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The Russian agricultural sector and WTO: advantages and disadvantages

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History of Russia's accession to the WTO



Date of official accession . **August, 22, 2012.**

History: 18 years of negotiation. In 1993 Russia signed **Agreement on Agriculture** as a regulatory framework in international trading of agrifood products in the WTO.

In 1993 Russia filed an application for the WTO accession.

20 panel meetings on agriculture took place in a period from 1993 to 2011, where the Russian party advocated its national interests.

Factors that caused long accession:

1. Tough position of exporting countries (Australia, Brazil, Canada, New Zealand), they are interested in the liberalization of access of their own products to the Russian market.
2. Consensus progress regarding the state support of agriculture, export subsidies, access of other countries to the Russian market



Advantages

Providing investment appeal for the agro business in Russia

1. Access world markets, attraction of new investments into agrarian sector of Russia.
2. System modernization of agriculture.
3. Improvement of competitiveness of agricultural food sector products.
4. Development of an environmental friendly products system.
5. Intensification of Russia's participation in international trade.
6. Dropping discriminatory measures from Russia.
7. Realization of transparency in legislative regulation.
8. Training of advanced personnel for agro business.
9. The most promising areas of agricultural development in Russia are grain, corn, sunflower, rape, soy, milk and meat production.



Disadvantages

1. Insufficient domestic state support

1. According to the Agreement the level of state support rendered to agricultural producers in the amount of \$ 9 billion with a consequent reduction in equal shares to \$ 4.4 billion by 2018 has been coordinated with the Russian party.

For reference: WTO authorized level of agricultural support is:

in the USA . 19,1 bln dollars;

in Japan . 39,6 bln dollars;

in Switzerland . 3,9 bln dollars.

Disadvantages



1. Insufficient domestic state support

For reference:

Within the frames of the WTO the domestic state support is divided into three «baskets»: a green one, a yellow one and a blue one. The main principle, taken as a basis for the distribution of domestic support into the baskets, lies in the impact these measures make on trade.

The scheme of measures of domestic state support of agriculture within the framework of WTO

WTO green «basket» ó the measures do not distort an effect on trade	WTO yellow «basket» WTO ó the measures distort an effect on trade	WTO blue «basket» ó the measures limit production
<ul style="list-style-type: none">-maintaining and foundation of infrastructure;- allowance of waste in case of natural hazards;- insurance of farmers' income;- research;- HR training;- etc. Complete list is presented in Annex 2 to the Agreement on Agriculture	<ul style="list-style-type: none">- price support for interventional purchases of goods;-subsidies for certain products;- compensation for the part of the feed stuff, mineral fertilizers and other costs.- fuel at reduced price;- consumption of electricity on favorable terms;- cheap loans	<ul style="list-style-type: none">- payments, linked to fixed yields;-payments are made in case, if 85% and less of the basic production level is reached;- payments for livestock are made in accordance with the fixed number of livestock units



Disadvantages

1. Insufficient domestic state support

Application of the WTO «baskets» in Russia

1. Measures in the green "basket" can be used without restrictions and are not subject to mandatory reduction. In Russia this "basket" exists in a restricted form. Some of the measures included in it are part of the State program of development of agriculture and regulation of agricultural markets. Measures in the green "basket" do not create distortions to trade, do not affect price support of a manufacturer.

According to the Agreement on Agriculture a maximum threshold of total domestic support and its subsequent decline is fixed for measures in the yellow "basket". More developed countries have WTO commitments to reduce government support by 20% during 6 years.

The All-Russia Research Institute on Agricultural Economy (Rosselkhozakademia) has made calculations of state support for the green and yellow "baskets" based on the draft of the State Agricultural Development Programme for 2013-2020 years.



Disadvantages

1. Insufficient domestic state support

Application of the WTO «baskets» in Russia

Estimation of the scale of state support of agriculture in Russia for the period till 2020 after accession to WTO (bln dollars.)

Basket	2013	2014	2015	2016	2017	2018	2019	2020
Green	3,8	5,7	6,1	6,1	6,5	6,7	7,1	7,3
Yellow	5,7	6,1	6,5	6,2	6,6	7,1	7,7	8,4
Total:	9,5	11,8	12,6	12,3	13,1	13,8	14,8	15,7
Acceptable size of the yellow basket	9,0	8,1	7,2	6,3	5,4	4,4	4,4	4,4

Requirements for funding the measures of state support beginning from 2017 .

6,6 bln dollars

Acceptable after the accession to WTO . **5,4 bln dollars.**

Thus, an accumulated deficit is being estimated.

The Russian economic school calls this restructuring of the yellow "basket" measures into the green basket+measures as one of the ways to solve this problem. For example, they propose to give direct subsidies to agricultural producers on the basis of 1 ha and 1 head instead of subsidizing reimbursement of the purchase of fertilizers, compound animal feedstuff, etc.



Disadvantages

1. Insufficient domestic state support

Application of the WTO «baskets» in Russia

The measure of the WTO blue «basket» occurred in the WTO as a compromise between the USA and the EU. They tended to preserve rights on **considerable** support for their own agrarian sector.

To this «basket» are related:

” payments, aimed at the limitation of sizes of utilized agricultural lands and livestock;

” compensations to farmers for optional reduction of production volumes.

According to the Agreement the blue «basket», as well as the green «basket», measures are excluded from reduction commitments.

In Russia, however, these measures are not currently being used.



Disadvantages

2. Quantification procedure of state support

Considerable diversity in natural and economic conditions of agricultural production in different countries are not taken into consideration in the WTO. Thus, in Russia the state support dropped to 35 dollars per one hectare of arable land.

Scholars from the Economics Faculty at the Moscow State University initiated a proposal: to calculate the level of state support based on average indices . per one hectare of arable land and one person employed in agriculture. Such measures will provide competitive rights on the world agricultural market.

In this case Russia can get acceptable level of 50-60 bln dollars.

For reference: In the USA it is 340 dollars per one hectare, in the EU . 1053 dollars per one hectare.

Disadvantages



3. Access of other countries to the national market

The Agreement sets basic customs tariffs on the level of an average index in three years, prior to the start of negotiations (for Russia it is 1992-1994).

Events:

- 1) Tariff fixing
- 2) Reduction of tariffs by 36% (for developed countries)
- 3) Reduction of tariffs by 24% (for developing countries)
- 4) Giving definition to **tiered up customs tariffs** (a country . a WTO member should not exceed them when importing agricultural products).

In Russia:

1. In 1990ies due to the decrease in national agricultural production Russia had to open its market for import of food. **Consequence:** the average customs tariff for agricultural products was 12-14%.
2. According to the Agreement the reduction of the tariff by 1/3 will cause the formation of a tariff less than 10%. **Consequence:** complete opening of the national market for the export of goods produced by big international companies and individual countries.

For reference:

Tariff shelter of the EU agrarian market is 19,5%. Russia should assert its right to have tiered up customs tariffs on the level, accepted in the EU.

Disadvantages



4. The need for direct government subsidies for export of agricultural sector product

Consequences of Russia's accession in the WTO agrarian sector

Product list	The risks and consequences of the WTO accession	Necessary support of the state
Pork	<ul style="list-style-type: none">- 8 times reduction of import duties on live pigs up to 5 % will result in price collapse, up to 2 times decline in profitability;- reduction of duties on giblets and by-products from 25 to 15% will lead to the loss of economic viability of primary pig processing	2012-2015 - 20 bln rubles annually 2016-2020 - 10 bln rubles annually
Beef	<ul style="list-style-type: none">- a price criterion of 8000 euro per ton, that comes from Canada, the USA, Argentina, that may result in uncontrolled introduction of import meat;- wholesale prices will go down ó losses will be 17 bln rubles per year; besides, projects payback periods will increase from 11 years to 14-15 years	17 bln rubles annually During 10 years for allowance for waste
Poultry	<ul style="list-style-type: none">- if the price goes down by 5-6 rubles for a kilo it will result in 22 bln rubles per year loss for a manufacturer;- increase in the production of poultry meat will lead to 140000 tons excess stock already in 2012	20 bln rubles annually

Disadvantages



4. The need for direct government subsidies for export of agricultural sector product

Consequences of Russia's accession in the WTO agrarian sector

(continued from p.11)

Products list	Risks and consequences of Russia's the WTO accession	Necessary support from the state
Sugar	- a plain rate of import duty will be introduced for raw sugar instead of a floating one on the level of 140 dollars per ton, as a result of which tariff shelter of a national manufacturer will decrease by 25%; - duties for sugar containing syrups will go down ó losses up to 25 bln rubles a year	Subsidies for expenses of sugar beet crops 25 bln rubles per year

Disadvantages



4. The need for direct government subsidies for export of agricultural sector product

Consequences of Russia's accession in the WTO agrarian sector (continued from p.12)

Products list	Risks and consequences of the WTO accession	Necessary support from state
Milk	<ul style="list-style-type: none">- reduction of import duties on all types of dairy products due to low profitability, the supply of imported goods will rise sharply, domestic production will decrease;;- imports on milk powder will increase by 60%; as a result in the fact that the production will reduce twice, half of the operation lines will be stopped;- processing of raw milk will go down to 2 million tons. Within 3-5 years about 200 regional plants, including 65-70 cheese-making ones will go bankrupt	For preservation of livestock number ó 26-29 bln rubles annually
Fat and oil products	<ul style="list-style-type: none">- in three years the reduction of import duties on fats and margarine will result in 13,9 bln rubles losses;- as a consequence of export duties reduction for sunflower seeds the total amount of sunflower seeds import will dramatically increase;- the reduction of sunflower oil production will lead to the close of fat and oil factories, rise in unemployment, growth of social tension	For 5 years it is necessary to subsidize the production of products of deep processing of vegetable oil. Remission of a part of debts.



Disadvantages

4. The need for direct government subsidies for export of agricultural sector product

Russia's WTO membership entails certain risks for the country's agriculture.

But they are predictable; they can be calculated and a program for modernization of national agriculture can be drawn up.

"We must make investment in agricultural production as a whole more reliable and future-oriented, no worse than investment in securities.%o

Thank you for your attention!