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Report to the Chairman, Committee on Agriculture, Nutrition, and Forestry, and the Honorable Dennis DeConcini, U.S. Senate

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Agricultural Reform and Food Situation in Its Successor States

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The Honorable Patrick Leahy
Chairman, Committee on Agriculture,
Nutrition, and Forestry

The Honorable Dennis DeConcini
United States Senate

This report responds to your request that we provide information on agricultural reform and the food situation in the successor states to the former Soviet Union. We are also providing information on the amount and distribution of U.S. credit-guaranteed food imports purchased by the former Soviet Union and its successor states, and the impact of these food imports on the implementation of agricultural reforms.

We plan no further distribution of this report until 30 days from the date of this letter unless you publicly announce its contents earlier. At that time, we will send copies to the Secretaries of Agriculture, State, and the Treasury, as well as to interested congressional committees. Copies will also be made available to others upon request.

Please contact me on (202) 512-4812 if you or your staff have any questions concerning this report. The major contributors to this report are listed in appendix V.

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Executive Summary

Purpose

In late 1991, the Soviet Union was dissolved, and the newly independent states (NIS) that succeeded it have been attempting to transform their Soviet-era command economies into more efficient market-based economies. As part of this effort, the NIS are trying to make changes in their agricultural sectors, including the privatization of food production, processing, and distribution. The success of these agricultural reforms will be instrumental in reducing the dependence of the NIS on food imports, and, in particular, their reliance on export credit guarantees from the United States and other countries.

In light of these developments, the Chairman of the Senate Committee on Agriculture, Nutrition, and Forestry, and Senator Dennis DeConcini, asked GAO to assess (1) the status of agricultural reforms in the NIS; (2) the relationship, if any, between U.S. credit-guaranteed food exports to the NIS and agricultural reform in these countries; (3) the amount of U.S. credit guarantees provided to the former Soviet Union, and whether food provided under the guarantees was distributed equitably among its republics; and (4) the food situation in the NIS.

Background

The former Soviet Union and its successor states represent one of the largest agricultural markets in the world and have long been a major export market for U.S. agricultural commodities, especially grains. Historically, the Soviet Union purchased U.S. agricultural commodities on a cash basis. But by late 1990, the Soviet Union lacked the hard currency assets to continue such purchases. Accordingly, in order to maintain the U.S. share of this market, in December 1990, the U.S. Department of Agriculture (USDA) began providing export credit guarantees to the Soviet Union for purchasing U.S. agricultural commodities.

USDA's General Sales Manager (GSM)-102 Export Credit Guarantee Program, which is administered by the Foreign Agricultural Service, enables foreign countries short of hard currencies to buy U.S. agricultural exports by securing commercial loans guaranteed by the U.S. government. The GSM-102 program requires repayment within a period of 12 to 36 months. Since the dissolution of the Soviet Union, USDA has provided export credit guarantees to several NIS. Russia has received most of these guarantees.

Between December 1990 and September 1993, USDA allocated $5.135 billion in GSM-102 credit guarantees to the former Soviet Union or the NIS. Most of this amount was made available before 1993. During the fourth quarter of 1992, Russia began defaulting on scheduled GSM-102 payments due for the

former Soviet Union and Russia. As a result, Russia was suspended from the program. By the end of September 1993, net defaults totaled nearly $1.13 billion. At that time, the United States signed an agreement with Russia to reschedule $1.07 billion of GSM-102 debt, including a considerable amount of arrears. Russia is required to repay approximately $444 million in unrescheduled arrears in three installments by the end of the year. As of mid-November 1993, Russia had paid the first installment on these arrears, totalling $149 million.

Results in Brief

Based on GAO visits to five NIS—Belarus, Kazakhstan, Russia, Ukraine, and Uzbekistan—and according to USDA and other sources, implementation of agricultural reforms has generally proceeded slowly in these and other NIS. In addition, some reforms that were already announced by several NIS have been partially rescinded.

NIS credit guarantee-assisted food imports from the United States and other countries may hinder agricultural reform in the NIS by prolonging the existence of state-owned enterprises that process and distribute this food. Ultimately, NIS reformers seek to privatize most food processing and distribution. These food imports may also allow state-owned enterprises to delay reforms necessary to stem food waste associated with inefficient food processing, storage, and transport. Further, credit-assisted food imports may hinder NIS agricultural production by keeping prices down for NIS domestically produced food. GAO was not able to quantify any of these effects, however. In addition, some NIS officials said that credit-assisted food imports benefit the overall economic reform process in the NIS by preventing food shortages in their countries that could be politically and socially destabilizing.

Because USDA regards the provision of export credit guarantees to the NIS as a commercial, rather than a concessional, transaction, it does not attach conditions to these guarantees related to progress in implementing agricultural reforms. However, some NIS and other officials believe that placing conditions on these credit guarantees is necessary to move the NIS reform process forward while meeting NIS food needs.

Before the Soviet Union was dissolved, USDA had announced that $3.75 billion in credit guarantees were available to this country under the GSM-102 program. NIS and USDA officials said that the distribution of the food imports associated with these guarantees among the former Soviet

republics was generally equitable. Legislation authorizing the GSM-102 program did not require USDA to monitor this distribution.

According to officials in the NIS visited by GAO, food supplies were generally adequate in their countries during 1991-92. However, shortages were experienced for some items, such as feed grains, dairy products, and baby food. In addition, food affordability became a serious concern for many citizens in these countries during 1992, as food prices increased much more rapidly than wages. Food affordability remains a problem in 1993.

Principal Findings

Status of Agricultural Reforms

The NIS have generally made slow progress in carrying out agricultural reforms, with variations among these countries as to what has been accomplished. These reforms have typically included the freeing of food prices; the restructuring of state and collective farms; and the privatizing of food processing, wholesale and retail trade, and transport enterprises. Russia has generally taken the lead in implementing such reforms.

Progress in reforming NIS agricultural sectors has been slow in part because NIS governments fear the political and economic disruptions associated with rapid change. Also, some persons with vested interests in the old command system are resisting change, and state and collective farm workers have shown reluctance to become private farmers.

In some cases there has been partial retrenchment on reforms already implemented. For example, in 1992 and 1993 the Russian government reintroduced subsidies for some agricultural producers and consumers, largely in response to political pressures to ease the transition of the food sector in that country to a market basis.

Relationship Between Credit Guarantee-Assisted Food Imports and Agricultural Reform

Although GAO could not quantify the relationship between credit guarantee-assisted food imports and NIS agricultural reform, these food imports may hinder this reform process. Because these food imports are generally purchased, processed, and distributed by state-owned enterprises, U.S. export credit guarantee assistance may actually prolong their survival at a time when NIS reformers seek to privatize food

processing and distribution. At the same time, however, some NIS officials said that credit-assisted food imports help to preclude food shortages in their countries that could threaten the political and social stability needed for the overall economic reform process to go forward.

USDA considers GSM-102 to be a commercial, rather than a concessional, loan program; therefore, it does not attach conditions, such as progress in implementing reforms, to the award of credit guarantees to the NIS. Nevertheless, some NIS and other officials said that conditional credit guarantees are needed to prod the NIS reform process. For example, a Russian parliament official said that providers of credit guarantee-assisted food exports to his country should attach conditions to these guarantees requiring elimination of Russia's monopolistic and inefficient state food sector. According to this official, such conditions are necessary because sufficient impetus for change does not exist from within this state food sector.

Amount and Distribution of Credit Assistance to the Soviet Union Before Its Dissolution

Under three separate protocols, or agreements, the United States agreed to make available $3.75 billion in GSM-102 export credit guarantees to the Soviet Union before it was dissolved. Under the first two protocols, which totaled $2.5 billion, the food purchased by the former Soviet government was distributed based on its assessment of the needs of each republic. Under the third protocol, a $1.25-billion package signed in November 1991, the food purchased was generally distributed in accordance with a formula agreed to by the republics later that same month.

According to NIS and USDA officials, the distribution among the republics of credit guarantee-assisted food imports from the United States was generally equitable. However, USDA did not have the staff to monitor this distribution, nor was it required to under the GSM-102 program's guidelines. NIS and USDA officials noted only one confirmed and unplanned exception to the distribution called for under the interrepublican formula: 42,000 metric tons of GSM-102 grain designated for Armenia were seized by Azerbaijan.

The Food Situation in the NIS

While starvation was not a concern in the NIS visited by GAO during 1991 and 1992, according to NIS officials and other sources, shortages of feed grains, dairy products, and baby food occurred. Some of these shortages were the result of declines in agricultural production, lower sales of agricultural commodities by NIS farms to state procurement agencies, and

decreased food imports. Among the regions that experienced the most acute scarcities were large urban and industrialized areas, and rural villages.

Because of the attempted transition to market-based economies, food prices in the NIS visited rose dramatically during 1992. At the same time, incomes and pensions did not rise to keep pace with these price increases. As a result, many citizens in these countries have had to change the mix of foods in their diets, substituting, for example, less expensive potatoes or bread for meat. In addition, vulnerable population groups, such as pensioners, orphans, and the unemployed, are finding it increasingly difficult to afford all the food they want or need. These vulnerable groups are especially at risk because the NIS visited lack comprehensive safety net programs to address their needs.

Recommendations

This report contains no recommendations.

Agency Comments

GAO discussed the contents of this report with USDA officials in July and August 1993. These officials included the Deputy Director of the Program Development Division and the Coordinator and Deputy Coordinator of the Emerging Democracies Office in USDA's Foreign Agricultural Service, and the Leader of the Former Soviet Union Section in USDA's Economic Research Service. These officials provided additional information and a number of clarifications that have been included in the report.

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Abbreviations

EC	European Community
EEP	Export Enhancement Program
GAO	General Accounting Office
GSM	General Sales Manager
IMF	International Monetary Fund
mmt	million metric tons
NIS	newly independent states
USDA	U.S. Department of Agriculture
USSR	Union of Soviet Socialist Republics

Background

The former Soviet Union was the world's largest producer of wheat and one of the world's largest producers of grains overall. It was also a major producer of potatoes, sugar beets, cotton, and sunflowers. Despite its vast production of crops, however, the former Soviet Union was a net importer of food. Its imports averaged just under $20 billion per year, about half of which was for grains and sugar. The need for such extensive imports has continued since the dissolution of the Soviet Union in December 1991.

Extensive food imports were and continue to be necessary because the successor states, or newly independent states (NIS), to the former Soviet Union[1] are unable to efficiently harvest, store, process, and distribute much of what is grown in their countries.[2] Difficulties associated with each of these steps in the NIS' food production system combine to create huge losses due to spoilage after crops are initially produced. For example, approximately 25-30 percent of grain and 30-50 percent of potatoes and vegetables produced in the former Soviet Union and its successor states is lost annually because of these problems. Moreover, in absolute terms, aggregate NIS annual grain loss on average is about 30-40 million metric tons (mmt),[3] which is roughly equal to the size of aggregate NIS annual grain imports.

In addition, from 1972 to 1991, the Soviet Union's import practices were a significant variable in world grain markets. Since then, the high level of grain imports of its successor states continues to influence world grain markets. Moreover, over the years there was a relationship between reduced U.S. food exports to the former Soviet Union and poor performance in the U.S. farm sector. Conversely, large food exports to the former Soviet Union helped raise U.S. farm prices and reduce government outlays and food stocks.

[1]At the time of its collapse, the former Soviet Union consisted of 15 republics—Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Each of these is now an independent, sovereign nation.

[2]According to a U.S. Department of Agriculture (USDA) official, some NIS will likely continue to require some food imports, even if food handling and distribution inefficiencies are reduced. This official said, for example, that food production in Armenia and Kyrgyzstan is constrained by their mountainous topographies, necessitating food imports.

[3]A metric ton equals 1.1 tons or 2,200 pounds.

Historically, the Former Soviet Union and Its Successor States Have Been a Lucrative Market for U.S. Bulk Food Exports

From 1972, when it decided to upgrade its consumer diet, until its dissolution in 1991, the former Soviet Union was a major customer for U.S. bulk agricultural commodities,[4] especially for wheat and feed grains.[5] This relationship was fostered, in part, by a series of U.S.-Soviet Long Term Grain Agreements,[6] under which the Soviet government agreed to make certain minimum annual purchases of wheat and feed grains from the United States. Also under the agreements, the U.S. government, for its part, agreed to facilitate the sales of these commodities at prevailing market prices for a set number of years.

Although an important market for U.S. agricultural exports, the former Soviet Union was also a volatile one. For example, during the 1980s the Soviet Union's annual imports fluctuated between a low of 15.4 percent and a high of 26.5 percent of the world wheat and feed grain trade, and between 6.5 percent and 23.5 percent of U.S. trade in these commodities. U.S. annual sales to the Soviet Union varied in response to a variety of factors, including fluctuations in Soviet agricultural production, the nature of the U.S.-Soviet political relationship, and competition from other exporters of agricultural commodities. Table 1.1 shows U.S. wheat, corn, and soybean exports to the former Soviet Union for 1971-91 as a percent of total U.S. exports of such commodities. Table 1.2 depicts the value of U.S. exports of wheat, corn, soybeans, and soybean meal to the former Soviet Union/successor states for 1987-92.

[4]Bulk commodities include unprocessed grains and other raw agricultural products that do not require specialized transportation.

[5]Feed grains include corn, sorghum, barley, and oats, as well as feed wheat and feed rye. Feed grains are used as fodder for domestic animals such as cattle, chickens, horses, and sheep.

[6]From 1976 to 1990, the U.S.-Soviet Long Term Grain Agreements provided the framework under which most agricultural trade between the two countries took place. During that period, the U.S. and Soviet governments signed three such agreements and several extensions. These agreements were intended to provide some stability to annual grain purchases made by the former Soviet Union from the United States. According to USDA officials, after 1990, Long Term Grain Agreements no longer played a role in U.S.-Soviet agricultural trade.

Table 1.1: U.S. Wheat, Corn, and Soybean Exports to the Former Soviet Union as a Percent of Total U.S. Exports of Such Commodities, 1971-91

Years	Wheat[a]	Corn	Soybeans[b]
1971-75	9.1	7.5	0.9
1976-80	9.3	15.0	3.8
1981-85	11.6	15.0	1.3
1986	0	10.3	6.8
1987	12.0	11.5	0.9
1988	14.8	17.2	3.1
1989	13.0	30.2	1.5
1990	13.4	17.4	1.6
1991	12.0	23.4	3.9

Note: Percents calculated using the value of exports in millions of dollars.

[a]Includes unmilled wheat, wheat meal, and wheat flour.

[b]Includes soybeans and soybean oil and excludes soybean flour.

Source: GAO, based on analysis of United Nations trade data.

Table 1.2: U.S. Calendar Year Agricultural Exports to the Former Soviet Union/Successor States, 1987-92

Dollars in millions

Commodity	1987	1988	1989	1990	1991	1992
Wheat	$393	$755	$827	$543	$422	$940
Corn	393	962	2,135	1,101	1,231	656
Soybeans	43	164	82	61	167	54
Soybean meal	58	246	389	341	500	309
All other	52	125	164	226	176	387
Total	**$938**	**$2,252**	**$3,597**	**$2,271**	**$2,495**	**$2,346**

Note: Columns may not add due to rounding. Values expressed in current year dollars (i.e., not adjusted for inflation).

Source: U.S. Department of Agriculture, Economic Research Service.

From 1972 through 1990, the former Soviet Union generally purchased U.S. agricultural exports with cash. However, by late 1990, the Soviet government, faced with increasing financial difficulties,[7] lacked the hard

[7]The former Soviet Union nearly doubled its total borrowing from the West from 1987 to 1989. In late 1989, the Soviet government increasingly fell behind on servicing the foreign debt associated with this borrowing. As a result, western creditors scaled back and then virtually halted lending to the former Soviet Union. At the same time, Soviet exports of commodities such as oil, natural gas, and precious metals fell, limiting the former Soviet Union's ability to earn foreign currencies needed to finance imports and service its debt.

currency assets needed to continue making such cash purchases.[8] Accordingly, in order to maintain the U.S. share of the Soviet market, in December 1990 USDA began offering export credit guarantees to the former Soviet Union for the purchase of U.S. agricultural commodities. After the dissolution of this country in December 1991, USDA continued to offer credit guarantees to individual NIS.

USDA's Export Credit Guarantee Programs

USDA's export credit guarantee programs allow foreign countries that are short of hard currencies to purchase U.S. agricultural commodities by securing commercial loans guaranteed by the U.S. government. Under these programs, the U.S. government agrees to reimburse U.S. exporters or their assignees, including U.S. banks or U.S. subsidiaries of foreign banks, in the event that a foreign buyer defaults on its loan obligation. USDA uses its export credit guarantee programs to maintain or expand the U.S. share of foreign markets for imported food commodities. For example, these programs help to ensure the availability of credit for countries in which additional demand for imported food commodities exists but unguaranteed credit is not available. In addition, by reducing the risk to exporters involved in selling U.S. agricultural products overseas, these programs encourage exporters to explore new foreign market opportunities.

USDA administers two export credit guarantee programs, the General Sales Manager (GSM) 102 and 103 programs, for the purchase of U.S. agricultural commodities by foreign countries. The GSM-102 program (Export Credit Guarantee Program) is a short-term loan guarantee program for transactions with repayment periods of 12 to 36 months. The GSM-103 program (Intermediate Export Credit Guarantee Program) is an intermediate-term loan guarantee program for transactions with repayment periods of greater than 3 but not more than 10 years.

Generally, U.S. exporters or their assignees must assume some of the risk of loan default with USDA under both credit guarantee programs. Typically, USDA's Commodity Credit Corporation, which administers the programs, guarantees 98 percent of the principal due plus a portion of the interest amount due. Thus, the exporter or its assignee is at risk for only 2 percent of the principal and a portion of the interest payable. However, the Commodity Credit Corporation has the flexibility to adjust the amount of the guarantee up to 100 percent of the principal plus an amount of the

[8]Hard currencies, such as U.S. dollars or German marks, are those currencies typically accepted by a wide range of nations as mediums of exchange for international trade. Hard currencies are also used by countries to settle their foreign debts.

interest payable equal to the prevailing rate for 52-week U.S. Treasury bills.

The Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624), also known as the 1990 Farm Bill, prohibits the Commodity Credit Corporation from issuing export credit guarantees for food purchases to any country that the Secretary of Agriculture determines cannot adequately service the debt associated with such a sale.[9] The act also stipulates that export credit guarantees cannot be used for foreign aid, foreign policy, or debt-restructuring purposes.

From December 1990 to September 1993, USDA announced that a total of $5.965 billion in GSM-102 export credit guarantees were potentially available to the former Soviet Union or the NIS. As of September 30, 1993, $5.135 billion of this amount had been allocated by USDA for actual sales of commodities. According to a USDA official, the remaining $830 million announced but not allocated is no longer available for allocation.

In the fourth quarter of 1992, Russia began defaulting on scheduled GSM-102 payments due as a result of debt incurred by the former Soviet Union and Russia. As a result of these defaults, Russia was suspended from the program. By the end of September 1993, net defaults totalled nearly $1.13 billion, and the Commodity Credit Corporation had paid out $1.1 billion in net claims to U.S. banks that had made the loans. On September 30, 1993, the United States signed an agreement with Russia to reschedule $1.07 billion of GSM-102 debt, including a considerable amount of the arrears. The agreement requires Russia to repay approximately $444 million of unrescheduled arrears in three installments by the end of 1993. As of mid-November 1993, Russia had paid the first installment on these arrears, totalling $149 million. A more detailed discussion of the credit guarantee assistance offered to both the former Soviet Union and the NIS, including the commodities involved, is contained in appendix I.

[9]The 1990 Farm Bill amended the Agricultural Trade Act of 1978.

NIS Are Undertaking Economic Reforms, Including Agricultural Reforms, to Move Their Economies to a Market Basis

Most of the NIS are undertaking reforms designed to improve the productivity and efficiency of their agricultural sectors, including the processing and marketing of food. These reforms are being undertaken in conjunction with overall economic reforms designed to restructure their economies from a command basis to a market basis. Agricultural reforms being attempted by the NIS include freeing food prices from regulation; restructuring unprofitable state and collective farms; and privatizing food production, wholesale and retail trade, processing, storage, and transport. (NIS agricultural reforms are discussed in greater detail in ch. 2.)

According to a report prepared by World Bank officials,[10] appropriate decisions in any economic sector, including agriculture, require well-functioning, competitive markets in which individual producers, consumers, and traders pursue their own interests and transact their business on mutually agreeable terms. This situation in turn implies that prices must be free to move in response to these forces. Under the command-based economy of the former Soviet Union, however, the state set prices, controlled the allocation of inputs, subsidized enterprises without regard to their efficiency, and directed production. These actions resulted in a highly inefficient economy plagued by low productivity, increasing budget deficits, rising inflation, and shortages of many goods.

Carrying out agricultural reforms successfully will be integral to reducing the dependence of the NIS on foreign food imports. As discussed, the former Soviet Union and its successor states have had to import millions of tons of grain and other food at a cost of billions of dollars annually mainly because so much of their own domestically produced food is wasted. However, if waste in their agricultural sectors can be eliminated, the NIS will not only reduce their dependence on imported food, but also will significantly lessen the prospect of future food shortages. Such shortages could lead to political and social unrest, a possibility that could threaten the entire reform process in these countries.

According to a USDA report,[11] the restructuring of NIS economies, including agricultural sector reform, is apt to be a painful process manifested in the large-scale bankruptcies of inefficient enterprises, rising unemployment, and declining economic growth in the short run. For example, changing NIS

[10]Food and Agricultural Policy Reforms in the Former USSR, An Agenda for the Transition, The World Bank (Washington, D.C.: Sept. 1992). Note: The findings and conclusions contained in this report represent the views of its authors, but not necessarily the views of the World Bank.

[11]Former USSR International Agriculture and Trade Report, Situation and Outlook Series, USDA, Economic Research Service (Washington, D.C.: May 1993).

economies so that producers respond to consumers' rather than planners' desires for goods could reduce output for certain industries. In the long run, however, this report concluded that the fundamental restructuring of NIS economies to a market basis will likely lead to more efficient economies, higher standards of living for NIS citizens, and a greater variety of goods for consumers. Further, in the long term, viable market economies in the NIS could offer lucrative trade and investment opportunities for U.S. firms.

Yet, according to another USDA report,[12] no economic program, regardless of its technical merits, is worthwhile if it provokes political and social resistance that threatens the entire reform movement. Ultimately, according to this document, the pace and fate of reform in the NIS depend on how much short-term hardship the population is willing to tolerate in expectation of a better future.

Objectives, Scope, and Methodology

The Chairman of the Senate Committee on Agriculture, Nutrition, and Forestry, and Senator Dennis DeConcini, asked us to examine U.S. food exports to the former Soviet Union and its successor states provided through USDA's GSM-102 Export Credit Guarantee Program. Specifically, the requesters asked us to assess the

- status of agricultural reforms in the NIS;
- relationship, if any, between GSM-102 credit guarantees and agricultural reforms;
- amount of U.S. credit guarantees provided to the former Soviet Union, and whether the food provided under the guarantees was distributed equitably among its republics; and
- food situation in the NIS.

The requesters also asked that we assess NIS creditworthiness in terms of their ability to repay loans associated with GSM-102 credit guarantees extended to the former Soviet Union or individual NIS. This issue is the subject of a separate GAO review.

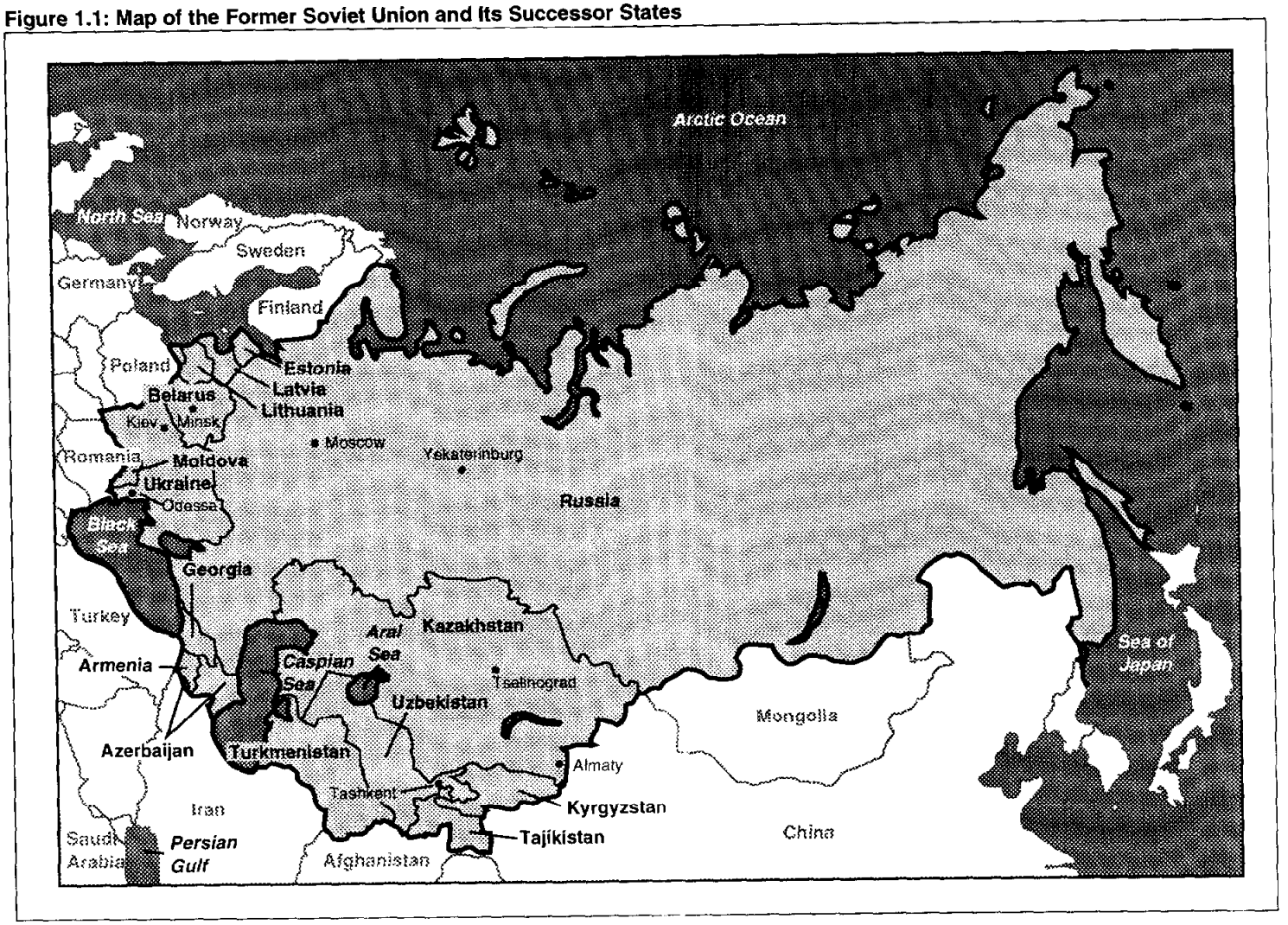
[12]Former USSR International Agriculture and Trade Report, Situation and Outlook Series, USDA, Economic Research Service (Washington, D.C.: May 1992).

To achieve the foregoing objectives, we did our work in five of the NIS: Belarus, Kazakhstan, Russia, Ukraine, and Uzbekistan.[13] Figure 1.1 shows the locations of these countries. In these countries we met with national and local government officials, industry officials, importers, entrepreneurs, directors of state and collective farms,[14] and private farmers. We also met with U.S. embassy staff in these countries.

[13]Although this report focuses on the NIS we visited, we have also included pertinent information on other NIS, as appropriate, with the exception of the Baltic states of Estonia, Latvia, and Lithuania. We did not include information on the Baltic states because they have generally declined to participate in various NIS organizations or agreements governing, among other things, coordination on economic reforms and joint purchases of food imports through the use of foreign credit assistance. We also did not include these countries in our discussion because their incorporation into the former Soviet Union was never recognized by the United States, and they are included as part of the U.S. assistance program for Central and Eastern Europe.

[14]State and collective farms tend to be large, diversified enterprises producing both crop and livestock products. In principle, state farms are state enterprises, and collective farms are cooperatives in which all the assets, except land, are owned by the members. However, these differences ceased to be meaningful in the 1970s and 1980s as procedures for paying workers and for gaining access to state credits became almost indistinguishable for the two types of farms.

Figure 1.1: Map of the Former Soviet Union and Its Successor States



Source: International Monetary Fund

The NIS visited were selected because they are the five most populous NIS, and, among the former Soviet republics, they generally were the largest contributors to the national income of the former Soviet Union. In addition, these countries were chosen because they generally are the

largest NIS producers and/or users of key food commodities such as grain, meat, milk, vegetables, and potatoes.[15]

We also did work in Western Europe and the United States. In Europe, we met with government officials in France and Germany, as well as with officials of the European Community (EC). In the United States, we met with officials of USDA's Foreign Agricultural Service and Economic Research Service, as well as with officials of the U.S. Department of State. At these agencies we also obtained and reviewed pertinent documents including correspondence, regulations, reports, and testimony.

Also in the United States, we met with officials and/or obtained pertinent documents from international organizations such as the International Monetary Fund (IMF), Organization for Economic Cooperation and Development, and World Bank. In addition, we met with and/or obtained documents from a number of private sector organizations that monitor political and economic developments in the former Soviet Union and its successor states.

We did our work between April 1992 and May 1993 in accordance with generally accepted government auditing standards. The information on NIS laws and decrees in this report does not reflect original analysis on our part but reflects the views of NIS, USDA, World Bank, or other officials. The data provided by NIS governments and others were not independently validated.

As requested, we did not obtain written agency comments on a draft of this report. However, we discussed the contents of this report with USDA officials in July and August 1993. These officials included the Deputy Director of the Program Development Division and the Coordinator and Deputy Coordinator of the Emerging Democracies Office in USDA's Foreign Agricultural Service, and the Leader of the Former Soviet Union Section in USDA's Economic Research Service. These officials provided additional information and a number of clarifications that have been included in the report.

[15]Three of these countries—Russia, Kazakhstan, and Ukraine—accounted for more than 85 percent of the former Soviet Union's grain production. They also accounted for 80 percent of that country's grain usage because of their relatively large populations and preeminence in livestock production. Unlike Kazakhstan and Ukraine, however, which were usually net exporters of grain to their neighbors, Russia was a net importer despite being the largest grain producer among the former republics.

Status of NIS Agricultural Reforms

Since the dissolution of the Soviet Union, agricultural reforms in the NIS have proceeded slowly, with variations in progress among the states.[1] Reforms being considered or undertaken in these states include the liberalizing of food prices; restructuring of state and collective farms; and privatizing of food production, wholesale and retail trade, processing, storage, and transport.

Agricultural reform has been slow, in part because NIS governments fear that rapid reform might lead to significant production shortfalls and unemployment. In turn, such disruptions could cause food shortages and discontent that would threaten the political and social stability needed by these governments to proceed with reforms. Agricultural reforms have also been impeded by (1) bureaucratic resistance from some persons with vested interests in the old command system and (2) fear of change by workers on state and collective farms.

Many NIS officials expressed a desire for greater foreign technical assistance and investment to further the agricultural reform process in their countries. Generally these officials said that this type of assistance was critical to correcting the problems with the agricultural storage, processing, and distribution infrastructures in their countries. (Foreign technical assistance and investment in the NIS are discussed in app. II.)

Agricultural Reforms Undertaken in the NIS Visited

The status of agricultural reforms being implemented in the NIS we visited varies by country. These reforms generally include price liberalization, farm reform, and privatization of food processing and marketing. Russia's agricultural reforms are the most advanced among the visited states, although in some cases Russia is not far ahead of the others in implementing these reforms. For example, true private ownership of land, including the right to buy land from and sell it to parties other than the state, was not allowed in any of the NIS visited until recently, when a decree issued by Russia's President made such sales and purchases possible in that country.

[1]When President Mikhail Gorbachev came to power in 1985, he targeted agricultural reform in the Soviet Union as one of his prime concerns. In order to achieve this goal, he attempted to restructure investments, streamline the bureaucracy, and improve economic incentives in the agricultural sector. However, by the time the Soviet Union dissolved in December 1991, little progress had been made in implementing these reforms due to factors such as confusion over the direction of reforms; bureaucratic resistance to change; limited autonomy for Soviet farmers, who also encountered difficulties in getting supplies; infrastructure deficiencies; and farmers' unwillingness to take risks. The Gorbachev-initiated reforms and impediments to their fruition are discussed further in our report, International Trade: Soviet Agricultural Reform and the U.S. Government Response (GAO/NSIAD-91-152, June 28, 1991).

Price Liberalization

Russia was the first NIS to liberalize, or deregulate, prices, freeing retail prices for most producer and consumer goods, including clothing, consumer durables, and most foods in January 1992. Price liberalization also involved the reduction or elimination of most of the producer and consumer subsidies that supported the previous state-determined price system. The other NIS we visited quickly followed Russia's lead in liberalizing prices, in part to prevent massive buying of their consumer goods and food commodities by Russian citizens.[2] However, each of these countries has also retained price controls on some food items considered to be dietary staples, such as bread and milk, although prices for these items were also raised significantly in some NIS. In Russia, for example, controlled prices for food generally tripled. Continued price controls on selected food items are intended to ensure that there will be an affordable food supply for vulnerable groups such as pensioners and the poor. In addition, despite price liberalization, many other food prices are still heavily influenced by the state through procurement quotas, monopoly and monopsony powers,[3] and a lack of alternative marketing channels.

Conflicting views exist about whether price liberalization should precede or follow the privatization of enterprises. In the NIS we visited, price liberalization has been undertaken first, with the implementation of privatization reforms occurring afterwards. The intent of flexible prices is to allow the communication of market signals between producers and consumers. Nevertheless, in the view of some NIS officials, price liberalization before demonopolization of state enterprises "puts the cart before the horse," as it allows producers with market power to raise prices at consumers' expense. From this point of view, without privatization there will not be sufficient competition to induce increased production or lower prices.

At the same time, however, increased retail prices have had some positive effects on consumer behavior in the NIS. Notably, the excess demand for food evident in December 1991, just before price liberalization, subsided as the ruble "overhang," or excess supply, was eliminated. As discussed in chapter 5, this excess ruble supply in the hands of consumers had led to

[2]Regarding NIS states not visited, Kyrgyzstan, Tajikistan, and Turkmenistan all followed Russia in implementing price reforms in early 1992, although each country retained price controls on a number of goods. We did not obtain information on whether Armenia, Azerbaijan, Georgia, or Moldova have liberalized prices.

[3]"Monopoly powers" refer to a market situation in which a single seller exerts a disproportionate influence on the market. "Monopsony powers" refer to a market situation in which a single buyer exerts undue influence on the market.

hoarding, long lines, and empty shelves in state stores, as well as to inflation.

In addition, according to a report prepared by World Bank officials,[4] the rationale for Russia's proceeding with price liberalization even before privatization was compelling. This report said, in part, that by liberalizing prices, Russia introduced a policy framework that in one stroke began to reduce the burden of price subsidization, reverse the distortions caused by previous consumption and incomes policies, and reduce governments' direct involvement in food and agricultural enterprises. Moreover, according to this report, price liberalization created new incentives crucial to the political sustainability of the reform effort such as encouraging food and agricultural enterprises to increase their productivity. The report concluded that price liberalization was an essential first step in a series of reform measures; if these measures are sustained, they will lead to a competitive and commercial environment for Russia's agricultural sector.

Some retrenchment from price liberalization has occurred in Russia and other NIS, however. Russia reintroduced some producer and consumer subsidies in 1992 and 1993, largely in response to political pressures to ease the transition from a planned to a market-based food sector. For example, in May 1992, subsidies were reintroduced for meat and milk producers, and the Russian Central Bank began to extend credit to enterprises and farms almost without limit. Also in December 1992, Russia announced subsidies to state millers and bakers in order to slow price increases for bread and bakery products. The Russian government said the reintroduction of subsidies was necessary to improve the financial position of agricultural enterprises and to limit consumer price increases for staple food items. Also, on January 1, 1993, the Russian government reinstituted price controls on a number of basic food items for which prices had previously been liberalized in an effort to curb inflation.

In early November 1993, a USDA official told us that the Russian government had recently taken some steps to reduce the subsidization of bread production. However, the government continues to regulate the price markup allowed at various production stages leading to a finished loaf of bread. Also, the official said, the state will compensate people with low incomes for rising bread prices. According to another USDA official, in general there is a trend in Russia away from producer/processor subsidies and toward consumer subsidies. With respect to bread, he said that local

[4]Food and Agricultural Policy Reforms in the Former USSR.

authorities can continue to subsidize prices assuming they have the fiscal resources and desire to do so.

In another example, the Belarus government deemed that state subsidies should be eliminated only gradually over a period of 3 to 5 years in order to ease the transition to a market-based economy. Ukraine also reintroduced producer subsidies in late spring 1992, mainly for livestock producers.

According to a USDA report,[5] although the NIS are reintroducing subsidies to ease the transition to market economies, renewed dependence on subsidies and administrative methods, such as price controls, is likely to postpone the transition to market systems and increase inflationary pressures in the NIS. At present, according to another USDA report,[6] price systems in the NIS have not been reformed such that prices have become the main signals to which agricultural producers, processors, and consumers respond. This report concluded that this situation persists because of the NIS' use of subsidies to both producers and consumers of agricultural commodities and the continued existence of state procurement quotas.

Farm Restructuring

One key to agricultural reform in the NIS is the restructuring of most, if not all, state and collective farms in favor of privately owned farms, including individual private farms or alternative structures, such as joint stock companies, that can compete on an equal footing with state and collective farms. For example, according to several Russian officials, it is imperative that the old system of state and collective farms be dissolved—one of these officials referred to these farms as "agrogulags."[7] In addition to farm restructuring, NIS governments should discontinue subsidizing unprofitable state and collective farms that resist restructuring, according to USDA, World Bank, and other sources, forcing those farms that cannot compete to go out of business. In the past, the availability of cheap credits and loan forgiveness from state banks allowed these unprofitable farms to continue operating, while contributing to growing state budget deficits.

[5]Former USSR International Agriculture and Trade Report (May 1992).

[6]Former USSR International Agriculture and Trade Report (May 1993).

[7]"Gulag" is literally an acronym for the Russian equivalent of "Chief Administration of Corrective Labor Camps." The term is used to refer to a prison or forced-labor camp.

One factor that may significantly affect the transition to private farming is whether private farmers are allowed to buy, sell, and otherwise dispose of land. True private ownership of land, including the right to buy land from and sell it to parties other than the state, was not allowed in any of the NIS visited until recently. On October 27, 1993, Russia's President issued a decree stating that citizens and legal persons who are land owners have the right to sell, bequeath, give, mortgage, and rent out land.[8] The decree further states that every member of a collective agricultural enterprise, whose land is held on the basis of joint or several ownership, is to be issued a certificate entitling the member to claim a share of the enterprise's land. However, it remains to be seen how effectively the decree will be implemented. For example, local governmental bodies are responsible for administering the decree and, thus, their cooperation seems essential. In addition, the decree may be undermined if parliamentary elections set for December 1993 should return significant numbers of former Communist Party members to this body.

According to some NIS officials, meaningful agricultural reform does not require breaking up all state and collective farms into a large number of private farms. For example, Kazakhstan officials said it was not practical to break up large grain-producing state or collective farms in their country into small family farms, because grain cultivation is more suited to large farm structures. These officials explained that in Kazakhstan's rural areas, the social, agricultural, and industrial infrastructures are designed for large-scale production. They also said that the most productive grain-producing farms in the United States are large farm operations. In addition, an EC official said that state and collective farms cannot be privatized immediately because they also provide the social infrastructure in rural areas. For example, a state or collective farm is a community that provides residents with all essential social and supporting services, including food, housing, electricity, heat, health care, education, child care, and recreation. These farms also provide pensions, security, and care for the elderly. Thus, responsibility for this social infrastructure must be transferred to local governments or other alternative structures as state and collective farms are broken up.

An alternative to breaking up state and collective farms into individual family farms is to convert them to joint stock companies or producers'

[8]Prior to the issuance of this decree, article 12 (adopted in early 1992) of the Russian constitution stipulated a 10-year moratorium on land sales by private citizens to any party other than local governments.

cooperatives, according to a report prepared by World Bank officials.[9] A joint stock company is a form of corporate ownership in which the employees own shares in the enterprise and thus may have a larger stake in its successful operation. A producers' cooperative is a form of collective ownership with greater emphasis on semiautonomous work groups within the collective farm structure. Again, employees have a sense of ownership and thus may have a bigger stake in the successful operation of the farm. At the same time, however, if old-line bureaucrats from the former Soviet system continue to operate these farms after reorganization, the reform process may be impeded.

In Russia, the government issued a decree in December 1991 to reorganize state and collective farms on the basis of joint stock companies or cooperatives or dissolve the farms in favor of the creation of private farms. According to this decree, all state and collective farms were required to reregister as one of these three types by January 1, 1993. Subsequently, state and collective farms were also given the option of retaining their traditional organizational structure. As of the end of 1992, 77 percent of Russia's 25,609 state and collective farms had reregistered, according to a USDA report.[10] Of these, 76 percent chose to remain a state or collective farm or adopt a corporate structure such as a joint stock company, and 20 percent chose some alternative structure such as becoming a producers' cooperative. Only 4 percent chose to break up into individual private farms. According to this report, the change in official status to alternative forms such as joint stock companies and cooperatives has so far done little to change the nature or behavior of the affected farms.

Regarding the establishment of private farms, in Russia the number of registered private farms increased from 4,500 on January 1, 1991, to 183,700 as of January 1, 1993, with these farms averaging about 42 hectares[11] in size, according to a USDA report.[12] This report also indicated that these farms constitute about 6 percent of Russia's arable land and that they contribute 4-5 percent of that country's total annual agricultural production.

[9]Food and Agricultural Policy Reforms in the Former USSR.

[10]Former USSR International Agriculture and Trade Report (May 1993).

[11]One hectare equals 2.47 acres.

[12]Former USSR International Agriculture and Trade Report (May 1993).

According to a report prepared by World Bank officials,[13] although private farms still account for only a relatively small percentage of agricultural land in Russia, private farm productivity generally exceeds that of state and collective farms.[14] According to this report, the higher productivity of private farms is generally attributed to the private farmer's sense of ownership of his or her farm and the crops produced on the farm, and the private farmer's intensive use of labor and planting of higher value crops.[15] This report concluded, however, that it will be many years before Russian private farms are numerous enough to have a dominant role in that country's agricultural production.

The move to create private farms in the other four NIS visited has been slower. Table 2.1 lists the number, average size, and growth of private farms in these states as well as in the other NIS between January 1, 1992, and January 1, 1993.

[13]Food and Agricultural Policy Reforms in the Former USSR.

[14]The apparent discrepancy between the percent of arable land held by Russian private farms (6 percent), the percentage of the total value of Russian agricultural production contributed by these farms (4-5 percent), and the conclusion that the productivity of private farms is generally higher than state and collective farms is explainable. First, state and collective farms are not producing 95 percent of the remaining value of Russia's agricultural production on the remaining 94 percent of that country's arable land. Instead, the private plots of state and collective farm workers (see ch. 5), although constituting only a small percentage of Russia's arable land, are producing a significant portion of the remaining value of agricultural production. To illustrate, under the former Soviet Union, private plots occupied only about 3 percent of arable land, yet produced 25-30 percent of the total value of agricultural production in that country. Another reason for the apparent discrepancy is that some private farmers are not cultivating all of their available land because of problems associated with obtaining inputs and marketing their commodities (see app. III).

[15]Productivity is not simply a function of yields, but is also a question of efficiency (producing with fewer inputs per ton of output). According to USDA and other sources, private farms are generally more efficient than their state and collective counterparts, allowing private farms to achieve commendable yields despite the severe shortage of machinery and other inputs available to these farms (see app. III).

Table 2.1: Number, Average Size, and Growth of Private Farms in the NIS From January 1, 1992, to January 1, 1993

Country	Number of private farms as of 1/1/92	Average size of farms (hectares)	Number of private farms as of 1/1/93	Average size of farms (hectares)	Area as portion of total arable land in country on 1/1/93 (percent)
Armenia	164,500	1	243,000	2	81.8
Azerbaijan	100	44	200	39	0.5
Belarus[a]	700	22	2,000	19	0.6
Kazakhstan[a]	3,300	242	8,500	412	9.9
Kyrgyzstan	4,100	25	8,600	44	26.8
Moldova	5	0	500	3	0.1
Russia[a]	49,000	43	183,700	42	5.9
Tajikistan	4	25	4	25	0.0
Turkmenistan	100	11	100	11	0.1
Ukraine[a]	2,100	19	14,400	20	0.9
Uzbekistan[a]	1,900	7	5,900	8	1.0

Note: We were unable to obtain data for Georgia.

[a]NIS visited by GAO.

Source: USDA, Economic Research Service (based on NIS statistical data).

According to officials in Belarus and Kazakhstan, private farms do not yet contribute substantially to their country's overall agricultural production. However, in Uzbekistan, officials said that private farms were producing a substantial part of their country's noncotton agricultural production, including an increased production of fruits and vegetables. Officials in Ukraine did not comment on the relative contribution of private farms in their country to overall agricultural production.

Privatization of Food Processing and Marketing

The privatization of food processing and marketing enterprises is considered still another key to reforming NIS agricultural sectors. Under the former Soviet system, central control of the means of production and distribution led to excessive waste and misallocation of inputs, creating a situation, as discussed in chapter 1, in which the Soviet Union had to import billions of dollars worth of foreign food. In each NIS visited, reforms aimed at the privatization of most food processing, wholesale marketing,

retail trade, and transport enterprises were underway.[16] In addition to privatization, each of the NIS visited has also begun to pass laws needed to create the legal foundation necessary to move their respective economies, including their agricultural sectors, to a market basis. At the same time, however, the partial and gradual implementation of privatization reforms has resulted in the slow emergence of private producers and markets, according to a USDA report.[17] As a result, these private alternatives are not yet numerous enough to move the agricultural economy away from state domination in the NIS.

In each of the visited NIS, the initial emphasis regarding enterprise privatization has been placed on small enterprises. For example, according to a Congressional Research Service report,[18] the Russian government expects 80 to 90 percent of small retail and consumer-oriented enterprises to be privately owned by the end of 1993. Regarding medium and large enterprises, the Russian government has launched a voucher plan for their privatization and expects 80 percent of these will be privatized by the end of 1996.[19] According to a report prepared by World Bank officials,[20] the privatization of state-owned enterprises in Russia will include food sector-related enterprises involved in wholesale and retail trade, processing, and transport.

According to a PlanEcon report,[21] 47,000 of Russia's 250,000 small state-owned enterprises were privatized during 1992. In addition,

[16]Regarding NIS not visited, Armenia has created a number of cooperatives and small private enterprises that operate in all sectors of its economy. Azerbaijan has made slow progress in privatization, although it tentatively plans to privatize up to 60 percent of its industrial enterprises by 1996. Georgia has also made little progress in privatization, with formal privatization having commenced only in the urban housing sector. Kyrgyzstan plans to privatize up to 40 percent of fixed assets, including those of industrial enterprises, and a National Enterprise Fund has been created to provide interest-free loans for prospective buyers of state businesses or stocks. Moldova plans to privatize about 70 percent of state retail and service outlets and about 50 percent of state property overall. Tajikistan has made little progress in privatizing state assets. Turkmenistan has passed a law on privatization with initial emphasis on the leasing of unprofitable state enterprises. See Review and Outlook for the Former Soviet Republics, PlanEcon (Washington, D.C.: Nov. 1992).

[17]Former USSR International Agriculture and Trade Report (May 1993).

[18]Russia and the Other Successor States: Economic Conditions and Prospects, Congressional Research Service (Washington, D.C.: Oct. 30, 1992).

[19]Under this privatization plan, every Russian citizen was issued a privatization voucher with a face value of 10,000 rubles. In addition, workers receive 25 percent of the equity in large enterprises, and managers receive 5 percent, both in the form of nonvoting shares. The remaining 75 percent of the shares are sold on the open market. However, the enterprises' employees have the right to purchase 10 percent of these remaining shares at a 30-percent discount from the nominal value. See Russia, Congressional Research Service (Washington, D.C.: July 2, 1993).

[20]Food and Agricultural Policy Reforms in the Former USSR.

[21]Review and Outlook for the Former Soviet Republics, PlanEcon (Washington, D.C.: May 1993).

according to this report, by the end of March 1993, 52 percent of retail outlets, 47 percent of restaurants, and 53 percent of consumer service organizations were privatized.

Regarding the privatization of larger Russian enterprises, by October 1992, over 6,000 large state-owned enterprises had been transferred into joint stock companies, according to the cited PlanEcon report. In addition, this report stated that another 400 large enterprises were privatized between December 1992 and April 1993.

According to another PlanEcon report,[22] in Kazakhstan, a presidential decree issued in February 1992 urged that all agro-industrial enterprises in that country be privatized by the first quarter of 1993. However, according to Kazakhstan officials, large enterprises are to remain under state control during the first stages of privatization. For example, in the Kazakhstan city of Tselinograd, we visited a large machine plant that was manufacturing, among other things, agricultural machinery and implements. Although this plant was to remain state owned for the time being, plant officials said that their facility would eventually become a share-holding enterprise, with the state retaining 31 percent of the shares. According to the cited PlanEcon report, the February decree also urged that Kazakhstan agro-industrial enterprises losing money be privatized first—hopefully by June 1992.

In Uzbekistan, officials said their government had passed a law on privatization and demonopolization, but completion of a plan by the government's cabinet of ministers to implement this law had been delayed by some 6 months as of May 1992. Nevertheless, according to these officials, some advances had been made in privatizing small multiple-service and trade enterprises, but little progress had occurred on the privatization of large enterprises. Similarly, as of June 1992, although the Belarus parliament had passed laws permitting private businesses, little progress had been made in privatizing enterprises.

In addition to the laws and decrees on privatization discussed previously, a number of other laws have been passed to accommodate the formation of competitive markets in the NIS states visited. For example, Ukraine and Belarus have passed laws to establish stock and commodity markets and financial instruments. Belarus has also revamped its tax system on lines more suited to a market economy, including substituting income, profits, and sales taxes for the levies on state firms that formerly financed the state budget. Each of the visited NIS countries has also passed laws to

[22]Review and Outlook for the Former Soviet Republics, PlanEcon (Washington, D.C.: April 1992).

establish commercial banking systems. In addition, laws have been passed in each country allowing for foreign investment (see app. II).

Agricultural Reform Proceeds Slowly

Although agricultural reform is underway in each of the NIS we visited, progress in implementing these reforms has been slow, according to USDA, World Bank, and other sources. For example, state-dominated food purchasing, processing, and distribution systems are still in place, as is much of the old state and collective farm structure. In addition, nascent laws making it possible to create private food processors, wholesale markets, and farms have not yet generated a real alternative to the old system.

Agricultural reform has been slow, in part, because NIS governments fear that rapid reform might lead to significant production shortfalls and unemployment. In turn, such disruptions could lead to food shortages and discontent that would threaten the political and social stability needed by these governments to proceed with reforms. Agricultural reforms have also been impeded by bureaucratic resistance from former Communists and persons with vested interests in the old command system and by fear of change by workers on state and collective farms.

In some cases, international financial assistance organizations have criticized the lack of progress in implementing reforms in one or more of the NIS. For example, during a May 1992 visit to Kiev, the President of the World Bank criticized Ukraine's steps towards reform. While noting that there was a consensus in Kiev that reform was needed, this bank official pointed to, among other things, the size of Ukraine's budget deficit, the continuance of obligations to supply most production to the state, and the slow pace of privatization as signs that little had been accomplished so far. In a more recent example, a report prepared by World Bank officials concluded that despite Russian price liberalization measures, many prices were still heavily influenced by the state through procurement quotas, monopoly and monopsony powers, and the lack of alternative marketing channels.[23]

NIS Governments Are Cautious in Implementing Reforms

According to USDA and other sources, NIS governments have generally proceeded slowly with agricultural reform for several reasons.

[23]Food and Agricultural Policy Reforms in the Former USSR.

- Agricultural production may fall further if reforms proceed too rapidly. Further decreases in domestic production could lead to food shortages that might threaten the political and social stability needed to advance reforms.
- Rapid liberalization of all retail food prices may also lead to political and social unrest because people may not be able to afford all the food they want or need.
- Over the short run, some reforms will result in enterprise bankruptcies and closures, generating increased numbers of unemployed people.
- Time is needed to craft a legal and regulatory framework appropriate for a market economy. For example, before the privatization of large enterprises can occur, the NIS must have the appropriate social, business, and legal infrastructure in place, including a system of accounting to determine profits and laws on banking, bankruptcy, and property rights. Also, individuals must be trained in the management of market system institutions.

Former Communists and Entrenched Bureaucrats Resist Reforms

The implementation of agricultural reforms in the NIS visited has also lagged because former Communists, conservative nationalists, and survivors of old Soviet bureaucratic structures have been slow to acquiesce to these changes. In Russia, for example, the survivors of Soviet structures appear to be strongest in the industrial centers and the major agricultural regions, and these interests are those most threatened by price liberalization and the integration of the Russian economy with the world market.

Parliamentary reformers in two of the visited NIS—Kazakhstan and Ukraine—expressed considerable frustration concerning their attempts to foster reform. They noted that although they were passing reform legislation, their governments were not implementing these laws. The leadership of the NIS visited are former Communists who maintained themselves in power by leaving the Communist party and adopting nationalistic views. With the exception of Russia, these leaders have taken a very cautious tack regarding reform. In Russia, however, the President has demonstrated a willingness to proceed with radical reforms. Nevertheless, as discussed in chapter 1, the Russian President has been stymied by a conservative parliament that was elected before the Soviet Union's dissolution—about 86 percent of this parliament's membership used to belong to the Communist party.

Also, mid-level bureaucrats and local government officials do not wish to enforce laws that will reduce their authority or eventually make their jobs unnecessary. For example, Ukrainian officials said that "nomenklatura" officials[24] in rural areas of Ukraine have been working to undermine the reform process because they fear the loss of their jobs and prestige if change occurs. Further, according to one Ukrainian government official, in 1991 the nomenklatura encouraged farmers in Ukraine's southern "oblasts," or provinces, not to fulfill their state purchase orders in order to create food shortages in urban areas. This official said that the nomenklatura believed such food shortages would be politically and socially destabilizing, undermining the reform process.

Similarly, in Kazakhstan old-style leaders at the oblast and "rayon," or district, level of government have balked at giving up their Communist beliefs and the perks that go along with their positions in the command structure, according to a PlanEcon report.[25] However, under pressure to push along reform progress as a condition to receiving funding from international organizations such as the IMF, the President of Kazakhstan appointed many new leaders at the oblast level in the spring of 1992.

In Russia, in order to overcome the anticipated resistance of local officials, presidential decrees on the reorganization of state and collective farms and the creation of private farms were passed in December 1991. These decrees specified penalties for local officials who attempted to obstruct the implementation of these documents. According to a USDA report,[26] as of April 1, 1992, over 400 cases of local officials interfering with the implementation of these decrees had been identified by Russian authorities. Related fines—3 months' pay in the case of state and collective farm managers—totaled about 5-billion rubles.

Many State and Collective Farm Workers Are Reluctant to Become Private Farmers

Many farm workers doubt the wisdom of leaving a secure job and pension on a state or collective farm for the uncertainty of trying to be a private farmer. For example, these workers view private farming as risky because of concerns over the availability and cost of agricultural inputs[27] and credit, the lack of infrastructure needed to support private farms, and the legal status of land provided to private farmers (each of these is discussed

[24]Administrators of political, social, and economic affairs under the former Soviet command system.

[25]Review and Outlook for the Former Soviet Republics (Apr. 1992).

[26]Former USSR International Agriculture and Trade Report (May 1992).

[27]Agricultural inputs include seeds, feed, fertilizers, pesticides, machinery, spare parts, and fuel.

in detail in app. III). Moreover, it is hard for some of these farm workers to conceive of rural life without the social infrastructure, as discussed, provided by state and collective farms.

In addition, for many farm workers who have specialized jobs or duties on state or collective farms, the idea of becoming a private farmer responsible for all aspects of a farm's operation, including its profitability, is daunting. State and collective farm workers are used to working in large groups and thinking in terms of collective rather than individual responsibility. Moreover, in the past these farm workers did not have to worry about the profits of their labors—a worker drew a guaranteed salary from his or her state or collective farm, and unprofitable farms were subsidized by the state.

In order to prevent NIS state and collective farm managers and other local officials who oppose reforms from playing on the fears of farm workers regarding change, these workers should have the opportunity to receive information that will help them make informed decisions. For example, according to a report prepared by World Bank officials,[28] in order to ensure that state and collective farm workers have democratic control over the reorganization of their farms, NIS policymakers have a responsibility to ensure that these workers have received information on the benefits and liabilities of various reforms. Moreover, according to this report, meetings for this purpose, or other related educational efforts, should be conducted by someone other than the current management of these farms or other local officials, although farm managers and local officials should be permitted to present their views.

In Uzbekistan, officials said that new reform-related laws adopted in their country are being published in local newspapers, accompanied by an explanation of these laws, in order to address citizens' concerns regarding reform-related change. These officials also said that government representatives are gathering people together in rural areas to explain these new laws and the reasons behind them.

Private Wholesale Markets Are a Novel Concept Viewed With Suspicion

The idea of private wholesale markets is a novel concept that contradicts Communist ideology that was taught for decades in the former Soviet Union, and thus it is viewed with suspicion by many NIS citizens. For example, the notion of a private wholesaler making a profit from the handling of goods that this individual or firm was not directly involved in

[28]Food and Agricultural Policy Reforms in the Former USSR.

producing was anathema in the former Soviet Union—such middlemen were called "speculators" and were subject to criminal prosecution. As a result, NIS citizens generally do not understand that value is added to agricultural goods by a wholesaler who properly stores, processes, packages, and transports these goods. At present, food moved through the state system is owned by nobody and is thus treated very carelessly. This lack of care for food items, the loss of which results in no penalty to those responsible, contributes directly to the massive losses discussed in chapter 1.

Market Development Is Hindered by State Monopolies and Procurement Quotas

Considerable obstacles remain to creating true, competitive markets for agricultural goods and inputs in the NIS visited. For one, much of the agricultural sector's supporting infrastructure in these countries remains in the hands of state-owned enterprises. For example, according to a September 1992 report prepared by World Bank officials,[29] most marketing in Russia, especially of staple foods, will remain in the public sector for at least the next 2 to 3 years, managed by large state monopolies serving traditionally segmented markets and encountering little effective competition. In addition, mandated state procurements of agricultural commodities in the NIS visited are hindering market development.

With the exception of Belarus, officials in the NIS visited said that mandated government procurements of food will continue for now. Although in some cases the state will pay the prevailing market price for this food, continued compulsory sales by farms to the state will hinder the development of well-functioning, competitive markets. For example, state-mandated sales may act as a disincentive to production by denying farmers the flexibility to produce and market their food commodities as they wish. Also, continued mandated purchases by state structures may interfere with the entry of new private firms to the marketplace. These firms could likely offer a more efficient alternative for food processing and distribution, as well as higher prices to farmers. In addition, as discussed, continued state procurement quotas, among other factors, will tend to influence food prices despite price liberalization.

Regarding procurement quotas, in Russia, because of competition from commodity exchanges offering higher prices, the state passed a series of decrees in 1992 to ensure that farms marketed through the state procurement system rather than through alternative private channels,

[29]Food and Agricultural Policy Reforms in the Former USSR.

according to a USDA report.[30] As a precondition for subsidies, state and collective farms had to market output to procurement agencies according to targets set by the state. Moreover, farms that fulfilled state procurement obligations were to receive priority in obtaining inputs from the state distribution system at subsidized prices, along with concessionary credits. The Russian government has announced, however, that in 1993 it will reduce levels of procurement targets by 10 to 78 percent, depending on the commodity. In addition, according to a decree issued by Russia's President on October 27, 1993, as of 1994 compulsory deliveries of agricultural produce to the state will be abolished.

In Ukraine, officials said that mandated state procurement orders applied to state and collective farms, but not to private farms, although private farmers are free to sell to the state if they wish. However, these officials also said that state and collective farms are paid higher prices for their produce than private farms, without regard for relative productivity, to help ensure Ukraine's overall level of agricultural production. In addition, Ukrainian officials said that private farmers face problems in finding distribution channels and markets for their produce, suggesting that these farmers may in some cases have little choice but to sell to the state.

In Belarus, officials said that state production orders were discontinued in 1991. However, although farms are no longer obliged to sell to the state, these officials said that government procurements of grain, meat, and milk will continue as long as state and collective farms are the major producers of these commodities. Uzbekistan officials said that all farms—state, collective, and private—in their country are required to sell 50 percent of their production to the state. In Kazakhstan, officials said that their government planned to eliminate state procurement quotas by the end of 1992.

Breakdowns in Trade Links Among NIS States Also Impede Market Reforms

Widespread breakdowns in trade flows among the NIS are also interfering with the development of competitive markets because the movement of produce and inputs between these countries has become much more difficult. These trade flows have deteriorated in large measure because of the decreasing value and acceptability of the ruble as a medium of

[30]Former USSR International Agriculture and Trade Report (May 1993).

exchange for such trade.[31] Also, difficulty in selling output and obtaining inputs because of problems with the ruble has led to reductions in production. As a result, there are now fewer goods to trade, and such trade must often be conducted on an inefficient barter basis.[32]

Belarus officials said that due to breakdowns in cooperative trade agreements with other NIS, their country is experiencing difficulties in obtaining grain and fuel from these states. According to these officials, this grain is needed for making bread and feeding livestock, and the fuel is required to keep farm machinery running. Moreover, under the former Soviet Union, agricultural equipment production was highly specialized by republic. For example, Belarus and Ukraine were large net exporters of tractors to other former republics. In addition, Russia was the sole producer of cereal grain combines, providing these machines to all the other former republics. The movement of these goods and related spare parts has now broken down. Thus, ultimately, a resumption of normal trading relationships among the NIS is necessary to establish well-functioning, competitive markets and lessen the potential for future food shortages.

NIS officials in each of the countries visited said that because the economies of the NIS are dependent on one another, their mutual economic prosperity depends on reestablishing traditional trade flows. However, some of these officials noted that their countries did not necessarily want to return to the old arrangement of economic ties that existed under the former Soviet Union. For example, according to Kazakhstan officials, their country was nothing more than a supplier of raw materials to Russia and other industrialized republics. However, now that Kazakhstan is a sovereign nation, these officials said, their country wants to industrialize and diversify its economy. Thus, in the view of these officials, NIS interstate trade needs to be reestablished on the basis of "fair

[31]The value of the ruble as a medium of exchange has declined because of strong inflationary pressures associated with the rapid growth of wages compared to labor productivity in the former Soviet Union and its successor states. In addition, the former Soviet Union and Russia have financed large budget deficits primarily by printing money, further generating inflation and creating shortages as increasing amounts of rubles chase decreasing numbers of goods.

[32]The establishment of new trading organizations, negotiations on new terms of trade, and differing approaches to agricultural reform also hinder trade among the NIS. For example, the NIS are now jockeying for economic comparative advantage in their trade relations with one another, whereas under the Soviet Union interrepublic trade was administratively directed by the Soviet central government. Also, the NIS have been imposing restrictions on exports, such as bans on direct exports, requirements for export licenses, the establishment of quotas, and restrictions on purchases by nonresidents in order to conserve goods in short supply for domestic use. These restrictions are also intended to deter exports caused by large price differences between NIS resulting from their varying approaches to price liberalization reforms. For example, NIS with lower prices due to continued price controls and subsidies fear massive buying of their goods by citizens of other NIS where prices are higher.

equivalence," meaning there should be a material balance in the flow of goods between states.

Political Turmoil Threatens NIS Reforms

The general political situation in the NIS is characterized by turmoil and uncertainty which, in turn, threaten the future of the reform process in these countries. For example, throughout the spring, summer, and fall of 1993, Russia experienced a political crisis pitting the powers of the Russian presidency against those of the country's parliament. This conflict centered on the Russian President's agenda of radical economic reform, an agenda opposed by many conservative members of the Russian parliament. In late March 1993, for example, despite having made a number of concessions slowing or reversing some of his planned economic reforms, Russia's President barely survived an impeachment vote by the parliament.[33] Subsequently, in September 1993, Russia's President directed that the Russian parliament dissolve and that new parliamentary elections be held in December 1993. However, a number of parliament members, led by the Russia's Vice President and the parliament's Speaker, resisted the dissolution order and declared that they had established a new government; in early October 1993, Russia's President, using military force, ended the short-lived revolt.

Numerous other conflicts, both external and internal, are plaguing various NIS, threatening the stability needed for the reform process to go forward in these countries. For example, historic ethnic rivalries largely suppressed during the decades of Soviet rule have resurfaced, heightening political tensions and, in some cases, leading to armed conflicts between or within several NIS.[34] According to a USDA report,[35] reform in these countries has less priority than more immediate problems involving political instability and ethnic conflict. Also, within Russia, several ethnically based territories, including the Chechen, Tatar, and Tuva Republics, are seeking greater autonomy from the Russian Federation.

Conflicts have also arisen between NIS regarding the disposition of the assets, including overseas properties and military materiel, and debts of the former Soviet Union. For example, Russia and Ukraine have quarreled

[33]The Russian President and his reform agenda received a boost in referendums held in Russia on April 25, 1993. These referendums were intended to help break the reform deadlock. In a turnout of close to two-thirds of the electorate, 58 percent expressed support for the President, and 53 percent support for the continuation of his economic reforms.

[34]These states include Armenia, Azerbaijan, Georgia, Moldova, and Tajikistan.

[35]Former USSR International Agriculture and Trade Report (May 1993).

over the division of the former Soviet Union's nuclear weapons and Black Sea fleet, as well as over the division of the debt of the former Soviet Union. Failure to reach agreement on this last point delayed an IMF-sponsored rescheduling of the debt of the former Soviet Union for over a year.[36]

A further concern is that these types of conflicts may prompt some NIS to undertake punitive measures, such as trade embargoes or other economic sanctions, against their neighbors. For example, Azerbaijan has imposed a trade embargo on its neighbor Armenia because of a bitter conflict between these countries over the fate of the disputed territory of Nagorno-Karabakh.[37] This embargo has taken a heavy toll on Armenia, since principal supply routes to this landlocked country pass through Azerbaijan.[38]

If similar punitive measures are taken by other NIS against their neighbors, traditional trade flows of goods between states may be further disrupted. In turn, such disruptions, as discussed, could impede the agricultural reform process, as inputs needed by food producers and processors would be more difficult to obtain. Also, difficulties in selling goods and obtaining inputs because of trade flow problems may result in decreases in overall production. These declines could then lead to shortages of goods, including food, that could threaten the political and social stability needed for reforms to advance.

[36]On April 2, 1993, western governments announced an agreement to reschedule the debt of the former Soviet Union, releasing the Russian government from some $15 billion in payments due to western governments and banks during 1993. This agreement was possible because Russia and Ukraine were able to negotiate an agreement on dividing the assets and debts of the former Soviet Union in early 1993.

[37]In 1987, Nagorno-Karabakh, an autonomous region in southwestern Azerbaijan whose population is predominately Armenian, petitioned the Soviet government to become part of Armenia. This action touched off violent ethnic conflicts within Azerbaijan between Moslem Azeris, who constitute 83 percent of the country's population, and Christian Armenians, who account for about 6 percent of the population. In late 1992, fighting in Nagorno-Karabakh began spreading to a border region between Azerbaijan and Armenia.

[38]In addition, a USDA official said in August 1993 that only a trickle of supplies were reaching Armenia through Georgia, a country racked by civil war, and that Iran and Turkey had closed their borders with Armenia. As a result, the official said, Armenia is experiencing severe food shortages.

Effect of U.S. Credit Guarantee Assistance on NIS Agricultural Reforms and Food Production

The progress of agricultural reform in the NIS may be hindered by the provision of export credit guarantees by the United States and other countries. These credit guarantees have allowed the NIS to continue to import billions of dollars of foreign grain and other food commodities. Because these commodities are generally purchased, processed, and distributed by state-owned enterprises, these structures are likely to survive longer as state monopolies than might otherwise be the case, although we were unable to quantify this effect. It is these inefficient state enterprises that NIS reformers seek to privatize or replace with alternative, nonstate structures, such as commodity exchanges and private food processors, distributors, and wholesalers. In addition, credit guarantee-assisted food imports may hinder NIS domestic food production and the efficient processing and marketing of this food by keeping down prices offered to NIS farmers and food processors and distributors.

At the same time, however, a number of NIS officials we contacted believe that credit guarantee-assisted food imports benefit the overall economic reform process in the NIS more generally. According to these officials, these food imports help to preclude food shortages and, thereby, contribute to the political and social stability needed to advance the overall economic reform process.

In addition, a number of NIS, European, and U.S. officials said that conditions should be placed on future export credit guarantee assistance from the United States and other countries in order to prod the NIS reform process along. However, USDA does not attach conditions to the award of credit guarantees because it views the credit guarantee program as a commercial, not a concessional,[1] program. USDA officials also said that attempts to attach conditions to export credit guarantees would likely result in loss of U.S. market share for agricultural exports.

[1]Concessional financing generally includes below-market interest rates and repayment terms considerably longer than those typically available on commercial financial markets, with the result that the buyer does not pay all of the true cost of the commodities purchased. In contrast, under commercial financing, the buyer pays all costs.

Credit Guarantee-Assisted Food Imports May Hinder NIS Agricultural Reform and Food Production

As stated, credit guarantee-assisted food imports may be hindering agricultural reform in the NIS by helping to prop up inefficient state-owned enterprises handling this food. These imports may also hinder reform by enabling these state-owned enterprises to delay much-needed improvements in their own operations that could reduce food waste. In addition, as discussed, credit guarantee-assisted food imports may also hinder NIS food production and efficient food handling by creating pressure for lower domestic food prices. For example, these food imports may make it easier for NIS governments to continue to control the price of some food items. In commenting on the possible effects of credit guarantee-assisted food imports, USDA officials acknowledged that these imports may play some role in hindering agricultural reform, but they stated that it would be difficult to measure this impact. Regarding possible effects on NIS domestic food production, USDA officials said that is more appropriately a concern for concessional or donation food assistance programs than for a commercial program like the GSM-102 program.

Food Imports May Help Prop Up State-Owned Enterprises That Purchase and Distribute Food

NIS credit guarantee-assisted imports of U.S. and other foreign food and feed commodities may help to prop up inefficient state-owned enterprises that handle these commodities. It is these state-owned enterprises and the state-controlled mills, bakeries, retail stores, and state and collective farms they supply that are the backbone of the agricultural command economy in the NIS. As was the case under the former Soviet Union, these state-owned enterprises continue to purchase, process, and distribute virtually all of the NIS' imported food, as well as a significant portion of domestically produced food. Because these state enterprises are responsible for so much food waste, NIS reformers seek to privatize them or replace them with more efficient nonstate structures.[2]

According to a USDA report,[3] despite declines in Russian state food purchases in recent years (see table 3.1), the retention of the state-controlled procurement, processing, and distribution system in Russia prevents the development of robust countrywide private markets for agricultural commodities in that country. According to this report,

[2]As discussed in chapter 2, food moved through state food sectors in the NIS is owned by nobody and thus is treated very carelessly, contributing directly to massive food losses. Inadequate infrastructure in the state food sector, including shortages of or antiquated food processing, storage, and transport equipment, also contributes to these massive food losses.

[3]Former USSR International Agriculture and Trade Report (May 1993).

traditional private markets,[4] barter trade, and recently permitted private commodity exchanges are alternative marketing channels for agricultural commodities. However, as of May 1993, private commodity exchanges in Russia generally handled only a small portion of overall agriculture sales, according to the report, although the volume of grain marketed through these channels was increasing.

Similarly, according to a Congressional Research Service report,[5] while U.S. credit guarantee-assisted exports to Russia do help cover some food shortfalls caused largely by marketing and distribution problems, some critics of these exports point out that such sales ignore the issue of how U.S. credit guarantee-assisted grain exports move through the Russian grain marketing system. According to this report, these critics point out that if such sales are looked at more closely, they may in fact be undermining or working at cross-purposes to U.S. policy statements emphasizing that U.S. assistance is offered to bolster Russia's economic reform process.

Although we believe that imported food helps to prop up these state enterprises, we were unable to quantify this effect. In addition, we are unable to say with certainty the relative importance that imported food plays in ensuring the survival of these state enterprises compared to other factors. For instance, the managers of these enterprises, as well as officials at all levels of the state bureaucracy, often actively resist reforms that threaten their power or position, as discussed in chapter 2. Also, NIS governments may be reluctant to phase out state-owned enterprises that handle food because these governments are concerned about meeting the food needs of key urban and industrial areas that have traditionally depended on the state food sector. For example, according to USDA officials, in Russia the Federal Grain Fund is responsible for ensuring grain supplies to cities and areas not able to provide for themselves, such as Moscow, St. Petersburg, and the northern regions and military centers.[6] According to these officials, the fund's grain comes totally from state supplies, which include imported grain.

[4]Private markets are marketplaces in which individual private farmers, employees of state and collective farms with private plots, and individual citizens with gardens can bring their produce to sell at prices that they determine. These markets are sometimes referred to as "private farmers' markets." (See also ch. 5.)

[5]U.S. Agricultural Assistance to the Former Soviet Union: Policy Issues, Congressional Research Service (Washington, D.C.: Apr. 1993).

[6]According to USDA officials, the fund was to have distributed about 9.5 mmt of grain to needy areas in 1992.

The continued survival of state-owned enterprises that handle food is also a function of their role in procuring and distributing domestically produced food in the NIS. In the case of some commodities, NIS state-owned enterprises are handling a significant portion of total NIS domestic production. For example, as depicted in table 3.1, in Russia the state food sector purchased over 50 percent of that country's domestic production of meat, milk, and eggs, and a significant portion of its production of other food commodities such as sugar beets and sunflowerseeds.

Table 3.1: State Procurements as a Percentage of Total Production by Commodity, Russian Federation

Percent

Commodity	Average 1981-85	1990	1991	1992
Grains	38.1	29.1	25.3	24.2
Sugar beets	90.0	77.8	76.5	42.7
Sunflowerseeds	78.1	68.3	58.6	34.0
Potatoes	23.0	17.8	13.7	7.7
Vegetables	64.1	59.1	42.3	29.3
Meat	67.3	74.2	61.9	54.9
Milk	67.0	72.0	65.8	55.5
Eggs	68.1	70.8	64.8	57.0

Source: USDA, Economic Research Service.

Although the Russian state food sector is a major purchaser of domestically produced food, it has come to rely heavily on imported grain to service its traditional customers such as large urban areas.[7] As discussed in chapter 5, in Russia, as well as in other NIS, state procurement of domestically produced grain has generally declined in recent years because NIS farms are increasingly reluctant to sell to the state.[8] As a result, NIS state food sectors look to imported grain to compensate for declining purchases of domestically produced grain. For example,

[7]According to USDA officials, grain is the most significant NIS agricultural commodity import, both in terms of volume and of dollar value. For example, according to data from the Russian State Statistical Committee, Russian grain imports in 1992 totaled 29.5 mmt, with a value of about $4.3 billion. This import dwarfed any other food commodity import Russia had that year—sugar was next in importance with 3.7 mmt imported at a value of about $1.2 billion.

[8]As discussed in chapter 5, these farms prefer to hold on to their grain for a number of reasons: (1) to barter for inputs (high inflation has eroded the purchasing power of the ruble), (2) to use as feed or seed, or (3) to try to sell on newly forming commodity exchanges for higher prices than offered by the state.

according to a USDA report,[9] in 1992, despite improved grain harvest results, procurement of domestically produced grain in Russia by the state remained low as a percent of total production (see also table 3.1), thus necessitating large grain imports to supply the state-owned processing sector. Russia's access to export credit guarantees offered by the United States and other countries has made these high levels of grain imports possible.

As depicted in table 3.2, the contribution of imported grain to total state (official) supplies of the former Soviet Union or its successor states during 1981-93 was significant, ranging from a low of 26 percent in 1986/87 to a high of 50 percent in 1984/85 and again in 1991/92. Overall, the average contribution of imported grains to total state supplies was 36 percent during these years.

Table 3.2: Soviet Union/Successor States' Procurements and Imports of Grain, 1981-93

Metric tons in millions

Year (July-June)	Procurement (from Soviet domestic production)	Imports[a]	Total state supply	Imports as a percentage of total supply
1981/82	58.1	47.3	105.4	45
1982/83	69.7	34.3	104.0	33
1983/84	75.6	32.5	108.1	30
1984/85	56.3	55.5	111.8	50
1985/86	73.5	29.9	103.4	29
1986/87	78.8	27.5	106.3	26
1987/88	73.3	32.0	105.3	30
1988/89	61.5	39.0	100.5	39
1989/90	59.1	39.5	98.6	40
1990/91	68.0	29.4	97.4	30
1991/92	42.0	41.6	83.6	50
1992/93[b]	58.5	27.0	85.5	32
Total	**774.4**	**435.5**	**1,209.9**	**36[c]**

[a]Imports are USDA estimates

[b]Preliminary data.

[c]Average for the period 1981-93.

Source: USDA, Economic Research Service.

[9]Former USSR International Agriculture and Trade Report (May 1993).

Food Imports May Allow the State Food Sector to Delay Needed Reform

Aside from possibly propping up state-controlled food processing and distribution enterprises, credit guarantee-assisted food imports may also allow these enterprises to delay undertaking reforms needed to correct inefficiencies in the state food sector that, as discussed, lead to significant food loss. For example, in the absence of credit guarantee-assisted food imports, state food supplies would be reduced. This situation, in turn, could put added pressure on NIS governments to reduce losses in the state food sector that are associated with poor food management, inadequate or poorly sited storage facilities, antiquated or poorly maintained food processing equipment, and a lack of proper transport equipment, including refrigerated trucks.

According to a Congressional Research Service report,[10] although export credit guarantees from the United States and other countries have allowed Russia to continue to import grain, necessitated by the inefficiency of Russia's state-controlled food sector, these grain imports may serve as a disincentive to reform. According to this report, a leading Russian reform economist[11] referred to the importation of grain to compensate for an inefficient food sector as a "drug habit," which, although helping to meet short-term food needs, only intensified long-term problems with the Russian food sector by delaying needed reform.

In addition to delaying reforms necessary to reduce food waste, credit guarantee-assisted food imports may also allow Russia and other NIS to maintain price controls on some food items in order to subsidize the purchase price of these items to consumers. For example, as discussed in chapter 2, a number of the NIS have retained price controls on bread to make this dietary staple more affordable for their citizens. In some NIS, bread supplies derive, in part, from imported wheat. The fact that a newly independent state is importing wheat increases state supplies, whereas if that country could not or did not import wheat, state supplies would be less and that country would likely have to offer higher prices for domestically produced wheat. These factors, in turn, would make it more difficult for a newly independent state to control the selling price of bread to consumers.

In addition, credit guarantees make it possible for a newly independent state receiving these guarantees to import more wheat than it would be able to otherwise. With credit guarantees, a newly independent state can

[10]Russian Reform and G-7 Assistance: The Second Chance, Congressional Research Service (Washington, D.C.: May 1993).

[11]This economist is Nikolai Shmelyev.

purchase wheat now and pay later.[12] In the absence of credit guarantees, this country might not have sufficient hard currency to pay for all the imported wheat it needs to maintain bread prices at artificially low, controlled prices. In addition, U.S. GSM-102 credit guarantees allow a newly independent state to obtain credit at lower interest rates than would be the case if this country were to seek credit from international financial markets without these guarantees. Lower interest rates allow this country to buy larger amounts of imported food. Thus, in the absence of credit guarantees, a newly independent state would likely obtain less food from abroad and, therefore, would be less able to subsidize domestic food prices.

Although price controls may help to ensure an affordable food supply in the absence of alternative social safety net programs such as food stamps, these controls cause increased demand while simultaneously acting as a disincentive to production. In addition, continued price controls on staples such as meat, milk, and bread can put NIS farmers in a price-cost squeeze, since the prices they receive for their commodities are controlled but the prices they must pay for inputs and services needed to operate their farms have been freed.

Food Imports May Be Hindering NIS Domestic Food Production

In addition to possible effects on agricultural reform, credit guarantee-assisted food imports may be hindering NIS domestic food production. For example, according to testimony offered by an official of the Volunteers in Overseas Cooperative Assistance[13] before the House Committee on Agriculture's Subcommittee on Foreign Agriculture and Hunger in March 1993, many Russian farmers, from both private and state farms, reported that U.S. food exports to Russia were making conditions worse for these farmers. According to this official's testimony, these farmers claimed that they were not receiving prices high enough to provide a profit because of this imported food.

[12]For example, under the GSM-102 program, payments of the principal obligation are made in three equal installments on the 12-month, 24-month, and 36-month anniversaries of the date of export of the commodities involved. The terms and conditions of interest payments, including the rate of interest and schedule of interest payments, are determined by negotiation between the bank issuing letters of credit on behalf of the buyer and the U.S. lending bank.

[13]Volunteers in Overseas Cooperative Assistance is a volunteer assistance organization formed in 1970 by U.S. agricultural cooperatives and credit unions. The mission of this organization's Farmer-to-Farmer and Cooperative Assistance programs is to increase the economic opportunities of individual farmers and members of cooperatives and other small- and medium-scale agriculturally based enterprises in foreign countries. For example, in Russia, volunteers from this organization have helped new private farmers with the management and operation of their farms. Volunteers in Overseas Cooperative Assistance receives its funding from both public and private sources; its public funds are provided by the U.S. Agency for International Development under a series of grants.

According to a USDA report,[14] sizable credit guarantee-assisted food imports can undercut NIS domestic food production by creating pressure for lower domestic producer prices. In the absence of foreign credit guarantees for food, NIS governments would likely be unable to import as much food as they currently do. As a result, increased demand for NIS domestically produced food, especially grain, could lead to higher domestic prices, prompting NIS farmers and others in the food system to find ways to grow and market more domestically produced food.[15] Higher prices could also act as an incentive to private entrepreneurs to start food processing and distribution businesses that could provide a more efficient alternative to the state food sector, thus reducing food waste.

In addition, higher prices could increase sales by farms to NIS state food sectors, reducing the dependence of state-owned enterprises on foreign food imports.[16] In the case of grain, NIS governments are generally paying world market prices for imports, but then these governments subsidize the resale price of this grain on NIS domestic markets so that selling prices are comparable to prices paid for domestically produced grain. The subsidies are quite large. For example, according to a USDA report,[17] at a cost of about $91 per ton, in 1992 the Russian government paid prices 30-50 percent higher for imported grain than domestic output. Moreover, at present, because of the disparity between the price paid by NIS governments for imported grain versus that paid for domestically produced grain, a private NIS entrepreneur cannot import foreign-sourced grain at world market prices and expect to recoup the full transaction cost by reselling in NIS domestic markets.

Continued problems with the ruble as a medium of exchange may limit the impact of higher prices both on increasing food production and increasing sales to the state food sector. For example, until Russia undertakes measures to stabilize the ruble, including reducing its budget deficit, limiting the growth of its money supply, and discontinuing the award of easy credits and subsidies to inefficient and unprofitable state enterprises,

[14]Former USSR International Agriculture and Trade Report (May 1992).

[15]Although higher prices may increase NIS domestic food production, food waste resulting from careless handling and infrastructure inefficiencies in the state food sector, as discussed in chapters 1 and 2, is generally a more significant constraint on the adequacy of NIS domestically produced food supplies than levels of production.

[16]Continued dependence on credit-guaranteed food imports increases the foreign debt burden of the NIS. Since these loans need to be paid down, reducing imports of such food would eventually free up hard currency for other uses.

[17]Former USSR Agriculture and Trade Report.

rising inflation will continue to undermine the ruble's purchasing power and thus limit its usefulness. As a result, currency stabilization seems a necessary step to facilitate the transformation of the NIS agricultural command economy to a market basis.

USDA Views on Possible Impact of Credit Guarantee-Assisted Food Imports on NIS Agricultural Reform and Food Production

In July 1993, several USDA officials said that they were aware of the argument that credit guarantee-assisted food imports may hinder reform, but that USDA did not feel that this concern was sufficient reason to dictate U.S. export policy in the NIS. Other USDA officials, while acknowledging that credit guarantee-assisted food imports may hinder agricultural reform to some extent, said that it is not possible to quantify this effect. In addition, USDA officials said that total or even major price decontrol on currently subsidized NIS food products could be profoundly destabilizing to NIS governments and could lead to a wholesale shift away from agricultural pricing reform.

The report of the U.S. Presidential Delegation on Assessment of Soviet Food Needs,[18] which visited several Soviet republics in September 1991, concluded that U.S. food exports channeled through the state food sector could be wasteful and have the effect of providing too much support to the old system at a time when a more market-oriented system is emerging. In addition, in an August 1993 letter to the Chairman of the Senate Committee on Appropriations, the Secretary of Agriculture stated there is no question that in the short term U.S. food assistance to Russia channeled through state monopolies can impede movement to a market economy. The Secretary went on to say, though, that there is also no question, however, that failure to deliver needed food assistance could lead to social unrest and loss of support for Russia's reformist government. Although the Secretary was speaking of donated food assistance, we believe that both donational and credit guarantee-assisted food imports have the potential to adversely affect agricultural reform.

USDA officials also told us that assessing whether U.S. food exports will hinder food production in another country is basically a Bellmon determination[19] issue that applies only to concessional and donational

[18]This delegation was headed by USDA's Under Secretary for International Affairs and Commodity Programs and included a number of other USDA officials.

[19]The Bellmon determination (section 403 of the Agricultural Trade Development and Assistance Act of 1954, as amended) requires the Secretary of Agriculture first to determine that U.S. food commodity exports under the Public Law 480 program (a concessional financing and donational program) will not disrupt domestic agricultural markets in an importing country before the Secretary can authorize such exports.

food assistance and not to a commercial program, GSM-102, where the aim is to increase U.S. agricultural exports. However, so long as the United States wants to promote market reform in the NIS, the fact that there is no legislative requirement should not deter USDA from considering the possible negative impact of credit guarantee food assistance on NIS agricultural production and reform.

NIS Officials Believe Credit Guarantee-Assisted Food Imports Benefit the Overall Economic Reform Process

A number of NIS officials said that the availability of credit guarantee-assisted food imports helps to preclude food shortages, which, in turn, promotes the political and social stability needed for the overall economic reform process to go forward in their countries. According to these officials, these food imports have enabled their countries to obtain enough food to meet consumer demand, particularly in regions experiencing food shortages, such as urban and industrial areas. For example, as discussed, Russia's Federal Grain Fund depends, in part, on imported grain to meet the food needs of certain urban and other areas in Russia.

As another example, Belarus officials said in June 1992 that since the first of the year Belarus had been heavily dependent on imports of U.S. feed grain to maintain bread, poultry, and pork production. Overall, according to these officials, U.S. food and feed grain imports allowed Belarus to maintain a level of bread and meat production necessary to stabilize political and social conditions in their country.

Some Officials Advocate Attaching Conditions to Western Credit Assistance

Some NIS, European, and U.S. officials told us that explicit conditions should be tied to foreign credit assistance to the NIS in order to prod the reform process along. Generally, in the view of these officials, conditional credit guarantee assistance would simultaneously advance the NIS reform process while helping to preclude possible food shortages that could jeopardize the political and social stability needed for this process to succeed.

Some NIS and other officials went so far as to say that the reform process cannot succeed without conditional credit guarantees. For example, a Russian parliament official told us that if the United States and other providers of credit guarantee-assisted food exports to Russia do not attach conditions to these credits, the old system will be preserved. In the view of this official, sufficient impetus for reform does not exist from within the state food sector because some members of the state bureaucracy,

including the directors of state and collective farms and managers of state-owned food processing and distribution enterprises, seek to block the reform process. As a result, this official said that the international community must use economic means, such as attaching conditions to credit guarantees and other credit assistance, to help break down the old system. As an example, this official said that providers of credit guarantee assistance should attach conditions that require the dismantling of the agricultural command structure, including monopolistic state enterprises.

An EC official also advocated that the western nations attach conditions to their food aid and credit guarantee assistance, including a requirement that the NIS maintain or reestablish at least 75 percent of their traditional trade links with other former Soviet republics. According to this official, traditional trade flows for key products and inputs should be retained for several years to ensure a stable transition to a free market system.

In the United States, a number of individuals have indicated support for attaching conditions to U.S. credit guarantee assistance to the NIS. For example, a member of the U.S. House of Representatives' Committee on Agriculture,[20] in testifying in March 1993 before that Committee's Foreign Agriculture and Hunger Subcommittee, suggested that the United States use the leverage of export credit guarantees awarded to Russia or other NIS to encourage the reform process in these countries. According to this Representative, the United States could offer to write down a newly independent state's outstanding GSM-102 debt in exchange for that country's agreement to undertake reforms designed to promote the creation of a democratic, market-oriented state. In addition, according to this Representative, once a newly independent state had agreed to specified reforms, the United States could extend new credit guarantees to that country and release previously approved guarantees that had not yet been allocated for sales. This House member also proposed legislation in March 1993 that included the above suggestions.[21]

[20]This member is Representative Dan Glickman of Kansas.

[21]See the Debt for Democracy Act of 1993 (H.R. 1221). According to Representative Glickman, the legislation, if adopted, would give the President of the United States the authority to undertake the actions recommended by the Representative notwithstanding provisions of the Agricultural Trade Act of 1978, as amended, that prohibit (1) the use of USDA's export loan programs for foreign policy purposes and (2) the extension of credit to countries unable to service the debt.

In another case, as reported by The Washington Post in March 1993,[22] a Harvard economist[23] noted for advising countries undergoing the transition from command-based to market-based economies, including Russia, has voiced support for conditional credits. According to this economist, future western aid to Russia should be strictly conditioned on progress in implementing reforms, with each step forward rewarded with the release of additional aid, and each step back triggering a cut in this aid. In addition, he said that for the West to continue, as it did in 1992, providing Russia with short-term credits without conditions requiring progress on Russia's reforms would be "preposterous."

In addition, according to a report prepared by the Congressional Research Service,[24] some U.S. observers have suggested that U.S. grain sales under the export credit guarantee program be used creatively to bring about reform. For example, according to these observers, these grain sales could be used to introduce price incentives that would encourage Russian farms to sell more of their output to the state or through other emerging market mechanisms rather than reinforce the existing monopolistic grain marketing bureaucracy, which is fearful of losing its political control and influence.

USDA Considers It Inappropriate to Attach Conditions to Credit Guarantees

USDA officials said that their agency regards the GSM-102 program as a commercial program and thus does not consider it appropriate to attach conditions, such as specific reforms to be undertaken, to the receipt of credit guarantees. According to these officials, the GSM-102 program is commercial because it assists sales made by the U.S. private sector at market interest rates and repayment terms, and thus the buyer pays all of the true costs of the transaction.

Although USDA views the GSM-102 program as being commercial, the program nevertheless affords a recipient of export credit guarantees certain benefits. For example, most recipient countries would find it difficult, if not impossible, to obtain commercial financing without a U.S. government guarantee against loan default. Moreover, even if some of these countries were able to obtain commercial financing without such a

[22]See "Historic Chance to Aid Ailing Russia Said to Be Slipping Away," The Washington Post, March 1, 1993.

[23]This economist is Professor Jeffrey Sachs.

[24]U.S. Agricultural Assistance to the Former Soviet Union: Policy Issues.

guarantee, they would likely have to pay a premium above market interest rates because of the lender's concerns over possible default.

Although Not Related to Agricultural Reform, USDA and the European Community Have Attached Conditions to Past Credit Guarantees

Although USDA officials said that it is inappropriate to attach conditions to credit guarantees, during 1991 the U.S. government did express concerns to Soviet officials that food purchased under two export credit guarantee protocols (or agreements) provided that year be fairly distributed within the Soviet Union. As a result, Soviet officials provided assurances of equitable distribution under both protocols. For example, the protocol document signed by representatives of the U.S. and Soviet governments in November 1991 included a paragraph that stated, in part, that both sides agreed that there would be a fair and equitable distribution of the agricultural commodities purchased by the Soviet Union under the agreement. Thus, we believe, USDA has attached "conditions" to the award of credit guarantees in the past. (The 1991 protocols and Soviet assurances of the fair distribution of the food purchased under these agreements are discussed further in ch. 4.)

EC officials told us in June 1992 that credit assistance provided by the European Community to the former Soviet Union or the NIS had not included conditions. However, these officials did not take the view that the commercial nature of export credit guarantees precluded attaching conditions. For example, according to an EC official, the European Community had intended to tie reform-related conditions to an EC credit guarantee package awarded to Russia in May 1992, but deferred after the Russian government objected. According to this EC official, the Russian government argued that conditions should not be attached to a commercial transaction. Nevertheless, despite further Russian objections, the European Community did require Russia to agree to purchase up to 25 percent of the food commodities bought under this credit guarantee package from East European countries. According to EC officials, the European Community included this provision in the credit guarantee protocol in order to reestablish traditional agricultural trade links between Russia and countries in Eastern Europe. These EC officials said that the European Community views the reestablishment of these traditional trade links as being vital to the economic well-being of all the countries involved.

Arguments for Attaching Conditions to the Award of Export Credit Guarantees

A number of arguments can be made for attaching conditions to U.S. export credit guarantees awarded the NIS. For example, if credit guarantee-assisted food imports are hindering NIS agricultural reform by

propping up monopolistic state enterprises, or if these imports are otherwise delaying needed reform in the state food sector, then attaching conditions to these credit guarantees, such as requiring progress in the privatization of food processing and distribution, may help to counteract this effect. Conditions could also be attached to credit guarantees that require progress in other areas of agricultural (or economic) reform, such as price liberalization, including the elimination of subsidies, and farm restructuring. Further, conditions could be designed to discourage retrenchment on reforms already implemented or announced.

Conditions designed to prod the NIS reform process may have merit for other reasons too. In a major policy statement on April 1, 1993, the President of the United States said that nothing could contribute more to global freedom, security, and prosperity than the peaceful progression of Russia's transformation from a totalitarian state into a democracy, a command economy into a market, and an empire into a modern nation state. However, the President noted, this outcome is not assured. According to the President, America's interests lie with Russian reform and Russian reformers, and America's position is to support democracy and free markets in Russia and the other NIS.[25]

Also, according to USDA officials, without the successful implementation of NIS agricultural reforms, little improvement in NIS domestic food production, including elimination of waste associated with food processing and distribution, is likely. Moreover, without such improvements, the NIS will continue to be dependent on imported food, using scarce hard currency resources for food imports that could otherwise be used for other needed imports and servicing their debts. For example, the NIS could use these resources to import technology needed to modernize their agricultural and industrial sectors.

In addition, according to a U.S. food processing company official,[26] the Russian food processing sector has the potential to respond to free market changes more rapidly than other industries. This company official said that private farming, small-scale processing, private shops, and food marketing

[25]As stated in chapter 1, the 1990 Farm Bill prohibits the Secretary of Agriculture from awarding credit guarantees for, among other reasons, foreign policy reasons. However, according to USDA officials, this legislative restriction does not mean that credit guarantee assistance cannot simultaneously serve foreign policy objectives if a recipient country is first judged to be capable of servicing the debt associated with this assistance and there are market retention or development objectives being served.

[26]The Vice President for International Development, Land O'Lakes, Inc., in testimony given to the Subcommittee on Foreign Agriculture and Hunger, House Committee on Agriculture, on March 31, 1993.

are among the few occupations that individuals can undertake, compared to more capital-intensive activities in other sectors that will require years to restructure, privatize, and modernize. Moreover, food availability and the cost of food are politically sensitive, and improvements would be a major departure from the Communist past and would present early evidence that reforms are succeeding. This company official added that U.S. foreign assistance programs must avoid strengthening the central institutions of the old Communist system that are still largely in control of all productive sectors in Russia.

One specific condition that USDA could attach to the award of future credit guarantees would be that some credit-assisted food imports be offered for sale on the numerous private commodity exchanges that have sprung up in the NIS in the last 2-3 years. According to a USDA report,[27] sales by these exchanges would not only invigorate new marketing channels, but also would help define appropriate market prices.

Another condition that USDA could attach to future credit guarantees would be to require the NIS to ensure that at least some credit-assisted feed imports are made directly available to private farmers at prices comparable to those paid by state and collective farms. As discussed, feed imports are currently purchased by NIS state structures and distributed to state and collective farms. Private farmers must then try to purchase feed from these farms, often at prices greater than those paid by these farms to the state (see also app. III). We believe that such a condition could help to promote the private farm movement and the creation of alternative private sector structures to handle the processing and distribution of both domestic and imported feed.

According to USDA officials, in the past USDA had informally asked Soviet authorities to channel some of the grain purchased under export credit guarantees awarded to the Soviet Union to private structures (i.e, not part of the state food sector). However, although the Soviets agreed to this request, these USDA officials said that USDA had no way to monitor or enforce Soviet compliance.

In addition, according to one USDA official, the only real answer to ensuring that U.S. credit guarantee-assisted food exports are channeled to the NIS private sector is to have a separate GSM program open only to the private sector, thus bypassing a country's government. However, according to this official, this would be difficult to do. For example, this official explained

[27]Former USSR International Agriculture and Trade Report (May 1992).

that USDA has a standard policy, applied to nearly all countries receiving GSM-102 export credit guarantees, of requiring a credit guarantee assurance letter from the importing country's government. This letter obligates the importing country's government to make good on any defaults by banks in its country participating in the GSM-102 program.[28] The letters are intended to reduce the risk of nonrepayment due to default.

In practice, according to a USDA official, credit guarantee assurance letters are usually provided by importing countries' governments only for imports by government agencies or for transactions to which a government-owned bank is a party. In the case of the NIS, this official said that it is doubtful that the Russian or other NIS governments would be willing to sign credit guarantee assurance letters to cover private sector imports. This reluctance could stem, in part, from a government's concerns over possible default by the importer. In addition, an NIS government may not want to facilitate the receipt of credit guarantees by private importers if it believes that there will be a related reduction in the amount of credit guarantees offered to the state sector in that country.

According to a USDA official, if NIS governments should refuse to issue credit assurance letters on behalf of private importers, USDA would likely offer only a relatively small GSM guarantee facility for the private sector in these countries, if at all. In general, according to this official, USDA's desire to keep the risk of nonrepayment due to default to a manageable level creates an inherent program bias in favor of government purchasers and against private sector purchasers.

Arguments Against Attaching Conditions to the Award of Export Credit Guarantees

A number of arguments exist against the attachment of conditions to credit guarantees. For example, USDA officials said that it would not be appropriate to use export credit guarantee sales as a lever for NIS reform progress because the primary focus of these sales is the promotion of U.S. agricultural exports. According to these officials, to use the program as a development tool of the U.S. government is to distort its legislative

[28]A credit guarantee assurance letter makes the government of the buying country financially responsible for letters of credit issued by banks in that country to obtain the credit guarantees. Thus, if a bank issuing letters of credit should default on the associated credit guarantee loan payments, the government of the buying country is legally responsible for reimbursing the U.S. government for payments the latter must make to the U.S. lending bank(s) to cover payment defaults.

purpose to promote U.S. food exports.[29] Moreover, USDA officials said that legislative proscriptions against using the export credit guarantee program for foreign aid, foreign policy, or debt rescheduling purposes[30] reinforce the conclusion that reform-related conditions should not be attached to credit guarantee sales.

Another argument against attaching conditions to credit guarantees is that such an action, if undertaken unilaterally by the U.S. government, could result in loss of market share to the United States.[31] This event could happen because Russia or other NIS may find conditional credit guarantees so objectionable that they would decline to accept U.S. guarantees on this basis. For example, USDA officials said that attempting to attach conditions to U.S. export credit guarantees sales to the NIS is nearly certain to lead to a ton-for-ton displacement of these exports to the NIS and a consequent decline in U.S. exports, as NIS governments turn to non-U.S. suppliers for these same commodities.

We agree that Russia or other NIS may decline conditional credit guarantees from the United States, or, if available, may opt to accept unconditional credit guarantees from another country in lieu of U.S. conditional credit guarantees. However, we believe that the degree to which U.S. market share is lost would depend on how readily the United States could recoup lost exports to the NIS by increasing its exports to other nations. The potential to increase exports to other nations would depend on factors including global supply and demand, and U.S. production costs relative to those of other countries.

A further argument against attaching conditions to credit guarantees is that the advancement of agricultural reform in the NIS could also result in a loss of U.S. market share. For example, according to a Congressional

[29]According to USDA officials, USDA nonetheless understands the long-term value of developing alternative marketing systems for U.S. food exports to the NIS. To this end, in fiscal year 1993, USDA undertook to market over 800,000 tons of U.S. grains provided on a donation basis to Russia through private commodity exchanges. In addition, according to an August 1993 letter from the Secretary of Agriculture to the Senate Committee on Appropriations, the United States has encouraged the Russian government to channel food assistance through the private sector, even to the point of requiring private sector involvement in one of the most recent bilateral food assistance agreements signed between the two countries.

[30]These proscriptions are contained in section 202 (e) of the Agricultural Trade Act of 1978 (see ch. 1), as amended by section 1531 of the Food, Agriculture, Conservation, and Trade Act of 1990.

[31]If several countries, including the United States, were to attach conditions to awards of credit guarantees, it would be desirable for these countries to coordinate these conditions so that they have a complementary or additive effect in promoting NIS reform. However, achieving this level of cooperation among countries who are competing with one another for market share may be difficult.

Research Service report,[32] if the United States conditions export credit guarantee sales in ways that speed up the process of Russian agricultural reform, Russia will likely over time become more self-sufficient in producing wheat and feed grain and become less important as a key market for U.S. exports of these commodities. However, this report went on to say that even as this scenario might unfold, U.S. exports of soybeans and soybean meal could very well increase, as could U.S. exports of higher-valued food products, agricultural and food processing equipment and machinery, and agricultural and food technology.

[32]U.S. Agricultural Assistance to the Former Soviet Union: Policy Issues.

Amount and Distribution of U.S. Credit Guarantee Food Assistance Provided to the Former Soviet Union

Before the former Soviet Union was dissolved in December 1991, the United States had announced that it was making available to that country $3.75 billion in GSM-102 export credit guarantees under three separate protocols.[1] Specifically, USDA announced $1 billion in December 1990, $1.5 billion in June 1991, and $1.25 billion in November 1991. Virtually all of the $3.75 billion announced was subsequently allocated to the former Soviet Union ($3.744 billion).[2]

At the same time, due to the growing political and economic crisis in the former Soviet Union during 1991, concerns were raised in the United States as to whether food imported by the Soviet Union under the GSM-102 Export Credit Guarantee Program was being equitably distributed among the Soviet republics. For example, concerns were voiced about whether the Soviet government might withhold imported food from one or more of the republics in order to pressure them politically or to dissuade them from declaring their independence from the union.

Because USDA regards the GSM-102 program as commercial in nature, as discussed in chapter 3, USDA officials said no formal conditions regarding food distribution among republics were attached to the credit guarantees awarded to the former Soviet Union. USDA did, however, seek assurances from the Soviet government that the food imported under protocols signed in 1991 would be equitably distributed among the republics.[3] In response, the Soviet government provided formal assurances regarding equitable distribution in the protocols signed in June and November 1991. In addition, in November 1991, the republics signed a formal agreement among themselves specifying a formula for fair distribution of imported food.

[1]An additional $2.2 billion in GSM-102 credit guarantees were offered to the NIS on a country-by-country basis after December 1991. All credit guarantees provided to the former Soviet Union and NIS since December 1990, including the commodities purchased with these guarantees, are discussed in appendix I.

[2]An announcement occurs when USDA publicly advises that it will make available a stipulated amount of dollars for credit-guaranteed sales to a particular country. An allocation occurs when USDA publicly advises how an amount previously announced for a country will be apportioned for sales of specific food commodities.

[3]According to USDA officials, in addition to concerns over the possible use of credit guarantee-assisted food imports by the Soviet government to politically leverage individual republics, USDA had other reasons to encourage an equitable distribution of this food. For example, a USDA official said that USDA sought a fair distribution of this food in order to extract from the republics a statement of joint and several liability for the indebtedness of the Soviet Union associated with its receipt of GSM-102 credit guarantees. Also, according to another USDA official, USDA sought an equitable distribution of these commodities to ensure its continuing access to the emerging markets of the fracturing Soviet Union.

NIS and USDA officials stated that the food purchased by the Soviet Union with U.S. credit guarantees was fairly distributed, with one confirmed exception. USDA officials said, however, that they did not monitor this distribution due to the commercial nature of the program and a lack of staff to do so. Instead, these officials said that any significant deviance from this distribution would have been called to their attention by government officials, such as grain ministers, in each of the republics/NIS.[4]

Concerns Regarding the Distribution of U.S. Credit Guarantee Food Assistance to the Former Soviet Union

In October 1991, a high-level delegation of U.S. government and private sector officials visited the Soviet Union to assess agricultural conditions and the need for additional U.S. export credit guarantees. The delegation found that officials in various republics lacked confidence in the Soviet government's ability to deliver food and its commitment to a fair distribution of this food. Similar concerns were raised in the United States during 1991, including the possibility that the Soviet government would withhold imported food from some republics as a means of political blackmail. As a result, the U.S. delegation recommended that assurances regarding equitable distribution should be obtained by the U.S. government when extending additional credit guarantees to the Soviet Union.

The dissolution of the Soviet Union in December of 1991 further complicated the issue of food distribution. As discussed in chapter 2, significant disruptions in traditional trade flows have developed among the NIS. Also, as discussed in chapter 1, significant political conflicts are affecting relations among the NIS. These conflicts could prompt some of the states to take punitive measures, such as trade embargoes, against their neighbors. For example, much NIS imported food arrives in Ukrainian ports on the Black Sea, such as Odessa. The food is then moved overland by rail, truck, or barge to other NIS. As food is being transported through one NIS country to another located farther from the Black Sea ports, it could be interdicted before reaching its intended destination.

[4]GSM-102 food commodities purchased under the December 1990 and June 1991 protocols were delivered and distributed to the Soviet republics before the dissolution of the Soviet Union in December 1991. However, delivery and distribution of GSM-102 commodities purchased under the November 1991 protocol did not start until early 1992, after the Soviet Union's dissolution. Hence, these commodities were distributed to the NIS (former republics).

Soviet Government Provided Assurances of Fair Distribution Among Republics

USDA officials said that in 1991 the United States told Soviet officials that it would expect food purchased with GSM-102 credit guarantees to be equitably distributed among the Soviet republics. Accordingly, Soviet officials provided assurances that commodities covered by the June and November 1991 credit guarantee protocols would be fairly distributed. For example, as part of the June 1991 protocol, the U.S. Secretary of Agriculture and a Soviet deputy prime minister signed letters confirming their mutual understanding that the commodities purchased under the protocol would be fairly distributed among the republics.

Regarding the November 1991 protocol, the U.S. Ambassador to the Soviet Union and the Chairman of the Inter-State Economic Committee of the Soviet Union[5] signed an agreement in which both sides acknowledged that there should be fair and equitable distribution of the agricultural commodities purchased under the protocol. This agreement noted that arrangements to achieve the goal of fair distribution were being made between the Inter-State Economic Committee and the individual Soviet republics and that the committee would inform the United States of any decisions reached. Subsequently, the committee and the individual republics arrived at a formula specifying how food imported under the November protocol would be distributed among the republics.

The formula agreed to by the republics was based on factors such as the relative share of each republic of the total population and budget of the former Soviet Union. The relative need for food imports on the part of each republic was also a factor. Based on this interrepublic formula, percentage shares were specified for each republic for grain, soybean meal, soybeans, and vegetable oil. Table 4.1 provides the specific percentages of each commodity by republic.

[5]This committee represented all of the republics, with the exception of the Baltic republics of Estonia, Latvia, and Lithuania, and constituted a body of the Soviet government.

Table 4.1: Percentage Shares of U.S. GSM-102 Agricultural Commodity Imports by Soviet Republic, November 1991

Percent

Country	Grain	Soybean meal	Soybeans	Vegetable oil
Armenia	2.0	0.5	4.0	1.1
Azerbaijan	2.9	0.9	3.3	1.7
Belarus	8.2	5.1	[a]	6.5
Georgia	3.4	1.3	[a]	3.1
Kazakhstan	5.6	4.4	9.3	2.2
Kyrgyzstan	2.6	0.7	4.0	0.9
Moldova	2.1	0	11.3	0.4
Russia	50.4	63.6	24.0	75.2
Tajikistan	3.3	0.9	3.3	0.9
Turkmenistan	2.1	0.5	[a]	0.4
Ukraine	7.0	21.2	10.0	5.2
Uzbekistan	8.3	0.9	28.0	2.4
Common needs	2.1	0	[a]	0
Total	**100.0**	**100.0**	**97.2**	**100.0**

[a]Not reported.

Source: USDA, Foreign Agricultural Service (from schedules provided by the Inter-State Economic Committee of the Soviet Union).

Distribution of Credit Guarantee Food Assistance Was Generally Equitable

According to NIS and USDA officials, the GSM-102 agricultural commodities purchased under the protocols signed in December 1990 and in June and November 1991 were generally equitably distributed among the republics/NIS. The importation and distribution of GSM-102 grain and soybeans was handled by the Moscow-based foreign trade association, Exportkhleb,[6] on behalf of the former Soviet government and, subsequently, the NIS. The importation of vegetable oil was handled by another Moscow-based foreign trade association, Prodintorg.[7] However,

[6]Formerly the All-Union Foreign Trade Amalgamation for Import/Export of Grain and Grain Products, Exportkhleb was a state enterprise prior to the dissolution of the Soviet Union. At that time, Exportkhleb had exclusive responsibility for imports and exports of grain on behalf of the Soviet government. After December 1991, Exportkhleb became a joint stock company, with 67 shareholders, including the governments of Russia and several other NIS. Currently, the firm offers its services to NIS governments and state grain enterprises as an intermediary for purchasing foreign grain. For example, Exportkhleb handled grain imports on behalf of Russia during 1992.

[7]Formerly an All-Union Foreign Trade Amalgamation, Prodintorg was a state enterprise before the dissolution of the Soviet Union with exclusive responsibility for buying vegetable oil and other nongrain food commodities on behalf of the Soviet government. As of June 1992, Prodintorg officials said that their firm was still state owned (by the Russian government), but that it would become a joint stock company in the near future.

the distribution of vegetable oil was orchestrated directly by government authorities, according to Prodintorg officials.

Overall, the only significant distribution anomaly that we could confirm dealt with a diversion of grain intended for Armenia by Azerbaijan under the November 1991 protocol. In addition, according to Exportkhleb officials, the interrepublic formula percentages applicable to the distribution of soybeans under the November 1991 protocol were not strictly followed. According to these Exportkhleb officials, an interstate commission formed by the NIS directed this alternative distribution.

Distribution of Grain Under the November 1991 Protocol Was Generally Equitable

Both NIS and USDA officials posted in Moscow said that the grain purchased under the November 1991 protocol was, with one confirmed exception, equitably distributed to the NIS in accordance with the interrepublic formula.[8] For example, USDA officials told us that they received monthly reports from Exportkhleb on the grain distribution (a more detailed discussion of Exportkhleb's role in handling GSM-102 grain receipts and distribution is contained in app. IV). Moreover, these officials said they spoke with grain ministers in the NIS on an ad hoc basis to confirm grain receipts, as discussed in the following sections. According to these USDA officials, if an NIS had been shorted its allotment of grain as specified in the interrepublican formula, they would have heard from that country's grain minister. The only distribution problem noted by USDA officials and confirmed by Exportkhleb officials was a diversion of 42,000 metric tons of grain destined for Armenia but interdicted and seized by Azerbaijan.

USDA officials in Moscow indicated, however, that they had on occasion received complaints about grain distribution from NIS officials other than grain ministers. However, after discussing these allegations with grain ministers in the NIS involved, the USDA officials said they determined that the allegations were unfounded. According to these officials, it is the grain ministers in each NIS that have responsibility for tracking their country's purchases and receipts of grain, including GSM-102 grain. Consequently, these officials have the most accurate and timely information on grain

[8]Our assessment of GSM-102 food distribution primarily focused on food purchased under the November 1991 protocol. This decision was made for two reasons. First, explicit, known criteria exist for the distribution of agricultural commodities under this protocol—namely, the interrepublic distribution formula. Hence, NIS officials were able to compare their country's actual food receipts with its allotment under the formula. Second, delivery of agricultural commodities purchased under this protocol did not commence until after the dissolution of the Soviet Union in December 1991. Because central control and enforcement of food distribution among republics ended with the demise of the Soviet Union, it was seemingly less certain that the distribution called for in the interrepublic formula would be carried out.

receipts. Thus, according to the USDA officials, allegations by other NIS officials of distribution anomalies were viewed as suspect until discussed with the cognizant grain minister.

While visiting the NIS, we also heard conflicting accounts from officials of the same country about whether that country had received all of its allotted grain. For example, in Uzbekistan, officials in that country's Ministry of Foreign Economic Affairs said in May 1992 that their country had not received any GSM-102 grain under the November 1991 protocol. In addition, a U.S. embassy official in Uzbekistan said that the embassy had also received a complaint from Uzbekistan's President alleging the same problem. However, that same month, officials of Uzbekistan's grain ministry (Ministry of Cereal Products) told us that Uzbekistan had received all of the GSM-102 grain it was entitled to under the November protocol.

Azerbaijan Diverted GSM-102 Grain Destined for Armenia

As stated, USDA and Exportkhleb officials confirmed that approximately 42,000 metric tons of U.S.-sourced grain destined for Armenia by rail was diverted by Azerbaijan while passing through this latter country in early 1992. This grain was part of that purchased under the November 1991 protocol. Although Azerbaijan's actions were unexplained, USDA officials in Moscow speculated that the diversion was related to the ongoing conflict between Azerbaijan and Armenia over the disputed territory of Nagorno-Karabakh. As discussed in chapter 1, Azerbaijan has imposed an economic embargo on Armenia in an attempt to prevent the flow of vital goods into that country.

In June 1992, Exportkhleb officials indicated that they were attempting to redirect GSM-102 grain shipments destined for Azerbaijan to Armenia to compensate the Armenians for the diverted grain. However, these officials also said that most of the grain to be delivered under the November 1991 protocol had already been received and distributed. Thus, there was not enough U.S.-sourced grain still in transit for Azerbaijan to divert to Armenia to fully recompense that country for its lost grain. Consequently, Exportkhleb officials said that they were hoping to divert wheat flour in transit for Azerbaijan to Armenia as alternative compensation. These officials said, however, that they could not execute this transfer without the permission of the Government of Azerbaijan. These officials explained that Exportkhleb was only an importing agent for the NIS and, therefore, had no authority to redirect shipments without the permission of the countries involved. Exportkhleb officials expressed pessimism about

whether Azerbaijan would agree to any kind of transfer to compensate Armenia.

Distribution of Soybeans Under the November 1991 Protocol Did Not Follow Interrepublic Formula

As stated, according to Exportkhleb officials, the distribution of soybeans imported under the November 1991 protocol did not follow the interrepublic formula. These officials said that this alternative distribution was directed by an interstate commission formed by the NIS to oversee the importation and distribution of food products purchased jointly using foreign credits.[9] This interstate commission provided Exportkhleb with distribution instructions for both grain and soybean imports under the November 1991 protocol.

According to a schedule prepared by Exportkhleb for USDA officials in Moscow,[10] under the alternative distribution scheme Russia's share of soybeans was nearly doubled from 24 percent to 45.5 percent. The shares of Armenia, Moldova, and Tajikistan were also increased, although modestly so. The share of Uzbekistan was reduced by more than half, from 28 percent to 13.2 percent, and Azerbaijan's 3-percent share under the interrepublic formula was eliminated. The shares of Kazakhstan, Kyrgyzstan, and Ukraine were also reduced somewhat. The shares of the remaining NIS—Belarus, Georgia, and Turkmenistan—remained unchanged at 0 percent. Table 4.2 shows the distribution percentages for the NIS under both the interrepublic formula and the interstate commission's revisions, as well as the quantity of soybeans delivered to each country.

[9]In February 1992, the NIS signed an agreement forming this interstate commission. Among other things, this agreement (1) designated Russia as the guarantor and negotiator on behalf of all NIS in matters related to the use of foreign credits for the purchase of food, (2) stated that the commission would follow the formula agreed to in November 1991 by the former republics regarding the distribution of imported food, (3) established a working group from among the commission members to oversee food imports and coordinate their delivery to member states, and (4) stated that the commission would use Exportkhleb and Prodintorg to handle food imports and associated commodity and freight payments.

[10]This schedule is undated. A copy of it was provided to us in early May 1992 by USDA officials in Moscow. According to USDA officials, this schedule was the most recent information received from Exportkhleb on the distribution of soybeans under the November 1991 protocol.

Table 4.2: Original and Revised Percentages for the Distribution of Soybeans Under the November 1991 Protocol

Percent

Country	Original percentages per interrepublic formula	Revised percentages per interstate commission	Quantity of soybeans received (thousand metric tons)
Armenia	4.0	4.3	9.0
Azerbaijan	3.3	0	0
Belarus	0	0	0
Georgia	0	0	0
Kazakhstan	9.3	7.7	16.0
Kyrgyzstan	4.0	3.2	6.8
Moldova	11.3	11.6	24.0
Russia	24.0	45.5	93.9
Tajikistan	3.3	4.8	10.0
Turkmenistan	0	0	0
Ukraine	10.0	9.7	20.0
Uzbekistan	28.0	13.2	27.3
Total	**97.2**	**100.0**	**207.0**

Note: Exportkhleb provided no explanation as to why the total percent under the interrepublic formula equals 97.2 percent rather than 100 percent. Similarly, interrepublic formula documentation originally provided to USDA by the Inter-State Economic Committee of the Soviet Union offered no explanation as to why this total was only 97.2 percent. In addition, this same documentation did not report percent values for Belarus, Georgia, and Tajikistan (see table 4.1), whereas Exportkhleb reported their shares as 0 percent under the interrepublic formula.

Source: USDA officials, Moscow (Exportkhleb data).

In June 1992, Exportkhleb officials said that they did not know why the percentages for soybean distribution were changed by the interstate commission. During our work in the NIS visited, we did not hear any complaints from NIS officials about these revised percentages. However, in Uzbekistan, officials of the state firm Uzbekprom, which is responsible for Uzbekistan's soybean imports, said in May 1992 that their country had received none of its soybeans under the November 1991 protocol. According to these officials, the Uzbekistan government was making inquiries to Exportkhleb for an explanation as to why Uzbekistan had not received its share of soybeans. As noted in table 4.2, Exportkhleb's records showed that Uzbekistan had received 27,300 metric tons of soybeans.

Other Allegations of Unfulfilled Grain or Vegetable Oil Deliveries

In addition to the allegations by some Uzbekistan officials concerning their country's grain allotment (discussed earlier), officials in other visited NIS said that their respective country had not received all of its allotted grain or vegetable oil under the November 1991 protocol. We were unable, however, to obtain complete explanations confirming or disproving these allegations.

In one case, the Minister of Agriculture in Kazakhstan stated that as of May 12, 1992, his country had received only 332,800 metric tons of GSM-102 grain out of an anticipated allotment of 470,000 metric tons based on the interrepublic formula.[11] When we discussed this allegation with Exportkhleb officials in June 1992, these officials expressed surprise at the Minister's claim, adding that when they had met with the Minister in early May, this official had not voiced any complaints concerning Kazakhstan's grain receipts. Exportkhleb officials said that some of the grain destined for Kazakhstan was probably still in transit within the NIS.

In another example, NIS officials in Belarus claimed in May 1992 that their country had been shorted on its allotment of vegetable oil under the November protocol. For example, Belarus officials claimed that their country had received only a 2.5-percent share of vegetable oil although the interrepublic formula called for Belarus to receive a 6.5-percent share. When we discussed this allegation with Prodintorg officials in June 1992, these officials stated they were unaware of the allegation. Moreover, these officials said that the Russian Ministry of Economy, not Prodintorg, was responsible for directing and monitoring the distribution of vegetable oil among the NIS. Although we requested a meeting with the Ministry of Economy to discuss the distribution of U.S.-sourced vegetable oil, the Ministry declined to meet with us.

At our final meeting with USDA officials in Moscow in June 1992, they said that they had not been contacted by NIS officials regarding either of these allegations. Concerning the claims of Kazakhstan's Minister of Grains, these officials speculated, as had Exportkhleb officials, that some of Kazakhstan's GSM-102 grain was still in transit within the NIS. According to the USDA officials, grain generally moves slowly through the internal distribution system of the NIS. They also pointed out that, in the case of Kazakhstan, this transit time was magnified by the tremendous distances

[11]The Minister provided us with a schedule showing Kazakhstan's receipts of GSM-102 grain and soybean meal from January 1992 through May 12, 1992. According to the schedule, in addition to being short 137,000 metric tons of grain, Kazakhstan had only received 3,000 metric tons of soybean meal out of an allotment of 16,700 metric tons.

between Black Sea ports, such as Odessa, and the northern and eastern regions of Kazakhstan.

Regarding the claim of Belarus officials concerning vegetable oil, these USDA officials said that if the allegation was true, they were uncertain why Belarus had been shorted its allotment. According to these officials, they did not receive or request monthly reports from Prodintorg or the Russian Ministry of Economy as to U.S.-sourced vegetable oil receipts and distributions. These officials said that because the vegetable oil component of the November 1991 protocol was very small compared to the grain component, they had not sought monthly reporting on vegetable oil receipts and distribution as had been provided by Exportkhleb for grain receipts and distribution.[12]

USDA Officials Did Not Monitor the Distribution of Credit Guarantee-Assisted Food Imports

USDA officials in Moscow said that their office did not monitor the receipt and subsequent distribution of the agricultural commodities received under any of the credit guarantee protocols signed with the former Soviet Union. Because USDA believes the GSM-102 program to be a commercial program, as discussed in chapter 3, these officials said that it would not have been appropriate for U.S. personnel to attempt on-site monitoring of grain receipts at NIS ports or at grain elevators in individual republics/NIS. Moreover, USDA officials in both Washington and Moscow said that the USDA office in Moscow is insufficiently staffed to do such monitoring.[13]

USDA officials in Moscow also said that on-site monitoring of GSM-102 grain deliveries made before the Soviet Union's demise would have had little effect on the Soviet government's ability to politically leverage a republic by withholding grain from it. These officials explained that even if USDA on-site monitors had verified deliveries of GSM-102 grain to a republic, Soviet officials could still have withheld grain from other sources to pressure that republic.

In addition, USDA officials in Washington and Moscow said that on-site monitoring of NIS grain receipts under the November 1991 protocol was not needed because NIS grain ministers carefully tracked their country's

[12]Total allocations of grain announced by USDA under the November 1991 protocol were approximately $833 million. In contrast, total vegetable oil allocations were approximately $45 million. Other commodity allocations under this protocol, and their approximate value, included protein meals ($169 million), soybeans ($68 million), hops ($5 million), and almonds ($5 million). About $125 million of the protocol's available credit guarantees were allocated to cover freight costs to ship these commodities.

[13]As of June 1992, USDA staffing at the U.S. embassy in Moscow included three USDA employees.

receipts of this grain to ensure compliance with the interrepublic formula. According to these USDA officials, if an NIS country had been shorted, its grain minister would have complained to the U.S. embassy in Moscow. Moreover, USDA officials in Moscow confirmed that Exportkhleb provided them with a monthly report on the distribution of GSM-102 grain. According to these officials, the Exportkhleb reports provided a basis to verbally verify grain receipts with NIS officials.

Food Situation in the NIS

According to NIS officials and other sources, food supplies in the former Soviet Union and the NIS were generally sufficient during 1991 and 1992.[1] However, although starvation was not a concern during those years, NIS officials said that some food shortages existed, including shortages of feed grains and dairy products. In addition, rising food prices during 1992 made it increasingly difficult for NIS citizens, especially vulnerable population groups, such as the elderly, sick, and unemployed, to purchase all of the food they wanted or needed.

Food shortages experienced by the former Soviet Union and NIS in 1991 and 1992, respectively, resulted from a variety of factors, including declines in agricultural production, decreased sales of agricultural commodities by farms to state procurement agencies, and reduced food imports. In addition, certain areas of the former Soviet Union or NIS, such as large urban and heavily industrialized areas, and rural villages, were particularly susceptible to potential food shortages.

NIS aggregate grain production in 1992 increased over that of the former Soviet Union in 1991 as a result of higher yields. Nevertheless, the 1992 harvest lagged behind that of the near-record harvest of 1990. Factors such as climate and environmental conditions, as well as the availability of agricultural inputs, level of private food production, and availability of foreign credits for food imports, will determine the status of the NIS' future food situation. For example, many of the NIS, including Russia, will continue to need foreign credit-assisted food imports in order to meet all of their populations' food needs. In addition, the success of nascent agricultural reforms, as discussed in chapter 2, in reducing waste associated with food processing, storage, and transport will also be an important factor in determining the future food situation.

Food Situation During 1991 and 1992

During 1991 and 1992, food was generally available in both state stores and private markets in the NIS visited. However, the volume of food delivered to state stores was lower than in previous years due to reductions in state procurements. In 1991, this reduction was caused in part by a poor grain harvest. In addition, food imports—which are controlled and distributed by the state—decreased by 18 percent in 1991 from 1990 levels. This

[1]According to a USDA Economic Research Service analyst, per capita consumption levels of flour, vegetables, melons, potatoes, and eggs were higher in the former Soviet Union than in the United States. Per capita consumption of meat in the former Soviet Union was close to that of some developed West European countries such as the United Kingdom and Sweden. The per capita level of caloric intake was almost the same as that in the United States. At the same time, however, diets varied greatly by region within the former Soviet Union.

reduction was a result of waning foreign exchange earnings, a deterioration in the creditworthiness of the former Soviet Union, and the collapse of the Council for Mutual Economic Assistance, a Communist-bloc trading organization established in 1949.[2] In both 1991 and 1992, the reductions also resulted from a reluctance on the part of state and collective farms to sell their produce to the state procurement agencies.

Food Situation in 1991

Several factors heavily influenced the food supply and demand in the former Soviet Union during 1991. First, a severe drought caused a drastic reduction in crop yields that year, particularly for grain production in Kazakhstan and parts of Russia. For example, Kazakhstan, normally a net grain exporter, recorded its lowest grain yields since the so-called 1975 "drought of the century"; as a result, it had to import grain. The 1991 harvest for the 15 republics of the former Soviet Union was 161 mmt, 57 mmt below the record 1990 harvest of 218 mmt, and 30 mmt below the average annual harvest of 191 mmt for 1986-89.

The 1991 grain supply was also affected by the unwillingness of some state and collective farms to sell contracted amounts of grain to state procurement agencies.[3] In part, severe shortages of fodder prompted these farms to withhold their grain from the state to be used as feed for livestock. Some of this grain was also hoarded by these farms to be used in barter transactions for needed agricultural inputs[4] or to be sold on newly created commodity markets for higher prices than were being offered by state procurement agencies. As a result, state procurement agencies were able to purchase only about 53 percent of their collective 1991 target for grain. This situation continued a trend of declining food deliveries to state procurement agencies that began in 1985.

[2]The original members included Bulgaria, Cuba, Czechoslovakia, East Germany, Hungary, Mongolia, North Vietnam, Poland, Romania, and the Soviet Union. In the past, the Soviet Union provided oil, natural resources, and manufactured goods to these countries and received food and other goods in return.

[3]The Soviet attempt in late 1985 to unite, in administrative terms, the whole Soviet food complex, including state procurement agencies at the republic and oblast level, through the formation of the all-union Gosagroprom (state committee for agro-industry) ended in failure. The successor to Gosagroprom, the All-Union Commission for Food and Procurements, had no administrative or decision-making functions; food procurement decisions were made by state procurement agencies. Under this arrangement, state and collective, as well as private farms, had to sell a set portion of their output to state procurement agencies at prices established by the state. With the demise of the Soviet Union, the All-Union Commission dissolved. However, state procurement agencies continue to dominate food procurement, processing, and distribution in the NIS.

[4]Farms hoarded grain for barter transactions in part because of the diminishing value of the ruble as a medium of exchange (grain sold to state procurement agencies would have been paid for in rubles).

In addition to supply problems, food demand in the former Soviet Union in 1991 was greatly distorted by artificially low food prices and rising incomes. Food prices were kept low by state subsidies to both food producers and consumers. In addition, consumer incomes rose more rapidly during 1991 than official retail prices for food and consumer items, resulting in a surplus of rubles in the hands of consumers.[5] This ruble surplus, or "overhang," as discussed in chapter 2, led to excess demand for food and other consumer items and undermined the value of the ruble as a medium of exchange. According to a USDA report,[6] with the Soviet economy plagued by excess demand due to the ruble surplus, access to goods rather than availability of money became the decisive factor in purchasing ability. And, according to this report, as money became less useful as a medium of exchange, the use of inefficient barter transactions grew throughout the Soviet economy at the personal, enterprise, regional, and republic level.

Demand was also exaggerated during late 1991 as Soviet consumers hoarded food beyond their current needs as a hedge against anticipated price increases associated with impending price liberalization reforms (see ch. 2). Excess consumer demand resulting from both the ruble overhang and the hoarding of food in anticipation of price increases led to empty shelves and long queues in Soviet state stores. It also led to considerable food waste, as some food items purchased by consumers spoiled before they could be used.

Food Situation in 1992

Favorable weather conditions in 1992 led to a higher domestic production of grain in the NIS than was achieved in 1991. This situation was especially true for Kazakhstan, where yields more than twice as high as 1991's were expected. According to a USDA report,[7] the NIS' combined 1992 grain harvest was 185 mmt, an increase of 24 mmt tons over the harvest of 1991.

Consumer demand for food dropped in 1992 relative to 1991 as Russia and other NIS liberalized prices for many food and consumer items early that year, helping to eliminate the ruble overhang. As a result, state retail food stores, although probably receiving even less food from state procurement

[5]Increasing incomes during 1991 continued a trend begun in previous years in which wages were increased by the state without a related increase in labor productivity. For example, average monthly wages increased 42 percent during 1985 to 1990, while labor productivity increased only 7 percent.

[6]Former USSR International Agriculture and Trade Report (May 1992).

[7]Former USSR International Agriculture and Trade Report (May 1993).

agencies than in 1991, were nevertheless able to keep their shelves stocked.

While visiting five NIS capital cities—Almaty, Kiev, Minsk, Moscow, and Tashkent[8]—during May or early June 1992, we observed what appeared to be ample supplies of food in both state retail stores and private markets.[9] The volume and variety of foods we observed in private markets were generally much greater than that observed in state stores. Food items seen in state stores usually included dairy products, limited selections of canned meats and vegetables, and bread and other baked goods. Food items observed in private markets generally included many types of fresh vegetables; fresh and dried fruits; and nuts; as well as dairy products and fresh meats such as beef, pork, fish, and chicken. While the volume and variety of foods observed in private markets were greater than in state stores, so were the prices, making shopping in these markets impractical for some consumers.

Table 5.1 shows the differences in average prices for a sample of basic food commodities in Russian state retail stores and private markets as of the end of October 1992. As this table depicts, prices in private markets were consistently higher.

Table 5.1: Average Prices for Basic Food Commodities in State Retail Stores and Private Markets in Russia as of the End of October 1992

Rubles per kilogram, except as noted

Commodity	State retail price	Private market price	Price difference
Sausage	189	250	61
Milk	14	24	10
Butter	241	277	36
Eggs (10 units)	47	61	14
Sugar	87	117	30

Note: A kilogram equals 2.2 pounds

Source: USDA, Economic Research Service (from Delovoi Mir, a Russian journal).

[8]Respectively, these are the capitals of Kazakhstan, Ukraine, Belarus, Russia, and Uzbekistan.

[9]State stores and private markets were selected judgmentally, i.e., they were not selected randomly from the total universe of such establishments in each city nor do they constitute a representative sample from which to draw conclusions about the overall food supply in these cities or countries at the time of our visit. Generally, we happened upon state stores while walking down city streets. Private markets visited were usually selected by our local consultants or U.S. embassy personnel in the cities visited. We did not visit private markets in Minsk and Tashkent because of time constraints.

Starvation Was Not a Problem, but Some Food Shortages Occurred

Although starvation was not a problem, officials in the NIS visited complained of some food deficits in both 1991 and 1992, including shortages of feed grains, protein meals,[10] milk, and baby food. According to these officials, feed grain and protein meal shortages were especially acute, affecting both NIS meat and milk production. Feed grain shortages in both 1991 and 1992 were attributable to 1991's substandard grain harvest and the fact that some state and collective farms hoarded grain those years rather than selling it to state procurement agencies for rubles.

Shortages of Feed Grains and Protein Meals

As stated, NIS countries suffered shortages of feed grains and protein meals in both 1991 and 1992. For example, according to a study prepared for the U.S. Agency for International Development,[11] the most important agricultural input needed for preserving food security in parts of Russia during 1992 was feed for livestock. Russia's combined feed production for January to August 1992 was 25 percent below that for a similar period the previous year. In addition, the supply of feed for cattle in Russia was 23 percent below 1991 levels as of September 1992. In addition, a more recent study conducted for the U.S. Agency for International Development[12] found that although Kazakhstan had generally been a net exporter of grains in the past, adequate supplies of feed grain continued to be a problem for this country.

Feed grain and protein meal shortages affect food production in a number of areas, including meat, milk, and egg production. For example, according to a USDA report,[13] such shortages in 1991 led to declines in Soviet meat, milk, and egg production of 7, 6, and 3 percent, respectively. In addition, this report found that shortages of feed grain and protein meals caused feeding efficiencies—the amount of output per unit of feed—to decline in 1991 for a second year. According to the report, output per animal also suffered. For example, milk yields per cow declined by 5 percent, and the amount of meat produced per head of livestock fell 5 percent for cattle

[10]Protein meals include the solid residue left after extracting oil from oilseeds such as soybeans, cottonseed, linseed, peanuts, and sunflowerseed. Because these meals are high in protein, they are mixed with feed grains to create combined feeds for livestock. These feeds are also known as "protein-enriched feeds."

[11]Humanitarian Assistance Needs in the Russian Federation, U.S. Agency for International Development (Washington, D.C.: Jan. 17-Feb. 29, 1992).

[12]Humanitarian Assistance Needs in Central Asia, U.S. Agency for International Development (Washington, D.C.: Mar. 2-Apr. 3, 1992).

[13]Former USSR International Agriculture and Trade Report (May 1992).

and 3 percent for hogs. According to another USDA report,[14] livestock output and inventories fell another 5-15 percent in most NIS during 1992.

Also, in some cases feed shortages have led to the premature slaughtering of livestock. For example, Ukrainian parliamentary officials said that one oblast in their country had to prematurely slaughter 9 million of 15-million chickens in early 1992 because of a lack of feed. Moreover, according to USDA officials, Russian state and collective farm inventories of cattle, poultry, and swine dropped by 6, 23, and 13 percent, respectively, from September 1991 to September 1992, due, in part, to feed shortages.[15]

According to NIS officials and other sources, although premature slaughtering of NIS livestock has increased the supply of meat available in the short run, such slaughtering may lead to meat shortages in the long run as the number of available breeding stock is reduced prematurely. However, according to a USDA report,[16] reductions in animal inventories need not threaten long-run production potential, given the possibilities for increasing animal productivity in the NIS, especially if the quality of feed rations can be improved.[17] For example, in 1991 the U.S. hog industry produced about 7-million tons of pork from 57-million swine. In the Soviet Union that same year, about 6-million tons of pork were produced from about 70-million swine.

Feed shortages have also caused food grains to be used to feed livestock in the NIS visited. Food grains are poor substitutes for feed grains and, especially, protein-enriched feeds. For example, the use of food grains for livestock fodder results in reduced meat and milk production per head of livestock. In addition, the use of food grain for livestock may be exacerbating food grain shortages for human needs in some areas. For example, in the spring of 1992, Kazakhstan officials said that when their country's available supply of feed grain was exhausted, food grain was

[14]Former USSR International Agriculture and Trade Report (May 1993).

[15]These officials also indicated that rising production costs and decreasing demand for meat products resulting from increasing retail prices contributed to inventory reductions.

[16]Former USSR International Agriculture and Trade Report (May 1993).

[17]Historically, Russian and other NIS state and collective farms have been heavily dependent on the state sector for processed feed supplies, especially for poultry and swine operations. Because of diminished feed grain sales to the state sector in these countries, as well as sharply rising prices charged by the state for the processed feeds made from these feed grains, the availability and use of processed feeds in these countries dropped significantly in 1992. As a result, inefficient use of grain in livestock feeding worsened considerably in 1992 as NIS farms greatly increased the amount of unprocessed grain fed to animals. In Russia, this situation was also partly a consequence of only 5 percent of state and collective farms in that country having equipment to process concentrated feeds from the feed grain that they produced.

used for livestock. As result, by the time shipments of imported GSM-102 feed grain and protein meals began to arrive in Kazakhstan later that spring, Kazakhstan was experiencing a shortage of food grain.

NIS officials said that the summer months of 1991 and 1992 provided some relief from problems associated with the feed grain shortages because cattle and sheep could be put to pasture to graze. But, because of their lower protein content, grasses are only a partial substitute for feed grains and, especially, protein-enriched feeds.

Shortages of Milk and Baby Food

As stated, NIS countries experienced shortages of milk and baby food during 1991 and 1992. Milk shortages resulted from both reduced raw milk production associated with feed shortages and from problems associated with the processing of dairy products. These latter problems involved a lack of adequate storage facilities, processing equipment, or packaging materials. For example, Russian officials said in May 1992 that one dairy-processing facility in the Moscow area was operating at only 40 percent of capacity because of a lack of packaging materials. Also, in the fall of 1992, USDA officials said that an ultra-high temperature milk-processing line located in Kiev, which had been imported at great expense, was running at half capacity due to short supplies of the special cartons that it requires. NIS officials said that baby food shortages were also due to a lack of proper processing equipment and packaging materials.

As discussed, feed shortages caused a reduction in raw milk production in both 1991 and 1992. Table 5.2 depicts the relative level of raw milk production in the former Soviet Union and the NIS for 1990-92.

Table 5.2: Raw Milk Production in the Former Soviet Union and NIS, 1990-92

Tons in millions

Year	1990	1991	1992
Raw milk production	108	102	92[a]

[a]World Bank staff estimate

Source: World Bank officials (derived from data provided by the State Statistical Committee of the former Soviet Union).

In addition to this production decline, a study by the European Bank for Reconstruction and Development[18] estimated that about 33 percent of the former Soviet Union's raw milk production during 1986-90 was wasted due primarily to inefficiencies associated with milk processing and transport.[19] It is likely that similar losses occurred in 1991 and 1992.

Urban and Industrial Areas and Rural Villages Experienced Difficulties Obtaining Food

Aside from specific commodity shortages, various sources indicated that some NIS urban and industrial areas and rural villages experienced difficulties in obtaining food during 1991 and 1992. Urban and industrial areas, including mining areas, often lack sufficient local agricultural production to meet their populations' needs. And rural villages, which are at the end of the food distribution pipeline, frequently have difficulty obtaining processed foods. Food shortages experienced in all three cases were largely attributable to the declining ability of the NIS to supply food deficit areas due to the states' diminishing command over food procurement and distribution. As stated, deliveries to state procurement agencies have steadily declined since 1985.

According to a World Bank report,[20] areas of possible food shortages were known in advance during 1991 and 1992, but the degree to which they were served by private and barter trade was not. Consequently, it was difficult to predict the exact location or severity of possible food shortages. According to another report prepared by World Bank officials,[21] in Russia the government responded to this problem by establishing a monitoring system to track food prices and availability in approximately 120 critical spots and a logistical system to respond to impending food crises. For example, as discussed in chapter 3, Russia's Federal Grain Fund is responsible for ensuring adequate grain supplies to Russian cities and areas not able to provide for themselves, such as Moscow, St. Petersburg, and northern regions and military centers.

As stated, some urban and industrial areas lack sufficient local agricultural production to meet their populations' food needs. For example, officials in Yekaterinburg, a Russian industrial city in the Ural Mountains, said in May

[18]Survey on Pricing Policy and Food Distribution in the USSR/RSFSR, European Bank for Reconstruction and Development (London: Sept. 1991).

[19]The former Soviet Union, with about 6 percent of the world's population, produced approximately 25 percent of the world's milk but still had to import dairy products to meet internal needs.

[20]Soviet Food Supply in 1992, A Need for Imports and Policy Reform, Report of the World Bank Mission on the Adequacy of Soviet Food Supply (Washington, D.C.: Oct. 1991).

[21]Food and Agricultural Policy Reforms in the Former USSR.

1992 that agriculture production near their city was insufficient to meet their city's needs. According to these officials, less than 4 percent of the local area's population was involved with agriculture.[22] More importantly, these officials said that the local area had only a limited amount of arable land and was subject to a short growing season of about 90 days. As a result, Yekaterinburg officials said that 50 percent of their city's supply of dairy, beef, and pork products was imported from other areas. These officials also said that virtually 100 percent of their grain needs had to be imported from other areas of Russia, Kazakhstan, and western nations like the United States. For example, they estimated that U.S.-sourced grain provided by the Russian government accounted for about 30 percent of Yekaterinburg's total grain supply during 1991. According to Yekaterinburg officials, their city and the surrounding area will always be dependent on grain imports to meet local needs.

To compensate for the declining ability of state procurement agencies to supply food, urban and industrial areas have sought to make deals directly with food-producing areas both within and outside the NIS. However, because of problems with the ruble as a medium of exchange, as discussed, and the ruble's lack of convertibility to other currencies, these areas have often sought to barter goods they produce or mine for food. For example, officials in Yekaterinburg said that they have bartered raw materials like timber, copper, and titanium for grain. According to a USDA official, however, other cities, such as Moscow, that lack significant local industrial production or mining operations, have little to barter for food.

As stated, rural villages faced difficulties in obtaining processed foods in 1991 and 1992. For example, according to a World Bank report,[23] rural communities, even in agricultural areas, had difficulties in obtaining processed products such as sugar, flour, and vegetable oil. In addition, while urban and industrial centers have local government officials and state enterprise managers to broker barter deals for food, rural villages lack similar representation to seek barter deals for processed food commodities. Consequently, according to this report, shortages of processed food products are likely to increase in NIS rural areas.

[22]Yekaterinburg is located in the Sverdlovsk oblast. This oblast has a population of approximately 5-million people, of which 1.5 million reside in Yekaterinburg. In addition to Yekaterinburg, the Sverdlovsk oblast contains a number of other large industrial centers.

[23]Soviet Food Supply in 1992

Food Affordability: A Serious Problem for Vulnerable Population Groups

As a result of price liberalization reforms, food prices increased faster then wages or incomes during 1992. While rising prices have increased the supply of food commodities in state retail stores by reducing demand, they have also made it increasingly difficult for people to afford food. Although, as discussed in chapter 2, NIS governments have generally retained price controls on food items considered dietary staples, such as bread and milk, vulnerable populations, such as pensioners, children, and the unemployed, are finding it increasingly difficult to afford all the food they want or need.[24] Table 5.3 shows the increase in state retail store food prices in Russia for 1990 to March 1992. Table 5.4 shows the growth in money income and consumer prices for the NIS, as well as the percent change in per capita real incomes in these countries, from 1991 to 1992.

Table 5.3: Increase in State Retail Food Prices in Russia, 1990-March 1992

Rubles per kilogram

Commodity	1990	April 1991	March 1992	Percentage increase 1990-March 1992
Beef	2.00	7.00	71.07	3,454
Pork	1.90	6.00	75.99	3,899
Poultry	3.40	5.60	50.00	1,371
Milk/liter	0.28	0.50	3.57	1,175
Butter	3.60	8.80	108.18	2,905
Bread/loaf	0.20	0.60	3.39	1,595
Wheat flour	0.46	1.40	8.86	1,826
Sugar	0.94	2.00	19.17	1,939
Vegetable oil	1.70	3.40	31.22	1,736
Margarine	1.50	3.00	35.78	2,285
Rice	0.88	2.20	17.01	1,833

Source: World Bank officials (derived from Russian State Statistical Committee data).

[24]Many NIS citizens have had to make changes in the mix of foods in their diets in response to rising food prices. For example, they may now eat more potatoes and bread and less meat. This fact does not necessarily mean, however, that they are being nutritionally impaired, even though they can no longer afford to buy all the meat that they "want." However, other NIS citizens with severely limited incomes may now not be able to afford enough food to meet their minimum dietary "needs," as defined by organizations like the World Health Organization.

Table 5.4: Growth in Money Income and Consumer Prices for NIS From 1991 to 1992

Country	Per capita money income (index)[a]	Consumer prices (index)[a]	Change in per capita real income (percent)[b]
Armenia	280	900	-69
Azerbaijan	500	1,210	-59
Belarus	820	1,160	-29
Kazakhstan	670	1,070	-37
Kyrgyzstan	430	1,190	-64
Moldova	490	1,210	-60
Russia	750	1,570	-52
Tajikistan	340	1,010	-66
Turkmenistan	710	870	-18
Ukraine	[c]	1,750	[d]
Uzbekistan	520	510	2

Note: Data for Georgia were not available.

[a]Index for 1991 equals 100

[b]Percent change is estimated by comparing growth in per capita money income and consumer prices.

[c]Not available.

[d]Cannot compute.

Source: USDA, Economic Research Service (based on NIS statistical data).

In response to this concern over the affordability of food, a variety of programs have been started in various NIS locations to assist vulnerable groups with their food needs. For example, in Moscow, as of February 1993, there reportedly were 70 soup kitchens providing meals to the city's poor. Also, the Moscow city council sponsors milk kitchens providing daily distribution of milk or yogurt to hundreds of thousands of babies under the age of 2 years. In addition, according to a report prepared by World Bank officials,[25] some Russians are being assisted through direct feeding programs through hospitals, orphanages, schools, child care centers, and other institutions in that country. However, according to this report, these programs are only a partial solution since they do not reach many groups in poverty or vulnerable to price shocks such as pensioners or the unemployed.

[25]Food and Agricultural Policy Reforms in the Former USSR.

In Yekaterinburg, officials said that they have taken a number of steps to aid vulnerable groups in obtaining food. These steps include distributing food through specialized shops, providing special subsidies to World War II veterans, increasing pension payments, and developing feeding programs for children.

In Kazakhstan, officials said that family ration cards were introduced in their country in 1992 to guarantee families over a certain size a certain quantity of food for a set price. Moreover, according to a 1992 United Nations study, about 85 percent of the people of Kazakhstan need help obtaining food, and people on fixed incomes spend about 90 percent of their incomes on food.[26]

However, generally speaking, the NIS have not created comprehensive programs, such as food coupons or direct cash compensation, to ensure that the most vulnerable groups in their countries will have an adequate supply of food. For example, according to a report prepared by World Bank officials,[27] as of September 1992 Russia lacked a fully operational and well-targeted food safety net program to protect its most vulnerable populations from further increases in food prices. Moreover, according to this report, because localized safety net programs are dependent on state procurement agencies for their supplies, decreasing deliveries to these state agencies may threaten the viability of these programs.

In some cases, NIS citizens depend on the low-cost hot meal provided by their employing enterprise or school to ensure that they receive at least one substantial meal a day. For example, Yekaterinburg officials said that administrators of enterprises in their oblast spent much more time and energy than usual during the winter of 1991/92 to identify sources of food to ensure that their enterprise could continue to provide this daily meal. Also, in Moscow, over 1-million children receive low-cost lunches at their schools. However, individuals not currently working in an enterprise or going to school, such as pensioners and the unemployed, do not have access to this low-cost meal as a fallback.

[26]Humanitarian Assistance Needs in Central Asia.

[27]Food and Agricultural Policy Reforms in the Former USSR

A Number of Factors Will Affect the Future NIS Food Situation

Several factors will have an impact on the future food situation in the NIS. For example, in addition to climatic and environmental conditions, the availability of farm inputs, the level of private food production, and the availability of foreign credits for food imports will all affect levels of food availability in these countries. The food situation will also be affected by the degree to which agricultural reforms being undertaken in the NIS, as discussed in chapter 2, can reduce the food waste associated with food processing, storage, and distribution in these countries (see also ch. 1).

In addition, shortages of specific commodities and/or in certain geographical areas, such as those that occurred in 1991 and 1992, will likely continue to be problems affecting the food situation in these countries. Further, food affordability is likely to remain a concern for many NIS citizens, especially for vulnerable groups.

Climatic and Environmental Conditions

Future food production in the NIS will be affected by climatic and environmental conditions. The climate of the land area encompassing the NIS is mostly temperate to arctic, with much of the central Asian region being arid. Thus, only about 10 percent of this land mass is considered arable (suitable for cultivation).[28] For example, some of the NIS' most fertile land lacks adequate water or has an insufficient growing season. In addition, in some NIS farming locales, the growing season is very short, leaving little margin for error regarding climatic vagaries that may interfere with seeding or harvesting.

Food production will also be subject to varying climatic conditions in the NIS from year to year. For example, as discussed, fortuitous weather conditions in 1990 led to a bumper grain crop, but this success was followed the next year by a drastically reduced grain harvest attributable to a severe drought. Similarly, according to a USDA report,[29] 1993 aggregate grain production in the NIS is forecast at 174 mmt, down 11 mmt from 1992, largely due to weather-related difficulties.

In addition to climatic conditions, future NIS agricultural production will be affected by the serious environmental pollution and degradation found throughout these countries. These environmental problems are a vestige of the former Soviet Union's preoccupation with increased production in its

[28]Nonetheless, because of its former vast size, the total land under cultivation in the former Soviet Union was about 230 million hectares, the most extensive of any country in the world before the Soviet Union's dissolution.

[29]Former USSR International Agriculture and Trade Report (May 1993).

heavy industry, chemical, and agricultural sectors, with little concern for environmental consequences. Such environmental problems can constrain agricultural production by forcing contaminated land out of production, reducing yields on land under cultivation, or limiting the ability of farmers to diversify their production of crops. In addition, these environmental problems are apt to worsen, at least in the short run, as it will take time to alter agricultural and industrial practices that have created these problems.

According to a USDA report,[30] there is a clear need for land improvement and cleanup of an unprecedented accumulation of land, air, and water pollution in the former Soviet Union. These pollution problems result, in part, from the careless application of fertilizers and pesticides, and the overirrigation of land. According to the report, more than half of Russian agricultural lands are swampy or overmoisturized, highly acidic, or salinated. In addition, in Russia 62 million hectares of agricultural land is contaminated by industrial waste, and 25 million acres of NIS farm land has been contaminated by the toxic compound DDT. Moreover, slightly more than half of total NIS arable land (about 127 million hectares) suffers from severe soil erosion, which increases by 400,000-500,000 hectares a year.

Uzbekistan officials said that decades of Soviet-directed cotton production in their country,[31] including the overirrigation of land and the heavy use of chemical fertilizers and pesticides, had spoiled much of Uzbekistan's arable land and had fouled ground water supplies. For example, according to a report prepared by World Bank officials,[32] heavy use of water and poor drainage have led to problems with soil salinity. Uzbekistan officials also said that the overuse of rivers feeding the Aral Sea to irrigate Uzbekistan and other central Asian cotton fields had ruined this sea and nearby farm land. In addition to drastically reducing the volume and surface area of this body of water,[33] as the sea contracted, vast expanses of former seabed laden with residues of salt and chemicals from fertilizer and pesticide runoff were exposed. In turn, these windblown residues fouled formerly arable farm land in the vicinity of the sea. The environmental problems associated with the overproduction of cotton, the

[30]Former USSR International Agriculture and Trade Report (May 1993).

[31]Uzbekistan was responsible for more than 60 percent of the former Soviet Union's total cotton production. In its own right, Uzbekistan was the world's third largest producer of cotton. Because of this concentration on cotton, Uzbekistan had to import about 70 percent of its food needs, including virtually 100 percent of its grain needs.

[32]Food and Agricultural Policy Reforms in the Former USSR.

[33]Since 1960, the surface area of the Aral Sea has shrunk by more than 40 percent.

overuse of irrigation, the excessive use of fertilizers and pesticides, and the destruction of the Aral Sea will likely hamper Uzbekistan's ability to diversify its agricultural production to put greater emphasis on food crops.[34]

Availability of Agricultural Inputs, Including Labor

NIS officials, including farmers, voiced concerns about the ability of NIS farms to obtain all the inputs they need for crop cultivation and harvesting. For example, because of problems with the ruble as a medium of exchange, a lack of foreign exchange for imports, and the breakdown of traditional trade flows between and within the NIS, state, collective, and private farms may not be able to obtain needed inputs such as fertilizers, pesticides, machinery, spare parts, and fuel. Many of these farms are now trying to barter for these inputs.

The production of agricultural inputs has also fallen off considerably in the NIS. The same ruble, foreign exchange, and trade flow problems that affect the availability of finished inputs also affect the availability of raw materials to manufacture these inputs. In addition, the disparity between industrial and agricultural prices has negatively affected the ability of NIS farms of all types to purchase needed inputs. For example, prices for industrial goods, including those needed for agriculture, rose much faster than prices for agricultural commodities in 1991 and 1992. A more detailed discussion concerning the availability and increasing price of agricultural inputs is contained in appendix III.

If the input problems previously described continue to plague NIS agricultural sectors, food production may drop and losses associated with harvesting will remain significant.[35] For example, the former Soviet Union's experience in trying to harvest its bumper grain crop of 1990 provides a good illustration of how a lack of needed inputs, including machinery, spare parts, fuel, and labor, can result in severe crop losses.

The grain crop of 1990, the second largest in Soviet history, turned into a harvesting crisis of monumental proportions. Farm worker shortages and a lack of basic farm equipment, including trucks to haul grain, compounded existing infrastructure problems. As a result, attempts were

[34]Diversification of agricultural production in Uzbekistan is also hampered by an agricultural infrastructure, including farm equipment and fertilizer production, geared for the cultivation of cotton.

[35]According to a USDA official, higher input costs in 1993 have led to a more intelligent use of these inputs by some NIS farms, increasing their productivity per unit of input used. This phenomenon may compensate, in part, for possible drops in food production levels that might otherwise be anticipated because of the increasing difficulties that NIS farms face in obtaining inputs.

made to marshal the resources of the military, including an estimated 46,000 military trucks, to assist in transporting the harvested crops. However, thousands of these trucks could not move due to shortages of gasoline and spare parts.

At the same time that the 1990 harvest was ready to be taken from the field, transportation and storage resources were overwhelmed by the need to transport and store imported grain arriving at Soviet ports. As a result of these problems, tens of millions of tons of Soviet grain were reported to be left lying in the fields to rot. In the former Russian Republic, for instance, about 22 mmt of uncollected grain was left to rot outdoors at state and collective farms.

Private Food Production

The aggregate amount of food being produced on private plots located on state and collective farms,[36] private farms, and family gardens may add significantly to total NIS production in the future. For example, historically, food items from private plots have constituted a disproportionately large share of the former Soviet Union's total agricultural production of commodities such as potatoes, vegetables, and fruits. In addition, the number of private farms and family gardens has been increasing rapidly in the last 2 years.

As stated, a significant share of total Soviet production of some food commodities was grown on private plots made available to employees of state and collective farms. In addition, these plots, while constituting only about 3 percent of arable land, produced 25-30 percent of the overall value of agricultural production in the former Soviet Union. This trend has continued since the dissolution of the Soviet Union. For example, in Ukraine, officials of the Ukrainian Farmer's Democratic Party said in May 1992 that private plots on state and collective farms account for about 3 percent of their country's farm land, yet provide about 25 percent of Ukraine's total agricultural production, including about 40 percent of the nation's vegetables and 50 percent of its fruit.

It should be noted, however, that production on private plots has always depended, in part, on inputs from the state or collective farm on which a worker is employed. For example, privately held livestock are allowed to forage on state-held pasture land. Also, state and collective workers sometimes obtain inputs, such as seed, fertilizer, and feed, from the stocks

[36]Private plots, made available to state or collective farm workers from land held by their employing farm, are worked by these workers after completion of their daily responsibilities to their employing farm. In Russia, these plots average about half a hectare (approximately 1.2 acres) in size.

of their employing farm for use on their plot. Thus, increasing problems with the availability and affordability of inputs, as previously noted, could have a negative effect on private plot production. For example, state and collective farm managers may become increasingly reluctant to make inputs available for the private food production activities of their employees.

As discussed in chapter 2, the number of private farms is increasing in the NIS, and the productivity of these farms is generally higher than their state and collective counterparts. For instance, the number of Russian private farms increased from 4,500 in January 1991 to 184,000 as of January 1, 1993, with these farms averaging about 42 hectares. While NIS private farms are too few in number as of yet to significantly affect overall NIS food production, as discussed in chapter 2, their growing numbers and purportedly higher productivity in comparison to state and collective farms suggest that they could contribute significantly to total food production in the future. However, at the same time, difficulties in obtaining inputs, as previously described, may constrain the private farm movement and the productivity of individual private farms (see also app. III).

As stated, the number of family gardens has increased rapidly in the last 2 years. These gardens are being created by NIS families on the grounds of primary dwellings or country homes, in open areas in or near cities, and on the grounds of state-run factories or enterprises. The growth in this phenomenon is attributed to NIS citizens' increasing concerns over the availability and/or affordability of food. For example, we interviewed factory workers in the city of Podol'sk near Moscow in May 1992 who were cultivating potatoes on a 100-square-meter parcel of land provided to them on the grounds of their employing factory. We observed that there were many such individual gardens on the grounds of this factory. According to these workers, the seed potato to plant their crop had been provided by the factory. These workers indicated that this was the second season they had tilled their garden. They explained that they spent their free time working their garden because of their increasing concerns over the affordability of food. According to a report prepared by the Rural Development Institute,[37] there were nearly 22 million such gardens in Russia as of March 1, 1993. According to this report, these individual gardens help to moderate the effects of higher food prices in Russia by giving urban residents the opportunity to grow some of their own food.

[37]Agrarian Reform in Russia, Report on a Policy Study and Fieldwork in Collaboration with the Agrarian Institute, Moscow (Rural Development Institute (Seattle, WA: May 1993).

Availability of Foreign Credit Assistance for Food Imports

The continued availability of foreign credit assistance, including both credit guarantees and concessional financing, for food imports will be an important factor in the future NIS food situation.[38] Until nascent agricultural reforms, as discussed in chapter 2, begin to reduce food waste associated with food processing, storage, and transport, Russia and other NIS will continue to import foreign food, even in good food production years. Moreover, as discussed previously and in chapter 3, reductions in contracted deliveries to NIS state procurement agencies have forced these agencies to turn to imported food to service food deficit areas in their respective countries.

While the NIS will remain dependent on the largesse of the United States and other providers of credit-assisted food imports, what remains less certain is the extent to which this credit assistance will continue to be offered. The NIS are experiencing severe economic and political problems, as discussed in chapters 1 and 2, that raise serious concerns about their creditworthiness to receive further credit assistance. For example, Russia has a burgeoning foreign debt, on which it has amassed considerable arrears, including those associated with delinquent GSM-102 payments. As a result, the United States, for its part, suspended Russia from the GSM-102 program as of the end of November 1992; this suspension remained in effect as of September 1993. (See discussion in ch. 1 regarding the amount of defaults and a debt rescheduling agreement that was concluded on September 30, 1993.)

At the same time, however, providers of credit assistance must weigh market share and foreign policy considerations against creditworthiness concerns in deciding whether to offer additional credit assistance to the NIS countries. For example, the U.S. administration announced its intent in April 1993 to begin offering long-term concessional loans to Russia in lieu of export credit guarantees.[39] In offering these loans, the United States hopes to retain this export market for U.S. agricultural commodities and to

[38]The needs of individual NIS vary, depending on agricultural production, the extent to which distribution and processing of foodstuffs has been improved, civil unrest, and the capability of each NIS to buy supplies on the world market. Given these differing conditions, donor nations have provided a variety of assistance programs, including export credit guarantees, long-term concessional loans, and outright donations of foodstuffs. Close to $20 billion in food-related assistance is estimated to have been committed since 1990, with more than half in the form of export credit guarantees, as of May 1993. See Former USSR International Agriculture and Trade Report (May 1993).

[39]In April 1993, the U.S. government announced a $700-million food assistance package for Russia, including direct government-to-government concessional credits. This assistance package includes $500 million for commodities, of which $433.5 million is in USDA credits and $66.5 million is in donations; the remaining $200 million is designated to cover associated shipping costs. Sales under these credits carry a term of 15 years, including a 7-year grace period in which no principal repayment is expected. The interest rate is 3 percent during the grace period, and 4 percent thereafter.

support the reform and democracy initiatives of Russia's embattled President. Generally speaking, however, the United States and other countries, especially those already carrying a large risk exposure to default on credit guarantees and other forms of credit assistance extended to the NIS, may be more circumspect in providing credit assistance to these states in the future.

Export Credit Guarantees Provided to the Former Soviet Union and Newly Independent States

The U.S. government began offering export credit guarantees to the former Soviet Union for the purchase of U.S. agricultural commodities in December 1990.[1] These guarantees were offered under the U.S. Department of Agriculture's (USDA) General Sales Manager (GSM)-102 program. After the dissolution of the Soviet Union in December 1991, the United States continued to offer GSM-102 credit guarantees to the newly independent states (NIS) that succeeded the Soviet Union. As of September 1993, only three NIS, Russia, Ukraine, and Uzbekistan, have actually qualified for and received GSM-102 credit guarantees.[2]

Some sales under the GSM-102 program to the former Soviet Union and the NIS have been aided by the bonuses offered under USDA's Export Enhancement Program (EEP). Under this program, USDA provides cash bonuses to U.S. exporters to help lower the export prices of U.S. agricultural commodities and make them competitive with subsidized foreign agricultural exports.[3]

Export Credit Guarantee Commitments and Allocations to the Former Soviet Union and the NIS

Overall, for the period from December 1990 through September 1993, the United States announced that a total of $5.965 billion in GSM-102 export credit guarantees were potentially available to the former Soviet Union or the NIS. As of September 30, 1993, $5.135 billion of this amount had been allocated by USDA for actual sales of commodities. Thus, $830 million of the $5.965 announced was not allocated for sales of commodities and, according to a USDA official, is no longer available for this purpose.[4]

Table I.1 summarizes information on all GSM-102 announcements and allocations made to former Soviet Union and its successor states. As the table shows, the former Soviet Union received allocations of $3.750 billion

[1]The Soviet Union received export credits during a few years in the early 1970s. Offers of further U.S. credits ended when Congress passed the Jackson-Vanik amendment to the 1974 Trade Act. This amendment barred access to U.S. credit and credit guarantee programs to countries that restrict emigration. In order to begin offering credit guarantees to the Soviet Union in 1990, the President of the United States temporarily waived the freedom of emigration provisions contained in the amendment.

[2]In addition, on February 1, 1993, USDA allocated $5 million in export credit guarantees to Estonia. However, as discussed in chapter 1, our use of the term "NIS" excludes the Baltic states, including Estonia.

[3]Prior to November 6, 1991, exporters were paid in generic certificates issued by USDA's Commodity Credit Corporation. These certificates could be redeemed for government-owned surplus agricultural commodities.

[4]According to a USDA official, export credit guarantee funding must be allocated by the end of the fiscal year in which the funding was announced; any unallocated funds at the end of the fiscal year are withdrawn and are no longer available.

in export credit guarantees. It also shows that Russia and Ukraine received allocations of $1.170 billion and $200 million, respectively, in credit guarantees. In addition, it shows that Uzbekistan received an allocation of $15 million.

Table I.1: GSM-102 Export Credit Guarantee Announcements and Allocations to the Former Soviet Union and the NIS, as of September 1993

Dollars in billions

Date announced	Amount announced	Announcement designees			Amounts allocated to date			
		USSR	Russia	Others	USSR	Russia	Ukraine	Uzbekistan
Dec. 90	$1.000	$1.000			$1.000			
Jun. 91	1.500	1.500			1.500			
Nov. 91	1.250	1.250			1.250			
Apr. 92	1.100		$0.600	$0.500[a]		$0.545[b]	$0.110	
Sep. 92	0.900		0.900			0.625		
Oct. 92	0.200			0.200[a]			0.090	
Aug. 93	0.015			0.015[a]				$0.015
Total	**$5.965**	**$3.750**	**$1.500**	**$0.715**	**$3.750**	**$1.170**	**$0.200**	**$0.015**

Note: In cases where the amounts announced and allocated differ, the difference, or unallocated amount, is no longer available. A blank means guarantees were not announced or allocated. Information on the $5 million in credit guarantees awarded to Estonia in February 1993 has not been included in the table because our use of the term "NIS" excludes the Baltic states.

[a]The $500 million announced in April 1992 was designated for any of the NIS, except Russia, that could meet GSM-102 program qualifications. Of this amount, only Ukraine received an allocation—$110 million. The $200 million announced in October 1992 was designated for Ukraine only. The $15 million announced in August 1993 was designated for Uzbekistan.

[b]With regard to the April 1992 announcement of $600 million for Russia, USDA's Commodity Credit Corporation offered Russia direct credit terms (comparable to the terms of GSM-102 credit guarantees) for the purchase of $55 million worth of butter. The sale of this butter, which was to come from U.S. government surplus stocks, would have offset the $55 million of this announcement that was not allocated to Russia. Russia actually purchased only $21 million worth of butter under this offer.

Source: USDA/Foreign Agricultural Service.

The majority of the GSM-102 credit guarantees allocated to the former Soviet Union, Russia, Ukraine, and Uzbekistan has been used to purchase U.S. feed grains, wheat/wheat flour, and protein meals, especially soybean meal. Table I.2 shows GSM-102 allocations for these and other commodities provided to the former Soviet Union, Russia, and Ukraine for fiscal years 1991-93.

Table I.2: U.S. GSM-102 Allocations to the Former Soviet Union, Russia, and Ukraine for Fiscal Years 1991-93

Dollars in millions

	Fiscal year 1991	Fiscal year 1992			Fiscal year 1993	
Commodity	**Soviet Union**	**Soviet Union**	**Russia**	**Ukraine**	**Russia**	**Ukraine**
Feed grains	$1,105.1	$498.8	$223.0	$39.2	$235.0	$90.0
Wheat/wheat flour	252.5	810.3	250.7	65.8	190.0	0
Rice	0	8.0	0	5.1	0	0
Protein meals	381.9	310.2	125.4	0	40.0	0
Soybeans	123.3	122.8	0	0	0	0
Soy isolates	5.7	0	0	0	0	0
Poultry meat	35.3	18.0	0	0	30.0	0
Pork	0	0	0	0	30.0	0
Almonds	8.8	4.9	0	0	0	0
Hops	2.0	5.2	0	0	0	0
Vegetable oil	0	56.9	17.3	0	0	0
Tallow	0	0	28.3	0	0	0
Total	**$1,914.6**	**$1,835.1**	**$644.7**	**$110.1**	**$525.0**	**$90.0**

Notes: In fiscal year 1993, USDA also allocated $15 million in credit guarantees to Uzbekistan for the purchase of U.S. wheat

Totals calculated by GAO

Source: USDA.

Availability of EEP Bonuses Has Increased U.S. Food Exports to the Former Soviet Union and the NIS

The former Soviet Union was the single largest participant in EEP during the period 1987-91. As stated, under this program, USDA has provided government-owned surplus agricultural commodities or cash as bonuses to U.S. exporters to help make their agricultural exports more price competitive. A June 1990 GAO report concluded that EEP appeared to have been critical to making sales in the Soviet Union.[5] For example, during periods of surplus supplies in the world market, the former Soviet Union took advantage of competition among exporters to obtain the best possible price and terms. According to a June 1991 GAO report,[6] U.S. wheat sales and sales of other commodities sold under the program to the former

[5]See International Trade: Export Enhancement Program's Recent Changes and Future Role (GAO/NSIAD-90-204, June 14, 1990).

[6]See International Trade: Soviet Agricultural Reform and the U.S. Government Response (GAO/NSIAD-91-152, June 28, 1991).

sales and sales of other commodities sold under the program to the former Soviet Union likely would not have occurred if EEP did not help price U.S. agricultural exports competitively.

After the dissolution of the former Soviet Union in late 1991, USDA continued to offer EEP bonuses for GSM-102-related sales to the NIS. For example, for fiscal year 1993 (as of April 27, 1993), over 2.25 million tons of wheat had been sold to the NIS under EEP, with an average per-ton bonus of $38.

As of April 27, 1993, over 35 million tons of wheat had been sold to the former Soviet Union/NIS under EEP since fiscal year 1987. Table I.3 shows U.S. EEP wheat purchases by the former Soviet Union and its successor states for fiscal years 1987-93.

Table I.3: U.S. EEP Wheat Purchases by the Former Soviet Union and Its Successor States for Fiscal Years 1987-93

Fiscal year	Amount (tons)	Bonus rate[a] (dollars/ton)	Total bonus (dollars)
1987	4,000,000	$41.52	**$166,095,381**
1988	8,804,000	32.01	**281,798,920**
1989	4,696,000	20.59	**96,706,751**
1990	3,799,350	19.96	**75,822,425**
1991	3,173,145	45.13	**143,206,785**
1992	8,417,745	41.53	**349,596,280**
1993[b]	2,266,920	38.17	**86,533,059**

[a]Weighted average.

[b]Sales as of April 27, 1993.

Source: USDA.

Newly Independent States Desire Foreign Technical Assistance and Investment to Aid the Agricultural Reform Process

Officials in each of the visited NIS of the former Soviet Union[1] expressed a desire for further foreign technical assistance and investment to assist the agricultural reform process in their country. Generally, these officials said that this type of assistance was critical to correcting the problems and eliminating the waste associated with the agricultural infrastructures in their countries. For example, inadequate storage and marketing facilities, obsolescent processing industries, and worn-out transport equipment characterize the food storage, processing, and distribution systems in these countries.

Technical Assistance

With regard to technical assistance, several NIS officials paraphrased the adage, "Give a man a fish and he eats for a day, but teach a man to fish and he eats for a lifetime" to emphasize that their countries need western technology in order to improve their food productivity and eliminate infrastructure-related waste. While appreciative of U.S. and other foreign credit and humanitarian food assistance, these NIS officials said their countries did not want to be dependent on foreign food assistance.

Generally, NIS officials said their countries need western technical assistance to develop their agricultural processing industries. For example, Ukrainian officials said that their country needs technical assistance such as meat and dairy processing equipment and storage facilities. In some cases, NIS officials said their countries would like credits from the United States for technical assistance such as the purchase of modern food processing equipment.[2] For example, Belarus officials said their country had received credits from Italy to buy baby food manufacturing equipment and packaging materials, and from Germany to buy equipment needed to modernize sugar, beverage, and canning agro-industries. German officials echoed the need for credit-assisted technology transfers to the NIS, saying that future western credit assistance should be more focused on technical assistance in the food processing area.

[1]A GAO team visited five of the NIS during May/June 1992. These states are Belarus, Kazakhstan, Russia, Ukraine, and Uzbekistan.

[2]The Food, Agriculture, Conservation, and Trade Act of 1990 authorizes the use of GSM credit guarantees for financing the establishment or improvement of facilities to improve the handling, processing, storage, or distribution of agricultural products. According to USDA officials, they have been working on operational details for implementing this program. These officials said that they hope to use the GSM program in the NIS to improve food processing and distribution facilities, and, at the same time, increase U.S. export opportunities.

A number of NIS officials also said that they were interested in western technical assistance to improve farm yields. Such assistance would include the provision of modern farm equipment and quality seeds, as well as information about improved breeding and farming methods. For example, according to a USDA report,[3] agricultural machinery available for purchase in Russia has been obsolete by western standards for 20 years. As a result, rather than rely on domestic suppliers, Russian farms are seeking to purchase western machinery. Accordingly, Agrarian Technology, a Russian company, has received government licenses worth $500 million to import technology and equipment from West European countries.

In another example, the General Director of a state vegetable farm in Kazakhstan's Tselinograd oblast said his farm had purchased modern equipment from Holland for cultivating potatoes. According to the Director, use of this equipment improved seed production, increased yields by a factor of 4, and reduced labor inputs by a factor of 10.

Private farmers in Russia's Sverdlovsk oblast said that they were very interested in participating in farmer exchange programs with the United States. In particular, these farmers said that they were interested in having U.S. farmers visit Sverdlovsk private farmers to provide information and guidance on modern farming methods. In addition, one Sverdlovsk farmer said that it would also be helpful if USDA or U.S. farmers could provide Russian private farmers with used copies of U.S. farm journals and other publications addressing modern farming techniques. This farmer was not concerned that these publications would be in English—he said that arrangements could be made to have them translated to Russian locally.

According to an April 1993 Congressional Research Service report,[4] U.S. government agencies have committed $78 million for U.S. technical assistance, volunteer exchange, and training initiatives to help address chronic agricultural and food sector problems in the NIS. This assistance included (1) a wholesale market development program in Moscow and Kiev, (2) a model demonstration farm in the St. Petersburg region, (3) an extension service project in Armenia, (4) the posting of agricultural policy advisers in Russia and Kazakhstan, and (5) a public/private sector initiative to improve the efficiency of key former Soviet food distribution enterprises. In addition, the U.S. government has committed over

[3]Former USSR International Agriculture and Trade Report, Situation and Outlook Series, USDA, Economic Research Service (Washington, D.C.: May 1993).

[4]U.S. Agricultural Assistance to the Former Soviet Union: Policy Issues, Congressional Research Service (Washington, D.C.: Apr. 7, 1993).

$100 million in technical assistance to the agricultural sector in the NIS over the next 3 years. This assistance will fall into four categories: policy advice, agricultural exchanges, agribusiness development, and agricultural demonstration and training projects.

International financial assistance organizations, such as the World Bank and the International Monetary Fund (IMF) are also important sources of technical advice for countries undergoing the transition to market economies, including transitions in their agricultural sectors. For example, the Russian government has worked closely with World Bank officials in analyzing the state of the Russian agricultural sector and in developing an action plan for transforming this sector from central planning to reliance on market principles.

German officials suggested that the NIS also need technical assistance at the leadership level. For example, these officials said that NIS leaders responsible for setting reform policies need to be taught the basics of how free democratic societies and market economies operate. Along these lines, Uzbekistan parliamentary officials said that while the United States is the only country providing effective assistance on changing their country's laws to further the reform process, Uzbekistan legislators could use even more of this type of help. Ukrainian officials also expressed a desire for U.S. assistance in changing their laws.

Uzbekistan officials also said they would like further information on the U.S. congressional process for formulating and passing laws. These officials explained that under the former Soviet Union, the Uzbekistan Supreme Soviet was not a true legislative body, but rather a rubber-stamping organization for the initiatives of the Soviet central government and Communist party. As a result of their naivete, some of the reform legislation they have passed has been poorly crafted and thus ineffective, these officials said. In addition, Ukrainian officials said that they would like examples of U.S. laws, including those related to the U.S. government's control over imports and exports and its management of government funds.

Foreign Investment

In each of the NIS we visited, laws have been passed that are intended to encourage foreign investment and joint ventures between host country

and foreign firms.[5] For example, in Belarus a legal basis for permitting foreign investment and joint ventures has been established that encourages foreign investment in Belarus' grain, sugar, oil, and poultry industries. Generally, foreign investment laws adopted in the NIS we visited include features such as tax incentives, guarantees of profit repatriation, and assurances that legislative changes or government reorganization will not affect an enterprise's operation for a specified period of time. For instance, Ukraine's law provides that a foreign investor does not have to pay taxes until 5 years after a joint venture becomes profitable, as long as the investor's initial investment is at least $100,000 or 20 percent of the value of an enterprise.[6]

According to a report prepared by World Bank officials,[7] especially promising areas for foreign investment are food processing, grain storage, and transport. This report indicated that much of the NIS' food processing equipment is old, outdated, and poorly maintained. For example, as many as 40 percent of NIS sausage-making plants are considered ready for demolition, and three-quarters of the sugar processing plants in Ukraine were built at the beginning of the century. Also, in Uzbekistan, officials said that only 40 percent of their country's vegetable production intended for canning is successfully preserved—60 percent of this production is wasted because of a lack of modern canning capacity. In addition, refrigerated trucks, tractor-trailers, and fork-lift trucks for food handling are in critically short supply throughout the NIS.

According to Uzbekistan officials, the preferred way to establish joint ventures is for the foreign partner to provide the technology, including production equipment, and the NIS partner to contribute the raw materials and labor. Under this type of arrangement, NIS countries can gain access to western technology without spending scarce hard currency. Moreover, Uzbekistan officials said these types of joint ventures were necessary in their country because Uzbekistan lacks sufficient hard currency assets to purchase foreign technology.

[5]Regarding the other NIS: Azerbaijan has adopted a law on foreign investment that includes tax benefits for foreign investors such as a 3-year tax holiday. Tajikistan adopted a law on foreign investment on March 11, 1992, allowing foreign investors the right to set up enterprises, purchase stock, and participate in privatization of state enterprises. As of November 1992, however, Armenia, Georgia, Kyrgyzstan, Moldova, and Turkmenistan lacked legislation on foreign investment, although such investment was being regulated by presidential decree in Turkmenistan. Source: Review and Outlook for the Former Soviet Republics, PlanEcon (Washington, D.C.: Nov. 1992).

[6]See Review and Outlook, Outlook for Ukraine, PlanEcon (Washington, D.C.: Apr. 1992).

[7]Food and Agricultural Policy Reforms in the Former USSR.

However, many U.S. and other foreign companies are skittish about investing in the NIS. In addition to political uncertainties, the inadequacy of the regulatory framework for foreign investment, economic risks, uncertainties about domestic currency conversion, absence of functioning internal markets, and the lack of infrastructure in finance and telecommunications are all disincentives to foreign investors. For example, Uzbekistan officials said that in order to encourage western firms to enter into joint ventures with Uzbekistan firms, their country must first have a convertible currency[8] so that the profits of these joint ventures can be repatriated to the western firms' home countries.[9] Because of these difficulties, many U.S. and other foreign firms would probably prefer to sell finished products directly to the NIS rather than invest in joint ventures.

In April 1993, the U.S. government announced that it would increase Overseas Private Investment Corporation[10] and U.S. Export-Import Bank[11] credits by $232 million to allow these institutions to underwrite efforts by U.S. businesses to invest in Russian oil and gas development. In addition, at that time the U.S. government was working to complete a $2-billion agreement under this latter organization to guarantee further U.S. private investment in oil and gas development in Russia. Increased exports of these commodities could provide Russia with additional hard currency income needed for critical imports and servicing its outstanding foreign debt. It remains to be seen how these additional credits will affect the willingness of U.S. companies to invest in Russia.

[8]A convertible currency is one that can be converted to a so-called "hard" currency, such as U.S. dollars or German marks, at a rate officially recognized on international financial markets. Hard currencies are those typically accepted by a wide range of countries as mediums of exchange in international trade or for the settlement of foreign debts.

[9]At a June 1990 food conference held for U.S. food company officials and Soviet government officials in Washington, D.C., U.S. business executives identified hard currency difficulties as the most significant obstacle to the expansion of the U.S.-Soviet food processing trade. According to some of these executives, unless the Soviet Union addressed the problem of the nonconvertible ruble so that companies could repatriate their profits, few U.S. companies, other than large firms with substantial capital, such as Pepsico and McDonald's, were likely to invest in the Soviet Union.

[10]The Overseas Private Investment Corporation is a self-sustaining U.S. government entity that assists U.S. investors in making profitable investments in developing countries while encouraging projects that enhance social and economic development in that country. The corporation does this by offering U.S. investors assistance in finding investment opportunities, insurance to protect their investments, and loans and loan guarantees to help finance their projects.

[11]The U.S. Export-Import Bank is a U.S. government institution that administers programs to assist the U.S. exporting community, including direct lending and the issuance of guarantees or insurance to minimize risk for private banks and exporters.

Problems Confronting Private Farmers in the Newly Independent States

State and collective farm workers in the NIS of the former Soviet Union face many problems in trying to become successful private farmers. These problems include the fluctuating availability and high cost of agricultural inputs and credit, a lack of infrastructure and markets catering to small farms, and uncertainty over the legal status of land held by private farmers. In light of these and other concerns, most state and collective farm workers have thus far declined to become private farmers.

Private Farmers Face Difficulties in Obtaining Inputs

According to a USDA report,[1] workers on NIS state and collective farms identified the lack of crucial agricultural inputs as the most important reason for not taking up private farming. Moreover, as these inputs become scarcer and more expensive because of breakdowns in traditional interstate trade links and a general lack of NIS foreign exchange for imported goods, existing private farms face increasing difficulties in obtaining the materials needed to operate. In Russia, for example, production of farm machinery, fuels, and fertilizers for the first 8 months of 1992 was down significantly from the previous year. Manufacture of tractors was down 29 percent, and production of combines fell by 27 percent. Also, state deliveries to farms of gasoline and diesel fuel decreased by 10 and 24 percent, respectively. In addition, the production of mineral fertilizers was down 17 percent from the previous year.

Although NIS food prices rose dramatically during 1992 as a result of price liberalization, the cost of farm inputs went up much more. In Russia, for example, prices received by farms for their products increased 60 percent from 1990 to 1991, while the prices paid by farms for inputs increased 93 percent. This trend accelerated in 1992, with input prices increasing by 2-3 times as much as farm gate prices that year. For example, according to a USDA report,[2] prices for agricultural machinery increased 19-fold, 25-fold for tractors, and 35-fold for fuel and lubricants, while farm output prices increased only 10-fold.

Also, in Ukraine, officials of the Ukrainian Farmer's Union said that in 1991 the cost of industrial goods increased 18.4 times, while the price of agricultural goods increased only 6.4 times. Other Ukrainian officials said in May 1992 that the price of a grain combine had recently risen from 100,000 rubles to 1.5-million rubles. Ukrainian Farmer's Union officials also predicted that their country's farm sector would run a 120-million

[1]Former USSR International Agriculture and Trade Report, Situation and Outlook Series, USDA, Economic Research Service (Washington, D.C.: May 1992)

[2]Former USSR International Agriculture and Trade Report (May 1993).

ruble deficit in 1992 if their government did not correct the disparity between industrial and agricultural prices.

Further, private farmers must compete with state and collective farms for inputs that are controlled by the state. Moreover, in some cases private farmers must try to purchase inputs, such as equipment and feed, from nearby state and collective farms whose managers may view the private farm movement as a threat. For example, according to the cited USDA study, managers of state and collective farms often hinder the establishment of private farms by refusing to rent or sell their idle or excess farm equipment to private farmers. The study indicated that such refusals are especially important because most existing farm equipment is controlled by state and collective farms, production of farm machinery is declining, and a competitive system of farm suppliers of agriservices does not yet exist in Russia. In addition, private farmers generally do not have the same access to foreign feed grains—such as that provided under the U.S. GSM-102 program—that state and collective farms have. This grain is purchased by state structures and distributed to state and collective farms.

Another reason that private farmers have difficulty obtaining equipment inputs is that machinery production in the former Soviet Union was geared to large-scale farm operations. Hence there is a shortage of small tractors and other machinery for private farms. In Russia, for example, although the state had reserved a quantity of new machinery for the establishment of private farms, a survey of approximately 20,000 private farms in Russia on July 1, 1991, indicated that for every 100 farms there were only 47 tractors, 17 plows, 14 trucks, and 5 combines. A more recent survey of approximately 29,000 Russian private farms reported in August 1992 that little progress had been achieved in relieving this equipment shortfall. According to this later survey, for every 100 private farms there were only 50 tractors, 20 plows, 17 trucks, and 8 combines. According to a report prepared by World Bank officials,[3] to address this problem the Russian government has initiated a project called "Private Farmer" geared to the design and manufacture of agricultural equipment and machinery for private farmers. The project relies in part on the conversion of defense industries to the production of agricultural machinery.

[3]Food and Agricultural Policy Reforms in the Former Soviet Union.

Private Farmers Face Difficulties in Obtaining Credit

Generally, NIS private farmers face greater difficulties in obtaining affordable credit to purchase machinery and other inputs than experienced by state and collective farms. For example, Ukrainian officials said that the interest rate on credits available to private farmers in their country was 25 percent as of May 1992. Also, in some cases, private farmers cannot offer their land as collateral for a loan because this land is leased, or, even when "owned," the farmer's limited ownership rights do not include the right to sell or offer the land to anyone other than the state. In contrast, easy credit, including low interest rates and interest rate subsidies, has traditionally been offered to state and collective farms irrespective of their profitability. If these farms could not service their outstanding loans, these debts were often simply forgiven by the state banking structure.

In Russia, however, it may be somewhat easier for private farmers to obtain loans. For example, according to a report prepared by World Bank officials,[4] during 1992, the Russian government was providing even higher subsidies on interest rates—with rates as low as 8 percent—to private farmers than were being made available to state and collective farms. These subsidies were being provided through state budgetary funds made available to the Association of Peasant Farmers and Agricultural Cooperatives of Russia, a nongovernmental organization representing private farmers and small collective farms. In addition, Russian private farmers now have the right to use their land as collateral for loans from the Agricultural Bank of Russia, which was given the role of land bank for Russia. However, according to a USDA report,[5] established credit lines for Russian private farmers have sometimes gone unused because new agricultural machinery was not to be found. Also, these credits could not, alternatively, be used for the purchase of used equipment.

In May 1992, agricultural officials in Russia's Sverdlovsk oblast confirmed that the state was providing agricultural loans to private farmers at a rate of 8 percent, adding that commercial banks were charging 50-percent interest. Moreover, a private farmer from this oblast stated that he had been lucky to obtain a 400,000-ruble government loan at an interest rate of only 2 percent. According to this farmer, if he cannot repay this loan within 2 years, he must repay it later at an interest rate of 20 percent.

[4]Food and Agricultural Policy Reforms in the Former USSR.

[5]Former USSR International Agriculture and Trade Report (May 1992).

Private Farmers Face a Lack of Infrastructure Catering to the Needs of Small Farms

Private farmers face a lack of infrastructure, including alternative marketing institutions, catering to the needs of small farms. These infrastructure problems include a need for small processing plants, feed mills, local implement dealers, farmer cooperatives, and commodity markets to compete with the state monopolies. For example, NIS private farmers have few options for marketing their products outside the state system, and there is a lack of private processing facilities.

According to an official of Volunteers in Overseas Cooperative Assistance,[6] a U.S. volunteer organization that works with private farmers' associations and cooperatives in foreign countries, the creation of farmer-owned cooperatives in Russia may give Russian private farmers the power to buy inputs and sell agricultural commodities in volume. In addition, these cooperatives may give these farmers the ability to provide transportation and storage, establish processing facilities, and create markets for their agricultural commodities. Such cooperatives could also provide their members with credit.

Private Farmers Are Uncertain of the Legal Status of Their Farms

Private farmers are unsure about the legal status of their farms, fearing, for example, that their land may be taken back by the state or collective farm from which the land was originally obtained. In Ukraine, for example, an official of the Ukrainian Farmer's Democratic Party said in May 1992 that a Ukrainian private farmer had had his land taken back by a state farm after producing higher yields than the state farm. Although Ukrainian courts ruled that the state farm had acted illegally, the land was not returned to the private farmer, according to this party official. In another case, a Russian private farmer in the Sverdlovsk oblast also said in May 1992 that although a legal document was signed when he "purchased his land," he feared that his land could be taken back. To illustrate, this farmer described another Sverdlovsk private farmer who had purchased 60 hectares of land from a local collective farm only to have the collective take 20 hectares of this land back.

[6]Comments provided in testimony before the Subcommittee on Foreign Agriculture and Hunger, House Committee on Agriculture, on March 31, 1993.

Measures Undertaken by Exportkhleb or Its Agent to Account for Receipts and Distribution of U.S. GSM-102 Grain Imports Under November 1991 Protocol

As stated in chapter 4, Exportkhleb handled the purchase, shipping, and domestic distribution of GSM-102 grain imports under all three credit guarantee protocols, or agreements, signed with the former Soviet Union, including the November 1991 protocol for which grain deliveries did not begin until after the Soviet Union's dissolution. This situation was possible because the NIS agreed in early 1992 to allow Exportkhleb to continue to handle the import and distribution of grain obtained jointly under the November protocol.[1] Once the grain was delivered to these ports, Exportkhleb, working through a local agent, monitored the off-loading and directed the subsequent transport of this grain to grain elevators in the various NIS.[2] Inter-NIS transport of this grain was generally done by rail.

According to officials of Exportkhleb in Moscow and their agent, Soyuzvneshtrans,[3] in the Ukrainian port city of Odessa, each step in the purchase, overseas shipping, receipt, and internal NIS distribution of U.S.-sourced grain under the November 1991 protocol was documented by Exportkhleb or its agent to help ensure its equitable distribution. For example, according to Soyuzvneshtrans officials, when ships carrying U.S.-sourced grain arrived at Odessa, the ship's captain provided documentation to them describing the ship's cargo. Soyuzvneshtrans officials said that they entered this information into a log book they maintained on shipment arrivals. Newly arrived grain was then inspected by Odessa Chamber of Commerce officials and given a quality seal. The grain is also given an insurance certificate by a government insurance company.

After a grain shipment's arrival, Soyuzvneshtrans officials said Exportkhleb officials in Moscow provided them with instructions on the NIS destination(s) for that particular shipment. Soyuzvneshtrans officials said they were then responsible for ensuring the grain was loaded onto the appropriate train.

[1]In February 1992, the NIS signed an agreement forming an interstate commission to oversee issues related to foreign food imports. Among other things, the agreement (1) designated Russia as the guarantor and negotiator on behalf of all in matters related to the use of foreign credits for the purchase of food, (2) stated that the commission would follow the formula agreed to in November 1991 by the former republics for the distribution of imported food, (3) established a working group from among the commission members to oversee food imports and coordinate their delivery to member states, and (4) stated that the commission would use Exportkhleb and Prodintorg to handle food imports and associated commodity and freight payments. Thus, Exportkhleb was directed by the commission's working group in matters related to grain imports and distribution among the NIS.

[2]A grain elevator is a building for elevating, storing, discharging, and sometimes processing grain.

[3]Soyuzvneshtrans is a trading company that has an agreement with Exportkhleb, among other customers, to handle imports and exports of grains through the port of Odessa.

According to Soyuzvneshtrans officials, Odessa Chamber of Commerce officials monitored the actual loading of the grain onto rail cars. Chamber officials then prepared paperwork for each rail car describing the car's contents, including the weight and quality of the grain, the grain's source, and the grain's NIS destination. This documentation accompanied the rail car to the point of grain debarkation. Also, after loading, each rail car was sealed to prevent pilferage. As a further check, Soyuzvneshtrans officials said that similar documentation indicating the amount of grain being shipped on a particular train was forwarded by mail to grain ministry officials in the destination country.

In a further effort to account for U.S.-sourced grain under the November protocol and ensure its equitable distribution, Exportkhleb officials said they met monthly with NIS grain ministry officials in Moscow to give them information on grain receipts and distribution for the previous month. At these meetings, grain ministry officials were also given information on anticipated grain receipts and planned distribution for the current month. In addition to these monthly meetings, Exportkhleb officials said their organization also provided a monthly report on grain receipts and distribution to USDA officials in Moscow.

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