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Russian Government Discusses Additional Support for Meat and Dairy

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Report Highlights:

On April 16, 2013, the Russian Prime Minister, Dmitry Medvedev, chaired a video conference on additional government measures to aid livestock farming in Russia. The meeting also addressed the support measures being extended to industry and touched on the impact Russia's WTO membership has had on domestic meat production. Participants advocated for increased financial support from the Federal government for Russia's livestock sector, the application of non-tariff mechanisms to reduce imports, support for losses incurred by Russia's pork and poultry industries, support for increasing feed costs, and revisions to Russia antimonopoly laws.

General Information:

On April 16, 2013, Dmitry Medvedev, the Russian Prime Minister, held a meeting/video-conference with participation of the members of the federal government and governors of some of Russia's major agricultural provinces. The conference was devoted to a discussion of Federal government support for meat and dairy production in Russia. The transcript of the meeting was published on the government web-site both in Russian and in English. The official English translation of the transcript is available at: <http://www.government.ru/eng/docs/23922/>. The translation is also attached in Annex 1 to this report.

Summary:

The following Russian Government officials met to discuss support for Russia's meat and dairy industries:

Dmitry Anatolyevich Medvedev, Prime Minister of Russia;
Arkady Vladimirovich Dvorkovich, Deputy Prime Minister of Russia;
Nikolai Fyodorovich Fyodorov, Russian Minister of Agriculture;
Yevgeny Stepanovich Savchenko, Governor of Belgorod Oblast;
Nikolay Vasiliyevich Denin, Governor of Bryansk Oblast;
Nikolay Ivanovich Merkushkin, Governor of Samara Oblast;
Gennady Alexandrovich Gorbunov, Chairman of the Federation Council's Committee for Agrarian & Food Supply Policy; and,
Andrey Gennadyevich Tsyganov, Deputy Head of the Federal Antimonopoly Service of Russia.

Financial Support for Russia's Meat and Dairy Producers

Prime Minister Medvedev applauded the increase in the number of Russian livestock breeding complexes, as well as increased domestic meat production. However, Mr. Medvedev expressed concern that intra-Russia-Kazakhstan-Belarus Customs Union and foreign imports continue to pressure domestic producers (e.g., lowering prices by 30 percent or more). The Prime Minister praised the 60 billion rubles (i.e., approximately \$1.9 billion) allocated for improving Russian livestock production in 2013, including to combat increased outbreaks of African Swine Fever. Minister of Agriculture Fyodorov expressed his approval for the 58 billion rubles (i.e., approximately \$1.8 billion) that has already been distributed by the Federal government.

Additional Support for Russia's Meat and Dairy Producers

Minister Fyodorov announced that the Ministry of Agriculture was requesting an additional 11.8 billion rubles (i.e., approx. \$370 million) be distributed in April 2013 to compensate for increased feed costs being incurred by several agricultural sectors (i.e., producers of milk, eggs, poultry, pork, poultry breeders, producers of meat and eggs, and pig breeders). Minister Fyodorov suggested allocating 5.7 billion rubles (approx. \$180 million) for pork producers, 3.8 billion rubles (approx. \$120 million) for poultry producers, and 2.3 billion rubles (approx. \$73 million) for egg producers. Another 3.2 billion rubles (approx. \$101 million) would later be distributed to Russian dairy producers to support industry organization and increase their subsidies. With the addition of increased support for the dairy sector, the total new request for federal financial support for the Russian meat and dairy producers would be equivalent to 15 billion rubles (approx. \$475 million).

Governor Savchenko requested the Federal government increase Belgorod's limit for subsidizing

interest rates on long-term loans for animal husbandry from 44 million rubles (approx. \$1.4 million) to 866 million rubles (approx. \$27 million). Governor Savchenko stressed that Belgorod's pork and poultry industries, despite their modernization, were no longer profitable because increased imports were depressing prices for these products, particularly for pork (by as much as 30 percent). He noted that because retail prices have not dropped, retailers are increasing their profits while producers are earning less.

Governor Savchenko expressed a fear that without additional financial support, producers in his oblast may default on current debts. He noted that the planned measures will help, but also advocated for the application of non-tariff mechanisms to reduce import and Federal government support for losses incurred by the pork and poultry industries. Moreover, Mr. Savchenko advocated for controlled distribution of profits so that both producers and retailers receive a fair share of the end product's final price. Lastly, Mr. Savchenko called for production quotas to limit domestic poultry and pork production so as not to saturate the market. The Prime Minister agreed with Mr. Savchenko, but noted that if the market is reaching the point of saturation, sectoral support should be re-evaluated and additional policies should be instituted based on economic considerations.

Governor Denin highlighted Bryansk's efforts to distribute federal support funds in a timely manner, and lauded the opening of a new poultry breeding company and production yields in excess of what was produced during the Soviet era. Mr. Denin noted that Federal support to help offset feed shortages and feed price increases would also benefit Bryansk's pork and poultry producers, but asked that these benefits also be extended to the region's beef producers as well. Lastly, Mr. Denin asked for Federal support to encourage Vnesheconombank (i.e., the Russian Bank of Development) to fund the continued development of an inter-regional (i.e., Bryansk, Kursk, Kaluga, Smolensk and Kaliningrad regions) beef production project.

Governor Merkushin indicated Samara's poultry and pork producers are holding onto stocks because of low prices and expressed his support for Governor Savchenko's proposal for controlled distribution of profits so that both producers and retailers receive a fair share of the end product's final price. Mr. Merkushin also expressed his support for Minister Fyodorov's proposal to increase subsidies to compensate for interest rates on short-term loans.

The Prime Minister expressed frustration that Russia's antimonopoly laws are not sufficiently protecting domestic meat producers, and asked State Duma and Federation Council members to consider changing antimonopoly laws, as necessary, to ensure producers receive a fair portion of the profits earned by retailers on their products. Deputy Prime Minister Dvorkovich added that producers need to slowly begin to create strong associations and press for "independent and voluntary price regulation." Minister Fyodorov added that loans which are extended as subsidies to agricultural producers to compensate for losses attributable to droughts should, perhaps, be extended to recipients on a year-by-year basis, as needed, and not on a one-time basis, as is the case now.

Other Relevant Reports

[RS1303 - GOR Resolutions on Distribution on Agricultural Subsidies](#)

[RS1309 – Russian Government Discusses Grain Situation](#)

Annex 1.

**Transcript of the Videoconference
on Additional Measures of State Support for Livestock Farming**

(English version from Russian Federation web-site: <http://www.government.ru/eng/docs/23922/>)

Dmitry Medvedev: Good afternoon to all those present here and to those on a video linkup. This meeting was planned in advance. We are focusing on one of the key current agricultural problems, regarding additional measures for supporting livestock farming. If you remember, we have already held two video conferences this year: [one on the grain market](#), and the [other on the spring sowing campaign](#) in February and March. Today, as we agreed, we will talk about the support for livestock farming. (This idea actually came out of one of the video conferences.)

It'd clear that one of our concerns today is Russia's food safety. Now we have every chance to ensure proper standards, unlike during the Soviet and post-Soviet periods. We are talking about the current situation in the agro-industrial sector. Gross domestic product growth is, in many aspects, connected with agriculture. On the other hand, the processes that happen in livestock farming influence the inflation rate, which is also a well-known fact. And thirdly, in previous years we achieved quite good results, and today in the context of our joining the WTO we have no right to lose them or weaken them somehow.

During the implementation of the agriculture development program in 2008 – 2012, almost 110 billion rubles were allocated to support livestock farming. Over 2,000 – please note – 2,000 livestock breeding complexes were built and renovated with the use of the most advanced technologies. These figures are good, I think. As a result, the production of cattle and poultry, in terms of live weight, increased by one third as compared to 2007: the production of poultry by 82% and pork by almost 30%. Even last year, which was difficult because of the bad harvest, the growth was over 6%: 12% in poultry, 3.5% in pork and 1.3% in cattle.

As of the beginning of 2013, the growth rate was over 7%, a positive looking figure.

Last year's harvest was worse than we expected, grain production dropped, which led to an increase in fodder prices by a third, on average, and in some places by as much as 40%, and to an escalation in production costs.

At the same time, since Russia joined the WTO and the Customs Union was formed, the Russian market has become more open and transparent, and the increase in imports has resulted in lower prices, as much as 30% lower and in some places even lower. As a result, the producers are in a difficult situation: profitability has fallen, as well as investment attractiveness of the industry, and, as I said already, growing imports make it even harder for the Russian producers to stay afloat.

To that end, I'd like to ask governors and regional leaders to report on the situation and what measures have been taken locally.

Now let's speak about what has been done and what should be done on the federal level. The state program until 2020 includes 60 billion rubles to be set aside for the support of livestock breeding this year. Measures will be taken to develop animal products processing, establish selection and genetic

centers and to fight our biggest enemy, the African swine fever virus.

A new funding mechanism has been introduced: producers should be compensated for part of the costs of milk production per one liter or one kilogram of weight. About 7 billion rubles will be allocated to support livestock farming.

In March, the Government approved and distributed the subsidies. The regions have already received over 30 billion rubles to develop livestock farming (I'd like to ask the governors to report honestly on the received sums, because I have controversial information here). If you haven't received anything yet, please explain why and where the money could be, including the compensation for part of short-term and investment loans, which was over 22 billion rubles, and about 5 billion rubles as milk production costs compensation. Also, subsidies have been set aside for livestock breeding, increasing the breeding stock of goats and sheep and some other animals.

At previous meetings as well as at a number of meetings with my colleagues from the State Duma and political parties, we talked about maneuvering support funds with the government, and additionally investing into livestock farms, because the prices for feed have increased. We are now able to invest an additional 15 billion rubles, and eventually a total of 42 billion, in additional funding according to funds distribution proposals that I'm expecting to receive.

I would like to hear about particular mechanisms that have been proposed. How can we provide targeted support – and it should not be just all-around support, but targeted support – and ensure its efficiency? And finally, how soon will it happen? Some farms have already received extra money and some have not.

These are the issues for today's discussion. I suggest we structure the talk in the following way. First I would like the Minister of Agriculture to speak and then I will give the floor to regional representatives – not all of them, of course, but those who are on the other side of the line and those who currently have the most livestock. Then we will exchange our views on what can be done next. Now Mr. Fyodorov, please go ahead.

Nikolai Fyodorov (*Minister of Agriculture*): Thank you. Mr. Medvedev, colleagues. I have some news to share with you. By April 15, we have allocated over 58 billion rubles, as distributed at Government meetings. Last year, some 46 billion was allocated by the same date, which means this year we have provided 25% more. We are watching closely as the funds are being delivered to their recipients. Regional officials are also involved and they can actually report on how much has already been delivered.

Speaking of today's agenda, Mr. Medvedev, you have outlined the general topics. I can report that as far as livestock breeding is concerned, and following your instruction on additional funding for the farming industry, the Ministry of Agriculture, the Ministry of Economic Development and the Finance Ministry have been working for several weeks together, sometimes without the Finance Ministry, because our colleagues in the Ministry are quite busy. However, we have been looking for sources and mechanisms. We also discussed the matter with Mr. Dvorkovich (*Arkady Dvorkovich*).

Dmitry Medvedev: Were you being sarcastic when you said that the Finance Ministry is so busy?

Nikolai Fyodorov: No, they are in fact overburdened.

Dmitry Medvedev: I see, they are busy compared to other ministries.

Nikolai Fyodorov: And we met with Mr. Dvorkovich many times.

With your permission I will continue. The bottom line is that we suggest allocating 11.8 billion rubles out of the emergency 15 billion rubles injected to compensate for the growing feed prices for producers of milk, eggs, poultry and pork, for funding poultry breeding, meat and egg production and pig breeding. In order for the money to reach the recipients as soon as possible it must be provided in the form of grants-in-aid for leveling the fiscal capacity. We suggest distributing the grants according to the amount of produce in the fourth quarter of 2012 as follows: 5.7 billion rubles for pork, 3.8 billion for poultry, 2.3 billion for egg production. Per item. That comes out to nine rubles per 1 kg of body weight for pork, 3.5 rubles per 1 kg for poultry and 0.7 rubles per ten eggs.

Funds in the amount of 3.2 billion rubles should be used to properly organize the dairy industry and to increase the existing subsidies per kg of commercial milk. Given the complexities involved here, this can be done in the second half of the year for milk – that is, 11.8 out of 15 billion must be done right now, preferably in April, while for milk (we spoke with the industry union) this can be done in the second half of 2013 as part of budget adjustments.

Also in the first half of 2013, we need to increase the funding for subsidizing the interest rates for short-term loans for the expansion of plant production in the amount of 5 billion rubles. We are ready to reallocate the funds whereby we will take 5 billion rubles in the first half of 2013 from the economically important regional programs and use them to increase interest rate subsidies for short-term loans in crop production, with a guarantee that these amounts will be reimbursed in the second half of 2013 when we start adjusting the budget.

In order for us to be able to make the 11.8 billion available to the regional agricultural producers already in April, to compensate for the increased cost of fodder, we propose using the funds reserved for the Ministry of Agriculture, in accordance with the recommendation by the Ministry of Finance on budget estimates, in the amount of 9.9 billion rubles with subsequent reimbursement in the second half of 2013. That's something that we can do quickly already in April. The balance of 1.9 billion rubles could be made available based on the results of yesterday's meeting with Mr. Dvorkovich, so the Ministry of Finance can allocate funds from the reserves under the main manager of budget funds (MMBF). That amounts to 200 billion rubles. They have reserves for all ministries and departments. We can take 1.9 billion from there.

Accordingly, in the second half of 2013, the Ministry of Agriculture will need additional allocations to support agriculture. Based on the amounts that you mentioned – 40.3 billion rubles, of which 14.9 billion will be used to restore the reserves in the earlier re-allocated areas, i.e., reserving 9.9 billion and economically significant regional programs, that is, that which goes directly into redistribution ... To support the dairy industry, 3.2 billion rubles, which will be used for adjustment, should be guaranteed by your directive. More than 12 billion rubles out of the 15.2 billion allocated for the provision of support

to crop producers have been released. These funds are needed to conduct the spring field work, which is a priority.

Another 10 billion rubles are needed to conduct harvesting and autumn field work. We have reached an understanding in this area. This needs to be put in a directive just in case the budget gets adjusted in the first half of 2013. On top of that, we need another 7.2 billion to subsidize a portion of the costs of short-term loans in the plant production industry, and 5 billion to upgrade the agricultural equipment. I have given examples of why we have these problems with poor performance under the state program that is being carried out, and losses of crops due to wear and tear of the equipment. The Ministry of Economic Development proposes using a portion of the funds allocated for equipment upgrades to increase allocations under economically significant regional programs in the area of plant production. We believe we should support this proposal – in particular, greenhouse vegetable production and, perhaps, rice production (experts say that it needs support), i.e. areas of severe shortage and areas where we are almost on a global level of output, such as rice and greenhouse vegetable production) – in order to become competitive. We know from the meeting that the additional 42 billion rubles can be re-allocated based on a directive issued by the Prime Minister.

The consolidated budget revenue and expenditure plan put together by the Ministry of Finance on the basis of the proposals by the Ministry of Agriculture should be changed if we want to redistribute 5 billion rubles under the state program. We also need a directive by the Prime Minister in order to redistribute funds amounting to 11.8 billion, including 9.9 billion coming from funds released by the Ministry of Agriculture, and 1.9 billion from the general reserved limit in accordance with the Federal Law On the Budget. In this case, the Finance Ministry will execute the directive on its own.

I would like to request that you issue such a directive so that we and the Finance Ministry could submit our proposals to you before April 22 and make funds available to the regions in April as well. The issue has to do with providing immediate relief for fodder supplies. In order to increase funding to support agriculture in the amount of 40 billion in the second half of 2013, we will need to introduce appropriate changes to the budget. Here, too, a directive signed by the Prime Minister will be helpful. That concludes my brief overview. Perhaps our colleagues will add something to this.

Dmitry Medvedev: I'm sure they will. Let me say right away, concerning the draft protocol decision – for some reason it says that the results should be reported on June 4. I believe that's too late. We must change this. We agreed to make all the decisions in April, and to report in April as well. That means we should do so in April. Why June 4? Please change it. This is my first point.

Secondly, do you have anything to say about the customs and tariff policy and customs and tariff regulation or should we come back to that later?

Nikolai Fyodorov: We can discuss these issues now. There are experts who are familiar with the subject.

Dmitry Medvedev: All right, we'll hear from them too, because it is an important area. Let's connect with the regions, because it was they, in fact, who wanted this meeting. Let's start with the Belgorod Region. I saw Yevgeny Savchenko recently. Please connect them.

Yevgeny Savchenko (*Belgorod Region Governor*): Good afternoon, Mr. Medvedev. Thank you for hosting this meeting. It is very welcome, and everyone is waiting for these decisions. However, I'd like to begin by saying that a modern, large, and unmatched poultry and pork production industry was built in Russia over the past 7-8 years. We shouldn't downplay our achievements. I believe it's...

Dmitry Medvedev: We are not downplaying it.

Yevgeny Savchenko: This is unprecedented in Russia's history. I believe that this formidable economic phenomenon was implemented primarily due to Government support measures. Two factors have played a role here. The first factor is the quotas for meat imports, which were introduced in 2003, as far as I remember. The second is the decision to subsidize interest rates. This contributed to establishing a modern sector. In the past few years, the sector's amount of returns as regards poultry meat and pork production has provided relatively small but sufficient profitability – roughly 10-15%, i.e. 8-12 rubles of net profit per kilogram of live pork weight.

As for the financing that we have received this year, due to our large production volume, state support is large as well. As of today, we have received a total of 6.3 billion rubles, with half of this sum received by manufacturers. As we received the financing in advance, the repayment periods have not come yet. The finances are being distributed under our strict control. In this regard, I would like to raise the question of increasing our limit for subsidizing interest rates on long-term loans in animal husbandry. We need 866 million rubles, while the limit is 44 million rubles. I would like to ask to settle this issue within the limits stipulated.

Last autumn, the situation in the sector became difficult, with Russia's WTO accession and increased imports leading to price slump, particularly for pork –30% (20-25 rubles) lower per kilogram. Another factor is the twofold increase in grain prices. The prime cost for pork and poultry meat increased by 20%.

According to the results of this year's first quarter, the costs for producing a kilogram of pork in our region, which has the most up-to-date and competitive manufacturing facilities, stood at 73.8 rubles exclusive of VAT, while the sale price was 58.2 rubles exclusive of VAT. The difference – or rather, the loss – was 15.6 rubles per kilogram.

The situation in the poultry industry sector is more stable, yet adverse trends are observed there as well. This is aggravated by the growth in the remaining unsold amounts of meat, and pork and poultry meat in stock. The figures stand at 32,000 tons for poultry meat and some 7,000 for pork – in total, roughly 40,000 tons, which is three times as much as a year ago.

The financial safety margin, especially in small and medium manufacturers, is almost depleted. Some of them have already announced a slump in livestock and job cuts, although we are analyzing each situation and taking every effort to prevent this. I think that if the situation does not change, as of May or June, a default in obligations to banks that are creditors of our principal borrowers may start to occur. The planned measures, which have just been announced, will certainly ease the situation in the sector, but they will not solve any core issues.

Mr. Medvedev, in this regard, I would like to mention one more thing that is not discussed openly. The

sale prices for meat have not gone down. This year, they remain the same as they were a year ago. This means that the imbalance on the market was taken advantage of by meat processors – I am speaking of pork here – and those involved in poultry meat and pork sale. I believe that their income has grown, by the most conservative estimates, by 25-30 rubles per kilogram of processed or sold products. Plus, meat manufacturers grant loans of at least 5 billion rubles to retail chains in our region alone. Sale companies twist manufacturers' arms. A proper law was adopted 1.5-2 years ago, with easier conditions available, but all of this has actually been brought to naught. Sales companies and their lawyers find loopholes in the law, and those support measures were not actually used in full. This resulted in losses of 6 billion rubles incurred by meat and poultry manufacturers. Our commodity stocks in trade stand at 2.5 billion rubles, while advancing of trade stands at 5 billion. In total, pork and poultry producers in the region have lost 6 billion rubles in revenue due to falling prices. We have about 2.5 billion rubles worth of product in stock, and about 5 billion rubles are owed by retailers for advance product supply. That makes 13.5 billion rubles in total. Of course, had we received these funds, we'd have no problems whatsoever.

What are we proposing? There is only one proposal, and you've already talked about it. We need to ensure that the industry remains profitable; in fact, we need to save the industry and hundreds of thousands of jobs. We can do this by decreasing imports. Of course, given our WTO membership, we need to use primarily non-tariff mechanisms for import reductions.

Secondly, the federal government should compensate the losses incurred by pork and poultry producers from the federal budget. These measures have already been announced and need to be implemented promptly to ensure that they are effective.

Thirdly, we need to adjust the price ratio between various sectors. The producers and processors of pork and poultry, as well as retailers should receive a fair share of the end product's final price, as retail prices have not changed since last year.

We also need to closely study the EU and the US experience, where drastic price variation of this kind does not exist, as authorities impose tight pricing controls and guarantee a certain level of pricing. Let's research this experience and use it in Russia.

Finally, I would like to suggest that we think about production quotas. We are overproducing poultry in Russia, we have too much of it. We produce as much as 26 or 27 kg of poultry per person, which is more than we can consume. We need to introduce quotas, and withdraw subsidies from the new facilities, and maybe even freeze new production facilities altogether.

We should also look carefully at pork production, as two to three years large-scale investments were made in the sector. Once these new facilities start producing, we will easily surpass the market saturation limit. Here, too, we need to introduce production quotas, unless we want to support imports just for providing for our foreign trade.

I would like to ask you to support these measures and hopefully working together with the government and locally, we can take on this problem. At the local level, we are full of optimism and are determined to overcome these temporary difficulties. Thank you.

Dmitry Medvedev: Thank you, Mr. Savchenko. I will address the issues you have raised later, and everyone else will also have an opportunity to speak. I would only like to comment on your last point now. I remember we discussed the market saturation issue at the meeting in the Belgorod region on livestock and agricultural issues in general.

As the head of one of the most developed agricultural regions, you said that we were approaching the market saturation level. I find it very positive that we have been able to develop our production capacity so much in such a short time. If anything, we can certainly export our agricultural products to other countries.

For that, we need to be competitive on the world market. Having said that, it is absolutely necessary to understand what level we're at and decide accordingly whether to support or not various sectors of our livestock production. If we see that the market has reached the point of saturation, we need to act based on economic considerations as opposed to making decisions that are driven by other considerations.

Let's go to the Bryansk Region. Mr. Denin, go ahead please.

Nikolai Denin (*Governor of the Bryansk Region*): Mr. Medvedev, colleagues, there are currently 13 investment projects under way in the region's agricultural sector. Over the past five years investment in the sector has increased tenfold, and the volume of private investment has far exceeded the level of state support for agricultural producers.

Of the about 2.9 billion rubles in federal funding in the first six months of the year, we have already received 2.5 billion, and 70% of these funds have already been transferred to the producers. The shortage of yearly interest rate subsidies is expected somewhere in the range of 142 million rubles. I hope, this issue will be addressed. We are developing more than dairy cattle breeding, which is traditional for our area. The Bryansk Region has also created and is successfully developing a large poultry breeding company – Kurinoe Tsarstvo–Bryansk – with almost 4.5 million head, producing 76,000 tons a year. By comparison, in the best period of the Soviet era, the Bryansk Region produced just 17,000 tons. Now, we have one more project almost ready to produce 100,000 tons of poultry meat (Miratorg Company). It is almost operational, with the parent herd already in place.

In recent years we have also been developing our pig production potential. While seven years ago our farms had less than 3,000 head left, now, thanks mainly to the national program, the sector is looking up. We have eight pig producing units in operation and are completing the construction of one more for 300,000 head.

There is a lot of discussion about the difficulties facing poultry and pork producers because of the shortage and high costs of feed which is based mostly on grain. This difficult problem has hit us too. We understand that the unions and departments are looking for and discussing different approaches. The amount you mentioned, if we receive it in April, will be a great help for our pig and poultry breeders.

In this connection, Mr. Medvedev, we would like to see the same support given to beef cattle breeding. You visited us last June [to hold a meeting on the development of beef cattle breeding](#). During your trip you familiarized yourself with the Bryansk meat company – agro-holding Miratorg. Very important decisions were taken at that time – for which we thank you. Today, the company has built 24 units in the

Bryansk Region, 21 provided with pedigree cattle. By the end of this year, all 33 units planned to be built during the first phase of the project will be populated with cattle. A fattening facility for 40,000 animals has also been built, while the total population of beef cattle today amounts to 75,000 head, of which over 70,000 are breeders and over 4,000 calves were born last year.

Dmitry Medvedev: Mr. Denin, these are all positive results and, honestly speaking, it is pleasant to hear this. But our current objective is different, it is not how we developed livestock husbandry over the past few years, we have already talked about that, and I mentioned that in my opening remarks. Are there any specific proposals other than those mentioned by Mr. Savchenko or anything that concerns or takes into account the specifics of the Bryansk Region, including beef cattle breeding?

Nikolai Denin: Yes, Mr. Medvedev, together with Miratorg we have drawn up a business plan for the second stage of the beef project. You said during your visit that this project should become an inter-regional one. Today, we discussed many details with the Kursk, Kaluga, Smolensk and Kaliningrad regions. We ask you to consider the second stage of project implementation so that Vnesheconombank (Bank of Development) can finance it. The project costs 23 billion rubles: 5 billion is the investor's resources and 18 billion, loan resources. This will make it possible to hire another 2,500 workers in the project and put into operation over 200,000 hectares of land, which are poorly used in the territory of these regions, with the Bryansk Region among them.

Dmitry Medvedev: Now connect Samara please. Mr. Merkushin, hello.

Nikolai Merkushin (*Samara Region Governor*): I too, would like to thank you for holding the second meeting so soon. The emerging situation is far from simple and the issues we will solve in time will, I believe, largely determine a turning point; the kind of mood many farmers will have and the kind of future growth – like the one that has taken place in the past five to seven years.

Farms which turn out large volumes of livestock products have found themselves in a particularly difficult situation. Mr. Fyodorov just spoke about milk: he suggested some postponement. Perhaps he's right. Why? Because the feed make-up is different; there are carry-over supplies from 2011-2012 which are written off at a different price. But if at this stage, this summer, we will not be able to store feed in the right volumes, we may find ourselves in a difficult situation again because the last three years have been bad, especially for the Volga regions, and 2011 was exceptionally bad. I would like to return to the first meeting, Mr. Medvedev. Not all regions have received loans, above all loans for spring field work, while the volume of livestock products in these units is enormous. They are burdened with loans under the national project because huge facilities were built and their load is great. Loan extensions were offered because of the drought and now, this year, it is time to pay back these loans. Those unable to pay on the loans cannot obtain more loans for spring field work. It seems to me that we must examine each case because it is not that the farms are inefficient, it is simply that the situation was like that, and they are now experiencing difficulties. A bit of support will allow them to increase volumes and improving their efficiency.

As regards our region, we have carried out various programs here, and there are no great fears because the share of farming in relation to the region's GRP is not large. The 800 million ruble shortfall in government support last year has been compensated for from the regional budget. While earlier the ratio was 60% to 40%, or 60% from the regional budget and 40% from the federal budget, now the figure is

as follows: 79% from the regional budget and 21% from the federal budget.

I would like to support Mr. Savchenko. Mr. Medvedev, we should, of course, consider a number of issues to reassure farm producers that they can work profitably in the future.

The first concerns trade. We are hearing many complaints from livestock producers who, like Savchenko from Mordovia, also have over 5,000 tons of poultry meat and pork in stock. As many as 5,000 tons – about 27% of what was produced in the first quarter – remains unsold. Their hands are really “twisted” and prices have been pushed down, while retail prices are practically the same. If we fail to put this sector in order, and adjust these relationships, there will be serious problems in the future and naturally losses.

Now regarding quotas. You yourself spoke repeatedly about them and President Vladimir Putin mentioned exports in his [address](#). Many farm producers do not expect a Russian market will be sufficient enough in any case. We have lots of land and in order to work efficiently we must produce a good deal, because producing little for oneself is inefficient, and without exports Russian producers will find themselves in trouble. We should give the matter some thought and consider the further export of our products. Otherwise there will be quotas and four or five regions will corner the Russian market. Four or five regions, think about it. But 26% of our population lives in rural areas and what will they think then, for example in the Samara Region? We have mapped out a huge development program for rural areas. If we drop it, around 700,000 people who live in villages will have very little to rely on in the future.

I would like to speak for Mr. Fyodorov, who said that subsidies to compensate for interest rates on short-term loans must be increased as soon as possible. The Samara Region has already used up the money completely and even started spending the funds allocated for the entire year on the spring field work. Through my contacts from my previous work in Mordovia I know that the republic has received 1 billion rubles less than expected from the Russian Agricultural Bank and there is a big problem with the sowing work. Also, the limits on subsidies to compensate for interest rates on short-term loans have been reduced by 35%. The deadlines set by Mr. Fyodorov absolutely have to be observed. Should the necessary decisions be made in time and the banks get some sort of extra signal, the spring work will be completed in order for the farming season to continue. And if this year is successful – Mr. Medvedev, we should remember that the past three years have not been that successful for the country – but if this year is successful...

Dmitry Medvedev: 2011 was quite good, we shouldn't complain. I suggest we come back down to Earth. 2012 was, of course, hard and 2010 was extremely hard. However, things can't be easy all the time.

Nikolai Merkushkin: Mr. Medvedev, during those three years we harvested 20% less grain than before. It's a fact and we have to admit it. Sometimes it depends on the weather, which is true for the regions on the Volga River. If this year is satisfactory I think many producers will recover. Thank you.

Dmitry Medvedev: Thank you. We must ensure that our farming industry, which has always been and will always continue to be a form of economic activity, becomes less dependent on weather conditions, especially with the farming business being so important to production. This stability must be the result

of various economic instruments.

With regard to trade, as you and Governor Savchenko mentioned, we have an anti-monopoly service. What can you suggest in this regard?

Andrei Tsyganov (*Deputy Head of the Federal Anti-Monopoly Service*): Everything that can be done within the limits of the current legislation is being done. As has been correctly noted, our trading companies are coming up with more ways to cooperate with suppliers. These schemes cannot be restricted or prohibited by law and, therefore, they continue to be used. If there is no change to the trade laws...

Dmitry Medvedev: What changes are required? You need to state them clearly because...

Andrei Tsyganov: They have been laid down.

Dmitry Medvedev: Where are they then?

Andrei Tsyganov: There are certain practices that are still allowed, which we should simply ban.

Dmitry Medvedev: What are these practices? Be specific.

Andrei Tsyganov: I'm talking about signing supply agreements along with a host of other contracts on promotion, advertising, returns of shelf stock etc.

Dmitry Medvedev: Do you mean that these contracts are signed to mask price increases?

Andrei Tsyganov: Of course, all additional payments are made under these contracts.

Dmitry Medvedev: Yes, it's a complete outrage and it's totally anti-economical because the price of livestock products has dropped by one-third while shop prices haven't changed. That means that the economic regulations are not functioning properly. And I'm talking about domestic produce not imports. If any legislative initiatives or Government initiatives are required they must be submitted. Mr. Dvorkovich (*Arkady Dvorkovich*), do you have any comments on this and in general?

Arkady Dvorkovich: We met recently with lawmakers to discuss this issue and decided to start a joint working group to discuss proposals. I will work on this issue with Mr. Shuvalov, who oversees this industry.

Dmitry Medvedev: I would like our colleagues from the State Duma and the Federation Council who are present here to get involved because it is high time we did something about this problem. If the anti-monopoly laws don't work they are flawed and need to be changed.

Gennady Gorbunov (*Chairman of the Federation Council Committee on Farming Production Policy and Fisheries*): The trade law must be amended.

Dmitry Medvedev: The trade law itself is only one of the instruments and should not be seen as a cure-

all. To be honest, it has always been quite shallow even when it was being enforced. There must be a series of resolutions, not only amendments to the trade law, although I don't object to it being updated and improved.

Arkady Dvorkovich: There are two components, trade and processing. Both are quite important points for producers. There are different systems in different countries, from associations that hold quite strong positions against processing and trading companies to independent and voluntary price regulation. It is a complicated system that has taken decades to work out in other countries, but we must slowly move in this direction. Some problems can be solved through laws but not all. New practices will continue to emerge. In addition to this, there must be self-regulation.

Nikolai Fyodorov: Speaking about flawed legislation, Mr. Medvedev, maybe we should review the law on financial recovery. You talked about the specifics of the farming industry in comparison to other industries. Droughts may occur year in year out. There is a requirement that loans cannot be extended for subsidies more than once. It is a general rule for industrial production. But what about farming? Our conclusion is: if there are repeated droughts and we cannot get subsidies extended more than once, then the producer will go bankrupt. This is an extreme case, I know, but...

Dmitry Medvedev: In fact, it's been the case for the past three years. There was a severe drought in 2010 and droughts in several regions in 2011 (our colleagues present here remember this) when there was no harvest. The drought occurred again in 2012.

Nikolai Fyodorov: There was a drought in 2009.

Dmitry Medvedev: So we can see a certain trend and this is becoming an issue for many farming producers. Now let's continue the discussion and give other colleagues an opportunity to speak.

{ Conclusion of Transcript }