DOMESTIC SUPPORT TO AGRICULTURE IN BELARUS

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Abstract
In the Article the domestic support measures of Belarus agriculture are considered, the basic State's Programs on policy in agriculture are described; the task and targets are defined. Renewal of negotiation process on Belarus becoming WTO member and relative calculations of the eternal support for agriculture of Belarus have shown that the bigger ratio of the support is being granted within the frames of the "Amber Box". This requires to reconsider of the current mechanisms of the support to the side of increasing of the measures ratio of the "Green Box". As one of those mechanism, the narrator proposes to use "decoupled" support in agriculture. Such approach would help maintaining fertility of farmland, unique flora and fauna, climatic conditions in rural areas, making positive impact on efficiency of agricultural production.

Keywords: *agricultural, domestic support, state policy, budget transfer*

The agricultural sector plays an important role in the Belarusian economy and trade, providing for our own food security and is export oriented. Recent years witnessed growth of gross production, crop yield and animals productive efficiency, although indicators of economic efficiency are still trying to reach the 1990 level. About 1,500 large-scale commodity businesses ensure annual growth in product volumes. In addition farm enterprises are developing in the country, but their share in total volume of gross output is low corresponding to about 1%. The existing system of state support for agriculture is aimed at increasing efficiency of the sector.

In Belarus, the domestic support for agro-industrial complex is offered in the form of:

1. Direct transfer of funds from the budget;

2. Providing guarantees to meet the loan principal, issued by banks and interest on credit;

3. Full or partial waiver of collection of revenue to the budget;

4. Grace supply and provision of goods and services (reduction of tariffs for heat energy to hothouses).

Mechanism of direct budgetary transfers is structured as follows:

- State support directed at implementation of targeted programs of agro-industrial complex and large-scale investment projects, requiring involvement of considerable resources with long payback periods.

Currently the main program is the State Program for Sustainable Rural Development for 2011 - 2015: its main objectives are to improve economic efficiency of agriculture, strengthen export capacity, increase revenues of rural population, strengthening prestige of living in the countryside.

Republican and sectoral programs are implemented as part of the Program. These programs are aimed at strengthening material and technical base of agricultural production, development of selective breeding programs, seed production, stock breeding, financing governmental measures aimed at developing agriculture. Implementation of the latter has important socio-economic impacts (conservation of soil fertility, land reclamation, scientific research, anti-epizootic measures, compensations and reimbursement of interest on loans to banks as well as other activities).

The main programs in the field of animal industry are:

1. Republican Program of Development of Dairy Industry for 2010 - 2015. Objectives of this Program are to increase economic efficiency of dairy industry, based on production of competitive products, providing raw materials to processing industry, stable supply of population with high-quality dairy products, increase economic efficiency of dairy cattle due to increase in milk production, concentration of dairy livestock herds in agricultural and other organizations (their branches) with basic herd of 800 cows and more to achieve an annual average milk production at country level of at least 6,300 kilograms of milk per cow.

2. Republican pedigree program in animal husbandry for 2011 - 2015. Objective of the Program is to improve livestock breeding base and achievement of level meeting indicators of development of animal husbandry in the [industrialized] European countries, increase in genetic potential of all types of farm animals, poultry, fish and bees.

3. Republican program of reconstruction, technical re-equipment and construction of facilities to grow pigs for 2011 - 2015. The program aims to increase in volumes of pork production and improve efficiency of pig industry, as well as ensure stable supply of population and processing industry with high-quality pork produced domestically.

4. Poultry farming development program in the Republic of Belarus for 2011 - 2015. It is aimed at stable supply of population of the Republic with high-quality poultry products, providing for full cover of the needs in eggs and poultry, as well as to export these products.

In order to satisfy demand of population of Belarus in potatoes, fruit and vegetables, processed products, as well as production of competitive products for export the government adopted a comprehensive program of development of potato, vegetable and fruit production for 2011 - 2015. The program identifies a number of measures to ensure effective functioning of branches - optimization of area planted with potatoes and vegetables, establishing of industrial orchards, growing high quality and diverse fruit and vegetable products, construction and reconstruction of storage facilities, installation of lines to refine, calibrate and package products for its further marketing in the country and exporting, producing domestic raw materials and its by-products.

At the same time Belarus adopted and implemented a program to develop breeding and seed production of cereals, legumes, industrial and fodder crops for the 2008 – 2013.

Main goals and objectives of the Program are to provide for:

- a significant increase effectiveness of selection work on grain, legumes, cereals, fodder crops and sugar beet;

- an expansion of high-quality range of basic crops;

- a full satisfaction of needs of agricultural organizations in high-yielding varieties seeds;

- a increase of level of control over quality of the seed;

- a 15 - 20% increase in yield of cereals, legumes, fodder crops, flax and sugar beet varieties, based on potential, etc.

As part of the Program Belarus also offers support to everyday activities of agricultural organizations (procurement of fertilizers, plant protection chemicals, fuel and lubricants, spare parts and other inventory items).

In recent years, one of the main objectives in implementation of governmental programs in Belarus was technical modernization. New production facilities have been built, agricultural machinery procured or provided through leasing arrangements, so for these purposes manufacturers involved bank credits along with budget and own resources. This has led to an increase in liabilities and debt in agriculture and, as a consequence, the decrease in borrowing capacity of agricultural producers, which complicates attracting of additional bank loans under general terms and conditions. Therefore, based on decisions of the government agricultural producers may be granted guarantees for repayment of

loans principal and interest on credit to banks. In addition, the planned growth of liabilities reduces ability of enterprises to finance operational and investment activities which affects their efficiency. Thus in recent years the Government has adopted a number of decisions on full or partial waiver of collection of revenue to the budget in the form of:

- granting organizations deferments on tax liabilities and other compulsory payments to the national and local budgets;

- offering legal entities deferral and installment payment for agricultural machinery procured under long-term lease (leasing);

- permitting agricultural organizations arrears for economic sanctions, administrative penalties such as fines, penalties applied by the tax authorities for violations of applicable tax legislation;

In 2013 about 14.7 trillion [Belarusian] Rubles was allocated for direct public funding of agricultural sector in Belarus, which is about US$ 223 per hectare of farmland. (See Table 1). The main volume of the support goes to compensate losses of banks caused by granting preferential loans, financing of governmental programs, supply of resources used for agricultural production – reducing prices for fuel, lubricants and fertilizers, repayment of debts and credits issued under the governmental guarantee.

In 2013, in Belarus the share of direct budget subsidies in the value of agricultural products in farms of all types was 16%, which is high even if compared with some industrialized European countries.

Table 1 - Composition and Structure of the Budget, Aimed at Developing the Agricultural Sector in Belarus, in billion Rubles.

Sources of funds	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total	2,415.6	3,369.5	4,277.4	4,677.7	5,680.2	4,978.6	8,031.9	14,726.3	17,280.6
Including: Republican budget	366.7	422.5	548.3	733.6	848.8	793.4	4,315.5	7,275.7	7,875.0
National development fund					333,2	41,8			
Local budgets	571,8	1,010.2	1,599.1	1,498.4	1,879.9	1,467.8	3,716.4	7,450.6	7,567.4
Republican fund of support to foodstuff, agricultural, producers and agrarian sciences	1,477.1	1,936.8	2,055.9	2,405.2	2,618.3	2,675.6	0	0	0
Subsidies per hectare of agricultural land, in US$	125	178	220	247	232	191.2	195.2	199.0	223.1

Analysis of the level of direct budget subsidies to Belarusian agriculture evidences about high level of support. However, calculations carried out for a number of recent years have shown that rural producers have been receiving within 10-11% directly, whereas the rest of direct budget subsidies were channeled to banks to compensate for losses from granting preferential loans, to producers of mineral fertilizers, suppliers of fuel and lubricants, construction companies to reduce costs of their goods and services.

At the same time, approaches to state support in agriculture have led to what is now recognized as the problem of rising debt. By early 2014 the aggregate debt in agriculture has reached almost 65 trillion [Belarusian] Rubles, which is comparable to the total annual revenue (See Table 2).

Table 2 - Trends in amounts owed by agricultural organizations, in billion [Belarusian] rubles

Indicators	by 01.01.2011	by 01.01.2012	by 01.01.2013	by 01.01.2014
Indebtedness in Agriculture – total	26,882.4	33,579.1	50,727.3	64,936.9
Including:				
creditor indebtedness	11,043.5	14,711.3	22,897.4	33,007.4
indebtedness under credits and loans	15,838.8	18,867.8	27,829.9	31,929.5
Accounts receivable	1,742.5	2,680.3	4,488.7	4,277.5
Receipts from sales of agricultural products	16,515.5	30,630.5	616,489.2	69,283.0

As already noted, growth of financial liabilities was caused by the state policies measures aimed at upgrading material and technical base within the framework of governmental programs. On the one hand, such policy had led to positive results - implementation of the State Program of Rural Development for 2005-2010 resulted in putting to a stand decline in production, stabilizing development of agricultural sector to ensure sustainable food security of the country and setting up potential for food export. As a result of implementation of the said program Belarus has established a good production and technical capacity for sustainable development of agriculture. Thus, in absence of rich natural resources in the country, this sphere has become one of the major growth and export generating. In particular, agriculture is the basis for development of other industries (processing, light industry, machinery, etc.), which taken together form material well-being of population and the country in general. Sustainable development of agro-industrial complex and its competitiveness in domestic and foreign markets provide for food security in the country due to own production, as well as permanent increase of export potential.

On the other hand, to achieve its expected results the Program attracted budgetary resources, bank loans that led to a sharp increase in debt. At the same time, there is a serious problem of preserving and enhancing the created potential, which is also impossible without investment - land with poor quality soils require permanent support of fertility, large-scale renovation of material and technical base of agriculture should be maintained, bank loans obtained for the purposes implementation of the Program require repayment and servicing.

At present Belarus is a member of the Common Economic Area (together with Russia and Kazakhstan). This has led to emergence of a number of mutual obligations, inter alia harmonization of domestic support to agriculture that remains the most acute, because other member states, having referred to high level of support in Belarus demanded its phased reduction. In addition, accession of the Russian Federation to the WTO increased adverse effects of foreign competition in the Belarusian agricultural sector, which raises the need for measures to protect domestic production. Russia's accession to the WTO has led to the fact that Russian producers were free to sell their products to other countries on the WTO terms and conditions, equal for all its members. At the same time, Russia has completely opened its markets for imported goods, and in the absence of borders with the Republic of Belarus these goods with no obstacles would emerge at the Belarusian market. This put domestic producers at disadvantage because our country is not a member of the WTO, and in turn, is unable to supply its products to other WTO countries on a parity basis.

Thus, Belarus faces new challenges in the process of international economic integration. In 2013, Belarus has resumed negotiations to access the WTO. In the process of developing its negotiating position corresponding calculations have been made on domestic support to agrarian sector, which showed a discrepancy in the order it is rendered and the international requirements.

To carry out these calculations [experts] used a concept of internal support to agro-industrial complex as an assistance, which is offered to subjects of agro-industrial complex through direct and indirect

support measures, including additional preferences to agriculture arising from the governmental policy. Internal support to agro-industrial complex is a part of the socio-economic policy of the state and is aimed at its sustainable social and economic development, creating conditions for improving efficiency of agriculture, harmonious land use and management, enhancing living standards of rural population.

Calculations have shown that most of support (90%) to the agro-industrial sector in Belarus is a measure of "amber box", which according to the WTO requirements should be reduced and only about 10% was directed to measures of no distorting effect on trade (the so-called "green box").

According to the Belarusian side, the following support measures were referred to the latter:

✓ funding of agrarian educational institutions at the Ministry of Agriculture and Food of the Republic of Belarus, as well as the centralized funding of educational and experimental farms, businesses and institutions of the Department of Agricultural Sciences of the Republic of Belarus National Academy of Sciences: research institutes, experimental facilities and research stations, and funding for retraining and skills enhancement in agriculture;

✓ funding for development of peasant entities (farms) within the framework of State Program of Rural Development and funding of the program "Conservation and Use of Reclaimed Land". As part of activities to develop peasant entities (farms) resources were allocated to support farmers, including to design work for land allocation and primary arrangement of the farm (construction of roads, power lines and radio, facilities for water supply, natural gas, etc.)

✓ funding for reclamation and water infrastructure construction within the framework of the Republican Program "Conservation and Use of the Reclaimed Land";

✓ fiscal costs of measures to combat animal diseases and plant pests, including anti-epizootic and quarantine measures, and conducting anti-TB activities;

✓ financing advisory and extension services, inter alia allocation of funds to facilitate transfer of information and research results to producers and consumers include financing of automated information systems for regional agricultural and foodstuffs directorates, district agricultural and foodstuffs departments and agricultural organizations.

✓ budgetary expenditures for inspections, including inspection of individual products for health care system, safety, quality sorting or standardization (design and construction documents, examination of horticultural products under the State program of development of fruit growing, agro-chemical examination of soils, procurement of laboratory equipment for testing animals, feed and food, funding for variety testing for patentability and testing of crops.

✓ establishing food reserves corresponds to paragraph 3 of Schedule 2 to the Agreement on Agriculture and meets the criteria of national food security, as it is directed to setting up reserves, intended to stabilize supply of agricultural products to the market (foodstuffs, seeds and feed) in cases of natural disasters and other force majeure. In this sphere during the considered period the budget compensated costs for creating and storing the state grain reserve.

✓ funding environmental programs: the State is funding procurement dolomite and activities on liming of agricultural land in the territories contaminated as a result of the Chernobyl nuclear power plant accident, which, in combination with increased doses of mineral fertilizers and microelements allows increasing protective properties of plants and contributes to obtaining environmental safe products.

✓ complex of activities funded by the state to introduce lime to acid soils includes liming in collective, state farms and other agricultural enterprises, including costs of lime and railway tariff, cost of transport by road, introducing fertilizers into soil, as well as costs of soil and agro-chemical surveys and making design and estimate documentation for these activities.

✓ funding of regional aid: under the state program for overcoming the Chernobyl disaster consequences and environmental rehabilitation of areas contaminated with radio nuclides and creating

conditions for economic activities without any restrictions for radiation factor funding was allocated to provide for safe conditions of production on contaminated land i.e. to maintain radiation monitoring system and ensure additional set of clothing and personal protective items.

To calculate the level of domestic support subject to reduction (measure of "amber box") aggregate measure of support (AMS) was used - annual amount of support in monetary terms in respect to any agricultural product intended for main agricultural producers or non-specific product support aimed at agricultural producers in general. This indicator allows establishing the total quantitative estimate in monetary terms of the support or subsidies, which are offered to the national producers in each category of agricultural products. In the calculations the aggregated AMS included AMS with reference to a product, product-non-specific AMS.

In the investigated period the AMS-bound products included the following transfers:

✓ price support. Average procurement prices were used as an applied regulated price. The mechanism of application of purchase price to agricultural commodities is: the authorized state bodies determine the price level below which the procurement agencies and processing enterprises cannot purchase products from agricultural producers. Quantitative restrictions (quotas) the sale of products at purchase prices are not envisaged, so the claimed production subject to it is the actual volume of sales at purchase prices. Average CIF price (imported products) or FOB (exported products) shaped in each considered calendar year were used as reference world prices;

✓ increments to purchase prices for sugar beet and subsidies for flax fiber supplied for the state needs;

In determining the amount of non-specific AMS all main types of support without being tied to a product based on statistical information provided by the Ministry of Finance, the Ministry of Agriculture and Food, regional executive committees, the National Bank and commercial banks have been taken into account. The following transfers were included:

✓ budgetary payments to compensate for losses of banks in connection with issuance of preferential loans to agricultural organizations. Concessional loans were allocated based on the needs in working capital for seasonal needs, advancing procurement of crop production, down payment for leasing of agricultural machinery and other purposes;

✓ partial or full budgetary reimbursement of energy costs - payment of arrears of agricultural enterprises for energy ([natural] gas, electricity), reduction of cost of fuel and lubricants, as well as compensation for difference in cost of [natural] gas and electricity as these are supplied to agricultural products at a reduced price;

✓ budgetary payments to compensate for cost of procurement of fertilizers, seed, feed, crop protection - state budget expenditures to procure or reduce costs of seeds, fertilizers and other logistical resources that agricultural enterprises use for primary production;

✓ partial or full fiscal compensation of costs of procuring and repairing of machinery - budget expenditures for repairing complex agricultural machinery at specialized repair facilities, as well as procurement by the state budget and gratuitous transfer of agricultural machinery to companies, which due to the critical financial situation could not perform upgrade of technical potential at their own expense;

✓ budget expenditures to reduce prices of leased equipment, to compensate for bank losses caused by issuing preferential loans to procure agricultural equipment on leasing terms, to procure tractors, agricultural machinery and leased equipment;

✓ state support to livestock breeding and poultry farming. Within the framework of the State pedigree programs in livestock breeding budget resources were allocated to create conditions for growing highly productive animals, reduce cost of pedigree cattle, to conduct special activities in breeding business, monitoring and evaluation of breeding value on its own productivity and quality of offspring by genetic examination of pedigree animals, etc.;

✓ state support for elite seed production. Within the framework of development of breeding and seed production of cereals, legumes, industrial and fodder crops budget expenditures were directed to purchase seeds of high reproductions, procured by agricultural organizations for routine variety change and strain renovation;

✓ budget subsidies to maintain on-farm reclamation network, including repair, maintenance and improvement actions, re-seeding polder lands based on funding "Conservation and Use of the Reclaimed Land" program;

✓ budgetary payments to compensate premiums on mandatory insurance of crops, livestock, poultry - costs to pay 95% of insurance premiums under the compulsory insurance of crops, livestock and poultry, based on the Decree of the President and the Resolutions of the Government of the Republic of Belarus;

✓ budget financing of costs of retrofitting and repairing vegetable and potato storage facilities, energy-efficient greenhouses, construction, renovation and procurement of equipment for poultry farms, dairies, dairy farms, etc.;

✓ other budgetary expenditures;

✓ state guarantees of fulfillment of obligations of agricultural commodity producers. Support was calculated based on the average insurance rate for voluntary insurance of credit default risk in the insurance market of the Republic of Belarus for the relevant period of time;

✓ deferment (installments), execution of guarantees and writing off performance of obligations for agricultural producers. This category of support included budgetary funds allocated to deferment (installments), execution of state guarantees and writing off liabilities of agricultural producers;

✓ funding creation of new industries, construction of innovative facilities, technical re-equipment of production facilities of agricultural organizations using the Innovation Fund's resources;

✓ debt relief. Organizations, which have acquired through reorganization, purchase, donation of enterprises as property complexes of agricultural organizations received rights and obligations of these organizations like deferment (installments) of repayment, as well as possibility of writing off debts of the acquired agricultural organizations related to payments to the budget, repayment of accounts payable, loans, lease payments, etc.;

✓ supply of resources consumed in agriculture, according to the administratively set prices (support provided in the form of granting tariff preferences for resources provided to agricultural organizations, in particular, fertilizers and electricity).

Thus, the structure of domestic support for agricultural sector in Belarus based on the WTO classification is presented in Figure 1.

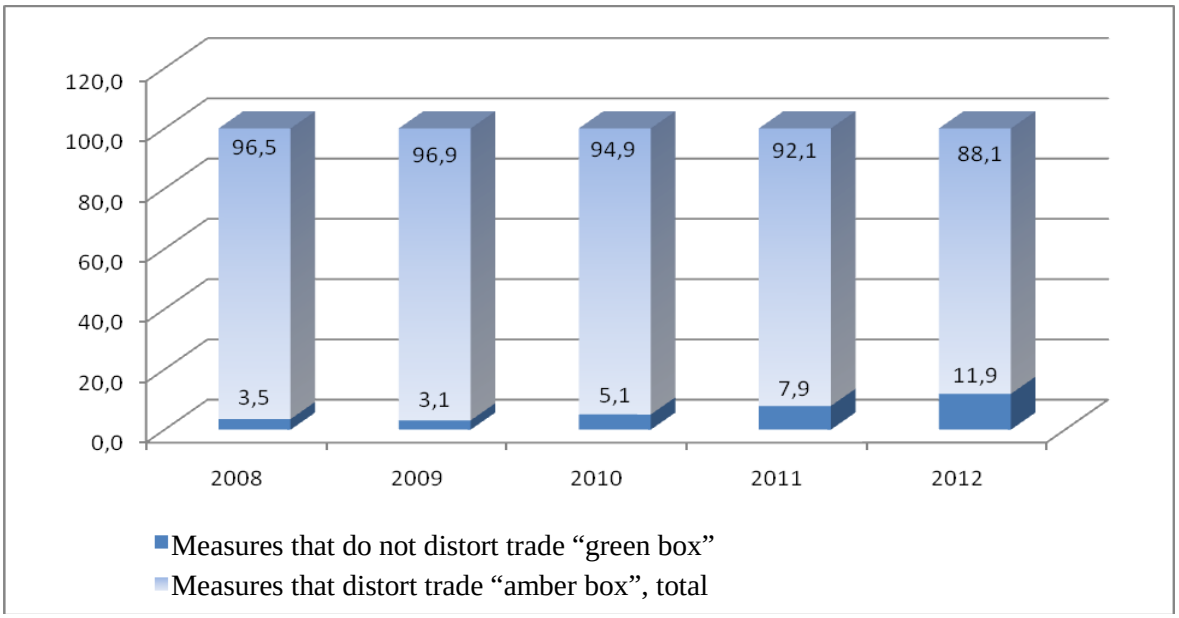


Figure 1 – Structure of home support to agriculture in Belarus

As it has already been noted, obligations under the Common Economic Area, as well as the intentions of the Republic of Belarus to access the WTO require adjusting support measures in line with international standards, as well as the reducing domestic support measures that have a distorting effect on trade. However, in the coming years the reduction of agricultural support, as required by our partners in the Common Economic Area could lead to the decline in production, reduce efficiency of agricultural enterprises and deteriorate their financial stability. All this taken together makes it necessary to preserve internal support to the agrarian sector of Belarus, which aims to achieve the main goal - improving sustainability of agricultural production and rural areas of the country, maintaining potential of rural employment in the agricultural sector and ensuring food security.

Therefore, in order to fulfill our obligations under the Customs Union, to reduce negative consequences of Belarus accessing the WTO and to prevent reducing total agricultural support is necessary to develop new support mechanisms in accordance with world standards. It is necessary to restructure the "amber box" measures by increasing the "green box" measures in the total budgetary transfers to agriculture in accordance with the World Trade Organization principles and provisions of the Agreement on Uniform Rules of the Governmental Support to Agriculture. One of the directions of restructuring support may be a mechanism offering direct payments made per unit area of land. It should be noted that direct payments per unit area of land are subsidies of "decoupled" support to agricultural producers and based on classification would be referred to measures of "green box", which will also reduce the amount of measures in the "amber box".

Decoupled support should be provided, subject to compliance by recipients of this type of support with veterinary and phytosanitary requirements, environmental protection standards, as well as conditions to maintain fertility and quality of soils on a level at least as the one that is fixed.

Such approach would help maintaining fertility of farmland, unique flora and fauna, climatic conditions in rural areas, making positive impact on efficiency of agricultural production and, as a consequence, conservation of agricultural areas for living and maintaining ethnic culture, as well as development of market economic management mechanism, providing for increased efficiency of agricultural production, development of entrepreneurship, attraction and rational use of investments in rural areas.

Thus, accession of Belarus to the WTO would assist in avoiding disagreements with the countries-members of the Common Economic Area in the field of domestic support to agriculture, to accept the WTO terms that are putting manufacturers of Belarus and Russia into more equal footing, to alter the

mechanism of internal support of agriculture to the world standards. In this case Belarus has the ability to maintain the total volume of agricultural support, subject to drastic changes in the existing legislation in the sphere of state regulation of the agrarian sector.

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