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## Russian Federation

### Agricultural Situation

### Federal Law "On Development of Agriculture"

**2007**

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**Report Highlights:**

Following four years of on-and-off drafting, consideration, and rewrites, the Federal Law "On Development of Agriculture" came into force on January 11, 2007. The law was hastily adopted by the State Duma and approved by the Federation Council in the last week of December, and shortly thereafter signed by the President. Critics believe the law will have no positive effect on agriculture and rural development, as it is not supported by financial measures, and does not set priorities in the existing legislature that relates to agriculture. At the same time, adoption of a special "agricultural" law closes discussions of whether it is necessary to consider agriculture a separate economic sector, and lays groundwork for future legislation relating to agricultural support.

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## Summary

The Federal Law "On Development of Agriculture" (#264-FL) was adopted by the State Duma on December 22, approved by the Federation Council on December 28, and signed by the President on December 29, 2006. On January 11, 2007, the law was officially published and came into force. It took the Duma and the Russian Government more than four years to discuss the Federal Law on Agriculture, to reject one draft after another, to argue about possible federal budget appropriations to be mandated or authorized by that law, and only a week hastily to adopt, to approve and to sign the law. This version is a framework law, as it provides definitions, describes general goals, principles, and directions of the government agrarian policy, but omits all references to budget authorizations. The law envisages that concrete measures and budget will be determined on a regular basis in a separate 5-year government program of agricultural development and market regulation. The first 5-year program is to be adopted by July 15, 2007, and it is supposed to go into effect in 2008.

In the meantime, the allocation of budget money to agriculture is likely to be based, as before, on a case-by-case principle and implemented through separate resolutions of the government of Russia. Some interim resolutions (decrees) of the government on financing of agriculture were issued at the same time (see GAIN report RS7004 *Decrees on Agricultural Stabilization*).

Opponents and critics consider that at best the law will change nothing in the present government policy, but will at least put a lid on all discussions about the necessity to consider agriculture a special sector of the economy. Implementation of agrarian policy outlined in the law will depend wholly on changes in the federal budget, general budget priorities, and the ability of the agrarian lobby to garner resources relative to other economic sectors. Given that the agrarian lobby is not strong, agricultural producers are not hopeful about significant government support in the future, and relations between these producers and the government are expected to be left at the discretion of government resolutions. As for the 5-year program, it is not likely that it will be much different from the short- and medium-term proposals and budget requests that the Ministry of Agriculture usually prepares for regular discussions of federal budget.

### **Provisions of the Federal Law "On Development of Agriculture"**

Below is the list of articles of the Federal Law "On Development of Agriculture", and brief descriptions of the most important of them. The Russian text of the Federal Law "On Development of Agriculture" is available on the website <http://rg.ru/2007/01/11/selhoz-dok.html>

#### **Article 1. Subject of regulation of the present Federal Law**

The law regulates relations between individuals<sup>1</sup> and legal entities recognized as agricultural commodity producers, on one hand, and other individuals, legal entities, government authorities, on the other, in the sphere of agricultural development. The law establishes a legal basis for implementation of social-economic policy in the sphere of agricultural development, defined as economic activity involved in the production of agricultural

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<sup>1</sup> In the Russian text the word used is "grazhdane", literally meaning "citizens" but often used to refer to "individuals" (presumably, if not citizens of Russia, then citizens of some other country). In previous official translations of other laws the word was translated as "individuals", but given the present concern of Russian authorities about the citizenship of traders, producers, etc., the word "citizen" may mean that those not citizens of Russia are not covered by this law.

products, services aimed at supply of population with Russian food products, supply of industry with agricultural raw materials, and assistance to sustainable rural development (rural settlements and inter-settlement territories).

### ***Article 2. Legal regulation of relations in the sphere of development of agriculture***

Legal regulation in the sphere of development of agriculture and sustainable rural development is based on this Federal law, other federal laws and other legal norms of the Russian Federation, subjects of the Russian Federation, and normative acts<sup>2</sup> of local authorities.

### ***Article 3. Agricultural commodity producer***

The following physical and corporate entities<sup>3</sup> are considered agricultural commodity producers:

- Organizations and individual entrepreneurs that produce agricultural products, process these products and sell these products, if the share of revenues from sales of these products in the total revenues of agricultural producer is not less than 70 percent during the calendar year;
- Individuals (citizens) with plots of land used for private subsidiary (household plot) farming (as determined by Federal Law 112 "On Private Subsidiary Farming");
- Agricultural consumer cooperatives, including credit cooperatives (as determined in Federal Law 193 "On Agricultural Cooperation"); and
- Peasants' (farmers') enterprises (as determined in Federal Law-74 "On Peasants' (Farmers') Enterprises").

### ***Article 4. Agricultural production and market of agricultural products, raw materials and foodstuff***

Article 4 defines agricultural production as the totality of forms of economic activity involved in production and processing of agricultural products, including related services; defines agricultural markets as the "realm of circulation of agricultural products, raw materials and foodstuffs."

### ***Article 5. Government agrarian policy***

This article stipulates that government agrarian policy is part and parcel of the government's social economic policy aimed at sustainable agricultural and rural development. Sustainable rural development means stable social economic development, increase of volumes of agricultural production, increase of efficiency of agriculture, full rural employment, a rise in living standards, and rational land use. The article lists the following:

- Main purposes of the state agrarian policy:
  - Increased competitiveness of agricultural producers and provision of high-quality food to the population;
  - Sustainable rural development;
  - Natural resource conservation;
  - Formation of a functioning market for agricultural products,
  - Creation of a favorable climate for agricultural investment; and

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<sup>2</sup> regulations

<sup>3</sup> In original Russian, "physical and juridical persons".

- Price parity;
- Principles on which policy is based, including availability and targeting of government support of agricultural producers, availability of information about the policy, provision of equal opportunities for competition among domestic market actors, and participation of producers' unions and associations in policy development and implementation;
- Main directions of the policy, including:
  - Stable supply of population with Russian food products,
  - Formation and regulation and development of infrastructure of agricultural markets,
  - Government support of agricultural commodity producers,
  - Protection of economic interests of Russian agricultural commodity producers in domestic and foreign markets,
  - Development of science and innovation in the agroindustrial complex,
  - Sustainable rural development, and
  - Improvement of education, training and continuing education of agricultural specialists.

**Article 6. Measures for implementation of the government agrarian policy**

The following measures are authorized for implementation of the policy:

- Budget allocations,
- Special tax regimes,
- Procurement, storing, processing, and supply of agricultural products for the government and municipal needs,
- Regulation of markets, including customs -tariff and non-tariff regulation,
- Information support, and consultations,
- Anti-monopoly regulation of markets,
- Participation of public organizations in the formation and implementation of agrarian policy,
- Procurement and commodity interventions, and
- Other measures.

**Article 7. Main directions of government support in the sphere of development of agriculture**

The following directions of government support are listed in the Article:

- Provision for availability of credit resources,
- Development of risk insurance system,
- Development of pedigree livestock,
- Development of elite seed production,
- Support of livestock production,
- Support of development of orchards,
- Support of renovation of basic production capital stock,<sup>4</sup>
- Provision for measures to improve soil fertility,
- Provision for sustainable rural development,
- Consultancy services and training, and
- Information support.

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<sup>4</sup> I.e., agricultural machinery.

The measures listed above are to be financed out of the federal budget in accordance with legislation of the Russian Federation and the annual budget laws. The government of the Russian Federation has the right to establish terms, procedures, and criteria of federal subsidies to the budgets of subjects of Russian Federation.

***Article 8. Government program of development of agriculture and regulation of markets of agricultural products, raw materials and foodstuffs***

This article authorizes a government program<sup>5</sup> that shall be adopted every 5 years to implement the government agrarian policy: "The Government Program of Development of Agriculture and Regulation of Markets of Agricultural Products, Raw Materials and Foodstuffs" (hereinafter – the government program) "determines goals and main directions of development of agriculture and regulation of markets for the middle-term period, financial provision, and mechanisms of implementation of envisaged measures". The article stipulates how, when, for what period the program shall be adopted. The program shall be drafted and submitted for consideration of the government by the "federal body of executive power that conducts functions of development of government policy and regulatory-legal regulations in the sphere of agro-industrial complex and fisheries"<sup>6</sup>

***Article 9. Implementation of government policy***

Article 9 stipulates that development of agricultural agrarian policy and regulation of implementation of the government program is conducted by the appropriate federal body and the authorized authorities of the subjects of the Russian Federation through targeted programs and other measures. The federal and industry target programs are developed and implemented in accordance with the legislature of the Russian Federation.

***Article 10. National report on the progress and the results of implementation of government program***

This article stipulates when, how, and who prepares the National Report on the Implementation of the Program, and what information and data shall be in the Report.

***Article 11. Government support of credits for agricultural commodity producers***

This article outlines, in general, the forms and rules of government support of agricultural commodity producers through subsidized credits.

***Article 12. Agricultural insurance supported by government***

This article sets general rules for government support of agricultural crop insurance. Agricultural commodity producers are eligible for subsidies from the federal budget (passed through the budgets of the subjects of the Russian federation) to cover up to 50 percent of their insurance premium payments. Coverage is explicitly extended to cereal grains,

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<sup>5</sup> In Russian - "gosudarstvennaya programma".

<sup>6</sup> In order to avoid rewriting the law in case of future administrative reform, the law never mentions the Ministry of Agriculture, but uses the term "federal body of executive power that performs functions of development of government policy and of normative-judicial regulation in the sphere of agro-industrial complex and fisheries, in accordance with the order set by the Government of the Russian Federation". Hereinafter this term will be abbreviated as "Federal Body"

oilseeds, industrial crops (e.g., sugar beets), forage crops, cucurbits, potatoes, and vegetables, as well as perennial seedings, tea plantations, hop yards, vineyards, fruit and nut orchards, and berry farms. Such perils as drought, frost, winterkill, hail, rot, dust and sand storms, earthquake, avalanche, flash flood, flood, and soil supersaturation are specifically covered.

***Article 13. Government support of measures of improvement of soil fertility and protection of agricultural lands***

Specific government support in this area shall be determined by the program, but shall include measures aimed at stimulation of application of fertilizer at the expense of government budgets of all levels.

***Article 14. Government procurement interventions, commodity interventions for regulation of market of agricultural products, raw materials and foodstuff***

The purposes, regime and main procedures of government procurement and commodity interventions are outlined very generally in this article.

***Article 15. Participation of federal government and authorities of the subjects of the Russian Federation in implementation of government agrarian policy***

Article 15 describes the responsibilities of the Federal Body and the responsibilities of the subjects of the Russian Federation in implementation of the government agrarian policy. The Federal Body is responsible for implementation of the government program, for coordination of the activities of subjects of the Russian Federation, and supporting prices in the market for agricultural products, raw materials and foodstuffs through procurement and commodity interventions and other measures envisaged by the present Federal Law. The executive authorities of the subjects of the Russian Federation are responsible for implementation of government program within the subjects of the federation.

***Article 16. Participation of unions (associations) of agricultural commodity producers in formation and implementation of government agrarian policy***

This article stipulates that the Federal Body may invite (on a voluntary basis) unions and associations, if their members produce more than two thirds of the volume of production of a respective commodity, to participate in the development and implementation of government agrarian policy.

Unions and associations may participate in the following activities:

- Development of drafts of norms and legislative acts, target programs and the national report,
- Introduction and distribution of scientific achievements, Russian and foreign agricultural experience,
- Submission of necessary information for development and implementation of agrarian policy,
- Development of recommendations for the authorities,
- Other forms of participation in accordance with Russian legislature.

**Article 17. System of government information support in the sphere of agriculture**

The Federal Body shall create and shall be responsible for functioning of the information support system. This system shall include information on the following:

- Implementation of federal and sectoral targeted programs,
- Status of development of livestock and crop sectors,
- Quantity and quality of agricultural equipment and machinery, fuel availability and energy consumption,
- Agricultural chemicals and land reclamation in agriculture,
- Monitoring of agricultural lands,
- Financial-economic status of agricultural enterprises,
- Phytosanitary and epizootic situation on the territories of the Russian Federation and on measures aimed at diagnosis, eradication and prevention of spread of plant and animal diseases,
- Number of workers and personnel of agricultural organizations,<sup>7</sup>
- Status (condition) of the food manufacturing and processing industries,
- Status, condition and use of hunting preserves,
- Results of monitoring of prices in the markets of agricultural products, raw materials and foodstuffs, and monitoring of prices of inputs purchased by agricultural organizations. The rules and procedures for submission of this information are stipulated by the Federal Body.

The following information is mandatory, and shall be posted on the official web-site of the Federal Body, on the Internet, and/or on official sites of the authorities of the subjects of the Russian Federation<sup>8</sup>, and shall be revised at least once per quarter, and shall be free of charge:

- Decisions of the Federal Body,
- Rules (regulations) and legal acts of the Federal Body and authorities of the subjects of the Russian Federation that determine procedures of government support in agriculture,
- Levels of customs tariffs, tariff quotas and application of these quotas, volumes of exports and imports of main agricultural commodities raw materials and foodstuffs,
- Forecasts and actual data on production of the main agricultural products, raw materials and foodstuffs in the Russian Federation and subjects of the Russian Federation (monthly reports of sown crops, harvest, livestock numbers, volumes of production of milk and other agricultural products),
- Average prices of agricultural products, raw materials and foodstuffs paid to agricultural producers, and prices of inputs,
- Results of the All-Russian Agricultural Census at the regional levels,
- Status of the federal intervention fund of agricultural products and results of government procurement and commodity interventions,
- Volumes of end-of-year stocks of agricultural products, raw materials and foodstuffs in the Russian Federation,
- Information about tenders for agricultural products, raw materials and foodstuff for government needs,
- Other information as required by the Federal Body.

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<sup>7</sup> "Agricultural organizations" means in this context corporate and cooperative farming enterprises.

<sup>8</sup> The phrase "subjects of the federation" refers to provincial political subdivisions (*oblasts*, *krais*, titular republics, autonomous *okrugs*, and so on), and not to the citizenry.

**Article 18. Entry into force of this Federal Law**

The Federal Law comes to force on the date of its official publication.

**What Didn't Get Into the Bill**

An analysis of amendments proposed and rejected during debate of this year's iteration of the bill reveals that in addition to a certain amount of regional interest (e.g., a desire to include fisheries by senators from Astrakhan and Karachayevo-Cherkessiya and to support reindeer herding by others), there were efforts to

- define parity, and to mandate compensatory payments to agricultural producers based on the disparity between prices paid and prices received;
- define food security as a policy eliminating all risks associated with dependence on foreign supplies of foodstuffs and agricultural raw materials;
- make food security one of the primary objectives of national agricultural policy;
- restore irrational support of agricultural production in the Far North, as was done during the Soviet era;
- guarantee minimum procurement prices for agricultural products purchased by the federal and local governments;
- mandate subsidies *inter alia* for livestock production, capital stock replacement, soil chemistry analysis, fertilizer, lime, machinery leasing, planting of windbreaks, vineyards, hop yards, and other perennial plantations;
- improve rural housing, medical service, education, and utilities;
- mandate spending of 5 percent of the government's annual budget on programs authorized or otherwise foreseen by this act; and
- define "ecologically pure" food.

In some cases, rejected amendments would have created open-ended commitments of funds (e.g., mandates of compensatory parity payments) that conceivably could have run afoul of Russia's yet-to-be-determined commitment to an aggregate measure of support cap under the Agreement on Agriculture of the World Trade Organization. It is highly likely that such amendments had to be defeated in order to win the assent of both the economic bloc ministries and the Presidential Administration.

**Reaction to the Law**

On January 9, 2007, Russian Minister of Agriculture Aleksey Gordeyev reported to President Putin that the long-awaited Federal Law "On Development of Agriculture" would meld the government's sporadic agriculturally related measures into a system, and for the first time would provide a legal interpretation of government agrarian policy as an integral part of the government's socioeconomic policy. Minister Gordeyev also pointed out the law's merits:

- It sets priority directions for government support of agriculture, including sustainable rural development;
- It envisages adoption of 5-year government programs of development of agriculture and regulation of markets, and a procedure of the adoption of this program;
- It gives the government authority to survey prices of agricultural products, fuel, and agricultural machinery, and in case of "parity" violations, authorizes subsidization of agricultural commodity producers and conduct of government commodity and procurement interventions; and
- It obliges the government to inform the public about progress and results of implementation of the government program every year by May 15 in the form of a National Report.

Other agrarian political figures have noted privately that the new law is “at least something,” a first attempt to get comprehensive agricultural legislation passed that over time can be reworked into something more meaningful. Members of both houses of the Russian parliament have described the law as “hollow,” but have also characterized it as a “start” – perhaps not a particularly good start, but a start nonetheless in the direction of a coherent government agricultural policy.

Most Russian economists, agrarian leaders and businessmen believe the law adds nothing to the present situation. Quiet opponents of the law predict that the law will neither stimulate nor hamper development of agriculture, increase of the domestic food supply, nor will it improve the well-being of rural communities, as it does not set budget parameters of support, nor does it specify mechanisms or instruments for implementation of agrarian policy.

Other opponents consider adoption of the law a mistake as in their view it closes the debate over the poor status of Russian agriculture and the necessity to develop a straightforward, integral agrarian policy with definite prescriptions for government action. More vocal opponents described the law as “contradicting the interests of the government and society”. One large group of State Duma members went so far as to send a letter to President Putin asking him not to sign the law (the letter was published in the “Selskaya Zhizn” newspaper after the law was signed and came into force, however.)

These opponents mainly argue that the law does not improve the legal basis for support of agriculture. They point out that the definition of an agricultural commodity producer does not reflect real life, and argue that the share of income from sale of agricultural products should be decreased from 70 percent of income to 50 percent, as a significant portion of agricultural enterprises are being forced to diversify their operations in order to survive. The current 70-percent ceiling deprives these producers of government support. Duma Deputy and Agrarian Party Chairman Vladimir Plotnikov and others proposed to amend the definition such that smallholders would be held to the 50-percent threshold, but these amendments were defeated.

In addition, the law does not guarantee government support for specific agricultural and agribusiness sectors, such as dairying, which in some circles has evoked jealousy verging on rage (particularly when compared to levels of support enjoyed by producers in the European Union, who now include the former Soviet republics Estonia, Latvia and Lithuania). Based on earlier drafts, the law should have determined, but now does not, specific government support for improving soil fertility, acquisition of agricultural machinery, renovation of capital stock, seed and livestock selection, support of livestock and fish brood material, compensation for price increases of motor fuels and lubricants, development of viticulture, gardening, tea and hop farming.

Opponents also complain that adequate financial support of agriculture will require additional resources, and have proposed to accumulate all potential land rent accruing from transfer of agricultural lands to non-agricultural purposes in a special fund for development of agriculture.

### **Comments**

Passage of a hollowed-out Federal Law “On Development of Agriculture” containing no specific authorizations for appropriation of funds represents a victory for the Ministries of Finance and of Economic Development and Trade, who fought to keep such authorizations out of the bill. There were two rationales at play. First, these economic bloc ministries fiercely oppose adoption of programs to spend money on agriculture in the absence of either

a vision or a framework of specific programs designed to achieve rational policy goals. In fact, to date Russian agrarian interests' major policy imperative has been "food security" (often equated with "food independence"), a position diametrically opposed to the trade liberalization philosophy inherent to accession to the World Trade Organization, and thus one that evokes deep suspicion from the economic bloc ministries, who control the purse-strings.

Second, Russia's agriculture sector has a poor history of return on investment in gross production. While the Russian economy as a whole has grown at a rate of 6 to 8 percent per annum in this decade, Russian agricultural production over the past seven years has grown at a rate of only one to one-and-a-half percent per annum. This low growth occurred despite massive private-sector investment since 2000 into transformation of bankrupt collective and state farms into "agroholdings", and government support amounting to \$3 billion per year (about 8 percent of gross agricultural product). In this light the economic bloc ministries were hardly keen to accept legislative mandates to spend additional federal money on what they view as an underperforming economic sector.

That said there are some bright points in the law. For one, Russia finally has a legal definition of "agricultural producer". In Russia, upwards of 40 million households (implying over 100 million people out of a total population of 143 million) are in one way or another engaged in food production through activities ranging from large-scale, commercial farming down to urban and periurban subsistence gardening on pea-patch plots. Over half of Russia's food is produced by private citizens on plots averaging roughly one acre. Thus, agreeing on a definition of "agricultural producer" was not easy. Though the law's definition is easy to criticize (should commercial producers derive 70 percent or only half of their income from farming?) at least it includes the major groups of producers, including private plot holders, peasant farmers, and production cooperatives, as well as corporate farms.

The law also mandates free dissemination of information, critical to adding transparency to a market notorious for being obscure. The Ministry of Agriculture during its 2004 reorganization contracted out its public information functions to a private firm, which began charging the public for access to information that in Western countries is easily available and free of charge. Markets move based on information, and thus the law's information clause is one of its more important.

From a programmatic standpoint, the law adds little to the existing body of laws and regulations in the realm of agriculture and agribusiness. However, though it does not explicitly articulate priorities, the list of "basic goals" specified in Article 5 comes close, and provides a general framework for policy and program development. The question yet to be answered is whether a general statement of a policy goal, such as achievement of parity between prices paid and prices received, can lead to program implementation that has any chance of achieving that goal. If in fact future Russian agricultural programs begin to focus on the first goal of Article 5, competitiveness, in the sense of being more inherently competitive (via improved genetics, education, technology, and so on) the new law could lead to some good. If, however, it reverts to past form and becomes a platform for demanding direct payments and subsidies, it will have little impact.