NEW MEASURE OF STATE SUPPORT FOR IMPORT SUBSTITUTION IN RUSSIAN AGROINDUSTRIAL COMPLEX[1]

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The issue of using domestic over imported goods (import substitution) and adjusting accordingly the agricultural policy has become critical following the Russian food import ban on specified types of agricultural products, commodities and food products from the United States, the European Union, Canada, Australia and Norway, and due to deteriorated relations with Ukraine and Moldova. New sub-programs have been added to the State Program for Development of Agriculture and Regulation of Agricultural Commodity and Food Markets so that import substitution can be accelerated. However, none of the new sub-programs has happened to foster import substitution. In some cases (e.g., subsidies for purchases of pedigree seeds, raw materials), the effect has been quite the opposite of what was supposed to be. Funding has been cut almost for all sub-programs to the extent that it is incomprehensible that development of respective industries has been announced as a priority and how the targets can be achieved. The foregoing suggest that the Russian agricultural policy need to be adjusted and updated.

The issue of replacing imported with domestic products and adjusting accordingly the agricultural policy has become critical following the Russian food import ban on specified types of agricultural products, commodities (raw materials) and food products from the United States, the European Union, Canada, Australia and Norway, and due to deteriorated relations with Ukraine and Moldova. The biggest problems are still facing the production of milk, beef, vegetables and fruits, seeds. In 2014, the indicators set by The Food Security Doctrine for meat and meat products (the share of home-made products in the total volume of resources) were not achieved: actual results were 81.5%; 85% set by the Food Security Doctrine, milk and dairy products were respectively 78.3% and 90%[2]. The level of self-sufficiency according to the share of domestic production in the domestic consumption based on Rosstat (Russia's Federal State Statistics Service) balances of food resources in 2012–2013 was 91% for vegetables (whereas tomatoes and cucumbers were 40%), 33% for fruits (2013). Seed potatoes, onions, corn and peas (Russian Government Executive Order No. 830 dated 20 August 2014) were released from the embargo because of the problems faced by the domestic seed breeding industry.

Amendments to the Federal Agricultural Policy

New sub-programs have been added (under Russian Government Executive Order No. 1421 dated 19 December 2014) to the State Program for Development of Agriculture and Regulation of Agricultural Commodity and Food Markets in order to speed up import substitution of meat, milk, open-field and protected-culture vegetables, seed potatoes and fruit and berry products, and ensure that agricultural products are marketable and merchantable by creating storage and processing conditions, and enhance selection and breeding:

- Development of Open-field and Protected-culture Production of vegetables and Potato Seed Breeding Industry;
- Development of Milk Cattle Industry;
- Support of the Pedigree Breeding Industry, Seed Breeding Industry;
- Development of Wholesale Distribution Centers and Social Catering Infrastructure;
- Development of Credit & Financial System in the Agro-industrial Complex.

At the same time, the announced new sub-programs often include the old measures which were part of the State Program, but they were covered by other sections thereof. For instance, a new Sub-program for Development of Milk Cattle Industry is based on interest rate subsidies and a subsidy for 1 liter of sold milk, which previously were covered by the Sub-program for Development of Livestock sub-industry, Processing and Marketing of Livestock Products. Funding of the interest rate subsidies for wholesale distribution centers, selection & genetic centers and the interest rate subsidies for processing enterprises have also ceased to be part of the respective measures envisaged under Sub-programs for Development of Crop production and Livestock Sub-industries. The only positive effect of this instrument is that funds can be reserved exclu-

1 This article was written as part of the research for "Development of a method of analysis and evaluation of the state of the food security in Russia", which was performed at The Russian Presidential Academy of National Economy and Public Administration (RANEPA).

2 The National Progress Report 2014 on the State Program for Development of Agriculture and Regulation of Agricultural Commodity and Food Markets, 2013–2020.

sively for the specified target line items and traced through various forms of reporting. However, this may result in a lack of demand and freezing of funds, whilst there may be shortage of funds for other purposes, which will then be redistributed in the second half of a year, thus impairing effective usage of such funds (the Ministry of Agriculture tends to redistribute subsidies 2–3 times a year). The Sub-programs contain new measures too, although not many of them.

In 2015, both the budget of the State Program and the articles thereof were substantially adjusted against the envisaged State Program passport. For instance, according to the approved quarterly budget breakdown, additional Rb 28bn were allocated as of 1 May 2015, and federal budget funding of the State Program ran at Rb 216.4bn instead of Rb 187.86bn. However, the biggest portion of the funding was allocated neither to agricultural producers nor even for the purposes announced as a priority.

Sub-program for Development of Credit & Financial System in the Agro-industrial Complex

Rb 12bn of the additional Rb 28bn were allocated for the Sub-program for Development of Credit & Financial System in the Agro-industrial Complex: Russian Agricultural Bank received Rb 10bn to increase its capital and OAO Rosagroleasing (a joint-stock company) received Rb 2bn as a contribution to its charter capital. Initially, these measures were not scheduled for funding in 2015. However, while Rosagroleasing at least provides softer than commercial terms as part of federal leasing programs, Russian Agricultural Bank received Rb 10bn for ordinary credit operations with absolutely no commitment to introduce soft terms for agricultural producers. For instance, the target indicators of efficiency approved by the State Program for this Sub-program reflect the amount of issued special-purpose loans, remaining debt on loans, and the size of bank's charter capital. Russian Agricultural Bank interest rates were higher than those of Sberbank, another largest creditor in the agro-industrial complex. In March 2015, Sberbank offered 19.22% on seasonal farming short-term loans to agricultural enterprises, whereas Russian Agricultural Bank interest rates were 22–23%[1]. Furthermore, according to the data published by the Russian Ministry of Agriculture, Sberbank in the spring of 2015 issued more loans (up 37%) than in the previous year, whereas Russian Agricultural Bank showed a 19% decline in lending[2].

1 Russian Agriculture Minister Nikolai Fyodorov's speech at a conference call with the Russian Prime Minister in March 2015. Published on 25 March 2015 at 4:13 p.m.: http://www.mcx.ru/news/news/show/36306.314.htm

2 The Russian Ministry of Agriculture: agricultural producers have received 40% of total subsidies: http://www.mcx.ru/news/news/show/38448.355.htm

Moreover, agricultural producers may apply for loans not only to Russian Agricultural Bank but also any Russian credit institutions and consumer credit cooperatives. Despite that, the eligibility requirements for interest rate subsidies are equal for all, only a single bank received Rb 10bn of federal budget funding. The same is true for Rosagroleasing. There are other leasing companies which could, contingent upon extra federal budget funding, offer a soft-term federal leasing to agricultural enterprises and perhaps they could do it more efficiently, but they have no such a possibility for the time being. The new Sub-program is an illustration of that competition – the keystone of a market economy – is weakening. The embedment of the Sub-program for Development of Credit & Financial System in the Agro-industrial Complex into the State Program has made it legal to appropriate for a long term billions of public funds to these two entities until 2020 (this was done in previous years, but not on a regular basis).

Sub-program for Development of Wholesale distribution Centers and Social Catering Infrastructure

Federal budget funding of the measures which have recently been combined as part of the new sub-program has been tripled in 2015 from the originally envisaged Rb 2.4bn to Rb 7.4bn.

The principal instrument of support is through federal and regional subsidies (20% of federal budget funding and at least 5% of regional funding) for a portion of private investors' direct costs on the establishment of wholesale distribution centers (WSDC)[3]. The Sub-program aims to address the issue of agricultural producers selling and storing their products, including small farm households and even subsistence farms. A requirement is planned for introduction, under which WSDCs must be equipped with storage facilities for vegetables and potatoes. Neither farm households nor agricultural entities can afford building such facilities: the foregoing Sub-program provides for a target indicator of commissioning in 2015–2020 new one-time storage facilities at WSDCs with a capacity of 4716 thousand tons (including 750,900 tons in 2015). WSDCs are expected to be the place from which products will be delivered/supplied under state and municipal contracts, including the social catering system (the approved target indicator – the share of WSDCs – for the State Program is 20% of a state and municipal contract), as well as to retail networks and for export.

These plans are very ambitious indeed. A WSDC nationwide network is planned for establishment, which will employ unified standards, instruments of regulation, quality control, and about 30 large WSDCs

3 Draft Executive Order.

and some 300 medium- and small-sized WSDCs will be established[1]. Yet, no unified standards have been developed.

About 15 pilot wholesale distribution centers with the 2015 federal budget funding estimated Rb 1.5bn are planned for construction in 2015[2]. Overall, significant funds – including Rb 7.4bn of federal funding (excluding the regional funds) – have been allocated for the Sub-program in 2015, of which as little as Rb 0.3m (4%) have been appropriated for the establishment of WSDCs. It is clear that the plans of construction of 15 WSDCs cannot be fulfilled in this case.

Ninety six percent of the funds allocated for the Sub-program cover interest rate subsidies for short-term loans for agricultural processing enterprises, i.e. the measure which has nothing to do with the Sub-program or support of agricultural producers. This subsidy is intended for buyers of agricultural raw materials including foreign ones for primary and industrial processing of livestock and crop products in accordance with the list approved by the Russian Ministry of Agriculture. According to the rules and regulations in force, Russia as a member of the WTO and the Customs Union may not provide the subsidy for purchases of only domestic products, it also must subsidize products manufactured in other countries, i.e. this subsidy defeats the purpose of import substitution.

It seems odd that indicators such as "gains in the capacity of modern grain storage facilities and elevators" (by 1 MT in 2015) and "gains in the capacity of sugar storage facilities" (130,000 tons in 2015) have been added to the Sub-program target indicators which will be used for measuring the Sub-program effectiveness. The indicators for 2015 have already been approved, but no funding for the purpose is allowed for in the Sub-program, i.e., building of grain, sugar storage facilities and elevators will probably be covered with the Rb 0.3m allocated for the construction of WSDCs. Otherwise it is not quite clear why there is no linking between the target indicators and the funding.

Construction of pilot WSDCs will be put at threat by radically cut funding, especially as the regions find it extremely difficult, even in the case of subsidization, to find an investor. The Commission for Lending to the Agro-industrial Complex approved in 2014 none of the investment projects which provided for subsidized interest rates for establishment of logistic centers in crop production (this area in 2014 was subsidized as part of support of lending to the crop production sub-industry, crop product processing, development of the infrastructure and logistics of crop product markets). In other words, this area under the imposed eligibility requirements was found to be not in demand by businesses. Furthermore, given the uncertainty in terms of import substitution subsidies for processing enterprises, it may be concluded that this sub-program defeats the purposes of accelerating import substitution.

Optimizing the State Program budget and Supporting the Priority Milk and Beef Cattle Industries

The Federal Target Program for Sustainable Development of Rural Territories has been hit hardest by the 2015 revision of the State Program budget. Its target funding has been cut by 42% or by Rb 6bn. "Budget Optimization" has thus been performed at the cost of the rural population which are most vulnerable in Russia. Additionally, this has had an adverse effect on some of the industries announced as a "priority", namely the milk cattle industry and open-field and protected-culture production of vegetables, potato seed breeding industry.

Conditions for the development of the milk cattle industry have deteriorated considerably compared to the previous year. Federal budget funding of the high-demand subsidy for 1 liter of sold milk has been cut compared to 2014, and as little as Rb 6.2bn have been allocated instead of the Rb 8.134bn originally planned, according to a Russian government executive order. However, eligibility requirements for the new direct costs subsidy were not yet approved by 25 June (only a draft was posted on the official website of the Russian Ministry of Agriculture).

Interest rate subsidies in 2015 remain one of the principal measures of support for the milk cattle industry. However, banks have raised interest rates, thus making terms of lending in the industry worse – even including subsidization – than in 2008–2012. For instance, in 2012 the average weighted lending rate of commercial banks was 11.1%. Given that federal funding covered 100% of the central bank's base rate (8.1%), borrowers paid 3% (excluding the regional portion of the subsidy). In 2015, according to the Russian Central Bank data (only for January–February), the average weighted lending rate of commercial banks for non-financial institutions has been 15.7% on loans for a term longer than a year. Given that federal funding covers 100% of the Central Bank's base rate (8.25%), borrowers have paid 7.45% (on investment loans). A 14.68% refund has been provided for short-term loans in 2015. The average weighted lending rates of com-

1 WSDC is the future of the agricultural products distribution system: http://www.mcx.ru/news/news/v7_show_print/37729.285.htm

2 WSDC is the future of the agricultural products distribution system: http://www.mcx.ru/news/news/v7_show_print/37729.285.htm

mercial banks on loans to non-financial institutions average 19%, i..e. borrowers pay 4.32%. In 2012 the average weighted lending rate was 10.2% and borrowers paid as little as 2.5%, including federal funding. In other words, terms of lending have become more than twice as worse. In fact, in the spring of 2015 Russian Agricultural Bank and Sberbank increased interest rates for the agro-industrial complex, some of which reached 22–23%, and borrowers had to pay 13.75–14.75% p.a. on investment loans and 7.32–8.32% on short-term loans, including subsidies. Exclude subsidies, and the rates in 2015 are prohibitively high for agricultural producers.

Hence there is no enhanced support in 2015 for the "priority" milk cattle industry. Terms of lending also have changed for the worse for beef cattle breeding which is eligible to interest rate subsidies under the same rules. Other industries previously enjoyed less comfortable requirements. With regard to short-term loans, for example, federal funding covered two thirds of the central bank's base rate from 1 January 2013. In 2015 other industries have to meet the same requirements as the industries which were announced as a priority.

Sub-program for Development of Open-field and Protected-culture Production of Vegetables and Potato Seed Breeding Industry

This Sub-program was expected, according to the State Program passport, to receive Rb 5bn in 2015. However, as little as Rb 700m have been allocated or 14% of the target funding, according to the budget quarterly breakdown. Funding of another priority industry has once again been cut.

Production of seed potatoes and open-field vegetables is expected to be supported through green box (!) measures. An idea behind the introduction of green box support in crop production was to adapt support measures to the WTO rules and regulations, the green box instrument allowed it to be regarded as a green box measure, because it didn't promote production of any specific crop or group of crops. Since it is linked with the production of open-field vegetables and seed potatoes, it has automatically moved to the amber box. This is not a new measure, because producers of these crops previously could expect to receive support on a non-preferential basis. A relative advantage here is that funds are reserved for the purpose. However, as of 1 May 2015 no funds of the prescribed amount were allocated to the regions for the purpose of this subsidy, whereas 60% of the amount were allocated as green box" support as a whole.

As a result of changes in the budget, budget appropriations for the new measure aimed to cover a portion of costs on the establishment and modernization of storage facilities for potatoes and vegetables and greenhouse facilities have been reduced to Rb 0.2bn instead of the Rb 4.5bn originally planned. It was originally planned that producers could qualify for either the interest rate subsidy for construction of greenhouse facilities, storage facilities or the direct costs subsidy. With the existing non-subsidized commercial bank interest rates, reimbursement of 20% of direct costs was equal to reimbursement of the annual interest on loans, though loans are taken out for a term of 5–8 years. Producers had good reasons to be against this restriction, and this might be taken into account.

Given the initially announced amount of funding, producers did not consider adequate the proposed instrument of support of the industry, particularly with regard to the protected-culture production of vegetables. It is only construction, modernization of greenhouse facilities that have been proposed for subsidization, however the prime costs – some of the tariffs grow constantly – constitute payment of heating (gas, electric power) bills. According to the Director General of the Association "Greenhouses of Russia", a subsidy for fossil fuels (heating, gas, electric power) should be introduced for short-term loans or such payments should be directly subsidized.

The Association estimates that greenhouse facilities need Rb 5.3bn worth short-term working capital loans (to pay for fossil fuels (gas, electric power, fuel), fertilizers, crop-protection agents and seeds). It is the support of short-term loans for protected-culture production of vegetables that could be reasonably designated as special measure with specified amount of funding, as was the case with the meat and milk cattle industry. Greenhouse facilities today must qualify for interest rate subsidies for loans within the scope of the common budget for the support of crop production industries, i.e. the industry is no longer a priority.

Furthermore, there is another problem – the main portion of vegetables is still produced at household farms whose share in vegetable production in 2014 was 69%, according to the Rosstat data, however it is declining over time, similar to the share (17% in 2014) of agricultural enterprises. Hence vegetable production was growing due to relatively small-sized producers – farm households – whose share in 2014 (14%) was almost equal to that of agricultural enterprises. Subsistence farms may not qualify for support, i.e. measures of state support of vegetable production do not cover 70% of the same.

Subsistence farms are low- or non-marketable, having an effect on a overall extremely low (38%) indicator of vegetable production marketability (according to the Rosstat data for 2014); this indicator is

84% for agricultural enterprises; there is no data on farm households. This implies that the availability of domestically produced vegetables on store shelves is dependent on agricultural enterprises (greenhouse vegetables) and farm households (farm households are basically specializing in open-field vegetable production. Open field production in 2014 accounted for 98% of the total vegetable production at farm households). Commercial protected-culture production of vegetables is the exclusive province of agricultural enterprises. This implies that, first, in order to make food products more accessible to urban population, conditions should be created for subsistence farms to sell vegetables and fruits in markets, fairs or through the consumer cooperative system. This can be easily done in the regions. For example, participation in pre-holiday agricultural fairs in the Samara Region is free for agricultural producers. As a result, prices of products at such fairs are 30% less than those offered by retailers[1]. Such fairs can be arranged on other than a pre-holiday basis. Production of vegetables, potatoes at subsistence farms is a reserve which is not employed to the full extent to address the issue of import substitution and affordability of food products.

Second, production of vegetables was boosted by farm households, but to be eligible for the direct costs subsidy or the investment loan subsidy for construction of storage, greenhouse facilities, they must pass regional and federal qualification for investment projects. According to the Russian Government Executive Order No. 53 dated 27 January 2015, a criterion of "investment project feasibility given the federal and regional agricultural production balances" has been introduced to qualify investment projects for subsidization. A priority has been placed on mega-projects which can through capacity commissioning change the food balance of a constituent territory of the Russian Federation.

Import substitution with regard to protected-culture vegetables is one of the most critical issues facing the Russian Federation. It seems reasonable to support construction, modernization of large greenhouse facilities for protected-culture production of vegetables on which agricultural enterprises are focused. At the same time, there are doubts about whether domestic producers of greenhouse vegetables can compete for price with imported products. Should imported products be more profitable and cost-efficient, then Russian products would be simply nonmarketable.

Hence the State Program measures which aim to stimulate import substitution in vegetable production also cannot be considered adequate because funding is scarce, the set of measures is incomplete and the industry specifics are ignored.

Sub-program for Support of the Pedigree Breeding Industry, Seed Breeding Industry

Funding of this Sub-program in 2015, according to the budget quarterly breakdown, has been increased slightly from Rb 7.19bn to Rb 7.59bn compared to the State Program passport and enhanced substantially compared to the actual figures for 2014. However, the funding differed depending on items. No changes have been made to the support of beef cattle breeding, which actually implies a decline given the current inflation. Construction, reconstruction of breeding centers have been supported through subsidies covering a portion of direct costs incurred on establishment and modernization of facilities and through interest rate subsidies for the same purposes. These subsidies have been seriously cut to Rb 0.2bn compared to the amount set forth in the State Program passport. Two (!) of such centers were scheduled for commissioning in Russia according to the target figure for 2015, and Rb 1bn were estimated to be allocated for both subsidies collectively in accordance with the State Program passport. If, according to the quarterly budget breakdown, Rb 0.2m have remained, then the centers are unlikely to be put into operation.

It seems that a greatly increased amount of subsidy (Rb 2.8bn) for purchases of pedigree seeds has been allocated to cope with the catastrophic situation with the domestic seed industry, but the subsidy previously aimed to purchase Russian seeds, now seeds should be listed the State Register of Breeding Achievements, which includes both Russian and foreign grades and hybrids of seeds. Almost all of the available in Russia sugarbeet and corn hybrids are foreign. It is absolutely not clear why Article 5 of Russian Government Executive Order No. 1295 dated 12 December 2012 (as in force on 17 January 2015) reads that this subsidy aims to "support pedigree seed production". With this subsidy we do spur pedigree seed production, but the question is "of which country?"

However, lawmakers had no other alternatives but this one. It is specified in Article 3, Part II of The WTO Agreement on Subsidies and Countervailing Measures that "subsidies contingent, whether solely or as one of several other conditions, upon the use of domestic over imported goods" are prohibited. So this is why Russia cannot provide subsidies for purchases of domestic seeds, fertilizers, machinery, raw materials for processing, etc. After all, the entire policy of import substitution announced by Russia basically contradicts the WTO objectives and spirit – Russia joined the WTO on a voluntary basis, – because import substitution

1 Wholesale distribution centers to be established in the Province: http://www.mcx.ru/news/news/v7_show/37224.285.htm

allows for a policy which offer advantages to domestic producers. To be more precise, there is a very thin line – we must encourage import substitution through a limited set of measures, which is not prohibited by the WTO and the Eurasian Economic Union (EEU), whereas now it is prohibited to subsidize nothing but domestic production resources, this is what Russia did extensively prior to the accession to the above organizations, supporting both agricultural producers and Russian producers of resources. While selecting an instrument of support we must be aware that through subsidizing the resource we support agricultural producers and world's highly competitive producers of resources (seeds, pedigree animals, fertilizers, machinery, etc.), which are not necessarily Russian. With this kind of "support", a weak ruble is the only thing one can hope of. Agricultural producers benefit from this, because they can choose the best of the world supply and be subsidized, while processing enterprises also can make use of support to purchase agricultural raw materials from foreign countries rather than domestic producers.

Support of fine and semi-fine wool production

The new subsidy for fine and semi-fine wool production aims to substitute imported raw materials of animal origin for the domestic textile and light industries. According to the State Program passport, Rb 153,5m were estimated to be allocated for this subsidy, whereas, according to the quarterly budget breakdown, allocations for this "priority area of import substitution" have been cut nearly three-fold to Rb 53.5m.

According to the Russian Government Draft Executive Order (eligibility requirements for subsidies were not approved yet by the end of June, whereas subsidies were distributed), farm households, agricultural enterprises and self-employed entrepreneurs will be subsidized for a centner (100 kg) of fine and semi-fine wool sold by processing enterprises according to accredited laboratory documents which confirm the sale of this type of wool. While being reasonable, this requirement may become a problem, because the availability and sufficiency of such laboratories in Russia remains to be seen. Two laboratories are planned for construction with state participation in Chita and in Elista.

The situation with wool production in Russia is far from being trouble-free. In 2008–2013, the wool sales margins at agricultural enterprises, which submitted annual reports to the Russian Ministry of Agriculture, were not higher than -53.6%, excluding subsidies. It is not surprising that with such a deep and long-lasting loss ratio agricultural enterprises cut rapidly their production. In 1990, according to the Rosstat data, agricultural enterprises sold 193,700 tons in gross weight, whereas in 2013 they sold 6,400 tons. The share of agricultural enterprises in the production dropped from 75.5% to 18% within the same period, marketability decreased to 65% (2013). Subsistence farms and farm households became principal wool producers, accounting respectively for 49% and 33% of the production (according to the Rosstat data for 2013). No statistics for fine and semi-fine wool production are available. The Rosstat only collects data on wool as a whole. Neither does the Russian Ministry of Agriculture have such statistics. According to the available estimates, the share of fine wool production was near 80%[1]. Later, however, it was the population of fine wool and semi-fine wool sheep, which can be replaced with more profitable rough wool and meat wool breeds, that saw most of the production cuts.

Can this subsidy within the allocated amount of funds change the situation? Subsistence farms are not eligible for the subsidy. Had all the allocated federal budget funds (Rb 53.5m) been appropriated exclusively to agricultural enterprises in 2013, and using the estimated share (80%) of fine wool, this would have increased wool sales margins to (-43.9%) from (-53.6%). This could have hardly encouraged agricultural enterprises to expand their production. (In fact, had Rb 153m remained in place, then sales margins would have been (-26%)). Besides, there are more candidates seeking support – farm households. Their share in the wool production was growing throughout the entire period of 1990–2013, but neither Rosstat, nor the Russian Ministry of Agriculture have data on the production profitability and quality of wool at farm households. One can only assume that the increasing share of farm households implies that the production at enterprises of this category is more profitable than that at agricultural enterprises. The question is whether they produce the fine wool?

Indeed, besides the subsidy for a centner of sold wool, there is a federal subsidy for preservation of the stock of pedigree sheep and goats (for 2015) with Rb 738.9m federal funding (according to the State Program passport), but this subsidy can be received irrespective of whether it is meet, rough wool or fine wool sheep production. The subsidy doesn't aim explicitly to support the fine-wool sheep production. Given the allocated funds and a big number of applicants, this subsidy "disperses" public funds instead

1 Sycheva I.N. The productivity and characteristics of the Volgograd breed of sheep with diversicolored wool grease. – PhD thesis – 2009: http://www.dissercat.com/content/produktivnost-i-svoistva-shersti-ovets-volgogradskoi-porody-s-raznym-tsvetom-zhiropota . However, there is no reference to the year when the presented data were collected.

of resolving the problem. The Russian Ministry of Agriculture is aware of this and planning to only restrict support to large producers. "We know Russian agricultural producers who can produce merchant quantities of high-quality, single-type wool which meet the GOST (all-Union State Standard) requirements …, not so many – about forty – of them. The federal budget allows for as little as Rb 153m of public subsidies[1]," said Kharon Amerkhanov, Deputy Director of the Department of Livestock and Pedigree Breeding at the Russian Ministry of Agriculture. Given that the subsidy for a fine wool of 64th and 70th quality will be Rb 75 per kilogram, an enterprise which produces 50 tons of wool on the average, will receive Rb 3,750,000 budget funding, plus the regional co-financing. … This is the real support that will spur the enterprise to keep on enhancing the quality of fine wool"[2].

The subsidy instrument, which is set forth in the Draft Executive Order and offered for discussion, says nothing that small-sized producers may not qualify for the subsidy. If government authorities intend to provide (de facto) this subsidy exclusively to specific large producers, this should be explicitly reflected in statutory documents by, for example, introducing additional requirements for volumes, this will save a great deal of time and effort for small-sized producers.

The rates of subsidies, according to the Draft Executive Order, are expected to be set at the regions, and may not necessarily happen to be Rb 75 per kilogram. The more so, because given the three-fold cut on funding, the rate can expectedly be adjusted on a pro rata basis and amount to Rb 26.2 per kilogram. However, if the rate remains Rb 75 per kilogram and the wool price is equal to that in 2013, then the subsidy could really enhance the profitability, up to +13%, at enterprises which could be eligible for it, and it would be a solid incentive. With the amounts allocated (Rb 53.5m, at a rate of Rb 75 per kilogram), the subsidy would be sufficient to cover mere 713 tons of wool or 7% of the target set by the State Program for 2015, or, in the case of target-focused distribution as planned by the Russian Ministry of Agriculture, the subsidy would be sufficient to cover mere 14 (!) large enterprises producing 50 tons of wool each. Perhaps, the rest 93% of the required volume are assumed to be increased by agricultural producers for whom the subsidy will be insufficient, but the question is why they would do it. The target is most likely not to be achieved, and only a few specific enterprises will derive a benefit. In fact, the need for 2015 would be mere Rb 787.5m so that the target can be reached, even if the rate was Rb 75 per kilogram. This is what the budget can easily afford. After all, the entire industry is at stake.

1 In force as of the date of interview, now it is Rb 53m.

2 Reserves are available, hence there is much work to do. Selskaya Zchizhn Newspaper: http://www.mcx.ru/news/news/v7_show/36978.285.htm

Subsidy distribution instrument

The instrument of subsidization and distribution of funds was not yet approved by 1 July 2015 for a few of the new measures. The distribution of specific subsidies among the regions, which was introduced as a Schedule to the federal law On the Federal Budget in 2015, cannot be recognized as efficient, because subsidies are normally distributed 2–3 times a year. This was initially approved through executive orders of the Russian Ministry of Agriculture, then through executive orders of the Russian Government, and now it requires that the federal law On the Federal Budget be amended, hence a respective federal law must be adopted. In other words, while there is still the need to distribute funds, it is getting more difficult to do it promptly. This cannot ensure effective and efficient application of funds.

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None of the new sub-programs has happed to indeed promote import substitution. In some cases, (e.g. subsidies for purchases of pedigree seeds, raw materials) the effect has been quite the opposite of what was supposed to be. Funding has been cut almost for all sub-programs to the extent that it is incomprehensible that development of respective industries has been announced as a priority and how the targets can be achieved. The foregoing suggest that the Russian agricultural policy need to be adjusted and updated within the framework of membership in the WTO, Russia is still a WTO member, and the Eurasian Economic Union (EEU).