

## Session summary

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Session title: **DEVELOPMENT PROSPECTS FOR RUSSIA'S AGRO-INDUSTRIAL COMPLEX**

### Problem

Creating the right environment to enhance investment in transport and logistics which will impact the development of the Russian agricultural sector.

### Session Highlights

Select assertions and opinions

- Despite of the crisis Russian agricultural has performed well, e.g. Russia is moved up to become the third largest exporter of grain in the world.
- The Government is taking actions to stimulate agro-industry
- Transportation, warehousing logistics are basic opportunities for foreign investors.
- Russia is a net exporter in grain and exports are expected to grow. It's important for industrial development to invest into the improvement of grain market infrastructure and reduce internal transport costs.
- One of the important factors of the market development is price volatility. Together with absence of long-term contracts this impedes effective planning.
- Russia has an opportunity to learn and adopt select practices from other countries in the form of legislation, technologies and commercial models.

### Selected quotes

"Russian grain is export commodity of strategic importance; and it positions Russia as one of the guarantors of global food supply security." - Yelena Skrynnik

"Leading companies have doubled net profits in meat sector in comparison with pre-crisis 2008. This serves as a very important signal for the investors." - Sergei Yushin

"...Let Russian grain producers apply the standards they are interested in – I think its time to do it... We should enter the markets providing the standards, which local consumers are expecting from us." - Pavel Skurikhin

"The Russian Far East is possibly a gateway to Asia...We sincerely wish to make our contribution in expanding the export of the Russian grain to the East Asian countries jointly with our Russian partners." - Noriaki Sakamoto

Moderator:

**Dr. Vladimir Kvint**, Member of the Bretton Woods Committee and of the Russian Academy of Sciences (Lifetime Foreign Member)

Key note:

**Viktor Zubkov**, First Deputy Prime Minister of the Russian Federation

Panelists:

**Yelena Skrynnik**, Minister of Agriculture of the Russian Federation

**Arno van de Laar**, Regional Director Central and Eastern Europe, TOPIGS International

**Sergei Levin**, CEO, United Grain Company OJSC

**Katuska King Mantilla**, Coordinating Minister for Economic Policy of the Republic of Ecuador

**Noriaki Sakamoto**, Member of the Management Board, CIS Managing Director, Mitsui & Co., Ltd

**Luigi Pio Scordamaglia**, Managing Director, Inalca JBS Spa

**Eugenia Serova**, Senior Advisor, International Centre for Investment UN FAO

**Pavel Skurikhin**, President, The National Union of Grain Producers

**Sergei Yushin**, Head of the Executive Committee, National Meat Association

Discussants:

**Oleg Betin**, Governor of the Tambov Region

**Dmitry Rylko**, General Director, Institute for Agricultural Market Studies

**Katherine Sierra**, Vice President for Sustainable Development, World Bank

## **Synopsis**

In recent years, Russia has emerged as part of the global food system. Russian agro-industry has remained stable in spite of the crisis. Meat and milk production have increased since the beginning of the year, land under cultivation is expanding and Russia is the third largest grain exporter in the world.

The Government is creating conditions to stimulate growth in agriculture: low interest rates, a stable rouble, a reliable legal framework, and a five-year program of financial assistance for the sector combined with a favorable macroeconomic situation are yielding results. Special institutions, including Rosselkhozbank and Rosagrolizing, have been created to support the industry.

The crisis has brought the problems hindering the sector's development into focus, in particular, the fact that processing, transport and marketing functions in the industry are in need of modernizing. These particular areas offer the main opportunities for foreign investors.

The growing investment opportunities are highlighted by the effective performance of both Russian and foreign companies that have expanded production capacity in Russia.

Russia is fully self-sufficient in grain. Indeed, in recent years the country has been steadily increasing grain exports to achieve a record export figure of 23 million tons of grain valued at US\$4.6 billion in 2008. Experts assess Russia's grain exports could potential reach US\$10-12 billion in coming years.

For continued growth, it is necessary to invest in grain infrastructure while reducing domestic transportation costs. Internal logistics can no longer cope with the increased volume of carriage, which makes Russian grain less competitive on the world market. There is a clear shortage of modern elevators, port terminals and grain storage facilities. Expanded seaport facilities will enable Russia to open new channels for exporting grain to the Asia-Pacific countries and to South America.

The high volatility of grain prices, coupled with the lack of long-term contracts, makes it impossible to effectively plan business development. Long-term grain supply contracts would make it possible to predict the quality of grain that foreign customers need, to plan production for several years ahead and to meet the requirements of target markets outside the country. Harmonizing the grain quality standards could also be a potential boost to exports.

Infrastructure in the meat packing industry must also keep up with growing output. The program for modernizing the meat industry must include not only the introduction of new technologies and equipment for growing and processing meat. It is also extremely important to develop the knowhow, pursue R&D, train quality personnel and introduce technologies that are already successfully used in a number of countries. All these innovations will be essential in improving the quality of meat products and expanding their range.

Thus far the share of foreign investments in the sector is not large. The agro-industry is included in the Development Bank's Financial Memorandum, and investors may qualify for long-term loans, which should help bring capital needed to stimulate innovation and modernization in the sector.

A healthy diet should underlie all the production processes in the sector. Emphasis should be made on producing environmentally clean ingredients, and introducing modern technologies for their processing, storage and packaging. A successful example is Mars-500, a system that permits the storage of foodstuffs for 500 days without loss of quality. The development and wide spread usage of biodegradable packaging is an important challenge - which is an element of the Green Valley Project – now underway.

Russia could benefit from international experience regarding regulation. In particular, the sector could strongly benefit from new guidelines pertaining to PPP, grain export subsidies, a state system of long-term minimum procurement prices with provisions for compensating domestic grain producers, the creation of agro-technical parks, central training centers, better protection of investor rights, and other developments including insurance, mortgage systems, warehouse certificates for grain and agricultural products, and notably secured futures on future crops.

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