



Special Request Report - public distribution

Date: 02/10/99

GAIN Report #RS9007

# **Russian Federation**

## **Planting Seeds Annual Report**

### **1999**

Prepared by:

**Asif J. Chaudhry**

Drafted by:

Eric Trachtenberg and Yelena Vassilieva

---

#### **Report Summary:**

**The 1999 seed supply situation in Russia is expected to deteriorate further and the Russian planting market remains unattractive for planting seed suppliers because of restrictive regulations and the ruble devaluation which priced imports out of the market. However, there is a need for U.S. varieties which could mean long-term opportunities for U.S. exporters if Russian firms obtain increased access to capital and if Russia's seeds regulation regime is liberalized.**

---

Includes PSD changes: No  
Includes Trade Matrix: No  
Annual Report  
Moscow [RS1], RS

|                                                                 |   |
|-----------------------------------------------------------------|---|
| Executive Summary .....                                         | 1 |
| Production .....                                                | 1 |
| Consumption .....                                               | 2 |
| Field Crops. ....                                               | 2 |
| Grain seeds. ....                                               | 2 |
| Seeds of sunflowerseeds. ....                                   | 3 |
| Horticultural Seeds. ....                                       | 3 |
| Seeds of vegetables and potato. ....                            | 3 |
| Seed Quality .....                                              | 3 |
| Stocks .....                                                    | 4 |
| Trade .....                                                     | 4 |
| Tariffs. ....                                                   | 5 |
| Policy .....                                                    | 6 |
| Plant variety protection and seed certification. ....           | 6 |
| Genetically Modified Organism (GMO's) .....                     | 7 |
| New developments in the state regulation of seed industry. .... | 7 |
| Marketing .....                                                 | 8 |
| Market development opportunities. ....                          | 8 |
| Marketing channels and facilities. ....                         | 8 |

## Executive Summary

Following a poor 1998 grain harvest, the 1999 seed supply situation in Russia is expected to deteriorate further because of several negative factors: a shortage of inputs, a weakening of the seed research and production infrastructure, collapses of farm support agencies and steep price increases on imported seeds resulting from the devalued ruble. Because on-farm demand is still present, supplies get tight. The Russian seeds market remains difficult for seed exporters because of restrictive regulations and the ruble devaluation which priced seed imports out of the market. However, given the weaknesses in Russian seed genetics, there is a great need for U.S. varieties which could mean long-term opportunities for U.S. exporters if Russian farmers and importing firms have access to capital and if Russia's import regime for planting seeds liberalizes -- but progress in this direction will likely be slow.

## Production

Following a poor 1998 grain harvest, the 1999 seed supply situation in Russia is expected to deteriorate further because of several negative factors: a shortage of inputs, a weakening of the seed research and production infrastructure, collapse of farm support agencies and steep price increases of imported seeds resulting from the devalued ruble. Because of these factors, it is expected that the genetic quality of Russia's seed stock will continue to decline.

The short 1998 grain crop caused a sharp reduction in grain planting seed stocks which have been declining throughout the 1990's. The worsening financial situation of farmers has cut the use of high quality seed varieties and hybrids, reducing maximum yields even under the best conditions. Instead, farmers have increasingly sown grain produced on the farm instead of using certified varieties specially adapted to local

conditions.

Yields and seed availability are further reduced by the collapse of the research laboratory and extension service systems which were formerly part of the Soviet planned supply system. Sharply reduced research spending has eroded the quality of Russia's seed stock. On the extension side, farmers now find themselves on their own many without this support system which has sharply declined because of a lack of federal financing. The result is a reduction in sound agronomic practices which cuts yields and soil quality.

Yields are further cut by a fall in the use of fertilizer and agrochemicals, which are increasingly vital given falling soil fertility.

Imports of seeds, always difficult because of plant quarantine and other organizational issues, has also become extremely expensive after the August crises and the ruble devaluation. Because of decline on Russia's research system, imports of improved varieties have also become more valuable to farms with the infrastructure to use them.

## **Consumption**

In the aftermath of the August crisis which impeded imports of many agricultural and food products, domestic producers have become more competitive, giving them a rare chance to fill the gap by allowing them to sell their crops production more easily. The result has been a tightening of seed supplies, a trend likely to persist through 1999.

As a result of this, seeds were included in a recent Russian Government for U.S. agricultural shipments. Although imports of seeds are limited by Russian plant quarantine and variety concerns, the U.S. successfully negotiated protocols that will deliver 14,000 tons of corn seed and 1,000 tons of different vegetable seeds, primarily green peas, for sowing in spring-early summer 1999.

## **Field Crops.**

### **Grain seeds.**

In Fall 1998, Russian farmers sowed 12.3 million hectares to winter grain crops, a 3.5 percent reduction from Fall 1997. Area plowed for spring sowing is estimated at 28.4 million hectares, compared with 32.2 million hectares a year earlier. This decrease in 1999 grain crop area is caused by the 1998 drought which left soil conditions too dry for winter planting, shortages of fuel and other inputs, worn machinery and low seed quality.

The lower requirements for fall sowing may be matched by higher requirements for spring sowing, especially if the weather is favorable for planting. In spite of financial hardships, local producers and administrators will still try to increase grain area planting in spring in order to compensate for the extremely low grain harvest last year although other constraints may severely limit their ability to plant and harvest crops. Increasing grain prices may also stimulate farmers to increase planting area. Early estimates showed that total requirements in grain and legume seed for the 1999 spring crop will be 9.2 million tons, including 6.5 million tons of wheat seed, and up to 139,000 tons for corn. However, according to the Ministry of Agriculture officials, shortages of grain and

legume planting seed for spring sowing may amount to 1.3 million tons, and corn seed shortage may be 25,500 tons.

Despite an overall shortage, there may be an oversupply of seeds in some territories such as in enterprises of Central, Central Black Earth economic regions, and in some regions of West and East Siberia. At the same time, major grain producing areas like Orenburg oblast, Saratov oblast, Volgograd oblast, and others which suffered from severe drought in 1998, may experience significant difficulties in replenishing their seed reserves. The Ministry of Agriculture estimates that total expenses for buying and transporting seeds to drought-affected regions may come to 1.8 billion rubles (\$90 million), a price which the financially weak agriculture sector may not be able to afford.

In spite of low grain seeds stocks, demand for imported grain seed will be low, because farmers do not have money to pay for imports. Demand for domestic grain to be used for seeds, is boosted by the belief that these varieties are better adapted to the local weather and require fewer inputs, even at the price of lower yields. Only a few remaining well-to-do territories or enterprises which can afford hybrids in a package with chemicals, equipment, etc., will be able to give more attention to yields.

#### **Seeds of sunflowerseeds.**

A significant shortage of seeds of sunflowerseeds is not expected this year. However, use of hybrids, which were spreading more and more in 1996-98, will not increase significantly in 1999, because of farmers' financial constraints. Imported hybrids may become too expensive, and decreasing activities of foreign companies which supplied hybrids, chemicals and equipment in the spring, and received payments in sunflowerseeds in the harvest, will lead to decrease in domestic supply of hybrid seeds.

#### **Horticultural Seeds.**

##### **Seeds of vegetables.**

According to specialists, 1999 demand for staple vegetables like carrots, red beets, cabbage, onions, cucumbers will be higher than in 1997 and 1998. This change is caused by the economic crisis which has encouraged private plot owners to increase the production of staple vegetables for home consumption. Significantly decreased imports of fruits and vegetables, also caused by the crisis, will also stimulate production of staple vegetables at collective units while increasing demand for vegetable seeds.

## Seed Quality

According to Russian specialists, the quality of domestic seeds is low. In Fall 1998, Russian Seed Inspection Service conducted selected tests on grain planting seeds. Out of 450,000 tons of tested seeds, 38.2 percent did not meet minimum standards set by testers (in 1997, 32 percent failed). Lower seed quality is also reflected in larger percentages of foreign matter in seed stocks, which rose from 26 percent in 1998 to 29.2 percent in 1999.

**Table 1. Yields in metric tons per hectare, 1991-1995 (average), 1995-1998**

| Crop            | 1991-1995 (av.) | 1995  | 1996  | 1997  | 1998* |
|-----------------|-----------------|-------|-------|-------|-------|
| Wheat           | 1.61            | 1.20  | 1.35  | 1.70  | 1.03  |
| Rye             | 1.56            | 1.27  | 1.43  | 1.87  | 0.87  |
| Barley          | 1.55            | 1.07  | 1.35  | 1.66  | 0.87  |
| Oats            | 1.24            | 1.08  | 1.20  | 1.46  | 0.89  |
| Corn            | 2.52            | 2.70  | 1.75  | 2.91  | 1.04  |
| Peas and pulses | 1.16            | 0.87  | N.A.  | N.A.  | 0.81  |
| Sunflowers      | 0.99            | 1.04  | 0.71  | 0.79  | 0.70  |
| Sugar beets     | 17.80           | 17.60 | 15.20 | 14.80 | 13.4  |

It is expected that the limited ability to conduct research within Russian or to import better genetic material will result in continuing declines in Russian seed quality. As farmers continue to face difficult financial conditions, they will lack the money to upgrade or even maintain the quality of their plant genetics. Instead they will simply retain seed from earlier harvests.

## Stocks

Although no official data is available, the very low grain harvest will likely make stocks low for grain seeds except for areas where farmers have held seed themselves from prior harvests. Most grain seed stocks are held on-farm. Stocks of vegetable seeds may also come under pressure because increasing demand for home-grown vegetables. Russia lacks effective policies to maintain seed stocks.

## Trade

Trade data in Table 2 are based on official statistical information. Data for 1998 include preliminary figures for the first nine months of 1998, and reflect volumes of seeds imported and exported prior for planting in the

spring 1998, which followed after a big grain crop in 1997. Thus, this table does not reflect the dramatic decrease in either grain or legume production, or the dramatic devaluation of the ruble, which virtually ended commercial seed imports.

**Table 2. Planting seed imports and exports in CY 1996 through CY 1998, in 1,000 metric tons**

|                | Imports |       |       | Exports |      |       |
|----------------|---------|-------|-------|---------|------|-------|
|                | 1996    | 1997  | 1998* | 1996    | 1997 | 1998* |
| Grain          | 272.0   | 257.8 | 235.0 | 28.4    | 53.9 | 65.0  |
| - Wheat        | 249.2   | 243.4 | 211.0 | 13.9    | 43.0 | 55.0  |
| - Corn         | 21.8    | 18.6  | 7.5   | 0.4     | 0.3  | 0.4   |
| Peas and Beans | 0.4     | 0.3   | 0.3   | 2.2     | 4.0  | 4.5   |
| Sugar beet     | 1.3     | 1.0   | 1.0   | 0.0     | 0.0  | 0.0   |
| Vegetables     | 0.7     | 0.7   | 0.7   | 0.4     | 0.4  | 0.4   |

\* Estimates

The poor grain harvest, the weakness of the Russian seed industry, and discontinuation of commercial seed imports, have resulted in the Russian government's request to include seeds in the humanitarian aid package. In 1999, the U.S. will donate 14,000 tons of corn seed, and 1,000 tons of seeds of peas and vegetable seeds, including carrots, onions, red beets. This program should assist Russian agriculture by introducing some U.S. genetics into local agriculture while raising funds for Russian seed research institutes.

## Tariffs.

Table 3 gives information on the present import and export tariffs for planting seeds. Tariffs have not changed compared with last year, with the exception of soybeans, rapeseeds, and sunflower planting seeds. For exports of these three oilseeds (both for sowing and for other use) Russia established export tariffs for 6 month period (January-June, 1999).

**Table 3. Import and export tariffs for planting seeds.**

| Code        | Commodity          | Import | Export |
|-------------|--------------------|--------|--------|
| 0701.10.100 | Potato seeds       | Free   | Free   |
| 1001.10.100 | Durum Wheat seeds  | 5%     | 17%    |
| 1001.90.100 | Wheat seeds, other | 5%     | 7%     |
| 1001.90.910 | Soft wheat seeds   | 5%     | 7%     |

|                               |                                                                                                                        |      |                                            |
|-------------------------------|------------------------------------------------------------------------------------------------------------------------|------|--------------------------------------------|
| 1003.00.100                   | Barley seeds                                                                                                           | 5%   | Free                                       |
| 1004.00.00                    | Oats seeds                                                                                                             | 5%   | Free                                       |
| 1005.10                       | Corn seeds                                                                                                             | 5%   | 10%                                        |
| 1006.10.100                   | Raw rice for sowing                                                                                                    | 5%   | Free                                       |
| 1007.00.100                   | Grain sorghum seeds                                                                                                    | 5%   | Free                                       |
| 12.....<br>(Seeds for sowing) | Oilseeds and Oleaginous, Fruits, Miscellaneous Grains, Seeds and Fruit; Industrial Or Medical Plants; Straw and Fodder | 5%   | Free                                       |
|                               | except:                                                                                                                |      |                                            |
| 1201.00.100                   | Soybean seeds for sowing                                                                                               | 5%   | 10% but not less than 20 ECU per 1,000 kg* |
| 1205.00.100                   | Rape and colza seeds, for sowing                                                                                       | Free | 10% but not less than 20 ECU per 1,000 kg* |
| 1206.00.100                   | Sunflowerseeds for sowing                                                                                              | Free | 10% but not less than 15 ECU per 1,000 kg* |

\*From January to June 1999

Exporters in CIS countries benefit from a lower VAT charge due to agreements made by CIS countries on intra-CIS trade. Seed imports from non-CIS countries pay a 10 percent VAT which reduces their competitiveness.

## Policy

### Plant variety protection and seed certification.

Seeds are allowed to be sold and used in the territory of the Russian Federation only after they are included in the “State Register of Selection Achievements, Permitted for Use.” In order to be registered, seeds will pass through special testing procedures in the laboratories of the Goscommissiya, which is The State Commission of the Russian Federation for Selection Achievements, Testing and Protection and is an independent arm of the Russian Ministry of Agriculture and Food. Goscommissiya registers varieties, hybrids, and seed technologies. Besides, seeds in the Register will be used only in regions for which they have been tested and certified. In many cases the seeds were developed in the laboratories where the tests were conducted. Testing of foreign varieties and hybrids takes approximately three years, expenses are high, and the results not always predictable, because not all laboratories follow the required agronomic practices for the variety under examination.

As a result, the overwhelming majority of seeds in the Register are of Russian origin. Thus, there are no non-CIS varieties in the list of more than 100 registered varieties of soft winter wheat seeds. Among the 130 varieties of soft spring wheat, only two are of foreign origin (Germany and Sweden). Lists of registered varieties of corn have more varieties of foreign origin, including US (ICI Seed, Nortrup King, Pioneer Hi-Bred International, Corn States, etc.). Some imported seeds which are not included in the Register are allowed to be sold before trial completion under special permission from the Ministry of Agriculture.

Another agency within the Ministry of Agriculture is the Federal State Seed Inspection Service (Gosseminspectsiya) which works through a network of local field agents. It supervises the production, procurement, handling, storing, sale, transportation and use of all planting seeds. Inspectors have the right to control the quality of seeds at all stages, and withdraw seeds or prohibit harvesting of planted areas when they find violation in use of seeds or in documents confirming quality of seeds. The inspectors have all rights to prohibit distribution of imported seeds if these seeds do not meet the state standards of the Russian Federation even after they arrive in country. This refers to all seeds which are not included in the Register.

The third major institution which influences the use of imported seeds in the Russian Federation is the State Plant Quarantine Service of the Russian Federation, which is also an independent but integral part of the Ministry of Agriculture. This agency issues quarantine certificates for all imported seeds, plants, and products.

### **Genetically Modified Organism (GMO's)**

Russia is still in the process of defining its position on GMO's. Although the U.S. and Russia are in continuous discussions on this issue, they have not come to a mutual understanding of how to apply risk evaluation research conducted in one country to another.

### **New developments in the state regulation of seed industry.**

Last year saw some activity on the regulatory front but little of it will significantly affect the seed trade. Resolution Federation Resolution #1036 of September 5, 1998 "Provisions of Formation and Use of the Federal Fund of Planting Seeds," obliges the Ministry of Agriculture to set up and run a special fund to further regulate planting seeds. Resolution #1200 of October 15, 1998 "Provisions of the Activity of the State Inspectors in the Agricultural Planting Seeds Industry and Provisions of Control of Quality and Varieties of Planting Seeds in the Russian Federation," as well as another Resolution #1143 of October 1, 1998 "On Changes and Amendments to the Provisions of the State Plant Quarantine Service of the Russian Federation" increase the power of state inspectors and heightens the role of regulatory agencies even more than they were under previous Soviet-era provisions. However, which reflect the new market realities are very few, and mainly refer to expansion of the basis of financing of the quarantine services at the expense of customers' payments for services provided. Provisions also include greater financial responsibilities of landowners and leaseholders for any quarantine violations. Thus, in the new Provisions of the Status of State Plant Quarantine Service, an item is added, which states, that "All measures on isolation and liquidation of quarantine pest, diseases and weeds will be made at the expense of proprietors of land, owners and leaseholders, and examination and disinfection of products, warehouses, packaging, and means of transportation, and other quarantine measures — will be at the expense of owners of these products and facilities."

In addition, special attention was given to restoration of forests, and to seeds of forest plants. Thus, Resolutions #1151, of October 3, 1998 "Provisions of Formation and Use of the Federal Fund of the Seeds of Forest Plants," and #1269, of October 31, 1998 "Provisions of conducting seed control of seeds of forest plants" authorize the Forest Service of the Ministry of Agriculture to strengthen its control over replenishment of seed reserves and use of seeds of forest plants.

Because all these measures are to be financed from the federal budget, these measures will divert scarce funding for the development of the seed industry in favor of expanding the regulation and restriction which already effectively block U.S. seed exports.

## **Marketing**

### **Market development opportunities.**

In 1998, the Russian seeds market remained unfavorable for individual independent foreign seed exporters because of restrictive regulation and the devaluation of the ruble which priced seed imports out of the market. The crisis also undermined investment in the industry by foreign companies (such as German and Dutch companies which invested in production of vegetables, potato, and sunflowerseed). In addition, the inability of Russian farmers to invest in higher yielding seeds and accompanying inputs like fertilizers will keep demand for imported seed weak. Because of the demand for home-grown food, demand for vegetable seeds will be more resilient than for field crops.

However, given the weaknesses in Russian seed genetics, there is a great need for U.S. varieties which could mean long-term opportunities for U.S. exporters if Russian farmers and importing firms get more access to capital and if Russia's seeds regulation regime liberalizes.

### **Marketing channels and facilities.**

Exportkhleb remains the main importer of grain seeds. Rossiyskiye Semena is the second largest seed importer by volume, but the largest importer of non-grain seeds. Private companies in many oblasts increased their activity in the first half of 1997, but after the crisis, their financial status deteriorated in spite of significant demand for seeds. Many of these companies have lost their operating capital because of the collapse of financial system of Russia in August 1998. However, "in-kind" payments, when farmers pay seed companies for seeds provided in spring with grain and other harvested products may help them to survive.