AGRARIAN POLICY UNDER PUTIN

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Abstract

This article addresses the orientation of the agricultural policies carried out by the Russian government under Vladimir Putin, since he assumed power in January 2000. It examines the following aspects of agrarian policy: food import policy, agricultural debt policy, policy toward unprofitable farms, and agricultural credit policy. This particular focus begins from the premise that the period of radical reform is over, and agrarian policy is no longer intended to remake the agricultural system. Earlier agrarian policy concentrated on the reorganization of large farms, the privatization of farm land and property, and the attempt to supplant large farms with private family farms. Unlike the convulsive and turbulent agrarian change attempted by Boris Yeltsin, Putin's agrarian policy is pragmatic, consisting of measured steps that are intended to rebuild agricultural production and reduce reliance on food imports.

Introduction

In the early 1990s, Russia undertook an agrarian transition that was expected to lead to increased food production and greater farm efficiency. The goal was to make agriculture operate on market principles which in turn would lead to less dependence on foreign imports, improved domestic food production and quality, and a healthy agricultural sector that would contribute in significant ways to economic growth. As is known, during the 1990s, these goals and expectations were largely frustrated. Food production fell precipitously, farm productivity declined, farm debt and unprofitability soared, food imports increased, and domestic output from the agricultural sector contracted, leading to a reduction in its contribution to GDP from about fourteen percent at the beginning of the decade to about seven percent at the end (in a significantly smaller economy). Although largely overlooked by analysts, declines in animal stocks during the Yeltsin years exceeded those of Stalin's collectivization. The amount of agricultural land under cultivation declined, land reclamation virtually ceased, and harvests fell. By the latter Yeltsin era, the combination of extraordinarily bad harvests and the financial collapse of the ruble in 1998 led to regionally-imposed price controls on food products.

Resulting from this combination of economic disasters, food aid was provided by the West in order to prevent starvation in some regions of Russia. However, this aid was bitterly contested by both conservatives and liberals in Russia. Conservatives argued Russia had lost its "food security," while liberals were dismayed by food aid which allowed the federal government to re-intervene in the domestic food market, thereby reversing progress from the early reform period when the government largely withdrew from regulation of the domestic food market. Eugenia Serova, an agricultural economist and former advisor to Viktor Khlystun when he was minister of Agriculture, argued that food aid and, with it, federal control, threatened Russia's fledgling market system. "Eight years we have been waiting for this market system to emerge, and now we try to destroy it," she stated.[1]

Thus, while not neglecting the very real accomplishments in farm and land privatization during the 1990s, one could reasonably argue that several aspects of Yeltsin's agrarian policies were dysfunctional. It is hard to imagine how the agricultural situation could have been worse when Vladimir Putin assumed the post of acting president in January 2000. This article focuses on two main questions since Putin assumed leadership in Russia: (1) what have been the orientations of Putin's agrarian policy?; and (2) what policy changes are evident in comparison to the Yeltsin period?

To address these questions, I will examine the following aspects of agrarian policy: food import policy, agricultural debt policy, policy toward unprofitable farms, and agricultural credit policy. My focus is on policy issues that concern food production directly, and for this reason, land privatization, land legislation and the land market are excluded from this analysis.[2] This particular focus begins from the premise that the period of radical reform is over, and agrarian policy is no longer intended to remake the agricultural system. Earlier agrarian policy concentrated on the reorganization of large farms, the privatization of farm land and property, and the attempt to supplant large farms with private family farms. Unlike the convulsive and turbulent agrarian change attempted by Yeltsin, Putin's agrarian policy is pragmatic, consisting of measured steps that are intended to rebuild agricultural production and reduce reliance on food imports.

New orientations of agrarian policy

It is important to discuss, to begin, the orientations of Putin's agrarian policy. There are two main trends that deserve mention. First, under Putin, the agricultural sector has been identified as an important segment of the economy worthy of state attention and support.

Immediately after Putin became acting president, there were indicators that the revival of food production was considered one of the strategic policy directions. In February 2000, a national conference on the problems of the agro-industrial complex was held in Krasnodar kray. More than 1,000 specialists, scholars, food producers, heads of ministries and departments, and Putin himself attended. In his speech to the conference, Putin stated that "Our first-order task is to raise the volumes of food output to the levels they were at the end of the 1980s-beginning of the 1990s and to appreciably reduce the country's food dependence on imports" (*Krest'yanskiye vedomosti*, No. 7, 2000, p. 2.). In July 2000, the outlines of a program entitled "Basic Directions of Agrofood Policy to 2010" were presented to the Cabinet by Deputy Prime Minister and Minister of Agriculture Aleksey Gordeev (August 1999-present).[3] The discussion, below, of the program is based upon the summary given by Gordeev in a speech on July 27, 2000.[4]

The new program posited three broad tasks: (a) to develop and strengthen market conditions in the rural economy; (b) to stabilize food production; and (c) to achieve the first two tasks in the shortest time possible. This program is not a recipe for massive state intervention in the agricultural sector. In fact, there is an explicit recognition that state capacities have diminished, and it is acknowledged that the center no longer is able to carry the entire burden.

In his July 27, 2000 speech Gordeev referred to the "relatively limited material and financial resources of the state." In presenting the new program Gordeev indicated that the highest priority goals of agricultural policy consisted of:

(1) improving the financial status of agricultural enterprises through debt reduction and increased budgetary allocations, allowing them to expand production;

(2) using custom and tariff policies "to ensure the income growth of domestic food producers," and allowing domestic producers to compete with foreign imports;

(3) regulating the grain market, using "the entire arsenal possessed by the government," including customs and tariff regulation, commodity intervention, and through the use of commodity purchase intervention;

(4) "perfection" of credit organizations and the dispersion of subsidized credits; and

(5) improving the stock of agricultural machinery and changing the process of leasing agricultural machinery.

Thus, after years of indifference during the Yeltsin era, the condition of Russian agriculture once again has become important to policy-makers. Their goal is to create an environment that supports domestic production, thereby ensuring the nation's food security.

The second main orientation flows from the first, and that is a concentration on large farms to lead agricultural revival. The post-Yeltsin government in Russia has made the revival of food production on large farms a priority. Minister of Agriculture Aleksey Gordeev has spoken out repeatedly that the future of Russian agriculture and the main food producer for the nation will be large farms. For example, at an agricultural conference in Moscow oblast in late February 2001, Gordeev stated that the policy of attempting to destroy large farms in the early 1990s "had a negative influence on the course of reform."

Gordeev continued that at the present time "no one should doubt the priority of large producers over small ones" (*Krest'yanskiye vedomosti*, Nos. 9-10, 2001, p. 2).[5] In an article that appeared in mid-2001, Gordeev criticized previous agrarian policy as lacking "a scientific basis" (Gordeev, 2001b, p. 6). He argued that "the Russian experience witnesses the fact that the future of agriculture is large enterprises and the vertical integration of agro-industrial organizations" (Gordeev, 2001b, p. 5).

Two examples show that the Putin administration intends to support large farms in deed, not just in word. First, it was announced that a special division within the Ministry of Agriculture would be created for providing crop insurance against bad weather, pests, and natural disasters. At the same time, it was revealed that the government intends to pay 50 percent of these insurance premiums. Large farms are the primary producer of the grains, oilseeds, sugar beet, and flax that the insurance would cover. Second, in October 2001, Gordeev indicated that the state would intervene in the grain market for the first time in Russia's history. Some two billion rubles had been allocated in the 2001 federal budget for grain market intervention, and Gordeev said he might seek an increase to as much as five-six billion rubles. The intent of the intervention was to prevent grain prices from falling below 2,300 rubles per ton (*Krest'yanskiye vedomosti*, Nos. 39-40, 2001, p. 2). Large farms remain the primary producer of grains, accounting for more than 90 percent of grain production.

Change in Putin's agrarian policy

There are two sets of agrarian change that have occurred in the post-Soviet years. First, there were the changes introduced under Boris Yeltsin. There is substantial evidence that significant adaptation and change occurred in the 1990s (see O'Brien and Wegren, 2002). In particular, it is important to note that there was important change in land relations (Wegren and Belen'kiy, 2002), and in the withdrawal of the post-Soviet state from regulation over production, delivery, and processing of food.

By the beginning of 2001, a short list of structural change would include: (1) the ending of planned production; (2) the ending of obligatory procurements and delivery to procurement points; (3) the removal of federal regulation over wholesale food trade; (4) the relaxation of federal regulation over purchase prices; (5) the removal of federal regulation over input prices; (6) the decline of federal production subsidies to farms; (7) the removal of federal consumer subsidies at the retail level; (8) change in predominant channels of food trade, with most food trade now channeled through private markets; (9) liberalized import and export rights to large farms and private farmers; and (10) the removal of job security for farm employees, who now may be fired for incompetent work or for other reasons.

There were also important changes that occurred in the transition from Yeltsin to Putin. I now turn to an examination of several specific elements of Putin's agrarian policy, with an eye toward illuminating the ways in which Putin's policies are different from Yeltsin's. The era of radical change is over, but that does not mean that substantial policy change has not occurred already during Putin's tenure.

More changes have occurred than can be discussed here – for example federal intervention in the grain market to support stable purchase prices (*Krest'yanskiye vedomosti*, Nos. 27-28, 2001, p. 2). Additional policy changes are underway, such as legislation on the purchase of agricultural land.[6] This article will focus on the following elements: food import policy, agricultural debt policy, policy toward unprofitable farms, and agricultural credit policy. These were selected because they are central to the revival of Russian agriculture and the financial status of large agricultural enterprises.

Food import policy

International food trade policy under Yeltsin was relatively open. Import tariff rates were low by world standards. In the European Union some tariffs on specific food imports reached 200 percent (Pilaev, 1998, p. 25). Worldwide, agricultural tariffs averaged 40 percent in the late 1990s ("World Trade: Fifty Years On," 1998, p. 22). In contrast, aggregate Russian import tariffs were only about one-half of world levels, and many food tariffs did not exceed 10 percent.

During the Yeltsin years, the composition of Russian imports changed, due in large part to the significant decline in animal herds which reduced demand for feed grains and thus the need for grain imports. As a consequence, Russia imported much less grain in the 1990s than it had during the 1980s, representing a reversal of trends.[7] Measured in dollar value, meat imports became the most important food import. Also, during 1992-1998 food imports increased as a percentage of total food supply, in particular for meat products.

From 1992 through 1997, total meat imports increased 440 percent. Poultry imports increased over 2,500 percent, pork imports increased by nearly 500 percent, and beef imports increased by almost 245 percent.[8] Meat imports rose from eight percent of domestic supplies in 1992 to 30 percent in 1997. Following the collapse of the ruble in August 1998, meat and poultry imports declined significantly in the third and fourth quarters of 1998, and overall fell to 25 percent of total supply for the year.

However, in 1999, meat imports (not including poultry) surpassed their pre-crisis levels, in part due to food assistance from the US and the EU. Including poultry meat, imports comprised 22 percent of total meat and poultry supplies (*Rossiyskiy statisticheskiy ezhegodnik*, 2000, pp. 382, 584, 586). In 2000, meat imports declined due to Russian restrictions and a shift in trade patterns, with less food trade being conducted with nations of the "far abroad" and more with CIS nations.[9]

During the 1990s, Russia spent as much, if not more, on food imports than was allocated to the agricultural sector in the federal budget. The sum of imports as a percentage of total food supplies reached its peak in 1997. In that year, Russia spent 13 billion dollars on food imports. Thereafter, the sum of imports as a percentage of total food supplies declined to 20 percent in 1998 and to 17 percent in 2000 (Gordeev, 2001a, p. 4). However, even in 2000, an estimated 3.5-7.5 billion dollars were spent on food exports. In comparison, in 2001, which witnessed a large increase in funds allocated to agriculture, less than one billion dollars from the federal budget was assigned to support domestic producers (*Krest'yanskaya rossiya*, No. 13, 2001, p. 1).

To be sure, changes in food import policy did not originate under Putin, but actually in the latter Yeltsin period, following the events of August 1998. One of the strongest proponents for more protection for domestic producers was former minister of agriculture Viktor Semenov (March 1998-May 1999), who advocated a system of higher tariffs and quotas on imported food products that compete with Russian products, and lower tariffs on products that Russia did not grow (Semenov, 1999, p. 14).[10]

The change in food import policy under Putin has been even more explicit. Almost immediately after he became acting president, tariffs on many types of poultry meat and fish were changed (*Krest'yanskiye vedomosti*, No. 1, 2000, p. 2). A few days later, Putin was reported to have remarked that tariffs on imports should be used not only to protect domestic producers, but also to stimulate production of high quality products (*Krest'yanskiye vedomosti*, No. 3, 2000, p. 2).

Gordeev supports the use of custom and tariff policies to protect domestic producers, and this policy was included in the government's ten year agricultural plan to 2010 (Gordeev, 2000b, p. 10). In May 2001, Gordeev spoke out for the use of import quotas on foodstuffs, stating that "we need to increase the protectionist role of the state with regard to our food producers and protect them from unfair competition" (*Krest'yanskiye vedomosti*, Nos. 19-20, 2001, p. 2). In July 2001, the Ministry of Agriculture proposed a quota on imported beef, pork, and poultry, with high custom duties (ranging from 50-100 percent) on any imports above the quota.

The are several origins to the more restrictive food import policy. First, since 1995, there has been growing advocacy for Russian "food security," and this movement has gained strength over time. Starting with agrarian conservatives, concerns over food security spread to agricultural academic institutes, the printed media, and finally politicians. Advocates of national food security support higher trade barriers in the form of tariffs or even import quotas in order to protect domestic producers. Today, it would be fair to conclude that "food security" is part of the everyday political dialogue among policy-makers and has become a cornerstone of the nation's food policy. For example, Gordeev, himself, argued prior to becoming minister that "food security of the Russian Federation is a component part of its economic security" (Gordeev, Altukhov, and Vermel', 1998, p. 10).

Beyond the Ministry of Agriculture, there is significant bureaucratic support for protection of domestic producers. Advocates for food security draw support from large farms and private farmers, from food producing regions, from food processors, from various agricultural interest groups such as the Meat Union, Grain Union, the Sugar Union, as well as the Agrarian Party of Russia.

To date, sugar interests (and now the Sugar Union) have been the most successful in achieving protection for their producers.[11] Meat imports have not been restricted (except in response to animal disease or poor quality from specific nations), because they have comprised such a significant percentage of the nation's total meat supply. In large cities such as Moscow and St. Petersburg, it is often asserted that imported meat accounts for no less than 70 percent, and perhaps as much as 90 percent, of meat supplies. Grain imports have not been restricted because they have comprised such a small percentage of the nation's grain supplies – no more than three percent in any one year since 1994 – so there has been little reason to erect trade barriers (see Terent'ev, 2000, pp. 87, 90).

Aside from import restrictions in response to reports of animal disease, sugar (both processed white and raw) is the only product for which the government has imposed national quantitative quotas on the volume of importation.[12] In February 2000, the Russian government imposed an import quota of 3.5 million tons on sugar, and also levied import tariffs ranging from 10-45 percent on sugar imports, depending on the time of the year.[13] In October 2001 it was announced that the government was considering a similar quota for rice, but so far has not taken this step.

A second source of less open import policies has been concerns over quality, even though unsanitary food imports are but a small percentage of the overall total volume of food imports. There are several ministries and committees that have responsibility for ensuring that food imports meet sanitary and health criteria: the Ministry of Health, Ministry of Trade, the State Tax Service (to ensure state monopoly on alcohol production), the State Bread Inspectorate, the State Customs Committee, the State Committee on Standards, and the Veterinary Service of Russia (Korolev and Yudin, 2000, p. 82).[14] These organizations have the authority to refuse acceptance of a specific cargo, and to issue broader prohibitions of foodstuffs from specific nations. For example, in April 2000 the Veterinary Service of Russia prohibited the importation of meat and animal feed from China, South Korea, Vietnam, and Japan (*Krest'yanskiye vedomosti*, No. 15, 2000, p. 3). There is also a substantial legislative base of six federal laws that regulate the quality of domestic and imported food, three of which were adopted since late 1998 (Plotnikov, 2001, p. 87).

A final factor in the more restrictive import policy, one that is related to the second point above, was the more recent outbreak of foot and mouth disease in several EU nations. The Russian government in February 2001 imposed a ban on meat imports from the United Kingdom. This ban was expanded in March 2001 to countries stricken with foot and mouth disease, and later expanded again to include all meat and meat products from European Union nations, Eastern Europe, and the Baltic states (*Krest'yanskiye vedomosti*, Nos. 13-14, 2001, p. 2).[15] As the epidemic receded, the ban was lifted at the end of April 2001 for countries that had not experienced foot and mouth disease. The ban on meat and dairy products was continued only for the Netherlands and the United Kingdom.

Agricultural debt policy

Throughout the 1990s, agricultural debt increased as a result of price disparities with industrial goods used by farms. During the Yeltsin years, agricultural debt was periodically written off. Debt relief was, partly, compensation for price disparities and lack of regulation over monopolies faced by agricultural enterprises during the 1990s, very similar to the "soft credit" policy adhered to by Yeltsin (Amelina, 2000). Debt relief was also part of the big game that characterized agrarian reform: enterprises were not paid for their produce or were underpaid; they had to use barter exchange to acquire goods to operate; they had little money to pay their taxes; and the rural economy became demonetarized. Money lost value as a means of exchange, which in turn undermined incentives to produce more. The approach to rural debt did not facilitate market reforms or farm efficiency.

Despite periodic debt write-off, farm debt continued to grow, and in 1999 long-term farm debt exceeded the sum of state support for agriculture by a factor of ten (*Sel'skaya zhizn'*, January 30, 2001, p. 2). By 2000, some 90 percent of agricultural enterprises had overdue debt (Yastrebova, 2001). In early 2001, total farm debt was estimated at more than 227 billion rubles, of which 150 billion rubles was overdue (*Krest'yanskiye vedomosti*, Nos. 15-16, 2001, p. 2). Farms had little realistic chance of repaying their huge debts.

With heavy debt burdens, farms had no surplus capital to invest in new machinery or for other production/infrastructural needs. As farms fell behind on payments (in turn not being paid for their production), barter transactions took on significant proportions. Among the channels of food trade used by large farms, survey data showed that the use of wheat in barter was the second most common form of transaction and accounted for nearly one-quarter of total wheat dispensation (Serova and Khramova, 2000, p. 49). Furthermore, due to cash shortages, debt to farm workers increased and rural incomes were significantly less monetarized that urban incomes. For example, during the fourth quarter of 2000, according to Goskomstat survey data based on more than 49,000 Russian households, urban households' income was 94 percent monetarized compared to 78 percent for rural households (Goskomstat, 2001, p. 77).

In the summer of 2000, Gordeev announced the Russian government was considering a plan to address the enormous debt accumulated by farms during the 1990s. Gordeev pressed the need for debt relief by arguing "we need to remove the burden of the transition period from farms, which came about because of the government and the state" (*Interfax Food and Agriculture Report*, No. 29, 2000). Rural debt, more than half of which was due to penalties and fines for late or non-existent payments, was acknowledged as a significant factor hindering the development of the agricultural sector (Serova, 2001, p. 5).

A first draft debt relief plan, which was prepared during the Fall of 2000, envisioned that some farm debt was to be written off, and repayment of another portion would be postponed for ten years. What was different from the past was that Gordeev was careful to note that there would be no blanket forgiveness of debt, and that debt restructuring was linked to concrete actions to be undertaken by farms. At that time, Gordeev also indicated that the 2001 budget would include funds to cover the restructuring of long-term agricultural debt. He preferred that farm debt be converted to state internal debt, followed by a plan to restructure the debt.

At the end of March 2001, Gordeev announced that due to the size of farm debt, restructuring would proceed in two stages, the first beginning in 2001, and the second extending for two or three years. Beyond general intentions, the government continued to search for concrete solutions during the first half of 2001. Gordeev stated that "today the mechanism [of financial assistance to farms] can only be used by a small percentage of agricultural enterprises because we still have not found a consolidated approach for the resolution of this problem for all creditors. For example, about one-third of credit indebtedness is due to monopolists" (*Krest'yanskaya rossiya*, No. 16, 2001, p. 2).

In mid-April 2001, a Duma resolution on ceasing to collect fines and penalties on overdue debt of agricultural enterprises was adopted. However, Duma Chairman Gennadii Seleznev, indicated that "at the present time concrete measures... had not been adopted" and thus penalties continued to be collected. This was due to the fact that territorial leaders of tax organs had ordered the "mass sale of property" by agricultural enterprises (seed, cattle, agricultural equipment, etc.) in order to raise funds to pay overdue debt ("O priostanovlenii," 2001, pp. 3909-3910). The resolution requested that Ministry of Taxes and its territorial organs stop collecting fines and penalties on agricultural enterprises until debt had been restructured.

As the government continued to work on the debt issue, in May 2001 a draft resolution on debt relief prepared by the Cabinet stipulated that 60 percent of farm debt would be restructured for six years, with fines for previous non-payment of debt restructured for ten years (ITAR-TASS news agency, Moscow, May 15, 2001). Finally, in June 2001, a government resolution signed by Prime Minister Kas'yanov confirmed that agricultural debt would be restructured, including the debt of agricultural enterprises and private farms ("O poryadke," 20001, pp. 5018-5022).[16] The terms of the resolution were agreed to by tax organs, regional government organs, and the federal social insurance fund. Debt was divided into several categories: taxes, insurance payments, and penalties and fines.

The plan envisioned a ten-year process: tax and insurance payment debts would be restructured during the first six years, with penalties and fines restructured in the following four years. If one-third of tax and insurance debt were repaid during the first two years, then half of penalties and fines would be written off. If the remainder of tax and insurance debt were repaid during the next four years, all penalties and fines would be written off. Farms were not automatically entitled to debt relief. Those wishing to receive relief (both large enterprises and private farms) were to report to tax offices prior to December 1, 2001 and apply. The application included documents showing they had paid taxes previously, and farms were to submit a schedule of debt repayment for approval. Tax organs had 30 days to examine the documents and render a decision.

Policy towards unprofitable farms

Linked to debt relief is the issue of unprofitable farms. Due to price disparities between agricultural purchase prices and non-agricultural goods used by farms, the percentage of unprofitable large enterprises increased from 14 percent in 1992 to 89 percent in 1998. In 1992, the percentage of unprofitable farms was lower than the percentage of unprofitable enterprises in the economy as a whole, but that situation changed rapidly with the onset of reforms (Yastrebova, 2001). During the Yeltsin period, many farms became chronically unprofitable and so indebted they had no chance of repaying debt or becoming profitable. More recently, as agriculture began to rebound somewhat, the percentage declined to 54 percent in 1999 and 48 percent in 2000 (Serova, 2001, p. 4).

As is well-known, in December 1991 Yeltsin issued a decree which mandated that chronically unprofitable farms reorganize themselves or disband, an order that affected about ten percent of large farms at that time. Thereafter, many policy statements indicated resources would be directed mainly to profitable farms. And the numerous benefits offered to unprofitable farms, such as preferential purchase prices and higher subsidies, were supposed cease.

However, as field research has shown, the reality was quite different. Financial resources during the first half of the decade continued to be distributed in an egalitarian manner (Wegren, 1998, chap. 4). Purchase prices and production subsidies, while drastically curtailed at the federal level, nonetheless resembled their Soviet-era predecessors. Moreover, although there was legislation on the books regarding bankruptcy, it was not enforced.

Ultimately, as the number of unprofitable farms increased during the decade, it simply became economically and politically impossible to close large numbers of them. As the head of the Kostroma oblast committee on bankruptcy stated to the author: "I simply cannot close all unprofitable farms, or how else will the oblast eat?" (cited in Wegren, 2000, p. 257). Thus, in spite of Yeltsin's 1991 decree, the regime's policy toward unprofitable farms was essentially to do nothing.

The approach to unprofitable farms under Putin is in its early stages, but already notable differences are evident. Gordeev has stated that the treatment of chronically unprofitable enterprises "requires a different solution" from that in the past (*Sel'skaya zhizn'*, January 30, 2001, p. 2). He indicated that financial support will be directed to those agricultural enterprises and private farms that will produce the most from the support they receive, and that subsidies will be based on the fulfillment of terms contained in agreements signed with recipient farms (Gordeev, 2000a, p. 11).

A resolution of the unprofitable farm problem was recognized as important by representatives across the political spectrum.[17] For example, the chairman of the Duma committee on Agrarian Problems, Vladimir Plotnikov, a member of the usually conservative Agrarian Party of Russia, stated in an interview in early 2001 that "agricultural enterprises working ineffectively should be transformed." Because financial, climatic, and geographical differences existed, "the approach should be individual." Plotnikov suggested that the "resolution of the problem may be realized through the creation of large commercial agricultural enterprises in the form of a partnership which would have full responsibility for its activities." Other options suggested by Plotnikov included merging unprofitable farms with farms that are working effectively, joining unprofitable farms with successful private farms, or declaring the unprofitable farms bankrupt and breaking them up (*Sel'skaya zhizn'*, February 13, 2001, p. 2).

By early 2001 a plan at the federal level had taken shape. According to Gordeev, agricultural enterprises were grouped into four categories: (1) profitable farms without debt (22 percent of all farms); (2) profitable farms based on current production (17 percent of all farms); (3) unprofitable farms based on current production that have the potential to repay their debts (34 percent of all farms); and (4) unprofitable farms with no potential to repay their debts (27 percent of all farms).

According to the plan, each category of farm will define the steps it needs to take to become solvent, ranging from stronger labor discipline, restructuring of debt, changes in farms' business plans and management, up to and including bankruptcy and liquidation of assets. For the chronically unprofitable farms with little chance of repayment of debt, the preferred approach was for neighboring profitable farms to acquire their assets, and the Ministry of Agriculture began working on a plan to distribute land and property of chronically unprofitable farms. Oversight for the implementation of the plan would come from regional committees composed of creditors. Specific financial plans for each enterprise would be implemented by the group of creditors for that enterprise (*Sel'skaya zhizn'*, January 30, 2001, p. 2).

It was also clear that more responsibility for the material and financial support of weak and unprofitable farms would be shifted to regional administrations. For example, a special oblast-level program was developed in Vologda oblast in early 2001 to help weak farms, and the oblast department of agriculture expressed its willingness to help farm managers who wished to improve the situation on their farm (*Krest'yanskiye vedomosti*, Nos. 7-8, 2001, p. 5).

Agricultural credit policy

There is common agreement among analysts of Russian agrarian reform that Russian agriculture has been without a reliable financial and credit system (Cherniy, 2000, pp. 24-26). The importance of credit to agricultural producers cannot be overstated; it is a key factor influencing the financial health and productive potential of the agricultural sector. One Russian analyst summarized the situation: "a network of banks which specialize in serving agriculture is missing. Commercial banks do not have the experience and the knowledge necessary for working in agriculture" (Yastrebova, 2001).

During the early years of reform, agricultural credit and credit policy were essentially unchanged from Soviet times. The state continued to require deliveries of agricultural produce during 1992-1993, and farm gate prices were controlled by the state, as well. Agricultural credits were channeled through a state-owned bank called Agroprombank (later renamed Rossel'khozbank). By 1994 it was necessary to replace the Soviet system of agricultural credit, which was based upon subsidized interest rates. A lending bank would receive a concessionary interest rate from the Central Bank, and would then lend credit to a farm at a higher interest rate.

However, with high inflation and higher interest rates, all parties were hurt. Banks were repaid with devalued rubles (when they were repaid at all. It was not uncommon for lending banks not to receive the subsidy from the Central Bank; and the state often did not pay producers for their deliveries, which affected farms' ability to repay credit debt.) Moreover, as the cost of funds changed, the Central Bank changed the interest rate paid by the borrower, even in mid-loan. The effect was that no borrower could accurately calculate the true cost of any credit loan. The uncertainty of borrowing was a key factor in decreasing farm output, as farms were unable to fund production expenses on their own, and were unwilling to take on high interest debt that was economically disadvantageous.[18]

Thus, starting in 1995, a commodity credit system was introduced, whereby farms were allocated "credit" (a balance sheet to purchase inputs from local by distributors), to be repaid in-kind by the end of the year, plus interest. Low repayment rates resulted because purchase prices were not sufficient to cover production costs (Kitching, 1998, p. 8). Eventually, rural commodity credit debt was converted to state bonds, which added to the financial burdens leading up to the August 1998 crash of the banking system and default on internally-held debt.

The problems with agricultural credit policy in the post-Soviet period have been threefold: little desire by commercial banks to invest in or lend to agriculture; lack of a solid agricultural bank to issue credit to agricultural producers; and the nature of credit policy. These issues will be discussed in turn.

First, commercial banks have shown very little desire to invest in agriculture. For example, not a single bank representative appeared at a widely publicized meeting in Moscow organized to elicit bank financing for agribusiness in December 2000 (*The Moscow Times*, December 15, 2000, p. 10). Moreover, when private interests do invest in the agro-food sector, it is not to process raw agricultural materials. Former Minister of Agriculture Viktor Khlystun, who now heads the Center for International Investment in the Agro-industrial Complex, noted that 80 percent of investments (both foreign and domestic) into "the food industry" have gone into tobacco, beer, and confectioneries. Only a few companies that process raw agricultural materials have been successful, for instance the foreign-owned dairy producer Dannon and the Russian Wimm-Bill-Dann.[19]

The second problem has been a lack of a reliable, strong agricultural bank to distribute agricultural credit. Following the financial crisis and devaluation of the ruble in August 1998, the main banking network through which agricultural credits had been channeled, SBS-Agro, defaulted on its outstanding domestic debt. By late 1999, of its 43 branch offices and nearly 1,500 banks, practically none remained open (*The Wall Street Journal*, October 4, 2000).[20]

The former SBS-Agro bank, however, was reincarnated in early 2000. In mid-February 2000, all necessary documents to create a new agricultural bank, called Rossel'khozbank, were forwarded to the Central Bank. It was announced that the new bank would have starting capital of 375 million rubles, some of which was used to repay depositors in SBS-Agro (*Krest'yanskiye vedomosti*, No. 4, 2000, p. 2, and ibid, No. 8, 2000, p. 2).[21] In mid-March 2000, Acting President Vladimir Putin signed instructions for the creation of a new Rossel'khozbank (*Krest'yanskiye vedomosti*, No. 12, 2000, p. 2). In April 2000, the bank was registered, and in June 2000 it received its license to conduct banking activities. By September-October 2000, the new bank received its first state credits and had begun operations (*Krest'yanskiye* *vedomosti*, Nos. 11-12, 2001, p. 2), finishing its first year of operation with a 3.4 million ruble profit. By mid-2001, Rossel'khozbank had 34 branch offices in regions, and had submitted the necessary documents to the Central Bank to open branches in another fifteen regions (*Krest'yanskiye vedomosti*, Nos. 21-22, 2001, p. 2). Rossel'khozbank is now the primary bank through which state credits to the agricultural sector are distributed.

The third problem has been the nature of credit policy itself. In 1997, the commodity credit system was discontinued; it was reintroduced in 1999. During the 2000 sowing season, credit dispersion operated much as in the past: subsidized inputs were provided to producers through special programs and funds. The problem with this system (in addition to the lack of repayments) was that it provided very little incentive for commercial banks to participate in providing agricultural credits. Thus, concomitant with the creation of a new agricultural banking system, a new credit policy has been launched. The purpose of the new banking system and credit policy is to provide agricultural producers with the credit they need, while at the same time providing incentives for other banks to become lenders as well

In mid-2000, the new credit system was announced by Gordeev. The new system provides subsidized interest rates to purchase needed inputs or to fund operations, instead of providing subsidized inputs as in the recent past. The new credit system took effect for the 2001 sowing season. The attentive reader will note that the "new" system resembles the system in use prior to the commodity credit system. The previous system collapsed due to high inflation and the lack of a strong banking system operating with a profit motive.

In this new system, state credits (money) are transferred to Rossel'khozbank (and other banks, including Sberbank and other Moscow banks), which then provide loans directly to food producers at higher interest rates.[22] The federal budget includes a budget line (a preferential credit fund) for the subsidization of seasonal loans (in the 2001 budget the sum was 1.4 billion rubles). The goal of the system was to increase the effectiveness of credits, provide banks with an incentive to participate, while at the same time providing the seasonal support that food producers need.

Gordeev expressed hope that the new credit system would attract the interest and participation of other banks in providing short-term agricultural credit – as much as ten billion rubles, he estimated. In addition, the new banking system and credit policy were intended to motivate regions to invest in agriculture, as well. Gordeev hoped for "a ruble from Sel'khozbank and a ruble from the region" (*Sel'skaya zhizn'*, December 7-13, 2000 p. 3).

Conclusion

Gone are the days of radical agrarian reform, and so too has passed the indifference to the agricultural sector which characterized the Yeltsin years. Agriculture is once again a priority of policy-makers, and Putin has moved pragmatically to revive domestic production. His main motivation has been to stabilize the sector, much as he has attempted to stabilize society after the tumultuous Yeltsin years. Putin has benefited from higher oil revenues and increased tax collection, which have allowed him to increase state support to the agricultural sector. At the same time, his pragmatism has paid off by addressing concrete problems that affect domestic food production. For these efforts he is to be applauded: grain harvests have increased for three consecutive years, and the agricultural economy as a whole has produced positive growth rates (two percent in 1999, five percent in 2000).

At the same time, Putin's policy changes are plagued by questions and potential problems. For instance, Putin has made Russian entry into the World Trade Organization a priority, but that goal clashes with his more restrictive food import policy. While negotiations continue, and the US supports Russian entry, membership is likely to require lower import tariffs and less protection for Russian agriculture, a fact that worries Russian agro-economists and some policy-makers, because agriculture is one of the most vulnerable sectors to foreign competition (as increased meat and poultry imports during the 1990s showed).

A second potential problem concerns the economic and social consequences of policies toward unprofitable farms. It is highly unlikely that all unprofitable farms can or will become profitable. What to do with them? If 25 percent are closed, what will the government do with the 2.8 million farm members (most of whom are at or near pension age)? If weaker farms are absorbed by stronger farms, there are likely to be significant numbers of layoffs, and what happens to those people? Rural unemployment is already disproportionate to its size of the national labor force.

Finally, regarding agricultural credit, what happens if commercial banks and/or regions remain uninterested in providing credit to the agricultural sector? Assuming economic conditions remain favorable and Russia is on the road to genuine recovery, the government may want to continue to channel state credits through Rossel'khozbank. But what are the consequences of that policy for building market supporting institutions in the countryside? And what are the consequences if the process to replace the state as the dominant rural economic actor with non-state actors is delayed further? These are all unknowns for the future. For now, it is important to note that quietly, yet deliberately, Putin has changed agrarian policy in important ways that make the revival of Russian agriculture a distinct possibility.

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Endnotes

[1] *The Washington Post*, July 29, 1999, from website www.washingtonpost.com.

[2] The land code approved by the Duma in September 2001 and the Federation Council in October 2001, subsequently signed by President Putin in late October 2001, does not concern agricultural land. The new land code merely codifies the legality of land transactions that have been occurring since 1994.

[3] The basic directions of the program and agrarian policy are also summarized in an interview with Gordeev in *Sel'skaya zhizn'*, July 25, 2000, p. 1; ibid., August 24-30, 2000, pp. 1, 4; ibid., December 7-13, 2000, pp. 1, 3; and ibid., January 30, 2001, pp. 1, 2.

[4] The new program is designed to replace the previous program, "The Federal Special Purpose Program for the Stabilization and Development of Agroindustrial Production during 1996-2000," which had been largely ignored and was ineffective.

[5] For additional coverage of the conference see *Sel'skaya zhizn'*, February 27, 2001, p. 1.

[6] It was reported that in August 2001 the Government council on agrarian policy had begun work on a law concerning agricultural land turnover. Gordeev indicated on several occasions that a Federal land legislation bill concerning the purchase of agricultural land could be expected in late 2001 or early 2002. That legislation will give responsibility for regulation of the agricultural land market to individual regions. In addition, by the autumn of 2001 draft laws were being discussed on the development of credit cooperatives, on rural insurance cooperatives, and on farm bankruptcy (*Krest'yanskiye vedomosti*, Nos. 29-30, 2001, p. 2). For other policy issues and legislation being considered by the Duma, see "Problemy agropromyshlennogo kompleksa," 2001, pp. 83-88.

[7] Grain imports were a fraction of the levels during the latter Soviet period. For example, during 1981-1985 the Soviet Union imported an average of more than 40 million tons of grain a year; during 1986-90, the it imported an average of more than 35 million tons annually, or roughly 15 percent of total grain availability.

[8] Calculated from data in FAO databases at: http://apps.fao.org

[9] During the first nine months of 2000, food trade with the far abroad was curtailed by 19 percent; in particular, less grain, meat, and sunflower oil was imported. Food trade with CIS nations increased 28 percent (Serova, 2001, p. 10). From CIS nations, Russia imports most beef from Ukraine, and from far abroad nations, most beef from Germany and most poultry from the US. During all of 2000, 72 percent of Russia's poultry imports came from the US and 36 percent from the EU (*Krest'yanskiye vedomosti*, Nos. 23-24, 2001, p. 14).

[10] See also *Sel'skaya zhizn'*, July 25, 2000, p. 1.

[11] In May 2001 the founding meeting of the Sugar Union was held in Moscow. The founding members included 25 different organizations and poultry processors. Among the founding members was Rossel'khozbank (see below for more information on this bank), and the state-licensed grain purchasing agent, Roskhleboprodukt (*Krest'yanskiye vedomosti*, Nos. 19-20, 2001, p. 3).

[12] In January 1999, federal quotas were placed on the importation of fish and sea products into the regions of the Far East. The 1999 levels were renewed in March 2000 for the year 2000. See *Krest'yanskiye vedomosti*, No. 11, 2000, p. 2.

[13] The general import tariff for processed sugar is 30 percent. However, special seasonal tariffs of 45 percent are levied in January and June. The general important tariff for raw sugar is five percent. There was a "temporary special tariff" imposed in May 2000. In addition, there are seasonal tariffs of 45 percent levied in January and 40 percent levied in June (see Serova, 2001, Table 11).

[14] In addition, there is a Veterinary Inspectorate within the Ministry of Agriculture.

[15] Previous to the March decision, imports of meat and milk products were prohibited from Argentina, Mongolia, and China (*Krest'yanskaya rossiya*, No. 14, 2001, p. 2).

[16] Farms that were insolvent and subject to bankruptcy proceedings were eligible to restructure their debt if certain conditions were met, for instance if confirmed by an arbitration court and creditors were found.

[17] It is important to strengthen large farms because Gordeev estimates that 20 percent of agricultural enterprises account for about 40 percent of the nation's commercial agricultural output (Gordeev, 2000a, p. 9).

[18] It is necessary to remember that during 1992-1993, even though interest rates charged to farms were below the inflation rate, purchase price increases lagged behind the inflation rate and price increases in other branches of the economy. In short, prices paid by farms were increasing faster than the prices they received. In addition, the state was chronically in debt to producers for the food sold to the state. So farms were hurt by a double squeeze.

[19] For more on foreign investment in Russia's agro-food industry, see Ioffe and Nefedova, 2001, pp. 400-407.

[20] For more coverage on SBS-Agro debt and its demise, see *Krest'yanskiye vedomosti*, No. 42, 1999, p. 2; ibid., No. 43, 1999, p. 3; and ibid., No. 51, 1999, p. 2.

[21] Another two billion rubles was allocated to the bank in 2001 (*Krest'yanskiye vedomosti*, Nos. 21-22, 2001, p. 2).

[22] For more detail on how the system works, see *Krest'yanskiye vedomosti*, Nos. 13-14, 2001, p. 4.