Expanding the export potential of the Russian agro-industrial complex’s sectors in light of international experience

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Abstract. The paper is devoted to the actual issue of finding ways to increase export potential of the AIC sectors, taking into account the accumulated and well-studied international experience. It is noted that Russia has a very large agricultural potential, and it could be developed through increasing Russia’s exports. Key challenges are analyzed, and highly valuable recommendations are provided in the paper.

1 Introduction
Russia has the largest agricultural potential: 9% of arable land, 50% of the black soil of the planet, 20% of fresh water, 10% of the world production of mineral fertilizers are concentrated in our country. And only about 2% of the world’s population lives in Russia. [8, p. 3]. At the government level, a task has been set as part of the Priority Project “Export of Agricultural Products” to increase the volume of agricultural exports from 17 billion rubles in 2017 up to 30 billion rubles in 2025. The solution of this task will allow the country to take a new level of presence on the global agri-food market. However, despite the growth in agricultural production and the high potential of agricultural sectors, the export of products is currently experiencing certain difficulties, such as:

– The main commodities for export in Russia, both in agriculture and in industry, are commodity groups of goods, in contrast to developed and some developing countries that export products with a deep degree of processing, and, as a result, with high added value. For example, while Russia exports grain to Turkey, Turkish businessmen, processing it into flour, send it with value added for export to other countries;
– There is no possibility of access to the external market for medium and small agricultural enterprises due to the lack of cooperatives involved in the formation of a batch of agricultural products on the basis of common standards and their export;
– Underdeveloped transport infrastructure that does not meet international standards; this also applies to the product storage system. Due to the fact that some agricultural products are perishable, and transporting it over long distances leads to its damage, this is often a serious reason for a potential buyer to refuse from the goods;
– Joining the World Trade Organization in 2012, Russia signed an agreement in which one of the conditions spelled out the obligation to not apply export subsidies, which, to some extent, affects the competitiveness of our agricultural products [1, p. 5].

2 Analysis
Let us dwell on the characteristics of export subsidies as an instrument for export development. The proliferation of export subsidies in the years preceding the start of the Uruguay Round in 1986 was one of the main issues addressed in these negotiations, and they have long been a subject of hot discussion at the WTO. The ministers finally reached an agreement in 2013 at the Bali WTO Ministerial Conference in Bali. Particularly, it was agreed that members would “exercise maximum restraint” in using any form of export subsidy and ensure (“as far as possible”) the progress in eliminating all forms of export subsidies [5, p. 12].

In December 2015, at the tenth WTO Ministerial Conference in Nairobi, a package of documents was adopted on the elimination of agricultural export subsidies, which was done in parallel with new directions on export credits, international food aid and agricultural export state trading enterprises. These agricultural issues are known as “export competition”.

The Nairobi decision represents an important step forward, completely eliminating any form of agricultural export subsidies.

Due to high commodity prices in recent years, many countries have significantly reduced their export subsidies, and only a few of the WTO members continue to use them, which is confirmed by the Organization’s survey in 2017. However, during times of low prices, countries often resorted to export subsidies; and history has shown that as soon as one country uses this tool, others quickly follow this example. Thanks to the decision taken by the ministers in Nairobi, WTO members will no longer be able to resort to such actions in the future.

In accordance with the ministerial decision on export competition (WT / MIN (15) / 45) adopted in Nairobi, developed countries agreed to immediately eliminate export subsidies from supporting agricultural producers other than a few agricultural products, and developing countries should do this by the end of 2018. Moreover, a longer time interval is used in some limited cases. In addition, developing countries will maintain the flexibility of covering marketing and transport costs for agricultural exports until the end of 2023, while the poorest and developing countries importing food will have additional time to reduce export subsidies.

The decision adopted in Nairobi also contains rules to minimize the possible distorting effects on international trade of other instruments of export policy.

Competition in the foreign trade export market for agricultural products remains a problem discussed at the WTO negotiations, and the elimination of all forms of export subsidies in agriculture has been one of the key objectives of the UN in the field of sustainable development since 2015.

**Execution of the decisions of the Nairobi Conference**

As of December 2015, 16 WTO member countries had the right to subsidize the export of goods for which they had commitments to reduce subsidies. Those countries that did not have obligations on a specified date are not eligible to subsidize agricultural exports. Among the 16 countries, some decided to significantly reduce or completely eliminate the use of these subsidies (see Table 1). The brackets indicate the number of positions of agricultural products used to subsidize each country.

The agriculture agreement also includes temporary exemptions for developing countries, allowing them to subsidize marketing, reducing transport costs.

After the Nairobi Ministerial Conference in Nairobi, WTO members applying export subsidies took steps to eliminate them according to the schedule for fulfilling WTO commitments. Australia became the first participant who changed its schedule for subsidizing agricultural exports from May 22, 2017, giving up its right from May 22, 2017. The European Union is the second in this procedure.

“Russia is not using enough of the existing export opportunities of the agro-industrial complex to increase the profitability of agricultural producers, as well as the possibility of importing cheap products to reduce the cost of food consumers” [7]. This conclusion is contained in the analytical report on the agricultural sector, prepared in 2017 by the Center for Strategic Research (CSR) of Alexey Kudrin. When comparing the prices of Russian agrarians for manufactured products with world prices, the experts came to the conclusion that if domestic grain crops are competitive in foreign markets, then meat, sugar and milk are not.
In our opinion, it is too early to talk about the competitiveness of domestic milk and dairy products in terms of milk on the world market. The self-sustainment rate in 2015 was 80.5%, with a threshold of 90%. Our country is one of the largest importers of this product. As for the price of milk, the Russian dairy industry is absolutely not competitive, the average price per liter of milk in the domestic market was 21.8 rubles in 2016, while the average price on the world market is 12.6 rubles.

| Table 1. Countries willing to significantly (or completely) reduce subsidies for the export of agricultural products [9]. |
|---|---|---|---|
| Australia | (5) | Indonesia | (1) |
| Brazil | (16) | Israel | (6) |
| Canada | (11) | Mexico | (5) |
| Colombia | (18) | Norway | (11) |
| EU | (20) | South Africa | (62) |
| Iceland | (2) | Switzerland | - |
| Liechtenstein | (5) | Turkey | (44) |
| United States | (13) | Uruguay | (3) |
| Venezuela | (72) | |

According to the operational data of the Federal Customs Service of Russia for February 2018, the average contract price for pork and poultry meat was 2,763 and 1,667 tones respectively; at the same time, the average world prices for the same goods amounted to 1343 and 804 tones, i.e. the difference in prices is about 2 times. At these prices it is difficult to compete in the external market. The main consumers of pork and poultry meat are the UAE, Ukraine, and Vietnam [10].

It is also difficult for us to compete in the sugar market. Despite the fact that Russia ranks 1st in the world in the production of sugar beet, the average producer price for domestic sugar in 2016-2017 was higher than the world average by about 30% (due to low efficiency and high costs).

Competition in the global market could make vegetables for certain types. In 2017, the prices for carrots, onions, cabbage were lower than world prices, but the problem lies not only in the development of vegetable production but also in an insufficient amount of potato storage facilities and vegetable storage facilities (as follows from the conclusion of the Accounts Chamber of the Russian Federation, the deficit was 3.3 million tons) [11].

At the end of 2017, the level of self-sufficiency of Russia in potatoes was lower than the figure set in the Doctrine of Food Security, according to the Ministry of Agriculture, Russia provided itself with potatoes by 90.7% with a threshold value of 95% [6].

On the world market, prices for most of the domestic agricultural products are noncompetitive, except for some positions: grain, vegetable oil, fish, and a number of other goods. This situation of agricultural products is caused, first of all, by low labor productivity, high costs, insufficient implementation of scientific research.

In addition, the size of interest rates on loans in Russia is much higher than the majority of developed countries, despite state support, to the agricultural producer as part of the interest rate subsidies. However, not all producers can receive it, the amount of the allocated subsidy is limited; therefore, part of agricultural producers have to be credited on general terms.

High prices for mineral fertilizers to a large extent affect both the prices of crop production and the yield. The paradox is that due to the established zero rate of VAT on the export of mineral fertilizers, the export price is lower than the domestic price. The state allocates subsidies for the purchase of mineral fertilizers, but they are also limited, distributed by the Ministry of Agriculture of the regions, and are not available to all.

The share of the area with applied mineral fertilizers in the entire area under crop in 2016 was 53%. Mineral fertilizers (in terms of 100% nutrients) – 49 kg / hectare [2]. Despite the good growth of the last indicator for 2 years by 22%, it should be noted, nevertheless, the average indicator of the amount of mineral fertilizers introduced is insufficient.

The same problem confronts the agricultural producer regarding the purchase of fuel and lubricants. In Russia, unlike in many countries of the world, including developed countries (USA, Canada, and the
EU), the excise tax on fuel for farmers is included in the cost of fuel, but at the same time, the State Program for the Development of Agriculture for 2013-2020 provides for a grant for the purchase of combustibles for agriculture. Periodically, the government raises excise taxes on fuel, while diesel prices begin to rise, which cannot but affect the increase in costs, and, ultimately, the competitiveness of products. We believe that the existing system of excises and subsidies does not meet the realities of increasing the efficiency and competitiveness of the agro-industrial complex.

Despite the existing difficulties of agricultural producers in foreign trade, in 2017, Russia exported $20.6 billion worth of foodstuffs, by 2016 the growth was 22.2%. Grain (37.1%), fish and, fish products (19.7%), as well as vegetable oils (15.4%) traditionally dominated in the export structure.

**Measures of trade policy abroad**

Over the past 10 years, exports of agricultural products throughout the world have grown by 70% (according to the WTO). Russia's share in it is only 1.2%, despite the increasing volumes (tonnage) of exports.

The main Russian export commodity, grain, accounts for only 6% of total global trade. Table 2 presents the exporting countries with the largest exports of agricultural products.

**Table 2.** Top 10 countries exporting agricultural products in 2016 [3].

| Exporting Countries | Cost, billion US dollars | Share in world exports, % |
|---------------------|-------------------------|---------------------------|
| EU (28)             | 598                     | 41.9                      |
| extra EU (28) exports outside the EU | 160 | 10.0 | 9.7 | 9.4 | 10.1 |
| USA                 | 165                     | 13.0                      |
| Brazil              | 77                      | 2.8                       |
| China               | 76                      | 3.0                       |
| Canada              | 63                      | 6.3                       |
| Indonesia           | 38                      | 1.4                       |
| Argentina           | 37                      | 2.2                       |
| Thailand            | 37                      | 2.2                       |
| Australia           | 34                      | 3.0                       |
| India               | 34                      | 1.1                       |

The agricultural policy of almost all countries of the world is aimed, first of all, at self-sufficiency in food, and secondly, at increasing the competitiveness of their products abroad.

In world practice, almost all instruments, both incentive and deterrent, are used to regulate the export of agricultural products. The main documents regulating exports in most developed countries are special export programs.

As noted above, at the conference in Nairobi, a package of documents was adopted on the elimination of subsidies for the export of agricultural products. At the same time, export support in developed countries mainly focuses on maintaining prices (purchasing, consumer) and maintaining income levels of agricultural producers and processors.

Support measures are stimulating or dissuasive depending on the policy of influencing the external or internal market. If necessary, the protection of the domestic market for food self-sufficiency apply restrictive measures. In the case of large-scale production and to increase competitiveness, incentive measures are needed. Both groups of measures are quite effective.
The limiting measures include: the application of tariffs (export duty) and quotas (quota). Another important additional condition for the successful development of exports is the creation of specialized centers for the support of exporters, with the task to inform manufacturers and suppliers about all the nuances of export operations, familiarity with legislative acts, holding consultations, etc.

The World Bank report noted that “in recent years, the global community has been concerned about trade-distorting practices that disrupt global agricultural markets, encouraging excess production, lowering prices and blocking producers in the markets. Large subsidizing countries, such as the USA, EU, Japan, India, and China, spend more than 100 billion dollars a year on trade distorting subsidies. The substantial subsidies provided by governments in economically stronger countries impede efficient food production and undermine global food security. Farmers in the least developed countries suffer the most, but all farmers are affected, and as a result the global economy becomes weaker” [4]. Highly developed countries suffer from overproduction of agricultural products, they have a high responsibility for regulating markets.

3 Conclusions
Summarizing the above, it can be said that Russia differs to a large extent from successful, highly developed countries with sustainable agriculture in terms of state support structure, instruments used, financial support, efficiency, and other indicators, but our country has all the possibilities and potential to increase the production of agricultural products, increase efficiency and competitiveness, increase investment and exports. To do this, it is necessary to bring competitive products with high added value to the world market; except for large agricultural producers, medium and small ones should work in the market through authorized cooperatives; in addition, it is highly necessary to increase investment in the further development of transport infrastructure and product storage.

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