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Agricultural Minister Report to Duma on Agriculture Situation in Russia

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Report Highlights:

On February 8, 2012, Yelena Skrynnik, the Ministry of Agriculture of the Russian Federation reported to the State Duma on the results of development of agriculture and related industries in 2011. She also presented on issues related to Russia's WTO accession, on the proposed targets of the State Agricultural Program 2013-2020, and on the preparation of Russian agriculture for the spring grain sowing campaign. During last several years the Ministry of Agriculture has regularly reported to the Duma on the status and outlook of Russian agricultural.

General Information:

On February 8, 2012, Yelena Skrynnik, the Minister of Agriculture of the Russian Federation reported to the State Duma, Russia's highest legislative body, on the results of development of agriculture and related industries in 2011, the second to last year of implementation of the State Agricultural Program 2008-2012. She also presented on issues related to Russia's WTO accession, on the proposed targets of Program 2013-2020, and on the preparation of Russian agriculture for the spring grain sowing. During last several years the Ministry of Agriculture has regularly reported to the Duma on the Russian agricultural status and outlook. The Ministry's report of 2012 is of special interest for several reasons:

- There were recently new elections and the new Duma has started working only since December 2011, and the membership has changed;
- In 2012 Russia shall adopt a new state program on "Development of Agriculture 2013-2020", and very lively discussions on the priorities of this program are envisaged in the Duma;
- Russia's WTO accession in 2012 may result in changes in priorities in the federal support of agriculture, agribusiness and development of rural areas.

The speech of the Ministry of Agriculture in the State Duma is on the web-site of the Ministry of Agriculture: <http://www.mcx.ru/news/news/show/5270.78.htm>

The major issues touched upon in the report are summed below.

Results of development of agriculture and agro—industrial complex (APK) in 2011, and the results of the implementation of the State Program of the Development of Agriculture 2008-2012

Minister Skrynnik reported that 2011 was a landmark year for Russian agriculture. Russia overcame the consequences of abnormal drought in 2010 and Russian farmers harvested a good grain crop, almost 94 million metric ton (MMT), and Russia rebuilt its export potential. 2011 was marked by record sunflowerseed, sugar beet, soybean, rapeseed, potato and vegetable crops. Production of barley, buckwheat and animal feeds recovered to satisfy domestic demand in these products.

According to the Minister, Russia has solved the most important strategic task - to keep positive growth in livestock breeding and the livestock industry.

Since the beginning of the implementation of the National Priority Project in agriculture (in 2006) which was then extended and transformed into the State Program 2008-2012, Russia has increased the competitiveness of its agriculture, increased volumes of production, and improved the social sphere in rural areas. From 2006 through 2011 the index of total agricultural production increased by 28.8 percent, production in the livestock breeding industry increased by 22.5 percent, and production of crops increased by 31.9 percent.

Production of meat increased by 36 percent in 2006-2011, primarily due to construction and upgrading of almost 3,500 livestock and poultry facilities. Poultry production almost doubled from 2006, and pork production increased by 50 percent. In 2011, production of meat and poultry (live weight) was 10.94 MMT (3.7 percent more than in 2010), and the forecast for 2012 is 11.4 MMT. The leaders in meat and poultry production were the following provinces: Belgorod, Moscow and Chelyabinsk oblasts, Tatarstan Republic, Krasnodar, Stavropol and Altay krais.

As Duma deputies asked many questions on the situation in the meat and dairy industries, Minister Skrynnik outlined the major characteristics and trends of these industries which have created a sound basis for the further increase of production of high quality beef and milk:

- In 2011, for the first time in 20 years, Russia managed to reverse the long-term decline in cattle numbers;
- The share of pedigree livestock increased. In meat cattle it increased from 41 percent in 2006 to 60 percent in 2011, and in dairy cattle from 6.8 percent to 11.3 percent;
- Due to the improvement of quality of cattle, and replacing of less productive breeds with more productive breeds, the average milk yield increased by 20 percent, and the share of marketed milk increased from 56.5 percent to 61 percent. The share of specialized, competitive, breeds increased in beef cattle breeding from 2 percent to 6.5 percent.

Minister Skrynnik also marked achievements in the social development of rural areas (villages), another priority of the Ministry of Agriculture. In 2008-2011, funding for this program exceeded 140 billion rubles (\$4.7 billion), of which federal budget allocations were 32 billion rubles (\$1.1 billion). These funds allowed to build houses for almost one quarter of a million rural families (15.5 million square meters), and open several new medical centers and small hospitals in rural areas.

Summing up the results of all development in Agriculture, Minister Skrynnik confirmed that Russia has met the goals of Russia's Food Security Doctrine in achieving targeted self-sufficiency in grain, sugar, potato, vegetables, and poultry meat. In the next 2-3 years Russian production will saturate the domestic demand in pork, and by 2020 – in milk and beef.

Main provisions of the State Program 2013-2020 and the impact of WTO accession on the long-term prospects of agriculture and APK.

According to Minister Skrynnik, the main goals of the State Program on Development of Agriculture in 2013- 2020 will be national food security, support of adequate level of farmers' profits, support of the attractiveness of agriculture for investment, and the complex development of the social sphere in rural areas. The total financing of the State Program through 2020 will be 2,483 billion rubles (\$82.8 billion). Along with support of livestock breeding, crop production, sustainable development of rural area and improvement of market information, the Minister outlined new priorities including:

- The development of agro-food market infrastructure;
- Support of private farms and small forms of agricultural enterprise;
- Support of exports of agricultural products;
- Upgrading of food and processing industries;
- Strategic measures aimed at mitigation of weather and climate risks in agriculture

The State Program will consist of six sub-programs and three federal targeted programs (FTP), such as Social Development of Villages by 2013, Sustainable Development of Rural Territory by 2020, Development of Irrigations and Land Reclamation by 2020. Each sub-program includes four directions of activities: production, processing, development of infrastructure and market regulation, and credit provision and insurance. The subprogram on development of small forms of enterprises (which was already started in 2012) may be an example of such an approach. It includes support for beginning farmers (in 2012 the federal funds for his program will be 2 billion rubles - \$67 million), the development of family livestock farms (in 2012 the federal budget will allocate 1.5 billion rubles - \$50

million, and 1.5 billion rubles will be added by provincial budgets), lending to small enterprises, and registration of land ownership (in 2012 the federal subsidies for registration of land ownership rights will be 1.4 billion rubles - \$47 million) which will allow to register property rights for approximately 3 million hectares of agricultural land. The budget will compensate farmers' expenses after completion of registration.

The implementation of the Program 2013-2020 will aim for Russia to meet the following goals:

- to achieve the major target indexes of the Food Security Doctrine;
- to increase agricultural production output by 44.7 percent compared with 2010;
- to double investments in real assets in agriculture;
- to increase profitability of agriculture by 25 percent;
- to improve living conditions of 203,000 rural families, including 114,000 young families and families of young specialists.

Minister Skrynnik remarked that Russia's WTO accession will be the most important factor influencing the fulfillment of Program's indicators. "The WTO issue is the principal issue for Russian agriculture". According to Minister Skrynnik, the negotiated terms for agriculture are among the best compared with other countries, and the main task is to increase competitiveness of Russian agriculture using the negotiated favorable terms:

- The level of state support is allowed to be increased to \$9 billion, that is a more than 50 percent increase from the planned 170 billion rubles (\$5.6 billion) in 2012;
- The state support shall be better structured by a shifting between "boxes". \$9 billion is the limit for measures in the "amber" box, while there are no limits for state support within the "green" box, such as house construction, roads, infrastructure, subsidies for science, education, training, irrigation and land reclamation;
- The terms of accession allow Russia to keep the possibility of import quotas (poultry, pork, cattle). Besides, the decision was made to allocate 6 billion rubles' subsidies for support of processing of pork annually within 3 years;
- The State Program 2013-2020 drafted by the Ministry envisages all measures of APK support allowed by WTO: infrastructure development programs, social development of rural territories, irrigation and land reclamation.

Moreover, together with associations and industries' unions the Ministry of Agriculture is developing a number of additional measures that are necessary for adapting Russian agriculture to WTO requirements:

- First, the Ministry of Agriculture has prepared proposals for the extension of some tax discounts for agricultural producers. The Ministry is planning to propose an extension of income tax privileges, as well as the extension of the release of agricultural producers from paying VAT on imported breeding animals, embryos, and semen until 2020;
- Second, the Ministry is developing measures to strengthen the functions and powers of the Ministry and the Federal Veterinary and Phytosanitary Surveillance Service (VPSS). According to Minister, it will be necessary:
 - To Form a network of subordinate research institutions for the development and implementation of modern research methods that meet international requirements, as well as for the preparation of the scientific grounds for decision-making;
 - To give the Ministry of Agriculture and VPSS additional powers and to increase their staff as a result of the need to adapt the APK to the conditions of the WTO.

- Third, the Minister considers that it is necessary to strengthen the customs' administrative management of imports of agricultural products.
- Fourth, according to the Minister, it is necessary to make changes to the federal law "On Agriculture" to determine the criteria of regions with unfavorable conditions for agriculture. Support of these regions will be treated as a "green box" measure, which means that support to farmers will not be subject to restrictions.

According to Minister Skrynnik, the implementation of an integrated approach to the adaptation of Russian agriculture to WTO requirements will not only allow the continued positive trend in agriculture, but also to solve problems identified in the Food Security Doctrine. In addition, it will also help to attract strategic investors into the sector, and increase the exports of Russian agricultural products.

Preparation for the spring field works

The priority task for the moment, according to Minister Skrynnik, is to prepare for the spring field work and sowing.

Winter crops were sown on 16.5 million hectares, including 16.1 million hectares sown with winter grains, and 355,000 hectares with winter rapeseed. The present condition of winter crops is good, and winter kill is forecasted at 6 percent – lower than the average level.

The plan for spring sowing is 50.8 million hectares; including 30.3 million hectares planned for spring grains and legumes. The forecast for spring crops output is 50-55 MMT. The total grain crop in 2012 is forecasted at 90 MMT.

The MinAg estimated that Russian farmers will need 224 billion rubles (\$7.5 billion), including 140-145 billion rubles (\$4.7-4.8 billion) of borrowed funds, for financing of spring field work.

The total federal budget funds for support of crop production in 2012 will be 46.5 billion rubles (\$1.55 billion), of which a significant portion will be spent for farmers' support in spring sowing/preparation campaign. Besides this, Minister Skrynnik emphasized that the Russian government employs other measures to support crop producers, and listed other government initiatives aimed at this support:

- First, Vladimir Putin, the Russian Prime Minister, addressed the question of giving farmers a 30 percent discount on fuel and lubricants prices in the first half of 2012. The discounts will be from the December 2011 wholesale prices in provinces. At the same time the "agreed deliveries" [Note: in order to avoid violation of Anti-monopoly legislation the Government determines the volumes of fuel to be delivered to farmers at discount prices] of fuel at discount prices are raised by 10 percent, and the farmers' savings on these discount prices are estimated at 12 billion rubles (\$400 million).
- Second, the federal budget will allocate 5 billion rubles (\$167 million) to support farmers' purchases of fertilizer.
- Third, the Agropromsoyuz (Agro-industrial Union of Russia) [Note: Agropromsoyuz is a non-commercial organization, an all-Russian voluntary amalgamation of business circles in the Russian Agro-industrial complex] and the Russian Association of Fertilizer Producers (RAPU) have reached an agreement that the fertilizer price shall not increase by more than 7 percent in the first half of 2012.
- Fourth, the federal subsidies for purchasing elite seeds will amount to 1.76 billion rubles (\$59

million). Subsidies for shipping seeds to farmers in the Russian Far North will double to 900 million rubles (\$30 million). Also, the federal budget allocated 1.33 billion rubles (\$44 million) for orchards and vineyards. This is almost twice the amount of last year. Subsidies on production of flax and rapeseeds will be 300 million rubles (\$10 million) and 250 million rubles (\$8 million), respectively.

- Fifth. The federal funds for subsidizing crop insurance expenses have increased by 20 percent to 6 billion rubles (\$200 million).
- Sixth. The Ministry of Agriculture is concluding agreements with provincial authorities that will allow the provinces to receive up to 40 billion rubles (\$1.3 billion) or 30 percent of annual federal budget funds for agricultural support before the spring field works.

Ministry of Agriculture's legislative initiatives

Minitser Skrynnik requested the Duma's support in adoption of several federal laws of critical importance for the Russian agriculture and the development of Russian agro-industrial complex. This includes the laws "On Plant Quarantine" and "On Improving Agricultural Land Mortgage", which were already submitted to the State Duma. In addition, in the near future the government is going to submit to the State Duma a number of other draft laws, including "On Veterinary Medicine", "On Amendments to the federal law on Agriculture" and others.