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Russia Looks Ahead and Steps Backward

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Report Highlights:

In early February 2000, Acting President Vladimir Putin attended the All-Russian Agriculture Conference in Krasnodar Krai and signed three measures intended to make necessary resources available to farmers for the approaching planting season and to revitalize Russian agriculture. The absence of substantive new policy direction suggests that prior to the March 26 presidential elections the status quo will remain, and Russian agriculture will remain stagnant.

Includes PSD changes: No
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Russia Looks Ahead and Steps Backward

In early February 2000, Acting President Vladimir Putin attended the All-Russian Agriculture Conference in Krasnodar Krai and signed three measures intended to make necessary resources available to farmers for the approaching planting season and to revitalize Russian agriculture. The absence of substantive new policy direction suggests that prior to the March 26 presidential elections the status quo will remain, and Russian agriculture will remain stagnant.

The first of three documents signed was a government resolution "On measures to conduct planting and harvesting." This resolution was largely a standard document issued each year on the eve of spring sowing, which, in absence of market mechanisms, outlines typical measures to supply farmers with inexpensive fuel, lubricants, and chemicals. The reduced cost is achieved through a system of inter-payments or "vzaimozachety". Under this system the federal government agrees to accept budget responsibility or forgive outstanding debts of the chemical and oil companies in return for these companies supplying inputs to farmers at below market costs. Local administrations may also participate in the program and eliminate debts to Moscow. The government has earmarked three to five billion rubles, or \$100 million - \$160 million, in debt forgiveness through this input supply system. This program is not expected to be fully utilized or have a significant impact on production in 2000 because commercial sales including dollar earning exports of fuel and chemicals are far more lucrative. The program will have effect in regions where input supply companies are directly involved in agricultural production or in regions where local administrations are closely associated with both input supply companies and farms.

The second piece of legislation was a draft law on the creation of a State Agricultural Bank. Although the absence of credit for farmers is a critical factor in the decline of Russian agricultural production, and is reminiscent of Soviet days of planned economies rather than reform based on market principles, this program may also fall short of its mark. While details are not known, the State Agriculture Bank appears to fit with a centralized, governmentally controlled system of budget financing and a centrally planned agricultural sector. Its history dates to the Soviet era, Rosselkhozbank - through which budget funds were provided to agricultural producers, input suppliers, and some food processors. Funds typically were never paid back to the bank. Rosselkhozbank was renamed Agroprombank, and in mid '90s, it was attached to the quasi-private SBS Bank. This merger resulted in SBS-Agro. After the bankruptcy of SBS in 1998-99, partly due to the huge outstanding debts of its agriculture portfolio, the agricultural sector began to lobby for restoration of the State Rosselkhozbank. The principal idea again would be to channel the flow of budget and non budget financing of agriculture through the government. The obvious danger here is without meaningful reform of the agricultural sector, state funds will do little to revitalize production in a significant manner.

Finally, a resolution on restructuring of debts of agricultural producers was also discussed. This issue has been a longstanding theme in the agricultural sector and is generally supported. It is widely understood that farmers will not be able to pay their outstanding debts accumulated in the last ten years. These debts, penalties and fines dwarf farmers' returns, and shape farmers' preference to engage in barter rather than enter into cash transactions. Again, although the idea of debt restructuring is logical, similar experiences of the last five years did not bring prosperity to Russian farms, because the structure and management of farms remained substantively unchanged from Soviet days and operations remain unprofitable.