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## TRANSFORMATION OF THE SYSTEM FOR THE STATE SUPPORT TO RUSSIAN AGRICULTURAL PRODUCERS IN THE CONDITIONS OF THE WTO

### Abstract

In the article the necessity of transformation of the system of state support of agriculture of Russia and its regions after WTO accession. The estimation of the achieved level of implementation of indicators of food security Doctrine of the Russian Federation. Approaches and principles of reforming budgetary support for agriculture, with position limits of its total volume, and position changes directions subsidies. The conclusion is that we must build a new system of state support of agricultural producers, taking into account international requirements. The features of state support of agriculture at the level of individual region Saratov region. Showed a trend of change in the ratio between “yellow” and “green” baskets WTO in the regional program of development of agriculture and agricultural markets for the period from 2013 to 2020.

**Keywords:** statesupport, agriculture, WTO, Saratovregion, transformation, subsidies.

### Аннотация

В статье обоснована необходимость трансформации системы государственной поддержки сельского хозяйства России и ее регионов после вступления в ВТО. Дана оценка достигнутому уровню выполнения показателей Доктрины продовольственной безопасности РФ. Сформулированы подходы и принципы реформирования бюджетной поддержки сельского хозяйства, как с позиции ограничения ее общего объема, так и с позиции изменения направлений субсидирования. Сделан вывод о том, что необходимо выстраивать новую систему государственной поддержки сельхозтоваропроизводителей с учетом международных требований. Определены особенности государственной поддержки сельского хозяйства на уровне отдельного региона – Саратовской области. Выявлена тенденция к изменению соотношения между «желтой» и «зеленой» корзинами ВТО в региональной программе развития сельского хозяйства и сельскохозяйственных рынков на период с 2013 по 2020 годы.

**Ключевые слова:** государственная поддержка, сельское хозяйство, ВТО, Саратовская область, трансформация, субсидирование.

### Аңдатпа

Мақалада Ресей мен оның өңірлерінің ДСҰ-на кіруінен кейін ауыл шаруашылығын мемлекеттік қолдау жүйесін трансформациялаудың қажеттілігіне негіздеме келтірілген. РФ Азық-түлік қауіпсіздігі доктринасы көрсеткіштерін орындаудың қол жеткізілген деңгейіне баға берілген. Жалпы көлемін шектеу жағынан да, сондай-ақ қаражаттандыру бағытын өзгерту жағынан да ауыл шаруашылығын бюджеттік қолдауды реформалаудың тәсілдері мен қағидаттары қалыптастырылған. Халықаралық талаптарды ескере отырып ауыл шаруашылығы тауарларын өндірушілерді мемлекеттік қолдаудың жаңа жүйесін қалыптастыру керек екені тұжырымдалды. Жеке өңір – Саратов облысы деңгейінде ауыл шаруашылығын мемлекеттік қолдаудың ерекшеліктері анықталды. 2013–2020 жылдары аралығында ауыл шаруашылығы мен ауыл шаруашылық нарығын дамыту өңірлік бағдарламасындағы ДСҰ-ның «сары» және «жасыл» қоржыны арасындағы ара-қатынасты өзгерту беталысы анықталды.

**Тірек сөздер:** мемлекеттік қолдау, ауылы шаруашылығы, ДСҰ, Саратов облысы, трансформация, қаражаттандыру.

In the recent years the state support to agro-industrial complex has grown steadily, that enables Russian agriculture to literally “revive” in many branches (the production of pork, grain, milk etc.). During the implementation of the National Priority Project “Development of the Agro-industrial Complex” and the State Programme “Agriculture Development and Regulation of the Markets for Agricultural Products, Raw Materials and Food for the period 2008-2012” significant positive changes took place in the sector. There is a tendency of increase in efficiency of agricultural production and labour productivity as well as agricultural production indexes. In 2011 previous volumes exceeded: the grain production increased by 34% (about 26 mln. tons higher), the meat production grew up by 20%. Russia has become a grain net exporter and ranks among the three top wheat suppliers to the world market. Last year the grain export volume exceeded 22 million tons. It was estimated that despite unfavourable natural and climatic conditions over the last three years Russia will produce about 125 million tons of grain and will export about 40 million tons during 10-15 years.<sup>1</sup>

The state support also helped the agriculture to overcome negative effects of 2008 crisis. In 2005 the budgetary support amounted to 20 milliard (billion) roubles, in 2006 – 38 billion roubles, in 2010 it was 108 billion roubles, and in 2012 – 137 billion roubles. The upcoming volume of the budget support for the agriculture development in 2013 and 2014 will amount to 138 milliard roubles and for 2015 – 152 milliard roubles. Moreover, as a result of adaptation problems to WTO accession the government of the Russian Federation decided to subsidize agricultural producers with supplementary 14 milliard roubles.

Significant changes were observed in the animal husbandry. The meat industry evolved favourably over the period 2006-2011. Livestock and poultry for slaughter amounted 42.5%, poultry production increased by 96.3%, and pork production – by 42.9%.<sup>2</sup> Over 1,200 new and modernized complexes were put into operation (674 – in pork production, 404 – in poultry, and 189 – in cattle breeding). To support meat industry the programmes for development of swine-breeding, poultry, cattle-breeding and primary cattle processing are realized. Significant regional programmes exist. Investments in 44 regional programmes for meat production amounted to 2.3 milliard roubles in 2011.

Positives trends are also observed in providing the population with food according to the adopted Doctrine of Food Security of the RF (Table 1).

**Table 1 The achievement level for target figures of the RF Food Security Doctrine<sup>3</sup>**

<b>Commodities</b>	<b>threshold value</b>	<b>Actual value in 2011</b>
grain	No less than 95	126
sugar	No less than 80	56
vegetable oil	No less than 80	82
meat	No less than 85	71
dairy products	No less than 90	83
fish	No less than 80	77
potatoes	No less than 95	102
white salt	No less than 85	59

The country is almost 100% self-sufficient in the important agricultural commodities (grain, vegetable oil, milk and dairy products, and potatoes).

Obviously, the most vulnerable items for the food safety, which need to be protected, are sugar, meat and meat products, as well as salt.

At the same time the terms of Russia's accession to the WTO could threaten the progress in agricultural development and the country's self-sufficiency because undertaken obligations in the field are rather difficult and painful for the agrarian sector.

Russia's commitments are determined firstly, by common rules for the WTO members; secondly, by obligations agreed as a result of negotiations between the applicant-country and the real members both on bilateral and multi-lateral bases (64 WTO members or 78 countries participated in the negotiation with Russia about terms of its accession). The following key issues were discussed: market access, domestic support for agriculture, export competition and phytosanitary measures.

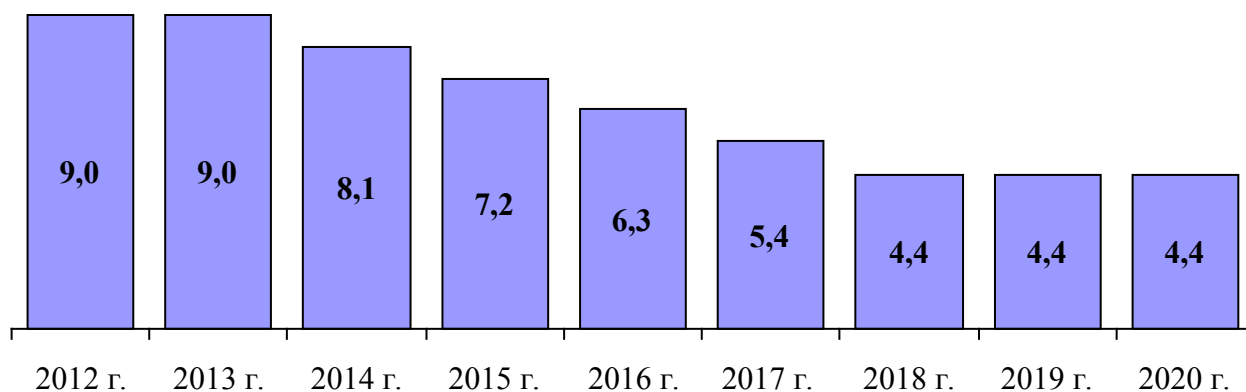
<sup>1</sup> Skrynnik E. New stage of agricultural development in Russia. – Russian Agricultural Economics. – 2011. – № 11. p.10

<sup>2</sup> Central statistics data base – <http://www.fedstat.ru/indicators/start.do>

<sup>3</sup> Central statistics data base <http://www.gks.ru/dbscripts/cbsd/DBinet.cgi>

In September 2010 during the meeting of the Russian delegation with the Kern group and the US representatives the parties came to an agreement that under WTO accession Russia is to reduce government subsidies two-fold for rural development since 2013. Before 2012 the state support level for agribusiness was maximal \$9 billion per year and remains the same, and from 2013 up to 2017 it will decrease to \$4.4 billion according to the chart (Fig.1). Moreover, it was declared that we meet the requirement of the WTO in the lack of export subsidies.

Russia's competitiveness risks under WTO accession are caused at least by three external factors: terms of the WTO accession for new members are much more severe than requirements of trade liberalization for Members;



*Figure 1 State subsidies reduction, \$ billion.*

– WTO disciplines do not provide special prescriptions for transition economies, which are overcoming domestic crisis;

– Simultaneous state support reduction, trade liberalization and subsidies cut have negative effects on producers, budget and food security of the country.

There also exists another significant internal circumstance, which implies for intensive domestic support under the WTO rules as well as for transformation of the support forms and methods at both federal and regional scales. Russia's labour productivity is considerably lower than in developed and many developing countries.

Thus, labour productivity rate in Russia's agriculture is 41 times less than in Island, 22 times less than in the USA, 20 times – than in Canada and 3.4 times - than in Argentina.

The current situation in Russian agrarian complex is predetermined by many objective reasons and farming practices connected with natural and climatic risks, with vast arid territories as the most part of agricultural commodities are produced in the zone of unfavourable conditions. The lands of the 17 Federal subjects are affected by desertification. The total area of desertified lands is 60 million hectares, grazing lands in arid zones making a large share.

**To encourage competitiveness of Russian farmers in such conditions a special attention should be paid to the state support strengthening, finding new diverse forms and methods at federal and regional levels according to the WTO rules and regulations.** Speaking about reduction of state support under the current WTO requirements one should bear in mind that this measure imposes restrictions only on such kinds of the support, which the organization considers trade distorting factors, but not on the whole support. Importantly, the WTO does not “encroach” upon the “green box”. Each state gives information about its own green box, but does not agree to reduce it. There is such a green box in Russia as well, though a restricted one.

To gain maximum benefits from the WTO joining the domestic agrarian policy measures are to be directed for searching and providing the whole spectrum of the support mechanisms allowed in the WTO framework. At the same time the green box is not bound by reduction commitments!

Under the WTO accession it is necessary to consider how best future state support should be tailored to deliver a sustainable agrarian sector taking into account international demands.

At present over a hundred targeted federal, departmental and regional programmes are being implemented which benefit rural development, enhance agriculture and its branches, food and processing industries as well.

The old theoretical and methodological approaches to the agrarian sector assistance should be transformed. The transformation is to be realized in the following main directions:

First, such criteria of the support resources allocation as **sufficiency** of budgetary funds, **preventivity**, **priority in allocation**, **consideration of regional features** should be “tested” by the world generally accepted regulations in the agrarian sector (amber or green boxes for support measures)<sup>1</sup>;

Second, it is necessary to liquidate discrepancies among certain provisions in federal, regional and departmental programmes targeted for social rural development and agriculture development and the rules vested in the Agreement on unified regulations for agriculture support, ratified by №177-Federal Law of 11 June 2011 “About ratification of the Agreement on unified rules for agriculture support”;

Third, it is advisable to modify the current support system for the agrarian sector and to increase the number of measures that fit in WTO green box; this consequently is intended at reformatting irrationally spent subsidies<sup>2</sup>. Proposed measures should be strictly differentiated between policies that are not restricted and restricted by the trade agreement. Today actually there is no mechanism for measures transformation according to the WTO regulations at every level of target support programmes;

Fourth, it is necessary to work out an adequate to new realities mechanism for measures which transfer money to agricultural producers. As V.V. Kozlov points out in this connection, ‘Russians are in for finding new approaches to develop federal and regional programmes for the state support to agro-industrial complex; it is senseless “to make a carbon copy” of them as it used to be in the past; it is also high time to understand that each Federal subject must have its own programme for agrarian complex development’<sup>3</sup>.

There should be more changes in those institutional structures that are responsible for providing a certain producer with monetary support in a certain region.

Alongside with the WTO requirements it is essential to consider terms and requirements of the Customs Union of Russia, Kazakhstan and Belarus in the process of development of the state funding system for agriculture. Peculiarities of the single economic space of the three CIS countries undoubtedly influence the development dynamics of particular agriculture branches and force Russian producers to increase their competitiveness, especially in meat, milk and beet sugar production.

Therefore, issues of the budgetary support to Russian agriculture after WTO accession are of increasing importance both from the point of view of subsidies total volume reduction, and change in subsidies directions.

It is notable that the current system for Russian agricultural support demonstrates predominance of such forms and methods that are restricted or prohibited under the WTO agreement (amber box measures). In crop production the following measures fit in the amber box:

- subsidies for partial compensation of expenses to buy mineral fertilizers, pest and disease control measures, purchase of equipment to produce and process crops, for electricity costs, operating costs per one hectare of cropland;

- state support for crediting plant growing sector, plant processing, including subsidies for partial reimbursement of interest payments on short-term bank loans, on investment credits for crop production development, etc.

With respect to livestock production the following payments are prohibited:

- subsidies for livestock commodities, pedigree livestock breeding, compound feed;
- compensation of the price of machinery purchased on the basis of counter agricultural products selling;

- expenditures of leasing fund;

- production capital investments, excluding land reclamation schemes and water supply;

- loans on preferential terms for agricultural producers from Federal and regional budgets, including write-off and prolongation of debts.

<sup>1</sup> Vasilchenko M.Ya. pays attention to this important issue in the article «Transformation of the state support for agrarian sector according to WTO requirements» - Herald of Saratov State Agrarian University named after N.I. Vavilov – 2012. - №6.-p.66

<sup>2</sup> Kozlov V.V. Comment. We joined WTO, and how will it affect agriculture? - <http://www.agronevs.ru/news/detail/119024>; Naumkin A.V. Upgrading types and methods of state support to agriculture under WTO agreement – Agrarian economic policy. – 2012 №3-p. 33-37.

<sup>3</sup> Kozlov V.V. WTO terms: how do they influence Russian citizens // Herald of the Saratov State Agrarian University named after N.I. Vavilov .2012.№7.p.79.

In view of the fact that amber box measures evidently prevail in the state support mechanism today, it is urgent to “reformat” current support forms in favour of green box measures.

Some new approaches to development of state support system for the agrarian sector according to international requirements have been realized in the State programme for agriculture development and regulation of the markets for agricultural products, raw materials and food for the period 2013-2020<sup>1</sup>.

The major feature of the programme is a comprehensive systematic character, as it comprises measures providing technology production chains for particular commodities of crop and livestock production (production – processing – logistics - market). In this way a reproduction approach is applied for agriculture regulation. Food security in Russia is suggested to ensure by means of competitive domestic agricultural products and foodstuff on the basis of complex modernization.

In the framework of the State programme both traditional and new measures are used for the state support. To the new ones belong the following:

- Financing of the economically important regional programmes;
- subsidies to budgets of the Russian Federation subjects to provide free assistance for growers;
- subsidies for every litre of milk that farmers actually sell. The measure is criticized by V.V. Kozlov who says that, “the State programme provides subsidies of 3 roubles per 1 kilogram of milk in the total amount of 9,550 million roubles in 2013, rising up to 13,618 million roubles in 2020. It is about half of a billion US dollars from 4.4 billion dollars under the WTO amber box.”<sup>2</sup> A special attention should be paid to this as really subsidies for 1 litre of commercial milk fit in the amber box and result in significant spending of the budget money for payment of inefficient chain “field-counter” in dairy production;
- subsidies for partial reimbursement of insurance premium;
- procurement and commodity interventions on milk market; technical regulations for products;
- subsidies to RF subject budgets for production development and social food infrastructure;
- subsidies for domestic agricultural machine manufactures to reimburse income which was not received from the purchase price.

Thus, we can conclude that the new types of the state support proposed in the Federal programme fit in the WTO green box transforming the whole measure system according to the WTO requirements.

Nevertheless, the Federal programme should be revised in connection with Russia's WTO accession. A serious disadvantage of the programme is the lack of vivid differentiation of scheduled measures between allowed and prohibited under the WTO rules. Besides, an amount of subsidies intended as direct measures for assisting crop and livestock production (amber box) should be “transformed” to fit in the green box.

M. Vasilchenko points out necessity and possibility of transforming amber box measures into green box in order to use allowed measures at most. For instance, it is suggested to adjust subsidies amount for keeping pedigree cows (amber box) by means of increasing expenditures for purchase pedigree heifers in domestic and foreign markets (green box measures). Part of subsidies for 1 litre of sold milk in autumn and winter could be allocated for modernization of livestock complexes.<sup>3</sup> Similar corrections could be made in crop production. Several protective measures could be used as stabilizers, for example when import increases over 25% compared with last year. Under the WTO agreement Russia can use both compensation and anti-dumping tariffs as a protection measure against unreasonably cheap import.

All these peculiarities should be considered while developing target regional programmes for agriculture development and regulation of the markets for agricultural products, raw materials and food for the period 2013-2020 to adapt them to the WTO requirements.

Possible effects of Russia's WTO accession on agriculture can vary in different regions. It depends on their specialization and the production efficiency of major commodities. Moreover, regions have different socio-economical development levels, natural and climatic conditions, administrative and economic conditions for agricultural production, food self sufficiency, population demand and demographic characteristics. For instance, Saratov oblast is one of the largest in the Russian Federation. It occupies 100.2 thousand square kilometres; the population is 2.7 million people. It is a key producer of grain, sunflower and livestock commodities.

<sup>1</sup> State programme for agriculture development and regulation of the markets for agricultural products, raw materials and food for the period 2013–2020. – <http://www.mcx.ru>

<sup>2</sup> Kozlov V.V. WTO terms: how do they influence Russian citizens // Herald of the Saratov State agrarian University named after N.I. Vavilov. 2012. №7. p. 76.

<sup>3</sup> Vasilchenko M.Ya. – «Transformation of the state support for agrarian sector according to WTO requirements» – Herald of Saratov State Agrarian University named after N.I. Vavilov – 2012. – №6. – p. 69.

During the period from 2008 to 2011 the gross agricultural production increased two-fold. In 2011 the regional output of agrarian sector amounted to 152.8 million roubles, including agricultural production – 109.3 million roubles or 136.7% compared to last year. It ranks the oblast the second among the subjects of the Volga district (okrug) after Tatarstan. Domestic support is seen as an essential factor for the development of the agrarian sector, the budgetary support reached 17.9 billions roubles, including 8.7 billion roubles from the regional budget.

However, Saratov oblast significantly differs from average Russian level on such figures as GDP per capita (48% compared to average in Russia); the average personal income (consequently – 61.3%); the proportion of the population living below the national poverty line is 16.8%, which is 4 percentage points higher than average in Russia. This indicates that positive and negative effects of the WTO accession will depend on different initial conditions of regions facing new realities in the frame of the international organization<sup>1</sup>.

In Saratov oblast the long-term target regional programme was developed for agriculture development and regulation of the markets for agricultural products, raw materials and food for the period 2013-2020 which comprises the following six sub-programmes:

- “Development of crop production, processing and selling crop commodities” for the period 2013-2020
- “Development of livestock production, processing and selling livestock commodities” for the period 2013-2020
- “Support for small enterprises” for the period 2013-2020
- “Technical and technological modernization, scientific and innovation development” for the period 2013-2020
- “Sustainable agriculture in Saratov oblast” for the period 2014-2020
- “Land reclamation development in Saratov oblast” for the period 2014-2020

Furthermore, the regional legislation provides the state support for agriculturalists<sup>2</sup> (one-off grant and annual cash benefit for young specialists) and agricultural organizations<sup>3</sup> (subsidies for partial compensation of expenditures for internship and/or academic and practical programmes for students of agrarian educational institutions). Payments from the budgets of all levels are aimed at development of advisory services for agricultural producers and rural population in Saratov oblast, that encourages productivity and competitiveness of agricultural production; as well as assures high standard of living and rural population employment thanks to use of current achievements in science and engineering technology. All the above measures fit in the green box.

Analyzing directions and forms of the state support for agriculture we tried to classify the suggested measures into allowed and forbidden ones according to the WTO regulations. Analysis of finances allocation in the given programmes for 2011 and the newly elaborated long term target programme shows considerable progress in favour of the green box. So, in 2011 the proportion of the amber box measures was 70.1% and respectively the green box measures were 29.9% on the studied support types in the framework of the four target regional programmes, whereas in the adopted long term target programme for 2013-2020 the proportion of the amber box decreased to 35.2%, and the green box grew up to 64.8%. Table 2 illustrates great changes in theoretical and methodological approaches to issues of the support for the agrarian sector. Though in the long term regional programme the support measures are not clearly differentiated between allowed and restricted under the WTO agreement, the suggested approaches show the trend to focus on the green box measures.

Besides, in the long term regional programme absolutely new types of the state support to agricultural producers are provided alongside the traditional (transitory) forms. So, in Saratov oblast the mechanism of differential allocation of financial resources was developed taking into account zone differences of soil, natural and climatic conditions for farming. Although this support fits in the amber box, its efficiency will be much higher.

In 2011 the total amount of the state support for the agricultural producers from the regional budget was 735 roubles per 1 hectare of arable land and it is expected to increase. The new forms of the state support also include:

<sup>1</sup> Sukhorukova A.M. *Globalization influence on the development of the agro-industrial complex in Russia*. – №4. – 2012. p.96.

<sup>2</sup> Law of the Saratov region of 28 October 2011 № 148 «On the State support of personnel in agro-industrial complex of Saratov oblast».

<sup>3</sup> Law of the Saratov region of 3 August 2011 № 85 «On the State support of organizations in agro-industrial complex in Saratov oblast, providing educational and/or practical training for students of Agricultural colleges and universities situated on the territory of Saratov region».

– subsidies for purchase of technological equipment to reconstruct and modernize greenhouses for growing plants, for crop processing and storage facilities, for equipping logistics centres, vegetable and potatoes storehouses;

– support of important regional livestock programmes;

– financing protection measures against distribution of African swine fever in Saratov region;

– subsidies for partial reimbursement of expenditures for reconstruction of irrigated lands.

On the whole, giving positive evaluation to the new forms and directions of the state support to agrarian sector one cannot but admit that their spectrum is rather narrow (two target programmes – “Technical and technological modernization, scientific and innovation development of agriculture” and “Sustainable agriculture” provide no new state support forms). In addition, majority of the new measures still fit in the amber box.

In conclusion, the mechanism for transforming the state support system to agricultural producers is gradually developing under the WTO. It includes the following elements:

– significant changes in proportion of the amber and green boxes in favour of the green box measures;

– increasing efficiency of both traditional and new forms of the state support, boosting innovation direction of the measures at the federal and regional levels;

– reformatting irrationally used amber box measures, increasing effectiveness of their use;

– elaborating of independent individual programmes for the agricultural sector development, working out of effective mechanisms for subsidizing agricultural producers.

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