

# WTO AGREEMENT ON AGRICULTURE AND ITS IMPLICATION ON RURAL DEVELOPMENT POLICIES IN RUSSIA

## DOHODA SVETOVEJ OBCHODNEJ ORGANIZÁCIE O POĽNOHOSPODÁRSTVE A JEJ VPLYV NA POLITIKY ROZVOJA VIDIEKA V RUSKU

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### I. Introduction

Today rural development policies are much broader than they used to be in the early 2000s. They shifted from agriculture itself to a broader spectrum, which included social and economic situation in rural territories, development of rural infrastructure, employment and involvement of rural

households into economic activities, rural tourism and other alternative sources of income, environmental and recreational issues, etc. The new paradigm for rural areas is development of trade liberalization and integration. Russia has recently accessed the World Trade Organization (WTO). Such integration is likely to affect Russia's agricultural policies in

#### Abstract (EN)

The paper aims at overview of the history and major contents of the Agreement on Agriculture of the World Trade Organization. Special attention is paid to implications of the Agreement for agricultural and trade policies in developing countries, including Russia, recently accessed the WTO. The differential treatment that developing countries receive under the agreement is investigated. The paper includes an overview of the recently adopted State Program of the Russian Federation for Development of Agriculture and Regulation of Agricultural Commodities Markets in 2013-2020. The research considers four applications of the given State Program: compliance with WTO requirements, state support of agriculture, provision of food security, and ensurance of sustainable rural development. The paper results in the conclusion that state policies in the sphere of rural development have to evolve beyond the traditional, sector-based model, with its almost exclusive focus on agriculture. Contemporary set of tools to ensure sustainable rural development should be based on the multi-sectoral strategies and programs that identify and better exploit the development potential of rural area through a variety of factors: national food security, agricultural production, liberalization of trade and foreign economic activities, support of local producers and rural households, rural infrastructure, environmental and recreational potential.

#### Abstrakt (SK)

Príspevok sa zaoberá prehľadom histórie a základným obsahom Dohody o poľnohospodárstve Svetovej obchodnej organizácie (WTO). Pozornosť je zvlášť sústredená na vplyv tejto dohody na obchodné politiky rozvojových krajín, vrátane Ruska, ktoré sa nedávno stali členom WTO. Predmetom záujmu boli aj rozdielne prístupy, ktoré sa v rozvojových krajinách v rámci dohody uplatňovali. Príspevok obsahuje tiež prehľad nedávno prijatého dokumentu Štátny program ruskej federácie pre rozvoj poľnohospodárstva a regulácie trhu s poľnohospodárskymi komoditami pre roky 2013-2020. Štúdia sa zameriava na štyri aplikácie spomínaného štátneho programu a to: súlad s požiadavkami WTO, štátna podpora poľnohospodárstva, zabezpečenie potravinovej bezpečnosti a udržateľného rozvoja. Príspevok vyústil do záverov, že štátne politiky v oblasti rozvoja vidieka by mali mať presahy za hranice tradičného, sektorového modelu s takmer výlučnou podporou pre oblasť poľnohospodárstva. Súčasné nástroje na zabezpečenie udržateľného rozvoja by mali byť postavené na multisektorových stratégiách a programoch, ktoré dokážu identifikovať a vhodne využiť rozvojový potenciál vidieckych oblastí cez rôzne faktory, ako napríklad: národná potravinová bezpečnosť, poľnohospodárska produkcia, liberalizácia obchodu a zahraničných ekonomických aktivít, podpora miestnych producentov a vidieckych domácností, vidiecka infraštruktúra, environmentálny a rekreačný potenciál.

#### Keywords (EN)

agreement on agriculture, developing countries, market access, domestic support commitments, export subsidies, food security, rural development

#### Kľúčové slová (SK)

dohoda o poľnohospodárstve, rozvojové krajiny, prístup k trhu, záväzky domácej podpory, exportné dotácie, potravinová bezpečnosť, rozvoj vidieka

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a number of ways. In the first instance, some areas of rural development policies will need to be modified in order to comply with the WTO provisions, primarily with the Agreement on Agriculture. The Agreement influences rural development policies in a less direct way. This will occur, firstly, as a result of the Uruguay Round's impact upon the policies of the "rest of the world", particularly, those of the developed countries; and, secondly, as a result of the impact on world markets and world prices, that reforms in the policies of the rest of the world will have. In the long term, changes in world markets and prices will provide new opportunities, as well as certain costs, that agricultural policies of developing countries will have to respond to.

There is the State Program for Development of Agriculture and Regulation of Agricultural Commodities Markets in 2013 - 2020, adopted in Russia. It emphasizes a social and rural development orientation with consideration of new international conditions, although the planned funds for its sub-programs are small. Applications of the Program and its correspondence with the WTO Agreement on Agriculture should be studied, since they configure the perspectives of rural development, food security, agricultural production and trade with agricultural commodities and food in Russia for the next decade.

## II. Material and methods

The major provisions of state regulation of domestic agriculture in relation to international rules are analyzed on the example of the Agreement on Agriculture of the World Trade Organization. Its clauses related to market access restrictions, domestic support, and export subsidies with differentiation on developed, developing and the least-developed countries are investigated with implementation of method of comparative analysis. Data for this research are derived from the official publications of the Food and Agriculture Organization of the United Nations (FAO) on the implications of the Uruguay Round Agreement on Agriculture for developing countries. The alternative sources are the USDA reports on agricultural policies in developed and developing countries, as well as researches on implications of WTO provisions on agricultural sector and rural policies, completed by international research teams.

## III. Results and discussion

The primary objective of the Agreement is to reform the principles of, and disciplines on, agricultural policy as well as to reduce the distortions in agricultural trade caused by agricultural protectionism and domestic support. These forces have become very strong in recent decades, as developed countries, in particular, have sought means of protecting their agricultural sectors from the implications of unfettered markets<sup>(1)</sup>.

<sup>(1)</sup> Food and Agriculture Organization of the United Nations (1998): The Implications of the Uruguay Round Agreement on Agriculture for Developing Countries: A Training Manual. Rome: Food and Agriculture Organization of the United Nations. <http://www.fao.org/docrep/w7814e/w7814e00.htm>.

The purpose of the Agreement, then, is to curb the policies that have, on a global level, created distortion in agricultural production and trade. These policies can be divided into the following three categories: market access restrictions; domestic support; export subsidies.

Market access provisions are an important element of the Agreement. These are designed to encourage the development of trade, and to ensure existing export markets are maintained. They oblige countries to provide "low" import tariffs for a fixed quota of imports. The maintenance of a positive price differential between the domestic market price and the world market price of farm commodities forces domestic consumers to pay higher prices for food commodities than they would in a more liberal marketing environment. Restrictions on market access typically take the form of tariffs, variable levies, import quotas, and other non-tariff-barriers<sup>(2)</sup>.

Domestic support policies include a variety of measures aimed at raising the income of producers and sustaining the profitability of domestic farming. Support may be provided in the form of direct payments, where there is a direct transfer of (usually) government money to producers. It may be given through policies that intervene in the market, in order to raise the price of farm output, or reduce the price of the inputs. Or it may result from public provision of services aimed specifically at agricultural producers<sup>(3)</sup>.

The policies that have the most distortionary effect on trade are those that provide farmers in the major producing regions of the world with a strong incentive to produce substantially more of a particular commodity than they would do without such policies. Income support policies that supplement a farmer's income through direct payments, so as to provide him or her with a guaranteed minimum income, do not generally have this effect, especially in the short run<sup>(4)</sup>.

The following policies frequently do have a distortionary effect are market price support, government intervention, deficiency payments, and input subsidies<sup>(5)</sup>.

Where the domestic price of the commodity is higher than the world price of the commodity, the sale of surpluses on the world market can only occur at a loss unless the exporter is provided with a subsidy. Such export subsidies have been typical of the path chosen by governments in their efforts to dispose of domestic surpluses. It is these subsidies that have facilitated the sale of large EC and US surpluses on the world market, causing the international prices of many agricultural commodities to be depressed and accentuating world price instability<sup>(6)</sup>.

Agreement on Agriculture differentiates the rights and obligations of member countries, according to whether they are developed, developing or least-developed. In general, devel-

[www.fao.org/docrep/w7814e/w7814e00.htm](http://www.fao.org/docrep/w7814e/w7814e00.htm).

<sup>(2)</sup> *Ibid.*

<sup>(3)</sup> Food and Agriculture Organization of the United Nations (2000): Multilateral Trade Negotiations on Agriculture: A Resource Manual. <http://www.fao.org/docrep/003/X7351e/X7351e00.HTM>.

<sup>(4)</sup> Food and Agriculture Organization of the United Nations (1998). Ob. cit.

<sup>(5)</sup> *Ibid.*

<sup>(6)</sup> Food and Agriculture Organization of the United Nations (2000). Ob. Cit.

oped countries are expected to participate fully in the new disciplines, while for developing countries the commitments are less demanding<sup>(7)</sup>. According to its recent accession to WTO Russia will ensure the necessary level of transparency of its foreign trade and agricultural policies. All general legally enforceable enactments regulating trade will have to be published in the official sources and will not come into action until their official publication. Besides, at the development of the normative acts Russia will provide to all involved parties the possibility to present their comments and suggestions during the reasonable period of time to the drafts of such acts until their final approval. This will ensure the certain level of predictability of the legal environment in the country<sup>(8)</sup>.

The State Program of the Russian Federation for Development of Agriculture and Regulation of Agricultural Commodities Markets in 2013–2020, introduced by the Government of the Russian Federation, supports Russian agriculture adaptation to WTO requirements and considers relevant plans of actions of the Russian Government, business, and the Ministry of Agriculture. The Program plans to allocate \$76 bln for the development of agriculture and food markets during the period 2013 – 2020, including \$50 bln from the federal budget and \$26 bln from provincial budgets. The state funds (both federal and provincial) for the State Program are only half of what was requested in the Ministry of Agriculture's draft of August 2011. The development of the livestock industry will remain the top priority for the Ministry of Agriculture. One major change in the State Program is the method of support to agriculture will shift from subsidized interest rates toward direct income support for farmers. The Program emphasizes a social and rural development orientation, although the planned funds for these sub-programs are small<sup>(9)</sup>.

Being correspondent to the WTO Agreement on Agriculture, the Program outlines two sets of priorities. For the purposes of the current research we have to highlight the priorities related to the ensurance of sustainable rural development. They are quite general, since envisage only two spheres:

1. sustainable development of rural territories as the precondition for preservation of labor resources and the territorial integrity of the country;
2. creation of conditions for economic and physical availability of food for the vulnerable stratus of population (based on the rational norms of consumption).

Other first level priorities are divided into the ones related to the spheres of production, economics, development of pro-

duction potential, and institutional development:

1. In the production sphere – development of the cattle industry (production of meat and milk) as the core (strategic) sub-industry that use the “competitive advantages of the country”, such as availability of significant agricultural lands;
2. In the economic sphere – increase of returns of agricultural producers;
3. In the sphere of development of production potential – reclamation and irrigation of agricultural land, recovery of non-used arable land and other agricultural lands;
4. In the sphere of institutional development – development of integration links in the agro-industrial complex and formation of food sub-complexes, as well as territorial vertically integrated agribusiness, so called “clusters”;
5. In the sphere of science and personnel, the Program's priority is to “provide for an innovative agro-industrial complex”.

The second level of priorities:

1. Development of import-substitution industries;
2. Ecological safety of agricultural and food products;
3. Increase of exports of agricultural products, raw agricultural materials and foodstuff, if and when the domestic markets are saturated;
4. Minimize the cost of logistics and support the competitiveness of production, considering at the same time the rational location and specialization of agricultural and food industries by zones and regions of the country.

The annual allocations for the Program in eight years will grow slowly, at 4.6%, from \$5.3 bln in 2013 to \$7.27 bln in 2020. The Program envisages that in the first 2 years (2013 and 2014) the budget allocations will be almost flat, and they will accelerate in 2015 – 2018<sup>(10)</sup>. According to industry analysts<sup>(11)</sup>, the cuts in budget funds compared to the Ministry of Agriculture's draft were caused primarily by federal budget constraints and uncertainties, and only partially by Russia's WTO obligations, since the most drastic cuts were in spheres in the “green box” that can have unlimited domestic support.

The domestic support commitments are, in general, far less demanding on the agricultural policies of developing countries, than they are on those of developed countries. This is because developing country agricultural policies have on the whole tended to tax the agricultural sector, rather than support it; and the Agreement recognizes that agricultural support policies in developing countries are often justified on the basis of their being part of the broader economic development agenda<sup>(12)</sup>.

Two important exemptions from domestic support reduction commitments for developing countries are provided in Article 6 paragraph 2 of the Agreement:

<sup>(10)</sup> *Ibid.*

<sup>(11)</sup> LIEFERT, W. (2004): Food Security in Russia: Economic Growth and Rising Incomes are Reducing Insecurity. Economic Research Service/USDA, Food Security Assessment / GFA-15.

<sup>(12)</sup> Food and Agriculture Organization of the United Nations (1998). Ob. cit.

<sup>(7)</sup> Food and Agriculture Organization of the United Nations (1998). Ob. cit.

<sup>(8)</sup> EROKHIN, V. (2013): Review of Law Obligations of State Support of Agriculture in EU, CIS and Russia. Agrarian Law VII – Selected Aspects of Agrarian Law: International Scientific Conference of Slovak University of Agriculture in Nitra, Slovak Republic. – Nitra: Slovak University of Agriculture, pp. 17–23.

<sup>(9)</sup> EROKHIN, V. et al (2014): Contemporary Issues of Sustainable Rural Development: International Approaches and Experiences of Eastern Europe and Russia : monograph. – Stavropol: AGRUS of Stavropol State Agrarian University, 172 p.

1. investment subsidies which are generally available to agriculture;
2. agricultural input subsidies generally available to low-income or resource-poor producers<sup>(13)</sup>.

Thus, domestic support meeting these criteria shall not be required to be included in the calculation of the current AMS. Least-developed countries, on the other hand, are exempt from all domestic support reduction commitments, but may not exceed the Total AMS as established for the base period (1986–88)<sup>(14)</sup>.

There are certain exemptions from AMS commitments, referred to by the Agreement as “green box” measures. Those are measures that have no, or at most minimal, trade-distorting effects or effects on production; provided through a publicly-funded government not involving transfers from consumers; and do not have the effect of providing price support to producers. The following measures may be related to “green box”:

1. General services – programmes that provide services or benefits to agriculture or the rural community, but which do not involve direct payments to producers or processors.
2. Public stockholding for food security purposes – expenditures (or revenues forgone) in relation to the accumulation and holding of stocks of products which form an integral part of a food security programme identified in national legislation.
3. Domestic food aid – policies aimed at providing domestic food aid to vulnerable sections of the community.
4. Direct payments to producers – provided that they “have no, or at most minimal, trade-distorting effects or effects on production” and provided that the size of such payments, in a given year, is not related to the type or volume of production undertaken by the producer in any year after the base year; the prices, domestic or international of any production undertaken after the base year; the factors of production employed in any year after the base year<sup>(15)</sup>.

The Ministry of Agriculture of the Russian Federation developed a plan of actions to adapt domestic trade, agricultural and rural policies to WTO, which includes a “road map” of tariff and non-tariff regulation of imports of agricultural products.

The Program envisages other measures as well:

1. Extension of tax preferences for agricultural producers, such as profit tax exempts for agricultural producers, VAT-free imports of pedigree cattle, embryos, semen till 2020
2. A Federal Law “On Veterinary” will improve Russian veterinary legislation
3. Russia prepares a list of agricultural and food products for State and municipal needs which can only be purchased from producers within the Customs Union.

<sup>(13)</sup> *Ibid.*

<sup>(14)</sup> Food and Agriculture Organization of the United Nations (2000). Ob. Cit.

<sup>(15)</sup> Food and Agriculture Organization of the United Nations (1998). Ob. cit.

4. Strengthening customs management of agricultural imports, especially beef;
5. Making amendments to the Federal Law “On Agriculture” in order to determine criteria for territories unfavorable for agriculture, support of which will not be limited;
6. Stimulate demand for agricultural raw materials and food products by low income populations, support of food consumption by some social groups, i.e. school feeding, reforming the system of procurement of products and food for the state needs.

It is now commonly accepted that disciplines of the Uruguay Round Agreement, affecting as they do many previously unregulated areas, have introduced a vast array of obligations that did not previously exist. At the same time, it has been recognized that the ability to meet these new obligations varies considerably from one country to another, and that while full participation in the new commitments may be appropriate for the more developed countries, it may not be so for less developed countries<sup>(16)</sup>. The system of state support of agriculture in Russia, according to the study of foreign experience, should be established particularly on the basis of the Green Box. We consider the following measures of support of Russian farmers and food processing companies as the most perspective tools of support and defense:

1. Direct payment to the producers unrelated to the price or production volumes. For example, farmers in the USA get support calculated on the certain formula without any relation to the current production volume. Payment mechanisms are specified in the separate law once per six years. Thus, the land plot of 100 ha with the fixed productivity of corn 7 t/ha in the basis period gives the right to get \$6.5 thousand as an annual subsidy<sup>(17)</sup>.
2. Implementation of sanitary and phytosanitary measures as the limiting barriers to protect the domestic market. This is officially forbidden, however EU countries use “high” sanitary standards to limit the access of import products. For example, to limit the pork import EU countries implement the total prohibition of the growth factor ractopamine – the drug that is used as a feed additive to promote leanness in pigs raised for their meat. Obligations on sanitary, veterinary and phytosanitary regulation are interconnected with agricultural obligations undertaken by the accessing country. They are directed on provision of correspondence between the systems of sanitary, veterinary and phytosanitary regulations and WTO rules of technical regulations. Implemented sanitary, veterinary and phytosanitary measures have to be based on the international standards, supported by the sufficient scientific ground and risk assessment.
3. Combination of tariff quotas, sanitary and phytosanitary measures. In the USA and EU such practice results in the not complete fulfillment of the set quotas. In that case tariff quotas act as the extra control element as also serve as a tool of redistribution of exclusive import volumes<sup>(18)</sup>.

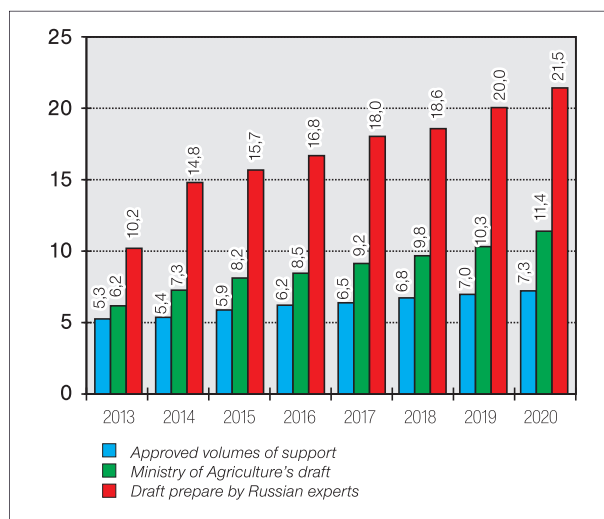
<sup>(16)</sup> *Ibid.*

<sup>(17)</sup> SCHMITZ, A. et al. (2010): Agricultural Policy, Agribusiness, and Rent-Seeking Behaviour, Second Edition. Toronto: University of Toronto Press.

<sup>(18)</sup> *Ibid.*



**Fig. 1:** Federal budget allocations for the State Program for Development of Agriculture and Regulation of Agricultural Commodity Markets in 2013–2020, \$ bln.



Source: USDA Foreign Agricultural Service (2012)

The Program consists of six sub-programs and four target programs for development of rural area and soil reclamation, with a separate federal budget for each sub-program/target program for the whole period of 2013 – 2020 (Figure 2).

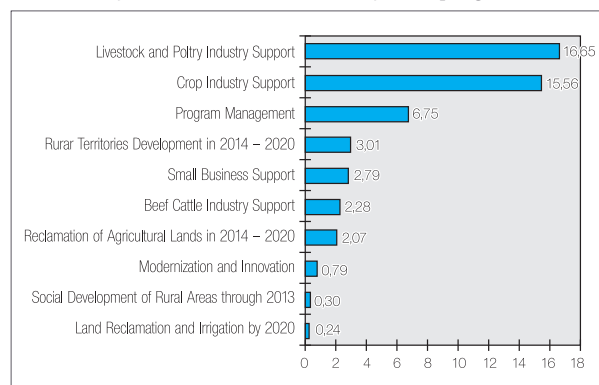
The main sub-programs are “Development of Crops Production, Processing and Marketing of Products of Plant Origin” and “Development of Animal Production, Processing and Marketing of Products of Animal Origin”. As for the program in the sphere of crop industry support, its volume is \$15.6 bln. Compared to the Ministry of Agriculture’s draft the federal financing was decreased by 18% for this program. As for the program in the sphere of livestock and poultry industry support, it envisages \$16.6 bln from the federal budget, or 29% less than the Ministry of Agriculture’s draft requested. However, the Program includes an additional related sub-program (“Development of the Beef Cattle Industry”, \$2.28 bln), which was not present in the Ministry of Agriculture’s draft. Thus, the funds for these two sub-programs aimed at development of livestock industry will amount to \$18.8 bln that is only 20% less than the draft program envisaged for livestock industry.

Ministry of Agriculture’s requests for other sub-programs were cut more severely: funds for the support of small business from the federal budget are cut by 23% to \$2.8 bln. Funds for technical and technological modernization are \$790 bln, or less than one fifth of what was requested by the Ministry’s draft. Funds for sustainable development of rural territories are set at \$3.0 bln, less than a third of the draft’s request. Funds for development of land improvement and irrigation are \$2.1 bln, a quarter of what was requested in the Ministry’s draft. Moreover, this target program on land improvement and reclamation is still in the draft format, the further budget cuts are possible before the draft is approved<sup>(19)</sup>.

New agricultural policies will naturally influence the rural development as well. The current situation in rural Russia,

<sup>(19)</sup> EROKHIN, V. et al (2014). Ob. cit.

**Fig. 2:** Federal budget allocations of the State Program for Development of Agriculture and Regulation of Agricultural Commodity Markets in 2013–2020 by sub-programs, \$ bln.



Source: USDA Foreign Agricultural Service (2012)

in addition to implementing a consistent reform package for the agricultural sector requires immediate actions as well as a longer strategic view. The short-term actions obviously would need to lay the foundation for implementation of a comprehensive rural development strategy. In the short-term, we recommend focusing on the completion of transition-related tasks. The strategy can be summarized as follows<sup>(20)</sup>:

- Complete the separation of the rural social infrastructure from the large-scale farming enterprises. Social assets should be considered as assets in the settlement of large-scale farm debts to the public sector (e.g., for tax arrears, pension fund).
- Create a system to finance rural social services and infrastructure. The system should:
  - clearly delineate responsibilities among the federal, regional and local budgets;
  - establish mechanisms that would make transfers from upper to lower levels of government predictable and impose hard budget constraints;
  - provide local governments a tax base which could not be pre-empted by higher levels, to give them control over a source of revenue at the margin.
- Among rural infrastructure investments, give priority to roads, telecommunications, education and health for public investment. Small size rural settlements should receive services from mobile service facilities (e.g., traveling medical centers, libraries).
- Target protection to the most vulnerable social groups in rural areas. In particular, provide assistance to rural pensioners in renting out their land shares to receive an additional source of income.
- Create a good business environment generally conducive for the start-up and operation of rural small-scale non-agricultural business activities.
- Facilitate the elimination of informational isolation of

<sup>(20)</sup> IVOLGA, A. – EROKHIN, V. (2011): Rural Development and Agrarian Reform: Russian Experience During the Transition Period. Rural Development Policies from the EU Enlargement Perspective: International Conference, 8-9 September, Ecka, Republic of Serbia, pp. 137 – 144.

rural population by the development of an information and advisory service, regional and municipal public information centers, and mass media.

- Support the strengthening of civil society, development of self-government and civil society institutes in rural areas and the enabling of rural populations to have an increased voice in their affairs, and in national decisions.

A comprehensive rural development strategy should be developed and adopted as soon as possible, to provide a solid framework for long-term rural recovery. This strategy should include a vision of rural development for Russia, specific strategic objectives for rural development, including regional concepts and programs and an action plan and financing framework for its implementation<sup>(21)</sup>.

The rural development strategy should reflect the realities of Russia, as well as being based on the concept of rural development as it has recently emerged in developed countries. These strategies are based on a holistic view of rural development which encompasses all components of the rural space and focuses on people and the use of multi-sectoral participatory approaches. The major objective of these strategies is to improve the well-being of rural people, who are not only farmers or agricultural workers, and widen the scope of rural development to each segment and component of rural life.

## IV. Conclusions

The strategic vision for the effective state policies in the sphere of sustainable rural development in the modern conditions of trade liberalization should include several spheres. Sustainable rural development is widely shared, with private business and competitive agriculture and agribusiness as the main engines of growth. Contemporary set of tools to ensure sustainable rural development should be based on the multi-sectoral strategies and programs that identify and better exploit the development potential of rural area through a variety of factors: national food security, agricultural production, liberalization of trade and foreign economic activities, support of local producers and rural households, rural infrastructure, environmental and recreational potential.

Rural people are the ones who should manage soils, water, forests, grasslands, and fisheries in a sustainable manner. They should be linked to well-functioning markets for products, inputs, finance and information. Rural people should have access to medical care, clean water and sanitation, family planning services, educational opportunities, and sufficient nutritious foods.

There should be essential legal frameworks for rural development, public investment, and productive and social

services provided and financed in a decentralized and participatory manner. Rural areas in the Western countries are characterized by the development of civil society institutes and non-governmental organizations that ensure protection of economic and social interests of various groups of the rural population. This should also be the case in Russia. Russian rural people should have an opportunity to participate in the preparation of rural development programs, aimed at ensurance of sustainability and food security in the modern conditions of liberating international economics and growing international competition.

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