

183  
CURRENT AGRICULTURAL SITUATION IN RUSSIA

Y 4. AG 8/1:103-9

Current Agricultural Situation in R...

HEARINGS

BEFORE THE

SUBCOMMITTEE ON FOREIGN  
AGRICULTURE AND HUNGER

OF THE

COMMITTEE ON AGRICULTURE  
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

MARCH 30, 31, AND APRIL 1, 1993

Serial No. 103-9



SUPERINTENDENT OF DOCUMENTS  
CONGRESSIONAL

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# CURRENT AGRICULTURAL SITUATION IN RUSSIA

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TUESDAY, MARCH 30, 1993

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER,  
COMMITTEE ON AGRICULTURE,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 1300, Longworth House Office Building, Hon. Timothy J. Penny (chairman of the subcommittee) presiding.

Present: Representatives Barlow, McKinney, Baesler, Pomeroy, Allard, and Lewis.

Also present: Representative E (Kika) de la Garza, chairman of the committee, Representative Pat Roberts, ranking minority member of the committee, and Representative Bishop, member of the committee.

Staff present: Joseph Muldoon, associate counsel; Gary R. Mitchell, minority staff director; William E. O'Conner, Jr., minority policy coordinator; John E. Hogan, minority counsel; Dale Moore, minority legislative coordinator; Glenda L. Temple, clerk; Jane Shey, Anita R. Brown, Joe Dugan, and Lynn Gallagher.

## OPENING STATEMENT OF HON. TIMOTHY J. PENNY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PENNY. I want to welcome all of you to the first hearing of the Foreign Agriculture and Hunger Subcommittee. This will be the first of three hearings that will provide an overview of the current agricultural situation in Russia. This hearing is especially timely in light of the summit next week between President Clinton and President Yeltsin.

The former Soviet Union and Russia have been important agricultural markets for the United States for many years now. Obviously, any drastic changes in Russia's ability to import United States grain and other agricultural products will have a significant ripple effect throughout the United States agricultural sector and, for that matter, all of the United States economy.

In addition, however, our country is well-positioned to provide a tremendous amount of support for the forces of democracy and economic reform within Russia. I have long maintained that agricultural assistance is central to our ability to provide aid, and agriculture is clearly central to any successful economic and political reforms within Russia and the other former Soviet Republics.

We will start today's hearing with opening remarks only from myself and the ranking Republican on the subcommittee, although we do have the ranking Republican on the full committee here as well, and I would defer to him for comments in just a moment. No other subcommittee members will be allowed to make opening statements, but we will allow statements to be inserted in the record as requested.

We will also ask each of the witnesses to summarize their testimony. I would hope that none of them would rely on their text, but would instead use the 5 minutes available to summarize as best they can their input to this subcommittee.

In addition, we will have a period of time in which we will view a video, in which two Russian farmers are expressing their views about the situation within their country, and then we'll have a telephone hook-up with one of those individuals and also an official from the ag ministry in Russia where we can ask a series of questions. From there we will move on to our other panels for the remainder of the morning, and we would hope to adjourn this hearing by 12 noon.

[The prepared statement of Mr. Penny follows:]

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## U.S. House of Representatives Committee on Agriculture

### Subcommittee on Foreign Agriculture and Hunger

Room 1301, Longworth House Office Building

Washington, DC 20515

#### STATEMENT OF THE HONORABLE TIMOTHY J. PENNY, CHAIRMAN SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER 30 MARCH 1993

I want to welcome all of you to the first hearing of the Foreign Agriculture and Hunger Subcommittee. This is the first of three hearings that will provide an overview of the current agriculture situation in Russia. This hearing is especially timely in light of the Summit next week between President Yeltsin and President Clinton.

The Former Soviet Union and Russia have been important agricultural markets for the U.S. for many years and it is important to bear in mind that any drastic changes in Russia's ability to import U.S. grain and other agricultural products has a ripple affect throughout U.S. agriculture.

Our country also has a tremendous opportunity to promote the forces of democracy and economic reform in Russia. Withholding our support would be a tragic mistake, not only for the plight of hundreds of millions of people in Russia, but for the security and economic health of the U.S. and the world as well.

We start these hearings with film footage and interviews with private farmers who have recently ventured out on their own. The reason that the U.S. trades and interacts with Russia is not only for our own farmers benefit but to assist their nascent private farmers as they take the first steps to privatize their economy.

For a relatively small financial investment, we could help budding entrepreneurs start and grow businesses, aid farmers in creating supply and marketing cooperatives, and support rural banks that can provide credit. In short, we must promote the private sector through technical assistance projects and, in doing so, help destroy the long tentacles of the Communist system.

Nearly 50 years ago, we came to the aid of war-torn Western Europe with the Marshall Plan. Today, that area is a bastion of democracy, the largest market in the world, and one of our biggest trading partners. Clearly the payoff was worth the investment. Unlike the Marshall Plan, an aid program to Russia doesn't have to be expensive. But the vision is similar: We must invest with an eye toward long-term political and economic gains for both East and West.



Mr. PENNY. I would ask first Mr. de la Garza, then Mr. Roberts, and then Mr. Allard for any opening statements they might have.  
Mr. de la Garza.

**OPENING STATEMENT OF HON. E (KIKI) de la GARZA, A  
REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

The CHAIRMAN. Thank you, Mr. Chairman. This is indeed a very timely hearing inasmuch as the President and all of our Nation is interested in the events in the former Soviet Union, and especially in the last few days in Russia.

From my long association with members of the former Soviet Union's ministries of agriculture and agencies in agriculture, we have always seen two things: One, that their system would eventually fail, which it has; and, two, that it was at one time, is now, and can be in the future a very valuable market for us in agriculture. I do hope that any assistance that we render at this time would be in two directions: First, that we assist them in order for them to be able to supply, to the extent possible, their needs in agriculture; and, second, that we foster their friendship in such a way that the market is available to us for our mutual benefit.

I commend you and the subcommittee for delving into this issue in a very timely fashion. We look for the whole committee to work with you and this subcommittee so that we might, if we need legislation, be ready to present it. It is possible we won't need legislation at this time. I think that much can be done under existing law, possibly with some executive modification. But should there be a need for legislation, we would be ready to accommodate the President and the administration.

Thank you, Mr. Chairman.

Mr. PENNY. Thank you, Mr. Chairman.

Mr. Roberts.

**OPENING STATEMENT OF HON. PAT ROBERTS, A REPRESENTATIVE  
IN CONGRESS FROM THE STATE OF KANSAS**

Mr. ROBERTS. Thank you, Mr. Chairman. First, I'd like to associate myself with the remarks of the chairman of the full committee, and just in case, Mr. Chairman, let me indicate to you that Mr. Allard, Mr. Smith, Mr. Emerson, Mr. Barrett, Mr. Bereuter, and myself have introduced legislation. It's in the hopper. I would hope that we do not need it, but at least in terms of a possible means to answer some of our challenges, we have already done that in cooperation with the Secretary and talking with him. He has not endorsed the legislation per se, in that obviously there's an inter-agency task force involved in this in the big picture, but we did, as of yesterday, introduce the legislation.

Mr. Chairman, I want to thank you for calling this series of hearings on the plight of Russia and what we can do to help. Of course, over the long haul, Russia will move toward the real modernization of their food and agricultural system, and we need to help in that process. But that process is going to take several years, and Russia needs food imports now to feed their population and help to stabilize their political situation.

We have witnessed this past weekend just how precarious the democratic reforms are in Russia. President Yeltsin once again ral-

lied the people to support him in holding off the reactionary forces that want to prevent any kind of reform. This struggle for democracy will continue, but President Yeltsin's task is made much harder by the continuing failure of the Russian agricultural system to deliver adequate food to the urban population. It is very difficult to march for reform if you have to stand in line for tomorrow's dinner.

The Russian's need our abundant food supplies, and our farmers need this major export market. Our commodity prices in this country first dropped and have now stagnated with the loss of the Russian export market. It is now estimated the taxpayers will have to pay an additional \$1.3 billion in deficiency payments to make up for the lost sales to the former Soviet Union. Meanwhile, our export competitors in Europe, Australia, and Canada do continue to make sales to Moscow. If they can make these credit sales, the question is, why can't the United States?

In recent weeks there has been much talk of opening massive new food aid programs for Russia—in other words, simply give the Russians the food they need. Personally, I feel very strongly this is the wrong approach. First, United States agricultural exports to the former Soviet Union have been averaging over \$2 billion on an annual basis. Since the Federal Government owns almost no food stocks now, any donated food would have to be purchased on the open market, and the present condition of the Federal finances will not permit this kind of spending, at least in the agricultural budget.

Second, any type of donation or concessional sales program must have 75 percent of the shipments made on U.S. bottoms. This so-called cargo preference requirement can raise the shipping costs to \$70 to \$90 per ton, badly cutting into scarce dollars for donation and reducing the actual grain that is shipped.

Finally, the Russians themselves, when they were here, have indicated that they do not want to be the recipients of large-scale food aid. Russia has perhaps the richest natural resource base in the world and possesses a fully developed industrial economy, though it is presently in need of restructuring. Over the long term, Russia is fully capable of repaying any commercial credit for food imports. It is my sense that both the Russian and American people would be more satisfied with ag trade on a commercial basis than any kind of food aid.

To facilitate the reopening of commercial trade with Russia, on Monday I introduced the Agriculture Commodity Export Expansion Act that I referred to earlier. This is a simple bill that provides greater flexibility for the Secretary in making countries eligible for the GSM export credit programs. It establishes three criteria for eligibility: One, the credit needs of potential purchasers of U.S. agricultural exports; second, the long-term ability of those countries to repay the credit; and third, whether the GSM credits will maintain or improve the competitive position of U.S. agricultural exports in the world market.

Effectively, this bill would shift the focus of USDA analysis away from a narrow examination of meeting a payment schedule toward promoting U.S. ag export expansion to countries that have the means to repay the credits over the long term. This simple change



would allow the USDA to reopen a commercial export relationship with Russia and the other Republics of the former Soviet Union.

Mr. Chairman, the fate of the Russian democracy and reform hangs in the balance over the next months and years. U.S. agriculture can make a significant contribution toward ensuring the survival of freedom in that country. We need to provide the practical technical assistance directly to the Russian farmers as they attempt to reform their ag sector. While those reforms are underway, we need to revive our commercial commodity exports as of today. Now. Their economy needs our food; our farmers certainly need their market.

Again, Mr. Chairman, I thank you for your leadership and associate myself with the remarks of Chairman de la Garza.

The CHAIRMAN. Will the gentleman yield briefly?

Mr. ROBERTS. I'd be happy to yield to the chairman.

The CHAIRMAN. I thank the gentleman, and I appreciate his very excellent statement. I would like to mention, though, that we should not be dealing solely with Russia. We should also be dealing with the Ukraine, with Georgia, Turkmen, all of the other former Soviet Republics. And although it has been mentioned that we might involve ourselves in dealing solely with Russia, this should not be the case. It is only, because of the predicament of Mr. Yeltsin that we're speaking about Russia solely, but we should not forget that there are other viable and valuable markets for us in the rest of the former Republics.

I thank the gentleman.

Mr. ROBERTS. If I could just say one other thing, Mr. Chairman, I certainly agree with the chairman of the full committee and want to stress again that this legislation, while its practical effect would be Russia-specific, is a policy change that affects all countries, the long-term ability of all countries to repay the credit. Again, we're trying to change the focus on a rather narrow USDA interpretation of existing law to certainly meet the challenges of all countries, as the chairman has indicated.

Again, I thank you, Mr. Chairman.

Mr. PENNY. Thank you, Mr. Roberts.

Mr. Allard, and then we'll move on to the video tape.

#### OPENING STATEMENT OF HON. WAYNE ALLARD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

Mr. ALLARD. Thank you, Mr. Chairman. This is our first hearing of the Foreign Agriculture and Hunger Subcommittee. This is a new subcommittee, and I'm looking forward to working with you and the rest of the members of the subcommittee on the many issues within our jurisdiction.

It is appropriate that the first series of hearings will focus on Russia. With the current situation being as fluid as it is, I'm not alone in wondering what the final outcome of the current struggle will be.

It is my hope that the administration is seriously pursuing the possibilities available to agriculture. We have a tremendous opportunity to assist Russia to continue its transition to democratic reform and to make a market-based economy. Many of us want to

help Russia in that process, and I believe that the hearings the subcommittee will have this week can provide significant insight into reaching conclusions toward this end.

Our witnesses include several people who have spent time in Russia and the other Republics of the former Soviet Union. Their comments will be useful as we look at the status of agriculture in Russia and the newly created Republics. The United States must be responsible, as well as responsive, for meeting the needs of the Russian people.

I am particularly pleased that we'll have the opportunity to speak with a Russian ag producer. I look forward to hearing his perceptions of America's effort to this point.

Furthermore, it is my hope that the administration's response to the situation in Russia will include agricultural programs, particularly, the credit guarantee programs, and commercial sales of bulk commodities and value-added products. Over the past several weeks, I've joined with Congressman Roberts, the ranking minority member of the Agriculture Committee, and others to urge the administration to resume agricultural sales to Russia. In meetings with Russian officials, they have made clear their preference for agricultural trade with the United States. Mr. Chairman, after these meetings, it's my feeling that Russia has the natural resources to be credit-worthy, they are illiquid. The natural and industrial resources of Russia are great, and they have the ability to pay for United States agricultural products over time.

Other countries are currently pursuing agricultural trade with Russia, under far friendlier terms than are currently being extended by the United States. For example, it is my understanding Canada has bartered wheat for timber and cotton with Russia, and they are considering participating in a three-way sale of wheat for Russian diamonds. Australia sold 1.5 metric tons of wheat for Russia this month for a combination of cash and aluminum. Additional major purchases are currently under negotiation by other countries.

I fear that if we don't proactively address ways to restart trade with Russia, opportunities for access will be lost. Our farmers need to have this market reopened. Exports, including sales to Russia, are essential to the vitality of American agriculture. The administration must be innovative in devising a plan to assist Russia and, at the same time, maintain and expand markets for United States agribusinesses.

Thank you, Mr. Chairman.

I'd also request unanimous consent that members be allowed to insert their remarks in the record.

Mr. PENNY. Without objection, so ordered.

[The prepared statement of Ms. McKinney follows:]

CYNTHIA A. MCKINNEY  
11TH DISTRICT, GEORGIA

**Congress of the United States**  
**House of Representatives**  
**Washington, DC 20515-1011**

Statement of Cynthia A. McKinney to the Committee on Agriculture,  
SubCommittee on Foreign Agriculture and Hunger

**AIDING RUSSIAN AGRICULTURE**

Thank you Mr. Chairman for holding these hearings and for the opportunity to express my concerns before this panel this morning. I also thank the panel for your testimony before us today.

Mr. Chairman while I do believe that Russia is in need of support from the United States, and I believe this country should support those countries that are in need, I do look forward to the day when Russia can feed and support itself. I look forward to the day when Russia's farmers can rely on its on farming.

I'm concerned about the lowering of credit standards for Russia. If we lower credit standards for Russia, does it mean that we will have to lower credit standards for other countries that are served by government credit programs? Should we keep extending credit or should I ask the question, Does the law permit us to keep extending credit? If we can afford to lower Russia's credit standards it means increased risk to the United States government. How do you justify increasing that risk to Russia when there are other countries that have equal or greater needs? Russia unfortunately is already in default of its agriculture debt to the United States on grain received since the 1970's. There needs to be some agreement about these old debts.

Another concern that needs attention is the environment and Russia's environmental practices. Pesticides were used that could damage the environment and the Aral Sea was drained for irrigation. These kinds of practices cannot continue if there is to be a safe environment for the citizens of Russia.

Again, thank you Mr. Chairman for this opportunity to address my concerns.

Mr. PENNY. We now want to proceed to the video. This is about a 10-minute video in which two Russian farmers express their views about the agricultural situation within their nation. The video highlights Vladimir Zamaratskii and V.L. Simutin. Both are of Klin County in a region north of Moscow. As the video concludes, we will then have a telephone hook-up with one of those two farmers and an advisor to the ag minister.

[Video shown.]

[The video transcript follows:]

FARMING IN RUSSIA  
FILM FOOTAGE TRANSCRIPT

Shot of snow-covered field and panorama

Shot of Victor Simutin CG: "Victor Simutin"

My name is Victor. We are in agriculture. These days we've gone over to breeding horned cattle and producing milk. I started this activity in 1991 and during the period from 1991 to 1993, I built the farm, built the storehouse and bought the cattle. I started everything from zero. I didn't have any money. I took the credit in the Moscow Peasants' Union, and little by little I got the equipment. I was also given some equipment, and so I built the farm and bought the cattle.

Shot of Vladimir Zamaratskii CG: "Vladimir Zamaratskii"

Zamaratskii Vladimir Veniaminovich, born in the town of Klim, head of peasants' farm "Prima." I graduated from the Polytechnic Institute with the diploma of an electrical engineer, then worked in the State farm as an electrical engineer. And afterwards I decided to open my own business and become a farmer. Collective economy on the collective and state farms, their relationship toward land is a little different than a private owner. I mean, if you compare how an owner treats his land and how the administration treats its collective property and its land, as they say in Odessa, "It's a big difference." Now I have my own land. Of course our laws haven't yet determined how we can buy or sell it. There are some proposals for this. But private ownership -- we don't have this law yet, as far as we know. We were informed we don't have it yet.

Pause

I don't have enough tools now. I'm also finishing up my house. Prices on construction materials are very high these days. And people want big salaries. And the government is not helping us any more, they are just talking.

Victor Simutin

We don't have enough land. It's not enough. For example, I would want to have 20 cattle heads, well, maybe 25. And then you can come up with 50 heads, if they in their turn give you more land. But they don't give us land. We wrote letters and want to appeal to the state farm "Druzhba." They refused us all the time, they won't rent us land, they won't give us equipment, nothing.



Vladimir Zamaratskii

They've just stopped financial benefits for us, they only loan us 80 to 85 percent under the commercial credit. Everything is very expensive. The tractor that I received from the Peasants' Union was very weak, his tractive class was 6.6. Last year I bought a new tractor, a strong one, 14th class, and I spent a million and a half of my commercial credit. Today this tractor cost three million.

Victor Simutin

We have two farms. Victor Zamaratskii and I started together and will continue together, because I don't think you stand a chance to survive by yourself.

Vladimir Zamaratskii

Other farmers are companions for me, we help each other with equipment, people. It is necessary to help each other, mutual assistance is very important.

Victor Simutin. Then shots of fields, cow-sheds, pigties, animals.

Three of us are dreaming, we want to open a processing plant, a little plant at least, to process meat and milk -- that's our dream. We would like to ask somebody to help us.

Now that referendum is going on, everyone forgot about farmers. And Yeltsin and his apparatus per se, are paying too little attention to farmers' needs.

Vladimir Zamaratskii

Our country is exploding. People's conditions are very difficult and we know that we, farmers probably won't get more assistance from the government. But we hope that American farmers and American congressmen would be interested in helping us to build these mini-plants, help us with investment and also assist us in getting established and help feed our country.

Victor Simutin. Then his Voice-over shots of work inside agricultural complex.

Last year we had some good news, we were told that America will allot us pedigree horned cattle for our farms. We hoped

that it was cheaper and more productive cattle. But it was last year. A year passed and we haven't heard anything else. We were asking what happened. Anyway the excuses are that the cattle was sent but apparently got stuck somewhere, maybe on the border, I don't know.

Vladimir Zamaratskii

We would like to get assistance from American congressmen in delivering to us pedigree cattle, cows, pigs. That's what we need to restore Russia to its former might.

Victor Simutin

Certain American structures need to have direct contact with a farm, with me for example or any other. The contact is important to control what's being sent, for example, a farmer or anyone who is helping me from America will contact me directly and I would get from him that help I am talking about.

Vladimir Zamaratskii

We would like to meet with American farmers, look at how they work on their farms and learn from them. We all like the magazine "New Farmer," it's a very good magazine. But there you just read it and we would like to see ourselves how real American farmers, those that are in farm business for 100 years conduct their business. Judging by pictures from the magazines, they are very successful. It would be good for us to learn from them agriculture and then transfer it to our land.



Mr. PENNY. It will take a minute or so to get the telephone hook-up.

These two farmers are part of a growing population of independent farmers within Russia. I think in just the last 4 years or so we've seen growth from about 10,000 to 200,000 independent farmers in that country. All of them, of course, are operating on parcels of land that are, in a sense, rented to them or made available to them, but not in a way that transfers ownership. As a consequence, they are unable to borrow against the value of that land, and that, among other difficulties, is a major impediment to modernizing and expanding their operations.

We'll be visiting with Vladimir Zamaratskii, one of the farmers who was highlighted in the video. Vladimir is the one that kept referring to help from the U.S. Congress, so we certainly look forward to a little bit of a dialog with him.

In addition, we'll have on the line Dr. Eugenia Serova, a special advisor to Agriculture Minister Viktor Khlystun. It will give us an opportunity, I think, to ask her what steps they intend to take to improve the situation for private farmers within their country. If you were paying attention during the video, there seemed to be a pretty heavy dose of criticism that the bureaucracy was still impeding a movement toward private agriculture, and that the Yeltsin administration didn't seem to be terribly interested in private agriculture at this point.

Do we have them on the line?

Hello.

Mr. ZAMARATSKII [through translator]. Hello.

Mr. PENNY. Greetings from the U.S. Congress. We're delighted to have both Vladimir and Eugenia with us this morning.

I want to start with a question to Mr. Zamaratskii. We just played a video in which he made some remarks about his efforts to establish his farming operation. He made reference to the Moscow Peasants' Union, and I'm curious to learn more about the peasants' union and the kind of financial assistance that it has been able to make available to beginning farmers.

Mr. ZAMARATSKII. This union distributes massive credit throughout the farmers in the Moscow region. The money comes from the Government.

Mr. PENNY. And it can be used for capital acquisitions or simply equipment?

Mr. ZAMARATSKII. Originally, they were giving larger sums of credit to farmers because there were very few farmers. Now there are more farmers, and they're getting smaller amounts. Earlier they were giving credits for machinery and construction of farm buildings. Now they're giving credits for buying spring seeds.

Mr. PENNY. I know that Vladimir is in partnership or cooperation with two other farmers, but as a general rule, have farmers considered the possibility of establishing cooperatives in which they pool their resources and share their equipment and work together to establish processing and marketing capabilities?

Mr. ZAMARATSKII. Life required us to do this. The farmers that wanted to leave the state farm decided to break up into three or four private farms and not only be involved in the production, but also in the marketing of the product.

Mr. PENNY. Could we ask of Dr. Serova a discussion or an explanation of any recent steps that are underway to improve the situation for private farmers? We're particularly interested in any legislation to promote land reform and private ownership, as well as any legislation to support the establishment of agricultural co-operatives.

Ms. SEROVA [through translator]. The way things are set up in Klin, the area in the Moscow region that they're in, is that farmers are allowed to buy outright 30 hectares of land for private use. They can rent, at this time, 20 additional hectares, which, in total, forms 50 hectares of land, and they have the right to buy out these last rented 20 hectares. So that's the way the situation is now in that area.

Mr. PENNY. As I understand it, the land is not transferrable by these farmers to other individuals, and you can't really borrow against the value of the land. Am I correct in that assumption?

Ms. SEROVA. As far as the first question about transferring, there may be some laws being discussed in the halls of congress, but we don't know anything about them. They have not gotten to us yet. As far as taking out a mortgage on the land, private banks will do that.

Mr. PENNY. I want to allow an opportunity for Congressman Allard to ask some questions at this point, and then I'll probably ask a couple more before we conclude.

Mr. ALLARD. Thank you very much. I appreciate this opportunity to be able to ask you some questions about the Russian farmer. How do you get your products to market?

Mr. ZAMARATSKII. In our cars.

Mr. ALLARD. How far away are your markets, and how long does it take you to get your products there?

Mr. ZAMARATSKII. It's 10 kilometers, 20 minutes to get to market.

Mr. ALLARD. In asking for help, in what areas do you need the most technical assistance?

Mr. ZAMARATSKII. In the area of processing of the farm goods. Processing equipment.

Mr. ALLARD. Did I understand you correctly? Farm equipment?

Mr. ZAMARATSKII. Processing equipment.

Mr. ALLARD. Could you use American farm equipment?

Mr. ZAMARATSKII. Small-scale processing equipment for getting the meat, milk, eggs ready for market. Equipment to make coats out of skins and stuff like that. It's a small farm.

Mr. ALLARD. Thank you. I have another question. I'm curious about the land situation in Russia. Russia is a large country. How much of that is owned by private ownership?

Mr. PENNY. Did we lose him? Is he still there?

The TRANSLATOR. The last thing he said was, "I don't know about the whole country. I don't have the facts and figures about that. But in our small area where we're located, we have 70 private farms, each about 10 hectares in area."

Mr. ALLARD. How many total acres in that area? You indicate that there are 70 farms that are privately owned, each 10 acres. You have about 700 acres in private ownership.

The TRANSLATOR. Hectares.

Mr. ALLARD. Hectares. How many hectares are in that area? An estimate.

The TRANSLATOR. Hello, Moscow. Do you hear us?

Mr. ALLARD. I haven't heard a response. How many?

The TRANSLATOR. We don't hear Moscow. I think the line dropped out.

Mr. ALLARD. I see. Would you say that private ownership is one-tenth of that area or one-twentieth?

The TRANSLATOR. The signal keeps coming in and out.

Mr. ALLARD. What I'm trying to determine is, is most of the land in private ownership, or is most of it still owned by the Government? And if the Government still owns some of the farm operations, how do those farmers react to those farmers that are in business for themselves?

The TRANSLATOR. I don't hear anything.

Mr. ALLARD. It seems to be cutting out.

The TRANSLATOR. I don't hear anything. The last thing he said was that the majority of the land is in Government ownership, and after that I don't hear any signal.

Mr. PENNY. I wonder if we might attempt one last question, and if we still have a disconnect somewhere between here and Moscow, we'll probably have to conclude.

The TRANSLATOR. The signal just came back.

Mr. PENNY. If the signal seems to be coming back, I think I'll defer now to the chairman of the full committee, Mr. de la Garza, for a couple of questions, and then I'll have a concluding question.

[Remarks in Russian by the chairman.]

The CHAIRMAN. I'll tell you later what I told him. [Laughter.]

Mr. ZAMARATSKII. We'll be looking forward to some help. We hope you'll help us.

Mr. PENNY. This is Congressman Tim Penny again. I have one concluding question, and it relates to the farmer-to-farmer exchange program which is being administered by VOCA, Volunteers in Overseas Cooperative Assistance. I'm curious to know whether Vladimir has had experience with this program, and then, in general terms, what level of value they attach to this program. In other words, is this the kind of assistance that is meaningful and beneficial to the private sector within Russia?

Mr. ZAMARATSKII. In one word, it's very useful. We've been in contact with them for half a year.

The TRANSLATOR. He's trying to establish how long they've been in contact.

Mr. PENNY. What was that?

The TRANSLATOR. He's trying to establish how long they've been in contact with the VOCA volunteers.

Mr. PENNY. I see.

Mr. ZAMARATSKII. About 6 months.

Mr. PENNY. Did we lose contact again here?

The TRANSLATOR. No.

Mr. PENNY. In terms of the assistance that they specifically have received, have they had a VOCA volunteer on-site on their farm? And if so, what types of assistance have these individuals provided?

Mr. ZAMARATSKII. What we need is practical help. They've agreed to consulting help, and the only thing that we've seen so far is Dan,



who came with the filming group. We talked to him, they left, and we haven't heard from them since.

Mr. PENNY. We need to do better in that regard.

Mr. ZAMARATSKII. Dan Wagner was the name of the gentleman.

Mr. PENNY. We'll talk to Dan about that. Let me ask one concluding question, and that is, I'd like Vladimir's response to this question: How optimistic are you about the success of your own operation? And, second, how optimistic are you about the prospects for further privatization of agriculture within Russia?

Mr. ZAMARATSKII. I'm optimistic about the future of our farming. At this point, a few of us farmers have united. We've created a private farm, and we will bring it to its logical conclusion. That's why it is so important to get some aid from VOCA. What we need is favorable credit. We need some consultation and practical help and technical aid in order to get processing equipment necessary for our small farm. That's meat processing and milk and things like that.

Mr. PENNY. We want to thank you very much for your assistance this morning. It's been tremendously helpful in terms of getting our hearings on Russian agricultural assistance underway. Would you convey our appreciation to our two contacts in Moscow, and wish them the very best of luck. Thank you.

With that, we want to proceed to our first witness this morning, Representative Dan Glickman, a member of this committee, chairman of the Intelligence Committee. Dan has recently expressed his thoughts on the Russian situation particularly as it pertains to agricultural aid, and we welcome him this morning.

The CHAIRMAN. Mr. Chairman.

Mr. PENNY. Mr. de la Garza.

The CHAIRMAN. Mr. Chairman, if I might just have a second to translate what I said, hopefully, in good Russian, I said hello to Vladimir, and I said, "My friend, brother farmer, I'm Congressman de la Garza, chairman of the Agriculture Committee in the United States. We offer you friendship, good will, understanding in agriculture, and the committee and the Congress and I will help you." That's when he answered, "Thank you" and sounded very happy. That's basically it. So I have committed us, as a committee, and we, as a Congress, to help Vladimir, at least.

Thank you, Mr. Chairman.

Mr. PENNY. Thank you, Mr. Chairman. Now we'll have to think of some legislation, won't we?

Mr. Glickman.

#### STATEMENT OF HON. DAN GLICKMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. GLICKMAN. Thank you, Mr. Penny.

I would just say I had the privilege of being with Mr. de la Garza in Russia, I guess it was 2 years ago, and he speaks Russian better than any of the locals. He also is the best Ambassador that I have ever been with. We went out to a farm in Tula, I think it was, a collective farm, and we were in the midst of a festive occasion at lunch, and we were toasting the beautiful air and the beautiful leaves and the relationships and every toast in the world, and everybody was kind of incapacitated, but our chairman was still talking Russian as clearly as anybody that we have heard, and it was

a splendid job. If we really wanted to send a goodwill ambassador to Russia, it would be Chairman de la Garza, because he connected with those people.

This week's Newsweek has an article by James Baker, and I would commend it to you. It talks about the stakes for them and us. If we do nothing, he says, "Across Russia the tendency toward fragmentation and the regionalization of power would increase. With Moscow paralyzed, local bosses would seize even greater control from the center, and the autonomous Republics would then seek more autonomy, perhaps complete independence. The long-term danger in this scenario is that Russia could become ungovernable and descend into greater chaos. In a country with thousands of nuclear weapons, the dangers of fragmentation are obvious. Centralized and unified command and control of nuclear weapons could be jeopardized."

Then he goes on and says, "The greater danger over the next years, if not months, is the rise of a virulent Russian nationalism—indeed, what one might call fascism that preys on the economic deprivation sweeping Russia and the psychological disorientation brought on by the end of the empire. These extremists would draw their power not from what they stand for, but what they stand against—against democracy, against capitalism, and against the West."

He succinctly puts why it's necessary for the West to take some action to try to help these folks out.

I have a fairly short statement, and I'd like to read it, if possible. I thank you for the opportunity of allowing me to testify today.

As deeply intertwined as American interests are in the reform process underway in the former Soviet Union, the direction and pace of the processes are, in the end, questions the Russians must determine for themselves. The United States can, and should encourage that process, however. We have substantial interests in seeing the process continue toward the creation of a democratic, market-oriented state. Having spent trillions and devoted our natural energy for four decades to winning the cold war, we cannot afford to lose the peace, nor can American farmers and agribusiness afford to lose this customer.

The credits the USDA has extended to Russia and the former Soviet states are the primary forms of assistance the West has made available to the conversion process. They have also been of immense benefit in keeping open one of the single most important markets American agriculture has.

In the legislation I have proposed and want to discuss with you, I propose that we use the leverage of these credits to encourage the reform process in Russia and advance our interests there, and I want to reinforce that point. The American people, I think, will have a difficult enough time supporting increased aid, which I think we should do, but I think that they would support it a lot more easily if they knew that there was some leverage to get the Russians to do things. I propose that leverage will be to get them to not only continue democratization, but reduce their nuclear weaponry, which they have agreed to do as a part of the START agreement.

The Russians need debt relief, including rescheduling of the USDA debt, and they will need additional food assistance from the West. American agriculture needs to get back into that market, and we all have an interest in seeing the Russians convert their military to peaceful uses and in encouraging the movement toward a market-oriented economy.

My bill gives the President the authority to achieve these goals. Under it, he may write down the outstanding USDA debt in exchange for agreements from the Russians or other states for the following purposes: To dismantle military facilities, to convert the facilities to peaceful uses, to permit U.S. businesses to enter into commercial joint ventures in state-owned enterprises, or other reasons the President determines to be in the national interest.

Additionally, once a state enters into such an agreement, the President may extend new export loans to that state and release previously approved credits to make new sales. He may also provide surplus commodities to those states and provide technical assistance to achieve the terms of the agreements.

The legislation is based on a practice common in the private sector: Debt-for-equity swaps. It has a precedent in the public sector: The agreements under which Western creditors wrote down Latin American debt in return for programs those governments initiated for such things as preventing environmental degradation.

In looking at the immediate problems the United States faces with respect to the Russian situation, we must also be cognizant of the long term. We need to provide assistance which will yield long-term results in the United States interest, such as the dismantling of the Russian military and the opening of its economy to United States investment.

We need to recognize that rather than simply waiting for the Russian economy to improve enough to allow it to become current on its debt, the United States needs to act now to restart food shipments to ensure that the Russian population gets what it needs and that American agriculture can make additional sales.

Additionally, to those who will criticize my proposal because it will relieve the Russians of some of their repayment obligation, I would point out that it is in the best interest of the United States to get some return on the loans in the form of the policies the Russians would be required in return for the write-down. The legislation establishes a quid pro quo instead of simply writing the debts off altogether.

Let me acknowledge that this legislation will have a cost, depending on the amount of debt forgiven. I know this will concern all of us, but these costs are minuscule compared to the costs we have spent winning the cold war and to the costs we might face if the Russian reform process fails, as so adequately and succinctly put by former Secretary Baker.

In closing, let me say that I think we need to be both bold and imaginative in meeting the challenge before us. I think this proposal offers a creative and constructive component to solving the problem. I am attaching to my statement an explanation of the legislation, which I dropped in yesterday. I had offered it previously, and I made some changes in it.



I would be glad to work with your committee, Mr. de la Garza, and anybody else in trying to make sure that we can both help our farmers as well as help the cause of peace and reduce the prospects of nuclear proliferation.

I thank you very much for allowing me to testify.

[The prepared statement of Mr. Glickman appears at the conclusion of the hearing.]

Mr. PENNY. Thank you, Mr. Glickman. You mentioned in your testimony not only food sales, but food assistance. In what form would you suggest that we offer the food assistance? Would that be tied to the same conditionality as the credit sales?

Mr. GLICKMAN. Well, it could be. This bill explicitly offers the conditionality for debt write-down. That's where their most pressing need is right now in order to allow them to then begin either to buy more food and more equipment or whatever else they would need. You would basically use the authority under existing statutes giving the Commodity Credit Corporation the authority to provide either food sales or technical assistance under the Freedom Support Act. I think the terms of existing legislative authority are probably there to do just about anything that we want to do.

I think what we don't want to do is to give them cash. That would be adamantly opposed by the American people. It wouldn't do them any good right now. I think what we do want to do is to try to provide them, in terms of food assistance, both bulk commodities to the extent that they need it, but more technical assistance and help in logistics.

Mr. PENNY. It's been suggested that we could use food assistance efforts in a fashion that would allow those goods to be monetized in the local market, with those dollars, the proceeds, then going toward these development assistance programs, technical assistance, establishment of credit unions of some sort. Have you given any thought to that sort of initiative?

Mr. GLICKMAN. That parallels, to some extent, what we have done in the Third World, particularly in Latin America. We've allowed some of these sales of commodities transferred to be monetized to create some sort of networking economy there. Obviously, they would also need technical assistance to help them set up the institutions as well.

Mr. PENNY. In looking at our policy to date, what's your general sense? I know you used former Secretary Baker's article in Newsweek as a preface to your remarks, but in looking back over the last couple of years, do you have a sense that the administration was as focused in their policies toward Russia as Mr. Baker now seems to be?

Mr. GLICKMAN. Probably not, but in all fairness, we were coming out of a 50-year fixation of the Soviet threat as the evil empire, and I think culturally it was difficult to modify our mindset of what was going on there. Again, in my role on the Intelligence Committee, there has been some criticism that the information wasn't as current and realistic and we weren't looking for the changes that were happening there, but I suspect as much as anything else we thought the status quo would go on forever, and we were amazed at the rapidity of change that happened over there. I mean, I think



that historians will look at this as a mind-boggling experience, how quickly things have taken place.

That's the great danger in a society that has never known democracy, that has an extraordinary history of kind of virulent nationalism and authoritarianism, that if we don't move in and try to help them, we could find ourselves in mighty dangerous territory. And then we'll look back and we'll look, for example, in the area of nuclear proliferation. The biggest challenge we have right now, frankly, with the Russians is to try to get them to honor the terms of their nuclear agreements, reduce nuclear weapons, and not ship or transfer either the weapons or technology to other people in order to get cash to be able to pay for food and whatever else they have. That's another reason why we have an obligation to now forget maybe some of the mistakes we've made in the past and move ahead.

Mr. PENNY. How do you anticipate monitoring the agreement? I mean, if, for example, a write-down or an offer of new credit is contingent on military reforms, dismantling of the military apparatus, what's the oversight mechanism?

Mr. GLICKMAN. I don't think there's any magic to it. I think you can quantify it by perhaps setting some standards in terms of missile delivery systems, warheads, that kind of thing. I mean, we do that in arms control agreements now. We monitor those reductions, and we've had pretty good success—in fact, we have had very good success in getting compliance to be monitored. I wouldn't see that that would be an enormous problem. The question for us would be that we'd have to make it realistic enough so that we know the agreement would not be ignored, and I think we could do that.

Mr. PENNY. Mr. Allard.

Mr. ALLARD. Thank you, Mr. Chairman.

Mr. Glickman, I appreciate your comments. In looking over your proposal, you had indicated in your remarks that you think it's important that we move along in a very expeditious manner and quickly get some assistance to the new Baltic States, particularly Russia. It seems to me that if we're going to do that, that we best accomplish that through keeping the GSM program as a commercial program and not get the State Department involved, which I don't know is particularly expeditious in reaching their agreements, or even the military.

So my question to you is, why tie the U.S. credit guarantee program to foreign policy considerations? It seems to me we're just going to delay the process.

Mr. GLICKMAN. Well, they're one and the same, unfortunately. They are one and the same, because the Russians and the other Republics historically are in a situation of default, and the United States Government and the taxpayers are going to have to pick up the tab. Quite honestly, private companies would not be lending money there. There are much better commercial places to lend money unless we provide some incentive, guarantees, some sort of help to move the process along.

I don't think that you can remove it from foreign policy. I think it's one and the same, and I think what you try to do is to protect yourself as best as you can from having foreign policy jerk the rug from underneath you.

But, look, the long-term economic benefits to the United States are extraordinary from this in terms of open markets, in terms of jobs. We have a part of the world that's never bought anything in their lives. Just think if each Russian would, let's say, double or triple their consumption of meat. It would have a powerful effect on the American livestock industry.

So I do think that you—I mean, my belief is that foreign policy is as much related to economic policy as anything else, so I don't think you can totally remove it. But I don't want to do away with the GSM program. I think it's logistically a very convenient way to get the aid in.

Mr. ALLARD. I agree that our businesses, when they look at Russia, they look at the business opportunities, and we have tremendous opportunities for American business if we can get the Russians to move toward a free market and begin to recognize some of those basic things that you have to have in order for a free market system, such as clear ownership of property, which we weren't able to clarify with the video that we heard this morning.

I hear you on your concern about nuclear weapons and dismantling them, but how are we going to place a value on particular types of nuclear weapons? Is one type of missile going to open up the market for a certain number of bushels of wheat, or is a different type of nuclear warhead going to open it up for more wheat? How do we arrive at this? I don't see that as an expeditious process.

Mr. GLICKMAN. Let me tell you, first of all, I think it's a good question. Again, we provide good methods of computing compliance with arms control agreements now. Let me tell you why I arrived at this approach. No. 1, the most pressing problem in the world is nuclear proliferation. We are on the verge of seeing dozens of countries have both nuclear weapons and delivery systems capable of transporting them to people whom they don't like, and that's a far greater danger than anything we've ever faced before. The Russian Republic and the Ukrainian Republic both possess a large number of nuclear weapons.

No. 2, American people want to help the Russians, but they also know we have serious problems at home, and they don't want to provide extraordinary public taxpayer help here without at least getting something from it.

So I'm trying to put these two things together: Nuclear proliferation stability, and giving the American people some reason to believe they're getting a bang for their buck here, that it's not just more Government assistance that will never come back. That's why I tied the two things together.

Now, let me give you a hypothetical. It could be as simple as requiring full compliance with the START agreement that would allow write-downs to take place, in which case you don't have to go with this kind of weapon—an SS-18, an SS-19, an SS-20. I'm not sure we want them to get into that kind of situation. It could be accelerating the destruction of warheads that would get them more relief. I don't know exactly what it would be, but I think that's along the lines of what I'm talking about.

Mr. ALLARD. Well, I'm not sure about this, and maybe you can clarify this, but I don't believe the Ukraine has agreed to the START.

Mr. GLICKMAN. That's correct.

Mr. ALLARD. So you're talking about not only the Russians, but maybe the other Baltic—

Mr. GLICKMAN. There's one other Republic that—

Mr. ALLARD. We're talking about monitoring agreements on nuclear weapon proliferation, and they won't even agree to the basic nonproliferation agreements that we have, and I'm wondering how we're going to work through that.

Mr. GLICKMAN. They want our food assistance desperately, they want our economic help desperately. I mean, it's certainly worthwhile talking to them about it.

I think you raise a very interesting point. I had a gentleman from one of the Ukrainian parties in my office, and I pressed him on compliance with the START agreement, and his response to me was something like, "Well, you don't have to worry about us. You're not our enemy. Our missiles are not going to be pointed at you." Kind of like, well, where are they going to be pointed at, East instead of West, and that's not going to affect the world as well?

I mean, there wasn't a specific threat carried out there against Russia, but you know that the challenges in the future are much more serious, and I just think that the nuclear threat is so great that if we can somehow tie it to this—and by the way, my bill does not exclusively tie it to reduction of nuclear weapons. It gives the President pretty much a blank check here or carte blanche—not a blank check—to try to find ways for debt reduction and other things that they might be willing to do.

Mr. ALLARD. Mr. Chairman, just to wind it up here, I think we really need to keep the process as simple as we possibly can and make it as market-oriented as we possibly can. I think most of our business people are comfortable with that. I'm not sure that the State Department, the military, and all these other people that get involved appreciate how important it is in business to expedite things because time is money, and it costs American business to wait. So I hope that perhaps we can figure out ways to expedite.

I think I agree with your initial intent of this, to try and open up markets for American agriculture. We need to do it with a minimum of regulation.

Mr. GLICKMAN. If I may just make one point, the heart of what I'm talking about here is debt forgiveness. You see, they can't buy anything else, they can't expand their markets unless they deal with the existing debt the Soviet Union has. Now, we have a Freedom Support Act which is in place, and we have other things that are trying to deal with new methods of assistance, and CCC has some pretty good generic authorities here. But the question is, what do you do with that overhanging debt now? Do we write it off? We just don't worry about it? I think the American people wouldn't particularly care for that. And they can't go out in the marketplace very easily and buy anything else. The IMF won't be a very cooperative force unless they deal with this preexisting debt.



Mr. ALLARD. I think barter may be something we could look at. You know, Australia, Canada, France are all looking at that as an alternative. I don't think we've looked at that seriously enough.

Mr. GLICKMAN. Sure.

Mr. ALLARD. Thank you very much, Mr. Chairman.

Mr. PENNY. Mr. Pomeroy.

Mr. POMEROY. Congressman Glickman, first let me commend you for advancing a very interesting idea. I think it's one that this country ought to pursue.

Do you have any sense of domestic Russian response to the types of linkages you're proposing? I think the IMF conditions have generally been viewed as so stringent as to be unrealistic. I'm wondering if a less stringent set of conditions ultimately could produce some backlash for foreign meddling with their domestic concerns, but I really don't have any notion in terms of how that's playing over there.

Mr. GLICKMAN. My judgment is that, yes, we could create an anti-Western backlash by micromanaging their world, as imperfect as theirs is. Perhaps the simplest thing to do would be to maybe tie mere compliance by all the Republics with existing agreements and establish some sort of a timetable of existing agreements so they wouldn't think that some excessive interference is being foisted upon them, and then, through a carrot approach, maybe say, just hypothetically, "If you accelerate that, we're going to reward you."

I think that there's a problem in us becoming too interfering, and you already see that with Vice President Ruzskoi, who is a very popular politician in Russia, equally popular with President Yeltsin, who has taken a very public position about the West dictating terms to the great motherland Russia, which is a potential problem for us.

Mr. POMEROY. I think that is a big potential that needs to be pursued, particularly relative to compliance with agreements they've already entered or other steps which, frankly, might be helpful to them. It will be, however, the nationalists for self-serving political reasons that will try and stir this pot.

Mr. GLICKMAN. Absolutely.

Mr. POMEROY. I hope that your proposal helps us frame debt relief in its appropriate context, which is national defense. This isn't foreign aid, this isn't international charity. This is national interest, getting rid of nuclear weapons pointed at our country with a delivery system capable of getting it here. If we want to use labels, I mean, this truly would be a strategic defense initiative, not debt forgiveness or foreign aid, and I hope in the process of your legislation we can begin making new associations through the strategic use of, in particular, ag credit to advance important policy goals for this country.

Mr. GLICKMAN. I think you've stated as I intended it. I just don't state it as succinctly as you did.

Mr. POMEROY. You say it much better. But count me in. However I can help you, please let me know.

Mr. PENNY. Thank you, Mr. Glickman.

Mr. GLICKMAN. Thank you very much.

Mr. PENNY. We appreciate your appearance this morning.

Mr. GLICKMAN. Thank you.

Mr. PENNY. Our next witness is Mr. Richard Kauzlarich, Deputy Assistant Secretary, Bureau of European and Canadian Affairs at the U.S. Department of State.

Welcome to the subcommittee. Please summarize your remarks.

**STATEMENT OF RICHARD KAUZLARICH, DEPUTY ASSISTANT SECRETARY, BUREAU OF EUROPEAN AND CANADIAN AFFAIRS, U.S. DEPARTMENT OF STATE**

Mr. KAUZLARICH. Thank you, Mr. Chairman. With your permission, I'd like to submit my full statement for the record.

Mr. PENNY. Without objection, your prepared statement will appear in the record.

Mr. KAUZLARICH. I'm pleased to come before this subcommittee today to discuss the administration's programs to encourage the development of private agriculture in the new independent states of the former Soviet Union. I commend the subcommittee for convening this meeting and, indeed, for the format that you've used for it. I think it's a rather masterful way of bringing the views of the people who are most affected by what we're discussing so vividly before us.

I think we all have to recognize the critical role that agriculture is playing to the reform process underway in Russia and the other independent states. I know we've been focusing our attention this morning on Russia, but certainly as we look at this problem, we see it more broadly affecting all of the other 11 newly independent states of the former Soviet Union.

The reform process which President Yeltsin both inspires and leads represents the greatest strategic challenge of our generation. Secretary Christopher emphasized in his speech last week before the Chicago Council on Foreign Relations the stakes that the United States has in this reform. They're monumental, and they affect the very foundation of our security and prosperity into the next century.

In responding to the opportunity that's presented, the United States must extend a hand of partnership to President Yeltsin and the Russian people. This must be a partnership based on democratic and free market values. While President Clinton is still considering the specific initiatives that he will announce at the summit next week in Vancouver, Secretary Christopher reaffirmed our clear intent to increase and accelerate our support for Russia's democracy and its efforts to build a market economy.

He also set out guideposts for our assistance program: First, it will be better targeted and coordinated; second, it will focus on areas and constituencies in Russia that can have the greatest impact on reform's long-term success; third, it will catalyze our private sectors to take a leading role in Russia's transformation through trade, investment, and training; and fourth, that our help will be felt at the grassroots level.

Our assistance program in the newly independent states has been grounded in the principles of the Freedom Support Act, which clearly directed that our assistance recognize and bolster the economic and democratic reforms in all the Republics of the former Soviet Union. As each Republic in the newly independent states

makes progress toward building free market economies and democratic institutions, we're going to be able to implement a range of assistance activities, including programs in the agricultural sector.

Clearly, the agricultural sector is one of the keys to the restructuring of these economies. So far this year we've signed agreements with eight of the newly independent states, for a total of \$337 million in grant food assistance and commercial and concessional sales of U.S. agricultural commodities.

We've also been active in the technical assistance area to address four bottlenecks to development of market-oriented agriculture: Public policy, agricultural credit, infrastructure, and inputs. We've already committed over \$100 million in technical assistance to the agricultural sector in these states over the next 3 years.

Our programs fall into four categories: Policy advice, agricultural exchanges, agribusiness development, and agricultural demonstration and training projects. In the policy advice area, we need to help develop the necessary policy framework for the development of a market-oriented agricultural system. Our agricultural exchanges try to develop the farmer-to-farmer concept as well as fellowship programs that bring people from Russia and the other states to the United States to get involved with United States agribusiness. In the area of agribusiness development, we're providing incentives for investment in trade by U.S. businesses in the agribusiness sector, particularly activities that will increase the efficiency of the NIS food system. Finally, in the demonstration and training area, we're trying to set up projects that will help in the development of wholesale markets, model farms, agribusiness training, and low-cost storage programs to reduce post-harvest losses.

Many of our technical assistance projects are just now beginning to be implemented, and we look forward to tracking the progress of these programs and assessing their impact on the development of private agriculture in the newly independent states.

The contribution that our agricultural policy advisors—one of whom will here be tomorrow—have made has been enormous. You've already heard dramatic first-hand testimony of Russian farmers about their needs in this area and the importance of farmer-to-farmer volunteers.

It's important to recognize the full range of these programs that will be implemented in those districts, regions, and countries where enterprising and courageous leaders are implementing reforms. We're confident that we'll see regions where private agricultural production, processing, marketing, and distribution systems have taken root that will allow both farmers and consumers to taste the fruits of economic reform.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Kauzlarich appears at the conclusion of the hearing.]

Mr. PENNY. Thank you, Mr. Kauzlarich. Given the fact that Representative Glickman preceded you at the table this morning, I think before I ask questions that are specific to your testimony, I'd like your reaction to his linkage of debt forgiveness with other conditions and how that tracks with the thinking of the State Department at this point.



Mr. KAUZLARICH. Well, we clearly need to look at creative approaches to promoting all of the problem areas that he identified—dismantling of nuclear weapons, conversion of defense facilities, privatization of state enterprises. There is a need to look at this in nontraditional ways, because we've never had to face the problem the same way that we do today.

However, on the specific point of debt, I want to emphasize a difference between the policy that the administration has taken to date and what he is suggesting. We view debt rescheduling as being pursued within a multilateral framework, specifically the Paris Club of Creditors, and the objective of the exercise of debt rescheduling is to maintain the present value of Western claims. In other words, we haven't contemplated any form of debt reduction as his legislation, as I understand it, would require.

So, therefore, we sort of have a different approach here, and I believe the Russian interest, too, is to emphasize the rescheduling aspect of this as opposed to a debt write-down. They want to reestablish their own creditworthiness, and what we need to try to do in the debt area is to give them the breathing space, and that's what a successful rescheduling program would give them, so that they can take advantage of their natural economic strengths and resources that they have to begin to become current and to become a full participant in the commercial credit market.

His proposal obviously takes in a multiplicity of issues that cut across agency lines, and certainly we'd have to talk with USDA, Treasury, Defense, and others as we review this legislation. But I think it's important to look at it comprehensively and programmatically, look at the budgetary implications, and then get back to you with our views.

Mr. PENNY. You mentioned in your testimony and again just now the need for coordination across agency lines. How, in the Clinton administration, do you intend to provide for the proper degree of coordination? How can you assure us that that will not impede the pace at which we need to proceed on this issue? Incidentally, how does Strobe Talbot fit into all of this?

Mr. KAUZLARICH. Well, once he's confirmed, Strobe Talbot will be that glue, if you will, that holds the coordination process within the U.S. Government together, and the objective would be to, through a system of very close interagency cooperation, deal with the specific problem areas that we've been talking about this morning. Clearly, this is not an issue that one single agency has the sole responsibility for. That's why we've got to bring everyone together. We've been working very carefully with USDA, Treasury, OMB as we've looked at specifically these issues relating to agricultural assistance in particular.

But what the President intends to do by creating the position of Ambassador-at-large for the newly independent states, the position, when he's confirmed, that Strobe Talbot will occupy, is to provide the coherence that brings together both policy as well as the operational aspects of this. I know from my conversations with Mr. Talbot and from his testimony in his confirmation hearings that he's very concerned about making the assistance programs deliver—not just setting the policy, but making sure the policy is implemented—and that's going to be, I think, a clear result of the sum-



mit that will come out of the Clinton-Yeltsin meetings, a program that then will be operationalized in ways that are concrete and, as Secretary Christopher said, bring our assistance to the grassroots level.

Mr. PENNY. That leads into my next question. It's clear in your testimony that agriculture has been and will continue to be central to our efforts of assistance for the former Soviet Republics, both in terms of general commodity sales as well as technical assistance and direct food aid. You seem to imply in your testimony that we need to think small and think local, think grassroots, in terms of our aid efforts here.

Can we expect an expansion of the farmer-to-farmer exchange effort? Can we expect more creativity on the part of the administration in terms of targeting some of our food aid, perhaps monetizing that aid in the local economy so that that money can stay there to support democracy and market reforms? What glimpse can you give us in terms of our policy in that regard?

Mr. KAUZLARICH. I think at this stage, certainly in this period just before the summit, we're still putting together that package of measures, including those from the agricultural area, and I'd feel a little better if these hearings were after the summit, and then I think we could probably get into more detail than I can this morning. I'd welcome perhaps some follow-up after the summit on that.

I think the areas that you identified are areas that we see, as I've mentioned in my testimony, as being very important to making this grassroots contact work. The monetization issue is one that we've looked at as well. So far, at least, we've followed a dual approach in our food aid programs, both targeting nutritional programs to ensure that the food reaches the most vulnerable populations, and some monetization through PDO's or recipient governments.

I think on the monetization side, it's important to keep three factors in mind if you're going to have a monetization program that really works. One, you have to make sure that local production is not going to be disadvantaged by the introduction into the market of U.S. commodities and, most important, I think, that the value of the commodities is not lost, especially when you're looking at inflation rates in Russia and many of the other Republics of 20 to 30 percent a month. If you have a slow or inefficient monetization process and disbursement process, you're going to reduce the value of any monetization program. Finally, and perhaps self-evidently, you have to make sure that the proceeds are going to be used for what you want them to be used for.

But, yes, we're looking at that. As I say, we have used it in the past. I would only point out at the end that there is some resistance to this kind of program in Russia, but still it's been used and deserves to be looked at.

Mr. PENNY. Before I yield to Mr. Allard for his questions, it's my understanding Mr. Bishop has kind of a follow-on question to my line of questioning.

Mr. BISHOP. Yes. Thank you very much, Mr. Chairman.

This follows up on the monetization issue of some of our food aid programs. Are you exploring looking at—and I understand your reluctance to go into it prior to the summit—the possibility of mone-

tizing some of our food aid and the creation of perhaps a revolving loan fund that could help in the democratization process, but also the capitalization process, for developing small entrepreneurs on the grassroots level in the former Soviet Union? In other words, monetizing the food aid so that you can then have a pool that can be utilized as a revolving loan fund for the creation of entrepreneurs in the Russian economy at the grassroots level.

Mr. KAUZLARICH. Mr. Congressman, if I may, I'd really like to sort of defer and get back to you when we're in a position to comment more precisely about just what we are going to be going ahead with with the Russians. As I say, I wish the timing were a bit different in this hearing so that I could do that. But we will get back to you with the details on that.

Mr. PENNY. We'd appreciate that. And, of course, the timing of these hearings was set before the timing of the summit.

Mr. KAUZLARICH. Exactly.

Mr. PENNY. But we understand the dilemma that you're faced with.

Mr. Allard.

Mr. ALLARD. Mr. Kauzlarich, I just had a news release here in front of me where the President had made some comments that he was considering some form of aid to Russia, and there was some speculation that came out with the news release that he was considering aid that would be of benefit to small business in general, a loan guarantee for housing, some environmental clean-up, and even maybe some nuclear reactor safety clean-up issues. But what struck me was that there was no mention of agriculture. So I just am asking of you and would like to have your comments on a very serious commitment as far as agriculture, because I think that's where we can be of most assistance to the Soviet Union, and I think it benefits the United States as well. Would you comment on that, please?

Mr. KAUZLARICH. I don't think it's fair to say that agriculture is out. I mean, there's going to be a whole package of measures that fall into the area of microeconomic assistance, and agriculture is one of those areas. There are also going to be other measures that will fall into the area of macroeconomic assistance, which will be coordinated with our G-7 industrial allies, where we will be looking to multilateral institutions to become involved. I would expect that some of their programs as well would fall into the agricultural area.

So all I can say is I think you'll have to evaluate the summit package as it comes out and reach your own conclusions on that. But agriculture is important in our microeconomic package.

Mr. ALLARD. What role will the Secretary of Agriculture play in devising the Russian aid plan?

Mr. KAUZLARICH. Well, in the interagency process that we have underway both for the preparations for the summit as well as for the future activity, as I described earlier, that Stroke Talbot will be responsible for, USDA is directly and actively involved. They're critical to making this work. They know agriculture, they know the problems in Russia, and they've been very helpful as a full participant in our interagency preparation.

Mr. ALLARD. As an expert on Russia, can you tell the subcommittee what the status is of the private sector in Russia, as you see it, especially as it relates to agricultural production, processing, and marketing?

Mr. KAUZLARICH. Well, the private sector generally in Russia is just at its very beginning stages, and the privatization program of the Yeltsin government has begun emphasizing small- and medium-sized businesses and service industries. They have not tackled the obviously tougher questions of full privatization of large industries or of the agricultural sector as a whole, and I think that with just really a little over a year's experience, it's very hard to argue that there's been a radical shift toward the private sector in the food processing industry. It still tends to be dominated by the larger and still state-owned companies.

What I would hope for the future is that both as the Yeltsin program for expanded privatization—and in his March 20 speech, he made clear that he did intend to expand the privatization effort—that this would provide greater opportunities for private investors, both domestic as well as foreign.

I think, as some of the discussion earlier today has pointed out, there are a lot of changes that have to be made in the policy framework in Russia itself to provide the sort of predictability as well as the clarity necessary for investors, whether they're domestic or foreign, to make the kinds of investments that will be necessary for this sector to really show a dramatic involvement of private activity.

Mr. ALLARD. In the video that we saw this morning and in conversation over the phone with the Russian farmers, I got the distinct impression that they were looking for a way for direct interaction between our farmers and our agricultural processors with theirs. Do we have in place the laws to allow that to happen in an expeditious manner?

Mr. KAUZLARICH. Well, what we have tried to do in terms of the United States' private sector's involvement there is to set a framework of agreements with the Russians in the trade area, in the investment area, in the Overseas Private Investment Corporation as well, so that we can lay in place the kind of framework that a United States investor would look at and say, "Yes, I'm comfortable with putting my money in that process."

Where we still have a lot of work to do is on the Russian side itself in providing both Governments and their own industry and farming communities with the sense of the need for a Western-style legal and commercial environment that will allow these kinds of investments to take hold.

So we've addressed one element of the equation, but the other element, which really is going to require an awful lot of technical assistance from our side, will be helping the Russians themselves at all levels to get their policy framework right so that private investment can work.

Mr. ALLARD. The yellow light is coming on here, and I have a limited amount of time, so I want to editorialize a little bit. I hope that we don't intervene too much in that marketplace, because I think we slow down that—what I hope is we open it up so that there can be a free exchange between the Russian farmer and the



American farmer or commodity or marketer or whatever and let the individuals decide on their own what kind of risk there is and whether it's something they want to assume without us being so regulatory in that process that you take that flexibility.

I don't think we can guarantee a risk-free society even here in this country, and I would hope that we wouldn't do that, because I think our markets would develop much faster if we can leave it up to individuals and try and expedite that.

Mr. KAUZLARICH. I would agree with you. I think the more you can encourage that kind of contact, the better. But I know in our contact, with American business people in particular, they come to us with the same set of problems—the lack of predictability in terms of who can sign contracts on the Russian side and the very concept of ownership itself, the lack of a tax system that you can say from one day to the next isn't going to change, the need for some sense of relationship between local and federal-level officials in Russia.

If we can help in that area, I'd like to do it, but as much as possible stay out of the way of the contacts that are so important on the person-to-person level, which are obviously the ones that are going to be most likely to bring success.

Mr. ALLARD. Thank you, Mr. Chairman.

Mr. PENNY. Ms. McKinney, do you have any questions for this witness?

Ms. MCKINNEY. I do have a few, Mr. Chairman. Thank you.

Really, the first question is in response to something you said about Representative Glickman's bill, and I'm just wondering, has the creditworthiness of Russia already been negatively impacted because of this arrears?

Mr. KAUZLARICH. [No audible response.]

Ms. MCKINNEY. It has been. Would, Mr. then, Mr. Glickman's write-down proposal add to that negative stain on their creditworthiness rating?

Mr. KAUZLARICH. Well, that's almost a question that you'd have to ask a commercial banker in terms of how they would interpret that kind of development. I think our objective has been to try to get Russia in the position where it can service the debt that it has. Once that's done, if the credit markets look at a country, even though it may have a large amount of debt, if it's servicing that debt, then they're going to be prepared to lend.

I think we ought to focus on the objective here, and, at least in our view, the objective is to get Russia to the point where it can come back into the credit markets for this and other purposes as a full participant. As I say, I think that's where the distinction is between what was suggested earlier and what I described as our approach toward debt rescheduling.

Ms. MCKINNEY. Then do you or do you not believe that this proposal that is before us is a way to bring Russia back to creditworthiness? Is that a viable way?

Mr. KAUZLARICH. Well, again, I'd like to study it a little more carefully, and, as I say, there are a number of other agencies who may have even more precise views on some of the issues you've been addressing. I just would not feel, at this point, able to give



a final answer to your question. As I say, we'll want to look at it and respond in a coherent fashion to the proposal.

Ms. MCKINNEY. Tell me about your farmer-to-farmer program. Where is it operating other than in Russia?

Mr. KAUZLARICH. Perhaps my colleagues from USDA know. I believe in Armenia. Oh, almost every Republic in the former Soviet Union. I would guess in Tadzhik and some of the more problematic areas as far as civil disturbances, they would not be operating, or in Azerbaijan, because of the limitations imposed by the Freedom Support Act on United States assistance activities there.

Ms. MCKINNEY. Is that a program only for Russia and the other independent states?

Mr. KAUZLARICH. I think the program is in Eastern Europe as well. It's a worldwide program, but I'm talking in terms of this recent manifestation of the program. I think over the years we've always had some degree of farmer-to-farmer exchange in our foreign aid efforts, but in the last several years we've established it in Eastern Europe, and then about a year ago took steps to set up a very aggressive program in Russia and the other Republics.

Ms. MCKINNEY. What about the Western Hemisphere and Africa?

Mr. KAUZLARICH. What I'd like to do is perhaps provide to your office in writing a more detailed response, because you're getting into areas which I'm just not familiar with. But I do understand that it does operate in many developing countries, including Latin America—

Mr. PENNY. We will have a witness from VOCA tomorrow. Not that they're the only entity that handles these farmer-to-farmer programs, but they have been one of the key agencies or organizations in terms of distributing this type of aid around the world, and we can maybe get some answer then. But if not, we'll certainly—

Mr. KAUZLARICH. Well, we can try to provide more details.

Ms. MCKINNEY. That would be very helpful. Finally, could you just give me a ballpark figure of the total amount of United States dollars that are going to assist Russia and the independent states as far as agriculture is concerned?

Mr. KAUZLARICH. Well, if you look at it in terms of technical assistance, we've committed \$100 million over a 3-year period for all of the newly independent states. In fiscal year 1992 we provided around \$368 million in food assistance to those states. This involved \$271 million in USDA food aid, \$62 million in Department of Defense excess stock donations, and \$35 million in private donations.

So far this year, fiscal year 1993, as I mentioned in my testimony, USDA has signed agreements with eight of the newly independent states for \$377 million in food aid. There are other agreements also being negotiated, I would add. But in addition to that, we expect to provide about \$40 million in excess DOD stock donations and about \$40 million in private donations. But, again, that's just up to this point in this fiscal year.

Ms. MCKINNEY. Thank you.

Mr. PENNY. I have one last question before we move on to our next panelist. You mentioned that the idea of monetization was en-

countering some resistance within Russia. What's the basis of the opposition?

Mr. KAUZLARICH. I think in a sense they regard it as rather intrusive involvement of the United States or of Westerners in a process that they would very much like to decide on their own. I think they would clearly like to see themselves treated as a normal customer for grain purchases the way they want to purchase it and then distribute it the way they would like to distribute it.

It is in part a reflection, I think, of the political tension within Russia today of the reformers versus the more conservatives, who regard any Western activity, and particularly the activities that seem to involve the West telling Russia what to do, as something to be a threat rather than part of the process of helping support the reform process. So I think in a sense this reaction is reflective of the very basic political differences that are present in Russia today.

Mr. PENNY. There must be some regions within Russia where the local authorities are more committed to reform and would be more receptive to that type of distribution effort.

Mr. KAUZLARICH. That's right.

Mr. PENNY. Is there an overlap between the degree of cooperation and the degree of need, or do we have disconnect there?

Mr. KAUZLARICH. Not always. There may be, I think, a bit of a disconnect in that sense, but it is possible to try to match some of these programs. I will have to defer on the detail of what we're doing in the monetization area, but it is possible to match some of these programs with more reform-minded regions. Nizhnovgorod, which is the one area that's always cited, I think, as having a particularly reform-minded leadership and population, I think has benefited more from our general privatization efforts than many other regions in Russia where there is, unfortunately, more resistance to the idea of reform.

Mr. PENNY. I thank you for your testimony this morning.

We want to move next to Christopher Goldthwait. Christopher is the Acting General Sales Manager, Foreign Agricultural Service, within the Department of Agriculture. This is not the first and probably won't be the last time we'll discuss with Christopher the USDA's involvement in food shipments to Russia.

We welcome you this morning and would ask that you summarize your testimony, and then we'll move directly to questions.

**STATEMENT OF CHRISTOPHER GOLDTHWAIT, ACTING GENERAL SALES MANAGER, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY ALLAN MUSTARD, DEPUTY COORDINATOR, EAST EUROPEAN AND FORMER SOVIET UNION SECRETARIAT; AND CHRISTOPHER J. FOSTER, LEADER, FORMER SOVIET UNION SECTION, ECONOMIC RESEARCH SERVICE**

Mr. GOLDTHWAIT. Thank you very much, Mr. Chairman. I appreciate the opportunity to be with you again and to address the subcommittee. With your permission, I will ask that my full statement be entered into the record, and I'll confine myself to a few remarks.

Mr. PENNY. Without objection, your prepared statement will appear in the record.

Mr. GOLDTHWAIT. I've brought with me, in addition, two specialists from the Department—Mr. Allan Mustard, who is the Deputy Director of our East European and Former Soviet Union Secretariat, as well as Chris Foster, who's the Leader of ERS' Former Soviet Union Section—and they may be helpful with very detailed questions you may have.

I'd like to begin by laying out the two assumptions that have been behind the administration's agricultural activities with Russia and the other countries of the former Soviet Union, and I believe they both were adumbrated by a number of the comments that you and the other members made at the beginning. These are that progress in agricultural reform and restructuring is critical to the success of the overall reform effort in Russia and the other countries, and second, that success in the FSU's restructuring in agriculture is good for American agriculture as well as that of those individual countries.

From these two assumptions emerge, I think, two themes that are very, very important and that have lain behind all of our activity: First, the need to ensure continued access to U.S. agricultural exports during the economic restructuring because adequate food supply is necessary for its success, as well as because we want to maintain a market position in what will be an important farm market for U.S. products longer term; and, second, in assisting with the restructuring of Russian agriculture, we need to focus particularly on the needs of the emerging private farm sector—the representatives we heard from this morning—as well as the off-farm market and distribution system that, under the old Soviet regime, was the weakest link in the food chain.

If I may, I'll comment briefly on the specific topics that were raised in your letter of invitation before closing. First, with respect to United States efforts to aid Russian agriculture, the United States approach to assisting Russian agriculture has been developed by relying not only on the expertise that we have within Government in our Department, in AID, and in our other sister agencies, but also by the involvement of a host of United States private sector representatives, including farmers, agribusiness persons, and academicians that have been with us on our various trips to Russia and the other countries of the former Soviet Union.

In working together, we have identified the post-harvest side as the portion of the equation needing the most attention. I think recently, as we've seen more private farms emerge, we've increased our attention to production agriculture as well. But I think if you look at all of the various technical assistance activities we've developed, they will fit around two points: First, improvements that focus, importantly, on the management skills in handling, marketing, distributing, and processing farm products after they've grown; and second, the skills and inputs that are needed by the new emerging private farmers.

If I could comment briefly on the second point, agricultural credit, as the farmers we heard from this morning mentioned, is a key area, and there, in point of fact, USDA has already signed two monetization agreements with private voluntary organizations that are designed to provide rural lending to farmers and other rural entrepreneurs with the proceeds from the commodities that we're



providing. However, as we've heard this morning, the Russian authorities have a bit of a suspicion of monetization. In point of fact, they find it very difficult to understand why commodities that are donated to their country should be sold for cash as opposed to distributed directly to needy persons. We're working with them to try to overcome that resistance. I think more than anything else it underscores that reform is as much a matter of mindset as it is anything else.

Let me turn, if I may, to the history of United States grain sales to the former Soviet Union. As you know, since the early 1970's, the Soviet Union, and Russia and the other countries more recently, have been a very strong market for United States agricultural commodities, particularly grains. In the period of the late 1980's and 1990, U.S. exports averaged roughly 4.5 million tons of wheat and over 10 million tons of feed grains annually. I think that underscores the importance to United States agriculture. In these years, the FSU was indeed often our second or third largest market.

If I may get to the other question you asked about changes in our overall approach, I believe that the overall approach, two-pointed, as I outlined, remains valid, but that as we look at circumstances that change with breathtaking speed over there, we may indeed need to change the various mechanisms that we use to achieve those approaches. I don't think that we have all of the answers. I don't think, given the unprecedented nature of change, anyone can expect to have all the answers.

In looking, for example, at the mechanism that should continue U.S. agricultural exports, we are examining a very wide range of options, and we recognize that what may be the best short term is not necessarily the best longer term option. We're looking at food aid. We're looking at barter, which was mentioned. We're looking at how we might continue to use our commercial programs. We're considering whether or not it would be advisable to develop a new legislative approach entirely. Again, none of these are ideal, and all of these options have costs.

I see the time has expired. I will, therefore, stop at this point and offer to answer any particular questions you and the others of the committee may have.

[The prepared statement of Mr. Goldthwait appears at the conclusion of the hearing.]

Mr. PENNY. Can you discuss, first off, the grains offered but not shipped and elaborate a bit as to the various factors that are at play?

Mr. GOLDTHWAIT. Yes. There are roughly 250 million dollars' worth of commodities which had been registered under the GSM-102 program before the arrears that accumulated led to the suspension of that program. After that point, the various U.S. banks that were involved in the process became reluctant to process the letters of credit that would have resulted in the shipment of those commodities. There were questions, I think, also on the part of the U.S. exporters.

We have worked very closely with these various parties to indicate that we stand ready to amend the pending credit guarantees so that those transactions can go forward. In fact, in recent days,



we've seen some movement on the issue, and we have now approved two amendments to cover roughly 600,000 tons of grain, and I expect that there will be some additional movement on that issue very shortly. I would caution that those exports have not yet taken place, but that USDA has done what it must do to make it possible for them to.

Mr. PENNY. Could you talk a little more about barter? Under the Freedom Support Act, and I think in earlier legislation, probably in the 1990 farm bill, we made some reference to barter. I know that some attempts have been made to negotiate barter sales, but I think our sense is that we haven't been as aggressive as some of our competitors. In recent months we've seen evidence that France, Australia, Canada are involved in significant barter sales to the former Soviet Union. Where do we stand, and what are the prospects for development of barter sales for the future?

Mr. GOLDTHWAIT. First of all, the Commodity Credit Corporation has several direct barter authorities, most of which, however, pertain to commodities that CCC itself may own. Today CCC does not have large surplus inventories other than of butter. But we have looked and are continuing to look at whether or not there are ways that we can facilitate private sector barter transactions, and the development of a mechanism to do that is among the various options that we're studying for maintaining the major portion of our trade.

However, what we have done so far really relates to the use of our export enhancement program, where in effect we amended the requirement in the program that said that a buyer must be located in the country of the commodity's delivery. By permitting buyers in third countries to purchase for delivery to the countries of the former Soviet Union, we in effect enabled ourselves to participate in the barter trade that is going on there. We have approved for export under the EEP roughly 1.5 million tons of wheat bonuses and bonuses for 20,000 tons of barley under that adjustment in our export enhancement program.

So I think we are already participating in the barter trade, and most of those deliveries have been to Uzbekistan and Russia.

Mr. PENNY. I think, at least, for my purposes—I don't pretend to speak for the rest of the subcommittee—a more aggressive pursuit of barter possibilities would certainly be welcomed. It seems to me that, first of all, we have to reschedule the existing credits. That, then, will provide some signal to us as to what terms need to apply to future credit sales, and barter is one-way of locking in a return on those sales of commodities, and it seems to me it ought to be a more central element in our trading relationship.

Are we likely to move the GSM-103—once the Paris Club makes its decision on the current credits, are we likely to offer additional credits under GSM-103?

Mr. GOLDTHWAIT. I can't say at this point the degree to which we will be able to resume use of the credit program after rescheduling. Certainly, 103 could be considered along with 102, but we would have to look not only at the exact terms that emerge from Paris Club rescheduling, we would have to work with the Russians to handle those arrears that would not be rescheduled, and they would be significant, according to the most recent estimates. And,

again, we don't yet know exactly what the terms of a rescheduling will be. Further, we would have to look at the overall situation within the Russian economy and its ability to generate foreign exchange that is not encumbered by previous obligations.

So we would have to look at all three of those things to make a determination as to what and how much we might return to use of the commercial programs.

Mr. PENNY. What thought has been given to offering credit, probably GSM-103 credit, for sales of agricultural equipment, processing equipment? As you heard in the video this morning, that seems to be a key area of demand among the private sector farmers within Russia. I think we have authority under GSM-103 to include these types of sales in our offerings.

Mr. GOLDTHWAIT. We do have that authority. It was given to us in the most recent farm bill, and we have developed a regulation, which was published just a week or two ago, to implement that authority. We are in effect ready to start that as soon as we have the question of the arrearages out of the way.

Mr. PENNY. As soon as you have what?

Mr. GOLDTHWAIT. The question of the arrearages out of the way.

Mr. PENNY. I understand. And what's the latest indication in terms of a decision by the Paris Club?

Mr. GOLDTHWAIT. I do not know. I can't comment in any detail on the timing for a rescheduling. There does appear to have been some movement on some of the questions that are delaying that. I understand there may be some additional meetings scheduled.

Mr. PENNY. Thank you.

Mr. Allard.

Mr. ALLARD. Thank you, Mr. Chairman. I'd like to follow up on your Paris Club questions a little bit.

What type of questions is it that's holding up rescheduling?

Mr. GOLDTHWAIT. Well, one of the principal problems had to do with the difference of views between Russia and the Ukraine on the handling of the debt of the former Soviet Union and whether or not an arrangement could be worked out under which basically one party made the payments that would be required under the rescheduling. Again, without being privy to the precise details, I've read in news reports that some visits over the weekend in Kiev did indicate some progress on that issue.

Mr. ALLARD. Now, Russia, the Republic, has given us some \$15 million here recently on interest. Have we received any attempt from the Ukraine to pay on any money that they may owe the United States?

Mr. GOLDTHWAIT. Under the separate GSM-102 program that was made available to the Ukraine beginning not quite a year ago, the Ukrainians have been making and are fully current with the interest payments that have come due. No principal payments under that programming have yet fallen due. The Ukrainians, to my knowledge, have not made any payments on obligations to the former Soviet Union.

Mr. ALLARD. Getting back to the food for aid program, what effect would the cargo preference rules have on assistance to be provided for Russia and the other Republics of the former Soviet Union?

Mr. GOLDTHWAIT. If we provide concessional assistance under any of the USDA programs, cargo preference applies.

Mr. ALLARD. How is this going to affect our ability to provide that aid to Russia?

Mr. GOLDTHWAIT. Well, in effect, it makes the cost of doing so considerably higher, and it is a limiting factor—

Mr. ALLARD. Can you give us some specific figures on how much higher?

Mr. GOLDTHWAIT. Well, right now for foreign flag vessel shipments between gulf ports and Black Sea or Baltic destinations, you're looking at maybe \$28 to \$30 a ton. The most recent tenders that I've heard about for U.S. flag vessels were about \$67 or \$68 a ton. So you're looking at a difference of between two and three times in cost.

Mr. ALLARD. Wow. Now, USDA runs a Polish-American extension project that was created and operated by its Extension Service, and I'm informed that this is a successful program that has helped Polish farmers. Is there any intention to establish a similar program in Russia?

Mr. GOLDTHWAIT. We have, actually, established a similar program already in Armenia, and that's in its first year of operation and off to a good start. We are currently looking at whether we would also extend this program to Russia. I can't say at this point that we will with certainty be able to do so. As always in these cases, funding is a question.

Mr. ALLARD. Getting back to the Paris Club, if those negotiations get delayed, do you have some alternate plans where we would move ahead with some credit provisions?

Mr. GOLDTHWAIT. We are looking at steps that we might take on a kind of an interim basis in the event that we are not able to resume use of the commercial programs.

Mr. ALLARD. Now, those countries that are using barter as a way of negotiating with the Russians right now, are those countries part of that Paris Club?

Mr. GOLDTHWAIT. The countries except for Ukraine have all assigned to Russia responsibility for the former Soviet Union's debt. So the Paris Club is focusing at the moment only on Russia and the Ukraine. The other countries are no longer involved in that process.

Mr. ALLARD. I see. What about the creditor countries?

Mr. GOLDTHWAIT. The creditor countries?

Mr. ALLARD. Yes.

Mr. GOLDTHWAIT. There are several of them. Most of the G-7 countries are the central players in that.

Mr. ALLARD. So France and Canada and Australia—

Mr. GOLDTHWAIT. Germany.

Mr. ALLARD. Germany are creditor countries, and they are doing some barter arrangements with the Russians. Why aren't they waiting on the Paris Club negotiations like we supposedly are?

Mr. GOLDTHWAIT. I think the barter arrangement that the Canadians undertook recently, which was a very small one of only about 50,000 tons, in effect is very similar to the kind of thing that we're doing under the export enhancement program. That, as I understand it, was sold through a Turkish trading company. In point of



fact, the Australian arrangement I think is perhaps a little bit more closer to what is thought of in terms of a direct barter. But there we have only been able to confirm that one-half of 1 million tons of that business is solid, and the other 1 million tons that has been talked about is still potential, shall we say. I don't know what it is in the Australian business that differentiated that from our abilities.

Mr. ALLARD. Thank you, Mr. Chairman. I see my time is up.

Mr. PENNY. Ms. McKinney, do you have any questions of this witness?

Ms. MCKINNEY. No, Mr. Chairman.

Mr. PENNY. I appreciate your testimony this morning, Christopher. I did want to ask one last question about the Foreign Agricultural Service. Given the nature of the newly independent states, are we adequately represented through the FAS in the former Soviet Union? It seems to me that we now have 12 Republics, and yet I think we still only have one or two FAS offices in the entire region, and I'm just curious, given the variables that exist between governments there, whether we really are properly staffed through the FAS.

Mr. GOLDTHWAIT. We are doing the best we can to expand our staffing in the former Soviet Union. We have added an additional American position in the last year to our Moscow office, which retains responsibility for most of the Republics. We have transferred responsibility to one or two of the more remote Republics—for example, Moldavia—to regional attachés that are operating from outside the former Soviet Union. We are, I suspect, going to make some other modest changes in our staffing there.

Again, this kind of thing is what we're constantly trying to work with in terms of taking what we have available in terms of resources and using them where they're most necessary.

Mr. PENNY. Thank you. I appreciate your testimony this morning.

We want to move now to our final presenter, Mr. Keith Severin, senior associate for Soviet and East European Affairs, with E.A. Jaenke & Associates here in Washington, DC.

By way of background, I want the audience to be aware that Mr. Severin has retired from the Foreign Agricultural Service. His experience with Russia dates back to 1963. He served 2 years as an agricultural attaché in our Embassy there. Beginning in 1974 he led annual study teams to Russia, the former Soviet Union, to focus on various aspects of our bilateral arrangements with that nation. In 1992 he was requested by Richard Crowder, the Under Secretary of Agriculture for International Affairs, to be a special assistant to advise the Department on programs pertinent to the former Soviet Union.

So his background in this area is extensive, and we're delighted that he was able to be with us here this morning.

Mr. Severin.

#### **STATEMENT OF KEITH SEVERIN, SENIOR ASSOCIATE, SOVIET AND EAST EUROPEAN AFFAIRS, E.A. JAEENKE & ASSOCIATES**

Mr. SEVERIN. Thank you, Mr. Chairman. It's indeed a pleasure, almost more than I can express. I will let my testimony that I en-



tered in last week stand on its own, but with one regret. I'm sorry that Chairman de la Garza did not have the opportunity to proof-read it for me. There is one error that he would have caught.

Over on page 3, in the top line of the last paragraph, I talk about day care centers and I say "deutsche sad," and they're really "detsche sad." "Deutsche sad" is kindergarten. But the chairman, with his proficiency and love for languages—which is terribly important, I think, these days in our trying to deal with the former Soviet Union. We need people who are sensitive. We need people who understand that Russia, the countries there, they are not America. They are not America.

It concerns me a great deal when I hear, like was said in the paper the other day, "The Russians don't understand the word," and the word referred to there was "democracy." It's been said here this morning that we really don't understand them, either. I don't know what the term "private" means. The way I would define that is simply that it is not state; therefore, if it's not state, we'll say that it's private.

Another term that concerns me a great deal is the term "farmer." When we use the term "farmer," we visualize someone in our country who makes decisions, implements the decisions, and then lives with the results of those decisions. They are just only beginning to be able to do that in Russia. Let's be sensitive.

This is terribly important, too, when we send people there. If they're not experienced—and certainly we've got a great paucity in inexperienced people to go there, no one really as richly endowed as I nor nearly fortunate as I—but at least let's get sensitive people who go there, and if people go there to deal with agriculture, let's hope that these people have an idea a little bit about what agriculture is. Agriculture is a biological science. It's not a pushbutton affair. If you miss a planting season by 10 days, you've got to wait until the next planting season comes around. Timeliness is terribly important, and sometimes the next planting seasons doesn't happen until the next year.

Well, many, many things have happened since I submitted my testimony last week. We're very much aware of this. One of the things that I wish that more people were aware of is the fact that we keep referring to Moscow, we keep referring to Russia, but they're almost synonymous in the way we speak. But they are not synonymous. They are not synonymous. The people on the other side of the Urals don't care a whole lot for the people who live in Moscow. Some of the people out in Siberia are there because of the people in Moscow. So there's not a great deal of love lost there.

Regionalism is building. We need to be represented in every region of Russia and the former Soviet Union. We have a public policy advisor in Moscow. That's good, terribly needed, but at the same time—and I witnessed this last August when I was traveling with former Secretary Lyng—we witnessed in Novosibirsk how painfully needed a public policy advisor is. We need to put people there, and at the same time we need to bring people here.

I was very fortunate in being able to bring the Lieutenant Governor of Ulyanovsk over here, along with a group from Virginia Tech. He had the opportunity not only to go to the land-grant university to see how that operates, including the Extension system,

he visited farms, and also went to Richmond. He saw how the whole thing comes together.

We need package approaches. Too often, we'll say—for instance, I go there and I look at the link in the chain that I'm expert in. I ignore the other links in the chain. But it's the entire chain that's necessary, and, unfortunately—and here is where I hope that Mr. Stroke Talbot will be effective. We need to coordinate every action on our side in looking at the entire chain, and, unfortunately, action needs to be taken on each of these links at the very same time.

We need people who are visionary, and, sir, I would commend you for the visionary approach that you've taken to these hearings here with the video that we had and then with the telephone hook-up. That was marvelous. But the things that we saw here, don't take for granted. The first thing I noticed was there was a roof out there. It's been only in the last couple of years that roofs for storage, open-sided sheds, have been found in Russia. Don't go there and take our things for granted.

My time is running out, but you will see in my paper that I have suggested a program which I think could be terribly important. It's a targeted program, and it's one I think that can be undertaken successfully and without backlash, and this thing of backlash that Steve Cohen mentioned in his column in Sunday's Washington Post is awfully important. This is a program that is targeted to take care of crying needs over there. I call it the children's assistance program. It can be broader than that.

But too many of the children in the Soviet Union, they're not undernourished, as in Somalia, but they're malnourished. We could target that, and that would be terribly important, I think, in the long term in creating markets over there. I read a statement just yesterday that said that men being born today, 34 percent of them will not live to see their pension years, which, for a case of a man, is 60 years old. For each one of those people that we can get to live to 60, 65, or 70 years, think how much American produce goes there.

There's a lot more that I could say. I'm addicted to the subject, and I'll try to respond to any questions. I can't answer, but I can try to respond.

[The prepared statement of Mr. Severin appears at the conclusion of the hearing.]

Mr. PENNY. Well, as a way of extending your period of testimony, I'd like you to elaborate a little more on the children's assistance program and how we would target that, what volume of commodity we're looking at, and who would administer this. Do we work this through private voluntary organizations? How do we make sure that we reach the appropriate population?

Mr. SEVERIN. I would not only look in Moscow, I would not only look in St. Petersburg. In fact, I would look beyond them to start with. I would go, again, to the regions, like I say, and there are regions out there where there has been a great deal of environmental pollution. In west Kazakh, in Aktyubinsk, they say that 40 percent of the babies are born deformed because of the pollution there. There are areas in the former Soviet Union where the mothers are advised not to breast feed the babies because of the pollution that they've been subjected to.

There is enough literature available here in our country, there is enough knowledge here that specific areas could be targeted. Just like the man said this morning, "We were promised cows 12 months ago, but we don't know what happened to them." I would not create anymore expectations that we cannot fulfill. That doesn't do anybody any good.

But how much food would be required for this, I don't know, but at the same time, again, just yesterday I read a statistic that something like a little over one-quarter of 1 million fetuses and babies die before they reach the age of 1 week just because of social and economic difficulties. I would make this a total children's care package, with nutrition being an integral part of it. Baby food is always something that they ask for. They would like to be able to set up baby food processing plants. But this is something that we could send there relatively easily, relatively inexpensively, but it would be a part of a total children's care program, including the inoculations and other pediatric needs.

Just to continue on, I would do this, again, in small communities and rural communities, because if the children are taken care of, then that would help. I'm a private farmer or I've just been given the use of 40 hectares of land from your farm, and you're not completely for that, but I have it. So you remind me, "Severin, the next time your children need to go to the polyclinic or go to school or your wife needs to come to the store here and buy something, you can't do that, because you're no longer part of our farm." This would be one way of helping to break—as my good colleague here, Allan Mustard, says, that would be one way of breaking the stranglehold that the people in the countryside have placed on them by the still-existing system.

Mr. PENNY. It sounds an awful lot like America's WIC program, in which we would try to get the commodities to distribution centers—as you say, kindergartens, day care centers, et cetera, where the children are—and then, in turn, send those specific nutritional commodities home with those families. I appreciate your suggestion in that regard.

I also had a sense from your written testimony that you believe quite strongly that we ought to have a very focused approach to aid and that we not take a scattergun approach where we try to do more than we can actually do, but focus in three or four key areas and provide the bulk of our assistance in those areas.

Mr. SEVERIN. Yes. I feel very strongly there, and, again, I would rather send a very, very few good people there than inundate the place with people who may be well-intentioned, but not sufficiently sensitive nor qualified.

Mr. PENNY. How do you analyze the existing VOCA farmer-to-farmer exchange program, and how does that fit with your overall theme of trying to provide support at the grassroots level, but also trying to provide support that addresses all levels of need?

Mr. SEVERIN. I understand the principles of VOCA are to send people there who have nothing to sell except their own good will and their own experience and their willingness to help. That is indeed admirable, and so long as those principles are adhered to, that's fine. I've had a personal experience that showed me that it



could be a little better, but their heart is in the right place and I think is beating pretty well.

Mr. PENNY. We have, I think, slated about 1,700 personnel over the next 2 or 3 years that will be on the ground in Russia and the other Republics. Is that too much, too little, about the right size for an exchange program of this sort?

Mr. SEVERIN. Russia is a big, big place, and I would say more important than how many they are, that they be the right ones in the right place. But it's a good ballpark figure, and I would certainly go out and try to find retired Extension Service people, retired vocational agricultural people, retired home economists, retired public health nurses, and young people who want to learn, who want to serve.

Mr. PENNY. Mr. Allard.

Mr. ALLARD. Thank you.

Mr. Severin, you're talking about children's programs for the Republics of the former Soviet Union. It seems to me like those are value-added products. What can we do to make those more available?

Mr. SEVERIN. Finance them and get them there. Finance is always the bottom line.

Mr. ALLARD. But we do provide dollars for food for hunger and these other programs. Are you saying we don't have enough, or is it just a matter of redirecting some of the dollars that are already there?

Mr. SEVERIN. That would be my opinion, to redirect some of the dollars that are already there. In so doing, it would help to encourage production on Russian farms of the basic products that they can produce. They're great producers of bread grains. We all know about Turkey red wheat, we all know about Shishkin's lovely painting of rye. They're great producers of bread grains. Other things, they cannot produce. But I would suggest that we could do better simply by reallocation of what we are allocating.

Mr. ALLARD. How do we determine which value-added products we send over there? Do we open this up to a bid process? Somehow or the other, as you mentioned earlier in your comments, we have to be sensitive to the needs of the Russian people back in the Republics, at least, so how do we make—we have sort of a bridge there. We have areas here where we have plenty of surpluses, but not where their needs are in the Russian Republics. So how are we going to bridge this with our value-added products?

Mr. SEVERIN. I would simply go back and talk with a lot of the experts and specialists who went there last year from our country. Maybe they had not had previous experience in that country. But they're nutritional experts, they're health specialists. They went under AID programs of one kind or another, and I know some of the young fellows that I met there last year—met them there—they're Americans. They're American pediatricians. I would draw on the experience that we gained last year, and there are other people here in our country who are knowledgeable simply from the Russian literature.

Mr. ALLARD. So you're saying that they can help us identify areas where they need value-added products, and once that's been



identified, then we come back over here and we look at those needs. What if it's a product over here that there's no surplus?

Mr. SEVERIN. If we're serious about it, we'll manufacture it and provide it.

Mr. ALLARD. Are you suggesting that we bid it out to various companies? Is that what you're suggesting?

Mr. SEVERIN. Yes, but I would get this done in a very expeditious manner, because it's been mentioned here this morning that time is money.

Mr. ALLARD. Yes.

Mr. SEVERIN. And, again, the Russians remember all the things that we did to help them in World War II with lend-lease, and they look at us as being good and effective business people, and they expect us to not only do things, but to do them in a timely way, and they expect us to do them, to carry out.

Mr. ALLARD. It might be that there's not a demand for certain American products in Russia because they don't know about them. They don't know the value of it. Can we educate those people to appreciate those products? And if we can, what's the best medium to do that?

Mr. SEVERIN. I'd start right off with making sure that institutional feeding, in one way or another, for the children would incorporate that in a subtle, subliminal way, to start with. Friends of mine there now, I say, "I'm coming over. What can I bring for you?" "Bring me two plastic cans of peanut butter, creamy, not chunky." Communications has helped ever so much in broadening their world of experience, their world of knowledge, and they're no longer subject to the central press, to the central media, the way they were before Gorbachev left.

Mr. ALLARD. Is there opportunity through their various types of media to get our message across as to what's available?

Mr. SEVERIN. They're hooked on America. The first time I saw youngsters wearing their baseball caps backwards was over there last summer. I came home and found it here.

Mr. ALLARD. Thank you.

Mr. PENNY. Ms. McKinney.

Ms. MCKINNEY. Nothing, Mr. Chairman.

Mr. PENNY. Keith, we do appreciate your testimony this morning. I know that you also had some thoughts about the presence of Foreign Ag Service personnel within the former Soviet Union. Maybe you could elaborate for us this morning as to how we could better spread our resources and better serve the local need through the FAS.

Mr. SEVERIN. I don't know if the word "spread" is quite appropriate. There are certainly more resources needed. What FAS is doing here, they're doing a pretty good job, but, frankly, they're strapped, and we need more resources within the former Soviet Union, and we need more people. Everybody has suddenly discovered Russia, and it's a good thing to study that Russian language and Kazakh and some of these other funny things we haven't thought about before.

I would do my utmost to encourage young people to come into the Foreign Agricultural Service and to take those who are ready to go out, get them out there, and I would certainly embark on a con-

stant training program, get them in-country, and don't overlook the land-grant universities and colleges of agriculture. Now, if you're going to do economics, do Ag Econ 51, not Econ 101. We want the application of theory, not just theory for the sake of theory.

But, no, I wouldn't say it would be more of a case of spread, because there are so many needs, but rather simply more, and then make sure they're placed right. I don't think that we're doing the American taxpayer or the American farmer well by not having professionally trained agricultural attachés represent U.S. agriculture/agribusiness interests around the world.

Mr. PENNY. Keith, thank you very much for your testimony this morning. It's been tremendously helpful. I think today, all in all, has been a good kickoff to our 3 days of hearings on the Russian situation. We appreciate not only you, but the others that testified this morning, and we'll certainly stay in touch.

With that, the subcommittee stands adjourned.

[Whereupon, at 12:10 p.m., the subcommittee recessed, to reconvene, on Wednesday, March 31, 1993.]

[Material submitted for inclusion in the record follows:]

REVISED COPY

STATEMENT OF  
THE HONORABLE DAN GLICKMAN (D-KS), CHAIRMAN  
PERMANENT SELECT COMMITTEE ON INTELLIGENCE

ON HR 1507,  
"THE DEBT FOR DEMOCRACY ACT OF 1993"

BEFORE A PUBLIC HEARING OF THE  
FOREIGN AGRICULTURE AND HUNGER SUBCOMMITTEE

TO REVIEW RUSSIAN AGRICULTURE

9:30 AM, TUESDAY, MARCH 30, 1993  
1300 LONGWORTH HOUSE OFFICE BUILDING  
WASHINGTON, D. C.

MR. CHAIRMAN: Thank you for the opportunity to testify. You are to be commended for calling this hearing and for devoting your Subcommittee's attention to the situation in Russia. Not only do I believe this is among the most important issues facing America, farmers, it is among the most important of all challenges confronting the American public today.

As deeply intertwined as American interests are in the reform process underway in the former Soviet Union, the direction and pace of the process are, in the end, questions the Russians must determine for themselves.

The United States can, and should, encourage that process, however. We have substantial interests in seeing the reforms culminate in a democratic, market-oriented state. Having spent trillions and devoted our national energy for four decades to winning the Cold War, we can not afford to lose the peace. Nor can American farmers and American agribusiness afford to lose this customer.

The credits the Department of Agriculture has extended to Russia and the other former Soviet states are the primary form of assistance the West has made available to them in the last two years. The loans have also been of immense benefit in keeping open one of the single most important markets American agriculture has and will have in the near future.

In the legislation I have introduced, I propose that the US use the leverage of these credits to encourage further reforms while advancing our interests.

The Russians need debt relief, including rescheduling of USDA debt. They will need additional food assistance and American agriculture needs to get back into that market. We have an interest in seeing the Russians convert their military to peaceful uses and in encouraging the movement towards a market oriented economy.



My bill gives the President the authority to achieve these goals. Under it, he may write-down outstanding USDA debt under agreements with the Russians, or other states of the former Soviet Union, if they agree: to dismantle military facilities, to convert military facilities to peaceful uses, to permit US businesses to enter into commercial joint ventures with state-owned enterprises, or for other reasons the President determines in the US national interest.

The President may extend additional export loans and release previously approved credits to make new sales once a state enters into debt reduction agreement. He may also donate surplus commodities to those states and provide technical assistance to achieve the terms of the agreements.

The legislation is based on a practice common in the private sector. Debt for equity swaps are frequently used to help debtors restructure their affairs. What I am proposing has a precedent in the public sector. Western creditors wrote-down Latin American debt in return for programs those governments initiated for such things as preventing environmental degradation.

The US needs to act now to restart food shipments to the Russian population to meet their needs and so the American agricultural economy does not become weaker. These steps need to be taken now. We would be foolhardy simply to wait, doing nothing but hoping for the Russian economy to improve enough, on its own, to permit Moscow to become current on the debt it owes us.

As pressing as the immediate problems in Russia are, we must also be cognizant of the long term. Whatever we do, we need to provide assistance which will yield long term results in the US interest, such as dismantling of the Russian military and opening of its economy to US investment.

To those who will criticize my proposal because it will relieve the Russians of some of their repayment obligation, I would point out that even if the loans are not repaid or can not be repaid, for whatever reason, this legislation will make sure the US gets something in return. Instead of simply writing off the loans as uncollectible, this legislation establishes a quid pro quo for the benefit of both sides.

Let me acknowledge that this legislation will have a cost, dependent on the amount of debt forgiven. I know that will concern you, Mr. Chairman, as it should. But, those costs are minuscule compared to the costs we have spent winning the Cold War and to the costs we might face if the Russian reform process fails.

In closing, I believe we need to be both bold and imaginative in meeting the challenge before us. I think this proposal offers a creative and constructive component to solving the problem. I am attaching to my statement an explanation of the legislation as well as an article I wrote about it. I appreciate your consideration of the idea and for the time to testify before you.

(Attachments follow:)

**THE DEBT FOR DEMOCRACY ACT OF 1993, HR 1507**

BY

*THE HONORABLE DAN GLICKMAN (D-KS), CHAIRMAN  
PERMANENT SELECT COMMITTEE ON INTELLIGENCE*

The Debt for Democracy Act of 1993 gives the President authority to reduce the debt an independent state of the former Soviet Union owes the United States under Department of Agriculture export assistance programs if the state enters into an agreement with the US --

- 1) to facilitate the development of joint ventures between US businesses and state-owned enterprises;
- 2) to dismantle or convert military facilities to non-military uses; or
- 3) for other purposes in the national interest.

States that enter into agreements under the bill become eligible for --

- 1) reinstatement to USDA's export assistance programs;
- 2) donations of agricultural commodities; and
- 3) technical assistance.

The main provisions of the bill, which adds a new section, section 206, to the Agricultural Trade Act of 1978, are:

*SECTION 206(a)<sup>1</sup> -- SHORT TITLE.*

New section 206(a) provides that the bill may be cited as the "Debt for Democracy Act of 1993."

*SECTION 206(b) -- PRESIDENTIAL AUTHORITY.*

New section 206(b) gives the President authority to reduce the debt an independent state of the former Soviet Union has incurred under any program under the authority of the Secretary of Agriculture or Commodity Credit Corporation.

The President may exercise the authority notwithstanding provisions of the Act that

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<sup>1</sup> Citations refer to the Agricultural Trade Act of 1978 as amended by the new provisions added to it by the bill.

prohibit one, using USDA's export loan programs for foreign policy purposes and two, extending credit to countries unable to service the debt.

The President is given authority to extend new credits to a state and approve additional sales under credits previously extended to the state, notwithstanding one, the restrictions of the Act and two, a state's arrearage on existing loans.

Section 206(b) gives the President authority to donate agricultural commodities to a qualifying state that has entered into an agreement to reduce its debt.

To be eligible for a reduction in debt, additional credits, and commodities donations, the state must enter into an agreement as provided for in section 206(c).

#### *SECTION 206(c) -- AGREEMENTS.*

New Section 206(c) sets out the three types of agreements under which qualifying states may have debt reduced:

- 1) To promote the establishment or maintenance of democracy or economic reform and progress toward a market economy, the state agrees to give a US business entity, including an agricultural business entity, an equity interest in a state-owned enterprise. The interest would equal the amount of debt reduced which the business agrees to repay.
- 2) The state agrees to dismantle nuclear weapons or other military-related objects and facilities within the state or to convert military-related facilities to non-military purposes.
- 3) The state agrees to other terms and conditions the President determines to be in the national interest and consistent with the purposes of the Act.

#### *SECTION 206(d) -- IMPLEMENTATION.*

New section 206(d) provides that to implement an agreement and to protect the interests of the US, the President is authorized to provide technical assistance to a state that is party to a debt reduction agreement to monitor and assist in the implementation of the agreement.

The President may renegotiate or cancel an agreement if not implemented according to its terms.



# Hedging the Peace Dividend

By DAN GLICKMAN

Is the peace dividend slipping away? Although the Cold War is history, trends in the former Soviet Union are unsettling the new Washington-Moscow relationship.

Russian arms works are filling orders from some of the new world order's most troublesome quarters. Ethnic rivalries and political reactions are undermining President Khrushchev's grip on power. Hyperinflation-fueled discontent is disrupting conversion to a market economy, endangering his ability to implement peace dividend.

All of this means there may be fewer post-Cold War U.S. defense savings for reducing the debt to President Clinton's credit with the peace dividend.

Clinton hopes quickly to name a candidate Clinton's pledges. During the campaign, Mr. Clinton promised to accept support for the transformation of the Soviet Union from communist empire to commonwealth of independent republics. The first step in fulfilling that campaign promise should be rescheduling unpaid U.S. Department of Agriculture grain credits, followed by a plan to write down the debt to encourage Moscow to keep moving along the road to liberalization.

The Agriculture Department export loan program has been the sin-

gle most important source of U.S. Russian aid. It has made up approximately one-fourth of the \$44 billion Western assistance package promised to Mr. Khrushchev. The loan program also has made it possible for the Russian president to meet the subsistence needs of a population beleaguered by the convulsive changes of the Russian revolution of the 1900s.

Yet, Russia is now more than \$300 million behind in its payments, with \$1 billion more due this year. The stress of the arrears on an already collapsing economy is draining Mr. Khrushchev's ability to invest in liberalization. His plans may be derailed altogether if shortages of basic foodstuffs worsen, which may indeed be the case because Russia has been suspended from drawing on additional credits since defaulting.

The administration should reinforce the delinquent debt and reinstate Russia to the USDA program. The existing loans, short-term financing made through private banks with government backing, could be converted to the USDA's "other export loan program, which allows repayment over as long as 10 years. The credit could be converted to direct government-to-government loans, allowing USDA to customize terms according to Russia's ability to repay.

But rescheduling is only a partial

answer. At some point, Washington must be able to face the fact that some of the debt may never be collected.

If so, the Clinton administration must ensure the United States gets some return, in the form of further Russian reforms, on the \$4 billion plus at risk. One alternative to writing off the loans would be a program patterned after the Latin American debt write-downs, in which those governments swapped debt to the West in return for such things as environmental improvement programs.

In Russia's case, the United States should be willing to trade food debt for agreements to dismantle nuclear weapons. If Moscow would agree to destroy a specified number of missiles or curtail arms shipments, the administration should be willing to write off a portion of the outstanding loans.

The debt could also be swapped in ways to stimulate Russia's movement toward a market economy. U.S. companies could be offered equity in joint ventures with Russian enterprises in which the amount of debt forgiven would represent the investment the company might obtain. The requirement would assume that the U.S. company would assume repayment responsibility for the credit.

Another type of arrangement would discharge the grain debt through shipments of raw materials, such as oil, to U.S. companies.

The Bush administration largely ignored the grain credit crisis during its last months in office, regarding it into a farm-lease-only compartment. Exports stopped. Grain markets sagged. Now the Congressional Budget Office estimates that the United States, domestic farm spending will increase as much as \$1 billion. But those costs, and the costs of rescheduling or writing down the debt, will be minuscule compared to the potential costs if the United States loses the peace of its Cold War victory because the Russian reform process reverses course.

In the end, not only an agricultural problem, although farmers who need this market, have an immense stake in solving it. The Russian question and its grain debt are the most significant foreign policy issues facing the Clinton administration. Solving the problems posed by the dissolution of the Soviet Union means meeting not only the president's campaign pledge but ensuring he will have the resources to focus, like a laser beam, on the U.S. economy.

*Dan Glickman, a Democrat, is a member of the House of Representatives from Kansas. He is former chairman of the subcommittee on wheat, soybeans and feed grains.*

TESTIMONY OF  
RICHARD KAUZLARICH  
DEPUTY ASSISTANT SECRETARY OF STATE  
FOR EUROPEAN AND CANADIAN AFFAIRS

BEFORE THE  
SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER  
HOUSE OF REPRESENTATIVES

HEARING ON AIDING RUSSIAN AGRICULTURE  
MARCH 30, 1993

I am pleased to come before this Subcommittee today to discuss the Administration's programs to encourage the development of private agriculture in the New Independent States (NIS) of the former Soviet Union. I commend this Subcommittee for convening this hearing, which recognizes the critical role of agriculture to the reform process now underway in Russia and the other NIS.

That reform process, which President Yeltsin both inspires and leads, represents the greatest strategic challenge of our generation. As Secretary Christopher emphasized in his speech last week before the Chicago Council on Foreign Relations, the stakes for the United States in this reform process are monumental, affecting the very foundation of our security and prosperity into the next century.

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In responding to this historic opportunity, the United States must extend a hand of partnership to President Yeltsin and the Russian people, a partnership based on democratic and free market values. While the President is still considering the specific initiatives he will announce at the Summit, Secretary Christopher reaffirmed our clear intent to increase and accelerate our support for Russia's democracy and its efforts to build a market economy. He also set out guideposts for our assistance program: (1) that it be better targetted and coordinated; (2) that it focus on areas and constituencies in Russia that can have the greatest impact on reform's long-term success; (3) that it catalyze our private sectors to take a leading role in Russia's transformation through trade, investment, and training; and (4) that our help be felt at the grass roots level.

Our assistance program in the NIS has been grounded in the principles of the FREEDOM Support Act, which clearly directed that U.S. assistance recognize and bolster the economic and democratic reforms in all of the republics of the former Soviet Union. As each republic in the NIS makes progress toward building free market economies and democratic institutions, we are able to implement a range of technical assistance activities, including programs in the agricultural sector.



The Administration considers the agricultural sector one of the keys to the economic restructuring of the NIS. So far this fiscal year, we have signed agreements with eight of the NIS for a total of \$337 million in grant food assistance and commercial and concessional sales of U.S. agricultural commodities.

We have been active in developing and implementing a technical assistance program to address the four principal bottlenecks to the development of market-oriented agriculture -- public policy, agricultural credit, infrastructure, and inputs. We have already committed over \$100 million in technical assistance to the agricultural sector in the NIS over the next three years. Our programs fall into four categories: policy advice, agricultural exchanges, agribusiness development, and agricultural demonstration and training projects.

Policy Advice: To provide the necessary policy framework for the development of a market-oriented agricultural system, we have sent two resident agricultural policy advisers to work with the Ministries of Agriculture in Russia and Kazakhstan, and two agricultural extension advisers to Armenia, one of whom is a policy specialist.

Agricultural Exchanges: We currently have three agricultural exchange programs. Under AID's \$30 million Farmer-to-Farmer Program, we will send about 1,700 volunteers to the NIS over a three-year period; we have already placed over 130 volunteers with counterpart organizations in the NIS to share their expertise in agricultural policy, processing, marketing, credit, distribution, and cooperative organization. USDA's Cochran Fellowship Program has so far placed 87 NIS participants in U.S. agribusinesses for short-term training. Three American agribusiness executives have been placed with newly privatized food industries in Russia and Kazakhstan under USDA's Loaned Executive Program.

Agribusiness Development: We are also providing incentives for trade and investment by U.S. agribusinesses in the NIS. Under a \$60 million agribusiness development project, AID recently awarded grants to two agribusiness trade associations to promote trade and investment activities that will increase the efficiency of the NIS food system. These associations will be providing funding to their member companies, and possibly others, to encourage private U.S. investment in agricultural processing, marketing, and distribution in the NIS.

Demonstration and Training Projects: As an important part of this technical assistance effort, the United States supports several demonstration and training projects, including a wholesale market development program in Moscow, which we expect to expand to Kazakhstan and Ukraine this year; a model farm project outside St. Petersburg; an agribusiness training center for private farmers and entrepreneurs established by Land O' Lakes and AKKOR, the private farmers association in Russia; and a low-cost storage program in Russia, Ukraine, and Kazakhstan to reduce post-harvest losses in grain and potatoes. We are also providing \$6.5 million for a three-year Joint U.S.-Israeli Agricultural Program for Central Asia and Georgia which, in addition to joint research and exchange programs, is also establishing model farms to share expertise on semi-arid agricultural production and practices.

Many of our technical assistance projects are just now beginning to be implemented. We look forward to tracking the progress of these programs and to assessing their impact on the development of private agriculture in the NIS. However, we already know that our agricultural policy advisers, one of whom will be here tomorrow to testify before this Subcommittee, have



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made enormous, if behind-the-scenes, contributions to legislation and public policy affecting land rights and rural credit. You have also just heard the dramatic, videotaped testimony of Russian farmers who have benefitted from the expertise, advice, and dedication, of Farmer-to-Farmer volunteers.

As the full range of our technical assistance programs is implemented in those districts, regions, and countries where enterprising and courageous leaders are implementing reforms, we are confident that we will see regions where private agricultural production, processing, marketing, and distribution systems have taken root, enabling both farmers and consumers to taste the fruits of economic reform.

Statement by Christopher Goldthwait  
Acting General Sales Manager  
Foreign Agricultural Service  
U.S. Department of Agriculture  
Before the U.S. House of Representatives  
Subcommittee on Foreign Agriculture and Hunger  
March 30, 1993

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to discuss the agricultural situation in the former Soviet Union and the U.S. Department of Agriculture's efforts to ensure food availability there.

We have used a variety of programs to assist the former Soviet Union--credit guarantees, food aid, and technical assistance. Today, I will focus my comments on these efforts, and the other topics you have asked me to address: the agriculture and food situation in the FSU, agricultural trade with the former Soviet Union, and the future potential of these markets.

I will first outline the importance of the former Soviet Union as a market for U.S. agriculture.

For a number of years, the former Soviet Union has been a major overseas market for commercial sales of U.S. agricultural commodities, especially corn and wheat, and in more recent years, soybean meal.

To a large extent, credit availability, humanitarian assistance, and barter agreements will continue to determine the former Soviet Union's agricultural trade for the next few years, especially because of Russia's debt difficulties, and the general economic situation in the region.

## Soviet Grain Outlook

For the July/June 1992/93 year, USDA predicts that wheat imports in the former Soviet Union, including the Baltic States, will be 15.5 million metric tons, or about 70 percent of last year's level. This reflects a decrease in demand because of an improved harvest, and decreased outside financing. The 1992/1993 forecast for coarse grains, calculated on an October/September international marketing year, is expected to be about 10.5 million tons, or 56 percent of last year's level.

For Russia, our best estimates indicate that they must import at least 11-12 million metric tons of wheat from July 1, 1992, through June 30, 1993, to meet pressing food needs. Sales commitments by the major exporters are 9 million tons, including 2.5 million tons from the United States, 5 million tons from the EC, and 1.5 million tons from Canada. There is little chance for Russia to purchase under credit terms more grain from the EC, France, or Canada, leaving at least a 2-3 million metric ton wheat shortfall before new 1993/94 crop harvesting begins in Russia this July.

Coarse grain imports by Russia in the current October/September year may be 8.5 million tons, of which approximately 1.5 million tons of corn and barley, are still needed. Smaller livestock herds and high meat prices limit demand for grains to feed animals, but, to stabilize production this shortfall



could be met by imports, or by domestic production if agriculture reforms are implemented.

The high import demand stems from ambitious plans to increase consumption of livestock products, with its heavy dependence on grain for feed. As reforms take hold, the demand should fall.

This year wheat production in Russia was up 15 percent, but the Russian Federation purchased from producers only 26 percent of the crop for distribution to urban areas -- a new low due to low prices paid by the State, which has encouraged Russian farmers to hold some 5-7 MT of grains on farms. Low procurement from domestic production puts pressure on the central government to alter domestic agricultural policy or import to secure stable grain supplies for the State-controlled system still used to feed cities. Recent proposed changes to the Russian Federation's domestic procurement system, if implemented, may improve future procurements after harvesting begins this summer.

Relative to historical levels, U.S. wheat exports to the former Soviet Union will hold up fairly well this year. In the past six marketing years, shipments of U.S. wheat to the former Soviet Union have averaged 5.1 million tons annually. Commitments this year so far are around 4.5 million tons. Another 2-3 MT have been approved but not shipped.

The countries that now comprise the former USSR have been our largest market for U.S. wheat exports for some time.

It is the U.S. corn trade that is hardest hit by the former Soviet Union's economic turmoil. In the past six marketing years, U.S. corn exports to the former Soviet Union have averaged 9.6 million metric tons. This year, so far, U.S. commitments total only around 5 million tons. Another 2.5 MMT has been announced but not shipped.

We are nearing the end of the first full international marketing season for grain since the USSR's collapse, and the market situation is chaotic at best.

#### Trade History

Mr. Chairman, you asked about historical patterns of U.S.-Soviet agricultural trade.

From 1976 to 1990, U.S. grain trade with the USSR was covered by long-term agreements which established minimum levels of annual trade. These agreements were intended to provide some stability to annual USSR grain purchases.

During our first long-term grain agreement with the USSR, 1976-1983, U.S. wheat exports averaged 3.7 million tons per year, while coarse grain exports averaged 7.6 million tons. The U.S. market share of total USSR wheat imports was 26 percent, and coarse grains were 46 percent of total imports, despite an 18-month embargo following the USSR's invasion of Afghanistan.

Under the second long-term agreement and its numerous extensions, from 1983 to 1990, annual U.S. wheat exports averaged 4.5 million tons, varying as high as 9 million tons in 1987, and as low as 200,000 tons in 1985. Coarse grain exports averaged 10.1 million tons per year.

It is noteworthy that U.S. coarse grain exports, mostly corn, were two-thirds of the USSR's total coarse grain imports. U.S. wheat was 25 percent of total USSR imports.

After 1990, long-term arrangements no longer played a role in our trade with the USSR, and trade was supported by the CCC export credit guarantee (GSM-102) program. In 1991 and 1992, the U.S. share of total USSR/FSU wheat imports was 35 percent; our share of USSR/FSU coarse grain imports was 41 percent.

Suspension of additional fiscal year 1993 credit guarantees in connection with sales to Russia and Ukraine, resulting from missed payments on obligations previously guaranteed under GSM-102, has reduced our share of their imports. Losses in wheat market share have been offset somewhat by our use of food aid. Food aid programs have been used to support U.S. corn exports, but the possibilities for programming corn as food aid are more limited than for wheat.

If the United States makes no more sales on this fiscal year, our market share will be 27 percent of the FSU's wheat import forecast and 38 percent of coarse grain imports, reduced from earlier seasons. These estimates include about 600,000 tons of wheat and 1 million tons of corn sold to Russia, with respect to which guarantees were issued under the GSM-102 program and which remains committed, but unshipped, because of problems with letters of credit.

USDA has assured exporters of its continued willingness to stand by its commitments with respect to these transactions, if the Russian and private U.S. parties can reach agreement on restructuring them. I believe these shipments will begin to move shortly.

Looking at other exporters, the European Community has seen the largest growth in its share of the FSU's wheat market. The EC share is up to 45



percent from the previous 5-year average of 24 percent. Other exporters have not gained shares of the FSU's coarse grain import market, as lower U.S. exports have translated into lower total FSU imports.

#### Agricultural Situation

As members of the Subcommittee know, one of the greatest engines that can drive overall economic growth and support democratic reform is agricultural development. Strong agricultural production, marketing, and distribution systems are essential to provide a foundation for economic, political, and social development.

Without agricultural reform and development, Russia and the other countries of the former Soviet Union are not likely to achieve the status of cash markets for U.S. agricultural products.

Agricultural reform and development is a key to helping transform the FSU's centrally-planned economies during this time of both economic and political hardship toward a market-oriented economy.

I would like to speak briefly about the structural problems we have identified, and some of the reforms already undertaken.

I have visited the former Soviet Union numerous times in the past two years. All of the officials of the newly independent states with whom we have met have placed assistance in reforming agriculture and food at the top of their lists of priority needs.

This emphasis on agricultural development and reform is shared by many, although not all in the political and economic hierarchy. Supporters of reform include mayors of cities, governors of oblasts, plant managers, and very importantly, people on the street.

Currently, the FSU countries experience a high degree of loss of certain food commodities between field and table. U.S. experts believe that distribution, more than production, remains at the heart of the FSU food problem. Economic mismanagement and shortcomings of physical infrastructure are endemic.

There is under-investment in the food distribution system, which creates inefficiencies and bottlenecks. The physical plant is not structured properly. Most facilities are outdated; others underutilized; and many situated in the wrong location. There are no organized wholesale markets. These structural problems are exacerbated by lack of confidence in the ruble as a medium of exchange. FSU countries do not fully appreciate that part of the value of food products is created in the distribution system.

There has been an over-emphasis on agricultural production with too little attention given to post-harvest activities. Even a normal harvest, let alone a record harvest, entails astounding losses due to the poor location and inefficient use of storage infrastructure and processing facilities.

Food that moves through the state system is not privately owned and is treated carelessly--a phenomenon which is intimately related to the failure to appreciate the value added through distribution and processing.

Although the number of private farms is growing, the operators face tremendous difficulties such as declining supplies of agricultural tractors, combines, gasoline, lubricants, fertilizers, and pesticides; the lack of clear land laws; the lack of marketing channels other than the state farm system; and inadequate financing.

Agricultural reform has unquestionably moved more slowly than reform in most other major economic sectors. This is not a surprise as agriculture is traditionally conservative. While the Russian government is committed at high levels to reform of the agricultural sector, the sector is replete with barriers to the efficient functioning of the market, reflecting the continued large role of the state. The commitment of middle and lower level officials to reform is less clear. The government procured over one-quarter of Russia's

grain production last year at below-market costs. Agricultural subsidies totalled some 12% of GDP in 1992. The Government announced in 1993 a series of measures, including shifting from direct subsidies to indirect price supports by the end of 1993, to assist the agricultural sector. Yet, the government also announced new subsidies for this sector that could add 160 billion rubles to the Russian budget in 1993. It also announced a 3% tax on agricultural enterprises to pay for the subsidies. Agricultural reform is further hampered in Russia by the emotionally charged debate over land tenure.

Nevertheless, significant strides have been made in Russia even in the face of strong opposition, including the following:

- o The Russian Government has taken action to reform the organization of agricultural production, by forcing state and collective farms to re-register under a new ownership system. By 1992, 77 percent of state and collective farms were re-registered; by February 1993 the figure was 90 percent. Two-thirds were converted to some form of corporate ownership or were broken up into private farms. By year's end, 184,000 private individual farms existed, occupying 7.8 million hectares, about three times the number of early 1992.



o Direct subsidies for farms, paid through 1992, are being replaced in 1993 with a system of indirect support via guaranteed prices, somewhat similar to the U.S. price support system.

o Prices paid for grain for state procurement have been raised several times. The starting price for 1993 crop wheat is 28,000 rubles per ton (about \$40 at current exchange rates) and this will be adjusted this summer to account for input price increases. Compulsory sales of agricultural produce to state reserves are to be abolished in 1993.

o The Supreme Soviet is considering a bill which will permit land and real estate mortgages.

Continued agricultural and food sector reform will depend on continued support from a reform-minded government, and that government must be able to deliver food to the major urban areas in the next few months.

Mr. Chairman, no one knows what course Russian agriculture will take over the next few years, or what the pace of reform will be. Let me outline for you some of our thoughts.

My USDA colleagues and I believe that, if President Yeltsin and his reformist Government are maintained, the pace of agricultural reform will accelerate. We will see more private farms, more decentralization, more private marketing of agricultural output, and a clearer right to own and sell land.

Initially, this may further exacerbate the current chaotic system of distribution; the quantity of domestically-produced food reaching the neediest in urban areas could drop as state procurements drop. There could be declines in aggregate output for a year or two.

But slowly, production and productivity will increase, and in a few years Russia will produce a larger share of its food. I will return later to this point in the context of future U.S. exports. This is an uncertain outcome--it depends on the continued strength of reformers in Moscow.

#### Food Situation

In the meantime, there is an immediate need for increased supplies of food and feed grains to supply many of Russia's major cities and other FSU countries.

The former Soviet Union total grain imports are forecast at just over 30 million tons, down about 12 million from 1991/92. The decrease reflects more domestic grain output, less grain for feed use, and severe hard currency constraints.

We estimate total 1992 grain output in the FSU was about 185 million tons, up about 33 million tons from 1991's poor showing, but just below the 1986-90 average of 186 million tons, which includes only wheat, coarse grains, and milled rice. Grain production in Russia is up 20 percent from the drought-affected 1991 crop.

Although some steps were made toward reforming the domestic grain market and introducing market-oriented mechanisms and incentives in 1992, they were not enough to induce producers to sell enough grain to the major metropolitan areas.

Instead, producers have, in many instances, chosen to hold grain for feed use or as an inflation hedge, despite a lack of appropriate storage. This grain effectively remains out of reach of the urban areas now facing shortages, due to continued disruptions in the immature domestic grain markets, breakdowns in logistical and transport capacity, and basic unwillingness of untrusting Russian producers to release grain to the state on the basis of a promise that they will be paid someday.

Although aggregate grain supplies, as viewed from gross production statistics, may appear at least barely adequate to feed the cities at some minimal level, the fact remains that these supplies are not within the grasp of the cities that badly need them now, and will continue to need them until the new harvest this summer. These kinds of dislocations are not surprising in the context of the beginning of the reform effort.

During recent discussions, Russian foreign trade officials have expressed the greatest concern about maintaining supplies of milling quality wheat and of feed components, such as corn and soybean meal, for Moscow and St. Petersburg and to a lesser extent Yekaterinburg, and Nizhniy Novgorod. One official said that bread is in such short supply in Moscow that it must be purchased in the morning, because after noon-time bread stores are sold out.

These cities have historically relied largely on centrally-allocated food supplies, much of which was sourced from foreign imports. Given the rapid collapse of the Russian economy, the cities have not had time to adjust either to the need to assume responsibility for importing on their own or for procuring from domestic suppliers.



It is highly unrealistic to expect that Moscow, St. Petersburg and other major cities would have made such an adjustment in a little over a year. Thus they find themselves dependent, for at least the time being, upon central Russian Government authorities.

The situation bears the additional political dimension of historical Russian sensitivity to food shortages. The issue is not merely one of assuring adequacy of nutrition or of caloric intake.

It is, rather, an even more volatile issue, one revolving around potential erosion of public support for the reformers in Russia if they cannot ensure stable and sufficient supplies of staples.

Could Russia use more imports? Yes--meat production declined 10 percent in 1992 from the previous year. Recovery and growth in the Russian livestock sector will be impeded by declining demand due to drastically reduced consumer purchasing power, a shortage of high protein feeds that caused herd reductions, and disruption in the marketing infrastructure caused by the re-orientation toward a market economy.

Soybean oil and meal are both in very short supply in the FSU, and vegetable oil is the scarcest of the oilseed commodities.

The preliminary outlook for 1993 suggests oilseed production in the former Soviet Union may increase slightly, but processing and distribution problems currently reflected in internal food market supply and price reports are expected to cause import and credit needs to continue.

Eventually, if reform and a private agriculture take shape in Russia and the rest of the FSU, the countries will be more self-sufficient. Russia's climate and soil conditions should enable it to import somewhat less wheat, even if import levels of feed grains and oilseeds rebound.

We believe, however, that Russia will remain a major, if changing, market for the United States. Over time, it will be a market for many new commodities if reform succeeds and stimulates growth. American steaks and California wines are already sold in up-scale Moscow hotels.

We, in USDA, are assisting Russia's agricultural restructuring not only because its success is in the general American interest, but because we believe a healthy Russian agriculture is critical to Russia's eventual return to cash-customer status, even if the mix of U.S. commodities purchased changes. This has been the pattern in our successful and mutually beneficial agricultural trade in Japan, Korea, Taiwan, Mexico, and many other agricultural markets.

## U.S. Efforts

The U.S. Government's effort to help ensure food availability in the newly independent states of the former Soviet Union during the transition from communism to a market-oriented democracy has entailed three primary efforts: export credit guarantees to help facilitate purchases of U.S. agricultural commodities by the countries; long-term concessional sales for FSU countries other than Russia, for additional help in meeting import needs; grants of food assistance to help meet humanitarian needs in the countries; and technical assistance to help develop various aspects of the food sectors in these economies.

## Technical Assistance Programs

USDA and the U.S. Agency for International Development (A.I.D.), have several technical assistance programs under way in the former Soviet Union to help develop the agricultural and agribusiness sectors of the FSU. USDA received its first real agricultural developmental assistance authorities in the Food, Agriculture, Conservation, and Trade Act of 1990, and the FSU has been a focus for implementing them. This includes the following activities:

o **Model Farm Project**--In an effort to demonstrate various aspects of U.S. farm management and marketing practices to a group of newly privatized Russian farmers, USDA is helping the Russians set up a model farm community near St. Petersburg. Twenty-one Russian farmers were selected to participate in the program funded over two years at \$2.3 million a year. They have received farmland as private farmers. U.S. advisers include a project director and two farming couples.

They are working with the Russians on a two-year project which is featuring a variety of agricultural activities such as crop, fruit, and livestock production and marketing. Last year, the model farm project covered surveys and land use classification.

This week, a U.S. potato specialist is scheduled to go to Russia to prepare the project for spring planting.

The Foreign Agricultural Service is also cooperating with a Texas A&M model farm in Tatarstan helping to turn an old Russian state farm into a vertically integrated agribusiness, with particular emphasis on marketing.

o **Loaned Executives**--USDA and U.S. agribusiness firms are placing private-sector executives in food handling and processing industries in the



FSU. In February, two meat processors from the Wilson Food and Oscar Mayer Food firms were assigned to a large Russian meat processing plant in Novosibivsk for one year.

In March, a retired U.S. bakery executive was assigned to the largest bakery operation in Alma Ata, Kazakhstan. In Belarus, the program arranged the contact of a major U.S. fruit exporter with a local fruit and vegetable cooperative.

o Cochran Fellowships--A total of up to 200 fellowships are planned this fiscal year for the former Soviet Union in a wide variety of fields for mid-level agriculturalists and administrators from the public and private sectors. Topics include agricultural privatization, trade, agribusiness, management, finance, and marketing. Participants meet U.S. specialists, participate in field observations and industry visits, experience on-the-job training, and attend U.S. university courses and seminars.

So far, fellows have been selected from all former republics except Azerbaijan, Tajikistan, Georgia, and Moldova. To date, 80 participants have arrived in the United States--40 from Russia, 12 from Ukraine, 9 from Belarus, 6 from Armenia, 6 from Kazakhstan, and 7 from Kyrgyzstan.

In May, a second round of interviews is planned in Russia, Ukraine, Belarus, Kazakhstan, and Kyrgyzstan. The first interviews for possible candidates will be held in Georgia and Moldova in the next two months.

o Agricultural Policy Advisers--USDA has responded to requests from the Russian and Kazakhstan Ministries of Agriculture for agricultural advisers to assist with privatization and the movement to free market economies.

One adviser from the Cooperative Extension Service is in Moscow serving as the USDA agricultural policy adviser to the Russian Federation of Agriculture.

The second adviser, from the Economic Research Service, is serving as policy adviser to the Ministry of Agriculture in Kazakhstan. Both advisers are working with the respective ministers of agriculture and other government officials on the transition from a socialist economy to a free market agricultural economy.

o Wholesale Markets--USDA is promoting development and expansion of wholesale markets in the former Soviet Union, beginning with a series of projects in Moscow.

Specific missions have included improvements of market operations, post-harvest storage and handling, and market information activities for fruits and vegetables, as well as strengthening of commodity exchanges for grains.

Follow-up activities will include a project on establishing market information services in Russia and Kazakhstan and marketing seminars in Ukraine. For fiscal year 1993, an expansion is under way which includes a follow up of current activities, plus training in the United States and working with the World Bank. Agricultural marketing survey teams are currently in Russia and will travel to Ukraine and Kazakhstan in April as the program looks to expand its activities there.

o Russian Far East Project--A U.S. Government and private industry agribusiness assessment team has returned from the Russian Far East and will be making recommendations concerning this region. Its final report is due this week.

In addition to these six technical assistance programs (funded for a total of \$5.5 million dollars) A.I.D is funding three agricultural projects undertaken at the urging of USDA, in the newly independent states for \$16 million a year. I understand that the witness from Department of State will discuss them.

## Food Aid

We have made special efforts to move U.S. agricultural commodities to the former Soviet Union through our food aid programs. The Freedom Support Act gives us added flexibility in this area.

The Freedom Support Act provides that the limitation in the Food for Progress Act that not more than 500,000 metric tons may be made available in a fiscal year does not apply with respect to commodities provided the FSU during fiscal 1993.

This provision allows us to meet humanitarian food needs in the former Soviet Union during this critical period of transition without limiting the size of Food for Progress programs carried out elsewhere. And it maintains exports of U.S. agricultural commodities.

The Food for Progress assistance, which includes food aid for human consumption and much needed feed for livestock, is being provided through three major efforts. First, we expect to commit over 1.8 million tons of feed grains -- 1 million tons of corn and 850,000 tons of feed wheat -- valued at \$261 million, mostly through government-to-government programs. Those countries receiving corn are paying all transportation costs, and 75 percent



of all the commodities will be shipped on U.S. flag vessels in accordance with cargo preference requirements.

Our second major aid effort is a \$250 million program for the Russian Federation to meet humanitarian needs. Russia's Humanitarian Commission is coordinating the effort with the help of several U.S. private voluntary organizations. As part of that effort, on March 12 Secretary Espy announced the United States will donate 520,000 metric tons of wheat and 87,000 metric tons of rice to the Russian Federation under the Food for Progress Program. The \$102 million donation will be distributed or sold by the Russian government to help develop agricultural and economic reforms within the Russian Federation.

Under the Food for Progress Program, USDA provides commodities in support of countries that have made commitments towards economic reform, and Russia agreed to carry out a number of measures to expand the role of the private sector and improve food supplies.

Third, we are providing about 100,000 tons of food valued at about \$58 million through nearly 20 U.S. private voluntary organizations to meet critical human needs throughout the republics. This is partly within and partly outside the \$250 million government-to-government commitment.

## Commercial Programs-Export Credit Guarantees

Before the economic situation deteriorated so sharply, the United States provided credit guarantees and other commercial assistance to Russia and the other states of the former Soviet Union.

Since January 1991, USDA's Commodity Credit Corporation has made available over \$5 billion in export credit guarantees under the GSM-102 credit program in connection with sales to purchasers in the FSU including Russia and Ukraine. These guarantees were used to facilitate the purchase of over 33 million tons of U.S. agricultural commodities. Commodities purchased include corn, wheat, wheat flour, protein meals, soybeans, vegetable oil, poultry, tallow, rice, almonds, hops, and several processed products.

In fiscal years 1991 and 1992, some \$3.8 billion in credit guarantees was made available in connection with sales to purchasers in the FSU. In fiscal 1992, Russia received its own program allocation of almost \$650 million in credit guarantees.

In fiscal year 1993, \$800 million in credit guarantees was made available in connection with sales to Russia, of which \$525 million was made operational in October.

About \$110 million of that \$525 million remains unused because of the suspension of the availability of additional credit guarantees in connection with sales to Russia. In addition, a further \$275 million was scheduled to be made operational in January,

Although Russia has repaid nearly \$900 million towards CCC-guaranteed export credits, approximately \$4.2 billion in combined debt of the FSU countries remains to be paid and will come due over the next two and a half years. In December 1992, Russia began to default on repayments for guaranteed export credit, and the availability of additional credits in connection with sales to Russia had to be suspended. The availability of additional guarantees will remain suspended until arrearages are paid, the debt is rescheduled, or a combination of the two.

We recognize that this is an extremely serious problem. We are looking at every possible alternative to search for a solution to both the arrearages issue and to how we can continue to export to this important market.

As of March 25, total arrears of Russia and the former Soviet Union were more than \$596 million and USDA has paid out about \$180 million in claims. Russia made several million dollars of payments in early March, but not enough to remedy the situation.

USDA also announced the availability of \$200 million in credit guarantees under the GSM-102 program in connection with sales to Ukraine during fiscal 1993, of which \$70 million was made available in October 1992. Because Ukraine remains jointly and severally liable for the arrearages of the former Soviet Union, USDA has not made operational any of the remaining \$130 million in credit guarantees allocated for the FY 1993 GSM-102 credit guarantee program in connection with sales to Ukraine.

#### Export Enhancement Program

As it became clear that the credit guarantee program was no longer appropriate for many countries of the former Soviet Union, or capable of meeting the full demand of Russia and Ukraine, we began to look for other ways to maintain exports outside the GSM-102 program.

We have adapted our export subsidy programs to accommodate compensatory forms of trade -- barter, countertrade, offset arrangements, and escrow accounts.



These arrangements typically involve a party in a third country who purchases goods that the former Soviet Union wants to import and who is also willing to purchase goods exported from the former Soviet Union. The resources to finance the trade are in the third country, not in the countries of the former Soviet Union that are the ultimate destinations.

Since September, U.S. exporters have sold nearly 1.5 million metric tons of wheat to the former Soviet Union through third country buyers. This is equal to nearly 20 percent of all U.S. wheat exports to the former Soviet Union in fiscal 1992. Exporters have also sold 37 metric tons of milk powder. I would stress that this business is ongoing, albeit on a smaller scale, even while the availability of additional credit guarantees remains suspended.

#### The Future

The Administration is looking at all possible ways of supporting the Russian reform effort, and has indicated its determination to find ways to continue to export those U.S. agricultural commodities which Russia and the other FSU countries continue to import. The long range goal is to promote Russia's capability to remain a substantial commercial market for U.S. agriculture.

Since Russia's participation in the CCC credit guarantee program was suspended, the pace of U.S. exports to Russia has slowed dramatically. Secretary Espy has stressed that this administration places top priority on resolving the purchasing problems of Russia and Ukraine, so that we can resume shipments to these important customers.

The Secretary has stated that the Department is reviewing several options. The options under discussion include the following:

- o expanding the Food for Progress program for the sale of commodities on credit terms to the FSU.

- o utilizing the Public Law 480 Title I program for Russia and the rest of the FSU where concessional credit could be extended to the FSU on a large scale.

- o using barter as a means to assist the Russians and supplement other means of supplying commodities to Russia.

- o restarting GSM-102 credit guarantees.

- o using of other CCC credit programs, which also apply the creditworthiness criteria of the credit guarantee programs.

o Developing a special legislative authority, specifically related to the FSU's current situation.

USDA and other relevant agencies are reviewing the options and a decision will be made in the shortest possible time.

#### Key Factors

As we look at options, a key factor will be Russia's ability to pay today, in a year or two, and several years from now. This depends in a large degree on the outcome of a Paris Club rescheduling. The government of Russia and its creditors continue to work on a solution of the debt issue.

A Paris Club rescheduling is a key to Russia's future creditworthiness. Until this issue is resolved, until the debts are either rescheduled or repaid, the FSU is not eligible for further participation in the GSM 102 or 103 credit guarantee programs.

Russia's payment defaults have made it impossible at this time for USDA to extend any new credit guarantees under the GSM-102 credit guarantee program because of the creditworthiness requirements imposed by the 1990 FACT Act.

The expected Paris Club rescheduling may ease Russia's current liquidity crisis. However, the effect of such a rescheduling on USDA's assessment of Russia's readiness to resume participation in the GSM-102 export credit guarantee program has not been determined.

#### Immediate Steps

There are two things that we can do right away to help the former Soviet Union meet its food needs without knowing the terms of a Paris Club rescheduling agreement.

One step is to expedite food aid shipments. This has been done by accelerating the normal tendering process.

We are tendering for immediate delivery and booking vessels on the spot market. In addition, we have shortened the response period for bids from 10-14 days to seven.

The second involves a number of transactions to facilitate shipments of the \$260 million in connection with GSM-102 sales that have been registered, with respect to which the commodities have not been shipped. USDA stands by its commitments in regard to these transactions, and has signaled that they can move forward as soon as arrangements can be made by exporters, banks and buyers working out financial arrangements that are consistent with program regulations.

Mr. Chairman, I assure you that we place top priority on resolving the



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purchasing problems of Russia and Ukraine, so that we can resume shipments to these important customers.

But in the longer term, we want to help with the structural adjustment that will (1) make Russia and the other countries economically prosperous (2) return them to the status of cash customers.

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Testimony of Keith Severin  
Senior Associate, E. A. Jaenke & Associates

To The

Subcommittee on Foreign Agriculture and Hunger  
U.S. House of Representatives Committee on Agriculture

On

Russia -- U.S. Aid and Assistance in Food and Agriculture

March 30, 1993

Mr. Chairman, I greatly appreciate this opportunity to appear here today. I feel I have some thoughts and views concerning Russia and other states of the Former Soviet Union that could result in more effective assistance on our part, and at less cost. While food and agriculture are central to my comments, I will address broader issues which have a significant impact. This is essential, in my view, if I am to critique what has been done to promote U.S. agricultural products and aid agriculture in Russia. I understand that is my task.

(Given the highly charged political situation in Russia today and President Clinton's concern about it, it is logical that the thrust of these hearings will be on Russia. However, for a good understanding, Russia cannot be looked at entirely in isolation from several other members of the FSU. Whether recognized or not, a high degree of interdependence between the former Soviet Republics still exists and cooperation between them remains the most expedient way for many needs to be met, if for no other reason than geographic proximity.)

To begin with, I believe we can do better in assisting Russia and promoting our farm products there, and at the same time help them along the road toward democracy and a free market. Moreover, I believe we can do better with less money than we might think. All of this depends, however, on good and effective management and understanding on our side. I am hopeful this is the kind of leadership we Americans and the Russians will be seeing.

Generally speaking, the Russians do not need food aid. This is what they are saying. However, not all "hunger" is as we have been shown in Somalia. There is a way in which we can still help them in this general area of food aid, and that is with children who have been disadvantaged, and perhaps the elderly. If we were to target specifically these two parts of the population that are within "the safety net" and assure them complete health care packages - including the nutritional aspects - they require, we could then subtract that from the size of the grain they would otherwise be required to import. Theoretically, this would lessen the amount of credit or other concessions we might be asked for. (I realize this would likely affect wheat more than other grains, and that could have repercussions here, but it could well leave more financing available not only for livestock feed but the equipment they need so desperately in the livestock industry, as well as processing equipment.)

While a "Children's Assistance Program" as described above would be comparatively small, it would be terribly important to its recipients and their loved ones. It embodies several advantages, the main one of which is that it would address total health needs - immunizations, other pediatric necessities and nutrition. In addressing the totality of the situation for youngsters whose health might have been impaired by serious environmental pollution, we would be reminding the Russians that we Americans are still the same compassionate people who came to their help with Lend Lease during what they call The Great Patriotic War. In a subliminal way, and here we recall how the physical

stature of the Japanese has changed since American wheat began to be included in their diet about 40 years ago, we could accomplish some long term market development with those children in the Children's Assistance Program.

The cost of the "food" part of the program would be relatively small, but it would be an integral ingredient in a package which would come as close to assuring totally healthy children as possible. This package would be labor intensive in its application, however. Management, supervision and training would be critical. But if we care it could be done.

Enough knowledge already exists among specialists in our country to make the right approaches to the Russians and to initiate this program. Children's specialists and nutrition experts were among the many "survey teams" that visited Russia last year. Certainly the need for still another team of American experts "assessing the situation" is not called for.

Institutions, not only orphanages, but schools and kindergartens and day care centers (detsche sad) provide the sites where the program could be administered. And this could be a very important feature of the program - where it would be sited - because as individuals try their hand at private farming, or other types of private enterprise, they are cut off from the collective or state farm or factory and left to fend for themselves and their families. In rural area this is terribly important, because it is at the farm center where the school, the polyclinic and health care facilities are located. This subtle, yet very powerful, stranglehold by a farm chairman or director could not only be broken by the Children's Assistance Program package but not so subtly be used to help promote private endeavor. It is not hard to imagine how democracy and progress toward free markets could benefit.



In terms of numbers, perhaps the need for such a "Children's Assistance Program" might not be large, but its impact could be immense. Need for such a program exists in almost every one of the republics of the Former Soviet Union - certainly in Russia, Kazakhstan, Ukraine, Belorus and Turkmen. The literature is replete with stories about the ravages of industrial pollution and its effects on the youngsters, born and unborn, in the surrounding area.

I repeat and emphasize, opportunity for success(es) in a Children's Assistance Program is great, but it must be managed and administered with the utmost and thorough care. Also, that this program would probably be administered in far flung places in Russia has positive aspects, too. The current political situation makes regionalism look more definite and closer at hand. It would be to our advantage to have a solid, well-intended presence in every part of Russia.

Such a program could be undertaken entirely by the United States, and this would be good since it would help polish and bring back to life the image of America which I feel has been tarnished and undermined rather badly in the last year. The Russians and all the other former Soviets I have been with in the last year would far rather do business with Americans than anyone else! And, let us not forget that people there are no longer hostage to "the central press" or "radio Moscow." The average Russian citizen has as good an idea of what's going on in the world, and what we are saying and promising him, as the average American does. Let's have no more unfulfilled expectations, whether created intentionally or inadvertently.

The idea of a special package program for the children embodies a concept overlooked by every American businessman I have ever talked with who wants to do business in Russia. It must be taken as a given if one wants to do business there. It is an absolute essential in any investment. I am

referring to the sociological aspect of the package. Understandably, we would overlook this in a business deal because we look only at the market economics of an opportunity. Or, here we consider only the economics of the situation in doing business. But in Russia the social needs - housing, schools, health care, etc. - come into the equation. The importance of this was pointed out again recently when the Russian Deputy Prime Minister in charge of agriculture, Aleksandr Zaveryukha, whom I have known for about 10 years, was quoted in the press as saying it is essential that the government make good on its commitment that 15 percent of the budget for agriculture go to meet social needs.

Yes, the need to address social needs directly and in a financial way is foreign to American business. But when one considers even for a minute that the State provided everything - work, housing, education, health care, etc. - for the Russians as long as he can remember - and that he has no experience or means to provide for himself in these matters - it is only natural that he expect it today. We simply have to look at this as another and different aspect of doing business in Russia.

How should we approach doing business in Russia? Former Ambassador Robert Strauss told the audience at the National Press Club last fall, "Look for a fellow who shares the same values as you, and work with him." That's not an easy thing, especially if you don't know the country or the language or the people, but it makes sense. Dr. Logvin Overchuk, former Soviet and Russian Agricultural Attache here in Washington, asked the audience at an AID-sponsored conference, "How difficult is it to be successful to start a new business here in your own country where you know the language and the system and have all the information you need available to you?" Unfortunately, I did not detect a glimmer of appreciation or understanding of Dr. Overchuk's question in that

group which was meeting to consider the reports of teams that had been investigating needs for storing grain and potatoes.

American business ventures are progressing only slowly into the Russian market in large part because of political and economic uncertainty. This is understandable but altogether not bad, in my opinion, because it gives us a chance to learn more about Russia and the Russians. I would emphasize, they are not the only newcomers to today's world. Nonetheless, we could be doing better, at least on a small scale, using some of what I feel are misused funds allocated for some of the large and unsuited programs to guarantee investments. West European governments are backing their businessmen's ventures to an extent and in places that surprise even me. Some of these projects are relatively small, but effective. Some of our larger companies could do the same thing on their own, and without risking a great deal of capital, but being accustomed to thinking in huge terms and not being used to thinking in a "down-sized mode" the business goes to the Italian, Dutch or even Swiss.

Small-scale ventures in Russia would be attractive to small entrepreneurs here, if they knew about them and had a bit of help and direction from our government or some association. Hands-on expertise and business sense could go a long way in Russia if for no reason other than practicality and timely decision making. After seeing what the Russians needed and had that could be used in a project and what the likely payoff return and risks would be, the small entrepreneur would probably make the decision on the spot whether to proceed. This is over simplified, but the point is the time to make boardroom decisions could be avoided. This is not to say conservative approaches are not in order or the interests of shareholders are not to be protected. This is something the budding Russian businessman does not yet appreciate fully. Further, small-scale

ventures are best suited to the needs of the Russians and their financial capability, as well as their managerial ability.

One fallacy I have noted in American businessmen's approach to ventures in Russia is their singular focus. Perhaps this is acceptable here where supplies are more or less assured and where research indicates there is a market for the product. That cannot be taken for granted in Russia. An integrated approach seems best, with a good understanding of what is upstream and what the downstream looks like, too. In fact, the best successes I know of involve the package approach, not just simply selling a single product.

Besides providing some financial assurance to small businessmen interested in Russia's agriculture, I feel our government could provide valuable assistance by sending there two types of advisors from the private sector. Neither would have anything to sell. They would go to Russia only to offer themselves and their knowledge, experience and willingness to learn. Young people, young farmers like in the Young Farmer-to-Farmer bilateral exchange program that used to exist between the U.S. and USSR, would be one type. Retired farmers or retired extension agents would be the other kind of person who could lend invaluable help. Some of this is being broached by the Peace Corps, but more could be done in the way of targeting specific needs and regions. It is worth noting we have a special resource for programs such as this. In some farming communities here in America there are pockets of ethnic groups and nationalities who have first generation relatives in Russia who live in farming villages and with whom free and open contact is now possible.

U.S. agricultural interests are not being well served in most of the Former Soviet Union. They cannot be, for only our embassy in Moscow has an Office of Agricultural Affairs. The Baltic states



are served by our Agricultural Attache in Stockholm, and Moldova is served similarly out of Sofia. We are suffering from the lack of a full fledged, professional Agricultural Attache in each of our embassies located in the FSU. The needs are especially dire in Kiev for Ukraine and Alma Ata for Kazakhstan.

There are many crying needs for assistance in Russian agriculture, but none have been voiced more, and over the years, than for an extension service. "Tell me, explain to me, please, how does your extension system work? How is it financed? What does the farmer pay for the use he makes of it?" There has been no more universal or frequently posed question that I can recall in all of my years dealing with people concerned with agriculture in the FSU. One of the Deputy Ministers of Agriculture in Russia has been tasked with creating an extension service. They are serious about this and have been. I cannot say our record is very bright, in my opinion. Unfortunately, we take our own very successful agricultural extension service for granted and do not consider it terribly glamorous. We are envied because of it, nonetheless.

One of my main concerns is about the comment all of us have heard, "Russia is just another Third World country, but it has nuclear weapons." Clearly, the fact that Russia does possess such weapons makes it different from other countries with very serious economic difficulties. It is a huge country in many ways and we are used to thinking about it in terms of millions or hundreds of millions or billions. That picture - amplified by our own mentality - is behind why we and others have already spent so much, and pledged even more, where Russia is concerned.

There are many more and far reaching differences between Russia and other countries that we have ever attempted to help, and here I feel the United States could do better. In fact, I would go so far

as to say that in the past 12 - 14 months we have hurt ourselves and not really helped the Russians. Our mistakes have been costly in terms of money, time and image.

Who is to blame? While fingers can be pointed at one government agency or another, the blame ultimately must rest on our government. I do not pretend to know what our national policymakers had in mind regarding getting aid to Russia, but I can say it was less than effective. Besides being inordinately costly, some programs were duplicative and not suited to Russian circumstances. They were not staffed professionally and were managed without tangible results. Generally, the smaller, the more targeted the program is, and the more effective, possibly because a lower profile enables better and closer supervision, usually by individuals with some background and knowledge about Russia and the Russians, or who are at least sensitive to local circumstances. I can cite several instances where small, integrated efforts are being successful in Russia.

Too often, it seems to me, large scale projects have attracted contractors without expertise but primarily interested in profiting from the adventure. Of course, large disbursements quickly raise the total amount of "aid going to Russia." A certain amount of PR was always involved. Large projects can be effective, but they must be managed well and responsibly and carried through to completion.

Seemingly endless numbers of study groups, assessment teams and delegations have gone to Russia in the last year to find out what they need and how we can help the Russians. Many of these teams follow the same itinerary and ask the same questions, but they are funded by a different account. Clearly, the impression made on the Russians is not good. Their time is used answering questions they have come to believe will go unheeded. Expectations raised early, probably by the first

American investigative team, but almost surely going unfulfilled if for no other reason than the lack of coordination in Washington. It is embarrassing to hear, "Another team of Americans asking the same questions. You will go home and that will be the end of it." The almost utter lack of coordination of efforts and activities on our part has been costly. Top level interagency management has to be the blame. Without clear cut lines of responsibility and direction, duplication and ineffective coordination resulted.

I have attempted to point out opportunities we have to assist Russia and ourselves in mutual agricultural interests. I have tried to emphasize what I consider what we Americans have special to offer and what some of the pitfalls are that go along with these opportunities. The Russians look at us Americans as being special, we should take advantage of that and do nothing to belittle or disappoint them.

About my own background. I was born on a wheat farm in the Panhandle of Texas, and agriculture has been my career, beginning as dairy and experiment farm manager in American Samoa following my graduation from the University of California at Davis. After three years in the Army, I attended Stanford University where I earned a graduate degree at the Food Research Institute. From there I went to the U.S. Department of Agriculture. In November 1989, I retired from the Foreign Agricultural Service there and joined E. A. Jaenke & Associates where I am Senior Associate for Former Soviet Affairs.

My initial firsthand experience with the Russians came in 1963, when I was assigned to our embassy in Moscow as Agricultural Attache. At the time I was an analyst in the Foreign Regional Analysis Division of the Economic Research Service and worked for Dr. Lazar Volin, who was recognized

as our country's foremost specialist on Soviet agriculture. Following two years in Moscow, I returned to USDA, where I maintained my interest in Soviet agriculture while I was Chief of the Wheat Export Subsidy Branch in ASCS and Deputy Director of the Grain Division of the Export Marketing Service.

In 1974, under the terms of the U.S.-USSR bilateral agreement on agricultural exchanges, I led the first U.S. team to the Soviet Union to study the production of winter grain. Thereafter, I took agricultural study teams to the USSR annually, with the exception of 1977, until my retirement in 1989. Travel with these teams took me to almost every part of the USSR, and while they mainly dealt with different aspects of the grain industry, they included almost every facet of Soviet agriculture. Farms, experiment stations, research institutes and local, republic and national governmental offices and their personnel all came within my experiences. Many of the relationships, professional and personal, continue to the present.

In February 1992, Dr. Richard Crowder, the Under Secretary of Agriculture for International Affairs and Commodity Programs, requested me to return to USDA as his Special Assistant, to advise him on the Former Soviet Union. I served in that capacity for four months, during which time I traveled to the FSU three times, accompanying the Deputy Director of AID, Andrew Natsios and Ambassador Richard Armitage; and as a member of the site survey team for the Loaned Executives Program that was led by former Secretary Richard Lyng.

My last visit to the FSU was last August, when I accompanied two private businessmen who wanted to learn about the agriculture of Russia, Ukraine and Kazakhstan, and with the Dean Emeritus of

the College of Agriculture and Life Sciences of Virginia Tech. During Dean Nichols' visit, he concluded cooperative research agreements with four agricultural institutes in Russia.

My wife and I live on a farm in an agricultural community in Fauquier County, Virginia, where we have resided for 23 years.

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## CURRENT AGRICULTURAL SITUATION IN RUSSIA

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WEDNESDAY, MARCH 31, 1993

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER,  
COMMITTEE ON AGRICULTURE,  
*Washington, DC.*

The subcommittee met, pursuant to call, at 9:30 a.m., in room 1302, Longworth House Office Building, Hon. Timothy J. Penny (chairman of the subcommittee) presiding.

Present: Representatives Barlow, McKinney, Stenholm, and Al-  
lard.

Also present: Representative Roberts, ranking minority member of the committee, and Representatives Nussle and Dickey, members of the committee.

Staff present: Gary R. Mitchell, minority staff director; Glenda L. Temple, clerk; Jane Shey, Anita R. Brown, and Lynn Gallagher.

### OPENING STATEMENT OF HON. TIMOTHY J. PENNY, A REP- RESENTATIVE IN CONGRESS FROM THE STATE OF MIN- NESOTA

Mr. PENNY. The meeting will come to order. The Republican caucus of this subcommittee are meeting in an adjacent room. They should be joining us shortly. I intend to get things moving right on schedule, and over time I think as members understand that that is the mode of operation, we will do a better job of getting them here and holding them. I also try to adjourn on some type of schedule and we would hope within 2 hours, but certainly no later than noon we would wrap up today's hearing.

I try to do that as a convenience to all involved, both members and to witnesses so that we don't waste your time or our time with hearings that drag on throughout the day and result in too many people speaking to an empty audience or an empty rostrum.

This is the second of 3 days of hearings on the Russian agricultural situation. Yesterday we heard from Government officials as to the effectiveness of existing aid programs. Today we want to follow on with a continued discussion with experts in this regard.

Our first panel will include the Honorable Cooper Evans, a former Member of Congress and a former member of the Agriculture Committee, a good friend of mine, a neighbor to the south in Iowa. Cooper has been a board member and quite active in the development of the Volunteers in Overseas Cooperative Assistance program in Russia and the other Republics, as well as Eastern Europe.

We also call forward Professor Ted Gashler, associate dean, Northcentral Technical College, Wausau, Wisconsin and a VOCA volunteer. I have a bit of a bias regarding the worth of this program, given the fact that my former agricultural staffer manages this program in Moscow, but with that as a caveat or a label, as a warning to the audience, I do feel that this aid program has the potential of paying big dividends for both America and for the recipients on the Russian side, and with that as an introduction, I welcome you, Mr. Evans, to the subcommittee and ask you to summarize your remarks and we will proceed from here.

**STATEMENT OF COOPER EVANS, MEMBER, BOARD OF DIRECTORS, VOLUNTEERS IN OVERSEAS COOPERATIVE ASSISTANCE**

Mr. EVANS. Well, thank you very much, Mr. Chairman, it is indeed a pleasure to be back in this room, and I am delighted to have a chance to comment. In the 5 minutes available, I really want to touch lightly on three subjects. First, the realities of the situation. Second, what I think the prospects are, and third, some suggestions that might improve the effectiveness of the program.

I think it is very important to understand the realities, and to me one of the most important of those is that on those farms in the former Soviet Union, there is a great excess of people. We have perhaps 5 million people residing on our farms. There are like 35 million on their farms. Eighty percent of the people would have to find other employment or other roles in life if they were to convert to our form of agriculture. Clearly that is not going to happen overnight.

The second point I think is a comparable social issue, and that is the fact that their farms are not like our farms. Their farms are communities that provide a wide range of social support to all of their members. And including support of the elderly, and so when you talk about making radical changes or leaving the farm, it is a bit like saying, hey, let's do away with Social Security and Medicare. It is an extremely emotional issue.

The third point I would make, in reality is the curse of specialization. A very high percentage of people on those farms are highly specialized in tasks that have nothing to do with management or finance, and so when you say to those people, let's go out and farm on our own, it is truly a terrifying thought. I think one also has to note that there is no history of risk-taking in the Soviet Union, even before the Communist days.

I think one has to note the absence of appropriate laws to support private agriculture, even the matter of what ownership of land means is not at all well defined.

Finally, banks and credit, well understood that that is a problem and I go into that at some length in my written testimony. The point I am making is that solutions have to address these realities or they are not real solutions, particularly the social realities.

The good news is that in spite of all of this, 1 percent of the people have made the change. There are a number of farms that have made the change totally, the whole organization. Who are these people? Most of the people who have made the change are professionals. They are not the workers. I think the prospects then are

that it is going to take many years for a transformation. I think the prospects are, however, that market principles will prevail.

The final point I would make on that is that their final solutions to this problem are going to bear little resemblance to the structure of agriculture in this country, at least for quite some time. What to do to improve the program? To me, the most effective thing we can do is provide some linkage between technical assistance and capital. It is very easy to give them the technical assistance. They will accept it. They will believe it, they would like to act, but then they got the problem, how do you get it going unless you have some capital?

We had a program in Poland that did that. There is no time to go into the details of it here, it was very successful in Poland and I would strongly recommend that for the NIS. I think if you want to get the most bang for very few bucks, I think the best way to do that is by distributing extension materials. You can get 10,000 copies of a pamphlet on grain storage, for example, 24-page pamphlet reproduced in the Soviet Union for \$400. They are essentially free. The network exists to distribute these, several networks.

The farmers' organizations, the command structure of Soviet agriculture is still in place down to the county level. They are wondering what to do. They are searching for new roles. It could be used extremely effectively.

I think a third point, we need to rethink the concepts of model farms. The typical model farm that we come up with often is quite irrelevant and more of a curiosity than anything else and to a great extent, unattainable by most of the peasants and it is something that does not really address the social problems that have to be solved as part of the new model.

I think what we need to do, Mr. Chairman, is work with indigenous model farms, the real success stories, and make sure that they succeed and that is the better line to giving them demonstrations.

Thank you for the opportunity to testify. I would like to have my written testimony in the record and will answer any questions later.

[The prepared statement of Mr. Evans appears at the conclusion of the hearing.]

Mr. PENNY. Without objection, your written testimony will be included in the record, and I appreciate the summary which you have provided which does hit on all the main topics in your written testimony in a very cogent fashion. We appreciate that.

We will move to the professor next and then have questions for each of you. Professor Gashler.

**STATEMENT OF TED GASHLER, ASSOCIATE DEAN, TRADE & INDUSTRY DIVISION, NORTHCENTRAL TECHNICAL COLLEGE, WAUSAU, WI**

Mr. GASHLER. I appreciate the opportunity, Mr. Chairman, to address this committee today and talk about my experiences as a VOCA volunteer in Russia and what I found works and what does not work in United States assistance to Russia. My name is Ted Gashler. I am associate dean at Northcentral Technical College in Wausau, Wisconsin.



I am also a sheep farmer. I am very grateful to have the opportunity to go on many VOCA assignments in countries ranging from Poland to Kazakhstan. I have had the opportunity to work on different projects from developing the first private meat processing plant in Poland that is privately owned, to working with groups from Russia, Ukraine, Belarus, and Poland to trade wool for tractors.

I have also worked with other organizations that are financed under the AID program, including the Cochran Fellowship Foundation, Communicating for Agriculture, ACIDI, and Georgetown University. Last summer under the auspices of VOCA, I had the opportunity to work and live with the new private farmers in the Ivanovo region of Russia. There are approximately 200,000 private farmers in Russia with 2.4 workers per farm for a total of 480,000 private farmers and more than 1 million people living on these private farms in Russia.

Many of the new private farmers came from state and collective farm systems and a lot of them are specialists in various agricultural areas with management expertise in farming. Many farmers, both private and state farms, told me the food that America sends to Russia is making things worse for Russian farmers, and ultimately it will affect all of Russia, as farmers are not receiving prices high enough to provide a profit.

They said as long as Russian leaders know the United States of America will furnish cheap food, this situation will continue. Several top Russian agricultural officials in Moscow told me this policy will eventually hurt everyone in Russia. Large state farms are now producing less because there is no profit incentive and thus are less rubles to purchase all other consumable goods.

Business and industry will eventually feel the squeeze and this will mean fewer jobs. They asked me, a farmer myself, "how American farmers would like it if Australia or New Zealand or another country would ship milk and meats to the United States at prices lower than American farmers can produce it?" I had to admit I did not appreciate the competition any more than they do.

But on the bright side, private farmers are becoming more important in furnishing the Russian food supply. In 1992, it is estimated that private farmers produced 10 percent of the bread wheat in the country and on only 3 percent of the land. Private farms and gardeners are producing over half of the fruit and vegetables in Russia, including 60 to 70 percent of the potatoes. This shows again that production and efficiency increase with independent farmers.

I am a Wisconsin sheep farmer. I see a lot of similarity between Russia and a baby lamb born in a January snowstorm in northern Wisconsin. If the shepherd chooses to go out in the cold to bring in the newborn baby lamb where it is protected from the storm, dries it off, warms it up, gives it some life-giving colostrum and then shows the lamb how to find its mother's milk, the lamb will survive and grow and become a healthy productive member of the flock.

If the shepherd chooses to stay in the warm house, rationalizing that he has other things to worry about and leaves the mother and natural consequences to take care of the situation, there is a 90

percent chance the shepherd will find the lamb dead in the morning.

As Americans, we now have the very short window of opportunity. We have to make a choice. Are we going to help this newborn Russian farmer survive? Are we going to help sustain their new democratic form of Government or are we going to stay in our warm houses and let nature take its course, and watch democracy die and witness dictatorial government return to Russia?

Recently President Clinton said: "If we are willing to spend trillions of dollars to insure Communist defeat in the cold war, certainly we should be willing to invest in a tiny fraction of that to support democracy's success where communism failed. This Wisconsin shepherd agrees.

In my report, I have various means of overcoming this situation and I would like that to be recorded. Also in my conclusion, I would like to state this: Russian agriculture has the following needs: We must continue to support VOCA and Cochran; continue to support and advance the farmer-owned cooperative movement in all areas of Russian agriculture; insure that all commodities sent to Russia are noncompetitive with Russian supplies; establish a replica of the successful United States/Poland Joint Commission for Humanitarian Assistance whereby the sale of United States commodities, if they are going to be sent to Russia, will fund the financing of small- and medium-sized food processing plants owned by private farmers and farmer associations; create a Russian/American extension service; provide aid on evidence of democratic self-government, not on the basis of Russia meeting immediate economic conditions imposed by the West; earmark special funds for private farmers and businessmen; and develop a foundation that can provide small loans on current U.S. rates of interest to private farmers and small business people that have successfully completed an apprenticeship-type of training program in the United States under the direction of a mentor.

I know what I am asking for is difficult, but it can be accomplished. The impossible may take a little longer.

Thank you.

[The prepared statement of Mr. Gashler appears at the conclusion of the hearing.]

Mr. PENNY. Thank you, professor.

Before I proceed to questions and then begin to call on the subcommittee members for questions they might have, I want to defer to the ranking Republican on the full committee, Mr. Roberts.

#### **OPENING STATEMENT OF HON. PAT ROBERTS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS**

Mr. ROBERTS. I beg the indulgence of my colleagues, and I apologize for coming in late. The only thing that I wanted to do is to make a personal appearance to give my personal best wishes and welcome and thanks to a former member of our committee, Mr. Evans. We have been meeting with Mr. Evans. We—that is Mr. Smith of Oregon and myself—over a period of time to see what we could accomplish in regard to the former Soviet Union situation in



Russia that would be a benefit not only to their agriculture, but our agriculture as well.

And I wanted to thank Cooper for his patience, his diligence, and his perseverance. I don't know of anybody who is more committed to these goals or anybody who has been more helpful to them. So thank you, Coop, we miss you on the committee, but I think you are providing an equally valuable service in your current position. And so it is with some degree of affectionate admiration that I want to welcome Mr. Evans back to the scene of the crime in this subcommittee room. There were many long days when we considered Mr. Evans' amendments to the farm bill, most of which if we had the good wisdom to pass, were a benefit to farmers not only in Iowa, but in Kansas and all over the country.

So anyway, thank you, sir, for coming back.

Mr. NUSSLE. Would the gentleman yield?

Mr. ROBERTS. I would be delighted to yield.

Mr. NUSSLE. I too would add my welcome to my constituent now whose shoes I have tried to fill in the new reconfigured Iowa's Second District and it is a proud day to have you here to have the opportunity to get some wisdom on this particular issue. I, luckily, Mr. Chairman, have the opportunity later on to visit with Cooper Evans privately where maybe he can hit me over the head and let me know what really is going on over there and I am looking forward to that as well. So with that, I would yield back.

Thank you.

Mr. PENNY. Thank you. Cooper, both you and Professor Gashler spoke of the need to establish some kind of extension program on the ground in Russia. How would you go about doing that? Who do we work through to provide that information? How would that be staffed?

Mr. EVANS. I think it could be done with essentially no new organization or staff. I mean, it is mostly a matter of selecting appropriate documents that are available now in our Extension Service, editing them slightly, getting them translated, and then getting them reproduced in Russia where they can be reproduced at essentially no cost, very, very low cost. 10,000 copies for \$400, boy, you can get a lot of material out.

The distribution system exists. It exists through their farmers' organization at a national level all the way down to the county level. They would love to have documents to distribute. They can be distributed by volunteers in the farmer-to-farmer program very easily, but the biggest network that exists is the old command structure of Soviet agriculture. It is still in place. The command function is gone. Even though those district offices, that I am familiar with, they are wondering what in the world we can do to be useful, and I think, one, by just making the materials available might start the process of a natural evolution of a new Rome for some of these offices and these people that they can't really let go and are sitting there twiddling their thumbs in large measure.

So most any organization that is now in Russia could implement this program at very little cost. VOCA could do it. Others could do it. It is not a problem. A modest amount of money as a pilot effort in 6 months time, would be very interesting to see what might occur.

Mr. PENNY. You mention that the farmer organization is evident in every region of the country.

Mr. EVANS. Yes.

Mr. PENNY. Is that an organization that represents only the emerging private sector farmers or is that a long-established organization for the farm constituency?

Mr. EVANS. No, my reference really was to Russia and to an organization called AKKOR. It is a national farmers' organization that sprung up just spontaneously over the last several years. It has roughly 200,000 members, maybe that is a bit high, but that—essentially all of the private farmers in the Soviet Union are members of AKKOR.

Now, you know farmers and I know farmers and they don't always agree and it is not the smoothest running organization in the world, but the network exists and there would be no disagreement on the matter of distributing documents to the private farmers.

Mr. PENNY. In your testimony you also mentioned that aside from these farmers that are setting out on their own in somewhat the American model or the small—at least the original American model, a small-scale diversified farm operation, that there is some degree of—pardon me if I don't phrase this correctly—some degree of individualization or privatization that is going on even on the corporate—or even at the corporate farm, the collective farms?

Mr. EVANS. Yes, and I think this is of great interest and should be given a lot of attention. Here and there there will be an occasional mass conversion, if you will, of a whole operation. I will give you what I think is one of the best examples, if I may take a minute to do this.

Mr. PENNY. Please do.

Mr. EVANS. Something more than a year ago, we had a seminar in Yalta for people from all over the Soviet Union who were interested in this sort of thing. There was attending that meeting a state farm director chairman who was looking for new ideas on what he ought to do to make these adjustments. He listened, he went home to Moldova and he has come up with the neatest example of an indigenous model farm that I have seen.

The property was distributed to each and every member. Their income was dependent on what that plot produced or what rentals came from that plot if it was rented. The central facilities and the tractors were put in a cooperative that was managed for the benefit of all of these individuals. He went to the most successful bank in the country in Moldova, said I want a branch bank on this farm. The bank came. The bank does all the bookkeeping. There is an account for every one of these farmers.

When the income from the sales are in, it is deposited in their accounts. It is a terrific example. He had 600 people last year. The income of those people was  $1\frac{1}{2}$  to 2 times the income that had previously gone to an individual. This year he thinks he will have 900 people. That is the kind of a model farm that I think we need to really push and make sure that it has the support to succeed.

Mr. PENNY. It really takes a cooperative model a couple steps further than we have ever gone in this country in terms of actually sharing the equipment and the rest.

Mr. EVANS. Exactly.

Mr. PENNY. I mean, in terms of the financing, that is a similar pattern in terms of American agricultural co-ops providing financing and other inputs. But the sharing of the equipment and the rest is—

Mr. EVANS. If I may add one point, Mr. Chairman. I think the point of greatest importance about this is that the solution addresses the social problems and solves the social problems.

Mr. PENNY. It allows them to stay in a collective environment in which they share the other social securities.

Mr. EVANS. Exactly, yes.

Mr. PENNY. And at less individual risk than they might be if they were out on their own?

Mr. EVANS. Yes.

Mr. PENNY. I appreciate your observations in that regard.

Mr. Allard.

Mr. ALLARD. Thank you, Mr. Chairman. I was curious, on your recent trip to the former Soviet Union, what were you expecting to find when you went there and then when you got there, what was it that you saw that perhaps was different from what you expected to find?

Mr. EVANS. I have been in the Soviet Union many times. I am not really sure how many times, but this last trip had a special function in that we had just been told that we could begin to work in Belarus and in Moldova, and on several occasions I have done this for VOCA, to go into the country when we are just beginning the program to get acquainted with the Government officials, to travel around the country, to try to identify groups of private farmers that would like to look at us, to look at an industry that might be interested in working with us, and so that is what I was doing.

I found in both instances things of—where we could do a lot of good. The governments in both countries were most receptive and interested in a VOCA-type cooperation. I will give you one example, in Belarus, that I think is quite interesting and that is, they want very much for someone to come and work with them there on what they should do with the lands that have been contaminated by the Chernobyl disaster.

They would like to be able to use that land that can be farmed safely but the products can't be eaten or used for livestock food. So we are starting a project there to look at the production of oilseeds for the production of diesel fuel, for example, the production of sweet sorghum for the manufacture of ethanol fuels, and we are going to have some test spots out this year to see what the uptake of radiation is, whether radiation ends in the plant and we will go on from there.

The example of the farm that I gave the chairman a moment ago was in Moldova and was also uncovered on this trip.

Mr. ALLARD. I am glad you brought up the issue on some of the alternatives that they have for their farm products. That brings us into the area of how technically trained are some of the agriculturalists that we have over in Russia. I am a veterinarian by background, so when I think of somebody as technically trained, I think, well, who do we have over there that is qualified to do artificial insemination and embryo transplants and that kind of thing which has helped make our—and you brought up a couple exam-



ples—which has made our agriculturalists very productive in this area.

Are they trained and are they ready to take on that type of technology?

Mr. EVANS. I defer to my colleague.

Mr. GASHLER. I was very impressed with the technology training and background these people have. That was one of the things that surprised me on my first trip to the former Soviet Union. I found that many of the private farmers, especially the ones who had the knowledge, the background, were the leaders in the former state farms.

One that I worked with is a veterinarian, his wife is also a veterinarian. He was a very intelligent man, a leader among the people, he had developed a fox farm, a no-cost fox farm that generates a good profit.

Now, this guy is a mover. He goes to the state farm where he was formerly employed, picks up the dead animals, and feeds them to his fox. He has 300 female fox, and is selling the fox for \$60 to \$90 apiece. He is making it happen, a very intelligent man. I was impressed with him.

I was impressed with many more of the people, and the knowledge they have.

Mr. ALLARD. Thank you. It seems to me about a year ago or 9 months or so, at least last year, I was involved in a discussion group, and I can't recall whether it was here in a formal setting in the Congress or where, but the issue was brought up that there are areas of the Soviet Union where there are surpluses. The problem is getting it to the urban areas.

In your visits there, have you found that to be true? Do we have pockets where there are surpluses of agricultural commodities?

Mr. EVANS. I don't think there is any question about it. I mean, the distribution and the storage problems are at the heart of the food problems of the former Soviet Union, and to a considerable extent, the great markets that we had for several years were reflections of that. It was simpler and cheaper and more of a solvable problem to buy the stuff here than it was to go to Moscow and St. Petersburg than to get it collected from the farms and organized and through all of the channels to those people.

So it is very much a part of the problem and this is something that they are going to have to work on and that we can help them on, the distribution processing marketing side. We are trying to do that.

Mr. ALLARD. Is it your feeling that is an area where we can be most helpful? How would you rate it in priorities in being able to help?

Mr. EVANS. I think one of the most important, but you have to understand how we work. We go into an area and find a group of farmers and say, hey, what are you interested in, what are your goals, what would you like to do, and we don't try to force goals on them. Very often it is this marketing and distribution, they recognize it is a need, and they say, we would like some help on how we form a marketing cooperative along the patterns that you have in the United States. But this is a common request.



Mr. ALLARD. Just one more question, if I might, Mr. Chairman. I am curious as to how you select your farmers from this area to go over there and to be representatives of the United States.

Mr. EVANS. Well, we try very carefully to match the individual to the request. We get a request in writing from these people, a mission statement is drawn up, and then we begin to recruit, and we literally recruit all over this country. And we have a big computer base of farmers who are willing to go and we are recruiting new people every day, and there is a great search to match the request to exactly the kind of person that can best serve that need, and we try to get older people usually with a lot of experience that have been successful in the specific field that they are inquiring about.

Mr. ALLARD. Thank you very much for your frank responses to my questions. I appreciate that.

Mr. PENNY. Ms. McKinney, any questions?

Ms. MCKINNEY. No, Mr. Chairman.

Mr. PENNY. Mr. Nussle.

Mr. NUSSLE. I will pass. Go ahead.

Mr. PENNY. Mr. Stenholm.

Mr. STENHOLM. First Mr. Gashler, in reading your testimony, sorry for missing it, and Cooper I welcome you back to the committee.

Mr. EVANS. Thank you.

Mr. STENHOLM. I am curious of the dilemma that we constantly face. You point out that many in Russian agriculture observe that the aid we are giving are destroying their farmers.

Mr. GASHLER. That is correct.

Mr. STENHOLM. And yet our farm policy is designed to produce the wheat that the Russian market needs. So what do we do? Do we stop producing the wheat for the Russian market because we are destroying their market or do we produce the wheat and then debate whether or not it is good for the people that we are, in fact, trying to help?

You get into it, and I am not sure there is an answer to the question.

Mr. GASHLER. Briefly the question was asked, what was one of the things that we were most surprised at. One of the things that I was most surprised at was that the—there is not the shortages that we see on television. The bread lines that we see commonly are because bread is made in one little factory and it is only sold at certain times of the day and to get it, they have to stand in line. It isn't because there is a shortage.

Now, there is not a shortage of grain over there. In some commodities there are shortages, and where there are shortages, let's help them. Let's provide it. But I am saying we are going in competition with them. As a farmer myself, a few years ago we had Australia dump a bunch of lamb on us. That didn't make me happy. It doesn't make them happy to have a bunch of grain dumped on them and for us to go in direct competition with their farmers either, private or state.

Now, what can we do with the grain? I am saying there are plenty of countries that do need it from Bangladesh to Somalia. Let's provide it where needed, and let's use the grain that we have here

for something that will do a lot more good than sending it there. Let's use it for ethanol production, start burning more ethanol. It will be better for the environment, it will help our cars last longer, and it will help the American farmer.

There is one ethanol plant that is trying to start up in Minnesota right now that will take 6 million bushels of corn right away and they will build it up to 12 million bushels. They just need a little prodding and they are ready to go. Another one is in the State of Iowa that will take 20 million bushels.

Besides that, we can put this corn into sweeteners and other types of alcohol and other things. This is where it will do the most good.

Mr. STENHOLM. At what price must the alcohol be priced in order to be profitable and at what price is the return to the corn farmer and the wheat producer for the conversion in your figures?

Mr. GASHLER. The price of the ethanol will be higher than gasoline, yes.

Mr. STENHOLM. How much?

Mr. GASHLER. I am not sure.

Mr. STENHOLM. That is the problem. That is the problem with those scenarios. Let me ask you both one other question. You both have been to the Soviet Union and a question that was asked earlier today on a political sense, should the United States, perhaps on an interparliamentary exchange, and I guess that is the way I ask the question, even though we have healthy suspicions about the current Soviet or Russian Parliament, the makeup there of whether they are democratically elected or not, should we or should we not make extraordinary efforts of communication with them whether or not we like them or not, Parliament to Parliament?

Mr. EVANS. I think very definitely you should. They are in a situation where they are devoting much of their time to broad political issues rather than the specific things relating to agriculture that they probably ought to address. But I have had a number of meetings with the chairman of the agriculture committee, if you will, of their Parliament. He has great interest in things that we understand very well. He has great interest in our laws that do not exist there, not that they are necessarily going to copy our laws, but to get some insights as to how we approach these problems.

I'll give you one good example. He went to his desk and took out a book. You know what it was, it was a copy of the commercial code of the State of Iowa, and there is no body of commercial law over there, a great interest in how you solve these things. The extent to which they would respond, I don't know, but I think it would be very well worth pursuing.

Mr. STENHOLM. Might I have one follow-up? Is there a potential downside with the Russian people? For example, if we are trying to promote democratic action, free ownership of land, private enterprise, is there a potential downside if we are perceived to be cozying up to the old-line Communist-dictated government? Is there a downside or is it worth the risk?

Mr. EVANS. I think it is worth the risk. There is such a thing as conversion, and I think we probably ought to work on that.

Mr. STENHOLM. Thank you.

Mr. PENNY. Mr. Barlow.

Mr. BARLOW. Thank you, Mr. Chairman. Congressman Evans, it is an honor to see you here today. I appeared before you back in 1970's and I always respected your judgment, your questions, and your patience. You were always at the subcommittee hearings even when it was just you and the chairman of the subcommittee. I want to pay homage to you, sir.

I have a couple of questions for you all. Generally, the theme that is being developed now—and it is an understandable theme—in our agricultural relations with Russia, is that we are in some fashion wanting to—and it is understandable, very understandable—tie our credit and our export policy to disarmament. That is very understandable because of the cold war but I am nevertheless a little bit concerned.

I too want to see both sides disarm, but if we tie agricultural trade too much to disarmament, there might be a reaction on the Russian side saying in effect, as we might in Kentucky, “keep your grain.” We might see or be feeding, if we insist on too much linkage, a resurgence of militarism. Would you have any comment on that?

Mr. EVANS. I think there can be too much linkage and I think you could generate a backlash if you pushed too hard, particularly among the members of the current parliament. I think you can have linkage on some things.

You need to have linkage in some areas, but I think you can get lots of leverage, adequate leverage, for the disarmament without bringing food or agriculture into that linkage, and that those are two things that should not be involved in those sorts of disputes regarding disarmament.

Mr. BARLOW. One other question. Do you think that we might keep in mind our own history in our dealings with Russia? It took us a number of years back in the 1700's to go from the Declaration of Independence to become a constitutional nation. Perhaps because of the instant television coverage we get, we might be expecting too much.

Constitutional government is built from the ground up.

Mr. EVANS. I agree with you totally.

Mr. GASHLER. Yes, I think we are expecting too much too early, and I think that we have to provide help and reward advances in democratic self-government. That is where we have to reward them, in a democratic self-government.

Mr. BARLOW. Thank you, sir. One more question, Mr. Chairman. Is there any opportunity for exchanging ideas and technologies in conservation, soil conservation, water resource conservation, pollution of various areas? I think this is an area that we can develop, don't you?

Mr. EVANS. Well, there is no question, and lots of people can do that and one of the very first requests that I had when I went to those people in the Soviet Academy of Sciences several years ago, they had been asked to come up with ideas on soil conservation strategies for the Soviet Union.

So I came back and sent them all of our laws and handbooks and so forth, but there is great interest in that. Many people can do it. VOCA participates in it. The environmental side of things is some-



thing that we are adding a lot more emphasis on because of their interest in this subject.

Mr. BARLOW. Do you think our food aid could be developed in conjunction with soil conservation outreach?

Mr. EVANS. You mean a linkage between the two?

Mr. BARLOW. Not linkage so much as the two of them going hand-in-hand.

Mr. EVANS. I think that there are many things that we can do over there, and we can do a lot of them through technical assistance, and as I say in my testimony, I think there needs to be a linkage between that and some capital, and the food assistance is one way to provide the capital like we did in Poland and that worked very well.

Mr. BARLOW. Thank you, sir. Thank you, Mr. Chairman.

Mr. PENNY. Cooper, you didn't respond to Mr. Stenholm's question about food or grain sales to Russia and whether that impedes indigenous production within Russia and the other Republics? What is your sense of the appropriate policy of the United States—

Mr. EVANS. I think it could. You know, under the Communist system, there weren't any complaints like this. There were no complaints. It doesn't take you—you don't have to be a private farmer very long before you become sensitive to imports, right? We understand that extremely well, and, no, I don't think we have done any great damage particularly in the last several years or—but there is a feeling of resentment if we overdo it and we just got to be kind of careful, I think.

Mr. PENNY. How do you feel about the alternate approach of monetizing commodities in the local market? The argument has been made that we could better target our food distribution if we were to essentially take finished products into local regions where there is a demand for that particular good, whether it is a processed meat or dairy products or flour, whatever it might be, and then use the money, locally monetize it, use the money locally to support some of these agricultural reforms or other free market reforms.

Mr. EVANS. I think there is a lot of merit in that. The people that need to be targeted, if you are going to target of course, are the elderly, the retired, and those on fixed incomes. They find it very hard to meet the rising costs of food. Of course it is not easy to target those people. It is not easy to get—it is a tremendous administrative task to do that and so I am not sure of the feasibility of it.

But the idea of monetizing it in modest amounts at least and using it for seed capital, we very strongly support.

Mr. PENNY. To the point of targeting the aid, Keith Severin suggested to us yesterday that we—the most effective way in his judgment to target food assistance would be sort of an international WIC program where we take certain commodities and distribute them at the elementary school and day care center levels, that you have a distribution point and it is highly targeted on vulnerable families.

Is that a more manageable approach? Because I know the structure over there is problematic. Is this an approach that might be workable?



Mr. EVANS. I am not really competent to give you advice on that, Mr. Chairman—my intuition, I think that would be a better approach than some, but there are probably others here today that can give you a better answer than I can.

Mr. PENNY. Professor, do you have a reaction to that?

Mr. GASHLER. I have a 15-year-old daughter going to school in Ivanovo. She is attending college in Russia right now. I asked her what the food situation was like in the schools there? She said the college she is at has adequate food.

It is not the best tasting she says, but it is adequate, but the one thing she does miss is milk. Now, if there was a way to get milk there, I think it would help a lot of dairy farmers in this country and not too many dairy farmers would be hurt in that country at this time.

Mr. PENNY. Land O'Lakes is on our next panel.

Mr. STENHOLM. Mr. Chairman.

Mr. PENNY. Mr. Stenholm.

Mr. STENHOLM. It appears that there is one area that there is a great amount of similarity between our two countries, in the quality and definition of the school lunchroom program.

Mr. PENNY. I don't know of any kids that like the food, but I have been to Russia and I know what she is complaining about. Cooper, do you envision this AKKOR—is that the way you pronounce it, A-K-K-O-R, as being the engine for the development of a cooperative farm structure within Russia? Is that our best—

Mr. EVANS. It is certainly one. I will just say to you, Mr. Chairman, that frequently the groups that we work where local AKKOR groups, they form this association, they get together, they talk, they lay out their goals, they ask us for assistance and we often say to them, hey, you need to form a cooperative to do this, whatever it is they are thinking about doing.

So we have developed a very close working relationship with the AKKOR groups at the local level, not so close at the national level, but these are key players in the evolution of the private sector, no question about it.

Mr. PENNY. And how do you feel about the size of the VOCA effort? It is, I think, slated for about 1,700 farmers over the next 3 years. Given all that we would like to do, all that needs to be done, are we in there with a large enough contingent to make a difference? Could AID and VOCA do more if we made the resource available?

Mr. EVANS. Let us respond to your office in writing on that one right away.

Mr. PENNY. I mean, it just seems to me that while we are in the first months of an involvement, this seems to have been the type of assistance that is the most well received. I don't want to overtax the capacity of AID or VOCA to deliver efficiently the service, but by the same token, we are talking about a huge country with 12 Republics and 1,700 farmers on the ground or other agricultural experts on the ground is helpful in some degree, but it still leaves us a long ways from where we need to go.

Mr. EVANS. Exactly. We will get you something directly.

Mr. PENNY. My last question is whether—and you may not be prepared to answer this, but getting back to the Extension Service,

could that be a VOCA project? Would AID or does AID have the authority now to fund that kind of a project?

Mr. EVANS. Yes, it could be a VOCA project, and I think that they could, but you would best ask them also. I will say to you, Mr. Chairman, that we have begun a small pilot venture along these lines ourselves based on present authority and I think that it fits quite well, and we would like to see strong support for expanding that kind of a program and I think it could be very productive for an extremely small amount of money.

Mr. PENNY. I saw Don whispering in your ear. I thought maybe he was—

Mr. EVANS. He wanted me to make a point, which I will, that this sort of thing has worked very well in Poland, yes.

Mr. PENNY. I do appreciate your testimony this morning. It has been quite helpful and I appreciate your willingness to be a volunteer in so many ways over the years, Professor, and Cooper, for your leadership particularly in this VOCA effort in the former Soviet Republics.

We are quite excited about the work that you are involved in and wish you continued success. It is tough to measure success in this Russian system, but I think progress is being made.

Do you have any concluding remarks, Mr. Allard?

Mr. ALLARD. No, I don't, Mr. Chairman, except to thank both of you for bringing your perspectives to this subcommittee. It will be very valuable us to.

Thank you.

Mr. PENNY. I thank you again.

Our next panel consists of Ms. Martha Cashman, vice president, international development division, Land O'Lakes, Dr. Stanley Johnson, director, center for agriculture and rural development, Iowa State University, and Mr. Burton Joseph, president of Joseph Companies in Minneapolis, Minnesota.

We would ask that you testify in the order that I have introduced you. Our desire is to have you submit your written testimony for the record and to summarize as best you can the highlights of your remarks and then we will proceed to questions. Ms. Cashman.

#### **STATEMENT OF MARTHA CASHMAN, VICE PRESIDENT, INTERNATIONAL DEVELOPMENT DIVISION, LAND O'LAKES, INC.**

Ms. CASHMAN. Mr. Chairman and members of the committee, I would like to thank you for the opportunity to reflect on the future of private agriculture in Russia and the role that we are playing to provide private farms with technical assistance, training and moral support. But specifically, Mr. Chairman, I would also like to thank you for attending a Land O'Lakes annual meeting in February and your attendance was especially appreciated by Dr. Bosmasnokov and the Russian delegation from AKKOR that attended the annual meeting. And I would like to tell you that the international development breakout session, which essentially focused on Russian agriculture, was the single largest attended breakout session of the annual meeting with over 800 farmer members of Land O'Lakes attending that particular session.

And just as a side note, I would also like to say that I am also very proud to be here as somebody that was born and raised in

your district, from Watonwan, Minnesota. There are many Cashmans, in fact we were debating that there were probably more Cashmans per square inch and still counting in southern Minnesota than perhaps anywhere else in the United States, short of—well, actually outside of Cork, Ireland.

At any rate, my testimony covers three subjects. First, some general background on Land O'Lakes and its international programs, second, our involvement in supporting private Russian agriculture, and third, observations and recommendations to the United States assistance programs to Russia. I would like to enter my written testimony in the record and then just talk a little bit about—summarizing my testimony and also making some comments based on the previous testimonies.

Land O'Lakes is very fortunate to have been involved in Russia for the last 6 years. We were with Dr. Bosmasnokov at the establishment of the AKKOR private farmers' association 2 years ago, and Land O'Lakes actually got started in—actually in 1989 and it was specifically at the request of President Yeltsin. During the August coup, President Yeltsin, when he stood atop the Bryansk and was talking about reform in Russian agriculture, used the Land O'Lakes program or efforts as the centerpiece for agrarian reform and reform of the state cooperative movements.

So we have been working out there for a number of years, long before Russia was the place to be and the thing to be doing. We have been working on issues of civic participation based on the grassroots organization of cooperatives and using that as the basis of a civic society that is involved in governance and business issues.

I listened to Cooper Evans talking about the model farm concept, and I would have to agree with his concept that the historical model farms that have been used in Russia only tend to highlight the disparities between Russian agriculture today and Western agriculture. And I think that the model farm consent is something that really needs to be examined and rethought.

The Land O'Lakes approach to this whole issue has not been to set up a Land O'Lakes member-type farm in Russia. It has been working with private farmers, the individuals who were considered only a few years ago as dissidents within the agricultural movement, and really strengthening their abilities to exist outside the state system. We have been working very much with the private farmers as far as not over capitalizing their farm operations early on, that there are other ways to improve production in the processing of their materials.

We have decided that there really—if you watch the news and so forth, that there is an urban versus rural politics, and what happens in the cities is not at all reflected as to what is really going on in the countryside. There is an intense desire to emulate the American model in agriculture. There is an intense desire to join with the United States and really, as the Russians have told me, it is a question of dignity and national pride.

Russia was once considered a superpower and now they feel like the equivalent of the United States homeless. They are very concerned about who their partners are in the future and seek out



American businesses that are willing to make a long-term commitment to reform in their country.

The issue regarding grain exports or be it dairy products, grain, whatever the commodity is, and how that is handled in Russia is a major issue. It is a major issue in Russia. It is also a major issue for Land O'Lakes members here. And I would have to say that we, Land O'Lakes, has overcome a major stumbling block or an obstacle to increased international development efforts by convincing our Land O'Lakes members who grow wheat that unless they are out there working shoulder-to-shoulder with the Russians and taking an equity position in the future of private farming in Russia, that indeed Russia will compete with them.

We do have specific models that are contained in my testimony and documents to the United States Agency for International Development and the United States Department of Agriculture that specifically address the monetization of surplus commodities from this country to Russia. As an individual who used to work for U.S. AID and was responsible for the Bellman determinations, I am very cognizant of the issues that surround them.

And the programs that we have put forward out in Russia address those issues. We believe that providing assistance, be it through technical assistance, training, surplus commodity modernization programs, that it can be a win/win situation for American farmers and American agricultural business, as well as the Russian farmers in the establishment and support of fledgling private agricultural business entities.

Again, I would like to thank you for the invitation to present to your subcommittee here and I will wait for questions.

[The prepared statement of Ms. Cashman appears at the conclusion of the hearing.]

Mr. PENNY. Thank you.

Dr. Johnson.

**STATEMENT OF STANLEY R. JOHNSON, DIRECTOR, CENTER FOR AGRICULTURAL AND RURAL DEVELOPMENT, IOWA STATE UNIVERSITY, AMES, IA**

Mr. JOHNSON. Thank you, Mr. Chairman, and other committee members for the opportunity to talk with you about our experiences in Russia. I was asked to speak in particular about the agricultural business centers that we are operating there and I will do that. I prepared material on the agribusiness centers which I would ask to be included in the record.

My comments will be in three areas, the first of these are not contained in my statement but are motivated by your questions of Mr. Evans and the others earlier, and I just wanted to add one or two specifics that will, I believe, help to give some perspective for the situation that people in agriculture find themselves in Russia and the other Republics of the former Soviet Union.

One of the things that wasn't mentioned is that there has been a radical change in the relative prices of foods in these nations. For example, in 1989, the Russian population was consuming over 70 kilograms, that is about 150 pounds of meat per capita. That is the same amount that is consumed by the Western European population. It is very likely that this consumption level will drop signifi-



cantly and, in fact, it was at the previous level due to the highly distorted prices.

Thus, in addition to adjusting to a new economic system and a new set of institutions, farmers there are adapting to an entirely different pricing system, one that is more consistent with that in the world markets.

The second point in terms of background is that the GDP per capita in Russia dropped about 7 percent in 1990, about 17 percent in 1991, and is estimated to have dropped about 20 percent in 1992. That means that their per capita income is down over 40 percent in the past 3 years. And to give a little perspective, during the Great Depression our per capita income was off about a third.

Thus, the Russians are dealing in a very difficult economic situation where not only the agricultural sector is under stress to adapt, but the whole population is under economic stress.

The last point is to understand that as we deal with the economic reform and our participation in reform of Russian agriculture, it is important to understand that the Russians have their own set of institutions. In particular these farms, collective and state farms, have been both social and economic institutions. This situation represents a difficulty associated with the reform that will require very innovative developments if they are to succeed in the short term.

Let me tell you about our agribusiness centers briefly. We ran the agribusiness centers in Russia and Ukraine. Our discussions about these centers are a long history, starting about 5 years ago actually, and when we—most of the discussion was in terms of model farms. It became clear, as we discussed this, that there really wasn't much of an interest in model farms, that is replicating a farm from Iowa and Russia, but instead technology, management methods, and other things.

We organized these centers as joint ventures, legal joint ventures, which in itself was interesting, within the laws of Ukraine in Russia, and they provided training on management methods and market systems and institutions to about 1,000 participants in 1992. They also provided opportunities for demonstrating U.S. technologies.

Small- and medium-sized firms in the Midwest were particularly interested in participating because the centers provided a low-cost way for them to assess the potential for commercial developments in the former Soviet Union and a way to capitalize on what I believe is a very general feeling of wanting to support the reforms in these countries by our Midwestern population.

The short courses were organized in a number of areas, crop production, grain handling, meat processing, dairy processing, food processing, and packaging, and we brought people to talk about how those technologies and how the industry is organized in the United States, not with the idea that they would copy it, but with the idea that they could ask questions and adapt in their system whatever parts of our methods and technologies seemed most appropriate.

Based on this experience, a number of recommendations come, not only about how these centers would be operated, but that relate

to how we might organize our assistance to the former Soviet Union and Russia, and I would like to comment on those briefly.

First I think these centers represent a real opportunity for establishing the extension service. We worked with local agricultural schools, with local organizations, private farmers, and the agricultural establishment, and with the academies of agricultural sciences which have a lot of technology and have no history of trying to apply that in the land-grant system way that we do in our country, the problems of agriculture.

The second point is that the firms that participated from the United States side were very interested in following on, but there is a lot of uncertainty about benefits to their firms. A policy that would allow loan guarantees or some sort of Government participation for United States private sector involvement in Russia would be very helpful in terms of transforming agriculture and very helpful in providing opportunities for United States agribusinesses there.

The last point is that the institutional setting is under significant change, including the policy setting. There is just tremendous confusion about what the course of the agricultural policy in the country should be, and I have visited with leaders at the farm level and at the Government level about this problem, and they feel that some kind of assistance would help them chart a course that could be credible to the agricultural people and that could be consistently followed would be a great assistance in the reforms.

Thank you very much.

[The prepared statement of Mr. Johnson appears at the conclusion of the hearing.]

Mr. PENNY. Thank you.

Mr. Burton Joseph.

#### **STATEMENT OF BURTON M. JOSEPH, PRESIDENT, JOSEPH COMPANIES, INC.**

Mr. JOSEPH. Mr. Chairman, the Joseph Companies are our companies—or are subsidiaries who have dealt directly with the Soviet Union since 1963. Members of this committee in fact might remember that in November of 1963 a delegation of American grain executives, which I chaired, was invited to meet in Canada with the chairman of Exportkleb, which is the Soviet grain export import monopoly. We discussed at that time the lifting of the grain sales, the embargo on grain sales from the United States to the Soviet Union. My friend, Orville Freeman, who was then Secretary of Agriculture and I met with President Kennedy then and the President decided it was time to open trade between the two powers.

Unfortunately, President Kennedy's death in late November 1963 delayed that decision until the spring of 1964 when President Johnson decided to go forward. Since that opening, with the exception of the interruption during the early part of the Afghanistan crisis, the United States has participated in the shipment of a substantial quantity of wheat, feed grains, and soybean meal to the Soviet Union. These quantities represent about 50 percent of the total of Soviet imports.

On the average, the Soviets have imported between 30 million to 40 million tons of wheat and course grains each year during the

last 12 to 15 years. Their peak year was in 1984 when they imported close to 60 million tons. These figures are outlined in the attached schedule on the written material.

During this same period, the Soviet domestic wheat and coarse grain production was between 180 million to 200 million tons. So what we are pointing out here is that they are importing about 20 percent of their normal crop. It is well-known that one of the tragedies of the Soviet grain, oilseed, and potato production is that 20 to 25 percent of their crops in the field, ready for harvest, never get to consumption.

It is no coincidence that since 20 percent of the 200 million ton field production is 40 million tons, this crop loss roughly matches the 30 million to 35 million tons of Soviet grain imports over the last several years. If we use a delivered price—in the trade, we call this CIF: cost insurance freight—of \$100 a ton delivered to the Soviet Union, now the former Soviet Union, FSU, is spending \$3,500 million to \$4 billion a year to pay for these grain imports. I use the word “pay” in quotations since during the last 24 months, the Russians and many of the other Republics of the former Soviet Union, using USDA credit programs, have defaulted on their payment schedules, both interest and principal.

Commodity Credit Corporation, as well as the European Common Market is very worried of extending further credit. The heart of the matter is not complicated. The central planning system for agriculture and food, headquartered in Moscow, has, over the generations of the Communist era literally directed units of production in the Soviet food system to go where each particular unit of the system is directed to go, ordering how much tonnage or units to deliver, what each unit's quota or production would be, when to ship and most importantly, at what price to sell.

The Agriculture and Food Central Planning Bureau in Moscow, at its peak, employed more than 400,000 people to direct the food production and distribution system within the Soviet Union. Is it any wonder, then, that so much of the grain, oilseeds, and other foodstuffs produced never receive timely nor revenue meaningful decisions?

Consequently, the grain either rotted in the field or lacking storage and transportation, laid in bags alongside of the fields and produced a harvest of the fattest rats in the world, combining with insects and birds gorging on the unprotected grain and with inclement weather, adding the final piece of loss to the unprotected total.

Current Russian presidential staff, Mr. Yeltsin's staff, and leadership knows this and desperately wants to privatize Russian farms to see that the profit motive prevails and that decisions will be made by the cooperatives, the collectives, and the private farmers themselves to do what must be done to protect and preserve oilseed and grain supplies.

The solution is simple. Find a way to save 30 million tons of lost grain. It then follows, no need to import 30 million tons of grain and the final sequence, don't spend \$3 billion. The waste and spoilage problems plaguing the FSU's, existing agricultural systems are partly attributable to the use of the large grain storage facilities that are not well distributed throughout the countryside and cannot be relocated to reflect changing needs.



Moreover, the collectives and private farms have no option at this time but to sell and ship their grain to the Government and receive in exchange prices that are approximately one-fifth of the world market price. Economic survival for the farmers at these disastrous prices is not possible.

How to save 30 million tons of grain and give the Russian farmer a chance to survive? The answer, private storage at the farm level. Without farm storage, the farmer must ship to the huge distant state enterprise silos and get paid 20 percent of the world fair price or do not ship, and waste 20 to 25 percent of their grain.

Let me say this again, because this is the critical part of the Russian rural existence. If the Russian farm and farmer have an alternative method to store its and his grain, the waste is negated, the prices received can increase dramatically and the private farm, under private land ownership, will become the critical new important feature of the total Russian economy.

In all of our travels throughout Russia we have come to one conclusion. Without a new and economic farm grain storage, the Russian state farmer and farm will never get a fair price for their product. With the new alternative choice for crop storage, the Russian farm and farmer can break the cycle in grain and oilseeds sold by the central planners to the state enterprise processing plants and silos.

Mr. Chairman, I have about another 3, 4 minutes. May I continue? I see the red light is on.

Mr. PENNY. Why don't you conclude and then we will move to questions.

Mr. JOSEPH. All right, fine.

We have within the acts of Congress, particularly the Freedom Support Act, the means to address this issue. One of our sections within this act directly refers to the storage of agricultural commodities as an activity for which the President, our President, is authorized to provide assistance to the FSU under the act. The conference report of this Congress speaks in specific detail to the type of storage assistance that is appropriate.

The goal, again, is a privatized farm so that the burden of rural Russia to the center, Moscow, is reduced dramatically, and the center has a chance to survive. Forty percent of Russia is rural. Privatization of rural farms is a must.

I would conclude, Mr. Chairman, by saying the hearing of this committee and the implementation of your policy positions by the American Federal bureaucracy are the essential elements to grow private rural agriculture, Russian rural agriculture, and literally save the Russian center from the tortures and the pressures it is currently suffering from. What we are suggesting is microhelp, with small cost and most promising results. It should be done.

[The prepared statement of Mr. Joseph appears at the conclusion of the hearing.]

Mr. PENNY. Thank you. I appreciate your testimony this morning.

Land O'Lakes is also interested in a monetization program. Would you care to describe the outlines of that program and how we benefit—and how they benefit from that initiative?

Ms. CASHMAN. Yes, I would.



The monetization program that we have proposed to USDA is essentially a program to front load the Russian market with quality—actually Russian-branded product. We—in working with the Venev cooperative, which is a region in the Venev Oblast, about 2 hours south of Moscow, there is a processing plant there that we hope over the next year will be able to produce butter on their own. In fact, we are shipping some butter equipment which Land O'Lakes is donating to this particular cooperative, private cooperative.

The object of the USDA program is to take surplus CCC stocks, ship them to Russia, monetize them and sell them to both local currency Russian stores and also hard currency stores—for example, we have had discussions with Super Value regarding their store just outside of Moscow—and to establish a Russian brand on the Russian market.

Now, in addition to it being branded with a Russian label, it will also have “as a gift of the United States Government” and also packaged or produced in cooperation with Land O'Lakes, but the object is to establish a high-quality branded product on the Russian market. The local currency and the dollars that would be generated from the sale of this commodity will go back into providing some of the capital expenditures required, for example, on farm grain storage within this small local cooperative.

Mr. PENNY. Cooperative members in that region would then have the benefit of the proceeds?

Ms. CASHMAN. Yes, they would, but it would not stop there. In other words, this is not simply a gift to that particular cooperative. What it is is an investment in the cooperative, and it is expected that they will repay this back into the fund. And as other regions and other Oblasts indicate interest in this particular type of cooperative model, that the resources then, as they are repaid, would be reinvested in other regions. And, again, it is a self-regenerating fund.

Mr. PENNY. Revolving loan fund.

Ms. CASHMAN. That is correct.

Mr. PENNY. For member borrowers.

Ms. CASHMAN. That is correct.

Mr. PENNY. What have you found in your involvement with Russian agriculture—what have you found to be the most troubling barrier to your company's projects? What are the biggest stumbling blocks and how do you propose that we get around those? Or isn't there any light at the end of the tunnel?

Ms. CASHMAN. There is always—well, if you use the term “light at the end of the tunnel” with a Russian—for Americans that means hope. For Russians, they say, well, that just means a train is coming. However—and that says a lot right there about doing business in Russia. There are vast cultural differences.

However, the one thing I would say is that there is hope. The obstacles that we have had, quite frankly, are actively engaging the American—the U.S. Government, quite frankly, in what it can do specifically to address some of the constraints that American business feels in moving forward out there which is not just the only reason to be out there but also in looking at what is happening to

Russian agriculture and the concern that the Russians have about being taken over by the West.

And we believe that there is a way to work shoulder to shoulder with the Russians, which we have done. With the monetization program specifically, which we have suggested, the costs associated with shipping and distribution of the immediate distribution from the port of the product is covered under the existing program.

However, since—and this is speaking from personal experience in the first monetization program in Jamaica—there are many problems that surface after the product has arrived in a country. And right now there are no dollars to cover the cost of handling that commodity and making sure that that commodity does not end up in an alternate market. So we need financial resources so that the U.S. Government's name and also the Land O'Lakes' name is not tarnished once the product gets out of the St. Petersburg port.

The second issue, and it is not really a Land O'Lakes' issue but it is an issue that we believe is fundamental to the survivability of private farming in Russia, and that is, right now and for the past 4 years, the grain shipments that have been going in ostensibly for the feed industry are still going to the state enterprises, the agrienterprises, the state farms. And when you have a private farmer who is out there struggling to make a farming operation, a family farm, much along the same lines that we have in the Midwest, a survivable entity, what happens is that private farmer has absolutely no access to input, no access to feeds, no access to fertilizers, no access to seeds.

So if we were going to make a recommendation, future monetization or future commodity export programs should be geared toward a 25-percent earmark that would have to go to the private farming movement within Russia. Right now that is not happening. I know that the Russian Government says it is, but it simply is not happening.

Mr. PENNY. Mr. Allard.

Mr. ALLARD. I am wondering if each of you would comment a little bit on what you think the future for agricultural markets for the United States and Russia might be. Is it in the sales of bulk commodities or is it in the sales of value-added products or is it in the technical services on production and processing of agricultural produce? And maybe each one of you could make some statement on that rather broad question.

Ms. CASHMAN. I would like to comment that I think it is all of the above. It is not an either/or situation. And, quite frankly, if we are going to be commercial partners with Russia, we have to do all of the above.

However, I do think, and again this is speaking from experience not only in Russia but in many other markets around the world, the United States is shooting itself in the foot by shipping bulk commodities. Because what happens is, when that commodity arrives in a country and it is distributed, it loses the source identification of coming from the United States.

In fact, to be specific regarding dairy products, it generally is attributed to an EEC commitment, commodity commitment, or a new sea-land commodity commitment, and very seldom does the United States get credit for shipping bulk commodities. The source identi-

fication is lost. And, therefore, we are doing nothing to build long-term markets for U.S. agricultural commodities overseas.

Land O'Lakes recommendation is to actually look at value-added processing that would—and you would ship the product out in consumer portions, essentially. Butter, for example, could be done in a 1-pound brick. And that, rather than have a specific company brand identification, there should be generic U.S. Government—or U.S. brand identification. But there is a major problem in that commodities that we are shipping are doing nothing or very little to support the long-term development of markets for American agricultural products overseas.

But, second of all, if we are going to be partners—and it is a global economy so you can't just produce here and think that you are going to be doing this in isolation and the world is your market, as a result. I think it is very important—and this is what we have been doing in Russia and every other country we have worked in—we have worked consistently with the processing sector and the production sector. In fact, we work with the entire system.

We don't want farmers to start producing more just to have to dump it. We want to make sure that there is a processing sector that is there, that is capable of taking whatever is produced at the farmgate and actually processing that into some value-added product that would then be sold to the consumer.

So, yes, it is technical assistance, and training is needed to improve the capabilities within the Russian food processing sector, distribution sector. And, yes, it is doing value-added commodities. Yes, it probably still involves some bulk commodities. It is all of the above. If we are going to really address this in a logical way, that is the best way.

Mr. JOSEPH. Our experience is that the Russian rural system is like the American rural system except they have never had a chance to make a profit. These are decent, shrewd, wonderful, hard-working people.

We have several joint ventures in Russia. We are prepared to enter into more joint ventures with Russian rural business people, most of them coming from the farm economy. We would like very much to construct a number of factories there that will produce these storage units that I have referred to in my written material.

We think that, given the opportunity to have this storage, this alternative to shipping at these horribly low prices to the state enterprise—through the state enterprise system, will give the Russian rural system a chance to make some money, and, with profit, they can do marvels.

I don't think it is a very complicated kind of business when you put the question to us: What should we do? Let's find a technique and a method to let them make a profit.

Mr. JOHNSON. My view is that the mix of our commercial activity will change. We have been largely exporters of bulk commodities. As their agriculture develops and becomes more diversified and becomes more linked with Western markets, we will have opportunities to export processing equipment and to participate in commercial activities developing materials, technologies, and technical assistance.



The way I think we could build the Russian market most effectively is to do something to deal with the monopoly in the processing and distribution system. And one of the ways to do that is not to break up the monopolies. For reasons that were mentioned in my written testimony it is very difficult to completely change these enterprises in a short period of time.

But, instead, what we might do is to foster—to develop policies that will foster new entry into the processing and distribution industry. And these could be joint ventures from the U.S. side. Ways to encourage U.S. participation will be through various kinds of loan guarantees, risk-sharing with the private sector participation, particularly in the food processing and distribution sector.

With these loan guarantees, the pressure would be put on the monopolies to reform. The pressure would be on the existing organizations to reform in order to compete with the newly organized private firms.

Mr. ALLARD. I thank each of you for your response.

Thank you, Mr. Chairman.

Mr. PENNY. Mr. Barlow.

Mr. BARLOW. Maybe this area has been covered.

This is a busy week here with a lot of high school students coming in from western and southern Kentucky. I don't know about you all, but a lot of people from Kentucky are in, and I have been trying to get to these hearings as much as possible.

These hearings are very important, Mr. Chairman, and I very much appreciate the way you are organizing them. We have set ourselves a very daunting task to build relations with a country that we have been at loggerheads with for decades.

I would like to follow up on what the chairman said—maybe you all have already gone through it—about using private enterprise in the Soviet Union to add value to basic agricultural commodities, and then recycling it back into the economy. We have the experience of McDonald's and a couple of other companies that are using foodstuffs to build very powerful, thriving enterprises within the Soviet Union that help in terms of employment and that help in terms of stability. Can that be done through the companies that you all are associated with with our help?

Ms. CASHMAN. Most definitely, yes—speaking from Land O'Lakes' perspective. In fact, we are actively engaged in that right now.

We also have a proposal pending before USDA on a butter monetization program which actually establishes a brand identification that identifies United States branded butter as well as establishes a Russian brand name based on the cooperative.

And I should make the point, when we talk about cooperatives, we—Cooper was talking about member-owned cooperatives in Russia. And if you talk to a Russian, they will say, well, our co-ops have always been member-owned, worker-owned cooperatives. So what is the difference?

I think it is important that the distinction we have used is that we are a free-market cooperative. In other words, the cooperative which Land O'Lakes helped establish in December of 1992 actually has individual private farmers who actually own their own sources of production and are members of what is now a farm supply and



dairy processing cooperative. And the program that I was referring to earlier addresses front loading the system for this private cooperative to compete against some of the larger monopolies.

The one—regarding some of the larger monopolies, I would agree with Dr. Johnson that it is probably not in our best interests to try to dismantle these in the near future.

However, I also believe that I think it is very—it will be a very difficult sell to get American companies to go in with inexperienced fledgling entrepreneurial groups that are going to compete against these monopolies, because, quite frankly, the support by the Russian Government is not yet there for these private enterprises. And even with all the technical assistance or the technical support from the U.S. Government, it still is not going to make it attractive for American businesses to go in and establish joint ventures with the emerging entrepreneurs and especially if they are going up against some of the larger monopolies.

I really believe that it is important to not discriminate against the monopolies but certainly at the same time be very proactive as far as providing some sort of incentive for American companies and for emerging Russian entrepreneurs in making sure that the Russian Government provides some safeguards, some reasonable safeguards and helps establish a more level playing field so that there is an ability to compete here.

Mr. BARLOW. Don't we have an advantage, though, in that we are ahead of them in marketing and in packaging and in developing niche markets? Some of these entrepreneurs might have an idea that we could pick up. And, with Land O'Lakes, say, help them just carve out small niches and then not be in the position of taking on the state-owned co-ops.

Ms. CASHMAN. In fact, that is exactly what we are doing in the Venev co-op. We are working with the private farmers who have purchased from the center a processing facility, and we have, in fact, donated a Vint Hill butter press, for example, and some cheese-making and ice cream-making equipment.

Initially, it will be to service the Vinopleon consumer population, but the discussions have been carried on with other American companies that are involved in the restaurant business in Russia, and the object is to look for an outlet for these products and establish a high-quality branded product that then moves into, be it McDonald's or Pizza Hut or whatever, but that is what the objective is.

Mr. BARLOW. Is advertising developing? And the literature and TV and so forth? And radio? I don't even know if they have commercial radio stations in the Soviet Union.

Ms. CASHMAN. Yes.

Mr. BARLOW. Are you all tying these enterprises to advertising outreach?

Ms. CASHMAN. Yes, we are, but we are very careful not to over-extend the ability to manufacture and produce what consumer demand will be. So advertising is fairly limited.

I would say that in the development of the Russian branded label we have relied primarily on United States advertising companies simply because the—a lot of the thinking, as far as what is an acceptable advertising model, tends to go back a few decades with some of the companies that we have worked with in Russia. Maybe

we just haven't found the right advertising company. But we have been working with an advertising company in Moscow as well as in Minnesota.

Mr. BARLOW. Mr. Joseph, do you have any comments?

Mr. JOSEPH. The urgency of the problem is the important concept that we must emphasize this morning. Rural Russia, 40 percent of the population has to have some comfort so that their pressure on the center is reduced. Without that, we are going to lose the center, and Lord knows what we are going to end up with.

I think short-term, microquick possibilities are available to us. It has been suggested by Dr. Johnson that a bit of loan support in the rural areas would go a long way, and it would make a very immediate response. We need to put together the programs and the projects that will give rural Russia a 40 percent chance to make some money and to get themselves comforted and stay off the center.

Mr. BARLOW. Thank you.

Thank you, Mr. Chairman.

Mr. JOHNSON. I would underscore my earlier comment. I think that we need to remember that, even in this country and in many other countries in the world, the technology and service companies that are the source of a lot of growth in agriculture are relatively small.

And, in the case of our agribusiness center, every one of the companies that we took there found some kind of a joint venture opportunity that they were interested in. But most of them are relatively small companies, and they can't take the joint venture risk where property rights are not very well defined, communication is bad, nobody knows how the legal system will evolve, et cetera.

And I think some kind of a program that would energize what is really a big private force out in the hinterlands in this country, a great willingness to help with these reforms and share the risk associated with broadening the participation or primarily in the processing and distribution system, that would be very good. And if that could be done in such a way that small- and medium-sized agribusiness firms weren't closed out just because of the bureaucracy, it would be a great contribution.

Mr. BARLOW. Thank you.

Thank you, sir.

Mr. PENNY. Thank you.

Burton, you talked about the language in the Freedom Support Act that dealt with storage facilities. Refresh my memory. Does that deal with the utilization of some of our credit guarantees or the movement of that type of structure? And, if so, how do we sell those products under the GSM program and yet get them down to the individual farmer, which seems to be the centerpiece of your plan?

Mr. JOSEPH. The Freedom Support Act encourages the use of joint ventures. We are prepared and we have joint venture partners in rural Russia to set up manufacturing plants to put together farm storage. These are not large units. These are 500, 1,000-ton storage units, but they are so desperately needed because, otherwise, the grain lays on the ground.

The Freedom Support Act directly notes farm storage. It is in there. The language is there. It talks even about the style of farm storage, beautifully developed. Why we put together all this work and this legislation and then we don't pay attention to it, I don't understand.

Mr. PENNY. So this would be—this would not be GSM credits for the sale of this equipment?

Mr. JOSEPH. No, sir. This is encouragement to private enterprise.

Mr. PENNY. The reason I ask is because we do specifically reference the sale of farm equipment, processing equipment, in the GSM program. And yet I guess the thing I have been wrestling with is just moving that equipment over there doesn't necessarily get it down to the private farmers because it could get ducked somewhere in the system if the state manages the distribution of these things.

Mr. JOSEPH. It goes into these huge units now and the private farm never has the chance really to make any money with that.

Ms. CASHMAN. A program that would be very useful for Russia, which does not exist to date, would be the commodity import program, which actually would allow private Russian farmers or small- to medium-sized entrepreneurs to access United States equipment, goods, services, artificial insemination straws and so forth, and actually repay that loan in rubles. And the commodity import program, I think, would be a very useful program for Russia.

Mr. JOSEPH. By the way, we can use rubles. Our businesses there would be delighted to be paid for our services and our product in rubles. We have a joint venture where we are buying round logs—these are trees with the branches cut off—from Siberia. We will pay in rubles.

What we are referring to here is, candidly, an opportunity to join in business ventures with rural entrepreneurs.

Mr. PENNY. Dr. Johnson.

Mr. JOHNSON. If I could say just two things, I will be brief.

One is that I think that many of the programs that have been talked about here today have been programs to send technical expertise to Russia. It would be good if the programs could also be modified so that the business leaders from Russia and these places would have an opportunity to come and see what is going on in the United States.

We ran a small U.S. Information Agency funded program that brought about 50 people to the United States. They came and spent time in Iowa communities. We sent them to see the agribusinesses, but it turned out what they were as interested in how the communities are organized. Who pays for the schools? Who pays for the roads? How do you elect your mayor? What does the mayor do? What does the city council do? It was a very interesting experience for the Russian farmers; learning about private sector agriculture.

The Russians went back. Of those, 50 people, 85 percent are now involved in some kind of private enterprise as related to the experience they had in the United States.

So I think an exchange program that could go both ways would be extremely useful, coupled with the risk-sharing associated with



the loans to support small- and mid-sized United States firms investing in the former Soviet Union.

Mr. PENNY. We have had—just as a follow-on, we have participated in two USIA-sponsored exchange efforts in my part of Minnesota. One about a year ago involved Russian entrepreneurs who did about a 6-week apprenticeship program with local business people in Rochester and some of the surrounding communities.

And then this year the USIA program for the Baltic States brought civic leaders to Minnesota and somewhat to Georgia, and they essentially worked in local units of government or in schools.

And, again, they were just trying to figure out how our civic structure and our infrastructure was managed here. And the goal on the part—in both cases was to send them back with new ideas and new approaches that they could hopefully initiate within their own societies. At least the latest group was specifically tasked to go home and sponsor seminars which kind of tracks with what your business centers are trying to accomplish over there. So we have tremendous challenges ahead.

Burton, in trying to establish joint ventures, do you have a relationship with AKKOR, this farm cooperative group, and is that a potential avenue for you to pursue?

Mr. JOSEPH. We think not. We think it is bureaucratic.

Mr. PENNY. You think that even though it represents kind of the private farmers within the society there, that it is too bureaucratic to work there? You are more interested in just one-on-one relationships?

Mr. JOSEPH. Yes, sir. In the bureaucracy of Russia, it is no different than the bureaucracy of the United States. They don't make decisions.

Mr. PENNY. Ms. Cashman.

Ms. CASHMAN. Can I make one comment on the AKKOR?

Since Land O'Lakes was with AKKOR at its inception, I would describe the AKKOR association as being—when people think about AKKOR, they think about it as being a very bureaucratic organization in that it is Moscow based. And, to a large degree, that is true.

However, Dr. Bosmasnokov himself is head and shoulders above the other individuals within AKKOR. So what you have is you have an individual that has great integrity and great vision and great leadership capabilities, and then you have a lot of individuals within the national level of AKKOR who are—some are stronger than others, some are not.

But when you get down to the local level, for example, many of the private farmers are affiliated with AKKOR, because right now AKKOR has been the only one that has been able to mobilize credit and access to credit to what are called first-year farmers. But you really—in fact, in many of our discussions when the Russians were here for the annual meeting, you had the people from Venev saying, now, let's keep Dr. Bosmasnokov out of this because this is AKKOR Venev and it is not the Moscow center AKKOR that is discussing this.

So there are some disparities, and there is not an evenness of leadership within the AKKOR association. As a result, you get a lot of bureaucracy.



Mr. PENNY. How does AKKOR provide credit? Where does AKKOR get its financing?

Ms. CASHMAN. It initially got first a credit bump from the Minister of Agriculture—from the Russian Ministry of Agriculture. But, subsequently, they have involved themselves or engaged themselves in a number of other joint venture activities and are trying to generate their own revenues to provide credit, but that is an ongoing problem. In fact, part of the butter monetization program actually would be to provide credit.

Mr. PENNY. Through AKKOR to its member—

Ms. CASHMAN. But it would not be AKKOR Moscow, it would be AKKOR, say, Venev or AKKOR Knitche. It would be at the local level versus the Federal level.

Mr. JOSEPH. That would be very helpful.

Mr. JOHNSON. I would suggest that we use AKKOR, and we use their bureaucracy, and we use them for what bureaucracies are good for. They are good for communication and other kinds of linkages, but they are terrible as business partners.

Thus, we should use them to make contacts with the local people and firms, and then, once we have achieved the contacts, go with the individual operators. This two-step process can work very well. And it is easy to bait, if you pardon the expression, AKKOR into participation because you can use them to organize seminars and meetings that raise their level of visibility within the Russian farming community.

Ms. CASHMAN. Perhaps the single largest contribution that AKKOR has to the private farmer is that it is actually able to engage the Russian Government and focus—they are able to mobilize the attention of the Russian Government on the plight of the peasant farmer. And, quite frankly, without an organization like AKKOR, I don't think you would have Yeltsin or Khlystun or some of the others paying the kind of attention that currently is being paid to peasant farming in Russia and the problems of peasant farming if you didn't have a stronger voice that is represented by AKKOR.

Mr. PENNY. Ms. McKinney.

Ms. MCKINNEY. Thank you, Mr. Chairman.

I would like to commend the members of the panel for wonderfully enlightened presentations. And I have just a question for Ms. Cashman—two questions actually. It is nice to see a woman in a position like that.

Your farmer-to-farmer program, do you have it in other areas of the world or is it specifically just for Russia?

Ms. CASHMAN. Well, actually, Land O'Lakes has been an active supporter of the VOCA and has actually done quite a bit of recruiting in placement of its own members and employees within VOCA's operations all around the world.

However, if you think about Land O'Lakes' international development commitment, we have been providing farmer-to-farmer assistance without any kind of compensation from the U.S. Government, just because of the commitment that we have to worldwide issues. So even though—the answer is, yes, we do have a farmer-to-farmer program in other countries, but it is not an official AID farmer-to-farmer program.

And I should say it does not just involve farmer members of Land O'Lakes. It also involves quite a number of our employees. And, actually, increasingly it is involving a number of husband and wife teams because, quite clearly, that is the success of the family farming model in this country, and both parties in the marriage actually have a strong commitment to see a successful farming enterprise. So the women are very, very involved in our programs.

Ms. MCKINNEY. And the second question is about your agribusiness management training. Do you have a relationship with farmers in Georgia?

Ms. CASHMAN. Not at this time. Georgia—you mean Georgia in the United States, right?

Ms. MCKINNEY. Georgia in the United States.

Ms. CASHMAN. Well, we do, but it is not a real strong one. There is an employee of Land O'Lakes who is a Georgian farmer and so we do have some connections, but it has not been very strong at this point.

We have had some discussions with—on other matters with the Carter Center, and that directly ties to agriculture in child survival issues in West Africa in particular.

Ms. MCKINNEY. Thank you.

Mr. JOSEPH. You know Georgia, the former Soviet Union, their representative is Mr. Shevardnadze.

Mr. PENNY. I want to thank this panel for their presentation this morning. It has been quite helpful.

With that, we will move on to our final witness for the day, Dr. Craig Infanger, Resident Policy Adviser. We have about 40 minutes before my deadline, and so it seems to me that we are going to have plenty of time to finish this up. We are well within schedule this morning.

We do welcome you, and ask you to summarize your remarks. Your written testimony will be included in the committee record.

#### **STATEMENT OF CRAIG L. INFANGER, RESIDENT AGRICULTURAL POLICY ADVISOR, RUSSIAN FEDERATION, MINISTRY OF AGRICULTURE**

Mr. INFANGER. Mr. Chairman, members of the subcommittee, I am pleased to respond to your letter of invitation and happy to be here today.

I have prepared some written remarks that are with the committee staff which attempt to respond to the questions that were in your letter of invitation, but let me just summarize some of my thoughts.

For the last 5 months I have been the Resident Agricultural Policy Adviser in the Ministry of Agriculture for the Russian Federation. In that position, I am sponsored by the U.S. Department of Agriculture's Foreign Agricultural Service and Extension Service. I am officed just down the hall from the Minister's office next to his other top aides.

Over these past 5 months, I have been able to establish what I think is a pragmatic working relationship with the Minister and some of the top leadership within the Ministry and in other organizations of the Russian Federation. I would want the committee to know that there is a very small group of dedicated Government of-

ficials who are intent upon making privatization of agriculture and the development of what the Russians call the farmer movement successful. But it is indeed a small group of people at the highest levels of Government.

Agrarian reform is underway in the country, and there is developing now a farmer movement which increases each month. The last count—the March count was up to 214,000 farms, maybe a half million farmers.

But this grassroots farmer movement is pushing forward in a very fragile political environment. This is a Government deeply divided on agrarian reform and agricultural policy. There are three or four strong reform-minded agencies, the Ministry of Agriculture being one, the committee on land being another, AKKOR—the organization representing private farmers—being another, but they are separate institutions which have agrarian reform policies that are not at all market oriented that would retard the growth of the farmer movement and which have support at the highest levels of the Russian Government. So what you are ending up with is a Government deeply divided and a fragile environment for the farmer movement.

Now, there has been considerable, almost chaotic, change underway in Russia, but we should not interpret this—much of this change as reform or transition toward a market-oriented agriculture. The growth of the farmer movement had very high goals, Russian goals. Their goal for the end of 1992 was to have 30 percent of the cropland in private hands. Currently, they have about 3 percent. Their goal was to have all the 25,600 state collective farms reorganized at the end of 1992. Just a little over 19,000 have submitted reorganization plans.

I have spent some time looking into what exactly these reorganization plans mean. I am unable to conclude that these administrative changes are, in fact, effective changes in structure and property rights within these farms. So I think we as a Government and a community in the world have a responsibility to continue to work with the reform movement inside Russia.

There are some things that I think are working successfully to raise awareness and education about market-oriented agriculture. These include programs like the Cochran program, the farmer-to-farmer programs that are just now getting up and operating. And I should add, Mr. Chairman, that on days when I get very frustrated and despair about change, I am only a block away from Brian Foster who is willing to listen to me let off a little steam about things that might not be happening at the Ministry.

Mr. PENNY. Brian is also an eternal optimist.

Mr. INFANGER. Yes, very much so.

Mr. PENNY. I think that applies in Moscow.

Mr. INFANGER. I want him to stay there at least as long as I am there.

Let me conclude, Mr. Chairman, by saying if agricultural reform is truly a priority goal for our Government in Russia—and I know we have other goals—but if agricultural reform is truly a priority goal, then we are going to have to do something to target our assistance, our technical assistance and other assistance to support



those reform organizations that are fostering the transition right now to a market-oriented agriculture.

Many of the Russians are getting impatient with the delivery of technical assistance. They want it linked to more tangible forms of assistance. And that idea, that frustration, needs to be addressed through the kinds of aid programs that we have on line and the kinds of creative efforts that we can come up with.

I believe there is a collective expertise developing among Americans and Westerners who are working in Russia, and we can use this expertise and experience to carefully target aid that will support reform institutions. I believe that we can identify ways to help these reform agencies and these dedicated individuals. And I think that unless we do so the farmer movement will be retarded and blundered.

I am happy to have responded to your invitation and will be pleased to answer any of your questions.

[The prepared statement of Mr. Infanger appears at the conclusion of the hearing.]

MR. PENNY. I appreciate your being here this morning. And I think, after two mornings of hearings, we are beginning to sense and share the frustration you must feel as you try to deal with this on a firsthand basis.

It was mentioned this morning that, at the regional level, agricultural reforms in some instances are leapfrogging well ahead of the country as a whole. What are the factors that play in those areas where the reforms seem to be moving forward? What are the key elements that you see that make that possible? And how is it possible when at the local level they still are inhibited by the absence of land reform and other overarching policy changes?

MR. INFANGER. Mr. Chairman, I don't think many of us appreciate what is developing there in terms of this federation government, this loose-knit connection between the independent Republics and other forms of organization they have outside of Moscow. The connection between the units of the federated government, makes it very difficult for me to understand how the regional departments of agriculture relate to the Ministry of Agriculture in this new environment. It is quite clear that they have independent agendas.

So, in some instances, you can explain some of the differences in the amount of privatization. Like in Nizhny Novgorod, you can explain a good part of the privatization there because this oblast has a very progressive young reform-minded Governor appointed by Yeltsin who has sponsored the sale of trucks and the privatization of shops.

And I just returned last week from their latest effort, an attempt to completely reorganize six state and collective farms up there. And the Governor just may pull this off with the assistance of the International Finance Corporation, IFC.

I don't know how to explain the differential in the privatization of agriculture in different oblasts, but it is there, and we ought to capitalize on it. And we ought to be working with oblasts where the private farmer movement has a good base and is exerting influence on the administration. Those are regional organizations we can work with. We can bypass the Moscow bureaucracy that is inhibiting change and move directly to working with them.



Mr. PENNY. Is AKKOR also a bypass or do you share the view of Mr. Joseph that AKKOR is just a different form of bureaucracy?

Mr. INFANGER. AKKOR would be difficult for you, Mr. Chairman, to appreciate. It is something like having the American Farm Bureau officed in the south building of the Department of Agriculture. AKKOR is officed within the Ministry of Agriculture and it receives state budget support although it represents private farmers.

But it is clearly a reform organization with a political agenda of change. It faces political constraints and it is developing a bureaucratic mode that is not appreciated out in the oblasts.

And there is lots of flak in the newspapers, and I receive it through visits from AKKOR members in my office to talk about different kinds of projects. It is the same sort of complaints that you would hear out in the States about any large bureaucracy.

I don't feel that is an excuse not to work with them. They are the single organization in Russia which ties the private farmer in Siberia to the private farmer in Krasnodar, and if you can't work with AKKOR, you are just giving up an opportunity to work with the single organization that is linked across the country.

Mr. PENNY. Does the agricultural reform agenda have any allies within the Parliament? And, if so, what efforts are being undertaken at that level to produce some type of agrarian reform legislation?

Mr. INFANGER. It is certainly my impression that the Minister of Agriculture enjoys President Yeltsin's support. There are a few members of the Supreme Soviet, which is the upper body in their legislature, which support reform, although in differing ways.

Mr. Karpov, who is an influential member of the Supreme Soviet, just returned to Russia from a Cochran-sponsored visit to the United States. It is my intent to speak with him next week about his visit, and he had given me his plan for agrarian reform, which would be the fourth or fifth plan that I have seen for agrarian reform. But I want to talk to him and see what impact his Cochran-sponsored visit had.

There are not, however—my impression, of course—a whole lot more of those peoples' deputies and members of the Supreme Soviet which are outspoken advocates of land privatization, individual responsibility, the development of an "agri-industrial complex," as they call it, that is market-driven.

Mr. PENNY. Mr. Allard.

Mr. ALLARD. Thank you, Mr. Chairman.

Welcome to the committee.

Mr. INFANGER. Glad to be here.

Mr. ALLARD. You have probably had to deal with the Foreign Agricultural Service, so I would like to hear your insights on what needs to be done to improve the USDA Foreign Agricultural Service and its operation in foreign countries.

Mr. INFANGER. Please allow me to respond only in a very limited fashion to that question. I live just 2 blocks from the Embassy's agriculture office. I visit there every morning to collect mail and messages. I communicate quite often with the agricultural attachés who are there within the Foreign Agricultural Service. I am not a career FAS person.

Mr. ALLARD. That is why I am asking you the question.

Mr. INFANGER. I have to be—and you will probably appreciate this—I have to be very careful what I say. They are sponsoring me.

Mr. ALLARD. Yes.

Mr. INFANGER. I have developed an intense interest in the monetization of the humanitarian aid. I see humanitarian aid, as being administered by FAS in Russia at the current time, as a window of opportunity for support for the farmer movement and the reform institution.

I have worked with several Russian groups at Oblast and national levels, encouraging them to come forward with projects, to try to get the Minister to claim some of the monetized proceeds from this humanitarian aid. The corn agreement includes language encouraging, suggesting, cajoling the Russians to come forward with projects that are focused on agricultural reform, processing agricultural credit, education, and training.

I, unfortunately, have to report—and maybe this is due to my own inabilities—that not a single project has come forward yet. And, in fact, I was pulled aside by one of the Russians within the last week, and he led me to believe that no projects may come forward in the very near future. I have a hard time understanding the political dimensions that are operating there.

The Minister particularly pointed out that he needs a stronger legislative basis for the Ministry to claim ruble proceeds of monetized aid. What he means is stronger language in those agreements in order for him to go into the Council of Ministers and lay claim to that monetized aid. He wants to do this, but he is hamstrung at the current time.

So I am hoping that FAS can assess how this aid is being monetized and develop ways for meeting not only the reform objectives—there are other objectives there—but using at least a portion of it in direct support of reform.

Mr. ALLARD. I appreciate your response.

We have heard some testimony in this committee about dealing directly with the Russian farmer trying to circumvent the bureaucracy. Last time it was suggested that you use government agencies for communication and for making contacts, but then, once you are in contact, try and deal with the individuals that would be the free enterprise Russian and have them work with the free enterprise American.

What is keeping businesses like we had in the previous panel from just going ahead and making their own arrangements, business arrangements with individuals in Russia?

Mr. INFANGER. Please, I wouldn't want to speak for American business and their problems.

Some delegations have come to my office and talked to me about problems like the sovereign guarantee repatriation of their dollars, the bureaucracy, the lack of property rights. They go through a laundry list of problems, and some of them are policy related. But I am sure there are other people who can speak more directly to those issues than me.

Mr. ALLARD. Is it more policy related on the Soviet or the Russian side than on the American side I assume?

Mr. INFANGER. Well, the Russians are eager, intent upon developing joint venture relationships, not only with the Americans but

with the Europeans. That is not progressing as well as they had hoped. And there are obvious problems with investing in an economy that is inflating at 20, 30, 40 percent a month, that doesn't have a commercial code, that doesn't have a banking system that works. And the list goes on. But I can't speak for American business about the exact reasons why some of these haven't worked out.

Mr. ALLARD. The reason I asked is because I am interested in your perspective as sort of from an outside-type perspective. So I appreciate your comments and thank you.

Mr. PENNY. Mr. Barlow.

Mr. BARLOW. Thank you, Mr. Chairman.

You are from Kentucky? What is your background, please?

Mr. INFANGER. I am in the college of agriculture. I work for Dean Little. I am an Extension specialist in the department of agricultural economics.

Mr. BARLOW. How long have you been on the university staff?

Mr. INFANGER. Nineteen years including 2 years in Washington, DC, 2 years in Thailand and various other short-term departures. Now this 1 year in Russia.

Mr. BARLOW. Do you speak Russian?

Mr. INFANGER. Chute, chute.

Mr. BARLOW. Just for my information, how many countries are we dealing with when we are talking generically about Russia here?

Mr. INFANGER. When you are talking to me about Russia, you are dealing with one.

Mr. BARLOW. Just Russia.

Mr. INFANGER. The Russian Federation. Although there are close economic ties and other ties to countries like Ukraine and Belarus, my perspective is only Russia, the Russian Federation.

Mr. BARLOW. How many languages are there in Russia? Is there just Russian in Russia or are there other languages spoken?

Mr. INFANGER. It is my impression that Russian is the commercial and educational language. There are lots of ethnic groups who have their own language, but the common denominator for business and education is Russian.

Mr. BARLOW. You have met Dr. Arnold Kerrs at Murray State University.

Mr. INFANGER. I have dealings with him, sure.

Mr. BARLOW. From the areas of soil conservation, have you gotten into any of that with your Russian counterparts?

Mr. INFANGER. Not greatly. There are lots of problems, and there are groups out in the countryside coming to the Ministry for assistance. Some of it has been directly addressed to me. My name has appeared in some Russian newspapers, and people have written to me saying, "You are the American adviser. Help us with these radioactively contaminated lands, other poisoned lands, and some erosion problems." I have tried to link them with VOCA volunteers or with other programs.

But, within the Ministry, that has not been a priority at this point.

Mr. BARLOW. I am just barely aware that the Russians over time have been real leaders historically in analyzing soil and soil prop-



erties through their university systems. And I am wondering if there are any ways we can foster interchange between Murray State University, because we have got one of the few agricultural schools in the country that gets into soil research and classifications. If you could respond to that some other time I would appreciate it.

Value-added products—in my thinking, value-added products are distinct from the commercial grain production sector. Can we make progress with the value-added products that flow into commerce to your food stores and lend themselves to advertising? Can we make progress in privatization there more rapidly, say, than in dealing with the commercial grain production area?

Mr. INFANGER. I think we have to make more progress with that.

But, from my perspective, I find it difficult to conclude that the change that is occurring on that score is real change. A lot of these organizations report themselves as joint stock companies or cooperative societies now that are doing the processing within the agriprocessing sector, but they still maintain regional monopolies. They have very close ties with the Government, if not, in fact, receiving Government credit, other kinds of state support.

So even though they have been reorganized and ostensibly have moved toward a market-oriented organization, I have a difficult time concluding that that is really what is happening.

Mr. BARLOW. Are they selling stock in the corporation? Do you see these articles—

Mr. INFANGER. In certain forms they are, but the holders of that stock are all other state organizations or state banks. They are not privatizing to any large extent.

Some of this is occurring with the use of these vouchers, the sale of the cracker factory and things. Some of it is occurring, but I mean this is a big country, and the fact that you sold a few shops up in Nizhny Novgorod and a few factories in Moscow doesn't mean that we have real progress towards a more market-oriented processing system.

Mr. BARLOW. Thank you.

Thank you, Mr. Chairman.

Mr. PENNY. Ms. McKinney.

Ms. MCKINNEY. Nothing, Mr. Chairman.

Mr. PENNY. Doctor, in your experience, is there a pattern to the joint ventures that have been established so far? I mean, it seems to me that, given the Russian system and the lack of credit, inflation rate, et cetera, that we have to be quite creative in setting up a joint venture because their side of the equation may not be, you know, dollar for dollar what we are putting in as an American firm.

What are some examples of joint ventures that you have seen? And what is the contribution from the Soviet participant in that joint venture or that former Soviet participant in that joint venture?

Mr. INFANGER. Again, my experience is limited on this score. But the pattern that I see is that the joint ventures that—some of which I have visited, like the McDonald's joint venture, if you want to call it—the pattern is that the companies have to be in for the long haul. They have to be ready to stand enormous losses at the beginning, to be patient and get a foothold there and expect that



the economy will stabilize in some reasonable amount of time and then they will be able to make a profit.

But I meet with some of these people professionally and privately, and it is a difficult environment. It is a difficult environment for real joint ventures to be concluded and be successful right now.

Mr. PENNY. They really have to be looking many years down the road to a reformed economy and a higher standard of living and a nominal inflation rate. I mean, all kinds of factors really have to come into play before you are looking at much in the way of profits out of any venture of this sort.

But some must be making some money. I am told that there is money being made in the system. Is all the money being made in the system being made in the black market?

Mr. INFANGER. Not necessarily in the black market, but there is considerable money being made by bringing products into Russia or taking raw products out.

What I do not observe in my travels is substantial joint venture investment in productive facilities within Russia. There is evidence all over that American and European products are being brought in and sold and, of course, there is substantial export of fertilizer, oil, other kinds of raw products.

Mr. PENNY. How do you feel about barter arrangements? I understand France, I believe Australia, I think Canada, have undertaken modest barter trade arrangements with Russia. Is that an avenue for the United States to pursue?

Mr. INFANGER. I am sure it is, but I would defer to Mr. Goldthwait's comments yesterday. I am not the person to ask about that.

Mr. PENNY. You are not the one who would have to help us negotiate or make contacts for that kind of a deal, I take it?

Mr. INFANGER. I am there, and I will help in any way, but I just can't speak to the consequences of that back on this end.

Mr. PENNY. How about the Extension Service proposal that was made earlier today where we try to provide Extension Service materials relating to production techniques, conservation practices? Is that the kind of technical assistance that you believe is in urgent need at this stage?

Mr. INFANGER. There is definitely urgent need and an interest, and I think some progress can be made, following on Mr. Evans' proposals, which I have heard him make in Russia to groups.

But there is a larger institutional question. There is an enormous vacuum there between the research establishment under the Ministry and under the Russian Academy of Agricultural Sciences and any new private farmers or the emerging processing sector. There is no question this is a serious problem.

Before 1991, there was a direct connection between the large state and collective farms and the research establishment. The collective farms contracted for research. The collective farms had specialists hired directly out of the research training system. For the private farmers, that link to research doesn't exist. For the emerging processing sector, that doesn't exist.

In this vacuum, there are lots of training schools and educational efforts emerging, some of them media based, some of them school

based. They are training, certification-type efforts, not an extension education effort as we would think of it.

In fact, there is a problem with the Russians understanding our system, what we mean by extension education. And as I listen to how the word "extension" is translated by different Russians, it has several meanings. There is no consensus. Sometimes it is translated meaning consulting services, sometimes training, sometimes information services. So we have to accomplish something about awareness there and then figure out an institutional base from which we can build an extension service if that is what the Russians want to do.

Personally, I think it is sorely needed, especially to help those private farmers out there who have no access to the research establishment.

Mr. PENNY. We heard from two private farmers by videotape yesterday, and one of them was then connected with us here by phone. And a strong interest seems to exist in acquiring production equipment and processing equipment, but the request is, first, kind of farm-based processing equipment so that they can make their commodities market ready.

So we are not talking about a larger creamery, let's say. We are talking about pasteurizing and other farm-based equipment.

How best do you—would you propose we respond to that demand? Here, again, I know that the GSM credit program could be utilized to move equipment of any sort over to Russia, but that may not get it down to the private farmers. It may sit in some warehouse somewhere or it may go to support the state farm structure. It may not support entrepreneurial farmers.

Do you have any suggestions as to how we could move this farm-based processing equipment into the Russian economy?

Mr. INFANGER. Mr. Chairman, I have heard this same request from lots of farmers. These two farmers you had on the telephone link are just representative of a more common request.

What is motivating their desire to have on-farm processing is their inability to access a competitive marketing structure. In fact, many of them are simply shut out of the marketing system. They have to go hat in hand to the state and collective farm to get things marketed or to the state monopoly firms.

Personally, I don't think it is a solution to have every little farmer have a creamery. Personally, I like the proposal made earlier by Ms. Cashman about a joint commission that would help take some of this monetized aid and get it out to small groups that in a cooperative way would establish some sort of feasibly sized production facility that would be a competitive facility to compete with the existing monopoly processing and distribution system. That is not happening, of course, right now.

Mr. PENNY. When do you head back?

Mr. INFANGER. Friday. Take my photocopying machine and go back.

Mr. PENNY. Are you going to take spring with you?

Mr. INFANGER. I wish you had sent a little spring over. I wish I had known the Cats were going to be in the final four. I would have delayed my departure 2 or 3 days.

Mr. PENNY. We appreciate your work and wish you the best as you return to Moscow. And please greet Brian for me.

Mr. INFANGER. I will, of course.

Mr. PENNY. Thank you.

The meeting stands adjourned.

[Whereupon, at 11:55 a.m., the subcommittee was adjourned, to reconvene, subject to the call of the Chair.]

[Materials submitted for inclusion in the record follows:]

## U.S. TECHNICAL ASSISTANCE TO NIS AGRICULTURE

by

Cooper Evans

It is indeed a pleasure to appear before this subcommittee today. I am grateful for the opportunity to offer a few observations on the changes taking place -- and those not taking place -- in agriculture in the NIS.

Some 60 years ago the Soviets began the process of collectivizing their agriculture. It can be argued that this was the largest agricultural experiment in the history of mankind. After 60 years it is clear that the experiment was not only a failure but a disaster.

Now, the NIS has embarked on what is probably the second largest agricultural experiment -- searching for ways to decollectivize and move toward a market-oriented agriculture.

This will be difficult. The realities are quite grim, in the sense that change is occurring only slowly. Major reasons include the following:

\* Excess People

Perhaps the most serious problem is what to do with all the excess people who live on the farms. The U.S. is substantially larger than Russia in terms of population. But in the U.S. only about 5 million people reside on farms while in Russia the number is something like 35



million. Transition to a U.S.-type agriculture would require more than 80 percent of those living on Russian farms to depart, in some manner, from the system. In the short term this is totally impossible. There is no housing elsewhere and no jobs. On a more positive side, it should be noted that many of these people are quite elderly, and that over the longer term some others will certainly be absorbed into the supply, processing, distribution and marketing sectors of agriculture.

\* Social Services And Safety Net

It is important to recognize that a Soviet farm is far more than a "farm" in the Western sense of the word. A Soviet farm is a community which provides residents with all essential social and supporting services -- food, housing, electricity, heat, health care, education, child care, recreation, etc. Most important for this testimony, the farm provides pensions, security and care for the elderly. To many, the thought of leaving the farm or of transforming it radically raises the same fears that would occur in the U.S. from a proposal to end Social Security and Medicare.

\* The Curse Of Specialization

Labor on Soviet farms is highly specialized. Some milk cows, some drive tractors, some repair equipment, etc. Many spend all their lives in one narrow specialty and never have to make management or business decisions. To the great majority having this narrow perspective, the very thought of farming independently is truly terrifying.

\* The Matter Of Risk

Life on a Soviet farm may be dull, but it is relatively secure and predictable. Most peasant farmers have a strong aversion to risks. Only 12 percent express interest in farming independently.

\* The Absence Of Appropriate Laws

Developing a market-oriented agriculture is very difficult in the absence of an appropriate body of law governing property and commerce. Also missing is a court system experienced in settling commercial disputes. Unfortunately the quick evolution of essential laws is unlikely in most republics, given the preoccupation of governments with broader political issues.

The status of Russian law relating to private ownership of real property is one good example of the problem. In Russia an individual may "own" land, but ownership means lifetime use of property and the power to pass such use to heirs. The power to buy and sell is severely restricted and the subject of continuing debate. The power to rent, mortgage and foreclose has not yet been seriously addressed.

However, it should be noted that many agreements are made between private parties on all such matters without the benefit of laws. The hope is that some day law will catch up with reality. Obviously risks are high.

\* Banks And Credit

The almost total absence of a "real" system of banking and credit poses serious problems. Typically, the new private farmer has only one major asset, his land. He must borrow for buildings, equipment, livestock, and operating capital. Only a fortunate few can obtain the necessary credit. There are a number of practical obstacles to correcting this situation. They include the following:

- As mentioned earlier, there are no laws covering mortgages and foreclosures.
- The typical role of Soviet banks has been to dispense government money and credit to state enterprises. These banks have little if any experience assessing risks and managing true loans in a market economy.
- Perhaps the greatest problem arises from the common belief that the only important source of loanable funds is the government. The western concept that loanable funds accrue from deposits and sale of interest bearing paper is not generally understood. Of course, attracting deposits would be difficult today in view of the high rates of inflation in the NIS. To attract deposits would require tax breaks on interest income and indexing of deposits against effects of inflation.
- The ability of NIS governments to "print" money in the traditional manner to fund agricultural credit is severely limited by the certain increase in inflation which would result.



- On the brighter side, the Yeltsin government has drafted a sound proposal for a Russian agricultural credit system. Under this proposal the system would be capitalized not by paper rubles, but by granting it title to large amounts of farm land. The bank would be authorized to buy and sell land and make loans to farmers. A key feature of the proposal is that all loans would be secured by a first mortgage on land. Such a system could work and be non-inflationary. Unfortunately this proposal has little support among Russian legislators.

These then are some of the realities that should temper our expectations and influence our assistance program. A point of great importance is that successful solutions must address the social as well as the technical problems which exist.

The good news is that in spite of the formidable obstacles roughly one percent of the farmers in the NIS have made the transition to private farming. In large measure these new farmers come from the elite in Soviet agriculture. Many are university trained professionals -- agronomists, veterinarians, livestock specialists, agricultural engineers and the like. Others are former chairmen of state and collective farms. Still others are professionals from non-agricultural walks of life, including the military, who have no desire to live in the cities.

It is important to note that not many "peasant workers" have switched to the private sector.

Prospects of success for these private farmers varies widely. Some have yet to produce any crop or product, mostly because of inability to obtain credit. Others are very successful and serve as excellent role models.

Perhaps most promising are the handful of state and collective farms which have elected to convert en masse to true private agriculture. Here each worker owns and operates (or rents to others) his or her specific tract of land. Typically, equipment and central support facilities are reorganized into cooperatives or joint stock companies owned and operated for the benefit of the individual farmers. Here the prospects for success are truly excellent.

However, it should be noted that while the majority of state and collective farms are being "privatized" (as required by law) most of the transformations are far more a matter of words and titles than of substance.

With respect to how the transition to a market-oriented agriculture is likely to progress, several points can be made:

- \* The transition will take many years, perhaps decades. (We should recall the slow but continuing evolution of U.S. agriculture.)
- \* For some years, "collectivized" agriculture and small private plots will continue to provide the bulk of food and fiber produced in the NIS.
- \* Eventually "free-market" principles will probably prevail.
- \* Through trial and error, new structural forms of "free-market" agriculture will evolve and be accepted in the NIS.
- \* It is unlikely that many of these new forms will bear a close resemblance to those common in the U.S. -- at least for many years -- because of the social problems which must be addressed.

To state the case somewhat differently, NIS agriculture is now engaged in a series of structural experiments. Fortunately, both policy and chaos permit great flexibility for local governments and state and collective farms to decide on their own how best to approach the problem. From these experiments, sensible solutions will gradually evolve which are economically sound and socially acceptable.

It would be a grave error for any authority, either domestic or foreign, to presume that it is endowed with the wisdom to define a "best" solution and attempt to impose that solution on NIS agriculture.

For about one year the U.S. has been providing technical assistance to agriculture in several NIS countries, including Russia. Based on this experience it is clear that the effectiveness of our programs can be increased.

\* Link Technical Assistance And Access To Capital

Clearly, tangible results could be increased several fold if technical assistance can in some manner be linked with access to capital. Under the farmer-to-farmer program senior persons, experienced and successful in U.S. agriculture, go to the NIS to provide technical advice and counsel to their counterparts. It has been relatively easy to find promising groups of private farmers to counsel. They are organized, well led, and have well-defined goals. Typical projects of interest are small processing plants, feed mills, and marketing cooperatives all of which would compete with state monopolies (or their privatized successors).

The problem is that technical assistance alone is not



enough. To make something happen, there must also be capital. And in the NIS, capital is scarce.

A point of great importance is that small sums can work wonders. Typically, \$3,000 to \$30,000 is sufficient. And such small sums do not attract the financial "vultures" who are drawn to larger projects.

The successful model for such a program exists in Poland. There, U.S. aid was sold for local currency (monetized). The proceeds were used as seed capital for small agri-industrial projects selected by a joint U.S.-Polish commission. Details are readily available, and I will not repeat them here.

In my judgment, a seed-capital project based on the Polish model would do more to promote privatization of NIS agriculture than anything else that could be done.

\* Distribute "Extension" Publications

A substantial impact can be had by widely distributing translated and edited versions of readily available USDA Extension Service publications. There is great interest in many subjects.

The cost of producing the material would be extremely low. In Russia, I recently received a firm estimate of \$400 to print 10,000 copies of a 24 page pamphlet on grain storage technology. Distribution of such materials also could be accomplished easily and at little cost. An "extension system" as we know it would not be essential. Other distribution systems exist, including:

- Organizations of private farmers have been formed in essentially all countries and political subdivisions down to the district (county) level. Most would enthusiastically provide materials to their members.
- Ministries of agriculture also have organizations in all political subdivisions. These are relics of the Soviet system. They have lost most of their management functions and are searching for new roles. Distribution of extension materials could begin the evolution of extension offices as we know them.
- Organizations of holders of private plots exist in the vicinity of all major cities. These groups and their members constantly seek technical materials.

- Farmer-to-farmer volunteers have excellent opportunities to distribute publications.

\* Rethink The Model Farm Program

The role of U.S.-type model farms in the NIS technical assistance program should be re-examined. Their role and value depend in large measure on how we define our goals.

If our goal is to promote the evolution of true private-sector, market-oriented farming then existing concepts of model farms may not be particularly helpful. They are merely irrelevant curiosities to typical private farmers. To these people our model does not address fundamental problems and is totally unattainable.

On the other hand, if the goal is to increase productivity of the large state and collective farms which have been nominally "privatized", then U.S.-type model farms can be useful. Production of food and fiber will increase, but the transition to free-market agriculture will most likely be delayed.

In my judgment we should be searching out and supporting the handful of promising indigenous "model farms". (or associations of farms) that occasionally spring up

randomly across the NIS. The point is that these models are relevant.

Essential characteristics of promising models include the following:

- Locally acceptable solutions to the serious social problems outlined early in this paper.
- Outstanding and innovative leadership.
- Commitment to market-oriented goals including:
  - \* True private ownership of land.
  - \* Land-owner tillage or rental of the land.
  - \* Reward to the individual according to the profitability of that person's land.
  - \* Ease and equity of departure or entry for those wishing to leave or enter the system.
- A strong commitment to mutual support among local private farmers. Development of market-oriented institutions to provide that support. For example, formation of joint stock companies or cooperatives to own and operate for the farmer-owners' benefit equipment pools, processing facilities, and the like.



Models that meet these criteria are rare, but do exist. Each is somewhat different. It is from such experiments that the new and successful structural forms of post-Soviet agriculture will eventually evolve. These are relevant models which warrant strong support.

#### Work With Owners Of Private Plots

Private plots on state and collective farms have long made substantial contributions to Soviet food supplies. This is well known. What is not so widely recognized is the increasing importance of "dacha plots" owned by city dwellers.

Granting small plots to urban residents has been dramatically expanded. Many cities are surrounded by a belt of such tracts. Most are intensively tilled. Many are sites of substantial new residences. Some areas are beginning to resemble American suburbs.

Collectively, plots are now of major importance in food production. They produce a very high percentage of all fruits and vegetables consumed in Russia. These are true free-market operations. Produce not consumed by owners is sold on streets and in markets.

Dacha owners are a promising new group with which to work. They have organized into associations. They are generally well educated, hard working and innovative. Many are retired professionals. They hunger for all sorts of technical information on food production and preservation.

Clearly, food production faces fewer obstacles on the dacha plots than on the private farms. As a concept, plots have almost universal public support. Private farms are controversial.

The collective efficiency of the dacha food sector could be substantially increased. Printed extension materials would be enthusiastically received. Also needed are marketing cooperatives, small community food preservation facilities, and (perhaps of greatest importance) frozen food locker facilities such as those so common in rural America.

These possibilities warrant aggressive exploration.

\* Bring More Farmer Decision Makers To The U.S.

A number of programs bring citizens of the NIS to the U.S. for training or familiarization. These are good

programs which should be continued and probably expanded.

It is not clear, however, that enough emphasis is placed on bringing those who really shape decisions on restructuring NIS agriculture.

Today only a small fraction of the important decisions are being made by national presidents, ministries and parliaments. As noted earlier, both chaos and policy have delegated much to the local level.

Young students trained in the U.S. will only influence events in the distant future. With some notable exceptions, private farmers are not opinion makers in the NIS. It is fine to bring such people to the U.S., but this is not where the action is.

Today, most of the critical structural decisions are being made or strongly influenced by chairmen and senior staff of the state and collective farms. Local or district "ministers" of agriculture are also important.

These are the people who have been told to "privatize" their agriculture (or soon will be). They recognize that change is imperative. They are uncertain as to what that change should be. They are usually skeptical of the

extent to which "Western" principles can be applied. They know that regardless of the chaos at the national level they must make decisions. Most important, they have received few specific instructions and have much flexibility.

These are the people with whom we should be working. We should broaden their perspectives on how market principles might be introduced into their institutions without destroying the social responsibilities of their farms.

The point of greatest importance is that these are the people who have the power to strongly influence whether the change made in the inevitable restructuring of huge farms is nominal, significant or revolutionary. These are the people with the power to bring about "mass conversion" to the "true (economic) faith".

In my judgment it could be very constructive to bring perhaps 1,000 such decision makers to the U.S. each year. They should spend little time in cities or universities. For them, the relevant institutions are local farmer cooperatives, local livestock auction markets, local implement dealers, commodity markets, etc. More than a drop-by visit is needed. It is desirable for the guests



to participate in the day-to-day operation and observe the decision making structure of these organizations.

\* Support Emerging Commodity Exchanges

Commodity exchanges play an important role in market economies. A number of such exchanges have been attempted in the NIS. Many have failed or are at best only marginally successful. However, a few are well led, adequately financed and truly innovative.

Transition to a market economy can be assisted by providing support to successful exchanges. There are at least two ways to do this:

- One is by providing technical advice and counsel. This is being done, on request, under the farmer-to-farmer and other programs.
- Another is by utilizing the most efficient of these markets, at least to some extent, as a channel for sale within the NIS (monetization) of donated U.S. commodities. To date, these markets have not been so utilized.

Those responsible for monetizing U.S. commodity aid have a natural tendency to sell to buyers with whom they have worked before. This minimizes surprises, simplifies the process and has been a reasonable policy.

However, it also tends to move product through the same old bureaucracies that dominated trade under communism. The channels and networks tend to remain much the same, even if they have been privatized. This is not all bad, but it does tend to preserve the old monopolies.

The point of importance is that we should probably begin to move product, at least on a pilot basis, through some of these new markets.

\* Should We Do More On Agricultural Credit?

As outlined early in this report, availability of agricultural credit is a major problem and an adequate internal NIS solution is unlikely in the near future.

The U.S. is trying to help by providing technical advice and counsel to both old and new agricultural lenders. This effort is both productive and worthwhile.

However, the difficulty is similar to that with other technical assistance. For a real solution, technical assistance must be linked to capital, in this case loanable funds. But there is a dramatic difference in the amount of money needed for credit as opposed to that required to make an impact as seed capital for other purposes. The need for credit is at least an order of magnitude larger than the need for seed capital.

The probability that the U.S. will be willing to donate and monetize enough agricultural commodities to seriously address the NIS agricultural credit problem is low. However, in the unlikely event that this should occur, the following are several principles that would be critical in a sound NIS agricultural credit program:

- Agricultural loans should be made only when secured by foreclosable first mortgages on property.
- Interest rates must not be fixed, but linked to actual inflation rates occurring during the life of loans.
- Because of the steady erosion of real value in ruble accounts, donated commodities should not be converted into rubles until the money can be loaned.

- Availability of funds must be linked to cooperation with technical advice and counsel on market-oriented lending principles.

\* Private Investment Large And Small

Finally, I have been asked to comment on the role of both large and small investments by U.S. private interests.

Clearly such investments, if carefully made, can encourage transition to a market economy. However, with respect to NIS agri-business there are at least three points of importance:

- The vast bulk of NIS agri-business is controlled by state monopolies, both national and regional, or by their privatized successors. To be truly helpful, U.S. investments should not be in these monopolies (which is the natural inclination). U.S. investment should focus on creating new competition for these huge, inefficient complexes.
- The absence of an appropriate body of commercial law and supporting court system has discouraged U.S. private investment. This problem will persist for



some time. The problem can, of course, be overcome by U.S. government guarantees or equity participation. To the extent that the U.S. provides such assurances, care must be taken to ensure that investments do not merely reinforce the old non-competitive system.

- Investment in small or new enterprises will usually be very positive. This will be particularly likely if there is equity participation by private farmers and plot owners, their associations, or by state and collective farms which have been truly privatized. Farmer-owned cooperatives structured on the American pattern are one appropriate approach to assure this goal.

These then are some of my thoughts on U.S. assistance to agriculture in the NIS.

Attached is a brief resume, as requested by the committee.

In addition, I am attaching to my testimony a copy of a paper by Dr. Alexander A. Nikonov titled "Agricultural Transition in Russia and the Former States of the USSR". This was published in the American Journal of Agricultural Economics in 1992. Dr. Nikonov is president of the Agrarian Institute of the Russian Academy of

Agricultural Science and was for many years president of the Academy of Agricultural Sciences of the USSR. In my judgment this is by far the best and most authoritative piece of its kind.

Again, I appreciate the opportunity to testify.

(Attachment follows:)

RESUMECOOPER EVANS

Cooper Evans is a farmer who raises corn, soybeans, cattle and some horticultural crops in Iowa and Missouri.

He is a member of the board of directors of Volunteers in Overseas Cooperative Assistance (VOCA) and in 1989 and 1990 was on the White House staff as special assistant to President Bush for agriculture. In both of these assignments he has been deeply involved in technical assistance to agriculture in Eastern Europe and the former Soviet Union.

Mr. Evans has traveled widely in the rural areas of that part of the world each year since 1988. He has come to know many of the political leaders, both national and local. He has spent time on numerous farms from the Baltic to Eastern Siberia.

From 1980 to 1986 Mr. Evans was a Member of Congress and of the Committee on Agriculture.

Mr. Evans is also a member of the board of directors of Self-Help, Foundation, a non-profit organization dedicated to introducing appropriate mechanization to small tract farmers in developing countries.

In 1993, Mr. Evans received the annual Vision Award of the U.S. National Forum on Agriculture.

RUSSIAN PRIVATE AGRICULTURE

Oral testimony before the Foreign Agriculture and Hunger Subcommittee  
Committee on Agriculture  
U.S. House of Representatives

March 31, 1993  
Room 1302 Longworth House Office Building

By Ted Gashler  
Associate Dean, Trade & Industry  
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## RUSSIAN AGRICULTURE

I appreciate the opportunity to talk about my experiences working as a volunteer with Russian farmers and will share with you my findings on what works and does not work in U.S. assistance to Russia as it attempts to move to a free market economy.

My name is Ted Gashler. I am from Abbotsford, Wisconsin, and am the Associate Dean over the Trade & Industry Division which includes Agriculture and International Agriculture at Northcentral Technical College in Wausau, Wisconsin. I am also a sheep farmer with registered Hampshire sheep. In the past I have owned and operated two dairy farms, one in California and one in Wisconsin. I have also previously owned a milk processing plant in California.

I am grateful to have served on assignments for Volunteers in Overseas Cooperative Assistance (VOCA) in countries ranging from Poland to Kazakhstan. As a VOCA volunteer, I had the opportunity to work on the following projects.

1. The development of the first privately owned meat processing plant in Poland. The plant will produce sheep and beef for Moslem markets. It will provide a market for 800 members of the sheepbreeding association of Southeastern Poland. This 3-year project will be completed in July 1993.
2. I donated the first sheep to go from America to Poland since 1938 (and the first registered Hampshires ever). This project provided Polish sheep farmers a means whereby they can develop a meat type breed to improve the overall quality, quantity, and profitability of their industry.
3. I donated the first sheep semen from registered Hampshires for artificial insemination and embryo transplant purposes ever to go to Poland.
4. I have been working with groups from Poland, Belarus, Ukraine, Russia and the United States to trade Polish wool for Russian tractors, made in Belarus. This project is in progress and will provide a market for Russian tractors and Polish wool. The tractors will ultimately be sold in the United States, and will put about 1000 Russians back to work. This is a win-win situation for all countries involved.
5. Through the help of the Moscow VOCA office and the USDA in Moscow, we were able to get U.S. cotton into Russia to provide the Textile Mill of Ivanovo cotton to keep the factory in operation.
6. Presently I am working with Kazakhstan agriculture officials to send registered Hampshires and semen to Kazakhstan to introduce meat type sheep in that country, just as I did in Poland.
7. I am working with a state farm in Kazakhstan and Mr. George Danner of Global Agri-Tech, to send a complete cheese plant from Wisconsin to Kazakhstan to provide a place to market milk for private and state farms and employment for about 30 people.

I have also worked with other organizations that are financed under the AID program, including the Cochran Fellowship Foundation, Communicating for Agriculture and ACDI's Reverse Farmer to Farmer program and Georgetown University.

Last summer under the auspices of VOCA, I had the opportunity to work and live with the new private farmers in the Ivanovo Oblast Teikovo District of Russia. Last December and January, VOCA sent me to work in Kazakhstan with the new private farmers of that country.

The private farmers of Russia are in every sense pioneers. They are some of the first people in Russia to have perpetual land "use" rights in some 70 years. Land cannot yet be bought or sold in Russia, but it now can pass from one generation to the next. Therefore, farmers have no rights to mortgage the land or borrow on it. So, like the pioneers of America, they are starting out with very few material goods, no credit, little or no machinery, no homes, no electricity, and no water except for what they haul from rivers or ponds. Yet they have something much more valuable, they possess the personal attributes that ensure success; namely a positive attitude, dedication, desire, hard work, and they are teachable with a strong desire to learn. They have the "I Can" attitude.

There are approximately 200,000 private farms in Russia. The RF Agrarian Institute estimates there are 2.4 workers (farmers) per farm for a total of 480,000 private farmers, with more than 1 million people living on private farms. Many of the new pioneers came from the state and collective farm system, a lot of them are specialists in various agricultural areas with management experience in farming.

During my assignment, I accomplished established goals for this project. They included numerous farm visits; farm meetings; meetings with local, regional, and national governmental authorities; credit authorities; and government agencies both Russian and American. In addition, I met with many other sources that can and will provide resources to help the private and government farmers.

We discussed business plans, marketing, credit and financing, the importance of farmer-owned cooperatives, storage methods, processing, small scale business methods and techniques, profitable livestock production, and the possibility of training programs for the private farmers and related agribusiness people in Russia and in the USA.

It was both extremely challenging and humbling to work with the new private farmers who are literally starting from scratch; building homes, barns, and corrals while trying to establish crops and care for a few head of livestock. I found farmers living in discarded truck bodies, wagons, tents, cars, and even some were living in haystacks.

The typical farm that I worked with was a diversified operation, with 25 to 50 hectares (or 61 to 123 acres). Livestock includes a cow or two, 5 to 25 sheep, 2 to 4 pigs, and some chickens. The crops customarily consist of a vegetable garden, a few hectares of oats, some wheat, buckwheat, rye, and often about half an acre of potatoes for home and livestock use. The remainder of the land is usually pasture and woods. Roads to the farms are nothing more than paths in the sod that have become deep ruts, difficult to maneuver in the summer and

impossible in the spring and fall rainy seasons. The inability to obtain machinery, parts and fuel, often at any price, all make farming a real challenge.

On the other hand, I found the massive state-owned enterprises, even though run down and inefficient, were still in control of storage, processing, marketing, and input supply monopolies, and enjoy government credit. Private farmers face harassment and bureaucratic obstacles from conservative politicians and collective farm managers.

Victor Chesnikov, president of Akkor in Ivanovo (the association of Private Farmers), told me the main problem private farmers face is one they have no control over. It dwarfs all the other problems in scope and magnitude. This is Russia's monetary system. He said even though he loves President Boris Yeltsin, on January 1, 1992, he lifted price controls on most goods except basic food items and fuel. He said this will cause far reaching effects in all segments of the Russian population. Indeed it has; in 1992 inflation exceeded 2,000 percent. The inflation rate is now at 25% a month, the gross national product is down 20%, and living standards are off 50%, and I am convinced things will get worse before they get better.

The government still controls prices on basic staples such as milk, meat, and bread. These are the principal produce of most private and government owned farms. To make things even worse for the farmer, there are no price controls on the goods and services they must purchase. This has caused a cost-price-squeeze for the farmers that is not only leaving them without a profit; it is also taking away incentive.

Many farmers, from both private and state farms, told me the FOOD America sends to Russia is making things WORSE for Russian farmers, and ultimately it will affect all Russians, as farmers are not receiving prices high enough to provide a profit. They said as long as Russian leaders know the USA will furnish cheap food, this situation will continue. Several top Russian agriculture officials in Moscow told me this policy will eventually hurt everyone in Russia. Large state farmers are now producing less because there is no profit incentive, thus there are less rubles to purchase all other consumable goods. Business and industry will eventually feel the squeeze, and this will mean fewer jobs. They asked me "how American farmers would like it if Australia or New Zealand would ship milk and meat to the USA at a price lower than American farmers can produce it?" As an American farmer who has watched cheap lamb and dairy products come in from Australia and New Zealand, I had to admit I did not appreciate the competition any more than they do.

Yet at any given time, Russian officials are in Washington seeking additional credit, negotiating for added billions in agriculture loan guarantees to purchase more grain, meat, milk products, and other food items. It probably will be granted. Even though all signs point to the fact, it is just a matter of time before Russia begins to default on loans now guaranteed by the American government. Russia's economic distress is well documented, inflation is up . . . exports are down . . . and the ruble's value is eroding. According to the March 1, 1993, issue of The Washington Post and the Center for Economic Reform, Russian Federation, debt payments expected to come due in 1993 (including unpaid bills from 1992) are \$40 billion. Expected revenues from exports are \$35 billion.

Russia's entire production in 1991 was 89 percent of 1990 and the full production in 1992 was only 80 percent of the 1991 total. The standard of living, the real per capita income in January 1993, was 43 percent of the January 1991 average.

But, on the bright side, private farms are becoming more important in furnishing the Russian food supply. In 1992, it is estimated that private farmers produced 10 percent of the bread wheat in the country on only 3 percent of the land. Private farmers, gardeners, and "dacha" (summer home) owners produced over half of all fruits and vegetables in Russia, including 60 to 70 percent of the potatoes. This shows again that production and efficiency increase with independent farmers. I found that pride of ownership works in Russia just as it does everywhere in the world.

Another thing that makes agricultural production, processing, and distribution extremely difficult is the fact that interest rates are now 80% to 160% per year. In most cases there is no credit available to private farmers or independent businesses at any rate. I talked to three bankers who all told me agricultural loans are a poor risk. They said "farmers and small privately owned businesses cannot pay back loans at such rates of usury."

I requested the use of the city hall in Tekova to hold a meeting with the private farmers of that region. Of 41 private farmers in the region, 40 came. We discussed what is working and what is not working with Russian agriculture. They told me of their fears and frustrations. The greatest fear is the possibility that the financial reforms will eventually result in hyperinflation and the restoration of dictatorial rule and centralized control over the economy. They said virtually all farms in Russia, both private and state, are deeply in debt. No one expects the state farms to repay their debts but a real threat of bankruptcy hangs over the private farmers. They said if present conditions continue, many private farmers in Russia could be forced into bankruptcy. They said the total lack of credit along with the high interest rates makes it impossible to buy equipment, fertilizer, or any of the other production inputs. They also complained that they only had the rights to "use" the land but cannot sell or mortgage it. Another big concern was the few options for marketing their products and the lack of private processing facilities. One big contention was that the loans from the World Bank and other sources never seem to trickle down to them, but there is always a generous supply of credit to the inefficient state-run collective segments of agriculture and industry.

I asked what is working and what can the USA do to help the Russian private farmers. Eugeny Fadeev, an articulate and dedicated leader and spokesperson said what seems to be working is their movement towards the formation of farmer-owned cooperatives based on the American farmer-owned cooperative model. He said this will be the best way to provide credit, storage facilities, food processing, marketing, and distribution. He said only with a team effort, with all farmers working together, will they survive.

The group's first request was that some U.S. aid needs to be earmarked for the private farmers and businesses in Russia. They also said more training needs to be provided for management in the privatized businesses and for the owners of private farms. Mr. Fadeev specifically asked for an expanded effort in exchange programs for the private sector rural leaders to be sent and trained in the USA. They also asked for help in developing an Extension Service modeled after the U.S. extension system. Finally they asked for continued support of VOCA.



They said they need these practical specialists to work directly with both the government and private sector leaders to continue developing a private agricultural system in Russia.

I am a Wisconsin sheep farmer. I see a lot of similarity between Russia and a baby lamb born in a January snowstorm in northern Wisconsin. If the shepherd CHOOSES to go out in the cold to bring the newborn lamb inside, where it is protected from the storm, dries it off, warms it up, gives it some life giving colostrum, and then shows the lamb how to find its mother's milk, the lamb will survive and grow and become a healthy productive member of the flock. If the shepherd CHOOSES to stay in his warm house rationalizing that he has other things to worry about, and leaves the mother and natural consequences to take care of the situation . . . there is a 90% chance the shepherd will find the lamb dead in the morning.

As Americans we NOW have a very short window of opportunity. WE have to make the CHOICE. Are we going to help the newborn Russian farmers survive? Are WE going to help sustain their new democratic form of government, or are we going to stay in our warm houses and let nature take its course, and watch democracy die and witness dictatorial government return to Russia?

Recently President Clinton said, "If we are willing to spend trillions of dollars to ensure communism's defeat in the Cold War, surely we should be willing to invest a tiny fraction of that to support democracy's success where communism failed."

This Wisconsin shepherd agrees.

We must honestly ask, are we sending grain and other agricultural commodities to Russia to help them or U.S.? I know the far-reaching political implications of this question. I realize the impact this has on American farmers and American agribusiness. I also know what it is doing to Russian farmers and the total Russian economy. No, I don't want the Russian people to go hungry. I want them to become one of the great democratic nations of the world. This can only happen if we are to provide REAL help.

We need to bring this lamb in out of the cold, and nurture it until it becomes a productive member of the democratic flock. Just as we have done with Japan, Germany, England, Korea, Taiwan, France, etc., when they were struggling for life. We must TEACH THEM TO FISH so they can feed themselves, rather than giving or selling them commodities until they have lost the ability to produce, are bankrupt, and are forced once again to become a BEAR instead of a lamb.

America, along with the other democratic members, needs to realize that foreign aid alone won't turn the course of Russian history. But it would be completely foolish to let this new democratic movement die in the chaos of this era because of the need of a relatively small amount of cash to keep basic government services intact. What is relatively small? Compared to the amount the democratic governments have spent in the past to defend themselves from the threat of communism and the former Soviet Union, relatively small is in comparison to what it will cost if we don't make the right choices now.

What kind of help am I referring to? Quit expecting too much too early, and reward for advances in DEMOCRATIC SELF-GOVERNMENT. Then start

earmarking some funds for private farmers and private agribusiness. Expand training programs for private sector leaders. Invest in privatization. Put the money where it will do the most good.

#### WHAT IS WORKING

Production has increased where private farmers have taken over the land. The difference between management by committee and individual ownership is phenomenal. I believe that if the free market economic reforms continue in Russia, farmer-owned cooperatives will play a major role in transforming inefficient, state-controlled agricultural monopolies, to privately owned farms and agribusinesses. Russian farmers are finding there is power in number. It is becoming very evident that farmer-owned cooperatives will be increasingly important in solving many of the problems they face today. Together they have the power to buy in volume, sell in volume, provide transportation and storage, create markets, establish processing facilities, and develop electrical supplies. As the cooperative movement grows, it will create jobs for workers providing services for the cooperatives.

VOCA is doing a commendable job in providing GENUINE aid and assistance while promoting both the cooperative movement and democratic principles. It is successful because each full-time employee is a hand-picked professional, dedicated to the democratic way of life and to helping their fellow men. Each understands basic human needs and has a good working knowledge of business, agriculture, education, and government. All have strong backgrounds in international assistance and education and are well versed in the countries and peoples they assist.

VOCA has also been very successful in attracting volunteers that are expert in specialty areas needed in the various countries. Again these are people with a proven track record dedicated to building up the people and country they are assigned. VOCA is successful because of the TOTAL DEDICATION of EVERYONE involved in the organization.

There are several other organizations that are doing a good job of providing help to Russia and other Eastern European countries. They are the Cochran Fellowship Foundation, ACDI's reverse Farmer to Farmer program, Communicating for Agriculture, etc.

It has been my pleasure to work with the Cochran Fellowship Foundation on projects affecting groups from Latvia, Russia, Poland, Ukraine, Czechoslovakia, Romania, and Hungary. Following is one example.

Through a joint effort with VOCA I was able to bring 7 people from Poland and train them in the meat processing industry. These people were trained in the state of Utah at Brigham Young University food science department, in Illinois with various equipment manufactures and distributors, and in Wisconsin with meat plants, to learn the hands-on part of the business.

## WHAT IS NEEDED

VOCA and Cochran and a few other dedicated groups are doing a great job, but more is needed. They are finding the best people in each country. They provide the finest American specialists available to work and train these outstanding people in current methods and technology, while instilling both cooperative and democratic principles. They do everything presently possible to help make these choice individuals a success, but . . . more is needed.

Upon completion of training, these well-disciplined, intelligent people are ready to hit the road running. They are excited, know how to perform, are willing to work hard, sacrifice, and become successful. Then reality sets in. They have all the knowledge and skills and everything needed except one thing . . .

FINANCING.

Interest rates in Russia vary from 80 to 160 percent per year. Further reality is, NO money is generally available for farmers or small business because of lack of collateral.

The "more that is needed" are training programs that bring more of these choice people, the future leaders in agriculture, business, and industry to the USA to complete an APPRENTICESHIP type of training program under the strict supervision of a MENTOR who is presently involved in that particular business. Upon completion of the program, the student would then go back to Russia, develop a sound BUSINESS PLAN, find a satisfactory location, and when approved by his MENTOR, COMMITTEE, and the FOUNDATION, he or she would then be eligible for a LOAN to get started in the business in which he or she has become adept. The LOAN would be a long-term loan at present U.S. interest rates. Periodic scheduled follow-ups by the mentor would be an integral part of the program to ensure success.

If there is to be a true and lasting democracy established in Russia, we must bite the bullet and provide REAL help in the form of LOANS to the dedicated people who are putting everything they have on the line to learn all they can about a particular subject and then give all their time, talent, and finances to make it a reality. Presently, we are training these good people, then turning them loose in an impossible situation where they are destined to FAIL.

Rather than dumping all the aid into the pockets of government officials that may or may not support democratic principles, we should establish a foundation so we can put some of the dollars into LOANS that will generate interest and can be used over and over again for the good of many.

We also need to create other credit systems for farmers that will provide both long- and short-term loans. We need to ensure that any commodities sent to Russia are NONCOMPETITIVE with Russian supplies.

## CONCLUSION

## RUSSIAN AGRICULTURE HAS THE FOLLOWING NEEDS

1. Continue to support VOCA and Cochran.
2. Continue to support and advance the farmer-owned cooperative movement in all areas of Russian agriculture.
3. Ensure that any commodities sent to Russia, are NONCOMPETITIVE with Russian supplies.
4. Establish a replica of the successful U.S.-Poland Joint Commission for Humanitarian Assistance, whereby the sale of U.S. commodities--if they are going to be sent to Russia--will fund the financing of small- and medium-sized food processing plants owned by private farmers and farmer associations.
5. Help create a Russian-American extension service.
6. Provide aid on EVIDENCE OF DEMOCRATIC SELF-GOVERNMENT, not on the basis of Russia meeting immediate economic conditions imposed by the West.
7. Earmark special funds for private farmers and businessmen.
8. Develop a foundation that can provide LOANS at current U.S. rates of interest to private farmers and small business people that have successfully completed an APPRENTICESHIP type of training program in the USA under the direction of a MENTOR.

I know what I am asking for is difficult, but it can be accomplished. The impossible may take a little longer.

(Attachments follow:)



**Ted Gashler**

Ted Gashler is the Associate Dean of the Trade and Industry Division at Northcentral Technical College of Wausau, Wisconsin. In this capacity, Mr. Gashler oversees the college's agriculture and international program.

In addition, Mr. Gashler is a sheep farmer with registered Hampshire sheep. In the past, he owned and operated two dairy farms, one in California and one in Wisconsin. He also previously owned a milk processing plant in California.

Mr. Gashler has served as a volunteer Farmer-to-Farmer specialist on assignments in Poland, Kazakhstan and Russia on behalf of Volunteers in Overseas Cooperative Assistance (VOCA).

As a VOCA volunteer, Mr. Gashler has been instrumental in many "firsts." He was active in the development of the first privately-owned meat processing plant in Southeastern Poland. He donated the first sheep, sheep semen to go to Poland since 1938 and the first registered Hampshires ever in Poland, and is working with Kazakhstan agricultural officials to send the first Hampshires there. He has been actively involved in promoting barter trade between East and Central European countries and the U.S., and is credited with saving hundreds of jobs in a textile factory in Southern Russia when he arranged for the export of U.S. cotton to the plant.

At Northcentral Technical College, Mr. Gashler operated the college's training program for future Polish agribusiness leaders. He has worked closely with USDA and USAID programs to identify current and future grassroots leaders for U.S. training programs.



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### VOCA Helps Rural Communities Solve Their Problems

Volunteers in Overseas Cooperative Assistance (VOCA) has been working with rural enterprises around the world since 1970. The mission of VOCA's Farmer-to-Farmer and Cooperative Assistance programs has been to increase the economic opportunities of members of cooperatives and other small and medium scale agriculturally-based enterprises. Working at the express request of private farmers associations, rural entrepreneurs and farmer cooperatives in Eastern Europe, Asia, Latin America and Africa, VOCA volunteer specialists have brought their know-how and experience to solve problems and create rural economic "success stories."

VOCA was created by America's democratically-controlled cooperatives and credit unions as its volunteer assistance arm. VOCA projects range from helping the first private farmers in Russia with the management and operations of their farms, to helping parliaments around the globe develop credit union and cooperative legislation. VOCA has been particularly active in recent years in helping rural communities combine the needs of environmental and natural resource management with agriculture and economic development.

VOCA's method of operations centers on working directly with innovative rural communities and community leaders to help them solve the problems they identify. VOCA's regionally-based staff help rural leaders in identifying and articulating development objectives, with local communities and organizations then making a written request for VOCA's assistance. VOCA's U.S.-based staff then works to find the "best available qualified specialist" for each request. This specialist volunteers his or her time, and works directly with the requesting organization to solve the problem at hand. Most assignments last between three weeks and three months. VOCA will typically work with requesting organizations over a period of several years, sending out several specialists over the time period.

VOCA aims to create a "critical mass" of "success stories" in each country and region where it works. The greater the number of successes at the local level, the greater the chance that national-level policy decision-makers will take notice and put in place policies and laws that make sense to rural populations. VOCA prides itself on having achieved a number of macro-level changes through successful sustainable and replicable micro-level work.

In FY 1992, VOCA completed 453 projects on a budget of seven million dollars. In addition, VOCA received donated services from requesting organizations and volunteers in the amount of five million dollars. In FY 1993, VOCA expects to complete 900 projects. VOCA receives its funding from both public and private sources. VOCA's public funds are provided by USAID under a series of grants. Since its creation in 1970, VOCA has worked in over 100 countries in Latin America, Asia, Africa and Eastern Europe.

Currently, VOCA has offices in the following countries:

Russia	Czech Republic	Bulgaria	Uganda
Poland	Estonia	Latvia	Indonesia
Lithuania	Byelarus	Romania	Guatemala
Ukraine	Kazakhstan	Hungary	Bolivia
Armenia	Albania	Slovakia	Zimbabwe

## STATEMENT

BY

MARTHA CASHMAN

VICE PRESIDENT FOR INTERNATIONAL DEVELOPMENT

LAND O'LAKES, INC.

Mr. Chairman and Members of the Committee.

My name is Martha Cashman. I am Vice President for International Development of Land O'Lakes, Inc. On behalf of our 300,000 farmer and rancher members, I appreciate the opportunity to reflect on the future of private agriculture in Russia and the role that we are playing to provide private farms with technical assistance, training and moral support.

My testimony covers three subjects: first, some general background on Land O'Lakes and its international programs; second, our involvement in supporting private Russian agriculture; and third, observations and recommendations for U.S. assistance programs to Russia.

Land O'Lakes is a Fortune 200 company located in 15 upper tier states stretching from Wisconsin to the Pacific. Begun in 1921 by a few dairy farmers for producing sweet cream butter, the company had its best year ever in 1992 with sales of over \$2.5 billion in its four core businesses of feed, seed, agronomy and dairy foods. Land O'Lakes is a totally integrated agricultural company which provides a full line of agricultural inputs to over 1,300 local cooperatives. Land O'Lakes is the number one leader in national sales of butter and deli cheeses, and provides over 600 other food products directly for consumers and through food service and industrial markets.

In agricultural supplies and support, Land O'Lakes is a major market force in crop and livestock industries with domestic and international sales of more than one million tons of animal feeds, and is a leading supplier of fertilizer, protection chemicals and petroleum products. Land O'Lakes is the national leader among cooperatives in research with two extensive state-of-the-art facilities which concentrate on production at a 535-acre "Answer Farm", and food research and product development in a laboratory at our headquarters. Land O'Lakes collects and processes four billion pounds of milk a year.

Land O'Lakes is the largest and among the few major U.S. agribusinesses with an international development department. In our overseas development work since 1981, Land O'Lakes draws on its 6000 front-line employees and vast membership to provide technical assistance, overseas training and internships on member farms and in local cooperatives and at national headquarters.

The principal focus of Land O'Lakes international work is agribusiness management training worldwide and especially in Central and Eastern Europe. For example in 1992, Land O'Lakes conducted 114 courses in thirteen subjects in Central and Eastern Europe and the Baltic Republics. Since 1983, Land O'Lakes has trained over 500 foreign participants in the U.S. and provided technical assistance in some 22 developing countries. Land O'Lakes has implemented 12 long-term contracts with the U.S. Agency for International Development. The company has been awarded the

President's World Without Hunger Award and the Fowler-McCracken Commission Award for this work.

Why is Land O'Lakes interested in undertaking these development assistance efforts? The first motive is to be a good world citizen. The company has the know-how and human resources which we want to share with less fortunate people overseas. We also think we can play a role in reforming our foreign aid programs to operate on a people-to-people and business-to-business basis.

The second is the desire of our CEO and corporate leadership, board of directors and members to be the best international agribusiness company in the world. To achieve this goal, we must be part of the global economy. Through training and technical assistance, our staff becomes familiar with international perspectives and markets and deepens their appreciation for our cooperative roots.

The third is long-term commercial interests to serve our member-owners better through generating business overseas, especially in the feed sector where we are already a major international competitor. Quite frankly, Land O'Lakes can not compete with European companies for new markets in Central and Eastern Europe and Russia with our U.S. plants given generally higher transportation costs. Instead, we need overseas partners and local production for some of our patented and high quality feeds and other products. At Land O'Lakes, we operate our development programs entirely on a non-profit basis and separate its activities from these emerging commercial efforts overseas.

In Russia and the Ukraine, Land O'Lakes is carrying out a major Farmer-to-Farmer project to place 130 volunteers to assist in agricultural restructuring and promotion of private agribusiness. Beginning in late 1992, this project is focused on five agricultural regions south of Moscow and the L'vov region in the Ukraine. The project is intended to increase the availability of food through introducing competition and enabling private farmers and agribusinesses to produce, process and market foods.

Volunteer agricultural specialists will assist in the development of model agribusinesses; institutionally strengthen private farmer organizations in post-harvest storage, processing and marketing; and work with reform leaders and progressive managers in the privatization of collectives and state-owned enterprises. The program is designed to respond to requests from the field and is managed by a former Land O'Lakes board member, Rich Hanna.

Land O'Lakes second project in Russia has a longer history. In October 1989, a senior delegation from the company visited several areas of the Russian Republic at the invitation of the Agricultural Ministry of the Russian Republic. The ministry was interested in developing a Land O'Lakes-type pilot dairy cooperative. In July, 1990, a company representative met with Boris Yeltsin who requested



that we prepare a proposal. Subsequently, an initial study was carried out by Land O'Lakes and, last year, a feasibility study undertaken jointly with AKKOR, the Association of Peasant Farms and Cooperatives of Russia. AKKOR represents and provides services for the rapidly growing private farming movement which now numbers over 200,000. These studies were financed privately by Land O'Lakes and the Ministry.

The joint analyses indicated that it is feasible and financially viable to form a private dairy cooperative in the Venev District (160 kms. south of Moscow) which would first provide farm supplies to members and, then, begin small-scale butter and cheese processing. In December 1992, the cooperative was formed and has begun its operations. This effort is being undertaken to demonstrate an integrated approach to dairy development and to serve as a model for other regions. At each step, Land O'Lakes and AKKOR will undertake symposia and prepare how-to publications which will widely disseminate lessons-learned and promote agribusiness formation throughout Russia.

To carry out the project, Land O'Lakes successfully sought support from A.I.D. to provide long-term advisors on site and short-term technical assistance, training and U.S. management internships over four years. We are now in the process of placing long-term staff in the field and intensifying our technical assistance.

The third activity which Land O'Lakes plans to undertake in Russia involves a butter monetization project. We are proposing to USDA that Land O'Lakes sell 12,500 metric tons of Section 416(b) surplus butter in Russia over two years. The revenues generated from the sale of butter will finance the purchase of dairy and animal feed processing equipment, and technical assistance for the installation and operation of equipment at the newly formed Venev cooperative.

In addition, the project will introduce the concept of Russian value-added branded products to consumers. Most branded packaged products currently sold are imported. Newly privatized food companies in Russia can increase their market share and financial returns through the further processing of commodities for retail sale.

Butter is currently sold in bulk at retail outlets. The project will introduce Venev-label prepackaged butter of high quality to consumers and, thereby, create a market for the model cooperative. After two years, the Venev cooperative will be able to replace the donated butter with their own product. Thus, U.S. food assistance has a double impact of providing a needed commodity and as an engine of private agribusiness development.

Based on these experiences in Russia, I would like to make a few observations:

■ Russia is not like any other country in the world. The development challenge is different from developing and middle income countries and those of Central and Eastern Europe. These differences are profound and rooted in the history of the Russian people. While its economy is now in a shambles and dysfunctional, Russia has high educational levels and immense wealth. Unlike Eastern Europe, it is not trying to recapture its pre-communist past, but is overcoming a legacy of 75 years of communist totalitarianism and 1,000 years of dictatorship.

■ Russia lacks the fundamental underpinning of a democracy and free market generally referred to as civic society. This Jeffersonian idea suggests that democratic societies require an independent or associative sector as an intermediary between individuals and their government and businesses. It is the basis of the social safety net where people look to doing things themselves rather than rely on government for solutions. Civic society is the breeding place for social movements, such as for the environment and women's equality, which can totally change cultures and politics. Within this context, self-help institutions (including a cooperative movement by smallholder family farmers) are a critical mechanism to organize many individuals to tackle social and economic problems including the natural inclination of capitalism to form monopolies and economic elites.

■ Russia is different because its organizations appear to function like those in the West, but do not. Basically, communist institutions carry names such as banks or parliaments, and concepts such as money or investment, yet they are based on entirely different premises. The first challenge of anyone working in Russia is to try to understand how things operate there and avoid assuming that the underlying assumptions are the same. Our goal must be to offer different models and ideas and let them choose those that are appropriate and can be adapted to their situation.

Now, I would like to make five recommendations:

1. We should focus our U.S. assistance efforts in agriculture for a number of reasons: The food sector can respond to free market changes more rapidly than industries, if incentives are put in place. Private farming, small-scale processing, private shops and food marketing are among the few occupations that individuals can undertake, compared to more capital intensive activities in other sectors which will require years to restructure, privatize and modernize. Food availability and the cost of food are politically sensitive and improvements would be a major departure from the communist past and present early evidence that reforms are succeeding. Finally, Russia represents a major market for U.S. feed and other food commodities for the foreseeable future. We can build business partners for mutual economic benefit.

2. Our foreign assistance programs must avoid strengthening the central institutions of the old communist system which are still largely in control of all productive sectors in Russia. While supporting broad policy reform, our assistance must go right to the grassroots and demonstrate the advantages of private enterprise.

We need to focus assistance on helping grassroots leaders who have made the mental shift toward initiative and self-reliance. They are under extraordinary pressure, working against the inertia, passivity and fear inculcated by the old system. Their courage in exercising initiative is amazing. They are facing mounting opposition by the old guard.

Technical assistance should help these local leaders reorder their country's rich human and natural resources in small-scale private business activities. We should help them imagine, create and organize transitional and nascent organizations that promote private initiative and nurture trust. In general, U.S. assistance providers should take great care in working with large companies and business partners with access to funds because, in most cases, these are former communist apparatchiks.

In focusing our assistance, we need to keep in mind two groups of reformers: urban leaders who often emerged from intellectual and dissident groups, and rural "peasant" leaders who are committed to individual responsibility for the stewardship of the land. To reach these peasants, U.S. assistance must go to rural areas where there is sufficient political tolerance to allow them to succeed. Local leaders need to be cultivated to support the fledgling family farmers who, with sufficient time and resources, will be able to prove the inherent advantages of private agriculture.

3. We should provide surplus U.S. food and feed in ways that support family farming rather than re-enforce the old state command structure of agriculture. This can be done in two ways: surplus food and feeds themselves can be a development tool by requiring auctions which stimulate private suppliers, truckers and processors. Second, our surplus food commodities can be monetized (sold in the marketplace) because that way it will not undercut local farmers and, quite frankly, with the degree of corruption the food will end up in the marketplace in any event.

We recommend earmarking a percentage of our surplus food and feed grains for private agriculture and that it should be distributed through or in cooperation with the AKKOR national and regional network which represents and supplies private farmers. We propose that up to 25 percent should be earmarked as a condition of our assistance.

4. Feed grains can help stimulate the critical livestock sector rapidly. But, we need to accompany such grains with long-term technical assistance and training for strengthening private

entities. Yet, our food assistance programs are operated under USDA, and economic assistance programs under A.I.D. It is very difficult for a company, such as Land O'Lakes, to get our USDA and A.I.D. officials to work together so that there is a package of surplus commodities and development dollars in the same project. We suggest a requirement that future donations of commodities to Russia should be accompanied by either foreign assistance dollars or drawn downs on CCC funds.

5. Finally, we recommend that USDA should encourage the use of brand names in providing commodity assistance in order to build U.S. markets for American agribusinesses. For example, most Russians think that U.S. surplus butter comes from New Zealand. We suggest a cooperative program with companies, such as Land O'Lakes, in which U.S. surplus commodities would be provided in consumer packaged sizes with U.S. brands. Alternatively, we suggest that labels can promote the sales of U.S. Russian private joint venture partners such as in our proposed 416 monetization project. In that way, we could help Russian companies with packaging and labelling and strengthen lasting business ties.

Thank you very much for the opportunity to participate in these important hearings.

#### Professional Background of Martha Cashman

Since September 1, 1987, Martha Cashman has advanced rapidly to become Vice President for International Development Operations, Land O'Lakes. In this capacity, she has greatly expanded Land O'Lakes' development programs throughout Central and Eastern Europe. In Russia, she has taken particular leadership in developing strong personal and professional relationships with senior private agricultural leaders. Through frequent visits to the field, she has gained a broad hands-on knowledge of the types and scope of technical assistance and training needs to support family farming in Russia.

Prior to joining Land O'Lakes, Cashman was a P.L. 480 Food for Peace Coordinator in Jamaica (1985-86) and The Gambia (1983-84) with specialized knowledge in the use for surplus U.S. food assistance particularly through its "monetization." She has had a variety of positions within national and regional cooperative organizations. She holds a Masters of Agriculture and Bachelors in Elective Studies in public policy analysis from the University of Minnesota.



STATEMENT

## **Russian Agriculture**

**Subcommittee on Foreign Agriculture and Hunger  
US House of Representatives  
March 31, 1993**

**S. R. Johnson\***

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\*Stanley R. Johnson is C. F. Curtis Distinguished Professor Agriculture and director of the Center for Agricultural and Rural Development at Iowa State University, Ames, Iowa.

### The 1992 Agribusiness Centers Project

I am pleased to have the opportunity to discuss our experience in operating Agribusiness Centers for Russia and Ukraine during 1992. The concepts that guided the organization of the Agribusiness Centers were developed from conversations with Russian and Ukrainian farmers, agricultural officials, and members of the academic and educational institutions serving agriculture in these countries. During the organizational period for the Centers, we also visited extensively with U.S. agribusiness firms operating in the former Soviet Union (FSU) and with small- and medium-sized agribusinesses interested in exploring commercial opportunities made possible by the transition of the FSU to a market economy.

In our early conversations with the Russians and representatives of other nations of the FSU, the ideas put forward were often cast in terms of "demonstration farms." At first we misunderstood their interest, thinking that our counterparts were recommending the duplication of a typical midwestern farm in Russia, for example. Instead, our counterparts were requesting demonstrations of modern, successful technologies and management methods and introductions to market economic concepts on a very practical basis. From these demonstrations and training sessions, the farm operators and agricultural officials could appropriate the techniques and approaches most useful in their special situations. In short, our counterparts wanted access to information on technology, management methods, and market concepts that they could utilize in addressing problems of adjustment created by the economic transition.

*Funding:* The Agribusiness Centers were initiated utilizing multiple sources of funding and in-kind resources. Specifically, a \$500,000 grant was obtained from the Trade and Development Program (agency). The Iowa International Development Foundation (IIDF), Iowa State University (ISU), and private-sector agribusiness firms and farm operators contributed funds, time, and equipment. Also, in mid 1992, a grant to acquire grain storage, processing, and handling equipment was obtained from the NIS Task Force of the U.S. Agency for International Development. The funding and/or resources acquired to support the Center were as follows.

Trade and Development Program (agency)	\$500,000
U.S. Agency for International Development	500,000
Private agribusinesses	396,673
Iowa farmers	69,250
Iowa International Development Foundation	400,000
Iowa State University	50,000
U.S. Department of State	1,000,000

Agribusiness Centers support from the U.S. Department of State was provided in the form of a C5B military aircraft to transport equipment, seeds, and other materials along with Iowa farmers who were to assist in crop production in Russia and Ukraine.

*Joint Ventures:* The Agribusiness Centers in Russia and Ukraine were organized as joint ventures or commercial enterprises. The board members were from the United States and from local farms and the agricultural establishment in each of the Agribusiness Center regions. Approximately 2,000 acres of corn and soybeans were grown using seeds, chemicals, and specialized equipment from U.S. companies. The Russian or Ukrainian partners provided labor, machinery, and land. The plan was that the Agribusiness Centers would generate sufficient resources through the U.S. or Ukrainian or Russian contributions to sustain their operation in future years. In actuality, this was not possible because commitments of the Russian and Ukrainian local officials to the trading and other costs of the Agribusiness Centers could not be met due to the deteriorating economic conditions in their countries. Nonetheless, the Agribusiness Centers were operated as though they were profit-making joint ventures, with the proceeds to be reinvested to support further demonstration and training activities consistent with the objectives of the Agribusiness Centers.

The objectives of the Centers were to achieve positive results for both the Russian or Ukrainian partners and the U.S. agribusinesses (or more generally for the U.S. agricultural and agribusiness sector). The specific objectives were to provide trade and commercial opportunities for U.S. agricultural products and agribusiness and to support the transition to a market economy in the FSU. Our intention was to achieve these objectives by introducing U.S. agricultural technology, equipment, and business and market experience to people in the FSU, and by conducting specialized training.

*Short Courses:* The Agribusiness Centers leveraged the information on technology, management methods, market economic concepts, and the joint venture concept itself through a series of one-week training sessions or short courses. The participants in the training sessions were extension economists from ISU, the University of Wisconsin, and other land grant institutions; market economics specialists from other economic organizations (eg., the Federal Reserve Bank of Kansas City); and representatives of agribusiness firms. These one-week training sessions were organized to focus on a particular agricultural activity. Included were:

- Crop production and irrigation
- Grain handling, processing, and storage
- Meat processing and livestock production
- Dairy processing

- Food processing and packaging

Participants were recruited from throughout Russia and Ukraine. Five training sessions were held in each location with approximately 1,100 participants. Evaluations prepared by the participants indicated that the training sessions were quite successful and that a major strength was the ability of the Centers to demonstrate modern technology and management methods.

*Trade Opportunities:* During the training exercises, we also accumulated information from the participants on their commercial interests with U.S. firms. In particular, a database was generated that provided information on the farming operations of the participants, the location and organization of these activities, and special interests that they had in acquiring U.S. technologies and management methods or, more generally, support for the economic reforms. Follow-up on these trade and commercial leads was supplied by the Midwest Agribusiness Trade Research and Information Center (MATRIC) and JB DEMOS. The latter is a joint venture between a nonprofit corporation in Iowa (Corporation for International Trade), a Russian insurance enterprise, and the Russian Academy of Agricultural Science. JB DEMOS operates trade support and commercial offices in Des Moines and Moscow.

In my view, the Agribusiness Centers represent a viable and productive way to assist with the economic reforms for agriculture in the FSU and to create trade and other commercial opportunities for U.S. agribusiness firms. Such trade and commercial opportunities are especially important for small- and medium-sized firms that do not have the resources or capacity to explore market and other commercial alternatives associated with the transition to a market economy in the FSU.

The following U.S. firms were involved in our Agribusiness Centers project in 1992:

Pioneer Hi-Bred International, Des Moines, Iowa  
Stine Seed Company, Adel, Iowa  
Broyhill Company, Dakota City, South Dakota  
Monsanto, St. Louis, Missouri  
Triple F, Urbandale, Iowa  
Shivvers, Inc., Corydon, Iowa  
Golden Valley Microwave Foods, Edina, Minnesota  
Fort Dodge Laboratories, Fort Dodge, Iowa  
Koch Supplies, Inc., Kansas City, Missouri  
Hy Line International, West Des Moines, Iowa  
Holstein Association, Brattleboro, Vermont



Paul Mueller Company, Springfield, Missouri  
 Babson Brothers, Naperville, Illinois  
 Vogel Popcorn, Morral, Ohio  
 Quaker Oats, Chicago, Illinois  
 ICI Seeds, Des Moines, Iowa  
 Kinze Manufacturing, Williamsburg, Iowa  
 Nature's Way, Ottawa, Kansas  
 Oswalt Livestock Products, Ottawa, Kansas  
 Nature's Bio, Ottawa, Kansas  
 American Soy Products, Fairfield, Iowa  
 Sudenga, George, Iowa

Generally these firms participated by providing technicians for the training sessions and/or materials for the Agribusiness Centers. In addition, three Iowa farmers spent a significant period of time at the Agribusiness Centers assisting with the implementation of the U.S. technologies. Bruce Campbell and Wilfred Vittoe worked at the Agribusiness Center in Kakhovka, Ukraine, and Tom Dunn worked at the Center in Stavropol, Russia. Seven of the agribusinesses that participated in the training and related activities associated with the Centers now have developed commercial initiatives in the FSU, e.g., joint ventures, in-country sales representatives, sales of equipment, etc.

### Recommendations

The experience of operating the Agribusiness Centers in 1992 and planning for the 1993 effort has provided a basis for making the following recommendations for agricultural and food assistance to Russia and the other states of the FSU.

- Agribusiness Centers offer an opportunity for combining practical training with demonstrations of advanced technologies and management methods. Farmers and agribusiness practitioners in all nations are similar in that they learn most effectively from working directly with new techniques, products, and equipment. Resources for expanding the number of Agribusiness Centers and placing them on a multi-year funding basis could effectively support the reform of agriculture in the FSU.
- Agribusiness Centers can complement the development of agricultural extension and training in Russia and the other New Independent States. Training at the Centers is most effective when U.S. and FSU agricultural scientists are involved. This was our experience in 1992. The involvement of FSU scientists encouraged cooperation with farmers and

agribusinesses and helped our counterparts develop ideas on how agricultural science and economic concepts on the functioning of market economics can be put into practice. In short, the Agribusiness Centers can help to more fully engage the FSU scientific and educational community in the transition and economic reforms.

- Alternative types of training are necessary to assist in the economic reform. Our Agribusiness Centers used one-week specialized short courses. A broader training program reaching the agricultural technical schools and including intensive, longer term training of practitioners would add to the effectiveness of the assistance. This could be followed up with on-the-job forms of training or assistance. Concepts of private enterprise and markets take time to comprehend and must be adapted to the ideal institutional and cultural setting.
- The scope of the training at the Agribusiness Centers should be expanded. In 1992, we concentrated on farm production. But there are many, perhaps more complicated, problems in the processing and distribution system. Training and demonstrations in these areas should be included in the Agribusiness Centers.
- In the farm input supply sector and in the food processing and distribution there are major problems with monopoly. The antimonopoly policy that will likely develop for Russia and the other states of the FSU will likely rely on discipline from international markets and new firms, not on the break up of large existing firms. Credit and loan guarantees could encourage entry into these monopoly markets and at the same time give the U.S. firms an edge in the new markets and commercial opportunities associated with the reforms in the FSU. These credit and loan guarantees should be made available in such a way that small- and medium-sized agribusinesses in the U.S. have access to them, not just the multinational corporations.
- Assistance with the design of policies for operating market economics and for privatization is badly needed. Many of the problems with the reforms are due to ill-defined or misguided policies and to uncertainty about the course of the policy and institutional changes that will shape the transition. High-level, continuous support of analysis for policy and institutional change should be included in the technical assistance effort. This support should be closely linked with a program to improve the policy analysis and educational capacities in the major scientific institutes and in agricultural universities. An added benefit of this aspect of the policy assistance effort would be that it could help the associated institutions with their own transitions and maintain them as

- viable components of the agricultural system through a period of severe financial stress.
- Many of the institutions necessary for the efficient functioning of market systems are not now in place in Russia and the other states of the FSU. Market information systems, grading and standards, enforceable and futures contracts for market stabilization and consistent supplies of raw materials and commodities, wholesale markets, credit and banking service and legal service are examples. There is a clear role for government in establishing and maintaining these institutions. Technical assistance to government ministries and agencies and even financial support for starting these institutions on a pilot basis is needed.
  - Environmental problems associated with agriculture are critical in Russia and in the other states of the FSU. There is a major opportunity to deal with environment and food safety during the process of the reform. Analysis of environmental policies to accompany the market reforms and assistance with implementation could contribute significantly to the sustainability of agriculture in the FSU and to the safety of the food supply.
  - Added follow-up should better support the commercial efforts of the U.S. firms participating in the Agribusiness Centers. Knowledge of Russian and Ukrainian law and administrative procedures and assistance with the rules and concepts useful in establishing joint ventures are examples. Added preparatory work for the training sessions could make participation by U.S. firms more effective as well.
  - Finally, there appears to be a great deal of bureaucratic turf management associated with U.S. assistance to the FSU. In many cases, this makes it nearly impossible for those institutions that do not reside near the Beltway to participate in providing the services for the reform and in the reform itself. Clear definition of technical assistance and other support programs and assignment of associated responsibility in the federal bureaucracy could broaden U.S. participation in the reform effort and would improve the quality of the support we provide.

### The 1993 Program

Our Agribusiness Centers in Russia and Ukraine will respond to a number of these recommendations in 1993. Specifically, we will

- Concentrate more on food processing and distribution than in the initial year of operation.
- Broaden the training program to include more types of practitioner programs, and to

involve the agricultural technical schools.

- Work more closely with counterparts from scientific and educational institutions in Russia and Ukraine and in developing the training and demonstrations.
- Provide more follow-up for U.S. agribusiness firms that participate in the Agribusiness Centers, involving as appropriate Russian and Ukrainian professionals.
- Add training on joint ventures and the legal and regulatory system in the New Independent States, using our Agribusiness Center joint venture experience as the demonstration.
- Develop more specialized training courses and services for the new private farmers in Russia and Ukraine.

We are confident that with the benefit of our experience in 1992 and the good advice we have received from the agribusiness firms and educators that participated in our programs, the 1993 Agribusiness Centers can be more effective in supporting the reform of agriculture and the food production and distribution systems in the FSU. In 1993 we also plan to explore the establishment of an Agribusiness Center in Kazakhstan.

## Background

My own background and experience in the FSU dates to 1985. I had been in Russia and the other republics previous to that time but mainly for conferences and other professional activities not directly related to the economic policy and technical assistance. In 1987, Iowa State University initiated a scientific and commercial exchange with the All Union Academy of Agricultural Sciences. I negotiated the agreement and administered it from 1988 to 1992. Under the agreement we have exchanged as many as eighty scientists annually and have established productive working relationships with about thirty research institutes in Russia and other states of the FSU. Several of these research institutes are with economic institutes and the relationships and agreements with these institutes are the basis for joint policy research efforts now underway at the Center for Agricultural and Rural Development (CARD). The research agreement has now been renegotiated with the separate agricultural academies in the Baltics and other states of the FSU. Our CARD research program includes projects on food assistance, technical efficiency of production during the reform, trade, regional economic development and environment. CARD also operates a technical assistance program in the FSU funded by USAID and an agribusiness exchange funded by the U.S. Information Agency (USIA). The USIA exchange program has involved seventy-nine FSU and seventy-five American participants since 1991. The program has concentrated on farming and



agribusiness. It has resulted in about 40 percent of the participants starting private farms, and overall about 84 percent of the participants starting private enterprises of the same type. The USAID Farmer-To-Farmer program is cooperative with Winrock International and will send about four hundred volunteer technicians to the FSU over the next three years.

THE JOSEPH COMPANIES, INCORPORATED  
OF MINNEAPOLIS (J.C.I.)  
GRAIN EXCHANGE BUILDING  
MINNEAPOLIS, MINNESOTA 55415

March 31, 1993

Public Hearing 1300 Longworth House Office Building

Testimony by Burton M. Joseph at the United States House of Representatives Agricultural Sub-Committee on Foreign Agriculture and Hunger.

The Joseph Companies Inc. of Minneapolis, directly or through subsidiaries, has been involved in the commercial side of agriculture within the former Soviet Union since 1963.

Some members of this committee might recall that in November of 1963 a delegation of American grain executives, which I chaired, was invited to meet in Canada with EXPORTKLEB (the Soviet grain export/import monopoly), to discuss the lifting of the grain sales embargo from the United States to the Soviet Union. My good friend from Minnesota, Secretary of Agriculture, Orville Freeman, and I met with President Kennedy and the President decided it was time to open trade between the two super powers. Unfortunately, Kennedy's death in late November, 1963, delayed a decision on these sales until the spring of 1964 when President Johnson decided to go forward.

Since that opening, with the exception of the interruption during the early part of the Afghanistan crisis, the United States has participated in the shipment of a substantial quantity of wheat, feed grains and soybean meal to the Soviet Union. These quantities represent about 50% of the total Soviet imports. On average, the Soviets have imported between 30-40 million tons of wheat and coarse grains each year during the last twelve to fifteen years. Their peak year was in 1984 when they imported close to sixty million tons. (Please note these figures in the attached schedule.) The Soviet domestic wheat and coarse grain production during this same period has averaged between 180-200 million tons/year.

It is well known that one of the tragedies of Soviet grain, oilseed and potato production is that 20-25% of these crops in the field, ready for harvest, never get to consumption. It's no coincidence that since 20% of a 200 million tons field production is forty million tons, this crop loss roughly matches the 30-35 million tons of Soviet grain imports over the last several years. If we use a modest delivered price (in the trade, we call this CIF: cost, insurance, freight) of \$100/ton, the Soviet Union, and now the Former Soviet Union (F.S.U.), is spending three and one half to four billion dollars per year to "pay" for grain imports. I use the word "pay" in quotations since during the last twenty-four months the Russians and many of the other Republics of the Former Soviet Union, using USDA credit programs, have defaulted on their payment schedules, both interest and principal; the Commodity Credit Corporation as well as the European Common Market is now very wary of extending further credit.

The heart of the matter is not complicated. The Central Planning System for agriculture and food, headquartered in Moscow, has, over the generations of the communist era, literally directed each unit of production in the Soviet food system where to go with the food of each particular unit of the system, ordering how much tonnage or units to deliver, what each unit's quota of production would be, when to ship and most importantly, at what price to sell. The Agriculture and Food Central Planning Bureau in Moscow, at its peak, employed more than 400,000 people to direct the food production and distribution system within the Soviet system.

Is it any wonder, then, that so much of the grain, oilseeds and other foodstuffs produced never received timely nor revenue meaningful decisions. Consequently, the grain either rotted in the field or lacking storage and transportation laid in bags alongside of the fields, and produced a harvest of the fattest rats in the world, combining with insects and birds gorging on the unprotected grain and with inclement weather adding the final piece of loss to the unprotected total.

Current Russian presidential staff and leadership knows this and desperately wants to privatize Russian farms so that the profit motive prevails and that decisions will be made by the cooperatives, the collectives and the private farmers themselves to do what must be done to protect and preserve grain and oilseed supplies.

The goal is simple: find a way to reduce harvest losses to save 30 million tons of lost grain; it then follows, no need to import 30 million tons of grain and the final sequence, do not spend three billion dollars. The waste and spoilage problems plaguing the F.S.U.'s existing agricultural system are partly attributable to the use of large grain storage facilities that are not well distributed throughout the countryside and cannot be relocated to reflect changing needs. Moreover, the collectives and private farms have no option at this time but to sell and ship their grain to the government and receive in exchange prices that are approximately 1/5 of the world market price. Economic survival for the farmer at these disastrous prices is not possible.

How to save 30 million tons of grain and give the Russian farmer a chance to survive? The answer: private storage at the farm level. Without farm storage the farmer must ship to the huge distant state enterprise silos. And, get paid 20% of the world fair price, or don't ship and waste the 20-25% of the grain.

Let me say this again because this is a critical part of Russian rural existence. If the Russian farm and farmer have an alternative method to store its and his grain, the waste is negated, the prices received can increase dramatically and the private farm under private land ownership will become the critical, new important feature of the total Russian economy.

In all of our travels throughout Russia, we've come to one conclusion: without new and economic farm grain storage the Russian state farmer and farm will never get a fair price for their product. With a new, alternative choice for crop storage, the Russian farm and farmer can break

the pricing cycle of grain and oilseeds sold by Central Planners to state enterprise processing plants and silos.

Recognizing the desperate need for improvement in Russia's grain storage capabilities, Congress included language in the Freedom Support Act to address this issue. Section 201 directly refers to the "storage" of agricultural commodities as an activity for which the President is authorized to provide assistance to the F.S.U. under the Act. Furthermore, the Conference Report speaks in specific detail to the type of storage assistance that is appropriate. It states that, since the development of permanent infrastructure will take many years and involve significant cost, our government can provide portable storage facilities until such time as the F.S.U. improves and rationalizes its storage capabilities.

The goal is to privatize farms so that the burden of rural Russia to the center is reduced dramatically and the center has a chance to survive. 40% of Russia is rural. Privatization of rural Russia is a must. As of December, 1992, only 2% of total farmland has been privatized. Only 6.5 million hectares - 160,000 farms - out of a grand total of 325 million hectares have been privatized.

The average farm size today in Russia is 19,000 acres and employs 350 workers. These are average farms.

Private, joint venture storage relationships in rural Russia can be formed with the help of this American government. We know that American private enterprise is prepared to combine with Russian rural private enterprise to kick-start Russian private rural agriculture.

We should not assume that our commitment to provide assistance to the F.S.U. requires us to supply the latest and most expensive agricultural technology. The F.S.U. needs simple solutions that allow it to deal quickly and appropriately with its most critical problems. In the agricultural sector, one of the most pressing needs is low cost, versatile grain storage capacity. If we ignore this simple need by providing or financing the purchase of rigid, expensive conventional grain silos, we will be wasting scarce foreign aid during a time when the American people are especially concerned regarding our traditional aid programs.

The hearing of this Committee and the implementation of your policy positions by the American federal bureaucracy are the essential elements to grow private Russia rural agriculture and literally save the Russian center from the tortures and pressures it is currently suffering from.

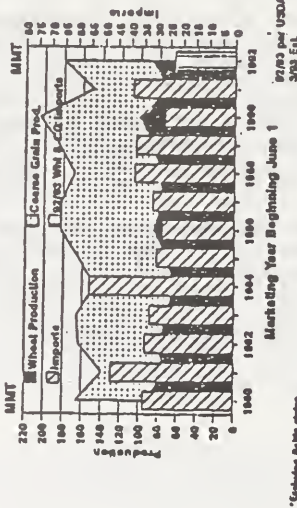
This is micro-help with small costs and most promising results. It should be done.

(Attachment follows:)



## Former Soviet Union: Grain Production & Imports

## Soviet Update



- '92 crop up 32 MMT; 92/93 imports down 12 MMT
- State milling and mixed feed still depend on procurements (up 20 MMT in '92 vs '91)
- '93 winter grain seeded area down 10 mil acres
- '92 Russian production of farm machines, fuel, fertilizer down 15-27%
- July '92 Russian meal stocks up 50% vs. July '91 despite 17% decline in '92 meat output vs. '91
- Bottom Line: Demand for US grain will continue to contract amid plummeting livestock production

## Russia--Private Farms as of 12/92

- 160 M farms--6.5 mil HA or 2% of total farm land
- Produced 3 MMT grain or 3.4% of total grain production
- No. of private farms will expand 3X by end of '93
- Lack of inputs and local opposition slows transition
- Average farm size 105 acres--only 55% have tractors
- Bulk of ag capacity still collectivized--average farm size 19 M acres -- 350 workers

Statement of  
Dr. Craig L. Infanger  
Resident Agricultural Policy Advisor  
Russian Federation Ministry of Agriculture  
to the Subcommittee on Foreign Agriculture and Hunger  
U.S. House of Representatives  
March 31, 1993

Mr. Chairman and members of the Subcommittee, for the last five months I have been the Resident Agricultural Policy Advisor to the Russian Federation. I am there as a direct response of the USDA to a request from the Russian Minister of Agriculture, Victor N. Khlystun. The USDA Foreign Agricultural Service (FAS) and Extension Service (ES) are the agencies providing the administrative support. Although this advisory position is funded by USDA, all of the comments which follow are my personal observations about the situation in Russia.

While there are dozens of western advisors in Russia, I think I am the only one with a broadbased concern for market reform in agriculture and food policy. I would want the Members to know I have been warmly welcomed by the by the Minister and his immediate staff, treated with the utmost respect, and given every reason to feel that my presence is beneficial. I am officed in the Ministry of Agriculture very near the Minister and his top aides. In the past few weeks I have been able to establish a pragmatic relationship with Minister Khlystun and his top aides. These are reform-minded leaders dedicated to fundamental agricultural reform.

In large measure, I have discovered the importance and role of free markets and private property in agriculture are well understood by the Minister and his closest

advisors. At the deputy minister and director levels there is, unfortunately, a less thorough understanding of competitive markets and many times an instinctual advocacy of government planning and control of production, marketing, and processing decisions as well as regulation of retail prices.

In working with Ministry and other Russian government officials I have been both reactive and proactive in responding to questions, requests, and the major policy issues. A substantial portion of my time is devoted to simply providing information, comment, and modest analysis. Questions arise nearly every day about different aspects of American agriculture, government involvement in agriculture, the basic "mechanisms" of the free market system, and related topics. I try to address these questions immediately with what resources I have available at the U.S. Embassy or in my office.

I have been asked to prepare materials on several issues to help the Minister and his closest advisors better understand the operation of western policy. These issues have included the dairy marketing program, commodity price and income support programs, agricultural credit, and agricultural information systems. The Russians have a particular interest in how much the U.S. government spends in support of private farmers. I have also been monitoring the agrarian and land reform situation, adult farmer education, and the agricultural credit situation.

The Ministry have also requested my assistance in their consultations with foreign organizations. At times the Minister and his staff are overwhelmed by Foreign delegations. I have been asked to meet with several groups, primarily for information exchange. However, in the case of the World Bank Team the meetings evolved into daily negotiations about the focus, conditions, and procedures for a major loan program. I joined in the formal meetings with the Bank Team and assisted the staff in developing responses to the Bank's proposals and negotiating the final details of the loan program design which is underway at the moment.

I have considered it an essential part of my position to network with other agencies and groups involved in agricultural projects in Russia. I've felt it imperative to maintain an informal liaison with different USDA offices, including the FAS/Moscow, the Agricultural Marketing Service (AMS), ES, and the farmer-to-farmer programs in Russia. Immediately after my initial orientation I requested that farmer-to-farmer volunteers, especially those under the Volunteers in Cooperative Overseas Assistance (VOCA) and Agricultural Cooperative Development International (ACDI) programs debrief at the Ministry. One meeting of all the private voluntary organizations (PVO) and other Agency for International Development (AID) financed programs was held in February. Since several organizations are just now getting their offices established and programs underway, more communication will be necessary in the future, especially for those programs without strong resident management.



Mr. Chairman, my overall charge is to assist the Russian Federation with the transition to a market-oriented agriculture. Timely, if not rapid, economic reform in agriculture is one of the most challenging policy issues facing Russia. Agricultural reform is the responsibility of no less than four organizations: The Ministry of Agriculture, The Federal Center for Agro-Industrial and Land Reform; The State Committee on Land Resources; and the Supreme Soviet. Unfortunately, these organizations have widely differing views on the pace and nature of reform. On the general issue of agrarian reform, there are two comprehensive policies being implemented. On the one hand, Minister Victor N. Khlystun is the most outspoken advocate of broad-based and rapid reform in agriculture, agribusiness, and land privatization. However, Vice President Rutskoi also has ordered the implementation of another, decidedly less market oriented, program of agrarian reform.

I have been concerned by the relatively small number of top government officials who are supportive of an agriculture with private property, individual management, and minimum government involvement in food prices and subsidies. This is one reason why agrarian reform is proceeding in a fragile political environment. The "farmer movement", as some Russians call it, has broad-based support at the grass roots level. However, the lack of a agrarian policy consensus in Moscow is only retarding the adjustment process.

Although economic reform of Russian agriculture has been underway since 1988, the pace will not appear satisfactory to most western observers. While private farm numbers now total 214,000 and there are probably over 500,000 private farmers in the Federation, these new farmers control only about 3% of the arable land. Of the 25,600 state and collective farms, almost 20,000 have re-registered into another administrative form (partnerships with restricted responsibility, mixed partnerships, cooperatives, associations of peasant farms, joint stock society, etc.). However, it is difficult to conclude that these reorganizations are truly effective management reform.

This is not to say dramatic change has not occurred. GOSPLAN and the mandatory commodity procurement system are history. Prices for most agricultural commodities have been decontrolled as have prices for important agricultural inputs, excepting agricultural credit. Some new marketing channels are developing as privatization begins in agroprocessing.

But we should not always consider economic change to be economic reform towards a more competitive free market agriculture. There are disconcerting signs that some of the new enterprises are parastatal and exerting monopolistic controls on marketing channels. This should be a primary concern when examining the pace and direction of reform.

There are many obstacles to further economic reform in agriculture. In the interest of brevity, let me mention two: private property rights and agricultural credit. It seems to me that until you solve these two over-arching issues, the pace of further reform will be very slow.

With respect to private property rights, Russia's new farmers now have a perpetual "use" rights to land but they cannot buy or sell farmland, cannot mortgage land for long-term credit, and in some cases farmers are being sued for return of land withdrawn from collective farms. Russia's legal structure of land and property rights needs clarification if real agricultural productivity is to improve. It seems to me that more rational property rights hold the key to improved efficiency in land use, post-harvest commodity handling, and enterprise decisionmaking.

Agricultural credit is another critical element of system-wide reform. A comment made by an ACDI volunteer is cautionary: "Americans must leave behind their understanding of a banking system when attempting to comprehend the Russian banking and command flow of funds." In short, agricultural credit has been and still is supplied to Russia's farms and agribusinesses on the basis of state budget allocations. The government determines the interest rate. One large bank, Rosagrobank and its 1000 branches, controls 80% of the credit flow. Although other banks, including independent farmer banks, have been created the basic source of credit is still government.

There has been no history of any credit discipline for state and collective farms as well as agro-industrial enterprises. The banking system is fragmented and not adequately developed to properly administer the payment and credit needs of a changing agriculture. Banking reform in general and agricultural credit reform in particular could establish credit as a production input with a real price (the interest rate) which is rationed to borrowers on the basis of price and risk. This type of reform will be slow but unless it brings hard credit discipline, we should not expect serious change in the behavior of large farms and agro-industrial enterprises.

Furthermore, if the Russian government and the International Monetary Fund (IMF) come to an agreement on an economic stabilization policy which requires tighter credit policy to dampen inflation, the resulting credit crunch will be felt immediately in banks serving agriculture. The state and collective farms will feel the burden of tighter credit policy but the private farmers will see their credit sources disappear since they are often the least credit-worthy customers.

Reforming Russian agriculture is very different from the challenges which I have encountered in Third World countries like Thailand and Bangladesh. Among the new Russian private farmers there are few traditional "peasants", in any sense similar to that of the peasant rice farmer of Asia. This is a highly capitalized agriculture with modern technologies and operating on a very large scale. Within this framework, the state and collective farms represent the social and economic fabric of rural Russia. There is a



70-year history of collectivization and state management to overcome. And in the current environment, policy signals from Moscow are ambiguous.

Mr. Chairman, we are now at a moment when the U.S. must examine its role in the economic reform of Russian agriculture. From my perspective, if economic reform of agriculture is a high priority goal, then U.S. assistance will have to be carefully managed to support the reform-minded institutions and aimed at the critical constraints on reform. Many of our opportunities to provide appropriate assistance will come with local organizations, including many of the emerging farmer cooperatives. In any case, we probably should not expect humanitarian aid to accomplish reform goals. But there is a collective expertise and experience growing among the PVO groups and government agencies which are on-the-ground in Russia now which should be tapped to improve our assistance. One idea which seems feasible to me is a multi-party (i.e., U.S. government, PVO, and Russian government) temporary commission which could help evaluate projects which address critical needs for private farmers.

As U.S. and other aid activity increases, a compelling need is emerging for some coordination among aid programs in agriculture. For example, there are several international organization becoming involved in farmer extension education. My communications with them indicate some of them are not sharing information nor feel inclined to cooperate in joint efforts. Similarly, I've encountered several different organizations working on agricultural credit but at different levels and with different

organizations. A failure to at least talk to one another is a prescription for duplication and inefficiency.

Mr. Chairman, I am serving in my current capacity at the Russian Ministry of Agriculture while on leave from my position as Extension Professor of Agricultural Economics in the College of Agriculture, University of Kentucky. At the university I am involved in education and research on agricultural policy, natural resource economics, and environmental quality. Before taking leave I was Vice Chair of the National Public Policy Education Committee, an organization supported by Farm Foundation of Chicago and representing policy educators from all 50 states.

In 1979-80 I was on-leave from UK to serve as public policy coordinator in the Science and Education Administration--Extension Service, USDA. During 1980-81 I served in the U.S. Senate as legislative aid for agriculture and natural resources to Senator Wendell Ford.

I have had a long-standing professional interest in international agricultural development. During the last twenty years I have worked on both a short-term and a long-term basis in Asia. This included two years on the technical assistance team to the \$7 million Northeast Rainfed Agricultural Development Project in Thailand. I served as economist and an advisor to the Departments of Economics, Cooperative Development, and Fisheries in the Thai Ministry of Agriculture. More recently I worked

as consultant on the AID-funded fertilizer marketing privatization in Bangladesh. I was Team Leader for the mid-term evaluation and later Team Leader for an import feasibility study. However, very little of this experience prepared me for the experience of assisting economic reform of agriculture in a command-style economy the size of Russia.

Mr. Chairman, this concludes my prepared comments. I would be happy to answer any of your questions.

## **CURRENT AGRICULTURAL SITUATION IN RUSSIA**

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**THURSDAY, APRIL 1, 1993**

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER,  
COMMITTEE ON AGRICULTURE,  
*Washington, DC.*

The subcommittee met, pursuant to recess, at 9:30 a.m., in room 1302, Longworth House Office Building, Hon. Timothy J. Penny (chairman of the subcommittee) presiding.

Present: Representatives Barlow, McKinney, Baesler, Thurman, Pomeroy, Allard, and Lewis.

Also present: Representative Pat Roberts, ranking minority member of the committee.

Staff present: Gary R. Mitchell, minority staff director; William E. O'Connor, Jr., minority policy coordinator; John E. Hogan, minority counsel; Glenda L. Temple, clerk; Jane Shey, Anita R. Brown, James A. Davis, and Lynn Gallagher.

### **OPENING STATEMENT OF HON. TIMOTHY J. PENNY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA**

Mr. PENNY. The committee will come to order.

Today is the third and final day of hearings on the Russian agricultural situation. We've heard extensive testimony over the last 2 days from United States Government agencies who are involved in some aspect of assistance to Russia and the other Republics. We've also heard from private groups and voluntary groups that have programs on the ground in the former Soviet Union.

Today we'll continue our testimony with experts in Russian and Soviet history. We'll also hear from those who are involved in international trade issues generally, and we start with the first panel: Dr. Don Van Atta, research associate, East-West Center, Duke University; and Dr. Stephen Wegren, assistant professor, political science department, Southern Methodist University. We've asked them both to come forward and to present their testimony in the order that they were introduced.

Your written remarks will be included in the committee record. We would ask that you please summarize your presentation as best you can. Welcome to the subcommittee.



**STATEMENT OF DON VAN ATTA, RESEARCH ASSOCIATE, CENTER ON EAST-WEST TRADE, INVESTMENT AND COMMUNICATIONS, DUKE UNIVERSITY, DURHAM, NC**

Mr. VAN ATTA. My name is Don Van Atta. I am, as you said, a research associate at Duke University. Let me begin by saying a little bit about my background, since I think some of the things that you've done in the last couple of days may make this relevant.

I'm a political scientist who's been studying Soviet and now Russian agrarian policy for most of the last 20 years. At the moment, while working at Duke, I also have a grant from the National Council for Soviet and East European Research to study land and agrarian reform in Russia. I'm doing that over a 2-year period as a participant/observer. Because I happen to know the guy that's the president of the organization, I'm doing it principally at the invitation of the Association of Peasant Farms and Agricultural Cooperatives of Russia, AKKOR. I'm also working with the Agrarian Institute and some folks in the Ministry.

In the last 9 months, I've spent about 3 months in Russia, and I will be spending the entire summer and a good chunk of next year there as well doing whatever I can to figure out what's going on on the ground, as it is very useful to have somebody studying policymaking and change as it's happening.

As a political scientist, I have a somewhat, I think, different take on most of these issues, and the one-line summary of the testimony I'd like to give you is basically that this is not an issue of economics, it's an issue of politics. Indeed, it is "the" issue of Russian politics. The events of the last couple of weeks are in fact generated by the question of land ownership and a change in the Russian constitution to allow land ownership, and the reason why everybody is fighting so hard is because, ultimately, that question is at the root of the issue of who is going to run Russia, who holds power, and, of course, who benefits from that power.

So the first thing to know about the issues you are dealing with is that the collective farm system, Russian agriculture in general, although it looks like and is, of course, concerned with an economic activity, is ultimately about political power. The justification for it is cast in economic terms, but the system was designed and operated to enforce central political power over the peasantry over the countryside. Indeed, it was effectively a conquest of the countryside in the first place.

There are several consequences or conclusions, if you will, that follow from that basic fact, and in the prepared statement I gave you, I simply summarized those at the beginning. Let me run through them quickly now.

First of all, since the system is about power, and since in fact the collective farm system is the bedrock on which this whole Stalinist economic system was built, if you're going to change things, if you're going to create a market economy, you must change Russian agriculture. Agrarian reform means a great deal more than just doing technical things differently. It means not only changing the entire environment of agriculture upstream and downstream, it also means fundamentally changing relationships within the farms. That has to be done in order for there to be any kind of substantial

reform. Land ownership and agrarian reform is the central political issue because the Russians understand that extraordinarily well.

A second, and unfortunate, consequence of that is that there's relatively little political constituency for reform. The collective and state farms as they've been organized for the last 50 years are wonderful welfare institutions. They're what the sociologist Erving Goffman once called total institutions. His examples in other contexts are prisons and military units—that is to say, places where you work, play, and your life is determined by somebody else's schedule. In 50 years many, many people have gotten very used to that, just as long-serving prisoners or anybody who spends a long time in any environment gets used to the rules and regulations and learns how to get around the things they don't like.

That means that a great many people in the countryside— and I base this on interviews as well as a kind of sense of the system— have no interest in any kind of agrarian reform. Why should they? Why should they take risks when the state pays their salary based on getting a loan from the bank that they know will be written off? It's perfectly rational for the folks in the countryside to act as they do, and that means that at the local level there's very little constituency for agrarian reform.

At the same time, at the top level, the system of agricultural management was not designed to do the sorts of things that USDA does. It was designed to tell farmers when to plant and when to reap. Since this entire operation was designed to coerce the peasantry and control them, it follows that agricultural management in Russia is about political control, and, therefore, there is no constituency at the top either for reform, with the exception of Minister Khlystun, who indeed in his own Ministry is isolated, who has deputy ministers whom he did not appoint and basically cannot get rid of, and who is now basically a lameduck. At the same time, he's locked in a confrontation with Vice President Rutskoi, who has a number of interesting, very wrong-headed notions about how to reform things, starting with a monopoly land bank that would have the right to give all agricultural mortgages, sell all land, lay all taxes, and issue all titles. Please note that as a child of farm children, I don't like monopoly banks.

So there is a major political controversy at the top. The good news is it probably doesn't matter. The system is broken down to the extent that what goes on inside Moscow probably doesn't make any difference for the rest of the country. Things are working on inertia, and, indeed, the land reform that was begun a couple of years ago is succeeding and generating much of the pressure that we have seen in the last couple of weeks.

Thank you very much.

[The prepared statement of Mr. Van Atta appears at the conclusion of the hearing.]

Mr. PENNY. Thank you very much.

Dr. Wegren.

**STATEMENT OF STEPHEN K. WEGREN, ASSISTANT PROFESSOR, DEPARTMENT OF POLITICAL SCIENCE, SOUTHERN METHODIST UNIVERSITY, DALLAS, TX**

Mr. WEGREN. Thank you. I would like to first thank you for the opportunity to speak before you. I also am a political scientist, and I share much of what Don has to say, but I take a little bit different view as well. I presently am holding a post-doctoral fellowship from the Social Science Research Council, which allows me to travel to Russia two or three times a year, and I, as opposed to doing work in Moscow, go out in the Provinces and see what's going on, talking to people on the farm and also in the land reform committees there.

I would like to start by saying, first of all, the goals of reform, as I see them, were twofold. Agrarian reform fundamentally was designed to create a stratum of strong peasant farmers, peasant farmers who would differentiate themselves for the first time from others, peasants who enriched themselves. This is based on private property, a multiplicity of ownership, and the goal was to get more food in the stores, better selection, and better quality. That was goal one.

The second goal was to address the subsidy issue. As late as 1990, agricultural subsidies were taking up to 20 percent of the yearly budget. So enormous subsidies were being devoted to agriculture, and, of course, that means that there's less money for other things.

So those are the goals of agriculture. What I see when I go out in the countryside is a basic strain of egalitarianism continuing. In the paper that I presented to you, I say that there are three main reasons for this continued egalitarianism. In other words, you're not getting the differentiation, you're not getting the stratum of strong peasant farmers that the reform had intended.

Why are you getting this continued egalitarianism? The first reason is a consequence of price liberalization. After Yeltsin liberalized prices, you had enormous disparity. The terms of trade turned against agriculture so that inputs—fertilizer and machinery—went up a factor of maybe 40 times or more, and procurement prices maybe went up only a factor of 10. So you had an enormous price disparity.

Yeltsin started off on the right foot, trying at least to initiate differentiation in the countryside, but this enormous price disparity started to impoverish the agricultural sector just like it has the Russian consumer, and so very early on, literally within 6 months of his December 1991 decrees, in my view, he abandoned his differentiation and started giving blanket subsidies, zonal prices, making credit available to anyone irrespective of ability to farm, and so forth.

So the first reason for basic egalitarianism is the consequence of price liberalization and this urban-rural disparity that arose. The second is a political reason, and that is you look at the way the institutions are defined, and you find that the institutions are defined so that egalitarianism will continue. What do I mean by this? I mean you have norms so that everyone, if they leave the farm, gets the same amount of land. You can be a pensioner, 65 years old, or you can be 25 years old and strong as an ox, and you all



get the same amount of land. I've interviewed vice presidents of agrobanks, and they tell me anyone who isn't drunk for their interview can get a loan. In other words, loans are not based on how productive you will be or what you're going to grow, but rather if you don't show up drunk for your interview.

Furthermore, I would say that you have in the countryside the rural Soviets are the ones giving out the land, they have a disposition to make sure everyone is basically equal, and so the land sizes tend to be very small, and you don't get much differentiation according to ability once again.

The third reason for egalitarianism is that you have a basic continued rural conservatism, and here I agree very much with Dr. Van Atta, that essentially rural people have no interest in privatizing. They're opposed to the purchase and sale of land. Why? Because they know the Soviet system. The Soviet system is based on connections, it's based on influence. Those who have connections are going to grab up the best land, they're going to grab the machinery, they're going to bid up the price of land so that peasants, the average Ivan Ivanoff, will never be able to buy land, will never be able to buy machinery, because they don't have the connections.

So, in sum, what is the effect of this egalitarianism? It means that you're not getting the stratum of strong peasant farmers that you should. In fact, Rutsloi was quoted in mid-1992 as saying, "Of the 150,000 peasant farms in existence, 3,000 are producing above subsistence levels." So only 3,000 out of 150,000 were producing more than what they consumed themselves. So you're not getting the stratum of strong farmers.

What does this mean? It means that Russia, in my view, will continue to remain an importer of food, because they're not getting the surpluses of food that would solve the food problem.

Thank you.

[The prepared statement of Mr. Wegren appears at the conclusion of the hearing.]

Mr. PENNY. How would you assess Yeltsin's commitment to land reform, and given the political situation in Russia, does it really matter what his commitment might be?

Mr. VAN ATTA. Clearly, Minister Khlystun, whose background is, first of all, as a person who wrote a dissertation about the Stolypin reforms before the revolution, and then as head of a surveying school, not a professional agricultural bureaucrat, is in the Ministry of Agriculture at the pleasure of the president. Were Yeltsin not committed to the agrarian reform which began even before the Soviet Union broke up, there would be no agrarian reform, and at the point at which Yeltsin goes away, Minister Khlystun will go away. His successor will almost certainly be a man named Shcherbak, who is the First Vice Minister of Agriculture.

Mr. PENNY. I've met Shcherbak.

Mr. VAN ATTA. I have not met Shcherbak, but based on what he says, I doubt he will be very committed to land reform. I'd be interested to know what you think on that score.

Mr. PENNY. He didn't impress me as a creative thinker.

Mr. VAN ATTA. He's a professional bureaucrat. He was actually appointed before Khlystun got the ministry, which is an interesting point also. It seems to me that in that sense, Yeltsin is committed,



the Minister stays. Rutsloi talks about being committed to land reform, and his Federal center is supposed to push land reform, but the people in it are a very close political alliance with the agrarian deputies in the Parliament, which is ultimately probably the most reactionary Parliamentary faction, because their power is based not on land reform, but on maintaining the existing system.

So you have an interesting political controversy in which Rutsloi talks a great deal about reform and complains about the existing reform, yet his notion of reform is to take arms and sell them abroad and use that money to create ready-market farms. He said in a meeting in October, which I happened to read a transcript of, "There has been no reform, because reform should increase productivity. Productivity hasn't increased; therefore, the land reform has failed. How do you plan reform? Here is a document by province. Here are what they can produce given the resources, here are what they are producing, here are the resources they need. Let us get them the resources. Let us let the large farms produce."

Mr. PENNY. So basically to use the proceeds from foreign arms sales to provide resources or equipment to those regions that are now underproducing?

Mr. VAN ATTA. Right, and to set up individual farms on it, which he would build according to a standard model and then lease to demobilized military officers who would pay for them over 20 years. He recently gave a speech to AKKOR in which he said, "We have to support the collective farms and the state farms, because who feeds us?" And the private farmers in the audience yelled back, "The United States." That was not the rhetorical answer he was looking for, of course. His answer is the kolkhoz and sovkhoz, even though he knows they're inadequate to feed them; therefore, they must be supported. He winds up, therefore, on the political line that was common to Yegor Ligachev and many others that we simply must give more resources to the big farms.

Mr. PENNY. How do you describe the market system in Russia now in terms of food and the pricing of that food?

Mr. WEGREN. Well, on the one hand, starting in 1993, you're supposed to have the abolition of state orders. That is to say, farms no longer have to turn over a set amount of their produce. They're going to a contract system. You had a contract system in 1992, but the problem was that the farms simply didn't fill their contracts. They simply didn't until very late in the harvest season, when the state doubled the price of grain, and then suddenly they were quite anxious to fill them.

But that's at the wholesale level. At the retail level what you're seeing as of late fall last year, you started to have localities instituting their own price controls on food so that you had the local governments telling, first, the procurement agencies what percentage they could mark up the price when they sell to the retail stores, and then you had the local governments telling the retail stores how much they could mark up the food to the consumers. So in that sense, even though prices have gone up dramatically, you don't have a completely free market price simply because the local governments are trying to continue to protect the consumers.

Mr. PENNY. How much of produce is moving outside of—

Mr. WEGREN. Through the commodity exchanges, for instance?

Mr. PENNY. Through those.

Mr. WEGREN. An extremely small percentage. I don't know exactly. I know it's less than 2 percent and may even be less than 1 percent of the grain last year, but extraordinarily small amounts. It could be more this year, because last year you still had obligatory deliveries. They were ignored. This year you're not supposed to have obligatory deliveries, so I would assume maybe up to 5 percent.

But I think Don is exactly right when he talks about you have to look at the controls that the state and collective farms still have over the process. The point is they will go to the farmer and say, "Look, you're free to sell your grain wherever you want to; however, if you don't sign this contract, maybe we don't have enough fuel for you. Maybe suddenly there will be a shortage of fertilizer." So there is still an element of coercion there.

Mr. PENNY. How do the independent farmers fit into all of this? Are they still under some obligation to sell primarily to the state because they also receive, either through the Peasants' Union or AKKOR or some other entity, support for inputs?

Mr. VAN ATTA. First of all, the Peasants' Union is the creature of the most conservative portion of the kolkhoz and sovkhoz elite, which is why the former chairman of that organization is a man named Vasilii Starodubtsev. I think some of you may have visited his farm, but in any case, he's more famous recently because he was a member of the coup committee. So the Peasants' Union distributes resources to the big farms, but won't give the time of day to the real peasants, even though, given their name, we Americans think they might.

AKKOR is in charge of distributing the Government subsidy. It operates as a parastatal organization on the model of the American Farm Bureau of long ago to represent farmers' interests, and it distributes the Government subsidies, which, in the absence of a credit system, are the only way a private farmer can get financed or get resources. The banks are simply clearinghouses for accounting money, and all they do is move numbers from one account to another. Contrary to what Steve might have implied, they're not real commercial banks, in our sense. Getting a loan doesn't mean getting a loan. It means getting your share of the state credit.

In any case, the private farmers were intended by those who designed the land reform to provide competition for the big farms. No serious Russian agriculturalists think that there should be or will be immediate and complete farmerization, the creation of little farms out of the big ones. It's not going to happen. The only people who say it will are people who are opposed to any change at all in the countryside.

The individual farmers—there are now about 200,000 of them—are constrained because the design for breaking up the farms relied both on being voluntary and on giving everybody an equal share and then allowing them to trade or sell the shares. So when farmers begin, they, of course, do not get market-sized parcels of land or amounts of equipment. Since a land market is illegal, since you cannot in fact under the Russian Constitution trade your share, it turns out that all the individual farmers wind up with little, mini farms which are, by definition, not profitable. Then the opponents

of reform argue that, "Well, see, these guys aren't producing market amounts of stuff; therefore, this reform has failed."

In fact, probably about 5 percent of grain last year was produced by individual farmers. Nobody's quite sure. There are several interesting things about the taxes that caused farmers, perhaps even more than American farmers, to underreport their production. The numbers are not good, but that's the best guess.

Mr. PENNY. Mr. Allard.

Mr. ALLARD. Thank you, Mr. Chairman.

I'm looking at the second release here that's quoting—yesterday there was a release, and then today there was a release that was quoting officials from the Clinton administration on what they were thinking about for aid for the Soviet Union, and I notice, Mr. Chairman, that at least in today's release they're beginning to talk a little bit about modernizing farms and talking about a transportation and distribution system that gets products from the farm to the cities, which is some of the discussion we had today.

But one of the things that showed up in both of the releases was they were going to target some of that money on building housing for Russian soldiers, and I'm trying to figure out why that need would be there. Can either one of you shed some light on why that might need to be there?

Mr. VAN ATTA. Well, there are two answers to that. First, you must understand that the Russian housing stock has suffered because they have undergone urbanization of the sort we underwent between about 1850 and the present in about 50 years. So there's enormous pressure on the cities, and their system of distribution, which gives favor to the cities in everything, increases that tendency for everyone possible to move out of the countryside to the city.

A second reason, of course, is World War II, which destroyed much of their housing stock. A third reason is they simply build very slowly and very inefficiently, which has resulted from the system of allocating investment, in which the trick is, excuse me, like an appropriations bill—if you can get the money to begin a project this year, then next year you can say, "Well, see, I have the foundation, so give me some more." So you wind up with Russian cities that are surrounded by building sites, but those building sites had been building for the last 15 or 20 years.

The reason why the army is particularly important is because the Russian army has no lifetime noncommissioned officers. All the functions that are done by NCO's in the American Army are done by military officers in the Russian army. It's a conscript army of 2-year terms for everyone, and then a huge officer corps. That officer corps has gotten enormous privilege over the years as the defenders of the homeland, and they all joined because they all assumed that after years of serving in Magadan or somewhere else unpleasant, they would eventually all become colonels or generals, they would get privileges, and they would get to live in the center. Bringing Russian troops home to an overcrowded city when these guys expect to live in good conditions, therefore, creates more pressure on the housing stock and creates a very disgruntled officer corps.



The officer corps now is to the point where Pavel Grachov, the Minister of Defense, is condemned by the All-Russian Officers Assembly, which is an organization that managed to turn out 20,000 representatives 2 weeks ago, as a traitor to his country. The Defense Minister said, "You cannot have this meeting," and they met anyway, and they declared him a traitor. This is his own officer corps. So there is a certain incentive for the United States and for Mr. Yeltsin in doing something to keep these officers happy.

It is, if I might add, our best guess at one of the real reasons Mr. Khrushchev was overthrown long ago, that he attempted to cut his military substantially, and the demobilized officers at that time became a large part of the political base for the movement to remove him. Yeltsin knows that history.

Mr. ALLARD. Do you believe that we have a chance of getting some of these military people to think in terms of free enterprise and going into business for themselves, which is the main focus of what we're talking about in this committee about getting some help to some individuals who want to advance the idea of a free marketplace, who begin to train and to work in a free marketplace? Would the soldiers be individuals that we would have some hope in getting to move into a free marketplace and maintain some appreciation for what that can do for them?

Mr. VAN ATTA. You could read this either way, sir. On the one hand, military officers tend to know how to get things done. Many of them are very bright and will, in principle, make good entrepreneurs. Some of the military officers that I know who have become farmers are very good at it. On the other hand, because they are military officers and because, like all Soviets, they have no notion of what a market is or how it works, you can expect that the mindset they have is likely to be very unmarketlike. After all, it's hard to imagine a less market entrepreneurial organization than a military structure in any country. So you can read it either way.

The real problem is not perhaps the officers, it's the military industrial complex that stands behind them. Rutskoi and the Federal center are closely connected to the Russian military industrial complex. They are in a sense attempting to convert defense resources to agricultural use. Whether that will be more than simply ultimately a way of laundering money back to certain defense industry interests is not at all clear.

Mr. ALLARD. Thank you for your frank comments. You know, we've had a lot of discussion from previous panels on this concept of private ownership and clear title to land and something to do with the commercial code. Do you have any suggestions on how we, as outsiders, may be able to further that concept along in Russia?

Mr. VAN ATTA. It is not the commercial code. It is the constitution of the Russian Federation which forbids the resale of agricultural land used for agricultural production. It simply is unconstitutional. There's an "ukaz" of Yeltsin's that allows land sales, but whether ukazy—Presidential decrees—are higher than the constitution is not at all clear to anybody. They have to decide whether or not they want to amend their constitution to allow land sales.

The referendum issue began in November when Democratic Russia, basically the left wing, if you will, the Yeltsin supporter types, collected a million signatures to put a referendum on the issue be-



fore the Russian people. That began the referendum debate, the outcome of which we have recently seen with plans for both a parliamentary referendum and Yeltsin's referendum and perhaps the fall of Mr. Yeltsin. At that level they have to decide, and probably until they decide that political issue, we cannot do very much to affect their choices. It's a central political issue that they have to hash out themselves.

[Additional information follows:]

There are two issues I would like to address in response. First, in answer to the question posed, peasant farmers in 1992 were obliged to sell a part of their produce to the state just like state and collective farms. The percentage to be sold to the state was not to exceed 25 percent of a peasant farmer's output. The terms were to be contracted at prevailing market prices. The reality was quite different, as prices continued to be dictated by procurement agencies, and that is exactly why peasant farms joined state and collective farms in not fulfilling their contracts.

Second, we should note that there is both a system for credits and one for loans that peasant farmers may obtain. Dr. Van Atta described the process by which AKKOR guarantees repayment of state credits, in which case a bank is a clearinghouse. The peasant can easily obtain state credits with this guarantee. The market interest rate was 80 percent, but a farmer with a guarantee would pay only 8 percent. This system was largely theoretical, and in fact few such credits found their way to peasant farmers.

The other system was for loans and was the one I was talking about. Here, the farmer does not have a guarantee from AKKOR, and he simply must apply for a loan at the market rate from either a commercial or agro-bank. Even in this process the repayment criteria are rather lax. Precisely because state subsidized credits did not reach peasant farmers, they had to turn to non-subsidized loans to obtain livestock, equipment, or other inputs. It was this problem that forced so many peasant farmers to quit their operations, or to operate without needed supplies. Regardless of whether a farmer obtained a loan or state credits, it was to be repaid and was considered debt.

Mr. ALLARD. So even though they talk as though the land is theirs, in reality it is not and the constitution prohibits that?

Mr. VAN ATTA. Basically, yes. There are three forms of proprietorship allowed: Leasing, heritable tenure, and——

Mr. ALLARD. What was the second one? I missed that one.

Mr. VAN ATTA. Heritable tenure.

Mr. ALLARD. Inherited tenure?

Mr. VAN ATTA. Inheritable tenure is usufruct. You get the right to the land, but you don't own it, but your heirs can inherit it just as though it were yours. The third form is full private property. Full private property is still forbidden.

Mr. ALLARD. It sounds to me like they were talking about inheritable tenure before this committee in a lot of the discussion. Go ahead. Thank you.

Mr. WEGREN. I was going to say I think we need to make a distinction. There is such a thing as private property. I mean, you can go through the process, and you can receive a deed that gives you the right to that land, but what you can't do is you can't turn around and sell it. You can't sit on it and wait for it to appreciate, and then turn around and sell it and make a profit. So you can have private property, but Don's exactly right, there is no land market per se.

Mr. VAN ATTA. Even private property, as I read the constitution, is not clear, and they are giving people documents that say, "This is your land title," but the constitution still says nobody except the state can hold title to agricultural land. So who do you believe?

[Additional information follows:]

The present constitution is not the most relevant document to consult on the question of land ownership. It was adopted in 1977 under Brezhnev, when the Soviet Union was communist, so of course it has no provision for private ownership of land. The constitution since then has had over 300 amendments, leaving it both contradictory and inconsistent. Neither the Russian Congress nor the President consider the present Constitution satisfactory. On the other hand, every significant piece of land legislation since late 1990 includes a clause about the legality and desirability of private property. For the past three years, the official governmental policy has been to favor the existence of private property and to facilitate the existence of a "multiplicity" of land ownership in the countryside, including both private and collective ownership.

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Mr. ALLARD. Thank you. I think your comments have been enlightening on both subjects.

Mr. PENNY. There's the old saying in Russia, "We pretend to work, and they pretend to pay us." The version in terms of land policy is "They pretend to give us the land, and we pretend to own it." So nothing has really changed.

Mr. VAN ATTA. They have been attempting to privatize or to change incentives ever since the system was founded, and every time they attempt to change incentives, you get reports back from the local area that say, "We have 100 percent of the new system in place," and you go out and look 5 years later and it turns out nothing has changed. Ruskoi's people are in fact very afraid of land reform because they argue that what's going on is nothing more than another case of this, and in 5 years it will just be another corn campaign. Everybody will report they were growing corn successfully in the Arctic Circle, but we know they're not. This is the governmental problem. There's no way to get policy implemented except to tell everybody to do it.

I interviewed a kolkhoz chairman recently who came to Duke, who said, "We were called together and told 'You have a month to reorganize your farm. Everybody in the district will do it. Go out there and do it, guys.'" That's the standard policy implementation method, and it, of course, leads to very good reports, but very little real change, and it makes people enormously cynical about what the state and the authorities that run their lives can or will do for them.

Mr. PENNY. Mr. Pomeroy.

Mr. POMEROY. This has been the most profoundly depressing panel I've ever heard. [Laughter.]

Yet very insightful, and I appreciate your testimony this morning. I am a real novice not just to Congress, but also to the nuances of Russian agrarian policy.

Dr. Wegren, you mentioned something that intrigued me about the new commodity exchange effort. Perhaps, it would seem to me, agrarian reform might be advanced through market structures that ultimately push back to the land itself more efficient means of production. Can you assess whether the commodity exchange initiative might somehow have that effect?

Mr. WEGREN. Essentially, overall in agrarian reform I tend to be a pessimist, but there is one shining light of perhaps a small ray of optimism, and that is these commodity exchanges, because, in my opinion, at least, that's the one area where you have true market forces at work. Essentially, you have market prices. A farmer can sell his produce, whatever it may be, for decent prices. I'm writing an article now on this issue. I haven't fully completed my research, but from what I can tell, there's very little state regulation of these commodity exchanges compared to Latin America or Africa or some of these other areas.

So it seems that we do have true market forces at work and that this will in fact provide—I agree with you completely that this will really provide incentives for farmers to grow more, knowing that they can get a fair price for it without being told what to do, how to do it, when to do it, and so on and so forth. So I think to the

degree that there is a cause for optimism, it is these commodity exchanges.

I personally think that we'll see a gradual but steady increase in the percentage of marketings that are channeled through commodity exchanges, because, once again, you go back to the rational peasant. You're forced to sign a contract with the state, the prices have been raised once again, and they're pretty decent prices, but, again, if you can get a higher price through the commodity exchange, well, why not? Why not? I mean, once again, the center is weak and the coercion to make you sign a contract is no longer there. They simply can't go in and take the grain like they did during Stalin. So now farmers are given a true choice of what to do with their produce, and I think they will opt for whatever terms are most advantageous for them.

Mr. POMEROY. Dr. Van Atta, you have perhaps even been more pessimistic this morning. Do you have a comment on the commodity exchange as maybe a glimmer of hope?

Mr. VAN ATTA. I'm pessimistic, sir, because I study politics, and politics, unfortunately, is like the three laws of thermodynamics: You can't win, you can't break even, and you can't get out of the game. But I think the fact is that one should not be pessimistic. The designers of the Russian agrarian reform are very bright and know what they're doing. The agrarian reform is working in the sense that those institutions were changed in 1990, and those changes are beginning to work in the countryside, which is why you have the enormous political fights you do. In a sense, if there weren't a political fight going on, I would be much more pessimistic.

In the short run, I don't think things are going to look bright, but in the long run, simply because the Russians don't have the resources to continue the old system, something will change, and the change is going to almost certainly be in the direction of a more productive, privatized kind of agriculture. The reason why the fight is so intense right now is because everybody on the other side realizes that if things aren't changed very shortly, it will be too late.

The land reform mechanisms are beginning to operate. They were designed to operate in areas that were not very productive. The idea was, "We'll take the land that nobody wants and give it away, but we'll keep the system and, therefore, improve it around the edges," just as the Chinese reform was designed to do. And just as in China, there are beginning to be major demands for reform not on the unproductive farms, but on the productive ones.

In the Russian Iowa, Krasnodar Province, people are saying, "We want our land," and the farm managers and the local authorities are saying, "You can't have it. This is about power, and we're not giving you any land." In fact, the provincial and district authorities in Krasnodar are now taking the land back from all the private farmers who have started operations since the land reform began in 1990. This is, in the short run, very pessimistic, indeed, a human tragedy, but in the longer run it's a sign that things are changing, and I think they will indeed work to the best.

The commodity exchanges have to be supported just as the private farmers do, and in the long run they will function. Moscow streets now are full of kiosks, and state stores are empty. The rea-

son is the state stores haven't been privatized. But there is a private trade network growing up, and it is cheap and it is dirty and it is a rip off and it is run by the criminals, but it is also the beginnings of a market economy. Unfortunately, if you study the origins of a market economy anywhere else, that tends to be where it comes from. So at that level, at least, I'm quite optimistic.

Mr. POMEROY. I strongly favor a continued United States role in agricultural exports into Russia. Is there a danger that these exports ease demand and, therefore, inhibit agrarian reform?

Mr. VAN ATTA. Yes, sir, there is for two reasons I can think of. First, the Russians, as a matter of policy about 15 years ago, began to concentrate on their livestock sector, and it takes more grain to produce a pound of meat in Russia than it does anywhere else in the world. My friends from USDA can give you various numbers about it, but anywhere from 5 to an infinite number more pounds are required. However, they've jiggered the prices so that everybody produces meat, and that was very profitable, so the herds went up, there was plenty of meat in the cities—at least, something that's generic off a cow—and now the market is beginning to work, and the livestock producers are screaming bloody murder. They kept those herds alive by importing U.S. grain, and they fed them U.S. wheat. This is why when Rutskoï gave his speech, everybody yelled out, "USA."

Clearly, if the Russians cut back on this incredibly unproductive and wasteful system, they will need less United States grain. In fact, some people argue that if they simply could end this waste, they would effectively take care of the entire amount of grain that they're importing from the United States. So in that sense, there is that problem.

If I may, there's one other thing. A very good Russian agricultural economist, Vasiliï Uzun, wrote an interesting story a year ago about what happened to American aid. It seems that somebody gave an American commodity company money to import grain as emergency aid. The commodity company, not being stupid, took the dollars and took some trucks and wandered around Moscow oblast and made deals with farmers who had plenty of grain—big farms, kolkhozy—and made deals with kolkhozy managers to buy their grain for the dollars they had been given, turned that in as American aid, and kept the quite substantial difference between what they had been paid to ship American grain to Russia and what they could buy it for locally.

In that sense, if you give farmers incentives, they'll produce, as you gentlemen know better than I. The problem is to get the incentives in place and then the production, which is, in principle, adequate, if not great anyway, will follow.

Mr. POMEROY. Dr. Wegren, I'd like your answer to the same question, and I would just observe it seems to me the shortfall is substantial enough so that there's room for considerable export before we do begin to impact their market balance.

That's my final question, Mr. Chairman. Thank you.

Mr. WEGREN. I also think there are pros and cons. On the pro side, there's a humanitarian aspect, and that is if you cease to do that, you could see even a further deterioration in the per capita consumption. I mean, that's within the realm of possibilities. On



the con side, if you think it through, it really aggravates the Russian financial situation even more, and that is that unless we just give it to them, they have to pay for it somehow. How do they pay for it? Through loans and credits, which means that they're adding to their net debt, which is a problem they have to deal with at some point. So whereas our intention may be good, over the longer term we could be doing them more harm than we realize.

There's a second aspect I would point out, and that is that it all depends what our goal is. If our goal is to help them become independent, then it seems to me that continued exports could actually continue their dependence on us. I mean, that's good for our farmers, it's good for us, but it's not necessarily good for them.

Mr. PENNY. Given the fact that Moscow is becoming less of a factor in the former Soviet Union, which Republics and, within Russia, which oblasts or regions seem to be embracing agricultural reform more enthusiastically?

Mr. VAN ATTA. There are, I think, two ways to answer that question. One is to look at places where reports of creation of peasant farms and production and farm reorganization is most advanced. The other is to look at the places where the local leadership is most favorable. We think those coincide.

I'm ashamed to say that one result of the very long restrictions on American activity studying Russia and studying the Soviet Union is that there is no one in the Sovietological community, or whatever we are now, who can answer that question as well as we would like or should indeed be able to. However, one could name the Central Black Earth oblasts, Saratov, Tambov. One could name Krasnodar until recently, when the oblast administrator was tossed out because he was indeed supporting land reform too much. One could name Rostov, and, of course, one could name Nizhnii Novgorod—province on the Volga, formerly Gor'kii—where a very radical experiment with local economic reform is being undertaken, and the International Finance Corporation and the World Bank are involved in privatizing individual farms to serve as models for further agrarian reform.

Mr. WEGREN. May I add as well?

Mr. PENNY. Please.

Mr. WEGREN. I agree, it seems clear that early on in the reform, when the reform was defined in such a way that the farms basically made available the land they didn't want, then you had a smaller percentage of peasant farms found in the rich black earth regions. In December 1991 Yeltsin said that you can leave the farm, you can take land from the farm, and the farm manager cannot stop you from leaving. At that point, you had an absolute explosion in the number of peasant farms in the black earth regions. So it seems to me that this is a positive development in the exact oblasts that Don has mentioned to you, the areas that have the best potential for becoming more efficient and more productive.

So what I'm saying is, first of all, yes, you can look at the number of peasant farms and say these areas are more conducive to reform, but there's a second aspect, and this goes back to Don's comment about political struggle as an indicator that reform is going forward, and that is that one measurement is simply to look at the number of fines for land violations. For whatever it's worth, how-



ever good or bad the data are, the fact of the matter is that Goskomstat is now collecting data on the number of fines per oblast.

So one can say on the one hand, in those areas where there are a high number of fines, this shows that the struggle is going on. I mean, you can interpret it both ways. On the one hand, you can say, yes, farm managers are trying to obstruct land reform. On the other hand, you can say that someone, whether it be the center, or the local officials, or someone, is serious about fining those people who are standing in the way.

Once again, however good or bad the data are, the fact of the matter is that the highest number of fines as of January—I was in Moscow in January 1993 and went to various land reform committees and got data, and the highest number of fines are occurring precisely in those black earth regions. So, again, whether you want to put the negative interpretation on it or a positive interpretation, it is clear that since December 1991 the black earth is the leader in facilitating land reform.

Mr. PENNY. We heard yesterday that evidently in Moldavia there's a collective farm that has in essence transformed into an American-style cooperative in which each peasant has been given ownership over a particular parcel, they share equipment on a co-operative basis, they receive financing on kind of a portions basis, and so, in that sense, what had been sort of the local bureaucratic structure has become a co-op that provides credit, a co-op that provides equipment, other input needs, and also helps with the marketing. I think the anecdotal evidence is that productivity had improved on that collective farm as a consequence.

Is that happening anywhere else, and is that perhaps a more realistic reform than private ownership, given the constitutional limitation and the difficult prospects of changing political dynamics and the constitution in the near term?

Mr. VAN ATTA. The model you're talking about, sir, is one that is quite old. It was originally worked out in the 1960's by a man named Ivan Khudenko, who ultimately was jailed for misappropriating funds and died in jail, becoming a martyr, in the 1970's.

Mr. PENNY. What's happening there now?

Mr. VAN ATTA. The idea was picked up by the head of the Russian Agricultural Academy, Dr. Serova's boss—I believe you spoke to Dr. Serova on the first day of the hearings—the former head of the All-Union Academy of Agricultural Sciences, Alexander Nikonov. He pushed that on Gorbachev, Gorbachev bought it, and there are now—I think the last number I saw for Russia, and I don't know the numbers for the rest of the newly independent states—was about 500 of these things set up. There is some question whether or not that is significant reform, because, given the pressure to reorganize all collective farms, the Moscow authorities made the collective and state farms denationalize the land last year. A great many of those large farms which set up "associations of peasant farms" probably did not create true individual farms. Such reorganization is, in fact, what the Russians would call merely a change of sign boards.

The kolkhoz chairman I referred to whom I interviewed recently, whose cash crop is flax—he sells the linseed oil to the military, and

he was trying to figure out how to break into the world flax market—defines himself as a chairman of such an association, yet not only does he call what he is a kolkhoz chairman, but it is perfectly clear from speaking to him that, if anything, his power over his farmers has increased, not decreased.

It seems likely that very many of the associations of peasant farms are that kind of organization, and we need to go out and look in the countryside and try and figure out on each case to what extent these are real changes. It's a hopeful model. Clearly, the notion that you're going to give everybody 40 acres and a tractor is not a realistic one for a whole bunch of reasons and probably should not even be attempted. Whether or not the creation of associations of peasant farms from collective and state farms is working out in practice as its advocates hope it will is not quite so clear.

Mr. PENNY. Thank you for your testimony. We appreciate your being with us this morning.

Our next panel includes Dr. Philip Raup, professor emeritus, department of agricultural and applied economics, University of Minnesota; Ms. Carol Brookins, president of World Perspectives, Inc.; and Mr. Steve McCoy, president of North American Export Grain Association.

We would ask them to come forward and request that you provide testimony in the order you were introduced. That would be from my right to left. Bear in mind your written testimony will be included in the committee record, and we would ask that you summarize as best you can your remarks for the committee.

Dr. Raup.

**STATEMENT OF PHILIP M. RAUP, PROFESSOR EMERITUS, DEPARTMENT OF AGRICULTURAL AND APPLIED ECONOMICS, UNIVERSITY OF MINNESOTA, ST. PAUL, MN**

Mr. RAUP. Thank you for the opportunity to meet here, and I want to congratulate the subcommittee for having launched these hearings. They're very timely, and it's encouraging to know that probing in this depth is going on.

My name is Philip Raup. I'm a professor at the University of Minnesota. I grew up on a wheat farm in western Kansas, so I still have a very direct connection with the kind of agriculture that dominates in the Soviet Union. I'm going to try to make a few very straightforward points in my comments and hope the discussion will bring out more detail.

It came out this morning and it's been underlying the rest of the hearings that the basic cause for the problem in the Soviet Union is twofold: They have no price on time, and they have no price on space. The price on time is the interest rate. The price on space is a market for land. Everything that's been said about having inefficient feeding, holding too many uncompleted construction projects, is a consequence of not having a price on inventory. With no interest rate, there's no pressure on you to move the product through. There's no pressure on you to complete the project.

This has had a major impact on agricultural policy and not only in the former Soviet Union or in Russia, but also in Western Europe and in the United States. It permitted them to emphasize the livestock sector very heavily, which they did after 1972, and there

was no cost of holding inventory. The result is that they have too many cattle, too many hogs, too many poultry, turnover is slow, no pressure on them to move products through with high levels of feeding efficiency, and this has made it possible for them to substitute heavy feeding of grain for efficient feeding of all nutrients. This has created a market in the Soviet Union for feed grain.

Most of the wheat in the Soviet Union is fed to animals. Wheat is a feed grain, not only a food grain. This dependence on imported grain for animal feeds in order to, they hope, provide enough meat in the shops so there would not be a repetition in the Soviet Union of the kind of revolt of the workers that occurred next door in Poland has dominated our agricultural policies and created the markets that now are major sources of support for both farm policy in the United States and farm policy in the European Community.

That won't be corrected until they have a better set of institutions governing and regulating agriculture and trade, and I think the major contribution we can make is to promote the development of these institutions. By that, I mean specifically contracts, commercial codes, land registration systems. There's no adequate land titling system in the former Soviet Union now, and it could not support a land market, as we understand the term.

I conclude that one of the most likely outcomes is that the Soviet Union will be characterized in the near term, the next decade or two, by a form of sharecropping. I see evidence that this is already emerging. This happened in the United States after the American Civil War and for the same reason. Farmers had no capital, and the institutions to support private farming did not exist. These reasons are even more emphatic today in the former Soviet Union. The result is that I think we will see a version of contract farming for which commercial models exist now—contract farming in poultry, turkeys, eggs, broilers, in cattle feeding, in canning crop production.

So I'm convinced that the greatest help we could give them is to get some of their people in this country for a period of time long enough to enable them to study these institutions. They won't take them back, they won't replicate them exactly, but they will learn something about the possibility of an intermediate stage between outright family-type farming on privately owned fee-simple land and the present system. That intermediate stage, I think, will involve some form of sharecropping, a lease system that we would look upon as sharecropping.

Finally, I think we should recognize that the source of import demand in the Soviet Union, which has been a big market for our products, is likely to disappear. This is not likely to be a permanent source of markets for American or for West European grain as it has been for the last 20 years.

Thank you.

[The prepared statement of Mr. Raup appears at the conclusion of the hearing.]

Mr. PENNY. Thank you.

Ms. Brookins.



**STATEMENT OF CAROL L. BROOKINS, PRESIDENT, WORLD  
PERSPECTIVES, INC.**

Ms. BROOKINS. Mr. Chairman, I want to thank you for allowing me to testify before your subcommittee. I'm president of World Perspectives, Inc., which is a consulting company, and we analyze political, economic, and trade factors that affect agricultural markets and the global food system. We work with companies and with governments around the world, including clients in Russia and the former Soviet Union.

I'd like to address the importance of Russia to United States agriculture, and I think we should be very careful not to forget that there has been a direct correlation between the Soviet Union's demise as a military threat and its inability to provide an adequate food supply to its population. I began my work in the commodity field in 1972, when the Russians came in for the first time as a major sustained buyer of our grains, and that just happened to be the year that they began to pursue détente with us. The cold war that we have won was not just a competition between missile silos, but I believe between grain silos as well.

Now, over the past 20 years, our agricultural trading relationship has played a vital role in building confidence and mutual benefit. The Soviet Union has paid us more than \$30 billion in cash for United States farm commodities, and I think we all know how that converts into United States jobs and economic activity. Russia is a major long-term commercial market for us. We don't want to damage that relationship, and certainly we don't want to throw the Russians into the arms of the European Community's farmers.

I would note here, Mr. Chairman, that the EC already has called for negotiating a free-trade agreement with Russia. This would be a serious threat to the competitive interest of United States agriculture.

Well, what do we do today to provide agricultural commodities? What we do will set the basis for our commercial and trade relationship with the new Russia and other states of the former Soviet Union. I'd like to focus briefly on the issue of appropriate responses to Russia's needs and to our interests in filling those needs.

Responding to Russia means business for the United States economy. We can do this in various ways, and one way isn't exclusive. Commodity credits, possible barter programs, humanitarian and technical assistance are all efforts that we have to consider and probably implement in one way or another. Briefly, though, it's in our interest to build a long-term commercial market in the new Russia for our commodities, our technologies, our equipment, and our food products.

I'd like to focus briefly on the issue of commercial or concessional credits. Certainly until Russia completes a Paris Club official debt rescheduling, the only possible United States response to move farm products short term must be concessional assistance, either grants or loans. Food for progress is obviously very appropriate. But once a Paris Club is done, or if a Paris Club is done, and once Russia becomes current in meeting its payments to us under the GSM program, we have more options to consider based on an assessment of what makes sense in terms of Russia being a commercial or concessional market. If Russia reschedules its debt and is



undertaking economic reforms under internationally approved guidelines, Russia should resume its place as a commercial borrower. This is in everyone's interest, both the Russians and ours.

The objective of our credit programs and our aid programs is to expand markets for U.S. products by assisting countries to buy those farm products. Certainly, if we don't sell to those countries, the cost to the U.S. Treasury for domestic farm programs will increase on the spending side. Tax receipts also will decline, because we will not produce or sell as many farm commodities. So it's a double loss for the U.S. economy.

Now, how should we use these export programs? Speaking as a taxpayer, if you'll permit me, Mr. Chairman, I think the fiduciary responsibility of the U.S. Government in operating this wide range of programs, from donations to deeply concessional aid to commodity credit guarantees, must be focused on expanding exports at the lowest cost to the taxpayer. Concessional programs cost more than credit guarantees due to cargo preference requirements and due to lower repayment terms. Credit guarantees are far more cost-effective than concessional aid programs for countries as resource-rich as Russia.

Russia has resources. Russia is earning large amounts of hard currency even today. The problem for Russia right now is one of cash-flow, not earning power, and I don't say that that's the same situation for many other states in the former Soviet Union. But for Russia, which is the largest grain importer, a GSM-103 intermediate program might be the appropriate approach if Congress takes two actions in clarifying the 1990 farm bill: First, in allocating a total statutory minimum to the credit guarantee programs; and, second, to clarify its intent in the application of creditworthiness language of the 1990 law.

Here I would say that the letter sent to the Secretary of Agriculture dated May 30, 1991, from Chairman de la Garza and other House Members provides an excellent and appropriate basis for clarifying current legislative language.

We don't need a new program to isolate Russia. What we do need to do is utilize the tremendous wide-ranging authorities we already have to build the Russian market and to build our own market.

Thank you very much, Mr. Chairman.

[The prepared statement of Ms. Brookins appears at the conclusion of the hearing.]

Mr. PENNY. Thank you, Carol.

Steve.

#### **STATEMENT OF STEVEN A. MCCOY, PRESIDENT, NORTH AMERICAN EXPORT GRAIN ASSOCIATION, INC.**

Mr. MCCOY. Mr. Chairman, I appreciate the opportunity to testify. I'd like to use my time today to address the situation of Russian food needs on the microlevel and to emphasize that, at least in my experience, what we see in Russia today is not an instance of absolute, but rather of relative need for foodstuffs.

There's no starvation in Russia, as you know. There was that one instance of the soldiers, but I think that was a glitch. However, today there is severe deprivation affecting the most exposed elements of Russian society—that is, the children, the elderly, stu-

dents, and those like the common soldiers who are forced to live on very minimal fixed incomes.

The problem of hyperinflation has had a dramatic impact on Russian standards of living. The Government has attempted to apply brakes to some of the rises in food costs; however, along with the general rise in prices, the price of staple goods has also skyrocketed for most consumers, bringing with it a widespread fear of basic food insecurity and a concomitant threat of social and political unrest.

It is as a hedge against such unrest that Russian authorities have sought over the years and in the recent year to import grain from the United States and, this year, to import somewhere between 16 million and 18 million metric tons of grain worldwide, of which the United States total would ordinarily be somewhere between 8 million and 10 million metric tons if the means were available to sell that grain.

Now, our failure to date to answer to the current Russian request does not mean that the Russian food system will collapse. Nevertheless, I think we have to understand very clearly that our failure to provide additional assistance in exports to Russia will undercut an already fragile food supply situation, again, particularly when viewed from the microperspective, and will result in hardship for the average Russian family.

Now, it's important to understand that many of the food-related problems we see in Russia today result from what I would term as pipeline disruptions. Even in the past under the previous Soviet system, such disruptions were common. Today, however, more serious challenges exist, resulting from a partial breakdown in previously reliable relationships between producer and Government procurement authorities and entities, between retailers and consumers, and even between food surplus and deficit regions within individual Republics. The absence of a generally recognized, legally sanctioned market mechanism has resulted in an inefficient allocation of scarce resources, such as we all know; therefore, surpluses exist side by side with deficit conditions.

Now, the central procurement authorities in Russia are currently attempting to bridge this gulf, but they are limited in what they can do in terms of maximizing total welfare by constraints on the subsidies that they can pay to producers, by weather-related factors, and by availability of credit from overseas to purchase bulk commodities not otherwise available from domestic stock.

Now, the situation in Russia is probably most severe or shows up most severely in the livestock sector. There's a critical need for feed grains and protein feeds for animal production; however, with U.S. credit suspended, there's little outlet for this demand. As was alluded to earlier, as a result, wheat normally destined for human consumption is being fed to animals, and this, in turn, has lessened wheat supplies for food. Producer, Government, and consumer alike have been trapped in a vicious cycle. Now, I should point out that in my view, they're feeding the Russian wheat and using the American wheat to make bread.

Bottom line, much has been said and written about the promise of Russian agriculture. Some have predicted Russian self-sufficiency in grain in the near term; others forecast a return of Russia

to international export marketplace. It is possible, of course, that such developments may come to pass, but I think it's very unlikely in the near future.

In the short run, it is difficult to see how the current evolving Russian system can effectively match needs in production. Too many constraints currently disrupt production to do so, among them the weather, input and transportation shortages, lack of foreign currency, limits on Government subsidies, the absence or near absence of markets, barriers on inter-CIS cooperation, environmental constraints, and on and on and on.

I conclude that Russia will continue to rely on imports for a significant portion of its total grain supply for the foreseeable future. It will do so because of limits on its own production and supply, but also because imports allow a means to manage food supplies in the face of social discontent. These imports need not come at a cost to Russian producers in the form of disincentives to production, such as has been argued here today. There should be ample domestic markets for their future production. On the other hand, such imports, if reliable, can play a significant role in maintaining basic social welfare at a time of tremendous economic, political turmoil, and change.

Thank you very much.

[The prepared statement of Mr. McCoy appears at the conclusion of the hearing.]

Mr. PENNY. Thank you all for your testimony.

Carol, in your written testimony you mentioned barter arrangements. Other countries have begun the process of negotiating barter agreements with Russia and other Republics. What are the prospects for the United States in that regard?

Ms. BROOKINS. I think there already have been with U.S. exporters barter or countertrade opportunities. I think we do have potential in that area, Mr. Chairman, particularly for commodities that are not generally tradable, like enriched uranium, and I think there is an effort going on right now to study the possibility where we were planning on purchasing a certain quantity of enriched uranium.

The problem, from what I can tell, lies within our own administrative procedures here in terms of where the money would move—in other words, if we're going to buy enriched uranium from the Russians rather than possibly transferring those dollars over there, what it would have to probably be would be an inter-Treasury transfer from one account, the account of Defense Department or Energy Department or whoever it is, into the account of the Commodity Credit Corporation, I would assume, if they're actually commodities being sold to Russia.

Barter has an advantage also because if we did barter transactions, it would not require cargo preference, sir.

Mr. PENNY. How about GSM-103 for purchases of ag equipment and processing equipment?

Ms. BROOKINS. GSM-103 could be used in the original 1985 legislation, which set forth the GSM-103 program. There were all types of authorities for equipment and other types of farm products or actually farm infrastructure that could be permitted under the program, but it would be basically done—or I think it was antici-



pated it would be basically done—through the purchase of commodities. But you could use farm equipment through GSM-103, I believe.

Mr. PENNY. In terms of the Russian perspective, is that an area where we would find an anxious buyer?

Ms. BROOKINS. Russia is one of the largest producers of farm equipment in the world, particularly of tractors and combines. Unfortunately, they have no spare parts network or system, so they retire as many or more pieces of equipment a year as they produce, and this has really been greatly constrained. I think it could be an opportunity for some of our farm equipment manufacturers, but I do believe that it would be in our longer term interest also to help the Russians build up their own plant capacity within the country. Certainly, it is a peaceful use of technology, and I think it would benefit them in terms of even defense conversion.

Mr. PENNY. We had two Russian farmers testify that they were interested in processing equipment, small-scale processing equipment, and I know that we have had Russian delegations travel to Minnesota and sign contracts for processing equipment. You indicated that Russia builds a lot of basic production equipment, but evidently they, at both the state level and the individual farm level, aren't doing such a good job of providing for these processing facilities. Is that another possibility for GSM-103?

Ms. BROOKINS. I think it's another possibility for GSM-103 or for any other of our programs, and certainly possibly even for an enterprise fund or an Ex-Im-type of program as well. We do provide support to exports of U.S. industrial products through the Export/Import Bank program, and I think that we should look to see where the appropriate fit is in terms of whether we should be seeking to get more Ex-Im guarantees for that type of transfer of U.S. business products and whether we want to use GSM-103 for those types of products or whether we want to keep it as primarily a commodity type of program, used also possibly at the other end to help them build infrastructure.

Mr. PENNY. Dr. Raup, what would you recommend as the most effective approaches by the United States if we want to support agricultural reform, market development within Russia?

Mr. RAUP. As I indicated, the basic problem is not that they don't have skilled people, not that they don't have a good bit of the modern technology available within agriculture. They do, and some of it is world-class. They don't have the institutions. Particularly, they don't have the legal basis, and they don't have the organizational basis, and they don't have the structural models.

One of the greatest handicaps in the Soviet Union system is there is no model for organization except the army, and everything else can be interpreted as organized on these lines. As we've seen in the last week, they have no tradition of conflict resolution in their debating agencies, in their parliamentary agencies. They have only a system of handing down orders from the top, and no feedback loop is completed to permit information to flow from below.

So the greatest service we could provide them is to give training and access to information about alternative institutional structures, specifically, but not limited to, alternative forms for cooperative work, alternative forms for corporate organization, and the



kind of contractual relationships that I referred to briefly in my oral testimony that now begin to play a dominant role in American agriculture.

We have accepted the bailee or custodial contract in this country almost through the backdoor, without anybody having talked much about it. But as you know so well in your own district, major fractions of agricultural activity are governed by contracts that in effect make the farmer a sharecropper on his own land. I expect that type of institutional innovation will, in a Russian version, characterize much of the agricultural organizational structure in the states of the former Soviet Union.

We could help, I think, by bringing people over here for longer periods of time and permitting them to work with the practitioners in the field. You're not going to learn this in the State capitols, you're not going to learn this in Washington. It has to be done at the operational level and in a local community situation, which is where they will have to implement it.

So I think bringing people over for longer periods of time and ensuring that they are focused on the understanding of the operation of the institutional structure and not just on a technology or a particular kind of practice would be the greatest service we could render.

Mr. PENNY. Thank you.

Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

Ms. Brookins, you recommend a longer credit guarantee to be provided to the former Soviet Union. What's the basis for this recommendation?

Ms. BROOKINS. The basis for this recommendation, sir, is the fact that if Russia—this is only preconditioned by the fact that Russia does complete the Paris Club rescheduling and is engaged in a long-term restructuring under an IMF/World Bank/G-7-type of mandate. My recommendation is based on the fact that Russia already is earning considerable amounts of hard currency. The problem this year is the fact that it's not repatriating that money because it's considered flight capital and the fact that the economy is so unstable internally that the ruble is virtually valueless today or is moving in that direction.

So there's probably at least 12 billion dollars' worth of hard currency even today out of their \$24 billion to \$28 billion in annual hard currency earnings recently that is located outside of the country in Western banks, sitting there because people don't want to bring it back to be used to service debt. If Russia goes on a Paris Club rescheduling, it will be probably a 7- to 10-year rescheduling. I think that we could do a 7- to 10-year GSM-103 program, and it would complement the type of debt management that Russia is operating.

If we move to a longer-term concessional food aid program, sir, we run into the problem of cargo preference, we run into the problem of much higher costs when I don't believe Russia has to have that type of concessional assistance. Many other states in the former Soviet Union do, but I don't think that Russia does need to do that, and if we move Russia into a concessional category, it will be very hard to bring them back up into being a commercial cat-

egory again, and the cost to the United States taxpayer will be much higher.

Mr. LEWIS. Dr. Raup, you stated that you've been to the Soviet Union five times since 1958 to 1991. From your experience with the Russian people at that time, do you feel that their economy is in serious jeopardy today with the upheaval of the so-called changes in their current Government and the threat of an overhaul again of their current Government system?

Mr. RAUP. Well, it certainly is under threat, yes. That needs some elaboration. They have had a total breakdown in the supply of production inputs. The old system isn't working. The old system had its defects, but it did get some product to the producer. The supply of production inputs now is haphazard. The kind of barter trading that Ms. Brookins just explained with regard to the final product also exists for inputs in agriculture. That's the way you get your fertilizer. That's the way you get your seed.

This system needs total overhaul, and until some more realistic prices can be used to move the product and to pay for the spare parts that currently are not available, there is going to be a gradual deterioration, and I think it's going to happen very rapidly. They have had some surprising good results in the last few years. For the last 3 years, the average yield of wheat in Russia is the highest in history in two of those 3 years, due, of course, to favorable weather. But it must also be due to the fact that they're doing something right.

I have considerable confidence in their ability to continue to raise these yields, which they've been doing steadily now for the last 15 years. But the supply of production inputs will quickly become a bottleneck, especially in terms of replacement of machinery and equipment, which can eat up your capital. You can live off of your machinery capital in farming for about 5 to 7 years, and then it's gone, as we found out in the cycles that have characterized the farm machinery industry in the United States since the farm crisis in the early 1980's.

Mr. LEWIS. In France the farmers have a tremendous influence on their Government. Do you feel that the agricultural communities in the various Russian states have a similar type of influence on their governments or could have or may never have?

Mr. RAUP. Well, the political systems are different, but it's roughly true to say that the overrepresentation of rural areas that characterizes so much of the Western European Community and also the United States is also visible in the former Soviet Union, and some of the people that are leading the noisy demonstrations in the present Parliament come from these rural communities. That's the background of the opposition that is now being voiced and given such publicity in the last 2 weeks.

The rural areas are not organized in the sense that the French farmers are organized, and there is not the sentimental attachment to the Russian peasant that I believe exists in France. I've spent quite a bit of time in France and also in Russia. Many Frenchmen believe that the heart and soul of France is in the countryside. That belief is not quite so strongly apparent in the former Soviet Union. So I don't think they're going to have the kind of nostalgic support base in the cities for support of the rural countryside that

has characterized the rural to urban migrants in the West European and North American tradition.

We're living off of that tradition today in this country, with a much stronger representation on behalf of agriculture because of nostalgia by people who no longer live in the rural countryside, no longer work in agriculture, but still will support a farm program. That kind of strength, I believe, is not as apparent in the states of the former Soviet Union.

Mr. LEWIS. Thank you, Dr. Raup.

Thank you, Mr. Chairman.

Mr. PENNY. Mr. Baesler.

Mr. BAESLER. I noticed in your written comments regarding the enterprise fund that your point was that we need to do less on educating themselves and put more money into the actual operation within Russia. I think your second point was that it might prove dividends to us if we took, from a Government standpoint, a more aggressive approach in assisting our folks here who might want to export whatever they want to export to Russia and let those private individuals help us solve the problem, with us supporting them, and at the same time they would receive benefits that would be realized for us here. Is that generally what you mean by that?

Ms. BROOKINS. You said it better than I wrote it, sir. I think that is true. We have very limited resources in terms of our foreign assistance. I think that's something we're all very aware of, and I think that President Clinton has also emphasized the importance of the private-public partnership. Here we are going into the former Soviet Union, into a country that was a totalitarian, nonmarket economy, and if everything we try to do is government-government and sending aid people over there and not really getting our businesses over there, I think we'll be making a serious mistake.

I think where you have this type of political and economic uncertainty and insecurity, sometimes it can make the difference between a business making an investment or doing work in a country, knowing that it has an OPIC investment guarantee, knowing that it has Ex-Im credit guarantees, knowing it has GSM program money or some other types of money.

An enterprise fund concept specifically for agribusiness I think could be very useful. Europeans are notorious, the Japanese are notorious—all the assistance they ever provide is really to move their products into a market or give their businesses the opportunity to get a toehold in that market, and what we've found is if you don't get in at the ground floor, you lose out forever. Because once you get in at the ground floor, you build those relationships, you get your technology in there, you get your commodities in there, and it builds a long-time multiplier effect into trade and economic benefits to a country. So that is why I'm saying we need to be leveraging the small amount of money we have and using it more efficiently.

Mr. BAESLER. So would your conclusion be, if you had \$100 billion or million or whatever kind of dollars you want to talk about, that if that was going to be the amount of money we're out here talking about to provide assistance to Russia, then the question is whether or not that \$100 billion would be leveraged to more benefit



for the United States if it was in an enterprise fund to let our private companies carry out water rather than let us just go and dump the money over there?

Ms. BROOKINS. I think we have to still continue to do humanitarian or technical assistance, but I think the more technical assistance that we can use in leveraging it through some type of enterprise fund where the U.S. Government puts up maybe \$2 for every \$10 that a private business puts up, with specific projects or plans in mind, an investment that they're committed to making, I think it can bring a tremendous multiplier effect to our opportunities.

Mr. BAESLER. Would it also be a little bit more expedient? Because everything I've read in all your testimonies is the fact that it's like dripping water. It's going to be a real slow process here to be able to get things turned around, and it seems to me that the private sector would speed up that process, because profit motive has a little way of doing that.

Ms. BROOKINS. I hope so. It's certainly worked for our economy, so I hope that it would work in Russia as well.

Mr. BAESLER. We presently don't put much in the enterprise fund, do we?

Ms. BROOKINS. We don't have an enterprise fund for Russia. We have enterprise funds in some of the East European countries, but we don't have any specifically in agribusiness or an agricultural enterprise fund, and that's what I'm suggesting we might want to do.

Mr. BAESLER. I understand. And that's even in European countries, you don't have any for agribusiness.

Ms. BROOKINS. No.

Mr. BAESLER. Thank you.

Mr. PENNY. Mr. Barlow.

Mr. BARLOW. Thank you, Mr. Chairman.

Ms. Brookins, you mentioned that \$12 billion roughly is being held offshore by the Russians. Are there any figures on how much of that is state corporations versus private individuals?

Ms. BROOKINS. I would imagine that a great deal of it, sir, is state corporations in the sense that the Federal authorities have lost control over the companies that they own in terms of the oil industry, the gas industry. So there are a lot of deals being done where it's actual money owed to, let's say, the Russian oil state business, but it's being kept offshore by people who have sold the oil out of a well in Siberia or somewhere like that, and there's been no control—they don't have an effective IRS and Customs Service and Central Bank structure right now to be able to recapture that and repatriate it.

Additionally, there's no incentive for anyone to bring the money back, because they'd have to turn it back into rubles, and rubles are certainly dropping dramatically in value. I mean, I was in Russia about a year ago, and the value of the ruble in February then was about 90 to the dollar. When I went back over there this past February, it was about 460 to the dollar, and now it's gone down further. When I go back for the referendum, it will be even lower, I would imagine.

Mr. BARLOW. Well, is there any indication that there's any discipline being resurrected within the administrative structures in



the Soviet Union to, say, use the dollars that may be held offshore toward the dollar debt for agricultural commodities with the United States or for future agricultural purchases?

Ms. BROOKINS. I have not seen anything specifically in that regard, but I have seen signs in the press that part of the work that the IMF wants to be doing with them is trying to help them recapture that money. Now, whether it's going to mean work with our central banks and with Bank of International Settlement countries to try to target that money that is illegally really out of the country, I get a feeling from some of the reports that have been written there will be efforts in this regard to try to recapture that, but you cannot bring it back in really until you have confidence in the ruble.

Mr. BARLOW. But it could be brought back in in the form of commodity purchases from the West?

Ms. BROOKINS. It could be if the Government could get control of that outside the country. But right now it has no control.

Mr. BARLOW. Is there any indication that Russian military organizations are, within the administrative structures in Russia, getting restless and putting pressure on the other administrative and institutional structures to effect this for the sake of Russia?

Ms. BROOKINS. I'm not aware of it. I do know, though, that the Yeltsin government is very concerned, and, in fact, I understand Yeltsin hired the private investigator in New York who tracked down Marcos' millions to try to find out where this money is in order to try to get hold of it again.

Mr. BARLOW. Dr. Raup, maybe you can answer on this one. I understand current state-owned enterprises in agriculture have a big lock on a significant portion of the Russian budget now. Is that true?

Mr. RAUP. Yes.

Mr. BARLOW. And are there pressures within the Soviet structure to decrease the amount of the budget that goes to these state-owned enterprises? In other words, might they wither of their own weight in the budget structure over time?

Mr. RAUP. Well, much recent publicity has been given to the fact that the Central Bank has been printing rubles in order to finance the continued existence of firms that would otherwise go bankrupt. I believe when people read that, they have in mind manufacturing firms or factories. That also holds for the farms. So the printed rubles are keeping in existence a lot of big farms that would otherwise fail.

Mr. BARLOW. And it's this printing process which is the reason why the ruble is so worthless?

Mr. RAUP. Oh, yes. Plus the fact that the breakdown in the payment system that would permit the flow of funds has been almost total. You could say they have no payment system today.

Mr. BARLOW. So really the Russians are undergoing their own educational process right now, learning that subsidizing these bureaucracies, the agricultural bureaucracies, is not the way to go. Perhaps we should just sit back and watch it happen?

Mr. RAUP. We may have no alternative.

Mr. BARLOW. Thank you.

Mr. PENNY. Ms. McKinney, questions?

Ms. MCKINNEY. No thanks, Mr. chairman.

Mr. PENNY. As I expected, we're coming up on a vote on the House floor, but I'd like to wrap this panel up and wrap up the 3 days of hearings with just a couple of concluding questions. We didn't get much discussion this morning about value-added sales to the Soviet Union and whether that is an area where we ought to apply greater emphasis. I know Mr. McCoy wants to respond to that, but if either of the others wants to respond as well, it would be fine.

Mr. MCCOY. I think it's entirely appropriate that we use all of our assistance and finance tools to promote the sale of all of our products in every market. I think we have to bear in mind that the customer may have some priorities that need to be followed, but certainly there's every indication that there is some interest in purchasing pork, for example, or poultry, and there may be some interest in dairy products. I'm not all that aware.

The bottom line is I would imagine that the bulk of our financing tools would continue to go for grain simply because that's the mainstay and has been the mainstay of our relationship and has been indicated to us to be the desire as far as the Russians are concerned.

Ms. BROOKINS. I agree with what Mr. McCoy says. I would only add that the Russians have very much stated an interest and a need for both soybean meal and soybean oil. This is something they need very badly even right now, and I think it is what is appropriate to the Russians. Certainly in terms of some of our humanitarian assistance as well, we can provide some of the value-added food products that could go directly to consumers in specific areas if that is needed.

Mr. PENNY. How do you feel about a monetization approach to that targeted sort of aid?

Ms. BROOKINS. The humanitarian aid?

Mr. PENNY. Yes.

Ms. BROOKINS. If it can be then used, the money sold, by the PVL, right?

Mr. PENNY. Yes.

Ms. BROOKINS. I think monetization has worked in a number of countries. We have to be careful how we use it, and we have to be careful that we approve of the right types of uses for it in terms of the projects that would be implemented from the use of those funds. But if it does give us an additional ability to leverage our resources in helping the Russians make this important transformation, I don't have any objection to it.

Mr. PENNY. Carol, I think you mentioned in your testimony that the Europeans are looking at a free-trade arrangement with Russia and the other Republics. What does that really mean in the case of Russia, and how would the United States relate to that issue?

Ms. BROOKINS. I think basically what it means, Mr. Chairman, is that the European Community sees Russia as a phenomenally important long-term market. I mean, the European Community is resource-short; Russia has resources. The European Community has major surpluses of grains and other commodities. They see Russia, and particularly the Asian part of Russia, as a source of

materials; they see the long-term farm problems as providing a dumping ground for their commodities.

If you look at it, it's absolutely amazing, because at the same time they're having problems even dealing with Poland and Hungary, because those countries have surplus agricultural commodities and they have a lot of problems importing those. But I think it's definitely a strategic economic move on their part to try to pull Russia under their sphere of influence.

Mr. PENNY. But in terms of the relative barriers, tariffs, quotas, et cetera, what—

Ms. BROOKINS. It would pull them under the European system. The Europeans have already been out preaching to the East Europeans why they all have to adopt a common agricultural policy like the Europeans, and they've already hurt us badly in certain products where they've set up preferential tariffs with those countries, deliberately set to keep our products out.

Mr. PENNY. What could we do in response to this? What's the best approach the United States could take?

Ms. BROOKINS. I don't think it would be—if they're going to be looking at a free trade-agreement with Russia, I don't see why we couldn't be considering similar measures or at least to maintain Russia as a—in terms of seeing whether there's mutual benefit for us in creating a free-trade agreement with Russia.

Mr. PENNY. And would you apply to the other Republics or to other Eastern European nations the same philosophy?

Ms. BROOKINS. I would certainly say that if they're able to respond. I don't think we can let particularly Russia fall under the grasp of the European Community. East European countries are somewhat different, some of the Central European countries, because they're so tied even right now to Germany.

Mr. PENNY. Were there any other questions from committee members before we wrap this up?

[No response.]

Mr. PENNY. If not, I want to thank this panel. You've been tremendously helpful.

That concludes our hearing.

[Whereupon, at 11:10 a.m., the subcommittee adjourned, to reconvene, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Prepared Testimony for the House Subcommittee  
on Foreign Agriculture and Hunger  
for delivery April 1, 1993

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Mr. Chairman and members of the subcommittee.

You asked me to address in particular political obstacles to reform in agriculture. The major point to understand about those obstacles is that the system of collective and state farms in Russia which has developed since Stalin initiated forcible collectivization in 1929 is primarily a mechanism for exercising political power.<sup>1</sup> This is so even though the farms obviously have an economic function, and the original justification for collectivization was put in economic terms. Five principal conclusions flow from this fact.

First, since the collective farm system is the bedrock on which the Stalinist system was built, agrarian reform is vital if Russia is to have a stable, democratic future. Agrarian reform, of course, means both the creation of

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<sup>1</sup> there were once legal differences between a collective farm (kolkhoz) and a state farm (sovkhoz). However, those differences were and are mostly formal and quite unimportant for the argument I wish to make. Therefore I will refer throughout this presentation to this entire system as the collective-farm or kolkhoz system. For similar reasons I will refer to state-farm directors and collective-farm chairmen simply as "farm managers."



competitive market structures upstream and downstream of the farms and fundamental transformations within the farms themselves.

Second, many collective and state farm leaders and members have little or no interest in agrarian reform because it threatens the power and position of the leaders and the secure, if poor, life of the workers.

Third, because the old "command-administrative" apparatus has been destroyed but most people have not yet adjusted to the fact, most average Russians have little concern with what goes on in Moscow. Nor can Moscow really do a great deal to affect most people "outside the beltway." The ties between central policy, actual policy as it is carried out (or, more often, fails to be carried out), and what happens in day-to-day life are too obscure and uncertain. Russia is well on its way towards breaking down into regional satrapies, what Russians fearfully call "appanage princedoms." It is unlikely there is much we can do to stop that process, even if we think we should (and I am not sure I do).

Fourth, land and agricultural reform are the most politicized issues in Russia and the other Soviet successor states today. Attempts to change the Russian constitutional prohibition on private sales of agricultural land—essential for any real market economy as well as any credit system—led directly to the constitutional crisis in Russia with which we have all been so concerned in the past two weeks. So aid to Russian agriculture cannot be treated as a purely technical problem. Yet understanding that this is a political issue means that the United States must decide what its own interests in Russian development, stability, and democracy are. We must also be aware when attempting to affect those ends through aid and diplomacy that our efforts might very well fail, leaving the United States identified with the (for the time being) losing side in a bitter internal political debate in Russia.

Fifth, giving agricultural aid to the Russians is particularly difficult because to be effective it must not simply be dumped off in Moscow. Effective aid can only be local assistance. But we have little real knowledge of conditions or people outside of Moscow, and simply transferring procedures developed to help very different societies to the Russian context will not achieve their purpose of helping the Russian people. Yet such attempts are certain to cause endless scandals in the US and Russia and ultimately discredit the whole idea of aid to the Newly Independent States.

Let me now expand on the considerations which led me to those general conclusions. I want first to examine the way Russian agriculture has been run and how that created the conservative parliamentary "Agrarian Union" fraction, then describe the on-going Russian agrarian reform. I conclude with some further reflections on the need for agrarian transformation, and aid, "from below."

About 85% of Russians still lived in the countryside in 1929. Almost all of them were peasants. As a result, the major share of the national income still came from agriculture. Control over rural resources—capital, labor, and especially food—was therefore absolutely essential if rapid industrialization was to be achieved. Yet the Bolshevik Party had little or no presence in the countryside. Stalin solved this difficulty by the rapid imposition of standard model collective farms throughout the entire country. The costs were enormous, not only in lives but also because the collective system never generated the kind of sharp increase in productivity which preceded the industrial revolution in Western Europe. The Soviet Union was permanently dependent on an each year's uncertain harvest in a way no western capitalist country has been for a

century. But collectivization achieved its immediate goal of subduing the countryside.

Because they were political devices forcibly imposed, the collective farms were designed and intended to be run on command from above. To this day sowing, harvesting and the other operations of farm life are carried out by directives "sent down" from local, regional, and ultimately national authorities. Managerial initiative has often been harshly punished. Vasili Starodubtsev, the chairman of a model kolkhoz in the Tula oblast' which some of you may have visited and who is now better remembered for his part in the August 1991 coup, was very nearly jailed under Brezhnev for corruption because he did what he had to do to make his farm operate well. Vasili's brother Dmitri actually did go to jail in the 1970s for similar "offenses."

Within the farms, the managers tend to treat their workers the way higher authorities have treated them: as automatons to be ordered about. Most good farm managers have an authoritarian management style which would have been congenial—if perhaps harsh-seeming—to Henry Ford. Such paternalism, of course, has advantages for many of the workers. They do not have to work very hard and their needs will be taken care of by the boss. The ties of dependence on the management—not just for work, but for housing, medical care, education, stores, transportation, recreation, and for every other daily necessity—make these farms what the sociologist Erving Goffman called "total institutions," akin to military units or prisons in the degree of control they exercise over their subjects' lives. Like long-term prisoners or career military personnel, or indeed anyone else with long service in a particular social context, the farm workers have grown used to these conditions and find it difficult to imagine how they could live otherwise. Thus they are very often willing "prisoners" of their managers. Like supporters of any good political

machine in the US a century ago, they are likely to give their political support to their managers in return for what they perceive as real benefits.

For Russia as a whole this farm organization system has become increasingly dysfunctional because it does not reward anyone for initiative. Leonid Brezhnev and his successors tried to fix this defect by throwing increasing amounts of investment at the farms. Through the 1970s and 1980s vast sums were pumped into agricultural development, only to be diverted to other needs, lost to corruption, spent on mis-designed projects like the enormous concrete cow barns which dot the countryside, or passed to monopoly suppliers and processors as the prices they charged the farms rose. By 1989 Yegor Ligachev was promising that food-supply problems could be fixed by the big farms—if only the government would give all state investment to agriculture for the next five years? Happily, given the farms' previous track record, his advice was not followed, but big-farm managers still believe that their basic problem is one of inadequate state investment. They are perhaps right, but the record of how past investment has been used suggests that they will not use investment any more wisely until the basic organization of Russian agriculture changes.

The entire apparatus of agricultural administration extending from the Agricultural Ministry through provincial and district agricultural administrations served as a transmission belt for central orders. Of course, those local and regional agencies developed their own institutional interests and sought to defend "their" farms. But as long as the Communist Party exercised control and discipline this system was overwhelmingly one in which orders flowed down and reports of success flowed back up.

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<sup>2</sup> Speech to the USSR Congress of People's Deputies, December 1989.



Party dominance had at least four sources. First was the party's nomenklatura power of appointment and removal of personnel throughout the party and state. Second was party discipline, effected by the district and provincial party committees' ability to give party punishments to managers. Too many reprimands certainly stopped career advancement, and could cost a manager his present job. Third was the party member's immunity from state prosecution. Party members had to be thrown out of the party before they could be prosecuted, so crimes (such as the bribery and corruption needed to make any enterprise work efficiently under the old command system) could not be punished unless the manager has his party card taken away. Fourth was the finely calibrated system of access to privileges and scarce goods. Privilege depended on one's job. The job depended on the party. So the party's manipulation of its personnel powers governed who had what privileges, a powerful lever in a society where distribution of all material benefits and all paths of upward mobility were controlled by the CPSU apparatus.

When Gorbachev created the USSR Congress of People's Deputies in 1989 this system began to break apart. Careers no longer depended on the party. The managers of exemplary farms, who were the overwhelming majority of rural representatives, used the Congress to shake themselves loose from party control and act on their own interests.<sup>3</sup> Once free of party control, they sought first of all a change in their relationship with suppliers and processors, all of whom had exercised monopoly power over the farms, and secondly they sought to retain and improve their own control over their own subordinates within the farms. Thus they were very interested in marketization—so long as

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<sup>3</sup> Claiming that all managers felt this way is too broad a generalization, of course. But the overwhelming majority did, and do, seem to do so.

state subsidies made them competitive on the market—but not at all interested in land reform if that land reform meant that their farms would be broken up and they would lose their own positions.

As these changes were underway, the 1989-1990 debates over the USSR laws on land and property served to formalize divisions among USSR deputies, driving most of the rural deputies together into a quasi-party, generally referred to as the "agrarian deputies."<sup>4</sup> This organization carried over into the Russian Congress of People's Deputies, where some 200 agrarian representatives agreed to act as a bloc even before the first meeting of that Congress in May 1991. Formally organized as the "Agrarian Union," this group has continued to act together in each session of the Congress up to the present. It is probably the most conservative voting bloc in the Congress, since the agrarians oppose not only the end of state subsidies (a position shared by all enterprise managers), but any and all privatization, especially of land. The chairman of the Agrarian Deputies parliamentary fraction, Mikhail Lapshin, is also a member of the council of the National Salvation Front, the neo-fascist "red-brown" political grouping opposed to any reform.

The land reform to which the agrarian deputies are so bitterly opposed developed in two main stages. The Second RSFSR Congress of People's Deputies in November and December 1990 approved the first legislation. Collective and state farms were to be divided and reorganized by determining land and property "shares" for all their workers. Individuals could sell their shares to the farm and leave the countryside or withdraw their shares to set up

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<sup>4</sup> I have traced this process in more detail in my article "Political Mobilization in the Russian Countryside: Creating Social Movements From Above," pp. 43-72 in Judith Sedaitis and Jim Butterfield, eds. Perestroika from Below: Social Movements in the Soviet Union (Boulder, Colorado: Westview, 1991).

family or smaller-group farms. However, free sale and mortgaging of land was forbidden for ten years. During 1991, unprofitable farms were to be encouraged to reorganize themselves, but no general reorganization of the countryside was planned.

A series of presidential and governmental decrees in December 1991 and January 1992 began the second stage of the land reform. Agricultural land would be denationalized and given to the farms. By March 1, 1992, each collective or state farm's "labor collective" was to decide whether the farm's land would become their property as individuals, as a group, or in some other form. By January 1, 1993, all farms were also to reorganize themselves and re register with the state.

Profitable farms could reorganize in three ways: 1) as new-style collective farms (a hasty congress of collective farmers met in February 1992 to approve a new, more liberal standard set of farm rules); 2) as farmer-owned joint-stock societies (essentially similar to western Employee Stock Ownership Plans); or 3) as associations of independent peasant farms in which land and capital are held privately, but farmers work together on one another's land for specified purposes. They could also decide simply to go out of business. Unprofitable farms were to be broken up, their assets sold to the farmers or outsiders. If the farm's existing work force did not wish to organize a new farm, the State Land Fund would redistribute its land.

Creation of individual farmsteads has been the most publicized part of the agrarian reform. Only marginal political figures, such as the journalist Yurii Chernichenko, argue that all the collective and state farms should be quickly broken up. But many "peasant" family farms are needed, reform supporters say, to give city dwellers incentive to return to the countryside and repopulate areas

which are now almost deserted. Competition from private farms will force the collective and state farms to be more efficient.

As the reform mechanisms have begun to operate, the Ministry of Agriculture has found itself caught in a kind of self-destroying position. The Ministry was established and organized to run agriculture from the capital. Although the Minister, Viktor Khlystun, is a convinced reformer, most of his subordinates, including his deputy and first deputy ministers (who are appointed by the Russian prime minister, not the Minister himself) are professional agricultural administrators who have spent their entire careers in the old system and oppose change. Moreover, Khlystun had few levers for change beyond sending orders for change to the localities, where, as one farm chairman recently told me: "the district authorities called us together and said we had a month to reorganize. Do it or else."

As market mechanisms begin to operate, however, the Ministry's control over agriculture has declined. Economic turmoil, problems in getting allocated funds from the Central Bank and Ministry of Finance, and the general breakdown of the old state-enforced economic system have made the Ministry's activity increasingly irrelevant for the people on the land.

Central authority to carry out the agrarian reform, and the definition of the reforms themselves, were further confused during 1992 by conflict between President Yeltsin and his Vice President, Afghan war hero Alexander Rutskoi. In late February 1992, Yeltsin issued a directive giving Rutskoi personal responsibility for carrying out the agrarian reform as well as converting defense industry plants and resources to agricultural ends.<sup>5</sup> Since Yeltsin had earlier

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<sup>5</sup> "Ukaz Prezidenta Rossiiskoi Federatsii: O porucheniakh i polnomochiiakh vitse-prezidenta Rossiiskoi Federatsii, Rossiiskie vesti, No. 9 (March 5, 1992), p. 4.



issued a decree relieving Rutskoi of most of his responsibilities in the Russian government, giving him the agricultural portfolio may have been intended to get rid of the increasingly fractious Vice President by assigning him a post which had doomed many careers in the USSR.<sup>6</sup> Yeltsin's later decision placing Rutskoi in charge of the fight against crime as well as the agrarian reform also suggests that the President wanted to rid himself of a political embarrassment, not really have him do anything.<sup>7</sup>

Although he admittedly knew little about agrarian policy when he received his new task, Rutskoi refused to be shunted aside, moving quickly to fulfill his new responsibilities. He learned quickly, managing to produce a four hundred-page book on the agrarian reform in Russia by the middle of 1992.<sup>8</sup>

In mid-April, as the Congress of People's Deputies was refusing to amend the Constitution to permit the free purchase and sale of land, the vice president published a long article in *Sel'skaia zhizn'*—the old official agricultural newspaper known for its conservatism—proposing general coupon-based privatization of agricultural land.<sup>9</sup> Rutskoi proposed free trade in the

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<sup>6</sup> Alexander Rahr, "Rutskoi in Opposition, RFE/RL Daily Report (January 2, 1992).

<sup>7</sup> "Ukaz Prezidenta Rossiiskoi Federatsii: O merakh po zashchite prav grazhdan, okhrane pravoporiadka i usileniiu bor'by s prestupnost'iu," No. 1189 (October 8, 1992), Vedomosti S"ezda narodnykh deputatov Rossiiskoi Federatsii i Verkhovnogo Soveta Rossiiskoi Federatsii, No. 42 (October 22, 1992), article 2373, pp. 3156-3158. The fact that one of Rutskoi's bitterest enemies, State Counselor Gennadii Burbulis, was also named to the crime commission increases the impression that it was not really expected to function.

<sup>8</sup> A. V. Rutskoi Agrarnaia reforma v Rossii (Moscow: 1992). After 100 copies of formatted proofs were circulated and the book's publication was announced at a press conference in mid-summer, it was withdrawn for revision. The type was reportedly broken up. The so-called Russian-American University, actually a military-industrial complex think tank, issued a 10,000 copy edition of a shortened version of the book in February 1993.

coupons—and, therefore, in agricultural land—for anyone with the money to buy.

Although his ideas seem to be in the spirit of the radical privatization proposed by the Gaidar government, Rutskoi generally sounds "conservative." He has called for returning to a "regulated" (slow) transition to a market economy and says the program to set up individual farms has failed. His proposal would apparently undo all the land redistribution and privatization so far accomplished. The individual farmers' interest group AKKOR—Association of Peasant Farms and Agricultural Cooperatives of Russia—has publicly worried that all the new peasant farms set up so far could lose their land under Rutskoi's plan.

The Russian vice president understands agrarian reform as a technical matter of raising productivity, not as a socio-economic transformation of the country's basic rural institutions. In a probably-unconscious imitation of Stalin's "Dizzy with Success" speech, which ordered a halt to collectivization so that spring planting could proceed, Rutskoi ordered local officials to suspend farm reorganization because production came first in a March 16, 1992 telegram.<sup>9</sup> He has argued that the small farms being established as a result of the division of the collective and state farms on the share system are uneconomical and a waste of resources (which, so long as farmers cannot lease or purchase additional land and equipment, many of them certainly are). Rutskoi accordingly took responsibility for establishing a Russian corporation, ROKAP, which would sell arms abroad and use the proceeds to build "turnkey" farms.<sup>10</sup> These ready-

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<sup>9</sup> The telegram is reproduced without a title in *Zemlia i liudi*, No. 13 (March 27, 1992), p. 1.

<sup>10</sup> "Ukaz Prezidenta Rossiiskoi Federatsii: O programme Rossiiskoi korporatsii agropererabotki 'Pole-Magazin,'" mimeo (March 20, 1992).

made farmsteads would be leased out for twenty years, preferably to demobilized military officers, who would pay for them with a part of their produce.

Rutskoi is locked in a bureaucratic battle with the Ministry of Agriculture and the State Committee on Land Reform, which were charged with carrying out the agrarian transformation in the 1990 and 1991 legislation. The Vice President established his own institutional base, the Federal Center for Land and Agroindustrial Reform, a quasi-private for-profit institution, in mid-1992.<sup>11</sup> Former state farm director Vitalii Yermolenko was appointed to head the Center.<sup>12</sup> By the end of 1992, the Federal Center seemed to have wrested much of agricultural policy-making authority from the Ministry of Agriculture and Goskomzem. The latter agency was stripped of its reform functions, leaving it only monitoring of land use and surveying, by an early October 1992, presidential decree reorganizing the government. At the same time, the Ministry of Agriculture's Main Administration for Land Reform was shut down.

On October 30, 1992, Rutskoi issued a vice-presidential directive ordering that all land taken from collective and state farms for redistribution be returned to them until such time as norms for land distribution should be properly worked out.<sup>13</sup> Read literally, this directive seemed to require that land already deeded to private farmers be given back. Rutskoi's chief agricultural

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<sup>11</sup> "Ukaz Prezidenta Rossiiskoi Federatsii: Ob organizatsionnykh merakh po provedeniiu zemel'noi i agropromyshlennoi reformy v Rossiiskoi Federatsii" (June 27, 1992), *Zemlia i liudi*, No. 28 (July 10, 1992), p. 1.

<sup>12</sup> For an account of a meeting with Yermolenko, see Jerry F. Hough, "Agricultural Reorganization," *The Politics of Post-Soviet Reform: Agriculture*, No. 2 (November 1, 1992), pp. 1-3.

<sup>13</sup> A. Rutskoi, "Rasporiazhenie vitse-prezidenta Rossiiskoi Federatsii: O merakh po ispolneniiu Ukaza Prezidenta Rossiiskoi Federatsii ot 2 marta 1992 g. No. 213 'O poriadke ustanovleniia normy besplatnoi peredachi zemel'nykh uchastkov v sobstvennost' grazhdan,'" *Sel'skaia zhizn'* (November 6, 1992), p. 1.

policy advisor, Nikolai Radugin, justified this extreme measure because of the incompetence of the Ministry of Agriculture and Goskomzem, a clear reference to the struggle for policy authority between those bodies and the Federal Center.<sup>14</sup> However, doubts about Rutskoi's authority to issue such a command, as well as quick clarifications from Goskomzem, blunted the effect of the order. In areas of the country where local officials favored land reform, the directive had little effect. Where they did not favor reform, the directive simply strengthened their reasons for resisting.<sup>15</sup>

Although Rutskoi's attempts to stop institutional change in the countryside, like his repeated declarations during 1992 that the agrarian reform had failed<sup>16</sup>, could be justified as purely technical judgments—food supplies had not been increased by reform, so it was not successful—they effectively allied him with the most vocal opponents of any agrarian reform at all, the most intransigent farm managers and local officials.

Perhaps the most hopeful thing that can be said about this confused tale of central wrangling is that it may not matter very much. The conflict of laws, regulations, and agencies in post-Soviet agriculture is so severe that much of the system is running on inertia or newly established direct ties between producers, suppliers and consumers which avoid all the administrative agencies and so any systematic accounting.

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<sup>14</sup> N. Radugin, "O khode zemel'noi reformy, Sel'skaia zhizn' (November 6, 1992), p. 2

<sup>15</sup> This analysis is based on the author's conversations in Moscow in November, 1992

<sup>16</sup> For instance, Aleksandr Rutskoi, "Agropromyshlennaia reforma: Kakoi ei byt'?" Sel'skaia zhizn' (April 15, 1992), pp. 1-2 and "Aleksandr Rutskoi: Legche poiti v ataku na batareiu vruga, chem pobedit' korumpirovannykh chinovnikov," Izvestiia (October 8, 1992), p. 3.



The governmental breakdown in Russia is not surprising or unexpected. Without party discipline to enforce central orders, and with the increasing importance of market relationships for individual Russians, the government has no way to enforce its decisions. Local authorities have taken the opportunity to establish their own restrictions on commerce, and particularly on the movement of foodstuffs. Growing local autonomy and variations in policy are not surprising, but they further contribute to the disintegration of central government.

It seems unlikely that central authority in Russia can be really re-established until most citizens see a reason to do so. They will have such a reason only when they have real economic interests which they wish to defend. So the market reforms under way are the only real hope to generate a new, competent political system. While that chaotic and extremely painful process is going on, however, there will continue to be governmental chaos in the capital and crises of the sort which has just snared president and parliament. To be effective, therefore, American aid has to avoid much of the central political turmoil, instead concentrating on individuals and voluntary organizations which can rebuild something from the mess.

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Van Atta has done extensive field work in the Russian Federation, as well as living in Latvia for six months with his family on a grant from the International Research and Exchanges Board. He is currently conducting a study of "The

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## Equity Relations and the Future of Agrarian Reform in Russia<sup>1</sup>

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### EXECUTIVE SUMMARY

- The purpose of reform, from the government's point of view, is twofold. First, and most urgent, is to provide sufficient quantities of food at reasonable prices to consumers.
- The second purpose of reform is to introduce efficiency and cost-effectiveness into the system that heretofore was lacking.
- The consequences of price liberalization resulted in an extreme financial drain from the rural sector and forced the Yel'tsin administration to introduce compensation and further subsidies to food producers. By mid-1992 the state began to pursue a more egalitarian policy toward all farms.
- The sources of egalitarianism under Yeltsin are twofold. First, we can see a carryover from Soviet rural egalitarian policy.
- Second, the effects of market reform led to an abandonment of rural differentiation among farms. These basic impulses can be seen by reference to a number of aspects in land reform.
- *Obtaining Land*
  - The "Law on Peasant Farms" stipulated the right of "every able-bodied citizen" who

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<sup>1</sup> The research for this article is based upon field work in Kostroma Oblast. Three trips by the author were made within a twelve month period, the first in December 1991-January 1992, the second during June-July 1992, and the third in January 1993. A reference list of sources obtained in Kostroma used in this paper appears at the end. Full citations for other sources are given in the footnotes.

possessed "specialized agricultural knowledge or past specialized training" to organize a peasant farm. The RSFSR Land Code (chapter 10, article 58) added that any citizen at least 18 years old who has experience in agriculture and the corresponding skills or who had past specialized training may receive land. In practice, the way around the stipulation requiring "experience in agriculture" is to enroll in a course intended for new peasant farmers.

- In the course of state or collective farm reorganization, if the farm is to be disbanded altogether, then farm land and property are divided among its workers. All farm workers receive an equal share of land, irrespective of age or ability.

- If a person requests land from a special land fund, then an application for land is submitted to the local land reform committee. The raion soviet decides whether the land and how much of it will be given to the applicant. Each raion has a "norm" for land to be given free for the creation of a peasant farm. In general, the better the quality of land, the closer the location to markets, the smaller the land norm. Larger land norms usually are of poorer quality land.

#### • *Land Sales*

- The sale and purchase of land became legal in November 1992, but with significant restrictions. The purpose of these restrictions was to preclude the creation of large land estates, which might lead to the acquisition of rival political power.

#### • *Subsidies and Financial Support*

- In 1992, all peasant, as well as state and collective farms, were eligible to receive compensation for fuel, machinery, and fertilizer, irrespective of how efficiently those resources were used. These blanket subsidies were intended to cover even inefficient farms.

#### • *The Rise of a New Rural Elite?*

- There is suggestive evidence that former members of the nomenklatura and farm directors have obtained the best lands and have used their connections to get machinery and



fertilizers that are denied to ordinary farmers.

- But there does not appear to be the formation of a new rural elite.

- There are two sets of factors at work precluding the rise of a rural elite, at least in the short-term.

- First, there are institutional restrictions, as seen above. Despite the fact that rural differentiation is occurring, the government has absolutely no intention of allowing a rural elite to emerge.

- The second obstacle to the emergence of a rural elite is rural conservatism, manifest as a basic aversion to free land sales and a residual anti-kulak attitude in the countryside.

## CONCLUSION

- Despite the rhetoric for the peasant to "enrich himself," in fact the state has intervened in order to try to enforce an egalitarian policy among rural dwellers in reform.

- The effects of rural egalitarianism on reform outcomes are clear.

- Rural egalitarianism prevents the rise of a stratum of strong, efficient farmers.

- Those who have been successful at some degree of differentiation are few in number and most likely cannot boost production significantly in the foreseeable future.

- Overall, the peasant farm movement is comprised of small farms--three persons on average; there is little machinery on farms, less than one tractor per farm; farms have just few head of livestock; and "farmers" are overwhelmingly former urban residents looking for reliable food supplies.

- Within the land reform movement, private plots have been the most popular form of land privatization.

- Given that the peasant farm movement is plagued with political and economic difficulties which constrain their production, it is likely that Russia will remain a food importer for at least the near-term.

## **Equity Relations and the Future of Agrarian Reform in Russia<sup>1</sup>**

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### **INTRODUCTION**

There is now a recognition that if overall economic reform is to succeed, agricultural reform must lead the way, as it did in China. The purpose of reform, from the government's point of view, is twofold. First, and most urgent, is to provide sufficient quantities of food at reasonable prices to consumers. The second purpose of reform is to introduce efficiency and cost-effectiveness into the system that heretofore was lacking, which in the long-run will cut dependence on foreign imports.<sup>2</sup> A primary means of achieving the second goal is through the development of private peasant farms, the focus of this paper. We will address Russia's prospects for attaining its goals in our conclusion.

### **EQUALITY AND RURAL-RURAL RELATIONS**

Initially under Yel'tsin, a bold attempt was made at increasing rural differentiation at the farm level in 1991 and early 1992. The intent was to create a stratum of strong, efficient, productive farms. Within six months, that effort faded, and subsequently land reform has been conducted with the purpose of maintaining relative equality among rural

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<sup>1</sup> The research for this article is based upon field work in Kostroma Oblast. Three trips by the author were made within a twelve month period, the first in December 1991-January 1992, the second during June-July 1992, and the third in January 1993.

A reference list of sources obtained in Kostroma used in this paper appears at the end. Full citations for other sources are given in the footnotes.

<sup>2</sup> The Soviet Union, and now Russia, have averaged around 30 million tons of grain imports annually since the mid-1980s.

food producers.<sup>3</sup> In 1991 and through the first months of 1992, the Yel'tsin regime pursued a series of state interventions designed to enforce rural differentiation. What the regime did not anticipate however, was the effect of market reforms on urban-rural relations and the significant shift that turned economic terms against the agricultural sector.

For example, during 1992, purchase prices for agricultural products rose an average of 10 times, but prices for basic industrial products used by state and collective farms increased an average of 17-20 times.<sup>4</sup> For example, a "MT3" tractor that had cost 6,000 rubles in 1990 was priced at 240,000 rubles at the beginning of 1992; a "Don" combine rose from 47,000 rubles to 1.6 million during the same period; and a plow for a tractor increased from 675 rubles to 9,500.<sup>5</sup> One should note these are prices for the *beginning* of 1992, prior to inflation in the course of that year that has been estimated as high as 2,000 percent. More recently, it was noted that a "Belarus" tractor had increased in price from 360,000 rubles to 1.3 million during 1992.<sup>6</sup>

The consequences of price liberalization resulted in an extreme financial drain from the rural sector and forced the Yel'tsin administration to introduce compensation and further subsidies to food producers. Despite these measures, as well as a doubling of procurement prices for grains in August 1992, the indebtedness of the agro-industrial sector increased from 69.3 billion rubles on January 1, 1992, to over 733 billion rubles on November 1, 1992.<sup>7</sup> By mid-1992 the state began to pursue a more egalitarian policy toward all farms.

The sources of egalitarianism under Yeltsin are twofold. First, we can see a carryover from Soviet rural egalitarian policy. This continuation is seen by the way legal institutions governing land reform are defined. Second, the effects of market reform led to an

<sup>3</sup> For an analysis of Yel'tsin's early rural social policy, see Stephen K. Wegren, "Two Steps Forward, One Step Back: the Politics of an Emerging New Rural Social Policy in Russia," *Soviet and Post-Soviet Review*, vol. 19 nos. 1-3 (1992), pp. 1-49.

<sup>4</sup> *Ekonomika i zhizn'*, no. 5 (February 1993), p. 4.

<sup>5</sup> V. Miloserdov, "Problemy agrarnoy politiki," *APK: ekonomika upravleniye*, no. 7 (July 1992), p. 15.

<sup>6</sup> *Argumenty i fakty*, no. 6 (February 1993), p. 2.

<sup>7</sup> *Sel'skaya zhizn'*, December 11, 1992, p. 1.

abandonment of rural differentiation among farms. These basic impulses can be seen by reference to a number of aspects in land reform.

### *Obtaining Land*

The "Law on Peasant Farms" stipulated the right of "every able-bodied citizen" who possessed "specialized agricultural knowledge or past specialized training" to organize a peasant farm. In the case of many claims, preference is given to citizens who live in that locality. The RSFSR Land Code (chapter 10, article 58) added that any citizen at least 18 years old who has experience in agriculture and the corresponding skills or who had past specialized training may receive land. In practice, the way around the stipulation requiring "experience in agriculture" is to enroll in a course intended for new peasant farmers.

Rural egalitarianism can be seen in the way prospective farmers obtain land. There are two main methods for obtaining land. The first method is to obtain land from a collective or state farm. As the farm reorganizes, its workers are entitled to leave the farm, and to be assigned land shares. If the farm is to be disbanded altogether, then farm land and property are divided among its workers. In the latter case, all farm workers receive an equal share of land, irrespective of age or ability.

If a person requests land from either a farm or then special land fund, then an application for land is submitted to the local land reform committee.<sup>8</sup> After the land committee processes the application, it sends the application to the raion soviet. The raion soviet decides whether the land and how much of it will be given to the applicant. Each raion has a "norm" for land to be given free for the creation of a peasant farm.<sup>9</sup> In some areas, the norms are very small, and additional land may be purchased or leased if desired. The size of land norms are related to the quality of the land as well as the number of claimants. In Kostroma raion, the norm for free land is 3.2 hectares. In outlying regions,

<sup>8</sup> In Kostroma Oblast, the Committee on Land Reform consisted of 27 people, and each raion had its own branch. The central office for the oblast was located in Kostroma city and had a staff of 5 people.

<sup>9</sup> *Kostromskoy kray*, March 10, 1992, p. 1.



where land quality is worse and the number of people fewer, the norm for free land was 14 hectares.<sup>10</sup> In general, the better the quality of land, the closer the location to markets, the smaller the land norm. Larger land norms usually are of poorer quality land.

### *Land Sales*

In November 1992, the Russian Parliament finally legalized the sale of land, but with conditions attached.<sup>11</sup> These restrictions involved the purpose the land was to be used for, the price of land, and the size of the land plot. First, the land could be sold only for purposes of subsidiary agriculture (*lichnoye podsobnoye khozyaystvo*), plots around dachas, gardening, and individual housing. If the land being sold was used for these purposes, then it could be sold without a moratorium, provided that the purpose for the land use was not to change.<sup>12</sup> In other cases, if the land was sold for purposes other than those stated above, and had been received free in ownership, then the land had to be held for 10 years before it could be sold. If the land had been purchased, then a five-year wait was required.<sup>13</sup> The purpose of these restrictions was to preclude the creation of large land estates, which might acquire rival political power. This attitude is best seen by the recent comment made by the Minister of Agriculture, Viktor Khlystun, who, when talking about the new right to buy and sell land, commented

What we are talking about is the establishment of a civilized market in land, regulated by the state, a market in which agricultural land cannot be sold for other purposes. This must be governed by strict state regulations. We are talking about a market in which land cannot be sold for the creation of latifundia--very large estates.<sup>14</sup>

### *Subsidies and Financial Support*

<sup>10</sup> Of course, a person can buy or lease additional land above the free norm. In Kostroma raion during 1992, additional land could be purchased for 5,000 rubles per hectare.

<sup>11</sup> *Izvestiya*, November 20, 1992, pp. 1-2.

<sup>12</sup> *Se'skaya zhizn'*, November 24, 1992, p. 1.

<sup>13</sup> *Izvestiya*, December 8, 1992, p. 1.

<sup>14</sup> Moscow Television, translated in Foreign Broadcast Information Service, *Central Eurasia*, December 29, 1992, p. 26.

The egalitarian nature of rural-rural relations is seen by the fact that all peasant farms in 1992 were eligible to receive compensation for fuel, machinery, and fertilizer, irrespective of how efficiently those resources were used. Thus, blanket subsidies were intended to cover even inefficient farms. Moreover, the subsidies offered by the state for animal husbandry products were differentiated by region paying northern regions more per ton than southern regions for those products that were delivered to the state. In essence, this system was a continuation of the old Soviet zonal pricing scheme that paid inefficient farms more per unit of output in order to cover higher production costs.

### *The Rise of a New Rural Elite?*

Is a new rural elite emerging? It is very difficult to say with any degree of certainty. There is only scant statistical data. There is, however, suggestive evidence that former members of the nomenklatura and farm directors have obtained the best lands and have used their connections to get machinery and fertilizers that are denied to ordinary farmers.<sup>15</sup> In Kostroma Oblast, for example, there is evidence of rural differentiation. On average, there was less than one tractor per farm in the summer of 1992. While the largest farms, those over 200 hectares, comprised just 3 percent of the number of farms, they had 27 percent of the tractors among peasant farms in Kostroma Oblast. Data from Kostroma Oblast also show that the number of persons employed on larger farms is higher, almost 17 persons per farm for farms above 200 hectares, and six persons per farm for farms between 100-200 hectares, while for the oblast as a whole the average farm has just three persons.<sup>16</sup>

To say there is a new rural elite is quite different than saying there is evidence of ongoing differentiation among rural groups. There are two sets of factors at work precluding the rise of a rural elite, at least in the short-term. First, there are institutional

<sup>15</sup> See for example, Kenneth Gray "The Process of Russian Land Privatization in 1991 and 1992," *Former USSR Agriculture and Trade Report*, RS-92-1 (Washington, DC: USDA, May 1992), p. 17.

<sup>16</sup> *Krest'yanskiye khozyaystva Kostromskoy oblasti na 1 Iyulya 1992 goda*, pp. 7-8.

restrictions, controlled and managed by the state. Despite the fact that rural differentiation is occurring, the government has absolutely no intention of allowing a rural elite to emerge.

The second obstacle to the emergence of a rural elite is rural conservatism, manifest as a basic aversion to free land sales and a residual anti-kulak attitude in the countryside. In Altai Kray, for example, a recent survey among rural dwellers showed that 95 percent opposed the free sale of land.<sup>17</sup> That a basic egalitarian culture still exists in the countryside is further evidenced by press stories of sabotage against successful farms, and in 1992 legislation was passed allowing farmers to own and use weapons to protect their property. Russian land reform, therefore, differs from that in other countries in that land distribution is intended not to break the power of an old rural elite, but to prevent the rise of a newly landed, powerful, rural elite.<sup>18</sup>

## CONCLUSION

Despite the rhetoric for the peasant to "enrich himself," in fact the state has intervened in order to try to enforce an egalitarian policy among rural dwellers in reform. In January 1993, promises were made that further subsidies and financial support would attempt to differentiate among farmers based on effectiveness, but specifics about how this would be achieved have not been published.

The effects of rural egalitarianism on reform outcomes are clear.

1. Rural egalitarianism prevents the rise of a stratum of strong, efficient farmers.
2. Those who have been successful at some degree of differentiation are few in number

<sup>17</sup> *Sel'skaya zhizn'*, January 12, 1993, p. 1.

<sup>18</sup> One might argue that land distribution is intended in part to lessen the power of the old communist rural elite in general and of state and collective farms in particular. This argument has a degree of validity, but I would first argue that vis-a-vis the *urban* communist elite, the rural elite was weak and fairly ineffectual. Second, it is unlikely that any counter-elite, especially a rural one, would have been tolerated in the old Soviet system. Instead, rural interests would have been co-opted and "represented" by the urban-based communist elite. We could measure this weakness through representation on elite bodies, lagging wages, poor rural infrastructure, poor rural health care and medical facilities, lack of rural amenities, and any number of other indices. For more on this subject see Stephen K. Wegren, "The Social Contract Reconsidered: Peasant-State Relations in the USSR," *Soviet Geography*, vol. 32 (December 1991), pp. 653-82.

and most likely cannot boost production significantly in the foreseeable future.

3. Overall, the peasant farm movement is comprised of small farms--three persons on average; there is little machinery on farms, less than one tractor per farm; farms have just few head of livestock; and "farmers" are overwhelmingly former urban residents looking for reliable food supplies. As a result, production results from private farms were rather meager in 1992. According to published statistics, peasant farms produced one-half million tons of grain (about 2 percent of the total amount purchased by the state), less than one percent of the potato harvest, less than one percent of the vegetables, less than one percent of the meat and poultry, and less than one percent of the milk produced in the country.<sup>19</sup> In all, about two percent of total agricultural output came from private peasant farms.

4. Within the land reform movement, private plots have been the most popular form of land privatization. These are on average small (one acre) and have the primary purpose of augmenting the family's food supply. Their output, measured in terms of total agricultural output in the nation, is significant, estimated at more than 25 percent of gross output, but most of this produce is consumed.

5. Land reform is limited in its ability to solve Russia's food problem. Land reform is intended primarily to increase production. We have not discussed here the problem of losses in production that occur in the harvesting, storage, transportation, and distribution processes. It is estimated the Russians lose between 30-40 of their gross harvest during those processes, or approximately the amount they import annually. We have not discussed the problems associated with antiquated or nonexistent rural infrastructure. We have not discussed the problems in the food processing sector. Thus, land reform is but one aspect of the overall equation. A complete resolution of the food problem would require increased production, more efficient production at lower cost, an overhaul of rural infrastructure, and modernizing food processing.

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<sup>19</sup> "Agramaya reforma: dva goda spustiya," *Zemlya i lyudi*, no. 49 (December 4, 1992), p. 4.



6. Therefore, given that the peasant farm movement is plagued with political and economic difficulties which constrain their production; given that the most popular form of land reform, private plots, is intended for family consumption; and given that finances are limited to construct an adequate infrastructure and modernize food processing, it is likely that Russia will remain a food importer for at least the near-term.

A Summary Review of the Food and Agriculture Situation  
in Russia and The Former Soviet Union

Statement by Philip M. Raup

## I. Introduction

A lasting impression upon any visitor to the former Soviet Union who comes from the United States is how very much alike the two areas are. This similarity exists in several dimensions, apart from the topographic.

One is the similarity in attitudes toward space and time. Unlike western Europe, transport costs are a major part of total production costs in American and in what was the USSR. Each European nation lies within a single time zone; it takes four time zones to cross the continental U.S., six time zones to include Hawaii and most of Alaska, and seven to pick up Alaska's western tips. It takes eleven time zones to encompass the former Soviet Union.

This time-distance relationship breeds a consciousness of wide variations in climate, land use and politics, in both America and the states of the former Soviet Union (FSU). It also yields a sense of remoteness from centers of power. The attitudes of ranchers in New Mexico or wheat growers in Montana toward Washington have much in common with views of Moscow held by sheep herders in Uzbekistan or Kazakh wheat and barley growers. Government is far away.

Consider only the Russian Federation. It includes an area well over twice the size of the continental U.S. Its population of 150 million is 74 percent urban, virtually the same as 75 percent in Europe and 75 percent in the United States, but the contrasts between urban and rural are perhaps sharper than in any other industrial country.

Consider one state, Kazakhstan. It is 3.9 times the size of Texas, 6.6 times the size of California, and includes an area equal to 35 percent of the continental U.S. Its capital city, Alma Ata, near the Chinese border, is some 1500 miles from its northwestern border, approximately the distance from Dallas, Texas, to San Francisco, California. The spatial problems of governance are awesome.

## II. Some Key Economic Variables

The task of restructuring the economy of the former Soviet Union must begin with a recognition that it was a colonial empire, held together by military force, and organized along semi-feudal lines. Its reorganization is triggering three simultaneous revolutions:

- 1.) The severing of feudal-like relationships between the rulers and those ruled
- 2.) The severing of colonial ties between the central power and the colonies
- 3.) A religious reformation

The states emerging from the Soviet Union, in short, are experiencing the trauma that in Western Europe was associated with the break-up of feudalism, the Reformation, and decolonization. This is telescoping five centuries of Western European evolution into a few years.

In telescoping these three revolutions, certain economic variables will play critical roles. It will be wrenching to acknowledge that:

- 1.) Credit is credit, not welfare
- 2.) Interest is a cost of the use of capital, not a tribute to a sovereign.
- 3.) Property rights are efficient arrangements for conveying information, and not just permits for the exercise of monopoly power.
- 4.) Profits are essential for the growth of capital.
- 5.) Prices that fluctuate are integral elements of a market economy.

The majority of the people in the FSU are unfamiliar with uncertainty. They had had the longest continuous period of stable consumer prices of any large population in modern times. The transition to a market economy will be especially difficult in those sectors in which price distortions have been greatest, namely: housing, transportation, energy, and land.

The most fundamental distortions arise from the lack of a price on land and natural resources. This reflects a failure to recognize the fact that a market economy involves markets for inputs as well as for outputs—for factors of production as well as for products. The most direct threat to the ideology guiding a planned economy arises from the prospect of a market for land. Yet without a market for land, there can be no market-derived basis for choosing among production alternatives involving space and time.

This necessity for a price on land is central to an understanding of the complexities of the privatization issue in Russian agriculture. At the outset, support for continuing privatization requires patience. The supporting institutional structure will take time to construct. Those who wish to derail or defeat privatization of asset ownership will seize on this argument as a basis for delay. This is a danger that must be faced. It must be weighed against the fact that a too-hasty privatization can have long-lasting consequences that will be difficult to remedy in the future.

One of these consequences relates to the fact that there has been no functional market for agriculture land in the FSU since the first world war. The zonal pricing system used for agricultural products was designed to capture economic rent for the state. The highest commodity prices were typically paid for products produced at locations most distant from markets. The lowest prices, particularly for grains, were paid for products from the better lands, or those close to market.

It will be impossible to derive realistic prices for land until this inverted product pricing system is reformed. This is under way, but it will take time. In the transition there will be a massive reordering of ideas regarding the relative profitability of agriculture at different locations. This will be reflected in changes in relative land prices that cannot now be predicted.

Any distribution of land based on values calculated from present land uses will be wildly distorted. This argues for caution in proceeding with privatization. In the transition it will almost surely be wise to rely on variant forms of use permits or leasing. In the existing structure of relative product values, outright sale or purchase of land could lead to give-away pricing or impossible debt burdens. Privatization can be defeated by unsupportable efforts to achieve too much too soon.

### III. A Summary of Possible Consequences of the Collapse of Communist Agriculture

In the past, deficient supplies in state food stores made possible the growth of collective farm or cooperative markets that provided an outlet for the products of small-plot agriculture. Any future shift to private farming is likely to cause an increase in the production of the types of products formerly produced on the old private plots, and consequent declines in prices. If the supplemental income from this source declines it will be more difficult for the big farms to hold their labor supply. This could lead to rising labor costs, and rural depopulation.

One prospect could be an increase in labor costs on big farms, forcing recognition of their inefficiency, and an accompanying fall in income from private plots, leading to widespread abandonment. This will reveal the fact that the big farms are too big, and the small plots are too small. We can expect the emergence of farm units carved out of former collective or state farms that could be large enough to retain their labor supply by providing full-time employment for one or several families.

This will take time. Only a limited amount of farm equipment suited for farms of this size is now being produced. A credit system serving farms of this size does not exist. Management practices and work norms have been tailored to relatively large work groups or brigades, organized around the principle of job specialization. Farm policy and practices in the FSU produced specialists, not generalists. A major change in orientation toward farm work will be needed and this seems unlikely to occur until a new generation takes command.

A second consequence of collapse has been accelerated by the depreciation of the ruble. This has increased the urgency of the search for security, and is increasing the attractiveness of owning a tract of land. Land appreciates in value as currencies depreciate.

Privatizing agricultural land when the currency is collapsing will thus insure that no market process of valuing land can be used. The result seems likely to be some form of payment for land based on commodities, coupled with ceilings on land holdings set in terms of hectares. A precedent for this solution was set by the land reform in Taiwan after 1951, with payment denominated in bonds pegged to rice and sweet potato prices.

### IV. Land Tenure Adaptations to the Collapse of Communism

The historical record is full of cases in which bound peasants, serfs, or slaves have been converted into sharecroppers. With some exceptions, this has been an almost universal stage in the evolution of land tenure systems. With the collapse of centralized power over land use decisions, and the chaotic state of the debate over land ownership, it seems likely that the existing collective and state farms will be converted into organizations with functions similar to those exercised by landlords under share-cropping systems.

In the short-run, there is scarcely any alternative. There is no stock of equipment suitable for family sized farms. Buildings for livestock and storage and handling equipment for field crops are centralized and large scale. There is no system of production credit for small-scale producers. There are many parallels with the situation that prevailed in southern states at the end of the American Civil War.



There are also important differences. The institutional structure to support individual risk-takers is almost totally lacking in the FSU. There is no locally available system for the registration of title to land. Farm mortgage credit is virtually unknown. There is no body of contract law tailored to the needs of individual business enterprises or farms. Transfer of funds by the use of bank checks or negotiable instruments (warehouse receipts or bills of lading) has never developed. Insurance for business risk in private-sector agriculture does not exist.

These and many other institutional defects make it likely that, whatever managerial forms evolve from the collapse of communism, the farm structure that emerges will resemble a share-cropping system. A contractual basis for this evolution already exists in many western-style market economies. Poultry and eggs, many types of vegetable crops, and fed livestock are increasingly being produced in the United States under bailee or custodial contracts that represent highly commercial variants of share-cropping. The grafting of this form of business organization in farming to the remnants of the structure of communist agriculture can be expected.

#### V. Prospective Trends in Grain Imports

In 1988/89 and 1989/90 imports by the USSR accounted for over 20 percent of total world trade in wheat and coarse grains combined, and for over one-fourth of total trade in coarse grains considered separately. In 1992/93, imports by the states of the former USSR are forecast to drop to only 13.8 percent of total world trade in wheat and coarse grains, and to only 11.8 percent of trade in coarse grains.

In volume, wheat imports by the USSR in the two years 1988/89 and 1989/90 averaged 15.9 million metric tons annually, while coarse grain imports averaged 24.9 million tons. In 1992/93 wheat imports are forecast at 15.5 million tons, only slightly below the average of 1988/89 and 1989/90. In sharp contrast, imports of coarse grains in 1992/93 are forecast to fall to 10.6 million tons or only 43 percent of the average level of 1988/89-1989/90 (USDA, FAS, FG 3-93, March 1993).

What are the prospects for a continuation of demand for grain on this scale by the states of the FSU? In the short run, grain imports are likely to remain large, although falling. By the end of this decade, the situation could reverse dramatically.

Farm managers of the former USSR know how to produce grain. It is perhaps the major agricultural sector in which productivity increases are similar in trend if not yet in level to those achieved in the grain belts of North America. The removal of bureaucratic interference in the grain economy could go far to correct the past history of enormous losses in handling, storage, and utilization. Losses have exceeded total grain imports in all but a few years in the past two decades.

Two forces may bring about this transformation. The first is the emergence of realistic prices for grain, coupled with a reform in procurement methods. In the past almost all loss after grain left the farm was borne by government or its agencies, and did not reduce incomes for any of the individuals involved in the distribution chain. This is sure to change.

More realistic grain prices will also lead to improved efficiency in use of feed grains. In the past, and today, the principal use of wheat in the FSU was as a feed grain. For the past 15 years

the annual food use of wheat has been virtually flat, varying from 35 to 37 million tons. The use of wheat as feed over the same period averaged 44 million tons, and exceeded 63 million tons in 1990/91. Anything done to improve efficiency in grain feeding of livestock will have a disproportionate effect on import demand for wheat.

The second and potentially more powerful force that could lead to a reduction in grain imports is the determination of newly independent states to reduce dependency on others for their food supply. No symbol of that dependency is as powerful as the need to import grain. Grain has the status of an icon of independence in the FSU. Its successor states will make heroic efforts to cut back or eliminate grain imports. The one sector in which a drive for self-sufficiency could command the widest public support is grain production. It is unrealistic to expect imports by the states of the FSU to drive the demand side of world grain trade through the 1990s, as Soviet demand did for the past twenty years.

It is clear that the major current adjustment in grain imports by the FSU is occurring in coarse grains, used almost entirely for animal feeds. Animal numbers have fallen steadily since 1990/91, and especially in hogs. Prior to the break-up of the Soviet Union, per capita levels of consumption of meat were approaching the levels of western Europe, were above the levels of Norway, Sweden, and Finland, and approximately equal to the level in the United Kingdom.

The livestock sector emerges as a major source of shock absorption capacity as consumer prices begin to reflect true costs of production. The significance for world trade, and especially for the United States, is that the restructuring now under way in Russian agriculture seems likely to result in sharply lower import requirements for feed grains, including feed wheat.

This could also be a shift of great significance for the European Community. In years of bad weather, much soft winter wheat produced in the EC is not of milling quality. The growth of imports of feed-quality wheat by the FSU in the 1980s had provided an important market for EC wheat. The growth of this market coincided with the transformation of the EC from a major grain importer in the 1970s to the world's second largest grain exporter by the end of the 1980s. Any cut-back in Russian demand for coarse grains and feed-quality wheat will be felt keenly by the EC, and especially in years in which weather is unkind. The EC has yet to experience the problem of finding export markets for large quantities of unmillable wheat. Demand by the former USSR, and Russia in particular, postponed that experience. That demand is falling and seems likely to continue to shrink.

In this view, a transformed FSU will erode the base of current grain price support and production guidance policies in the European community, Canada, and the United States. The pressure for agricultural policy reform in those three regions will intensify.

## VI. What Can The United States Do To Help?

The most immediate step needed is to find a way to un-block the funds already available to finance shipments of agricultural and other goods, but not drawn upon because Russia and other states of the FSU have been unable to satisfy the conditions attached. Why is this urgent?

The coming three months, April, May and June, mark the period of greatest food shortages, especially in grains. Even though grain purchased now will not arrive until May or June, at the earliest, the knowledge that it is under way will enable Russian authorities to draw down stocks to levels that might otherwise be dangerous.

There is another reason. It must be assumed that grain is being held back by domestic producers, in Russia and in other states of the FSU, especially Kazakhstan and Ukraine, in anticipation of higher prices or more favorable barter trades. The prospective arrival of imported grain could un-block these internal supplies. Those holding for trading advantages would be likely to conclude that it was time to sell, before imported grain dampened or reversed domestic price movements.

Beginning with the advent of Glasnost, and accelerating since 1991, contacts between the peoples of the United States and the FSU have largely been confined to consciousness raising and awareness building. Much good has been accomplished, but it is now time for more sustained and in-depth exchange.

The availability of funding and the attractions of tourism have resulted in flows of people from the United States into the FSU and only a trickle in the opposite direction. These flows should be better balanced, and should involve longer stays.

In a purely technical sense, the FSU is not lacking in resources, skills, or trained and educated work forces. Its greatest shortcoming is in the institutions needed in a market economy. Crafting these institutions is not a problem in technology transfer. It can only be successful if basic organizational structures and legal frameworks are adapted to local and national cultures. The people who can achieve this adaptation must be intimately familiar with the cultures concerned. This argues for an expanded program of support for students, research workers, and practitioners from the FSU, to enable them to acquire detailed knowledge of how presently unfamiliar institutions work in a market economy, in this case, in the United States. Stays of at least a year seem warranted.

An example can be drawn from the discussion above of the need for adaptations of various forms of leasing and contract farming arrangements in the transition to private farming. These exist in many forms in the United States, ranging from market vegetables in West Coast and Atlantic seaboard states, poultry in Arkansas and the Southeast, canning crops in the Lake States and Northwest, beef cattle in the Southern Great Plains, and much more.

Similar examples can be found in the variety of financial institutions involved in the production and movement of crops to markets. With the breakdown of former procurement procedures in the FSU, and the decline or disappearance of central government financing, the development of new financial institutions in crop and livestock production and marketing is urgent. There is general agreement that Russia, for example, is not short of food, in the sense of a food balance sheet. It is desperately short of the institutions to facilitate food storage, processing and distribution.

Imports of grain and other foods can relieve local or seasonal shortages but they do not permit investment in the institutions needed to build a market-oriented economy. Investment in

the people of Russia and the FSU who must create and operate these institutions is the most promising avenue to long-run and durable reform. A massive investment in human capital is needed, and it is to this end that the United States should concentrate its aid.

#### Biographical Sketch

Philip M. Raup (AB, University of Kansas, 1939; PhD, University of Wisconsin, 1949) is Professor Emeritus, Department of Agricultural and Applied Economics, University of Minnesota, St. Paul. His interest in Russia, the Soviet Union, and Eastern Europe dates from 1945-49 when he served as Chief Land Officer and later as Acting Chief, Food and Agriculture Branch, Office of Military Government for Germany (U.S.), in Berlin. His PhD thesis dealt with Soviet agricultural policy in occupied Germany.

He was Secretary of the World Land Tenure Conference (University of Wisconsin, 1951) and co-editor of Land Tenure (University of Wisconsin Press, 1956); co-author of The Changing Structure of Europe, (University of Minnesota Press, 1970); and contributed chapters on agricultural policy to six books dealing with the Soviet economy, including Communist Agriculture (K.E. Waadekin, Ed., Routledge, London, 1990). He made five study tours of the former Soviet Union between 1958 and 1991.



Testimony on Russia before the  
House Agriculture Subcommittee  
on Foreign Agriculture and Hunger

Washington, D.C.  
1 April 1993

Carol L. Brookins  
President  
World Perspectives, Inc.  
Washington, D.C.

Mr. Chairman, Members of the Committee. I want to thank you for the privilege of appearing before you today to examine agricultural issues affecting the U.S. relationship with Russia and other independent states of the former Soviet Union (FSU).

I am founder and President of World Perspectives, Incorporated—a Washington-based analytical and consulting company that focuses on the political, economic and trade factors affecting agricultural markets and the global food system. World Perspectives works with private and public sector enterprises around the world, including Russia. I have contributed articles to publications on various aspects of Russia's role in world markets.

I am not an agricultural economist by training, but an historian. I entered the commodities field at The Chicago Board of Trade in 1972—just a few months before our grain markets were altered dramatically by the entrance of the Soviet Union as a major cash buyer.

In fact, the Soviet Union's large and ongoing requirements to import grain and protein over the past twenty years has shaped world markets. That was the "old world order". Now we are in a "new world order", where our largest cash buyer has shifted to a credit customer, where that single buyer has now split into 15 separate nations and where we must adjust our policies and thinking to benefit from these vast new opportunities.

As you proceed with your important review and seek to enact appropriate legislative responses, it is crucial to remember the history of our relationship with the Soviet Union and the vital role that agricultural trade has played in building confidence and mutual benefit. Yes, we were willing to sell grain and other basic foods to our arch enemy when the Soviets' crops were inadequate to meet their consumption needs. We had the goods they needed; and they brought unprecedented market growth to American agriculture. The Soviet Union has paid us more than \$30 billion in cash for U.S. agricultural exports since 1972.

In my view, there has been a very direct correlation between the Soviet Union's demise as a military threat and its inability to provide an adequate food supply to its population. Detente began in 1972—the same year that the Soviet Union turned to the West to help feed its people.

Yes, we won a military competition, but we also won an economic battle. This was not just a competition between missile silos, but grain silos as well.

Now, we are at the beginning of this new world. I heartily agree with the remarks delivered by Secretary of State Christopher in Chicago on March 22. Secretary Christopher said that helping the Russian people build a free society and market economy is the greatest strategic challenge of our time. As we bring Russia and the other states of the former Soviet Union (FSU) into the "family of peaceful nations", we will serve our highest security, moral and economic interests.

American agriculture has a key role to play in helping Russia and the FSU to successfully accomplish their three simultaneous revolutions, defined by Secretary Christopher. These are:

- transforming a totalitarian system into a democracy;
- transforming a command economy into one based on free markets;
- transforming an empire into a modern nation-state.

In order to achieve these massive reforms, there has to be popular support. The food supply is one of the most visible and direct issues for the general public. Anyone who has read the history of the Russian revolution understands that fact very well.

We can help demonstrate to ordinary Russians the tangible and immediate benefits of market economics through improvements in the food system;

We can help build "stakeholders" in a democratic market system, if we support private farms and businesses all through the food chain and related industries. These will bring greater quantities of higher quality products to consumers.

And, we can help officials build agricultural policies that provide the basis for viable commercial relations within the borders of the FSU and for Russia's entrance in the GATT multilateral trading system.

#### Russia's Role in World and U.S. Agricultural Trade

There would not have been a real explosion in global export demand over the past 20 years if the Soviet Union had not faced consecutive crop problems starting in 1972 and 1973 and decided to import grain and protein to make up for the short-fall—rather than simply doing without as had been the Soviet government's previous practice.

Since 1972, the Soviet Union has been consistently the most significant variable factor, other than weather, determining agricultural market prices, trade levels and market fundamentals.

There has been a direct correlation between Soviet imports and the total volume of wheat and feed grain trade. The significance of annual Soviet import patterns is due in part to the historically small role that world trade plays in total grain consumption. In the case of wheat, trade has accounted for just 18 percent of total use annually, and in feed grains only 11 percent.

Over the past 10 years, the Soviet Union has accounted for as much as 26 percent of world wheat and coarse grain trade annually; in no year has the Soviet Union—or now FSU—accounted for less than 15 percent until the current 1992/93 marketing year. This year we are projecting that the FSU states, dominated by Russian imports, will account for only 13.4 percent of total world trade. The drop is not due to greatly reduced needs, rather the financing to purchase those commodities.

In brief, our agricultural system's development over the past twenty years has been linked closely to a trading relationship with the Soviet Union. In years where Soviet imports fell, that drop in sales led to a poor performance in the U.S. farm sector—lower prices and higher farm program outlays. Conversely, large exports to the Soviets have consistently led to higher farm prices, and reduced government outlays and stocks. In addition, the U.S. agri-infrastructure—from upstream inputs to downstream transportation and exports has been similarly impacted, with either a negative or positive effect on U.S. GDP.

USDA economists estimate that for FY 1993 and FY 1994, domestic farm income could fall by \$1–1.8 billion, CCC outlays for grains could increase by \$0.6–1.4 billion and prices would fall by 10–20 cents/bushel for corn and 20–45 cents/bushel for wheat. If no additional U.S. grain and oilseed sales are made to the former Soviet Union during the rest of these fiscal years.

In brief, we have made a big investment in the Russian market over two decades. We must not throw it away.

#### Russia/FSU Credit Sales

Since 1991, the U.S. and other major exporters like the European Community (EC), France, Canada, and Australia have sought to maintain their sales to the Soviet Union, and then to the successor states of the FSU through various types of programs.

Food aid—donations or other types of concessional assistance—have been targeted to specific parts of the population and to states with no real resources.

However, major export programs to Russia have been in the form of commercial credits—either guarantees like the U.S. GSM 102 program or direct credits as have been issued by the EC. Russia, until late

1992, maintained its debt service on schedule, repaying both the full obligation of the Soviet Union's outstanding GSM 102 credits and that of the successor Commonwealth of Independent States (CIS), as well as the debt issued exclusively to the Russian Government.

I will be referring specifically to Russia in this testimony with regard to commercial credits, because the states of the Former Soviet Union (FSU) will each require a different type of program—ranging from commercial credits to concessional aid.

Russia has been involved since last fall in negotiations with the Paris Club of official creditors to reschedule the debt of the Soviet Union. During Paris Club rescheduling negotiations, it is standard practice condoned by the Club for debtors to build arrearages. Unfortunately, Russia's rescheduling has dragged out far longer than anticipated due both to disagreement among the creditors over the amount of repayment required in 1993, and to the controversial negotiations between Russia and Ukraine over debt obligations.

It is within this context that Russia has fallen behind in meeting its GSM 102 repayment obligations; arrearages now amount to \$600 million; and some of the banks have gone to the CCC with their claims.

Clearly, as long as Russian arrearages remain, it is not eligible to exercise purchases under a GSM 102 program. Once a Paris Club rescheduling is completed, and Russia brings current the remaining outstanding arrearages, it technically would be eligible. However, there are questions about whether Russia is "credit worthy" under statutory requirements of the Food, Agriculture, Conservation and Trade Act of 1990 (1990 Farm Bill).

#### Is Russia A Commercial Or Concessional Market?

I would like to deal with the issue of "credit worthiness" under the 1990 Farm Bill, because it impacts greatly on what we will do with our Russian market over the next 3-5 years.

When Members of Congress wrote the 1990 Farm Bill, they included two specific statutory restrictions on the Export Credit Guarantee Program.

In addition to the restriction against using the program for foreign policy or debt rescheduling purposes, a second restriction puts "credit worthiness" or debt servicing conditions in place:

"The Commodity Credit Corporation shall not make credit guarantees available in connection with sales of agricultural commodities to any country that the Secretary determines cannot adequately service the debt associated with such sale."

Even before the 1990 law, I would note, credit risk judgments were operational in the Export Credit programs. The CCC Charter has permanent underlying principles to protect the assets of the



Corporation. USDA has always provided regulatory procedures involving credit risk assessments to protect the sanctity of the credit guarantee and direct credit programs that were operational.

What changed in 1990 was that tight statutory requirements on both credit risk and foreign policy restrictions substantially reduced USDA's flexibility in interpreting and implementing its program mandates.

What seems to have occurred under the 1990 law is that specific accountability issues were viewed as more critical to U.S. agriculture than the overriding objective of expanding U.S. farm exports in this case to countries that do not require long-term, deeply concessional food aid, but still require back-up support in securing financing for imports on competitive commercial terms.

We must consider the effect of the 1990 language on the competitiveness and responsiveness of our programs to market development and market maintenance objectives?

First and foremost, the very reason for export credit guarantee authority is to expand markets for U.S. farm products by assisting countries which are higher risk borrowers to buy our products on commercial terms.

Second, credit worthiness and credit risk management must be a cornerstone of our policy. The risks inherent in this business must, however, be evaluated both in the context of the potential costs to the U.S. Treasury versus the benefits of moving our products to market, and in the context of meeting the competition. Certainly, the assets of the CCC will deteriorate significantly if we do not move exports and end up with mounting commodity program outlays and stocks.

Third, speaking as a taxpayer, the fiduciary responsibility of the U.S. Government in operating a wide range of programs to move U.S. farm exports—from deeply concessional aid or outright grant programs to commercial credit guarantees—must be focused on expanding exports at the lowest cost to the taxpayer. Credit guarantees are far more cost-effective than concessional aid programs.

This issue of "credit worthiness" clearly presents a real dilemma at present as USDA seeks to address the problem of an export program for Russia and for other FSU states.

Until Russia becomes current in its GSM 102 account, it remains ineligible to receive further credit guarantees. If it does bring its arrears current, what program or programs are then appropriate? Do we need a new program?

I believe that we have the full authority within our wide-spanning mix of programs already mandated to handle Russia's needs and our own interest.

Prior to Russian rescheduling, USDA has focused on Food for Progress—a very flexible program umbrella designed to provide concessional food assistance to countries transitioning to democratic market systems. This would mean, in the case of Russia, a likely 15-year concessional loan, including 3 percent annual interest rates, and a 3-year grace period on principal repayment. Funding can come out of the CCC authorities. However, legislation will have to be enacted to raise the freight "cap" over the \$30 million annual limit for CCC unless monies can be found in other non-agricultural accounts to cover the costs of U.S. flag vessels under cargo preference requirements.

If FFP is to be only a stop-gap or interim program until Russia can operate as a commercial buyer again, how long will that interim period be? What kind of commercial program does Russia need?

It is generally assumed by Administration officials that FFP will be needed through the remainder of FY 1993. However, when a rescheduling is completed and Russia is committed to an economic restructuring based on G 7 programs and IMF guidelines, the GSM 103 program or a direct intermediate credit program would best fit Russia's needs and U.S. objectives over the next several years.

When a business or a country is engaged in a restructuring, it is hardly sensible to load the borrower up with short-term debt maturities. Yet, longer-term financing on commercial terms can be a viable option. In the case of Russia—a country tremendously resource-rich—this would appear most suitable.

Russia already is earning more than \$20 billion annually in hard currency for sales of its minerals and energy resources. Due to political turmoil, economic instability and the breakdown in central authority, much of its hard currency earnings are not being recovered back to the government and Central Bank to service debt. Estimates are that \$12 billion or more in Russian export earnings moved last year into accounts in western banks—both legally and illegally. Bankers have defined Russia's current debt service problem more as one of "cash flow" rather than "balance sheet".

If this is the case, and an intermediate credit program is the most logical and financially relevant solution, do we have a program that would work?

Now, some argue that Russia needs a special credit program in order that the regular GSM programs—102 or 103—not be tainted by the financing risks to Russia, based on the credit worthiness language of the 1990 law. This would mean new legislation.

I don't believe that we need to isolate Russia under new legislation. I would recommend that, if commercial credits are appropriate, Russia and other eligible FSU states be maintained under the existing GSM 103 program structure—with modifications I am proposing.

I have included a background description of the program with my written testimony.

One argument for utilizing our existing authorities is that they are operational and that they contain specifically mandated restrictions against cargo preference requirements. New legislation would undoubtedly lead to demands to expand cargo preference into these commercial programs. It would add a huge cost to either the U.S. Treasury or to Russia—and in the latter case would mean a loss in the U.S. competitive advantage in maintaining that vast market.

We also must be aware of whether the programs we adopt put us at a competitive advantage or disadvantage. I hardly need remind you that the European Community (EC) has very large stocks of grain, a direct credit program that is operational out of Brussels specifically targeted to Russia, and recently-announced plans to bring Russia and the other Independent states of the FSU under a free trade agreement. The EC objective is to bring all of East Europe under the restrictive trade regime of the Community. In the case of agriculture, this would close off U.S. farmers from the dynamic growth opportunities in the FSU, and I am sure that is one of the objectives of the EC.

#### A Proposal to Clarify GSM Credit Worthiness

To utilize GSM 103 for Russia would be assisted by either clarifying amendments or Congressional resolutions to current law:

First, the statutory minimum annual level for GSM 103 is \$500 million while GSM 102 is \$5 billion. I would recommend that a total minimum amount be allocated to the two programs, giving USDA the flexibility to determine what share should be in 102 or 103. Clearly, the GSM 102 program will remain the dominant commercial credit vehicle, but without programs like Russia, the amount utilized during the fiscal year will be only around half the authorized minimum that must be offered or available.

Second, Congress needs to clarify its intent in the application of credit worthiness requirements. At this juncture it is placing a straitjacket on the administration of the Export Credit Guarantee programs. Some Congressional staff argue that the language was sufficiently vague to allow the Secretary of Agriculture great discretion in determining whether to issue a credit or not.

However, this is hardly the case in practice. I believe that there needs to be clarification and some differentiation between what is considered the criteria for assessing credit worthiness under short vs intermediate-term programs.

Certainly, it could be useful to recognize that different economic conditions in the short and long term represent a different credit worthiness test. If a country is involved in an internationally-supported economic restructuring and an official debt rescheduling, an argument could actually be made that the creditworthiness risk is lower on a longer-term loan than a short-term program.



This differentiation would not make intermediate programs less "commercial", if they are operated on commercially acceptable market terms. Here, I would note that 7-10 year commercial loans are currently granted, with grace periods on principal, or balloon payments of principal in out-years. Moreover, even if there is a grace on principal, Russia would still need to maintain annual and semi-annual interest payments at commercial rates and on commercial terms. These terms would not damage the commercial viability of the program, nor would it subject these credit guarantees to cargo preference.

#### A Cost: Benefit View of Export Credit Guarantees

The record is clear: Export credit guarantees, where applicable to assist farm exports, provide the lowest cost and highest return to the U.S. economy.

Where Russia is concerned, or any other buyer, the overall approach of Congress to responsible operation of the GSM Export Credit Guarantee Programs is the issue at stake. USDA has operated the program very responsibly since its inception. The proof is in the results.

The USDA, between 1979 and 30 September 1992, authorized guarantees for \$43 billion in U.S. farm commodities under the GSM programs. Of the \$43 billion in export sales, \$35.5 billion of those credits had come due by September, 1992, of which USDA had to pay claims on \$4.2 billion in principal, or 12.5 percent of the total. Close to 30 percent of that \$4.2 billion in claims paid by the U.S., or \$1.2 billion were paid on Iraq GSM. We would note here that Iraq's failure to repay was not a credit problem, but a state of war; Iraq was current on its GSM payments until the Gulf War.

Given the fact that the U.S. Government has only had to pay claims out 12 percent on a total \$43 billion of exported commodities doesn't appear to us to be a bad record, particularly since the GSM programs are directed to countries that have high credit risk. Even when claims are paid, those monies should eventually be recovered by the U.S. Government.

So, I would argue that this has not been undue cost or risk to be borne by the U.S. taxpayer. In fact, it could be one of the biggest bargains taxpayers have received for their tax dollars, because every \$1 billion in agricultural exports creates around 20,000 jobs and every \$1 in farm exports adds \$1.40 in additional economic activity. Looking at the cost:benefit ratio in another way, every dollar in exports not only creates jobs, but saves in government farm program spending. Those exports would not have occurred without the program guarantees, or without a far more costly concessional food aid program which would have required direct appropriations and resulted in lower repayment rates.



### A Congressional Approach to Clarifying Credit Worthiness

In seeking to address the intent of credit worthiness requirements, I would like to point to language in a letter dated May 30, 1991 from Chairman De La Garza and 9 other House Members to the Secretary of Agriculture, seeking to clarify the intent of the 1990 legislation.

The letter's content is worthy of your study, because I believe it captures the essence of the problem we are confronting in the case of Russia. It concluded with the following:

"Finally, the overall national interest of the United States should be the predominant factor in the Secretary's determinations regarding whether or not to extend export credit guarantees to requesting countries...We encourage you to interpret section 202(f) so as not to prevent appropriate sales or establish such stringent standards for a country's 'ability to service the debt' associated with export credit guarantee sales that market access and development and the broader national interest are harmed by the application of this provision. Credit guarantees are expected to be repaid under criteria established by the Department of Agriculture and the programs are intended to facilitate exports to comparatively higher credit risk countries. Balancing all the factors mentioned above will undoubtedly require difficult judgments. However, we understand the economic risks inherent in a program of this nature, and we will support you when, in your best judgment, export credit guarantees are extended in the final analysis to benefit the national interest."

I would also call your attention to Senate Resolution 117, passed in May 1991, which also covers the issue of credit guarantees to the then Soviet Union. The Resolution calls for the Administration in evaluating requests for agricultural credit guarantees to consider not only current financial and debt service criteria, but also "(3) National assets which demonstrate an ability to repay." and "(4) Market-retention, including an assessment of whether the absence of United States credit guarantees would jeopardize important foreign markets."

This work already done by you and your colleagues in Congress has set an excellent and appropriate basis for amending current legislative language.

### The Barter Option

Apart from intermediate credits, we should also more fully explore possibilities in the mandated barter provisions. Is there funding to purchase Russian oil or minerals for our Strategic Petroleum Reserve (SPR) or other strategic stockpiles? Should we consider seeking to use enriched uranium purchases from Russia authorized under existing programs in a way to securitize a GSM credit program or for a direct barter? How can we work with other key agencies like the Department of Defense in its defense conversion programs to possibly deal with implementing sales of our farm commodities?

## Assistance In Rebuilding Russia's Food and Agriculture System

We have been engaged now in several years's effort to use American money and know-how to help the transformation of Russia's agricultural system. I think that we can be proud of our early commitment to this important objective and we can learn from our experience thus far when structuring new or additional efforts.

In addition to continuing to provide direct humanitarian food aid targeted to specific segments of the population where necessary, and maintaining sales of our farm products, we need to be involved directly and personally with the Russian people and particularly the entrepreneurs who will be operating businesses all through the food chain in a matter of years.

Here, I have three specific ideas to put forward:

- 1) A Farmer-To-Farmer Program Team Concept
- 2) Building Viable Farm-To-Consumer Markets
- 3) Agri-Enterprise Funds

1. Farmer to Farmer Program—This is an excellent way of bringing real practical know-how from our farmers and farm-related businesses to real Russians at the farm level. However, most of the efforts thus far appear to have been centered on short-term visits to Russia. It is difficult to build confidence with our Russian counterparts and to understand the intricacies and challenges at the farm level in a matter of days. What is needed is a longer-term commitment from our farmers and managers to spend 3-6 months at minimum in one place. In this context, I would particularly recommend that we try to put teams together to work at the rayon/county level, consisting of farmers with different crop and livestock experience as well as individuals with storage, handling and marketing know how. They could work as a team and individually with the farms in a specific region (rayon) or county-sized area.

2. Building Viable Markets—We need to bring the principles of operating a competitive marketing system to the farm and local levels, as well as throughout the food chain. Privatization is an important principle of any economic reform. However, even if Russia chooses to maintain some private or state-controlled monopolies in agriculture, as is the case with Canada's Wheat Board, Australia's Wheat Board and Japan's Food Agency, for example, we should encourage officials to develop those as market-oriented businesses.

At the farm-gate level and moving up through the marketing system for fruits and vegetables, the Dutch auction system could be one of the most effective ways of building understanding and experience of the way markets function. It incorporates directly the issues of real time marketing, quality, competition, and the responsibility of buyer and seller. We might seek to do a joint pilot project with the Government of the Netherlands, or possibly even under the Farmer to Farmer program, or with Cooperatives and their counterparts in the Netherlands.

In the case of grains and livestock, we need to help Russia establish cash market structures, which would be necessarily operative before major viable futures markets can function.

Extension Service operations, providing price information and assisting with the transportation and distribution infrastructure also need to be a top priority.

3. Enterprise Funds—We must stop spending money for people who just want to travel to study the Russian system and then who come back to Washington and tell everyone what's wrong with it. We need to put more of our money that we appropriate to work IN RUSSIA, supporting Russian business and Russian workers and Russian reform.

We must leverage public funds with private funds. I would like to see as little as possible in our assistance to Russia—apart from humanitarian assistance—administered by AID and as much as possible put into an Enterprise Fund specifically directed to food system development. The Fund could operate as a public/private partnership, providing financing for private businesses in Russia that have American partners, on a percentage basis. It could be set up as a long-term revolving fund.

We need to make sure that American agribusiness know-how is transferred to Russia, and that the American food system has a real foot hold in this tremendously large and important developing market.

If we want to build a long-term commercial market in the new Russia for our commodities, our technologies, our equipment and our food products, we have to provide the support to our business community that the Europeans and Japanese provide. If we spend all our money and efforts just educating Russians in the benefits and operations of a market system, we will find our businesses losing out to our competitors who will be able to reap the long-term financial rewards of our contribution.

## Conclusion

No one understands better the profound importance of the Russian market than U.S. farmers. We have benefited substantially for twenty years from this commercial relationship. Now our major trading partner is going through some difficult times, but the turmoil in the political, economic and social structure of the FSU can lead to a future filled with great rewards for American agriculture and for the entire world.

It is true that if we help build and reform Russian and FSU agriculture, they will become more efficient producers. After all, Imperial Russia was the largest grain exporter on the Continent until the Russian Revolution.

But, we cannot, nor should we, shy away from providing real financial assistance to abet Russia's new revolution because we fear that a market may shrink for one or another of our commodity exports. Why? Because whether we act or not, Russia will change and will improve. And those improvements will give America's farmers opportunities to sell more production either to processors here or there, because Russians will be buying more diversified food products.

We must remember that we operate in a world market. We are benefiting throughout the world market due to the collapse of Communism. Because of the Soviet Union's collapse and the defeat of state socialism, countries all over the world—in East Europe, Asia, Latin America, the Middle East, and Africa—are converting their economies. With democratic governments in place, the populations will demand a better food supply. As they seek to build market systems to feed their populations better, we will be bringing them into the trading system as full partners. So, while we are helping Russia make this very important improvement, we need to be recognizing that we must open other markets simultaneously. And we must be very certain that we do not allow Russia to fall under the control of a closed farm system like the EC's Common Agricultural Policy (CAP).

The future for U.S. agriculture is in building a world where less money needs to be spent on weapons, where more money can be spent on improving economic opportunities, where consumer income is growing and where we can compete in an open trading system. Supporting Russia's future will determine our future success.

Thank you.

(Attachments follow:)



US AGRICULTURAL EXPORTS TO THE USSR  
Quantity and Value - 1972 to 1992

Calendar Year	Total Grains		Soybeans & Products		Total Ag Exports
	(bin dtrs	mmt)	(bin dtrs	mmt)	(bin dtrs)
1972	.393	7.291	.054	.400	.459
1973	.917	14.331	.087	.550	1.017
1974	.301	3.378	.000	.002	.324
1975	1.140	7.619	.003	.015	1.170
1976	1.462	11.605	.126	.579	1.605
1977	.853	6.860	.154	.565	1.053
1978	1.471	13.448	.222	.832	1.765
1979	2.394	18.870	.517	1.887	3.000
1980	1.029	6.662	.045	.173	1.138
1981	1.574	9.652	.008	.034	1.685
1982	1.637	11.422	.171	.649	1.871
1983	1.205	7.868	.159	.569	1.473
1984	2.621	18.262	.014	.046	2.878
1985	1.719	14.233	.027	.040	1.924
1986	.291	2.671	.313	1.519	.658
1987	.786	10.167	.100	.492	.938
1988	1.731	16.684	.410	1.900	2.246
1989	3.057	24.762	.465	1.714	3.597
1990	1.645	13.121	.399	1.844	2.262
1991	1.660	16.270	.719	3.132	2.495
1992	1.664	14.016	.447	1.824	2.346
Total 1972-92	29.548	249.192	4.443	18.764	35.904

Source: USDA/ERS "US-USSR Bilateral Trade (6/91)"  
Includes transshipments through Canada, Belgium, the  
Netherlands and W. Germany. After 1978, only transshipments  
through Canada are included.

Darrel Choat 3/22/93  
USSR IMP.32293.FW2

WORLD PERSPECTIVES INC.

**FORMER SOVIET UNION**  
**PERCENTAGE OF WORLD/U.S. WHEAT AND COARSE GRAIN TRADE**  
**(Million Metric Tons)**

Year	World Trade (mmt)	U.S. Exports (mmt)	USSR Imports (mmt)	U.S. Exp to the USSR (mmt)	USSR as % of world trade	USSR as % of US trade
1980/81	202.4	112.0	34.0	8.7	16.8%	7.8%
1981/82	199.1	108.3	46.3	14.5	23.3%	13.4%
1982/83	188.7	92.5	33.3	6.2	17.6%	6.7%
1983/84	195.4	95.0	32.0	10.8	16.4%	11.4%
1984/85	207.4	94.2	55.0	22.1	26.5%	23.5%
1985/86	168.2	61.1	29.4	7.0	17.5%	11.5%
1986/87	174.4	75.9	26.8	4.9	15.4%	6.5%
1987/88	187.8	96.9	31.9	17.1	17.0%	17.6%
1988/89	191.4	98.9	38.0	20.1	19.9%	20.3%
1989/90	196.7	102.6	37.6	20.2	19.1%	19.7%
1990/91	178.1	80.0	29.1	11.3	16.3%	14.0%
1991/92f	201.7	84.6	39.1	16.4	19.3%	19.4%
1992/93f	192.8	88.3	25.3	10.8*	13.4%	12.5%

f Forecast; USDA

\* WPI forecast

Source: USDA, WPI (WPI Brookins, Kohlmeier, Choat 03 22 93).



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#### AN APPROACH TO SOVIET AGRICULTURAL ASSISTANCE

By Carol L. Brookins, President  
World Perspectives, Inc.  
Washington, D.C.

#### INTERMEDIATE CREDIT ASSISTANCE

Intermediate credits were authorized under the 1985 Food Security Act to serve as a transitional program for countries that had graduated from long-term food aid to commercial credits, but could utilize a longer repayment period than 3 years.

The 1985 law stated that intermediate term credit financing or guarantees may be available for the following uses:

- "to establish reserve stocks consistent with international commodity agreements or other stock building plans acceptable to the United States;
- the export sale of breeding animals (including, but not limited to, cattle, swine, sheep and poultry) including the cost of freight from the United States to designated points of entry in other nations;
- where determined feasible, for the establishment of facilities in the importing nation to improve handling, marketing, processing, storage, or distribution of imported agricultural commodities (through the use of local currency generated from the import and sale of United States agricultural commodities to finance all or part of such facilities);
- to meet competition for agricultural export sales;
- to finance importation of agricultural commodities by developing nations for use in meeting their food and fiber needs; and
- otherwise to promote the export sales of agricultural commodities."

The 1990 law does not include this detailed language, but those who wrote the provisions only intended to simplify the program requirements; they did not intend their less specific terminology to exclude the above program uses.

# THE SOVIET INTERMEDIATE CREDIT PROGRAM

In structuring an assistance program for the Soviets that includes sales of U.S. agricultural commodities, we believe several factors must be considered.

First, analysts believe that restructuring the Soviet economy will be a 5-10 year process.

Second, current Soviet liquidity problems do not mean that the Soviets' long-term balance sheet is a problem if reforms are being put in place under international guidance.

Third, commercial banking practices provide longer term loans to companies going through restructuring; this avoids debt rescheduling that may be necessary with short-term maturities.

The GSM 103 and/or intermediate term direct credits could provide a viable mechanism to:

- Sell U.S. agricultural commodities to the Soviets during this major economic transition period;
- Assist the development of a private sector infrastructure in the food and agricultural sector;
- Provide technical assistance from U.S. agribusiness and build future markets through developing these private relationships.

The current GSM 103 program is not used for the most part because it is not attractive to recipients. Despite the 3-10 year payback provisions, there is no longer that a one-year grace period before payments must begin (in equal installments). Most countries believe that makes the program far too costly if they are purchasing commodities consumed immediately.

GSM 103 regulations could be revised to provide for either:

- a longer than 1 year grace period on principle and interest; or
- a 10 percent payment of the total principle paid during a 3 year grace period.

The second option complies with commercial bank practices which favor repayment plans that require countries to "recognize the debt" in every year by showing a capacity to pay; however, this approach of token payments does not put an undue strain on the borrower's balance of payments. This would remain a commercial program. We note that the EC under its 3-year credit guarantee provides a 20 month grace period to the Soviets; and Coface, 18 months.

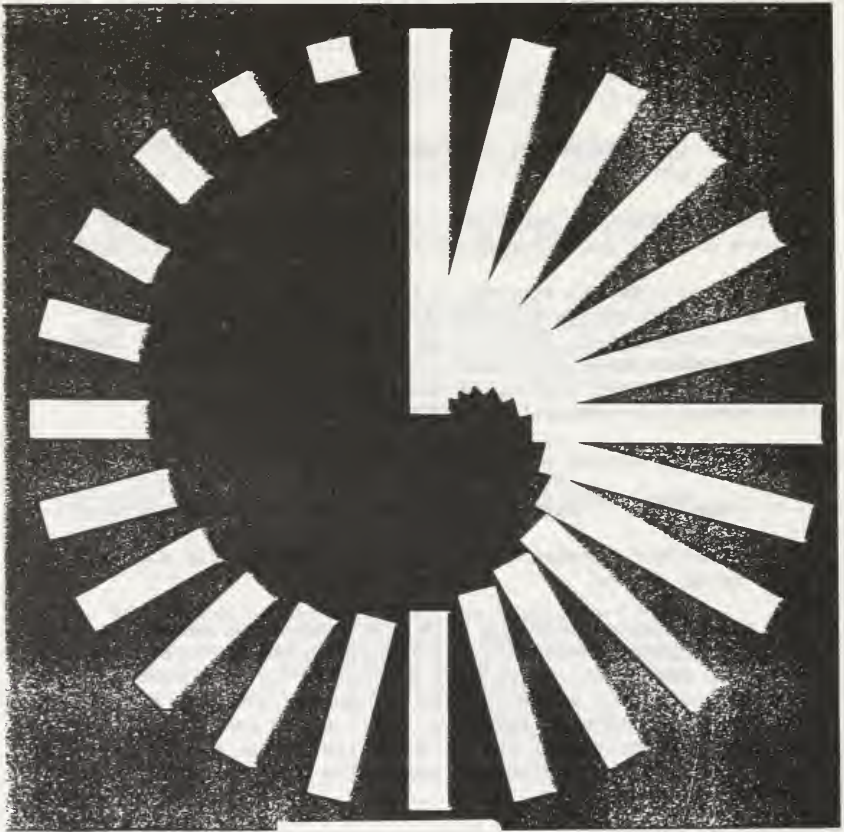
May 30, 1991





Annex 4.

# How the Fruit and Vegetable Auctions work



# 1 The 'timeless clock'

## 1.1 Introduction

The scene is the town of Broek op Langendijk, in 1887. A cauliflower grower sailing his small open barge full of cauliflowers to the market place finds a crowd of eager customers. In order to avoid time-consuming negotiation and still get a good price for his cauliflowers, he calls out a high price and gradually brings it down. The first buyer to accept purchases the batch of cauliflowers, little knowing that he is laying the foundation of a unique sales system: the auction of fruit and vegetables in the Netherlands.

Without being aware of it, this cauliflower grower from the north of Holland created a unique method of selling, which was later to grow into a sophisticated marketing system for vegetables and fruit. Instead of the grower calling out his prices a 'clock' was used, with a hand that was calibrated to swing from the highest to the lowest price. Wherever the clock was stopped fixed the price – the highest possible price – for that of course was most important to the grower. While this is obviously the primary aim of the auction, the clock hides a multitude of other measures. For if the grower is to achieve the best possible price, more is needed than just a group of buyers on the auction benches, the produce and the clock system used to establish that price.

The clock is the tip of an iceberg, consisting of a package of measures which together form marketing policy. The organisation is based on a cooperative principle: the auctions and their umbrella organisation, the Central Bureau of Fruit and Vegetable Auctions in the Netherlands, belongs to and exist for the growers. It is the growers who put 100 percent effort into producing top quality produce, whilst their organisation is primarily involved in organising and promoting sales.

The auction system has now existed for a hundred years, and that's certainly a reason for celebration, for this system operates nowhere else in the world. The auction, where supply and demand meet face to face, is one of the reasons why the Netherlands has won itself an important international position in marketing vegetables, fruit and flowers. Much has changed in the auction field during the last century, primarily due to technological progress, but also because of a better understanding of trade, marketing systems and, for instance, the minimum price system. Apart from this, the number of measures implemented in relation to the produce and its presentation has grown considerably over the years. The quality classification, grading, standardisation, packaging, conditioning and expansion of the range all spring to mind.

The auction system is still changing in order to achieve even greater effectiveness and efficiency. There is even more cooperation, there are more mergers, and the use of computers and modern communication systems has become commonplace. At virtually all auctions, the traditional manual clocks have given way to computer driven clocks, making tele-auctioning with other auctions possible.

This new edition of 'How the auction works' provides an insight into the 100-year-old, but still flourishing auction system.

## 1.2 *The purpose of the system*



The definition of auctioning is:

To sell – in public

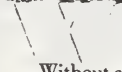
- in free competition
- under identical conditions
- to the person who bids the most

The purpose of the clock and auction system is to achieve the best possible price for the grower through a direct confrontation between supply and demand, in public. The system exists thanks to two groups, who actually have the same interests: to buy and sell fresh fruit and vegetables. Without growers the auction cannot exist, for there would be no produce; without buyers the auction would not function, because there would be no opportunity to sell. But the auction, in which everything centres on the clock, is more than just a balance between supply and demand. If the buyer is to become interested, then he must be offered produce which is reliable, that will keep and that can be offered on the international market. In other words: quality produce, which can hold its own and more against international competition. Dutch produce is circumscribed by measures such as quality control by the auction and the government, conditioning and standardisation. This creates customer confidence. Ensuring that the buyer can rely on standardised produce in the best possible condition enables him to 'buy blind', which for him represents a time-saving factor. In this way he can concentrate on other matters and does not need to worry about the quality of the produce. The block system, in which products of a particular quality, grade and colour produced by different growers are combined into one large consignment, also makes a major contribution towards this. The block system represents an advantage to the grower too. Any grower whose organisation is relatively small-scale is able to offer his produce, via large-scale sales,

share of the price.

Through the auction system and the co-operative principle on which it is based, all the specialised family firms combined represent an impressive quantity of produce which is circumscribed by careful treatment and measures. No buyer would be able to collect and monitor all the necessary quantities of produce from the individual growers; no grower is in a position to export his relatively small batches of produce to, for instance, the United States.

## 1.3 *The cooperative principle*



Without a cooperative attitude on the part of its affiliated growers, it would be impossible to maintain the auction and the system behind it. The measures taken in relation to the produce are imposed by the growers themselves. As long as a 'with each other and for each other' situation exists, the system will work. The growers own the auction. The auction belongs to them and works for them. It has members (growers) who jointly appoint the management. The executive, a chairman and a secretary, are responsible for carrying out the members' decisions. A director is appointed for the day-to-day management. The auctions are autonomous. In order to standardise sales and national measures, the Central Bureau of Fruit and Vegetable Auctions in the Netherlands (CBT) was formed in 1917. The CBT belongs to the auctions and acts for them, and thus also belongs to and works for the growers. The executive of the CBT, together with the provincial auction organisations (PVOs), act as the auctions' intermediary. In addition, there are committees for almost all Dutch products, which advise the CBT on the (market) measures to be taken. Auction managers, supported by CBT experts, hold seats on these broadly-based committees.

## STATEMENT OF

STEVEN A. MCCOY

North American Export Grain  
Association IncorporatedIntroduction

Mr. Chairman, thank you for the opportunity to appear before the Subcommittee today. I am Steve McCoy, President of the North American Export Grain Association (NAEGA), the national association of U.S. grain and oilseeds exporting companies and cooperatives.

I have been invited to present some general observations on the current grain situation in Russia and the CIS Republics, not as a representative of NAEGA, but as an individual who has travelled extensively in the former USSR (FSU) in recent years; and had occasion to reflect on this important aspect of the overall U.S. and U.S.-FSU trade picture. I am happy to do so. I will be brief.

Russian Needs

Let me begin by addressing the overall Russian food situation on the micro-level, with an emphasis on nearby Russian grain needs. There has been some dispute on that point.

What we see today in Russia is not a case of absolute, but of relative need for foodstuffs. There is no starvation in the country. There is, however, severe deprivation affecting the most exposed elements of Russian society: children, the elderly, students, and those, like common soldiers, forced to live on very minimal fixed incomes.

Hyperinflation has had a dramatic impact on Russian standards of living. Brakes have been applied by the government to some rises in food costs. However, along with the general rise in prices, the price of staple goods has also skyrocketed for most consumers, bringing with it a widespread fear of basic food insecurity; and concomitant threat of social and political unrest.

It is as a hedge against such potential unrest that Russian authorities have sought to import between 16 million metric tons (mmt) and 18 mmt of grain in 1993. U.S. imports would, ordinarily, comprise between 8 mmt and 10 mmt of this total.

Failure on the part of the United States to provide the means to import such quantities of grain would not, of itself, constitute collapse of the Russian food system. Nevertheless, it would undercut an already fragile food supply situation (particularly viewed from the micro perspective). It would result in hardship for the average Russian family.

Availability of low-cost foodstuffs in state shops in major Russian cities is poor by American standards. More abundant, better quality food can be purchased at commercial stores and markets, but not at prices that all persons can reasonably afford;



or consider fair. The majority of Russian families have been forced to significantly tighten their belts, even on purchases of staples, such as bread, milk, and meat. But there is no safety net in Russia, as in the United States, for enhancing purchasing power by lowest income families.

The relative absence of foodstuffs -- or of the ability of the common consumer to purchase basic foodstuffs at reasonable prices -- has created a tinder box of social discontent. Access to imports provides an important means to manage the current Russian food supply problem. Such access is dependent on the willingness of exporting countries to provide credit or assistance for the purpose of purchasing agricultural commodities. That decision, of course, rests entirely in the hands of exporting countries.

### Pipeline Disruptions

Many of the food-related problems we see in Russia today result from what I would term "pipeline disruptions".

Even in the past -- under a completely centralized system -- such disruptions were common. Today, however, more serious challenges exist, resulting from a partial breakdown in previously reliable relationships between producer and government procurement authorities and entities; retailers and consumers; and food-surplus and deficit Republics (and even between food-surplus and deficit regions within individual Republics).

The absence of a generally recognized, legally sanctioned market mechanism has resulted in an inefficient allocation of scarce resources. Surpluses exist side-by-side with deficit conditions.

Central procurement authorities currently attempt to bridge the gulf. But they are limited in what they can do by constraints on subsidies to producers, weather-related factors, and availability of credit overseas to purchase bulk commodities not otherwise available from domestic stocks.

### Problems in the Livestock Sector

Problems of grain availability are generally severe, but they are most severe in the livestock sector. In that sector, back-to-back poor harvests -- and farmer reticence to sell grain at low prices in the face of inflationary pressures -- has resulted in a serious downturn in livestock numbers.

There is a critical need for feed grains and protein feeds for animal production; however (with U.S. credits suspended), there is little outlet for this demand. As a result, wheat normally destined for human consumption is being fed to animals. This, in turn, has lessened wheat supplies for food. Producer, government

and consumer alike have been trapped in a vicious cycle. On the upside (for the United States), such conditions favor imports of wheat.

### Production Possibilities

Much has been said and written about the promise of Russian agriculture (shorn of Soviet controls), free to produce for a future Russian marketplace. Some have predicted Russian self-sufficiency in grain in the near term; others forecast a return of Russia to the international export market place.

It is possible, of course, that such developments may come to pass: possible, but unlikely in the near future.

In the short term, it is difficult to see how the current, evolving Russian system can effectively match needs and production. Too many constraints currently disrupt production to do so, among them: the weather, input and transportation shortages, lack of foreign currency to purchase imported inputs, limits on government subsidies to farmers, the absence or near absence of markets, barriers to inter-CIS cooperation and trade, lack of local and national marketing know-how, and environmental constraints (such as exist in Central Asia), which place limits on future growth in agricultural production.

### Role of Imports

I conclude that Russia will continue to rely on imports for a significant portion of its total grain supply for the foreseeable future. It will do so because of limits on its own production and supply; and because imports allow a means to manage food supplies, in the face of social discontent.

These imports need not come at a cost to Russian producers in the form of disincentives to production (such as has been argued); there should be ample domestic markets for their future production. On the other hand, such imports -- if reliable -- could play a significant role in maintaining basic social welfare at a time of tremendous economic and political turmoil and change. This is a point that should not be lost on U.S. policy-makers. It is a point, I believe, the President well understands.

### Policy

What, then, of U.S. policy? What role should U.S. policy play in advancing these objectives?

It is, by now, well known to you that the Russians prefer to maintain trade relations with the United States on a commercial (GSM) basis. They favor trade, not aid.

Some regard the Russian preference as presumptive, given current arrearages on past GSM repayments. Yet, there are important reasons why the Russian position on this issue makes sense, both from their perspective, and our own.

#### U.S.-Russian Commercial Relationship

Commercial credit guaranteed by the U.S. government (GSM) provides an important lifeline to the emerging commercial sector of the Russian economy. Under current circumstances, such credit would not be extended by private institutions absent U.S. guarantees. Consequently, our objective in advancing the development of Russian commercial structures would be set back, not advanced, by a decisions to forego commercial (GSM) terms, in favor of food aid as a long term U.S. policy.

#### Cash Flow

It is important to understand that current debt repayment difficulties facing the Russian Federation result not from a basic unwillingness to repay past debt, nor from an absolute inability to do so. The problem today is a simple question of cash flow.

The immediate answer to Russia's current cash-flow problems rests with the Paris Club negotiations. Russia is rich in natural resources. Such resources can and will be brought on line to service past debt, provided Western creditors have the confidence and patience to weather today's uncertainties. In the meantime, U.S. policymakers should move affirmatively to re-position current U.S. policy dictates to allow continued credit to Russia on terms it can afford.

#### Food Aid

We all expect that nearby future U.S. assistance to Russia will be in the form of food aid (Food for Progress) rather than new GSM credits. The Administration deserves important credit for finding the means available to maintain trade with Russia, given current restrictions on credit lending programs. Nevertheless, it is also important to recognize that food aid is not the preferred long-term solution to the current U.S.-Russia grain trade impasse.

Problems with food aid are legion. Cargo preference requirements inflate both U.S. and Russian costs in trade, undercutting the effectiveness of the assistance offered by the United States. Furthermore, there is not sufficient U.S. food aid resources to adequately manage future Russian demand.

#### Future U.S. Policy

Future U.S. policy should continue to maintain a mix of commercial, food aid and technical assistance programs. Commercial

(GSM) programs should offer longer-term repayment, either under GSM-103 or a new program, subject to Congressional approval. Food aid resources should be targeted on areas of greatest humanitarian need. Technical assistance should emphasize improvement in the Russian food production and marketing system. All such programs should be better integrated than in the past to avoid overlap and ensure greater complementarity.

We need to avoid becoming prisoners of our own programs and maintain focus on our central objective in providing assistance to Russia. I have made my recommendations for action clear and in more detailed form to this Committee in the last few weeks. I will not repeat them here. I close simply by urging your abiding attention to this issue; and your attention, in addition, to the need to maintain a flexible and reflexive U.S. policy approach, as political and economic conditions in Russia continue to change.



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