

Long-term perspectives for the Russian agri-food sector and market opportunities for the Dutch agribusiness

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Project code 20725

April 2007

Report 5.07.03

LEI, The Hague

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The Hague, LEI, 2007

Report 5.07.03; ISBN/EAN: 978-90-8615-148-6

Price €18 (including 6% VAT)

73 pp., fig., tab. app.

This report describes the current situation in the Russian agri-food sector and presents an impression of the prospects in the medium term (up to 2015) with the aim to contribute to an assessment of market opportunities for the Dutch agribusiness sector. Next to presenting an overview of the macro-economic situation in Russia, the structure and performance of the Russian agri-food sector and the developments in agricultural trade and investment, the report also defines the main drivers for agri-food sector development and presents some possible development scenarios. Finally, some conclusions and recommendations (dos and don'ts) concerning the opportunities for Dutch agribusiness are made.

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Preface

Russia's economy has shown rapid development in recent years. Consumer food expenses have doubled over the last three years. The country - a market of 143 million consumers - is one of the largest importers of agricultural and food products in the world. Furthermore, the agri-food sector is in a process of being reconstructed. Russia therefore offers many opportunities for the outward-oriented Dutch agri-food sector.

In their eagerness to know more about the future perspectives for Dutch agro exports and investments, the Ministry of Agriculture, Nature and Food Quality (LNV) through its Agricultural Counselor in Moscow, requested Wageningen University and Research Centre (Wageningen UR) to conduct an analysis of ongoing trends in Russian agriculture, including possible scenarios for future developments in the agro-food sector and the implications thereof for the opportunities of Dutch Agribusiness.

The authors of the report are Siemen van Berkum and Pim Roza of LEI-Wageningen UR and John Belt of Wageningen International (WI-Wageningen UR). One approach taken by the Wageningen UR researchers was to interview a range of Dutch entrepreneurs, representing different agro sectors, asking them about their experiences in doing business with and in Russia. The authors gratefully thank the interviewees who readily and openly gave their views and opinions. Special thanks to Eugenia Serova and her staff of the Institute for Economy in Transition (IET) in Moscow for contributions in the form of background papers and executing a survey on Russian entrepreneurs in the agri-food sector. The Agricultural Counselor in Moscow - Mr. Marinus Overheul - is much appreciated for his substantive and practical assistance throughout the duration of the study.



Dr. J.C. Blom
Director General LEI

Summary

Russia's robust economic growth after a decade of decline

The Russian economy showed significant growth rates in recent years. The last three years consumer expenditures on food and beverages have doubled. The country is one of the largest net-importers of agricultural and food products in the world. At the same time, huge public and private investments support the sector increasing its production and improving its productivity and efficiency levels. The Russian market therefore offers many opportunities to the outward-oriented Dutch agribusiness.

The collapse of the Soviet Union in 1991 was followed by a period of general economic decline in the Russian Federation. Production levels in the primary agricultural sector and its related upstream and downstream industries went also down, in some sub-sectors even halved. The agricultural sector revived only after the economic and financial crisis in 1998. Following a significant devaluation of the ruble the position of domestically produced commodities and products strengthened against foreign competition. Moreover, the regeneration of economic growth led to a substantial rise in income per capita and increased domestic demand for food and beverages.

Structural features and developments

Structural features of the Russian agricultural sector are highly varied: farms with over 5,000 hectares next to millions of smaller farms to very small household plots, the latter producing mainly for own consumption. Next to the feature of sizes, there is also much diversity in legal structures, such as state farms, joint stock companies, agricultural cooperatives, family farms and (still some) state farms. A rather new phenomenon is the agroholding or vertical integration, whereby the ownership and financing of the primary production is in hands of the processing or trading 'mother' company, or in hands of companies outside the agri-food chain. Such vertical integration is found in the cereals and oilseeds sectors, and also in intensive livestock farming.

The upstream and downstream industries are highly fragmented, with some players dominating regional markets, and hardly companies operating at a national scale. Regional concentration of the agribusiness activities are in the Western part of the country, where two-thirds of total domestic product is generated. Consolidation of agro-related (processing and supplying) firms occurs, but the speed of the process is much faster in the food distribution and retail sector. Especially in the larger cities the retail chains expand very rapidly. The largest retail companies are mainly Russian, with several foreign chains operating at the Russian market.

Trade and foreign investment relations

Russia's overall trade balance has greatly improved in the last ten years, mainly due to high export prices for oil and natural gas. In agricultural trade, however, Russia has a deficit. Major imported product categories are meat (poultry, beef and pork) and fruits. Brazil,

Ukraine, Germany and the USA are Russia's major foreign suppliers of agricultural products. Exports from the Netherlands - among the top-10 of agricultural suppliers in Russia - are increasing since 1999. Main product categories are cut flowers and plants, fruits, animal feed, vegetables and meat. The Dutch agribusiness sector also supplies a wide variety of goods and services as inputs to the agricultural and food industry in Russia.

Foreign investment in Russia has been rapidly increasing since 1999, pushed by the booming oil and gas industry. Foreign investments in the Russian food and agricultural sector are however rather small in recent years: around 3% of total foreign investments. In some years (1998, 2000 and 2001) FDI in the food industry exceeded FDI in the oil and gas industry. But compared to several other Central and Eastern European countries the current food sector share in total FDI of Russia is low. Russia's business climate is not particularly attractive to foreign investors, as is pointed out by the country's ranking on lists indicating the ease of doing business and the perception of corruption.

Main drivers of developments in Russia's agri-food sector

Overall economic growth in Russia has been a major driver of the agribusiness developments in recent years. Through increased living standards, demand for food and beverages went up as well as the demand for more varied, convenience and quality products. Consumers' spending on food increases very rapidly and food is increasingly bought in modern supermarkets. In order to respond to market developments, the Russian agricultural and food industry needs investments in technology developments (both 'hard ware' - machinery, etc. - and 'soft ware' - knowledge and skills) aiming at improving productivity levels and quality of produce. Foreign direct investment may facilitate the restructuring and modernisation of the sector but the inflow is still rather low. Government support programs, largely through providing loans and credit subsidies, play a crucial role, yet these measures may not be very effective if accompanying policy reforms with respect to the financial sector and public administration are not carried through. Further policy reforms may be imposed by Russia's future membership of the WTO, also an important determinant of the economic developments in the years to come. Yet, as average import tariffs are low, expected tariff reductions will be modest and reductions implemented only after a transition period, the effects of Russia's WTO membership on agricultural imports will be neither immediate nor dramatic.

Future expectations

Model projections by organisations like OECD, FAO, FAPRI and LEI all indicate that agricultural production in Russia will increase in the next ten years, but in general not enough to cover the expected growth in food demand. These projections imply that Russia will remain a net-importer of all major agricultural commodities except for cereals and oilseeds. Interviews with Russian agribusiness' representatives and other experts indicate that the majority of entrepreneurs have very positive market expectations: economic growth will sustain and lead to increasing demand for their products. Also, they expect that government policies with respect to the agricultural sector, especially the investment support measures, will help to strengthen the raw material base of the sector.

Interviews with Dutch companies (already) producing in Russia and/or exporting to the country point at the many business opportunities these companies identify. Businesses

operating at markets of consumer-ready products build there optimism on the expected continuation of increased living standards. Next, the Russian agricultural sector benefits from much public and private investment, aimed at increasing production and productivity levels, especially (but not exclusively) in the livestock sector. This offers Dutch companies supplying agricultural inputs many business opportunities.

Of course, such opportunities will only be fully used under the condition of continued economic growth, the further opening up of Russian borders as a result of WTO membership and full compliance to consistent and stable trade rules, and the accompanying policy reforms aimed at improving the general business climate in the country. Presently there is a high level of government interventions - bureaucracy - and the opportunities for corruption and rent-seeking. Public administration reforms aimed at reducing these obstacles for investment are necessary conditions for sustained growth of the Russian economy.

Some recommendations for potential Dutch investors

Following the continuous threat of increasing trade barriers, but also because of chances in an expanding market, Dutch companies with interest for Russia are recommended to consider local investments and production. Operating in Russia, however, requires adjustment to local circumstances and culture. For instance, the Russian language is difficult and the Russians appear preferring to deal with 'own people'. For that reason, especially the small and medium-sized companies need support of a reliable Russian partner, if only because of dealing with the country's proverbially bureaucracy. A potential investor needs to look carefully for the right partner and well-qualified local staff. A first step is, however, to (let) carry out market research and decide which activities one would like to do in Russia and where. To operate successfully one needs good working contacts with local and regional authorities, for instance to anticipate legal changes. For Dutch companies considering starting up business or for those already operating in and with Russia, the Dutch agricultural attaché is very important in terms of trouble shooter, net worker and information desk.

1. Introduction

1.1 Problem statement

Recent developments in Russia indicate of continued economic growth, increasing purchasing power and investments, and consolidation of political-administrative systems. These developments give rise to a reassessment of the Dutch business opportunities and its strategies for the medium term. Such an assessment should be based on a realistic projection of the developments in the Russian agri-food supply chain (primary agriculture, upstream and downstream industries).

Given that there are considerable uncertainties on issues affecting demand for and supply of agricultural and food products in Russia, there is a need for detailed insight into the drivers of future developments, such as economic growth, population, technology, policies with respect to agriculture and trade. Economic development has been positive in recent years, increasing the demand for food. Also, being an important exporter of fossil fuels the Russian government is benefiting from the present high energy prices through increasing export revenues and taxes. These developments provide the government with extra financial means. According to government plans a part of these means will be invested with priority in primary agriculture and processing of agricultural raw material. Russia has an impressive area of fertile land and much potential to play an increasing role in the region's food supply and general economic welfare, as well as in international agribusiness. Dutch companies already present in the country are aware of these potentials. Major challenge for policy makers is to facilitate the business community to exploit Russians agricultural potential efficiently.

Research into market opportunities for the Dutch agribusiness is highly relevant to the Ministry of Agriculture Nature and Food Quality (MLNV). The Ministry aims at facilitating the Dutch agribusiness in their process of strengthening their competitiveness at the domestic and the international market (see MLNV, 2005). The Dutch agri-food sector is strongly outward-oriented, either through exports or through foreign direct investments. Russia is a large market with large potential to expand business activities. The recent positive socio-economic and political developments give rise to further investigation into the business opportunities for Dutch agri-food companies in Russia.

1.2 Objectives of the study

The objective of this research project is to present a realistic impression of the present state of and the prospects for the agricultural sector in Russia in the medium term (up to 2015), taking into account uncertainties with respect to socio-economic and political scenarios. The analysis contributes to an assessment of Dutch agri-food business opportunities in Russia.

1.3 Approach and structure of the study

The research approach is a mixture of literature review, analyses of international databases, and expert interviews. The study comprises of the following steps.

First, literature review and secondary data help sketching recent developments in the Russian economy. Also, the role of agriculture in the general economy is discussed (chapter 2). Next, structural features of the agri-food supply chain are presented, together with performance indications (chapter 3). This part is followed by a description and analysis of recent trends in trade and foreign investment relations (chapter 4). Such analysis gives a first impression of the country's comparative advantages in agriculture and the country's attractiveness towards foreign investors in the agri-food supply chain.

Then, possible future developments in Russian agri-food markets are assessed (chapter 5). This part is build up by several elements. It starts off by discussing a number of factors determining developments in the Russian agri-food sector for the years to come. In presenting these factors, also uncertainties with respect to these factors are considered. Then, quantitative projections of the future development of the Russian agri-food cluster are presented, both from the literature and from own model simulations. The foregoing analyses are supplemented by the outcome of interviews with a wide range of Russian and Dutch entrepreneurs. Following this picture of the future, the business opportunities for Dutch companies are identified (chapter 6). These assessments as well as recommendations for improving the role of the Dutch government to successfully use the opportunities identified, are discussed during a workshop with Dutch companies. Remarks and suggestions made during that workshop are integrated in the final version of this report.

2. A general overview of the Russian economy

2.1 Introduction

Russia is the largest country in the world. Due to unfavorable climatic and soil conditions, only 13% of the country's territory is used as agricultural land. Agricultural activities are concentrated in the 'European' part of the Russian Federation, in the North-West, Central, South, Volga and (partly) Urals Federal Districts (see figure 2.1). The other two districts, Siberia and the Far East are relatively remote, mainly because of the local climatic conditions. Moscow and Saint-Petersburg are the most important cities and the two main economic centers of the country. Total Russian population amounts to 142.8 million (2006 data from Rosstat) and is slowly decreasing. The Gross Domestic Product (GDP) of Russia in 2005 was USD763.7 billion (World Bank Development Indicators 2006). This makes Russia the 14th largest economy in the world, just after India and Mexico.¹ Together with Brazil, India and China, Russia is often seen as a high potential economy, which could become a much larger force in the world economy than it is now (see also Wilson and Purushothaman, 2003).



Figure 2.1 Federal districts of Russia
Source: http://fp6.hse.ru/images/map_russia.gif.

¹ In comparison: the Netherlands, with a GDP of USD594.8 billion, was the 16th largest economy in the world in 2005.

This chapter outlines the main features of the macro-economic situation in the Russian Federation, as well as the relative contribution of the agricultural sector to the economy. Section 2.2 presents an economic overview, with some macroeconomic indicators and figures on the labor market, the position of the ruble and external trade. In section 2.3 the regional income distribution is discussed, which shows that income distribution in Russia is highly uneven. Section 2.4 deals with the role of agriculture in the Russian economy.

2.2 General economic overview

The Russian Federation has abundance of national resources (gas, oil, metals and forests (wood)). With a population of 143 million people the country also has a large consumer market. However, it is only since 1999 that Russia experiences a relatively steady economic growth. In the first few years after the collapse of the Soviet Union in December 1991 the economic situation worsened. 1997 Was the first year with economic growth in post-Soviet Russia. The financial crisis in 1998 caused, however, a significant economic downturn: the Russian ruble lost 70% of its value and GDP decreased with 5.3%. The recovery of the Russian economy already came one year after this crisis, when GDP increased with 6.4%. Since 2001 the Russian GDP has experienced a relatively steady growth (4-7%) compared to the 1997-2000 period, partly thanks to structural reforms carried out to transform the country into a market economy.

In 2000 GDP growth reached a record level of 10%, while in the last five years GDP growth fluctuated between 4.5 and 7.5% (see figure 2.2). Russia's economic growth in the first years after the crisis was driven by terms-of-trade gains, caused by the devaluation of the ruble. Since 2000 growth is primarily driven by domestic demand, particularly private consumption, which is supported by a strong growth of real wages and pensions (see also figure 2.3). Another main driver of economic growth in the last few years is the high oil price. Since Russia is the largest gas producer and the second largest oil producer in the world, the country is one of the greatest beneficiaries of high energy prices. However, if Russia wants to sustain stable economic growth, the country will have to increase investments in infrastructure, education, etc. Figure 2.2 shows that investments in 2003-2006 were in the range of 10 to 13% of GDP but a higher investment-to-GDP ratio is needed to keep up with other growing economies. For example, China achieved an average annual ratio of 39% over the period 2000-2005, while Russian investment levels were 18% in the same period.

The Russian economic growth rates compare favorably with those for the EU, including the new Member States, where annual GDP growth between 2001 and 2005 was not higher than 5.5%. On the other hand, Russia underperforms compared to other CIS-countries, such as Belarus, Georgia and Kazakhstan (see table 2.1). In 2007 the other CIS-countries than Russia are expected to face a slowdown in economic growth and a higher inflation, partly due to the repricing of gas imports from Russia. Compared to other emerging economies, such as Argentina, Brazil, China and India, real GDP growth in Russia is the lowest (OECD/FAO, 2006).

In 2004 the Russian government set up a Stabilisation Fund to accumulate surplus revenues from high world oil prices and to sustain economic growth. The law establishing the Russian Stabilisation Fund was approved in December 2003. The fund's revenues accrue from several sources: a portion of the export duty on oil and petroleum products, part of the revenues from the severance tax on mineral resources, and a portion of the surplus of the federal budget at the beginning of the fiscal year. The threshold price is set at USD27 per barrel of Urals oil, above which revenues start accumulating in the Stabilisation Fund, while the government has the right to withdraw money if oil prices fall below the threshold level. The Russian federal budget for 2007 assumes an average oil price of USD61 per barrel (compared to USD40 in 2006). This means that USD34 per barrel will flow towards the Stabilisation Fund. Forecasts predict that the fund will hold USD160 billion at the end of 2007. In December 2006 the fund had assets of about USD83 billion (BOFIT Russia Review, 12-2006).

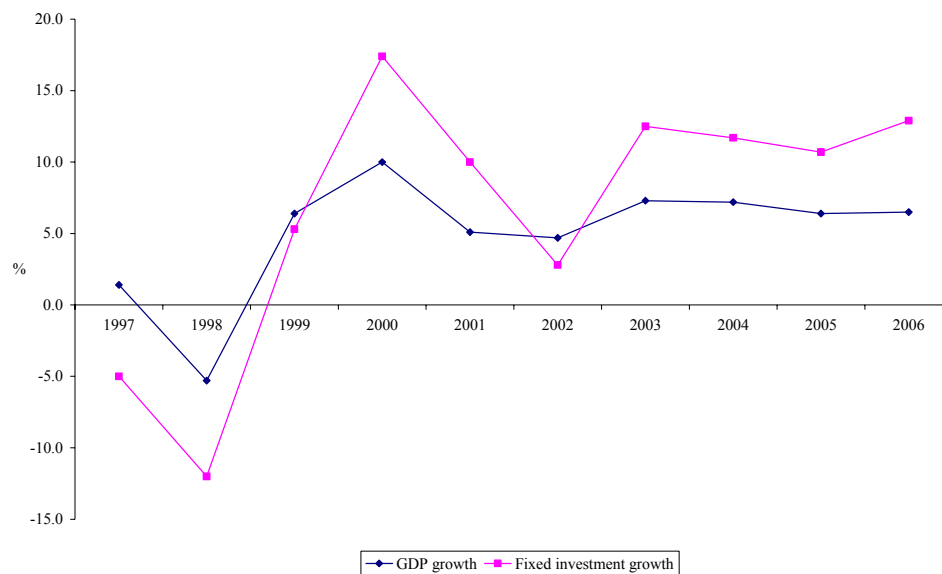


Figure 2.2 Annual growth rates of Russian GDP and investment, 1997-2006
Source: Rosstat, CBR.

CPI inflation in Russia is stabilising in recent years, although it is still very high compared to other (Eastern) European countries. During the 1998 crisis, inflation increased to 84% on an annual basis, but since then inflation rates have declined strongly, from 36.5% in 1999 and 20.2% in 2000 to 10-15% in recent years. Due to increasing energy prices, high prices of services, housing and food products the inflation rate in 2005 was 10.9%, still more than five times higher than the EU average.

Table 2.1 Real GDP growth and inflation in Russia and selected CIS and CEE countries

	GDP growth				Inflation			
	2004	2005	2006 a)	2007 a)	2004	2005	2006 a)	2007 a)
<i>CIS total</i>	8.4	6.5	6.8	6.5	10.3	12.3	9.6	9.3
Russia	7.2	6.4	6.5	6.5	10.9	12.6	9.7	8.5
Belarus	11.4	9.3	7.0	4.5	18.1	10.3	7.9	9.0
Georgia	5.9	9.3	7.5	6.5	5.7	8.3	9.6	6.0
Kazakhstan	9.6	9.4	8.3	7.7	6.9	7.6	8.5	7.9
Ukraine	12.1	2.6	5.0	2.8	9.0	13.5	9.3	13.5
<i>Central Europe</i>	5.0	4.3	5.2	4.6	4.3	2.4	2.2	3.2
Czech Republic	4.2	6.1	6.0	4.7	2.8	1.8	2.9	3.3
Hungary	5.2	4.1	4.5	3.5	6.8	3.6	3.5	5.8
Poland	5.3	3.4	5.0	4.5	3.5	2.1	0.9	2.3

a) estimations.

Source: IMF (2006).

Labor market

The economic growth has had a positive impact on the labor market in Russia: since the end of the 1990s unemployment has decreased and average wages have increased (see figure 2.3). During the economic crisis, official unemployment rates first increased from 9.0% in 1997 to 13.2% in 1998, but since then the unemployment rate gradually decreased to 6.7% in 2006 (Rosstat, estimation). The development of the average level of wages is even more spectacular. Before the economic crisis average wages were about USD160 per month in 1997, but these fell sharply to USD108 in 1998 and USD62 in 1999. Since then, average wages have increased significantly to reach an average monthly wage of USD301 in 2005, while preliminary figures show that wages have risen to USD423 per month in 2006 (Rosstat). There is of course much deviation of the average figures in this huge country. Wages in the main economic regions of Moscow and St. Petersburg, as well as in the main cities are much higher than in the rural areas. Similarly, in the Russia of today you will find a few multi-billionaires next to a large number of poor households.

The position of the ruble

To a certain extent, the recovery of the Russian economy is reflected in the development of the exchange rate of the ruble against the USD and the Euro: since 2004 there is an appreciation of the ruble against both currencies. However, between 1999 and 2002/2003 there was a period of ruble depreciation. For the USD, 2002 marks a shift in exchange rate development. With the exception of 2005 the USD lost strength against the ruble, while the Euro only weakened in 2004/2005 (see figure 2.4). The adjustment to high oil prices (through the Stabilisation Fund) to avoid a 'Dutch disease'¹ caused a (rapid) real exchange rate appreciation (for the Euro in 2004/2005 and for the USD in 2005/2006). This in turn

¹ The term 'Dutch disease' was first coined to describe the decline of the manufacturing sector in the Netherlands (and the rise in unemployment that accompanied it) following the discovery of natural gas in the 1960s. It is broadly understood as to denote the harmful economic consequences that may arise in certain conditions from the sudden increase of a country's wealth, following for example a natural gas discovery, a surge in export commodity prices or any other positive exogenous shock generating large foreign inflows. The strong appreciation of the real exchange rate generates competitive pressures on manufacturing tradable sectors, which, if too severe, can lead to deindustrialisation. These risks are particularly great if structural rigidities impede adjustment to the shift in the terms of trade (see also OECD, 2006a: 77).

will lead to a loss of competitiveness: exports will decrease, while imports will be stimulated. On the other hand, when oil prices will decrease and economic growth in Russia slows down, the ruble might depreciate, which will make imports more expensive.



Figure 2.3 Unemployment and average wage, 1996-2006
Source: Rosstat, CBR.

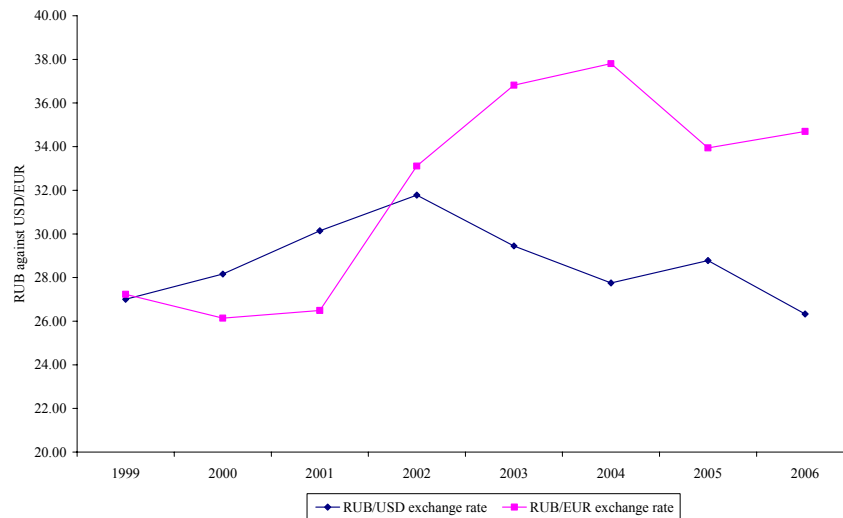


Figure 2.4 Exchange rates of the Russian ruble against the USD and the Euro, 1999-2006
Source: Rosstat, CBR.

Trade

The booming international oil prices that promote economic growth (through increased export and income tax revenues and thus increased government expenditures) also improved the trade balance of the Russian Federation (see figure 2.5). The trade balance has been positive ever since 1996, but as a result of the quickly expanding gas- and oil-exports the surplus at the trade balance doubled from USD60 billion in 2000 to USD120 billion in 2005. In 2005 the value of exports was almost twice as large as the value of imports (USD245 billion against USD125 billion).

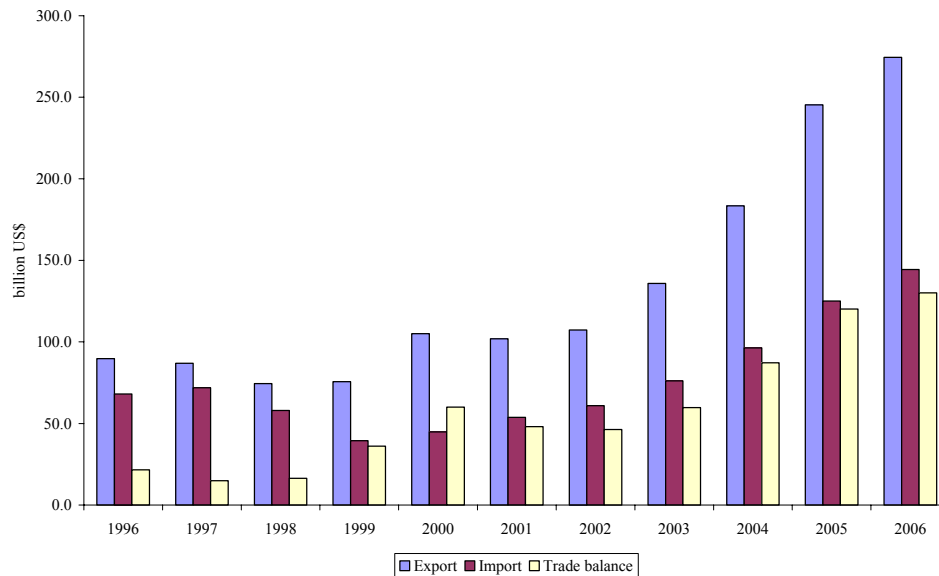


Figure 2.5 Export, import and trade balance, 1996-2006 (billion USD)
Source: Rosstat, CBR.

2.3 Regional income distribution

At first sight, the regional income distribution in Russia is very unequal (see figure 2.6). Two thirds of Russia's GDP is generated by the western districts of the country (west from the Urals). About half of this is earned in the relatively small Central District, including Moscow City. The Volga and Urals Districts are the second and third most important economic regions. The largest district of Far East is the least important region, both in terms of GDP share and in terms of population share. Only in the North-West District (including Saint-Petersburg), the share of income is in proportion to the share of population and territory.

Another indicator of regional economic development is the relative importance of the food component in the average consumer basket. Generally, the share of food expenses in total consumer expenses decreases when income increases. There are considerable variations in purchasing power between the Russian regions (Ylä-Kojola, 2006). When the

seven districts¹ are compared, the differences are relatively small, with a ratio between income and minimum food expenditure of 4.41 in the Southern District and 7.83 in the Central District. But table 2.2 shows that the differences are larger when the purchasing power is compared at regional level. The gap between the richest and poorest regions turns out to be huge, also in terms of average income and minimum food expenditure.

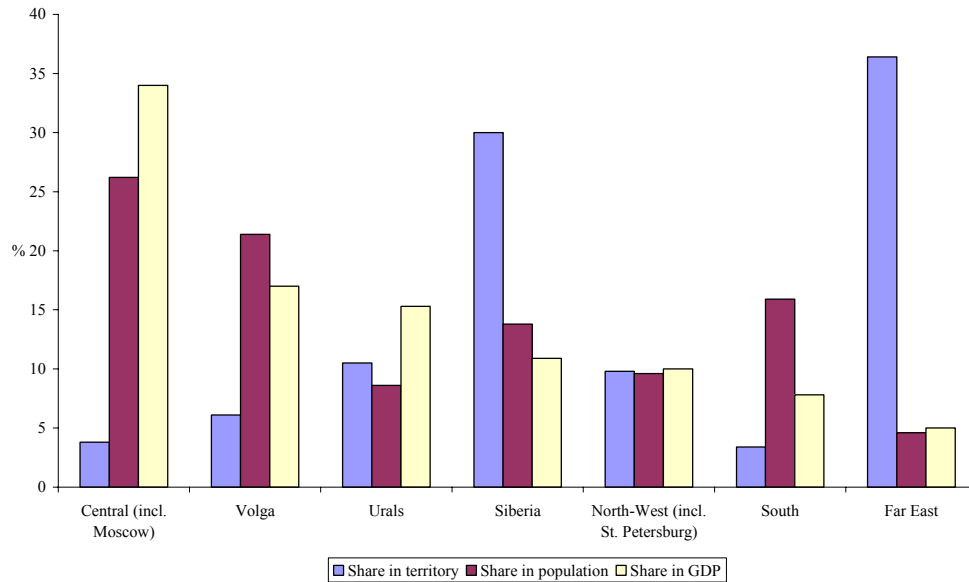


Figure 2.6 Regional distribution of population and GDP, 2005
Sources: Rosstat (2005), figure in Ylä-Kojola (2006).

Table 2.2 shows the large variations in average income, from RUB24,240 (approximately EUR710) in Moscow to RUB1,906 (EUR55) in the Republic of Ingushetia, which is almost 13 times lower. The price of a minimum food basket² is highest in Koryaksky Autonomous Area in the northern part of the Far Eastern District (RUB3,504 or around EUR100), due to high costs of transportation and distribution. In the Republic of Tatarstan the minimum food expenditure is three times lower (RUB1,142). As a result of these large variations, the ratio between average income and minimum food expenditure also varies greatly, from 14.83 in Moscow to 1.35 in the Republic of Ingushetia.

¹ Central, Volga, Urals, Siberia, North-West, South and Far East.

² The price of a set of basic food items.

Table 2.2 Purchasing power comparison of selected Russian regions

Federal District	Region	Average monthly income per capita, RUB July 2005	Price of minimum food basket, RUB Aug 2005	Average monthly income divided by food basket expenditure
<i>Russia</i>		7,874	1,344	5.86
Central		10,744	1,372	7.83
	Moscow	24,240	1,635	14.83
Urals		9,312	1,416	6.58
	Yamalo-Nenetsky	20,116	2,000	10.06
North-West		8,607	1,472	5.85
	St-Petersburg	12,080	1,478	8.18
Volga		6,078	1,211	5.02
	Samara	9,428	1,349	6.99
	Republic of Tatarstan	7,109	1,142	6.22
Siberia		6,500	1,331	4.88
	Tomsk	8,155	1,311	6.22
	Ust-Ordynsky Buryatsky	2,061	1,235	1.67
Far East		8,845	1,860	4.75
	Koryaksky	8,251	3,504	2.35
South		5,368	1,218	4.41
	Republic of Ingushetia	1,906	1,408	1.35

Source: Ylä-Kojola (2006), figures from Rosstat (2005).

Ylä-Kojola (2006) also calculated the share of regional purchasing power relative to the total Russian purchasing power in order to define the major economically viable regions (table 2.3). Together the 10 richest regions (out of 88 regions) compose almost half of the total purchasing power. The explanation lies in the fact that the regions either have natural resources or they are commercial or financial centers. The cities Moscow and Saint-Petersburg are major transportation hubs, as well as political, commercial and financial centers. The Tumen, Tatarstan, Bashkortostan and Samara regions produce oil, while the Sverdlovsk region (together with Tumen and Samara) is very industrialized. The southern regions of Tatarstan, Bashkortostan and Krasnodar Krai have the highest agricultural output.

2.4 Role of agriculture and food industry in the Russian economy

The agricultural and food sector plays a relatively marginal role in the Russian economy. The contribution to GDP decreased from 7.2% in 1997 to 5.0% in 2005 (table 2.4). At the same time the share of the industry sector decreased from 44.7% to 35.2%. The services sector gained economic importance: the share in GDP increased from 48.6% to 59.8% (World Bank, 2006b). Economic growth in the agricultural sector (including hunting and forestry) remained well below overall GDP growth for three consecutive years since 2002. In 2001 economic growth in the agricultural sector was still 7.5%, but in 2004 1.4% and in 2005 2.0%. Growth rates in the food processing industry were a little higher: 4.4% in 2004 and 2005 (see further section 3.3 and 3.4). In 2005 agriculture was less profitable than in 2004: this led to decline in employment in the agricultural sector with 11.9%.

Agriculture's share of total employment decreased from 13.3% before the Ruble crisis to 7.1% in 2005 (Rosstat; World Bank, 2006b).

Table 2.3 Purchasing power comparison, richest regions (2005)

Region	Federal District	Share of the regional purchasing power of the total Russian purchasing power a)
RUSSIA		100
1. Moscow	Central	18.36
2. Saint-Petersburg	North-West	4.47
3. Moscow region	Central	4.15
4. Tumen region	Urals	3.40
5. Sverdlovsk region	Urals	3.25
6. Rostov region	South	2.86
7. Republic of Tatarstan	Volga	2.79
8. Republic of Bashkortostan	Volga	2.76
9. Samara region	Volga	2.66
10. Krasnodar Krai	South	2.64
<i>Total of 10 regions</i>		<i>47.34</i>

a) Combined regional purchasing power = population * (average personal income/price of food basket).
Source: Ylä-Kojola (2006).

Table 2.4 Key economic figures on the Russian agricultural sector

	1997	1998	1999	2001	2003	2005
Gross agricultural output (bln RUB)	309.2	304.4	606.1	962.6	1134.5	1501.0
Contribution of agriculture to GDP (%)	7.2	6.5	7.4	6.6	6.2	5.0
Share of employment in agriculture (%)	13.3	13.7	13.3	12.3	11.0	7.1

Source: Rosstat.

In Russia consumers buy food items on open markets, street kiosks, small shops and increasingly in super and hyper markets of large retail chains. Not all of this is registered and part of the official economy. Yet, the value of the food and beverages market was estimated at EUR160 billion in 2005. This makes Russia the third largest market for food and beverages in Europe, after Germany and France. Current growth rates of the (official, registered) market are very high, at about 20-25%, mainly because of rising income levels. It is forecasted that in 2008-2010 the food and beverages market will be EUR250-350 billion (PwC, 2007).

3. Structure and performance of the Russian agri-food sector

3.1 Introduction

This chapter provides an overall picture of the structure of the Russian agri-food sector. During the communist period the state had a major influence on the economic process through its central planning philosophy and state-owned enterprises. In the early 1990s Russia made major economic and political changes and adopted a more market oriented economy policy. Economic liberalisation paved the way for rapid privatisation of state owned enterprises. Yet, state ownership still exists in the agricultural sector, although to a minor extent. This chapter describes the structure of all components of the agribusiness cluster, which includes the upstream and downstream industries, as well as the primary sector. In addition, the structures of the food retail sector are presented.

3.2 Structural features of the upstream industries

Studies providing a general overview indicate that most upstream industries supplying agricultural inputs are rather fragmented (e.g. Serova and Gardner, 2005; Serova and Shick, 2005). An example is the structure of the animal feed sector, with many local grain mills supplying livestock in their production area. Foreign investors are present too. Several feed producing Dutch companies such as Koudijs, Provimi and TrouwNutrition (Nutra) have entered the market in the 1990s. These companies started exporting animal feed but later invested in local production in addition to their trading activities.

The structure of the Russian fertiliser manufacturing sector is slightly different, with a limited number of firms (less than 10) producing three quarter or more of total output of nitrogen and phosphate fertiliser. Also the Russian agricultural machinery industry is dominated by a limited number of companies: the production is mainly by large enterprises, such as Rostelmash, Agromashholding and Rostov Agricultural Machine-Building plant. This industry produces a wide assortment of harvesting machinery, sowing machines, soil working equipment, tractors etc. However, the industry is said to be on the decline, having difficulties in competing with foreign suppliers such as German Claas and USA John Deere. Imports of agricultural machinery are estimated almost half of the market in money terms in 2005. The reason of the difficult state of national agricultural machine-building industry is the absence of a clear system of produce distribution (e.g. dealer network), while in terms of efficiency and quality (technology) experts indicate that Russian manufactures should improve to retain competitive (Newslab, 2006).

The generally fragmented upstream industry should allow competitive trading in agricultural inputs. Yet, there may be regional (close to) monopolies due to government interventions. Although the government no longer delivers farm input it has a strong negative influence on input markets through a wide range of federal or regional support

programs (Serova and Gartner, 2005). Government-sponsored leasing programs, with their restrictions of approved suppliers and models, create severe obstacles to the development of dealer networks, and may affect input prices unintentionally and most often negatively. For instance, the cost-reimbursement policy for fertilisers only increased the demand for this input and encourages the export-oriented manufacturers to raise prices in the domestic market. Meanwhile, the agro-chemicals industry is slowly increasing production, recovering from the large decline in production levels during the 1990s. This industry is becoming export-oriented as domestic consumption is increasing only marginally (Serova et al., 2006a).

3.3 Structures and performance trends at the primary level

3.3.1 Structures

The Russian agricultural production is organised in various forms. One important group is the 24,000 large farms, sprung from former cooperatives and state farms. These farms have on average 600 ha and employ 150 people. These farms have many different legal forms, such as agricultural cooperative, public limited company and partnership. Next there are still over 3,000 state farms and other large farms as part of Agrarholdings (see text box). At present these large farms use around two-thirds of the agricultural area in Russia. Still, the production share of these farms is around 40%. These large farms are mainly in crop production such as cereals and oilseeds, yet recently also increasingly in meat production (see figure 3.1 under the label of companies).

Next to the large farms there are around 30,000 smaller agricultural companies, farms with 60 employees and 260 ha on average. This category of farms uses around 7.8 million ha (4% of total agricultural area). The number of these farms has increased since the mid-1990s. These farms are also mainly in crop production.

Another category of the Russian agricultural production is the private farmer. The number of farms is rather constant since the mid-1990s. These farms are typically 70 ha and are in crop production.

The biggest category of farmers is the family farms - around 15.5 million of these farms use around 8.6 million ha. These farmers often also use some area at the larger farms, so that on average the family farms use an estimated 2 ha (16% of total agricultural land). Traditionally these are livestock farms. Around half of cattle and pigs are held on these farms. Around 60% of meat production is on these farms. These farms largely produce for their own needs.

The main trend in the structure of the Russia's agriculture is severe polarisation of both large farming enterprises and small family farms (Serova et al., 2006a). Part of the producers are actively developing, modernizing and investing, while the other part is becoming more and more marginalised. However, for many reasons the latter units do not go bankrupt. Therefore, the latter part of the sector contributes to average indicators of the sector performance making them worse than they could be in the case of massive sinking of insolvent producers.

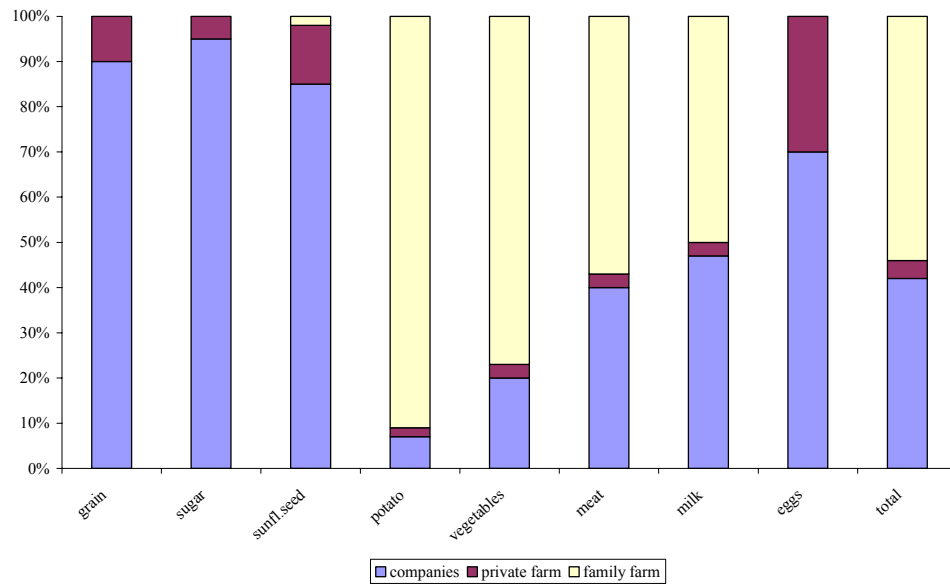


Figure 3.1 Share of business forms in the main agricultural products in Russia
Source: ZMP, 2006.

Agroholdings are a relatively new form of organisation in the Russian agriculture. These are vertically integrated companies, combining different stages in the production, processing and distribution of agricultural and food products. The number of these companies was around 150 in 2003 (ZMP, 2006). Established in the end of the 1990s after the financial crisis the first agroholdings were set up by processors and distributors to guarantee supply of raw material of good quality. Meanwhile also investors from other branches have discovered the agricultural operation as an attractive business. Next to companies from the industry and energy sector also banks and other financial organisations, big agricultural firms and the state are actively investing in agriculture. The average size of an agroholding is said to be around 50,000 ha, yet there also companies with much over 200,000 ha agricultural land. Still, the total area at these holdings is not exceeding 5% of all agricultural land. On the other hand, the share of production is higher than 5%. Next to the cereals and oilseeds production, agroholdings can be found in the rapidly increasing poultry and pig meat production (ZMP, 2006; Rylko and Jolly, 2005). These new farms are distinguished from the traditional farm enterprises not only by the scale of operation but also by the presence of significant investment inflows into primary agriculture from non-agricultural sources, adoption of new management style, new technology, strong profit-orientation and aggressive market behaviour.

Box 3.1 Agroholdings, a new phenomenon

3.3.2 Production, yields and farm financial performances

An indication of the sector's performance is its production and yield developments. Agricultural production has fallen continuously during the period 1990-1998 and only returned to positive growth figures since then. By 2005 agriculture has recovered by 75% compared to the pre-reform level (see figure 3.2).

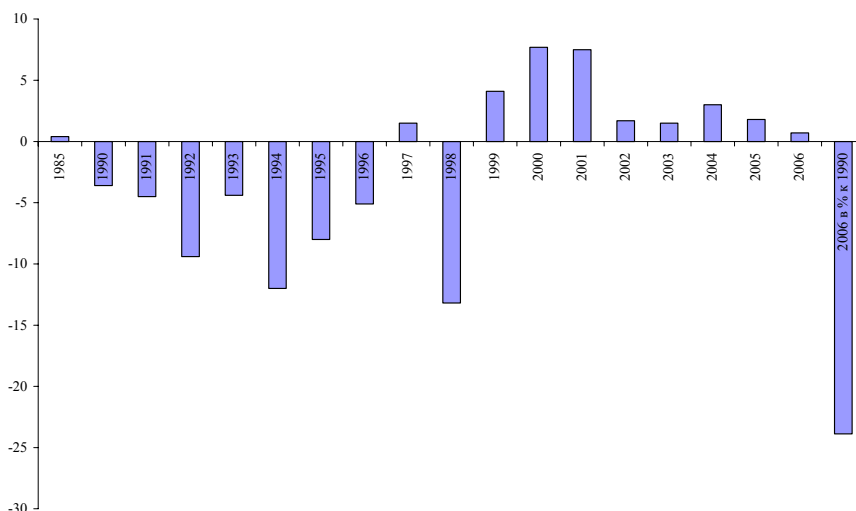


Figure 3.2 Growth (in % annual change) in agricultural production, 1985-2006

Source: Serova et al., (2006a).

Crop production is still more than half of agricultural output: 53% in 2005. Its share is, however, steadily decreasing. Crop production is very vulnerable and heavily depends on weather conditions and price situations. Grains remain the major crop in Russian agriculture and wheat is still the major cultivated cereal (see table 3.1). The structure of cereal production is unsteady from year to year, but one notable trend is a decrease of the share of traditional rye production and certain increase in the share of maize production. Both crops are, however, small compared to wheat and barley. The production of sunflower, sugar beet, vegetables and potatoes continued to grow and has now exceeded the pre-1991 output levels.

Table 3.1 Key figures of Russian crop production (million ton)

	2000	2001	2002	2003	2004	2005
Cereals	65.5	85.2	84.9	67.2	76.2	76.4
Of which: wheat	34.5	46.9	50.6	34.1	45.4	47.6
Barley	14.1	19.5	18.7	18.0	17.2	15.8
Oilseeds	4.5	3.2	4.2	5.5	5.6	7.1
Of which: sunflower seeds	3.9	2.7	3.7	4.9	4.8	6.3
Sugar beets	14.1	14.6	15.7	16.9	19.0	19.1
Potatoes	33.9	35.0	32.9	36.7	35.9	36.4
Fruit	3.4	3.1	3.6	3.6	3.7	.
Of which: apple	1.3	1.8	2.0	1.7	2.0	1.8
Vegetables	13.0	13.7	13.4	15.3	15.7	15.2
Of which:						
Cabbage	3.5	3.9	3.6	4.4	4.5	.
Onions	1.3	1.4	1.4	1.6	1.6	.
Carrots	1.6	1.6	1.5	1.7	1.8	.

Source: ZMP-Agrarmärkte in Zahlen, Mittel- und Osteuropa (2006:220).

For livestock production the situation is notably worse than in the crop production. Animal inventories continue to fall, output in major sub-sectors is either decreasing or marginally growing (Table 3.2). However, on the background of the general low rate of growth, some sub-sectors of this industry are recovering. In particular poultry meat production is increasing by growth rates of 10% or more each year in the period 2000-2004. Pig meat production is also expanding over the last five years. In selected regions the growth in poultry and hog production in 2006 significantly exceeded the national average rate: in Moscow, Belgorod, Penza, Stavropol and Krasnoyarsk regions poultry and hog production increased by 130-160% in 2006. These regions emerge as specialised zones of livestock production. Similar dairy regions emerge with more intensive production and speedy growth of both output and yield per cow: for instance, while in the Soviet economy milk production was quite dispersed by territory, today just 7 regions provide one third of gross milk output and one fifth of the dairy industry is located in three regions (Moscow, St. Petersburg and Krasnodar kray) (Serova et al., 2006a).

Table 3.2 Stocks and production figures of key animal sub-sectors

	2000	2001	2002	2003	2004	2005
Stocks (million head)						
Cattle	28.0	27.3	27.1	26.5	24.9	24.1
Of which Cows	12.6	12.3	11.7	11.1	10.2	10.2
Pigs	15.7	15.7	16.0	17.3	15.9	13.4
Sheep	12.6	12.6	13.0	13.7	14.5	15.5
Poultry (total)	348.8	336.8	341.6	343.2	346.0	334.7
Production (1000 ton)						
Meat (total)	4,420	4,430	4,692	4,945	4,981	5,140
Of which						
Beef and veal	1,897	1,872	1,858	1,990	1,951	1,870
Pig meat	1,569	1,497	1,580	1,679	1,644	1,675
Sheep & goat meat	140	134	136	138	144	141
Poultry meat	755	862	935	1,030	1,152	1,130
Cow milk	31,938	32,864	33,507	33,290	31,995	31,000
Eggs	1,819	1,883	2,023	2,040	2,005	2,067

Source: ZMP-Agrarmärkte in Zahlen, Mittel- und Osteuropa, 2006:219.

Productivity in terms of tonnes per hectare and yields per animal are still relatively low compared to international standards. For instance in the arable sector, cereals yields are 1.7-1.8 ton/ha in recent years, and soybean and sunflower yields around 1 ton/ha. EU-15 average yields are 6-7 ton of wheat per ha and 1.5-1.7 ton sunflower per ha. Sugar beets and potatoes yields 25-30 ton/ha and 17-18 ton/ha respectively in Russia. This is 50% or less compared to Dutch yields where farmers produce per hectare 50-60 ton sugar beets and 40-45 ton potatoes. Milk yields in the Russian Federation increased to almost 3300 kg per cow in 2005. This is a significant improvement since 2000 (when yield per cow was only 2350 kg/year), but still only half of the average level in the EU-15.

These figures on yields show the generally low level of technology used in the Russian agriculture, explaining the low level of yields by the relatively low input use in the sector as well as the low quality of inputs used. For example, the majority of seeds used in

the crop sector are 'saved seeds', seeds that farmers simply save from the harvest of the previous year. These seeds are not improved in any way and this is one of the reasons why weather continues to be a major factor in production and fluctuations in yields. Similarly at the animal side, the genetic situation in livestock is relatively poor and would benefit much from further investments in breeding, while improvements in skills and knowledge of animal husbandry could also contribute to higher yields. Next, the use of fertilisers and feed concentrates is generally low, which in combination with less than optimal husbandry practices leads to yields that are low by international comparisons. At the same time, one has to note that there are huge differences in the country between farms and regions, depending on their size, their specialisation and natural circumstances, such as climate and soils (see e.g. Serova et al., 2006a; OECD, 2006b). Earlier in this section some regions specialising in agricultural production were mentioned. Generally, the indicators of output growth, yields and producers performance in these regions are (much) better compared with the rest of the country.

Since 1999 the financial state of the agricultural sector has been improving steadily: the share of insolvent farms reduced and the overall sector's net returns increased (Serova et al., 2006a; OECD, 2006b). Terms of trade for the sector improved during the period since 1998, except for 2002 when agricultural prices fell significantly for most farm products. Investments in the sector have increased. Two massive farm debt rescheduling were undertaken since the economic crisis in 1998. This also contributed much to the improvement of the financial state of the primary sector. In 2004, the share of financially valid agricultural enterprises surpassed 50%, while the share of enterprises with overdue debts steadily decreases to reach approximately 10% in summer 2006 (Serova et al., 2006a).

3.4 Trends in the processing industries structure and performance

A major structural trend in the food industry of the last three to four years is a consolidation of assets: major companies of the sector tend to acquire the smaller players in the regions and/or merge with big(ger) companies (Serova et al., 2006a). Another significant trend in the food industry is vertical integration along the food chain. Under the severe fall in raw imports after the economic crisis of 1998 many processing and trading enterprises became interested in increasing ties with the domestic supplies of the primary agricultural products. However, they found that domestic markets were severely underdeveloped: collecting raw material is costly and coupled with high business risks. Therefore, many of these companies started to expand their business control over the primary farming sector, in most cases actively supported by regional and district authorities (Gatauline et al., 2006).

As in primary agriculture the situation across food sub-sectors is differentiated. Beverage, flour and bakery, confectionery and vegetable oil industries have been recovering and modernising most rapidly. Meat and dairy processing have felt longer demand constraints, but are catching up thanks to fast strengthening of consumer incomes.

The following paragraphs show in more detail the major structural characteristics of a number of food processing sub-sectors.¹

Dairy industry

Currently there are 1700 dairy processors in Russia, ranging from small local operators to large national and multinational firms. The dairy industry is regionally fragmented, although there are some big enterprises or groups operating all over the country, the largest players are the local Wimm-Bill-Dann, which has 30 factories across Russia, the German Ehrman, French Danone, Dutch Campina, and Petmol owned by the Russian Unimilk. A dozen of large players control more than half of the market.² Further consolidation is likely to take place, yet due to the size of the country, low population density and the weak retail network, local production with local brands is likely to continue even if the nationally operating giants dominate the scene. The latter are generally operating in the 'high-tech' dairy product segment, using Western technology and producing dairy products (milk drinks, yoghurts, desserts) positioned in the mid-priced to expensive market segments. The regional and local operating smaller companies focus on simple, natural products (generic milk, cheese, butter) without brands.

Meat industry

The meat processing sector is very fragmented. Regional companies have played a more important role than national companies. Cherkizovsky is the biggest meat processing enterprise in Russia with an estimated 10-12% market share in the processed meat sector. The holding company of Cherkizovsky, ZAO Ekotorg, unites more than 30 meat processing companies located in various Russian regions. Cherkizovsky is a vertically integrated holding, including farms and processing facilities. Tsaritsyno and Mikoyan are two main competitors of Cherkizovsky in the Moscow area, next to Camponos, the largest foreign-owned (Spanish) meat processing company in Russia. Major players in the St. Petersburg area are Severnaya, Parnas-M, Samson and Finnish PIT-Produkt. When evaluating the market share of the companies it is important to realise that processed meat accounts for up to a quarter of all meat consumed in Russia. Thus companies might have a big share in the processed meat segment, but the overall market share remains quite insignificant.

Confectionery

The confectionery industry includes a wide range of sugar-based sweets, all chocolate products and flour-based sweet products such as cookies, wafers and other long-shelf-life products. Traditionally, Russians spend a big proportion of their income in confectionery products. Foreign producers entered the market in the early 1990s, Nowadays, approximately 50-70% of the market is controlled by foreign companies, such as Mars, Nestle, Kraft Foods, Dirol-Cadbury, Perfetti Van Melle, Orkla and Danone. Successful local companies include Red October, Babayevskoe and Rot Front, which are united in one: United Confectionery.

¹ Major information source for the industry structure is Ylä-Kojola, 2006.

² Taking into account that an estimated half of the milk production is sold and consumed unprocessed, implying that people buy raw milk from farms and open markets.

Bakery

Traditionally the bread consumption is very high in Russia. Nowadays it is estimated that the bread consumption is decreasing, although some segments are growing rapidly inside the bakery, reflecting Russians changing habits and eating less traditional bread but instead more premium products (different kinds of buns, rolls and waffles with additional flavors and ingredients). This sector has a dual structure, with large and small bakeries, medium sized bakeries hardly exist. Small bakeries are popular in rural areas and sparsely populated areas. Large bakeries have a big share of a local or regional market - really big bakeries with national coverage do not exist yet. Some foreign companies are in the Russian market, such as Schulstad, Delifrance and Fazer.

Potato

The potato industry in Russia is still in its infancy. Russians love potatoes; they eat around 130 kg/capita/year, approximately twice the consumption level in most West-European countries and the USA. They take them smashed, boiled and baked, in soup and pancakes, but sliced, fried and bagged is just catching on. For the latter, Russian's consumption per capita is less than 0.5 kg per year, while for instance the Dutch figure is almost 3 kg. There are only few companies operating in this market. Frito-Lay is market leader. This globally operating company - the snack food division of Pepsi-Cola - invested in a modern manufacturing facility in Kashira, 100 km south of Moscow, in 2001/2002, where it produces chips and other snacks. Next to Frito-Lay only a few domestic companies are on the market for potato (snacks) products.

Performance of food industry

The overall performance of the food industry has been rather positive since 1998: production growth has been around 5% annually. Yet, production growth has slowed down in 2004 and 2005. The 2005 production value is still about one quarter lower than the 1990-level (see figure 3.3).

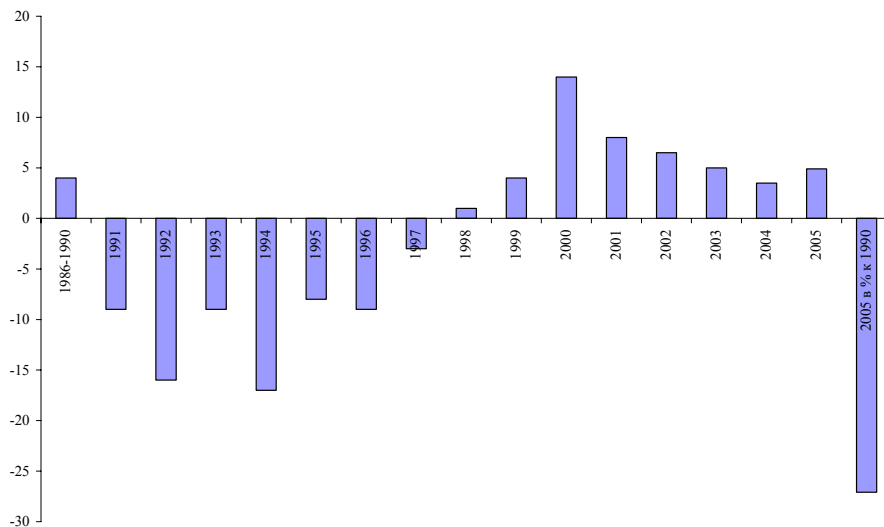


Figure 3.3 Production growth (in % annual change) in the food industry

Source: Serova et al., (2006a).

Like various sub-sectors in agriculture, sub-sectors in the food industry demonstrate quite different trends. Production of some food commodities has exceeded the pre-reform level, such as vegetable oil (sunflower, rape seed) and white sugar. Other sub-sectors are quite close to pre-reform levels, such as cereal products and margarine. On the other hand, production levels in the dairy and meat sub-sectors are still quite far from what these sectors produced in 1990s. Yet the increasing trend in capital investments in the food industry indicates that many companies consider market opportunities positively.

Increasing sophistication of local food processors may imply increasing competition for some imports. But at the same time, (rapid) growth in domestic processing is creating opportunities for a wide range of food ingredient imports. Also, as the Russian economy improves and consumer incomes go up, processors are finding it necessary to source new and better ingredients to maintain market share.

3.5 Retail and wholesale structures

Russia is among world's fastest growing retail market thanks to seven straight years of strong economic expansion. In 2004, it was a USD1999 billion market, with food retail accounting for roughly USD90 billion according to official statistics (ATKearney, 2005).¹ GDP growth was nearly 7%, with retailers reporting a 36% growth rate over the previous year. The expanding market has caught attention of domestic and foreign food retailers.

The most visible sign of growth in the retail food sector has been the rapid introduction and expansion of Western-style supermarket chains. Several foreign retailers, including Metro, Spar, and Auchan, opened outlets several years ago and announced further expansion in Moscow, St. Petersburg and other cities. Carrefour opened an office in Moscow in 2003 (and already opened several hypermarkets in Moscow and in St. Petersburg). Other retailers including the German Rewe (Billa) and Edeka, and Turkish Migros Türk have entered the Russian market more recently (ZMP, 2005: 11).

Several local supermarket chains (Perekryostok, Sedmoi Kontinent, Pyaterochka and Kopeika) have all launched equally ambitious expansion plans. Some of them are entering neighboring CIS countries. Financing for many of these projects is coming from the Russian oil industry, which is looking for profitable ways to invest earnings.

Despite the rapid process of consolidation, the food retail is still highly fragmented: the top five grocery retailers - two western and three Russian chains - holds less than 9% of the market (ATKearney, 2005). Moscow and St. Petersburg have always been the richest and most sought after local markets. Yet, stiff competition in these highly concentrated retail markets and the desire to sustain growth rates force chains to expand into other regions, primarily the Northwest, South, Volga, Ural and Western Siberia. This is likely to focus on the (more than 10) Russian cities with a population in excess of 1 million inhabitants, where modern retail outlets are to take a foothold.

The HRI (hotel, restaurant and institutional) sector is making an impressive come back as reflected in the growth of the fast-food outlets and mid-level restaurants

¹ Official figures may underestimate the market as a major part - an estimated two-thirds according to ZMP (2005) - of food is still bought at open and covered over street markets, kiosks and small food shops.

(Taybakhtina, 2005). Among the fastest-growing chains are imports such as McDonald's and Sbarro, and some very successful local chains like Rostiks. While most fast-food franchises source food locally as much as possible to keep costs and prices down, a number of foreign-theme and upscale restaurants offer good potential for greater imports of high-end food products.

3.6 Trends in consumption

The average Russian family spends 35 to 40% of its disposable income on food and beverages. This share of food expenditure is high compared to many other European countries. For example in Poland, the figure is close to 29% and in the Czech Republic it is 25% (Taybakhtina, 2005). 2004 Data indicate that consumers are spending most of their disposable income on meat products (10.5%) and bakery products (6.5%). Even though bread and bakery products are in general quite cheap, they are an essential part of the diet in Russia. Milk and dairy products are the third biggest food item consumers spend money on: 4.9% in 2004 (Ylä-Kojola, 2006). Table 3.3 shows some trends in the annual consumption per capita for some major food items since 1998. Consumption per capita is increasing as the comparison of 2004 with 1998 levels indicates. Only for beef and wheat consumption levels declined. Consumption of pork (since 2000) and chicken meat went up significantly, as consumption of tropical fruits (bananas, oranges, et cetera) and vegetables (cabbages, tomatoes) did. At the same time, consumption of major food items like fresh milk, potatoes and - to a lesser extent - wheat (80% of production is for human consumption, mainly bread) are relatively stable over time. Data for 2005 indicate an increase of all three types of meat (although beef consumption is still less than 1998 levels) and of dairy products (especially of cheese, estimated at 5.6 kg/capita; ZMP, 2006).

Table 3.3 Consumption per capita of major agricultural commodities in Russia (kg/capita/year)

	1998	2000	2002	2004	2004/1998
Bananas	3.2	3.4	4.4	6.0	84%
Bird eggs (including hen eggs)	12.3	12.8	13.8	14.1	14%
Bovine meat	19.9	15.2	17.7	16.3	-18%
Cabbages and other brassicas	17.4	18.5	18.6	19.4	12%
Cauliflowers and broccoli	0.1	0.1	0.1	0.2	47%
Chicken meat	9.0	9.2	14.9	15.4	71%
Milk, whole, fresh	172.6	169.0	171.4	182.5	6%
Oranges	2.8	2.1	3.5	3.3	19%
Pork	14.8	12.4	15.4	15.0	1%
Potatoes	131.2	124.0	127.2	131.1	0%
Tangerines, mandarins and clementines	0.9	0.8	1.1	1.7	88%
Tomatoes	14.3	14.4	17.0	20.3	42%
Wheat	133.2	130.3	137.1	114.7	-14%

FAO, FAOstat statistics.

Food consumption trends vary substantially between regions and income brackets. In rural areas and poorer regions products bought are mainly basic foodstuff. In bigger cities, where people with the higher income levels live, the food consumption pattern is more similar to Western Europe. Consumers have a wide variety of high-quality products to choose from and the demand for premium goods is increasing. In general Russian consumers appreciate quality and they are willing to pay for it. On the other hand they are also very price conscious and are not highly loyal to brands. Russians usually prefer local products, because they feel that these products are healthy, less likely to contain preservatives and better value for money (Ylä-Kojola, 2006).

With rising per capita income and an up- and-coming middle class consumer preferences may change rapidly. The share of the population interested in better quality, more variety and convenience food is likely to increase quickly with changing consumption patterns in the years to come (see chapter 5).

4. Agricultural trade and foreign direct investment: trends and policies

4.1 Introduction

This chapter gives a short overview of the current situation with respect to trade and foreign investment in Russia. Russian agricultural trade is discussed in section 4.2, including main trade policy issues and the WTO accession process. Section 4.3 deals with foreign investment, with a focus on the food and agribusiness sector.

4.2 Russian trade

4.2.1 Total Russian trade

As already expressed in figure 2.5, Russia's overall trade balance has greatly improved in the last ten years. In 2006 (till November) total exports of goods amounted USD274.5 billion, while imports were also considerable, with USD144.4 billion. Important contributor to the growth of foreign trade was the high price of gas and oil. In 2005 the Russian government collected revenues from foreign trade equivalent to 7.8% of GDP (mostly oil and gas export duties, which were increased considerably in 2004 and 2005) (IET, 2006). Russian exports are dominated by minerals, including crude oil and natural gas (65% in 2005), while metals and metal goods (13%), machinery, equipment and means of transportation (7%) and chemicals (6%) are also important export products. The export of food stuffs and agricultural raw materials made up only 2% of total exports. On the other hand, Russian imports in 2005 were more fragmented, with food stuffs and agricultural raw materials making up 17% of total imports (second most important category). Machinery, equipment and means of transport make up the largest category of imports (46%), while the import of chemicals (16%) and metal goods (7%) is also considerable (IET, 2006).

According to Rosstat figures, major sources of imports by Russia in 2004 and 2005 were Germany and Ukraine (see table 4.1). Major destinations of Russian exports in these years were the Netherlands (mainly oil, gas and coal) and Germany.

As far as the geographic structure of Russia's foreign trade is concerned, its largest economic partner is the EU, with 52.1% of mutual trade turnover in 2005. The CIS-countries (mainly Ukraine, Belarus and Kazakhstan) accounted for 15.1% (in 2004 18.3%), the EurAsEC countries (Belarus, Kazakhstan, Kirgizstan and Tajikistan) for 7.8% and the APEC countries¹ for 16.2%. Within the EU, Germany, the Netherlands and Italy are Russia's main trade partners (IET, 2006). In 2005 mutual trade turnover (exports plus

¹ Asia-Pacific Economic Cooperation. This organisation promotes liberal trade and economic policies along the Pacific Rim. At present 21 countries are members. Russia is one of them.

imports) between Russia and the Netherlands was USD26.5 billion (up 159.4% against 2004) (IET, 2006). Trade figures show the Netherlands has a negative trade balance with the Russian Federation. In 2005 total exports from the Netherlands amounted EUR4.3 billion, while total Dutch imports from Russia amounted EUR8.3 billion.

Table 4.1 Major import and export partners of the Russian Federation in 2004 and 2005

Imports by Russia	Share in 2004 (%)	Share in 2005 (%)	Exports from Russia	Share in 2004 (%)	Share in 2005 (%)
Germany	14.0	13.5	Netherlands	8.4	10.2
Ukraine	8.1	7.9	Germany	7.3	8.2
China	6.3	7.4	Italy	6.7	7.9
Belarus	8.6	5.8	China	5.6	5.4
USA	4.2	4.6	Ukraine	5.9	5.1
Italy	4.2	4.5	Belarus	6.2	4.2

Source: Rosstat.

4.2.2 Russian agricultural trade¹

Unlike the highly positive overall trade balance, Russia has a large trade deficit in agricultural trade. In 2004/2005 Russia imported agricultural products with an average annual value of USD14.5 billion, while the value of agricultural exports was less than a fourth of the value of imports: USD3.2 billion (UNSD HS data). Figure 4.1 shows that the financial crisis in 1998 had a major impact on agricultural imports: between 1997 and 2000 the value of imports decreased from USD12.7 billion to USD7.0 billion, following the devaluation of the ruble. At the same time the Russian agricultural sector could not really benefit from the improved terms of trade (as Russian export products became less expensive in dollar-terms due to the devaluation of the ruble), and exports slightly decreased. A partial explanation lies in the fact that the government levied export taxes to secure domestic food supply after imports decreased. Since 2000, both agricultural exports and imports are growing steady, but imports are growing faster, thereby increasing the agricultural trade deficit, which was USD12.4 billion in 2005.

Russian agricultural exports are concentrated on a few product groups. In 2004/2005, cereals accounted for about a third of total agricultural exports, with wheat (26%) and barley (5%) as the most important export products. Another important product group was fish (12%), mainly frozen whole fish. Sunflower and rape seeds are important export products for Russia in its trade with the EU. Germany imports large quantities of oilseeds for bio-fuel production.

¹ In this paragraph agricultural trade does not include wood. Total wood exports from Russia amounted USD4.9 billion in 2005.

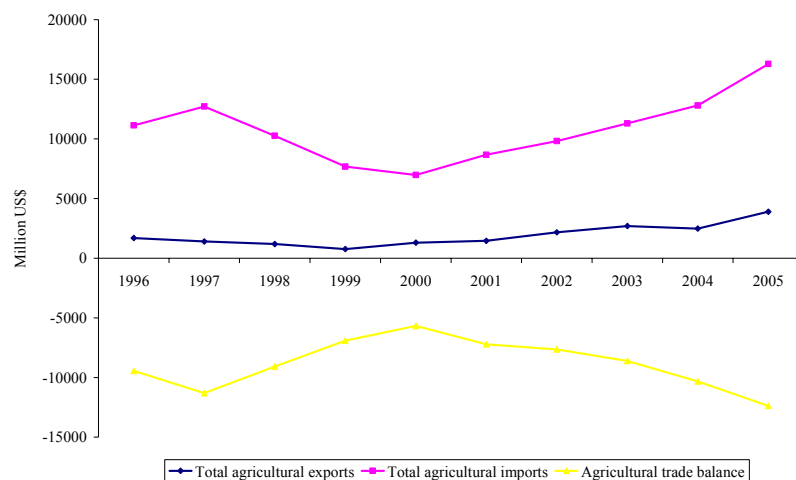


Figure 4.1 Russian agricultural trade, 1996-2005, total agricultural trade (excl. wood), excl. trade with Belarus

Source: UNSD HS data.

Russian agricultural imports are more diversified. In 2004/2005, imports of meat accounted for 18%, with an average annual combined value of USD2.6 billion. Beef, poultry and pork all account for some 5 to 6% of total agricultural imports. Next to meat Russia imported mainly fruits and nuts (13%), beverages and spirits (9%), dairy products, fish, sugars and molasses and tobacco (UNSD HS data).

Table 4.2 Russia's main agricultural export and import partners (2005)

Exports from Russia	Value (million USD)	Share (%)	Imports by Russia	Value (million USD)	Share (%)
Kazakhstan	525	13	Brazil	2,116	13
Ukraine	446	11	Ukraine	1,412	9
Egypt	344	9	Germany	903	6
Azerbaijan	215	5	United States	881	5
Georgia	180	5	Netherlands	641	4
China	150	4	China	598	4

Source: UNSD HS data.

The ten largest importers of Russian agricultural products in 2005 were Belarus, Kazakhstan, Ukraine, Egypt, Azerbaijan, Georgia, China, Italy, Japan and Saudi Arabia (see also table 4.2). Belarus is not included in UNSD HS statistics on Russian agricultural trade, but Belarusian imports from Russia amounted USD633 million in 2005. The Netherlands was only a small importer of Russian agricultural products in 2005, with imports worth USD22 million.

Russia's main suppliers of agricultural products in 2005 were Brazil, Ukraine, Belarus (not included in table 4.2, but agricultural exports amounted over USD1.1 billion), Germany, USA, the Netherlands, China, Argentina, Poland and France. With an average

export value of USD574 million in 2004/2005, the Netherlands is a relative large supplier of agricultural products for Russia. Since 1999 Russian imports from the Netherlands have increased sharply (see figure 4.2).

4.2.3 Agricultural trade between Russia and the Netherlands

Dutch agricultural imports from Russia in 2006 amounted EUR87 million, while the export of agricultural products to Russia was EUR1.085 billion.¹ With an agricultural trade balance of EUR998 million the Netherlands is one of the largest (net) exporters of agricultural products on the Russian market (Kelholt, 2007). Between 2005 and 2006 Dutch agricultural exports showed a sharp increase (growth of 37%), and preliminary figures show that the Netherlands has reached a ten-year record. Figure 4.2 shows the development of Dutch agricultural trade with Russia in the period 1997-2006.

In 2006, the Netherlands mainly imported (rough) wood (73% of total imports), frozen fish, vegetable oils, oilseeds (sunflower seeds), dairy (mainly caseine) and cocoa products. Dutch exports to Russia are more diversified and comprise a large range of product categories. The main product categories are ornaments (cut flowers and plants - 21%), fruits and nuts (e.g. apples and pears), vegetables (e.g. tomatoes and sweet peppers), animal feed (exclusive grains), meat (mainly pork and poultry), dairy (mainly cheese) and coffee and cocoa products (Kelholt, 2007, see figure 4.3). A comparison of exports of 2005 and 2006 shows a high increase of the exports of ornaments and plants (70%), a 80% increase of the exports of fruit and nuts as well as vegetables, a 33% increase of meat exports and a modest increase of animal feed exports. Total growth over this period of agricultural exports from the Netherlands to Russia was 40% (Kelholt, 2007).

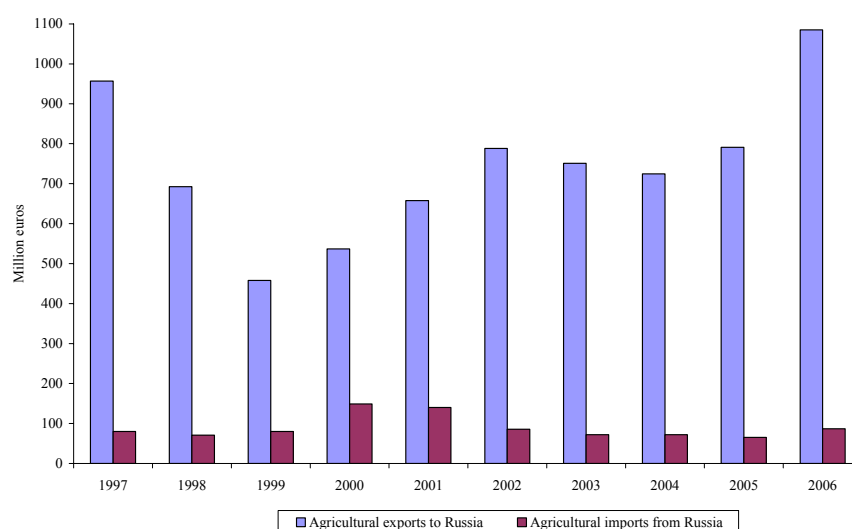


Figure 4.2 Dutch agricultural trade with Russia, 1997-2006

Source: Kelholt (2006; 2007).

¹ An estimated 30 million euro related to Dutch export of 16,000 live cattle to Russia has not been included yet in these preliminary data.

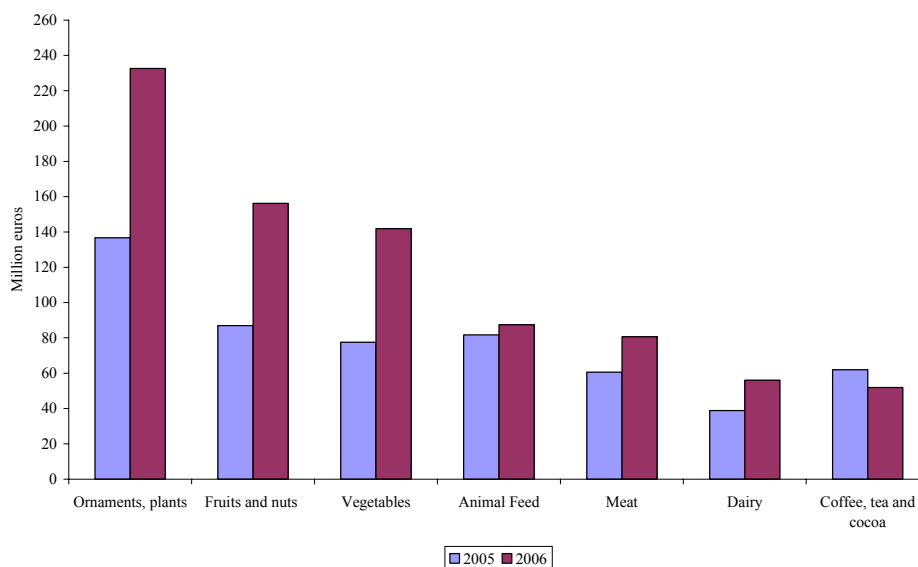


Figure 4.3 Dutch agricultural exports to Russia, main categories
Source: Kelholt (2007).

Next to the agricultural products mentioned above, the Dutch agribusiness sector also supplies additional goods and services, which are not showed in agricultural trade statistics, but covered under other headings. These are e.g. veterinary products, plant protection products (pesticides), fertilisers, agricultural machinery, barn equipment, stable equipment, cooling installations, sorting and packaging machinery and storage facilities.

Russian statistics on agricultural production, trade and foreign investment are to be examined critically. Sometimes large dissimilarities occur when Russian statistics are compared with statistics from EU, IMF, UNCTAD and other international organisations. This box tries to identify some explanations for these dissimilarities.

Agricultural statistics

Serova (2006) argues that Russia and other transition economies face problems with agricultural statistics because the applied statistical models were designed for central planned economies in the Soviet period. These models have difficulties dealing with the evolving market economy and therefore fail to provide reliable information. This in turn hampers good agricultural policy formulation based on reliable statistics (which is common in developed countries). Serova also explains at least part of the large decrease of agricultural production in the early 1990s (after the collapse of the Soviet Union) by the nature of Russian agricultural statistics. In the Soviet period regional authorities were rewarded for overproduction within their territories and this caused global over-reporting of agricultural production at all government levels. On the other hand, the market reforms and new tax measures in the early 1990s were an incentive for underreporting to avoid high taxation. This contrast caused agricultural production statistics to drop more than was the case in practice.

Trade

A comparison of statistics from Eurostat (COMEXT) and the Customs Committee of Russia on agri-food trade between Russia and the Netherlands presents remarkable results (Karlova, 2006). In general, Russian

customs statistics on import and export values are far lower than mirror Dutch/Eurostat figures. For example, according to Eurostat the Netherlands exported agricultural and food products to Russia worth EUR838 million in 2005. The Customs Committee of Russia registered only Russian imports from the Netherlands worth EUR526 million. One would expect a difference between the export and import value, as both are calculated differently: import values are including costs of freight and insurances, which are not in export values. Yet, this implies that import values would be higher than export values, while the comparison of Dutch/EU with Russian statistics indicates it is the other way around! Also, the export value of Russia to Netherlands (registered by the Russian Customs Committee) was 30% less than import value of the Netherlands (registered by Eurostat). Looking at the trade statistics in physical terms, the picture is the other way around! Dutch export volumes are (in quite a number of cases) higher than the Russian import volumes, while Russian export volumes are registered higher than the (opposite) Dutch import volume. Causes or reasons for the sometimes huge discrepancy between Russian and Dutch trade data are difficult to identify, but could for instance be found in differences in converting rubles to dollars and/or euros and/or different classification of products (trade codes or country or origin) aimed at avoiding import duties, export taxes or other (e.g. SPS) restrictions.

Investment

Figures on foreign investment in Russia are available since 1998, while figures on investment in specific sectors (and by country) are only available since 2003. This makes it difficult to compare the investment positions of third countries. Furthermore, Russian investment figures are sometimes difficult to read, which is partly caused by the difference in reporting of direct investments. Rosstat reports direct investments to Russia as gross amounts, while the Central Bank gives the net amounts of investment flows, i.e. the investments placed abroad have been deducted from these (Virolainen, 2006: 12). Furthermore it is often unclear whether total foreign investment or foreign *direct* investment is meant. Foreign investment can be divided into two broad categories: foreign direct investment and portfolio investment. Foreign direct investment (FDI) is defined as a long-term investment by a foreign direct investor in an enterprise resident in an economy other than that in which the foreign direct investor is based. The primary type of FDI occurs when existing assets are transferred from local firms to foreign firms (merger or acquisition). FDI can also take the form of greenfield investment (direct investment in new facilities or the expansion of existing facilities). Portfolio investment represents passive holdings of securities such as foreign stocks, bonds, or other financial assets, none of which entails active management or control of the securities' issuer by the investor; where such control exists, it is known as foreign direct investment. Credits are often assigned to a separate rest category of foreign investment, but they constituted 58% of total foreign investment in Russia in 2005. FDI (mostly contributions in capital) had a share of 24% (http://www.gks.ru/free_doc/2006/rus06e/23-09.htm).

Box 4.1 Russian statistics; some remarks

4.2.4 Agricultural trade policy

Russian agricultural trade policy is increasingly focused on import substitution. Currently Russia is still a major net importer of agricultural products, but the country strives for self-sufficiency in a number of products.

After the crisis of 1998 Russian agriculture experienced a recovery growth, because imports were too expensive. But when imports gradually restored, the Russian government started to facilitate the recovery process through various border measures. However, this growth in protectionism was limited by WTO negotiations. On average however, import duties in the agro-food sector in Russia were 13.5% in 2004. In the meat sector there are tariff rate quotas (TRQs) for beef and pork (since 2003) and poultry (since 2006). But these TRQs did not hold back meat imports which started to increase since 2005. Domestic meat production was not much affected by the import restrictions. In the national

agricultural project stable TRQs were set for meat imports and import duties for livestock imports for 2006-2009. The sugar regime was changed in 2003: for raw sugar there is a variable import levy (support price minus basis price and world price) and for white sugar there is a specific duty (USD360/tonne). The change of the regime boosted domestic sugar production. For wheat and rye export duties of EUR25/tonne were applied in 2004 to slow down bread prices. However, high bread prices were not caused by cereal deficits and thus the export limitation could not stop bread prices inflation. Import duties on animal feed (soy, some maize varieties and fish flour) were abolished in 2005 in order to provide cheaper feed for the domestic livestock breeding.

Next to tariffs and quotas, Russia employs a whole range of non-tariff trade barriers, which are often changing. Companies exporting to Russia are facing changing procedures for product registration, import licenses, veterinary inspections and phytosanitary inspections. Mostly these problems are confined to certain countries (e.g. Dutch flowers, Polish meat and dairy products or Georgian and Moldovan wine), but in December 2006 Russia threatened to ban all EU livestock imports as from January 2007 because of alleged concerns over the quality of livestock entering the EU market from the new Member States, Bulgaria and Romania. Although the EU has convinced Russia that all EU food exports is safe, the livestock case shows the power of the Russian Federal Veterinary and Phytosanitary Inspection Service (Rosselkhoznadzor) should not be underestimated (Agra Europe, 2006b). Recent comments by Russian Minister of Agriculture Gordeev to the effect that Russia's recent controversial ban on imports of Georgian and Moldovan wine had been helpful for the re-establishment of the Russian wine industry reinforced suspicions that Russia's import bans on ground of animal, plant or consumer health only serve an economic agenda.

Regional trade agreements

Russia is a member of the Commonwealth of Independent States (CIS)¹, the group of former Soviet Republics. Together with Belarus, Kazakhstan, Kyrgyz Republic and Tajikistan Russia founded the Eurasian Economic Community (EurAsEC) in 2000 (Uzbekistan joined in 2006). The community strives for synchronisation of import regulations and tariffs, but it is not likely that a common agricultural market (CAM) of all or some CIS countries will emerge in the near future. On the contrary, Russia progressively restricts imports from these countries (Serova et al., 2006a). Russia has only far-reaching cooperation agreements with Belarus (several union treaties) and Serbia (preferential trade agreement).

¹ Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russian Federation, Tajikistan, Ukraine and Uzbekistan

The main bilateral agreement between Russia and the EU is the Partnership and Cooperation Agreement (PCA), which was signed in 1994 and entered into force on 1 December 1997. One of the main objectives of the PCA is the promotion of trade and investment as well as the development of harmonious economic relations between the two partners. As regards economic relations, the PCA includes provisions on Most-favored Nations treatment, freedom of establishment of EU and Russian companies, approximation of legislation, intellectual property rights and trade defence instruments. In June 1999 the EU adopted the Common Strategy on Russia. In 2001 the process of economic cooperation was continued with the launch of the Common European Economic Space (CEES). The long-term objective of the CEES is the elimination of trade barriers between the EU and Russia mostly through regulatory convergence. The economic integration of Russia into Europe experienced a new milestone with the accession of the eight Central and Eastern European countries to the EU in 2004. Overall, the accession has had positive effects for Russia, since the terms of trade have improved for Russia and exports to these countries has become more profitable. In 2005 the EU and Russia agreed on detailed frameworks for intensifying cooperation in four 'spaces', including the Common Economic Space. Currently negotiations are going on concerning a bilateral agreement on trade and investment between Russia and the EU.

The Netherlands only has a treaty with Russia on the avoidance of double taxation (1998) and an Investment Protection Agreement (1991).

Box 4.2 Trade agreements between Russia and the EU/the Netherlands

4.2.5 WTO accession

Membership of the World Trade Organisation (WTO) can play a major role in strengthening Russia's position in the world economy. Not only Russia will benefit from accession, EU businesses willing to export to or invest in Russia also profit from Russian WTO accession. Accession will not only require concessions on tariffs and the use of trade instruments, but it will also require 'behind-the-border' reforms, such as liberalisation of services, reform of FDI policies, protection of intellectual property rights, modernisation of customs, transport and trade facilitation, enhanced domestic competition, improved product standards, rules for public procurement and legal and juridical reforms. Yet, this accession remains a difficult issue, due to different bilateral conflicts between Russia and other countries. Russia has to conclude bilateral agreements on market access with 58 WTO members before the multilateral accession process can be completed. Russia applied to the WTO already in 1993 and by the end of 2006 the accession procedure at last seems to have reached the final stage.

In May 2004 Russia has signed a bilateral agreement with the EU, after more than two years of negotiation. At the Sixth Ministerial Conference in Hong Kong in December 2005 as well as in January 2006 Russia signed a number of bilateral agreements with, among others, Brazil and Switzerland. The most complex accession negotiations were done with the USA, which were concluded in November 2006. One of the main obstacles in the Russia-US bilateral negotiations was related to veterinary and phytosanitary standards, with Russia expressing its concern over existing US food safety and animal health standards, the latter especially with respect to beef and pork production (Agra Europe, 2006a).. The market access system for meat in Russia is also an issue of high political concern in the EU, since Russia has imposed a ban on Polish meat exports, also for food safety reasons. The European Commission stated that Russia was faking food safety concerns for political reasons (FoodQualitynews.com, 26 May 2006).

By the end of 2006, Russia still had to conclude accession agreements with Costa Rica, Georgia and Moldova. Negotiations with the latter two may be difficult as, Russia's relationship with the Georgia and Moldova is troubled. Next to the Russian embargo on imports of fruits and wine from these countries, there is a more important issue, which is the status of the separatist territories, Transnistria in Moldova and Abkhazia and South Ossetia in Georgia. Although Russia and Georgia signed a bilateral accession deal in 2004, Georgia withdrew its signature in July 2006, because of the diplomatic row on the status of the two territories (Bridges Weekly 10: 39).

After all bilateral protocols are signed, negotiations on the multilateral agreements, including the one on agriculture, have to be concluded. These negotiations will not be easy, because Russia increasingly shows a disinterest in market reform (Åslund, 2006). In his first period as president (2000-2003), Putin and his Minister of Economic Development and Trade, Gref, embraced market reform and entry to the WTO. But soon resistance against Russia's accession also rose. Minister of Agriculture Gordeev was one of the representatives of the protectionist lobby. Agriculture is still perceived as one of the least competitive sectors that probably will lose from trade liberalisation. In his second period (as from 2004), Putin consolidated authoritarian power and lost interest in pro-market reforms. While the Minister of Economic Development and Trade remained pro-WTO, Putin opted for going slow on WTO accession. The oil boom contributed much to this shift in policy. After all, Russia does not suffer much from export barriers because each country wants to buy oil and gas and therefore Russia's perceived need of the WTO has declined. Furthermore membership will involve costly changes in policies and industrial structures. At the same time Putin overruled Minister of Agriculture Gordeev, when he allowed reasonable rules for access to the Russian market for US chicken, pork and beef. This shows the unpredictability of the Russian government (Åslund, 2006).

According to OECD (2006b) a major issue in the agricultural negotiations is the definition of the reference period of domestic support for further reductions, and also the amount of this assistance as measured by the Aggregate Measurement of Support (AMS). So far, it has been agreed that Russia may use 1993-95 as reference period, but several other negotiating parties consider this period as too distant. Furthermore, the Russian AMS should be reduced from USD16.2 billion to USD9 billion, but this amount is still considered too high by some parties. Russia argues that the current situation does not reflect agricultural conditions adequately and would rather like to take the late 1980s as reference period. Although current subsidies are very low, the Russian agricultural lobby wants to keep the option open for larger subsidies in the future (Åslund, 2006). Another discussion point in the negotiations is the inclusion of export subsidies in Russia's proposal. Several negotiating parties point to the fact that as export subsidies will probably be abolished in 2013, Russia should not bring this into the discussion. Russian meat quotas, which were also point of discussion in the negotiations with the US, will continue to play a role in the multilateral negotiations.

4.3 Foreign investment in the Russian Federation

4.3.1 Total foreign investment

Foreign investment in Russia is rapidly increasing at an almost exponential pace since 1999. Figures from Rosstat estimate total foreign investment in 2005 at USD54 billion, which is a 32% increase from USD41 billion in 2004. Preliminary figures suggest that 2006 will again show an increase compared to the previous year. The Russian investment figures compare favorably to foreign investment growth in the other three BRIC-countries Brazil, India and China, which experienced a modest growth or even a decline in foreign investment between 2004 and 2005. Foreign direct investment (FDI) in Russia amounted USD13.1 billion in 2005 (24% of total foreign investment), up from USD9.4 billion in 2004 (Rosstat). CBR¹ figures estimated FDI in 2005 at USD16.7 billion. Most investments were made in the wholesale trade (37%), manufacture of coke and refined petroleum (15%) and mining and quarrying (11%).² According to FIAC (2006), Russia ranked fourth in total FDI among all emerging markets in 2005, after China, Hong Kong and Mexico.

With regard to outward FDI Russia has entered the top 3 of developing and transition economies in terms of stocks (accumulated FDI). In 2005 Russia's stock of outward FDI was calculated at USD120 billion, far more than accumulated FDI in Russia, which amounted USD50 billion. Especially Russian transnational corporations in the oil and gas sector (Gazprom, Lukoil) are very active on the world market. The Netherlands was the main destination of Russian foreign direct investment (EVD, 2006).

Figure 4.4 shows the main sources of foreign investment in Russia in 2004 and 2005, as well as the main sources of accumulated investments in June 2006. Luxemburg, the Netherlands and Great-Britain were the most important sources of foreign investment in 2005. It should be noted however that investments coming from Luxemburg, Cyprus, the Virgin Islands and Switzerland are mostly originated from Russian companies from these countries.³ Dutch (and British) investments in Russia are largely accounted for by Royal Shell, which has a large project on liquid natural gas (LNG) in the Far Eastern District on the island of Sakhalin.

Investments from Shell and Heineken have strongly improved the Dutch foreign investment position in Russia. In 2000 the share of the Netherlands in total foreign investment was 11%, but it decreased to 6% in 2002 and 2003. However, in 2004 and 2005 investment was on the rise again and in 2005 the Netherlands had a share of 17%. Investment figures on the period January-September 2006 show that Great-Britain has become the largest foreign investor (16%), followed by the Netherlands (15%), while Luxemburg's share has been increasing sharply.

¹ The Central Bank of the Russian Federation.

² http://www.gks.ru/free_doc/2006/rus06e/23-10.htm.

³ In 1998 a massive flight of capital took place due to the ruble crisis. Russian companies store their capital at banks in countries like Luxemburg and Cyprus. The figures show that this flight has stopped: Russian companies are 'repatriating' their capital.

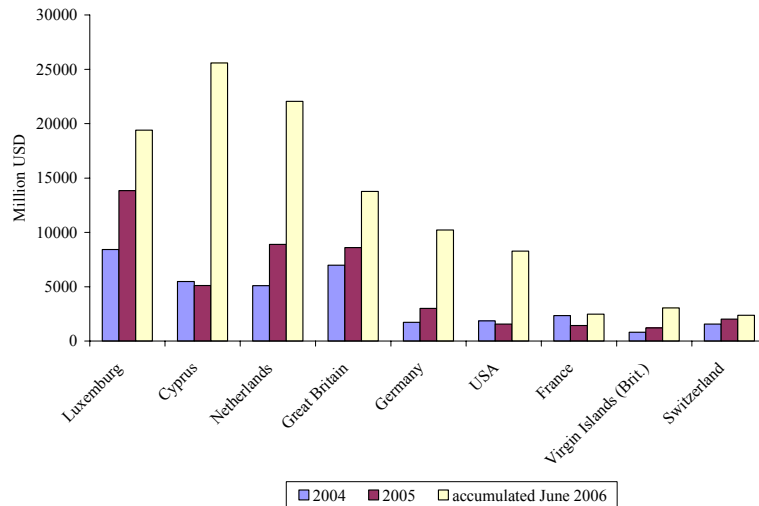


Figure 4.4 Foreign investments in Russia, 2004, 2005 and accumulated June 2006
 Source: IET, 2006.

4.3.2 Foreign investment in the Russian food and agriculture sector

In the mid-1990s, FDI in the Russian food and agriculture sector started gaining substance. In 1995, there were two large investment projects (the Mars factory in Stupino and the Coca-Cola Plant in Stavropol) with a total value of USD150 million. Between 1998 and 2000 total foreign investment (FDI and other investment) in food and agriculture increased from USD1.5 to USD1.8 billion, and in 2000 the sector had a share of 17% in foreign investment.

But the share has decreased sharply between 2000 and 2004, both in relative and absolute terms. In 2004 investments only amounted USD1.1 billion, or 3% of total foreign investment. Although the year 2005 showed a rise in absolute terms towards USD1.4 billion, the share remains at 3% (see figure 4.5). Most foreign capital (about 90% in recent years) goes to the food industry, while a minor share goes to the primary sector. At the same time it is widely believed that the Russian food (and agriculture) sector has plenty of growth potential. The volume of investments is still very low compared to other CIS countries. A main reason for this is the lack of interest on the side of the Russian government to promote Russia as an investment destination (FIAC, 2006).

Ylä-Kojola (2006: 98) shows that the food sector share of FDI inflow in Russia (3%) is lower than in some other Central and Eastern European countries. In 2004 the shares in Ukraine, Poland and Hungary were well above 7%, while foreign investments in the Polish food sector were even higher in absolute terms. The same picture is shown in figure 4.6, where Dutch FDI in the food, beverages and tobacco sectors in Russia, Poland, Hungary and total Eastern Europe is compared over the period 1999-2005. The figure shows that only since 2005 Russia is the number one destination of Dutch FDI in the food sector in East Europe (with almost 30% of total FDI). Furthermore, FDI in all three countries increases rapidly in 2003, which corresponds with figures from Rosstat. Rosstat has country-specific data on foreign investment in food and agriculture since 2003: in that year

total Dutch investment in the Russian food and agriculture sector was USD235 million, in 2004 USD119 million and in 2005 USD191 million. These figures are far lower than in figure 4.6 (De Nederlandsche Bank).

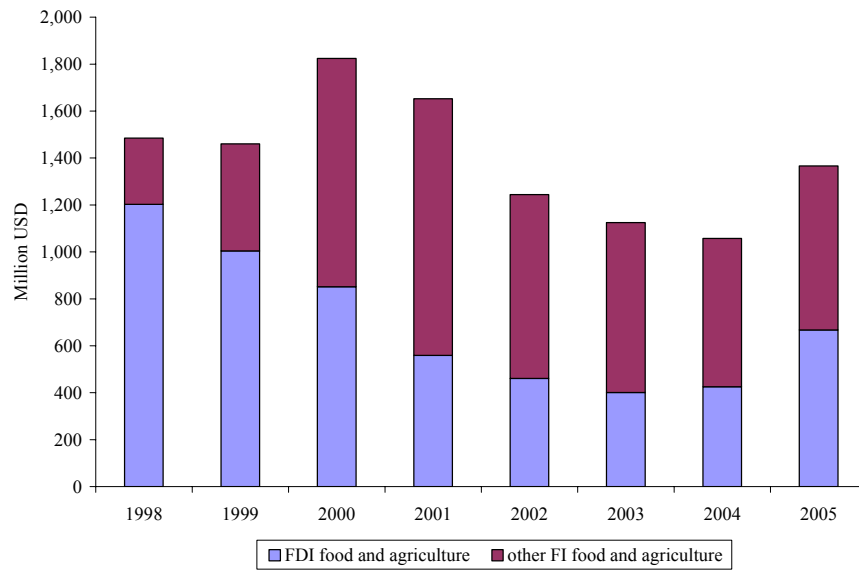


Figure 4.5 Foreign investment in Russian food and agriculture, 1998-2005
Source: Rosstat.

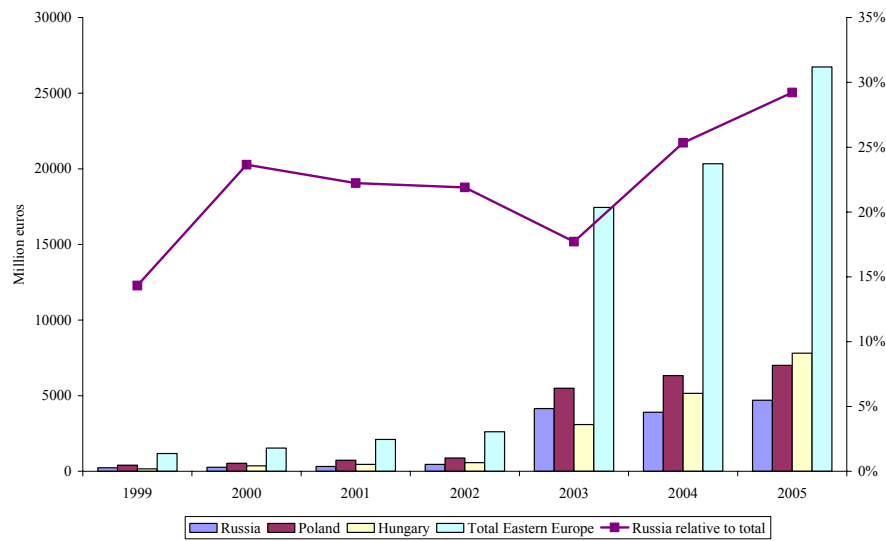


Figure 4.6 Dutch FDI in the food, beverages and tobacco sectors in Russia, Poland, Hungary and total Eastern Europe
Source: De Nederlandsche Bank.

4.3.3 Doing business in Russia: the investment and business climate

Through a survey of 155 foreign investors the Foreign Investment Advisory Council (FIAC) has investigated why some international companies are investing in Russia, while others are not. The survey concludes that Russia is becoming more competitive with other markets, such as China, India and Brazil, although interviewees consider Russia's investment climate and opportunities still behind the other BRIC-countries. Most current investors in Russia experience significant year-on-year growth and are planning to increase their business operations and investments in next three years. At the same time the investors say that the Russian investment climate could be improved by dealing with a number of problems 'on the ground' faced by both domestic and foreign investors. However, the investors in the FIAC survey rate Russia's investment risk lower than in 2005.

Major obstacles for investment in Russia are administrative barriers (mentioned by 84% of the investors), corruption (78%), inadequate and inconsistent legislation (71%) and selective interpretation and application of the law (67%). The most common problem that international firms face on a daily basis is excessive regulations for visas, work permits and other business operations. A major theme in the FIAC survey is the lack of clarity and consistency in Russian government policy. 'Investors want clear policies on which economic and industrial sectors foreign investors are most welcome, and they want consistent application and enforcement of laws and regulations. Providing clarity and consistency on these issues could unleash significant more foreign investment in Russia (FIAC, 2006). The European Round Table of Industrialists (ERT) mentioned some very concrete measures as necessary conditions for enhancing economic cooperation with Russia, such as the enforcement of intellectual, industrial and commercial property rights and a consistent application of international accounting and auditing standards (Burgmans and Sutherland, 2006).

The World Bank (2006c) assesses the business climate in a large group of countries including most transition economies, covering ten components on business regulations and their enforcement across 155 countries. The ten components are as follows: starting a business, dealing with licenses, hiring and firing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. These components are measured separately, using various indicators. The report provides at the end a composite index, called the 'Ease of doing business ranking', ranking countries reviewed from 1 to 155. The World Bank recognizes that the ranking is limited in scope. For instance, it does not account for a country's proximity to large markets, quality of infrastructure, macroeconomic conditions or the strength of underlying institutions. Yet, it does give useful indications of a country's business climate. Over the last years Russia's ranking improved slightly but her rank (96th) is still relatively modest, just between two neighboring large countries Kazakhstan (63th) and Ukraine (126th).

Some more details on Russia's score on some of the major components assessing the business climate in the country are the following. It is rather easy to start a business in Russia: only 8 procedures are involved. Cost is 5% of per capita income (USD171). Minimum capital is 4.4% of per year income, or USD150. However, dealing with licenses in Russia comprises 22 procedures involving cost equivalent of 354% of per capita income, which is USD12,061. It takes 528 days to settle the license issues. Firing workers in Russia is not expensive, costing only salary of 17 weeks. Registering property has 6 procedures with cost only 0.4% of property value. In the depth of credit information index Russia scores zero points, which indicates that there is no official channel to deal with creditworthiness of potential business partners. In the early years of the 21st century Russia clarified rules in paying taxes. There are presently only 27 payment categories involved. Total tax payable is 40.8% of gross profit.

Box 4.3 Details from the World Bank 'Doing Business in 2006' report

One of the best-known qualitative indices measuring business climate is called the Corruption Perception Index (CPI) published annually by non-profit organisation Transparency International (Tiusanen, 2006). This index is compiled by interviewing several thousands of people involved in international business. The respondents are asked to assess corruption in almost 150 countries. The CPI has been published annually for more than ten years now. Scores and ranks of countries involved do not fluctuate strongly from year to year. Russia is at the lower end of the table on place 126, with a score of 2.4 (on the scale between 0 [entirely dishonest] and 10 [an entirely honest country]).¹ It is often maintained that paying bribes means paying unofficial taxes on top of the official ones. Therefore, high corruption level is an impediment in attracting FDI. Russian is at the bottom of the scale in both FDI per capita statistics as well as in the CPI table.

¹ For comparison: Ukraine scores 2.6, ranked 107th.

5. Main drivers of the Russian agri-food sector

The objective of this chapter is to describe the major issues in the development of Russia's primary agriculture and processing industry and to indicate the impact of expected developments on the agribusiness sector.

5.1 Overall economic development

Overall economic growth in Russia has been impressive in the years since the crisis in 1998, with an average annual growth rate of 8.1% over the period 1999-2003 (OECD/FAO, 2005). Also in 2004 and 2005, economic developments have been quite favorable resulting in GDP increases of 7.2% and 6.4% respectively (IMF, 2006). Yet, while the forecasts for the short-term still indicate a further continuation of robust growth - IMF projects 6.5% GDP growth in 2006 and 2007 (IMF, 2006) - projections for the medium-term projections are much more prudent. In its Agricultural Outlook until 2015, OECD/FAO (2006) expects that economic performance will slow markedly between 2006 and 2009 from 5.5% to 3.3%, with growth in Russia averaging 2.7% per year from 2010 onwards. This annual growth level is higher than in the EU15 (2%), yet much lower than in other emerging countries like China (6.5%), India (5.4%) or Turkey (7.3%) in the same period. Although the numbers differ slightly from what OECD/FAO projections, FAPRI's Outlook (2006) shows a similar tendency for Russia's GDP estimates until 2015.

At the same time, inflation remains a serious concern in Russia. OECD projects inflation rates higher than in West-Europe and the USA. The exchange rate of the Ruble, consequently, is expected to depreciate against the USD by approximately one quarter over the course of the outlook period (2006-2015).

Uncertainties in the macro-economic development in Russia are largely related to the price development of natural resources. Revenues from oil and natural gas exploitation are extremely important to the Russia economy: the high crude oil prices in 2006 contributed much to the trade balance surplus and the favorable financial situation of the government budget. However, crude oil prices are volatile, subject to economic and political factors, and thus difficult to project. Baseline projections by OECD/FAO (2006) assume that crude oil prices decline from their 2006 high levels to reach a level just under USD40/barrel. Significant lower oil prices may decrease government revenues and trade surpluses, slowing down economic growth of the country. This may lower the expectations of increasing demand of food in Russia. Yet, lower energy prices also reduce agricultural production costs. Energy is used directly for machinery operation, and indirectly through other inputs such as fertilizers and pesticides the production of which is particularly energy demanding. In consequence, lower energy prices reduce production costs, which may induce increase of agricultural supply, leading to lower prices both regionally and internationally. Lower prices for agricultural and food products, thus, may counterbalance

a decline in demand of food due to lower income (growth). Furthermore, Russia is prepared to absorb a sudden decline in crude oil and gas prices through the establishment of its Stabilisation Fund (see chapter 4). This Fund can be used to stimulate economic growth in times growth falls short, among others when prices for its natural resources decline.

The OECD recognizes the efficient and prudent management of commodity windfalls Russia's principal macroeconomic policy challenge (OECD, 2006, Economic Survey). An uncontrolled surge of windfall revenues in the economy would drive up inflation and undermine competitiveness (through rapid exchange rate appreciation). Next, OECD points at the inefficiency and corruption of the state administration that impose a heavy burden on business, and recommends improvements in the institutional environment within which the bureaucracy operates by strengthening the rule of law, increase transparency in the policy making process, and to reduce state control and bureaucratic interferences in business. Russia's transition into a period of self-sustaining, investment and innovation-led growth would very much depend on a successful implementation of government's efforts to administrative reforms.

5.2 Consumer and chain developments

Due to increasing welfare and spending power among local consumers, especially in the cities of Russia, attitudes towards food shopping are changing rapidly (Euromonitor, 2006). Consumers have become much more discerning, choosing for better quality, more variety and for convenience products. Consequently, consumer preferences will also change in the years to come, as general wealth is expected to increase further in Russia. This implies a further shifting from a traditional consumption basket with bread, soup and cabbage towards a much more diversified basket (Euromonitor, 2006). Meat and fish consumption is expected to increase, substituting bread. Consumer trends indicate that there is an increasing preference for fresh meat and fish products. Due to the local cuisine potatoes probably will remain one of the largest groups of vegetables consumed as a garnish or a main meal. Russian consumers are expected to diversify their demand for vegetables, away from the traditional types. Yet, seasonable supply in fruit and vegetables hampers locally produced sales. This implies that as consumers demand more variety imports in these categories of products are expected to grow.

Supermarkets/hypermarkets are expected to take over sales from the traditional distribution channels. This process, already taken place in many of the larger cities in Russia in the last 4-5 years, spreads into the country regions, reaching smaller cities.

Further consolidation in retail and wholesale trade is expected, steadily changing the structure of the food retail sector in Russia which is presently still far away from modern structures achieved in the rich part of the world. In 2005, old-fashioned grocery stores (not involved in retail chains) occupied a dominant market share of some 40%. Open-air food markets (remnants of Soviet era 'kolkhoz-markets') sold about one fifth of foodstuffs, while modern format retail chains have an estimated market share of less than one quarter (Tiusanen and Malinen, 2006:23). This indicates that the Russian (food) retail sector is still fragmented, and, therefore, offers plenty of options in mergers and acquisitions. In

analyzing the developments in the retail sector in Russia, Tousanen and Malinen (2006) point at the extreme dynamism in the last 5 years. During this period several foreign food retailing firms have launched operations in the country, and many of them are planning further expansion. Consolidation of Russian retailing is therefore likely to have much Western involvement in the next 10-year period.

As in many Western economies, food consumption expenditures through eating outdoors will increase in (especially urban) Russia. Hotel, restaurants and catering sectors are becoming more and more diverse. Fast food restaurants are developing at a fast rate in Russia (Euromonitor, 2006).

5.3 Technological development

In terms of technology, the Russian agricultural sector has a dual character, with farms operating traditionally with many labor employed and little capital used, while others produce with up to date technology in equipment and machinery, applying knowledge-intensive production methods. The latter are the vertically integrated agro-holdings type of farms, and other, mainly larger-sized farms (see also chapter 3 for the various forms of agricultural farms). Investments in technology improvements on these farms are mainly from private investors and/or 'mother companies' outside primary agriculture. Generally speaking, however, the Russian agricultural sector is characterised by low levels of investments. Productivity levels are therefore rather low.

Improved (land and labor) productivity can be achieved by the developments in new and/or the application of existing but more up-to-date technological knowledge. The process of technical development has three important aspects: the development of knowledge, the dissemination of that knowledge and its application. The development of new technology takes place in universities, research institutes and within the industry. Public investments in the development and application of technology improvements and innovations in general, and in the agricultural sector in particular, have not been very successful in Russia in the last decade and a half (see OECD, 2006a). With the start of the National priority project in agriculture and especially the input programs in this project, upgrading of the sector in technology terms may be enhanced. The National project mainly consists of subprojects with credit subsidy measures for investments at livestock and smallholder farms. As the National Project in agriculture has only been launched in early 2006 it is too early to evaluate how successful it can be in achieving its main objectives.¹

Yet, next to investments in primary production, investments in other parts of the chain are equally important to increase competitiveness of the Russian agribusiness sector. This would require investments in storage and other post-harvest handling of agricultural commodities, investments in more efficient transport and product distribution systems, and investments in the processing stage of agricultural commodities. In order to tempt farmers

¹ Critics point at the key position of two state corporations - Rosselkhozbank and Rosagroleasing - in the implementation of the national project on agriculture. These institutes receive significant financial support and privileges on the lending and leasing markets, which will enforce their monopoly power (Serova et al., 2006a). Also the OECD points at the necessary institutional conditions and arrangements for effective public intervention in the innovation process (OECD, 2006a).

and agricultural companies to investments, they will need sustained macroeconomic stability and strong framework conditions for business, policies that will not only facilitate innovation but enhance overall economic performance.

A major opportunity to facilitate modernisation and restructuring of the agri-food chain is via foreign direct investment (FDI) or licensing of technology. It is well known that the importance of FDI stems not only from the sums invested but from as foreign companies bring in technological and management knowledge that results in increasing productivity in itself, these investment generate positive spillovers for the domestic firms and farms. At present the inflow of FDI in Russia is rather low, especially in the agricultural and food industry. Abolishing restrictions to foreign investment would help to make Russia more attractive to foreign investors, yet FDI inflow not only depends on FDI liberalisation. The OECD points at the fact that Russia, if it is to benefit to a greater extent from foreign investments, structural reforms on several policy areas such as financial sector reform, strengthening intellectual property rights and reductions in regional bureaucracy are necessary (OECD, 2006a: 12).

5.4 Russian agricultural and rural policy

Since the beginning of 1990s, the Russian government has made efforts to reform the agricultural sector. The de-collectivisation of the former state and collective farms has been an important measure in this respect. On average agricultural support in the Russian Federation has decreased dramatically. Lack of financial resources caused the Russian government to focus on protection and limited direct support. In the first half of the 1990s direct subsidies and periodic debt write-offs were the main policy instruments, but they did not contribute much to the necessary restructuring process in the agricultural sector.

A shift was then made towards a government policy of credit interest rate subsidizing, among others through the state-owned bank Rosselkhozbank, whereby the federal budget compensates two-thirds of the interest paid by the debtor (Serova et al., 2006a). The scheme first only provided short-term loans, but in 2005 a system for long-term credits (5-8 years) was introduced. Another policy measure was the unification of agricultural taxes, which was especially helpful for smaller farms. The introduction of leasing programs, which gave cash-strapped farms access to new agricultural machinery and cattle, was not very successful; the equipment producers and state-owned Rosagroleasing were the largest beneficiaries. The main problem in Russian agriculture today is still caused by the large group of ineffective and inefficient farms, mostly former state and collective farms. These farms receive most support, but their productivity is very low compared to the efficient market-oriented farms that emerged in recent years. Therefore 'support for them is largely a matter of social policy' (OECD, 2006a).

In recent years input subsidies constitute the majority of domestic support. The already mentioned interest rate subsidies are important in this respect, but also various payments for inputs such as fertilizer, high quality seeds and insemination material. Output subsidies (price support) are mostly paid to livestock products, with about 78% of the total going to milk (OECD, 2006b). This shows that the focus is clearly on the dairy/livestock sector, as became clear in September 2005, when President Putin designated agriculture as

one of four priorities for national development, next to housing, health care and education (Serova et al., 2006a). The national priority project for the agricultural and food sector is referred to as 'National Priority Project for Development of Agro-Industrial Complex' and is worth USD1.1 billion (2006-2007). It is implemented in addition to the regular agricultural policy; some measure overlap (e.g. credit subsidies) and some measures are new. The three main aims of the project are:

- accelerated livestock sector development (increase of milk and meat production);
- stimulation of smallholder farmers (leasing livestock, loans);
- provision of rural housing for young specialists working in rural areas and particularly for those engaged in agriculture.

The last aim of the priority project refers to the importance of rural development next to agricultural development. For this purpose there is a separate programme, the Federal rural development programme for 2002-2010. This programme co-finances from the federal budget rural development efforts at regional level. This involves the construction of houses, schools, hospitals and polyclinic construction, electric power lines, gas systems and water pipes, as well as telecommunication services and roads (Serova et al., 2006a). However, it seems that the programme does not address the need of alternative non-farm jobs in rural areas.

Another recent policy change concerns the 'regionalisation' of agricultural support in 2004, whereby the regional administrations have received main responsibility for agricultural support in their regions. This regionalisation might create unfair competition between Russia's regions, since rich regions are able to provide higher support to their producers than the poorer regions. Furthermore there is a risk of 'aggravation of regional protectionism', e.g. bans on movements of agricultural commodities in and outside regions. A third risk is the danger of reduced policy transparency, which would complicate policy monitoring and effective decision-making.

In 2005 the Russian government lowered import duties on industrial equipment (including agricultural machinery). The resulting increase in imports will enable Russian enterprises to run a technological re-equipping (IET, 2006). Further, foreign manufacturers willing to assemble farm equipment in Russia will be required to gradually increase the proportion of domestically produced parts from 25% in the first stage to 50% within three or four years. These measures are intended to support the domestic agricultural machinery market, where investment and technological overhaul is highly needed (OECD, 2006a).

In summary, Russia seems to be serious in its attempt to boost the agricultural sector. Most likely, agricultural policy at federal level will remain liberal, while some regions might implement more protectionist measures (internally). This will not affect Russia's position on the world market. Further, it is not clear how successful Russia will be in achieving the objectives of the agricultural project and other programs. But, according to Serova et al. (2006a) it is already obvious that the federal government is trying to get more control via the two state corporations Rosselkhozbank and Rosagroleasing, which receive significant financial support and privileges on the lending and leasing markets. This hampers emergence of competitive, private banks and leasing companies.

5.5 Trade liberalisation/WTO accession

The accession to the WTO is likely to generate substantial overall benefits for Russia. WTO membership will increase competition among enterprises and improve transparency of Russian trade rules, since Russia will have to bring its legislation in line with rules and regulations of the WTO. According to Rutherford and Tarr (2005) welfare gains will be equal to 7.3% of GDP in the medium-term and even 11% on the long-term. Major assumptions of their model simulation are a significant liberalisation of barriers to foreign direct investment and an across the board reduction in tariff barriers by 50%. Domestic liberalisation of FDI in the services sector will have the main contribution to the welfare gains from WTO accession (72%), while tariff reductions (18%) and improved market access for Russian exporters (10%) are the other two contributors. The results strongly support the view that Russia's own liberalisation is more important than improvements in market access as a result of reforms in tariffs or subsidies in the rest of the world. Foremost among the own reforms is liberalisation of barriers against FDI in business services.

Despite overall gains to the Russian economy, Rutherford and Tarr's projections indicate some sectors will contract. Food and agriculture are among the sectors of which production will fall as a consequence of WTO accession.¹ Consequently, Rutherford and Tarr project lower exports for both sectors while imports will strongly increase. Serova and Karlova (2005), however, assess the possible impact of a WTO agreement on agricultural imports as small. The authors point at the fact that a WTO agreement on import tariff reduction starts from an agreed upper limit (bound) rate, which then needs to be reduced over a number of years. Assuming a reduction commitment of 36% the authors claim that the expected level of the bound tariffs at the end of the transition period will be higher than the present average (weighted) low level, implying no effective reduction of import tariffs for agricultural and food products (although for some specific products it may be the case). So, whether WTO accession will lead to more competition from imports, depend on the agreed bound rate, the rate of import tariff reduction assumed and the present (or actual) tariff rates.

According to Simola (2007) Russia would have agreed to reduce the average import tariffs on agricultural and food products from 15 to 12%, while some will be fixed at their current level. One of the most strictly protected groups is meat products. The current minimum average import duty for these is 32%, with import quotas for meat products, which will remain until 2009, after which Russia will re-evaluate their necessity and conduct new negotiations with its trading partners. Russia will lower the import tariffs for agricultural materials, in which there is not enough domestic production for the needs of the food industry. The import tariffs are also to be lowered for some animal feed and fruits and vegetables that are not produced in Russia (e.g. oranges, grapes and bananas). The tariffs on spirits will stay at 100%, but duties on wines and some other alcoholic beverages

¹ In another study Rutherford and Tarr (2006) focus on the regional impacts of WTO accession. This study shows that when the WTO accession scenario is taken into account, output of the agricultural and food sectors is expected to decrease in all (major) regions but Tumen. Especially in Moscow (-17.1%) and North-West (-17.0%) food production will decrease dramatically. The expected decrease in output will in turn lead to a decline in employment, as well as to a decrease in exports in all regions except Tumen.

will be lowered within three years. As tariff reductions will be modest in general and reduction implemented only after a transition period, the effects of Russia's WTO membership on agricultural imports will be neither immediate nor dramatic.

In case of WTO accession, the Russian food processing industry will develop faster than the primary sector and continue to be oriented on markets in neighboring countries. Foreign investment will primarily go towards the food processing industry. To remain competitive the food processors will have to invest in farms and raw material producers in order to ensure the quality and availability of raw material. As regards these primary products, Russian producers will face more competition from imports in beef and poultry, fruit and vegetables. Russia is expected to increase production towards self-sufficiency in sugar and pig meat. Grain (wheat, feed barley and rye), oilseeds (sunflower oil and rapeseeds) will remain important export products, although the Russian government sometimes creates obstacles for grain exports by introducing export duties for wheat and rye.

Some argue that Russia should anticipate WTO accession by focusing on national product differentiation. Russian agricultural producers will be able to cope better with liberalisation and integration into the world economy if 'the valuable attributes of domestically produced products differ from those of imported products of the same kind' (Weber, 2003). But again, Russian farmers will only profit from trade liberalisation if their products are able to compete in terms of price, quality and consistency of supply (Agra Europe, 2007). On the other hand, Russia will probably lose if it will not join the WTO. This is mainly because it will have to pay higher prices for food imports due to the removal of export subsidies.

6. Scenarios for development in the Russian agri-food sector

This chapter evaluates future expectations for the agricultural development in Russia. The first part of the chapter reports on several model projections of future global supply and demand developments, and the implications for Russian agriculture net trade position. Basic assumptions underlying the model calculations are described and the outcomes are presented. The second part of the chapter reports on future development assessment based on a survey with Russian and Dutch entrepreneurs and other experts. A final section of this chapter wraps up with some conclusions.

6.1 Model projections

Projections of agricultural world markets, prepared jointly by the OECD and the FAO in the Agricultural Outlook 2006-2015 are set against a macroeconomic background of sustained optimism. The global economy has been expanding at a pace greater than 4% per year over the past four years, with economic growth expected to become more broad-based over the medium term, along with slower global population growth and continuing low inflation. The growth potential of the large developing economies has made them key drivers of global economic growth. They play an expanding role in the world trade of agricultural commodities and make up an increasing share of global food demand. Economic growth in Russia is expected to slow down but remains robust over the period until 2015, driven by high oil revenues. As the WTO negotiations on the Doha Development Agenda (DDA) have not yet come to a conclusion, the Outlook is based on existing trade and agricultural policies, and any future changes that have already been decided. Specifically, the outlook projections assume that trade policies as agreed in the Uruguay Round Agreement on Agriculture (URAA) will hold for the entire period to 2015.

The main trends in commodity markets projected in the OECD/FAO Outlook show Russia to remain an important importer. Despite the 2003 imposed tariff-rate quotas (TRQs) on meat imports and growing domestic production, Russia continues to be a large market for beef, pork and poultry exports from the EU and Brazil, in particular. Russia is expected to remain (with China and Mexico) among the world's largest poultry importers as rising income increases demand even faster than projected growth of domestic production. A similar trend can be observed for milk and dairy products: strong consumption growth in Russia leads to rising butter, cheese and milk powder imports over the projected period. Further, Russia is expected to remain the major importer of raw sugar in the world. On the other hand, Russia's exports of grains will grow, both for wheat and for coarse grains for which major markets are found in North-Africa, Middle East and China.

FAPRI (2006) projections do not differ much from the OECD/FAO estimations in terms of tendencies and net-trade positions. FAPRI forecasts Russian's increasing net-export positions for wheat and feed grains, and expects the country will remain a main importer of sugar, dairy and meat products. Compared to OECD/FAO calculations, FAPRI, however, estimates a slower increase of dairy imports, expecting that the growth in milk production in Russia would be strong enough to catch up with the country's growth in consumption of all dairy products except for cheese. The latter's import will increase by a quarter over the next decade, supplied mainly by Ukraine.

Own (LEI) calculations based on a general equilibrium model¹ simulate the impact of a scenario of 'unchanged policies' and a scenario of 'complete liberalisation' implying a complete removal of domestic and trade support measures for agriculture in the world. The outcomes of these simulations with respect to Russia's net trade positions largely confirm the OECD/FAO and FAPRI projections. The calculations under the unchanged policy scenario point at rather high production growth in the milk and meat sector resulting in higher self-sufficiency rates and a fall in imports. Yet, the model simulations also indicate that Russia will remain a significant importer of livestock products, especially of pig and poultry meat. For a category of 'other crops'² Russia is and will remain an important importer. Also for fruits and vegetables Russia produces less than its internal demand, resulting in a significant inflow of these two product categories. A scenario in which all support for agriculture is being removed indicates that, compared to the 'unchanged policies' scenario, Russia's GDP growth will only marginally grow as agriculture (and the food industry) is just a small sector of the country's economy. In terms of production and trade effects, Russia's production and exports of cereals and oilseeds, and of beef will increase with full liberalisation, indicating where Russia's comparative advantage lie in the agricultural sector. The production in horticulture, of dairy and other (pig and poultry) meat will not change much. Yet, especially the imports of pig and poultry meat will increase more as well as the category of 'other products' which mainly contains processed products and beverages.

Conclusions from the model projections are that Russia will remain an (net) exporter of cereals and oilseeds, but for practically all other main categories of agricultural products the country will be less than self-sufficient. For those products Russia will (remain to) be an attractive export market for competitive suppliers from outside the country.

6.2 Future market expectations based on a Russian Agribusiness Questionnaire

Survey design

In order to estimate the perspectives of Russia's agri-food sector, among 65 (mainly Russian) representatives of various branches of agri-business (heads of the companies and of the marketing/analytical divisions of the companies, 80% of respondents), independent analysts and governmental officers were interviewed in the fall of 2006. A formal

¹ Global Trade Analysis Project (GTAP). For an application, description of the model and database used, see for instance J. Francois et al., (2005).

² Other than cereals, oilseeds, sugar beet, fruits and vegetables. This category includes a heterogeneous set of products among which animal feedstuff, cotton and flowers.

questionnaire was used, covering three groups of issues: (1) an estimation of previous development trends in the sector; (2) the outlook for sector's short and mid-term development, and (3) estimates of the domestic policies impact on the sector.

Trends in previous years

It is not surprising that $\frac{3}{4}$ of the respondents have pointed out rapid growth in their markets in the last 2-3 years, seen the recent growth figures for the entire economy as well as in the agri-food sector. Almost all of them explain the growth by the increase in the domestic food demand, due to general rise in household incomes.

The Russian agribusiness interviewees showed much concern about the increase of imports after their significant fall in 1998-1999. Of course, imports affect product markets differently, yet more than half of experts estimated import effects as very strong (especially in the sugar, and in the fruit and vegetable sectors), while around 30% evaluated the impact as moderate. On the contrary, export results did not play an important role in the sector's development: only 17% of the interviewees noticed the (positive) effects of international market developments on their business. These respondents are largely in the grain, oilseeds and poultry sectors.

Outlook on short and medium term

The experts were asked about their forecast of the short (2-3 years) and medium (10 years) market perspectives. A great majority of the respondents predicts a further growth in the agri-food markets both inside Russia and in the world. For Russia the forecasts are even more optimistic than for the world and for mid-term more optimistic than for 2-3 years. The optimistic outlook of the market actors towards market growth can positively affect their investment strategy in the nearest future.

Driving force behind market developments in the first years to come is again the domestic demand, fueled by income increase and growth in non-food use of agricultural products (as feed due to a further growth in the livestock sector, and as input for energy production). At the same time the experts foresee growth in the external demand, hoping for expanding agri-food exports.

In assessing the driving forces in the future the experts of almost all sub-sectors indicate an increased dependence on international development - prices, demand and trade liberalisation. Russian major export commodity is sunflower seeds, and therefore the experts of this sector regard the world market situation as critical to its development perspectives. Grain is also a strong export-oriented commodity, however, the experts consider an increase in the domestic non-food use (for feed needs) equally important as an increase in international prices. Growth of consumer incomes in the next decade is believed to be a strong driving force for most products, yet most notably for livestock products and oilseeds.

Policy considerations are more important for the Russian experts in their projections than in retrospection: much more respondents pointed at the macroeconomic situation and agri-food policy affecting future market growth than in the estimates of the market development in the last 2-3 years.

Policies

The experts were asked to estimate the most important policy measures for market development. These measures were grouped into 4 clusters of federal policy: macroeconomic, trade, administrative and agri-food policies. The questionnaire indicates that trade policy is considered mostly important while administrative regulation is the least important.

As it was mentioned above most market actors are concerned about the increase of import competition while in most sub-sectors exports are not a driving force (yet) for sector development. In accordance with that, 28% of the respondents would like the government to increase import protection (especially in the sugar and all livestock sectors), 19% of them wait for export subsidies, while 14% request for abolishment of export taxes. The respondents were allowed to give extended response for these questions. The majority of such responses were related to the mechanism of tariff rate quotas (TRQs) for meat and poultry: the experts are not satisfied with these quotas and suggested various ways to improve them. Another notable remark requests not to use trade policy for political purposes, something that has very often happened in Russia in last several years.

Within macroeconomic policy the experts are mostly concerned with pricing in the so called natural monopolies: energy suppliers and railway companies. The prices of energy and rail transport are regulated by the state. However, these prices have increased much more than the average inflation rate and, in particular, more than agricultural prices. This disparity gradually affects the margins of agribusiness companies negatively. The interviewees show less concern with taxes than with pricing in the natural monopolies. Rubble strengthening is also a serious concern of the companies because it causes growth of imports and hampers exports.

Among extended responses the most often are the recommendations to simplify the present tax system, especially the system of reimbursement of VAT for exporters (what is more relevant to trade policy). Also several respondents are concerned with low level of contract enforcement, low level of security for investors and other legal institutes' underdevelopment.

Most experts consider agri-food policy as a budget spending, requesting for increased expenditures regardless the mechanisms of this spending. Nevertheless, some of the respondents pointed out the necessity to develop rural infrastructure, in particular on roads, and to invest in agricultural education and research. It is worth to note that governmental officers stand for increased budget spending for the sector more often than other respondents: this measure was pointed out by only 25% of overall experts and by 38% of the governmental officers in the sample.

Among administrative measures the experts have pointed out most of all a reduction of excessive administrative control over the business and an improvement of the land property right system. Administrative control over the business has been notably increased in recent years and has created a serious barrier for the sector development. New land legislation, which came in force in 2002-03, caused tremendous transaction costs on the land market what literally stopped land exchange in agriculture. One third of the respondents indicate this as a serious problem of the current administrative policy.

General outlook assessments based on the Russian survey

The survey indicates great optimism amongst leading Russian agribusiness representatives and agri-food market analysts. They assess the Russia's agricultural sector will develop dynamically in the years to come and demonstrate increased competitiveness on the domestic and world markets. Modernisation and restructuring in the food industry will be coupled with sector consolidation, in terms of vertical and horizontal concentration. The agri-food sector is expected to attract more and more domestic and international investments, which will facilitate rapid growth. The sector will increasingly work with the growing network of the modern retailing sector, which has shown rapid development in Russia in the last several years.

Further increase in domestic demand for food is expected, yet the growth rate may level off by slow growth in incomes of the lowest income groups of population (with high food demand elasticity) and a faster growth of prices for housing and other prior services. Export opportunities will be greatly determined by world agricultural policy development in post-Doha situation. Russian agro-food exports will benefit from a Doha round that concludes with a further liberal agricultural agreement. If the Doha round fails and brings the world to a new wave of protectionism or regionalism, Russian exporters may find much less possibilities to expand on international markets.

Grain (wheat, feed barley and to a minor extent rye), sunflower seeds, vegetable oil, partially rapeseeds and flax will remain the major cash crops with a moderate to strong position on the world markets. Vegetable and potatoes production will slowly shift back from households to the larger, professional producers. Poultry and hog breeding will continue to grow, though most probable at a lower speed than now. The dairy sector will move to the Far East in perspective of growing markets in South-East Asia. Most probable that primary dairy production and fodder production for the dairy sector will attract Chinese laborers (recently labor immigration for agriculture from China to Far East was eased by Russian legislation). Compared to other livestock sectors, the beef sector has moderate perspectives in Russia.

6.3 Market outlook through Dutch eyes

Next to the questionnaire to Russian agribusiness representatives, policy makers and market analysts, semi-structured interviews were conducted with Dutch entrepreneurs with trade relations with Russia and/or already locally operating in the country through foreign investments. These interviews, supplemented with extensive talks with some Russian entrepreneurs and market analysts, also provide useful information about and insights in the market developments in Russia for the years to come. The report of these interviews below is structured along the lines of the sub-sectors.

Companies interviewed in the dairy sector have a rather positive view on market prospects. They indicate that the dairy industry expands due to growth in demand. Companies expect that growth in consumption of cheese, yoghurt (drinks) and other desserts will continue over the next years. The up-coming middle class in Russia stimulates the growth of dairy products with value-added. Especially, the market for fresh

products offers the dairy industry great opportunities. The market for long-life products is, however, not expected to show much further increase.

With respect to the meat markets, interviewees emphasize that Russia is presently far from self-sufficient and is importing significant quantities of beef, pig and poultry meat. Interviewees operating in this market do not expect that these rates will increase rapidly. They see good prospects for expansion of production - and indicate they anticipate further investments in processing and farming capacities (vertical integration). Yet, production increase is probably not quick enough to catch up with consumption growth. At the same time, import restrictions (through import quota and high out-quota tariff rates) hamper the inflow of beef, pork and poultry meat. The result will be that prices for meat will remain relatively high in Russia. Current prices for pork (per kg live weight), for example, are 20-50% higher than in the Netherlands.

Interviews confirm the positive outlook for cereals and oilseed crops indicated by the model projections. Production of cereals is expected to increase, mainly because of higher yields, from 75 million ton (in 2006) to 90 million ton in 2010, which makes Russia a significant exporter of cereals (wheat and barley). Oilseed production is expected to grow even more than cereals: the production of sunflower may go up by 10-15% to reach 7-8 million ton in 2010, while the production of rapeseed - only 0.35 million ton in 2005 - is expected to 'explode' and reach levels ranging between 1.5 and 3.0 million ton in 2010. The rapid and significant increase in rapeseed production is caused by strong demand in Europe (mainly Germany) for the production of bio-diesel.

With respect to other crops (fruit, vegetables, potatoes), the interviews point at the shortage in supply of fresh and quality products. The climate in Russia is also not very suitable for many fruit and vegetables. Greenhouse production of these products is not profitable due to high energy prices. The area under glass is even declining because many greenhouses are located close to urban areas, making them attractive for construction sites. While potatoes and vegetables like carrots and cabbages are sourced mainly domestically, supermarkets indicate that they largely (have to) rely on imports for the rest of products in the fruit and vegetable category.

Interviews indicate that market perspectives for potatoes are good, in particular for potato growing for processing. While a large part of the population used to cultivate potatoes for own use (in gardens), consumers in the larger cities now increasingly buy potatoes in shops and markets. Furthermore, demand for potato products (e.g. chips and crisps) is increasing rapidly - Euromonitor (2006) figures the chip market will grow 62% in the next five years. Current processing capacity and supply of good quality potatoes for processing are not able to cover domestic demand, illustrated by significant imports of potatoes for processing from several countries (a.o. Netherlands). Efforts of the industry to encourage Russian farmers to grow (more) chips potatoes, for instance by offering pre-payment and pre-financing seed potatoes, has not had much success. Russian farmers in general lack the organisational skills and the cultivating knowledge to run a (chips) potato farm successfully.

With the increased investments in the expansion of agricultural production - both from private sources and from the State through the National development program - there is a need for all kind of inputs. New buildings (e.g. cowsheds, modern housing for hogs and poultry, barns) are established and old ones are being renovated. There is a need for up

to date interior equipment of the farms, such as milking equipment, storage and cooling facilities. In the animal sector there is strong demand for expanding stocks with a genetic mark-up. Improvements in yields need investments in better quality of seeds, semen, animal feed, agricultural machinery, etceteras. Next to these hard ware type of investments, 'soft ware' such as management assistance, training, advice, and knowledge exchange will contribute importantly to improved performance of the Russian agricultural and food industry. These all provides much opportunity for input and service supplying industries, both domestic and foreign companies.

7. Conclusions and recommendations

This chapter concludes the study by identifying the most important opportunities and some threats or insecurities when operating on the Russian agri-food markets for the Dutch agribusiness. Moreover, some recommendations on the supportive role of Dutch government are formulated.

7.1 Opportunities for Dutch agribusiness

The foregoing analyses of the present state and future outlook of Russia's major food markets indicate many prospects for both companies operating in the consumer product market segments as well as in the business supplying segments. Although economic growth in Russia has been projected to slow in the years to come, growth will still be robust. Furthermore, with economic growth continuing for several years, an increasing part of the population will improve their standard of living. Russia's growing middle income class will become more discerning and will demand more varied and higher quality food products. This development offers many opportunities for those Dutch companies able to provide the products that are in demand, whether this is on the dairy, meat or other consumer-ready food products. As many Dutch companies have much experience in and have shown to be able to compete at international markets, they have good prospects to benefit from an increasing demand for food products in Russia in the years to come.

In the same vein, investments by private companies (both from inside and outside the agricultural sector) and through government priority programs for agriculture to encourage primary production offer huge possibilities for supplying industries. National projects are focusing on the livestock sectors. Farmers and agricultural companies can get support in reconstructing animal housing and barns, or in investing in new buildings. These construction works need interior equipment such as a milk parlor and feed devices. Government investment programs in the sector aiming at increasing the production of milk and meat also require investments in the number and the productive potential of animals. Imports of highly productive animals - for quick results - or semen to improve the genetic performance of existing breeds on the longer term will help to realize the goal of production increase. At the same time, the sector increasingly needs high quality compound feed, improved management skills and up to date technical knowledge with respect to animal husbandry. Obviously, investments in the Russian livestock sector offer many opportunities to exporters of inputs from the Netherlands or through Dutch companies producing the required inputs locally.

The interviews with Dutch entrepreneurs provide several examples of how their companies successfully benefit from the opportunities the Russian market offer them. Many chances can be found in the livestock chain, due to consumer demand developments and linked to the government's national program for development of the agro-industrial

complex. Yet, there is also ample opportunity in the crop sector. This is what speakers at a ZMP-Osteuropaforum¹ in October 2006 also emphasized, claiming that strong investment efforts were needed in the modernisation of the storage and processing of fruit, vegetables and potatoes. For the Dutch horticulture supplying industry, with its strong international position in greenhouse construction, production technology and post-harvest handling, Russia can offer generous prospects. This also holds for Dutch companies specialized in potato seeds and other sector specific inputs (machinery, storage equipment, etc.). Until now the majority of vegetable and potato-growing was small-scale and of a semi-subsistence type, but interviewees pointed at the fact that large-scale professional production units are developing, at least in potato growing. These farms would be interested to invest in upgrading their production and post-harvest technology, and therefore a potential client for Dutch supply in this area.

Of course, next to opportunities the agribusiness also has to take into account possible threats, or options that may affect the business negatively. Trade opportunities may decline in case Russian trade policy does not comply with WTO trade rules. Prospects for foreign investment are to be lowered if the Russian government puts in place market entry barriers to foreign direct investors. One major issue is whether Russia will be able to sustain economic growth in the years to come. Recent economic performance of the country has been strongly linked to the exploration of oil and natural gas resources. Now the challenge of the Russian government is to diversify the economy to sustain growth by encouraging increased investments in other parts of the economy. OECD (2006a) points at necessary structural reforms in the areas of labor markets, tax policies, and a prudent macroeconomic - particularly fiscal - policy in order to provide the conditions needed to sustain economic growth over the long run. Such reforms and policies will also help to manage both inflation and exchange rate pressures, now prevalent due to accumulating external surpluses. Economic growth may also be endangered by the high level of government interventions - bureaucracy - and the opportunities for corruption and rent-seeking. Public administration reforms aimed at reducing these obstacles for investment are necessary conditions for sustained growth of the Russian economy.

7.2 Doing business in Russia - do's and don'ts

The interviews provided a series of suggestions for potential newcomers in the country, indicating important 'do's and don'ts' for companies considering to start operational activities in either trade or production in Russia. These suggestions are summarized and elaborated below.

The interviewees pointed at the advantages of becoming a local player, instead of focusing on exporting to Russia from the Netherlands or any other country. Main reasons for this are the following:

¹ ZMP Osteuropaforum October 2006, Russland bracht noch riesige Investitionen in de Landwirtschaft. See http://www.zmp.de/info/messen/06_10_19_Osteuropaforum.asp.

- Russia is a large consumer market with over 140 million inhabitants, where income per capita has increased strongly in recent years - certainly in a number of regions - and where consumers show increasing demand for quality products.
- There is always the threat that the Russian government imposes (additional) import barriers, or closes the market completely. History tells that decision making about the implementing new or additional requirements on imports is not always transparent, and very difficult to anticipate.
- Import demand may decline in the future when the Russian agricultural sector increases its level of production.
- A prerequisite for doing business in Russia is having a trustworthy relationship with your client. Therefore, you need to be in country. Business is based on personal relationships.

Considering investing in local production, the interviewees stress that the set up of greenfield locations is expensive, as more permits are required (than for existing buildings and constructions) and infrastructure (roads, gas pipelines) has to be built. On the other hand, a local government can support greenfield investments. For instance, in Belgorod the governor takes care of the infrastructure, which makes it attractive for companies to start greenfield operations. So, the situation differs at regional level. At the same time, interviewees indicate that wherever a potential investor considers to invest, he needs to have a base or a representative in Moscow: 'In an extreme centralistic country as Russia, you need to be in Moscow when you want to do business - for contacts with market and (especially) with government officials.'

Companies considering entering the country have to decide whether they want to operate on their own or connect with Russian counterparts. The interviews show a nuanced picture, but largely recommend the smaller end medium-sized companies to look for a reliable partner. Furthermore, new companies entering the local market are discouraged to run a business without Russian locals as the latter speak the language and know the business culture best. Some interview responses underlining this are:

- 'When running a business in Russia it is crucial to have Russians running the sales department and front office. They can 'organise' that deliveries are being paid, generate contacts and build trust with clients. Russians do not easily buy from Westerners, yet the latter can play their role as expert';
- 'For doing business, a local partner is required. Local contacts are crucial important as a foreign company has to have people dealing with the administrative aspects of doing business. It is quite difficult to find your way in these spheres';
- 'Background check upon potential partner is important - who are you dealing with? At the same time, structures of cooperation need to be well defined and checked. Too little attention paid to this will lead to failures and frustrations.'

A general complain of the industry and traders is that bureaucracy is endemic in Russia, offering great opportunities for corruption practises - which appear to be widespread, as anecdotal evidence indicates. Interviewees stress that it is far from easy to get the required import licenses, product registrations, permits for investments and so on in Russia; in order to get things done, companies may need to be prepared to 'stimulate' the

officials to process the paperwork. This kind of informal costs can be rather high. A way to deal with this is building up good relations with local, regional and national authorities. Statements from interviewees underlining that for a successful operation at the local market good contacts with local and the national authorities are very important, are:

- 'The experiences of foreign companies already active in the Russian market show that it is advisable to establish good contacts with regional governments in order to ensure oneself of their support so that investments and production processes will be free of interferences';

A serious bottleneck for foreign investors is to find well-qualified local staff and to ensure that this staff stays with the company for a number of years. To find and keep well-skilled workers in, the company needs investments in personnel, training, and in well and timely payment. Russians are rather opportunistic, and - especially in Moscow - will leave as soon as they can earn more in another company. The Russian economy is growing quickly and offers many opportunities, especially to young and high-skilled employees.

Further, companies already operating in Russia recommend newcomers to develop a long term strategy: apply a time horizon of several years and do not shy away for the bottlenecks that will certainly arise in the short run. And a last recommendation is to inform you as much as possible by those with experience in trading with and investment in Russia. The Dutch agricultural attaché in Moscow has an extended list of potential contacts.

7.3 Supportive role of Dutch government

The Dutch agribusiness can use the services of the Dutch agricultural attaché and his staff, based in Moscow. The interviewees generally showed great appreciation for the work of the attaché's office's services. In discussing their expectations and wishes for support from the Dutch government, and in particular from the attaché, a number of suggestions were proposed, listed under three headings:

- Trouble shooting, mainly with respect to problems concerning imports;
- Networking: laying contacts with government officials and local businesses, match-making on business mission, fairs, et cetera.;
- Provide market information: execute (or assign) market studies and statistical overviews; basic and practical information on 'doing business in Russia' covering issues as taxes, legislation, certificates, culture, et cetera.).

For each heading, the issues raised are further detailed and illustrated.

Trouble shooting

- Solve problems with import (e.g. incomplete documents, clarify new regulations, et cetera.);
- Intermediate in business disputes, if necessary and appropriate. Important are the linkages with top officials, for attaché it is crucial to 'master' these environments. Interviewees indicate that corruption cases should only be dealt with at high

Ministerial and Government level, yet there could be role for Embassy and agricultural attaché.

Networking

- Good contacts at high ministerial level are crucial (see previous point);
- To exploit the generally good reputation (know-how) of Dutch companies and entrepreneurs, the agricultural attaché should organize study tours and seminars and could play an active role in introducing Dutch entrepreneurs at Russian companies. In organizing business trips to relevant regions, the agricultural attaché is expected to ensure that key regional players will be met, and that he provides background material such as statistics;
- The PSOM- and PESP programme provides a good opportunity for small and medium-sized Dutch companies to cooperate with Russian partners. The agricultural attaché could be a more pro-active intermediate to match both sides (for up to date information on possibilities to use these programmes, see EVD website in annex 1);
- Germany (as well as France) provides good examples of support to exporters doing business in Russia by providing investment and export insurances. Atradius (new name for NCM) does not provide such support, but it could be an instruments that might encourage trade and investment relations substantially;
- Relevant contacts should be provided by the attaché - concrete names of relevant people and companies, both at the Dutch side (list of Dutch companies in the country, list of Dutch companies potentially interested) and at the Russian side;
- The attaché should link requests of serious, reputable, strong Russian firms to the relevant Dutch companies - for specific sectors;
- The attaché could provide access to a network of existing Dutch entrepreneurs;
- NL could sponsor a Dutch corner at trade fairs (the Germans, the Spanish have done so during the recent Golden Autumn Fair in Moscow) - interesting is an integrated chain perspective: providing all the different Dutch services and products required in the chain (integrated approach, complete package of services)

Market information

- Statistics are not readily available - should be provided, on a regular basis and on demand by the agricultural attaché;
- Sector studies could help to orientate interested entrepreneurs (example: Dairy Year book of World Bank project, another example fruit sector study of USAID);
- The attaché could provide assistance to legal matters - e.g. providing an answer to the polemic if only Russian or also international contracts are valid in Russia - they could supply a valid standard contract, yet also providing contacts of reputable legal advisors;
- The attaché could provide information on GOS certificates - merely a bureaucratic yet crucial document - how to get them, which route needs to be followed;
- The attaché could provide information on Russian tax system on how to deal with it;
- All the above would create an attaché that functions as a help desk for Dutch agricultural entrepreneurs.

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Statistics

CBR (Central Bank of the Russian Federation), <http://www.cbr.ru/eng/>

Rosstat (Federal State Statistics Service), <http://www.fsgs.ru/wps/portal/english>

UNSD (United Nations Statistics Department), *International trade statistics*.

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Appendix 1. Useful websites

- Bank of Finland Institute for Economies in Transition
http://www.bof.fi/bofit_en/index.htm
- Economische Voorlichtingsdienst (EVD) - Landenpagina Rusland
<http://www.evd.nl/info/landen/land.asp?land=rsf>
- Federal State Statistics Service (Rosstat)
<http://www.fsgs.ru/wps/portal/english>
- Institute for Agricultural Market Studies (IKAR)
<http://www.ikar.ru/eng/>
- Institute for the Economy in Transition - Analytical Centre Agri-food Economics
<http://www.iet.ru/afe/english/1page.html>
- Lappeenranta University of Technology - Northern Dimension Research Centre (Finland)
<http://www.lut.fi/nordi/>
- Trade Representation of the Russian Federation in the Netherlands
<http://www.rustrade.nl/>
- U.S. Department of Agriculture in Russia (United States)
<http://eng.usda.ru/>
- Organization for Economic Development and cooperation (OECD)
<http://oecd.org>
- World Bank
<http://worldbank.org>
- World Trade Organisation (WTO)
<http://wto.org>