

# **Russian Agricultural Reform and WTO Accession**

**International Trade Negotiation Simulation**

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**This simulation is based on a Master's in Commercial Diplomacy Project  
completed at the Monterey Institute of International Studies by**

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## **INTRODUCTION**

The purpose of this exercise is to simulate an international trade negotiation designed to reduce trade restrictions on agricultural products passing between regions of the Russian Federation. In addition, attention will be given to Russia's efforts to prepare itself for accession to the World Trade Organization, for which agricultural reform is critical.

While the factual scenario is based upon real issues, this case is hypothetical in terms of specific stakeholders identified and certain facts presented.

This case will include governmental agency teams, political party teams, industry association teams, academic research organization teams and teams representing the WTO and other international stakeholders.

The goals of this exercise include:

- 1.) Development of research and investigation skills;
- 2.) Development of analytical, planning, and negotiation strategy skills;
- 3.) Development of negotiation, mediation and conflict resolution skills;
- 4.) Development of durable written agreements; and,
- 5.) Development of planning and presentation skills to various governmental and WTO panels and bodies.

**Parties:**

Government Agencies:

Office of the President

Ministry of Economic Development and Trade

Ministry of Agriculture and Food

Ministry of Antitrust and Entrepreneurial Support

Regional Authorities

Political Parties:

Agrarian Party

Communist Party

Unity-Fatherland Party

Yabloko Party

Caucus of Regional Authorities

Industry Associations:

Grain Union

Meat Union

Food Processors Association

Academic Institutions:

Russian Academy of Agricultural Sciences (RAAS)

International Stakeholders:

Office of the Director-General of the WTO

Office of the United States Trade Representative

## **Background, Facts and Issues Common to All Parties**

Following is information and assumptions that are common to all parties in this negotiation simulation. They are intended to help set the parameters of the negotiations and give participants an initial point of reference before formulating positions within their respective stakeholder groups.

### **Issue:**

Agricultural reforms under consideration in Russia are basically a domestic political matter. However, international stakeholders (notably the US, the EU and the WTO) have a considerable interest in seeing the reforms pass, and therefore will be involved in lobbying the Russian government to this end.

The conflict that must be negotiated is primarily between the Federal government, which wants to harmonize domestic trade in agricultural goods to increase efficiency and prepare itself for accession to the WTO, and regional governments, representing established agricultural interests that benefit from the complex regional regulations that restrict competition and foreign trade.

A balance must be reached that liberalizes agricultural trade within the Russian Federation on the one hand, while protecting the livelihood of farmers and traders in agricultural goods on the other.

To this end, participants are charged with coming up with an “Agreement of Principles” for agricultural reform within Russia. While this Agreement would theoretically be passed on to the State Duma so that legislation could be written taking its language and principles into account, for the purposes of this simulation the goal is to arrive at an agreement that could be used as a platform for future legislation.

### **Background on Russia’s Agriculture Sector**

A general concern of Russia’s WTO accession is regional fragmentation of agricultural policy. Decentralization of the federal government in the early 1990s gave each region more policy-making responsibility, including decision-making over product flows. Many regions currently restrict agricultural inflows and outflows. The Russian regional authorities apply a wide range of administrative barriers to the Russian agricultural market, including:

- Physical restrictions on agricultural goods imported and/or exported from the regions
- Additional standards and certification requirements
- Erratically enforced customs regulations, licenses and quotas, pricing controls, local taxes and fees
- Preferential treatment for local economic entities

Provisions on market access from Article 4 of the WTO Agreement on Agriculture are key in addressing interregional barriers to agricultural trade in the Russian Federation. Market access remains a cornerstone for any trade negotiation. Before the Uruguay Round, agricultural imports were restricted by quotas and other non-tariff barriers. One of the most significant outcomes of

the Uruguay Round was tariffication, or the conversion of non-tariff barriers into tariffs. As a result, tariffication has created more transparent conditions of market access in agricultural trade. However, countries still protect their agricultural market through a number of hidden non-tariff barriers.

Interregional barriers directly undermine GATT Article XXIV:12 and the WTO Agreement Article IV. GATT Article XXIV:12 addresses a member-country's obligations to ensure national and sub-national policies compliant with GATT provisions. Article IV of the WTO Agreement on Agriculture sets forth market access obligations.

Among the negative economic consequences of interregional protectionism are:

- High prices, reduced output, and diminished product and service quality
- Chronic insolvency and indebtedness among farmers due to restricted market access
- Diminished incentives for transactions between regions, which hampers the development of a unified economic space
- Reduced foreign investment in business
- The stifling of innovation and technological advancement

Russian consumers, farmers, food-processing industries dependent on imported agricultural inputs, and foreign importers are those who are hurt most. The regional authorities restrict both agricultural exports and imports, depending on regional political and economic motivations. As in-kind payment for credits provided, regional authorities mandate that farmers give their products to the regional food funds operated by the regional monopolistic food trade corporations. The regional authorities then restrict the agricultural exports to ensure repayment. By restricting agricultural imports, the regional administrations protect local farmers. However, in many cases, monopolistic trade mediators are the only winners. The following are the main causes for interregional protectionism in the Russian agricultural market:

- Lack of transparency and consistency in economic regulation between the federal government and the regions
- Lack of governmental coordination in matters of foreign and internal trade
- Lack of clarification of interregional barriers in the federal anti-trust law
- Fragmentation of agricultural policy across the Russian regions
- Absence of regulations on agricultural land circulation and mortgages; insufficiency of credit resources
- Disproportional and unequal socio-economic development of the Russian regions
- Political influence of regional agro-businesses (monopolistic trade corporations and food processors favoring exports and/or imports restrictions) on regional leaders

Serious controversy between federal and regional macroeconomic policies has resulted. Interregional trade barriers are a new phenomenon of the Russian economy and have not adequately been addressed. As with many other aspects of a transition economy, the barriers are incongruously treated by different federal and regional institutions. Not only is there no assessment methodology for the economic consequences of such barriers, but there is not even a

common terminology. The international experience and the possibilities of applying measures used abroad in this area have not received sufficient attention in Russia .

The federal government has attempted, inefficiently and unsuccessfully, to rid the nation of the interregional barriers.

### **Facts about Russia:**

The Russian Federation is comprised of 89 regions with administrative and political status. These 89 regions are known in the Russian Constitution as “subjects of the federation.” The Federation consists of 21 republics, 50 regions (“oblasts”), 6 territories (“krays”), 10 autonomous region/areas (“okrugs”), and two federal cities ( Moscow and St Petersburg ). The 89 regions are further subdivided into more than 2,000 districts (municipalities and “rayons”). Though local administrations have independent budgetary and administrative status, they are responsible to the regional governments and are subject to regional regulations.

The Federation Treaty of 1992 provides the framework for federal-provincial relations. It differentiates sub-federal from federal power, as long as these do not contravene Russia ’s Constitution. The Russian Constitution defines the scope and division of federal and sub-federal jurisdictions. However, due to the central government’s inefficiency and the improper regulation and enforcement of the separation of powers, around 47 subjects of the Russian Federation chose to sign treaties on the division of authorities and power with the Federal Government. In addition, 290 agreements on joint jurisdiction (mostly in 1994–98) were signed. Most treaties provided for a special tax arrangement with the central authorities and gave regions the leeway to develop their own foreign economic policies. In addition, over 30 regions have drawn up their own constitutions. Overall, most treaties and regional constitutions are believed to directly contravene the Federation’s own constitution, because the provisions undermine the constitutional principle of equality of the Federation’s subjects and lead to separatism. Some movements towards separatism in the regions include the following:

- Prevalence of regional interests over national interests
- Intention to divide public wealth (mainly natural resources) basing on a national-regional principle
- “Barterization” of the merchandise exchange among the regions; tax evasion
- Issuance of regional surrogate means of payment
- Introduction of regional control over pricing
- Suspension of tax payments to the federal budget
- Creation of regional foreign exchange reserves
- Restrictions in the free movement of goods, capital, labor and information among the regions

The aforementioned forms of separatism and protectionism are expressed through regulations (decrees, resolutions, orders, etc.) by regional administrations and/or through conspiratorial agreements between regional administrations and legal entities operating in their territories. Russian regions have in place a number of regulatory measures that are expressly forbidden under the WTO rules. These measures include excessive and burdensome regulations in

certification and standardization, price controls, taxation and fees, licensing and quotas, unfair domestic support to regional businesses, direct prohibition or restriction of imports and exports, and uneven enforcement of customs regulations.

The state of affairs outlined above undercuts the federal government's claim that Russian law should be consistently enforced across the country. In 1997, the Russian President signed a Decree establishing the Presidential Representative Office in a region. According to that decision, the Presidential Representative should supervise the compatibility of regional and local laws and regulations with the federal laws and Constitution. S/he should report any breach in law and/or improper implementation of the federal laws and resolutions by regional authorities to the head of the region and to the Chief Control Department of President's Administration. However, due to the inefficiency of this institution, in May 2000 the President signed a decree establishing seven federal districts based on the territorial principle — Central ( Moscow ), North-West ( St Petersburg ), North-Caucasian (Rostov-na-Donu), Volga (Nizhniy Novgorod), Ural (Ekaterinburg), Siberian ( Novosibirsk ), and Far Eastern ( Khabarovsk ). According to the Decree, the institution of Presidential representatives in the regions was replaced by the institution of Presidential representatives in the federal districts. The responsibilities of the Presidential representatives remained essentially the same. This decision was in line with the President's policy of strengthening vertical power.

### **Overview of the Russian Agricultural Sector and Policy:**

The Soviet agri-food sector was always known as inefficient and underdeveloped. In the last years of Soviet power, agricultural growth was almost negligible, and technical and economic efficiency declined. While the government maintained the prices of basic foodstuffs and they went unchanged for several decades, nominal incomes grew. A chronic food deficit resulted, leading to various schemes of consumption rationalization. Furthermore, retail prices remained steady, whereas procurement prices of agricultural products rose. Such a policy resulted in increased subsidies, which constituted around 80 percent of the retail prices and one-third of the national budget. When world oil prices declined, so did budget revenues. The government was forced to reform the agricultural sector within the framework of a centrally planned economy. However, reforms were not productive.

In the early 1990s, radical reform of the agricultural and food sector became critical for the national economy. The principal tasks of the Russian agrarian reforms were (i) transformation from the centrally planned system to the market one, (ii) more efficient production relations, and (iii) reduction of the agricultural pressure on the budget. These changes required not only market-oriented agricultural producers, but also new market infrastructure to ensure efficient movement of a product from the field to an end consumer, and efficient delivery of market information.

### **Structural Reforms:**

At the end of 1991, the Russian government decided to launch agrarian reforms. All collective farms were to be reorganized. In 1992, a campaign for reorganization of collective farms started.

Its intentions were to (i) transfer land and non-land resources to work collectives, (ii) divide these funds by individual shares, and (iii) re-register legal entities by current Russian law. Peasants obtained a right to leave collective farms with possession of land and some other property and set up their own farms. Though this provision accelerated the formation of private farms, most peasants stayed put. This was due to the historical stereotypes of collective work, the peasants' narrow specialization, their lack of market and business knowledge, and agricultural infrastructure and technologies being better adapted to large farming industries than to small farms. Currently (2001), the rural Russian population makes up around 27 percent of the total population, or 39.2 million people. The share of the agricultural sector in total employment is 13 percent (2000).

During reform, the following three types of agricultural producers have developed:

- Large State and Collective Farms were forced officially to reorganize into joint-venture companies. However, the farms' actual organization, management systems, and work incentives have not significantly changed.
- Small Household Plots produce half of the country's agricultural output with only 7 percent of its total farmland. Workers on large farms have small plots that average half a hectare (or 1.1 acres).
- Private Farms represent a small portion of Russia's agricultural producers. About 290,000 private farms currently operating in Russia account for 6 percent of the country's farmland and 2 percent of agricultural output. A typical private farm is about 50 hectares. Private farmers are workers on former state and collective farms who have taken advantage of the opportunity under reform to obtain land from their parent farm, which they operate independently. During the last few years, the number of private farms has stagnated. Obstacles to the growth of private farms include undeveloped markets for obtaining agricultural inputs, selling output, and obtaining credit.

Budgetary expenditures for agriculture in Russia remain on par with major industrialized countries. Among OECD member-countries, the percentage of domestic support for agriculture to GDP varies from almost 0 in New Zealand to around 2 percent in Turkey. From 1994–1999, the volume of financing of the agricultural sector decreased from 3.7 percent of the consolidated budget (federal plus regional) in 1995 to 2.7 percent in 1999. It also decreased as a percentage of GDP from 1.5 percent to 0.8 percent. This was mainly due to the overall budgetary restrictions in the country. In 2001, the agricultural budget support rebounded to 30 percent. The aggregate budgetary support for agriculture consists of the following three primary components: direct budgetary support for agricultural producers (43 percent), financing of common services (42 percent), and food funds (15 percent). In 1999, regional agricultural budgets were divided thus: 43 percent of the direct budgetary support for agricultural producers, 36 percent for the financing of common services, and 21 percent for food funds. The main programs of support are as follows: direct additional payment to price (livestock subsidies), minimal guaranteed prices, subsidization of inputs (fertilizers, power, gas, seeds, etc.), and credit programs.

## **Current Trends in Agricultural Production, Trade, Investment, Insolvency, Loaning, and Land Reform:**

Economic reforms substantially reduced agricultural production of both livestock and crops. The livestock sector has significantly contracted for both demand and supply-side reasons. Price liberalization reduced demand for most foodstuffs, and worsened livestock producers' terms of trade, as input prices increased much more than output prices. The reduction of livestock production also contributed to a decline in grain output, because smaller livestock herds require less feed grain. Like livestock, crop production suffered from worsening terms of trade. However, due to the extreme depreciation of the Russian ruble after the 1998 currency crisis and, therefore, increased price competitiveness of domestic production vis-à-vis imports, the Russian agricultural sector began to rebound.

### **Agricultural Production:**

Grain, sugar beets, sunflower seeds, and vegetables are among the major crops grown in Russia . Cattle, poultry, milk, and eggs are the major products of Russian livestock breeding. In 2001, the growth of the agricultural sector continued at a rate of 6 percent (in 1999 – 4 percent, in 2000 – 7 percent). This growth was mainly due to the increase in crop production (14 percent). Total Russian grain production increased by an estimated 20 percent from 65.5 million tons in 2000 to 82 million tons in 2001, with wheat growing from 35.5 to 44.5 million tons, and barley from 14.1 to 19.5 million tons. In 2001, livestock output, including cattle and poultry, dropped by a negligible 1 percent, whereas production of milk and eggs increased by 1 percent and 1.5 percent, respectively.

### **Regional Distribution of Agricultural Production:**

Russian agricultural production operates on only 12–13 percent of Russian territory. Moreover, it is distributed unevenly across the country: 14 regions produce over 40 percent of the agriculture, half of the grain is produced in 12 regions, and more than a half of sugar beets and oilseeds are produced in 4 regions.

Livestock and potato production is distributed more evenly across the country's territory. The self-sufficiency indicator developed by the Institute for Transition Economies suggests that 63 Russian regions are self-sufficient in potatoes, 62 in meat, 45 in milk, and only 24 in vegetables. This indicates that half of the Russian regions produce sufficient volumes of these products for local consumption, whereas the other regions depend on importing them.

### **Agricultural Trade:**

During the Soviet period, the USSR heavily imported grain, soybeans, and soybean meal. The main reason for the grain and soybean imports was that the state-driven expansion of the livestock sector during the 1970s and 1980s required more animal-feed than Soviet agriculture could provide. Agricultural imports of feed helped maintain artificially high levels of livestock production and consumption. Due to contraction of the livestock sector during reforms, imports of grain reduced considerably—from an average of 37 million tons a year in the 1980s to just a

few million tons in the late 1990s. On the other hand, imports of meat and other such high-value products as processed foods, fruit, and beverages have grown significantly.

The economic crisis that began in August 1998 temporarily plunged Russia's food imports, though they recovered somewhat in 1999. Imports of most agricultural and food products are now 60 percent of the pre-crisis level. Imports dropped because the crisis reduced consumers' real incomes, thereby decreasing demand for food in general. Furthermore, the severe crisis-induced depreciation of the ruble made imported food relatively expensive versus domestic substitutes.

Current agricultural growth has led to an upswing in imports. This rise is also due to a decrease in price advantages of major domestic products caused by the 1998 crisis. In 2001 (1<sup>st</sup> half), imports increased for meat (210 percent), poultry (301 percent), fish (210 percent), butter (310 percent), cacao-based products (210 percent), and alcoholic and non-alcoholic beverages (38.6 percent). Wheat imports decreased by over 60 percent due to the increased domestic harvest. The trend of import substitution is now diminishing. Macroeconomic stabilization and the real income growth of 5.4 percent in 2001 have boosted both Russian agricultural imports and production. As the ruble strengthens, Russia is rehabilitating its positions as a net-importer for some agricultural products and ensuring stable competitive positions in the world market for others. Thus, the share of agricultural merchandise in total Russian exports is increasing. Among the traditional agricultural exports are vegetable oil, dairy and margarine products, macaroni products, and dried milk. Among the major Russian importers are the EU and the US .

Structural investment barriers in the Russian agricultural sector are as follows:

- Economic instability
- Poor law enforcement and compliance with laws
- Lack of transparency in customs and tax procedures
- Interregional administrative barriers and red tape
- Undeveloped investment infrastructure leading to high transaction costs
- Non-compliance with international standards of bookkeeping and reporting rules and procedures
- Poor land law in respect to agriculture

### **Regional Authorities**

Regional authorities pose the biggest opposition to strengthening the common market, as this limits their power. However, not all regional leaders support protectionism or separatism. As a matter of fact, regional authorities have been quite loyal to Russian federalism. For instance, all regions agreed to centralize federal budget revenues and increase federal budget support for regional development.

By pursuing a protectionist policy, regional authorities ensure people's loyalty, and thereby opportunities for re-election. Protectionist policies give citizens the impression they are being taken care of by the regional governments, when often the opposite is true. Farmers and

consumers are hurt most by protectionism. Regional politics are more sensitive to financially influential agribusiness representatives than to farmers.

Regional leaders are elected by a regional electorate rather than appointed by the central government (as during the Soviet time). The most sensitive regions are those founded on an indigenous population, such as the Republics of Tatarstan and Bashkortostan. The presidents of these republics, Mr. Shaimiev and Mr. Rahimov, threatened to declare independence in the early 1990s, though they now show loyalty to the central government. Other critical regions are in southern Russia, where agriculture is paramount. Among these regions are Krasnodarskiy kray, Stavropolskiy kray, Rostovskaya oblast, and Republik of Kalmikiya. The governors of the first krays and oblasts, Mr. Tkachov, Mr. Chernogorov, and Mr. Chub, respectively, pledged to support and protect the agricultural sector. The President of Kalmikiya, Mr. Ilyumzhinov, is known for violating federal budget regulations by refusing to transfer tax revenues to the federal budget several years ago. Hence, these regional politicians ought to be taken into serious consideration when tackling the issue of the interregional barriers and agricultural reforms.

Regional development is appealing to the regional authorities, however they often don't consider the overall macroeconomic health of the country. Thus, it will be difficult to ensure regional authorities' support on such matters as eliminating regional barriers to agricultural trade and WTO accession. Unless regional development is properly addressed legislatively and financially, the federal government will be hard-pressed to elicit regional support for lifting the restrictions.

### **WTO Accession:**

Specifically, according to Article IV (Market Access) of the WTO Agreement on Agriculture, members are prohibited from introducing "quantitative import restrictions, variable import levies, minimum import prices, discretionary import licensing, non-tariff measures maintained through state-trading enterprises, voluntary export restraints, and similar border measure other than ordinary customs duties." Regarding the Agreement on Agriculture, all non-tariff barriers (NTBs) shall be converted to ordinary customs duties. Until the Russian government ensures that the many regional administrative barriers are (i) identified and (ii) removed, Russia will not be compliant with the Agreement on Agriculture. For WTO accession, Russia must comply with the agricultural requirements, making sure that all non-tariff barriers are converted into tariffs.

Furthermore, WTO member states must regard GATT Article XXIV:12 extremely seriously. The WTO Agreements provide for a variety of permissible trade distorting measures subject to reduction within a specified period. Also, they prohibit a number of activities, while others are allowed on conditions that they must be registered with the WTO for transparency reasons. According to point 14 of the Understanding on the Interpretation of the GATT 1994 related to paragraph 12 of Article XXIV, provisions of the Articles XXII (Consultation) and XXII (Nullification or Impairment) may be invoked where a contracting party fails to carry out its obligations due to the measures taken by regional and/or local authorities within the territory of a Member. Therefore, if the regional authorities of a Russian region introduce a policy measure violating WTO rules, an offended WTO member may file a complaint against Russia.

WTO accession gives a nation a number of advantages. Russia hopes for the following benefits from WTO accession:

- Non-discriminatory treatment for Russian goods in foreign markets
- Access to the dispute settlement mechanism for solving trade disputes
- A more favorable regime for foreign investment as a consequence of harmonizing domestic legislation with WTO requirements
- Broadening opportunities for Russian investors in WTO member countries
- Conditions that increase the quality and the competitiveness of domestic products resulting from the increased inflow of foreign goods, services, and investment
- Participation in the development of international trade rules, with national interests being taken into account
- Improvement of Russia 's national image as a full member of the international trading system

Thus far, there have been 12 meetings of the Working Group on Russia's WTO Accession with the following questions discussed: agricultural sector support, intellectual property rights, customs evaluation, tariffs, sanitary measures, technical barriers, trade in services (banking, insurance, tourism, etc.), and market access. The following are the main stages of Russia 's accession negotiations:

- In 1992 the Russian Federation formally inherited from the former USSR the observatory status of the General Agreement on Tariffs and Trade (GATT).
- In mid-1993 Russia officially applied to join the GATT as a full member.
- In February 1994 Russia submitted a Memorandum of the Foreign Trade Regime in the Russian Federation .
- In December 1994, in light of the Uruguay Round and the establishment of the World Trade Organization (WTO), the Russian Government officially applied for accession to the WTO.
- In September 1995, during a meeting of the Russian Government, the principles of the negotiating process were determined.
- In July 1995 the first meeting of the Working Group on Russia 's WTO accession took place. Discussion of the Memorandum was initiated.

## **Stakeholders**

### *Presidential Administration*

The Russian President plays a major role in the political and socio-economic policies in the country. The Constitution (Article 83) entitles him to appoint the Chairman of the Government (subject to consent of the State Duma), and to appoint and dismiss Chairman's deputies, federal ministries, and plenipotentiary representatives. The current President, Vladimir Putin, pledged to pursue market-oriented economic reforms and to strengthen the vertical power structure in the Russian Federation . President Putin's policy aims for political cooperation between the federal government, the parliament, and the regional authorities, while ensuring the principle of federal

loyalty. During his meetings with Western leaders, the President has emphasized the desirability of rapid accession into the WTO.

### *Ministry of Agriculture and Food*

Headed by Mr. Avdeev, the Ministry of Agriculture and Food is the governmental body primarily responsible for agrarian policy in Russia. The Ministry is considered the major lobbying force for agricultural interests in the Cabinet of Ministers. It introduces the federal agricultural budget and the agri-food programs to the Cabinet of Ministers for approval. Considering strict budgetary restrictions, the Ministry's officials must not only lobby to raise the agricultural budget, but also must establish distribution programs to strengthen the Ministry's influence. The Ministry of Agriculture and Food works in conjunction with regional governments on agriculture. It also works in conjunction with the Ministry of Economic Development and Trade on the WTO accession process.

The Ministry of Agriculture and Food developed the Main Directions of the Agri-food Policy for 2000–2010. The following are objectives in the plan for unity of the agri-food markets, land, crediting, and foreign trade policies:

- The unimpeded movement of goods, services, and resources across the country
- Organized agri-food markets
- A common antitrust policy in the agricultural sector
- The formation and regulation of the agri-food markets
- Agricultural land policy and legislation
- A multi-channel system of agricultural financing
- Unification of regional support programs with federal norms
- Implementation of reasonable protectionism based on flexible import duties
- Effective integration of domestic agri-food products into the world market; accession to the WTO subject to non-discrimination of domestic producers.

### *The Ministry of Economic Development and Trade*

The Ministry of Economic Development and Trade is a federal executive body responsible for national socio-economic policy, including trade policy, economic development and regulation. The Ministry cooperates with federal executive agencies, regional and local authorities, and non-governmental organizations. It operates through territorial bodies and state inspections for trade, goods quality, and consumers' rights protection. The Ministry represents Russia in the WTO accession negotiations. In its recently developed Program on the Main Directions in the Socio-economic Development of the Russian Federation, the Ministry determined that a principal goal for federal regional policy, is to strengthen and unite the social and economic space of the Russian Federation. To achieve this goal, the following tasks must be carried out:

- Acceleration of interregional integration
- Convergence of regions' socio-economic development
- The free movement of goods, services, and capital across the Federation
- Equally competitive economic conditions
- Interregional competition for capital
- Legislative stipulation and realization of the principles for the federative economic relations in the process of separation of powers between the national and sub-national authorities

The Minister, Mr. Greff, is originally from St. Petersburg , the native town of President Putin . Mr. Greff's candidacy to become the minister was supported by the President.

#### *Ministry of Antitrust Policy and Entrepreneurial Support*

The Ministry of Antitrust Policy and Entrepreneurial Support is a federal executive agency responsible for the prevention, restriction, and elimination of monopolistic activity and unfair competition; the development of entrepreneurship, and the advent of competition in commodity markets. The Minister, Mr. Yuzhanov, hails from St. Petersburg , where he worked with President Putin in the city government. The Ministry operates through its territorial representatives and cooperates with the federal executive agencies, regional and local authorities, and non-governmental organizations. It is the primary governmental agency dealing with interregional barriers in the Russian Federation . As of 2000, the Ministry had prevented more than 1,000 illegal actions of both regional and local authorities aimed at restricting competition in commodity markets.

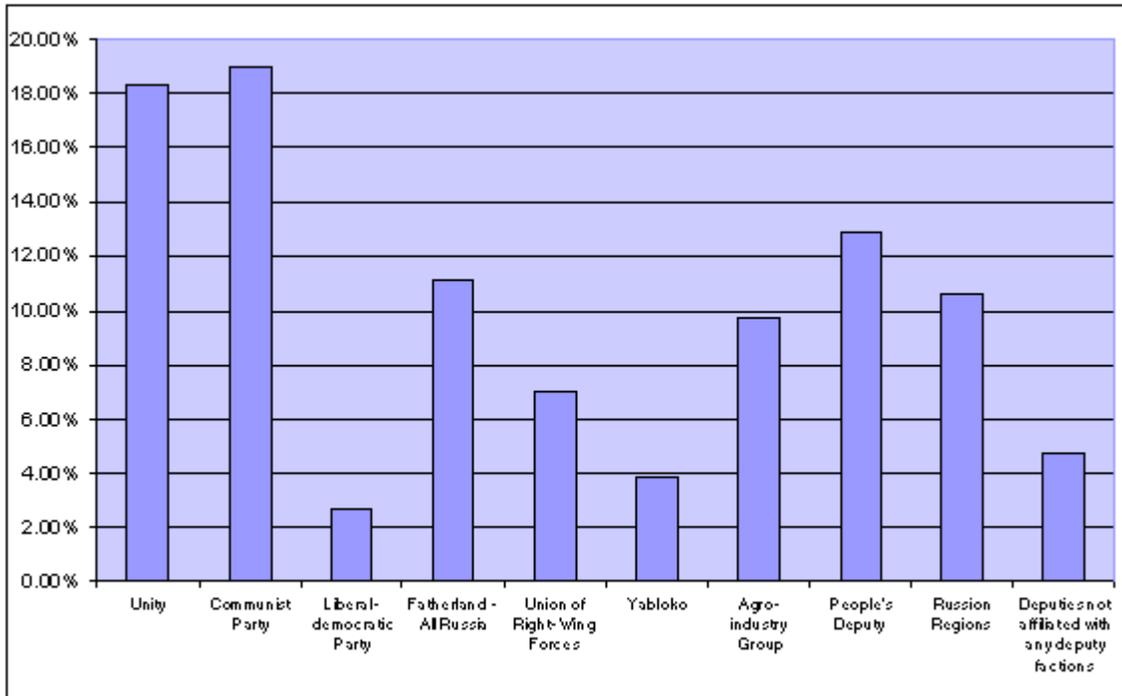
#### *Regional Authorities*

Heads of the Russian regions (governors and/or presidents) are elected within their administrative territories. Among their political tasks are to support their regional constituencies and to ensure their electorate's welfare, including employment, income growth, food safety and security. The regional leaders' main goal for agricultural policy is to strengthen regional power and distribute financial flows. Primary constituencies of the regional authorities are the representatives of the agribusiness industry. In order to ensure support for the agribusiness industry, including regional food trade corporations and food processors, regional authorities take various administrative measures. By reducing competition in agricultural commodity markets from other regions and foreign countries, regional authorities contribute to the positive financial results of their constituencies, the regional governments. They also get more tax revenue to conduct regional social policies. Regional authorities support rural constituencies represented by farmers through subsidies, credits, leasing, and so on.

## The State Duma

The Federal Assembly is another influential body in Russian agricultural policy. The *State Duma (Lower House of the Federal Assembly)* is politically divided by democratic and reformist parties such as Unity (18%), People's Deputy (12.9%), Fatherland – All Russia (11%), Liberal Democrats (2.7%), Union of Right-Wing Forces (7%), Yabloko (4%), and Russian Regions (10.5%) (see Figure 3). Unity and Fartherland – All Russia, associated with the most influential political figures in the Russian federal and regional governments, have recently merged into a new party, Unity and Fatherland. The Presidential initiative on strengthening vertical power in the Federation is supported by a vast majority of the deputies. All the parties support the idea of a common market within the Russian Federation . As for agricultural land regulation, parties in opposition are the Communist Party and the Agrarian Party. They are both opposed to foreigners' ownership rights of agricultural land.

Political Division in the State Duma (third congress)



### *Unity*

Unity is associated with prominent Russian politicians, including President Vladimir Putin and 38 governors who were among the party's founders. Unity's legislative activity in the State Duma is congruous with the Government's political, economic, and social course. Unity's positions on legislation were supported by Fatherland – All Russia (89.3% of the bills approved by Unity), People's Deputy (89.3%), Yabloko (71.4%) and Russian Regions (78.6%). The

Communist Party was relatively discordant with Unity, and the Agro-industrial Faction (Agrarian Party) supported only 46.4% of Unity bills. The Union of Right-Wing Forces supported 64.3% of Unity's approved bills, whereas Liberal Democrats supported only 50% of them.

### *Fatherland – All Russia*

Fatherland – All Russia was organized by such prominent political figures as former Prime Minister Evgeniy Primakov, Moscow mayor Yuriy Luzhkov, and Tatarstan's president Mentiymer Shaymiev. Among its declared political values are "pragmatic patriotism," "effective federalism," "social market economy," and "social democracy." The faction's deputies are currently working on bills on Circulation of Agricultural Lands and on Regulation of Agricultural Land Mortgage. Its legislative positions were mostly favored by Russian Regions (89.5% of the bills supported by Fatherland – All Russia), People's Deputy (86.5%) and Unity (67.6%). The Communist Party supported 62.2% of the bills, Union of Right-Wing Forces (59.5%), Liberal Democrats (43.2%), Yabloko (64.9%), and the Agro-industrial Faction (62.2%).

### *Russian Regions*

Russian Regions, established as a union of independent deputies in 2000, legislates for regional socio-economic development. One of its initiatives was the bill, Basic Principles of the Financial Support to the Depressed Territories of the Russian Federation, which passed during the first hearing of the 2001 fall session. The faction's deputies were actively involved in the Commission on Separation of Powers and Objects of Competence. The following factions favored most the legislation supported by Russian Regions: Fatherland – All Russia (86.8%), People's Deputy (84.2%), Communist Party (73.7%), and the Agro-industrial Faction (71.1%). Unity supported 57.9% of Russian Regions positions, Liberal Democrats (39.5%), Union of Right-Wing Forces (50%), and Yabloko (60.5%).

### *Yabloko*

Yabloko is a democratic political party headed by a well-known economist Grigoriy Yavlinskiy. The party supports a social market economy, the rule of law, and democracy. It strives for a strict anti-trust policy; market-oriented agricultural credits and land regulation to help farmers operate efficiently; and rural infrastructure. One of the critical problems it has pinpointed is the understating of procurement prices by monopolistic trade corporations. Though Yabloko and Union of Right-Wing Forces have similar views on the market economy and democracy, Yabloko believes that liberal market reforms sponsored by the leadership of Union of Right-Wing Forces would be detrimental to a majority of the Russian population. The most supportive factions to Yabloko were Fatherland – All Russia (80%), People's Deputy (76.7%), Russian Regions (76.7%) and Unity (66.7%). The following factions were less supportive: Union of Right-Wing Forces (63.3%), the Agro-industrial Faction (50%), the Communist Party (50%), and the Liberal Democrats (33.3%).

### *The Communist Party of the Russian Federation*

Succeeding the Communist Party of the Soviet Union, the Communist Party of the Russian Federation maintains communist views on social and economic development. It strictly opposes privatization and foreigners' agricultural land-owning rights. Currently, the Communist Party must cooperate with executive authorities and parliamentary counterparts to develop laws on market and democratic principles. The party attempts to make the laws as social-oriented as possible, and is often biased against the market efficiency and democratic principles laid down in such laws. Positions of the Communist Party in the State Duma were supported mostly by the Agro-industrial Faction (94.6%), and the Russian Regions (75.7%). Fatherland – All Russia and People's Deputy each supported 62.2% of the legislation; Yabloko – 40.5%; and Unity, Union of Right-Wing Forces, and the Liberal Democrats each favored 35.2%.

### *The Agro-industrial Faction (Agrarian Party)*

The Agro-industrial Faction represents the interests of the Agrarian Party (AP), the party with the strongest influence in developing agricultural policy. The backbone of the Agrarian Party is former soviet and communist “*nomenklatura*” (directors and their deputies of kolkhozes [collective farms] and local administrators). Like the Communist Party, the faction strongly opposes any market-oriented agricultural stance. The Agrarian Faction's political weight is measured by the national agricultural budget. The leadership of the party is well connected to large agribusiness. Among the AP's program objectives are:

- Rebirth of Russian villages
- Protection of political, social and economic rights and legal interests of Russian peasants
- Protection of food market and domestic agricultural producers
- Development of the agrarian sector on the basis of multifaceted economic structure.

### *The Grain Union*

The Grain Union was founded in 1994 by the federal corporation Roskhleboproduct, a joint-stock company Exportkhleb, a corporation Mosoblproduct, the trading company OGO, the Russian Grain Exchange, the Moscow Trade Exchange and other trading companies. The main task of the Union is to pursue its members' interests by influencing the regulatory process of the Russian grain market. Among the Union's primary goals are (i) to interact with both the executive and legislative authorities on grain market regulation, (ii) to propose legislation and regulations on grain matters, and (iii) to provide members with grain market information, including price, statistics, and analysis.

### *The Meat Union*

The Meat Union, formed in 1998, is comprised of meat processors, meat trade companies, the

Russian Chamber of Commerce, the Veterinary Association of Russia and others. Its membership is 272 companies from 72 regions. The main tasks of the Union are (i) to promote favorable conditions for domestic producers/processors, (ii) to develop infrastructure for the meat market, and (iii) to eliminate unfair competition between domestic and foreign companies. One of the main interests of the Union's members is to ensure the raw meat necessary for the domestic meat processing industries. Since meat processors are highly dependent on imported meat, they lobby the government to keep meat import duties low.

#### *The Russian Academy of Agricultural Sciences (RAAS)*

The Russian Academy of Agricultural Sciences (RAAS) is an influential think tank managed by the ultra radical left opposition — most of its members are members of the Communist Party. RAAS unites 199 research institutes, 24 experimental agricultural stations, 47 selection and biotechnological centers, and a central agricultural library. Within the RAAS are several institutes representing both liberal concepts of the agrarian development and the agrarian communist opposition. The Institute of Agrarian Affairs and Informational Sciences, formed in 1991 by the former market-oriented president of the Soviet Union Academy of Agricultural Sciences, is a liberal research institute. It was instrumental in developing concepts and legislation for the Russian agrarian reforms in the early 1990s.

#### *World Trade Organization (WTO)*

The WTO is a multinational organization that conducts rules of trade among member states. Among the key principles of the WTO Agreements are national treatment, most favored nation (MFN) treatment, and transparency. In any accession negotiations the WTO tries to ensure that the acceding country practices non-discrimination of imports on goods and services. In the case of the Russian Federation, the WTO wants to ensure that goods, including agricultural products, are treated in accordance with WTO rules and principles both at the national and sub-national levels. The major WTO stakeholders for the Russian agricultural market are the EU and the US, the major Russian agricultural importers and investors. National and sub-national consistency with WTO rules is addressed in many WTO Agreements. This issue could be a stumbling block for Russia's accession to the organization.

#### *United States Trade Representative (USTR)*

The USTR is a cabinet level position within the Executive branch of the United States government. The office of the USTR has several hundred employees and represents the US at the WTO and in all international trade negotiations.

## **BACKGROUND ON CONDUCT AND ORGANIZATION OF SIMULATION**

### **THE NEGOTIATION PROCESS**

The parties to these negotiations will be provided with individual team instructions and facts common to each country team's interests.

Individual interest groups (e.g., associations, government agencies, etc.) will meet first to review facts, develop team negotiating goals and strategies, assign research and negotiating roles, and to document all negotiating sessions.

All interest groups will then meet with their country team members. (Country team members may or may not share common interests, goals, etc.) Lead government agencies will seek to reconcile differences and to advance a unified voice in the bilateral or multilateral sessions.

All teams will seek to advance specific negotiating goals and interests. For example, it can be assumed that China seeks acceptance in the international trading community, that it would like to avoid a dispute in the WTO, and that it is committed to an increased level of enforcement in the area of intellectual property rights. Similarly, it can be assumed that the US, EU, and Swiss governments and constituent manufacturing groups seek enforcement of IPR laws in China and greater access to the Chinese market. Interest groups may differ, however, on appropriate timetables, implementation mechanisms, and enforcement.

All parties will want to consider some or all of the following:

- Documentation of the scope of the problem;
- Specific agreements to implement reforms including, but not limited to rules, regulations, monitoring devices, enforcement mechanisms, legal remedies, etc;
- Timetables for implementation of agreements reached;
- Criteria in the field of IPR for Chinese accession to the WTO.

It will also be important to determine the interests of your counterparts including adversaries and allies. You will want to try to build alliances within your country and with other country governments or individual interest groups.

### **CONFIDENTIAL PARTY INSTRUCTIONS**

Each individual team (interest group) will be provided with further confidential instructions issued from the perspective of a superior corporate, governmental, or military officer. You are to design your negotiating strategy in accord with the instructions. Questions regarding instructions or the terms of agreements reached can be reviewed with one of the instructors.

## **NEGOTIATING SKILLS AND TECHNIQUES**

- 1) Teams should engage in "brainstorming" sessions to identify and articulate your interests and those of your counterparts including the listing of potential **OPTIONS** for an agreement and the use of **OBJECTIVE CRITERIA** for the structuring and implementation of agreements;
- 2) Teams should elect a **LEAD NEGOTIATOR** for each negotiating session. It is important for team members to defer to a lead negotiator and to **SPEAK WITH ONE VOICE**. Lead negotiators may invite the participation of team members on specific issues, areas of expertise, etc.
- 3) Teams should use **CAUCUSES** (private team meetings) to review proposals, formulate counter-proposals, or to review the status of the negotiations; Remember to **LISTEN** to your counterparts and **ASK QUESTIONS** to learn what their needs are. What do they want? Can you fashion an agreement or the provision of an agreement that will meet some if not all of their needs? Are your sessions **CONFIDENTIAL** or open to the press and public? Craft and utilize **SINGLE TEXT DOCUMENTS** to introduce proposed language on agreements, to capture agreements on procedure and/or substance that can be added to the text of a final agreement; Obtain **SIGNATURES** of counterparts on documents reflecting interim or final agreements; Consider future meetings, working groups, investigative teams, etc as means to keep the process moving forward and to avoid stalemates. Remember you are dealing with people. What are their needs within their organization, bureaucracy, company, etc. Can you help them to meet their needs? Establish a personal rapport. Be hard on the problem, be soft on the people. Consider a **JOINT MEDIA RELEASE OR CONFERENCE** to announce progress or a final agreement. Use the media to help solidify the parties' public commitment to the agreement.

## **RULES TO ENHANCE THE LEARNING GOALS OF THE SIMULATION**

Because time is extremely limited, the instructors request that students abide by the following rules which have proven effective in other negotiation simulations:

- 1) Limit caucus sessions and breaks during negotiations to no more than five (5) minutes;
- 2) Country teams will have to negotiate an internal consensus among all interest groups **BEFORE** the commencement of official bilateral negotiations with national counterparts.
- 3) The parties will not be authorized to "walk-out" or otherwise boycott a negotiation session;
- 4) If negotiating teams reach an "impasse" (stalemate, dead-end, end point) they should work on another issue and/or seek the instructors' intervention;
- 5) No name calling, personal attacks, or insults will be permitted. (This is not good style in real world negotiations and is usually the result of ego, loss of emotional control.)
- 6) Make use of charts, note-taking, printed exhibits, and printed documents to facilitate the recording of interim and/or final agreements.

## **LOCATION OF THE NEGOTIATIONS**

As negotiating sessions are established, a home country will be identified. The home country should serve as the host of the negotiations. Hosts should welcome guests to their country and to the negotiation session. Introductions should be made before the parties proceed to substantive matters