



Big Business

Market-based economy is relatively new for potential powerhouse, Russia

BY HEATHER HUDSON

Russian agriculture can be likened to a sleeping giant. And it's just waking up.

The largest country in the world, Russia, is 17,075,200 square kilometres or 1.8 times the size of the United States.

As the second biggest country in the world, Canada is no slouch when it comes to land mass. But consider these statistics:

- The sun never sets on Russia; when it is evening in St. Petersburg, it's already the next day on the country's Pacific coast
- Russia borders more countries than any other, including Japan, Poland and China
- It takes 10 hours to fly from Moscow, the country's capital city, to Vladivostok, a port on the other side of the country – that's a seven-day train trip
- Russia comprises one-eighth of the planet's habitable land mass and is home to just over 141 million people

In popular culture, Russia is often dismissed as antiquated, socialist and indomitably poor but restructuring in

recent years means it could be poised to become an agricultural juggernaut. Locked in a strict Communist regime for generations, the country is awakening to a world of possibilities opened by a market-based economy.

A troubled history

In 1929, under Joseph Stalin's regime, agriculture became officially socialized in the former Soviet Union and land, machinery, livestock and grain stores were confiscated. By 1937, approximately 99 per cent of Soviet land was operated by state-run collective farms. Soviet farmers averaged about 10 per cent of the output of their U.S. counterparts. Farmers were paid the same wage no matter their productivity, eliminating any incentive to work more efficiently during this period that persisted until the 1980s.

When Mikhail Gorbachev rose to power in 1985, an agricultural reform program was put in place to improve production incentives. Gorbachev formed contract brigades of 10 to 30 farm workers who managed a piece of land leased from a state farm. The more output they produced, the better the remuneration. Gradually, the

government allowed family contract brigades and long-term land leases. Critics of this solution charged that the government still controlled the prices of agricultural commodities, the distribution of agricultural inputs as well as production and investment decisions, thus crippling any entrepreneurial spirit and advances. Production suffered so much that the Soviet Union went from being self-sufficient in food production to a net food importer.

The Editorial Scientific Board of the Russian Journal of Agricultural and Socioeconomic Sciences says the shift to bigger farms caused even bigger problems.

"During the years of 'Perestroika' (restructuring), agriculture underwent significant changes. About 80 per cent of agricultural land was transferred to the private sector: large agricultural holdings, corporations, farmers, etc.," they wrote.

"At the beginning of restructuring, agriculture went into decline. There was a reduced crop area and, consequently, a reduction in the volume of agricultural production. Lack of food was compensated by imports, which

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– Editorial-Scientific Board, Russian Journal of Agricultural and Socio-Economic Sciences

was associated with decreased control over products' quality.”

Enter Boris Yeltsin in 1991, the first President of the Russian Federation and the end of heavy government control. His plan for agricultural reform included reorganizing state and collective farms into more efficient, market-oriented units. About 95 per cent of the state and collective farms were reorganized in some way.

According to the U.S. Library of Congress, most of the others, fearing the unstable conditions of market supply and demand that faced individual entrepreneurs, chose a form of collective ownership, either as joint-stock companies or as cooperatives. Although the number of private farms increased following the reforms, by the early 1990s growth had stalled. By the mid-1990s the number of private farms dropped further as some farmers chose to return to a form of cooperative enterprise or left farming entirely. By the end of 1995, Russia's 280,000 private farms accounted for only five per cent of the arable land in Russia.

Most farms could no longer afford to purchase new machinery and other capital investments and a financial crisis meant that less support than ever went to the agricultural sector. But after years of decline, Russian agriculture began to show signs of modest improvement in the mid-2000s.

In an agricultural overview of Russia, the Foreign Agricultural Service of the United States Department of Agriculture reports that “as in Ukraine, the transition to a more market-oriented system has introduced the element of fiscal responsibility, which has resulted in increased efficiency as farmers try to maintain productivity while struggling with resource constraints. Official data indicate a rebound in Russian grain yield... most analysts agree that the gradual improvement will continue.”

Current conditions

According to Agriculture and Agri-Food Canada, since the 1990s, three types of farms have emerged in Russia: privatized successors of former collective and state run farms, now called

agricultural organizations, small, individually owned household plots and family farms.

“In 2005, agricultural organizations represented 41 per cent of total agricultural output, households 53 per cent and family farms six per cent. Agricultural organizations are the main producers of grains and households produce most fruit and vegetables. While households traditionally produced for self-consumption, some are evolving into small-scale commercial producers,” reports a Russia Agriculture Policy Review.

An improved economy means a brighter outlook for agriculture. Policy support is at an all-time high for the sector and programs include:

- More support to livestock industries to increase milk and meat production
- Smallholders are receiving subsidies to encourage output through loans, technical assistance and infrastructure
- Around two-thirds of budgetary transfers to producers are directed to support the purchase



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of inputs and investments, largely through lowering the interest rate for credit

- There's more focus on developing services for producers, such as consulting, extension and information systems
- Allocations for agricultural research, education, infrastructure and marketing are increasing slightly
- Large public investments are planned in rural electrification, gas networks and improvement of rural settlements

When it comes to policy support, the Russian government's aim is to improve the competitiveness and quality of its agricultural products while facilitating sustainable rural development, conservation of natural resources, an efficiently functioning agricultural market and creating a favourable investment climate in the agri-food sector.

However, despite the best intentions, the Editorial Scientific Board claims there's a lot of work to be done.

"Over 'Perestroika', competitiveness in the industry was lost.

Companies were not able to upgrade production. Over the past five years, the situation has improved. However, it is unlikely the Russian agricultural machinery can compete with foreign countries in many parameters. The yields of agricultural crops in Russia are far below that of other countries with similar climatic conditions. This is, first of all, based on the current culture of farming, low agrochemical service and the demolition of the reclamation industry," they write. "Russia has unique fertility soils, but uses them poorly, with low-impact, and as a result, with low levels of profitability of crop production."

Despite the challenges of shaking decades of disrepair, the Board has hope that Russia will be resurrected.

"In the global agricultural market, Russia could potentially become a leader in the production and export of food products," they write.

"We have significant areas of high quality fertile soils, advanced technologies, which should be introduced into practice of agricultural enterprises. The main proposals in this area are: crop

rotation, modern agrotechnologies, an adaptive-landscape system of agriculture, establishment of breeding centres for the production of highly productive varieties of agricultural crops, restoration of agrochemical and reclamation services, technical modernization of enterprises and the cultivation of green manure crops."

The Russian economy is growing every year, particularly with a stronger demand for energy and other natural resources. Prosperity in other sectors means more investment in agriculture. As a result of this economic growth, Russia is expected to continue to experience stronger food demand and prices for higher value food products, particularly livestock products. This, along with the many government policies, may help boost agricultural output and serve to fund technological improvements.

There's no question that Russia has the potential to compete on a world stage. And with the world population rapidly ballooning to a projected 9 billion in a matter of decades, we may need their innovation as much as they do. ♦



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