Grain Sector: Potential of Eurasian Integration and Objectives of Economic Policy

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Agricultural sector of the economy of the SES countries occupies a relatively small place in the formation of national gross domestic product and total investment in fixed assets, but has critical socio-economic importance. Significant part of population of the SES countries lives in rural areas, and national agriculture is the basis of food security. The level and dynamics of the development of agricultural sector to a large extent determine growth opportunities of related sectors of production of resources for agricultural industry, processing industry and agri-food market.

Modern agricultural policy of Russia, Belarus, Kazakhstan and Ukraine is focused on the development of agriculture and increase of its efficiency. Implemented support programme have laid the investment platform of the sector, and new programme create prerequisites for sustainable development of agriculture.

A special place in the development of agriculture belongs to grain production, which historically has been the basis for the operation of the national agri-food sector, has strategic importance for other sectors of the economy of the country and serves as an indicator of economic well-being of the state.

Despite the volatility in grain production, being a consequence of climatic factors, a steady increase in yield and croppage is observed, which is the consequence of the transition to new technologies of production and management in agriculture.

In recent years, Russia, Ukraine and Kazakhstan took a strong position in the world market: the number of countries purchasing grain and flour produced by these three countries is steadily growing and exceeds 100. The share of the SES+ Ukraine in the world trade over the past five grain years amounted in average to: for barley – 36.3%, for wheat – 21.5% and for corn – 7.7%. Since 2007, Kazakhstan has been the world’s leader in flour export.
The SES countries are the main suppliers of grain for its potential members – Moldova, Tajikistan, Uzbekistan, Armenia and Kyrgyzstan, where the area of agricultural land and grain production volumes are relatively low. These countries, except Moldova, are net importers of grain. On average, over the last few years Kazakhstan’s share in wheat import by the SES+5 countries is 77%, while Russia has 23%. Kazakh wheat is exported mainly to countries of Central Asia, and Russian wheat to Armenia.

Assessing the current state of the grain sector of the SES countries, it should be noted that in terms of gross croppage it has overcome the consequences of transformational recession of the end of 20th century: quite dynamic development is observed, the overall productivity is increasing both in crop growing and livestock production, the use of modern technologies in the food sector is expanding. At the same time, labour productivity in our country remains at a low level, the competitiveness of a large part of agricultural products, raw materials and food products in some cases is achieved through massive customs/tariff protection of the domestic market and state subsidies. Incentives to the process modernisation are obviously insufficient.

There is evidence of the growing backlog of domestic consumption from grain production in the absence of long-term incentive programme for marketing and consumption of grain and products of its processing. An artificial restraint of grain prices is observed, made in order to ensure availability of food, resulting in a loss of income of grain producers and adversely affecting their production, investment and innovation activity. Low dynamics of innovation development...
can be detected, including introduction of biotechnology, technology, adapted to global climate change and demography. Infrastructure constraints of effective grain turnover are reinforcing.

In this situation, there are clear limits to growth, yield, which can lead to the stagnation after the 2016-2018, and possibilities of extensive growth through introduction of additional acreage of farmland will require significant investment and will not provide a substantial increase of competitiveness.

SES+ Ukraine has unique opportunities to increase the contribution to solving the world’s food problems in the presence of the world’s largest cropland resources, water resources, industry for the production of fertilizers and agricultural machinery, agricultural science traditions, territorial proximity to the world regions placing increasing demand for grain. In the future, the proportion of the union in the world wheat export may rise to 25%, barley - up to 38-40%, creating a new reality, where the SES+ countries act as guarantor of the stability of the world grain market.

Realisation of this potential is possible through the efficient use of agricultural resources potential and scientific and technical capabilities of each country and through achievement of synergies of coordinated measures to support and develop agri-food market of the SES countries + Ukraine, which is the evident need to form a common agricultural and food policy of the SES (CAP) and the effective economic integration on the Eurasian continent.

This presupposes an objective desirability of deeper socioeconomic integration between the SES+ countries with regard to sustainable development of agriculture on the basis of mutual interest in stability and sustainability of operation of the food market. In this case, there are several hierarchic goals of common agricultural and food policy for different groups of market participants:

1. **Farmers**
   - Achieving acceptable level of earnings and reduction of earnings volatility
   - Increasing competitiveness of the agricultural sector

2. **Consumers**
   - Ensuring food security (physical and economic availability, food security)

3. **Society as a whole**
   - protection of the environment and biodiversity
   - preservation of agricultural landscapes and recreational areas
   - Ensuring viability of rural areas
Formation and practical implementation of CAP requires synchronisation of national agricultural policies, measures and instruments of state regulation on the basis of the objectives of the common agricultural and food policy of the SES and distribution of functions of national and supranational government regulation and intervention.

The effectiveness of CAP will be determined by the level of real integration of agrarian economies of member states and synchronicity of further development of market mechanisms, market-oriented, industrial and social infrastructure, mitigation of negative social and economic consequences of the current functioning of “immature” markets, rationalisation and optimisation of types of natural resources management, distribution of supranational and national regulation functions, which would require the adoption of an integrated system of international agreements on coordinated agricultural and food policy, which should complement the existing and prepared documents of the SES in terms of the specifics of agricultural sector and agri-food market.

The system of Agreements and memoranda shall coordinate and determine the following:

- Goals, objectives, principles, mechanisms, areas and tools for implementation of CAP, allocation of regulatory measures at the national and sub-national levels;
- Measures of national state support (subsidies for production and the system for alignment of competitive market conditions for the SES products)\(^1\);
- Taxation of agricultural producers;
- Principles of foreign trade policy with respect to agricultural and food products;
- Veterinary and phytosanitary requirements based on the norms and rules of the WTO;
- Procedures and rules for operation of supervisory and control bodies;
- Methods of statistical monitoring and information exchange;
- Technical regulations and standards;
- Technical requirements for agri-food market infrastructure;
- System of coordination of activities of national institutions for the development of agri-food market, etc.

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\(^1\) Today only the Agreement on common rules for state support of agricultural industry has been ratified, which imposed a limit on state support in the amount of 10% of the agricultural goods produced with respect to measures making a distorting impact on trade (for Belarus the achievement of the permitted level of support is allowed in 2016), as well as liability and compensation for exceeding the amount of support.
The adoption of the proposed system of agreements will provide for creation of a unified institutional framework for operation of national agri-food markets within the SES integration and form a basis for the development of sectoral agreements on specific sub-sectors of agriculture.

Within this institutional environment, favourable conditions are created for the formation of the common grain policy of the SES+. With that, it should be noted that there are obvious prerequisites for its implementation – high geographic concentration of interconnected companies, geographical, cultural, and institutional proximity (as a result of the integration processes). All this creates strong incentives for development for market participants, and institutional environment and governmental regulation efforts become a catalyst and initiator of development, as determinants of the global non-price competition are not so much the products, but flexible, transparent and innovative oriented environment at the level of integration space.

**Grain Policy of the SES+** is a part of EAC and is designed to ensure the following:

- high rates of sustainable economic growth of the industry, balance of production development programme (in terms of volume indicators and grain crops structure), based on the requirements of sustainable development of agricultural production and optimum utilisation of production factors (competitive advantages) and the needs of domestic market of each country;

- high dynamics of integration processes and the development of mutual grain trade between the SES+ members states;

- Capacity-building for the future;

- Increased competitiveness in foreign markets and the development of grain exports of the SES+ countries;

- Creating the necessary grain reserves to ensure food security of each SES+ member state and the Community as a whole.

Its practical implementation requires the adoption of a specific sectoral Agreement, which will provide for the application of common principles of pricing and access to national markets, eliminate redundant entry barriers and create conditions for optimisation of the grain crops structure on the basis of the principle of realisation of natural competitive advantages and complementary grain production by each participant.

The agreement is intended to define a common paradigm for support and regulation of the whole agricultural sector, providing transition from support of under-pricing of grain for its domestic customers to measures of direct state support for efficient producers within national budgets and supranational

 ADVANCING FUNCTIONAL ECONOMIC COOPERATION
support system. It should be noted that state support remains the main financial lever of influence on the development of grain sector, and there are risks that each of the SES countries will attempt to support all agri-food sub-sectors individually, scattering funds and reducing their efficiency, provoking growth of unjustified mutual competition and reducing the possibility of effective export.

The agreement should define the framework approach as stimulating the formation of specialisation of each SES member based on the condition of rational use of accumulated competences and natural advantages of our countries not only to achieve a high degree of self-sufficiency, but also to improve the effectiveness of beneficial international cooperation and support grain producers in the amount sufficient to provide long-term competitiveness and balance of production and domestic consumption.

Development and implementation of the Agreement are intended to ensure synergistic effect of operation of an integrated system for stimulation of production, optimisation of the territorial structure of production on the basis of competitive advantages of the SES countries, grain exports support, covering all

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**Figure 11.3.**
The SES+ Grain Policy Outline
levels of government and relying on efficient mechanisms of interaction between
government and business. With that, on the basis of common principles and
taking into account the risks, goals and objectives shall be defined, institutions
of its implementation shall be selected, and the corresponding roadmap shall be
formed, which aims to provide consistency of actions to implement the Grain
policy, that can be presented in the simplified scheme below.

The main objectives of development of the grain sector of the SES+ can be
defined as follows:

- creation of favourable conditions for the expansion of production and
  bilateral trade, expansion of exports of grain and grain products (flour, etc.)
  in the world market, strengthening national competitiveness;

- optimisation of the national production structure based on the principle
  of optimal utilisation of production factors (competitive advantage) and
  opportunities of integration;

- reduction of price volatility and maintaining grain balance of the SES+ at
  the level necessary to ensure food security of each state and the Community
  as a whole.

The main objectives of the development of the SES+ grain market oriented at
achievement of sector development goals, respectively, are:

- synchronisation of supranational and national measures and instruments of
  state regulation on the basis of the objectives of common agricultural and
  grain policy of the SES+ and objectives of maintaining income of grain
  producers and processors at the level sufficient for expanded reproduction
  and supporting liquidity of manufactured products;

- improvement of investment attractiveness and creating conditions for
  expanding scale and optimising the structure of production and cropland
  acreage, involving into the economic turnover of unused agricultural land;

- promoting mutual grain trade and ensuring equal access to the markets of
  all SES+ countries;

- supporting mutual investment, research, environmentally efficient
  technologies;

- realisation of the export potential of the SES+, which allows to take strong
  positions in the global grain and grain products market and maximize
  revenue through the use of the integration potential;

- balanced and accelerated development of grain market infrastructure on
  the basis of public-private partnership proceeding from the conditions for
  the development of SES+ grain market as a whole;
development of scientific research intended for the use by all SES+ countries, suggesting a gradual transition to the growth of agrarian economy based not only on imported technologies, but also on creation of modern competitive technologies adapted to changing climatic conditions.

Implementation of the proposed approaches requires appropriate supranational regulatory measures, corresponding measures and tools for implementing SES+ Grain policy, which pursue the goal of stimulating accelerated transition to modern technologies of grain production and processing, introduction of biotechnology, utilisation of unused agricultural land and increasing crop yield, supporting income of grain producers and expanding markets.

Choice of objectives and tools of development of the grain sector within the framework of integration processes must take into account the maximum use of potential benefits of increase in the capacity of single market and economy of scale of production, increase of competition and improvement of terms of mutual trade, consolidating knowledge and opportunities for dissemination of cutting-edge technology.

At the same time, possible negative consequences must be offset, associated with different scales and directions of budgetary support of the SES+ countries, disparate mutual or unjustified cross-country competition. As a result, high competitiveness of the grain sector of the SES+ should be ensured as compared with goods from countries outside the integrated union. It should be noted that the modern concept of competitiveness is associated not only with the ability to sell more products and generate more profit, but also with the “intangible” aspects, such as brands, know-how.

Achieving high competitiveness is not an end in itself, but means to increase the standard of living and material well-being, i.e. it is a tool for solving the problems of rural development, as well as the guarantees of food security.

It should be noted that the logic of integration processes require changes in spatial development of the grain market, strengthening of internal and cross-sectoral cooperation ties. Efficient agricultural production is possible through optimisation of the territorial production structure based on natural competitive advantages. Transfer of operational decisions on sub-regional level is an objective necessity, but it must be supported by strengthening of the coordinating role of the centre in matters of territorial distribution of productive forces at the interregional level. Resources and product markets are inter-regional and implementation of large-scale projects will inevitably face with strong market restrictions on access to resources and markets.

The basis of the territorial development of the grain market is the formation of clusters – “symbiosis between cooperation and competition”, taking into
account positive synergistic effects of territorial agglomeration, which provides growth potential by leveraging the capabilities of participants. With that, common interest in the outcome stimulates flow of financial resources into the sectors having the highest priority for the development of the cluster as a whole. The current pattern of allocation of grain production of the SES+ allows to form

**Figure 11.4.**
Arrangement of CES+ grain clusters

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Crop</th>
<th>Country</th>
<th>Average gross harvest, t mln</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Export</td>
<td>4, 5 classes of wheat, barley</td>
<td>Ukraine, Russia</td>
<td>51.2</td>
</tr>
<tr>
<td>2</td>
<td>Corn</td>
<td>corn</td>
<td>Ukraine, Russia</td>
<td>17</td>
</tr>
<tr>
<td>3</td>
<td>High-protein wheat</td>
<td>hard and whole wheat</td>
<td>Kazakhstan, Russia</td>
<td>16</td>
</tr>
<tr>
<td>4</td>
<td>Rye</td>
<td>rye</td>
<td>Belarus, Russia</td>
<td>4.4</td>
</tr>
<tr>
<td>5</td>
<td>Far-east</td>
<td>soy, corn, wheat</td>
<td>Russia</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>Buckwheat</td>
<td>buckwheat</td>
<td>Belarus, Russia</td>
<td>0.7</td>
</tr>
</tbody>
</table>
the following sub-clusters, “rye”, “corn”, “export” and “high protein wheat” (see Figure 11.3). At the same time, they account for about 2/3 of the 10 years-average gross grain harvest of the SES+: 90-92 million tonnes. The purpose of creation of sub-regional production clusters is reinforcement (through market mechanisms) of impact on the optimisation of territorial distribution of production, storage and processing of grain, stimulation of development and introduction of new technologies and ultimately improvement of product competitiveness.

Integration processes involve combination of support at the national and supranational levels. At the national level, the support, in our view, should be aimed at addressing operational challenges of the grain sector, however with account to the common strategic approaches developed, through the use of state subsidies (direct and indirect, including tax benefits and preferences) in the agreed scope and directions, in particular, by subsidising production and supporting access to resources, expansion of programme and provision of access to markets. At the same time, price regulation should be moved to the supranational level.

The main tools of price regulation on the basis of analysis of existing national practice and international experience can include the following:

- Establishment of price band for grain purchase prices. The upper level of prices are the prices of the global market, adjusted for infrastructure costs, and the lower level is the minimum guaranteed prices, which are set centrally for all SES+ countries for various crops and climatic zones. The level of guaranteed minimum prices should be low enough and meet the cost of production in the most efficient farms, and the range of crops covered by the application of minimum guaranteed prices, shall be strictly limited. Selection of crops that are subject to support, in addition to income support provides guidance for grain business to change the structure of the area under crop;

- Interventions in the grain market, which in their current form should be replaced with collateral transactions with government support in terms of compensation of part of the costs of storage and insurance of grain. Collateral transactions must be performed under common methodology using warehouse certificates receipts for grain, which apply across the whole territory of the SES+ and are used as collateral for raising loans. In order to increase their liquidity and reduce the cost of loans, ratios of funds reserved by banks with the domestic banks should be reduced, when they are used as a collateral;

- Support of demand for grain in the domestic and foreign markets. In the domestic market, this can be achieved by organising targeted food assistance to needy citizens, implementation of food security programme for
institutions of educational and social sectors, as well as the establishment of rules of priority, compared with third countries, purchases of certain types of products produced in the SES+ for state and municipal needs.

Actual area of stimulation of domestic demand seems to be the development of deep processing of grain, which is one of the main trends of the world market and allows to fulfill ever-growing demand for products, both within the SES+ countries and beyond;

Growth of grain exports as a tool to support the market liquidity is equally important, which requires the formation of a coherent export policy and creation of a relevant organisational mechanism for its implementation. The basic position of a coherent policy on grain export is to avoid imposing any restrictions on its exports and a system of state support measures for export activity. At the supranational level, common principles and mechanisms should be developed to govern the activities of grain exporters (including the creation of a compensation mechanism for voluntary restrictions of grain exports in favour of one of the participants), the development of common trade policy approaches on foreign markets (including identification of priority geographical areas of grain exports), creation of export support centres, including the development of mechanism of interaction with trade missions and associations of entrepreneurs and the formation of a foreign distribution network of the SES+ (foreign trading houses, support centres, regional consignment warehouses and elevators, etc., creation and utilisation of which is carried out by participants from different countries).

Achieving high efficiency of grain sector and ensuring the competitiveness of products is not possible without profound technological modernisation, which in turn requires development of scientific research, public infrastructure and human capital investment. One of the greatest challenges of the present stage of development of the agricultural sector is the “challenge of knowledge”, associated with the risk of insufficient effectiveness of agricultural science, lack of integration of research centres, both among themselves and with the business community, low mobility of researchers and knowledge, lagging behind in the use of modern laboratory, IT and biotechnologies.

Today, national agricultural sectors of the SES+ countries are developing, based on the technology import. Later, however, it is necessary to form own technological reserve, which is possible, in particular, when creating interstate centres of development and promotion of new technologies.

Formation and operation of such centres should be carried out as a private initiative or as public-private partnership (PPP) (investments in research infrastructure, access to databases and genetic resources etc, tax incentives). Funding should be based on terms of public-private partnerships and by obtaining competitive grants of national governments and ECE.
Further progress of agriculture, increase of crop yield, production of grain with specified consumer qualities, addressing and accounting for the effects of global climate change, as well as demographics, becomes impossible without the use of modern biotechnology. However, in this area there is a growing backlog from a number of countries, largely as a result of insufficient level of basic knowledge, and the associated spread of speculative, not confirmed by qualified scientific research statements in the society. Unwillingness to respond to this challenge, the lack of a clear legal framework, large-scale skilled research, responsible independent examination and practice can lead to the fact that agriculture of the SES+ will be weakly prepared for the challenges of the global scientific and technological progress in the grain sector, which carries additional risks for competitiveness as well. In this case, the state policy of silence already has led to the fact that today, at least in Russia and Ukraine, there is an uncontrolled cultivation of genetically modified (GM) varieties of corn, soybeans and canola. To a large extent, the SES+ countries follow the way of Brazil, where cultivation of GM crops has been formally prohibited and, accordingly, was not controlled; as a result, the production of GM soybeans and corn has reached such proportions that the legislation was changed post factum based on the realities of life.

Practical implementation of the proposed approaches requires development of the relevant institutions, some of which should operate on national and others on supranational level. Created and modernised institutions are designed to give an adequate response to the “challenges of dynamism”, to remove barriers to the creation of new businesses including the formation of Eurasian grain multinational companies, to create a system of incentives to businesses for taking up risks that could help create more dynamic and flexible environment.

National Institutes of grain market regulation, although their activities are within the competence of national governments, shall be based on the fundamental documents of the SES and ensure compliance with the following principles:

- inadmissibility of business carries out by public institutions in any area, which is similar or close to the functions delegated by the state;
- impossibility to delegate the services provided to farmers to third parties;
- open and free access to the information obtained in implementation of public services.

With that, based on the objectives of the Grain policy, it is necessary to form a number of institutions to implement functions of supranational regulation. The main institution is the financial foundation of CAP created to fund joint research programme and projects, conducting operations to regulate the grain market and reserve fund of seeds, support the development of innovation infrastructure, etc.
At the expense of that fund, among others, the following activities shall be financed:

- joint research projects, formed based on co-financing from the budgets of all participants, where all the results obtained are generally available for businesses of national economies;

- joint reserve fund of seeds and food grains (wheat) for use in emergency situations. The Fund is formed by each SES country proportional to the area under crops on the basis of 10% of annual demand of winter crops and 2-month consumption volume. Accumulation of resources and storage of grain of the Fund is carried out on national territories, and the decision on its use in the interests of a member of the SES is made on collegial basis. Deliveries are made for value.

Realisation of the proposed approaches in implementation of a common grain policy assumes active development of public-private partnership (PPP) in grain sector of the SES (research and development, irrigation projects, transportation projects, including terminals, etc.) that can be achieved as a part of the establishment and operation of a public-private partnership centre of the SES. The main objective of the centre is to promote and facilitate the development of the SES market with regard to PPP projects having strategic importance and serving the interests of businesses from all or part of the SES countries, as well as development of relations with economic partners of the SES. The centre should cooperate with national authorities in the selection and approval of priority projects and prepare proposals for participation of the SES in implementation of specific projects.

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