

Russia's WTO Accession: Interregional Barriers to Agricultural Trade in the Russian Federation

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Table of Contents

SCENARIO	4
ISSUE	4
EXECUTIVE SUMMARY	5
INTRODUCTION	7
BACKGROUND	8
POLITICAL AND ADMINISTRATIVE ORGANIZATION OF FEDERALISM IN RUSSIA.	8
OVERVIEW OF THE RUSSIAN AGRICULTURAL SECTOR AND POLICY	9
<i>Structural Reforms</i>	10
<i>Market Infrastructure Development</i>	11
<i>Components of Domestic Support</i>	11
<i>Current Trends in the Agricultural Production, Trade, Investment, Insolvency, Loaning, and Land Reform.</i>	11
Agricultural Production.....	12
Regional Distribution of Agricultural Production.....	12
Agricultural Trade	13
Insolvency of the Agricultural Entities.....	13
Investments in the Agricultural Sector	14
Agricultural Crediting and Leasing	15
Agricultural Land Market.....	16
REGIONAL BUDGET SUPPORT FOR THE RUSSIAN AGRICULTURAL SECTOR	18
<i>Regionalization of the Russian Agrarian Policy</i>	18
<i>Procurement: Federal Funds versus Regional Funds</i>	18
EVOLUTION OF AGRICULTURAL PROTECTIONISM IN THE RUSSIAN REGIONS....	19
RUSSIA’S WTO ACCESSION	21
INTERBUDGETARY RELATIONS IN THE RUSSIAN FEDERATION	22
POLITICAL BACKGROUND	23
<i>Executive Branch</i>	23
<i>Legislative Branch</i>	25
<i>Agro-industrial Business Associations</i>	31
<i>Farmers Associations</i>	32
<i>Research and Consulting Organizations</i>	33
<i>International Stakeholders</i>	34
LEGAL BACKGROUND.....	34
<i>Legislative Module on Federative Economic Relations</i>	34
<i>Legislative Module on Agricultural Reforms</i>	36
<i>Legislative Module on Regional Development</i>	37
<i>International Law</i>	37
COMMERCIAL AND ECONOMIC ANALYSES	38
PRICE DISPARITY AND ARBITRAGE.....	39
DISTRIBUTION OF REVENUES BETWEEN FARMERS AND MONOPOLISTIC REGIONAL TRADING COMPANIES – EXPORT RESTRICTIONS	40
AGGREGATE EFFECT OF NATIONAL AND SUB-NATIONAL PROTECTIONISM -IMPORT RESTRICTIONS	41
ECONOMIC EFFECT OF THE COMMON MARKET	43
ANALYSIS OF EXPECTED BENEFITS FROM ELIMINATING THE INTERREGIONAL BARRIERS TO AGRICULTURAL TRADE.....	44

POLICY ANALYSIS	46
REGIONAL FUNDS – COMMODITY CREDIT - TRADE RESTRICTIONS	46
CREDIT - LAND.....	47
REGIONAL FOOD FUNDS – FOOD SECURITY	48
COORDINATION OF FOREIGN TRADE REGULATION BETWEEN FEDERAL AND REGIONAL AUTHORITIES	49
POLITICAL ANALYSIS	49
EXECUTIVE BRANCH.....	51
LEGISLATIVE BRANCH.....	53
AGRO-INDUSTRIAL BUSINESS ASSOCIATIONS - REGIONAL AGRIBUSINESS.....	55
FARMERS ASSOCIATIONS - REGIONAL FARMERS	55
RESEARCH AND CONSULTING ORGANIZATIONS	56
INTERNATIONAL STAKEHOLDERS	56
LEGAL ANALYSIS.....	57
GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)	57
WTO AGREEMENT ON AGRICULTURE	58
THE RUSSIAN CONSTITUTION	58
LAW ON COMPETITION AND RESTRICTION OF MONOPOLISTIC ACTIVITY IN COMMODITY MARKETS	59
A DRAFT CODE ON BASIC PRINCIPLES OF FEDERATIVE ECONOMIC RELATIONS IN THE RUSSIAN FEDERATION	60
MEDIA ANALYSIS	63
RECOMMENDED ACTIONS FOR THE GOVERNMENT OF RUSSIAN FEDERATION	66
COMPREHENSIVE STRATEGY PAPER.....	69
COALITION BUILDING STRATEGY	71
LEGISLATIVE STRATEGY	74
INSTITUTIONAL STRATEGY	77
INTERNATIONAL STRATEGY.....	77
TIMETABLE.....	78
MEDIA/PUBLIC RELATIONS STRATEGY	79
ANNEX I - OP-ED	83
ANNEX II - MEMORANDUM.....	85
ANNEX III - WHITE PAPER	87
REFERENCES	91

SCENARIO

For the purpose of this project, I assume a fictitious role of Adviser to the Russian Deputy Minister of Economic Development and Trade, Mr. Medvedkov, who is in charge of Russia's WTO accession. After receiving a number of concerns during the WTO accession Working Group meetings with regards to sub federal quantitative restrictions on agricultural goods, the Deputy Minister assigned me to study the problem of the interregional barriers to agricultural trade in the Russian Federation and develop a strategy for their reduction and eventual elimination.

ISSUE

The interregional barriers to the agricultural trade across the Russian Federation have negatively affected both Russia' WTO accession and the development of the Russian national economy, in particular the agricultural sector. The consequences for Russia's WTO accession and the Russian economy are as follows:

- Inconsistency with provisions of the GATT and WTO Agreement on Agriculture;
- Substantial price disparity due to inefficient arbitrage caused by the interregional barriers;
- Restricting the market access for agricultural imports;
- High prices for agricultural products hurting Russian consumers and food processing industries;
- Insolvency of farmers due to the inability to efficiently sell the products as a result of the interregional market access barriers;
- Undermining of the national agricultural market infrastructure development such as commodity exchanges and wholesalers;
- Infringement on the economic unity principle laid down by Constitution;
- Obstacles to efficient development of Russian rural areas.

For the purpose of this project I will consider only the administrative restrictions on agricultural goods imported and/or exported from the regions, as they are most evident.

EXECUTIVE SUMMARY

The objective of this project is to study the problem of the interregional barriers to agricultural trade in the Russian Federation, and to propose recommendations and strategy aimed at reducing and eventually eliminating such barriers. The issue of the interregional barriers is important because it (i) affects Russia's WTO accession, and (ii) undermines a unified economic space of the Federation laid down by the Constitution.

In respect to the WTO accession, the interregional barriers directly undermine GATT Article XXIV:12 dealing with a contracting party's obligations to ensure the national and sub-national policies' compliance with the GATT provisions, and Article IV of the WTO Agreement on Agriculture setting force the market access obligations. Among the economic negative consequences of the interregional protectionism are:

- High prices, reduced output, and diminished product and service quality;
- Chronic farmers' insolvency and indebtedness 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.

Therefore, the Russian consumers, farmers, food-processing industries dependent on imported agricultural inputs, and foreign importers are the ones who get hurt most. The regional authorities restrict both the agricultural exports and imports depending on their regional political and economic motivations. While obliging the farmers to procure their products to the regional food funds operated by the regional monopolistic food trade corporations as an in-kind payment for the credits provided or guaranteed by the regional authorities, the latter restrict the agricultural exports in order to ensure repayment. While restricting the agricultural imports, the regional administrations protect the local farmers, however, in many cases, it turns out that the monopolistic trade mediators are the only winners. The following are the main objective and subjective reasons of the interregional protectionism in the Russian agricultural market:

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

In my recommendations, in order to efficiently tackle the interregional barriers to agricultural trade I propose to:

- Amend the anti-trust law by providing the detailed classification of the barriers, exceptions, and criteria for justification of the prohibition;
- Introduce a code stipulating the main bases for the federal economic relations in the Russian Federation;
- Introduce the federal jurisdiction for the regulation of the Russian agri-food market;
- Push for the bills on the agricultural land circulation and mortgage; credit cooperation; and social development in rural areas that are being currently considered in the Russian parliament (the State Duma);
- Push for the bill on the financial support to the depressive regions of the Russian Federation that is being currently considered by the State Duma;
- Improve the coordination between the Ministry of Economic Development and Trade and the regional authorities, and the Ministry of Agriculture and Food in the areas of the foreign and internal trade relations.

To accomplish the recommended actions, I propose to build a coalition among the respective federal agencies to establish an Interagency Commission for Interregional Agricultural Trade. This Commission will take a lead in running a broader coalition involving all the interested parties, including the regional leaders, political parties/parliamentary factions, farmers associations, agro-business associations, and research and consulting organizations. It will lead a legislative and media strategy under the umbrella of a campaign “Unified Economic Space - a Key to Russian Unity, Food Security, and Prosperity.”

INTRODUCTION

A general concern involving Russia's WTO accession negotiations is that the decentralization of the federal government launched back in the early 1990's has led to the regional fragmentation of the Russian agricultural policy, as the regions assume more policy-making responsibility, including over product flows. Many regions restrict agricultural inflows and outflows. The Russian regional authorities apply a wide range of the administrative barriers to the Russian agricultural market including, inter alia, the administrative physical restrictions on agricultural goods imported and/or exported from the regions, additional standards and certification requirements, uneven enforcement of customs regulations, various licenses and quotas, pricing, local taxes and fees, preferential treatment for the local economic entities. The rise of regional policy making raises concerns that regional authorities might not honor agreements made by the federal government.

The issue of the interregional barriers is one of the most important problems in creation and development of the economic federalism in present-day Russia. The formation of the unified economic space raises an issue of its configuration, organization principles, and effectiveness. The interregional barriers being caused by specific features of the Russian regions' stance such as different economic and political development, and economic separatism, impede the formation of the effective Russian market. They also reflect serious controversy between the federal and regional macroeconomic policies.

The interregional trade barriers, being a new phenomenon of the Russian economic reality, has not yet been properly studied and systematized. As many other occurrences of a transition economy, they are differently treated and assessed by different federal and regional institutions. Not only is there an absence of assessment methodology of the economic consequences of such barriers, there is no even a common terminology. The international experience and the possibilities of applying the measures used abroad in this area have not been studied sufficiently in Russia.

Multiple endeavors of the Federal government to rid of the interregional barriers turned out to be not very efficient. This is explained by the complexity of the problem itself, and also by the fact that it has been approached only administratively, without properly addressing the causalities of the interregional barriers. The efficient resolution of the issue of the interregional trade barriers requires the understanding of their essence and causalities.

BACKGROUND

POLITICAL AND ADMINISTRATIVE ORGANIZATION OF FEDERALISM IN RUSSIA

The Russian Federation comprises 89 regions that have different 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).¹ The 89 regions are further subdivided into more than 2,000 districts (municipalities and “rayons”). Although each local administration has an 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 defines the separation of sub-federal and 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 lack of proper regulation and enforcement of separation of powers through the federal laws and inefficiency of the central government during the first years of independence, around 47 subjects of the Russian Federation chose to sign Treaties on the division of authorities and power with the Federal Government as well as 290 agreements on joint jurisdiction (mostly in 1994-98). Most of the Treaties provided for a special tax arrangement with the central authorities and allowed some of the regions to develop their own foreign economic policy. In addition, over 30 regions have drawn up their own constitutions. Overall, most of the Treaties and regional constitutions are believed to directly contravene the Federation’s own constitution, because their provisions undermine the constitutional principle of equality of the Federation’s subjects and lead to the development of separatism. Some separatist movements in a handful of the regions are as follows:

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

¹ Constitution Article 66: (1) The status of a republic is defined by the Constitution and the constitution of the republic in question.(2) The status of a territory, region, federal city, and autonomous region and autonomous area is determined by Constitution and the Charter of the territory, region, city of federal importance, autonomous region, autonomous area, adopted by the legislative (representative) body of the relevant subject of the Russian Federation.

The aforementioned forms of separatism and protectionism are expressed through adopting the regulations (decrees, resolutions, orders, etc.) by regional administrations and/or through conspiratorial agreements between the regional administrations and legal entities operating in their territories. Russian regions have in place a number of regulatory measures directly intervening interregional trade and economic relations, which are expressly forbidden under the WTO rules. These measures include excessive and burdensome regulations in certification and standardization, pricing control, taxation and fees, licensing and quotes, 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 and the Constitution 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 overlook the consistency of regional and local laws and regulations with the federal laws and Constitution. S/he should report any breach in law and poor and/or improper implementation of the federal laws and resolutions by regional authorities to the Chief Control Department of President's Administration as well as to the head of the region. However, due to inefficiency of such an 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), Far Eastern (Khabarovsk). According to the Decree, the institution of Presidential representative in the regions was transferred into the institution of Presidential representatives in the federal districts. The scope of duties and responsibilities of the Presidential representatives remained essentially the same. This decision was in line with the President's policy of strengthening the vertical power.

OVERVIEW OF THE RUSSIAN AGRICULTURAL SECTOR AND POLICY

The Soviet agrifood sector was always known as inefficient and undeveloped. In the last years of the Soviet power, the agricultural growth trends were almost negligible, while the technical and economic efficiency was going down. The Government maintained prices of the basic foodstuff unchangeable for several decades, whereas nominal incomes tended to constantly grow. It caused a chronic food deficit that led to various schemes of consumption rationalization. Furthermore, constant retail prices were accompanied by a rise in procurement prices of agricultural products that were higher than the retail prices in 1980s. Such a policy resulted in increased subsidies, which constituted around 80 percent of the retail prices and overall accounted for one third of the national budget. While the world oil prices went down, this led to a steep reduction in budget revenues. Thus, the Government had to intensively try reforming the agricultural sector within the framework of centrally planned economy. However, neither of those reforms was productive.

Therefore, in the early 1990s, a need in radical reform of the agricultural and food sector became critical to the national economy. The principal tasks of the Russian agrarian reforms were (i) a transformation from the centrally planned system to the market one, (ii) an introduction of more efficient production relations, and (iii) a reduction of the agricultural pressure on the budget. This entails not only the formation of market oriented agricultural producers, but also principally new market infrastructure allowing to efficiently move a product from the field to an end consumer, on the one hand, and efficiently deliver the market information, on the other hand.

Structural Reforms

In the end of 1991, the Russian Government made principal decisions to launch agrarian reforms. All collective farms were to be reorganized during a year. In 1992, a campaign for reorganization of collective farms started, and intended to (i) transfer land and non-land resources to the ownership of the work collectives of agricultural enterprises, (ii) divide these funds by individual shares, and (iii) re-register entities in forms of legal entities allowed 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. This provision accelerated a formation of private farms. Nevertheless, most peasants remained in large collective farms. It was mainly due to the historical stereotypes of collective work, narrow specialization of peasants, lack of market and business knowledge, and the agricultural infrastructure and technologies being more adapted to the large farming industries rather than to small farms. Currently (2001), the rural Russian population makes up around 27 percent of the total population, or 39.2 million.² The share of the agricultural sector in total employment accounts for 13 percent (2000).

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

- *Large State and Collective Farms* were forced officially to reorganize mostly into joint-venture companies. However, the farms' actual organization, managements system, and work incentives have changed insignificantly.
- *Small Household Plots* produce about half of the agricultural output, when comprising only nearly 7 percent of the country's total farmland. Workers on the large farms have small plots that average about half a hectare (or 1.1 acres).
- *Private Farms* represent only a small portion of Russia's agricultural producers. About 290,000 private farms currently existing in Russia account for about 6 percent of the country's farmland and provide only 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 completely independently. During the last few years, the number of private farms stagnated. Obstacles to the growth of private farms include undeveloped markets for obtaining agricultural inputs, selling output, and getting credit.

² Russian National Committee for Statistics, Available online: www.gks.ru

Market Infrastructure Development

In the course of agrarian reforms, a new market infrastructure has been developed. After privatization of the enterprises in catering, retail and processing industries, channels of agricultural sales have become more diversified. They represent an essential part of a new market infrastructure. Thus, the channels of agricultural sales include processing industries, catering, retail stores, city markets, large wholesale mediators, other agricultural producers, consumers (direct sales), and procuring organizations of regional administrations. Agrifood market is now more vertically integrated due to the restricted supply of raw agricultural products as a result of regional restrictions, lack of sufficient market information, and poor contract responsibility. Agrifood processing industries integrate with the agricultural producers and establish their direct retail chains through which their products are distributed. Among the benefits of own retail stores are (i) the low retail price; (ii) guaranteed cash; and (ii) quick inventory turnover. One of the important disadvantages is that vertical integration, like horizontal dominance, leads to barriers to the entry of rival firms.

Components of Domestic Support

The budgetary expenditures for agriculture in Russia remains at the same level with the major industrialized countries. Among the OECD member-countries, a percentage of domestic support for agriculture to GDP varies from almost 0 in New Zealand to around 2 percent in Turkey. Over the period of 1994-1999, the volume of financing of the agricultural sector reduced 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, respectively. It was mainly caused by the overall budgetary restrictions in the country. Currently (2001), the agricultural budget support is rebounding to the level of around 30 percent. The aggregate budgetary support for agriculture can be presented by the main three components such as: the direct budgetary support for the agricultural producers (43 percent), the financing of common services (42 percent), and the food funds (15 percent). In 1999, the regional agricultural budgets were composed of 43 percent of the direct budgetary support for the agricultural producers, 36 percent of the financing of common services, and 21 percent of the food funds. The main programs of support are as follows: the direct additional payment to price (livestock subsidies), minimal guaranteed prices, subsidization of inputs (fertilizers, power, gas, seeds, etc.), and credit programs.

Current Trends in the Agricultural Production, Trade, Investment, Insolvency, Loaning, and Land Reform.

Economic reforms substantially reduced agricultural production, both livestock and crops. The livestock sector, both herds and production, 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 in the livestock production also contributed to a decline in grain output, because smaller livestock herds require less feed grain. Like

the livestock sector, the crop production also suffered from worsening terms of trade. However, due to the extreme depreciation of the Russian ruble after the 1998 crisis and, therefore, the increased price competitiveness of domestic production vis-à-vis imports, the Russian agricultural sector began rebounding.

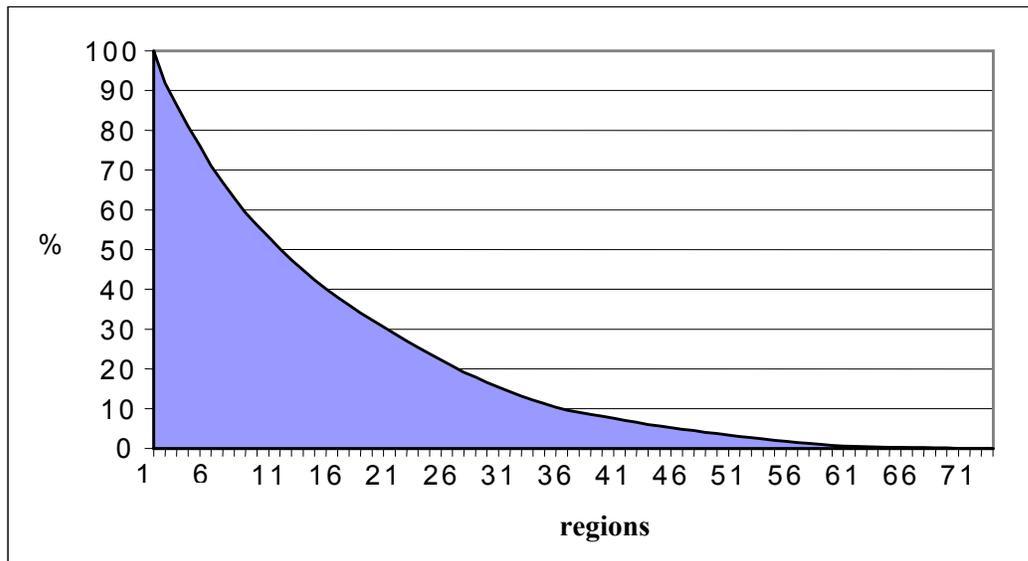
Agricultural Production

Among the major crops grown in Russia are grain, sugar beet, sunflower seeds, and vegetables. Cattle, poultry, milk, and eggs are the major products of the Russian livestock breeding. In 2001, the growth in agricultural sector continued, accounting for 6 percent (in 1999 – 4 percent, in 2000 – 7 percent). It was mainly due to the crops production increase (14 percent). Thus, the Russian total grain production has increased by estimate 20 percent from 65.5 million tons in 2000 to 82 millions in 2001, with wheat and barley growing from 35.5 to 44.5 million tons, and from 14.1 to 19.5 million tons, respectively. In 2001, livestock output, including cattle and poultry, dropped negligibly by 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 territory³. Moreover, it is distributed quite unevenly across the country: 14 regions produces more than 40 percent of the overall agricultural outcome; half of grain production is ensured by 12 regions (see Figure 1); more than a half of sugar beets and oilseeds is produced by 4 regions.

Figure 1 – Regional Distribution of Grain Production (1995-1999)



³ In contrast, the share of agricultural land in Ukraine and Kazakhstan amounts to nearly 70 percent of the entire territories, and in the U.S. it accounts for 53 percent

Livestock and potatoes 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 such products.

Agricultural Trade

During the Soviet period, the USSR imported large amounts of grain, soybeans, and soybean meal. The main reason for the high imports of grain and soybeans was the state-driven expansion of the livestock sector during the 1970's and 1980's, which 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 the severely reduced livestock sector during reforms, imports of grain reduced considerably from averaged 37 million tons a year in 1980s to a few millions in late 1990s. On the other hand, imports of meat and other high-value products, such as processed foods, fruit, and beverages, have grown significantly. However, the economic crisis that began in August 1998 undermined Russia's imports of food substantially. After plunging to extremely low levels in late 1998, agricultural imports recovered a bit in 1999. Imports of most agricultural and food products currently are estimated at about 60 percent of the level of the pre-crisis period. Imports dropped because the crisis reduced consumers' real incomes, thereby decreasing demand for food in general, and the severe crisis-induced depreciation of the ruble made imported food more expensive compared to the Russian domestic output.

Currently, the agricultural growth is accompanied by a notable increase in imports, which is associated with a decrease in price advantages of the major domestic products caused by the 1998 crisis. In 2001 (1st half), the rise in imports was mainly due to increase in import of meat (by 210 percent), poultry (by 301 percent), fish (by 210 percent), butter (by 310 percent), cacao-based products (210 percent), and alcoholic and non-alcoholic beverages (38.6 percent). Wheat imports decreased significantly by more than 60 percent relative to the previous year due to the increased harvest domestically. Thus, a trend of import substitution is now diminishing. Macroeconomic stabilization and the real incomes growth of 5.4 percent in 2001 are the main reasons for the growth of both the Russian agricultural imports and production. Another cause of the Russian agricultural sector's growth is an evolution of its specialization in the world division of labor: for some product groups Russia rehabilitates its positions as a net-importer as ruble gets stronger, for the others – it ensures stable competitive positions in the world markets. Thus, the share of agricultural merchandise in total Russian exports increases. 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 U.S.

Insolvency of the Agricultural Entities

Insolvency of agricultural enterprises, absence of developed financial market for the agriculture, and budget constraints of the agricultural support characterize the current financial situation and perspectives of Russia's agricultural development. Financial results of agricultural businesses began deteriorating since 1991. Thus, in 1992 the share of insolvent entities in the Russian agriculture made up 14.7 percent; and in 1997 – 78.1 percent. However, since 1999 the situation has been improving, with the share of insolvent entities decreasing from 61 percent to 54 percent in 2000. In spite of the downward trend in the agricultural insolvency, indebtedness of agricultural enterprises has not improved. According to the State Committee for Statistics, the share of indebted agricultural entities increased from 80 percent in 1998 to 90 percent in 2001.⁴ In order to ensure recovery and boost in agricultural production, the federal government launched debt restructuring in year 2001.⁵ According to the Government's resolution, the agribusinesses arrears of payments to the federal budget and non-budget funds, including penalties, were subject to a write-off.

Investments in the Agricultural Sector

Affected by the lack of credit resources and a steep reduction of budget financing in 1990s, the Russian agriculture extremely needs investments. Agriculture is much behind other sectors of the Russian economy with respect to investment. In 1992 agriculture made up some 11 percent of overall investments, whereas in 1999 it amounted to only 3.2 percent. Although during the last years (1999-2000) investment in agricultural enterprises increased almost by 200 percent⁶, the problem of obsolescence of the agricultural assets remains critical. In 2001, the agricultural investment continued to grow. The major foreign investors in the Russian agri-food sector are from the EU and the U.S.

A low level of foreign direct investment in Russian agriculture reflects a poor investment attractiveness of the Russian economy as a whole. Despite the vast natural resources and highly qualified labor, the annual per capita foreign direct investment in Russia in 1994-1999 amounted to \$20, while this indicator constituted to \$220 in Hungary and \$134 in the Czech Republic. The most important investment barriers in the Russian agricultural sector are as follows:

- Economic instability;
- Poor law enforcement;
- Lack of transparency in customs and tax procedures;
- Poor law abidance;
- Interregional administrative barriers and red tape;
- Undeveloped investment infrastructure leading to high transaction costs;

⁴ Bulletin 3 (9), 2001, Institute for Economies in Transition, Analytical Center for Agrifood Economics

⁵ The Russian Government's Resolution "On rules and terms of debt restructuring for the agricultural enterprises in 2001", June 2001

⁶ Overall investment in Russian agriculture increased from 5.2 billion rubles in the first half of 1999 to 9.5 billion rubles in the first half of 2000. Foreign direct investment increased from 8.8 million U.S. dollars to 16 million U.S. dollars over the same period (Institute for Economies in Transition, Moscow)

- Incompliance of bookkeeping and reporting rules and procedures to international standards;
- Poor land law in respect to agricultural land.

Among the positive facets of the Russian agricultural investment climate are tax benefits, big market capacity, and low-wage workforce. Insolvency, lack of credit resources, and high transaction costs of the agricultural production and sales result in the intensification of processes of vertical cooperation and integration. Vertical cooperation involves not only processing industries, but also other sectors of the Russian economy such as energy industry. As a result, some agricultural businesses receive financing through the non-bank schemes of investment and crediting.

Agricultural Crediting and Leasing

Since the beginning of reforms in early 1990s, the Russian Ministry of Agriculture and Food has undertaken a number of efforts to develop efficient credit programs to support the Russian agriculture. However, all these endeavors were unsuccessful mainly due to significant leverages of the regional authorities in administering and distributing the loans. Financial institutions in Russia's agriculture are still undeveloped. Financial markets in the agricultural market represent somewhat stagnating quasi-markets. There are still substantial financial, economic, and institutional obstacles to the development of the efficient system for the agricultural credit. Some of the obstacles are as follows:

- *Lack of banks specializing in agriculture.* Existent commercial banks do not have sufficient expertise in crediting agricultural entities, which leads to the increasing regional administrations' influence and role in administering the agricultural credits.
- *Absence of mortgage, and indebtedness of agricultural enterprises.* Since the existent land legislation does not provide for sale of the agricultural land, agricultural businesses cannot use their land as a mortgage.

In 2000, a principally new mechanism of a seasonal credit support was introduced. An interest rate of the seasonal credits is subsidized by the means of the Agricultural Preferential Loan Fund⁷ at the moment of credit repayment at any commercial bank.⁸ Subsidization is carried out at the amount of one third of the Russia's Central Bank's refinancing rate. The Federal Government believes that such a scheme will be efficient, because the preferential interest rate as well as the risk distribution will increase the credit potential of the agriculture, whereas crediting remains commercial. Banks involved in the agriculture are expected to develop the corresponding institutional structure and accumulate necessary expertise. Therefore, there will be a banking sector specializing in agriculture. More importantly, the new mechanism reduces the red tape and the negative consequences associated with it.

⁷ The Agricultural Preferential Loan Fund was founded in 1997.

⁸ Previously, preferential crediting was carried out through the corresponding banks across the Federation that were selected to work with the Agricultural Preferential Crediting Fund

In March 2000, the Federal Government founded a state bank “Rosselkhozbank” to run the preferential crediting of agriculture. However, it started providing credits only in September 2001. By the end of 2001, it should have spent 1 billion Rubles allocated from the federal budget.

In 1994, the Federal Government established the Leasing Fund and assigned a private company “Rosagrosnab” to buy agricultural equipment and lease it to agricultural producers. Agricultural equipment, ordered by “Rosagrosnab” was distributed among the Russian regions. In turn, the regional administrations were in charge of further distribution throughout the local districts. Therefore, the leasing mechanism was very similar to the old Soviet centralized approaches. As a result, the following problems occurred:

- “Rosagrosnab”, enjoying its monopolistic power, increased leasing fees and charged some other different fees such as the ones for marketing, insurance, etc;
- Russian producers of agricultural equipment increased prices of their products as a result of excessive demand for them;
- Regional administrative distribution led to the red tape, corruption, and the conditioning of leasing on the agribusinesses’ freedom of marketing and distribution of their products⁹.

In June 2001, the Federal Government adopted a resolution “On improvement of leasing activities in the agricultural sector.” According to the resolution, a state enterprise “Rosagroleasing” was created and all the budgetary funds allocated to leasing were transferred to its equity. Thus, “Rosagroleasing” replaced the old monopoly “Rosagrosnab”, thereby inheriting all its problems.

Agricultural Land Market

The land reform is underway in Russia, but far from complete. There are around 12 million owners of land shares. Nearly 10 percent of agricultural lands represent private property of physical or legal entities, with another 56 percent in collective enterprises in which peasants own land shares¹⁰. Land registration and cadastre is progressing. However, land regulation has always been a politically sensitive issue in the Russian Federation. While the Russian Constitution guarantees the right for private land ownership, land legislation has been contradictory and poorly developed until recently. In spite of the constant resistance of the communist party, the State Duma (Parliament) adopted a new Land Code on October 25, 2001. However, the Land Code regulates only urban lands, while providing for general rules of the agricultural land use. According to the Code, agricultural land circulation shall be regulated by a separate law on agricultural land circulation. On November 14, 2001, deputies of the State Duma representing the

⁹ In October 2001, The Minister of Agriculture of the Rostov Region warned farmers not to sell oilseeds outside the region, otherwise, they would be prohibited to use credits and leasing by the Rostov Region’s Administration, Online Magazine “Agrokuban”, 10/26/2001

¹⁰ Csaba Csaki, Vera A. Matusevich, John D. Nash, Agricultural Policy Issues for Russia, ECSSD, World Bank, Page 7

faction of the “Union of Right Forces” party proposed a draft law on Circulation of Agricultural Lands that passed the first hearing in December 2001, and is subject to the second hearing in the 2002-spring session of the State Duma. However, there are two more draft laws on Circulation of Agricultural Lands proposed by the deputies of “Fatherland – All Russia, and the Russian Government, respectively. Also, the State Duma deputies representing such parties as “Yabloko”, “People’s Deputy,” “Russian Regions,” “Fartherland – All Russia,” and “Unity,” proposed a draft law on Regulation of Agricultural Land Mortgage, which was marked-up by the Council of the State Duma in April 2001, and is subject to hearing in the 2002-spring session of the State Duma.

Due to the lack of land regulation, the regional authorities began designing their own land legislation. Especially, it was clearly expressed in those regions where authorities were pursuing the liberal economic reforms. Developing of own land laws was also caused by the competition for foreign investment among the regions, because the liberal land law serves as a favorable signal to foreign investors. However, while liberal regions were developing liberal land laws, some Russian regions were practicing restrictions on land property rights and circulation. According to a survey conducted by the Institute for Transition Economies, 17 percent of the Russian regions have restrictive land regulation. The lack of legal framework for land regulation at the federal and regional levels creates incentives for a shadow land market. For instance, many land transactions are executed by farmers in a form of gifts or heritage, thereby bypassing the corresponding authorities and evading taxation

The most contentious issue in land relations is a legitimacy of land circulation. The Russian regions can be divided into three categories depending on their attitude to land regulation:

- Regions, where local authorities permit land transactions through the regional land law that allow land circulation almost without restrictions
- Regions, where local legislatures and/or executives are opposed to free circulation of land
- Regions, recognizing private property on land and starting, in fact, to shape the land market. However, these regions either have no relevant legal framework, only begin to draft land laws, or have land laws and regulations with fairly essential loopholes and limitations

The federal government is now pursuing its policy of bringing the regional land laws into conformity with a new Land Code through the presidential representative offices in the federal districts. The State Duma is currently focused on considering the two aforementioned laws on the agricultural land circulation and mortgage.

REGIONAL BUDGET SUPPORT FOR THE RUSSIAN AGRICULTURAL SECTOR

Regionalization of the Russian Agrarian Policy

The Russian agrarian policy is largely regionalized. Since 1993, the federal government delegated the regional authorities functions of maintaining the food market, securing food provision at sub-national level, and developing agrifood policy. It is expressed in the correlation of expenditures for agriculture between the federal and regional budgets. Thus, around 70 percent of the aggregate budgetary support is carried out by the regional budgets, whereas the federal budget covers only 30 percent. In contrast, in some federative states, such as the USA and Germany, the federal budgets are responsible for the most part of the agricultural expenditures (75-90 percent). This allows them to pursue a united agrarian policy without fragmentizing the agricultural markets by regions, which currently occurs in Russia. When products supported by one region becomes unfairly competitive versus the products from another regions, the massive regional support in agriculture leads to the interregional trade conflicts.

Procurement: Federal Funds versus Regional Funds

The turning point in establishing the food markets in the agrifood sector was the abolition of the state procurement and distribution system for the agricultural raw products and food at a federal level. While the federal procurement mechanism has almost disappeared, most Russian regions carry out the agricultural procurement. Currently, procurement is not a form of obligatory supplies by the agricultural producers to the state funds. It is an order placed by the government for the private trade corporations to procure products to the federal and/or regional funds.

In 1993, the state food fund was divided into *the federal* and *the regional funds*. The federal funds were to secure “the national needs”, such as the ones of the army, northern regions, federal cities (Moscow and St. Petersburg), state reserve, and environmentally unfavorable regions. The regional funds are formed to satisfy needs of the regions subject to their own determination of those needs. The federal funds have been permanently changing in terms of approaches to contractors and procurers, volumes and nomenclature of shipments, funds consumers, and procurement pricing. Thus, procurement prices have evolved from establishment of fixed prices (until 1994), average procurement prices (1994), minimal guaranteed prices (1995) to the introduction of the guaranteed procurement prices in 1998. Despite the fact that the guaranteed prices are estimated based on the regional and import prices, they usually are below the real market prices. The regional authorities contract local food trade corporations to carry out the agricultural procurement in the regional funds. The regional funds are more complex than the federal ones, because the rules and principles of creating and using the regional funds were left to the regions themselves to decide. Thus, the absence of the federal legal norms defining the objectives and principles of the regional funds led to different approaches and conceptions as to how to form and use the funds. There are three common models currently used for establishing the regional funds:

- *Liberal Model* – The regional administrations refrain from the market interference, while controlling only “critical” part of the regional food consumption, which includes securing food for hospitals, schools, reserves, etc.;
- *Administrative-Command Model* – Food volumes in the regional funds are almost equal to the consumption in the regions; food supply is obligatory; food is distributed to the enterprises/consumers through the funds; contracts are under the regional authorities’ control; administrations set fixed procurement prices;
- *Intermediary Model* – The regional authorities continue determining volumes of procurement, however, they are not anymore able to physically ensure the procurement.

What model to use in developing the regional food funds depends on the following factors:

- *Political priorities of regional authorities*: liberalization versus resumption of centralized economy;
- *Real power*: availability and/or effectiveness of political leverages necessary to govern the food funds;
- *Financial funds*: regional budgets’ sufficiency to run the food funds.

In August 2001, the Federal Government made a decision to retain control over the regulation of the agri-food market in the Russian Federation through state procurement and commodity intervention.¹¹ According to the Resolution, the Federal Agency for Regulation of Food Market of the Ministry of Agriculture is responsible for the creation and administration of the federal food intervention fund. The Ministry of Agriculture sets the ceiling and floor prices for the agricultural products for launching procurement and commodity intervention, and for the discontinuation of intervention. Procurement and commodity intervention are carried out through the commodity exchanges that are selected by the Ministry of Agriculture on a tender basis. Meanwhile, the regional procurement and intervention have not been abolished.

EVOLUTION OF AGRICULTURAL PROTECTIONISM IN THE RUSSIAN REGIONS

1993

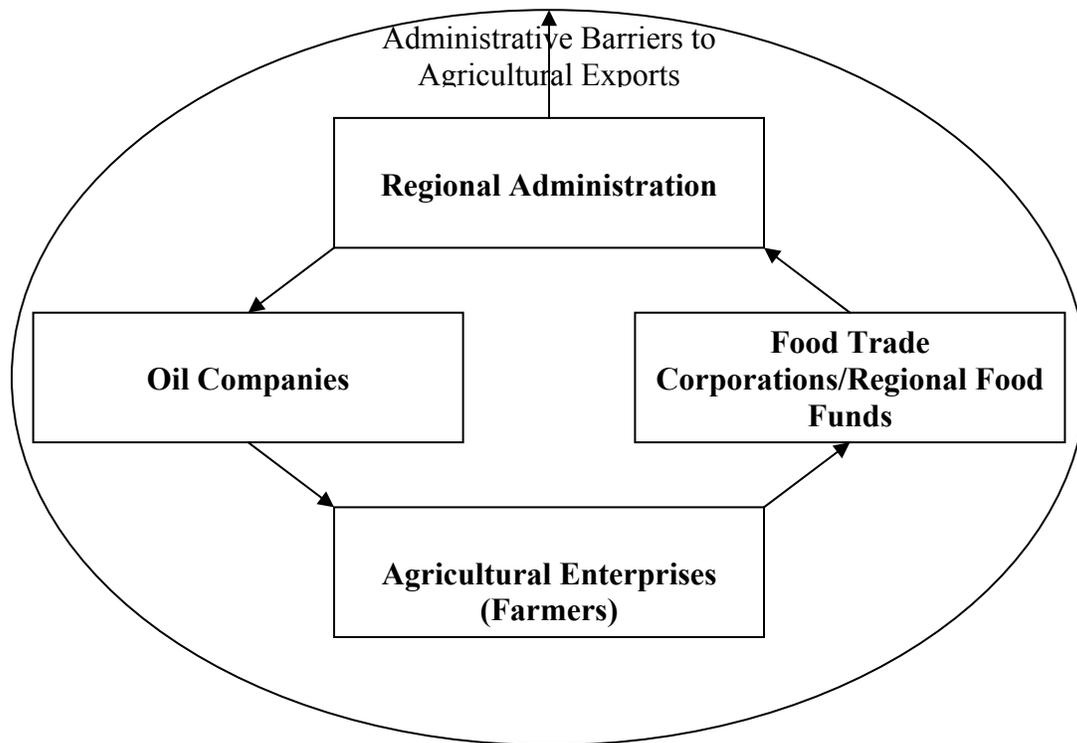
Administrative restrictions of goods movement began underway in the early years of reforms (1993). Those restrictions were associated with delegating the administration of support programs of cattle breeding from the federal to the regional level. As a consequence, the regional authorities began restricting the exportation of the subsidized products, arguing that subsidized goods should be distributed within their territories.

¹¹ Resolution of the Russian Government dated August 3, 2001 on Rules of the Implementation of State Procurement and Commodity Intervention for Market Regulation in the Agricultural Products, Raw Materials, and Food

1995

The next splash of the administrative barriers was caused by the introduction of the federal program for the commodity credits. Launched by the federal government in 1995 and suspended in 1997, commodity credits are still in place at the regional level. Under the commodity credits, regional administrations provide farmers with inputs such as gasoline and other oil products. One of the varieties of the commodity credits is when the oil companies supply farmers with oil products, thereby paying off their tax liabilities (see Figure 2). The oil companies are assigned to certain regions. The regional authorities require borrowers to pay the commodity credits by shipments of their agricultural products to the regional food funds. Lacking sufficient working capital for purchasing inputs, the agricultural producers have to accept such terms. Thus, farmers sell significant portion of their production to the regional funds at the understated prices, whereas the oil companies often quote their prices at 20-30% higher than the average market prices. Furthermore, in order to ensure commodity credit repayment, the regional authorities restrict the outflow of the products until credits are repaid.

Figure 2



1997

The regional governments launched their own crediting programs based on their budget resources. Since most of the farmers were in substantial arrears and had the bank accounts blocked, they intended to trade the goods in a “shadow” by cash. According to the estimates of the Institute of Economy in Transition, only around 20% of agricultural sales were carried out through banks. Having no tools and leverages to control farmers’ revenues, and thereby guarantee the repayment of credit, the regional administration had to impose seasonal restrictions on agricultural exports until credit repayment was made.

1998

The 1998 economic crisis provoked a new wave of agricultural trade barriers. The Russian Ruble’s depreciation led to the collapse of the foodstuff imports. Thus the central regions, mostly Moscow and St Petersburg, still remaining the financial centers, faced problems with foodstuff supplies. Wholesale procurers from these regions rushed into search for domestic products all across the country. Fearing the possible foodstuff deficit as a result of a great demand from the money abundant regions, the other regions had to prohibit the exportation of foodstuff from their territories. However, those prohibitions were later abolished.

RUSSIA’S WTO ACCESSION

The WTO accession gives a nation a number of advantages. The acquisition of those advantages is a primary goal of the accession. Russia pursues the following objectives in the WTO accession:

- The non-discriminatory treatment for the Russian goods in foreign markets;
- Access to the dispute settlement mechanism for solving the trade disputes;
- The creation of more favorable regime for the foreign investment as a consequence of bringing the domestic legislation into conformity with the WTO requirements;
- Broadening of the opportunities for the Russian investors in the WTO member countries;
- Creation of conditions for increasing the quality and the competitiveness of domestic produces as a result of the increased inflow of foreign goods, services, and investment;
- Participation in developing the international trade rules taking into account the national interests;
- Improvement of a national image of Russia as a full member of the international trade system.

So far, there have been 12 meetings of the Working Group, where the following questions have been discussed: agricultural sector support, intellectual property rights, customs evaluation, tariffs, sanitary and phitosanitary measures, technical barriers, trade in services (banking, insurance, tourism, etc.), 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 completion of the Uruguay Round and the foundation of the World Trade Organization (WTO) the Russian Government officially applied to accede to the WTO.
- In September 1995 during the meeting of the Russian Government the principles of developing the negotiating process were determined.
- In July 1995 the first meeting of the Working Group on Russia's WTO accession took place, where the discussion of the Memorandum started.

INTERBUDGETARY RELATIONS IN THE RUSSIAN FEDERATION

In summer 2001, the Russian Government approved the Program on Development of Budget Federalism in the Russian Federation over the period of 2005. The adoption of the program was in line with the announced reforms of the interbudgetary relations in 1998. The Government's conception set the priority tasks for improvement of such key elements of the budgetary relations between the national and sub-national levels as the distribution of tax revenues and tax jurisdictions, and the reformation of the mechanism for the federal financial support to the Russian regions. The main objective of the reforms is to centralize the budgetary revenues and adequately increase the amounts of the federal financial support to the regions, thereby increasing the significance of the federal budget as a mechanism of the interregional redistribution of the budgetary resources. As a consequence, this will improve the interregional equality of the regional authorities to efficiently provide welfare to the regional population.

Presently, the main source of non-for-purpose financial support to the regional budgets is the Fund for Regional Financial Support (FRFS). The means of the Fund is distributed in accordance with the unified method for all the regions, which is based upon evaluation of tax potential and expenditures needs of the regional budgets. While the share of the tax revenues of the regional budgets in the consolidated budget has been declining for the last several years (from 54% in 1998 to 37% in 2001), the aggregate revenues of the regional budgets, including financial support from the federal budget, remain stable (around 50%). The share of the regional expenditures in the aggregate budget expenditures has been increasing for the last two year (from 47% in 1999 to 57% in 2001). The Federal government increased transfers from the FRFS from 0.99% of GDP in 1999 to 1.14% in 2001. Among other important sources of the federal financial support to the regions are dotations & subventions, Fund of Social Compensation, Road Fund, and Fund of Regional Development. The dotations & subventions increased from 0.09% of GDP in 1999 to 0.54% in 2001. The financing through the Road Fund grew from 0.18% of GDP in 1999 to 0.27% in 2001. In 2001, the financing through the Fund of Social Compensation amounted to 0.37% of GDP, whereas the Fund of Regional Development made up only around 0.05%. Mirroring the situation on 2001, the main portion of the

federal financial support to the sub-national budgets in 2002 is planned to be on account of the Fund for Regional Financial Support (1.62 of GDP) and Fund of Social Compensation (0.45% of GDP). As a share of the overall federal support, these two funds are to make up 68 percent in 2002, while they amounted to 66 percent in 2001.¹²

POLITICAL BACKGROUND

The political background section provides an overview of the main stakeholders and their interests. The following driving forces currently formulate the current agrarian and common market policies of the Russian Federation: (i) Executive branch (Presidential Administration, Ministry of Agriculture and Food, Ministry of Economic Development and Trade, Ministry of Antitrust and Entrepreneurial Support, Regional Authorities), (ii) Legislative branch (Federal Assembly – State Duma (Lower House) and Federation Council (Upper House), Political Parties and Blocks), (iii) Agro-industrial Business Associations and Farmers Associations, and (iv) Research and Consulting Organizations.

Executive Branch

Presidential Administration

The Russian President is a major figure in determining and pursuing 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; appoint and dismiss Chairman's deputies, federal ministries, and plenipotentiary representatives of the Russian President. At the outset of his power, the current President, Vladimir Putin, pledged to pursue market-oriented economic reforms and set a priority of pushing forward the institutional and legislative initiatives to strengthen the vertical power in the Russian Federation. The policy of Vladimir Putin is aimed at achieving the political cooperation between the federal government, the parliament, and the regional authorities, while ensuring the principle of the federal loyalty. During his meetings with Western leaders, the President emphasized the desirability and serious intention of a rapid accession into the WTO.

Ministry of Agriculture and Food

Headed by Mr. Avdeev, the Ministry of Agriculture and Food of the Russian Federation is the major governmental body responsible for the agrarian policy in Russia. As in many countries, the Ministry is considered to be the major lobbying force for the agricultural interests in the Cabinet of Ministers. It administers the federal agricultural budget, elaborates the agri-food programs and introduces them to the Cabinet of Ministers for approval. Considering the strict budgetary restrictions, the main objective of the Ministry's officials is not only lobbying for the raise in the agricultural budget, but also establishing of programs strengthening the Ministry's influence through distribution of resources. The Ministry of Agriculture and Food in cooperation with the regional

¹² "Russian Economy – Trends and Perspectives", Annual Report, Institute for Economies in Transition, Moscow, 2002

governments administers the regional agricultural bodies, such as regional departments of agriculture or ministries. In cooperation with the Ministry of Economic Development and Trade, it is involved in the WTO accession process.

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

- Establishment of a regime for the unimpeded movement of goods, services, and resources across the country;
- Developing of exchange and other mechanisms to ensure the formation of the organized agri-food markets;
- Realization of a common antitrust policy in the agricultural sector;
- Supporting formation and regulation of the agri-food markets;
- Developing of agricultural land policy and legislation;
- Promoting of the multi-channel system of agricultural financing;
- Unification of regional support programs with the 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 of the Russian Federation is a federal executive body responsible for developing and implementing the national socio-economic policy, including trade policy; determining the ways of economic development and regulation. The Ministry carries out its jurisdictions in cooperation with the federal executive agencies, regional and local authorities, and non-governmental organizations. It operates through its representative 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 a principal goal for the federal regional policy, which is the strengthening of the united social and economic space of the Russian Federation basing on developing the federative economic relations. To achieve this goal, the following tasks are identified to carry out:

- Acceleration of the interregional integration process;
- Reduction of differentiation in levels of regions' socio-economic development;
- Ensuring of a free movement of goods, services, and capital across the Federation;
- Ensuring of equally competitive conditions in economic activity;
- Creation of conditions for the 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 the Minister's position was supported by the President.

Ministry of Antitrust Policy and Entrepreneurial Support

Ministry of Antitrust Policy and Entrepreneurial Support of the Russian Federation is a federal executive agency responsible for the national policy in prevention, restriction, and elimination of monopolistic activity, unfair competition; development of entrepreneurship and competition in commodity markets. The Minister, Mr. Yuzhanov, is originally from St.Petersburg, where he worked in one team with President Putin at 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 a primary governmental agency dealing with the interregional barriers in the Russian Federation. As of the year of 2000, the Ministry had prevented more than 1,000 illegal actions of both the regional and local authorities aimed at restricting the competition in commodity markets.

Regional Authorities

The 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 main goal for the regional leaders in the agricultural policy is the strengthening of the regional power in its formulation and the distribution of financial flows in the agriculture. The primary constituencies of the regional authorities' in the agricultural regions of Russia are the representatives of the agribusiness industry. In order to ensure support for the agribusiness industry, including regional food trade corporations and food processors, the regional authorities take various administrative measures to protect the former's interests. By reducing competition in agricultural commodity markets from other regions and foreign countries and, thereby, contributing to the positive financial results of their constituencies, the regional governments also get more taxes to the regional budgets in order to be able to effectively conduct regional social policies. Also, the regional authorities support their rural constituencies represented by farmers through various regional support programs including subsidies, credits, leasing, and so on.

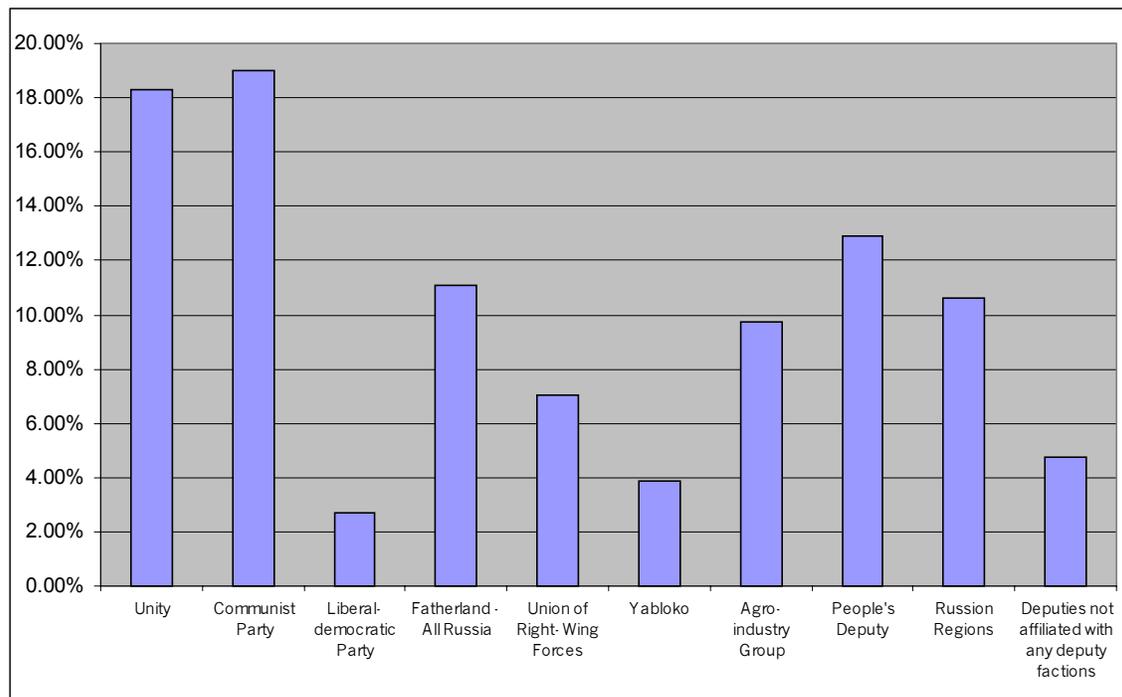
Legislative Branch

The State Duma

Federal Assembly is another influential body in formulating the Russian agricultural policy. The current political division in the *State Duma (Lower House of the Federal Assembly)* is characterized by the majority of the 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", which are

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 the 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 territory of the Russian Federation. As to the agricultural land regulation, the most opposing parties are the Communist Party and the Agrarian Party. In particular, they are both opposed to the idea of the foreigners’ ownership right in respect to the agricultural land.

Figure 3. Political Division in the State Duma (third congress)



According to the Article 19 of the State Duma Regulations, the main tasks of the Duma’s Committees are the following:

- to expertise the drafts of legal acts;
- to prepare resolutions on laws and amendments to laws;
- to initiate the parliament’s discussions on specific issues;
- to comment the respective articles of draft federal budget.

The Committee for Agrarian Affairs consisting of its 18 members is chaired by a representative of the Agro-industrial Faction. While all but two (“Yabloko” and the Liberal Democrats) factions have their representatives in the Committee, the most represented faction is the Agro-industrial faction represented by eight members. With Communists represented by only one deputy, the left opposition in the Committee makes up a fairly half of total number of the Committee’s members. The Committee for Economic Policy and Entrepreneurship, composed of 12 members, is headed by a

communist. The Committee's political distribution is quite equal with a slight overrepresentation of the Communists: Communists – 3 members, Agrarians – 2, "Russian Regions" – 2, "Fatherland – All Russia" – 1, "Unity" – 2, "Union of Right-Wing Forces" – 2. The Committee for the Federative Affairs and Regional Policy composed of 15 members is chaired by a communist. The majority of the members is represented by "Russian Regions" and the Communist Party – 5 and 4, respectively. The State Duma assembles twice a year: in spring – from January 12 to June 20, and in fall – from September 1 to December 25. However, it can extend its work before going to recess, subject to the urgency and significance of the bills considered.

The following is an overview of the parliamentary factions and their positions based on the voting on legislation falling into the Economic Policy category over the period of 2000-2001:

"Unity"

"Unity" is a political party affiliated with many prominent Russian politicians, including Russian President Vladimir Putin and 38 Russian governors who were one of the founders of the party. The legislative activity of the party's faction in the State Duma is in line with the Government's political, economic, and social course. The faction's positions on considered legislation were mostly 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%). Discordance mostly came from the Communist Party and the Agro-industrial Faction (Agrarian Party) who supported only 46.4% of the bills approved by "Unity". "Union of Right-Wing Forces" supported 64.3% of the Unity's approved bills, whereas Liberal Democrats gave their support only to the 50% of the bills.

"Fatherland – All Russia"

"Fatherland – All Russia" is a political party organized by such prominent political figures as a former Prime Minister Evgeniy Primakov, a Moscow mayor Yuriy Luzhkov, and a 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 the bills on Circulation of Agricultural Lands and on Regulation of Agricultural Land Mortgage. The faction's 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 around 62.2%, "Union of Right-Wing Forces" – 59.5%, Liberal Democrats – 43.2%, "Yabloko" – 64.9%, and the Agro-industrial Faction - 62.2%.

"Russian Regions"

The parliamentary faction "Russian Regions," established as a union of independent deputies in 2000, works actively on legislation for the regional socio-economic development. One of its initiatives in this area was the bill on the Basic Principles of the Financial Support to the Depressed Territories of the Russian Federation that was passed during the first hearing in the 2001 fall session. The faction's deputies are also actively

involved in the issues of separation of powers, which is currently being discussed within the Commission on Separation of Powers and Objects of Competence. The following are the factions that favored most the legislation supported by “Russian Regions”: “Fatherland – All Russia” (86.8%), “People’s Deputy” (84.2%), Communist Party (73.7%), Agro-industrial Faction (71.1%). Faction of “Unity” supported around 57.9% of “Russian Regions” positions, Liberal Democrats – 39.5%, “Union of Right-Wing Forces” – 50%, and “Yabloko” – 60.5%.

“Union of Right-Wing Forces”

“Union of Right-Wing Forces” is a democratic political party organized by such influential politicians as a former Prime Minister Egor Gaydar, a former Prime Minister Sergey Kiriyenko, a former deputy Prime Minister Boris Nemtsov, and a former deputy Prime Minister and former Presidential Administration Head Anatoliy Chubays. Some of these people are still in power, for instance, Mr. Chubays heads the Russian electricity giant Unified Energy Systems. The party is strong on developing the liberal democratic economic reform, the rule of law, and the constitutional principles of federalism and local self-government. The party’s economic views and positions are influenced by Mr. Gaydar’s think-tank, the Institute for Economies in Transition. Its positions on considered economic legislation were supported mostly by “Russian Regions” (89.2%), “People’s Deputy” (86.5%), “Unity” (67.6%), and “Fatherland – All Russia” (67.6%). Positions of the Communist Party, the Agro-industrial Faction, “Yabloko”, and the Liberal Democrats coincided with the faction’s positions by 62.2%, 62.2%, 64.9%, and 43.2%, respectively.

“Yabloko”

“Yabloko” is a democratic political party headed by a well-known economist Grigoriy Yavlinskiy. The party’s goals are targeted at a social market economy and development of the rule of law and democracy. The Party’s Program clearly sets strategy and tasks at pursuing strict anti-trust policy; developing the market-oriented agricultural credit and land regulation that would help farmers operate efficiently; and developing rural infrastructure. One of the critical problems pinpointed in the Program is the understating of procurement prices by the monopolistic trade corporations. Even though “Yabloko” and “Union of Right-Wing Forces” seem to be close in their views at the market economy and democracy, “Yabloko” believes that the ideas of liberal market reforms sponsored by the leadership of “Union of Right-Wing Forces” are detrimental to the majority of the Russian population. The factions with the closest positions to the ones of “Yabloko” were “Fatherland – All Russia” (80%), “People’s Deputy” (76.7%) “Russian Regions” (76.7%), and “Unity” (66.7%). The following factions supported “Yabloko” less: “Union of Right-Wing Forces” (63.3%), the Agro-industrial Faction (50%), the Communist Party (50%), and the Liberal Democrats (33.3%).

Liberal Democrats

The Liberal Democratic Party of Russia (LDPR) is characterized by its populist views aimed at increasing its electorate. Among these views are democracy, protection of domestic producers, social protection of the population, and strengthening of the federal state power. The following factions’ positions most coincided with the ones of the Liberal

Democrats: “Fatherland – All Russia” (72.7%), and “Russian Regions” (68.2%). The faction of “Unity” supported 63.6% of the bills approved by the Liberal Democrats, “People’s Deputy” – 63.6%, the Communist Party – 59.1%, the Agro-Industrial Faction – 59.1%, “Union of Right-Wing Forces” – 50%, and “Yabloko” – 45.5%.

“People’s Deputy”

“People’s Deputy” is a parliamentary faction consolidated in 2000. Among its primary positions are (i) a united constitutional and juristic space in Russia as a guarantee of national security, (ii) a social welfare of the population, (iii) a modernization of national economy, (iv) a land law as an effective stimulator of the agricultural development, (v) a united economic space, free movement of goods, services, capital, and labor within the Federation. The positions of the following factions were the closest to that of “People’s Deputy”: “Fatherland – All Russia” (88.9%), “Russian Regions” (88.9%), and “Unity” (69.4%). The Communist Party, the Agro-industrial Faction, “Yabloko” each favored 63.9% of the legislation supported by “People’s Deputy”; “Union of Right-Wing Forces” – 52.8%, and the Liberal Democrats – 38.9%.

The Communist Party of the Russian Federation

As a successor of the Communist Party of the Soviet Union, the Communist Party of the Russian Federation is characterized by the communist views on social and economic development of the country. For instance, it is strictly opposed to privatization and the right for foreigners to own the agricultural land. Due to the changed political conditions, unlike its predecessor, the Communist Party has to cooperate with the present executive authorities and its parliamentary counterparts in developing the laws based on market and democratic principles. However, it always wants to make the laws as much social-oriented as possible often biased against the market efficiency and democratic principles originally 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%). The faction of “Fatherland – All Russia” and “People’s Deputy” each supported 62.2% of the legislation approved by the Communist Party; “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 is a parliamentary group representing the interests of the Agrarian Party (AP). The Agrarian Party of Russia is the most influential party in developing the agricultural policy. The backbone of the Agrarian Party consists of the former soviet and communist agricultural “*nomenklatura*” (directors and their deputies of kolkhozes (collective farms) and local administrators). In line with the Communist Party, the faction provides its strongest opposition to any market-oriented agricultural issue. The Agrarian Faction’s political weight is measured by the amount of the national agricultural budget. The struggle is mainly around the directions of the domestic agricultural support. The leadership of the party is well connected to large agribusiness. Among the program objectives of the AP 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.

Federal Council

Federal Council is the Upper House of the Federal Assembly of the Russian Federation. The Council's chairman, Mr. Mironov, is originally from the President's native town, St. Petersburg. While Mr. Mironov was serving as a deputy of St. Petersburg's Legislative Congress, Mr. Putin was working as a deputy mayor of the city. The centrist political faction led by Mr. Mironov at that time was loyal to the mayor of St. Petersburg. President Putin supported Mr. Mironov's candidacy to the Council's chairman position. According to the Russian Constitution (Article 95:2), each subject (region) of the Russian Federation has its two representatives at the Federal Council – one is from the regional legislative authorities, another - from the executive authorities. Until August 8, 2000, the Federal Council had been composed of the governors and the speakers of the regional parliaments. However, as one of the President Putin's initiatives on strengthening the vertical power, a new federal law on Rules and Principles of Formation of the Federal Council was adopted on August 5, 2000 and came into effect on August 8, 2000. According to the law, the Federal Council consists of the regional legislative representative selected by the regional legislative authorities, and the executive representatives appointed by the regional executive authorities. The Federal Council's members are not allowed to create political factions based on their associations with the political parties. However, their political influence as lawmakers reflect the interests and positions of their respective regional authorities. The main tasks of the Council's Committees are as follows:

- To comment draft federal laws and amendments to the Constitution adopted and recommended by the State Duma;
- To initiate and expertise draft laws;
- To initiate the parliamentary hearings on specific matters.

The following Committees are particularly important to the subject matter of this Project: the Committee for the Agro-Food Policy, the Committee for Economic Policy and Entrepreneurship, and the Committee for the Federative Affairs and Regional Policy. All three chairmen of these Committees are from the agricultural regions.

The federal laws on the following subject matters are subject to compulsory consideration by the Federal Council after being passed by the State Duma: federal budget; federal taxes and fees; financial, currency, credit, and customs regulation; ratification and denunciation of the international treaties; status and defense of the state frontier of the Russian Federation. A federal law that is not subject to the compulsory consideration by the Council shall be automatically adopted if the Council does not consider it within the 14 days.

Agro-industrial Business Associations

Regional Agribusiness

The regional agribusiness industry, represented by food trade corporations and food processors, is motivated by rent seeking. Those trade corporations contracted by the regional governments to run the regional food funds gain extra profits from the great price disparity caused by the export barriers imposed by the regional authorities. Food processors gain benefits from low prices on the domestically produced raw agricultural products as a result of export restrictions, on the one hand, and from the monopolistic power in the regional markets as a result of import barriers on the final food products, on the other hand. However, the food processing industry favors the unimpeded imports of the agricultural products necessary for their production. Moreover, those food processors that get supplied from outside of their own regions are against the imposition of the exports restriction by other regions on the agricultural products that they are dependent upon. The regional agribusiness is very influential because it has money to invest in the electoral campaigns of the governors. Moreover, the process of unification of the Russian agribusinesses to ensure effective lobbying power has gained momentum.

The following are the most successful and influential agribusiness groups:

The Sugar Union

The Sugar Union was created in 1996 by a handful of large sugar traders and regional associations of refineries. The main goal is to establish a favorable regime for domestic sugar refineries. It maintains substantial analytical service, develops reports for the government, and monitors current trends in the industry. One of the main lobbying achievements was the protectionist customs policy in relation to sugar market.

The Grain Union

The Grain Union was founded in 1994 by the federal corporation “Roskhleboproduct”, a joint-stock company “Exportkholeb”, corporation “Mosoblproduct”, 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 as to the grain market regulation, (ii) to propose legislation and regulations concerning the grain matters, (iii) to provide its members with grain market information, including price, statistics, analysis.

The Meat Union

The Meat Union set up in 1998 comprises meat processors, meat trade companies, the Russian Chamber of Commerce, the Veterinary Association of Russia and others. The membership consists of 272 companies from the 72 regions. The main tasks of the Union are (i) to promote the favorable conditions for domestic producers/processors; (ii) to develop infrastructure of the meat market; (iii) to eliminate unfair competition between domestic and foreign companies. One of the main interests of the Union’ members is to ensure sufficiency in raw meat necessary for the domestic meat processing industries.

Since the meat processors are currently highly dependent on the imported meat, they lobby the government to keep meat import duties low.

“RosAgroPromSoyuz” (Agro-Industrial Union of Russia)

“RosAgroPromSoyuz” (a successor of the Agrarian Union) is a major ideological supporter of the Agrarian Party. The Agrarian Union was created in 1990 to lobby the interests of “red” agricultural directorate both in the Government and the Parliament. Among its members are agricultural enterprises, processors, storage and transport enterprises, machinery stations, producers of fertilizers and agricultural chemicals, service and research organizations. Mirroring the goals and interests of the Agrarian Union, RosAgroPromSoyuz is pursuing the interests of the large agricultural enterprises, as the latter continues prevailing in the organization. The Union performs its lobbying activity through the Agrarian Party in the State Duma. It has branches in all the regions of the Russian Federation. The main chartered goals of RosAgroPromSoyuz are as follows:

- To promote the creation of economic, social and legal conditions for the successful development of agricultural sector;
- To develop financial and credit infrastructure for the agro-industrial complex (AIC);
- To support price parity between agriculture and other branches of the economy;
- To improve the tax system in favor of agriculture;
- To develop the scientific support of the AIC.

Farmers Associations

Association of Private Farms and Cooperatives of Russia (AKKOR)

Association of Private Farms and Cooperatives of Russia (AKKOR), created in 1990 by the emerged private farmers and agricultural cooperatives, is another influential non-governmental organization. It has 83 regional and more than 800 local branches across the country. Unlike “RosAgroPromSoyuz”, AKKOR is a very progressive, democratic and market-oriented organization. The main tasks and goals of AKKOR are as follows:

- To protect civil, political, economic and cultural rights and freedoms of private farmers;
- To promote the agrarian reform and private initiatives in agrarian sector development;
- To support the land and credit reforms;
- To develop analytical and training services for the farmers.

The primary lobbying activity of the AKKOR consists in putting forward the legislation on farmers’ support and protecting farmers’ interests in other various bills. Since AKKOR does not have as many representatives at the parliament as “RosAgroPromSoyuz” has, the main lobbying target of it is the government. One of its most successful public relations projects is an annual agricultural fair of farmers “Russian Farmer” that is held in St. Petersburg. This fair is considered to play an important role in pursuing farmers’ interests since many top officials of the federal and regional

governments as well as the representatives of foreign governments and international organizations attend the event.

Association of Agrarian Reformist Organizations

Association of Agrarian Reformist Organizations was established in 1998 by the five agricultural foundations operating in Central and Southern Russia. The primary goals of the organization are (i) to contribute to the agricultural reforms development and the distribution of commercial and legal knowledge among the rural population; and (ii) to assist and cooperate with the non-governmental organizations dealing with the agrarian reforms and the agricultural development. It also provides the federal and regional authorities with legal and economic consulting assistance on various agricultural issues.

Among the other non-governmental agrarian association favoring the common market in the Russian Federation are the Russian Peasant Foundation, the Union of Small Agricultural Producers, the Russian Union of Rural Women, the Russian Agrarian Union of Youth, and the Movement of Women-Farmers.

Research and Consulting Organizations

The Russian Academy of Agricultural Sciences (RAAS)

The Russian Academy of Agricultural Sciences (RAAS) is an influential think tank with the management represented by the ultra radical left opposition; most of its members are the members of the Communist Party. RAAS unites 199 research institutes, 24 experimental agricultural stations, 47 selection and biotechnological centers, and central agricultural library. Within the RAAS, there are several institutes representing both liberal concepts of the agrarian development and the agrarian communist opposition. Thus, 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 the most liberal research institute. It was instrumental in developing basic concepts and legislation for the Russian agrarian reforms in the early 1990s.

The Analytical Center for Agri-Food Economics (Institute for Transition Economies)

The Analytical Center for Agri-Food Economics of Gaidar's Institute for the Economy in Transition is a recognized research institution that cooperates with many federal agencies, the Institute of Agrarian Affairs and Informational Sciences, Academy of National Economy, Higher School of Economics, and regional agri-economic research institutions. It also collaborates with such international organizations as the World Bank, the Organization for Economic Cooperation and Development (OECD), and the Food and Agriculture Organization of the United Nations (FAO). The main goal of the Center is to expand its research activities and to strengthen the influence of the research outcomes on the agricultural policy formation. It conducts researches on the agricultural state support assessment, agricultural markets development, farm loans, land market, and a number of other matters important for the agricultural reforms.

International Stakeholders

World Trade Organization (WTO)

The WTO is a multinational organization dealing with the rules of trade among the member states. Among the key principles of the WTO Agreements are the national treatment, most favored nation (MFN) treatment, and transparency. In any accession negotiations the WTO tries to ensure non-discrimination treatment of goods and services imported by the acceding country. In the case of the Russian Federation, the WTO wants to make sure that the goods, including the agricultural products, are treated in accordance with the WTO rules and principles both at the national and the sub-national levels. In particular, the major stakeholders within the WTO in respect to the Russian agricultural market appear to be the EU and the US, because they are the major Russian agricultural importers and investors. The issue of the national and sub-national consistency with the WTO rules is addressed in many WTO Agreements, which suggests its importance to the effective implementation of the negotiated terms and conditions. Most importantly, this issue can be a stumbling stone to the Russian intentions to accede to the organization.

World Bank

The World Bank is another very important international stakeholder that is interested in eliminating the interregional barriers to and ensuring transparency for trade and investment in the Russian Federation. Since the Russian Federation joined the World Bank in 1992, the Bank has approved more than US\$12 billion in loans for 51 operations. As of today, 33 of these operations are under implementation and, due to some cancellations, total commitments equal US\$11.33 billion. The Bank has lent Russia US\$4,140 million to the economic policy programs (the largest portion of the overall lending), US\$375 million to the private sector development, and US\$300 million to the agricultural sector. Cumulative disbursements to the Russian Federation as of August 1, 2001, amounted to US\$7.74 billion (US\$2.75 billion for investment loans and US\$4.95 billion for adjustment loans). The Bank's assistance initially emphasized the vital role of the emerging private sector and the importance of maintaining financial stability during the transition. Among the Bank's main operational objectives in Russia are development of a market economy based on private sector initiative, institutional development, and protection of the most vulnerable during transition.

LEGAL BACKGROUND

Legislative Module on Federative Economic Relations

Law on General Principles of Separation of Powers and Objects of Competence

In June 1999, the Russian Parliament and the President adapted and signed, respectively, the Law on General Principles of Separation of Powers and Objects of Competence. The Law sets out the rules and principles of adopting the federal laws on joint jurisdiction of

the Russian Federation and Federation subjects, and main principles of separation of authorities and powers set forth in the Treaties.

On July 18 2001, the Commission on Separation of Powers and Objects of Competence established by the Presidential Decree held its first meeting. Pursuant to the law on General Principles of Separation of Powers and Objects of Competence, passed in 1999, the Commission should complete its work by July 30, 2002. The President appointed a deputy head of the Presidential Administration Mr. Kozak to chair the Commission. Among the main objectives and tasks of the Commission are (i) to assess and bring into conformity with the Russian Constitution the Treaties and agreements on division of authorities and power between the federation subjects and the federal government, (ii) to prepare materials necessary for drafting the laws regulating separation of powers between the federal and regional authorities. Also, around 200 laws regarding the matter of separation of powers were selected to analyze and further change. Besides narrowing down the jurisdiction and powers of all government levels, the Commission shall develop the procedure of functioning, terms and responsibilities of an official for making decisions.

Law on Competition and Restriction of Monopolistic Activity in Commodity Markets

The Law on Competition and Restriction of Monopolistic Activity in Commodity Markets, dated 1991, was designed to establish the organizational and legal basis for the prevention and elimination of monopolistic activity and unfair competition in the Russian markets. It aims at ensuring conditions for the creation and functioning of commodity markets. The Law covers relations effecting the competition in commodity markets in the Russian Federation involving the Russian and foreign entities, federal, regional, and local authorities. The Ministry of Antitrust Policy and Entrepreneurial Support enforces the law through its established units in the regions and closely cooperates with the regional authorities.

Draft Code on Basic Principles of Federative Economic Relations in the Russian Federation

In May 2001, the TACIS's project "Support of the Economic Federalism and State-Legal Regulation of the Economy" developed and published a draft code on Basic Principles of Federative Economic Relations in the Russian Federation. When working on the draft code, the authors took into account the main principles laid down in the Russian Constitution and the European Union's experience in creating a common market. The draft code (Article 3) deliberately provides for and describes certain areas of responsibility of the Federal Government, local Governments and the areas of their joint competency. The division of jurisdiction is based on the respective provisions of the Constitution (Articles 71, 72, 73). Besides the detailed division of jurisdiction of the Federal Government and Federation subjects, the draft code sets forth the principles of the unity of economic space in the Russian Federation; the agreed upon establishment and implementation of a universal economic policy; the federal loyalty; creation of equal conditions for economic development of the territories; cooperation of economic activity

between the regions; equality of economic entities; free circulation of goods, services, financial funds and labor across the Russian Federation; state support based on fair competition; economic influence on regions-violators.

Legislative Module on Agricultural Reforms

Law on Social Development of Rural Areas

The law was adopted by the State Duma in the third hearing on June 28, 2001, and by the Federal Council on June 20, 2001. The main objectives of the law are to:

- Ensure the constitutional equality of citizens in such areas as health, education, cultural development, and social security;
- Ensure the priority of the social development of rural areas, and create favorable conditions for investment in the social development of rural areas;
- Ensure the historical image of rural areas

According to the law, the national policy in the area of social development in rural areas shall be fulfilled in the following directions:

- Creation of the legal basis for the favorable conditions of the rural livelihood;
- Development and realization of the national programs for the social development of rural areas, aimed at building the objects of social, engineering, and transport infrastructure;
- Creation of a mechanism for the federal budget financial assistance to the regions of the Russian Federation for the social development of rural areas;
- Accumulation and effective use of financial resources allocated for the social development of rural areas.

The law provides for financing through establishment of the federal fund for the social development of rural areas; federal budget allotments through the federal special programs; regional budgetary resources; and voluntary contributions by physical and legal entities.

A Draft Law on Circulation of Agricultural Lands

There are currently three draft laws on Circulation of Agricultural Lands proposed by the factions of “Union of Right-Wing Forces”, “Fatherland – All Russia”, and the Russian Government, respectively. All the three draft laws deal with the rules of regulation for the agricultural lands circulation. They aim at stimulation of the agricultural development and let the agricultural lands be owned by “effective owners”. However, the key difference between them lies in the issue of ownership rights for the foreign residents. While the draft by “Union of Right-Wing Forces” opposes any restraints to the ownership rights, the draft laws of both the Government and “Fatherland – All Russia” restrict the ownership rights for foreigners in the boundary regions of Russia. The ownership restrictions are mostly caused by the increased flows of migration from China. Also, the draft law prepared by the Government and “Fatherland – All Russia” gives more power to the regional authorities, subject to the regional “economic traditions and development

levels.” Thus the Russian regions can introduce maximum and minimum limits on the land ownership. The law also provides for the agricultural purpose use of land, otherwise in cases where the agricultural land is not used for the agricultural purposes, it shall be requisitioned by the regional agencies responsible for land regulation through the court.

A Draft Law on Regulation of Agricultural Land Mortgage

According to the draft law, the agricultural lands can be put in pledge with the banks and other credit organizations to receive an agricultural credit on terms of up to 5 years. The draft law provides that the agricultural lands rent or temporarily used shall be put in pledge only subject to consent of the landowners.

A Draft Law on Credit Cooperation

The draft law initiated by the Russian Government aims at providing the small and medium enterprises (SME) in the agricultural sector with credit resources. According to the draft law, credit cooperatives shall be created in a form of the voluntary associations of physical and legal entities. Cooperatives shall not be the credit organizations, nor can they run banking operations. The main tasks of the cooperatives are (i) to provide loans to their members; (ii) to attract financial resources of the members on a basis of loan agreement; and (iii) to grant bails on members’ credit obligations.

Legislative Module on Regional Development

A Draft Law on the Basic Principles of the Financial Support to the Depressed Territories of the Russian Federation

The draft law determines the main principles, forms, methods and order of the national regional policy in the area of the federal support to the depressive territories of the Russian Federation. It lays down the basis of the federal support to the depressive regions, leaving the decision making right to the Russian Government, the federal ministries, and agencies. The draft law’s authors constricted the list of territories, which can be provided with a large-scale purpose support. This will enable the government to concentrate maximum forces and resources on those regions, where the most economic and social effect is possible in the short run. In order to ensure transparency of decision-making and the cooperation of the interested parties, the Interagency Coordination Council shall be established.

International Law

General Agreement on Tariffs and Trade (GATT)

The key clause of relevance to the interregional barriers to agricultural trade is contained in GATT Article XXIV: 12 “Each contracting party shall take such reasonable measures as may be available to it to ensure observance of the provisions of this Agreement by the regional and local governments and authorities within its territories.” According to trade

definitions, sub-national measures are considered to be second level obligations. These are the expectations under the various WTO Agreements of central governments in respect of provinces or regions constituting their jurisdiction.¹³

WTO Agreement on Agriculture

Provisions on market access stipulated in Article 4 of the WTO Agreement on Agriculture are the key ones to address the interregional barriers to agricultural trade in the Russian Federation. Market access remains to be 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, implying the conversion of non-tariff barriers into tariffs. Members are not allowed to introduce or re-introduce any measures of the type subject to tariffication. As a result, tariffication has created the more transparent conditions of market access in agricultural trade. However, countries still tend to protect their agricultural market through a number of hidden non-tariff barriers.

COMMERCIAL AND ECONOMIC ANALYSES

Interregional trade barriers, as any other market access barrier, are detrimental to the development of efficient markets in Russia. Due to the lack of free circulation of goods across the Federation, an efficient arbitrage becomes impossible, which leads to a substantial disparity in prices. Interregional trade barriers slow down creation of the national market infrastructure such as commodity exchanges, wholesalers, and auctions. The fragmentation of the national market leads to the regional self-sufficiency policies, thereby resulting in an inefficient distribution of resources. For instance, most of the Russian regions have their own programs for wheat production, regardless of whether they have comparative advantages in growing the wheat.

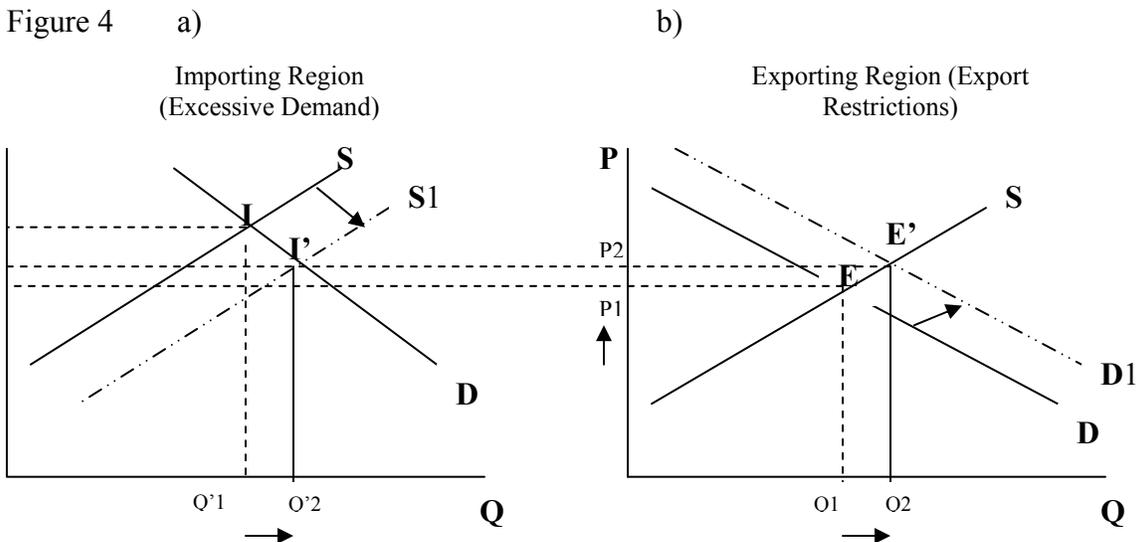
As a result of the trade barriers, the market price margin is quite high. According to the Institute for Economies in Transition's research, the price margin in the interregional trade is around 30-50 percent. While only a small percentage of the margin represents transportation and marketing costs, the rest of it is contributed by various market access barriers such as licenses, fees, administrative physical restrictions, bribes, etc. Regional authorities often explain trade restrictions by intentions to support either producers (in the case of import barriers), or consumers (in the case of export barriers). However, the direct beneficiaries of restrictions are mostly the trade mediators.

Besides the negative impacts on domestic production and markets, the interregional barriers can affect the international trade. Thus, imposing import restrictions on certain agricultural products among the regions impede foreign imports, thereby undermining foreign producers and domestic consumers (processing industries and/or people) by making foreign imports inaccessible, unvaried, and expensive.

¹³ Vangeli Vitalis, Second Level Regional Policies in the Russian Federation and the Multinational Trade Rules Affecting Such Policies, 1999, Page 4

Price Disparity and Arbitrage

To underline the argument that the interregional barriers result in substantial price differences, absence of arbitrage¹⁴, and ultimately destabilize local and national markets, consider the case of regional trade in wheat illustrated in Figure 4. Export prohibitions for wheat are usually introduced temporarily, until the obligatory shipments under the commodity credits to the regional food funds are completed. However, even though they last for about two months, it is long enough to negatively affect the market. Due to the prohibitions to export the wheat from a region-producer to a region-consumer, farmers are required to sell their products to the regional funds (or to be more precise, to supply under the goods credits programs, thereby paying off in-kind) at prices below the market ones. Thus, in Figure 2b, we can see that in point E, where demand and supply curves are intersected, the equilibrium price in the region-exporter is lower than that in the region-importer (I), because the demand is restricted by export prohibitions. On the other hand, while having its domestic demand exceeding the supply, the region-importer has high prices for wheat. Therefore, being unable to sell their wheat to the consumers in the importing region, farmers in the region-exporter lose the opportunity to exercise arbitrage and gain the revenues. Now let us consider what would happen, if there were no export restrictions. While seeking higher profit margins, farmers and/or mediators start selling the wheat to a region, where the demand and prices are higher than in their own region. As a result of local demand curve sloping upward from Q1 to Q2 in the exporting region (see Figure 4,b), the domestic price rises from P1 to P2. In contrast, while the wheat supply in the region-importer grows from Q'1 to Q'2 (see Figure 4a), the market price in the importing region goes down from P'1 to P'2. Figure 1 illustrates unrealized gains for the farmers in the region-exporter, expressed in a trapezium-shaped area P1P2E'E. On the other hand, consumers in the region-importers have to pay higher prices due to the absence of arbitrage. Consumer losses are highlighted in a trapezium-shaped area P'1I'IP'2.



¹⁴ Arbitrage is defined as buying in a market where a commodity is cheap and reselling in a market where the commodity is more expensive. It contributes to evening the prices.

Distribution of Revenues between Farmers and Monopolistic Regional Trading Companies – Export Restrictions

As mentioned above, food trade corporations owned or contracted by regional authorities are responsible for collecting and storing the agricultural products that are supplied by farmers as an in-kind payment for goods credits (or regular credits) provided through the regional budgets. In a situation, when farmers are obliged to supply their products to the regional funds/food-trading corporations and prohibited to sell the goods outside a region, the trade corporations end up enjoying a monopolistic power domestically. On the other hand, farmers are doomed to not only lose their potential revenues due to depressed prices, but also to continue being in arrears due to lack of working capital. In fact, the regional food trade corporations with the help of regional administrations become monopsonies, because they exercise and take advantage of the power to influence the price at which a corporation procurers (purchases) agricultural products. Although it lasts for a short period (harvest season in summer and/or in fall), it allows them to gain monopolistic profits, thereby distorting agricultural trade.

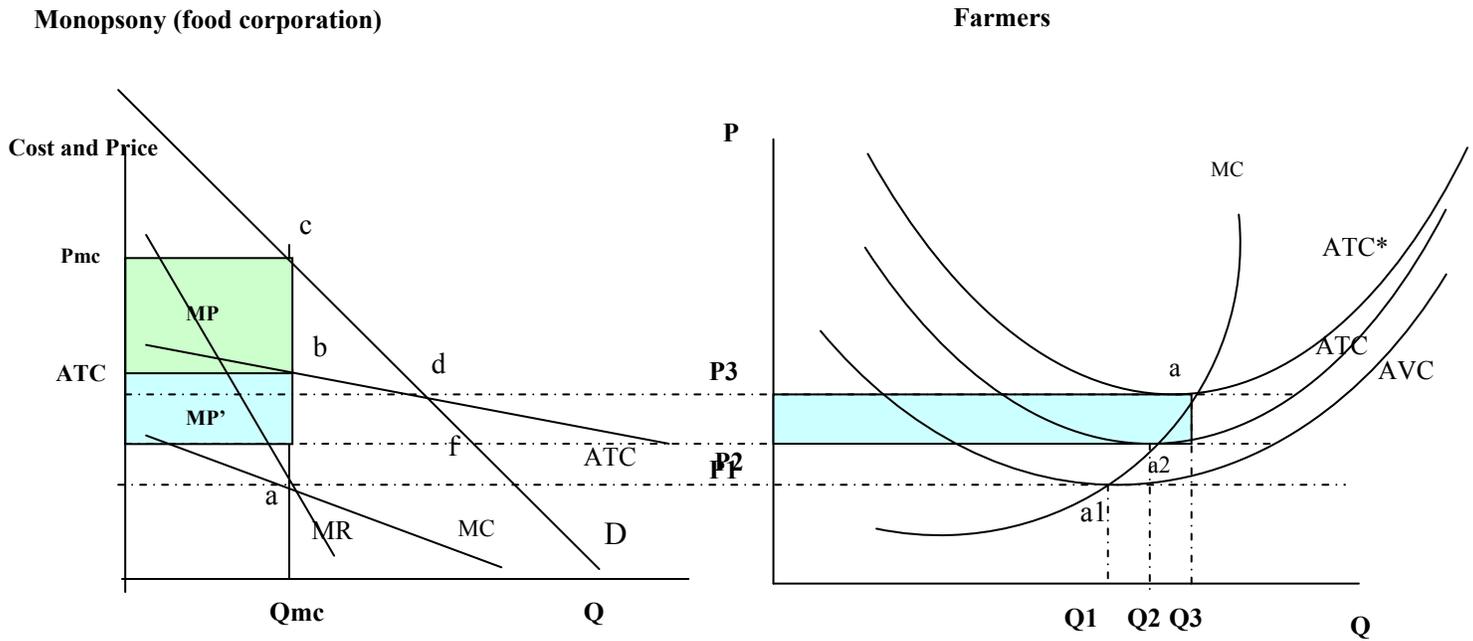
Figure 5:a illustrates the benefits of the regional food trade corporations and losses of farmers, respectively. The demand schedule (see Figure 5:a) is graphed as demand curve D; the marginal revenue is presented by curve MR, and the marginal cost is illustrated by curve MC. The MR and MC curves intersect at point a. In order to maximize profit, the food trade corporation procurers such amount of products at which marginal revenue and marginal cost are equal. The sales volume, price, and profit per unit of sales can be determined by drawing a vertical line through a. The vertical line crosses the horizontal axis at point Q_{mc} , identifying the trade food corporation's sales volume. As you can see in the graph, when quantity of products exceeds Q_{mc} , marginal revenue is less than marginal cost. The price corresponding to the point where the vertical line intersects the demand curve D at point c is the monopolistic price P_{mc} . Where the vertical line intersects the ATC curve (at point b) shows the average cost of procuring Q_{mc} units (ATC). Thus, profit per unit represented by the difference between c and b (P_{mc} minus ATC) multiplied by quantity of the agricultural products supplied by farmers is equal to total monopolist profit that is a highlighted rectangle MP.

Figure 5:b illustrates farmers' situation and their unrealized profits. Curve MC represents farmers' marginal cost, AVC – average variable costs, and ATC – average total costs. By selling agricultural products in quantity (Q_1) corresponding to the intersection of curve MC and AVC, farmers can pay their variable costs. If they sell less than Q_1 , they will go bankrupt. It is assumed that intersection a1 corresponds to the intersection of marginal cost and revenue of a food trade corporation, implying that while farmers need to sell not less than Q_1 of products in order to stay in business, the corporation needs to sell not more than Q_{mc} in order to maximize profit. By selling Q_2 of their products (intersection a2 of MC and ATC), farmers pay off their fixed and variable cost, but still not gaining any profit. The intersection of a2 corresponds to the point f on the demand curve in the trade corporation's graph. Knowing that usually farmers have to supply their products at

understated prices to the regional funds/trade corporations as in-kind payments for the goods credits, the latter receive extra monopolistic profits represented by the rectangle MP' due to the less procurement prices, thereby having low average total costs (ATC). If the exports restrictions are lifted and farmers are not required to ship their products to the regional funds/trade corporations, the farmers will be able to freely sell their products at a market equilibrium price. In turn, the food trade corporations will lose their monopolistic power in the regional markets and will have to purchase the agricultural goods at the market price that will coincide with their average total cost (see Figure 5,a: intersection d of the curves D and ATC). As a result, the Russian farmers will realize profits that are shown by the highlighted rectangle P2P3aa2 (see Figure 5, b)

Figure 5

a) b)



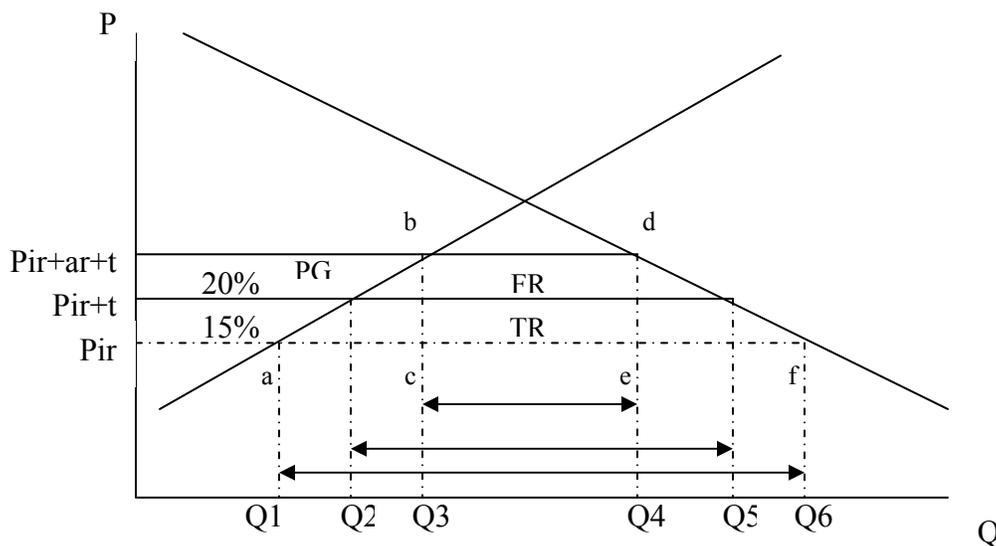
Aggregate Effect of National and Sub-national Protectionism -Import Restrictions

Interregional market access restrictions in combination with the national market access barriers may have a detrimental effect on the Russian consumers as well as on local processing industries procuring agricultural products as production inputs. In order to illustrate the consequences of the combination of the national and sub-national protectionism for the consumers in a Russian region, let us use the Partial Equilibrium Model and consider a wheat market in that region. Russia imposes a 5 percent import tariff and 10 percent VAT on the imported wheat (in total, 15 percent), whereas on average the interregional barriers, including physical restrictions account for 30-50

percent. However, in this particular case I take the minimal cost of restrictions – 20 percent. Thus, as Figure 6 shows, local farmers grow Q_1 of wheat at the interregional price P_{ir} , while the remaining demand is satisfied by imports from another Russian regions and abroad. Suppose that foreign wheat is imported to the region. Thus, after the imposition of a 15 percent customs tariff, domestic prices rise from P_{ir} to P_{ir+t} (t – tariff), and the domestic (regional) consumption shrinks from Q_1Q_6 to Q_2Q_5 . Now, when the regional authorities decide to support the domestic wheat growers, or in many cases trade mediators – food trade corporations, through a number of tools such as numerous and burdensome inspections on the administrative border and/or physical restrictions, the domestic prices rise again from P_{ir} to $P_{ir+t+ar}$ (ar - administrative restrictions) and the domestic (regional) consumption shrinks even more from Q_1Q_6 to Q_3Q_4 .

Thus, as Figure 6 illustrates, deadweight social losses from both national and sub-national barriers are bigger than they could be without regional restrictions: triangles abc and def are deadweight social losses associated with the local producers and consumers, respectively. Area FR is another deadweight social loss connected with the administrative barriers, which is quite substantial. Since the administrative barriers (non-tariff barriers) are not a duty or any kind of tax, the local administration does not get money from such a policy action. Area TR represents tariff revenue that goes to the federal budget. Domestic wheat growers gain from these trade barriers, which is expressed in the area PG . It can be concluded that, due to almost a doubled protection ($20\%+15\% = 35\%$) leading to high prices and less variety of wheat, the local consumers get hurt most. Also, food-processing industries, that source their inputs from outside of their own regions, suffer from the regional agricultural trade restrictions as well. As a result, cost of procuring the raw agricultural commodities in the neighboring regions increase and the processed food products become more expensive, which in turn negatively affect the end consumers in the region.

Figure 6



In summary, the most harmed groups as a result of the interregional barriers are the Russian consumers, farmers, food processors dependent on the outside supplies and distribution, and the importers of the agricultural products into Russia.

Russian Consumers

The Russian consumers get hurt by the interregional barriers because they have to spend more of their income on the agricultural products and processed food as the barriers cause the price rise. Moreover, the consumers get less variety of the agricultural products and food in comparison to a larger product line than they could have if the interregional barriers were eliminated.

Russian Farmers

The Russian farmers suffer from the interregional barriers because the latter prevent the farmers to realize their goods at a market price. Therefore, considering their poor financial situation, the barriers do not allow them further develop by gaining revenue and profits.

Russian Food Processors

The Russian food processors, whether domestic or the ones with foreign investment, suffer from the interregional barriers to agricultural trade because they may depend not only on supplies from within the territory of their region, but from outside as well. Thus if there is a barrier to exports of an agricultural commodity needed for the food processing production or a barrier to imports of the agricultural commodity inside their region, the production and technological process of the food processors is to be interrupted. As a result, the food processors will incur severe financial and market losses.

Foreign Importers of Agricultural Products

The foreign importers suffer from the interregional barriers because the latter lead to unpredictable financial and market losses in a form of contractual fines, lost profits, and lost markets.

Economic Effect of the Common Market

Without trade data it is difficult to precisely quantify the impacts of interregional barriers on agricultural trade. Unlike international trade, there are no “customs” data collected on agricultural shipments between the Russian regions. However, some rough estimates of the interregional barriers cost can be made.

Russian Case

Without extensive field research it is difficult to accurately quantify the impacts of interregional barriers on agricultural trade in Russia. Unlike international trade, there are no precise data collected on agricultural shipments between the Russian regions. However, some “back on the envelope” estimates of the interregional barriers cost can be

made. As mentioned above, the average price margin in the interregional agricultural trade cost of interregional barriers varies from 30 to 50 percent, with only a few percent representing transportation and marketing costs. If 20 percent is taken as a conservative estimate of the barriers cost and 1000,7 billions of Rubles is the Russian domestic agricultural market for 2001,¹⁵ the overall amount of the market access restrictions is equal to $20\% \times 1000,7 \text{ billion} = 200.14 \text{ billions of Rubles}$. Comparing the cost of interregional barriers to the GDP for the same period (6,545 billions of Rubles), the ratio amounts to 3 percent of GDP. In contrast, the share of agriculture in GDP in 2001 was around 8 percent. Even though the estimation is rough, it clearly demonstrates the significance of the negative impact of the interregional barriers on the national economy as a whole.

European Union Case

The recent studies of the common market formation, made by the European Commission, demonstrated positive outcomes of the European integration. The macroeconomic model used in the analysis determined that the EU's GDP was 1.1-1.5 percent higher than that if there was no integration. Thus, in 1994 the EU's GDP growth amounted to 60-80 billions of ECU, with the overall GDP constituting nearly 5,500 billions of ECU. The increase was comparable to Portugal's GDP (75 billions ECU).¹⁶

Canadian Case

Measuring the cost of interprovincial barriers to the Canadian economy was a vast and complicated task. According to Filip Palda¹⁷, estimates based on observations showed that "barriers impose administrative costs on businesses, keep industries too small to gain the cost advantages of large size, hide vital economic clues for consumers and producers, and impose hidden taxes on residents." Rough estimates proved that these barriers cost Canadians at least \$6.5 billion a year in lost income. An estimate of the benefits from a free market across the country, based on the European unification study, was that the average Canadian family income would rise permanently by \$3,500 per year.

Analysis of Expected Benefits from Eliminating the Interregional Barriers to Agricultural Trade

In order to show the expected benefits from removing the interregional barriers in the Russian Federation, I apply the outcomes of the Cecchini Report¹⁸ (1988) "Cost of non-

¹⁵ "Socio-economic indicators" Goscomstat (Russia's Statistics Agency), Online, 2002

¹⁶ E. Slovahan, Economic Effect of Trade Barriers Elimination in the European Union; TACIS (2000), Interregional Barriers in the Russian Federation, Socio-Economic Consequences and ways of overcoming: European Experience and Lessons for Russia, TACIS: Moscow; page 14

¹⁷ Filip Palda, Preface: Why Canada Must Rid Itself of Interprovincial Trade Barriers (The Fraser Institute, 1994)

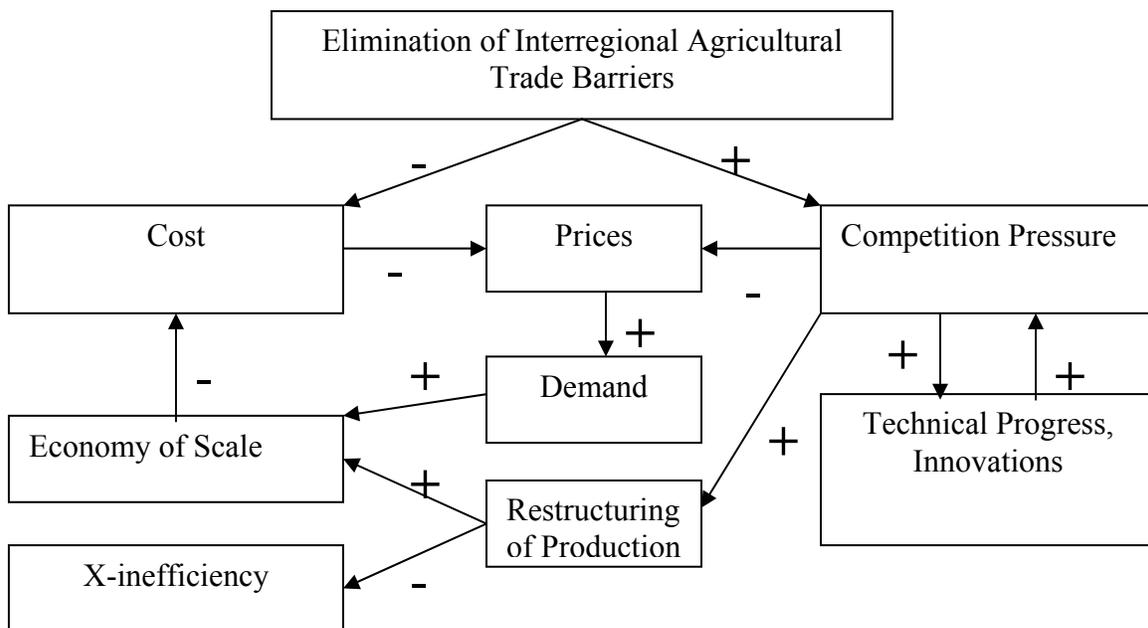
¹⁸ The Cecchini Report was produced by an international team of economists, led by the Italian Paolo Cecchini, in 1988. It focused on the economic benefits of the Single European Market. The report investigated the costs of not proceeding with the Single Market and concluded that the successful completion of the Market would have substantial economic benefits for all Member States.

Europe.” The Cecchini Report proves that removal of the protectionist policies of many national governments has directly caused production growth and the economic efficiency of these countries. According to the Report, pursuing the common market leads to reduction in consumer prices, quality improvement and expansion of product line, which will result in the growth of the net economic welfare of the European Community.

Figure 7 schematically illustrates various consequences of market integration after removing the interregional agricultural trade barriers in Russia. Following the arrows in the scheme, it is evident that the first stage of eliminating the barriers leads to the direct reduction of cost, which in turn reduces prices and results in increase in demand for the goods. Increase in demand allows farmers/food producers to take advantage of economic effects caused by economy of scale. Such a favorable situation for cost reduction furthers a price fall and leads to the economic growth and market expansion as a whole.

Elimination of the interregional barriers also results in strengthening competition among the Russian farmers/food producers across the country, which in turn causes consumer price reduction and the restructuring of production. Strengthening competition motivates agricultural enterprises (farms) to restructure production in order to make it more efficient and achieve the competitive edge. Also, it forces business to rid of X-inefficiency, which is a consequence of obsolete technologies and irrational production costs. Competition also leads to the structural changes in the economy, such as further improvement of the agrifood market, and the full exercising of economy of scale. Due to the pressure for the competition factor, farmers will be forcing development and production of new agricultural products, improve technologies and production process, which in turn will result in furthering the economic growth and market expansion.

Figure 7



POLICY ANALYSIS

The Russian regions' power and influence over the agricultural market rests upon their institutional role to administer both the regional food funds and credit resources. In order to effectively tackle the problem of the interregional barriers to agricultural trade, certain agricultural policies must be considered, analyzed, and improved. I will consider the interrelation between the rural credits, agricultural land regulation, regional food funds, and trade restrictions, on the one hand, and the lack of coordination between the federal and regional governments in foreign trade regulation, on the other hand.

Regional Funds – Commodity Credit - Trade Restrictions

The state monopoly has been replaced with the newly emerged monopolies such as trade corporations and processing industries, and with dictate of regional authorities. Procurement in the regional food funds is often associated with the commodity credit and physical restrictions on exports of products from a region's territory. As a result, the imposition of trade barriers creates potential of high price margins due to the fall in procurement prices inside the exporting region and rise in wholesale prices in the importing regions. Also, the inability of the agricultural producers to sell their products at a market price and ultimately gain profit leads to their chronic indebtedness and insolvency. Due to the lack of transparency, the control over the regional budget expenditures is very difficult, whereas a food trade corporation enjoys a monopolistic power in the market. The same negative effects occur when the regions similarly restrict agricultural exports of those agricultural producers who obtain agricultural credits from commercial banks and guaranteed by regional authorities until credits are repaid.

Since alternative sale options are not available, the agricultural producers are forced to sell meat, milk, vegetables, and other perishables to the nearest processing industries or local food trade corporations at unfavorable prices. Only a limited number of the agricultural producers have managed to build their own warehouses, refrigeration and processing facilities or integrate their activity with agro-processing and trade businesses.

To summarize, the administration of both procurement through the regional food funds and commodity credits through the regional authorities lead to severe fragmentation of the agricultural market, thereby transferring the costs onto Russian consumers and farmers. The federal procurement and intervention resumed by the Federal Government in August 2001 may not be efficient, because the regional administrations still have their own procurement programs in place. Moreover, it can be impeded and undermined by the ongoing procurement processes through the regional food funds, because the agricultural crops intended for procurement to the federal food intervention fund can be intended for procurement to the regional funds as a commodity credits repayment. Therefore, the introduction of the federal food intervention fund administered by the Federal Agency for Regulation of Food Market cannot resolve the problem of the agricultural market fragmentation until the regional procurement institutions are eliminated.

In order to contrast the Russian mechanism of agri-food market regulation with the international experience, let us take the U.S. as an example. While being a federative nation state, the U.S. pursues a common market approach in regulating the agri-food market. Thus the U.S. Department of Agriculture runs agricultural commodity programs to improve the economic stability of agriculture and to help farmers adjust production to meet demand. The goal is to avoid severe prices swings for farmers and consumers. The Agricultural Stabilization and Conservation Service (ASCS) of the U.S. Department of Agriculture administers commodity stabilization programs for a number of agricultural products. The ASCS makes Commodity Credit Corporation (CCC) loans to eligible farmers using the stored crop as collateral. With market prices higher than the loan rate, a farmer can simply pay off the loan and market the commodity. However, if market prices fail to rise above loan levels, a producer can forfeit or deliver the commodity to the government to discharge the loan obligation in full. Thus, commodity loans promote orderly marketing by providing farmers with income while they hold their crops for later sale. Farmers get price protection with the option of forfeiting the commodity to the CCC as a sufficient-value repayment. Marketing loans allow producers to repay price support loans at less than announced rates when world prices are less than loan rates. Beyond the marketplace, CCC commodities are used for hunger relief, for needy families in the United States, and for overseas assistance. Therefore, unlike Russia, the U.S. runs procurement and commodity intervention as well as commodity credits through the federal agencies, thereby depriving the state authorities of incentives to restrict agricultural trade.

Besides the interregional barriers, the interregional agricultural trade is also undermined by the lack of agricultural market information infrastructure and commodity exchanges. Commodity exchanges cannot be well developed and be functioning effectively as long as the interregional barriers are in place. Effective market infrastructure leads to reduction of marketing expenses, thereby causing decrease in consumer prices for the Russian consumers.

Credit - Land

Absence of the federal crediting mechanism and poor commercial crediting of agriculture provoked creation of the quasi-market systems for financing the current expenses and seasonal crediting at a regional level. The key factor that prevents commercial banks from lending money to the agricultural producers is that current Russian Land law neither provides for the circulation of agricultural land, nor does it allow the use of agricultural land as a mortgage. Given the substantial indebtedness of the agricultural producers, the right to own and use agricultural land as a mortgage is necessary to guarantee the loan repayment and, consequently, increase agricultural lending. While running soft loans through the Preferential Loan Fund and extending loans through the newly established state agricultural bank "Rosselkhozbank" is both increasing and inevitable at this point of transition, the market oriented crediting should be pursued through the commercial banks due to insufficiency of the budgetary funds the agricultural lending. In order to reduce the regions' influence over the crediting mechanisms and, therefore, their influence over the agricultural trade, it is necessary to cardinaly improve the loan system in agriculture

through allowing the agricultural land mortgage. Therefore, the efforts should be focused on elimination of three major factors associated with commercial banks reluctance to lend to agricultural enterprises: (i) high risk, (ii) lack of adequate collateral, and (iii) high transactional costs.

Regional Food Funds – Food Security

One of the most significant factors affecting the food security in the Russian Federation is the nature of interregional trade barriers. While the federal government has shared the function of the agricultural market regulation and food security with the regional authorities, it has not yet created market oriented conditions for developing the federal agrifood policy. As a result, the gap of federal regulation is filled up with regional administrative regulations. The absence of unified norms for creation and functioning of the regional funds lead to numerous abuses at the regional level. While the regional authorities argue that the imposition of administrative trade barriers to agrifood products is motivated by intention to ensure food security for the regional population, the aforementioned commercial analysis proves that it is a classic way of rent seeking and has little to do with food security per se. Moreover, the high unevenness of the agricultural production across the country suggests that in order to ensure a stable food supply for the Russian population, the free interregional trade, effective arbitrage, and efficient agricultural production and market infrastructure must be in place.

The following is the analysis of how the regional trade barriers to agricultural trade undermine the basic principles of the national food security:

- physical availability of food: foodstuffs must be available across the entire territory of a country at any time and in necessary amount and assortment. Regional trade barriers undermine this principle, because they restrict food availability across the Russian Federation.
- economic availability of food: every citizen must have sufficient income to acquire the minimal set of food products. Regional trade barriers undermine this principle, because they lead to significant price disparities for food products, thereby making a foodstuff affordable in one region and expensive in another one.
- stable access to food: the socio-economic system of a country must guarantee the food access to every citizen not only in the short-run, but in the long-run as well. Regional trade barriers undermine this principle, because regional self-sufficiency will lead to the inefficient distribution of resources in the long-run, thereby making domestic production and protection of agricultural food products more expensive and burdensome for the regional taxpayers. Also, the imposition of the interregional trade barriers may result in retaliation and, therefore, limited access to foodstuffs that are not produced in the region.
- food safety: the social-economic system of a country must guarantee the minimal requirements to the safety of raw agricultural products and food. Regional trade barriers undermine the national food safety regulation by establishing new rules and norms that are aimed at protecting local producers who mostly represent regional monopolies. By

supporting the regional monopolies, regional authorities undermine the first three principles of the national food security.

Coordination of Foreign Trade Regulation between Federal and Regional Authorities

Imposition of the regional administrative trade barriers is often caused by the absence of the adequate strategy of the foreign trade regulation and mechanism of its realization in the agricultural sector. The federal government constantly delays to adequately react to the changes in the world agricultural market conditions. As a result, the regional authorities interfere in the foreign trade and economic regulation by introducing administrative restrictions to agricultural trade. For instance, Russia was about to face a food security problem, when the Ruble devaluation caused by the 1998 crisis made Russian agricultural products more competitive in the world market, whereas the harvest of basic agricultural crops was poor in that year. Over several months, the federal government did not undertake any appropriate measures to address the problem. Grain and oilseeds were rapidly exported, while the federal government was asking international community for the food aid. A number of southern regions had to introduce strict restrictions on exports of grain and oilseeds. Another reason for regional authorities to impose barriers is the lack of coordination between the federal government and regional authorities as to protecting domestic industries from unfair international competition. As a result, regional agrifood industries have to ask regional authorities for protection.

POLITICAL ANALYSIS

Table 1 provides an overview of all interested parties and groups broken down into the following three categories of stakeholders: pro-free internal trade, anti-free internal trade, undecided stakeholders.

Table 1. Pro-Free Internal Trade, Anti-Free Internal Trade, Undecided Stakeholders.

Pro-Free Internal Trade Stakeholders	Anti-Free Internal Trade Stakeholders	Undecided Stakeholders
Executive Branch		
Russian President		
Ministry of Economic Development and Trade		
Ministry of Agriculture and Food		
Ministry of Antitrust and Entrepreneurial Support		
Regional Authorities*	Regional Authorities*	Regional Authorities*
Legislative Branch (State Duma)		
“Unity-Fatherland”	Agrarian Party	“Russian Regions”

“People’s Deputy”		Communist Party
“Yabloko”		
“Union of the Right-Wing Forces”		
Liberal Democrats		
Agro-industrial Business Associations - Regional Agribusiness		
	Food Trade Corporations contracted by regional authorities to run the regional food funds	
Food processors dependent on imported agricultural inputs	Food processors sourcing agricultural inputs from inside their regions	
	“RosAgroPromSoyuz” (Agro-Industrial Union of Russia)	
	Grain Union	
		Sugar Union
		Meat Union
Farmers Associations - Regional Farmers		
Association of Private Farms and Cooperatives of Russia (AKKOR)		
Association of Agrarian Reformist Organizations		
Russian Peasant Foundation		
Union of Small Agricultural Producers		
Russian Union of Rural Women		
Russian Agrarian Union of Youth		
Movement of Women-Farmers		
Research and Consulting Organizations		
Institute of Agrarian Affairs and Informational Sciences of the RAAS	Russian Academy of Agricultural Sciences (RAAS)	
Analytical Center for Agri-Food Economics of Gaidar’s Institute for the Economy in Transition		
International Stakeholders		
World Trade Organization		
World Bank		

*Although among the Russian regional authorities are both pro- and anti-market oriented, in general, most of the regions impose certain trade barriers subject to their respective interests.

Executive Branch

Presidential Administration and Federal Government

Since the problem of the interregional barriers is linked to the problem of the political and economic separatism, it remains one of the most sensitive political issues that the Federal Government needs to resolve. The fact that the Russian President, Vladimir Putin, is strong at pursuing the market reforms and strengthening the constitutional federalism in Russia is imperative to the elimination of the interregional barriers. The legislative and institutional initiatives of the President were largely supported by the State Duma and the Federal Council, which suggests that the regional heads accepted the idea of the common market and the federal loyalty. Another important factor that makes the elimination of the interregional barriers to agricultural trade critical is the President's and the Government's political pledge to accede to the WTO. Considering significance that the Government puts on the WTO accession process, the resolution of this problem should be adequately made, that is to bring the respective legislation and policy into conformity with the WTO requirements. As there are currently a fairly cooperative relationship between the federal and regional authorities and relatively improved macroeconomic situation in the country, it is now important for the federal government to gain momentum in order to curb and eventually rid of the interregional impediments. Due to both the improved institutional mechanism of the federal power through the Presidential Representatives in the federal districts, and law enforcement, the Federal Government can legally ensure the abidance of the Constitution and the federal laws. However, such severe measures could hurt the recently established cooperation between the federal and regional authorities, and even provoke separatist tensions.

Mirroring the Presidential political and economic course, the Government of the Russian Federation takes this issue seriously and undertakes certain measures to tackle the issue through various governmental agencies that are directly concerned with it. Thus the Prime Minister, Alexander Kasyanov, addressed the issue of the interregional barriers during his speech at the State Duma on May 17, 2000. He stressed that it is necessary to have stringent and effective measures in place to eliminate "the artificially introduced interregional barriers" that hinder mobility of capital, goods and services. The two federal ministries - Ministry of Economic Development and Trade, Ministry of Antitrust and Entrepreneurial Support - are assigned to ensure the common market for all the goods, services, and capital within the Russian Federation. The Ministry of Agriculture and Food is more concerned with the non-discriminatory treatment to the agri-food products traded within the Federation. The political influence of the three ministries is quite substantial because each of them deals with the most significant scope of macroeconomic and social issues in the country.

Regional Authorities

The regional authorities will be the major opposition group to the idea of strengthening the common market in the federation, because this will limit the power of conducting the regional economic policies and maintaining their political rating domestically. However, not all the Russian regional leaders are supporters of separatism and protectionism. As a matter of fact, as the recent time has demonstrated, the regional authorities have been quite cooperative with and loyal to the Russian federalism. For instance, it is explained by the fact that all the regions agreed to the ongoing reforms in the federative budget relations aimed at centralizing the federal budget revenues and increase in the federal budget support to the regional development. By pursuing the protectionist policy favorable to the domestic producers and consumers, the regional authorities ensure the people's loyalty, and thereby an opportunity to be re-elected. Such a policy appears to be in favor of the regional leaders' political weight, because citizens get the perception of being taken care of by the regional governments. However, in many cases, as my economic analysis proves, it turns out to be just the opposite, that is, for instance, farmers and consumers are the ones who get hurt most by such a policy. The regional politics are more sensitive to the agribusiness representatives rather than to farmers, because the former are more financially influential and better organized.

With regard to the relations with the federal authority, the regional leaders are independent, because they get elected by the regional electorate versus being appointed by the central government as it used to be during the Soviet time. The most sensitive regions are the ones that are founded on the basis of indigenous ethnical population, such as Republics of Tatarstan and Bashkortostan. The presidents of these republics, Mr. Shaimiev and Mr. Rahimov, respectively, threatened to declare independence and break away from the Russian Federation in the early 1990's, although they are now being loyal to the central government. Another critical regions are in the southern Russia, where the agriculture is at a great stake. Among these regions are Krasnodarskiy kray, Stavropolskiy kray, Rostovskaya oblast, and Republik of Kalmikiya. The governors of the first three krays and oblasts, Mr. Tkachov, Mr. Chernogorov, and Mr. Chub, respectively, pledged to support and protect the agricultural sector due to its sensitivity and significance to their respective regions' overall socio-economic situation. The President of Kalmikiya, Mr. Ilyumzhinov, is known for violating the federal budget regulations by refusing to transfer the tax revenues to the federal budget several years ago. Therefore, these regional politicians ought to be taken into account when tackling the issue of the interregional barriers and the agricultural reforms.

Since the issues of the regional development are more appealing to the regional authorities rather than overall macroeconomic situation in the country, it will be difficult to ensure the regional authorities' support in such matters as the elimination of the regional barriers to agricultural trade and the WTO accession. It appears to be that unless the issue of the regional development is properly addressed both legislatively and financially, it will be hard for the Federal government to get the regional understanding and support for lifting the restrictions.

Legislative Branch

State Duma

The political split in the State Duma is currently in favor of the democratic and market oriented political groups of the Russian Federation. The only two ultra left-wing political factions representing the continuous opposition to all the market legislative initiatives are the Communist Party and the Agrarian Party. Thus representing the minority in the State Duma (28%), the two factions are not that influential as they used to be in the past. Even though the interests among the centrist (“Unity-Fatherland”), the ultra-write wing (LDPR), the right wing (“Union of the Right-Wing Forces”, “Yabloko”), and the moderate right wing (“Russian Regions,” “People’s Deputy”) can vary on different topics, they are all supportive of developing democracy and forcing the market reforms. Let us consider the parties’ possible views on the following two subjects – (i) the development of common market in the Russian Federation based on the effective economic federalism, and (ii) the market reforms in the agricultural sector of the Russian Federation.

The Development Of a Common Market In The Russian Federation Based On The Effective Economic Federalism

Considering that all the parties oppose any separatist movements in the Federation, the legislation aimed at creating the basis for effective economic federalism that would prevent any trade restrictions among the regions would be favored by the majority of the parliament. The centrist factions (“Unity-Fatherland”) joined by the moderate right wing (“Russian Regions,” “People’s Deputy”), the right wing (“Yabloko,” “Union of the Right-Wing Forces”), the patriotic ultra-write wing (“LDPR”) and the left wing (the Communist Party and the Agrarian Party) will most likely support such legislation. However, the parties like “Russian Regions,” the Communist Party and the Agrarian Party will have to be worked with in order to ensure their majority’s support. Since the Agrarian party is supportive of the regional large agro-industrial businesses, it may be difficult to bring its deputies to agreement on strengthening the antitrust legislation. However, it can be compromised by the regional support and moderate agricultural reforms legislation. Being strategically opposed to the present government and the right wing and centrist parties, the Communist Party will most likely oppose allying with them. It will be playing the game with the Agrarian Party on a par. As to “Russian Regions”, even though they are against the interregional barriers, they want first to make sure that the regional development is taken into consideration. Considering that the *draft Law on the Basic Principles of the Financial Support to the Depressed Territories of the Russian Federation* initiated by the faction of “Russian Regions” and passed by majority during the first hearing was not supported by “Unity,” may cause problems to the federal government’s legislative initiatives for the common market and prospective bills on separation of powers. “Unity’s” opposition to this bill was due to the federal budgetary restraints that would not fully guarantee the financial support sought by “Russian Regions” faction.

The Market Reforms In The Agricultural Sector Of The Russian Federation

Most of the centrist and right-wing parties support the idea of forcing the market reforms in Russia's agricultural sector. The main opposing parties remain the Communist Party and the Agrarian Party. With regards to the legislation regulating the agricultural land and mortgage, they most likely will vote "no" on them. It can be based on their long lasting oppositions to the idea of foreign ownership of Russian land, and the voting results on the Land Code passed last fall in the State Duma. While the faction of "Unity" favored the bill with 83 votes, "Fatherland – All Russia" – 41 votes, LDPR – 10 votes, "Yabloko" – 17, "People's Deputy" – 44, "Russian Regions" – 20, none of the Communist Party and the Agrarian Party voted "yes" on the bill. However, the fact that the Russian Government decided to restrict the foreign property rights on land in the boundary regions in its version of a law on Circulation of Agricultural Lands may be appealing to the opposition parties, thereby buying some votes from them. As to the draft law on Credit Cooperation, it will most likely be favored by most of the parties, because it does not contain such contentious issues as land. It may be assumed, however, that the main reason of both the Communist Party and the Agrarian Party being so opposed to these reformist movements is that they do not virtually want the farmers be well off, because the poorer the rural population is, the more votes the left opposition tend to receive. This appears especially to be true now, because the two parties are underrepresented in the parliament and they want to guarantee more support for the next elections.

Given that the Committee for Agrarian Affairs is headed by a representative of the Agrarian Party and, moreover, is over-represented by the left opposition, it can be difficult to reach a consensus over the agricultural land and mortgage legislation. However, considering the present prevalence of the democratic and market-oriented parties in the State Duma, these laws will not be that hard to push through. Although the Committee for Economic Policy and Entrepreneurship is chaired by a communist, the left opposition representatives compose a minority. Furthermore, since the legislation promoting the common market in the federative economic relations is mostly supported by all the parties, there should not be difficulties with getting the Committee's members agree on such bills.

Federal Council

Since the Council's members represent their respective regional legislative and executive authorities, the interests of their regions are at stake. Considering that all the regional authorities are concerned with their regions' social and economic development, the issues of regional development must be taken into account when approaching the members. The bill on regional development could be served as a tradeoff for the members' support to the bills on the common market in the federative economic relations and on the agricultural reforms. With regards to the agricultural land reforms, the respective draft laws will most likely be favored by the majority of the Federal Council because (i) the majority of the Russian regions has long been developing their own land laws due to the market demand for them domestically, and (ii) the present draft law proposed by the Russian Government gives the regional government more freedom to regulate the land

circulation subject to their regional economic and traditional peculiarities. The fact that the Council's chairman, Mr. Mironov, is in long lasting good relations with President Putin, the proposed legislative initiatives will be facilitated much easier.

Agro-industrial Business Associations - Regional Agribusiness

The political influence of the regional agribusiness is not only motivated by their financial standing, but also by their increasing role in providing the population with the foodstuffs and employment. The representatives of the regional agribusiness are different with their differing interests and motives in respect to the interregional restrictions. Because the regional food trade corporations are interested in retaining control over the regional markets with the help of the regional authorities, they would be the the main opponents of opening the markets both to exports and imports. As to the regional food processors, they may be easier to persuade and ally with, because they realize that the fewer impediments they have for their agricultural inputs the less risky and more stable the production will be. On the other hand, since they favor restrictions to the agricultural exports in order to ensure the sufficiency of inputs inside the region, they may resist lifting the barriers to exports. Therefore, there must be tradeoffs taking place to make the food processors come to our side. One of the arguments might be the one that freer regional markets will bring about more opportunities for their final food products in other regions, should the barriers be dismantled across the Federation.

“RosAgroPromSoyuz” (Agro-Industrial Union of Russia) is the opposition to our side since it represents the interests of “red” directors of the large agro-industrial enterprises, and the Agrarian Party. Even though the influence of and protectionist positions of the unionized agribusinesses are strong, the agribusiness unions can be used to call on the regional authorities to lift the barriers to agricultural trade. For instance, although the Grain Union consists mostly of the trade corporations, the commodity exchanges that play a big role in free market development can be used to change the trade corporations' opposition towards the exports barriers elimination. Moreover, since the development of the commodity exchanges across the country contributes to the reduction in expenses for the trade corporations, it would be useful to consider the policy decisions to spur the currently poor commodity exchange development. However, considering the high margins being received by the trade corporations due to the seasonal exports restrictions, it would be very difficult to bring them on our side. On the other hand, such agribusiness union as Sugar Union and Meat Union with their interests of having a free access to the imported inputs can be helpful to our position. Furthermore, because the industries of these two unions are highly supported by the government either through the tariff quota regime (in case of sugar), or subsidies (in case of meat), the government can use this leverage to bring them to our side.

Farmers Associations - Regional Farmers

Representing the interests of farmers, the Association of Private Farms and Cooperatives of Russia (AKKOR) wants the market reforms in the agricultural sector, particularly in land, credit, and free market areas. Therefore, the AKKOR must be our very important

supporter in rural areas. Although the private farmers' role in creating the gross agricultural product is small compared to the former collective farms, their political influence is constantly growing. The farmers' political influence is caused by the following facts: (i) their existence and operations demonstrate the overall business climate in a region, and (ii) they help the regional authorities to curb unemployment in rural areas. Since the AKKOR does not have its representatives in the parliament, its political significance can be employed in approaching the regional authorities. Another important and influential ally will be the Association of Agrarian Reformist Organizations with its agricultural partner foundations located throughout Central and Southern Russia.

Among the other non-governmental agrarian association whose positions are in favor of the agricultural market reforms and the common market for the agricultural products are the Russian Peasant Foundation, the Union of Small Agricultural Producers, the Russian Union of Rural Women, the Russian Agrarian Union of Youth, and the Movement of Women-Farmers. Therefore, the Government must align them with itself in order to be more influential in pursuing market reforms the regions.

Research and Consulting Organizations

Among the agricultural research and consulting organizations, the Russian Academy of Agricultural Sciences (RAAS) is the most conservative and influential think tank. Since its management and most of the members are associated with the Communist Party, the RAAS is not on our side as to pushing through the reformist legislation and policy in the agricultural sector. However, the liberal market views of the Institute of Agrarian Affairs and Informational Sciences of the RAAS can be useful for our positions and strategy.

One of the most influential and market-oriented think tanks is the Analytical Center for Agri-Food Economics of Gaidar's Institute for the Economy in Transition. The Center's prominent professional staff, the cooperation with the international organizations, and affiliation with the right wing party "Union of Right-Wing Forces" makes it a strong and significant counterbalance to the RAAS.

International Stakeholders

World Trade Organization

On the international arena, the WTO is the major interested party in the matter of the inconsistency in the Russian national and sub-national agricultural policies that cause the interregional barriers to agricultural trade. While the WTO seeks compliancy of the Russian legislation and policy with its rules, the major stakeholders, the EU and the U.S., are the ones who are interested most in the market access at both the national and sub-national levels. When pushing for the free market within the Russian Federation, the two parties want to ensure the market access for both their agricultural imports and the agri-food products manufactured by their investors in Russia. Even though the WTO with its members, such as EU and the U.S., realize that the Russian Government wants to rid of

the interregional barriers, they remain strong at their positions to ensure the non-discriminatory treatment to their imports and the products of their investors. Therefore, the Russian Government must demonstrate its real intentions to address this problem, so that the WTO members, the EU and the U.S, do not use this issue as an argument to stall Russia's WTO accession.

World Bank

As the World Bank has very much at stake measured in billions of dollars in development of the Russian economy, including the private sector and agriculture, it is important to the bank to ensure the efficiency of the projects it finances and the sought results from the technical assistance programs. Furthermore, while the Bank's major tasks are to contribute to creation of the favorable, non-discriminatory trade and investment regime in the country, the interregional barriers to trade and investment are identified by Bank's experts as one of the most detrimental to the competition and efficiency incentives.¹⁹ If the federal government does not properly address the issue of the interregional trade barriers, the Bank can limit its lending and technical assistance programs, which will negatively affect Russia's investment risks, thereby resulting in less investment inflows, and further development.

LEGAL ANALYSIS

General Agreement on Tariffs and Trade (GATT)

The obligation set forth in GATT Article XXIV:12 makes the WTO member states to take it extremely seriously. This is especially important in the context of the obligations the various WTO Agreements impose on the membership. Thus, the Agreements provide for a variety of permissible measures that are 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 the 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 Member.²⁰ This means that if the regional authorities of a Russian region introduce a policy measure violating the WTO rules, an offended WTO member may file

¹⁹ Joel Bergsman, Harry G. Broadman, Vladimir Drebentsov, "Improving Russia's Policy on Foreign Investment," World Bank, May 2000, Online, <http://wbln0018.worldbank.org/Research/workpapers.nsf/12e6920265e1e0d3852567e50050df1f/88f1441054a9b239852568d300520cd4?OpenDocument>

²⁰ The provisions of Articles XXII and XXIII of GATT 1994 as elaborated and applied by the Dispute Settlement Understanding may be invoked in respect of measures affecting its observance taken by regional or local governments or authorities within the territory of a Member. When the Dispute Settlement Body has ruled that a provision of GATT 1994 has not been observed, the responsible Member shall take such reasonable measures as may be available to it to ensure its observance. The provisions related to compensation and suspension of concessions or other obligations apply in cases where it has not been possible to secure such observance.

a complaint against Russia. Since “each Member is fully responsible under GATT 1994 for the observance of all provisions,” Russia shall ensure consistency of its regional economic policies with the matters agreed upon in the Accession Agreement. Furthermore, an agreed upon access to the Russian agricultural market shall be honored by the regional authorities.

WTO Agreement on Agriculture

According to Article 4 (Market Access) of the WTO Agreement on Agriculture, members are prohibited to introduce “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 measures other than ordinary customs duties.” In pursuance to the terms of the Agreement on Agriculture, all these non-tariff barriers (NTBs) shall be converted into ordinary customs duties and bound accordingly in members’ schedules. As it was aforementioned, they are overwhelmingly used at a sub-national policy level by the Russian regional authorities. Therefore, until the Russian government ensures that all the regional administrative barriers are (i) identified and (ii) removed, Russia will not be in compliance with Agreement on Agriculture (Article 4). Undergoing the WTO accession, Russia must comply with the agricultural requirements, making sure that all non-tariff barriers are known and ready to be converted into tariffs.

The Russian Constitution

According to the Russian Constitution, Article 8:1, the main principle of the federative economic relations is the principle of unity of economic space in the Russian Federation.²¹ Therefore, regional separatism, represented by introduction of the administrative trade barriers, is a violation of the Russian Constitution, which undermines the main bases of a federative state.

Article 74:1 of Russia’s Constitution prohibits establishing customs borders, imposing duties; fees and any other measures that impede free circulation of goods, services and capital within the country.²² However, subsection 2 of Article 74 allows the restrictions provided that they are established by a federal law for protection of the people’s safety, human health, and environmental and cultural values.²³ Therefore, physical restrictions of the agricultural goods can be legal only on these grounds and only under the respective federal laws, but not the regional ones.

Constitution stipulates jurisdiction of the federation subjects and the federal government in Articles 71 and 72. Thus, according to Article 71 (k), (g), the Federal Government has

²¹ Article 8:1 “Unity of economic space, free movement of goods, services and financial resources, support for competition and freedom of any economic activity is guaranteed in the Russian Federation”

²² Article 74:1 “No customs frontiers duties, levies, or any other barriers for free movement of goods, services, or financial means may be established on the territory of the Russian Federation”

²³ Article 74:2 “Restrictions on the movement of goods and services may be established under the federal law, if this is necessary for the protection of the people's safety, their lives and health, protection of environment and cultural values”

jurisdictions in foreign trade relations and “establishment of the legal framework for a single market; financial, monetary, credit and customs regulation, emission of money and guidelines for price policy; federal economic services, including federal banks.” Consequently, the Federal Government is responsible for developing and running the foreign trade and economic relations of the Russian Federation. However, Article 72 (n) provides for the joint jurisdiction of the Federal Government and the regional administrations in coordinating the international and external economic relations of the subjects of the Russian Federation and ensuring the compliance with the international treaties of the Russian Federation. Also, according to Article 72 (a), the joint jurisdiction includes “ensuring compliance of the constitutions and laws of the republics, charters, laws, and other regulatory legal acts of the territories, regions, federal cities, the autonomous region and autonomous areas with the Constitution and the federal laws.” Therefore, the Constitution sets forth a cooperation approach for foreign trade and economic relations as well as for law enforcement across the Federation.

Constitution also allows the regions to define the scope of authority and powers with the Federal Government through Treaties. According to Article 76 of Constitution, the federal, regional and joint jurisdiction laid out in the Constitution (Articles 71-73) shall be further regulated through the federal laws and legal regulatory acts. Despite the explicit meaning of the Constitution’s wording, many regional administrations disregard it and violate federal laws. It may partially be explained by the lack of thorough regulation of separation of powers through the federal laws, which underlies many complexities and difficulties of the economic development. The inconsistency, insufficiency and contradiction in Russian law create obstacles to the effective and efficient functioning of the mechanism of the federative relations. Hence, the Russian regions need the transparent and accurate regulation of their economic relations with the Federal government as well as more accurate definition of their economic autonomy.

Law on Competition and Restriction of Monopolistic Activity in Commodity Markets

According to the Law on Competition and Restriction of Monopolistic Activity in Commodity Markets, Article 7:1, the federal, regional, and local authorities are prohibited to “impose prohibitions on sales (purchase, exchange) of goods from one region of the Russian Federation to another or in any other manner prohibit the selling (purchasing, exchanging) rights of business entities.” However, practical enforcement of the law is not very efficient. The main loophole of the law leading to its inefficient enforcement is its vague and unclear formulation of prohibitions²⁴. It sets forth somewhat general terms of prohibitions on goods flows, without providing detailed classification of them, exceptions, and criteria for justification of the prohibitions.

²⁴ Pustelin P.V., “Experience of the Russian Ministry for Antitrust Policy and Entrepreneurial Support in Preventing the Interregional Administrative Barriers,” Report: TACIS’s Seminar on Interregional Trade Barriers in the Russian Federation, March 13, 2000.

A Draft Code On Basic Principles Of Federative Economic Relations In The Russian Federation

The basic provisions of a draft code On Basic Principles Of Federal Economic Relations In The Russian Federation (March 2001) are based upon the Russian Constitution. While the Constitution lays only the foundation of rules and principles for the federative relations, the federal laws and regulations are either contradictory or poorly implemented among the regions. Such contradictions mostly derive from misinterpretation and poor implementation of the constitutional norms. In this context, the present draft code is aimed at developing an efficient system of the interlinked principles of the federative economic relations that can ensure flexibility of the latter.

Principle of Economic Space Unity (common market) in the Russian Federation (Article 2)

The key principle of the federative economic relations is the principle of unity of economic space that rests upon Articles 8, 71 and 74 of the Russian Constitution. According to the draft code, Article 2, all the legal and regulatory tools available at the federal government and regional administrations shall ensure the common economic space in the Russian Federation. It states that Russian law shall ensure the unity of economic space and free movement of goods, services, finance, and labor across the Russian Federation; the creation of the level playing field for free economic activity, fair competition, and effective protection of the favorable economic activity regardless of the internal (administrative) borders. Such a call upon all levels of the executive and legislative powers to ensure common market serves as a cornerstone for their decision, policy, and law making processes.

Principle of Division of Jurisdictions between the Federal Government and Regional Administrations (Article 4)

According to Article 4, division of powers and jurisdiction of the federal government and regional authorities in areas of economic regulation is carried out by *federal law*. Treaties on division of jurisdictions shall be made in compliance with the respective federal laws. Therefore, this principle strengthens the role and significance of federal law in matters related to division of jurisdictions.

Principle Of The Agreed Upon Establishment And Implementation Of A Common Economic Policy of the Russian Federation and Russian Regions (Article 5)

In pursuance to the Constitution's Article 71:e, the Federal Government is responsible for laying down the principles of federal policy and programs in the areas of economic, environmental and social development of the Russian Federation. The Russian regions design their regional economic policy in accordance with the general principles of the federal economic policy. "Subjects" (regions) of the Russian Federation participate in developing the principles of the economic policy both directly through their representatives at the federal level and through the regional associations. Thus, it may be

concluded that the regional economic interests shall be taken into consideration in any policy making at the federal level. This, in turn, suggests significance of this principle to the political agreement between the regional and federal authorities.

Subsidiary Principle (Article 6)

According to Article 6, the subsidiary principle consists in decentralizing the administration of economic relations, subject to the regional needs and resources and the territorial conditions of economic development. The Russian regions are prohibited to regulate the federal areas of jurisdiction. The main task of the Russian regions in respect to the federal jurisdiction is the implementation of the federal laws. The Russian regions are entitled to initiate laws and amendments to Constitution and federal laws. The regional authorities shall develop laws and regulations in the areas of joint jurisdiction, taking into account their interests. In accordance to the principle of subsidiary, the federal government can make policy decisions in the areas of joint or regional jurisdiction, where the regional authorities are not able to achieve certain goals. The federal government shall initiate legislation on the areas of joint jurisdiction, when it is necessary to ensure equal socio-economic conditions, and common economic space in the Russian Federation.

Principle of Creation Of Equal Conditions For Economic Development Of The Regions (Article 7)

The principle of developing the equal conditions for economic development of the regions derives from the constitutional principle of equality of the Russian regions in relations with the federal government bodies²⁵. Implementation of the equality principle entails the creation of equal legal conditions for the regions' economic development and set of organizational and financial measures aimed at attaining equal conditions and potential for the future economic growth and favorable investment climate.

Principle Of The Federal Loyalty (Article 8)

According to Article 8, the unity of the state power system and efficient cooperation of the federal and regional governments rests upon the idea of federalism and loyalty to Federation. While pursuing this important principle, the federal authorities shall ensure that the interests of the Russian regions be incorporated and addressed in all the laws, regulations, and policymaking. The regional authorities shall undertake the measures necessary to fulfill their constitutional obligations. The Article also provides regions with a waiver that allows them to introduce "special measures" in the events of state of emergency, meaning temporary withdrawal from the federal state economic policy. Subject to the provision that federal law does not directly prohibit such "special measures," they can be applied. However, the federal government retains the right to give recommendations and directives to the regional authorities, when its interference can be justified.

²⁵ Article 5:4 "All the subjects of the Russian Federation are equal among themselves in relations with the Federal bodies of state power"

Principle of Cooperation Of Economic Activity Between The Regions (Article 9)

According to Article 9, the relations between the federal and regional authorities shall be based upon cooperation and mutual accountability in addressing economic issues. Practical implementation of this principle entails collaboration and mutual support, intelligence and legal exchange in respect to policy decisions. The federal authorities shall regularly consult with the regions, when designing laws and regulations, policymaking, and entering in trade and economic treaties. The regional authorities shall participate in decision making in the areas of joint jurisdiction and regional jurisdictions. When having disputes between the federal and regional authorities or between regions themselves, the federal and regional authorities are encouraged to use first the negotiations or mediations mechanisms.

Principle of Free Movement Of Goods, Services, Financial Funds And Labor Across The Russian Federation (Article 10)

The draft code's Article 10 derives from the Constitution's Article 74 that prohibits the imposition of customs borders, duties, fees, and any other impediments on free movement of goods, services, and financial means. As to free labor movement, the draft code is based upon the Constitution's Article 27, which ensures the right for those lawfully staying in the Russian Federation to freely move and choose the residence across the country.²⁶ In accordance with the principle of free movement, the introduction of quantitative restrictions on import, export, and movement of goods and services between the regions and/or municipal districts is prohibited. Regional trade legal and regulatory acts directly or indirectly restricting or threatening to restrict the freedom of goods and services movement in the Russian Federation shall be equivalent to the quantitative restrictions on the interregional trade. The latter provision is particularly significant, because it extends over various areas of regulation, where trade can be impeded, such as licensing, certification, taxation, and so on.

Principle of Economic Entities Equality (Article 11)

Realization of this principle implies that all economic entities registered in the Russian Federation have equal rights in relations with the federal, regional, and municipal authorities. Referring to the Russian antitrust law, the draft code's Article 11:2 prohibits economic entities to engage in any activity that could lead to restricting trade, competition, and common economic space in the Russian Federation. Russian regions shall not tax products manufactured outside their territories. Therefore, the principle of the economic entities equality lays down the basics of competition that are further defined in the respective antitrust laws.

Principle For State Assistance Based On Fair Competition (Article 12)

²⁶ Article 27:1 "Everyone who is lawfully staying on the territory of the Russian Federation has the right to freedom of movement and to choose the place to stay and reside"

According to Article 12, the federal government shall develop and improve the allocation of budgetary resources to the regional development. The regional authorities can take similar measures towards the municipal districts, subject to the requirement that the federal authorities are informed. The Article clearly separates assistance to the regions and municipal districts from assistance to the economic entities. State assistance is subject to the following two principles: (i) it should not impose restrictions on an entity's activities; and (ii) it should not be conditioned on an entity's relations with state authorities (federal, regional, municipal). Also, Article 12:8 provides for state support to agricultural producers on the grounds of (i) natural disaster or structural adjustment, and (ii) programs for economic development. This is in conformity with the allowed domestic support measures set forth in the WTO Agreement on Agriculture.²⁷ With the exception of the events where competition and trade are restricted, the state assistance is in compliance with the principle of economic space unity. Such assistance may be associated with social development; reconstruction of territories suffered from the internal military conflicts; regional economic development; and cultural and historical heritage.

Principle Of Economic Influence On Regions-Violators (Article 13)

According to the principle economic influence stipulated in Article 13, the President or the Government of the Russian Federation can impose measures of economic influence on the regions violating the federal law that ensures common economic space of the Russian Federation. The system of the economic influence measures shall be established only by the federal law. This principle is important for preventing potential protectionism and separatism.

MEDIA ANALYSIS

The Russian media, both the print and electronic, is characterized by the geographical coverage. There are the newspapers, magazines, radio and TV stations that are broadcast across the Russian Federation, and the ones that are focused on and based in the Russian regions. The across-the-federation media targets the large audience of the Russian population, whereas the regional media outlets are focused more on the regional population.

The Russian across-the-federation media is subdivided into the federal government/parliament, Moscow city government, business, and independent media outlets. The following are the overview and analysis of these media subdivisions from perspectives of my Project:

²⁷ WTO Agreement on Agriculture, Annex 2 "Domestic Support: The Basics for Exemption from the Reduction Commitments"; Paragraph 8: "Payments (made either directly or by way of government financial participation in crop insurance schemes) for relief from *natural disasters*"; Paragraph 11: "*Structural adjustment assistance* provided through investment aids"; Paragraph 13: "Payments under *regional assistance programs*."

Federal Government, Presidential Administration, and Federal Assembly

VGTRK (All-Russian National Television & Radio Company)

The state fully owns the nationwide Channel 2 Network of Russian Television (VGTRK, commonly known outside Russia as RTR), which also manages the “Kultura” channel, which emphasizes cultural and educational programming. The Russian Government and the Federal Assembly use the channel as a venue for pursuing the national policy through the news and special programs. The State Duma, for instance, has its own TV program “Parlamentskiy Chas” (“Parliamentary Hour”), where all the different Russian and international political issues are discussed. Another TV program called “Selskiy Chas” (“Rural Hour”) is designed to address and cover all the ongoing problems in the Russian agriculture.

ORT (Russian Public Television)

The state formally owns 51 percent of shares of the shares of Russian Public Television (ORT), the network that broadcasts nationwide on Channel 1. Since the end of 1996, only three private shareholders have controlled the remaining 49 percent of ORT shares.

Among the state-owned newspapers and magazines are daily “Rossiyskaya Gazeta” (“Russian Newspaper”), daily “Rossiyskie Vesti” (“Russian News”), “Parlamentskaya Gazeta” (“Parliamentary Newspaper”), and a monthly magazine “Rossiya” (“Russia”). The official national news agencies are ITAR-TASS and RIA Novosti (Russian Information Agency). As to the national radio stations, there are three of them: “Radio Rossiya,” “Radio Mayak,” and “Radio 1.”

Moscow City Government

Since the mayor of Moscow city, Yuriy Luzhkov, is one of the founders of “Fatherland – All Russia,” which is now merged with the pro-government party “Unity,” his political weight and capabilities, in particular for the media strategy, can be exploited. The Moscow city government controls at least two TV channels (“Center TV” and “REN TV”) and 3 newspapers “Moskovskaya Pravda” (“Moscow Truth”), and “Moskovskiy Komsomolets” (“Moscow Komsomolets”).

Center TV

The government owns 67 percent of shares in the Center TV consortium. The consortium includes Center TV, which aims to become a network with nationwide broadcasting capabilities; a pool of Moscow cable networks; and a satellite cable project, METEOR TV.

REN TV

The Bank of Moscow, which is controlled by city authorities, issued a multimillion dollar credit in 1996 to help finance the private network's creation.

Daily “Moskovskaya Pravda”

In September 1998, the Moscow City government assumed control over one of Russia's larger printing press companies -- *Moskovskaya Pravda* -- following the signing of a special resolution by newly-appointed Prime Minister Yevgeny Primakov. It was one of the first he approved. The development was seen as a victory for Mayor Luzhkov. Printing presses that had been controlled by the Communist Party were transferred to state control in 1991. Private newspapers are almost all publishers depending on state-controlled monopolies for printing and distribution services. As the financial crisis continued, some of the leading Russian newspapers, including 'Izvestia,' previously printing at the *Pressa* publisher, have switched to the more flexible and cheap *Moskovskaya Pravda*. *Moskovskaya Pravda* also publishes the newspaper by the same name, but is unrelated to it.

“Moskovskiy Komsomolets”

In the past, the city gave subsidies to this large-circulation daily. The editor-in-chief, Pavel Gusev, is considered one of the most loyal editors to the Moscow city government.

Business

Over the years of reforms, there has been formed an oligarchic class of businesses in Russia who became influential in the Russian politics. As a result they provided themselves with media leverage in order to be able to influence the government and the Russian society. However, some of such oligarchs as Mr. Berezovskiy and Mr. Gusinskiy, who used to control TV channels “TV 6” and “NTV,” respectively, are now being charged with criminal offences by the General Prosecutor Offices. While they are currently on the run, the TV channel “TV 6” is currently shut down and “NTV” changed its owners more loyal to the government. The following are the businesses loyal to the government with their media outlets:

Oneximbank-Interros Holding Company

The holding company is owned by one of the most influential Russian businessmen who used to work as a deputy Prime Minister in the Russian Government – Mr. Vladimir Potanin. Considering that Mr. Potanin decided to launch business in the agricultural sector, his media assistance will be most relevant and helpful.

Daily “Izvestiya”

The daily “*Russky Telegraf*” (RT), which was 100 percent controlled and funded by Oneximbank, closed in September. Upon its closure, RT employees and facilities were merged with those of “*Izvestiya*,” a daily in which Oneximbank has a controlling stake. The daily has long been very popular among the Russian people across the Federation.

Daily “Komsomolskaya Pravda”

This daily considerably decreased in size after the 1998 crisis. The publication of a number of its regional inserts reportedly froze. However, it is being presently recovering.

Weekly “Expert”

Oneximbank owns a 34 percent stake in this weekly. This weekly is very popular among the business people of different professions and areas of expertise.

Magazine "Interros"

The magazine is fully owned by Mr.Potinin's holding company "Interros." It covers all the events related to the company as well as many other commercial topics.

Oneximbank also controls the following two radio stations: "Radio Europe," and "Radio Plus."

Gazprom Natural Gas monopoly

Being a second state-owned largest corporation in Russia, Gazprom is a majority owner of Russia's largest independent TV network "NTV." It also owns an insignificant amount of stock in the Russian Public Television "ORT." The corporation also controls a number of newspapers and a radio station "Open Radio." The Chief Executive Officer, Mr.Miller, is originally from St. Petersburg, the native town of President Putin.

LUKoil Oil Company

LUKoil is the largest Russian oil company, the management of which is in good relations with the government. The company holds a 75 percent stake in the Moscow-based network "REN TV" and a 49 percent stake in the daily "Izvestiya."

Alfa Bank

Alfa Bank is the largest private banking group on the Russian Federation. Its top executives, Mr. Mikhail Fridman and Mr. Pyotr Aven, have long been in good relations with the government. Alfa Bank holds a few stocks of the Russian Public Television "ORT" and has some influence on the most popular magazine among the Russian businesspeople, "Kommersant." The magazine keeps its accounts at Alfa Bank.

Independent Media

Among the independent media, which practice information policies independent of government and business players, are the weeklies "Argumenti i Fakti" ("Arguments & Facts") and "Kommersant." "Argumenti i Fakti" has a very well developed and large regional network of publishing houses.

RECOMMENDED ACTIONS FOR THE GOVERNMENT OF RUSSIAN FEDERATION

Undergoing the WTO Accession process, Russia should ensure consistency of regional and local policies with the WTO rules and principles. In particular, the Russian Government must undertake certain legislative and policy measures to eliminate the

administrative trade barriers imposed by the regions of the Russian Federation with regards to agricultural products. However, the regional policy of the federal government remains a result of compromise between eliminating the separatist and protectionist tensions and stimulating the economic growth across the country. Given this, the problem of the interregional barriers to agricultural trade bears, first of all, on politics, and then on legal and regional economic facets. Keeping this in mind, the Russian Government must ensure the regional economic development, the effective economic federalism, and the agricultural reforms in the areas directly related to the interregional barriers. I recommend that the Russian Government undertake the following actions in the following directions:

- Module on Federative Economic Relations
 - **To consider and push for adopting the Draft Code on Basic Principles of Federative Economic Relations in the Russian Federation.** The draft code will ensure a systematic foundation of the main principles for the effective, non-discriminatory federative economic relations in Russia.
 - **To propose the Commission on Separation of Powers and Objects of Competence to introduce the federal jurisdiction for the regulation of the agri-food market in the Russian Federation.** This jurisdiction shall be further incorporated in the respective federal laws that the Commission is planning to draft. Delegating the jurisdiction of the regulation of the agri-food market to the federal government will lead to preventing the regional administrations to restrict the agricultural trade through their policies of linking the commodity credits repayment to the regional procurement accompanied with the seasonal exports restrictions. The regional administrations will not be allowed to run the regional food funds. Rather, the only agency in charge of the agri-food regulation through procurement and intervention of the agri-food products will be the Federal Agency for Regulation of Food Market of the Ministry of Agriculture. As a result, the regional administrations will not be able to oblige farmers to procure their harvest to the regional food funds or trade corporations, thereby losing incentives to restrict exports of agricultural goods.
 - **To propose and push for the amendments to the Law on Competition and Restriction of Monopolistic Activity in Commodity Markets as to the detailed classification of barriers, exceptions, and criteria for justification of the restrictions of goods and services.** Article 7:1 of the Law on Competition and Restriction of Monopolistic Activity in Commodity Markets should include the following classification of trade barriers:
 - The administrative physical restrictions on goods imported and/or exported from the regions;
 - The discriminatory additional standards and certification requirements for the imported goods and services;
 - The uneven and discriminatory enforcement of customs regulations by customs authorities located within the territories of the subjects of the Russian Federation:

- The discriminatory additional licenses and quotas requirements, pricing, local taxes and fees applied to the imported goods and services;
- The preferential treatment for the local economic entities versus the foreign entities and the entities from other regions of the Russian Federation;
- Any administrative decision of the federal, regional, and local authorities that would restrict trade and competition.

As to exceptions, the physical restrictions on goods imported to the regions can be justified only on the basis of national security, health, food, and animal safety, environmental protection, and public moral subject to the respective federal laws and regulations. Such a basis will be in compliance with the Constitution Article 74:2 and the GATT Article XX (General Exceptions). Such restrictions shall be accordingly addressed after the respective federal agencies have conducted the appropriate investigations necessary to assess and determine the potential threat to the national security, health, food, and animal safety, the environment, and public moral. Regional administrations shall be prohibited to impose such restrictions without proper consultations with the respective federal agencies.

- **To improve the cooperation between the Russian Government (Ministry of Economic Development and Trade) and the regional authorities in the area of accurate monitoring of and timely response to the foreign trade and economic conditions.** The Ministry's territorial representative offices should develop and establish a more efficient mechanism of an operative collection of the regional market data in order to be able to properly evaluate the current situation and timely respond to it at the national level.
 - **To improve coordination between the Ministry of Economic Development and Trade and the Ministry of Agriculture and Food in the agricultural market information exchange.** The Ministry of Agriculture and Food should improve the level of interagency cooperation in providing the information on the agricultural market development to the Ministry of Economic Development and Trade in a timely fashion, so that the latter could adequately react to the changing conditions in the agricultural market. This will preclude the situations where the regional administrations have to restrict trade either for food security, or for the domestic producers.
- Module on Regional Development
- **To support a Draft Law on the Basic Principles of the Financial Support to the Depressed Territories of the Russian Federation.** This law is necessary to accelerate the development of less developed Russian regions and to equal the economic conditions among the regions in the federation. The policy of support to less developed regions is not in conflict with pursuing competition policy and the creation of the unified economic space. The regions-recipients will catch up to the average level of development across the federation, and, consequently, will have less incentive to restrict competition. Furthermore, the adoption of this law will lead to

regional authorities being supportive of the Federal Government's policy and legislative initiatives to strengthen the federative economic relations and tear down the interregional protectionism.

□ Module on Agricultural Reforms

- **To propose the President to enact the Law on Social Development of Rural Areas.** The law is important not only to the overall regional development in rural areas, but also from the point of view of growing competition both among the Russian regions and from abroad. Providing the proper assistance to the rural areas' social development will lead to offsetting the possible negative effects on the rural population from competition. The enactment of the law is also critical in order to obtain backing of the regional authorities on the Federative Economic Relations Module initiatives, and of the parliamentary opposition factions on the Agricultural Reforms legislation.

- **To push for adopting the Government's compromising version of a draft Law on Circulation of Agricultural Lands and to work on and push for adopting a Draft Law on Regulation of Agricultural Land Mortgage.** It is imperative to get these two laws adopted, because they are directly related to the farmers' dependency on the regional administrations' credit resources. Allowing for more opportunities to get rural credits independent on the regional administrative leverages in credit distribution will result in less regional officials' power to manipulate rural credits and regional funds. As a consequence, it will lessen incentives for the regional administrations to restrict agricultural exports.

- **To push for adopting a Draft Law on Credit Cooperation.** This draft law will contribute to the same results as the ones expected from the previous two.

COMPREHENSIVE STRATEGY PAPER

A number of actions will have to be taken to accomplish the above recommendations. Key to success consists in building a viable coalition among the parties concerned at the federal and regional executive levels, legislative level, farmers associations, some agro-industrial associations, and agricultural research institutions. The coalition will initiate and run a national campaign titled "Unified Economic Space - a Key to Russian Unity, Food Security, and Prosperity." Once the coalition has been established, members of the coalition will engage in a three-tier strategy: legislative, institutional and media. Although, the strategy will mainly focus on the national level, some steps will need to be taken at the international level.

Domestic Strategy

- Political Strategy

- 1) Build coalition among the federal government's ministries concerned and the presidential administration in order to create an Interagency Commission for Interregional Agricultural Trade in the Russian Federation;
 - 2) Build coalition with the regional authorities; parliamentary factions; the regional farmers associations and interested agro-industrial business associations; research institutions; and consumer groups.
- Legislative Strategy
 - 1) Module on Economic Federative Relations
 - a) Consider and push for adopting the Draft Code on Basic Principles of Federative Economic Relations in the Russian Federation;
 - b) Propose the Commission on Separation of Powers and Objects of Competence to introduce the federal jurisdiction for the regulation of the agri-food market in the Russian Federation;
 - c) Propose and push for the amendments to the Law on Competition and Restriction of Monopolistic Activity in Commodity Markets.
 - 2) Module on Regional Development
 - a) Support a Draft Law on the Basic Principles of the Financial Support to the Depressed Territories of the Russian Federation.
 - 3) Module on Agricultural Reforms
 - a) Propose the President to enact the Law on Social Development of Rural Areas;
 - b) Push for adopting the Government's compromising version of a draft Law on Circulation of Agricultural Lands and to work on and push for adopting a Draft Law on Regulation of Agricultural Land Mortgage;
 - c) Push for adopting a Draft Law on Credit Cooperation.
 - Institutional Strategy
 - a) To initiate regulation drafting to improve the cooperation between the Russian Government (Ministry of Economic Development and Trade) and the regional authorities in the area of accurate monitoring of and on-time response to the foreign trade and economic conditions;

- b) To initiate regulation drafting to improve coordination between the Ministry of Economic Development and Trade and the Ministry of Agriculture and Food in the agricultural market information exchange.

International Strategy

- To prepare and submit to the WTO accession Working Group a report on the federal government's legislative and institutional reforms initiatives for curbing and eliminating the interregional protectionism in the Russian agricultural trade;
- To prepare and submit to the World Bank Moscow Office a report on the federal government's legislative and institutional reforms initiatives for curbing and eliminating the interregional protectionism in the Russian agricultural trade.

Coalition Building Strategy

Building Consensus Within The Federal Executive Power And Creation Of The Interagency Commission For Interregional Agricultural Trade

In order to have strong capabilities to tackle the issue, there is a need to have a coordinating body within the federal government that will cooperatively set tasks and efficiently implement them. The Ministry of Economic Development and Trade must reach out to its governmental counterparts – Ministry of Agriculture and Food, and Ministry of Antitrust and Entrepreneurial Support, and the Presidential Administration to propose an establishment of the Interagency Commission for Interregional Agricultural Trade in the Russian Federation. The Commission will compose of the Ministry's of Trade specialists responsible for the WTO accession and the internal trade (Departments for Macroeconomic Analysis and Forecast, Regional Economics and Programs, Internal Trade, International Economic Policy, Foreign Trade Policy), the Ministry's of Agriculture specialists in charge of the WTO accession and the internal agricultural market (Departments for External Relations, Food Market and Quality Regulation, and Cooperation with Regions, respectively), the Ministry's of Antitrust experts dealing with the interregional commodity markets' restrictions (Departments for Demonopolization and Control over Restrictive Agreements, and External Relations), and the Presidential Administration's staff working on separation of powers (Commission on Separation of Powers and Objects of Competence). The objective of the Commission will be to strengthen a unified economic space and ensure the national treatment to the agricultural trade in the Russian Federation through accomplishing the aforementioned recommendations.

Since the decisions of strengthening the vertical federal power, market-oriented reforms, and forcing the WTO accession were pledged by President Putin, the creation of the Interagency Commission for Interregional Agricultural Trade will be most likely supported by the President. Even though the President is supportive of the objective set for the proposed Commission, certain lobbying actions must be taken to deliver the importance of urgent establishment of the Commission. However, before getting to

approach the President, the necessary lobbying efforts must be made to persuade the Prime Minister, Mr. Kasyanov, in the necessity of such a Commission. He will most likely back the initiative up, since he favors the WTO accession and the policy aimed at eliminating the interregional barriers along with the President's positions. Even though lobbying the Prime Minister will be an intermediate action for obtaining the President's support, the Minister of Economic Development and Trade, Mr. Greff, can use his personal good relations with the President to get him acquainted with the general idea of the strategy. To implement this part of my executive strategy, Mr. Greff, being an influential member of the Government, shall put forward this initiative to the Prime Minister and the counterpart ministries.

The following are the lobbying targets:

- President Putin;
- Prime Minister, Mr. Kasyanov;
- Minister of Agriculture and Food, Mr. Avdeev;
- Minister of Antitrust and Entrepreneurial Support, Mr. Yuzhanov;

The following are the lobbying activities necessary to ensure the understanding and support of the lobbying targets:

- Phone calls and separate meetings with each minister and the Prime Minister, accompanied by white papers, policy papers, memos, and advocacy letters;
- Advocacy letters, memos, phone calls, and, when possible, separate meetings with the President;
- Follow up meetings, letters, and phone calls.

Once the Interagency Commission has been created, the recommended legislative and institutional initiatives must be sent out to all the respective member agencies for their consideration, and legal and technical expertise. After having agreed upon the recommendations (legal texts, objectives, strategy, and tactic), the Commission shall be preparing to broaden a support to the proposed initiatives.

Building Coalition Beyond the Federal Government for the Campaign "Unified Economic Space - a Key to Russian Unity, Food Security, and Prosperity"

Once the Interagency Commission has been established, certain steps must be taken to ensure a broader support for the proposed recommendations. The Commission will promote and coordinate the campaign titled "Unified Economic Space - a Key to Russian Unity, Food Security, and Prosperity" with all the interest groups. The first step will be to contact the pro-free internal trade and undecided interest groups and to invite them for meetings and conferences in order to gain their support and membership. Among the targeted interest groups will be:

- Market-oriented and/or pro-federal regional leaders;

- Parliamentary factions - “Unity-Fatherland,” “People’s Deputy,” “Yabloko,” “Union of the Right-Wing Forces,” Liberal Democrats, “Russian Regions;”
- Agro-industrial Business Associations – Sugar Union and Meat Union;
- Farmers Associations - Association of Private Farms and Cooperatives of Russia (AKKOR); Association of Agrarian Reformist Organizations; the Russian Peasant Foundation, the Union of Small Agricultural Producers, the Russian Union of Rural Women, the Russian Agrarian Union of Youth, and the Movement of Women-Farmers;
- Research and Consulting Organizations - Institute of Agrarian Affairs and Informational Sciences of the RAAS; Analytical Center for Agri-Food Economics of Gaidar’s Institute for the Economy in Transition.

The meetings with the targeted regional interest groups must be held by the presidential representatives in seven federal districts, as well as by the territorial representatives of the respective ministries across the federation. Conferences with an emphasis on the interregional trade barriers to agricultural trade must be organized and held in the base cities of the seven presidential representative offices - Central (Moscow), North-West (St Petersburg), North-Caucasian (Rostov-na-Donu), Volga (Nizhniy Novgorod), Ural (Ekaterinburg), Siberian (Novosibirsk), Far Eastern (Khabarovsk). The conferences’ objective is to bring together the interest groups mentioned above to discuss and set the goals for the campaign “Unified Economic Space - a Key to Russian Unity, Food Security, and Prosperity.” The Interagency Commission’s representatives should acquaint the interest groups with its proposed initiatives to address the problem of the interregional barriers to agricultural trade. President Putin must be invited to one of these conferences to demonstrate his official support and political position to the initiative. They also should invite the interest parties’ concerns and proposals to improve the situation. Prominent national and regional politicians, celebrities (writers, scientists, film makers, TV stars), and businessmen shall be invited to talk about the consequences of the internal protectionism in agricultural trade. The following negative consequences from the interregional trade barriers should be used as arguments to solidify and broad the coalition:

- Undermining the Constitutional principle of a unified economic space in the Russian Federation;
- High prices, reduced output, and diminished product and service quality;
- 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;
- Insolvency of the Russian farmers;
- Undermining Russia’s efforts to accede to the WTO;
- Undermining the World Banks’ investment projects that are critical to Russia’s social and economic development.

As to Russia's accession to the World Trade Organization, the following advantages to Russia must be conveyed to back up the federal government's intentions to accede to the organization:

- The non-discriminatory treatment for the Russian goods in foreign markets;
- Access to the dispute settlement mechanism for solving the trade disputes;
- The creation of more favorable regime for the foreign investment as a consequence of bringing the domestic legislation into conformity with the WTO requirements;
- Broadening of the opportunities for the Russian investors in the WTO member countries;
- Creation of conditions for increasing the quality and the competitiveness of domestic produces as a result of the increased inflow of foreign goods, services, and investment;
- Participation in developing the international trade rules taking into account the national interests;
- Improvement of a national image of Russia as a full member of the international trade;

Once the coalition has been established, the Interagency Commission shall engage in organizing a media/public relations campaign to ensure publicity, attract more members to support the campaign, and initiate the public debate on the subject matter.

Legislative Strategy

The main task for the Interagency Commission is to persuade the State Duma to consider and adopt the proposed legislation. Since most of the bills contained in the proposed legislation packages have been already introduced to the State Duma and marked-up by the Council of the State Duma, the procedural efforts on the bills' introduction shall be made only for the *draft Code on Basic Principles of Federative Economic Relations in the Russian Federation* and *a bill for the Amendments to the Law on Competition and Restriction of Monopolistic Activity in Commodity Markets*. As to the rest legislation, the task will be to ensure the parliamentary support to the bills being already circulated in the parliament.

- Introduction of a *draft Code on Basic Principles of Federative Economic Relations in the Russian Federation* and *a bill for the Amendments to the Law on Competition and Restriction of Monopolistic Activity in Commodity Markets* to the State Duma.

On this stage, the Federal Government, having a right of legislative initiative, shall introduce the two bills to the Council of the State Duma for its consideration in order to decide whether to include them into the preliminary legislative program and calendar, or to reject them. The Council of the State Duma consists of the 10 members of the Duma's management, including the speaker, the chairmen of the 28 Committees, and the heads of the parliamentary factions. According to the Procedural Regulation of the State Duma (Article 105), the bills must be accompanied with the explanatory notes and the economic validity. The Interagency Commission in cooperation with its regional and parliamentary allies should reach out to the members of the Council to make them agree on the bills. This will include regular meetings, phone calls, white papers, and lobbying letters from

the Interagency Commission's officials as well as from the deputies' regional constituencies who are interested in the bills. As the majority of parties are supportive of strengthening the common market and federal economic relations, it will not be very difficult to gather a simple majority to approve the bills for the parliamentary consideration.

Once the bills have been approved, they are directed to the respective committees, in this case, the Committee for Economic Policy and Entrepreneurship. Even though there is a slight majority of the centrist and right wing parties' representatives in the Committee (7 versus 5 Communists and Agrarians), certain steps shall be made to get these five members of the Committee to agree on the bills without changing them much. Here, we should address the most critical concerns of the Agrarians, which is the bill on Circulation of Agricultural Lands. Since the Government put forward its compromising bill partially meeting the Agrarians' and Communists' requirements on the foreign property rights of lands, we must demand from them their support to the bills introduced. Moreover, in exchange we will promise to lobby the President to enact *the Law on Social Development of Rural Areas* that was adopted by both the State Duma and the Federal Council. Meanwhile, in order to ensure further support of "Russian Regions" and other parties concerned of the regional development, we will demonstrate the Government's official support to *a draft Law on the Basic Principles of the Financial Support to the Depressed Territories of the Russian Federation*. Upon the completion of all necessary work within the Committee, the two bills will be subject to the three subsequent parliamentary hearings. The consistent lobbying efforts shall be continued in order to assure the passage of these two draft laws. This will also include the regular meetings with the parliamentary factions and the Committee's members, advocacy letters, and phone calls from the deputies' regional constituencies, including farmers, consumers, investors, and businessmen.

While engaging in lobbying the State Duma to pass the two bills, a number of lobbying efforts must be undertaken towards ensuring support in the Federal Council, should it decide to consider the bills within 14 days of the State Duma's adoption. Building support in the Federal Council shall be made in the following three directions: direct approaching the Council's members, the regional authorities represented by the members, and the speaker of the Council. The Council's members shall be contacted by the Interagency Commission's officials, their regional constituencies, and regional authorities – members of the coalition. The regional authorities opposing the idea of free internal market in the Russian Federation shall be contacted by their local constituencies, including farmers, consumers, investors, and businessmen; the other regional leaders favoring the free internal trade; the Presidential Representatives in the respective federal districts, and the Interagency Commission's officials. President Putin shall meet with or phone the Federal Council's speaker, Mr. Mironov, to deliver his interest and urgent need in passing the two bills.

- Introduction of the federal jurisdiction *for the regulation of the agri-food market in the Russian Federation* to the Commission on Separation of Powers and Objects of Competence under the Russian President.

This proposal should be made within the Interagency Commission to the chairman of the Commission on Separation of Powers and Objects of Competence under the Russian President, Mr.Kozak. The proposal shall be backed by the analytical study of the present Project and other studies of the Ministries of Economic Development and Trade, and Agriculture and Food.

- Support a Draft Law on the Basic Principles of the Financial Support to the Depressed Territories of the Russian Federation

Given that this bill is extremely important for bringing the regional authorities and the parliamentary faction of “Russian Regions” to reaching consensus on the major objective of the Interagency Commission, the Government and the President shall support it. Once its support has been guaranteed by the federal government, the Unity who favored the bill during the first hearing only with the 25 votes will get a signal from the government to approve the bill. The Interagency Commission should draft proposals on finding the financial provision in the federal budget of 2003 for the financial support set forth in the bill. These proposals should accompany the necessary lobbying documents to the Prime Minister and the Minister of Finance to approve the bill. The same lobbying package shall be addressed to the President.

- Propose the President to enact the Law on Social Development of Rural Areas

The Interagency Commission should draft proposals on finding the financial provision in the federal budget of 2003 for the financial support set forth in the bill. These proposals should accompany the necessary lobbying documents to the Prime Minister and the Minister of Finance to approve the bill. The Commission should also contact the President to persuade him that it is crucial to enact the law in order to ensure the regional support and alleviate the opposition of the Agrarian Party and the Communists to the free internal market and the agricultural land reforms, respectively. Trade Minister, Mr.Greff, can meet with President to deliver the political benefits from signing this law.

- Push for adopting the Government’s compromising version of a draft Law on Circulation of Agricultural Lands, a draft Law on Credit Cooperation and to work on and push for adopting a Draft Law on Regulation of Agricultural Land Mortgage.

The Interagency Commission officials should contact the heads of all the parliamentary factions and the Committee for Agrarian Affairs to lobby them for adopting the two bills. The arguments such as farmer’s insolvency and poor investment in the agricultural sector must be used to defend our position on the urgent necessity of these laws. The centrist parliamentary factions “Unity” and “Fatherland – All Russia” must be employed to approach the most opposing parties through regular meetings. We also want to make clear that the government’s compromising version of a draft Law on Circulation of Agricultural Lands shall be considered as a tradeoff for the two bills on strengthening the common market. The Interagency Commission members should contact its allies from the regional farmers associations to urge them to write advocacy letters, make phone

calls, arrange meetings with the members of the Committee for Agrarian Affairs representing the Communist and Agrarian Parties to push for adoption of the laws.

Institutional Strategy

The Interagency Commission shall bring up an initiative for regulation drafting to improve (i) the cooperation between the Russian Government (Ministry of Economic Development and Trade) and the regional authorities in the area of accurate monitoring of and timely response to the foreign trade and economic conditions, and (ii) the coordination between the Ministry of Economic Development and Trade and the Ministry of Agriculture and Food in the agricultural market information exchange. The Ministries' departments on internal and foreign trade shall be assigned to study the problems more thoroughly and draft the regulation proposals. Once the proposals have been created, the Interagency Commission shall consider them and, should consensus among the Commission's members be achieved, recommend the respective Ministries to adopt the draft regulations.

International Strategy

- To assign the Interagency Commission's staff to prepare a report on the federal government's legislative and institutional reforms initiatives for curbing and eliminating the interregional protectionism in the Russian agricultural trade. Deputy Trade Minister, Mr. Medvedkov, shall submit to the WTO accession Working Group members during the next meeting. This will serve to assure the Working Groups members that the Russian Government undertakes serious legislative and institutional measures to address the issue of the interregional barriers to agricultural trade. This will improve our negotiation positions with regards to the agricultural market access and GATT Article XXIV:12.
- To arrange a meeting with a head of the World Bank Moscow Office to provide him with the report on the federal government's legislative and institutional reforms initiatives for curbing and eliminating the interregional protectionism in the Russian agricultural trade, prepared by the Interagency Commission's staff. This will demonstrate the Government's real measures undertaken to address the problem.

Timetable

The following is the timetable (Table 2) for all the basic steps of my strategy to accomplish the proposed recommendations:

Table 2. Timetable

Date	Action
<i>Building Coalition</i>	
May 1, 2002	Establishment of the Interagency Commission for Interregional Agricultural Trade
Late week of May, 2002	Conducting of conferences on the Interregional Barriers to Agricultural Trade – declaration of the campaign “Unified Economic Space - a Key to Russian Unity, Food Security, and Prosperity.”
<i>Legislative Strategy</i>	
<u>Module on Federative Economic Relations</u>	
June 1, 2002	Introduction of a <i>draft Code on Basic Principles of Federative Economic Relations in the Russian Federation</i> and a <i>bill for the Amendments to the Law on Competition and Restriction of Monopolistic Activity in Commodity Markets</i> to the State Duma
June 10, 2002	Adoption of the two bills by the Council of the State Duma and their submission to the Committee for Economic Policy and Entrepreneurship
June 20-25, 2002	Passage of the two bills during the first hearing
September, 2002	Passage of the two bills during the second and third hearings
October, 2002	The two bills shall be ready for President’s enactment after 14 days of pending in the Federal Council
May 10, 2002	<u>Introduction of the federal jurisdiction for the regulation of the agri-food market in the Russian Federation to the Commission on Separation of Powers and Objects of Competence under the Russian President</u>
<u>Module on Regional Development</u>	
June, 2002	Passage of a <i>Draft Law on the Basic Principles of the Financial Support to the Depressed Territories of the Russian Federation</i> by the State Duma after the subsequent second and third hearings
July, 2002	The bill shall be ready for the President’s enactment after 14 days of pending in the Federal Council
<u>Module on Agricultural Reforms</u>	
May, 2002	Presidential Enactment of <i>the Law on Social Development of Rural Areas</i>
June, 2002	Passage of <i>the draft Laws on Circulation of Agricultural Lands; on Regulation of Agricultural Land Mortgage; and on Credit Cooperation, respectively.</i>
July, 2002	The three bills shall be ready for the President’s enactment after 14 days of pending in the Federal Council
<i>Institutional Strategy</i>	
Late May, 2002	Introduction and adoption of the regulations on (i) the cooperation between

	the Russian Government (Ministry of Economic Development and Trade) and the regional authorities in the area of accurate monitoring of and on-time response to the foreign trade and economic conditions, and (ii) the coordination between the Ministry of Economic Development and Trade and the Ministry of Agriculture and Food in the agricultural market information exchange
<i>International Strategy</i>	
Subject to further determination	Submission of a report on the federal government's legislative and institutional reforms initiatives for curbing and eliminating the interregional protectionism in the Russian agricultural trade to the next WTO accession Working Group.
Late May, 2002	Submission of a report on the federal government's legislative and institutional reforms initiatives for curbing and eliminating the interregional protectionism in the Russian agricultural trade to a head of the World Bank Moscow Office

Media/Public Relations Strategy

Media Objectives

The media strategy is designed to enable the coalition to build public support for the free internal agricultural trade in the Russian Federation by running its campaign "Unified Economic Space - a Key to Russian Unity, Food Security, and Prosperity." The objectives of the media strategy are as follows:

- Educate the public about the negative consequences of the interregional barriers to agricultural trade to the Russian farmers, food processors, consumers, and foreign investors who create more job opportunities for the Russian people;
- Educate the public and regional politicians about the importance of fostering the agricultural reforms in land and crediting in order to make the Russian farmers more efficient and competitive both at the national and international markets;
- Educate the public and regional politicians about the advantages of the WTO accession to the Russian farmers, agro-industries, and consumers;
- Create a positive perception of and attitude to the Federal Government's efforts to ensure the efficient common market across the federation from the viewpoints of economic and political stability

Target Audience

The coalition shall target the Russian farmers, consumers, small and medium enterprises involved in food processing, corporate agro-industrial businesses, and regional politicians. The main focus should be the benefits from dismantling the interregional barriers to agricultural trade and furthering the effective, non-discriminatory economic relations in the federation.

Key Coalition Members To Participate In The Media Strategy

The media strategy should use the political weight and popularity of the most prominent Russian politicians, writers, filmmakers, actors, TV stars, and singers. Among such individuals are:

- President Putin;
- Former Prime Minister Evgeniy Primakov;
- Moscow mayor Yuriy Luzhkov;
- Tatarstan's president Mentiymer Shaymiev;
- Anatoliy Pristavkin, one of the leading Russian writers in the 20th century, a President's adviser on pardoning matters;
- Alexander Solzhenitsyn, one of the leading Russian writers in the 20th century, the Nobel Prize holder;
- Nikita Mikhalkov, a famous Russian filmmaker and actor;
- Josef Kobzon, a famous Russian retro singer and politician;
- Lyudmila Zykina, a famous Russian folk singer.

Media Outlets

The following electronic and print media outlets shall be used for the media strategy:

- VGTRK (All-Russian National Television & Radio Company), ORT (Russian Public Television), NTV, Center TV, REN TV;
- Daily "Rossiyskaya Gazeta" ("Russian Newspaper"), daily "Rossiyskie Vesti" ("Russian News"), "Parlamentskaya Gazeta" ("Parliamentary Newspaper"), a monthly magazine "Rossiya" ("Russia"), daily "Moskovskaya Pravda," daily "Moskovskiy Komsomolets," daily "Izvestiya," daily "Komsomolskaya Pravda," weekly "Expert" Magazine," magazine "Interros," weeklies "Argumenti i Fakti" ("Arguments & Facts") and "Kommersant."

Actions for the Media Strategy

To accomplish the media goals, the following actions shall be taken by the coalition members:

- Influential coalition members should write op-ed pieces in the aforementioned newspapers and magazines.
- Organize conferences and round tables bringing together all the coalition members, including popular and influential individuals, to discuss the issues of the interregional agricultural trade barriers, agricultural land and credit reforms, and Russia's WTO accession. Apart from the economic and commercial benefits, the members should touch upon such sensitive issues as a national pride. For instance, they should claim that Russia, with its tremendous intellectual and natural resources potential, and the agricultural heritage of pre-revolution Russia, must have the efficient agricultural sector, in which

farmers play the crucial role. Also, they should state that Russia, being a superpower, must play an equally significant role in establishing the international trade rules at the World Trade Organization. The representatives of the Russian export-oriented industries should be invited to talk about their concerns about foreign countries' discrimination against their goods, and inability to address these issues through the WTO due to Russia's not being a member yet. The invited farmers should raise their concerns about trade restrictions and agricultural reforms in the matters of land and credit. The aforementioned television networks and print media should broadcast these conferences and round tables. The campaign "Unified Economic Space - a Key to Russian Unity, Food Security, and Prosperity" shall be announced during these events.

- An official message from the Russian President to the public should be delivered during the one of the conferences addressing the importance of the free internal market in the Russian Federation as a necessary element for the effective federal economic and political relations, national security, national unity, and national prosperity.
- Use the annual agricultural fair of farmers "Russian Farmer" held in St. Petersburg by the Association of Private Farmers and Cooperatives as a venue to promote the announced campaign. Invite national celebrities, singers, highly visible people, and politicians to attend the fair. During the fair, there shall be organized concerts of pop music and folk music of different Russian ethnicities in order to attract the public attention and stress the importance of a unity of a multiethnic Russian society. Invited international media, foreign investors, representatives of the international organizations, such as the World Bank will be informed of the Russian government's initiatives to strengthen the common market across the Russian Federation.

Campaign Budget

The campaign will cost US\$300,000 with US\$100,000 coming from the government's funds, and the rest US\$200,000 from the campaign members.

Table 3. Campaign Budget

Media/Public Relations Campaign	
“Unified Economic Space - a Key to Russian Unity, Food Security, and Prosperity”	
for the Period of May 1, 2002 to October 31, 2001	
Support and Revenue	Rubles
Government Funds	3,100,000
Coalition Members Contributions	6,200,000
<i>Total Support and Revenue</i>	<u>9,300,000</u>
Expences	
<i>Conferences, meetings, round tables, fair</i>	
Utilities	155,000
Building and Grounds Maintenance	1,240,000
Rental and Maintenance of Equipment	930,000
Supplies	310,000
Telephone	155,000
Postage	31,000
Printing and Publications	465,000
Per diem and Travel	1,054,000
Wall Texts	930,000
Lunch	930,000
<i>Publicity and Advertising</i>	
Paid advertising	1,550,000
Photography	155,000
Press kits	310,000
Banners	310,000
Brochure	310,000
Outdoor signage	310,000
Postures	155,000
<i>Total Expenses</i>	<u>9,300,000</u>

ANNEX I - OP-ED

Grigoriy Zadorozhniy
Ministry of Economic Development and Trade
Moscow, Russia

640 words

Interregional Barriers to Agricultural Trade Hamper the Russian Economy and WTO Accession

A general concern involving Russia's WTO accession negotiations is that the decentralization of the federal government launched back in the early 1990's has led to the regional fragmentation of the Russian agricultural policy, as the regions assume more policy-making responsibility, including over product flows. Many regions restrict agricultural inflows and outflows. The Russian regional authorities apply a wide range of the administrative barriers to the Russian agricultural market including, inter alia, the administrative physical restrictions on agricultural goods imported and/or exported from the regions, additional standards and certification requirements, uneven enforcement of customs regulations, various licenses and quotas, pricing, local taxes and fees, preferential treatment for the local economic entities. The rise of regional policy making raises concerns that regional authorities might not honor agreements made by the federal government. Therefore, it is imperative that the Russian federal government takes certain measures to ensure a unified economic space in the Russian Federation, which is laid down by Constitution.

The issue of the interregional barriers is one of the most important problems in creation and development of the economic federalism in present-day Russia. The formation of the unified economic space raises an issue of its configuration, organization principles, and effectiveness. The interregional barriers being caused by specific features of the Russian regions' stance such as different economic and political development, and economic separatism, impede the formation of the effective Russian market. They also reflect serious controversy between the federal and regional macroeconomic policies.

Multiple endeavors of the Federal government to rid of the interregional barriers turned out to be not very efficient. This is explained by the complexity of the problem itself, and also by the fact that it has been approached only administratively, without properly addressing the causalities of the interregional barriers. The efficient resolution of the issue of the interregional trade barriers requires the understanding of their essence and causalities.

The interregional barriers hurt Russian consumers because they have to spend more of their income on the agricultural products and processed food as the barriers cause the price rise. Moreover, the consumers get less variety of the agricultural products and food in comparison to a larger product line that they could have, should the interregional

barriers be eliminated. Furthermore, the interregional agricultural trade barriers undermine the food security across the country.

The Russian farmers suffer from the interregional barriers because the latter prevent the farmers to realize their goods at a market price. Therefore, considering their poor financial situation, the barriers do not allow them further develop by gaining revenue and profits.

The Russian food processors suffer from the interregional barriers to agricultural trade because they may depend not only on supplies from within the territory of their region, but from outside as well. Thus if there is either a barrier to exports of an agricultural commodity needed for the food processing production or a barrier to imports of the agricultural commodity inside their region, the production and technological process of the food processors gets interrupted and, thereby, harmed. As a result, the food processors will incur severe financial and market losses.

The importers suffer from the interregional barriers because the latter lead to unpredictable financial and market losses in a form of contractual fines, lost profits, and lost markets. This, in turn, may result in retaliatory actions from the exporting countries in respect to the Russian agricultural exports.

Recognizing a critical nature of the interregional protectionism, there is an urgent need to effectively address the problem. Taking into account a complexity of the issue, a number of legislative and policy steps must be undertaken in order to reduce and eventually eliminate the interregional barriers. Thus, the Federal government in cooperation with the regional authorities and the State Duma must strengthen and develop the respective anti-trust law, the laws on the federative economic relations, agricultural reforms, and regional socio-economic development.

-end-

ANNEX II - MEMORANDUM

TO: Mr. Medvedkov, Deputy Minister of Economic Development and Trade
FROM: Grigoriy Zadorozhniy, Deputy Minister Adviser
DATE: March 27, 2002
RE: Strategy to Reduce and Eliminate the Interregional Barriers to Agricultural Trade in the Russian Federation

Issue

To accomplish your assignment, I have completed the attached project. The objective of the project is to study the problem of the interregional barriers to agricultural trade in the Russian Federation, and to propose recommendations and strategy aimed at reducing and eventually eliminating such barriers. The issue of the interregional barriers is important because it (i) affects Russia's WTO accession, and (ii) undermines a unified economic space of the Federation laid down by the Constitution.

Background

In respect to the WTO accession, the interregional barriers directly undermine GATT Article XXIV:12 dealing with a contracting party's obligations to ensure the national and sub-national policies' compliance with the GATT provisions, and Article IV of the WTO Agreement on Agriculture setting force the market access obligations. Among the economic negative consequences of the interregional protectionism are:

- High prices, reduced output, and diminished product and service quality;
- Chronic farmers' insolvency and indebtedness 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.

Therefore, the Russian consumers, farmers, food-processing industries dependent on imported agricultural inputs, and foreign importers are the ones who get hurt most. The regional authorities restrict both the agricultural exports and imports depending on their regional political and economic motivations. While obliging the farmers to procure their products to the regional food funds operated by the regional monopolistic food trade corporations as an in-kind payment for the credits provided or guaranteed by the regional authorities, the latter restrict the agricultural exports in order to ensure repayment. While restricting the agricultural imports, the regional administrations protect the local farmers, however, in many cases, it turns out that the monopolistic trade mediators are the only winners. The following are the main objective and subjective reasons of the interregional protectionism in the Russian agricultural market:

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

Recommendations and Strategy

In my recommendations, in order to efficiently tackle the interregional barriers to agricultural trade I propose to:

- Amend the anti-trust law by providing the detailed classification of the barriers, exceptions, and criteria for justification of the prohibition;
- Introduce a code stipulating the main bases for the federal economic relations in the Russian Federation;
- Introduce the federal jurisdiction for the regulation of the Russian agri-food market;
- Push for the bills on the agricultural land circulation and mortgage; credit cooperation; and social development in rural areas that are being currently considered in the Russian parliament (the State Duma);
- Push for the bill on the financial support to the depressive regions of the Russian Federation that is being currently considered by the State Duma;
- Improve the coordination between the Ministry of Economic Development and Trade and the regional authorities, and the Ministry of Agriculture and Food in the areas of the foreign and internal trade relations.

To implement the recommended actions, I propose to build a coalition among the respective federal agencies to establish an Interagency Commission for Interregional Agricultural Trade. This Commission will take a lead in running a broader coalition involving all the interested parties, including the regional leaders, political parties/parliamentary factions, farmers associations, agro-business associations, and research and consulting organizations. It will lead a legislative and media strategy under the umbrella of a campaign "Unified Economic Space - a Key to Russian Unity, Food Security, and Prosperity."

APRIL III - WHITE PAPER

Russia's WTO Accession: Interregional Barriers to Agricultural Trade in the Russian Federation

Russia is currently undergoing the WTO accession process, with the Russian Ministry of Economic Development and Trade taking a principal lead in the negotiations. Since the issue of the interregional agricultural trade barriers is now one of the major stumbling blocks for the Russian WTO accession, the Ministry takes it seriously in order to expedite the accession.

Many Russian regions restrict agricultural inflows and outflows. The Russian regional authorities apply a wide range of the administrative barriers to the Russian agricultural market including, inter alia, the administrative physical restrictions on agricultural goods imported and/or exported from the regions, additional standards and certification requirements, uneven enforcement of customs regulations, various licenses and quotas, pricing, local taxes and fees, preferential treatment for the local economic entities. The rise of regional policy making raises concerns that regional authorities might not honor agreements made by the federal government.

The white paper examines the commercial and economic consequences of and the legal aspects of the interregional barriers in context of the WTO accession. It suggests that the Federal government in cooperation with the regional authorities and the State Duma must strengthen and develop the respective anti-trust law, the laws on the federative economic relations, agricultural reforms, and regional socio-economic development.

Background

Interregional trade barriers, as any other market access barrier, are detrimental to the development of efficient markets in Russia. Due to the lack of free circulation of goods across the Federation, an efficient arbitrage becomes impossible, which leads to a substantial disparity in prices. Interregional trade barriers slow down creation of the national market infrastructure such as commodity exchanges, wholesalers, and auctions. The fragmentation of the national market leads to the regional self-sufficiency policies, thereby resulting in an inefficient distribution of resources. For instance, most of the Russian regions have their own programs for wheat production, regardless of whether they have comparative advantages in growing the wheat.

As a result of the trade barriers, the market price margin is quite high. According to the Institute for Economies in Transition's research, the price margin in the interregional trade is around 30-50 percent. While only a small percentage of the margin represents transportation and marketing costs, the rest of it is contributed by various market access barriers such as licenses, fees, administrative physical restrictions, bribes, etc. Regional authorities often explain trade restrictions by intentions to support either producers (in the

case of import barriers), or consumers (in the case of export barriers). However, the direct beneficiaries of restrictions are mostly the trade mediators.

Regional Funds – Commodity Credit - Export Restrictions

Export prohibitions are usually introduced temporarily, until the obligatory shipments under the commodity credits to the regional food funds are completed. However, even though they last for about two months, it is long enough to negatively affect the market. Due to the prohibitions to export a crop from a region-producer to a region-consumer, farmers are required to sell their products to the regional funds (or to be more precise, to supply under the goods credits programs, thereby paying off in-kind) at below the market prices.

The state monopoly has been replaced with the newly emerged monopolies such as trade corporations and processing industries, and with dictate of regional authorities. Procurement in the regional food funds is often associated with the commodity credit and physical restrictions on exports of products from a region's territory. As a result, the imposition of trade barriers creates potential of high price margins due to the fall in procurement prices inside the exporting region and rise in wholesale prices in the importing regions. Also, the inability of the agricultural producers to sell their products at a market price and ultimately gain profit leads to their chronic indebtedness and insolvency. Due to the lack of transparency, the control over the regional budget expenditures is very difficult, whereas a food trade corporation enjoys a monopolistic power in the market. The same negative effects occur when the regions similarly restrict agricultural exports of those agricultural producers who obtain agricultural credits from commercial banks and guaranteed by regional authorities until credits are repaid.

Impact of the Interregional Import Restrictions

Besides the negative impacts on domestic production and markets, the interregional barriers can affect the international trade. Thus, imposing import restrictions on certain agricultural products among the regions impede foreign imports, thereby undermining foreign producers and domestic consumers (processing industries and/or people) by making foreign imports inaccessible, unvaried, and expensive. Also, food-processing industries, that source their inputs from outside of their own regions, suffer from the regional agricultural trade restrictions as well. As a result, cost of procuring the raw agricultural commodities in the neighboring regions increase and the processed food products become more expensive, which in turn negatively affect the end consumers in the region.

Groups Injured by the Interregional Trade Barriers

The most injured groups as a result of the interregional agricultural trade barriers are the Russian consumers, farmers, food processors dependent on the outside supplies and distribution, and the importers of the agricultural products into Russia.

Russian Consumers

The interregional barriers hurt Russian consumers because they have to spend more of their income on the agricultural products and processed food as the barriers cause the price rise. Moreover, the consumers get less variety of the agricultural products and food in comparison to a larger product line than they could have if the interregional barriers were eliminated. Furthermore, the interregional agricultural trade barriers undermine the food security across the country.

Russian Farmers

The Russian farmers suffer from the interregional barriers because the latter prevent the farmers to realize their goods at a market price. Therefore, considering their poor financial situation, the barriers do not allow them further develop by gaining revenue and profits.

Russian Food Processors

The Russian food processors suffer from the interregional barriers to agricultural trade because they may depend not only on supplies from within the territory of their region, but from outside as well. Thus if there is a barrier to exports of an agricultural commodity needed for the food processing production or a barrier to imports of the agricultural commodity inside their region, the production and technological process of the food processors gets interrupted. As a result, the food processors will incur severe financial and market losses.

Importers

The importers suffer from the interregional barriers because the latter lead to unpredictable financial and market losses in a form of contractual fines, lost profits, and lost markets. This, in turn, may result in retaliatory actions from the exporting countries in respect to the Russian agricultural exports.

Legal Aspects of the Interregional Barriers

Domestic Law

According to the Russian Constitution, Article 8:1, the main principle of the federative economic relations is the principle of unity of economic space in the Russian Federation.²⁸ Therefore, regional separatism, represented by introduction of the administrative trade barriers, is a violation of the Russian Constitution, which undermines the main bases of a federative state. Article 74:1 of Russia's Constitution prohibits establishing customs borders, imposing duties; fees and any other measures that impede free circulation of goods, services and capital within the country. Despite the explicit meaning of the Constitution's wording, many regional administrations disregard it and violate federal laws. It may partially be explained by the lack of thorough regulation of separation of powers through the federal laws, which underlies many complexities and difficulties of the economic development. The inconsistency, insufficiency and contradiction in Russian law create obstacles to the effective and efficient functioning of

²⁸ Article 8:1 "Unity of economic space, free movement of goods, services and financial resources, support for competition and freedom of any economic activity is guaranteed in the Russian Federation"

the mechanism of the federative relations. Hence, the Russian regions need more transparent and accurate regulation of their economic relations with the Federal government as well as more accurate definition of their economic autonomy.

According to the Law on Competition and Restriction of Monopolistic Activity in Commodity Markets, Article 7:1, the federal, regional, and local authorities are prohibited to “impose prohibitions on sales (purchase, exchange) of goods from one region of the Russian Federation to another or in any other manner prohibit the selling (purchasing, exchanging) rights of business entities.” However, practical enforcement of the law is not very efficient. The main loophole of the law leading to its inefficient enforcement is its vague and unclear formulation of prohibitions.

International Law

In respect to the WTO accession, the interregional barriers directly undermine GATT Article XXIV:12 dealing with a contracting party’s obligations to ensure the national and sub-national policies’ compliance with the GATT provisions, and Article IV of the WTO Agreement on Agriculture setting force the market access obligations. Since “each Member is fully responsible under GATT 1994 for the observance of all provisions,” Russia shall ensure consistency of its regional economic policies with the matters agreed upon in the Accession Agreement. Furthermore, an agreed upon access to the Russian agricultural market shall be honored by the regional authorities. Undergoing the WTO accession, Russia must comply with the agricultural requirements, making sure that all non-tariff barriers are known and ready to be converted into tariffs.

Conclusion

Russia should ensure consistency of regional and local policies with the WTO rules and principles. In particular, the Russian Government must undertake certain legislative and policy measures to eliminate the administrative trade barriers imposed by the regions of the Russian Federation with regards to agricultural products. However, the regional policy of the federal government remains a result of compromise between eliminating the separatist and protectionist tensions and stimulating the economic growth across the country. Given this, the problem of the interregional barriers to agricultural trade bears, first of all, on politics, and then on legal and regional economic facets. Keeping this in mind, the Russian Government must ensure the regional economic development, the effective economic federalism, and the agricultural reforms in the areas directly related to the interregional barriers.

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