Agricultural and Food Markets

Grain Market

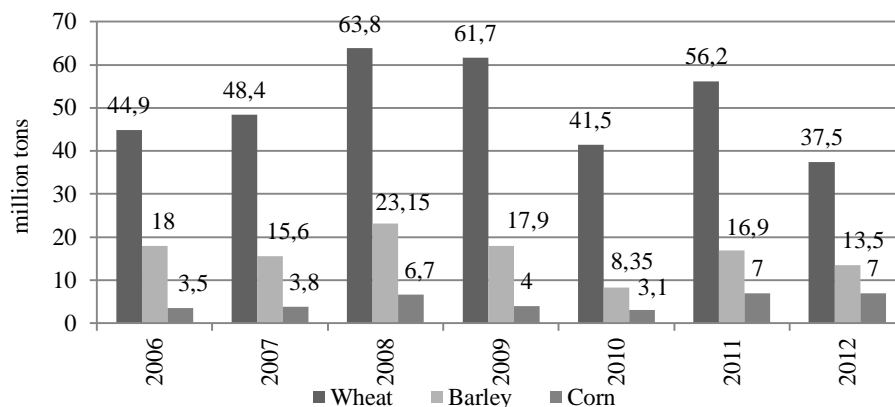
Cold winter and hot summer brought about disappointing results of 2012 harvesting campaign. Grain output was below the average indicators for 2000s (*Fig. 42 and 43*). The crop of barley also fell relative to the previous year level – down to 13.9m tons. The output of corn grew up to 8.0m tons but since the conditions of harvesting were difficult due to rains, it couldn’t fail to affect the quality of grain – the percentage of moisture was rather high.



Source: “SovEcon” Center.

Fig. 42. Russia: Gross Output of Grains in 2002-2012 and Forecast for 2013

¹Assessments were made on the basis of OECD data for 2010 since later estimates are not available.



Source: "SovEcon" Center.

Fig. 43. Russia: Gross Output of Wheat, Barley and Corn in 2002–2012 and Forecast for 2013

The main factor contributing to the decrease of gross output of grains is the lowering of yield which fell down to 18.3 centners per hectare of harvested area (the level of the poor crop 2010). The yield of wheat dropped to 17.7 centners per hectare which is below the 2010 level and is the lowest indicator since 2003.

In July 2011 restrictions on export of grain conditioned by 2010 drought were lifted. In 2012 grain export continued without restrictions. As a result in 2011/2012 MY (June-July) Russia exported 28.1m tons of grain (including flour in grain equivalent) of which wheat accounted for 21.6m tons. This is more than in the rich crop 2009/2010 MY (Table 40).

Given the modest crop and active export supplies, by the beginning of October 2012 the inventories of grains and especially wheat in farms, stock and processing enterprises in actually all major producing regions were noticeably below those of not only the previous year but even the poor crop 2010. For instance, as of November 1, 2012 they amounted to 32.9m tons while as of the same date in 2011 they reached 46m tons, in 2010 – 40m tons. The stringent grain balance fostered the growth of market prices.

Table 40

**Supply and Demand Balance for Grains in 2009/10–2011/12 MY (June-July),
million tons**

	2009/10	2010/11	2011/12
Supply (resources)			
Beginning stocks	24.6	28.2	18.6
including intervention stocks	8.25	9.6	6.7
market stocks	18.35	20.6	11.9
Production	97.1	61.0	94.2
Imports*	0.4	1.8	1.7
Total	122.1	91.0	113.8
Consumption			
Domestic consumption	72.0	68.0	70.0
Exports*	21.9	4.4	28.1
Total	93.9	72.4	98.1
Intervention purchases	1.75	-	0.4
Ending stocks	28.2	18.6	15.7
including intervention stocks	9.6	6.7	4.7
market stocks	18.6	11.9	11.0

*including flour in grain equivalent.

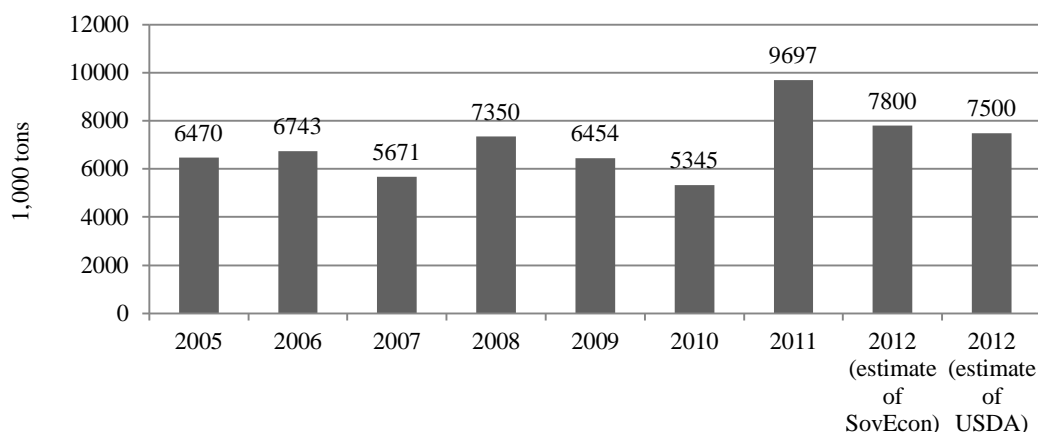
Source: "SovEcon" Center.

With weather conditions being close to the long-term annual average, the Russia's output of grain in 2013 is unlikely to reach the record of 2008 and 2009, i.e. 100m tons. According to the forecast of "SovEcon" it will be about 84-85m tons. However, even despite the expected growth of production the situation on the domestic market in 2013 will remain tight due to the stable export demand for grain in the southern regions and a notable decrease of carry-over stocks. The market will be adjusting to the tightening balance through further growth of domestic prices. Opportunities for regulating domestic market by means of commodity interventions seem to be very limited since the most part of intervention stocks will have been sold by the end of 2012-the beginning of 2013. On the one hand, higher prices will lead to a further decrease of domestic grain consumption (first of all in smallholder farms) which can result in the slaughter of livestock and poultry. On the other hand, the situation may develop so that the accelerated growth of domestic prices will make import of grain more efficient for some regions than its purchase on the domestic market. It concerns not only regions bordering on Kazakhstan but probably also north-western regions of Russia and regions in its center wherein supply of corn from the Ukraine is convenient from the logistical point of view.

Market of Oilseeds and Vegetable Oils

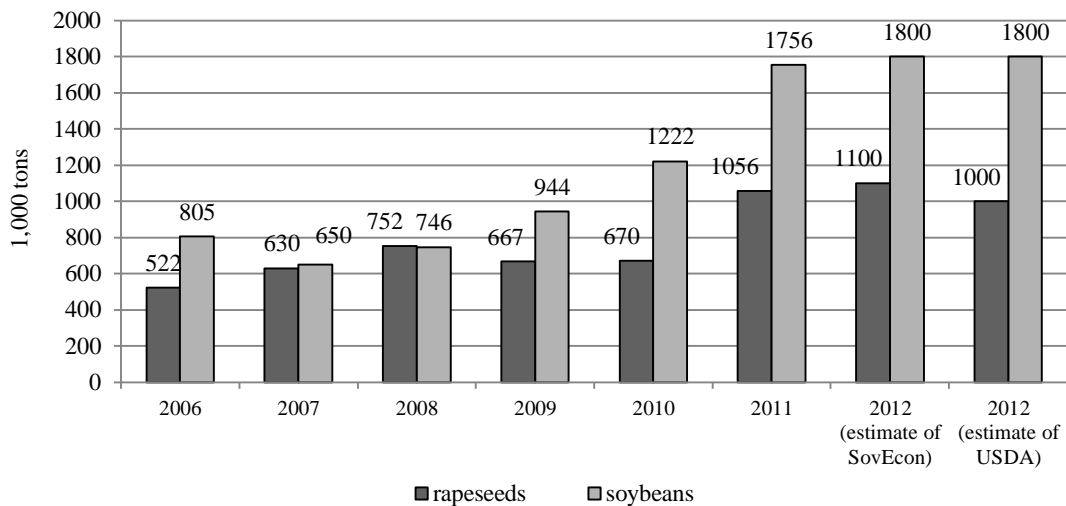
From the beginning of 2000s the market of oilseeds demonstrates a clear trend towards slower growth of sunflower seeds output as compared with that of other oilseeds – rapeseeds, soybeans and oil flax. This is an evidence of both the diversification of oilseeds production and the expansion of their cultivation area in Russia. 2011 set a record in the output of basic oilseed crops: sunflower seeds, rapeseeds, soybeans and oil flax. The dynamic and stable growth of oilseeds production was intermitted only in 2007 and 2010 due to the extreme weather conditions.

According to preliminary estimates the output of sunflower seeds in 2012 will amount to 7.5-7.8m tons. This is below the previous year record but stands second over the whole history of observations (*Fig. 44*). The outputs of rapeseeds and soybeans are estimated to be somewhat above the record indicators of 2011 – 1.0-1.1m tons and 1.8m tons, respectively (*Fig. 45*).



Source: "SovEcon" Center.

Fig. 44. Russia: Gross Output of Sunflower Seeds in 2005-2012



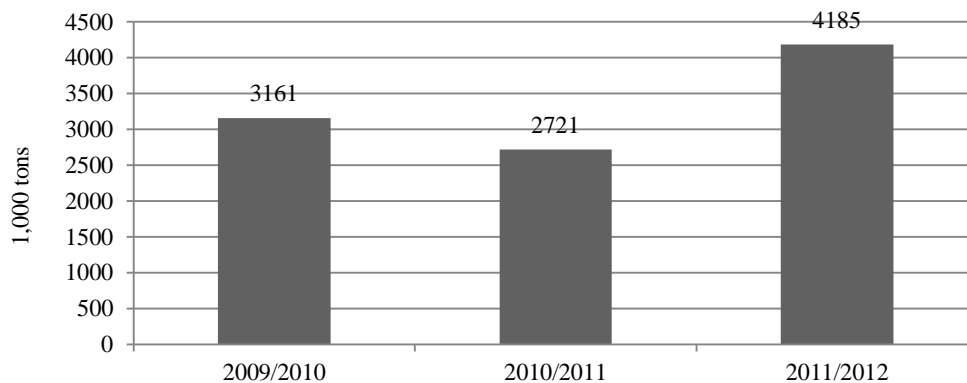
Source: "SovEcon" Center.

Fig. 45. Russia: Gross Output of Rapeseeds and Soybeans in 2006-2012

From the beginning of 2000s the gross output of soybeans in Russia demonstrates an upward trend. In the five recent years it grew almost 3 fold and amounted to 1.8m tons in 2012. The record crop of soybeans was harvested owing to the combination of such factors as the expansion of areas sown (that in 2012 reached nearly 1.3m hectares) and favourable weather conditions. The major regions cultivating soybeans in Russia are the Far East (60% of the domestic output), and the Southern and Central regions of the country.

The domestic consumption of soybeans grew in line with their production – over the period concerned it increased 3 fold up to 2.84m tons. Soybeans are largely used by feedstuffs industry and in the production of meat, dairy, bakery products and confectionary. The promising sector attracted many farm investors and a lot of projects for the construction of soybean plants are being elaborated and implemented in Russia.

Conditioned by the abundant 2011 crop, the output of vegetable oils in 2011/2012 MY (October-September) was record (Fig. 46) as well as exports of products of oilseeds processing (Table 41). At the same time imports of palm oil and soybean meal continue growing.



Source: "SovEcon" Center.

Fig. 46. Russia: Output of Vegetable Oils in 2009/2010–2011/2012 MY
(October-September)

Table 41

**Exports and Imports of Oilseeds and Products of Their Processing
in 2009/2010-2011/2012 MY (October-September), 1,000 tons**

	2009/2010	2010/2011	2011/2012
Exports			
Sunflower oil:	505.5	193.6	1426.6
raw	350.1	71.9	1223.3
refined	155.4	121.7	203.3
Rapeseed oil	98.0	116.1	186.4
Soybean oil	158.0	129.3	145.0
Sunflower seeds	17.0	10.8	336.1
Rapeseeds	81.0	15.7	48.4
Flax seeds	n.a.	n.a.	390.8
Sunflower meal	699.3	573.1	1711.3
Imports			
Soybean oil	17.2	20.8	8.5
Palm oil	487.2	611.0	507.5
Sunflower oil	7.6	9.7	17.6
Soybean meal	381.6	469.9	512.2

Source: "SovEcon" Center.

In 2011 – first half of 2012 high world prices for vegetable oils prevented the plummeting of prices on the domestic market (due to large output) and ensured a good margin. But by the end of 2012 prices for soybean and sunflower oils on the European markets switched to falling. So, foreign markets were too sluggish to stimulate a dynamic export outflow of vegetable oils from the domestic market. In these conditions the saturation of the latter by the end of 2012 started to increase.

The domestic market of oilseeds faces a permanent price confrontation between processors and farm producers. In 2011/2012 MY the margin received by sunflower processing industry grew owing to the low cost of raw input. But beginning from August 2012 prices for sunflower seeds were rising while prices for sunflower oil remained constant. As a result the margin received by sunflower processors reduced and fell below the indicators of previous years.

Market of Meat

According to preliminary data the output of meat in 2012 demonstrated positive dynamics. The total production of slaughter livestock and poultry in all types of farms reached 11.6m tons (live weight) which is 6.1% above the respective previous year indicator. The biggest increase is observed in the production of poultry – up 12.0%, pigs – up 3.5% and cattle – up 1.3% (Table 42). Meantime imports of meat to the country (except those of poultry meat) have somewhat shrank (Table 43).

Table 42

**Production of Slaughter Livestock and Poultry in Farms of All Types,
1,000 tons live weight**

	2005	2006	2007	2008	2009	2010	2011	2012	2012 as % of 2011
Cattle	3 204.7	3 055.0	3 020.0	3 114.6	3 070.3	3 053.1	2 888.1	2925.9	101.3
Poultry	1 970.0	2 267.1	2 650.1	3 022.3	3 475.2	3 866.4	4 325.3	4842.3	112.0

Source: Rosstat.

The growth in pig breeding is conditioned by the continuing full-scale modernization and restoration of the sector under government support. Over the period from 2006 to 2012 more than Rb 8bn were invested in the sector, about 750 pig-raising facilities were put in operation and reconstructed (according to data of the National union of pig breeders). As a result the increase of pork output (slaughter weight) over these years amounted to 58%.

Table 43

Imports of Meat to Russia, 1,000 tons

	2008	2009	2010	2011	2012	2012 as % of 2011
Poultry meat, fresh-frozen	1 223.9	985.8	688.1	493.0	527.5	107.0
Meat, fresh-frozen	1 710.8	1 437.7	1 441.8	1 428.8	1399.2	97.9

Source: Rosstat, RF Federal Customs Service.

The profitability of highly efficient pig-raising farms reaches 25%, they produce almost one half of the total pork output in the country (Table 44).

Table 44

Profitability of Pig-Raising Farms in Russia

Types of farms by level of efficiency	Average profitability		Share of farms of the type in the total output
	Excluding investment component	Including investment component	
Highly efficient farms	25%	3%	48%
Efficient farms	10%	3%	42%
Non-efficient farms	-4%	-4%	10%

Source: National union of pig breeders.

As different from domestic pig breeding, Russian poultry production has already gone through the active investment stage. Therefore, poultry breeders can afford working with minimal profitability that is due to high domestic competition. As a result the gap between prices for poultry meat and pork in Russia is bigger than in other countries: according to data of the National union of pig breeders the ratio between them in slaughter weight equals 0.5 while in China it averages 0.7, in the US and Brazil – 0.9, in the European Union – 1.1. By 2020 when the supply of domestic pork in Russia will grow owing to the completion of investment projects and the credit burden on domestic pig breeders will decline, the gap is expected to become comparable with that in other countries.

According to estimates of the National union of pig breeders the prospective structure of meat consumption in Russia is likely to change. By 2020 the share of pork will grow from the current 33% to 38%, the share of poultry meat – from 38% to 42%, the share of mutton – from 2% to 3%. Meantime, the percentage of beef in the total structure of meat consumption will fall from 26% to 17%.

Taking into account the announced investment projects in the sector and the level of customs and tariff restrictions effective in 2012, the production of pork might increase from 2.428m tons in 2011 (slaughter weight) to 3.923m tons in 2020 and become approximately equal to the projected level of pork consumption in the country – 4.070m tons¹. But due to the Russia's commitments to alleviate meat import restrictions upon accession to the WTO, the pig breeding sector may be the most affected. Larger pork imports and lower prices may result in the decline of pig producers' profitability down to 10-12%. If the worst scenario comes true, the output of pork in the country will drop to 2.207m tons and the share of imports in the total consumption may amount to 46%.

¹ According to estimates of the National union of pig breeders.

Changes in Priorities of Agricultural Policies in 2012 and for the Period of 2013–2020

State Program for Agricultural Development and Regulation of Agricultural, Input and Food Markets

In 2006 following the adoption of Law “On agricultural development” (FZ No. 264 of December 29, 2006) the procedure of allocating funds to the development of agrarian sector changed. From then on budget support to farm producers could be rendered only in case it had been envisaged in the State program for agricultural development and regulation of agricultural, input and food markets (henceforth the State program). This practice has its undeniable merits since all the operators of agricultural market now can – theoretically – plan their activities for a 5-year period knowing in advance the basic rules of the game: the targets of agricultural policies, clearly defined measures of state support and amounts of subsidies they can apply for.

The first State program for agricultural development in 2008-2012 was generally abided by albeit with notable adjustments due to the emergency conditions following the 2009-2010 drought. The next State program was elaborated and came into force beginning from 2013. The draft program for 2013-2020 that had been long discussed by key departments (partially due to the Russia’s accession to the WTO) was finally accepted on July 10, 2012.

The government presumes that the problems of agricultural development are as follows:

- Russia’s lagging behind developed countries of the world by the technical and technological level of agriculture due to the insufficiency of incomes received by farm producers for carrying out modernization as well as to the stagnation in building of machinery for farm production and food industry;
- limited access of farm producers to the market due to drawbacks in its infrastructure and the increasing monopolization of trade networks;
- slow rates of rural areas’ social development conditioning the deterioration of social and demographic situation therein, the outflow of able-bodied population especially of younger age and the shrinkage of rural settlement network.

Indeed, wages in agriculture are as low as 51% of the average wages in economy at large. Many rural areas are depopulating and degrading. Expenditures on food in the structure of households’ final consumption average 30% and in the poorest decile group – over 50%.

What are the basic differences of the new State program from the previous one?

First, the amount of financing has notably increased. While the State program for 2008-2012 envisaged allocation of Rb 551bn of budget funds to the development of domestic agri-food sector (i.e. on the average Rb 110.2bn per annum), the implementation of the State program for 2013-2020 will cost Rb 1509bn (Rb 188.7bn per annum). The structure of support by directions (sub-programs) changed and their number increased to 8 – up from 5 in the previous State program (*Fig. 47¹*).

The priority of agricultural policy goals has changed as well: while in the previous State program the development of rural areas ranked (or at least was declared to rank) first, now it

¹ Directions of financing under the State program for 2008-2012 were split up into blocks corresponding to the sub-programs envisaged in the draft of the new State program for 2013-2020 in order to facilitate comparisons; the sub-program for development of meat cattle breeding was included in the general expenditures on livestock production.

is next to last. At present the main declared goal is the ensuring of food supply in compliance with parameters set by the country's doctrine of food security. In terms of management the increase of the number of goals reduces the probability of their achievement.

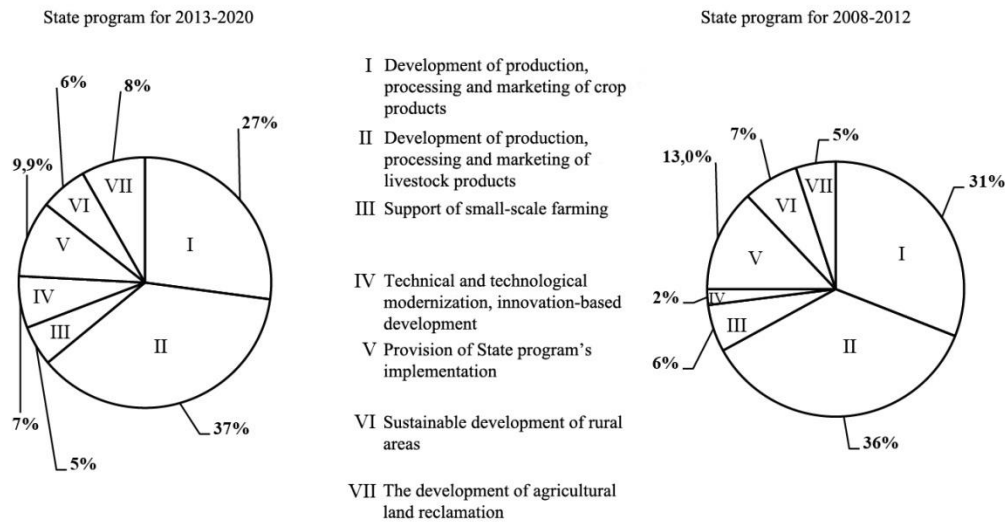


Fig. 47. Structure of Financing by Basic Directions of the State Program

The State program envisages complex development of all sectors, sub-sectors and agri-business activities taking into account Russia's accession to the WTO. Along with that two levels of priorities are distinguished – for the first time ever.

Priorities of the first level include:

- *in the production sphere* – cattle breeding (production of milk and meat) as a system-forming sub-sector using competitive advantages of the country, first of all the availability of extensive agricultural land areas;
- *in the economic sphere* – raising of farm producers' incomes;
- *in the social sphere* – sustainable development of rural areas as a necessary condition for preserving labour force, territorial integrity of the country and ensuring of economic and physical availability of foodstuffs for vulnerable strata of population according to the rational rates of consumption of selected food items;
- *in the sphere of developing production potential* – melioration of agricultural lands, employing of idle pasture and other categories of farmlands;
- *in the institutional sphere* – development of integration links in the agro-industrial complex and shaping of product sub-sectors and territorial clusters;
- *scientific and educational support* – as a vital condition for the forming of innovative agro-industrial complex.

Priorities of the second level include such elements as:

- development of import-substituting sub-sectors of agriculture including vegetable and fruit production;
- ecological safety of agricultural and food products;
- expansion of exports of agricultural, input and food products in line with saturation of domestic market;

- minimization of logistical costs and optimization of other factors that determine the competitiveness of domestic produce following Russia’s accession to the WTO, in particular rational location and specialization of agricultural production and food industry by country zones and regions.

Despite the declared goals, tasks and priorities, the actual priority of state policies is the increase of agricultural output (*Table 45*). According to estimates of the Ministry of agriculture, the implementation of new State program should ensure its average annual growth at the rate 2.5% and more. By 2020 basic indicators envisaged in the country’s doctrine of food security should be attained.

The core of the two basic support directions – the development of priority agricultural sub-sectors (in the new State program – sub-programs for the development of crop and livestock production) and the sustainable development of rural areas - was preserved. Measures for regulation of agricultural, input and food markets (the former State program envisaged only the carrying out of purchase and commodity interventions on the grain market), granting of subsidies for compensation of interest rate on received credits and loans and insurance of farm output were transferred into the corresponding sub-programs according to sector profile. On the contrary, melioration of farmlands, technical and technological modernization of agriculture and support of small-scale farming were detached as separate sub-programs.

A new feature is the emergence of tasks targeted at the development of market infrastructure, the ensuring of efficient work of state government bodies administering agricultural development and the development of biotechnologies. More attention – evidently following the accession to WTO – is focused on tasks related to ecology, security and quarantine, preservation and improvement of farmlands’ quality.

Table 45

Provisions for Financing of the State Program in 2013–2020

Sub-program	Billion rubles
Development of crop production, processing and marketing sub-sector	466.5
Development of livestock production, processing and marketing sub-sector	499.3
Development of meat cattle breeding	65.4
Support of small-scale farming	83.6
Technical and technological modernization, innovation-based development	23.7
Provision of the State program’s implementation	202.5
Social development of rural areas till 2013 (federal target program)	9.0
Sustainable development of rural areas in 2014-2017 and for the period till 2020 ¹ (federal target program - draft)	90.4
Preservation and restoration of soil fertility of farmlands and of agricultural landscapes as a national endowment of Russia in 2006-2010 and for the period till 2013 (federal target program)	7.4
Development of melioration of Russia’s farmlands in 2014–2020 ² (federal target program - draft)	62.0

The emergence of sub-program “**Development of meat cattle breeding**” emphasizes new priorities of agricultural policies – the drop of beef production during the reform years was most dramatic and thus the restoration of cattle population became one of the main targets of the State program. Accordingly, new investment credits will be subsidized only for meat cattle producers while subsidizing of those for construction, reconstruction and modernization of

¹ The financing provisions will be adjusted after the adoption of federal target program (draft) “Sustainable development of rural areas in 2014-2017 and for the period till 2020”.

² The financing provisions will be adjusted after the adoption of federal target program (draft) “Development of melioration of Russia’s farmlands in 2014–2020”.

poultry and pig breeding facilities will discontinue beginning from January 1, 2015 and January 1, 2017, respectively.

Sub-programs for the development of crop and livestock production are designed according to a scheme including four blocks of basic measures: production of farm output of corresponding types; its processing; development of infrastructure and regulation of markets; crediting and insurance.

The Minister of agriculture Nickolay Fyodorov stressed that the government “gradually moves away from the former forms of direct subsidizing to the support of farm producers’ rates of return”¹. Indeed, 207 out of Rb 467bn of state support will be allocated for subsidies to budgets of regions-subjects of the Russian Federation for granting non-bound support to crop producers. However, non-bound measures have so far been envisaged only for crop production and it’s not yet quite clear how will this support be provided.

The measure “Creation of logistical centers” in the form of “wholesale distribution centers for marketing of output” is specified rather vaguely and the declaration of “forming of market price and excluding of numerous middlemen in the chain from farm producers to consumers” as one of the targets of agricultural policies seems to be no more than a pretentious declamation. It’s not clear who will actually receive these subsidies. Among other beneficiaries the State program names farm producers who by the profile of their operation will hardly engage in the construction of either logistical centers or ports for exporting Russia’s agricultural output.

The sub-program “Support of small-scale farming” implies the continuation and extension of government efforts in the following fields:

- development of small-scale entrepreneurship in rural areas including support of beginner farms;
- development of family livestock farms on the basis of peasant (individual private) farms;
- subsidizing of interest rate on received credits;
- assistance to peasant (individual private) farms in registering titles to land plots.

The latter measure leaves perplexed: first, why only peasant farms are eligible for subsidizing of land registration? Second, the area of lands the registration of which one supposes to subsidize is only 960,000 hectares, or less than 0.5% of the total farmland area in Russia, i.e. it won’t have any effect except for being a bonus for a small number of farmers. Third and most important, the problem of registering titles to land plots is not a financial one - it’s rather a problem of corruption of registering officials at the district level and poor involvement of available remote sensing data obtained at the cost of budget funds in the process of cadastral recording of earlier formed land plots. The development of land market in agriculture can be fostered primarily by the simplification of rules of registering new or certification of earlier obtained titles to agricultural land plots as well as by making the procedure of demarcating boundaries of land plots less expensive.

Regrettably, the measures for supporting the system of agricultural cooperation found no understanding in the RF Ministry for Economic Development. Meantime, such measures as granting of long-term budget loans for the replenishment of rural credit cooperatives’ working capital could help to tackle the problem of providing access to credits for small rural entrepreneurs that still produce one half of agricultural output in the country.

¹ Rossijskaya gazeta No. 160, July 16, 2012.

Till 2013 the sub-program “**Sustainable development of rural areas**” will be administered via the federal target program (FTP) “Social development of rural communities till 2013” and afterwards – via the FTP “Sustainable development of rural areas in 2014-2017 and in the period till 2020”. Measures under the sub-program are divided in the following groups:

- provision of housing for rural residents;
- education;
- health care;
- culture;
- trade and consumer services;
- information and consultation services for rural residents;
- electrification;
- gasification;
- water supply;
- telecommunication;
- complex compact housing development;
- road construction.

The program does not specify what exactly will be financed and on what terms. The previous program defined the measures more clearly:

- encouragement of non-agricultural activities in rural areas;
- amelioration of housing conditions for people living in rural areas including young families and young specialists;
- development of social and engineering infrastructure in rural areas;
- support of complex compact housing development and improvement of living environment in rural settlements in the framework of pilot projects;
- grant support of rural communities’ initiatives on the amelioration of living conditions.

However, their financing was cut due to the 2010 drought and the implementation of other priority support measures.

The proportion between amounts of funds allocated to financial support of two sub-programs – “Technical and technological modernization, innovation-based development” (1.8%) and “Provision of State program’s implementation” (15.1% of the total projected expenditures under the State program less federal target programs “Social development of rural areas” and “Melioration”) – is astonishing. The almost 9-fold overbalance of allocations to the sub-program associated with functioning of federal government bodies gives rise to the suggestion that this way the latter, and first of all the RF Ministry of Agriculture, attempt to secure their financial “self-sufficiency”.

Along with that the number of reporting forms to be submitted to the RF Ministry of Agriculture increases year after year, they become more detailed and more frequent, sizable funds are allocated to the maintaining of this system. For instance, beginning from 2016 expenditures on the “Forming of state informational resources in the spheres of ensuring food security and administration of Russia’s agro-industrial complex” will exceed Rb 1bn per year. At the same time departmental information gets increasingly classified, first of all for scientific community. Starting from 2010 depersonalized data on farm producers became unavailable and starting from 2012 the access to consolidated reports by regions and for the Russian Federation at large was denied as well.

The general impression about the State program is that it was prepared in haste. Not in all cases one can observe a clear and logical inter-connection between targets, tasks and indicators of sub-programs, the measures under which often overlap and duplicate each other. The degree of elaborating details differs greatly by sub-programs and it's not always clear what this or that measure implies. For instance, it is mentioned in the sub-program for melioration of farmlands that the essentials of financing and the procedure of granting subsidies for application of mineral fertilizers will be specified in other sub-programs but we have failed to find them. The situation is similar with such a new support direction as the improvement of farm producers' rates of return. One can suggest that these will be such subsidies that will be granted to agricultural producers per hectare of arable land but it's not clear from the text of the State program.

One more bottleneck of the program that can be mentioned is the disregard of regional specifics of rural economies in regions-subjects of the Russian Federation. In 30% of them corporate agriculture with large agro-firms and agro-holdings is the prevailing form of farming. In approximately the same number of regions family farming is the primarily developed pattern and in 40% of them the structure is mixed¹. However, a unified set of measures is envisaged in the text of the new State program. For instance, most types of subsidies are fit only for regions with intensive agriculture and favourable social conditions for the development of rural areas. Meantime in regions with unfavourable conditions for farming producers have no chances to get subsidies for reimbursement of interest rates on investment credits due to low profitability of their production. A special program of social development measures needs to be elaborated for disadvantaged regions suffering from depopulation and for poorly developed areas with adverse natural conditions. In such regions the amount of subsidies actually granted for the development of agriculture is traditionally below the projected sums, budget funds remain under-used.

It has to be admitted that some measures envisaged in the new State program are the most distorting for the market. The spiral of paying subsidies for the compensation of expenditures on servicing long-term bank credits is still progressing. One can avoid this in case the policies of providing state support are revised: subsidies for the purchase of machinery and equipment should be granted directly to producers² instead of subsidizing interest rate; funds should be invested in the support of science, education, the system of information and consulting, construction of roads and other forms of improving rural infrastructure, development of agricultural cooperation; subsidies should be granted on a per-hectare or per-head basis instead of supporting selected products and inputs.

The following hazards associated with accession to the WTO were identified when elaborating the State program for the period till 2020:

- lowering of investment prospects and profitability of enterprises;
- failure to achieve target indicators of the food security doctrine;
- bankruptcy of small and medium-sized enterprises due to their low competitiveness;
- diminishing of job opportunities, lowering of incomes and living standards in rural areas.

¹ See Uzun V.Ya., Saraykin V.A., Gataulina E.A. *Klassifikatsiya sel'skokhozyaystvennykh proizvoditeley na osnove dannykh Vserossiyskoy Sel'skokhozyaystvennoy Perepisi 2006 goda*. [Classification of farm producers on the basis of data of All-Russian Agricultural Census of 2006.] Moscow, VIAPI named after A.A. Nikonov, 2010, p. 229.

² Without binding these purchases to the production of a selected product.

The RF Ministry of Agriculture has worked out and adopted an intra-departmental plan of measures for the implementation of Plan of actions of the Government of the Russian Federation targeted at the adaptation of selected sectors of agricultural economy to the terms of RF membership in the WTO.

A “roadmap” for customs tariff and non-tariff regulation of agricultural import following Russia’s accession to the WTO has been adopted. It was elaborated by the structural departments of the Ministry in collaboration with producer associations and integrates the basic directions of support to farm sub-sectors facing hazards due to the accession to WTO.

The national standard for and the system of assessing the quality of cattle meat are being worked out.

The following measures are envisaged to overcome possible negative effects:

- extension of some tax concessions for agricultural producers including profit tax concessions till 2020; exemption of farm producers from the obligation to pay VAT when importing pedigree livestock, embryos and semen till 2020;
- adoption of federal law “On veterinary” aimed to improve the legal regulation in this field and to harmonize domestic legislation with requirements of international organizations;
- preparation of the list of agricultural and food products the purchase of which for state and municipal needs is forbidden in countries other than countries of the Common Economic Space;
- tightening of customs regulation of agricultural products’ import (especially that of beef) by the Federal Customs Service;
- introduction of amendments to Law “On agriculture” in order to specify criteria of regions with unfavourable conditions for farming. The support of such regions will be regarded as a “green box” measure and accordingly payments to farm producers won’t be subject to restrictions;
- encouragement of demand for agricultural and food products through food aid to low income population strata, supported nutrition of selected social groups (e.g. school meal), reforming of the system of food purchases for state needs (e.g. purchase of domestic food products by the Ministry of Defense, purchases for food reserve, etc.).

The new State program also specifies the mechanism of co-financing of its measures by regions-subjects of the Russian Federation. It implies that in case regional budgets do not provide funds for financing measures under the State program, federal funds won’t be used for these purposes as well. The reasoning is clear: an incentive is being created for regions to support agriculture. But the challenges of such reasoning are also high. The first of them has already been mentioned: the set of measures envisaged in the State program is universal and aimed primarily at the support of production. This universal set disregards regional specifics. As a result, depopulated areas with spotty agriculture that require an approach emphasizing development of rural areas, will be supposed to implement a universal package of measures aimed at the development of farm production unless they have their own funds for carrying out special programs. Second, in case regional budgets do not have enough money or regional authorities do not find it proper to accept federal ideology of support, federal funds won’t be used for the envisaged directions either. Third, the division of responsibilities between the Federation and its subjects is such that the function of supporting agriculture is assigned to the latter. The channeling of financing through regional budgets implies the transfer of funds from the federal budget which reduces the transparency of support and complicates the esti-

mation of its total amount. Fourth, the division of responsibilities complicates control over amber box measures¹. Russia has assumed obligation to diminish them but separate regions can – within capacities of their own budgets – finance any efforts outside the State program including those that the Russian Federation should cut in compliance with its international commitments.

State Policies Regarding Farmlands

At present there are no grounds to believe that any policy regarding farmlands exists in the country if under this term one understands a voiced public concern over such lands the responding to which is the goal of the respective policy; there are no formulated tasks and implementation mechanisms either. The failure to voice public concern disorients not only various departments engaged in the organization of land transfer but also the society at large. Measures influencing the transfer of farmlands are often contradictory and their implementation implies high transaction costs and conflicts. For lack of goal there simultaneously exist institutional backgrounds for concentration of farmlands in property of a single owner, on the one hand, and hardly efficient but legislatively formalized restrictions on concentration – on the other; the ban on ownership of land by foreign companies and the legal ways of circumventing this ban; the introduction of new register of land titles and the reluctance of state to automatically transfer there the information on previously granted land titles; problems with compiling the new register of land titles and extremely high costs to be born by title owners due to the technical requirements to documents and plot boundaries that are needed for registering; the inability of state to prepare state-owned lands for purchase or lease and the setting of tight time limits for such purchase or lease to be effected by tenants of state lands under the title of permanent (indefinite) use; the inability of state to reduce the cost of boundary demarcation, to organize the work of respective agencies, to impose legal restrictions on transactions (e.g. mortgage) with plots the titles to which are not inserted in the new registers of titles (the procedure being usually conditioned by boundary demarcation); declared inadmissibility of wasting farmlands and their haphazard withdrawal for real estate development regardless of the quality of lands. This list of contradictory interests and actions can be continued.

In 1992 a special body – the Committee on Land Reform and Land Resources under the RF Government (Roskomzem) – was established whose functions included the state administration of land use, the carrying out of land policies and the implementation of land reform in the Russian Federation. This body was working out the strategy and tactics of land reforms taking into account the needs of all sectors. After 1992 it was repeatedly restructured, changed departmental subordination, some of its functions were detached. Beginning from 2004 there is no agency in the country whose statute reads that it is in charge of land resources. Having come a full circle of transformations – from a single body concentrating functions of land policy making and implementation along with administration of land resources to a set of agencies assigned with specific technical functions and then back to a single body – Rosreestr (2009) – the system has lost strategic functions and retained only a mixture of technical ones. The performing of merely technical functions without binding them to strategic goals cannot be successful. However, instead of leading to the re-establishment of a body in charge with

¹ According to the WTO terminology all types of support are divided into three “boxes” depending on the degree of consequent market distortion: the green box (non-distorting), the amber box (the most distorting) and the blue box (an intermediate one).

land resources, this discontent resulted in nothing more than the dismissal of Rostrestr's head (September 2012). Meantime, without a strategy for the management of land resources it's impossible even to work out the form of the register since it's not clear what information it should include taking into account the emerging new challenges.

Due to the unsatisfactory state of affairs in the organization of land transfer¹ in agriculture, in 2008 the RF Ministry of Agriculture managed to secure the transfer under its jurisdiction of the functions of land policy making and implementation as well as of legal regulation of land relations in the part pertaining to lands of agricultural destination. However, the transfer to a branch department of the functions concerning resource that can be used for different purposes hinders its management for the benefit of various groups of stakeholders and agencies. Besides, the branch department is short of personnel capable to elaborate the management strategy and does not have the proper physical and information basis for carrying out these functions.

At present two trends in respect of farmlands have taken shape. The first of them is lobbied by the RF Ministry of Agriculture. It envisages the tightening of measures aimed at the preservation of farmlands' quality and their use for agricultural production. Two Government Resolutions in execution of Federal Law No. 101-FZ of July 24, 2002 "On the transfer of lands of agricultural destination" were adopted:

- RF Government Resolution No. 612 of July 22, 2011 "On the adoption of criteria of critical diminishing of soil fertility of lands of agricultural destination";
- RF Government Resolution No. 369 of April 23, 2012 "On indications of land plots' non-use taking into account specifics of farm production or other related activities in the subjects of Russian Federation".

Besides, the State program for agricultural development envisages the financing of works for monitoring the condition of lands of agricultural destination. However, the implementation of the first Resolution requires regular large-scale examinations of agro-chemical quality of soils while the funds envisaged for that in the State program are very scarce. For instance, only Rb 61.8m were spent for this purpose in 2011 and the projected federal budget allocations for 2012 are as small as Rb 65m. Meantime, only examination of arable lands used by corporate farms and individual private (peasant) farms requires at least Rb 8bn². It implies that the Ministry's determination is rather a declaration than a real intention.

On the grounds of revealed indications of land non-use (as listed in the second Resolution) one plans to initiate judiciary withdrawal of idle farmlands. In theory this could improve the mobility of land resources. But these indications are so poorly defined that in case a negligent land user has a lawyer it will be very difficult to withdraw his land. The implementation mechanism has a built-in corruption component enabling a bureaucrat to take any decision due to the vagueness of indications. For instance, the Resolution specifies that one of the indications is that "no livestock is grazed on the pastures"³. It's not clear to what conclusion an inspector should come if there is a single goat on a pasture measuring dozens of hectares: does the grazing take place or not? Besides, federal legislation has left no maneuver for regional authorities: they should withdraw non-used lands even in case there is no demand for

¹ In foreign literature another term is used – land market.

² Calculations are based on the costs of examining arable land in selected pilot farms and the total area of arable land in corporate and individual private farms.

³ RF Government Resolution No. 369 of April 23, 2012 "On indications of land plots' non-use taking into account specifics of farm production or other related activities in the subjects of Russian Federation".

them from other farm producers. This can result in mass withdrawal of farmlands in territories where their use is still inefficient and the growth of land areas in state ownership. If the non-use is caused by economic factors, the withdrawal of land can't help to reduce the share of idle lands.

Rural families could parcel out plots equivalent to their land shares in large land areas privatized in the course of restructuring collective and state farms for which there is no demand from corporate and individual private farms. However, taken together the amendments made in 2010 to Federal Law "On transfer of lands of agricultural destination", the inability of state to curb prices on works for boundary demarcation, the requirements to normative documents to be submitted when forming a plot make the process very time- and money-consuming. For instance, after the enactment of 2010 amendments the process of parceling out plots in exchange for one land share has actually halted since an owner of such a share has to certify the demarcation layout of not only his plot (usually averaging 4-7 hectares) but also that of the remaining plot with area ranging from hundreds to thousands of hectares. Before the introduction of these amendments each owner could order works for the forming of only his own plot and parcel it out with far less efforts. Due to all these problems in 2009-2010 the RF Ministry of Agriculture started the work on improving land legislation. But in line with the pattern that has become traditional, the introduction of amendments initiated by the RF Ministry of Economic Development and deputies from the Duma's committees on construction and land relations only increased the costs of parceling out plots for rural families instead of making the procedure easier. In the situation when rural residents cannot form their own plots, it does not seem to be fair to qualify lands as non-used and to withdraw them.

At the same time farmlands face growing pressure from developers. The latter have financial capabilities to create formal and informal mechanisms for involving agricultural lands in real estate development irrespective of their value as a non-replenishable natural resource¹. The examination of legislative acts shows that in recent years the state attempted to regularize the haphazard withdrawal of land. For instance, by January 1, 2013 the rules of land use and construction in all settlements and city districts should have been adopted. Otherwise, the ban on allotment of land plots for construction from state or municipally owned lands as well as on the issue of permissions for construction or changing of land plots' allowed use category should have come into force. But due to the lack of money and – obviously – of the willingness of officials to regularize the use of land for real estate development such work has not been done in most settlements. Besides, developers need new plots for "dachas" outside residential settlements. In Russia, it's customary to create garden and dacha communities – recreation villages for rural residents – on agricultural lands. Only a resolution of local authorities is needed for that. There is no transparent procedure protecting these valuable lands. The practice is highly corruptive.

In June 2012 a draft of the new law "On introducing amendments in the Land Code of the Russian Federation and selected legislative acts of the Russian Federation pertaining to the abolition of land categories and annulling of Federal Law "On transfer of lands or land plots from one category to another"" was introduced to the RF State Duma. According to this draft the currently existing – albeit not very reliable but still protective – mechanisms of managing farmlands are lifted. Taking into account the great lobbying potential of developers the law is

¹ Shagayda N.I. *Zashchita zemel' ot iz'yatiya iz sfery sel'skokhozyaystvennogo proizvodstva*. [Protection of lands against withdrawal from agricultural production.] EKO. - 2008. – No. 5 (407). - Pp. 139-147.

very likely to be passed. It predetermines high mobility of agricultural land plots (that will be transferred to developers rather than farm producers) in densely populated areas and their loss for agricultural production. In case the law is adopted – at present it's being discussed – there will emerge additional demand for farmlands from developers, prices will grow and respective plots will become unavailable for agricultural producers.

Besides, conflicts are currently aggravating in connection with the withdrawal of land for real estate development by the Foundation for Development of Housing Construction¹. The Foundation was created in 2008 in compliance with the President's decision in order to facilitate transfer of federally owned lands that were not used at all or were used for purposes other than their envisaged destination with the aim to encourage construction of residential dwellings and respective infrastructure². That is, the rationale behind creation of the Foundation was the transfer of non-used lands thereto. However, these provisions – i.e. the withdrawal of non-used or misused lands – have not been enshrined in law. Article 15 of Federal Law No. 161-FZ of July 24, 2008 “On facilitation of housing construction” reads that “in case federally-owned land plots are granted to entities on the title of permanent (indefinite) use, this title is terminated without consent of these entities and regardless of the grounds envisaged in Paragraph 2 of Article 45 of the Land Code of the Russian Federation”. Article 45 of the Land Code envisages termination of title to permanent (indefinite) land use in two cases: first, different types of violations (littering, non-use, etc.); second, necessity to use the plot for state needs in case of natural and other calamities for some time or forever. Meantime, the provision of Federal Law “On facilitation of housing construction” introduces a broader list of grounds and allows to terminate the title to land without consent of a bona fide user regardless of the fact that the plot is not littered and is rationally used. In fact, the withdrawal of plots and non-replenishable loss of farmlands could be acceptable in some cases, for instance, when a city needs extension of its area. But in this case one mustn't use a punitive mechanism in respect of properly used farmlands; rather, the mechanism of land withdrawal for state and municipal needs should be applied with granting of compensation or an equivalent plot. At present the legislation regulates neither this question nor the question of compensating corporate farms' losses due to the need to purchase additional feeds (that they fail to produce because of the withdrawal of land) and their expenditures associated with non-completed production cycle on this land. Besides, in practice farmlands are by no means always withdrawn for the purposes of facilitating housing construction³.

Beginning from 2011 one of the directions of state support to agriculture is associated with farmlands: the partial subsidizing of expenditures of individual private (peasant) farms (including individual entrepreneurs) on registering of titles to farmland plots used by them. In 2012 the financing of this measure continued. However, the subsidy terms do not contain any limitations as to the amount to be granted per one farm or per hectare. Given budget constraints the result will be the use of these subsidies by only a limited number of farmers having close ties with decision-taking officials as well as the over-pricing of works by cadastral engineers.

¹ <http://www.permoboz.ru/txt.php?n=9591>

² <http://www.socpolitika.ru/rus/news/document8062.shtml>

³ http://www.fondrgs.ru/press/news_detail.php?ID=16949

Assessment of Outcomes of Russia's Accession to the WTO

Accession to the WTO will require a considerable amendment of Russia's agricultural policies. The meeting of basic WTO requirements will result in the diminishing of import duties and respective budget revenues and in smaller transfers from consumers to producers.

In 2008-2010 the aggregate support to Russian agriculture amounted to Rb 621.8bn including Rb 481.8bn received from consumers of agricultural products and Rb 140bn allocated from the budget (Rb 328.4bn of budget expenditures minus Rb 188.5bn of budget revenues owing to the support measures).

The main direction of Russian agricultural policies' adjustment following the accession to WTO should be the revision of sources of farm support: the reduction of consumer transfers and the growth of allotments from the budget.

Assuming that the amounts of support to domestic agriculture after the accession to WTO remain the same and the country approaches the EU by the structure of sources of support, the allocations from the budget should be increased almost 3 fold (from Rb 140bn to Rb 497bn).

In order to preserve the existing level of support to farm producers (that before joining the WTO was primarily provided at the expense of consumers of farm products), its financing from the budget should grow by approximately \$12bn. Without such increment domestic producers will find themselves in unequal competitive conditions and can lose their positions on foreign and home markets. Meantime, it's impossible to increase support by means of amber box measures that are traditionally used in Russia since according to the WTO accession terms they should not exceed \$4.4bn. State support is to be provided primarily through green and blue box measures that do not distort the market or distort it to a lesser extent. A mere changing of measures won't help to achieve the desired results. It's obvious that an assessment should be made as to the efficiency of amber box measures, their adjustment to the WTO requirements or substitution by green box measures.

Further follows the assessment of outcomes of Russia's accession to the WTO for selected sectors of agriculture.

1. Pig breeding. In 2010 the domestic purchase price per 1 kg of pork amounted to Rb 107.9 while the respective import price was as low as Rb 62.8, the output of pork totaled 1.993m tons while its consumption – 3.249m tons. Given these prices and volumes, consumer transfers to producers amounted to Rb 89.9bn. Besides, consumer transfers to the state and other agencies owing to imports equaled Rb 56.6bn.

In case the ratio between domestic and world prices – nominal protection rate – falls down to 1 (which is the case in the US and the EU), this will result in the drop of domestic purchase price, the cut of production down to 1.2m tons, the increase of consumption up to 3.7m tons and the expansion of imports from 1.3 to 2.5m tons.

In order to preserve production at the achieved level additional Rb 89.9bn should be allotted to pig breeders from the budget (the compensation for non-received consumer transfers). For output to reach the existing consumption level, allocations from the budget should amount to Rb 146.5bn and complete import substitution is attainable in case of Rb 167.6bn budget spending.

The estimated amounts are well above the total budget provisions for pig producers under the previous and the new State program and even exceed the maximum support to agriculture by means of amber box measures to be achieved by 2018 (as set by Russia's agreement with the WTO). Other measures considered to belong to green box should be elaborated. Besides, it's necessary to modernize the sector, to cut costs and to improve competitiveness of domes-

tic producers on the foreign and home markets without sizable transfers from the budget and consumers.

2. Milk cattle breeding. In compliance with WTO requirements the rate of milk producers' nominal protection will be gradually reducing and the transfers from milk consumers to milk producers will be diminishing as well. In 2010 they amounted to Rb 94.8bn (with output totaling 31.9m tons and the difference between purchase and import prices being Rb 2.9 per kg). The revenues received by the budget and other organizations owing to consumer transfers per 7.9m tons of imported products will drop by Rb 23.5bn.

In case domestic purchase prices reduce from Rb 12.3 to Rb 9.4 per 1 kg of milk, its production in the country may fall down to 24.2m tons while consumption may rise up to 42.3m tons. To satisfy such demand imports need to be increased up to 18.1m tons implying that their share will grow from 24.8% to 43%.

In order to fulfill the doctrine of food security and meet not less than 90% of demand for milk by domestic production, the latter should amount to 38m tons. It's necessary to allocate Rb 113bn from the budget for compensation of consumer transfers that won't be received by milk producers. It's quite obvious that such a sum cannot be paid under amber box measures. To support milk producers one needs to design measures complying with the requirements of green box, on the one hand, and to work out tools for the reduction of costs and improvement of domestic producers' competitiveness – on the other.

3. Production of beef. The doctrine of food security sets the task to achieve 85% level of self-sufficiency in meat. Its fulfillment is most complicated for beef production. In 2010 about 50% of beef was imported. Crisis in the sector has not been overcome and cattle population continues falling. If following accession to the WTO domestic purchase price (Rb 122.6 per kg) falls down to the level of import price (Rb 100.8 per kg), production will decline even more while consumption will grow and imports will exceed home production almost 1.5 fold.

The 85% level of self-sufficiency will be attained in case domestic production is as large as 2.318m tons. Beef producers should receive Rb 50.7bn from the budget to compensate missing transfers from consumers. However, the problems of meat cattle breeding cannot be solved exclusively by channeling budget funds to the non-competitive sector. Its modernization is required. Meantime, the type of modernization that was used in poultry and pig breeding, i.e. large-scale production concentration is not acceptable for cattle meat breeding. To develop the sector one should start with creating 150,000—200,000 individual private farms that will keep 15-20m meat cows and raise calves up to the weight of 120-200 kg. Basing on this ground echelon it will be possible to develop large-scale businesses – feedlots for fattening cattle, meat processing plants, trade networks.

To launch such a scheme of sector development, one needs respective policies, incentives on the part of government and organizational efforts on the part of large business, the latter's investments not only in feedlots and meat processing but also in contracting farmers engaged in raising of feeder livestock.

4. Broiler poultry production. In the recent decade broiler production has been the most speedily growing sub-sector of agriculture with an annual increment of 10-15%. In the coming 2-3 years Russia can fully satisfy domestic demand for poultry meat and proceed to the exporting of this item. The accession to WTO and the expected lowering of producer protection rate can result in the slowing down of this growth and even in the reduction of output. In 2010 the domestic purchase price amounted to Rb 74.3 per kg of poultry meat while the respective import price equaled Rb 43.6. In case domestic prices drop, the output will fall from

2.7 to 1.6m tons and the consumption will grow from 3.3 to 3.8m tons with imports increasing from 0.6 to 2.2m tons. In order to preserve the achieved level of production Rb 84.3bn need to be transferred from the budget. To secure the achieved rate of satisfying domestic consumption by domestic output Rb 102.3bn need to be allocated and complete import substitution is attainable in case of allocating Rb 117bn.

Such large funds cannot be allotted through amber box measures. Therefore, one needs to elaborate measures complying with green box requirements. Besides, it's necessary to modernize the sub-sector and to switch to production patterns customary for developed countries, i.e. based on collaboration of large companies with smaller broiler farms. Thanks to this collaboration large companies benefit from lower expenditures on investments, electricity, water, protection of environment, resources and output, while farmers receive higher incomes owing to concentration of production, up-to-date technologies, guaranteed marketing, repulsion of encroachments on property and incomes by bandits, raiders, bureaucrats, etc.

5. Production of grain and sunflower seeds. The accession to WTO is likely to produce quite an opposite effect on producers of grain and sunflower seeds. As different from the above examined livestock sectors that will require sizable budget allotments just to preserve the attained levels, membership in the WTO will stimulate domestic production and export of grain and sunflower seeds. Producer transfers to consumers will decrease but this reduction won't affect consumption seriously as the demand for bread, bakery products and vegetable oils is non-elastic.

The accession to WTO and the consequent growth of wheat producers' nominal protection rate up to 1 is expected to have the following effects (estimations based on annual averages for 2008-2010): growth of domestic purchase prices up to the level of export ones (from Rb 4.43 per kg to Rb 4.91 per kg), additional producer revenues amounting to Rb 30bn, increase of output (from 55.7 to 62.3m tons) and exports (from 14.7 to 22.3m tons).

Recommendations for Economic Policies

Russia's accession to the WTO necessitates adjustment of domestic agricultural policies to new requirements. The main directions of cardinal revising of the country's farm support policies following this accession are:

- reduction of consumer transfers to producers and to the budget due to the lowering of import customs duties;
- sizable increase of budget support in order to compensate non-received consumer transfers to producers;
- improvement of support structure: reduction of the share of direct support to producers and the growth of expenditures on general support measures;
- revision of support mechanisms: reduction of product-specific subsidies depending on the volume of production of specific products and distorting the market; reduction of input-specific subsidies depending on the volumes of specific inputs' use and also distorting the market; the increasing of subsidies that do not distort the market and belong to green box measures according to the WTO classification;
- ensuring of producers' competitiveness on domestic and foreign markets of all basic farm products primarily by means of modernization and creation of favourable conditions for business. Russia's accession to the WTO implies its consent to the functioning of the whole economy and agriculture in particular in the competitive environment.

State policies should pay more regard to specific conditions of each region: for instance, envisage wider support to rural development instead of prioritizing support to farm production in areas showing signs of its degradation.

In the part pertaining to the improvement of farmland policies it seems rational to develop the concept of state policy envisaging the need to elaborate tools for protecting land use and property rights of bona fide farm producers; to monitor the re-distribution of lands; to curb concentration of farmlands in property of selected individuals; to classify lands with determining plots of valuable land the involvement of which in real estate development should be limited; to estimate the costs of land transfer and to change procedures entailing high expenditures; to make the spontaneous process of involving farmlands in real estate development more controllable through the adoption of plans for territories' development and agricultural zoning, including the sale of development permits at auctions; to allocate funds to the preparation of state-owned plots for lease or sale; to elaborate standard rules of agricultural zoning with establishing requirements to the density of construction, types of buildings and use of plots; to work out mechanisms of preparing plots for and their transfer to long-term lease by foreign residents while securing the priority of Russian residents and entities in getting titles to these plots; to switch from the procedures of state control over the use of farmland plots to the control by physical and legal bodies interested in the acquiring of non-used plots; to introduce mechanisms forcing owners to use or lease out idle farmland plots; to prioritize the preservation of open spaces on non-used farmlands in order to enable their quick involvement in agricultural production if necessary, etc.

Russia's accession to the WTO necessitates adjustment of domestic farm support measures to the requirements of this organization. Russia traditionally applies measures that are classified as amber box. Adoption of the new State program for the period till 2020 (i.e. to be implemented in compliance with WTO rules) requires estimation of efficiency of amber box measures used under the previous State program that ended in 2012. Before 2009 the collection of initial information from farm producers was assigned to Rosstat and this information was available for calculations and assessment of support measures by independent scientific community. Beginning from 2009 the function of gathering information was transferred from Rosstat to the RF Ministry of Agriculture that abruptly curbed access to this data. For instance, as of December 20, 2012 the information portal EMISS – Common Inter-Departmental Information and Statistical System – contained only 2 documents in the section “Ministry of Agriculture”: “daily output of milk” and “average daily milk yield”. In addition to the fact that local bodies in charge of agriculture each day are engaged in gathering such data from farms, districts and regions irrespective of its questionable usefulness for management of the sector, one can but say that this information is able to satisfy the requests of a very limited set of people. At the same time at present it's impossible to estimate the effect of support measures and to give sound recommendations as to their reduction or expansion basing on calculations. Due to that in order to improve the quality of recommendations it's reasonable to prepare and adopt a government resolution on the rules of getting access to information collected by the Ministry of Agriculture at the expense of Russian taxpayers.

Analysis of the system of state support to agriculture brings to the conclusion that although the principle of co-financing of support measures by the federal and regional authorities has a certain stimulating potential, it needs to be revised in respect to some programs. In order to attain the federal policy goals it's rational to elaborate measures for supporting farm production (including the ones classified as amber box) to be financed from the federal budget irre-

spective of the capabilities of regional budgets. Meantime it's reasonable to transfer to regions a part of federal funds allocated to the development of rural areas and belonging to green box measures on co-financing terms. This will require re-distribution of authorities between the Federation and regions since at present these are regions that are assigned with this function regardless of the fact that 50% of support of the kind is executed from the federal budget via inter-budgetary transfers. Two federal laws have to be amended in order to revise the distribution of authorities and the system of channeling budget funds. Since according to the WTO requirements the Russian Federation has to exercise control over expenditures on amber box measures, it's also advisable to work out the mechanisms of controlling such expenditures from the regional budgets. They can include regional quotas for such support established by the federal budget and the possibility to re-distribute them between regions bypassing the Federation – via purchase and sale of quotas between regions. This will also require amendments in the existing legislation as regards the distribution of authorities between the Federation and its subjects and the transfer of control functions to the Federation in case they are associated with the RF international commitments.

In order to preserve the dynamics of growth in some sectors of agriculture after the country's accession to the WTO, additional support should be rendered thereto. This support used to be provided by population that paid higher prices for commodities. The accession to WTO will allow cheaper import products to enter the Russian market and population will stop paying for higher costs of domestic producers due to various reasons. Given that a dramatic increase of budget support will be necessary to compensate funds earlier paid by population. The Russian budget is hardly ready for such an increase. For instance, only producers of pork will need additional Rb 89.9bn to be allocated from the budget (for compensation of non-received consumer transfers) in order to preserve the current level of aggregate support. To increase the output to the existing level of consumption the budget should spend additional Rb 146.5bn and to attain complete import substitution – Rb 167.6bn. These sums are well above the total annual budget expenditures on agriculture under the current and the new State program; they also exceed the maximum amount of funds for amber box measures by 2018 that is established by Russia's agreement with the WTO. One should elaborate other support measures belonging to the green box and to cut transaction costs of pork producers. Besides, the sector needs modernization and diminishing of production costs. Otherwise, it's impossible to secure competitiveness of domestic producers on the home and foreign markets.

In order to fulfill the doctrine of food security as regards milk, i.e. to cover not less 90% of consumption by domestic output, it's necessary to produce 38m tons of milk. Following the accession to WTO consumer transfers to producers (per this quantity of milk) will drop by approximately Rb 113bn. It's quite obvious, that such a sum cannot be paid from the budget. The support to milk producers will require the elaboration of support measures complying with the requirements of green box, on the one hand, and the creation of institutional framework for cutting of farm producers' costs, on the other. The latter goal can be achieved through such steps as, for instance, the lowering of costs charged for connection to utility networks; the transfer to paying for actually consumed electric power versus its preliminarily ordered quantities; the lowering of expenditures on registration of land titles; the encouragement of modernization; improvement of business security; execution of control over milk processors with the view to prevent preferential use of imported dry milk to the detriment of domestic producers of fresh milk, etc.

Following accession to the WTO consumer transfers to producers will drop (due to lower prices). In order to preserve the existing level of support, Rb 50.7bn should be allocated from the budget to producers of beef. However, the problems of meat cattle breeding cannot be solved exclusively by channeling budget funds to the non-competitive sector. Its modernization is required. Meantime, the type of modernization that was used in poultry and pig breeding, i.e. large-scale production concentration is not acceptable for cattle meat breeding. To develop the sector one should start with creating 150,000-200,000 individual private farms that will keep 15-20m meat cows and raise calves up to the weight of 120-200 kg. Basing on this ground echelon it will be possible to develop large-scale businesses – feedlots for fattening cattle, meat processing plants, trade networks.

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