

Changes in Russia's agricultural trade policy

–From improving the rate of self-sufficiency to promoting export–

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Russia is a major exporter of grain and fishery products; however, it is a net importer in the agricultural trade because of the large value of imports of livestock products, vegetables, fruits, and processed food. Therefore, the main objective of Russia's agricultural policy has been to improve the rate of self-sufficiency by curbing imports of agricultural products and expanding domestic production. However, in 2018, President Putin announced the expansion of agricultural exports as a new key challenge in Russia's agricultural policy. This study provides an overview of the changes in Russia's agricultural production and exports which caused this policy shift.

Changes in Russia's agricultural trade policy

The radical transition to the market economy following the dissolution of the Soviet Union in 1991 adversely affected Russia's economy and society. In 1990s, significant reduction in agricultural production and rapid expansion of agricultural imports caused a sharp decline in the rate of self-sufficiency in agriculture, especially in livestock products. As a result, generating a strong demand to establish food security by improving the agricultural products' self-sufficiency became a major political challenge.

It was toward the end of the 2000s that Russia began imposing strict restrictions on agricultural imports. The tariff quota system was introduced in 2003 on meat ⁽¹⁾; however, substantial restriction on meat imports under this system were imposed in the beginning of 2009, especially by reducing quotas. In 2010, the Russian Government formulated the "Food Security Doctrine," and set the target rates of self-sufficiency for major agricultural products, such as livestock products. Russia's policy approach to make full use of various trade measures to curb agricultural imports did not change even after the accession to the WTO in 2012. When western nations imposed economic sanctions against Russia concerning the Ukraine crisis in 2014, the Russian Government took countermeasures by banning food imports from these countries. These countermeasures have been in place until now for more than four years.

Meanwhile, President Putin issued the Presidential Executive Order "On National Goals and Strategic Objectives of the Russian Federation through to 2024" on the same day of his inauguration as Russian President for the fourth term. The Presidential Executive Order indicated the challenges and goals necessary to be undertaken and implemented by the government during the new six-year term. One of the targets in the Order was to expand export of agriculture-related products to 45 billion dollars by 2024. This aimed to gain double the total value of agricultural and fishery (HS Chapters 1 to 24) exports, which was 20.7 billion dollars in 2017.

The structure of trade in agricultural and fishery products in Russia

In terms of the country's trade as a whole, Russia enjoys a large trade surplus thanks to natural resource exports. In 2018, total exports were 450 billion dollars compared to 238.2 billion dollars in total imports, resulting the trade surplus amounted to 211.8 billion dollars. In particular, the trade surplus in mineral fuels (HS Chapter 27), consisting primarily of oil and natural gas, was as large as 284.5 billion dollars.

Conversely, as shown in Figure 1, Russia's trade in agricultural and fishery products (HS Chapters 1 to 24) is in deficit because of an excess of imports. In 2013, total imports of these products were 43.3 billion dollars compared to 16.3 billion dollars in total exports, resulting in a deficit of 27 billion dollars. However, the size of the trade deficit has become significantly smaller since 2014 because exports have mostly trended upward while imports have significantly decreased. In 2018, total imports of agricultural and fishery products were 29.3 billion dollars compared to 24.9 billion dollars in total exports, resulting in a deficit of 4.7 billion dollars. Since the fall of 2014, the ruble's exchange rate against dollar fell significantly because of the decline in crude oil prices ⁽²⁾, and Russia maintained the aforementioned measure of banning food imports. These are considered as the main reasons for the decline in the value of agricultural and fishery imports.

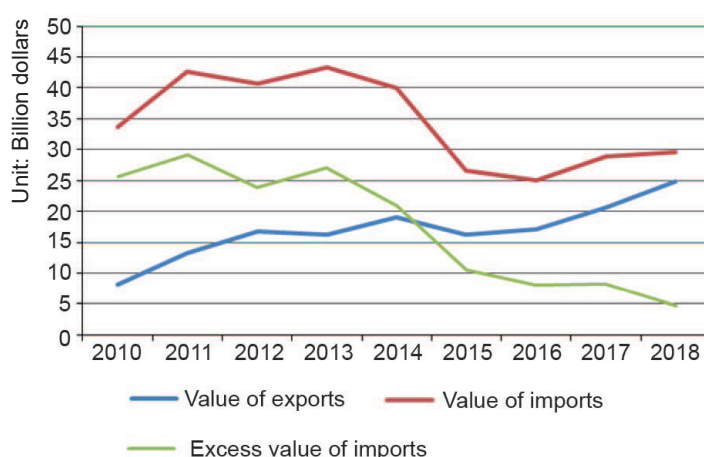


Figure 1. Changes in Russia's export/import values in agricultural and fishery products (HS Chapters 1 to 24)

Source: Compiled by the author based on the materials from the Federal State Statistics Service and Federal Customs Service of the Russian Federation.

In 2018, the excess of imports in Russia's agricultural and fishery products decreased by 3.5 billion dollars as compared that in the previous year. Items that contributed to this reduction included grains (HS Chapter 10), fish (HS Chapter 3), meat (HS Chapter 2), and dairy products (HS Chapter 4). The excess of exports increased by 3 billion dollars for grains and 600 million dollars for fish, while the excess of import decreased by 700 million dollars for meat and 300 million dollars for dairy products, which also made significant contributions to the reduction of the trade deficit in agricultural and fishery products.

Expansion of grain exports

Figure 2 shows the trend of grain production and exports in Russia. Poor harvests caused by droughts and other factors resulted in low exports in the marketing year 2012/2013 (July 2012 to June 2013). After 2013/2014, grain exports continued to expand, reflecting strong production supported by relatively favorable weather conditions. In 2017/2018, the grain harvest and exports reached the historic highs of 135.54 million tons and 53.19 million tons, respectively. The volume of wheat exports was 40.96 million tons, constituting 77 percent of the total volume of grain exports.

In 2018/2019, the grain harvest of 113.25 million tons was lower than that of the previous marketing year; however the trend of grain harvesting continued exceeding 100 million tons for five consecutive years since 2014/2015. Meanwhile, from July 2018 to February 2019, 35.36 million tons of grain was exported, which was slightly more than that for the same period of the previous marketing year. Notably, the 29.37 million tons in wheat exports constituted 83 percent of the total; thus, the exports were concentrated on wheat, in which the harvest was relatively good. According to the United States Department of Agriculture, Russia became the world's top wheat exporter in 2017/2018, and it is projected to become the top again in 2018/2019.

The increase in Russia's wheat exports is a phenomenon inseparable from the expansion of its production. It is considered that substantial depreciation of ruble since the autumn of 2014 was the main factor contributing to this phenomenon. This began with a downturn in crude oil prices, which was the main cause of the depreciation. Since 2017, despite the rise in crude oil prices, no significant increase was observed in the value of ruble against that of dollar. The dollar purchase operation conducted by Russia's Ministry of Finance seems to be an important reason of the continued depreciation of ruble under the increase of oil prices. Persistence of the substantial depreciation of the ruble has made price of Russian wheat more competitive in the international market. Moreover, depreciation of the ruble increased export price of wheat in terms of the ruble, resulting in, raise of its domestic price. This has provided Russian wheat producers strong incentives to increase production, particularly in areas close to the Black Sea with access to grain shipping ports. Moreover, continued favorable weather conditions have also contributed to the steady increase of harvest and export of wheat in Russia.

Regarding Russia's wheat exports, a measure has been implemented since September 2016 to reduce export tariffs to zero while preserving the export tariff system. This measure is scheduled to continue through to June 30, 2019⁽³⁾.

Improving the rate of self-sufficiency in livestock and other products

In August 2014, as a countermeasure to western nations that imposed economic sanctions in relation to the Ukraine crisis, Russia imposed import bans on food items originating in these countries, such as livestock products, fishery products, vegetables, and fruits. This countermeasure has been extended several times and is effective through to December 31, 2019⁽⁴⁾. Stakeholders in Russia's agricultural industry saw the imposition of this measure as a great opportunity to accelerate the existing challenges of expanding domestic production of these items and improving their self-sufficiency rates.

Changes in the rate of self-sufficiency before and after the imposition of import bans on food items are as follows. In 2014, the self-sufficiency rates were 83 percent for meat and its products, 78 percent for milk and dairy products, and 84 percent for vegetables. The corresponding preliminary figures for 2018 (2017 for vegetables) increased to 96 percent, 86 percent, and 88 percent, respectively. Even though the rise in the rate of self-sufficiency in milk and dairy products was mostly because of reduced consumption, the challenges still remain—for example, the production of poultry and pork has expanded, whereas the production of beef remains low—the rate of self-sufficiency has still increased significantly. As for poultry and pork, the saturation of domestic consumption has also been highlighted. As a result, new challenges concerning such products involve focusing on exports.

Conclusion

The rapid expansion of grain production/exports and the almost achieved self-sufficiency in meat and other products resulted in the shift in focus of Russian agricultural policy from the improvement of the rate of self-sufficiency to the promotion of exports. This was

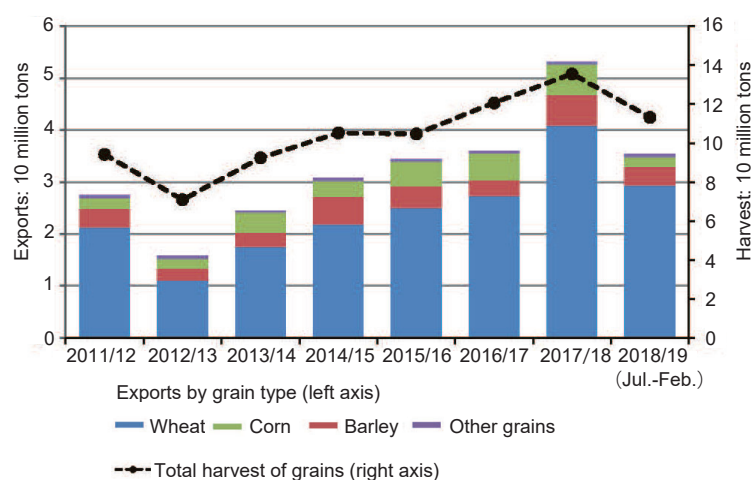


Figure 2. Changes in Russia's grain harvest and exports

Source: Compiled by the author based on the materials from the Federal State Statistics Service and Federal Customs Service of the Russian Federation.

facilitated by unique external factors, such as, continuation of the substantial depreciation of the ruble and the import bans on food. We need to continuously monitor whether these factors will persist in the future and how Russia's grain production/exports and livestock industries can be impacted with changes in these factors.

- Notes: (1) The tariff quota system is a mechanism to suppress the increase in imports by applying low-rate tariffs on imports that fall within a quota and applying high-rate tariffs on imports outside of that quota. Russia introduced this system for beef and pork in 2003. Regarding poultry, an import quota system was introduced in 2003, and it was transformed to a tariff quota system in 2005.
- (2) The exchange rate of ruble against dollar was 1 dollar = 34 rubles in January 2014. In the fall of the same year, it declined and reached 65 rubles in January 2015. Despite some fluctuations, the value of ruble has continued to remain weak at 65 rubles as of April 2019.
- (3) The measures implemented to reduce export tariffs to zero has been extended to June 30, 2021 as of June 29, 2019.
- (4) Russia's import ban on food items has been extended to December 31, 2020 as of June 25, 2019.