IMPORT SUBSTITUTION AS THE BASIS OF SOLVING PROBLEM RELATED TO FOOD SAFETY OF THE RUSSIAN FEDERATION

OksanaViktorovna Shumakova*, Andrey Leonidovich Poltarykhin**, Tatyana Gennadyevna Mozzherina*

Abstract: *The goal of the research is to analyze the current state of the national food market under conditions of embargo, and to develop specific offers on implementing the potential of the areas and intensifying the process of import substitution in the medium term. Particularly they may include an additional level of the budget financing together with the measures of the customs and tariff, and non-tariff regulation, infrastructure development, stable financially reliable internal and external demand for agrifood. It will allow to speed up the dynamics of the agroindustrial complex growth.*

Keywords: *import substitution, sanctions, food industry, agriculture.*

1. INTRODUCTION

In this article the role of import substitution is considered in the context of solving the problem of food safety. In this area the works of Russian academic economists like Altukhov A. (1), Belokrylova O.S. (2), Glotov O.A. (3), Gumerov R.R. (4), Davydenko E.A. (5), Kirillov V.N. (6), Kudrova N.A. (7), Leontiev B.B. (8), Logacheva E.V. (9), Safin U.Z. (13), and Ushachev I.G. (16) are of great interest. The works of these and other researchers broadly study mechanisms related to providing food safety, define objective reasons and consequences of the import growth, including those after entering the World Trade Organization, develop and specify specific measures related to increasing the efficiency of the national agricultural production for the purpose of improving the situation related to providing the Russian population with food. The national and many years' experience of solving

* Federal State Budgetary Educational Institution of Higher Education "Omsk State Agrarian University named after P.A. Stolypin" 1, Institutskaya Square, Omsk, 644008, Russia

** Plekhanov Russian University of Economics 36, Stremianny Lane, Moscow, 117997, Russian Federation

*** Federal State Budgetary Educational Institution of Higher Education "Omsk State Agrarian University named after P.A. Stolypin" 1, Institutskaya Square, Omsk, 644008, Russia

regional food problems of economically developed countries show the need in the target support for the agriculture differentiated according to areas and regions by state authorities together with the comprehensive use of internal reserves related to increasing the efficiency of functioning of territorial agro-industrial complexes.

2. METHODOLOGY

The analysis of academic papers and statistical data on the research problem allowed to generalize their results and to make specific conclusions in relation to the state of the food safety under conditions of the need in the gradual transition to the import substitution. There is no single opinion as for the way and methods of estimating food safety. Food safety provision can be considered as stable development of the agro-industrial complex or as based on the level of food products self-provision according to the obtained high yield. Herewith, the requirement to food self-provision of Russian regions is documented on a legal basis. We made a comprehensive analysis and made the stipulated conclusions about the tendencies of the Russian agro-industrial complex development under the conditions when the development of a large-scale campaign on import substitution became a required condition of providing food safety of the country. The analysis was made by studying international and national state policy on providing food safety as a whole and as one of the components of stable development of agriculture, comparison of statistical data that characterizes the level of food production, and investing funds in the basic capital. As a result of the analysis according to the forecast indicators, we distinguished risk zones and made offers whose implementation will contribute to the development of the industries potential and intensification of the import substitution process.

3. RESULTS

The state policy conducted over the recent years in relation to the development of the agro-industrial complex created favorable conditions that have formed the tendencies of the growth in the agriculture and food industry. Indeed, in the 1990s the import substitution achieved 70% for a number of products. Today the situation has changed considerably. In 2010 the Food Safety Doctrine was adopted, which defined the basic areas and tasks of the Russian agriculture development (14). According to the specialists' estimations, in 2013 the import of products from the countries that threatened to impose sanctions was only 13% in the amount of 43.1 billion dollars.

On the background of slowing general tempos of the economic growth of the county and the world political tension due to the events in Ukraine and uniting of the Crimea to Russia, the agro-industrial complex has shown stable dynamics of growth. As a whole in 2015 according to the estimation of the Russian Ministry of Economic Development, the index of agricultural production was 103.5%, and 103.5% for the food industry. In 2016-2017 the tempo of the agricultural production growth is expected on the level of 2.9-3.3%, and 3.0-4% as for the food industry (12).

However, it is necessary not to stop at what has been achieved. According to the experts' estimation, in order to provide food safety, it is necessary to additionally produce and grow meat, fish and fish products, and dairy products for the total amount of approximately 7 billion dollars. And in order to return 40 mln today's derelict lands to the crop rotation, it is enough to have approximately as much funds as it is required to carry out the 2018 football world championship.

The relevant order of the President of the Russian Federation approved the Russian National Safety Strategy up to 2020 (15). It aims at solving the tasks related to import substitution and providing the competitive level of national enterprises. Along with the specified tasks, one of the important tasks in the forecasting period is the implementation of measures aiming at developing the human resources and social policy. In 2014 a new federal target program "Stable Development of Rural Territories for 2014-2017 and for the Period up to 2020" came into operation (18). The new program maintains the top priority events of the previous federal target program (residential development, development of social and engineering infrastructure) as well as includes new directions: grant support of local initiatives of rural population, encouragement, and popularization of achievements in the rural development.

In 2014 the volume of the budgetary allowances allotted for "support" (probably, in this case it is necessary to use the term agricultural «development») was RUB 147.2 bln. (in 2013 it was RUB 176.2 bln.). In 2015 the federal budget provided RUB 146.4 bln., in 2016 - RUB 143.2 bln., and in 2017 - RUB 168.2 bln. (as planned within the State Program). According to the estimation of the Russian Ministry of Agriculture, the calculated additional need in subsidies taking into account the need in intensive expansion of own production up to 2020 will be RUB 580 bln.

In the short-term period the limitation of the offer caused by the embargo for importing agrofood goods from a number of countries will result in the inevitable increase in prices prolonged in time. This is an additional burden for the consumer. Besides, due to the weaker price competitiveness national products are more expensive than the imported ones. According to some experts' estimation, in 2015 prices for food increased on average by almost 15% in the country (10). The most expensive product happened to be new potatoes whose price increased by more than 60%. However, in the structure of Russians' consumption of food the share of bread products and potatoes decreases, and the consumption of meat, milk, and fruits increases. This is a rather urgent problem within the stated above.

The additional risks related to introducing embargo include potential re-export from the Customs Union and CIS countries that perform their trading activity in the free trade mode, as well as a groundless increase in prices for the goods under sanction by friendly countries Russia negotiates with about the supplies growth (11).

The consequences from the sanctions introduced against Russian banks (more expensive borrowings and difficulties related to raising them) will become an unfavorable background for investors and consequently may gain the time for implementing the conceived plans on modernizing and revving up production.

The leverage along with worsening of macroeconomic conditions and the current situation related to the deficit of funds of the federal budget to pay subsidies for agricultural producers' loans caused weakening of the investment activity of the market members.

In 2015 according to the Ministry of Economic Development of Russia the index of actual volume of investments in the basic capital in the agriculture sank by 2 percent. In the future if there is no noticeable state support, the current circumstances will maintain the investment inertia in the industry (19). In 2017 as compared to 2015 the tempo of the investments growth will make up 100-104 per cent. Table 1 shows the contribution in the growth of investments in the basic capital according to the complexes.

The index of comparative advantages of Russia for a number of exported agroidustrial products shows that the wheat, sunflower seeds, sunflower oil, macaroni products and confectionary are competitive Russian goods on the world market. Cattle meat and dairy products have weak competitive positions together with relatively high import dependence. As for rice, potatoes, rape plants seeds, and poultry meat, it is possible to strengthen the specialization of the country in the world system and reduce import dependence (20).

Table 1.
Contribution in the Growth of Investments in Basic Capital According to Complexes, percentage point

Indicator	2015		2016		2017	
	1	2	1	2	1	2
Investments in basic capital in total for economy	2.0	7.2	1.6	4.6	2.9	6.1
Fuel and energy complex	1.4	1.9	-1.9	-1.0	-1.5	-0.5
Transportation (excl. pipeline)	0.3	3.5	1.3	2.0	0.9	1.9
Agro-industrial complex	0.0	0.1	0.1	0.1	0.1	0.2
Education, health service	0.1	0.2	0.3	0.3	0.4	0.4
Real estate and construction complex	0.2	1.0	1.2	2.1	1.8	2.5

In the future positive tendencies in the area of plant breeding will be related to the efficient use of land resources, including by applying modern soil protective and resource saving technologies. Taking measures of the federal target program "Development of the Amelioration of Russian Agricultural Lands for 2014-2020" will allow to put the ameliorated lands into operation due to the reconstruction, technical re-equipment, and construction of new ameliorative systems, to protect lands from the water and wind erosion, to increase the efficiency of the existing agricultural lands, and to involve new ones in the flow, and other measures (17).

Taking into account the increase in the production, as well as the environment of the world market, prices for novel corn can decrease down to RUB 7-7.5 thous. per 1 ton in the second part of 2016. In the mid-term perspective due to the growth of the yield the production of grain can increase by 14-17% (up to 105-108 mln. tons), and the export will make up about 31-33 mln. tons. Table 2 shows the data about the grain resources and areas of its use.

Table 2.
Grain Resources and Areas of Their Use (mln. tons)

Indicator	*Report*		*Forecasting*		
	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
Grain resources – total	106.1	116.2	117.6	118.7	119.6
Production	92.4	102.0	103.0	104.0	105.0
Import	0.9	0.7	0.6	0.55	0.5
Use	92.7	102.1	103.5	104.6	105.6
Export	25.4	32.0	32.3	32.2	32.4
Internal consumption	67.3	70.0	71.1	72.4	73.1

For the purpose of developing the grain market, it is obvious that the state will continue its support aiming at modernizing the internal and export infrastructure, including within the state program through constructing the grain terminal in the Far-Eastern federal district, and adopting the federal law "On Grain Warehouses of General Use" that provides the improvement of the law in terms of using grain as bid security when crediting agricultural producers.

In the medium-term perspective the risks related to developing the grain complex still include high dependence of the production on unfavorable agrometeorological factors, simplified efficiency in agriculture (violation of crop rotation, low volume of fertilizing), and insufficiently developed export infrastructure (insufficiency of transshipment capacity in deep-water ports, limited capacity of access ways). In addition, the risk related to decreasing the rice production is possible due to the decrease in the tariff protection of these goods under conditions of the Russian membership in the World Trade Organization.

High level of profitability when selling oil-bearing crops, their considerable contribution due to the development of the modern production focused on import substitution of goods, as well as the diversification of products with a high value added as a whole stimulate agricultural producers not only to create volumes of growing traditional types of agricultural crops, their efficient processing, but also create prerequisites to assimilate crops that were less demanded earlier, for example, oil-bearing lint.

Basic risks in the beet-sugar sub-complex are related to the consequences of the sanctions introduced against a number of banks together with the strengthening of the deficit of the ruble liquidity, stiffening of the bank regulation, and limited volume of the state support. Appreciation of credit resources and difficulties to obtain them will cause a decrease in the target volumes of investments in the sugar area. Positive role in protecting the internal sugar market must be played by the customs duties for importing sugar from Moldova that signed the association agreement with the European Union. In accordance with the latter, duty-free cross annual supplies of sugar are provided.

Basic risks in beef farming will be related to prolonging terms of recompensing projects, violating terms of putting objects that are in the active investment phase into operation, and effective demand that is inadequate to the production growth.

A decrease in indicators related to milk production has been observed over the recent years. In 2014 due to the inertia tendencies the production of milk decreased by 0.5% as compared to 2013. One of the constraining factors of the branch development is still a high share of private farm holdings in the structure of milk production (48.1%). They are characterized by the use of extensive technologies of goods production. Deficient volumes can be compensated by increasing supplies of dairy products, above all, from Byelorussia that holds a considerable share in the total volume of dairy products import. Besides, it is possible to substitute the constraining volume by the exported products from the CIS countries, Asia, New Zealand, Turkey, Serbia, etc.

Herewith, there is a probability of renewing supplies of dairy products from the countries that have got into food embargo related to excluding lactose free milk from the sanction list. According to experts, a number of dairy products (ageing cheese, fermented milk products, etc.) contain little lactose that will not cause special difficulties for foreign companies to refocus their production on producing, registering and importing dairy products to the Russian market as lactose free. At the same time the import limitation will increase the probability of national products access to trading centers. It will become a stimulus for enterprises to increase production volumes.

As a result of the well-functioning systems of products sales and improved production technologies, by 2017 it is expected to increase the indicators on producing butter by 15-20% (as compared to 2014), cheese and cheese products – by 12-15 percent. The production of whole-milk products will be also supported by stable consumer needs. It will allow to increase their production volumes by 9-12 percent.

4. DISCUSSION

The obtained results of the research show that the promotion of products on the world markets is refrained by the advantages that are not yet implemented from the membership in the World Trade Organization and the Customs Union, such as low competitiveness of products under conditions of the limited state support for agriculture and non-tariff barriers created when national products are supplied abroad. In addition, as a result of political constraint, it is unlikely that there are will be negotiations on supplying Russian products to the EU countries in the nearest future. Depreciation of the ruble happened to be an expected win only for some producers of agricultural raw materials and food because a lot of market members suffer dependence on import resources supply like seeds, farm machinery, equipment, and food-producing animals.

The price competitiveness provided by the ruble devaluation worked in favor of exporters of, first of all, grain, seeds of oil-bearing plants, and agricultural oils. A positive effect from the embargo for national producers was an emerging opportunity to increase their presence on the market due to the expanding channels to sell their own agrofood products.

Over the recent years the agro-industrial sector of Russia has obviously formed basic segments where the country has competitive advantages on external and internal markets.

5. CONCLUSION

The conducted research allowed to forecast and formulate a number of offers aiming at providing food safety in the context of separate areas of the agriculture, according to types of agricultural products. Thus, additional level of the budgetary financing together with the measures of the customs and tariff and non-tariff regulation, infrastructure development, stable and financially reliable internal and external demand for agrofood in the mid-term perspective will allow to speed up the dynamics of the growth of the agro-industrial complex, to contribute to implementing the potential of areas, and to intensify the import substitution. The aggregate of the above factors may have an increasing effect on the agricultural production volume for the three years' period per 1.3 p.p., and per 4 p.p. of the food industry.

In the future we plan to continue our work in this research area and work out practical recommendations on developing new methodological approaches to monitoring food safety of regions, and mechanisms to provide it taking into account their social and economic, and natural and ecological state.

References:

Altukhov, A., 1998. Prodovolstvennoe samoobespechenie strany: sostoyanie i perspektivy [Food Self-sufficiency of the Country: State and Perspectives]. AIC: Economy and Management, 11: 28-32.

Belokrylova, O.S., 2014. Institutsionnaya modernizatsiya strategii ekonomicheskogo razvitiya v usloviyah prinuzhdeniya k importozameshcheniyu [Institutional Modernization of the Economic Development Strategy under Conditions Related to Import Substitution Compulsion]. Journal of Economic Regulation. 5 (3): 6-13.

Glotov, O.A., 2016. Prodovolstvennaya bezopasnost Rossiyskoy Federatsii: riski i ugrozy, osnovnye napravleniya gosudarstvenno-ekonomicheskoy politiki [Food Safety of the Russian Federation: Risks and Threats, Basic Area of State and Economic Policy]. Date Views 21.03.2016 cyberleninka.ru/article.

Gumerov, R.R., 2009. Kontseptsiya prodovolstvennoy bezopasnosti – osnova sovremennoy agrarnoy politiki (voprosy metodologii i praktiki) [Concept of the Food Safety is Basis of Modern Agrarian Policy (Issues Related to Methodology and Practice)]. Agrarian Russia, 5: 12-17.

Davydenko, E.A., 2015. Importozameshchenie kak rezultat otvetnyh sanktsiy rossiyskogo pravitelstva: vozmozhnosti i perspektivy dlia otechestvennyh proizvoditeley [Import Substitution as a Result of Retaliatory Sanctions of the Russian Government: Opportunities and Perspectives for National Producers]. Brand Management, 2.

Kirillov, V.N., 2016. Razvitie importozameshcheniya v RF [Development of Import Substitution in the Russian Federation]. Date Views 21.03.2016 cyberleninka.ru/article/n/razvitie-importozamescheniya-v-rf.

Kudrova, N.A., 2015. Problemy I perspektivy razvitiya ekonomiki agrarno-promyshlennyh regionov v usloviyah realizatsii politiki importozameshcheniya [Problems and Perspectives of Development of Agrarian and Industrial Regions under Conditions of Implementing the Import Substitution Policy]. Business – Science – Society Publishing House, pp: 284.

Leontiev, B.B., 2016. Importozameshchenie: vzglyad na problemu [Import Substitution: View of the Problem]. Date Views 21.03.2016 http://cyberleninka.ru/article/n/importozameschenie-vzglyad-na-problemu.

Logacheva, E.V., 2010. Prodovolstvennaya bezopasnost kak odin iz vazhneyshih pokazateley natsionalnoy ekonomicheskoy bezopasnosti v usloviyah krizisa [Food Safety as One of the Most Important Indicators of National Economic Safety Under Conditions of Crisis]. Actual Issues of Internaitonal Economic Relations, 2: 20-27.

Official Website of the Federal State Statistics Service, 2016. Date Views: 01.02.2016 www.gks.ru.

Poltarykhin, A.L., 2013. Otsenka effektivnosti realizatsii i pererabotki syriya v ramkah davalcheskoy schemy vzaimootnosheniy mezhdu partnerami [Estimation of Efficiency of Selling and Processing Raw Materials Whithin the Give-and-Take Basis of Partners' Relations].Economy of Stable Development, 15: 104-111.

Poltarykhin, A.L., 2013. Programmy sotsialno-ekonomicheskogo razvitiya kak factor povasheniya konkurentosposobnosti regiona (na primere Altaiskogo Kraya) [Programs of Social and Economic Development as a Factor of Increasing the Region Competitiveness (through the Example of the Altai Krai)].Bulletin of the Altai Science, 2-2: 179-183.

Safin, U.Z., 2010. Proizvodstvo selskohoziaystvennoy produktsii v hoziaystvah naseleniya: vosproizvodstvennye aspekty [Producing Agricultural Products in Population's

Households: Reproduction Aspects]. Economy and Management: Scientific and Practical Magazine, 1: 25.

Order of President of the Russian Federation "Ob utverzhdenii Doktriny prodovolstvennoy bezopasnosti Rossiyskoy Federatsii" ["On Approving the Doctrine of Food Safety of the Russian Federation"] of 30.01.2016 #120.

Order of President of the Russian Federation "O strategii natsionalnoy bezopasnosti Rossiyskoy Federatsii do 2020" ["On Strategy of National Safety of the Russian Federation"] of 01.07.2014 #537.

Ushachev, I.G., 2015. Importozameshchenie v APK Rossii: problemy i perspktivy [Import Substitution in the AIC: Problems and Perspectives]. FGBNU VNIIESH, pp: 447.

Resolution of the Government of the Russian Federation "O federalnoy tselevoy programme "Razvitie melioratsii zemel selskohoziaystvennogo naznacheniya Rossii na 2014-2020"" [On the Federal Target Program "Development of Melioration of Russian Agricultural Lands for 2014-2020"] of 12.10.2013 #922.

Resolution of the Government of the Russian Federation "O federalnoy tselevoy programme "Ustoychivoe razvitie selskih territoriy na 2014-2017 i na period do 2020" [On the Federal Target Program "Stable Development of Rural Territories for 2014-2017 and for the Period up to 2020"] of 15.07.2013 #598.

Shumakova, O.V., 2014. Perspektivnye napravleniya razvitiya diversifikatsii selskoy ekonomiki [Promising Areas of the Development of Rural Economy Diversification]. In the Proceedings of the 2014 Institutional Development: Economy, Management, Social Area, and Education Conference, pp: 376.

Shumakova, O.V. and , M.A. Rabkanova, 2014. Ustoychivoe razvitie selskih territoriy: sushcnhost i poniatie [Stable Development of Rural Territories: Essence and Notion]. Fundamental Researches, 8 (7): 1643-1646.