Prospects for Economic Growth in 2013

The short-term prospects for economic growth in Russia are more likely to be shaped by the vicissitudes of the global economy than by any bout of renewed economic reform in Russia. While the recently drafted Strategy-2020 document (as well as other strategy documents, such as the Forecast-2030) represents a sensible set of policy suggestions, the array of powerful political forces opposed to its recommendations will likely ensure that it exerts only a modest influence over economic policy in Russia. Moreover, if the Russian government's response to the recent 2008–09 recession offers any insight into crisis management in Russia it is that any future recession will likely see the dominance of 'manual control' in economic policy rather than any long-term strategy. In this respect, Russia is perhaps no different to its richer European neighbours.

About the Author

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Further Reading

- Cooper, J. (2012) 'Reviewing Russian Strategic Planning: The Emergence of Strategy 2020' *NATO Defense College Research Review,* Rome: NATO Defense College, URL: http://www.ndc.nato.int/download/downloads.php?icode=338
- Eichengreen, B., D. Park and K. Shin (2013) 'Growth Slowdowns Redux: New Evidence On The Middle-Income Trap,' *NBER Working Paper Series*, Working Paper 18673 available at: http://www.nber.org/papers/w18673

ANALYSIS

Prospects for Russia as a Global Food Exporter

Stephen K. Wegren, Dallas

Abstract

Russian agriculture has rebounded from the depressed conditions of the 1990s. Most importantly, Russia has become a significant global exporter of grain. However, the animal husbandry sector has struggled in some areas, although there are pockets of growth. Assuming that these trends continue, Russia will remain an exporter of grain and an importer of meat.

The Soviet Model

Soviet agriculture was known for its inefficiency and an inability to feed its population. During the last decade of Soviet rule, grain and meat production stagnated, average consumption leveled off, and the USSR imported more than 20 million tons of grain a year, including a high of 44 million tons in 1985, mostly to feed its livestock.1 In the immediate aftermath of market reform, agricultural production plummeted. By the mid-1990s, food production had declined an estimated 40 percent. Post-Soviet Russia became a large importer of meat in the 1990s.

But this is not the whole story. Less publicized is the fact that since the late 1990s the value of Russian agriculture has increased significantly (see Figure 1 on p. 8). Crop production in Russia has rebounded from the depressed conditions in the 1990s, whereas the animal husbandry sector is still struggling, although there are pockets of growth. The near-term prospects are mixed for Russia as a global food exporter, as it will continue to export grain, but will rely on imported meat.

Grain Production and Exports

Although average grain production remains below the level of the 1986–1990 period, Russia has turned from a large grain importer during the 1980s and early 1990s into a significant grain exporter. Russia achieved two

1 *Narodnoe khoziaistvo SSSR* (Moscow: Goskomstat SSSR, 1989), 654.

stellar harvests in 2008 and 2009, with the 2008 harvest reaching a post-Soviet high of more than 108 million tons. In 2012, however, Russia experienced its second disappointing harvest in the last three years for weather-related reasons. In 2010, Russia's grain harvest sank to a post-Soviet low when one-third of the harvest was lost due to drought and extreme heat. After rebounding in 2011, dry conditions in 2012 again led to a decline, including the smallest wheat harvest in 10 years, with the worst performance in the Southern Ural and Siberian federal districts (see Figure 2 on p. 9). Even so, of the $16.5 billion of export revenue earned in 2012 from raw and processed foodstuffs, cereals accounted for $6.2 billion, or almost 38 percent. The early forecast for the 2013 harvest is about 90 million tons, but the actual volume ultimately depends on weather conditions. Contributing to larger harvests have been improved output per hectare and an expansion in cultivated area. While the general trend for Russia's grain production has been upward, critics point out that Russia has the ability to produce as much as 200 million tons of cereals annually, which would allow it to export up to 100 million tons. In contrast, the United States, which is the global leader in grain exports, sold 73 million tons abroad in 2011.[2]

Russia has considerable grain reserves, more than 25 million tons at the beginning of 2013, in both government stocks and privately-owned elevators. With domestic consumption averaging 75–77 million tons, favorable grain harvests have allowed Russia to become a large grain exporter. In 2009 Russia was the third largest exporter of grain in the world, trailing only the U.S. and Australia. Russia dropped to eighth place after the poor harvest in 2010, and rebounded to third place in 2011 in the aftermath of a good harvest. Another poor harvest in 2012 dropped Russia to fourth place in global rankings of wheat exports (fifth place if the EU is considered a single exporter). Going forward, President Putin, and before him Medvedev, stated Russia's ambition to become the number two grain exporter in the world and to double its grain exports to 40–50 million tons by 2020. In contrast, the United States Department of Agriculture forecasts that by 2021 Russia will have total grain exports of 27.5 million tons, as both cultivated area and yields are predicted to rise slowly.[3] Due to the vagaries of weather, Russia's actual grain exports have fluctuated in recent years (see Figure 3 on p. 9). Even so, Russia is likely to remain a net grain supplier to the global grain market.

Grain Policies

To reach its goal of doubling grain exports by 2020, the Russian government has introduced a number of measures, including increasing the number of cultivated hectares by expanding irrigation and land reclamation, and by redistributing abandoned land for agricultural production. As a result, cultivated acreage has increased by about one million hectares in recent years, although total cultivated land remains far below levels of the 1980s. Further, during the past several years the government has subsidized several aspects of grain production, including the price of fuel, rail transportation, the acquisition of agricultural equipment and machinery, seasonal and investment credit, and crop insurance against catastrophic loss. Some of these trade-distorting subsidies will have to be phased out in coming years as Russia comes into compliance with WTO regulations.

The Russian government is also increasing the export capacity for cereals. Present export capacity is about 25 million tons. The expansion of export capacity is necessary because several ports have limited storage or loading capacity. The Novorossiysk port on the Black Sea has the largest export capacity at about 11 million tons and underwent expansion and modernization in 2010–2011. Other projects include construction of a new deep water terminal in Taman on the Black Sea with a shipping capacity of 6–8 million tons by 2014; construction of a grain terminal in Vanino on the Sea of Japan with a shipping capacity of 2.5 million tons; and construction of a terminal in Ust-Luga on the Baltic Sea with a capacity of 6 million tons a year.

Where do Russian Grain Exports Go?

At present, the largest purchasers of Russian grain are Saudi Arabia, Egypt, and Turkey. In Europe, Russia does not have preferential trade terms with the EU and therefore faces high tariff rates. Grain producers in the EU enjoy higher levels of subsidization, higher productivity, and benefit from generous export subsidies. These factors, in addition to Russia's higher cost structure and lower productivity, limit the potential expansion of Russian grain exports to the EU.

The main region Russian policymakers are eyeing for an expansion of grain exports is Asia. At present, Russia has a very small presence in grain trade in the Far East. At the beginning of the 2011–12 agricultural year, no East Asian country ranked in the top 40 of recipient nations of Russian grain. Moreover, transportation costs for Siberian grain to export terminals in the Far East are significantly higher than grain deliveries from

2 Alexander Chetverikov, "Can Russia do Better in Grain Production?" Russia Behind the Headlines, November 22, 2012, http://rbth.ru/articles/2012/11/22/can_russian_do_better_in_grain_production_20343.html

3 Olga Liefert, William Liefert, and Eric Luebehusen, *Rising Grain Exports by the Former Soviet Union Region*, WHS-13A-01, February 2013, www.ers.usda.gov

southern Russia to Black Sea terminals. Expanded trade with Asia has domestic implications and is linked to the economic development of Russia's Far East, and a Ministry for the Development of the Far East was created in Putin's new government, headed by Viktor Ishaev. The Asia-Pacific region holds 4.2 billion people, or 60 percent of the world's population, and is where an estimated two-thirds of the world's undernourished people reside. Russia hopes to become an important regional food supplier to combat hunger. Further, Russia is a member of the Asia Pacific Economic Cooperation organization (APEC). In their September 2012 meeting, APEC members continued to work toward a regional free trade agreement (RTA) that would include agricultural trade.

Animal Husbandry

The animal husbandry sector has been slower to rebound from the depths of the 1990s. During the 1990s Russia became the largest poultry importer in the world. More generally, as real personal incomes increased after 2000, the volume of meat imports grew from 1.2 million tons in 2000 to a high of 2.9 million tons in 2008 (see Figure 6b on p. 11 and Table 1 on p. 12). Moreover, herds of beef cattle and milk cows have declined significantly since the 1990s and continue to contract, although the rate of decline has stabilized in recent years due to special government programs. There are pockets of growth, as the number of pigs has increased from 13.8 million in 2005 to 18.8 million in 2012 (see Figure 4 on p. 10). Pork production in Russia grew about 25 percent during 2008–2011. The Russian government also supports the development of the domestic poultry industry. The number of poultry has increased from 357 million in 2005 to 473 million in 2011, and as a result the production of poultry meat has been growing rapidly, up by more than 200 percent compared to 2005. While poultry production has grown, the production of beef has declined slightly compared to 2005 and is just above the 2001 level (see Figure 5 on p. 10). On the positive side, Russia has been importing pedigree cattle from the US, Australia, and the EU. These pedigree cattle yield more milk per milk cow and also more beef per meat cow. Therefore, higher output per cow keeps production from declining.

Ultimately, however, imports are necessary to fulfill domestic demand. In 2011, domestic production fulfilled only 70 percent of the nation's demand for beef and 77 percent for pork. As a high-value commodity, meat imports account for the bulk of the value of food imports into Russia. The dollar expenditure on food imports grew from $7.4 billion in 2000 to $42.5 billion in 2011 before declining to $40.2 billion in 2012. In 2012, the gap between revenue from food exports and expenditures on food imports was $23.7 billion. Expenditures on food imports greatly surpass the level of financial support that the agricultural sector receives from the government.

High dependence on meat imports has spurred concerns over food security. In June 2009, former President Medvedev argued that high levels of dependence on foreign meat and poultry are "dangerous."[4] In January 2010, former Minister of Agriculture Elena Skrynnik indicated that food security is "one of the central and prioritized problems in the system of national security."[5] Food security is included in the National Security Strategy (NSS) that was adopted in May 2009. In January 2010, former President Medvedev signed into force a national Food Security Doctrine. The doctrine calls for "food independence of the Russian Federation" based upon quantitative and qualitative measures as established by Russian law. Section 2, article 8 of the doctrine establishes quantitative indicators for food supply that domestic production should fulfill. Food security is defined as Russia's ability to produce 95 percent of the grain it consumes, 95 percent of its potatoes, 85 percent of its meat and meat products, 80 percent of its fish products, and 90 percent of its milk and milk products.[6]

In July 2012 the Russian government adopted a new program for the development of agriculture for 2013–2020. The broad goals are to attain food independence for the nation, increase competitiveness of Russian agricultural productions on domestic and foreign markets within the parameters of the WTO, improve the financial condition of Russia's food producers, and create sustainable rural communities. The program identifies meat and milk production as a first-level priority. Toward this end, the program envisions the expenditure of R499.3 billion on the development of animal husbandry and a further R65.3 billion for the development of the meat cattle sector. The state program includes subsidies for the acquisition of pedigree cattle, provides funding to major meat producing regions, and subsidizes interest rates for loans used to construct sheds for beef cattle. In all, the development of animal husbandry and the beef cattle sector are scheduled to receive 43 percent of all expenditures during the 2013–2020 program. The goals of the program are to increase animal husbandry production 20 percent by 2020 compared to 2012, reaching 14.1 million tons of meat and poultry and 38.2 mil-

4 *Sel'skaia zhizn'*, June 25–July 1, 2009, 1.

5 E. Skrynnik, "Prodovol'stvennaia bezopasnost'—vazhnaia sostavliaiushchaia sistemy natsional'noi bezopasnosti Rossii," *APK: ekonomika, upravlenie* 1 (2010), 3.

6 Doktrina prodovol'stvennnoi bezopasnosti Rossiiskoi Federatsii," www.mcx.ru/documents/document/show_print/12214.19.htm. This document is no longer available on the website of the Ministry of Agriculture.

lion tons of milk. These levels of production will bring the level of self-sufficiency for meat and poultry to 88 percent and 90 percent for milk, thereby meeting the targets in the Food Security Doctrine.[7]

Assessment

Going forward, Russia faces three critical issues. First, under the terms of the WTO the Russian domestic food market, particularly for processed foods, but also for unprocessed meat products, will be more open and less protected. Tariffs are scheduled to decrease and direct production subsidies will be phased out. It will be interesting to see how Russia tries to protect its producers, a goal that Putin supports, with fewer protective mechanisms. Second, although poultry and pork production is on the rise, the question is whether production can match rising consumer demand. Short-term forecasts are for these imports to rise. Beef imports may increase as well due to rising consumption, while domestic production is stagnant and government programs have not had the desired effect so far. Third, for the foreseeable future, therefore, Russia is likely to remain an importer, not exporter, of meat and animal husbandry products, which means that Russia will continue to spend much more on food imports than it earns from grain exports.

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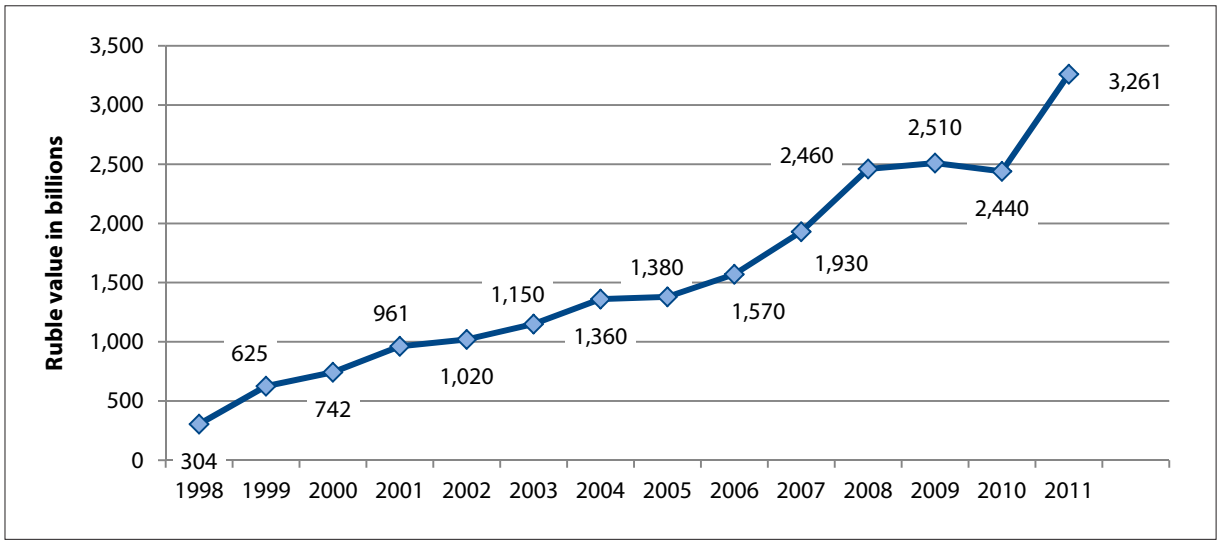
7 *Gosudarstvennaia programma razvitiia sel'skogo khoziaistva i regulirovaniia rynkov sel'skokhoziaistvennoy produktsii, syr'ia i prodovol'stviia na 2013–2020 gody* (Moscow: Ministry of Agriculture of the Russian Federation, 2012), 45–80, www.mcx.ru

TABLES AND GRAPHS

Selected Russian Agricultural Statistics

Figure 1: Ruble Value of Agricultural Production, 1998–2011



Source: Rossiiskii statisticheskii ezhegodnik *(various years).*