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Effects of Russia`s WTO Accession on Agriculture and Food Sector

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Introduction

On 16 December 2011 Russia completed one of the longest standing WTO accessions in history (Algeria was the longest, which applied for accession in 1987 with negotiations still on-going today). In July 2012 the agreements on Russia joining the WTO were ratified and in August 2012 it became a formal member of the organization.

WTO members currently account for 90 percent of all global trade and until it joined, Russia was the last largest economy still outside the WTO.

There are a range of factors surrounding WTO enlargement and the interest that other countries are showing in Russia`s membership. The primary benefits are that disputes can be handled in a civilized manner, allowing Russia to assert its trading interests more easily. In this way, its own interests are implemented either through the dispute settlement system, through bringing a matter before the committee for various subjects and arrangements, or through the regulations, requirements and commitments set up during the round of negotiations on trade liberalization.
The WTO agreements system is a code of rules and requirements based on universally recognized international law. Accordingly, Russia is required to bring its domestic legislation into compliance with international standards, which means that Russian businesses will be functioning in an up-to-date legal space.

Russia being a WTO member creates certain investment incentives. Under otherwise equal conditions it enhances the investment attractiveness of the economy and business. The proprietary and the performance of economy become more protected.

WTO membership means that the country has to guarantee transparency and predictability, which can in itself help improve the institutional environment of the economy. The most important issues for creating effective institutes are the notification system on trade barriers, on sanitary and phytosanitary measures, subsidies, customs and on other issues, and the system of bargaining on the current and newly-prepared legislation and practiced procedures. Improving the institutional system can in turn contribute to and simplify the process of fulfilling the WTO rules and requirements.

WTO accession is a very important factor in terms of improving the institutional system for the entire economy, and especially the rural economy. It is also a very important factor in terms of better compatibility.

Implementation of the trade policy within the framework of the WTO rules and requirements is a barrier for certain lobbying groups and often lobbying is inefficient and does not benefit the main sectors and local populations.

One of the WTO's main aims is to reduce protectionism. It does this by helping to promote conditions for the development of competition in the global trade space or in the framework of separate economies. This means that consumers benefit from increased product quality, lower prices (as a consequence of an increase in prosperity), and more choice. For producers this factor enhances productivity and marketing.

Consequently, market structure and economic structure is optimized in general and in certain sectors and sub-sectors.

For governments, WTO membership is a substantial incentive for improving their policies, institutional environment and infrastructure development. The European Union is a good example of a profound change of the policy following the Uruguay Round, and at the present time it phases out export subsidies, the support of "amber box" and quota for expenditures on agriculture in the total volume of the European Union budget.

Russia joining the WTO may also lead to improvements in policy on its part, not least in terms of agricultural policy.

Agricultural and food sectors of the Russian Federation

The agro-food sector is of great importance for Russia`s economy and agricultural and food production account for about six percent of total GDP. Agriculture alone accounts for about four percent (see Table 1.)

Table 1

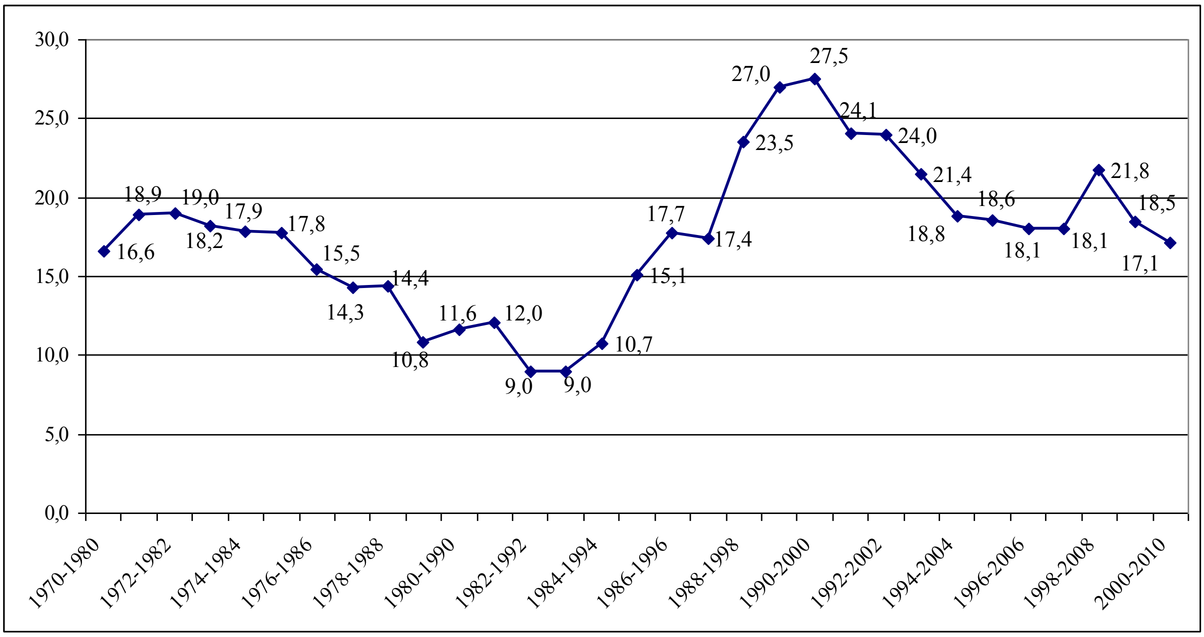
The significance and the role of the agro-food sector in Russia`s economy

	2006	2007	2008	2009
GDP at market prices (billion Russian roubles)	26917.2	33247.5	41428.6	39100.7
Output of goods and services at basic prices (billion Russian roubles)	46223.9	57752.1	71609.5	69130.6
Agriculture. hunting and services in these fields				
- Value added (billion Russian roubles)	915.2	1114.6	1415.2	1451.4
- Output at basic prices (billion Russian roubles)	1725.9	2107.4	2685.1	2789.3
The share of agriculture, hunting and services in these fields in country`s GDP, %	33.4	33.4	33.4	33.7
Food production, including beverages				
- Value added (billion Russian roubles)	595.5	684.6	859.7	876.5
- Output at basic prices (billion Russian roubles)	1981.3	2512.8	3056.6	3285.6
The share of food production, including beverages in country`s GDP, %	22.2	22.1	22.1	22.2
Agricultural production in all types of farm units at current prices (billion Russian roubles)	1570.6	1931.6	2461.4	2515.9
The share of agricultural production in output of goods and services, %	33.4	33.3	33.4	33.6
Investments in fixed assets of agro-industrial complex by large and medium-sized organizations (billion Russian roubles), Including	252.9	368.9	402.4	319.9
- Capital investments from the federal budget	33.8	44.8	88.5	111.6
- Capital investments from the budgets of the constituent entities of the Russian Federation	66.5	77.4	88.3	55.1

Source: Federal State Statistics Service data

Grain farming holds a special place in the agricultural sector of the Russian Federation. Grain production accounts for about 16 percent of gross agricultural production (RUB 399.7 billion). Grain crops occupy about 60 percent of the total cultivated area and 40 percent of the tilled area. The share of the value of grain production in gross agricultural and plant-growing production declined in 2009-2010 after peaking in 2008, when the gross grain harvest after processing was 108.2 million tonnes (see Annexes, table 1). However, grain yield variability has increased over time (see Figure 1).

Figure 1. Variation coefficient of the gross grain harvest between 1970 and 2010 (%)



In particular, the increasing variation coefficient of the gross harvest, as a result of instability of production, represents a serious problem for the gradual development of the livestock and agro-processing industries as well as for maintaining the export orientation of the grain sector. The variation coefficient of the grain harvest peaked between 1990 and 2000 at 27.5 percent. Since 2000 the yield variability has declined. However, the variation coefficient remains high enough compared to minimum values in the 1980s. Therefore, the gradual recovery of grain production to late 1980s and early 1990 levels comes hand in hand with more stable yields.

There are various reasons for this. Firstly, in the early 1990s the expenses related to melioration system utilization, maintenance and extension fell drastically as a result of the deterioration of the macroeconomic environment, leading to a reduction in the ameliorative land area. Secondly, the use of fertilizer was reduced. Thirdly, the use of modern technology was scaled down.

Despite the reduction in the variation coefficient, grains are still one of the most profitable types of agricultural product. At the end of 2008 the profitability of grains realized through the agricultural organizations constituted 37 percent versus 57 percent in 2007 (see Annexes, table 2). This fall in profitability was caused by the low yield. Results might have been even worse in case if demand declined and the grain export support policy not implemented. It should be noted that the competitiveness of domestic exports in late 2008 and the first half of 2009 – amid a global reduction in grain prices – was mainly caused by a devaluation in the local currency. Overall, how competitive Russian grains are depends considerably on the global market environment, which in its turn depends on global supply and demand. Usually decreases in any of these results in reductions in exports. This factor may be moderated by exchange rate fluctuations and the weakening of the rouble.

Another important factor is the supply interventions of grains to the domestic market. Its deterioration always results in the price increase and vice versa.

A decrease in exports due to the unfavourable world market environment in the second half of 2009 and an increase in the supply of grains resulted in prices falling. Consequently, the profitability of grains declined to 9.3 percent. At this time, producing grains was unprofitable for many constituent entities of the Russian Federation.

Other factors include the development of market infrastructure, the distribution system and logistics. Improving these factors could be very important in terms of quality indicators of grains produced in Russia and abroad.

Production in the dairy market is also very substantial (RUB 387 billion). Dairy producers account for 15.6 percent of gross agricultural production (see Annexes, table 1). In 2010, dairy production increased due to more favourable market environment. Although dairy production declined by 1.7 percent to 32 million tonnes in 2010 because of a two percent decrease in the cattle headcount, the average milk yield per cow increased by 2.5 percent across agricultural organizations.

Milk production is not known for its stability and the increase in production in 2001 had turned into a decline by 2003. The wave of increases in 2006 was a result of the implementation of the National Priority Project "Development of the Agro-Industrial Complex". In 2010 there was a decrease in milk production due to drought and in that year milk production was only 57.4 percent of the 1990 level.

In recent years the milk market has been conditioned by substantial decreases in the purchase prices of raw milk on both the global and domestic markets. These price decreases have in turn been caused by the persisting downward trend in the cattle headcount over the previous 10 year period and by the high seasonality of milk production in the Russian Federation, which negatively influences the stability of the domestic milk market.

The profitability of milk production declined by 5.4 percent in 2009 and during the summer, when the volume of sales is the highest, profitability was -3.3 percent (see Annexes, table 2).

Meat production contributes a smaller share to gross agricultural production than dairy production does. The pork production share in 2008-2010 was 9.2 percent (RUB 228.3 billion), poultry 7.7 percent (189.4 billion Russian roubles), beef 7.2 percent (178.3 billion Russian roubles); mutton 0.9 percent (22.6 billion Russian roubles) at the average (see Annexes, table 1).

Between 2008 and 2010 the fastest developing sector in the Russian Federation was the poultry sector. On average, egg production accounted for 4.2 percent of gross agricultural production (RUB 103.4 billion) between 2008 and 2010. Egg production increased in line with an increased number of laying hens and egg-laying ability. Poultry production increased 27.9 percent in 2010 on 2008 numbers (see Annexes, table 1).

Pork production is ranked second in terms of the rate of production growth. The fast rates of growth in both poultry and pork production have been facilitated by the increase in large breeding complexes. The construction of new complexes, as well as technical and technological upgrades are on-going in the field; 64 complexes were either modernized or built in 2009 (162 in 2008). However, the pork production output level is still much lower than in 1990.

Domestic meat production grew during the considered period six percent on average overall. The highest rates were in 2006 after the implementation of the National Priority Project "Development of the Agro-Industrial Complex". Against a background of a rise in real household incomes, a positive trend in consumption of meat and meat products can be seen. However, it should be noted that meat production has not recovered to pre-crisis levels yet. In 2010 meat production constituted 70.6 percent of the 1990 level.

Beef production remains the most problematic area of the meat sector. In 2010 beef production was only 39.8 percent of the 1990 level and the cattle headcount is continuously decreasing.
Good rates of growth can be seen in the production of vegetable oils, grits, pork and mixed feed production. In 2010 the decline in the gross harvest of plant-growing production negatively

influenced the development of Russia`s agro-food market due to an anomalous drought. In 2011 a certain recovery was seen, although the outcomes in 2012 are likely to be low owing to the drought that seized Russian regions during the spring and summer time.

The vegetable oil (RUB 183.9 billion) and sugar (RUB 181.4 billion) markets are characterized by an almost identical annual average market capacity (see Annexes, table 3). However, the structural components of these markets differ. The vegetable oil market is characterized by relatively large volumes of exports and imports with a slight export dominance (according to 2009 data) while on the sugar market imports substantially prevail over exports.

The annual average capacity of the mixed feed market amounts to RUB 159.5 billion; within which the share of imports into the market accounts for 10 percent and exports account for one percent. The most important factor, particularity on the mixed feed market is the presence of unofficial unregistered production units. It is estimated that the physical market volume including "shadow" production amounts to 20-24 million tonnes per year.

The annual average capacity of the egg market is estimated to be RUB 87.7 billion. The capacity of this market decreased despite the growth of physical volumes of crop production and is conditioned by a reduction in actual egg prices. Foreign commerce does not play a significant role at this market.

The annual average capacities of the flour and sugar-beet markets are similar and constitute RUB 34.7 billion and RUB 34.5 billion respectively. In 2010 the growth of the sugar-beet market capacity was related to price factors as the gross harvest decreased amid the enlargement of the cultivated area due to unfavourable weather conditions. Regarding flour, it is estimated that its actual production exceeds the volumes recorded in official statistics, which are mainly based on calculations on production at large and medium-sized enterprises. At the same time the use of flour production units is very substantial in the field. Based on various estimations their share in flour domestic production constitutes between 10 and 25 percent.

In the period after joining the WTO, the development of the Russian agro-food market is expected to be characterized by an upward trend. However, the stability of this trend will not depend on the terms of Russia`s accession to the WTO but rather on the global and domestic market environment. As for the domestic environment, some very important factors include demand for agricultural products and food, the trend of income changes and investment flows.

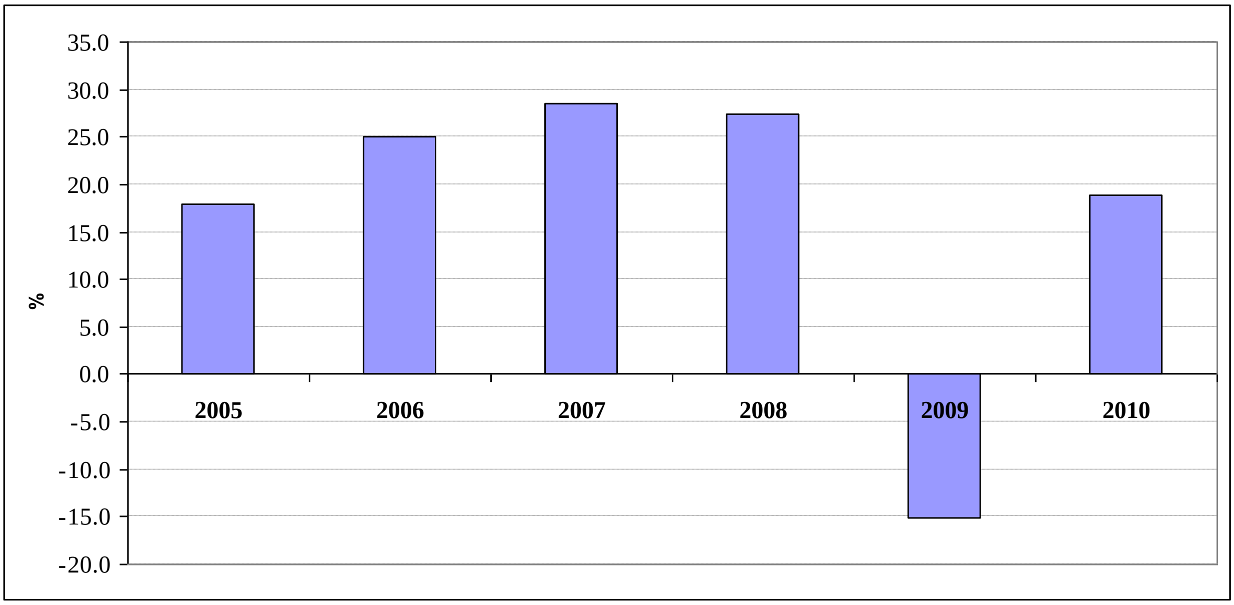
Studies have shown that the terms of Russia's accession to the WTO do not substantially affect the agricultural industry in the country. Agriculture sector has been already liberalized enough though it is mainly characterized by large competitive enterprises (either crop-growing or livestock) as they possess sufficiently diversified production. Domestic production is combined with reasonable levels of imports. Overall, the possible disadvantages of joining the WTO will be balanced out by the advantages.

Our study based on the model of partial equilibrium showed that the agricultural sector and agricultural exports continue to grow at only 15 percent opened market, though at unsubstantial rates (0.2-0.3 percent), food industry reduces the production only 0.1 percent and its exports are slightly changed. The growth of agricultural imports (0.6-0.7 percent) and of food imports (2.3-2.4 percent) will contribute to the competitive environment in the agricultural economy.

The main trends of agro-food exports and imports in Russia

The Russian Federation strongly depends on the world food market and it is a net importer of agricultural and food commodities. Agricultural production increases in line with agro-food imports (see Figure 2) resulting from the real appreciation of the domestic currency, increased household disposable incomes, increased domestic prices of agricultural products and limited possibilities to meet the effective demand through domestic production. Conventionally the commodities that are most sensitive to competition from imports are meat, dairy and raw sugar.

Figure 2. Rate of increment of agro-food imports in Russia, 2005-2010 (%)



Source: Calculations based on Russia`s Federal Customs Service data

While agro-food exports have seen an increase imports have also grown. Since 2002, Russia has become one of the largest suppliers of grains on the global market (see Annexes, table 4). The most important factor in this regard is the profitability of grain production, which has been maintained despite the strong volatility in supply and pricing. The increase in production (and supply) against the backdrop of a fall domestic prices has enhanced the export potential (see Annexes, table 5).

Stabilization of the macroeconomic environment plays an important role by supporting the grain sector in becoming profitable and attractive for the investments.

In addition, due to the modernization of its food industry, the Russian Federation has become a more important exporter of beer, ice-cream, dairy products and sausages. This demonstrates the increasing competitiveness of domestic food products.

Since 2000, Russia has become a net exporter of grains and 2009 saw record volumes of grain exports. In that year 21.8 millions of tonnes of grains were exported. Grain exports are affected by the discrepancy between domestic and global grain prices. Grains are the most valuable of Russia`s agro-food exports. However, in 2008 and 2010 grain exports were significantly lower than potential volumes due to the Russian government`s application of export restrictions. Prohibitive duties on wheat and meslin (40 percent but not less than EUR 105 per tonne) and a ban export to Belarus and Kazakhstan were applied between 1 February and 30 June 2008. Earlier, in November 2007, the restrictive duties on barley export (30 percent but not less than EUR 70 per tonne), wheat and meslin (10 percent but not less than EUR 22 per tonne) from the Russian Federation territory and outside the member-states of Customs Union were established.

The introduction of restrictions including bans on grain exports have seriously affected global food stability and provoked a spike in grain prices. These restrictions also negatively influenced the socio–political environment in many countries, for which imported grain from Russia was of great importance.

In acceding to the WTO Russia commits to employing quantitative export restrictions pursuant to Article XI of the GATT 1994 and Article 12 of the WTO Agreement on Agriculture. This will enhance the global market and food stability.

The establishment of the Customs Union (2009) had delayed Russia`s accession to the WTO. As an option, the possibility of all three Customs Union members (Belarus, Kazakhstan, and Russia) joining the WTO was discussed. However, this was considered infeasible because such practice of an accession of the union of as a single customs zone does not exist, it should be also mentioned that the Customs Union countries were all at different levels of negotiations and readiness for accession. Finally, Russia`s accession package was "modified" taking into account its membership of the Customs Union.

Russia`s terms and commitments – along with its membership of the Customs Union – required its unification with other members. From now on, Russia will have to agree on all decisions relating to the fulfilment of commitments and any amendments with Kazakhstan and Belarus.

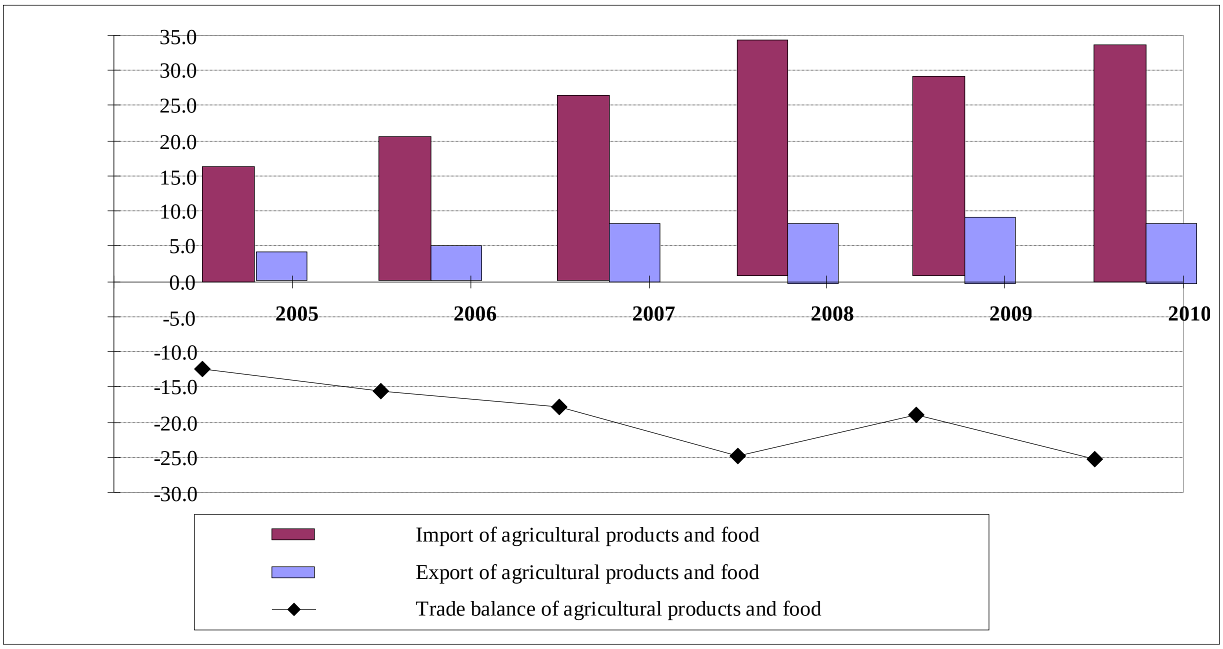
The terms for Kazakhstan joining the Customs Union will also require this kind of agreement unification. By taking into account Russia`s WTO membership it is possible that most of its commitments can be used as basis for the Kazakhstan commitments.

Russia is among the world’s leading exporters of a variety of grains, including wheat, barley and rye. On a ranking of leading suppliers of grains to the global market between 1995 and 2010 Russia is third in terms of rye exports and fourth in terms of barley and wheat exports. Russia ranked number three in terms of wheat exports in some years.

In terms of total grain exports (excluding rice) Russia is in fifth place, slightly ahead of Australia. Russia and Australia are followed by Ukraine and Kazakhstan. The first four places are taken up by The United Sates, Argentina, the EU and Canada respectively.

The growth of agricultural and food exports is slower than the increase in imports. (see Figure 3)

Figure 3 Foreign trade in agricultural and food products in Russia, 2005-2010 (US$ billion)



Source: Calculations based on Russia`s Federal Customs Service data

Sugar production is characterized by high import volumes making Russia a net importer of raw sugar. Therefore, government regulation plays a special role in the foreign trade of sugar.

The scale that relates customs duties to raw sugar prices at the New York Mercantile Exchange (NYMEX) plays a special role in the volumes of sugar that Russia imports. This variable duty provides high levels of protection on the raw sugar market. This issue was keenly discussed upon Russia`s accession to the WTO and the Working Party report made it a precondition that Russia negotiate the amendment of the sugar foreign trade regime in 2012 in the line with its liberalization.

In 2009 raw sugar imports were 51.8 percent of 2008 levels. On one hand, this was caused by the increase in import prices and on the other, by the seasonal duty on raw sugar imports. At the same time, imports of white sugar increased 56.8 percent. The volume of raw sugar imports in 2010 exceeded the 2009 volume by 1.7 times (2,086,300 tonnes to 1,253,300 tonnes). The import of white sugar increased slightly in 2010 compared to 2009 (see Annexes, table 6).

This tendency can be explained by a number of factors. Firstly, sugar beet production increased due to an increase in productivity and an enlargement of cultivated areas. In 2008, Russia was the second largest sugar beet producer after The United States. Secondly, imports are strongly influenced by the currency exchange rate. Depreciation of the rouble caused by the economic crisis in 2008-2009 was the main constraining factors for sugar import and imports overall. In 2009 imports declined along with the growth of exports (see Figure 3).

The considerable value of imports of agricultural and food commodities are constituted mainly by the import of meat and meat products (see Annexes, table 7.8). Beef, pork and poultry imports accounted for 58 percent of the annual average for 2008-2009 (see Annexes, table 9).

However, the volume of meat imports – and of poultry in particular – are falling at substantial rates. This is evidence of the market changing to the advantage of domestic producers. Due to investments, technologies and concessional credits farmers have managed to increase volume of production. Essentially, under current conditions, and taking into account Russia`s WTO membership, Russian producers are faced with the issue of increasing poultry exports and governmental sustention of this process. The terms of the WTO membership in the field of poultry production are favourable for the sector. The tariff quota for all poultry meat is only 364,000 tonnes out of which 25 percent are under the customs duty and 75 percent constitutes out of quota duty (see Annexes, table 10). Once the tariff quota is eliminated, a customs duty of 37.5 percent will be applied. Previous experience shows that at this level of customs duty provides an adequate protection for the domestic poultry production.

However, the issue of competitiveness is still a matter for poultry producers. At this stage the meat market is the most sensitive considering the terms of Russia joining the WTO. Only the poultry meat market is notable for a high level of protection. It is expected that the pork and beef markets will feel the competition from imports the most strongly. This can be explained by a number of factors.

The quota for pork meat is increasing and together with the pork trimmings (cuttings) it will amount to 400,000 tonnes with zero percent duty rates. The reason for this liberalization of the pork market compared to the poultry market is that the former is much more sensitive. In addition the tariff for live pigs has been reduced from 40 percent to 5 percent.

The import of beef is only under the qualitative criteria set up for high quality beef imports. This is favourable conditions for high quality beef imports to increase. The tariff quota for beef is higher than for other products (570,000 tonnes) with a relatively low duty rate (15 percent). A significant increase of high-level quantum of beef import is be expected in Russia bearing in mind the low profitability and low efficiency of beef production.

Experience of countries that have joined the WTO: results and consequences

The Russian Federation's WTO commitments differ from those of other countries, including countries in the CIS. In this instance Ukraine`s experience is of interest as it has similar development conditions.

Unlike Ukraine, Russia has obtained an opportunity to gradually decrease agricultural state support to 1993-1995 levels; or approximately USD 9 billion (see Table 2).

Table 2

The Russian Federation domestic agriculture support commitments

Years	2012	2013	2014	2015	2016	2017	2018
USD billion	9.0	9.0	8.1	7.2	6.3	5.4	4.4

During the first years of WTO membership Russia`s commitments provide comfortable conditions (see Table 3)

Table 3

Real volume of domestic support for agriculture in the Russian Federation, 2005-2010.

Years	2005	2006	2007	2008	2009	2010
USD billion	3.2	3.8	3.9	5.6	5.4	5.5

Source: Author`s calculations

By comparing Table 2 and Table 3 it can be seen that until 2017 the volume of the permitted support exceeds or is nearly equal to 2008-2010 levels. Without damaging its agricultural sector Russia will be able to fulfil its commitments to the WTO, bearing in mind the probable exchange rate of the rouble and by transferring a part of the support from the "amber box" into the "green box".

Herein, either the initial or the final volume of support per acres and in percentage to the gross agricultural production in Russia versus Ukraine volume is significantly higher (see Table 4). This comparison is based on figures for the period 2004 -2008 when and 2008 the Ukraine`s commitments on support for the period of 2001-2006 were similar to their level in Russia during 2006-2008.

By comparison it can be seen that "amber box" support as a percentage of gross agricultural production is almost two times higher in Russia than in Ukraine. The same index per acre in Russia is 1.5-2 times ahead the Ukrainian index. Moreover, this comparison concerns only the final bound level. If comparing the support potentialities of agriculture in Russia through 2017 inclusive they would be much more formidable.

Along Russia`s agricultural policy implementation under the WTO membership it is important to make full use of the membership advantages Firstly, support measures that will incite private investments should be used. This could take the form of the enlargement of non-product-specific support through soft loans. Furthermore, taking into account the specific nature of agricultural production, long-term lending should also be expanded. Secondly, it is important to focus on narrow spaces in order to raise the effectiveness of the agrarian economy as a whole. From the Government’s side this would include infrastructure projects, not least the development of transport infrastructure. Thirdly, it is reasonable to allocate part of the "amber box" measures to the "green box". Fourthly, the system of support should be revised. The main direction is to minimize the administrative impact on making a decision about who this support should be provided to. There must be clear and verifiable criteria along with a selection system of agricultural producers and their projects.

Table 4

Comparative analysis of the domestic agriculture support in Russia and Ukraine.

	Russia (2004-2006)		Russia (2006-2008)		Ukraine (2004-2006)	
	RUB	USD	RUB	USD	UAH	RUB
Gross agricultural production, billion	1517	54.0	2003	78.1	90.2	17.5
Volume of agriculture support, "amber box", billion	89.5	3.2	113.9	4.4	3.0	0.59
Volume of agriculture support, "green box", billion	42.8	1.5	53.1	2.1	2.4	0.47
Total support, billion	132.3	4.7	167.0	6.6	5.5	1.06
Acres area, million ha	116.8		115.3		32.5	
"Amber box" in % to Gross agricultural production		5.9		5.6		3.4
"Amber box" per acres ha		27.4		38.2		18.2

*Author`s calculations-

Unlike Ukraine and other countries, Russia`s commitments are particularly closely related to the necessity of implementing the State programme for agricultural development and regulation of the markets for agricultural products in Russia through 2020. In the first two years, support of USD 9 billion is fixed, which will gradually get smaller in the following years to the final fixed level of USD 4.4 billion in 2018. This corresponds to the annual average support provided to agriculture in Russia during the 2006-2008 periods. This period was chosen as the latest and most representative and the Russian Federation provided data on this period. If negotiations were protracted, the period of data submission could have been for 2007-2009 or 2008-2010.

During the transition period the relationship between product-specific and non-product-specific support was determined. This was so as to guarantee settled approximate proportions and to minimize the specific-product support through 2017, considering the interests of negotiating partners. As of 2018 this relationship will be discontinued.

An important issue regarding the Russian Federation commitments relates to agricultural and food commodities market access. In general, the average bound tariff rate for agricultural commodities should be 10.8 percent or lower by 25 percent compared to the 2010 level of 13.5 percent. (see Table 5).

Table 5

Average customs tariff for agricultural commodities

	2000	2007	2008	2009	2010	Final bound rate
Russia	9.9	14.6%	14.2%	13.2%	13.5%	10.8%
Ukraine	-	23.0%	13.0%	9.7%	9.8%	11.0%

The average bound tariff rate is very close to Ukraine’s commitment and in this sense the accession conditions are very similar. Under these conditions the actual performance of Ukraine`s agricultural sector development has demonstrated positive changes. In other words, joining the WTO did not have a significant negative impact effect on agriculture.

Actually, all foreign investments have showed a stable upward tendency. Foreign investments in agriculture and hunting were slightly reduced in 2010, but have since exceeded the 2009 level, or even more than the 2008 level (see Table 6). The decrease in 2010 can be put down to the effects of the global financial and economic crisis.

Table 6

Dynamics of foreign investments in economy and agriculture in Ukraine

	2008	2009	2010	2011
Foreign investments, USD billion	35.6	40.0	44.8	49.4
Foreign investments in agriculture, hunting, USD million	552.9	809.1	786.7	831.1

*State Statistics Service of Ukraine data

Agricultural and livestock (as the most sensitive to the competition from imports) production indexes demonstrate positive tendencies in Ukraine as well (see Table 7).

Table 7

Indexes of agricultural and livestock production in Ukraine, 2008–2011.

Indexes in % to the previous period	2008	2009	2010	2011	2009-2011 (annual average)
Index of agricultural production	117.1	98.2	98.5	119.5	105.2
Index of livestock production	98.7	104.2	103.4	101.3	103.0

*State Statistics Service of Ukraine data

The growth in production was followed by positive tendencies in its profitability. Moreover, a gradual increase in profitability has been evident in livestock as well, a sector that is usually a low profit or marginal area (see Table 8).

Table 8

Dynamics of agricultural and livestock profitability in Ukraine

	2008	2009	2010	2011
Profitability of agriculture	13.4	13.8	21.1	27.0
Profitability of livestock production	0.1	5.5	7.8	13.0

*State Statistics Service of Ukraine data

Advantages and disadvantages of Russia`s accession to the WTO

Russia`s accession to the WTO can be considered by balancing the advantages and disadvantages the membership would bring.

The accession process itself gave Russia the opportunity to gain market economy status among WTO members and to harmonize legislation on various issues with the WTO requirements corresponding to international standards. The accession process has also increased the potential to better enforce laws in practice. Improving legislation creates great opportunities for investments, including foreign investments in the Russian economy. Intellectual property protection has also increased. All new legislation is worked out in conformity with the WTO rules; i.e. internationally recognized requirements.

By joining the WTO Russia has gained the opportunity to use the WTO dispute settlement system in anti-dumping cases against Russian commodities. If the conditions of trade within the Customs Unions are changed (e.g. EU enlargement) the Russian Federation has a right to be recompensed for aggravating commodities access to these markets.

To a certain extent, the opportunities for Russia`s exports of agricultural and food commodities to the European Union (Russia's largest trading partner) and to other countries have been expanded. On the one hand, WTO membership allows a better understanding of rules and requirements of the WTO. On the other hand, the unreasonable barriers if any it can be eliminated through the dispute settlement mechanism.

An increase in exports can be expected not only for Russian conventional export commodities (e.g. grains), but also for food industry products such as beer, ice-cream and poultry products.

Conditions for active participation in revising the rules on international trade were considered during the Doha Round and Russia has gained the opportunity to use the WTO mechanisms to promote its commodities if they are discriminated in foreign markets.

At the same time there are some serious problems for domestic business entities. Firstly, opening markets can create serious obstacles for enterprises and certain sectors. Adapting to different levels of customs-tariff protection and to new rules can also be complicated. With the Russia's WTO membership some restrictions in industry and agriculture support would come up. Therefore, permitted support measures in line with WTO rules and regulations should be studied.

The Government of the Russian Federation has developed a plan for adapting the economy to WTO membership and the impact of the accession terms on certain agricultural areas has been discussed. For this implementation training on WTO issues is provided to experts. Russia`s commitments to the WTO have been taken into account while working out the State programme for agriculture sector development and regulation of the markets for agricultural products, raw materials and food for the period 2013-2020.

Improving the system of technical regulation and sanitary and phytosanitary control is being continued. Rules and regulations for fruit and vegetable juice products, fat-and-oil products, milk and dairy products, and tobacco products have also recently been adopted and a significant number of new regulations should also be developed (for non-alcoholic beverages, food products marking, on food safety, etc.) In addition, technical regulations should be agreed with and applied to Customs Union members. The fact that the Customs Union has only recently started its work and completing a quite tough harmonization process it will take a long time must be taken into account. As of now the range of agro-industrial complex was brought in line with technical regulations for packaging safety, cosmetics industry products safety, grains, fat-and-oil products, fruit and vegetable juice products safety.

Work is being done to improve the economic environment, including the investment climate. For small and medium sized enterprises the registration process, access to energy sources, tenancy barriers and access to state support need to be facilitated. In acceding the WTO, the Russian Federation is committed to adhering to WTO Agreements. This concerns the questions of import licensing, technical barriers to trade and the application of sanitary and phytosanitary rules. Moreover, the Working Party Report includes about 40 specific commitments made by the Russian Federation relating to the application of sanitary and phytosanitary measures.

The accession terms on agricultural support allow gradual adaptation to the restrictions of the "amber box". In addition, Russia has wide opportunities to enlarge its "green box".

In terms of export competition Russia has fixed export subsidies at zero and reduced export tariffs on the most important types of oilseeds. Therefore, export tariffs for sunflowers must be reduced from 20 percent to 6.5 percent within four years and for rape within three years. Russia has committed itself to eliminating the export tariff on soya within three years (currently it is 20 percent) and reducing the tariff on mustard from 10 percent to zero within a year.

The Working Party Report states that export restrictions on agricultural and food commodities should be in line with the WTO rules, in particular pursuant to Article XI of the GATT 1994 and Article 12 of the WTO Agreement on Agriculture. In the past the implementation of these documents were related to prevent and reduce the critical shortage of food products and other commodities.

According to the commitments it is anticipated decreases of the level of customs-tariff protection. Moreover, for insensitive commodities it is predicted to decrease in a greater degree, for sensitive commodities in a less degree. However, certain commodities continue to be sensitive, especially pork. The import duty on live pigs for slaughter is committed to be reduced from 40 percent to five percent and the in-quota tariff is zero percent. For such sensitive sectors the adaptation measures to the new trade conditions have to be predicted.

In general, Russia joining the WTO will enhance market competition. However, the negative impact is also insignificant, although the increased competition will mainly affect the food industry rather than agriculture. Agricultural production imports may increase by less than one percent due to the commitments to the WTO. Food production imports may increase by a little over two percent. Overall, imports of agro-industrial complex production will be determined by the increase in demand and by the ability of domestic producers capabilities to meet demand, and not by the terms of accession to the WTO.

Government agro-food and domestic economy policy will be of a great importance. The benefits of Russia joining the WTO mainly depend on changes in the investment climate in the country. Government policy should focus on eliminating the barriers for domestic and foreign investments. Analysis shows that due to such barriers for the projects implementation it is required 2-2.5 times more time, and the cost increases at least doubles. In other words, changes to the institutional system should be made rather than increasing domestic support. Commitments on investment environment are a good inducement for doing so.

The probable negative socio-economic consequences (bankruptcy and closure of enterprises, conversion of some enterprise) should be softened by re-education and professional improvement programmes, and by simplifying the formation of small and medium sized enterprises in rural areas. The system of grants for establishing enterprises in rural areas may be effective in this context.

The opportunities provided by the State programme for agricultural development for the period 2013-2020 are socially important for the development conventional agricultural sub-sectors in certain regions of Russia, and also for the development of production that is important for the socio-economic development of constituent entities of the Russian Federation.

Supporting young farmers is also very important and the State programme for agriculture development for the period 2013-2020 provides support for them.

There are no restrictions on sustaining environmental protection, bearing in mind the opportunities of the support system within the WTO framework. Currently, such measures are applied through the mechanism of the Federal special purposed programme "Conservation and recovery of soil fertility on agricultural land and agro-landscapes as national endowment of Russia for the period of 2006-2010 and through 2013". But this programme mainly provides financing for the specialized organizations. With due account for international practice the opportunity to support and stimulate the implementation of the environmental projects by agricultural enterprises and farmers themselves should be considered.

Recommendations for adaptation to WTO accession and for taking and advantage of the WTO membership.

1. Adapting business activities in agriculture and other sectors of agro-industrial complex to WTO membership terms should be promoted. Businesses should be familiar with WTO rules and work out measures to increase their competitiveness.

2. It is very important to continuously monitor the production and trade environment in the most sensitive sectors and to immediately apply support and protective measures provided by the WTO rules. This is the task not only of governmental bodies but also of research organizations.

3. Certain manufacturing associations need to study and practice the current experience in applying protective measures. For example, even before WTO accession starch products and beer yeast manufacturers associations were successfully applying protective measures based on the Russian legislation brought into line with the WTO rules.

4. The system of agricultural support needs to be gradually improved and the application of "green box" measures needs to be extended, including investment aid to the agrarian production restructuring. Those regions with unfavourable climates and natural conditions need to be supported and producer`s incomes need to be protected. In this respect, the programme for insuring the incomes of agricultural producers shows good potential. This programme is financed from the national budget, local budgets and by the producers themselves. To work out this

mechanism it should be launched pilot projects in 2-3 regions engaging un-indifferent insurance companies and agricultural producers. The Russian Federation seriously needs investment aid programmes corresponding to the "green box" requirements to be introduced. A range of contemporary investment aid programmes under certain changes may fall into the "green box". Furthermore, some of the "amber box" programmes can be transferred into the "green box". This is related to the support of northern reindeer breeding, peasant (farming) agriculture and personal subsidiary farming.

5. Support for livestock breeding, elite seed production, mixed feed and protein and the use of vitamin supplements should be increased bearing in mind the terms of Russia`s accession to the WTO. These programmes do slightly distort production and trade conditions though they fall into the "amber box".

6. Accessing the WTO in the State programme for agricultural development and regulation of the markets for agricultural products in Russia through 2020 should be considered particularities of the WTO rules and requirements. The extent of financing should not exceed the commitments made but should be sufficient for agriculture and other agro-industrial complex sectors to adapt to the terms of accession to the WTO. It is reasonable to use those means and instruments that are classified under the "green box". Analysis shows that their share in the total amount of Russian support to agrarian sector is significantly lower than that in the developed countries.

7. In order to smooth WTO accession and to take all advantage of membership, the capacity development training of the staff l in possess of the WTO rules knowledge should be extended and usable to apply for the protection and adaptation of the agro-industrial complex enterprises to new conditions.

8. Russia`s accession to the WTO requires that the information system be improved and indeed this was initiated before negotiations were even concluded. Now the Federal Technical Regulation and Metrology Agency has a section on its web-site about the information system on technical barriers. However, such sections should have links to the web-sites of other ministries and departments related to this issue as well. For instance, the web-site of the Ministry of Agriculture does not have a section about phytosanitary and veterinary measures. However, Roselkhoznadzor, the agency specialised in veterinary and phytosanitary control does have a website. The

information system on agricultural financing and support has been significantly improved, although it is not publicly accessible. These and other issues should be constantly monitored.

9. The development of the information system and improvement issues must be decided in close cooperation with activities of international organizations and especially with the Food and Agriculture Organization of the United Nations (FAO). From this point of view the use and participation in the activity and using the information system on agricultural monitoring (AMIS). Moreover, FAO`s rich educational resources can be of greater importance in educating experts and businesses. Under up-to-date training courses can be implemented both in seminar form and through distance learning.

Summing up, it can be said that all measures towards adapting the economy and the agricultural and agro-industrial sectors in particular, can be considered in terms of short, medium and long-time measures.

In the short-term there must be a plan of action and measures for adapting to WTO accession, not only at governmental level, but at the level of each Ministry and department and also in the regions.

Short-term and medium-term tasks involve fulfilling the WTO accession terms of the technical regulation system (completing the coordination and adoption of technical regulations), adjusting the agricultural support system to fulfil the commitments, creating the information system corresponding to new conditions, creating personnel and experts training programmes and teaching businesses the basics of the WTO rules and requirements. Applying the protective measures and dispute settlement procedures into the customary practice will also be essential.

In the medium-time and long-time terms the support system should be developed and gradually reformed and the "green box" should be expanded increasing its transparency. At the same time, the investment climate needs to be improved and 21st century infrastructure should be developed in a purposive and gradual manner.

All measures in the agricultural sphere must be supported by the general improvement of government services, institutions and infrastructure.

ANNEXES

1.

Table. 1. Value of production of main agricultural commodities and their share in the total agricultural production in 2008-2010.

	Value of production of main agricultural commodities, producer prices, bln.rubles.				Share of value of production in the total agricultural productiona, %			
	2008	**2009**	**2010**[1]	**2008-2010 average**	**2008**	**2009**	**2010**	**2008-2010 average**
Grain (netto-weight)	488.8	413.3	297.2	399.7	19.9	16.4	12.2	16.2
Oilseeds	79.4	77.4	95.3	84.0	3.2	3.1	3.9	3.4
Sugar beets	36.1	36.8	49.1	40.7	1.5	1.5	2.0	1.6
Beef	162.2	185.6	187.0	178.3	6.6	7.4	7.6	7.2
Mutton	19.9	23.4	24.4	22.6	0.8	0.9	1.0	0.9
Pork	180.5	246.6	258.0	228.3	7.3	9.8	10.6	9.2
Poultry meat	150.3	200.4	217.6	189.4	6.1	8.0	8.9	7.7
Milk	367.6	365.6	427.9	387.0	14.9	14.5	17.5	15.6
Eggs	90.8	108.3	111.0	103.4	3.7	4.3	4.5	4.2
Rest of agricultural production	885.7	858.6	777.6	840.6	36.0	34.1	31.8	34.0
Total Agricultural production	2461.4	2515.9	2444.8	2474.0	100.0	100.0	100.0	100.0

[1] In calculations for 2010 preliminary data was used

2.

Table 2. Profitability of production marketed by agricultural enterprises (%)

	1970	1980	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
Grains (including corn)	111	35	158	55	65	48	18	41	42	16	27	57	37
Sugar beets	1,1	-19	26	39	7	5	13	14	11	16	28	8	13
Oilseeds	…	89	145	134	54	75	79	64	71	47	36	103	62
Potato	7	-7	24	83	51	31	41	46	21	32	41	40	40
Field Vegetables	24	13	42	41	17	22	43	35	15	31	30	38	22
Milk and milk products	1,6	-12	56	-1	13	17	5	11	13	18	19	25	25
Cattle and poultry (live weight):													
cattle	21	-16	22	-20	-33	-23	-26	-34	-29	-19	-14	-18	-22
pigs	30	-12	23	-4	-21	1,4	-3	-10	-2	20	21	7	11
sheep and goats	19	-23	40	-37	5	20	16	12	11	15	14	18	8
poultry	11	-2	29	-11	-4	3	-3	-3	2	19	15	14	7
Eggs	45	59	51	27	12	22	18	16	19	20	17	21	17
Wool	29	-14	25	-52	-47	-46	-56	-53	-50	-63	-69	-64	-64

3.

Table 3. Capacity of main agricultural and food markets 2008-2010 (bln. RUB)

	Marketed production				**Export**				**Import**				**Capacity of markets (marketed production +export+import)**			
	2008	2009	2010	2008-2010 in average	2008	2009	2010	2008-2010 in average	2008	2009	2010	2008-2010 in average	2008	2009	2010	2008-2010 in average
Grains (netto weight)	362.8	231.9	186.0	260.2	80.7	109.1	70.1	86.7	11.6	7.2	1.9	6.9	455.1	348.3	258.0	353.8
Whole-milk products (in equivalent to milk)	286.9	298.6	343.3	309.6	2.0	2.1	2.0	2.0	9.9	7.6	15.2	10.9	298.8	308.3	360.5	322.5
Poultry meat	148.9	215.8	252.7	205.8	0.1	0.2	0.2	0.2	33.6	35.9	18.8	29.4	182.6	251.9	271.7	235.4
Milk	203.2	203.0	256.2	220.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	203.2	203.0	256.2	220.8
Pork	124.6	151.9	166.6	147.7	0.0	0.0	0.0	0.0	57.3	61.0	50.2	56.2	181.9	212.9	216.8	203.9
Beef	113.4	129.5	137.6	126.8	0.0	0.0	0.0	0.0	71.8	85.1	60.1	72.3	185.2	214.6	197.6	199.2
Vegetable oil	122.3	145.4	132.3	133.3	19.9	24.6	22.8	22.4	34.8	23.7	25.8	28.1	177.1	193.7	180.9	183.9
Granulated sugar	143.4	147.6	166.9	152.7	0.6	1.8	1.0	1.2	25.6	20.7	36.4	27.6	169.7	170.1	204.4	181.4
Combined fodder	135.2	140.0	150.5	141.9	1.4	1.7	1.7	1.6	13.8	17.3	16.7	15.9	150.5	159.0	168.9	159.5
Flour	96.5	92.9	92.4	93.9	5.1	4.3	3.6	4.4	0.2	0.1	0.1	0.1	101.9	97.3	96.1	98.4
Eggs	86.4	83.0	83.9	84.4	0.4	0.5	0.6	0.5	2.4	3.1	2.9	2.8	89.2	86.6	87.4	87.7
Oilseeds	76.9	62.2	54.1	64.4	2.2	3.5	0.3	2.0	14.3	21.4	21.0	18.9	93.4	87.0	75.4	85.3
Groats	30.0	31.6	34.3	32.0	1.3	2.5	2.4	2.1	0.6	0.5	0.6	0.6	32.0	34.6	37.4	34.7
Sugar beets	30.7	31.2	41.7	34.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	30.7	31.2	41.7	34.5
Mutton	10.6	12.5	13.0	12.0	0.0	0.0	0.0	0.0	1.4	1.3	0.0	0.9	12.0	13.8	13.0	13.0

4.

Table 4. Russian export and import of grains in 2008-2009

	Import				Export			
	2008		2009		2008		2009	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
	Th.tonnes	Mln.USD	Th.tonnes	Mln.USD	Th.tonnes	Mln.USD	Th.tonnes	Mln.USD
Grain	957.7	467.3	423.3	227.3	13493.2	3254.5	21778.5	3444.0
Wheat and meslin	178.7	61.8	94.6	21.7	11720.2	2864.4	16821.2	2753.0
Rye	0.1	0.0	0.1	0.1	23.1	5.3	8.2	1.1
Barley	131.5	50.9	32.4	4.3	1496.1	323.9	3490.0	439.2
Oat	4.1	0.8	0.0	0.0	6.4	1.5	2.0	0.4
Corn	362.2	182.6	38.0	60.4	198.4	30.5	1358.0	188.3
Rice	271.2	167.9	257.1	140.4	23.0	20.4	92.3	60.5
Buckwheat, millet and other cereals	9.9	3.2	1.1	0.3	26.1	8.4	6.7	1.6

5.

Table 5 . World and domestic wheat prices in 2005-2010 (USD/tonne)

	2005	2006	2007	2008	2009	2010
World wheat prices						
- Wheat (Argentina, Up River, f.o.b.)	130.44	157.67	246.59	281.21	219.16	251.55
- Wheat (US No.2, Hard Red Winter ord. Prot, US Fob Gulf)	157.81	199.65	263.8	344.58	235.69	240.81
- Wheat (US No.2, Soft Red Winter Wheat , US Gulf)	135.93	158.15	234.76	268.59	185.51	227.95
Domestic Producer wheat prices in Russia	81.36	108.68	176.51	205.68	134.47	127.37
Average export Russian wheat prices	110	141	250	245	164	175

6.

Table 6. Export and import of sugar in Russia in 2008-2009.

	Import				Export			
	2008		2009		2008		2009	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
	Th.tonnes	Mln. USD.	Th.tonnes	Mln. USD.	Th.tonnes	Mln. USD.	Th.tonnes	Mln. USD.
Raw Sugar	2419.9	944.2	1253.3	507.3	53.5	25.3	133.7	56.7
Granulated Sugar	165.1	87.4	258.9	147.3				

7.

Table 7. Balance sheet of resources and using of meat and meat products in Russia in 2005-2009, th. tonnes

	2005	*2006*	*2007*	*2008*	*2009*
Resources					
Stocks beginning	592	650	676	733	744
Production*	4 972	5 259	5 790	6 268	6 720
Import	3 094	3 175	3 177	3 248	2 919
Total	8 658	9 084	9 643	10 249	10 383
Using					
Industrial use	54	52	55	45	41
Losses	16	13	16	17	18
Export	67	57	65	90	65
Private consumption	7 871	8 287	8 774	9 353	9 455
Stocks closing	650	675	733	744	804
Share of import in resources, %	62,2	60,4	54,9	51,8	43,4

1) Source: data of Russian Statistical Agency, * cattle and poultry in carcass weight

8.

Table 8. Import of meat and poultry meat in Russia, th. tonnes.

	2006 г.	2007 г.	2008 г.	2009 г.	2009 г. в % к	
					2007 г.	2008 г.
Meat, fresh and frozen (excluded poultry meat)	1411.4	1489.5	1710.9	1437.1	96.5	84.0
Poultry meat, fresh and frozen	1282.5	1294.9	1224.0	985.7	76.2	80.5

Source: Russian Statistical Agency

9.

Table 9. Foreign trade of Russia by main agricultural and food products

	Import				Export			
	2008		2009		2008		2009	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
	Th. tonnes	Mln. USD	Th. tonnes	Mln. USD	Th. tonn	Mln. USD	Th. tonn	Mln. USD
Grains	957,7	467,3	423,3	227,3	13493,2	3254,5	21778,5	3444,0
Wheat and meslin	178,7	61,7819	94,6	21,7	11720,199	2864,4326	16821,2	2753,0
Rye	0,1	0,0346	0,1	0,1	23,084	5,3309	8,2	1,1
Barley	131,5	50,9358	32,4	4,3	1496,095	323,9471	3490,0	439,2
Oat	4,1	0,8322	0,0	0,0	6,397	1,535	2,0	0,4
Corn	362,2	182,5758	38,0	60,4	198,356	30,457	1358,0	188,3
Rice	271,2	167,8508	257,1	140,4	22,952	20,4068	92,3	60,5
Buckwheat, millet and other cereals	9,9	3,2463	1,1	0,3	26,069	8,4312	6,7	1,6
Oilseeds	693,853	574,3904	1070,778	674,1224	198,074	88,1184	334,456	110,8665
Sunflower	11,787	80,7386	13,035	81,0335	85,028	29,6879	103,144	28,1906
Soybeans	561,614	326,6008	959,304	442,9091	4,506	1,1583	1,771	0,482
Rape	7,183	12,1641	0,469	4,5721	48,057	24,4353	128,378	43,0191
Raw sugar	2419,9	944,2	1253,3	507,3	53,5	25,3	133,7	56,7
Granulated sugar	165,1	87,4	258,9	147,3				
Beef	871,6	2894,8	761,2	2686,2	0,09	0,3	0,09	0,4026
Mutton	17,225	55,0155	9,785	42,2	0,003	0,0135	0,02	0,1331
Pork	822,1	2308,4	666,8	1926,6475	0,06	0,1938	0,162	0,5049
Poultry meat	1224	1352,6413	985,9	1131,9	2,813	5,6705	6,012	6,3872
Milk and cream	160,2	398,5	133,9	238,6	48,0	80,6	51,4	65,4
Butter	140,1	435,6	125,3	339,0	3,7	7,9	4,1	8,9
Cheese and curd	350,0	1488,7	353,0	1281,0	23,8	76,0	21,4	60,0
Eggs	37,4	97,2313	41,1	97,2066	11,697	14,9932	16,418	17,2802
Combined fodder	390,0	555,7	364,8	544,9	45,4	57,8	45,5	54,7
Groats	51,0	25,3	36,3	15,4	108,0	53,7	322,0	78,5

Flour, wheat, wheat and rye	19,4	9,9	7,0	2,9	471,0	207,0	434,0	136,0
Vegetable oil	1131,2	1404,5	751,9	747,4	603,3	803,5	985,1	775,1

10.

Table 10. Commitments of Russia in the WTO for market access for several meat products tariff rate quota-TRQ)

Products	In-quota rate (%)	Out of quota rate (%)	Volume of TRQ (tonne)
Beef (0201)	15	55	40000
Beef (0202)	15	55	530000
Pork (except 0203 29 550 2,0203 29 900 2)	0	65	400000
Pork trimmer (0203 29 550 2,0203 29 900 2)	0	65	30000
Poultry meat (0207 14 200,0207 600)	25	80	250000
Poultry meat (0207 14 100)	25	80	100000
Poultry meat (0207 27)	25	80	14000

In case of elimination of tariff rate quota for beef it should be custom duty of 27,5%.

In case of elimination of tariff rate quota for pork it should be custom duty of 25%

In case of elimination of tariff rate quota for poultry meat it should be custom duty of 37, 5%

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