

## **Agricultural Policy in Russia**

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*Abstract.* This article looks at the evolution of state agricultural policy in the context of a change in the general political line from the radical liberalism of the 1990s to state patronage and active support of the agricultural sector today. The privatization of land and the creation of private farms, the National Priority Project *Development of the Agro-Industrial Complex*, the adoption of Russia's *Food Security Doctrine*, Russia's accession to the WTO, and import substitution in response to Western sanctions are considered as stages of this policy. The author draws the conclusion that agricultural policy is inconsistent because of its excessive dependence on the political context, as determined by foreign policy collisions and the transformation of Russia's internal development model.

*Keywords:* agricultural policy, import substitution, food markets.

Russia's current agricultural policy seems to have attracted more attention than ever before in the entire post-Soviet period. Having taken the path of import substitution, the country undertook the difficult task of providing its population with domestically produced food. But since the agricultural sector is very inertial, successes in this sector can only be achieved through long and sustained efforts. How consistent are these efforts and can we be sure that they are not cancelled out by subsequent steps?

### **The 1990s Agricultural Reform: "Semi-Privatization" of Land and an Attempt to Create Private Farming**

Soviet agricultural policy seems absurd from an economic point of view: the central authorities allocated resources to agricultural producers regardless of economic performance; the losses of state and collective farms were regularly written off; and

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the centralized collection of agricultural products acted as a disincentive to development. As a result, the agricultural sector showed low efficiency and record-low labor productivity. But that was the only possible model under the socialist economic doctrine, which maintained that economic efficiency had to be sacrificed for the sake of social progress, understood as equality. Such a perverted economic policy in the agricultural sector made it possible to keep food prices low and to guarantee jobs for the rural population, which was a matter of pride and a persuasive argument during the Cold War. In other words, political expediency was the cornerstone of agricultural policy.

The change of political course that started in the years of perestroika under Mikhail Gorbachev and was accelerated under Boris Yeltsin meant the end of the previous agricultural policy. The liberal project of the early 1990s required the introduction of market principles in agriculture. The privatization of agricultural land and the creation of private commercial farms became the key elements in the formation of market-based agriculture. This was evidence not only of the reformers' resolve, but also of their naïve and simplistic ideas about the market.

Land privatization was believed to be a necessary element of reform, although foreign experience showed that developed market-based agriculture was possible even without private property in land (as in Britain). In Russia, the privatization of land began with the adoption of the RSFSR Law on Land Reform in 1990. This led to a number of problems that have yet to be resolved. The original version of privatization provided for the establishment of a *land redistribution fund* (10% of the lands of state and collective farms) so that land from that fund could be allocated to former collective farmers wishing to become private farmers. But it soon turned out that an overwhelming majority of former collective farmers were either unable or unwilling to become private farmers. This carried the threat of a return to socialist forms of land ownership, a prospect that was not even considered as an acceptable option by the liberal reformers. In response to this threat, President Boris Yeltsin signed, at the end of 1991, Decree No. 323 *On Urgent Measures for Implementation of Land Reform in the RSFSR*, which provided for rapid, virtually overnight division of land among new owners. This triggered a process of land privatization in an emergency mode. Land surveying and registration of millions of new parcels of land were technically impossible tasks. That is why it was decided to introduce the institution of *land shares*, with the distribution of special certificates entitling farm members to a share of the farm's land. The fact that people obtained "land share certificates," but not the land itself was the reason why this scenario was named "semi-privatization" [13, p. 77]. To skip ahead, about 9 million land shares totaling close to 90 million hectares have not been "partitioned in kind" (converted to physical land plots) and remain in "common ownership" even today (see [15]), which leads to numerous problems and confusion in land use [5].

The creation of a class of private farmers follows the same logic of a fast-track approach to realizing naïve intentions. Most former members of collective farms did not want to become private farmers, to run a farm at their own risk and peril or to pay taxes, preferring to remain employees of agricultural enterprises and to receive a wage.

But given the massive propaganda campaign and the forced liquidation of state and collective farms, private farming nevertheless began to gain momentum, although it soon became clear that it could not maintain commercial food production at the level previously maintained by state and collective farms. From 1992 to 2000, the share of private farms in agricultural production increased from 1.1% to only 3.2% [11, p. 393].

The myth about effective owners who would appear automatically when they were allocated land and could operate in a free market referred to the experience of the subsidiary household plots (farms) of Soviet rural residents. At the time of the breakup of the USSR in 1990, these household farms were producing a quarter of the country's agricultural products. The ideologists of perestroika extolled these successes as evidence of the triumph of private initiative and freedom to work "for oneself." Their essential mistake was a lack of understanding of the *symbiotic nature* of socialized farms and subsidiary household plots in the USSR. Resources centrally allocated to state and collective farms trickled down to household farms and ensured their development [7]. When the latter lost their "donor" with the dissolution of socialized farms, they ceased to be an economic miracle. Private farmers went bankrupt on a massive scale or confined their activities to providing for the needs of their family. Their marketed surplus (actually marketed products as a share of total output) was much smaller than that of agricultural organizations. This led to a catastrophic decline in agricultural production. By 2000, it fell to 62.8% of the 1990 level in comparable prices. From 1990 to 2000, the number of cattle fell from 57.0 million to 27.5 million head (for comparison, the 1942 figure was 18.8 million head) [10, p. 92].

The regress of agricultural production was compensated by food imports virtually free of customs duties and without quotas. In the 1990s, Russia became the largest export market for US meat. In 1997, Russia's food imports reached

Table

**Agricultural Production in Russia by Category of Farm and by Product (1990-2014)**

	1990	2000	2010	2014
<b>Agricultural production by category of farm, %</b>				
Agricultural organizations	73.7	45.2	44.5	49.5
Subsidiary household farms	26.3	51.6	48.3	40.5
Peasant (private commercial) farms		3.2	7.2	10.0
<b>Production of key agricultural products</b>				
Production of beef and poultry meat (thousand tonnes)	10,111.6	4,445.8	7,166.8	9,070.3
Production of milk (thousand tonnes)	55,715.3	32,259.0	31,847.3	30,790.9
Total production of grain (million tonnes)	116.7	65.5	61.0	105.3

\$13.3 billion, or more than eight times the amount of the country's food exports (\$1.6 billion). At that time, food and agricultural commodities amounted to 25.1% of Russia's total imports and only 1.9% of total exports [10, pp. 638, 639].

Thus, the agricultural reform of the 1990s, said to be motivated by economic expediency, was actually a tribute to the political plans of the reformers, who sought to implement the liberal project at any cost. The "breakthrough to the market" became a tragedy for Russia's agriculture [1; 6]. It is no wonder that people called the reformers "Bolsheviks in reverse," emphasizing their obsession with an idea to the detriment of common sense. Ironically, the struggle against socialism followed the Soviet logic of sacrificing the economy to a political project.

### **Agricultural Policy in the 2000s: The Return of the State**

Disappointment with the results of the "self-organization" of the market, the country's growing dependence on food imports, and degradation of agriculture caused an increase in government regulation in the 2000s. Vladimir Putin's policy, supported by a population that was weary of the upheavals of the 1990s, amounted to a gradual increase in the role of the state in the economy as a way to "put the country in order." This led to an adjustment of agricultural policy whose key elements were the introduction of quotas for the import of food and the National Priority Project *Development of the Agro-Industrial Complex (AIC Development project)* for 2006-2007.

The state began to pay more attention to agriculture in the 2000s for two reasons. First, patronage of agriculture allowed the authorities to reap political dividends, demonstrating their "popular character" and their desire to "go back to the roots" in the spirit of national-conservative values. The second reason was the collapse of the ruble during the 1998 default. The importance of that event for agriculture cannot be overestimated. A jump in the prices of imported food created incentives to invest in domestic agriculture. Accordingly, the agricultural lobby began clamoring for measures to protect the food market from imports. The effect of the default was wearing off, and it was necessary to look for administrative opportunities to protect domestic investments.

However, the partial implementation of the liberal project continued under its own momentum. In particular, the authorities were struggling for membership of the World Trade Organization (let us recall that an agreement with the United States on this issue was reached in 2006). This led to a confrontation between two forces: the agricultural lobby, which advocated protectionist measures and was supported by the Ministry of Agriculture, and the government's liberal-minded economic bloc as represented by the Ministry of Economic Development and the Ministry of Finance. The former appealed to patriotism and self-sufficiency in food, while the latter appealed to the idea of a free market and the international division of labor.

The agricultural lobby scored a victory with the *introduction of tariff quotas* on imports of a number of food products. For example, tariff quotas on imports of meat from non-CIS countries were imposed for the first time in Russia's current history as opposed to its previous "open door" policy, while poultry meat became subject

to absolute quotas (where imports above the quota are prohibited). But since Russia continued to move toward the WTO, it pledged to increase meat tariff quotas and reduce over-quota tariffs every year in the period from 2003 to 2008, as well as to switch to tariff quotas on poultry meat from 2006. And this was done.

Meat imports were organized “by country,” which meant fixed quotas for each exporting country. Russian importers wanted the “country” component of quotas to be repealed so as to be able to buy meat in countries where it was cheaper and not where they were supposed to buy it. In this case, market prices for food could go down. But the authorities continued to allocate quotas among countries on the plea of “political necessity,” giving to understand that such an arrangement was a matter not only of market saturation or pricing, but also of political relations with particular countries.

The trend towards an increase in meat tariff quotas was broken in 2009 due to the implementation of the *AIC Development* project (2006–2007), which was oriented to the livestock sector. While having an economic purpose, the project also had an obvious political dimension. The approaching elections to the State Duma and the projected change of President (with Vladimir Putin planning to return to the post) dictated the tactics of “securing rear areas,” that is, achieving a relative improvement in the worst-performing sectors directly related to a significant part of the electorate. Agriculture had a special place among these sectors.

Originally, state budget allocations for the *AIC Development* project amounted to 35 billion rubles, with a subsequent increase to 47 billion rubles plus co-financing from the regional budgets. The project was a market-based one: it did not provide for any grants to agricultural producers. The main instrument used to support agriculture was a subsidized loan program, under which agricultural producers could obtain loans from any commercial bank in the country with subsequent partial reimbursement by the state of interest paid to the bank. In other words, the funds allocated under the *AIC Development* project largely went to the financial sector, while agricultural producers gained access to cheap loans. For example, when they borrowed at an interest rate of 14% per annum, the loan actually cost them only 3–4%. Private farmers and owners of household plots could obtain subsidized loans whatever they produced, while agricultural organizations were entitled to such loans only for the construction and modernization of livestock complexes.

This last circumstance says a lot about the nature of the reforms. The economic sense of supporting household plots was highly questionable. It was more of a social than an economic measure. Liberal economists were actively against such support, arguing the need to focus on advanced forms of economic management instead of “spreading” assistance thinly across all farmers. But the country’s domestic policy was increasingly turning towards national conservatism, a paternalistic attitude to the population, and folklorization of ideology. Government support was provided to “grannies with cows,” as shown, for example, in a commercial for the *Domik v derevne* (House in the Village) milk brand.

Support for the livestock sector was also symptomatic. An alternative idea was to support the crop sector, which included industries with the greatest export potential: the production of grain, soybean, and oil crops. Russia had entered the world grain market in 2002 and was expanding its presence in that market from year to year.

Grain exporters hoped to become the main beneficiaries of government agricultural policy due to their undeniable achievements. But they did not get anything from the *AIC Development* project. The livestock lobby, which argued that the country's dependence on imports was unacceptable, won a clear victory.

The final lesson to be drawn from the *AIC Development* project is that the bureaucracy patronizing the market scored a victory that was well in line with the general trend of change in Russia. Large subsidized loans were issued only with the support of the regional administration, which attested to the effectiveness of each particular project for the development of the regional economy. In case of insufficient collateral, the regional authorities acted as guarantors for bank loans, setting up guarantee funds for this purpose. All other borrowers, not supported by the regional authorities, could obtain bank credit only on the usual terms, without interest rate subsidies. Closeness to government became the main factor that provided economic opportunities.

It is hard to believe that updated rankings of regions by their performance under the *AIC Development* project were published on the Ministry of Agriculture website every week, like reports from the battlefield. Yakutia was often among the leaders due to its reindeer statistics. The project ended with success reports, which said that all targets had been achieved and an absolute majority exceeded. Among the exceeded ones were "paper" targets such as the number of established cooperatives, which were happy to dissolve after the completion of the *AIC Development* project. But for all the grotesque similarity of these reports to Soviet reports, the project was of real, tangible importance: numerous investment projects were launched in the livestock sector. It became clear that agriculture could be seen as a profitable business. In 2005-2010, fixed investment in agriculture almost tripled, from 79 billion to 202 billion rubles (at current prices). As a result, the production of cattle and poultry (carcass weight) increased in that period by almost 50% (from 5.0 million to 7.2 million tonnes). But production had previously dropped so low that the 1990 level (10.1 million tonnes, carcass weight) has not been reached up to now. True, business doubted that support for the livestock sector was here to stay and entered into relations with the state only "in the short haul," preferring projects that could bring a quick return. Investors focused exclusively on "fast-growing meat": chicken (in 2005-2010, chicken meat imports as a share of total inventories in the Russian market fell from 47% to 18%) and pigmeat (where short payback periods protected against changes in the political situation), while being wary of investing in the production of beef [2].

### **Specific Russian Interpretation of Food Security (2010)**

The successes of the agricultural economy and an increasing bias towards the national-conservative project paved the way for the signing of the *Food Security Doctrine* by President Dmitry Medvedev in 2010 [see [17)]. To appreciate the importance of this step, let us recall the history of this issue.

Back in the 1990s, the Communist opposition repeatedly called for the adoption of such a federal law. But even the sufficiently left-wing State Duma did not accept the proposal of the Communists because of the ambiguity of the basic concept. The

liberal interpretation, which goes back to the resolutions of the Food and Agriculture Organization (FAO) and international traditions, associated food security with *food availability and accessibility*, or a situation where all people, at all times, have physical and economic access to sufficient quantities of food of appropriate quantity as required for an active and healthy life. Such an approach accentuated the affordability of imported food and was motivated by concern for the consumers, which was consistent with the interests of importers and local officials fearing the prospect of food riots. This position was supported by experts from international organizations who advised the Russian government. Protectionist policy, on the contrary, associated food security with *self-sufficiency*, with the country's food *independence*, an approach that was consistent with the interests of Russian agricultural producers, who called for an increase in government support and for the protection of the domestic food market from imports. That was the interpretation promoted by the Communists. Members of the State Duma were well aware that even if such a law were adopted, President Yeltsin would veto it.

When Vladimir Putin took office, the political forces that called themselves “statists” began to hope that they might actually pass the law through the State Duma. But these attempts came to nothing: during his first tenure as President, Putin tended towards the liberal scenario for the country's development, albeit with an obvious imperial touch, while the topic of food security was a signature of the Communist opposition. But as the situation in the agro-industrial complex improved and patriotism among the population grew stronger, attention paid to the food market began to yield political dividends for the ruling elite. In addition, when Putin's successor as President, Dmitry Medvedev, was preparing to hand back the presidency to Putin, he sought to expand the list of major achievements associated with his presidency. Food security was seen as a promising component of his political image.

As a result, a Food Security Doctrine of symbolic rather than practical importance was adopted by a decree of President Medvedev in January 2010. The idea that imports of basic foodstuffs were a threat to the country's national security was thus articulated at presidential level for the first time. Russia swerved away from globalist discourse, linking food security to independence from imports and taking the path to self-sufficiency in key food products [14].

According to the *Doctrine*, by 2020 the share of domestic foodstuffs in the commodity resources of the domestic market should increase to no less than 95% for grain, 80% for sugar, 80% for vegetable oil, 85% for meat and meat products, 90% for milk and dairy products, 80% for fish products, 95% for potatoes, and 85% for edible salt. The *Doctrine* was not confined to quantities, but also spoke of the quality of food and of physical and economic access to it for the population. But it was the self-sufficiency targets that had real consequences for the country's agricultural policy.

The ideas of the *Doctrine* were popularized among the public according to a simple scheme: countries were divided into food exporters and food importers. Russia had to “kick the import habit” and eventually become a food exporter. The vast majority of Russians are unaware that the world does not live according to such simplistic schemes. The United States, for example, is not only the largest

exporter of agricultural products, but also the major food importer; moreover, it often exports and imports products classified under the same heading. Experts tried to explain the need to measure food independence not as the share of imports in the commodity resources of the domestic market (as stated in the *Doctrine*), but as the ratio of production to household and industrial consumption within the country, that is, taking into account the export component. With this approach, the situation in Russia is by no means alarming [12]. But such reasoning was appreciated only by a handful of specialists. The simple scheme that became deeply ingrained in the public mind was as follows: too much imported food in the stores is definitely a bad thing.

Since it was hardly possible to win the competition against imports through competitive pricing, especially with a “strong” ruble, imports were limited by non-transparent measures. First, domestically produced food products were promoted as being environmentally clean in contrast to “dirty” imported products, a campaign that unfolded against the background of a general rise in patriotism. Russians found it much easier to believe that our meat was better than imported meat than to believe in the advantages of Russian-made cars or computers. And second, the authorities ramped up the effort to protect the domestic market based on complaints related to the quality of imported products on the part of various agencies: the Federal Customs Service, the Federal Service for Supervision of Consumer Price Protection and Human Welfare (*Rospotrebnadzor*), the Federal Service for Veterinary and Phytosanitary Surveillance (*Rosselkhozadzor*), and others. The ban on chicken imports from the United States that went into effect on 1 January 2010 is a case in point. The official pretext was the ban on the chlorination of chicken (as practiced, among others, by Soviet poultry plants). So long as there was a shortage of domestically produced chicken in the country, Russia had to put up with chlorine-washed chicken. But the *AIC Development* project led to a sharp increase in poultry farming capacity, and cheap US chicken became a hindrance. Russia held the line for eight months until the Americans, having exhausted all means of pressure, changed their technology and abandoned chlorine.

The efforts to protect Russia from low-quality imports tended to increase with a rise in political tensions with a particular exporting country. For example, sharp statements by Polish politicians regarding Russia entailed a ban on the import of a number of food products from Poland for sanitary and epidemiological reasons. Differences with Aleksandr Lukashenko developed into “milk wars,” when hundreds of dairy items from Belarus were banned for import into Russia. The connection between the complaints over the quality of food products and political dialogue with the exporting country was officially denied, but it was so obvious that even the average citizen was aware of it.

Against that background, both ordinary citizens and businesses came to believe that the issue of Russia’s entry into the WTO had been removed from the agenda. This belief strengthened when Putin spoke of Russia’s weak integration into the global economy as salvation from the global financial crisis of 2008-2009. At a meeting with the then president of the European Commission, José Manuel

Barroso, in February 2009, Putin made a statement that became a catchphrase in Russia: “We tried to join the WTO with all our soul, but fortunately you didn’t let us in.” Agricultural producers, confident of long-term protection, stopped worrying on that score. As it turns out, they shouldn’t have done so.

### **Russia’s Accession to the WTO: the Response of Agricultural Producers**

In 2012, liberal attitudes in politics were revived. The Kremlin pendulum swung back towards liberalism. The federal authorities stepped up the negotiations on Russia’s accession to the WTO. Representatives of the agricultural sector were the most active opponents of such a move (grain exporters were probably the only ones who remained calm because their interests were not affected by WTO membership). Agricultural producers argued that the obligations to be assumed by Russia under WTO rules were a threat to the country’s food security. Representatives of agricultural business insisted that there was an either/or alternative: either WTO accession or Russia’s food security. Indeed, the previous *State Program for Development of Agriculture in 2013–2020*, whose purpose was to ensure the achievement of the targets set in the *Food Security Doctrine*, was returned for amendment in the light of the obligations to be assumed by Russia under WTO rules.

The resistance put up by agricultural producers was serious enough. For them, the threat came from the future reduction of import duties, cuts in government support for agriculture, and fewer opportunities to use Russian phytosanitary norms for banning food imports [3]. Accession to the WTO was interpreted as an act of national betrayal that would lead to the disintegration of Russian agribusiness and undermine the nation’s health. The public protest was led by members of the agricultural machinery industry, who headed the “Stop WTO” movement (<http://stop-wto.ru/>) and established an analytical center called “WTO Inform” for the purpose of a “*patriotic expert review*” of the WTO accession process ([www.wto-inform.ru](http://www.wto-inform.ru)). They even tried to initiate a national referendum, but were refused by the Central Election Commission. Members of this group assumed the role of advocates not only for their own sector, but also for the economic interests of the country as a whole.

To put it simplistically, the supporters of Russia’s accession to the WTO *made no mention of food security* in their arguments, regarding it as an unfortunate deviation from the liberal path, while the opponents of such a move *focused attention on food security*, emphasizing that Russia’s WTO membership would jeopardize it. This position resonated with the public: in the summer of 2012, according to the Russian Public Opinion Research Center (VCIOM), the number of supporters of WTO accession only slightly exceeded the number of its opponents (30% and 25%, respectively). Ten years earlier, when liberal attitudes were at their peak, more than half of the population (56%) supported WTO accession and only 17% were against it [16].

At the same time, not all agricultural businesses joined the group of protesters. A significant part of them chose the strategy of behind-the-scenes negotiations with government officials on specific terms for particular industries. In other words, many agribusiness associations preferred industrial lobbying to public attacks on WTO

membership. Positioning themselves as “constructive critics,” they took the stand that “protectionism as a principle is bad, but our case is an exception to the rules.” However, the authorities harshly suppressed this kind of industrial lobbying, giving to understand that the course for international integration was non-negotiable. Agricultural producers found themselves in the role of a pawn sacrificed in a deep political game. For example, pig farmers, once the main beneficiaries of the *AIC Development* project reputed to be the drivers of agriculture, were faced with a fait accompli: duty on imports of live pigs was reduced eightfold (from 40% to 5%), while in-quota imports of frozen pork became duty-free. People even joked about the “swinish treatment” of Russian pig farmers. The farmers themselves saw this as a betrayal, because the economic policy of previous years had obviously been favorable to them.

The sharp and unexpected liberal turn of the Kremlin policy spiral also drew a protest from the legislature. The protocol on Russia’s accession to the WTO was ratified only due to the United Russia party, while all other parties in the State Duma (A Just Russia, Communist Party of the Russian Federation, and Liberal Democratic Party of Russia) almost unanimously voted against such a move. As a result, the 18-year marathon negotiations for accession to the WTO all but ended in failure, with 238 votes for and 209 against.

Despite protests from the agricultural lobby, Russia joined the WTO in August 2012. The term “food security” became a symbol of the opposition and dropped out of the vocabulary of government officials and pro-government politicians. This closed the book on food security in Russia as yet another “blunder” of Medvedev’s policy. But not for long.

### **Import Substitution as a Reincarnation of the Idea of Food Security**

The events in Ukraine and the incorporation of Crimea into the Russian Federation led to economic and trade sanctions against Russia imposed by the United States and the European Union. In August 2014, the Russian government responded by a ban on the import of a number of food products and declared a policy of *import substitution*. Food security not only returned to the official discourse, but became central to Russia’s domestic policy. Agricultural producers, whose interests had been harmed by the terms of WTO accession, now stood a chance of getting moral and material satisfaction. Once again, agricultural policy became a derivative of the political situation.

The focus on agricultural policy is connected with three circumstances.

First, a significant weakening of the ruble has become a financial barrier to food imports, including imports from countries that are quite friendly to Russia

Second, agriculture is among the few sectors where import substitution can be promising due to the availability of resources (fresh water, fertile land, etc.) and low income elasticity of demand for food, which means that people will buy food even if their income falls in the coming recession.

And third, the collapse of the oil market has highlighted the need to look for a new export specialization for Russia.

Hopes are pinned on the agricultural sector. And these hopes are not unfounded: exports of food and agricultural commodities as a share of total Russian exports increased from 1.6% in 2000 to 3.8% in 2014, reaching \$19 billion and exceeding the figure for arms exports. Russia is a net exporter of wheat, barley, corn, sunflower oil, fish, and other foodstuffs. In the same period, food and agricultural commodities as a share of imports fell from 21.8% to 13.9% [11, pp. 632, 633].

Import substitution in the food market is supported by a significant part of the population: about 70% have a positive view of the ban on food imports from the United States and EU countries [9, p. 241]. This seems paradoxical because this policy has had obvious consequences such as a narrower range of consumer goods, higher food prices, and lower food quality. Quality has declined with a shift in production to the lower price segment in the wake of demand, as well as attempts to produce more food using the same resource base so as to make up for the loss of imported food. For example, about 70% of Russian cheeses now include vegetable fats due to a milk shortage, which amounts to gross adulteration of food. *Rospotrebnadzor* has regularly detected such violations, but no other measures are being taken because the authorities are aware that there is no other way for import substitution to be achieved in the current situation.

Public support of import substitution policy is rooted in the ideological climate within the country. Pro-government media seek to project an image of a united nation ready to suffer hardship in order to protect national interests, while a hostile environment is an implicit component of this picture of the world. In answer to the question “What is the purpose of Western sanctions against Russia?” an overwhelming majority of Russians (about 70%) selected the response option “to weaken and humiliate Russia” [9, p. 238]. The costs for consumers are not discussed, because patriotism implies a willingness to sacrifice. The agricultural lobby successfully exploits the patriotic feelings of Russians, their protest against Russia’s loss of the role of a great power. Such attitudes can be called nostalgic revanchism. It is no accident that a favorite marketing ploy used to promote the sale of staple foods in Russia is their “Sovietization,” when product names, packaging and advertising contain references to the Soviet past.

The import substitution drive under tight budget constraints has compelled the state to identify new priorities for agricultural policy. Failing to achieve the desired results in the development of private farming in the 1990s, the Russian state has now focused on large and very large companies, which promise to ensure rapid growth of agricultural production. Analogies with the situation in 1998 do not work. At that time, the ruble plummeted against the background of relatively high unemployment and low capacity utilization, which evoked a positive business response to the default. Today, the situation in the economy is different. Agriculture needs large investments for accelerated growth.

The choice was made in favor of huge “agroholdings,” which reproduce the state farm model, but in the capitalist version of Russian latifundia, where gigantomania is combined with corporate bureaucracy and industrial discipline. Having emerged in the wake of the 1998 crisis, agroholdings very soon gained control of immense

resources: according to the 2006 agricultural census, 0.113% of agricultural organizations controlled 81.5% of cropland and owned 48% of all cattle, 47% of pigs, and 63% of poultry [4]. This gigantomania is explained by the specific institutional environment. Weak protection of contract law has induced businesses to seek maximum self-sufficiency, which results in enormous administrative costs, but ensures relative independence from unscrupulous counterparties and an ineffective arbitration system. The integration of enterprises into horizontal and vertical structures has been a compensatory response to the quality of the institutional environment.

The net profit of only three of the largest agroholdings in Russia for 2014 (*Miratorg*, *Cherkizovo*, and *Rusagro*) totaled almost 50 billion rubles (calculated from [18]). The state seeks a dialogue with partners of this magnitude and provides them with significant support. Having become the main beneficiaries of agricultural policy, agroholdings have turned into strong and aggressive lobbyists, because the situation in food markets is extremely sensitive to the state of affairs in these companies. In addition, most of these agroholdings have coalesced with the municipal and regional authorities, and this enhances the effectiveness of their lobbying. The state has made itself hostage to its own choice by assuming the role of a “locomotive” without which the train cannot move. No wonder agroholdings have been dubbed “*oligarkhozes*,” a term that contains reference to oligarchs and Soviet collective farms [8].

Whereas the *AIC Development* project supported private farmers, subsidiary household plots and cooperatives, today all of this has been forgotten. Private farmers have been left on the sidelines of agricultural policy even though they account for 10% of total agricultural production. The authorities have lost interest in them as agents of economic growth while maintaining them as agents of rural development in order to prevent the desertification of rural areas. Meanwhile, world experience shows that, despite the increasing specialization of production and growing farm size, family farms have absolute predominance in the ownership structure of US and EU agriculture. As for Russia, by 1 January 2016 there were only 215 thousand private farmers left in the country.

Subsidiary household plots, which produce a significant percentage of agricultural output, have also been forgotten along with private farms. Household plots are routinely criticized as an “archaic” phenomenon, which is statistically confirmed by their low productivity. But as the crisis deepens, activity in this sector is bound to increase as a survival strategy. The state and ordinary people address problems in isolation from each other. The widespread practice of providing for one’s own needs has no public voice or lobbyists; the owners of household plots try to keep a low profile, since they are wary of government attention. In order to commercialize these activities, it is necessary to provide institutional opportunities for broad public participation in the agricultural market (cooperation, contracting with big business, etc.)

But fostering a mixed agricultural economy is a long and bothersome process. Instead of taking the path of institution building, the state has opted for “manual” process control using available budget resources. It hopes to make up for the time lost during the decade of euphoria over high oil prices by providing high-powered incentives for large agribusinesses. Officials at all levels of government hasten to report on the

successes of agriculture before they are removed from office. According to this bureaucratic logic, reliance on large-scale investment projects is the only right option. The state is honing its ability to “bargain” with a handful of key players in the food market instead of creating a competitive institutional environment for mass production.

### **Conclusion, or Propositions for Depoliticized Pragmatists**

The main problem of agricultural policy in post-Soviet Russia has been the lack of a single long-term development plan. Changes in the political context with periodic fluctuations of the vector of reforms in the continuum of the liberal and national-conservative projects has had a direct effect on agricultural policy, undermining its stability. Previous efforts are cancelled out by subsequent steps. Massive support for private farming has given way to its neglect in favor of extra-large agroholdings, while the openness of the food market has been replaced by protectionism, with arguments in its favor couched in terms of Russia’s national security. Changes in the international arena, unstable domestic policy, and the needs of the election cycle have affected agricultural policy, turning it into a weathercock that shifts with the political wind. The agricultural lobby tries to “ride with the tide” and make the best use of the opportunities provided by current policies, but this inevitably leads to short-term strategies and preference for projects with short payback periods. This approach is in conflict with the nature of agricultural business, which is probably the most inertial one in the economy. Short-term motivation in the agricultural sector has negative consequences, particularly for the environment.

Thus, for the development of the agricultural sector it is necessary to maintain stable priorities and rules of the game in that sector, to return agricultural policy to the realm of pragmatism, and depoliticize it. It is important to embark on a long process of institutional construction of a mixed agricultural economy, abandoning the illusion of rapid growth based on a limited number of giant companies, which tend to become aggressive lobbyists and a drain on government resources. It makes sense to limit the further development of agroholdings to sectors where it is possible to obtain economies of scale: grain and oilseed production, industrial beef farming, poultry farming, pig farming, and the production of feedstock for biofuel. The products of agroholdings should provide the basis for Russian food exports, while local markets could largely be filled by those of private farmers and small and medium-sized agricultural organizations. Support for private farmers should have a utilitarian justification in the context of the division of labor and comparative advantages in different activities, which does not rule out the folklorization of this topic, but is not confined to it.

It is necessary to curb the attacks of agricultural lobbyists, who view the import substitution policy as a kind of golden age. One of the lessons of economic history is that protectionism can be effective only with focus on sectors that have the potential to become globally competitive given initial protective support. Protectionism cannot be general or everlasting, but only targeted and temporary.

The decline in real household income caused by the crisis should be an occasion to restructure government assistance to agricultural producers. The current model,

where the lion's share of these funds goes to financial institutions through the subsidized credit mechanism, is in need of change. Consumer food subsidies as a way to stimulate demand are an alternative and hardly ever used channel of assistance. Here it is necessary to adjust the principles of social policy, switching from assistance to entire social groups (all pensioners, all large families, etc.) to targeted, selective assistance to low-income families. Clearly, parallel efforts should be made to improve tax compliance, because otherwise families earning "shadow" income will be classified as low-income. The introduction of food cards (stamps) is hindered by memories of food rationing in the Soviet Union. This association should be destroyed through the mass media by popularizing the experience of advanced countries that have successfully used various instruments to provide food-purchasing assistance for poor families.

As a WTO member, Russia has made a commitment to keep assistance to agricultural producers within tight limits. Accordingly, the focus in government assistance should gradually shift to measures that do not "distort the market" ("yellow light"). This means stimulating agricultural production through the construction of infrastructure facilities (ports, grain elevators, etc.), the revival of research institutes in the field of breeding and genetics, higher-quality education for students of agriculture, the development of rural infrastructure, and the renovation of livestock complexes in the context of environmental threats. Such measures are not subject to WTO constraints.

It is important to avoid a further escalation of patriotism in response to "the intrigues of hostile countries." So far, there has been no protest against the negative consequences of import substitution for consumers because of the rise in patriotism. Such a picture of the world is based on the aggressive policy of the mass media. But as the crisis deepens and real income declines, the outcome of the "duel between the refrigerator and the TV set" may change: real products will turn out to be more important than virtual ones. Emotional overheating could swing the pendulum the other way, with previous support for government supplanted by feelings of protest, a prospect fraught with social cataclysms. Let us recall that the Bolsheviks came to power when the phase of patriotic exaltation associated with the country's entry into the First World War came to an end. Patriotic hype can be used to make an economic maneuver, but it cannot provide a foundation for long-term agricultural policy.

Finally, in order to develop a long-term agricultural policy, we have to answer a fundamental question: what is the purpose of this policy? Does Russia want to become independent of the global market in providing food to the population, that is, to minimize food imports? Or does it want to increase the export of high value added products, taking on the ambitious task of becoming a key player in the global food market? Clearly, these strategies are not mutually exclusive. But they are different strategies implying different packages of practical measures. The belief that it is possible to start by solving the problem of food autonomy and then launch an export drive is wrong and harmful. The transition from one scenario to another entails additional costs, which can be avoided if we set our development goals from the very beginning. The selection of the first option brings into play the whole set of measures designed to protect Russian producers in the domestic market, including discrimination

against foreign companies in access to land. In this case, there is no need for significant changes in the powers of the Ministry of Agriculture.

The second, export-oriented scenario is evidently more promising. It requires a radical adjustment of agricultural policy: the promotion of foreign direct investment, the development of market-based land use mechanisms, and the creation of research and education centers for personnel training and world-class research, including by hiring foreign specialists. Priority here is given to technological development regardless of whether it is of Russian or foreign origin.

A liberalization of Russian land law as the unquestionable initial stage implies the need to organize the work of the federal land management service as a single center for the registration, protection and development of land resources in the Russian Federation. It is necessary to complete the cadastral registration of all lands, which means delineating the boundaries of land parcels on the ground and entering this information in the State Real Estate Cadastre. The present situation, where 80% of agricultural lands are not registered in the Cadastre (i.e., have no established boundaries), hinders market transactions. It is also important to bring the cadastral value of land parcels closer to their market value. The current valuation procedure established by the RF Ministry of Economic Development calculates cadastral value using the so-called income method: as the potential return on agricultural production in a given territory based on soil quality. This valuation procedure should be supplemented to include a number of other factors so as to approximate the cadastral value to market value, namely, the existence of infrastructure, the current state of the land, and the state of the local market. Thus adjusted, the cadastral valuation procedure will ensure a more adequate calculation of land tax in a situation where the value of lands cannot be determined in the absence of a mass of transactions as its indicators.

Export support requires the creation of information and advisory centers helping producers to look for markets and certify their products. The state should grant preferences to exporters of high value-added products, thus helping to create new jobs in the Russian economy. Large-scale entry into the global food market makes it necessary to lift the statutory ban on the production of genetically modified foods, to intensify research in the field of genetic engineering, and to harmonize Russian phytosanitary standards with international standards. The powers of the Ministry of Agriculture should be expanded by establishing specialized agencies to support exports and accelerate technological innovation. Needless to say, these measures cannot be implemented overnight. The Russian market should be opened gradually as domestic producers strengthen their position.

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