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Report Highlights:
Russian agriculture has been one of the fastest growing segments of the economy in recent years with gross output up 2.4 percent in 2017, as the Russian economy emerged from a two-year recession. In 2017, Russia was the world's largest exporter of wheat; the second-largest producer of sunflower seeds; the third-largest producer of potatoes and milk, and the fifth-largest producer of eggs and chicken meat. Russia's transition from import dependence in the 1990s toward self-sufficiency traces back to 2005, when agricultural support policies were launched on a meaningful scale. From 2014, these were supplemented by protectionist counter sanctions, with continued use of sanitary and phytosanitary measures (SPS) as technical barriers to trade (TBT). As a result, Russia has transformed its agriculture sector from a modest level of production in the 2000s to a significant contributor to the economy and growing global player, competing with the United States in the global wheat market and regionally in poultry markets.

General Information

Summary

Russian agriculture has been one of the fastest growing segments of the economy in recent years with gross output up 2.4 percent in 2017, as the Russian economy emerged from a two-year recession. In 2017, Russia was the world's largest exporter of wheat; the second-largest producer of sunflower seeds; the third-largest producer of potatoes and milk, and the fifth-largest producer of eggs and chicken meat. Russia's transition from import dependence in the 1990s toward self-sufficiency traces back to 2005, when agricultural support policies were launched on a meaningful scale. From 2014, these were supplemented by protectionist counter sanctions, with continued use of sanitary and phytosanitary measures (SPS) as technical barriers to trade (TBT). As a result, Russia has transformed its agriculture sector from a modest level of production in the 2000s to a significant contributor to the economy and growing global player, competing with the United States in the global wheat market and regionally in poultry markets.

1. Macroeconomic Situation and Trends

The Russian economy emerged from a two-year recession and Russia's real gross domestic product (GDP) increased by 1.5 percent in 2017, according to Russia's Federal State Statistics Service (Rosstat). The World Bank named rising prices for oil, Russia's key commodity export, as well as positive global growth, a recovery in trade, and growing macroeconomic stability as the key factors helping the Russian economy to return to growth following a contraction of 2.5 and 0.2 percent in 2015 and 2016, respectively. According to the International Monetary Fund (IMF), Russia's GDP based on purchasing power parity totaled $4.0 trillion in 2017, making Russia the sixth largest economy by this measure and placing it between Germany and Indonesia. The IMF expects the Russian economy to grow 1.7 percent in 2018.

The Russian economy remains dependent on extractive industries, especially oil and gas, which account for about 20 percent of GDP, two-thirds of exports and half of the federal budget revenues. As a result, Russia's fiscal health proved better than expected in 2017 due to higher energy prices, with the federal budget deficit coming in at 1.5 percent of GDP, or RUB 1.34 trillion ($23 billion), and foreign exchange reserves growing from approximately $380 billion at the beginning of the year to over $450 billion in the first quarter of 2018. The 2017 federal budget deficit was well below the 2.2 percent of GDP target and a marked improvement from the 3.4 percent deficit registered in 2016. Russia's non-oil deficit also contracted in 2017 to just below 8 percent of GDP, down from 9 percent of GDP in 2016. Russia also recently revised its budget law to forecast a federal budget surplus of 0.5 percent of GDP in 2018 as opposed to the originally planned deficit of 1.3 percent of GDP for the current year.

Throughout 2017, the Russian ruble fluctuated between 56 and 61 RUB per dollar. However, a new set of U.S. sanctions announced in early April 2018, triggered a 10 percent plunge of the ruble, to over 64 RUB per dollar, before it somewhat stabilized at the level of 61-62 RUB per dollar, and depreciated further to the current official Central Bank rate of 63.2 RUB per dollar as of July 5, 2018. This compares to the record high of RUB 83.6 per dollar in mid-January 2016 following repeated falls in oil prices at the time. It remains to be seen how ruble volatility will affect Russia's overall macroeconomic picture in 2018. Going forward, in order to smooth the impact of external volatility on the ruble and the budget, the Russian government adopted a new fiscal rule in 2017. According to the new rule, starting in 2019, a portion of Russia's oil and gas revenues the federal government can spend in a given year

will be determined by a fixed oil price benchmark, $40 per barrel in 2017 prices. The new fiscal rule will limit the budgetary use of the reserve fund only to smooth out the volatility of oil and gas revenue, which should ultimately result in reduced sensitivity of Russia's GDP growth to oil price volatility.

Meanwhile, Russia's consumer price index (CPI) increased by 2.5 percent year-on-year in 2017, the lowest annual inflation reading ever in Russia's history, according to Rosstat, and well below the Russian Central Bank's 4 percent target. Historically, Russia has struggled to contain high inflation, with the CPI reaching 12.9 and 5.4 percent in 2015 and 2016, respectively. Low inflation in 2017 was mostly due to continuing decline in real incomes, which have been falling since 2014, a bumper harvest, and a stronger ruble that kept food prices in check. In the first quarter of 2018, inflation remained at historically low levels, but the recent sanctions-induced ruble volatility is expected to affect the CPI with a lag of a few months. The Russian Central Bank currently forecasts that Russia's annual CPI will rise between 3 and 4 percent in 2018.

Lower inflation in 2017 allowed the Central Bank of Russia to continue its gradual monetary easing. The Central Bank reduced the key rate from 10 percent in annual terms at the beginning of 2017 to 7.75 percent at the end of December. The Bank has already cut Russia's key rate twice in 2018 to reach 7.25 percent at the end of March signaling further cuts were possible in 2018. However, given the recent fall of the ruble, the Central Bank took a pause and kept the rate unchanged at its latest decision-making meetings in April and June 2018.

Following the economic crisis of 2015-2016, Russia's consumer demand recovered in 2017 as the business environment improved on the back of growing oil prices and macroeconomic stability. Real wages increased 3.4 percent year-on-year in 2017 due to low inflation and a recovering economy. Retail trade grew by 1.2 percent in 2017 in reversal of a downward trend that started as the crisis struck at the end of 2014. Overall, the World Bank expects consumer demand to be the main engine of Russia's GDP growth in 2018.

Declining inflation and growing real wages should have led to a decline in Russia's poverty rate; however, preliminary Rosstat data for 2017 reveals only marginal relative annual change over 2016, from 13.3 percent in 2016 to 13.2 percent in 2017. In absolute terms, the number was also slightly down from 19.5 million Russians having incomes below the official subsistence level at the end of 2016, to 19.3 million at the end of 2017.

Unemployment rates were at a historical low in Russia, as the average rate of actual unemployment, using International Labor Organization standards, fell from 5.5 percent in 2016 to 5.2 percent in 2017 (4.0 million people). However, there are significant regional disparities in the level of unemployment due to low labor mobility. Russian employers also face continued workforce decline in the near future due to demographic trends such as low birth rates, ageing, and zero population growth. In 2007, the working age population in Russia, *i.e.*, men aged 16-60 and women aged 16-55, reached a historic high of more than 90 million individuals, decreasing to 82.1 million people by 2017. Rosstat estimates that Russia's working age population will decrease by another 2.2 – 2.7 million by 2020.

2. Agriculture in the Economy

Russian agriculture has been one of the fastest growing segments of the Russian economy in recent years, with gross output up 2.4 percent in 2017 to 5.1 trillion rubles. Russia launched its agricultural

support policies on a meaningful scale in 2005, as one of the National Priority Projects, which then converted into multi-year programs for agricultural development. From 2014, these were supplemented by protectionist counter sanctions, and additional sanitary and phytosanitary (SPS) restrictions. Due to these factors, among others, Russia has transformed its agriculture sector from a modest level of production in the 2000s to a significant contributor to the economy and growing global player. In particular, Russia is the world's largest producer of barley; the fourth-largest producer and number one exporter of wheat; the second-largest producer of sunflower seeds; the third-largest producer of potatoes and milk, and the fifth-largest producer of eggs and chicken meat.

Agriculture's share in Russia's overall GDP was 4.0 percent in 2017 and if one adds food manufacturing, the total value-added is about 6.0 percent of GDP. Please see Table 1, below, for a time series showing Russia's key agricultural development indicators between 1991 and 2017, as new domestic support policies, such as the National Priority Project (2005), Program for Development of Agriculture in 2008-2012 (2007) and Program for Development of Agriculture in 2013-2020 (2012), were launched.

Table 1. Agriculture in the Russian Economy

Indicator / Year	**1991**	**2005**	**2008**	**2012**	**2017**
GDP (current US $) bln	518	764	1661	2210	1578
GDP growth (annual %)	-5.0	6.4	5.2	3.7	1.5
Agriculture growth, (annual %)	-4.5	1.6	10.8	-4.8	2.4
Agriculture, value added (% of GDP)	13.8	4.3	3.8	3.2	4.0
Agriculture, value added (current US$) bln	71.3	32.5	62.3	70.7	63.3
Total population, mln.	148.3	143.8	142.8	143.0	146.8
Rural population (% of total population)	26.2	26.8	26.5	26.1	25.7
Employment in agriculture (% of total employment)	13.2	11.2	9.9	9.5	7.5*
Sowing area, mln HA	115.5	75.8	76.9	76.3	80.6

*Data for 2016

Source: World Bank, Rosstat

Agriculture is an important, albeit declining, sector in terms of Russian employment with a share of 7.5 percent. Approximately 26 percent, or 37.6 million, of Russians live in rural areas although that number continues to fall. According to the latest available data, the average nominal wage in agriculture (agriculture and hunting) reached 23,529 rubles per month in 2017, but is still only 60 percent of the average wage level in Russia. Agricultural wages remain the lowest compared with other Russian economic sectors, except the textile, leather, and furniture industries. A younger and more productive labor force is leaving rural territories in search of higher standards of living. Meanwhile, modernizing agricultural enterprises are seeking hard-to-find professionals with agronomy or veterinary skills.

Gross agricultural output in 2017 is currently estimated at approximately 5.1 trillion rubles ($87.5 billion based on the Russian Central bank's average exchange rate for 2017 of 58.3 rubles per $1), a 2.4 percent increase over 2016. One of the key factors of growth in the industry in 2017 was Russia's record high grain harvest, the largest in 40 years, due to a combination of improving supply inputs, financing availability, state support, and very favorable growing conditions both for winter and spring crops. At the same time, the growth rate of Russian agriculture decreased by a factor of two in 2017 compared to

the 4.8 percent growth in 2016, mainly due to relatively low global prices for agricultural commodities and appreciating ruble that strengthened against the dollar by over 6 percent in 2017.

Production in Russian agriculture is divided among three broad producer categories.

- Agricultural Enterprises -- About 53 percent of domestic agricultural products are produced by "agricultural enterprises" or "agro-holdings". These are large industrial farms with expansive land and livestock holdings and often with close ties to Russian elites. Example include international firms like Cargill and PepsiCo as well as Russian holdings like Miratorg, RusAgro and Cherkizovo, among others. As the World Bank notes, these enterprises can mobilize investments, utilize advanced technology, and import better management practices in the agriculture sector. They are perceived to be the driving force behind productivity and production growth. They also dominate Russia's commodity exports. These large agro-holdings are extremely concentrated vertical businesses that own the most advanced technology. Rosstat data shows that the share of agricultural enterprises in total agricultural production has been growing since 1998 when it bottomed out at 40 percent, reaching 53 percent in 2017. Their share of production has inched downward in crop production to 47 percent in 2017 from 49 percent in 2016, while growing in animal production to 59 percent in 2017 from 57 percent in 2016.

- Small Holders – There are also 174,800 registered "peasant" farms (averaging about 600 acres) accounting for 13 percent of total production. Non-existent in Russia in 1990, this category of agricultural producers currently specializes in the production of grain, oilseeds, and other industrial crops that require high levels of mechanization. This emerging small to medium-sized farms sector presents an opportunity to fill the production gap in subsectors where agricultural enterprises have a weaker competitive advantage, and which are higher-value subsectors, such as fruit and vegetable production, and even small-scale milk production.

- Subsidiary Plots – There are 17.5 million private, small (one and half acres on average) "subsidiary" plots that account for 35 percent of Russia's agricultural production. Subsidiary plots produce primarily for self-consumption, selling only 17 percent of their production as opposed to 83 percent for agricultural enterprises and 77 percent for peasant farms.

According to Rosstat, Russia's total crop production increased in 2017 by 2.1 percent (following a 7.6 percent increase in 2016), while animal production (livestock and poultry) increased by 2.8 percent (1.5 percent in 2016). The grain crop in 2017 was 135.4 million metric tons (MMT) by volume, 12.2 percent higher than in 2016 (120.7 MMT), while the sunflower seed crop in clean weight decreased by 4.8 percent to 10.5 MMT due to lower yields and smaller harvested acreage. The sugar beet crop set a new record in 2017 of 51.9 MMT, up 1.1 percent over 51.4 MMT harvested in 2016. Production of potatoes decreased by 5 percent to 29.6 MMT, while production of vegetables increased only marginally by 0.7 percent to 16.4 MMT in 2017.

According to preliminary Rosstat data, in 2017 expansion in Russia's animal sector was driven primarily by further advances in the production of poultry, pork, and eggs, which increased by 6.9, 4.8, and 3.1 percent, respectively. As of the end of December 2017, total poultry numbers in all types of enterprises and farms were only slightly up as compared to the end of December 2016: 556.6 million birds

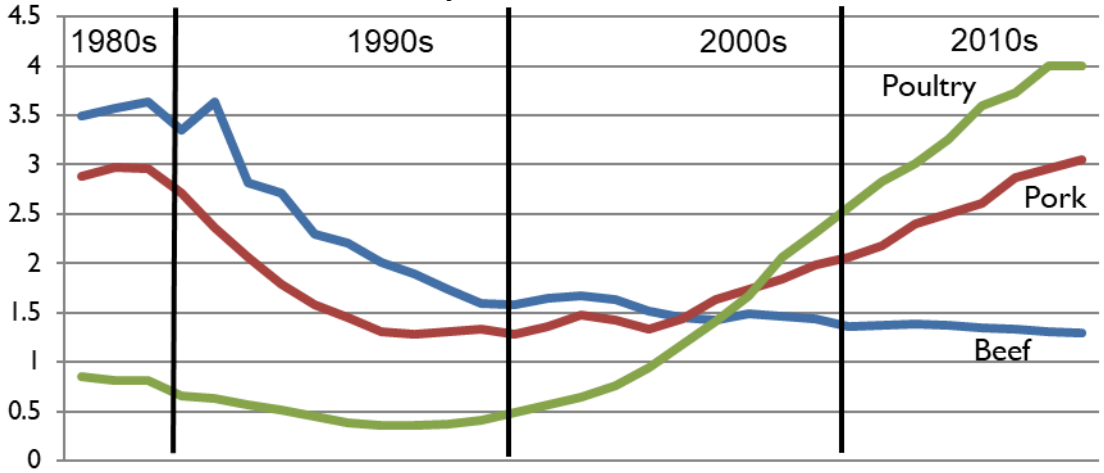
compared to 553.0 million birds. At the same time, agricultural enterprises posted a more substantial, 1.6 percent increase in their poultry flock numbers that reached 458.9 million birds at the end of 2017.

In 2017, the amount of swine in all enterprises and farms increased by 5.3 percent to 23.2 million head, of which 19.8 million head were in agricultural enterprises (7.9 percent more than on the same date a year ago). Meanwhile, the long-term trend of a declining cattle herd continued in 2017. The total number of cattle decreased by 0.4 percent to 18.7 million (in agricultural enterprises – 8.252 million heads, 1.2 percent decrease compared to the previous year). The number of cows decreased by 0.5 percent to 8.226 million (in agricultural enterprises – 3.315 million heads, minus 1.3 percent). The number of sheep and goats in all types of enterprises and farms declined by 1.4 percent to 24.5 million head, while agricultural enterprises decreased their herd by 4.1 percent to 4.1 million head.

The Russian food processing industry, including drinks and tobacco, has been growing steadily since 1999, averaging 7.3 percent annually between 1999 and 2007. After the 2008 financial crisis, the sector growth rate slowed significantly, to an annual average of 2.3 percent between 2008 and 2016. In 2017, Rosstat changed its methodology and began reporting production statistics for food, drinks and tobacco separately. Thus, according to preliminary data, in 2017 production of food products increased by 5.6 percent, while production of drinks declined by 1.0 percent. Overall, Russia's food processing industry output of commodities and services (in current prices) came in at 5.2 trillion rubles ($89.4 billion) in 2017. The World Bank estimates that Russia's food processing sector contributes 13.5 percent of the value-added to the country's total manufacturing, but less than 2.0 percent of its GDP.

The rates of growth (in physical measures) of food products were strong across the board in 2017. Thus, production of meat, including beef, pork, as well as goat, horsemeat, and venison, grew by 7.7 percent compared with 2016, to 2.3 MMT. Production of poultry increased by 7.4 percent to 4.8 MMT, production of fish and seafood products increased by 2.5 percent to 4.2 MMT. Production of sunflower oil rose 10.4 percent, margarine - by 8 percent, butter – by 7.8 percent, cheese – by 5.5 percent, cereals – by 7.7 percent, and sugar – by 15.9 percent.

Chart 1. Russia's Meat and Poultry Production, MMT

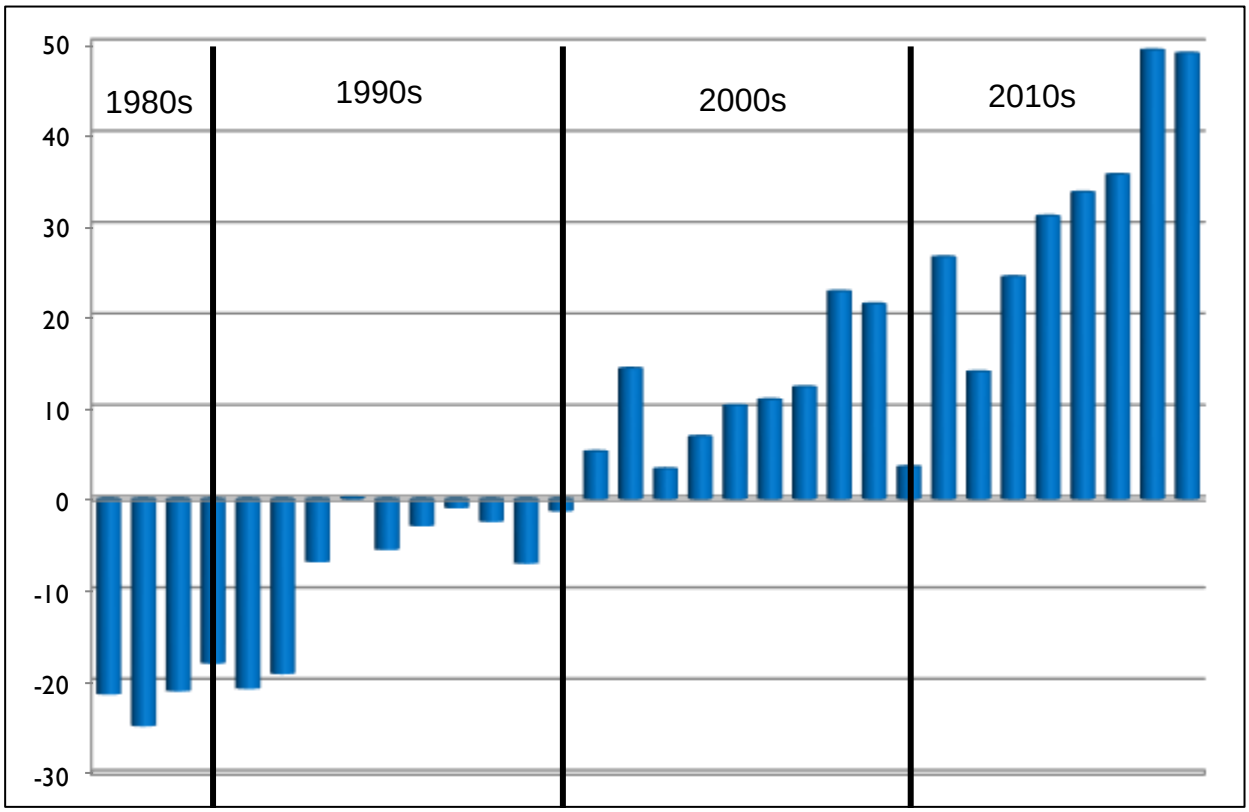


Source: FAS PSD Data

Over the past five years, Russia has reached self-sufficiency in pork and poultry, while beef production continued to decline. Overall, by 2018, Russia had met or exceeded six of the eight production targets set in its Food Security Doctrine of 2010 (for details please see Agricultural Policy Overview below). The successful development of the agricultural sector, together with several other factors – ruble devaluation, import substitution policies (including Russian food counter sanctions), domestic support and favorable weather – have affected Russia's agricultural goods trade balance. Imports slumped to the lowest level in 20 years in 2017. Overall, agriculture has increased its importance for the Russian economy becoming its fourth top foreign currency earner after oil and gas, metals, and chemicals.

This shift represents a significant change. Agricultural goods have been a key import since the Soviet times. In 1999, the share of agricultural goods in Russia's total imports exceeded 28.5 percent. U.S. food and agricultural exports to Russia were growing, reaching a peak of $1.9 billion in 2008. Since 2014, Russian overall food and agricultural imports have been steadily declining and reached a low of 12.7 percent in 2017. At the same time, Russia's exports of agricultural and food products have been insignificant for decades, but have increased sharply on a percentage basis in recent years, from an average of 2.0 percent at most between 1995 and 2010 to 6 percent in 2016 and 5.8 percent in 2017. Since 2015, Russia has had bumper harvests of grains, becoming the largest exporter of wheat in the world in 2016. Russia is actively promoting exports of its poultry, among other products. Yet its comparative advantage remains strongest in the grain, sunflower seed and sugar beet sectors (see Table 2, below). The counter sanctions created incentives for illegal imports of banned products that reportedly are still active but not easily quantifiable.

Chart 2. Russia's Net Grain Trade, MMT



Source: FAS PSD Data

Table 2. Russia's Role in Global Exports of Select Agricultural Commodities (2017)

Commodity	**Russian Exports**		**Share in global exports (by volume)**
	Thousand Metric Tons	**Rank in the World**	
Wheat	39,500	1	22%
Buckwheat	48	1	29%
Peas	1,042	2	15%
Oil, Sunflower seed	2,100	2	22%
Meal, Sunflower seed	1,350	2	18%
Flax seed	533	1	30%
Beet pulp	1,059	1	27%

Source: FAS PSD Data, Global Trade Atlas

Despite the significant developments, Russia remains a net food importer, with its import basket shifted towards high-value food products, such as beef, fruits and vegetables, while commodities like cereals and edible oils account for half or Russia's agricultural exports.

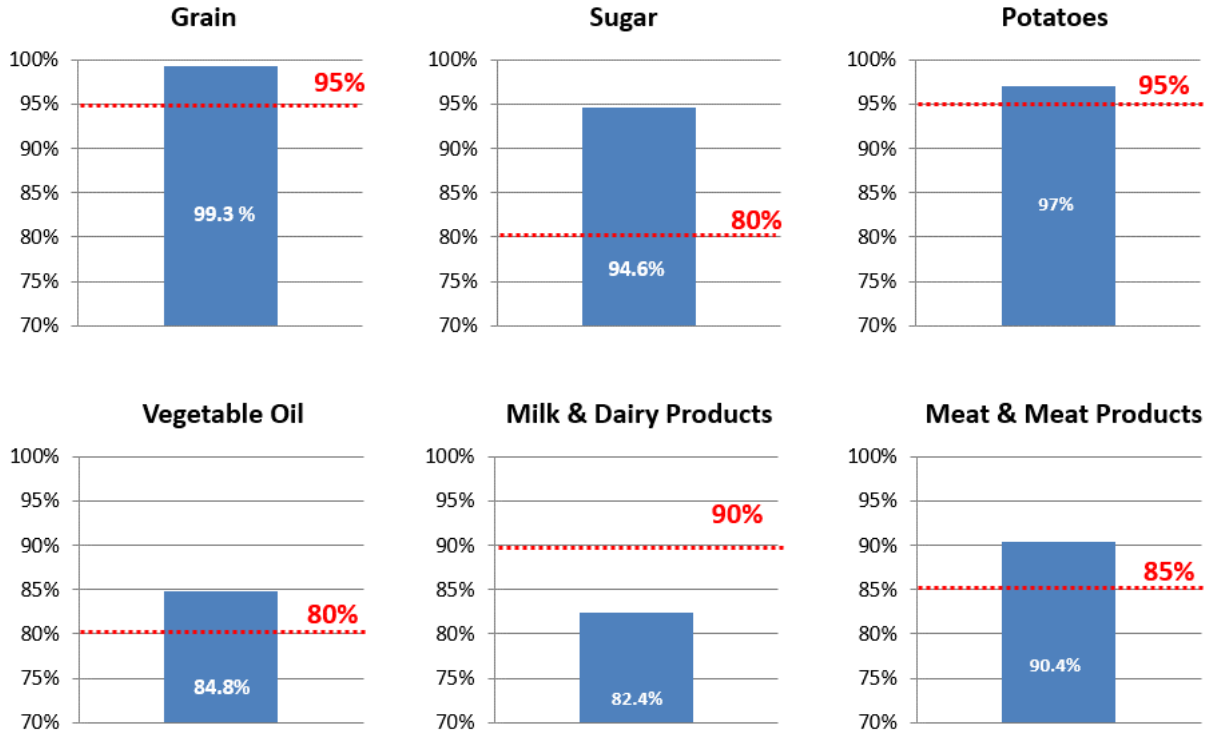
3. Agricultural Policy Overview

In May, Russian President Putin changed two key government officials in charge of agriculture, replacing Minister of Agriculture Aleksandr Tkachev and Deputy Prime Minister Arkady Dvorkovich with Dmitry Patrushev and Aleksey Gordeyev, respectively. Aleksey Gordeyev was Russia's Minister of Agriculture in 1999-2009 and Governor of Voronezh region, one of Russia's key agricultural regions, in 2009-2017, while Dmitry Patrushev was Chairman of the Management Board of the Russian Agricultural Bank in 2010-2018.

The key documents that form the basis of Russia's current agricultural policy are the Food Security Doctrine and the State Program on Development of Agriculture and Regulation of Agricultural Commodity Markets 2013-2020 (hereinafter the State Program).

The Food Security Doctrine of the Russian Federation, adopted in 2010, established minimum targets for domestic production of eight major groups of staple agricultural products, including grain, sugar, vegetable oil, meat, fish, and dairy products, potatoes and edible salt. Since 2014, Russia's "import substitution" strategy, numerous SPS bans and counter sanctions have supported Russia's food security initiatives. As a result, by 2018, Russia had met or exceeded six of the eight production targets set in the Doctrine of 2010. The two targets that have not yet been met are those for milk and dairy products – the indicator reached 82.4 percent in 2017, below the 90 percent target, and salt – 63.6 percent in 2017, while the target is 85 percent.

Chart 3. Russian Long-Term (2020) Food Security Targets and Share of Domestic Production in Domestic Supply in 2017



Source: Russian Ministry of Agriculture

The Russian Ministry of Agriculture had been drafting amendments to the Doctrine since 2015, and the latest draft published in early 2018 proposes to increase production targets for sugar and vegetable oil from 80 percent to 90 percent, and for fish products – from 80 percent to 85 percent. The draft also adds two new production targets, for vegetables and melons and gourds at 90 percent, and for fruit and berries at 70 percent. Additionally, the draft calls for "enhancement of domestic support measures for agriculture in the parameters of sectoral commitments adopted within the framework of the World Trade Organization (WTO)."

Table 3. Food Security Doctrine Targets

Product / Target	Doctrine 2010	Actual Level 2017	Draft Amendments 2018
Grain	95%	99.3%	95%
Sugar	80%	94.6%	90%
Vegetable oil	80%	84.8%	90%
Meat and meat products*	85%	90.4%	85%
Milk and dairy products	90%	82.4%	90%
Fish products	80%	80%	85%
Potatoes	95%	97%	95%
Edible salt	85%	63.6%	85%
Vegetables, melons and gourds	N/A	96.2%	90%
Fruit and berries	N/A	36%	70%

* Includes poultry and poultry products
Source: Russian Ministry of Agriculture

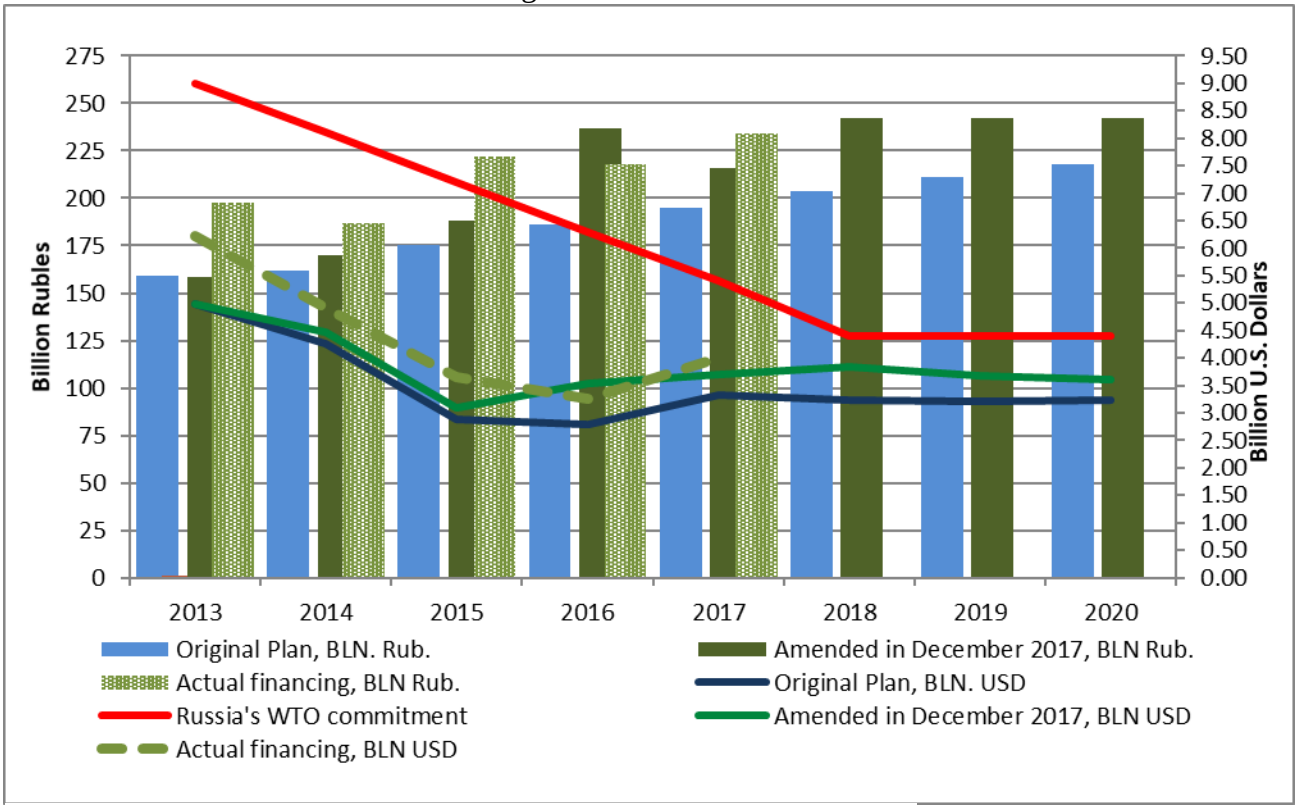
The Food Security Doctrine's minimum production targets were used as the production goals in the State Program 2013-2020, adopted in 2012. The State Program defines the set of government measures aimed at the support of the development of agriculture, agricultural and food markets, and rural areas. Since its inception, the State Program, which also outlines the federal budget for each support measure for each year, underwent multiple revisions, including two major ones in 2017.

In particular, after the March 2017 amendments, the total cost of the State Program increased to 1.55 trillion Rubles, 2.6 percent higher than the original plan adopted in 2012. In that version of the State Program, the funding for 2015, 2016, and 2017 increased for 4 percent, 27 percent and 11 percent, respectively, over the original 2012 version, while the projected financing for 2018, 2019, and 2020 decreased by 3 percent, 8 percent, and 11 percent, respectively. The March 2017 amendments also changed the structure of the State Program, merging sub-programs together in order to give regions more flexibility in using federal funds, and emphasized import substitution in food supply and enhancement of Russian agricultural exports. For details please see GAIN report *RS1736 Agricultural State Program 2013-2020 Amended in 2017*.

At the time of its accession to the WTO in 2012, Russia committed to a gradual decrease of the maximum "amber box" support for agriculture from $9 billion in 2013 to $4.4 billion in 2018. And while so far in all years of the State Program implementation since 2013 (except 2016), actual federal spending on agriculture, which includes support measures in both "amber" and "green" boxes as defined by the WTO, was higher than originally planned (see Chart 4 below), it was still well within Russia's WTO commitments. Going forward, with the ruble now at the level of about 63 RUB per dollar, the

planned financing for agriculture in 2018-2020 at 242 billion rubles would still be at least 13 percent below the $4.4 billion level.

Chart 4. Federal Funds for the State Program 2013-2020



Source: FAS/Moscow based on Russian Ministry of Agriculture's data.

The State Program was further amended in December 2017, with the new edition coming into force as of January 1, 2018. The funding for 2018, 2019, and 2020 increased considerably, by 19 percent, 15 percent, and 11 percent, respectively, while the total cost increased to 1.696 trillion Rubles, 12.4 percent up over the original 2012 plan. Simultaneously, another restructuring of the State Program took place as it was transferred to the mechanism of project management as of January 1, 2018, as part of the wider budget reform introducing project management in the five key areas including agriculture to increase efficiency of the government measures. Additionally, as part of this process, the 2017 Federal Scientific and Technical Program for Agricultural Development in 2017-2025 was integrated into the State Program to finally get its share of financing from the federal budget.

As a result, the State Program identifies such priority areas for support as accelerated import substitution in food supply, stimulation of investment, technical modernization of agriculture, agricultural exports, development of melioration of agricultural land, sustainable development of rural territories, scientific and technical support of agricultural development, and development of raw material basis for the light industry.

The following support measures are currently available to agricultural producers within the framework of the State Program:

1) Subsidized rates for transportation of grain by rail (introduced at the end of 2017 as a temporary measure, and extended in 2018 through July 1, 2019; the measure raised WTO questions as to whether it amounts to an export subsidy, which is forbidden under WTO rules),
2) Subsidized short term and investment loans at the rate of not more than 5 percent,
3) "Unified" regional subsidy depending on regional agricultural priorities,
4) Partial compensation of interest rates for investment loans, received up to December 31, 2016, in animal and crop production (legacy subsidy that was replaced by subsidized loans as of January 1, 2017);
5) Partial compensation of capital expenditure for new and modernized agricultural facilities,
6) Partial compensation of costs of transporting various exported food and agricultural products by land (introduced in September 2017, the measure also raised questions as to whether it amounts to an export subsidy, which is forbidden under WTO rules),
7) Decoupled support for crop producers (per hectare of arable land);
8) Subsidies for dairy farmers per one liter of sold milk linked to increased milk yields;
9) Subsidies to producers of agricultural equipment and machinery.

The original State Program of 2012 emphasized key performance indicators and production targets by major groups of products based on the respective self-sufficiency goals set in Russia's Food Security Doctrine described above. The Ministry of Agriculture provided annual updates on whether they were met each year in its progress reports that are subject to the Government approval by law. A summary of the key planned and actual performance indicators as well as planned and actual production of the major groups of products based on such progress reports for the 2013-2017 can be found in Annex 1 to this report.

Overall, in 2017, Russia met or even exceeded all of the key performance indicators and production targets for the major groups of products set in the State Program for 2017. Moreover, the 2017 production of the major groups of products also exceeded the production targets set for 2020 for all key products except milk.

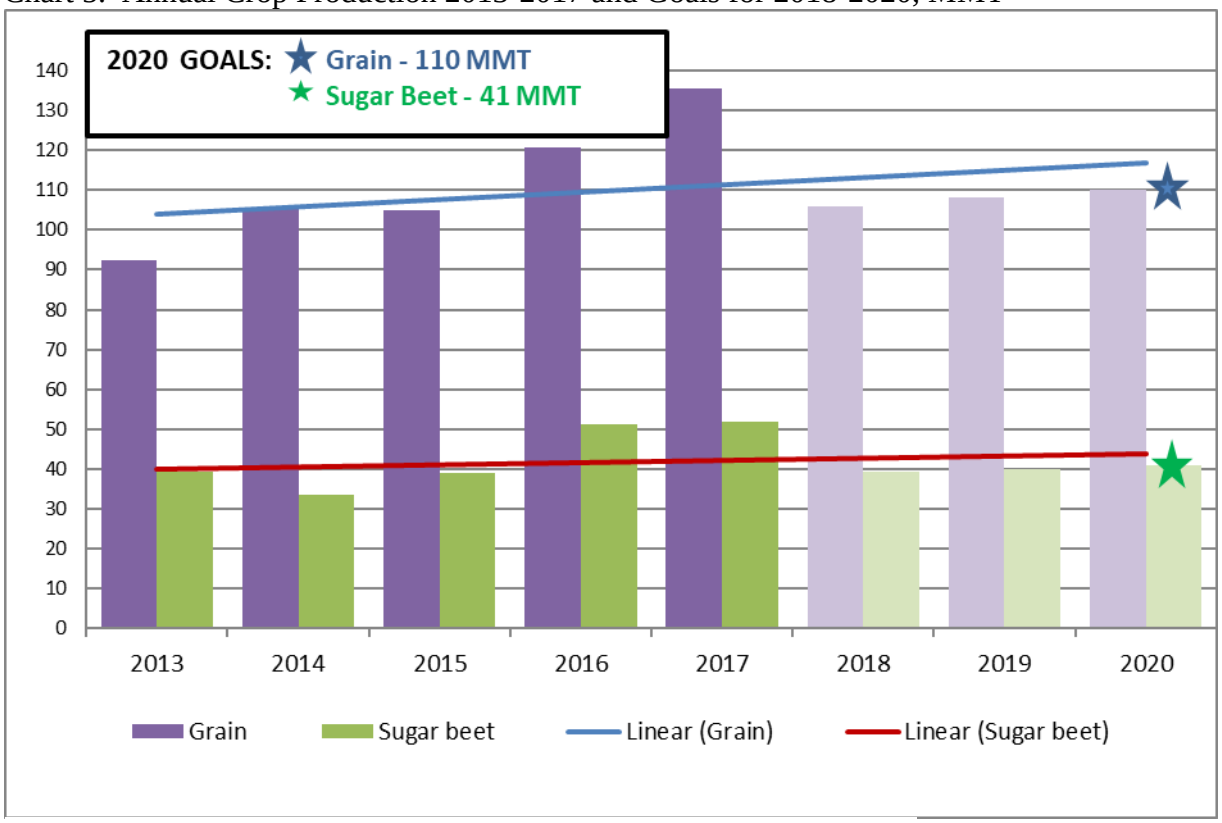
Additionally, in 2017 Russia's agricultural exports also exceeded the 2017 target set in the priority project "Exports of Agricultural Products," which is part of the State Program.

Table 4. Agricultural Exports in 2017 and Goals for 2018-2020, $ Billion.

Indicator / year	State Program 2017	Actual 2017	State Program 2018	State Program 2019	State Program 2020
Agricultural exports	17.9	20.7	19.0	20.2	21.4

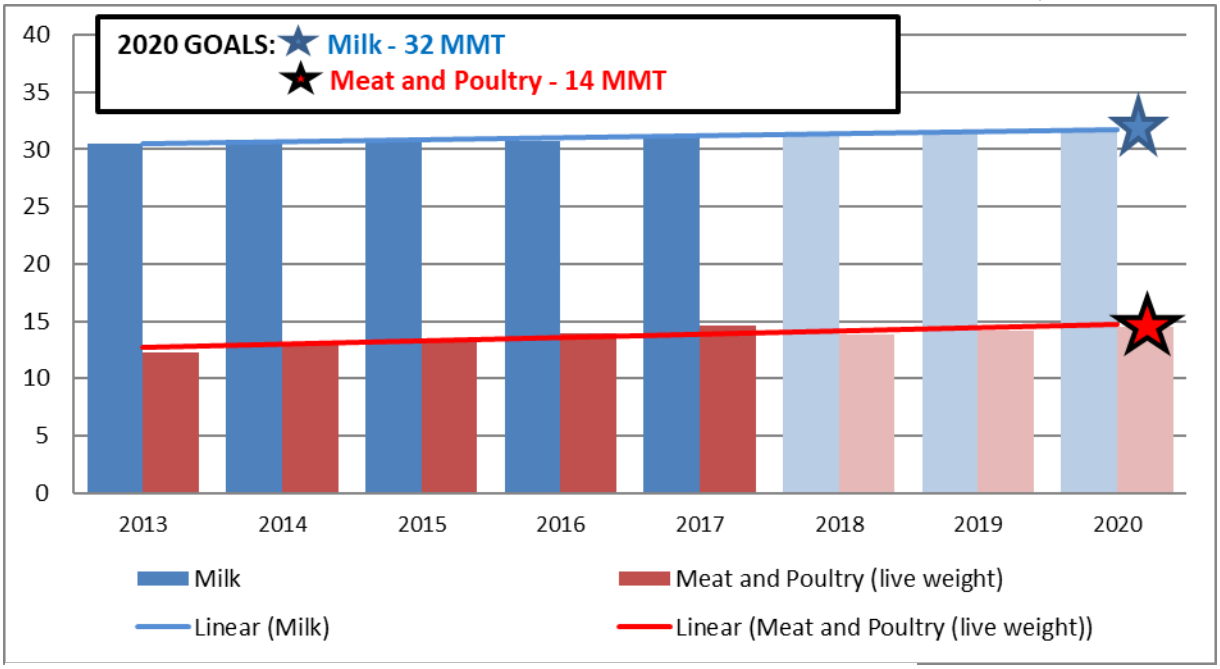
Source: Russian Ministry of Agriculture

Chart 5. Annual Crop Production 2013-2017 and Goals for 2018-2020, MMT



Source: FAS/Moscow based on Russian Ministry of Agriculture's data.

Chart 6. Annual Meat and Milk Production 2013-2017 and Goals for 2018-2020, MMT



Source: FAS/Moscow based on Russian Ministry of Agriculture's data.

Following the major revision in December 2017, the current version of the State Program focuses on the following five targets:

- Production of agricultural products (in comparable prices) in 2020 should increase by 8.6 - 10.8 percent over the level of 2015;
- Value added created in agriculture should reach 3,890-4,050 billion rubles in 2020;
- In 2020, agricultural exports should increase by 32 – 33.3 percent over the level of 2015;
- Physical volume of fixed capital investments in agriculture should increase by 11.3 – 13.1 percent in 2020 over the level of 2015;
- The volume of household resources available in rural areas in 2020 should reach at least 17.9-18.3 thousand rubles.

Because of the changed performance indicators and/or basis for comparison, it is unclear how the new targets compare to the original performance goals for 2018-2020, set in 2012. However, while not emphasized up front, production targets for major groups of products are still available in various attachments to the current version of the State Program. Please see Table 5 below for their comparison with the original goals set in 2012 and actual production in 2017:

Table 5. Production Targets for Major Groups of Products for 2020, MMT

Product / year	State Program 2012	State Program December 2017	Actual 2017
Grain	115	110↓	135
Sugar beet	41	41	52
Sugar	5.4	6.2↑	6.7
Sunflower oil	3.3	4.3↑	4.7
Meat and Poultry (live weight)	14.1	14.4↑	14.6
Milk	38.2	31.9↓	31.2
Cheese and cheese products	0.55	0.63↑	0.64

Source: FAS/Moscow based on Russian Ministry of Agriculture's data.

Given the actual levels of production and exports of certain agricultural products, the current State Program looks outdated, and most recently, newly appointed Deputy Prime Minister Aleksey Gordeyev acknowledged the need for further revisions. In particular, according to Gordeyev, changes are needed to account for regional specifics, overproduction of some food products, as well as the new ambitious goal set by President Putin for agricultural exports, which should more than double in six years in order to increase to $45 billion annually by 2024.

Russia banned cultivation and breeding of genetically engineered (GE) plants and animals in the Russian Federation by law in 2016. With respect to registration of GE products, the requirements for feed registration are often more rigorous in Russia than food registration. Currently there are no methodological guidelines for registration of stacked events, making it impossible for those events to be registered. The Russian Veterinary and Phytosanitary Surveillance Service (VPSS or Rosselkhoznadzor) has the sole authority for approval of biotechnology events for feed use. The Federal Service for the Supervision of Consumer Rights Protection and Human Welfare (Rospotrebnadzor) exercises similar authority for food use.

Due to its abundant petroleum and natural gas reserves, Russia produces small amounts of biofuels. The development of the biofuels sector has never been a priority for the government in the past, and

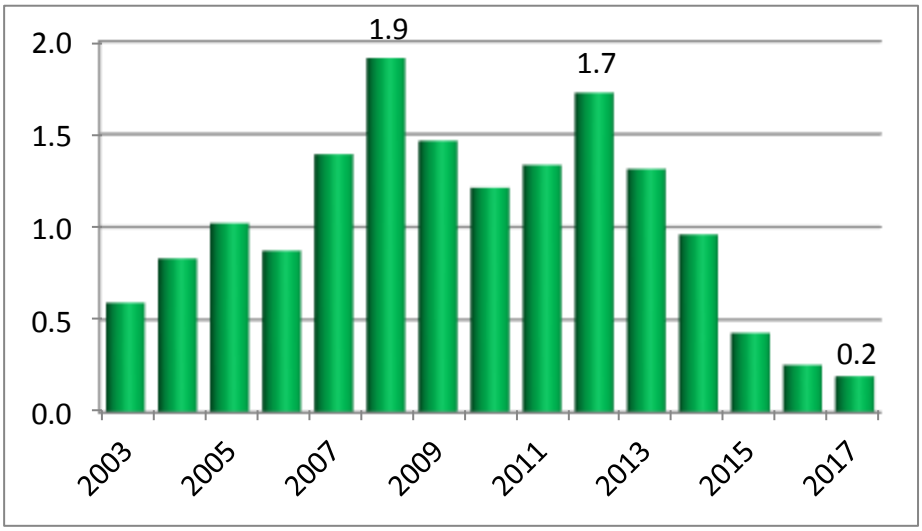
currently, with the strong focus on development of import substitution and export support programs, biofuels is even less of a priority. No major breakthrough is expected at least in the short-term. Strong demand from Europe and more interest from the Asian markets for biofuel, particularly wood pellets, will continue to be the major incentive for Russia to increase production of wood pellets.

4. Agricultural Trade Environment

Since 2010, Russia has been part of the Eurasian economic integration project with Belarus and Kazakhstan, which continued with the launch of the Eurasian Economic Union (EAEU) on January 1, 2015. The EAEU currently includes Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia. When Russia joined the EAEU, it nominally transferred authority over many aspects of its foreign trade regime relevant for agriculture to the EAEU, including import tariff rates, trade in transit rules, non-tariff import measures (e.g., tariff-rate quotas, import licensing, and trade remedy procedures), customs policies (e.g., customs valuation, and country of origin determinations), and the development of technical regulations and SPS measures. As a result, many of Russia's WTO commitments are implemented through EAEU measures.

The primary challenge for U.S. agricultural exports to Russia is Russia's August 2014 ban on most agricultural imports from the United States in retaliation for economic sanctions imposed on Russia following the annexation of Crimea in March 2014. The list includes live swine, beef, pork, poultry meat, and certain by-products, some fish and seafood products; fruits and raw nuts; vegetables; some sausages; and some prepared foods. The ban, currently in effect through December 31, 2018, has been extended annually, and on July 12, 2018, President Putin signed a decree extending the Russian countersanctions until December 31, 2019. As a result of these counter sanctions, together with additional SPS bans outlined below and Russia's economic crisis including a 40 percent devaluation of the ruble in 2014, total U.S. exports of agricultural and related products went down from $1.3 billion in 2013 to $201 million in 2017 – the lowest level since at least 1991.

Chart 7. U.S. Agricultural and Related Products Exports to Russia, $ Billion



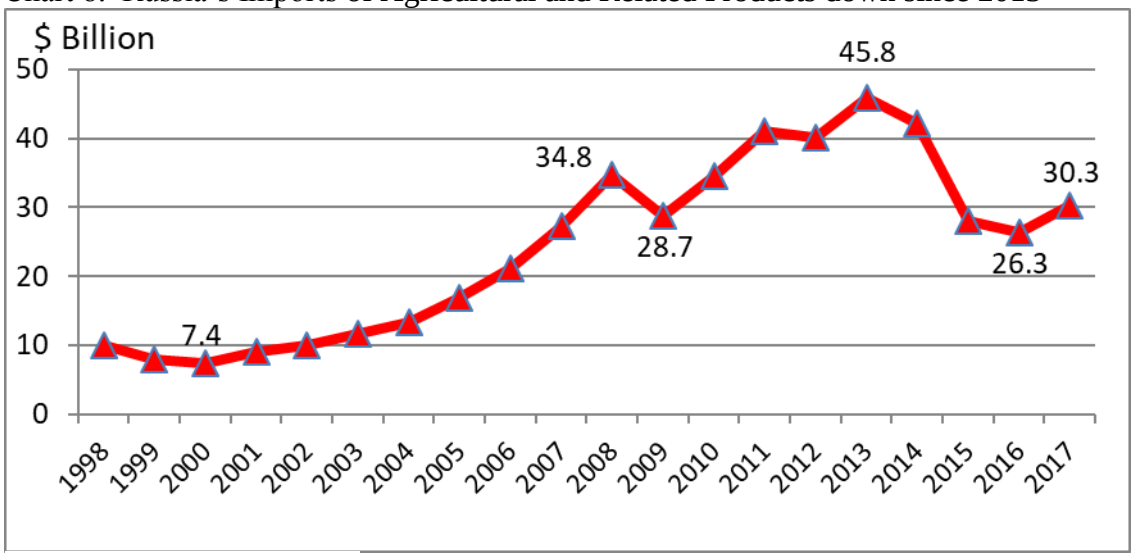
Source: FAS Global Agricultural Trade System (GATS)

Russia became a member of the WTO in August 2012, but its bid to join the Organization for Economic Co-operation and Development has been postponed due to its actions in Ukraine. Russia's simple average final WTO bound tariff rate is 7.6 percent (for agriculture it is 11.0 percent and for non-

agricultural products it is 7.1 percent). Non-tariff barriers further interfere with trade in many sectors, including agriculture.

Russia's WTO commitments to decrease certain meat and livestock import tariffs and quotas led to increased imports of these products in the last quarter of 2012 and in the beginning of 2013. However, sanctions and the Russian counter sanctions of August 2014, as well as Russia's SPS measures distorted trade and mitigated the effect of the WTO commitments.

Chart 8. Russia's Imports of Agricultural and Related Products down since 2013



Source: Global Trade Atlas

In 2017, Russia's imports of agriculture, fishery and forestry products totaled $30.3 billion, up by 15 percent over 2016, following economic recovery in 2017 after two years of recession. Russia remains one of the world's largest importers of dairy, meat, meat products, and fruit.

Table 6. Russia: Imports of Agricultural, Fishery and Forestry Products in 2017

Product / Value	Billion U.S. Dollars	Share (%)	Change from 2016 (%)
Total	30.28	100	15.3
by main product groups			
Meat and edible meat offal	2.68	8.9	16.9
Fish and seafood and products	1.63	5.4	16.4
Dairy products	2.44	8.1	23.2
Edible vegetables	1.80	5.9	28.3
Edible fruits and nuts	4.69	15.5	21.6
Oilseeds	1.81	6.0	8.5
Miscellaneous prepared products	1.35	4.5	16.6
Beverages and spirits	2.34	7.7	37.7

Source: Global Trade Atlas

In 2017, U.S. agricultural exports fell by 23.5 percent over 2016, as soybeans trade stopped completely due to Russia's SPS ban imposed in mid-February 2016. Sales of such "unrestricted" products as planting seeds, wine and beer, live animals, and non-alcoholic beverages rebound strongly with the

revival of the Russian economy in 2017, albeit from a very low base of 2016. Exports of chocolate and cocoa products have been steadily growing since 2009, and the category became the top third U.S. agricultural export to Russia in 2017.

Table 7. U.S. Exports of Agricultural, Fishery and Forestry Products to Russia in 2017

Product / Value	Million U.S. Dollars	Share (%)	Change from 2016 (%)
Total	196.2	*100*	-23.5
by main product groups			
Prepared food	34.0	*17.3*	-21.4
Tobacco	21.9	*11.2*	-37.9
Chocolate and cocoa products	17.4	*8.9*	13.5
Planting seeds	10.3	*5.2*	354.4
Tree nuts	8.3	*4.2*	4.2
Wine and Beer	5.3	*2.7*	175.9
Live animals	5.2	*2.7*	405.3
Non-alcoholic bev. (ex. juices)	5.1	*2.6*	102.2
Sugar, Sweeteners, Bev. Bases	5.0	*2.5*	-14
Soybeans	0	*0*	-100

Source: FAS's BICO report

Despite Russia's WTO accession commitment not to maintain any export subsidies, in 2017 Russia introduced two support measures that some could interpret as export subsidies: 1) subsidized tariff for transportation of grain by rail, and 2) partial compensation of costs of transporting various exported food and agricultural products by land. The measures have been addressed at the WTO Committee on Agriculture. Russia also maintains duties on exports of the following products:

- Two HS code items of tuna (contrary to Russia's WTO commitment to eliminate all export duties on fish within four years of accession, which was 2016);
- Wheat (although the duty rate was temporarily reduced to zero in 2016 to encourage exports; most recently the zero duty rate was extended through July 1, 2019);
- Sunflower seeds, rapeseed, and certain kinds of raw hides and skins (Russia's current export tariff on a number of raw hides and skins items is higher than allowed under Russia's WTO commitments).

Additionally, Russia banned the export of some raw hides intermittently since 2014 in order to protect its leather processing industry. Russia applies tariff rate quotas (TRQs) poultry meat, beef, pork, and whey products; importers of these products receive quota allocations from the Ministry of Economic Development in quantities relative to their import market share over the three previous years.

Following the introduction of new U.S. sanctions on Russia in early 2018, Russia responded with adoption of a law "On Measures (Countermeasures) in Response to Unfriendly Actions of the U.S. or other Foreign States"(law on counter-sanctions) that provides the President and the government with broad powers to introduce specific countersanctions at their discretion that would specifically target the United States. A revised version of the bill removed any reference to specific measures/products, leaving it to the President and the government to decide which products to target. If enacted, agricultural

products could potentially be among them. Additionally, in reaction to the U.S. import tariffs on steel and aluminum products, Russia notified the WTO of its intention to retaliate to the tune of $537.6 million, with agricultural products likely to be included in the retaliation package.

5. SPS Issues and Regulatory Systems

Russia and the EAEU have established the legal framework necessary for Russia to comply fully with the WTO Agreement on the Application of SPS measures (WTO SPS Agreement). As part of its WTO accession, Russia also agreed to harmonize its SPS measures with international standards and committed to increased transparency, including the right for other members to provide comments on SPS measures before their adoption. However, in practice, Russia has not yet taken all of the steps expected towards improving the environment for trade and Russia's use SPS measures as technical barriers to trade (TBT) is one of the key ongoing challenges for U.S. agricultural exports. Due to the combined effect of the Russian counter sanctions of August 2014 and Russia's SPS bans, several US agricultural exports currently face multiple layers of bans.

Despite the ongoing integration in the Eurasian Economic Union, the two main institutions responsible for Russian SPS policies will remain Rosselkhoznadzor and Rospotrebnadzor. Rosselkhoznadzor has the responsibility for phytosanitary and veterinary measures (including aquaculture and fisheries) as well as sanitary inspection and monitoring at the border. As the agency responsible for public health, Rospotrebnadzor establishes sanitary policy and enforces it domestically. As a result, Russian agencies' control over imported foodstuffs remains complicated and bureaucratic.

Russia, together with the other EAEU member states, mandates zero tolerance for key microbiological indicators in raw meat, namely the presence of *Salmonella* and *E. coli* that does not comply with sound science. In addition, following Russia, EAEU adopted extremely restrictive MRLs for antibiotics of the Tetracycline group that were based on a justification provided by Russian scientific entities that appears to disregard application of the standard international methods of risk assessment.

Russia maintains very limiting requirements relating to the residuals of β-adrenergic agonists including Ractopamine in meat products. Russia's zero tolerance for Ractopamine contravenes the internationally accepted Codex standard MRL of 10 parts per billion. In February 2013, Russia instituted a ban on the importation of U.S. beef, pork, turkey, and associated products until the United States provides guarantees that these products are Ractopamine-free. After such guarantees were provided in February-June 2014, Russia lifted restrictions for two turkey establishments, ten pork establishments, including eight cold stores, one beef cold store and three veal establishments. However, an additional pork establishment and many other cold stores, as well as casings, remain restricted. Additionally, U.S. meat and poultry are banned under Russian counter sanctions.

Since May 2014, Russia has banned imports of U.S. live pigs and some swine-derived blood products due to Porcine Epidemic Diarrhea. The U.S. requested that the Russian authorities remove the ban and proposed to include additional certification on the freedom of farm from PEDV outbreak and to provide additional testing.

In December 2014, Russia imposed temporary restrictions on imports of U.S. poultry, poultry by-products, and prepared products from poultry, citing detections of harmful and banned substances in

poultry products imported from the United States. Poultry meat is also banned under Russia's counter sanctions.

In February 2018, Russia lifted the whole country ban on the import of U.S. poultry and the transit of live poultry, some poultry products, and hatching eggs, with the exception of SPF-eggs, on the grounds of Highly Pathogenic Avian Influenza outbreaks. That ban had been in place since 2014. Note: poultry meat and products are still banned due to Russia's counter sanctions.

In May 2015, Russia imposed a ban on U.S. peanuts after a shipment of U.S. peanuts tested over the maximum residue level (MRL) for cadmium by a scant .03 ppm. Russia does not accept the U.S. regulatory authority's assurances but rather insists on a large dossier as a precondition for lifting the ban.

In February 2016, Russia imposed temporary restrictions on the import of corn and soybeans originating from the U.S. after reportedly finding quarantine pests in the products. This suspension of U.S. corn and soy imports seems inconsistent with sound science particularly as the revealed pests can also be found in the territory of the Russian Federation.

In general, Russia does not accept generic veterinary certificates issued by the competent U.S. authorities, which certify products are in compliance with U.S. standards. Rather, Russia requires veterinary certificates to provide several specific attestations in addition to a catch-all "meets Eurasian Economic Union requirements" (previously "meets Russian/Customs Union requirements"). The EAEU requirements present challenges to exporters, as they cover a wide range of goods of animal and plant origin, are extremely prescriptive, and, in certain instances, are based neither on risk assessments nor on international standards making it impossible for the U.S. regulators to certify to them.

The final and transitional provisions of the EAEU "Uniform Requirements for Products under Veterinary Control" allowed for the importation of products accompanied by a pre-existing U.S.-Russia bilateral veterinary certificate, initialed before July 1, 2010, and which differed from the "Uniform Requirements," to remain in use until January 1, 2013. However, because the United States requested to renegotiate these certificates with the EAEU Member States, their validity was extended beyond January 1, 2013, pursuant to the EAEU decrees, until negotiations on new certificates are concluded. So far, the United States and the EAEU have finalized only two U.S. - EAEU bilateral veterinary certificates to facilitate trade in 1) day-old chicks, turkey poults, ducklings, goslings, ostrich chicks, and hatching eggs of these species, and 2) heat-treated milk products received from cattle, sheep and goats. However, trade in dairy products remains blocked due to Russia's requirement for a list of approved establishments (see below).

In addition to certificates, lists of approved establishments remain a significant barrier to trade. Under the Customs Union requirements, products subject to veterinary control must come from establishments identified on approved supplier lists. Rosselkhoznadzor often issues conditions to source from approved establishments in the import (veterinary) permit. As a result, non-exempt commodities without a list of approved establishments (e.g., dairy) are routinely blocked from entry. Contrary to Russia's WTO commitment to reduce listing requirements permanently for select processed products of animal origin, including dairy, Russia continues the de facto enforcement of the listing requirement for such products.

6. Bilateral and Multilateral Engagement

Even before the 2014 sanctions and counter-sanctions, the U.S.–Russia bilateral relationship faced challenges, hampering USDA's ability to engage. USDA continues to correspond with the relevant Ministries on key issues and engages through the WTO Committee on Agriculture.

Annex 1

Implementation of the State Program 2013-2020

Table 1. Key Performance Indicators

Indicator / year	2013 plan	2013 fact	2014 plan	2014 fact	2015 plan	2015 fact	2016 plan	2016 fact	2017 plan	2017 fact	2018 plan	2019 plan	2020 plan
Agricultural production (comparable prices), % y-o-y	2.2	5.8	2.5	3.5	2.7	2.6	3.1	4.8	1.7	2.4	1.7	1.8	2.1
Crop production (comparable prices), % y-o-y	2.8	11.2	2.9	4.9	2.8	3.1	2.5	7.6	1.5	2.1	1.5	1.6	1.5
Livestock production (comparable prices), % y-o-y	1.5	0.6	2	2	2.5	2.2	3.8	1.5	1.9	2.8	1.9	2	2.5
Production of food, beverages and tobacco (comparable prices), % y-o-y	3	1	3.1	3.3	3.5	2.2	4.1	2.6	2.9	n/a	3	3.1	3.2
Production of food (comparable prices), % y-o-y	n/a	n/a	n/a	4.9	n/a	3.1	n/a	3.1	n/a	5.6	n/a	n/a	n/a
Production of beverages (comparable prices), % y-o-y	n/a	n/a	n/a	-5.6	n/a	-0.8	n/a	1.3	n/a	-1	n/a	n/a	n/a
Physical volume of capital investments in agriculture, % y-o-y	4	5.1	4.1	-4.1	4.7	-13.1	4	12.3	0.6	3.1	0.6	0.6	0.6
Profitability of agricultural enterprises (with subsidies), %	13	7.3	12	16.1	13	20.3	13	16.4	14	14.3	15	16	17
Average monthly nominal wages in agriculture, Rub.	14100	16853	14500	19243	16200	21626	18500	24106	21790	26280	20100	22300	25500

Source: FAS/Moscow based on Ministry of Agriculture's data.

Table 2. Production Targets for Major Groups of Products, Thousand Metric Tons

Product / year	2013	2013	2014	2014	2015	2015	2016	2016	2017	2017	2018	2019	2020
	plan	fact	plan	fact	plan	fact	plan	fact	plan	fact	plan	plan	plan
Grain	90,000	92,385	95,000	105,315	100,000	104,786	104,000	120,672	104,000	135,393	106,000	108,000	110,000
Sugar beet	35,598	39,321	36,310	33,513	37,036	39,031	37,777	51,367	38,532	51,934	39,303	40,089	40,891
Sugar	4,400	4,468	4,500	4,607	4,600	5,135	4,700	5,771	4,900	6,689	5,800	6,000	6,200
Sunflower oil	3,000	3,328	3,040	4,060	3,080	3,694	3,120	4,217	3,470	4,671	4,240	4,250	4,270
Meat and Poultry (live weight)	11,900	12,223	12,710	12,912	12,992	13,475	13,283	13,970	13,579	14,624	13,847	14,170	14,448
Milk	30,530	30,529	32,900	30,791	33,650	30,797	34,350	30,759	31,090	31,121	31,310	31,561	31,900
Cheese and cheese products	0.522	0.435	0.522	0.499	0.527	0.589	0.529	0.605	0.520	0.644	0.615	0.620	0.625

Source: FAS/Moscow based on Ministry of Agriculture's data.