



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 20.11.1998
SEC(1998) 1990 final

COMMISSION WORKING DOCUMENT

Food Supply Programme to the Russian Federation

WORKING DOCUMENT OF THE COMMISSION
FOR TRANSMISSION TO THE COUNCIL AND THE EUROPEAN
PARLIAMENT

Subject: Food Supply Programme to the Russian Federation

Background

Following the visit of President Santer to Moscow on October 9 and the subsequent EU-Russia Summit in Vienna on 27 October 1998, a Commission delegation went to Moscow on 6 November 1998 for a fact-finding mission in order to discuss the difficult Russian food situation with the Russian Government.

According to the Russian Government, the 1998-grain harvest will amount to some 48-49 million tonnes, compared to between 60 and 80 million tonnes in the early 1990s. Compared to the 1997-harvest (88.5 million tonnes), the 1998-harvest has decreased by 46%. The grain stocks remaining from the 1997-harvest are estimated at 12 to 15 million tonnes and contain mainly grain for animal feeding. The Russian Government estimates that there will be grain shortages in 22 of 89 Russian regions. The Government is also worried that farmers will fall short of seed for spring sowing. There are also worries over the quality of the seed stocks. Between 25 and 30% of the volume of the stocks verified so far contain dirt and mould. Consequently, the Commission has been told that Russia would need to import between 4 and 5 million tonnes of grain to cover its needs for human consumption, seeds and livestock feed.

As a consequence of the substantial reduction in the number of cattle since the beginning of 1990s, Russia is today largely dependent on imports of meat. Meat imports have been abruptly interrupted due to the financial crisis. The domestic meat production will decrease from 1.5 million tonne in 1997 to 1.3 million tonne this year.

As far as other products are concerned, the sunflower harvest amounts to 2.8 tonnes (+39%) and the harvest of potatoes, one of Russia's main foodstuffs, to 31.5 tonnes (-10%). The harvest of 9.2 million tonnes of vegetables is at the same level as last year's harvest.

The discussions resulted in the conclusion that there will be substantial food shortages in certain Russian regions this winter, especially in the Northern and Eastern parts of Russia. To overcome the difficult situation, the most severely affected Russian regions are in an urgent need for food supply from abroad.

This analysis of the food situation is shared by the American delegation, which have been in Moscow for three weeks in order to discuss Russia's current food situation. According to a Memorandum of Understanding between the USA and Russia, an American food assistance programme will be realised in Russia. The programme will include wheat, corn, rice, soybeans, soybean meal, beef, pork and non-fat dry-milk. The programme will now be implemented by means of detailed P.L. 480, Title I¹ and Section 416 (b)² agreements with the Russian government.

The Russian request for food

On 12 November 1998, the Russian Government transmitted a formal request for food aid to the European Union (enclosed). The request includes 1 million tonnes of wheat, 500,000 tonnes of rye, 50,000 tonnes of rice, 150,000 tonnes of beef, 100,000 tonnes of pork, 50,000 tonnes of skim milk powder and 30,000 tonnes of macaroni.

According to the request, the products included will be sold in the most severely affected Russian regions at prevailing market prices.

The Russian Government will give assurances to the European Union to apply full transparency and to take the necessary measures and controls in order to assure that the food is distributed to the people in need in the most severely affected regions of the Russian Federation. The Russian Government has informed the Commission that the proceeds of sales will be transferred into a special account in the Federal budget, which it intends to use for social purposes and the development of the Russian agricultural sector.

The Commission's assessment of the situation

As a result of the very poor Russian harvest and livestock production, which for many products is the worst since the end of the 1940s, the Commission is of the opinion that a part of the Russian population, especially the population living in the North and Eastern parts of the country, is in severe and urgent need of assistance in the form of food supplies. Therefore, great efforts must be made to ensure that the first delivery of food is sent to the Russian Federation promptly.

The Commission's proposal

On the basis on the Russian request for food, the Commission intends to submit a proposal to the Council as a matter of urgency. The proposal will be based on Article 43 of the EC Treaty. The proposed Regulation will lay down the basic conditions for the

¹ Which provides for government-to-government sales of agricultural products to developing countries under long-term credit arrangements.

² Which provides for overseas donations of surplus commodities acquired by the Commodity Credit Corporation (CCC). These commodities are used to carry out assistance programmes in developing countries and friendly countries.

programme, comprising the supply of products free of charge, either coming from Community intervention stocks or purchased on the Community market:

- 1 million tonnes of wheat;
- 500,000 tonnes of rye;
- 50,000 tonnes of rice;
- 150,000 tonnes of beef;
- 100,000 tonnes of pork;
- 50,000 tonnes of skim milk powder

and provide that the cost of the programme be borne by the Guarantee Section of EAGGF.

With the exception for pork which would be bought on the open market after a tender procedure, the Commission would mobilise the products from EU intervention stocks. Private operators responsible for the transport of the products from Europe to the Russian ports or the Russian border would be chosen following a tender procedure.

In the second phase, the necessary implementing Regulations have to be adopted by the Commission in accordance with the relevant Management Committee procedures.

The gross cost of this operation is estimated at about 470 million Euro for the 1999 financial year. Taking account of the 86 million Euro storage cost which would be saved, this would leave a net requirement of about 400 million Euro which should be covered within the appropriations for EAGGF Guarantee proposed in the rectifying letter. It is therefore essential that the 1999 budget should be established on a basis which enables this cost to be met. In October, and before the operation was envisaged, the Commission presented an Amending Letter to the Preliminary Draft Budget providing for an overall increase in the budgetary appropriations of the EAGGF Guarantee of 513 million Euro, compared to the initial Preliminary Draft Budget and to the draft budget. Since then, partly in anticipation of the effect of international food supply to Russia world prices for the principal cereals have firmed by about \$10 per tonne. This has largely removed the need for the increase foreseen in the Amending Letter. However, given that the food supply operation to Russia was not envisaged when the Amending Letter was adopted, an increase in the appropriation of the EAGGF Guarantee Section of close to 500 million Euro is still required.

The Commission does not have the capacity to exercise control over the execution of the programme inside the Russian Federation. For its part, it will do all that it can to ensure that appropriate measures are taken by the Russian Federation to ensure a proper execution of the programme. It is therefore for the Russian Government to prepare a detailed plan for the execution of the programme (in particular in relation to the allocation to needy regions and details of distribution channels and control measures). The Russian Federation will give all assurances that the products are distributed to the population in need in a number of specified regions, in accordance with the Russian plan regarding the execution of the programme. This plan will be finalised in co-operation with the Commission for inclusion in the Memorandum of Understanding. The products

will be distributed to Russia in several portions. The Russian Government will prepare regular reports on the execution of the programme, which will be transmitted to the Commission.

The provisions described above shall not prejudice the audit powers of the Court of Auditors under Article 188c of the EC Treaty. If the Commission receives evidence which gives it reason to doubt whether the obligations of the Russian Government set out in the Russian programme which will form a part of the Memorandum of Understanding are being fully respected, the Commission will suspend the operation.

It is not the Commission's intention to accept the Russian request to use the proceeds obtained for the sales in order to develop the Russian agricultural sector. Although the Commission believes that the reconstruction of the Russian agricultural sector is fundamental for the future development, the Commission is of the opinion that this is not a principal objective of the operation. Consequently, the Commission will propose the revenues of the programme be used purely for social purposes.

Memorandum of Understanding

A Memorandum of Understanding on the implementation of the programme will be agreed jointly between the European Community and the Government of the Russian Federation.

In addition to rules regarding the operational part and parties' responsibilities etc., the Memorandum will include certain provisions and conditions which will be required in order to ensure that the objectives of the programmes are obtained and that the programme is correctly realised:

- The Russian Government will submit to the European Community the list of regions in need as well as their plan regarding the execution of the programme (especially distribution and control). Those documents will be a part of the Memorandum of Understanding.
- The Russian Government will ensure transparency and full controls of all operations from the take-over of the commodities to the ultimate points of distribution of sales and will prepare regular reports on the implementation of the programme, which will be transmitted to the Commission.
- The European Community will supply the products free of charge CIF to the Russian ports or free at frontier to the Russian border. The costs of unloading of the products will be covered by the Russian Government.
- The products will be exempt from customs duties and other taxes, charges and licensing when imported into Russia. Veterinary/sanitary and other border control procedures will be simplified.
- The Russian Government will designate, and submit to the Commission for approval, the bodies and/or operators which will be responsible for reception, transport, processing and distribution of the goods to the final destinations on behalf of the Russian government.

- The products included in the programme will be sold at the prevailing local market prices in the regions where there are food shortages.
- The proceeds obtained from the sales will be transferred to a special account in the Federal budget designated for social purposes.
- The Russian Government will ensure that the products included in the programme are not re-exported and that it will not export the same commodities.
- The products included in the programme will be distributed to Russia in several subsequent steps.
- The Commission will retain the right to suspend the operation if it receives evidence which gives it reason to doubt whether the obligations of the Government of the Russian Federation set out in the Memorandum of Understanding are being fully respected.

WTO-aspects

International food aid transactions are in principle neither considered as subsidised exports, nor as actions which circumvent the export subsidy commitments of the WTO and thus have not to be counted against the Community's export subsidy commitments. The Commission will present its programme to Russia as a bilateral food aid transaction covered by Article 10(4) of the WTO Agreement on Agriculture. This includes to notify the programme to the FAO Committee on Surplus Disposal, and to respect its established procedures.

Annex

(Dear Mr. Van den Broek)

Mr. Kulik to Mr. Van den Broek, made by the EC delegation in Russia.

Summit meeting between Chancellor Klima, the President of the European Commission, Mr. Santer, and Prime-Minister Primakov, during which the difficult situation in Russia was discussed, commenced our negotiations on this issue.

During a subsequent fruitful meeting between Director-General Legras and me on 6 November 1998, a further assessment of the current food situation in Russia was made. The objective analysis of the situation showed that a substantial shortage of food is quite likely to appear this winter in Russia and that in order to overcome this situation, food aid from abroad is urgently needed, especially for the regions of the Russian Federation most severely affected by bad harvest

Therefore, the Russian Government requests urgent food aid from the European Union, consisting of:

- 1 million tons of wheat,
- 500 000 tons of rye,
- 50 000 tons of rice,
- 150 000 tons of beef,
- 100.000 tons of pork,
- 50 000 tons of skimmed milk powder
- 30 000 tons of pasta (macaroni).

We understand that the quantities and the selection (assortment) of food-stuff can be changed by mutual agreement

These products will be put for sale in the most severely affected Russian regions at existing market prices. The revenues of the sales will be put into a specific budget line (account) of the federal budget in order to fund special social programmes and development of the agricultural sector.

The Russian Government fully assures the European Community that all necessary controls at sea ports and transportation chains will be applied so that the food arrives in the most severely affected Russian regions and that the revenues will be used for social needs.

I believe that the necessary implementation rules for this food aid from the European Community should be jointly agreed in the near future between the European Commission and the Russian Government and a Memorandum of Understanding signed.

To this end, Mr. Van den Broek, I would like to ask you to send an authorised delegation of the Commission to Moscow and to inform us of the date of its arrival.

Yours sincerely,

G. Kulik
Deputy Chairman
of the Government
of the Russian Federation

(Dated 12 Nov)

"14" ноября 1998 г.

Уважаемый Ван Ден Брук!

Встреча на высшем уровне между Канцлером Квима, Президентом Европейской Комиссии, г-ном Сангером и Председателем Правительства Российской Федерации Е.М.Примаковым, во время которой была поднята проблема тяжелой ситуации с продовольствием в России, положила начало нашим переговорам по этому вопросу.

Состояние дел с продовольствием в нашей стране обсуждалось также и во время нашей плодотворной встречи с Генеральным Директором г-ном Нейра 6 ноября 1998 г. Объективный анализ ситуации показывает, что этой зимой в России действительно ожидается значительная нехватка продовольствия. Для того, чтобы улучшить это положение нам срочно требуется иностранная продовольственная помощь, особенно для регионов Российской Федерации, серьезно пострадавших от неурожая.

В этой связи Российское Правительство просит Европейский Союз оказать России срочную продовольственную помощь, состоящую из:

1 млн. тонн продовольственной пшеницы;

500 тысяч тонн ржи;

50 тысяч тонн риса;

150 тысяч тонн мяса говядины;

100 тысяч тонн мяса свинины;

50 тысяч тонн молочного порошка;

30 тысяч тонн макарон.

Понимаем, что количество и ассортимент этого продовольствия могут быть изменены по взаимной договоренности.

КОМЕРСАНТЪ ЕВРОПЕЙСКОЙ КОМИССИИ
г-н ВАН ДЕН БРУК

г. Брюссель, Бельгия

Указанные зерновые и продовольственные товары будут продаваться по действующим рыночным ценам в регионах, имеющих существенный дефицит продовольствия. Средства, вырученные от продаж этих товаров будут направляться на специальный счет в федеральный бюджет для финансирования специальных социальных программ и развития сельского хозяйства.

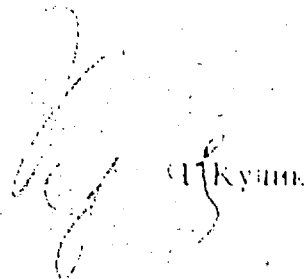
Правительство Российской Федерации с полной ответственностью заверяет Европейское Сообщество, что оно обеспечит необходимый контроль в морских портах и на транспорте с тем, чтобы поступающее из Европы продовольствие было доставлено и продано в наиболее нуждающихся районах России, а средства от этих продаж пошли на социальные нужды.

Думаю, что все необходимые условия оказания Европейским Сообществом продовольственной помощи могли бы быть в ближайшее время согласованы между Европейской Комиссией и Правительством Российской Федерации и подписан соответствующий Протокол о взаимопонимании.

С этой целью, г-н Ван Ден Брук, просил бы Вас направить в Москву уполномоченную делегацию Комиссии и сообщить дату ее прибытия.

Искренне Ваш,

Заместитель Председателя
Правительства Российской Федерации



G. J. Kuzyk