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Agricultural Situation

Russia: Doctrine of Food Security

2008

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Report Highlights:

The Russian Ministry of Agriculture is working on a National Food Security Doctrine, which may be adopted by the Order on the Russian President in December 2008. The concept of the doctrine was supported by the Upper Chamber of Russian Parliament. The doctrine shall include several indexes, which will show the target levels of the country's food security, including per capita agricultural food consumption, share of imports of domestic consumption, indicative prices for some major agricultural food products.

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Table of Contents

Executive Summary **3**
Development of Russia’s Food Security Doctrine **3**
 Present Agricultural Achievement 3
 Reasons for development of a Food Security Doctrine 4
 Food Security Doctrine’s Outlines 5
Commentary **6**
ANNEX **8**

Executive Summary

The current financial crisis may help the Russian Ministry of Agriculture to push forward its long cherished project: to subject Russia's agricultural and food policy to a rigid framework under the umbrella of National Food Security. Russian Minister of Agriculture Aleksey Gordeyev reported that the Ministry is working on a food security doctrine, and it will be presented to Russia's President Dmitriy Medvedev for signature. For the Russians the nation's food security means that the country's economy guarantees food independence and stability of supply, all citizens shall have guaranteed access to food, and the quality and safety of food products is guaranteed by the state.

The doctrine shall include several indices which will show the target level of country's food security, including per capita agricultural food production, consumption, share of imports of domestic consumption, and indicative prices for some major agricultural products. At the present Russia is lagging far behind its production targets for meat, poultry and dairy products. The government intends to undertake urgent measures to improve the situation for these commodities. The Ministry is likely to turn to direct subsidies and credit to help bolster production and advocate for changes in tariff policies and SPS schemes to curb import competition.

Development of Russia's Food Security Doctrine

At the end of 1990's the Ministry of Agriculture had developed the draft Federal Law on the National Food Security, but this draft was not supported by other major economic ministries, including the Ministry for Economic Development and Trade and the Ministry of Finance and therefore it did not pass the Duma hearings. In the beginning of 2008, the idea of the national food security legislation re-emerged. However this time, rather going through the Duma procedure it will go directly to the President.

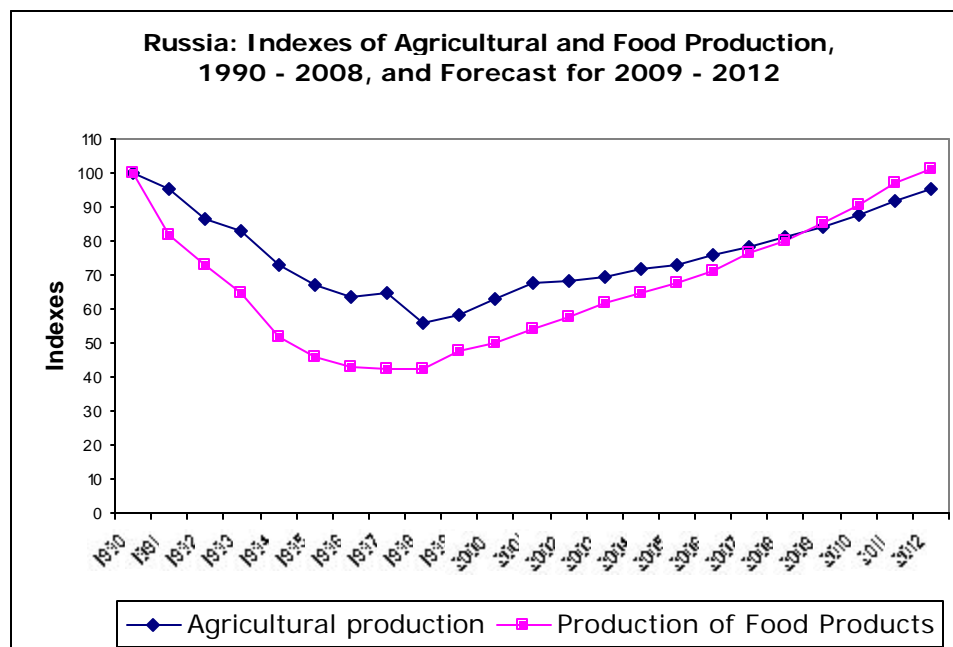
On October 9, 2008, Russian Minister of Agriculture Aleksey Gordeyev reported to the Federation Council, the upper chamber of the Federal Assembly of the Russian Federation, on the concept, goals and parameters of the Food Security Doctrine. The Federation Council decided to support the doctrine, and issued a resolution on food security (Annex 1), which will facilitate adoption of this doctrine by Presidential Order.

Present Agricultural Achievement

According to the Ministry of Agriculture, the agricultural situation in Russia has improved within the last 10 years. The gross agricultural product increased by 25 percent, and production increased by 38 percent. However, Russian agricultural and food production has not yet reached the level of 1990. Indices of Russia's agricultural and food production in the period 1990 – 2008 are shown in Graph 1. In the last 3 years Russia has become one of the major world grain exporters.

Starting this year Russia's agricultural policy has been based on the Federal Law "On Development of Agriculture", and the 5-year National (State) Program on development of agriculture, which envisage that by 2012 Russia's agricultural output will reach 95 percent of the 1990's level, and food industry output will reach 101 percent of the 1990's level.

Graph 1. Russia: Indexes of Agricultural and Food Production



Source: Ministry of Agriculture of the Russian Federation

However, the program did not envisage the new realities of 2008: changes in the national economy, dramatic increases of fuel and fertilizer prices, and a shortage of financing. In efforts to compensate for these challenges, in 2008 budget outlays for agriculture increased by almost 60 billion rubles (\$2.2 billion), or 75 percent from the original budget level for 2008, including:

- 31.5 billion rubles (\$1.1 billion) for Rosselkhozbank's Charter Capital (in order to overcome the current deficit of credit resources);
- increased subsidies to farmers' for fertilizer (8 billion rubles-\$290 million), feeds for poultry and pig farms (10 billion rubles-\$364 million), and diesel fuel (10 billion rubles-\$364 million).

In addition, the Government recently decided to allot Rosselkhozbank an emergency fund of 25 billion rubles (\$911 million) for agricultural credits.

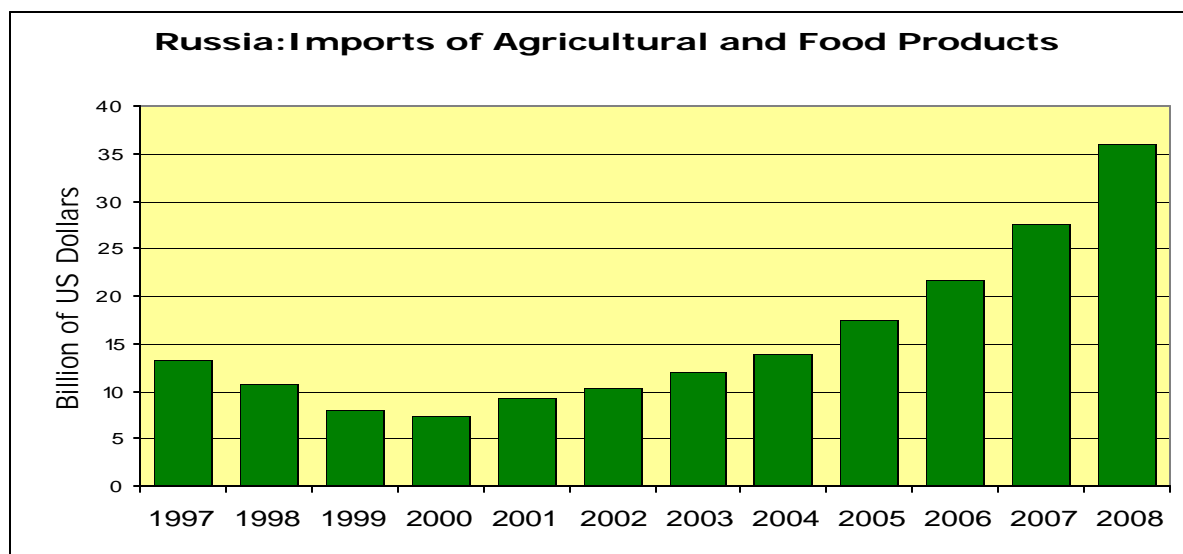
Reasons for development of a Food Security Doctrine

According to the Minister of Agriculture, concerns about Russia's food security are based on the following:

- Russia has a high dependency on imports for food products. The value of agricultural and food imports have been increasing since 2000 from \$7.4 billion to \$27.6 billion in 2007, and an estimated \$36.9 billion in 2008 (Graph 2). Imported products account for 36 percent of commodity resources in the Russia's food market and have reached 41 percent for meat and 27 percent for milk;
- The growth in Russia's agricultural production is lagging far behind the growth in food imports, especially imports of meat and milk and dairy products. In 2008 imports of pork increased by 29 percent, and imports of dry milk doubled;
- Russia's dependency on the world agricultural and food markets and vulnerability to the fluctuations of world prices has increased;

- Per capita yearly consumption of some food products are lower than the recommended dietary norms. For example, meat and meat products (on a meat basis) consumption is only 61 kilograms, or 81.3 percent of the norm, milk and dairy products (on milk bases) consumption is 242 kilograms (79.3 percent of the recommended norms), eggs and egg products consumption is 254 pieces (101.6 percent of the norm), vegetables and fruits and berries consumption is 110 kilograms and 54 kilograms (73.3 and 77.1 percent of the recommended norm). Per capita consumption of sugar, vegetable oil, potato and bread and cereal products are 39 kg, 12.8 kg, 132 kg, and 121 kg, or higher than recommended norms (130.0 percent, 106.7 percent, 132.0 percent, 115.2 percent, respectively).

Graph 2. Russia's Imports of Agricultural and Food Products, Billion of US Dollars



Source: Ministry of Agriculture of the Russian Federation

Note: USDA Moscow believes that due to the shortages in import financing and difficulty in accessing credit in the 4th quarter, Russian imports of agricultural products will be in the range of \$30-33 billion.

Food Security Doctrine's Outlines

The doctrine will stipulate the term and the meaning of Food Security. Food Security shall mean the country's economy guarantees food independence and stability of supply, each and all citizens shall have guaranteed access to food, the quality and safety of food products shall be guaranteed by the state, and there are necessary stocks, including reserve funds.

Minister Aleksey Gordeyev referred to the federal budget support of agriculture in other countries. According to Russian MinAg's calculations, foreign countries support their agriculture at much higher level than Russia. For example, in Norway the level of state support for farmers is 68 percent of each unit of produced product, in the EU – 32 percent, in the U.S. – 16 percent, while in Russia it is only 6 percent.

Minister Gordeyev outlined the major indices, which will show the level of the country's food security:

- level of per capita agricultural and food production
- level of per capita consumption of major food products
- energy (nutritional) value of the diet of population

- consumption of food products by different groups
- share of imports of major staple food products in the commodity resources
- volumes of strategic food reserves
- indicative prices of the major agricultural products

Minister Gordeyev outlined the following major threats to the food security:

- imports surpass the determined threshold
- low level of consumers' effective demand
- price disproportions in the food markets
- shortage of qualified personnel
- low development of systems of monitoring and forecast of agricultural market
- political threats

According to the Ministry of Agriculture, the nation's food security will be achieved, if domestic production supplies 95 percent of domestic consumption of potato, 90 percent of domestic consumption of grain, milk and dairy products, 85 percent of salt, 85 percent of meat and meat products, and 80 percent of fish and fish products, sugar, vegetable oil. The production of meat and dairy products is the furthest from these target levels.

Minister Gordeyev offered to include in the Russian legislation the indicative prices for the major staples, socially important food products such as grain, meat, milk, and sugar. The indicative prices shall provide for the normal level of income for agricultural producers and help stimulate production to meet 100 percent of Russia's consumers' demand for staple food products.

Ministry of Agriculture offers the following mechanisms to guarantee the food security:

1. Sphere of food consumption
 - consumer targeted assistance programs
 - technical regulations
 - food quality and safety control systems
 - legislative mechanisms
 - development of market infrastructure (commodity transmission infrastructure)
2. Sphere of agricultural production
 - optimization of inter-industries economic relations
 - improvement of financial and credit system
 - regulation of custom tariffs
 - creation of intervention funds
 - technical and technological development
3. Organizational measures to manage food security of Russia

According to Minister Gordeyev, the Food Security doctrine shall become a basis for programs of development of agriculture and agro-industrial complex, and shall be an integral part of all of Russia's programs of social and economic development, adopted both at the federal and regional levels.

Commentary

In view of the financial crisis and possible economic recession, the Russian government and the President pay special attention to agriculture as a strategically important sphere of the economy, and the chances of the adoption of the Food Security Doctrine by the Presidential Order are very high. The doctrine will not be framed as exclusively an agriculture related document, but rather a national platform, which will cover issues of price disparity, development of science and technologies, and trade issues.

It is not clear, to what extent other Ministries, except the Ministry of Agriculture, will follow the Doctrine's goals in their programs and documents. For example, the draft federal law on trade has been under discussion for more than a year, because the Ministry of Economic Development, and Ministry of Industry and Trade strongly object to MinAg's proposals to single out issues of agricultural trade and to establish regulated margins for socially important food products. Other Ministries and Agencies also may object to granting agricultural and food industries economic preferences. However the Ministry of Agricultural, which often advocates for agricultural protection and increased agricultural support, will likely use this document to justify stricter import policies and new domestic subsidies.

ANNEX

Decision of the Federation Council on the status of food security and food security measures

November 11, 2008

Having studied the status of food security in the Russian Federation and food security measures, the Federation Council of the Federal Assembly of the Russian Federation has presented the following considerations.

Food security is a vital part of the country's national security, supporting social and economic stability. Therefore, a set of conditions must be met to maintain the country's self-sufficiency in food supply: development of competitive enterprises and organizations in the agribusiness and fishery industries, state support of domestic manufacturers, regulation of the domestic food market and foreign trade in agricultural products, raw materials and foodstuffs, creation of government reserves. It is equally important to resolve the issues of availability and affordability of foodstuffs to the citizens, quality control and safety of foodstuffs, as well as improving the food ration structure, especially for the low-income part of the population, attaining the level of per capita consumption of basic foodstuffs, corresponding to the recommended rational norms.

In recent years, the improving macroeconomic situation and actual growth of household income entailed the growth of aggregate demand for food products. The trend has become evident for increasing household consumption of the basic foodstuffs; however, as regards meat and meat products, milk and dairy products, fruit and vegetables, the level of consumption is still below the recommended rational norms. This is caused by a number of unresolved issues, including the inability of the agribusiness and fishery industries production capacity to fully meet public demand for certain products, in spite of the positive trend.

The situation is aggravated by the global economic crisis and problems in the country's financial system. Interest rates on loans are growing, terms and conditions of loan provision are getting stricter. Increasing prices for energy resources, including fuels and lubricants, for mineral fertilizers and animal feed adversely affect the financial status of domestic manufacturers. The issue of technical and technological upgrade of agricultural equipment needs to be addressed. Another negative factor influencing the industry is the growth in imports of agricultural products, raw materials and foodstuffs.

To ensure food security, domestic production increases must be stimulated, starting with the creation of favorable conditions for the development of agribusiness, first of all livestock farming. This brings about the need for improving the forms and methods, and enhancing government support aimed at raising the profitability and investment attractiveness of agribusiness, developing agricultural technologies, as well as making credit resources more available, implementing measures of government regulation in the agricultural products, raw materials and foodstuffs markets, strengthening the supply chain, improving access to the market for all types of agricultural manufacturers, enhancing the interaction between suppliers and wholesale and retail traders.

Besides, special attention must be paid to the improvement of the legal base that would provide for the regulation of the above issues. More and more importance is attributed to the need of urgently adopting a food security doctrine of the Russian Federation that would provide the background for working out legal and regulatory documents, concepts and programs aimed at ensuring the country's food security.

With due account for the above, the Federation Council of the Federal Assembly of the Russian Federation resolves that:

1. The following proposals be presented to the Government of the Russian Federation:
 - based on the analysis of resources balance and the use of basic foodstuffs, the current state of the food products market and its development trends, the draft food security doctrine of the Russian Federation should stipulate key lines of the state food security policy in and the mechanisms for their implementation, as well as powers of government bodies;
 - the preparation and introduction to the State Duma of the Federal Assembly of the Russian Federation of draft federal law "On the Fundamentals of Government Regulation of Commercial Activity in the Russian Federation" should be accelerated, and the draft should include provisions aimed at stabilizing prices for socially significant foodstuffs, and taking into account the peculiarities of trade in the products of the agribusiness and fishery industries;
 - the financing of the Government Program for Agribusiness Development and Regulation of the Agricultural Products, Raw Materials and Foodstuffs Markets for 2008-2012 should be increased, and the revised federal budget for 2009-2011 should include provisions for partial reimbursement of agricultural manufacturers for expenses on fuels and lubricants needed for seasonal agricultural work, subsidies for animal feed, as well as funds needed for reimbursing part of the expenses on the payment of interest under loans received by agricultural manufacturers in the amount of 100 percent of the refinancing rate (discount rate) of the Central Bank of the Russian Federation;
 - measures should be taken to support economically significant programs for the development of agribusiness in the federal constituents of Russia, including the approval of the procedure for providing subsidies to the federal constituents of Russia, aimed at realizing the programs for the development of meat and dairy cattle farming;
 - a set of measures should be worked out, aimed at increasing the quality and safety of agricultural products, raw materials and foodstuffs, speeding up the approval of technical regulations "On the Requirements for Meat and Meat Products, Their Manufacturing and Circulation" and "On the Requirements for Farm Poultry, Poultry Meat, Its Derivatives, Their Manufacturing and Circulation";
 - the agreements resulting from negotiations on the admission of the Russian Federation to the World Trade Organization, that infringe the economic interests of domestic agricultural manufacturers should be revised.
2. It should be requested that the State Duma of the Federal Assembly of the Russian Federation speed up the adoption of the federal laws "Technical Regulations 'On the Marking of Consumer Foodstuffs'", "Technical Regulations on Tobacco Products", "Technical Regulations 'On Fish and Seafood and Their Derivatives. Manufacturing and Circulation".
3. This resolution shall be enacted on the day of its adoption.

Chairman of the Federation Council
of the Federal Assembly of the Russian Federation
S.M. MIRONOV
Moscow, October 27, 2008, No. 358-SF