



## Summary

Public hearing of Russian Duma on “Legal aspects of small farm development” (22<sup>nd</sup> of October 2019)

Siranush Ghukasyan, Thomas Herzfeld

On the 22<sup>nd</sup> of October the Agricultural Committee of the State Duma held a public hearing entitled “Legal aspects of small farm development”. Among the participants of this public hearing were deputies of the State Duma, representatives of the administration (e.g. Deputy Minister of Agriculture, Minister of Agriculture of Moscow oblast), representatives of farm interest groups, representatives of the Russian Academy of Science, and one representative of the State Enterprise Rosleasing. In total 45 regions were represented at the public hearing. The participation of the IAMO expert, Thomas Herzfeld, was facilitated by the German-Russian Agricultural Policy Dialogue.

The meeting was chaired and opened by Mr Kaschin. In his contribution the Deputy Minister of Agriculture, Mr I. V. Lebedev, highlighted the current structural situation of small farms referring to the 2016 Agricultural Census.<sup>1</sup> Agricultural production happens in 36 thousand agricultural enterprises, 24.3 thousand of them are classified as micro and small businesses. 174.8 thousand family farms, and 23.5 million household plots. These different farm types operate 200.1 million ha (large enterprises), 43.3 million ha (family farms), and 14.3 million ha (household plots). The small agricultural companies operate 80.9 million ha. The average farm size of 3330 ha already indicates that a small farm in the context of the Russian Federation cannot be compared to small farms in Europe. While discussing policy instruments, the small enterprises, family farms and household plots are often grouped together.

Mr Lebedev continued by explaining the structure of state support for agriculture. The Ministry of Agriculture speaks of compensating and stimulating policies. While compensating payments aim at an income support for farmers, stimulating payments should contribute to the development of prioritised sub-sectors conditional upon each region’s potential. Measures include support for working places in starting farms, acquisition of fishing equipment, acquisition of autonomous sources of energy, gas and water as well as specialised transport equipment. Out of the federal budget, investments have been supported with 37.4 billion Rubles since the beginning of the State Program.

In his report Mr. Lebedev presented the legislative aspects regarding small farms, and summarised the work that is being done by the federal ministry in that regard, what forms of support currently exist for small farms and also gave an outlook of the upcoming events during 2020.

When referring to the doctrine of food security, the deputy minister highlighted the importance of small farmers in the success of meeting the established production goals, namely that 45% of the agricultural output is produced by small farms. Though some sectors are still behind the production goals, the ministry sees the cooperation with small farms vital in meeting the schemes.

Mr. Lebedev further elaborated on different financial instruments targeted at supporting small farms, particularly up to 5% interest rate subsidies, grants and decoupled payments. In several sectors such as dairy cattle, the subsidies cover up to 35% of the investment costs. He also highlighted the benefits of the current “single (united) subsidy” system for small farms. Up to 2017 when the old system was applied, there was a criticism that since the larger producers have the legal

---

<sup>1</sup> Rosstat (2018): Всероссийская сельскохозяйственная перепись 2016 года, <https://gks.ru/519>.



and administrative means to apply for the subsidies, they were the first in line and hence the small farms had a disadvantage in equal access to those funds. However, since 2018 and the application of the new subsidization system, the share of funds directed to small farms is earmarked in advance. For example, in case of preferential credits, this share is 20%. In the case of the federal subsidies, 27.7% of the total single subsidy is directed to small farms.

The deputy minister also highlighted the importance of cooperatives, however it is not easy for the regions to organize the different forms of small farms into cooperatives and here the ministry is also providing its assistance.

Also, several important changes have taken place in terms of how the subsidies are distributed, namely several measures of supports have been grouped into compensating and stimulating. The ministry is hoping that since the abolishment of the single subsidy in 2020 and application of the two compensating and stimulating subsidies, the small farms will have a better access to the funds.

The subsequent discussion centred on several aspects which attracted attention by the different speakers. It was obvious that the development of agricultural production, often referring to the pre-reform period as reference, seem to represent the main objective. Other indicators of performance of the agricultural sector such as the development of labour or land productivity or indicators of the socio-economic situation in rural areas played no role. Furthermore, the perceived discrepancy of prices for electricity and fuel as well as on output markets attracted attention. Speakers claimed that small farms are disadvantaged compared to large farms by paying higher input prices and receiving lower output prices. Finally, some speakers raised the claim that small farmers are threatened to enter formal markets by taxes and abolishing taxes will help to improve this situation.

In an input reflecting the role of small farms within the Common Agricultural Policy of the European Union, Thomas Herzfeld (IAMO) pointed at possible reasons of a discrimination of small farms. These could result from technological and institutional patterns such as economies of scale, a limited divisibility of inputs, information asymmetries, higher transaction costs or market power by some actors. Political instruments which aim at supporting small farms without causing large welfare losses should target those reasons by facilitating cooperation, improving transparency on markets or providing other public goods and services. Furthermore, small farm households in Europe often benefit from more income sources than farming. Thus, any broad based rural development strategy which manages to stimulate off-farm income sources will help small farms also indirectly.

## Reflection

While the reference to past production levels is understandable and still reflects the big disruptions Russian agricultural sector experienced and affected stakeholders. However, market economies are characterised by structural change. Producers are expected to react to changing consumer preferences and, depending on the openness towards world markets, remain competitive with producers elsewhere. Thus, production structures and priorities changed and it is questionable whether reaching levels and production portfolio of 1990 is a useful strategy.

Not at least the discussion of abolishing taxes caused the impression that most speakers don't see agriculture as a regular business. If a business is profitable, it should contribute to public revenues. Finally, defining the profitability of individual producers as a policy goal is at odd with the belief that in a market economy only entrepreneurs themselves bear responsibility for their strategies and actions.