

Russian Ag Minister: State Program Can Reverse Collapse of Food Output

Leading the Russian Federation delegation to the June UN FAO (Food and Agriculture Organization) conference in Rome is Minister of Agriculture Alexei Gordeyev, whose ministry is known as a center of resistance to the damage that radical free-trade policies do to national economies. Gordeyev made the remarks presented here, at a May 19 special Russian government conference on agriculture and the agroindustrial sector.



Alexei Gordeyev

The meeting was held in the southern Russian grain-belt town of Yessentuki, and chaired by Prime Minister Vladimir Putin.

As EIR reported last week, Putin has defined food production as a national security priority for his government. He met again with Gordeyev, and First Deputy Prime Minister Victor Zubkov, on May 27 for a publicized discussion of guarding the interests of Russian food producers during interaction with the World Trade Organization, with which Russia is still negotiating about joining. Gordeyev announced his intention to report to the FAO conference, on Russia's response to the international food crisis. As his May 19 report reveals, Gordeyev advocates the use of protectionist measures to achieve food security.

Here are excerpts from Gordeyev's Yessentuki progress report on Russia's recovery from the devastation of its agricultural production during the 1990s. It is entitled "On the Course of and Further Prospects for Implementation of the State Program as the Basis of Food Stability and National Security." Rachel Douglas translated the document from Russian for EIR. Subheads have been added.

This is a pivotal year for us in the national agroindustrial complex. It is the first time in the past decade and a half that we have as our guideline a comprehensive five-year State Program for the Development of Agriculture and Regulation of the Agricultural Products, Raw Materials, and Food Markets, which was developed in accordance with the federal Law on Agriculture.

The task under this State Program is to make up entirely, within a five-year period, the collapse of agricultural output that occurred during the crisis of the 1990s.

This State Program clearly defines the goals and areas of

work of the agroindustrial complex in Russia. The sections of the Program encompass practically all factors in the development of agriculture. These are:

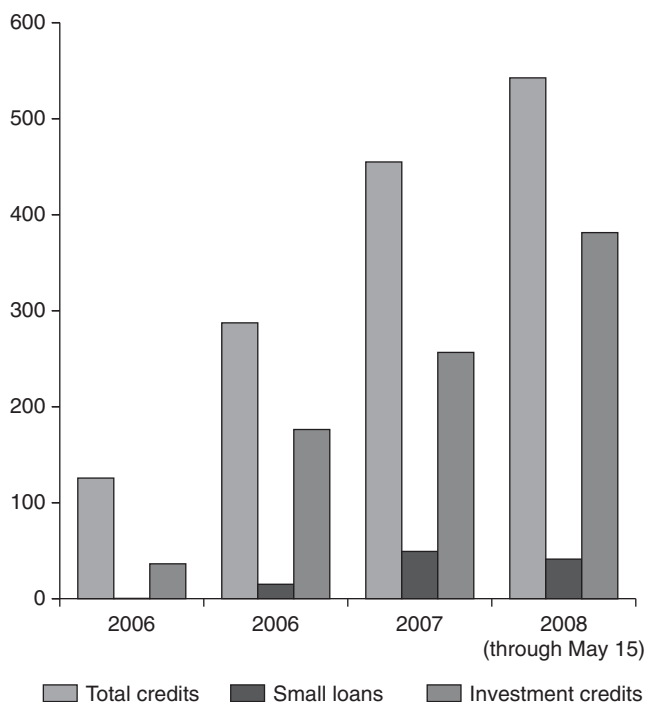
- steady development of land area in use for agriculture;
- creation of equal operating conditions for all;
- development of priority subsectors;
- achievement of financial stability for economic units;
- regulation of the agricultural products, raw materials, and food markets. . .

First, I would like to note that our agriculture has now

FIGURE 1

Subsidized Credits to the Agroindustrial Complex

(Rubles, Billions)



Source: Ministry of Agriculture of the Russian Federation.

Illustrations for this translation (excepting Figure 3) are based on the graphs published with Minister Gordeyev's report on the website of the Russian Federation Ministry of Agriculture.

shown positive growth for ten years in a row....

In the first quarter of this year, agricultural output grew at a rate 4.5% above the same period last year, which is one percentage point faster than last year's growth rate of 3.4%.

The livestock sector is continuing to grow. In the first quarter, meat and poultry production increased by almost 9%, and milk by over 2%, over the first quarter of 2007.

Federal budget financing improved. To date, agricultural producers have received 17 billion rubles [\$717.3 million] in subsidies to support implementation of the State Program, which is 41% of the total amount budgeted for the year.

Around 58 billion rubles [\$2.5 billion] in new subsidized credits have been obtained, including 11 billion in investment credits. I would like to note that small agribusiness enterprises received almost 16 billion rubles of these credits (**Figure 1**).

Since the beginning of these year, 7,300 tractors, 1,500 grain-harvesting combines, and 300 fodder-harvesting combines have been delivered, which is noticeably more than by this time last year. We expect a 40% increase in tractor acquisition

this year, while combine acquisition will nearly double (**Figures 2 and 3**).

Wage growth in the rural sector continues to outstrip average national wage growth by 10 percentage points, although agricultural wages remain extremely low, at the level of 6,500 rubles (\$274) monthly (**Figure 4**).

Spring field work and planting is nearing completion; over 60% has been done. The total area planted with spring crops is on the order of 49 million hectares, which is greater than last year. I would especially like to point out that for the first time in 15 years, we expect to see land under cultivation increase by nearly half a million hectares, including through farming previously abandoned cropland (**Figure 5**).

We can fairly confidently forecast an increase of the grain harvest to a minimum of 85 million tons, which is enough to cover our own needs in full and consolidate our position as a leading grain exporter.

Thus, the State Program is off to a successful start.

Difficulties Can Be Overcome

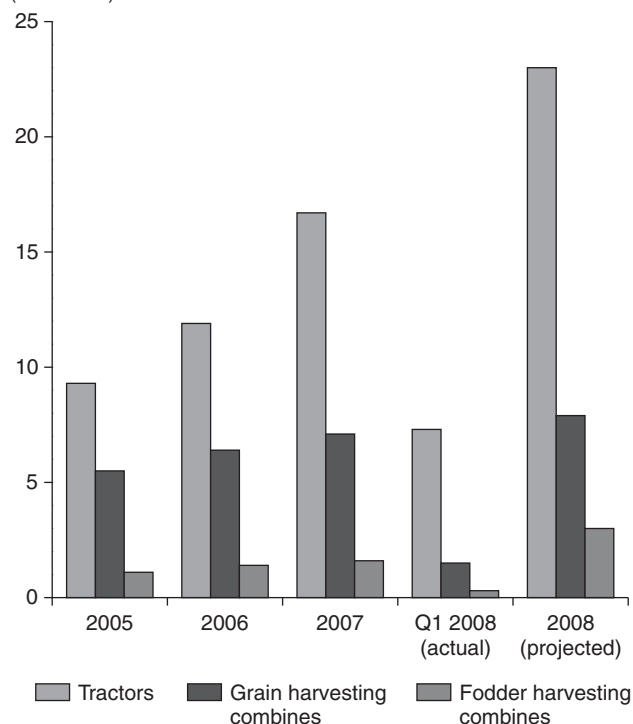
At the same time, detailed analysis of the changed situation in the economy reveals that the conditions under which the State Program is being implemented today are substantially different from the ones existing when it was drafted.

For example, the price of oil rose to double the assumed level, and inflation has been 10.5%, rather than the 6-7% that was assumed. Other basic parameters, such as the exchange rate of the ruble, loan interest rates, and construction costs, are also markedly different from what was forecast. The shortage

FIGURE 2

Equipment Received by Agricultural Organizations and Farms, Including Individual Farmers

(Thousands)



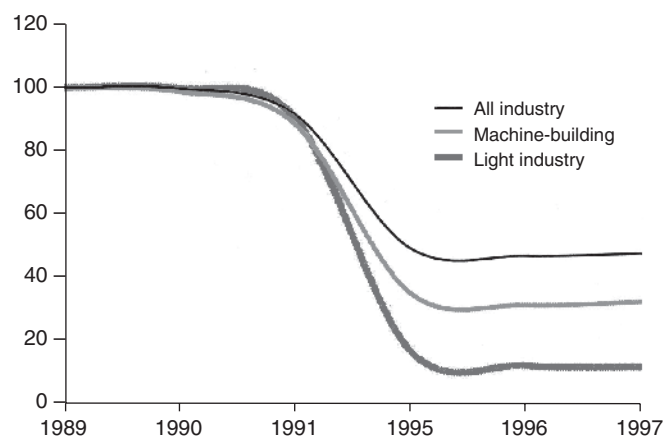
Source: Ministry of Agriculture of the Russian Federation.

The increase of capital inputs to Russian agriculture, shown in Minister Gordeyev's illustration of tractor and combine deliveries, is a recovery from the deep depression of the 1990s. Figure 3 shows the steep collapse—up to 70 or 80% for some products—of overall Russian machinery production in the first five years of shock therapy liberal economic reform, after the 1991 collapse of the Soviet Union. In that period, the number of agricultural machines in use in Russia fell by one-half, and mineral fertilizer inputs by approximately 85%.

FIGURE 3

Industrial Production by Sector

(Index: 1989=100)

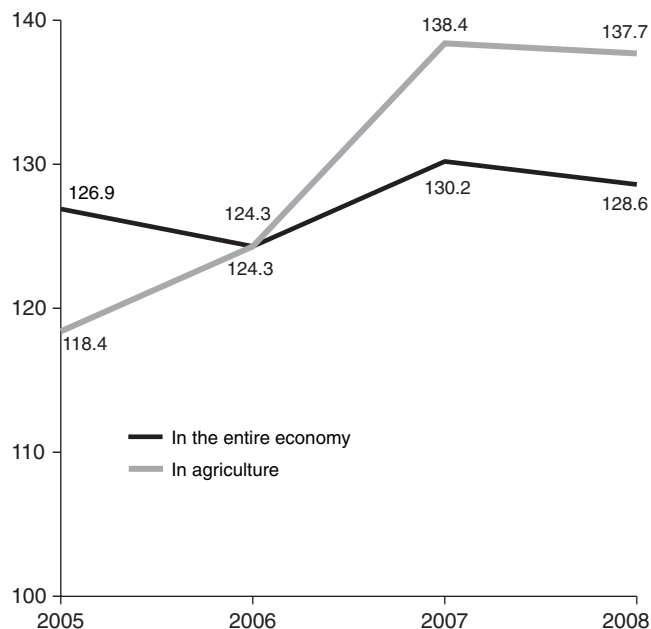


Source: Sergei Glazyev, *Genocide: Russia and the New World Order*

FIGURE 4

Year-on-Year Average Monthly Recorded Nominal Wage Growth

(% of Previous Year)



Source: Ministry of Agriculture of the Russian Federation.

of long-term credit resources has grown worse.

This year's difficulties can be overcome, if we take a number of decisions that will be hard and fast. We have developed the relevant resolutions, working with the Ministry of Finance. We propose to allocate an additional 30 billion rubles [\$1.3 billion] to the charter capital of Rosselkhozbank [the Russian Agrarian Bank]. By raising export duties on mineral fertilizers, we can allocate an additional 8 billion rubles to agricultural producers, to compensate for the rising cost of purchasing fertilizer. In addition, 10 billion rubles can be spent to support the profitability of poultry and hog producers, in connection with the steep rise in their costs. We ask that these decisions be adopted.

With these measures, we can be confident that all basic targets of the State Program will be achieved in 2008.

FAO: World Food Prices Have Risen 40%

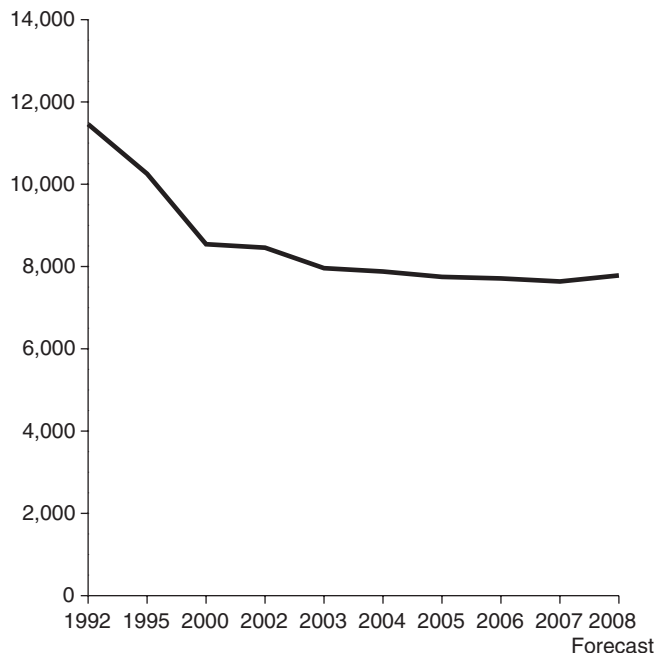
In your opening remarks, Vladimir Vladimirovich [Putin], you noted that our agrarian policy, in the medium and long term, must measure up to the global tendencies, observed in the world agricultural markets. Allow me to give a brief analysis of these new factors.

According to UN FAO data, world food prices have risen 40% in a single year. For many products, absolutely historic records were set. Wheat prices, for example, more than doubled, reaching \$460 per ton. The price of rice has increased by two and a half times, just since the beginning of this year, reaching the level of \$760 per ton.

FIGURE 5

Cropland Under Cultivation in all Types of Farms in the Russian Federation

(Hectares, Thousands)



Source: Ministry of Agriculture of the Russian Federation.

Between 1992 and 2007, fully one-third of Russian cropland was taken out of cultivation, much of it abandoned as the collective and state farms of the Soviet Union fell apart. There were no effective financial or physical support programs for individual farm leaseholders for over a decade. Thousands of Russian villages have disappeared from the map, while the 2000 census showed over 34,000 such settlements that are now inhabited by 10 or fewer, mostly elderly people. 2008 is the first year since the breakup of the U.S.S.R. to show a small turnaround of the loss of cropland under cultivation.

A new term, "agflation," has even been added to the world's economic lexicon. It denotes the heightened role of agricultural products in driving world price trends.

Most forecasts anticipate that high prices on foodstuffs will persist over the long term.

The latest events show that countries that have relied on cheap imports now have to pay a very high price, up to and including social unrest.

Under these conditions, it becomes urgent to ensure stability on the domestic food market through accelerated development of the country's own agricultural production.

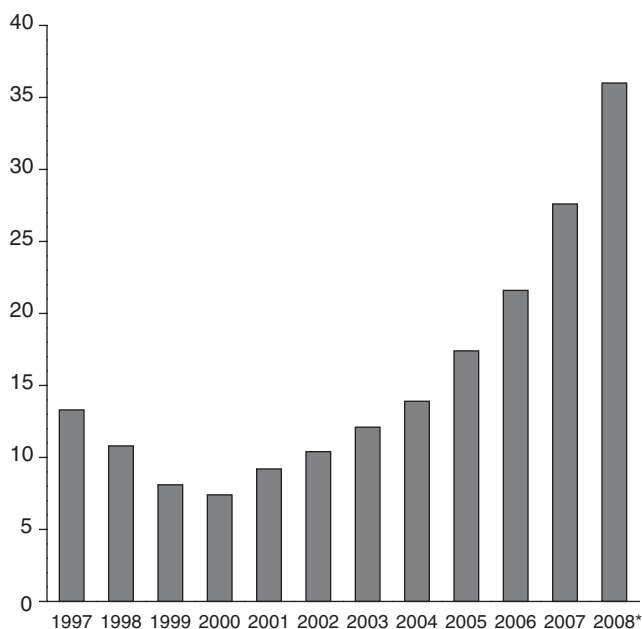
Russia possesses all the natural resources it needs, to do this. Nine percent of the world's productive cropland is in Russia, as well as 20% of the fresh water, 9% of mineral fertilizer production, and only 2% of the world's population.

With full use of this potential, we can provide food for our own population, strengthen our position in the world grain

FIGURE 6

Food and Agricultural Raw Materials Imports

(\$ Billions)



* Ministry of Economic Development Forecast

Source: Ministry of Agriculture of the Russian Federation.

market, and move toward becoming a major exporter of certain types of livestock.

In order to accomplish this, Russian agriculture needs to develop at a faster rate than world rates of growth. Forecasts done by experts from international organizations show that Russia has all the conditions necessary for its grain and meat production growth rates to be 2.5 to 3 times higher than world rates in the next ten years.

Long-Term Measures Proposed

At the previous government session, during discussion of scenarios and forecasts of Russia's social and economic development, the objective was set of achieving more ambitious targets, especially as concerns strategic planning of the country's development up until 2020. Proceeding from this standpoint, and in the face of the new challenges presented by the world economy, the Ministry of Agriculture proposes to adopt a number of *additional long-term measures*.

First. It is impossible build a modern, dynamic, innovative agriculture, under conditions where the *social infrastructure in rural areas* continues to deteriorate. It must be recognized that the measures outlined in the federal targeted program for *Social Development of Rural Areas*, and other analogous programs, are inadequate in scope, as well as being uncoordinated and fragmentary. As a result, there is no support for the *comprehensive development of specific rural settlements*, and thus the people living there lack the

quality of life they need.

We think that the existing federal targeted program should be transformed into a *single program for the comprehensive development of rural areas*, centered on the idea of creating fundamentally new *21st-Century rural settlements*.

Second. An array of measures needs to be adopted for *increasing land use efficiency*.

First and foremost, this means returning to agricultural use *a significant part of the land resources that have fallen into disuse since the early 1990s*. The total area of such land is around *14 million hectares of productive cropland*. I would like to note that by bringing this land back under cultivation, we shall obtain an *additional 20 million tons of [annual] grain production*, at minimum. We propose to put up for consideration the question of incentives for agricultural producers to develop this land.

The main goal of the 1990s reforms was for the land to obtain a *proprietor*. This did not happen, however, because the *expense and complex procedures involved in land use* represent a fundamental obstacle to turning land into a *full-fledged economic asset*.

Under the new organization of the government, the Ministry of Agriculture's powers in this respect have been expanded significantly, and we believe it is necessary to *supplement the State Program with a special section on support for regional comprehensive land use projects*.

Another important question is the need to substantially *enhance the role of agricultural producers' associations and alliances* at all levels: local, regional, and federal.

International experience shows that *participation of agricultural producers in sector-wide associations* is an objectively necessary feature of the rural economy. It is the only way to ensure that the interests of agricultural producers, processing companies, and retailers are balanced, including *coordination of price policies* at all levels, support for *improved product quality*, and real participation by agricultural producers in shaping agriculture policy.

Third. *Development of priority sectors of agriculture.*

The central question is to *speed up the introduction of new technologies*. This means not only renovation and updating of *equipment*, but also the rapid development of the *genetic potential* of crops and herds. For this purpose, the Ministry of Agriculture proposes to *supplement the State Program with agency programs* for the development of *seed growing, hybridizing, and livestock breeding*.

The lack of modern infrastructure for primary meat *processing* is a bottleneck. . . . Together with the Ministry of Economic Development and the Ministry of Finance, we are seeking to coordinate our approach to developing this infrastructure using private investment.

Fourth *is financial stability.*

Looking toward the forthcoming returning of the tax system, it is important to preserve a *tax regime that provides incentives* in agriculture. First of all, this concerns preserving the *zero tax rate on profit*. This decision has to be ad-

opted annually (the current tax rate expires on Jan. 1, 2009), a practice that leads to nervous anticipation and suppresses the ability of agriculture to attract investments. It is also important to preserve *the lower level of VAT*, at no higher than 10%, for good products. Otherwise food price rises will be inevitable.

Concerning the *financial stability of the sector*, it needs to be recognized that the country needs an overall agrarian policy that will enable each subsector of agriculture to produce income (if, of course, modern technologies are being used).

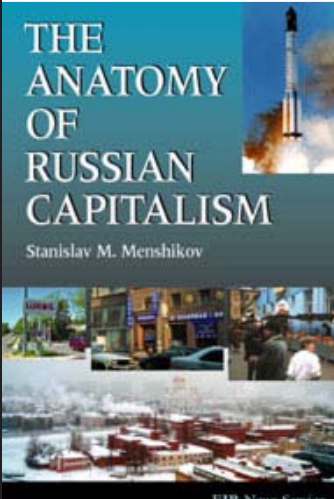
In accordance with the Law on the Development of Agriculture, a system of constant *monitoring of the economic conditions for the production of the main types of agricultural products* and a methodology for the calculation of the relevant “indicative prices” need to be developed; the latter would become a truly effective decision-making guide for the government.

Fifth. Among specific proposals to improve *regulation of the markets for agricultural products, raw materials, and food*, I need to touch on the problem of *imports*.

A High-Level of Import-Dependency

Russia’s domestic market has a *high level of import-dependency*. Forty percent of the resources on our food market are imported. For meat, this parameter is 41%, and for milk it is 26%.

In 2007, Russia imported food products and agricultural raw materials valued at a total of \$27.5 billion (**Figure 6**).



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That is 28% more than the previous year. Today, *the tendency of imports to rise is continuing, and becoming even greater for meat*. For example, Q1 2008 pork imports rose by 38%, while powdered milk imports doubled. There can be no agricultural or food market stability under these conditions.

There is a misconception, that the increase in imports has to do with Russian agriculture being *uncompetitive*. I’ll give one example. Government subsidies to agriculture in Poland total in excess of \$16 billion, which is almost triple the level in Russia, although we have ten times as much land in agricultural use. Thus, Poland’s per hectare government support for agriculture is 30 times greater than ours.

Therefore we need a customs duties policy that would really create conditions for *fair competition* and the stable development of *domestic production*. And, such a policy would be able to react to *rapidly changing conjunctures* in international markets.

We think that the first step has already been taken. As is generally known, a fundamental decision was taken, that under the new government structure, the Ministry of Agriculture has received expanded authority in the area of customs and tariff regulation with respect to agricultural and fisheries products.

The *Law on Trade*, which is being drafted now, can play a big role in keeping the market stable. We believe that it needs to contain specific regulations, which will ensure that the economic interests of food-producers, trade organizations, and consumers are balanced. The Ministry of Agriculture has prepared proposals, accordingly.

To save time, I shall not enumerate all of our tools for regulating the market. Let me mention just one of them. Since there are regional leaders present here today, I would like to raise this topic just briefly. In 2006, a *Law on Retail Markets* was passed. Let me remind you that the purpose of that law was to provide producers direct access to food market sales stalls *through the creation of agricultural coop markets*. Such a system is of fundamental importance, above all, for the products of small agricultural businesses. Think about this figure, however: in the past year, only five such markets were set up in the entire, enormous territory of Russia. I propose to assign the leaders of the constituent territories of the Russian Federation the task of setting up, this year, *at least one such coop market or similar retail trade facility in each city or town*. This will provide substantial support for the 2,000 *agricultural consumer cooperatives*, established under the Agriculture national project, which should become full participants in trade at this city or town regional level, and ensure accessible food prices for the population...

Our ministry has specific proposals on all of the issues I have mentioned, and we ask you, [Prime Minister] Vladimir Vladimirovich [Putin], to issue the relevant orders, based on the results of today’s conference. This will enable us to create a stable base for implementation of the State Program, and the further steady development of agriculture.