

## Conclusions

Russia and Ukraine have been important to international and U.S. agricultural markets, particularly in their role as importers. However, their production patterns have changed dramatically in the past two decades, leading to a shift in trade from significant grain importers to major meat importers. This report has tried to ascertain the future of agricultural production and trade for these two countries, should they speed up implementation of the reforms initiated when the Soviet Union was dissolved.

An important key to the future of agricultural production and trade in Russia and Ukraine will be the progress of agricultural sector reforms that began in 1992. These included price and trade reforms, and agriculture-specific and economywide institutional reforms. The price and trade reforms were expected to have a contraction effect on production in the short run as real prices dropped, but an expansion effect in the long run as other reforms were implemented and productivity increased, eventually leading to an increase in exports.

To date, only price and trade liberalization have been fully implemented, while economywide and agriculture-specific institutional reforms have been only partially implemented. The result has been a large drop in production, with few signs of a rebound in productivity. The currency devaluation that occurred in 1998 has improved real prices for agriculture and seems to have had a stimulating effect on output, but the complete data are not yet available to analyze the impact on productivity since 1998.

The results of the analysis in this study show that Russia and Ukraine have the potential to increase crop production significantly, if they implement the necessary agriculture-specific and economywide reforms aggressively. Economywide reforms – reform of the commercial code, stabilization of tax and regulatory legislation – will reduce uncertainty in the business environment. Agriculture will benefit significantly

from these reforms because agricultural production occurs over a long time period and is therefore more vulnerable to risk. Agriculture-specific reform – bankruptcy legislation and land reform – will help the agricultural credit market, although without economywide reform the effect will be small. These reforms will allow the agricultural sector to modernize and fully internalize the technological advances in agricultural production made over the last several decades.

If the necessary reforms are made and agricultural production improves in Russia and Ukraine, the impact on world grain markets could be significant. Modeling projections for wheat and barley show that between 2001 and 2011, production in both Russia and Ukraine would increase by 17 percent in a “moderate growth” scenario, and as much as 37 percent in a less likely high-productivity (“catch-up”) scenario. Exports would increase from 10.4 million mt to 21 million mt in the same period and perhaps reach 34 million mt. Agricultural exports from Russia and Ukraine would likely increase to the EU, Pacific Rim, and Middle East and perhaps compete with exports from the United States and the EU. The potential increase in grain exports might affect world grain prices. For example, wheat prices in the “moderate growth” scenario would decline by 6 percent by 2011 compared with base projections.

Since successful reform will have a major impact on agricultural performance, it will be important to monitor the progress of reform in the future. The Russian government initiated some major institutional reforms in 2001 and 2002. The reforms that will impact the agricultural sector are the reforms of the court system and the tax code in 2001, and the passage of the agricultural land code in 2002 (which is in the process of being signed into law at the time of this writing). The issue of farm insolvency has not yet been addressed. The reforms that have been passed will increase agricultural investment if they are successful, so a good gauge of the progress of reforms would be the rate of domestic and foreign investment in the agriculture sector.