

## STATE REGULATION OF AGRICULTURAL DEVELOPMENT OF RUSSIA IN CONNECTION WITH ITS JOINING THE WTO

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*The article substantiates main trends of the state regulation of agrarian sector taking Russia's membership in WTO into account. These trends meet the requirements of ensuring of the country's food security and food independence on the basis of extended reproduction in domestic agro-industrial complex. The author considers the commitments which Russia has made regarding access to the market, agriculture home support and exports subsidization in connection with joining the WTO.*

*Key words: state regulation / management, agrarian sector, prior trends, Russia's joining the WTO, adaptation, measures of "green", "blue" and "amber" boxes.*

The rise in the standard of living directly depends on the meeting of the people's needs for foodstuffs. That is why the solution to the problem of agrarian sector socio-economic development is equivalent to the ensuring of the country's food security which is, in its turn, a priority of any state. In connection with food dependence which manifests itself in the imports of over 35% of foodstuffs and Russia's joining the WTO agricultural policy of modern Russia requires essential (substantial) update.

Modern measures of agro-industrial complex state regulation are not a balanced system and do not promote agrarian sector socio-economic development. It should be noted that a part of acute problems facing agrarian sector were being solved within the framework of the national priority project "Agro-industrial complex development" which developed into the State program called "Agriculture development and regulation of agricultural produce, raw material and foodstuffs markets for the period from 2008 to 2012". However the expected effect of these state macroeconomic measures is not achieved. Productive factors as well as the effectiveness of their uses in Russian agriculture are becoming degraded. Agricultural profitability is much lower compared with other branches of economy. As before there is still a large proportion of unprofitable enterprises.

A reason for this is ineffective state regulation with extremely low financing volume. In the Russian Federation this branch doesn't have a prior claim on financial aid, and moreover from a position of reproduction there is a further capital export from agriculture into other branches of the county's economy. This fact contradicts international experience of all developed countries in the field of agricultural development. In the Russian Federation state support does not have stimulating influence on the increase in production volume and on the rise in its profitability.

The 22<sup>nd</sup> of August 2012 the Russian Federation joined the WTO. This fact staticized questions of current measures effectiveness estimate and search for new approaches to scientific substantiation of the choice of the agrarian sector state support measures.

At present one of the main mechanisms of the state regulation of agrarian sector development remains as before subsidization of credit interest rate. For example, in 2009 the share of this support measure comes to about 45% of the aggregative support index.

In July 2012 for the period from 2013 to 2020 there was adopted a State program devoted to the agriculture development in which expenditure on agriculture has increased to 9, 2% of the federal budget expenditure and comes to 158, 9 billion rubles. In the future this expenditure is planned to be increased. To realize the State program devoted to the agriculture development for the period from 2013 to 2020 the federal budget is going to spend 33, 1% of its means on the animal husbandry development, 30, 9% – on the production of grain. Other funds will be allocated to some minor programs. 83, 7 billion rubles (5, 5% of the general financing volume) are specially intended for assisting small businesses.

Having joined the WTO, Russia is known to have made (taken on) the commitment regarding access to the market, agriculture home support and exports subsidization. One can observe a gradual reduction of import duties on some products and a number of agricultural produce are even exempted from import duties. However there are still tariff quotas and high import duties on imports of meat and meat products when they exceed volumes fixed by the quota. The ordinary restricted rate on agricultural goods is fixed on the level of 10, 8%; this presumes the decrease of the existing average rate of 14, 3% by 3, 5%.

As far as agrarian sector home support measures are concerned, there were made some commitments regarding “amber box” subsidies which are considered in the form of aggregative support measures and as a tool of trade conditions distortion. The permissible availability of these subsidies in 2012 is fixed at the rate of 9 billion dollars with further decrease to \$ 4,4 billion; this corresponds to the average annual volume of aggregative support index in Russia for the period from 2006 to 2008. In 2008 the actual aggregative support index was \$ 5, 65 billion from which \$ 5, 6 billion did not concern the industry. The main share of aggregative support index came to agriculture soft loans – \$ 1, 6 billion.

On the whole, according to the WTO all agrarian sector home support measures are divided into the so-called “boxes”.

“Green box” (adopted without restriction) is supposed to have agriculture state support measures which are not connected with the industry and do not distort trade.

A state has the right to finance the above mentioned trends of development to its own discretion taking account of budget resources availability. Moreover, when a state joins the WTO it must supply information about the “filling” of this box, but it does not make commitments to reduce it.

In Russia “green box” also exists but on a restricted scale. So far many support trends (schemes) have not been properly developed. They are as follows: repayment of expenses to agricultural producers who implement structural reorganization connected with putting agricultural holdings and other resources out of agricultural turnover; aid to peasants who retire on a pension or get down to work in non-agricultural sector; etc.

It should be particularly noted such state support measure as assisting agricultural producers in unfavorable regions. According to the WTO's rules, a state has the right to give unlimited financial support to the regions recognized unfavourable for agricultural occupation. In the Russian Federation there are a lot of such regions. In 2012 the Russian Federation State Duma has already passed the bill regarding rural agricultural holdings zoning. It takes account of the criteria according to which regions are considered as unfavourable for agricultural occupation. Because of unfavourable climatic conditions agricultural producers in such regions have, as a rule, lower level of profits compared with the average index in the branch. The bill was adopted at the first reading.

Hence the Russian Federation has a considerable reserve connected with the increase in agrarian sector state support directed to: 1) the development and implementation of scientific research; 2) the education; 3) the consultative service; 4) the veterinary and phytosanitary measures; 5) the market information spread; 6) the infrastructure improvement; 7) the availability of strategic food stock; 8) the realization of regional development programs; 9) the crop insurance and damages caused by natural disasters; 10) the assistance for agricultural industry structural reorganization; 11) the development of rural consulting; 12) the pension benefits improvement; etc.

Many developed countries of the West – members of the WTO – act this way. They reduce only some kinds of support using hidden forms of support of their producers, e.g. financing of scientific research, making the system of standards more complicated (complex) etc.

As a result, despite the WTO's measures connected with trade liberalization in the OECD (Organization for Economic Cooperation and Development) countries agricultural producers support has not been decreasing for the last few years but increasing.

“Blue box” is supposed to have direct state payments connected with the industry including areas sown with crops and total number of cattle. Measures of this block comprise payments that involve production volume reduction and are forms of compensation for producers' profits losses. These payments are direct payments which are based on the fixed areas and crops; direct stockbreeding payments made on the basis of fixed total number of cattle etc.

In the nearest future “blue box” measures are not likely to be widely adopted in domestic agrarian sector because the tasks facing our agricultural producers are somewhat different compared with those in the countries with a highly developed agriculture – increase in output not decrease.

“Amber box” is supposed to have support measures connected with the industry through agricultural prices.

“Amber box” measures directed to the agroindustry extension and thereby, according to the WTO's members, distorting international trade are subject to the gradual reduction whereas “blue box” measures (intended to reduce production) and “green box” measures (which do not stimulate production increase) can be used by the countries without restriction.

For reference, the Russian Federation at an early stage of its negotiations produced (presented) 89 billion dollars (taking account of the rate of exchange) as an initial level of aggregative support index of the average annual level of agrarian sector state support. In 1998 some recalculations were made, financing volumes were reduced to 36 billion dollars, then to 16 billion dollars and later to \$ 10-12 billion. By the time Russia joined the WTO the level of aggregative support index was \$ 9 billion.

In other words the WTO's rules require obligatory reduction of only some certain agriculture state support measures which have negative influence on the effectiveness of international trade. At the same time states have a fairly large spectrum of agrarian sector support measures. It is here that one should find possible ways of the improvement of agriculture development state regulation in the Russian Federation.

In these conditions Russia must take all necessary measures in order to protect home producers. One should adapt state regulation measures to the conditions of Russia's membership in WTO. There is a golden opportunity: 1) to maintain agriculture home support on the current level ("green box" investment aid, pedigree stock-raising support, soft loans, writing off credit defaults, etc.); 2) to more widely use tax privileges (without restriction), protective measures, antidumping and compensatory duties, finally, 3) to give R&D (research and development) unlimited support.

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