

*Theodor-Lieser-Str. 2
06120 Halle (Saale), Germany*

Daniela Schimming

Public Relations

Tel.: +49 345 2928-330

Fax: +49 345 2928-499

presse@iamo.de

www.iamo.de

PRESS RELEASE 20/2014

Fundamental flaws in Russia's government-imposed farming sector modernisation

Similar measures in the EU are only marginally successful and not in the spirit of WTO commitments – Study of Leibniz Institute of Agricultural Development in Transition Economies (IAMO) draws parallels with Eastern Germany

Halle (Saale), 8 September 2014 – The Russian government, in the context of the recently import ban on Western agricultural produce, is stepping up its efforts to boost domestic production through subsidized credits. In IAMO Policy Brief 18, IAMO researcher Prof. Dr. Martin Petrick explains that the related measures are linked to production of meat, milk and other foods and hence violate World Trade Organization (WTO) rules. Investment incentive under the EU's Common Agricultural Policy (CAP) certainly is a poor role model for a WTO-conforming structuring as it is also aimed at increasing specific production lines. In terms of milk yield per cow, Russia has now achieved the status of Eastern Germany 20 years ago. Albeit that Eastern Germany' agriculture benefited from multi-billion financial transfers, the immediate enforcement of the Western German legal system, the swift establishment of democratically legitimized, professional organizations and the development of a locally supported up- and downstream sector were of decisive importance for the successful modernization of the Eastern German agriculture.



'Russia's agricultural policy is currently re-converging on a strategy which we thought to have disappeared since the demise of the Soviet Union', stated agricultural economist Petrick when he presented the study. 'The government decrees national production targets, controls their funding through state-owned banks, decides on requested food imports and tacitly approves of bureaucrats enriching themselves along the subsidy channels at the cost of agriculture and taxpayers.' Although Russia became only a WTO member as late as in 2012, the underlying idea of the World Trade Organization, namely free trade to the benefit of all parties is under threat of becoming side-railed by the current political climate. Recent announcements intensify a trend that had already been proclaimed by the present state program for agriculture

development (2013-2020): Certain facilitations of market entry are contrasted against targeted financial support of specific production lines in livestock farming. The government is mainly focusing on interest rate subsidies which are granted through the state-owned Agricultural Bank (Rosselkhozbank). Nontariff trade barriers, e.g. due to allegedly non-fulfilled veterinary standards, have been hampering foreign market access for years which is now completely overturned by the present embargo. Concrete targets for food self-sufficiency have been in place since the Russian president passed the 'Doctrine on Food Security' in 2010. Last year, the government introduced 'decoupled' payments on a per hectare basis. Such are, however, by no means production-neutral subsidies as they are only granted when beneficiaries apply fertilizers and plant protection measures. Russian experts lament the lack of transparency in the granting of funds and the susceptibility to corruption. Those are the reasons why only moderate successes can be anticipated from the latest governmental investment campaign.

'It would be a mistake, though, to present the CAP as a model case for an effective and WTO-conforming modernization policy in the agricultural sector', Petrick added. Various studies show that concrete objectives, e.g. of agricultural investment aid in Germany, are not clearly defined and that their implementation is impaired by free-rider effects. A large part of funds is spent on construction of livestock stables and is thus a clear violation of WTO principles under which policy measures shall not predetermine in any way the future production of certain agricultural products. Analyses conducted by IAMO show that agricultural investment subsidies in Eastern Germany contributed to preserving jobs in agriculture but at enormous costs of about EUR 50,000 per laborer and year. It is due to generous exemption clauses that investment incentive under CAP does not fall under the WTO provisions relating to removal of trade-distorting measures. 'The Russian government emulates the CAP to see how to make interventionist agricultural policy apparently conform to WTO rules', Petrick added.

'The successful transition of the Eastern German farming sector still provides some insights from which Russia could learn in terms of a purposeful modernization strategy', said the IAMO scholar. 'Practitioners and researchers are largely agreed that the fast establishment of an efficient institutional frame was the decisive prerequisite for the economic recovery of the agricultural sector.' Livestock rates decreased also in Eastern Germany after the political changes in 1989. But if one considers the example of milk yield per cow it becomes clear that productivity has doubled in the last 20 years. This is particularly due to the entrepreneurial capabilities of Eastern German farmers with the support of the fast set-up of member-oriented service providers, such as state inspection and livestock breeders' associations and a broad-based representation of interests. Locally rooted cooperatives, trade companies and banks and not least efficient public administrations and a functioning legal system are making an essential contribution to production impulses in the Eastern German agricultural sector being given by consumers and agricultural enterprises but not by politicians.

One fundamental idea of free trade is cooperation for mutual benefit, which has been agreed by the WTO member states. Trade restrictions are typically zero-sum games while the exchange of goods and services opens opportunities for sustainable growth and thus increasing prosperity for all participating partners. 'It is to be hoped that the Russian government will soon remember those insights', Petrick concluded.

Text: 6,051 characters (incl. spaces)

Further Information

Petrick, M. (2014): Russia's agricultural modernisation policy under WTO commitments: Why the EU's Common Agricultural Policy is a poor model. *IAMO Policy Brief No. 18*, Halle (Saale).

<http://www.iamo.de/dok/IAMOPolicyBrief18.pdf>

Petrick, M. (2014): Modernising Russia's cattle and dairy sectors under WTO conditions: Insights from East Germany, *IAMO Discussion Paper No. 150*, Halle (Saale).

<http://www.iamo.de/dok/dp150.pdf>

Glauben, T., Belyaeva, M., Bobojonov, I., Djuric, I., Götz, L., Hockmann, H., Müller, D., Perekhozhuk, O., Petrick, M., Prehn, S., Prishchepov, A., Renner, S., Schierhorn, F. (2014): Eastern breadbasket obstructs ist market and growth opportunities. *IAMO Policy Brief No. 16*, Halle (Saale).

http://www.iamo.de/dok/IAMOPolicyBrief16_en.pdf

Photographic material

Prof. Dr. Martin Petrick. Photo: Markus Scholz © IAMO

<http://www.iamo.de/fileadmin/Presse/Prof. Dr. Martin Petrick Foto Markus Scholz c IAMO.jpg>

About IAMO

The Leibniz Institute of Agricultural Development in Transition Economies (IAMO) analyzes economic, social and political processes of change in the agricultural and food sector, and in rural areas. The geographic focus covers the enlarging EU, transition regions of Central, Eastern and South Eastern Europe, as well as Central and Eastern Asia. IAMO works to enhance the understanding of institutional, structural and technological changes. Moreover, IAMO studies the resulting impacts on the agricultural and food sector as well as the living conditions of rural populations. The outcomes of our work are used to derive and analyze strategies and options for enterprises, agricultural markets and politics. Since its founding in 1994, IAMO has been part of the Leibniz Association, a German community of independent research institutes.

Academic contact

Prof. Dr. Martin Petrick

Tel.: +49 345 2928-120

Fax: +49 345 2928-199

petrick@iamo.de

www.iamo.de

Media contact

Daniela Schimming

Public Relations

Tel.: +49 345 2928-330

Fax: +49 345 2928-499

presse@iamo.de

www.iamo.de