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**Date:** 2/13/2013

**GAIN Report Number:** RS1309

## Russian Federation

**Post:** Moscow

### Russian Government Discusses Grain Situation

**Report Categories:**

Grain and Feed

Agricultural Situation

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**Report Highlights:**

On February 5, 2013, the Russian Prime Minister, Dmitry Medvedev, led a meeting of the Russian Government devoted to the situation in the domestic grain market. He also supported a Ministry of Agriculture proposal to add 42 billion rubles (\$1.35 billion) to the Russian federal budget for agriculture in 2013, in order to support livestock and poultry producers and to guarantee smooth spring sowing. However, this request may be approved only through amendments to the Federal Law 216, after the consent with the Ministry of Finance, which was been less supportive of this issue.

**General Information:**

On February 5, 2012, Dmitry Medvedev, the Russian Prime Minister, held a meeting/video-conference with participation of the members of the federal government and the governors of Russia's major agricultural provinces. The conference was devoted to the situation in the Russian grain market and the preparation for spring sowing. The transcript of the meeting was published on the government web-site both in Russian and in English: The official English translation of the transcript is on: <http://www.government.ru/eng/stens/22667/>. The translation is also attached in Annex 1 to this report.

Russia Government officials discussed agriculture issues of current concern. Participants included A. Dvorkovich, the Deputy Prime Minister; N. Fedorov, Russia Minister of Agriculture; A. Novak, Russian Minister of Energy; M. Sokolov, Russian Minister of Transport; A. Ivanov, Deputy Minister of Finance; D. Manturov, Russian Minister of Industry and Trade; I. Artemyev, Head of the Federal Anti-Monopoly Service; A. Frolov, Head of the Federal Service on Hydrometeorology and Monitoring of Environment; and D. Patrushev, Chairman of the Board of Directors of the State-Owned Rosselkhozbank.

***Grain supply***

Prime Minister Medvedev and Agricultural Minister Fedorov pointed out that despite the 25 percent decrease in the grain crop in 2012 to 70.7 million metric tons (MMT) compared to 94.2 MMT in 2011, Russia's total grain supply covered domestic demand and allowed for the export of 13.5 MMTs of grain from July 1, 2012, through the end of January 2013. However, domestic grain prices have increased, and this has affected flour and feed milling industries and domestic livestock, especially swine, and poultry industries. (For FAS/Moscow analysis of the grain situation in Russia please see the report [Domestic Grain Prices Continue Rising as Stocks Decrease](#).)

Minister Fedorov reported that in order to curb grain prices, the government began selling milling-quality wheat from the state intervention fund on October 23, 2012, and by the beginning of February 2013 sold 1.5 MMT of wheat. Beginning February 10<sup>th</sup>, 2013, the government plans to expand the intervention sales (elevators where intervention stocks are kept) to European Russia and to add feed-quality wheat, food rye and feed barley to intervention sales. Another change will be that livestock producers are allowed to buy this grain. Previously only flour and feed millers were allowed to participate in purchasing intervention grain.

The government is also considering the possibility of temporally lifting the 5 percent duty on grain imports from non-member countries of the CIS. Ukraine and Kazakhstan already are able to sell duty-free to Russia. This measure may facilitate some imports of grain from Europe to the Northwest of European Russia, although the bulk of imports are expected to continue to come duty-free from Kazakhstan.

The Government also discussed a possible decrease in railroad tariffs for domestic transportation of grain over 1,100 kilometers. However, permanent changes in tariffs for grain transportation are difficult to make as they concern interests of many industries not related to agriculture. At present the 0.5 temporary coefficient on costs for transporting grain from Siberia to distances of over 1,100 km is effective until July 1, 2013. Given the low crop in Siberia in 2012, the current impact of this coefficient is relatively modest.

### ***Additional Financial Support of Agriculture***

An additional 40-42 billion ruble (\$1.3 billion- \$1.35 billion) allocation from the federal budget for the support of agriculture in 2013 was discussed at the February 5<sup>th</sup> meeting. A detailed request was read out by the Minister of Agriculture of the Russian Federation, and included a request for additional 15 billion rubles (\$484 million) for compensation of increased (feed-prices related) expenses of livestock and poultry producers; 7.2 billion rubles (\$232 million) for interest rate subsidies for short-term loans for spring sowing; 5 billion rubles (\$161 million) for the per hectare planting subsidies; 10 billion rubles (\$323 million) for the interest rate subsidies for investment (long-term) loans for modernization of agro-industrial complex; and 5 billion rubles (\$161 million) for compensation of not-used interest rate subsidies in 2012. The request was justified by the decrease by more than half in the actual support of crop farmers in 2013 compared with 2012. The Ministry estimated that instead of 500 rubles/\$16 per hectare of actual support in 2012, in 2013 farmers will receive only 200 rubles/\$6.5 per hectare. This lower support hurts the difficult financial situation of livestock and poultry farmers already affected by decreased meat prices after WTO accession, high feed prices and significant indebtedness.

According to the Federal Law No. 216 of December 3, 2012 “On the Federal Budget 2013 and the Planned Period 2013 and 2014”, in 2013, the total budget of the Federal Ministry of Agriculture is 173 billion rubles (\$5.58 billion). This budget includes 159 billion rubles (\$5.1 billion) for the development of agriculture in accord with the State Program 2013-2020. Of this, 120.97 billion rubles (\$3.9 billion) are subsidies to agricultural producers. The Ministry of Agriculture requested to increase these subsidies by at least 35 percent by adding 42 billion rubles to the current budget. Prime Minister Medvedev, who personally supported the Ministry of Agriculture’s 42 billion ruble request, emphasized pronounced that development of domestic livestock industry is key. Thus, on additional support of livestock producers he remarked that: *“As regards support for the livestock industry, it needs to be looked into. We should see to it that the massive efforts that we exerted in pig breeding and poultry breeding (in fact we no longer depend on any imports), that all these efforts should not be wasted now that we are WTO members. The markets have become more open and that means our products have to be more competitive, but that does not mean that we should hurt ourselves. Please, keep that in mind.”* Arkadiy Dvorkovich, the Deputy Prime Minister (who covers agricultural issues in the government) also supported the request for additional funds and confirmed that these requests are well-grounded. However, the decision and any amendments to the federal financing of agriculture must be considered by experts from other government agencies, first of all from the Ministry of Finance. Deputy Minister of Finance Ivanov was very cautious about the possibility of making significant amendments to the Federal budget.

## **on the Grain Market and the Upcoming Spring Sowing Season**

(English version from Russian Federation web-site: <http://www.government.ru/eng/stens/22667/>)

**Dmitry Medvedev:** Good afternoon to everyone who can see and hear us today. We are holding this videoconference today to discuss current agricultural issues, the most pressing of them.

I propose to begin by discussing the grain balance and grain prices. Although the gross harvest was 25% down last year compared to the year before, Russian farmers harvested enough grain for the domestic market and even for export: we have already exported 13.5 million tons. However, a decrease in reserves has a negative impact on the grain supply to the domestic market. I'd like to say in this respect that this is why we have approved commodity interventions. In October last year, grain auctions were held in some regions of the Siberian, Urals and Far Eastern Federal Districts. As of January 30 this year, over 1.5 million tons of grain worth 13 billion rubles have been sold. This has produced a certain effect, although not the entire effect, for obvious reasons. I have decided that grain from the intervention fund should also be sold at other trading venues, including in the European part of Russia.

From next week 5th class wheat, feed barley and food rye will be sold on the stock exchange. Flour milling enterprises, compound feed enterprises and livestock businesses will be allowed to participate in the auctions. They will be able to buy 4th and 5th class wheat and feed barley. What needs to be done? I would like to draw the attention of all the governors of agricultural regions currently counting their stocks and assessing their balances. The market situation must be monitored and forecast, I mean the balance of demand and supply for grain. Price dynamics need to be followed very carefully, very carefully I repeat. If necessary the regional authorities have to react very quickly and make use of the appropriate regulatory measures that currently exist. The federal centre should be kept informed. And we will then also work out certain decisions.

The second issue is the state of the winter crops. They have been sown on an area of nearly 16 million hectares across the entire country, which is slightly lower than in 2011 due to unfavorable weather conditions during the sowing period. In some regions unfortunately stable snow cover appeared too late, in others there was too much snow. The situation as usual is different in different parts of the country. By current estimates, nearly 90% of crops.

According to available information, the condition of around 90% of sown areas is satisfactory, and I hope that it will continue to be this way. I would like governors to report on the situation with winter crops in their regions.

The third issue concerns preparations for spring sowing. We plan to sow spring crops on 51 million hectares. I have been told that farmers plan to focus on forage crops, as the area on which they will be sown will be increased by nearly 1 million hectares. I also want to see situation reports from the regions.

Another important issue which I'd like to address today concerns the need to enhance the efficiency of government support to agriculture in view of Russia's accession to the World Trade Organization. Therefore, we must abstain from direct assistance measures, which we have discussed more than once, including the provision of fuel at reduced prices, and must use so-called untied measures instead. I'd like to say openly that I hope these untied measures will ultimately ensure the same amount of assistance that our farmers received before we joined the WTO.

In accordance with the Government's guidelines, we must increase the competitiveness of Russian goods on the domestic and foreign markets. This year we will use a new system of government assistance: the issue of subsidies per hectare of crop area. Federal budget allocations for this purpose

have been approved at 15 billion rubles. This money must be promptly transferred to the farms; I want you to remember that this is the ministry's task. Everything must be done on time and absolutely all funds are to be transferred to their recipients. The Ministry of Agriculture is to work jointly with the Ministry of Finance and the Ministry of Economic Development to prepare proposals on implementing additional budgetary allocations (around 40 billion rubles this year), with a focus on untied support to plant-growing farms and on compensating spending on livestock breeding in view of growing fodder prices. Furthermore, the Ministry of Energy and the Ministry of Agriculture must take measures to supply farmers with fuel and lubricants in a timely manner, and – this is especially important, regardless of untied support measures – at affordable prices.

And one more issue concerns the funding of the spring sowing season. We have estimated the country's requirements at 263.5 billion rubles, of which over 150 billion will be provided in the form of loans. I would like you to report on lending for farmers with taking into account the fact that loan rates are far from optimal, to put it mildly, at least for agricultural producers.

Now I would like to hear the report of Minister of Agriculture Nikolai Fedorov, and then we will hold a videoconference with governors. Mr.. Fedorov, please proceed.

**Nikolai Fedorov:** Mr. Medvedev, thank you for your attention and for your practical proposals on additional support and on ways to streamline our work. This has given a positive impetus to the Ministry of Agriculture and to my colleagues in the regions.

Considering our total grain reserves in the current agricultural year (about 91.3 million tons) and the domestic requirements (which we estimate at 69 million tons) by the end of the year our anticipated reserves will reach 7.7 million tons. This is a source of concern because in the generally accepted estimates it is risky to have carry-over reserves less than 10 million tons. However, the final reserves and actual figures will depend on grain exports and imports.

As you have noted, according to the Federal Customs Service this year our grain exports stand at 13.5 million tons. The relevant figure for the past year was 19.4 million. So, this year's figure is six million less. There are reasons for this decrease. We think that grain exports may amount to 14.8 million tons in this agricultural year.

As for our grain imports, they reached almost 500,000 tons from July to December 2012 – 1.5 times higher than last year (324,000 tons). In the second half of the current agricultural year we expect grain imports to increase to 800,000 tons. Experts believe that a potential reduction of the 5% import duty (we discussed it in our ministry with Mr.. Dvorkovich) will make it possible to further decrease the price of imported grain and attract. This would be very helpful and I'd like to know what you and other colleagues think on this score.

Since trading has been going on since October 23, we have managed to reduce growth rates of prices. Yet we are now witnessing a trend toward minor price increase – up to one or 1.5%. Exclusive tariffs with the 0.5 decreasing coefficient for the transport of grain from Siberia and the Far East to a distance of more than 1,100 km are also helpful in keeping prices at bay. They bring down the tariff burden on one ton of grain to 300-500 rubles and help stabilize grain prices. About 750,000 tons of grain have been transported under these tariffs and this is a big amount. That said, these exclusive tariffs will operate until July 1 and we believe it would make sense (it would be helpful if our meeting adopts some recommendations) to adopt a new mechanism that would reduce basic tariffs for grain shipments over large distances in line with the WTO and Customs Union's requirements. We must decide what to do after July 1 or will be stuck with this problem in our large country.

Mr. Medvedev, proceeding from your opening remarks and the analysis of the grain market and the interventions that have been made, we believe it would be sensible to start selling grain from the intervention fund in the European part of Russia. If there are no objections, we suggest that grain should be primarily traded to organizations located in the districts where it is stored or nearby to reduce transport and logistics costs and make grain cheaper for consumers. Let's start trading bread-rye, non-food wheat and fodder barley – we have almost 600,000 tons. Our regions will require large amounts of fodder grain for livestock farming every month. We also suggest increasing the purchasing limits on basic assets for flour mills and feed-milling establishments from three to four months of the grain processing level. This is also a very topical proposal and I hope you and your colleagues will find it acceptable. The consumers of our services will be less stressed by the drought and grain shortage problems. We believe that the measures you've mentioned and these proposals, including the potential reduction of the 5% import duty will help us prevent the growth of price rates in the domestic market, at least until July 1.

And the last point I'd like to make about the grain. Having analyzed the grain market, we have presented Mr. Dvorkovich (who is supervising agriculture) a report on the potential growth of fodder prices by 30%-40% as a result of declining grain reserves and the potential decrease of prices by up to 35% on sold live pigs and poultry scheduled for slaughter in the third and fourth quarters of 2012. These trends continue this year. Considering the share of fodder in the cost of livestock produce (60%-70% in pig and poultry farming and up to 40% in dairy farming), at the meeting with Mr. Dvorkovich we suggested additional support for livestock farms because their negative profitability has already reached up to 15 billion rubles. Agricultural producers should be compensated for part of the costs of dairy production based, for instance, on one kilogram of weight; those that produce poultry and pigs for slaughter per one ton of live weight, as well as those that produce eggs. These directions are the most socially meaningful and affect the mood of our consumers. It would be best to help them with subsidies that guarantee targeted use of funds and control over it. The level of co-financing by regional budgets should be as low as possible because of their debt load and other difficulties. This is what I wanted to say about grain. Can I switch to the spring field work right away?

**Dmitry Medvedev:** Yes, sure. Please go ahead.

**Nikolai Fedorov:** Mr. Medvedev, considering the figures you quoted, more than 90% of winter crops on the total cultivated area are in good or satisfactory condition and a little over 9% are in a bad shape. These figures are satisfactory in average annual terms. They do not differ from the usual ones.

It is gratifying that the areas sown with grain maize, which is a high protein crop that enjoys growing demand, as well as spring rapeseed and soybeans have increased. Areas sown with fodder crops have been expanded by nearly 1 million hectares. This has been done following farmers' complaints about problems in the 2011-2012 agricultural year. We have 96% of the necessary seed stock for spring sowing, which is more than last year, and 80% of the required amount of certified seeds, up from 78% in 2012. We will need around 29 billion rubles to buy seed, of which 14.5 billion will be borrowed.

Since we are increasing the areas sown with grain maize, we may have to import 72,000 tons of seed, which will cost over 15 billion rubles. As for mineral fertilizers, which are the second most important element after seeds. According to the regions, we will need 65 billion rubles to buy mineral fertilizers for the spring sowing season.

Regarding fuel and lubricants, prices have increased from 33,247 rubles per ton on November 1, 2012, to 34,871 rubles, or by 4.9%. In general, we have noted, along with the industry, that the reduced price for agricultural producers was 23,297 rubles per ton of diesel fuel and 24,384 rubles for petrol in

November 2012. Since the fuel and lubricant incentives have been cancelled in view of transition to per-hectare support, farmers will pay nearly 50% or more precisely 49.7% more for diesel fuel and 27.9% more for petrol.

We must remember this in our work with the governors and also conduct a positive promotion to explain the system of per-hectare support that should make up for the cancelled fuel and lubricant incentives and mineral fertilizer discounts.

As for the funding of spring sowing, you have pointed out that according to our calculations, farmers will need 264 billion rubles. We hold weekly meetings with representatives of lending organizations upon the instructions of Arkady Dvorkovich. Currently, the Russian Agricultural Bank accounts for over 70% of the required 151 billion rubles, as reported by agribusiness organizations. We have been told that there are plans to lend around 70 billion rubles at 10.75% annually for spring sowing. Dmitry Patrushev (*Chairman of the Management Board and CEO of the Russian Agricultural Bank*), who is attending this meeting, can confirm this.

According to the regions, the interest rate was 12.5% in 2012. The current rate is 10.75%. This is more acceptable to the Agriculture Ministry.

Sberbank is to lend 40 billion rubles at 10.93% annually this year. Together, these two banks will provide 111 billion rubles of the 151 billion rubles, which the regions need. There are also other, smaller banks with which we have been working to provide the largest possible amount for the loan requirements.

As for government assistance for the development of the sectors of plant growing that are connected with seasonal work, 26.3 billion rubles (excluding the insurance premium) can be allocated from the federal budget within the framework of agricultural insurance. To subsidize interest (up to 26 billion rubles) under short-term loans taken out for the spring sowing season, we can allocate another 6.2 billion rubles for the purchase of fuel and lubricants, weed and pest control chemicals and parts for agricultural equipment. We have informed the regions to this effect.

And most importantly, my last point: Mr.. Medvedev, colleagues, according to our estimates we need to harvest 95 million metric tons of grain this year to cover the domestic demand and ensure Russia's food security. This is the target we have set for all the regions. To achieve it, we will certainly need new high quality seeds (we need to solve this problem), mineral fertilizers, technology and upgraded equipment.

Taking these needs into account, we have other important issues on our agenda that influence food security, apart from what you already mentioned, Mr.. Medvedev. Some agribusinesses could not get their subsidies for their short-term investment loan interest last year, as the federal funding of these subsidies was limited. The overall shortfall of funding the regions had applied for was about 5 billion rubles. Therefore, their liabilities were not covered by federal funding. So if we could use the 40 billion rubles you were talking about for this purpose, this could greatly benefit dozens of regions, because regional authorities have so far been unable to help.

We also consider it sensible to allocate an additional 12 billion rubles to cover the 5 billion ruble shortfall, as well as to use 7.175 billion rubles to subsidies more short-term loans that companies will be raising for their spring sowing season in 2013. They have to buy seeds and fertilizers. We already have 6.2 billion rubles, as I said. But this cannot cover the regions' immediate needs. We have justified the requests, which add up to 7.175 billion rubles.

Furthermore, allow me to raise the issue of per-hectare fuel and fertilizer subsidies again, although I

know they are being discussed fairly often. The Agriculture Ministry can confirm that according to estimates of the last few years, agribusinesses require federal support at an average of 500 rubles per hectare of cropland. This year, the Government provided 15.2 billion rubles, which put the per-hectare subsidy at just over 200 rubles. Regional governments increased that to 300 rubles through co-financing as required by the regulations. So we would need to spend 15 billion rubles of the amount you mentioned, Mr.. Medvedev, for fodder, 7.175 billion to subsidize short-term loans for spring sowing (in addition to the 6.2 billion already available), 5 billion for additional per-hectare support, 5 billion to cover last year's shortfall of the loan subsidies and 10 billion for investment loans to modernize technology and equipment, including new machinery.

You must have seen in the Volgograd Region last year, Mr.. Medvedev, that its croplands are able to produce 1,700-1,800 kg/ha – that is, if we finish harvesting in one week. But, if it takes three weeks due to equipment wear, we can only harvest 1,000 kg/ha, which means huge losses. Therefore, if we buy high quality seeds and a sufficient amount of fertilizer, and modernize equipment, we will be confidently able to produce 95 million tons. This is the essence of our estimates. Thank you.

**Dmitry Medvedev:** Thank you. So you said you need 15 billion for fodder and 15 billion for per-hectare support?

**Nikolai Fedorov:** Right. The amount will be distributed.

**Dmitry Medvedev:** Plus seven billion to subsidize loans, makes 37. And ten billion for investment loans – right? This adds up to 47. Next, five billion to cover the shortfall – 52 billion, in total?

**Nikolai Fedorov:** I asked not for 15 billion for per hectare support, but five billion plus ten billion for technical modernization loans. This adds up to 42.175 billion rubles.

Dmitry Medvedev: So 42, as you say. All right, I got it. Thank you, Mr.. Fedorov.

<...>

**Dmitry Medvedev:** I would now like the Ministers who are present here to say a few words about how they are going to respond to the proposals of agricultural producers and to those remarks which were voiced by the Minister of Agriculture and regional leaders. The Minister of Energy will be the first to speak. Mr.. Novak (*Addressing Minister of Energy Alexander Novak*), please be brief.

**Alexander Novak (Minister of Energy):** Thank you, Mr.. Medvedev.

I would like to say a few words about fuel deliveries during the spring sowing season. Over the past few years, annual fuel consumption volumes during spring and autumn fieldwork came to about 6.2 million tons. Diesel fuel accounts for 85% of the overall total while low-octane fuel and various types of petrol make up the other 15%. Naturally we are keeping an eye on national fuel production volumes, in view of the ongoing refinery modernization projects. Mr.. Medvedev, we invested 190 billion in modernization projects last year. The 15 new units which have started operating are fully meeting the demand for Class 2 motor fuels. At the same time, consumption of Class 2 petrol stopped completely from January 1, 2013.

And now I would like to say a few words about the 2013 breakdown in terms of different fuel types. We produce about 42 million tons of diesel fuel, and this amount exceeds the demand for diesel fuel. Domestic diesel fuel consumption is about 20.7 million tons, or just under 50% of overall production volumes. We will therefore completely meet the domestic demand. Low octane petrol production and consumption volumes total 2.7 million tons and 2.5 million tons, respectively. This, too, creates a certain surplus. Considering the current prohibitive export duties of 90%, we will also completely meet



domestic demand for this type of fuel.

**Dmitry Medvedev:** Domestic demand will be met. And what can you say about prices?

**Alexander Novak:** May I say a few more words about what we need for the spring?

**Dmitry Medvedev:** Go ahead.

**Alexander Novak:** We need 2.3 million tons of fuel for the spring sowing season. This means about 1.9 million tons of diesel fuel and 0.4 million tons of low-octane petrol types. We have examined the breakdown of fuel demand together with our oil companies, with producers and agricultural producers, and we have received a timeframe for fuel demands for the entire 2013 period, including fuel demand during the spring sowing season. As we know, fuel demand tends to increase during this period. The relevant requests have already been distributed among oil companies. We are holding weekly meetings, including those of command centers, in order to meet regional fuel requests.

As for prices, we have also examined this issue together with oil companies, the Ministry of Economic Development and the Federal Anti-Monopoly Service. It should be noted that price increases, including higher excise duties, were below the level of inflation, if we don't count excise duties. In 2013, we expect average prices to increase by 13-14%, since excise duties per ton will be between 1,800 and 2,200 rubles from January 1, 2013. This also includes the second increase in excise duty for petrol and diesel fuel. These excise duties are used to form road construction funds, and they also influence the pricing policy. We are currently working with companies and have agreed to distribute these price increases evenly over the year and to prevent any major price rises during the spring and autumn agricultural seasons. We can now see that summer prices for AI-92 regular petrol and diesel fuel are actually lower than they were in October and November and that prices were stable in January. Nevertheless, I repeat once more that we are currently working with the companies and we've told them that they should raise prices gradually and avoid any major increases in spring and autumn. We will continue to monitor this process.

I would also like to address the Russian regions. Considering the fact that regional agricultural producers have started accumulating their fuel reserves, they should now cooperate with the oil companies and wholesale suppliers, as well as wholesale petroleum suppliers. This will make it possible to accumulate fuel reserves in line with current prices. Fuel reserves should be accumulated gradually as this will prevent major price fluctuations. Thank you.

**Dmitry Medvedev:** All right, we shall see. So, we have discussed the issue of reducing transport and logistics costs. Mr. Sokolov (*Addressing Maxim Sokolov*), please tell us about railway fares.

**Maxim Sokolov (Minister of Transport):** Mr. Medvedev, colleagues. Over 24 million tons of grain were transported last year, a more than 25% increase on 2011 volumes. Of this amount, 9.3 million tons of grain were transported inside Russia and 8.8 million tons were exported. A further 2.2 million tons were delivered via border checkpoints. Prices were set at second-rate tariffs, which was economically appropriate to cover Russian Railways' transport costs. At the same time, we took the opportunity to set exceptional rates with a 0.5% coefficient. Last year, transport costs accounted for 12.7% of domestic grain delivery prices, almost half of what it cost in 2011. This was due to higher grain prices.

As for grain exports, these prices remained virtually the same. They even decreased slightly, down to 9.4% from 11.3%. As has already been said, we supported the adoption of the same decision as in 2012 and the use of exceptional prices for transporting grain with a 0.5% coefficient, as well as prices for transporting domestic soybeans and soybean meal.

We will have to abide by WTO and Common Customs Union standards from July 2013. It appears that the relevant Ministry of Transport proposal is primarily designed to support agricultural producers and to issue the relevant instructions to the Federal Tariff Service, which, in turn, should establish similar exceptional rates. This can probably be accomplished by using limits on subsidy volumes issued to agricultural producers in line with WTO requirements, and through related work with the European Economic Commission. We have already submitted these proposals because this work should now continue at the international level.

**Dmitry Medvedev:** All right, I see. This issue should now be addressed by Russia and by Customs Union agencies. Naturally, we must try and make the best decisions for all our agricultural producers. So, does the Ministry of Finance have any comments?

**Andrei Ivanov** (*Deputy Minister of Finance*): Yes, Mr. Medvedev. We are facing a difficult situation because additional adjusted budget funding worth 42 billion rubles has been announced. And I would like to tell you that, on the whole, in terms of the budget rules it would be better to simultaneously assess the spring and autumn adjustments as regards the Ministry of Agriculture.

As for the spring adjustment, the Ministry of Finance has received an additional request for 10 billion rubles for the RosAgroLeasing Company, in addition to this sum of 42 billion rubles. And I would like specific decisions on the issuing of loans that are currently being made to be linked to the financial standing of Rosselkhozbank. For years now we have been issuing 40 billion rubles to Rosselkhozbank every autumn as part of its additional capitalization program. If we decide on these volumes of loans, then we need to obtain the relevant forecast from our colleagues by this spring. This will allow us to plan the entire volume of extra 2013 budget allocations needed for state support programs in addition to the funding already being allocated out of the federal budget.

Last time we were discussing the state budget, State Duma deputies drew our attention to the fact that the state program includes an inflexible mechanism for issuing state support allocations to the countryside. We are allocating extra funding for specific agricultural projects under this state program, especially in the area of livestock farming, and we have cut back on state support for rural technological modernization projects. They have drawn our attention to future price increases and to the fact that the current volumes for the state program would make it impossible to respond promptly to changes in the market situation, and that substantial budget allocations would also be required. Together with the Ministry, we reacted in quite a restrained manner to these remarks voiced by deputies but it seems that, on the whole, the overall situation is in actual fact very much in line with these forecasts. Moreover, speaking of these extra volumes and their breakdown in terms of tied and untied loans, the effect of the state program remains somewhat unclear. Mr. Medvedev, if possible, we would like to tell you about the balancing of the federal budget and extra allocations and about spring adjustments during the meeting. And we would like to ask you to instruct the Ministry of Agriculture and the Ministry of Economic Development to analyze the structure and breakdown of the state program, as well as changes in state support measures in accordance with specific factors, as well as possible links between these additional volumes with the autumn forecast and Rosselkhozbank forecasts. On the whole, we would like to tell you about all the financial allocations for the state program in 2013. This will set a precedent when we adjust over 50% of planned annual projects in spring and in autumn. This situation is quite unprecedented in the context of balancing the budget. I would like to draw your attention to this separately.

**Dmitry Medvedev:** All right, I hear you.

Colleagues, does anyone else have anything to add? Go ahead please.

**Denis Manturov** (*Minister of Industry and Trade*): Mr. Medvedev, if I may, I would like to comment on a statement by Mr. Oleg Betin (*Head of the Tambov Region Administration*) regarding price increases for mineral fertilizers. Prices are hardly going up at all, with the exception of ammonium nitrate (up 11%), but that is always a volatile market. For other types of mineral fertilizer – potassium, ammonium-phosphoric, nitrogen-phosphoric, on the contrary, the price has dropped by between 3% and 7% compared with 2012.

Furthermore, we have fairly good experience working under agreements between agricultural producers and the producers of mineral fertilizers. Between 2008 and 2012 when prices were adjusted every year, they were always approved by the Agriculture Ministry and, on instructions from Arkady Dvorkovich, we have carried out similar work and signed a new agreement until 2015, so the volumes and prices being written down will be cleared with the Agriculture Ministry. That is my only comment. Thank you.

**Igor Artemyev** (*Head of the Federal Anti-Monopoly Service*): Mr. Medvedev, ladies and gentlemen. Speaking about petroleum products I would like to say that the situation is indeed stable. It is important that none of the major oil refineries close down for repairs during the period of spring fieldwork. We have agreed on that.

One other point. I think that the petroleum products exchange will start working because the regulatory framework was developed last year and it will be ready by the spring sowing season. Both in terms of volume and supply it means that any agricultural producer, if supplies are interrupted, can at his/her discretion freely buy fuel on general market terms and no one can prevent him/her from doing so... In recent years the government has managed to build up a body of court cases and precedents that have been universally recognized.

Second. Cases have been registered of buyers being denied free access to grain elevators in some regions, ports and on railways. I think we could look into this together with the Agriculture Ministry, but on the whole they have put in place proper legal procedures and they are managing to react to these incidents promptly. We would like to ask the governors, whenever such cases occur on elevators or difficulties arise for agricultural producers at ports and on railways or wherever, to come to our territorial bodies and of course to the Central Directorate of the Federal Anti-Monopoly Service. We will go there immediately, and open proceedings, we have everything in place to do that.

Railway transportation is a separate topic. We would like to bring to your attention that today the difference in tariffs for transporting grain in gondola cars and specialized grain wagons differs by a factor of 2. This means that you can transport grain in wagons and gondola cars but the tariff differs by a factor of 2, which has created for some owners and some farmers different pricing conditions for transport because all this is later reflected in the tariff... This issue must be revisited before the spring planting season begins. Thank you.

**Dmitry Medvedev**: Thank you. Over to you please (*addressing Alexander Frolov*).

**Alexander Frolov** (*head of the Federal Service for Hydrometeorology and Environmental Monitoring*): Thank you, Mr. Medvedev. Rosgidromet stations are currently growing winter crops taken from the fields on January 25. The results are due at the end of this month and we will then determine the state of the winter crops and the areas which have been damaged. The report will be submitted to the Government.

As of January 31, about 90% of the crops in the country, as you said in your opening remarks, are in a

satisfactory condition. I would like to stress that because the winter crops were planted in difficult weather conditions due to the drought, the crops are generally weak, so we will have to start introducing additional fertilizer early on in spring. That will help us to get a good harvest.

**Dmitry Medvedev:** Thank you. Arkady Dvorkovich, please.

**Arkady Dvorkovich** (*Deputy Prime Minister*): Thank you. First I would like to speak about interventions. For a number of lots they will start tomorrow and for the rest, next week. We expect that this will have an impact both in the European part of Russia and behind the Urals because at present some buyers from the European part are buying east of the Urals and that raises prices a bit in the Siberian part of the country. That is why a decision to expand the supply bases to the European part must be taken promptly. Export is no longer relevant because it is not competitive since prices inside the country have outstripped those abroad. Exports have almost ground to a halt. Moreover, we are already buying some grain from Kazakhstan because it makes sense for the Volga and Urals areas and Siberia and these supplies are rational, they are already coming in and the reduction of import duties will give an extra advantage to other regions. Supplies from Kazakhstan are duty-free and in the northwest, most probably within a month or so, some imports will start to be received at zero rates of duty on a temporary basis during the agricultural season until July 1. The relevant subcommission has issued the necessary directive and it will be considered shortly.

Concerning meat, above all pork. It is true that producers find themselves between a rock and a hard place. On the one hand, because the level of financial support dropped after we joined the WTO, imports have risen, and on the other hand, fodder prices have gone up because of crop failures and the rise in grain prices, and this has resulted in losses. As we look for the most rational mechanism of support, we are considering, in addition to compensation for the outlays on fodder, support for dairy production and for grain production per unit of output per 1 kg. We are making the necessary calculations and we will discuss this in more detail at the meeting of the commission for the development of the agro-industrial complex as early as next week. And we will then submit our proposals to you. I think it is a rational mechanism. How many rubles per kilogram? 7 rubles, 10 rubles? That calls for some more number-crunching and discussions. But I think this is the right support measure that will help producers. The same holds for poultry, though the figures there are different.

Agricultural machinery. We have introduced a new support mechanism. Judging from the reaction of the producers some adjustments need to be introduced to the government resolution. We will be reporting to you next week and perhaps propose specific corrections so that the mechanism can start working.

**Dmitry Medvedev:** Please do so without delay.

**Arkady Dvorkovich:** All the money allocated from this year's budget, after the Commission meeting next week, will be transferred in full to all the consumers and producers and all the interested parties to prevent problems arising at the very beginning of the year.

My last remark concerns additional requirements. As I see it, this was obvious from the very start. The amount of support not tied to any conditions is lower than before and additional funding was necessary in any case. The only question was in what amounts. The Agriculture Ministry is citing a figure of 5 billion rubles, but I think it is closer to 10 billion rubles. This is perhaps more important than investment credits, at least at this particular moment. We will take another look at it during the week and provide the final figure as part of the spring adjustments. I agree with Andrei Ivanov that it is necessary to consider the situation during the whole year and to choose the priorities. Of course, we may not have

enough money to meet the entire wish list. But everything connected with sowing, with raising a normal crop at a reasonable cost and maintaining and increasing livestock output is a priority. As regards agricultural machinery, at a minimum we should continue the program of updating the machinery, and there, too, the minimum volumes of support must be established. I think we should stay within the 40 billion ruble limit discussed earlier. That should be sufficient if resources are distributed rationally, at least I hope so.

**Dmitry Medvedev:** What about lending?

**Arkady Dvorkovich:** About lending. Based on the results of our work last year we are currently working with our main banks, Rosselkhozbank and Sberbank, who are the biggest lenders. Rosselkhozbank has been allocated additional resources, which makes it possible at least not to cut the amount of support.

**Dmitry Medvedev:** Does it make it possible (*addressing Dmitry Patrushev*)?

**Dmitry Patrushev** (*Chairman of the Board of Rosselkhozbank*): We have earmarked 67 billion for the sowing campaign in the first half of the year. We will make adjustments for the second half.

**Dmitry Medvedev:** What was the figure last year?

**Dmitry Patrushev:** 140, not counting the extended loans in the amount of 50 billion.

**Dmitry Medvedev:** But that means a decrease.

**Arkady Dvorkovich:** I am speaking about two...

**Dmitry Patrushev:** Less is usually needed in the first half of the year.

**Dmitry Medvedev:** Oh, I see, 140 is for the whole year. So the overall trend is about the same?

Remark: It is the same.

**Arkady Dvorkovich:** Sberbank is reporting a slight increase on the previous year...

**Dmitry Medvedev:** That's about 250, yes?

Remark: Yes, for the whole year.

**Dmitry Medvedev:** Watch the lending resources, this is also very important.

**Arkady Dvorkovich:** Yes, the rates are indeed higher than they should be, so I am in favor of allocating an additional sum in subsidies but I am not prepared to name the sum right now. We will consider this matter over the next few days and will submit our proposals.

**Dmitry Medvedev:** All right, do the numbers.

Well, colleagues, what are the main points to be borne in mind? A new system of support for agriculture has come into force. We are just trying it out. Yes, our commitments within the framework of the WTO are very important for us. But our own agriculture is even more important. I would like to draw everyone's attention – the federal executive bodies and of course the governors – to the fact that these are incommensurate values. Therefore we first have to see how this support system will work. If it is not very efficient and we feel that is the case, immediate adjustments will be needed. So, with all due respect for the budget rule and notwithstanding the fact that we make such adjustments twice a year, we cannot order the forces of nature to stop and wait until we fix things and then resume sowing and make some other decisions. No, colleagues, we will have to make these decisions now. Even if we come to the conclusion that some of them are lacking in some ways, as the Finance Ministry has said, we will

change them.

Let me repeat: we are fine-tuning this mechanism, make no mistake about it. If subsidies per hectare of arable land last year were about 500 rubles and this year are less than that then we will have to compensate for the shortfall if we are to avoid a negative result; we should do it through additional financing, through rationalizing technological processes and an overall improvement of the work and increased labor productivity, but in any case this should not affect the result. I would like the Agriculture Ministry to analyze everything that the governors have said on all these topics discussed today. We should look at the transcript and prepare instructions, yours and mine, bearing in mind that we are dealing with agriculture and that no time can be wasted, the instructions must be prepared quickly, within three days, on all the issues being discussed here. I would now like to address the governors. Esteemed colleagues, keep a very close eye on what is happening in your respective grain markets. Yes, I am aware that you are doing that and you are formulating clearly what your needs are. Even so, I would urge you to watch what is happening to bread prices in the shops. That is a critical topic socially. If some imbalances arise, a sense that somebody has started taking advantage of the situation and some unjustified transactions or obvious cases of speculation are recorded, please report to the Ministry, report to the Government and of course report to the law enforcement bodies and demand that they take the necessary actions.

Regarding prices for fuel and lubricants. The minister has reported that the overall volumes are sufficient, but this should correspond to the potential of the farmers, so I would like to come back to the issue of money and what the Deputy Prime Minister said. I want you to hold a meeting of your Commission, to invite of course all the necessary people and hold the necessary consultations with the Finance Ministry. If you need 42 billion rubles, prepare the relevant proposals. We must conduct the sowing season properly without waiting for decisions to be taken when the results of the first half of the year are reviewed. I would like to stress again that we need to conduct the sowing season properly.

I agree with what the Finance Ministry said about the analysis of the state program and the need to make all the instruments more flexible. We will proceed from the results of the spring season, the period of the spring fieldwork to determine what additional measures should be taken.

As regards support for the livestock industry, it needs to be looked into. We should see to it that the massive efforts that we exerted in pig breeding and poultry breeding (in fact we no longer depend on any imports), that all these efforts should not be wasted now that we are WTO members. The markets have become more open and that means our products have to be more competitive, but that does not mean that we should hurt ourselves. Please, keep that in mind.

Colleagues, I would like to urge you (and I am addressing the governors) to pay very close attention to agricultural issues in the near future.

Thank you.