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## Issues Of Import Substitution In The Agro-Industrial Sector.

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### ABSTRACT

The development of the modern agro-industrial sector at all levels of economy management is considered in the context of import substitution due to the sanctions announced by the US and the West and the food import ban announced by Russia as a counter measure. The government has approved the "roadmap" to facilitate import substitution in agriculture. The purpose of the article is to assess the potential of the AIS (agro-industrial sector) in Russia, trends in achieving threshold levels of food sovereignty, determine methodological and practical conditions and possibility to implement the roadmap of import substitution, volumes, timing and growth rate in achieving the goals.

**Keywords:** import substitution, food sector, agro-food policy.

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## INTRODUCTION

The agro-industrial sector (AIS) is a set of the sectors of the national economy associated with the development of agriculture, maintenance of its production and bringing agricultural products to the consumer. The Russia's agro-industrial sector is one of the most important sectors of the national economy. It is necessary to make forecasts and programs for its development. Reduction of the dependence of the country in the food sector involves the development of the general concept and national security program of the country. The current strategic goal of the agro-industrial policy is caring the people, economic development of the country's territory and ensuring food security [1]. This policy is aimed at the dynamic development of agriculture, improving its efficiency and competitiveness, ensuring rural living standards similar to urban ones, environmental protection, efficient use of land and other natural resources [2]. Agriculture is one of the areas of the national priority projects [3]. The National Security Strategy of the Russian Federation was approved by the Decree of the President of the Russian Federation No. 683 on December 31, 2015, where Art. 54 sets food security tasks. It should be implemented through: – achieving food sovereignty of the Russian Federation; – accelerated development and modernization of the agro-industrial and fishing sectors, food industry and the infrastructure of the domestic market; – improving the efficiency of the government support for agricultural and commodity producers and expanding their access to the product market [4], [ 5]

## DATA ANALYSIS

Introducing counter-sanctions of the Russian Federation in response to the sanctions of the West has turned to advantage of the Russian farmers who in new conditions managed to take the niches vacant in the market . And the measures for import substitution in agriculture taken over the past 1.5 years allowed to maintain the rates of sector growth. In addition, the AIS is one of the few industries which is sustainably growing even in conditions of the general economic downturn. In 2015, 222 billion rubles were assigned to implement the State Program, which is almost 30 billion rubles more than in 2014. Thus, the upward trend of the agricultural production was retained: there was the 3% growth according to the results of 2015.

According to the Ministry of Agriculture of the Russian Federation, due to the efforts made and providing the government support, the volume of agricultural products has increased by 40% over the past 10 years [6], [7]. Russia is self-sufficient in grain, oil, sugar and potatoes. For the first time in many years the threshold in meat of the Food Safety Doctrine has been reached and even exceeded: the share of domestic meat products in the total volume of resources has reached 89%. In 2015, only the supply of imported food decreased by one third and amounted to 27 billion US dollars. Imports of the poultry meat in the Russian Federation have decreased almost 3 times and Russia has ceased to be the largest world pork importer. Production of basic livestock products in the Russian Federation is provided in Table 1.

**Table 1. Production of basic livestock products in the Russian Federation (farms of all categories; thousand tons)**

	2010	2011	2012	2013	2014	2015 (prelim.)	2015 in % against 2014
Cattle and poultry for slaughter (live weight) including:	10,553	10,965	11,621	12,223	12,912	13,451	104.2
cattle	3,053	2,888	2,913	2,909	2,911	2,879	98.9
pork	3,086	3,198	3,286	3,611	3,824	3,970	103.8
poultry	3,866	4,325	4,864	5,141	5,580	6,010	107.7
milk	3,1847	31,646	31,756	30,529	30,791	30,781	100.0

Rosstat's data <http://www.gks.ru>

Despite the difficult economic environment and foreign policy, in 2015 the exports of agricultural and food products from the Russian Federation amounted to 16 billion US dollars – 5 times more than 10 years ago. The Ministry of Agriculture expects that wheat exports from the Russian Federation will increase by around 3% (22-23 million tons) in the current agricultural year. This will allow Russia to resume its historical position of the world largest wheat exporter. The Russian Federation may increase grain exports to up to 50 million tons per year in the next 10 years.

In 2015, 104.3 million tons of grains were harvested and the record harvest of vegetables, corn, soybeans and oil flax was received. More than 14 thousand hectares of gardens were laid out which has been almost doubled if compared to 2014. The production of meat of cattle and poultry for slaughter has increased by 5% due to the growth of about 5% in hog farming and about 8% in poultry farming. Milk production has increased by 2% in agricultural enterprises and by 5% in peasant farm enterprises. The growth has made 2.2% in the food and slaughter sector. The production of main types of import-substituting food products in the Russian Federation is provided in Table 2.

**Table 2. Production of main types of import-substituting food products in the Russian Federation (thousand tons)**

	2010	2011	2012	2013	2014	2015	2016	
							January- July	in % against the relevant period of the last year
Fresh, cooled and chilled cattle meat	220	190	178	199	183	203	113	105.6
Surface-frozen, frozen, deep-frozen and defrosted cattle meat	43.0	38.6	36.0	41.6	41.1	51.7	27.9	95.4
Fresh, cooled and chilled pork	755	815	942	1,232	1,438	1,655	1,060	116.5
Surface-frozen, frozen, deep-frozen and defrosted pork	57.6	61.6	58.5	67.5	87.7	108	65.1	109.7
Poultry meat and edible offal	2,774	3,028	3,405	3,610	3,979	4,340	2,599	104.9
including:								
fresh, cooled and chilled poultry meat and edible poultry offal	1,669	1,777	2,097	2,230	2,458	2,715	1,655	108.3
surface-frozen, frozen, deep-frozen and defrosted poultry meat and edible poultry offal	1,061	1,240	1,293	1,368	1,507	1,604	930	99.0
Sausage products	2,439	2,486	2,533	2,502	2,476	2,445	1,373	96.8
Live, fresh or chilled fish	1,151	1,395	1,399	1,461	1,167	1,175	500	76.2
including:								
live fish	601	702	740	704	540	560	136	44.3
fresh or chilled fish	550	693	659	757	627	615	364	104.3
Nonfrozen crustaceans; live, fresh or chilled oysters and other aquatic invertebrates	39.8	42.8	44.5	52.7	55.3	67.9	28.3	92.8
Fresh or chilled fish fillet, other fish meat, livers, caviar and milt	16.7	16.1	16.1	18.6	21.1	18.8	9.2	94.6
Frozen fish (except herring), fish livers, caviar and milt	2,292	2,356	2,337	2,434	2,347	2,502	1,615	98.1
Frozen fish fillet	71.7	86.2	94.3	108	110	123	102	130.7
Herring of all processing types	456	470	515	496	475	461	198	121.3
including frozen herring	377	392	440	426	401	395	164	128.8
Salted fish (except herring)	33,6	33,8	42,7	46,1	39,2	33,0	16,5	89,2

Smoked fish (except herring)	57.1	59.4	61.4	63.7	61.2	57.2	27.6	87.1
Dried fish and fish jerky	16.5	16.4	16.2	17.7	16.9	16.1	9.3	100.3
Balyk products	3.3	3.5	3.7	4.2	4.0	3.1	1.6	94.6
Seafood	84.2	88.3	97.7	104	120	97.8	57.8	131.9
Whole-milk products (in milk equivalent), mln tons	10.9	10.7	11.3	11.5	11.5	11.7	7.0	102.2
Liquid processed milk	4,944	4,926	5,267	5,386	5,348	5,447	3,205	100.9
Cream	80.6	83.4	95.2	103	115	121	71.8	98.1
Cottage cheese	377	383	396	371	387	416	242	101.3
Butter	210	217	214	225	250	256	146	95.3
Cheese and cheese products	437	432	451	435	499	589	345	103.0
Condensed milk products, mln standard cans	883	855	873	860	833	828	455	100.7
Fermented milk product, except sour cream and cottage cheese	2,388	2,318	2,430	2,521	2,520	2,445	1,516	102.6

Rosstat's data <http://www.gks.ru>

However, there are also problem areas in the AIS – certain types of meat products, milk, vegetables and fruit that are still insufficiently produced. According to the results of 2015, almost 9 billion US dollars (around 700 billion rubles) were spent to purchase these types of food. In 2015, imports of agricultural products and food amounted to 27 billion dollars including imports of dairy products – 2 billion dollars, meat products – 3 billion dollars, vegetables – 2 billion dollars, fruit – 1.6 billion dollars.

Taking into account the need to build new dairy farms, greenhouses, agricultural products processing enterprises, wholesale distribution and logistics centers, etc., the AIS of the Russian Federation will require additional means of government support in the next 5 years.

By 2020, the Ministry of Agriculture expects to reach almost 100% self-sufficiency in milk, meat and vegetables, and in terms of fruit to retain imports of only citrus and exotic fruits not grown in the territory of the Russian Federation. Additional investments and priority state support are required for that.

In particular, it is necessary to: 1) increase milk production by 7 mln tons – up to 38 mln tons, increase meat production by 500 thousand tons – up to 10 mln tons and increase the gross yield of grain by 10 mln tons – up to 115 mln tons by 2020; 2) build 1.5 thousand hectares of new greenhouses within 5 years, which will additionally provide 850 thousand tons of tomatoes and cucumbers; 3) lay out 65 thousand hectares of apple orchards and 50 thousand hectares of new vineyards, which will additionally provide 1.3 mln tons of apples and 200 thousand tons of grapes (in 10 years).

According to the calculations of the Ministry of Agriculture, around 270 billion rubles will additionally have been required by 2020 to reach these figures. That is, taking into account the level of the government support in 2016 (237 billion rubles), it is necessary to provide at least 40 billion rubles every year (certainly based on the budget) to additionally develop this sector.

#### SUMMARY

There are grounds to believe that the focus on import substitution is a clear long-term strategy rather than a momentary breakthrough. The enterprises should change their strategy and choose another development model. In this regard, a science-based national import substitution program is required, which

should cover almost all the areas of the real sector of the economy, first of all those strategically significant (key industrial sectors and agriculture).

Summing up the above, we can conclude that there is a potential to develop the Russian agro-industrial sector. However, the following is required for its implementation:

- improvement of the food policy in terms of Russia's accession to the WTO and functioning of the Customs Union;
- maximum direct support of Russian production within the frameworks established by the WTO Agreements;
- structural reforms, modernization of agricultural production and food industry, transition to the innovation-based development;
- optimization of production and distribution of products in domestic and external markets, increasing the export potential and integration into the global market;
- establishing institutions for growth;
- using the tool for the public and private partnership;
- developing the tools for monitoring the efficient use of state support tools;
- avoiding decline in real income of population and using the direct food assistance tool.

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