

# **AGRIBUSINESS MISSION**

## **REPORT**

Eastern Europe/Soviet Union

September 9-19, 1990



Presented by the Agri-Energy Roundtable  
2550 M Street, N.W.  
Washington, D.C. 20037

# Agribusiness Mission Report

## Table of Contents/Attachments

1. USSR Trip Report/ Overview	1 - 17
2. USSR Mission Contacts	18 - 22
	<u>Attachments</u>
3. General Trip Report (Poland/USSR/Hungary)	A
4. Special Report Implication of Soviet Economic Reform for Pacific Rim Agriculture/Trade	B
5. Polish Agribusiness Committee Meeting Minutes Warsaw, Poland (September 10, 1990)	C
6. List of papers collected at 9th Annual International Conference USSR/East European Agriculture Ciechocinek, Poland September 11-14, 1990*	D
7. Agenda — Ciechocinek Conference	E
8. List of Attendees — Ciechocinek Conference	F

\*Please advise secretariat on specific papers (up to 3) you desire.



1'

**Report on the**  
**Agri-Energy Roundtable**  
**Visit to the Soviet Union**  
**(September 15-19, 1990)**

**Overview**

The Agri-Energy Roundtable (AER) traveled to Moscow in September, 1990, for a prearranged workshop with Soviet agro-enterprise officials, managers and entrepreneurs. This mission to the USSR was greatly enhanced by our participation in the 9th International Conference on USSR and East European Agriculture in Ciechocinek, Poland, (September 11 - 14) which provided an opportunity to establish key Soviet Republic and Union-level contacts and gain an up-to-date picture of the highly volatile and changing landscape of Soviet agriculture. (*See Attached Trip Report*)

The visit to Moscow was highlighted by a briefing at the Hotel Spros (September 17) which again involved the important support of an AER contributor. The AER-hosted afternoon workshop/reception was attended by representatives from six Soviet republics and entrepreneurs interested in establishing formal links with the AER network through the creation of "sister associations." Interest was also expressed in the affiliation of existing groups and direct membership in the AER (by individual businessmen)

In addition to providing a detailed background to the Association's history and objectives, AER representatives fielded questions on how access to the network could accelerate the flow of international agribusiness contacts, information and delegations into the Soviet Republics. The Soviets, who were primarily representatives of republican Ministries and academic and research institutions, expressed unanimous enthusiasm for the Agribusiness Council and its state agribusiness council contacts. Overall, AER held discussions with representatives from nine of the fifteen Soviet republics (Russia, Moldavia, Lithuania, Beyelorussia, Ukraine, Georgia, Estonia, Latvia, Kirghizia), representing the Agriculture



Ministries and organizations such as the Baltic Management Foundation (Lithuania), Moldinteragro (Moldavia), Scientific-Technical and Economic Cooperative (Georgia), All-Union Academy of Foreign Trade (USSR), Scientific and Technical Institute (Beyelorusia), Scientific and Technical Association (Lithuania), Estonian Agriculture Academy (Estonia), Interferma (USSR) and others.

In addition, Republican proposals for long-term agricultural trade, investment, and development outreach, within the context of specific sectoral needs, and the Roundtable network were discussed. Potential joint venture and trade opportunities were presented to AER by the Republican delegations seeking Western partners for capital and technical collaboration. AER agreed to disseminate the findings of the mission to its worldwide affiliates, corporate membership and U.S. ABC network, but emphasized that the Association first requires that an indigenous "sister association" be duly accredited before concrete program planning is discussed and association services rendered.

The AER/ABC delegation also attended the Global Economic Action Forum's conference on the emerging Soviet economic order, held concurrently in Moscow. An important meeting in the Russian Republic's "House of Yeltsin" transpired with the head of the Russian Republic's export development division. The Agricultural and Commercial offices of the U.S. Embassy in Moscow received briefings from AER. The Agricultural Attache expressed interest in the potential for establishing agribusiness council counterparts in the Republics. He noted that AER/ABC activities in the USSR could serve as an important network for linking Soviets with U.S. agribusiness contacts as his office was not equipped to respond to the numerous inquiries. AER also briefed the managing Soviet director of the US-USSR Economic Trade Council at the Council's Moscow offices.

### Agro-Enterprise Development in the Soviet Union

AER's September visit to Moscow, the first to the Soviet Union in the Association's ten year history, proved to be well-timed as the Union and its independence-minded Republics struggle to cope with the fall-out of Mikhail S. Gorbachev's *perestroika*. And, while 1989 focused attention on Eastern Europe, one year later the world's attention is following the political upheavals of the Soviet Union. As the Soviet Union unravels with



current economic and political struggles; the Gulf conflict and growing trade contraction worldwide continue to have a negative impact on the already painful transition processes underway in Eastern Europe. If the situation as AER prepared to visit the Soviet Union was uncertain, events in the Middle East and the continued tug-of-war over the future direction of change has resulted in an even more sobering situation for development, trade and investment prospects in the Soviet Union and Eastern Europe.

### **The Agriculture Sector: Historical Background**

The current crisis in Soviet agriculture can be traced to the disastrous agricultural policies pursued by the Soviet government since Joseph Stalin's forced collectivization of the countryside during the late 1920's and 1930's. Under this program the vast majority of Soviet farmland was brought under the control of the Communist Party and millions of rural inhabitants perished. This policy all but extinguished agricultural initiative and productivity in the sector plummeted.

Under a system of collective and state farms, the government has retained administrative control over most of the country's agricultural activities. Until very recently within the centrally-planned Soviet system, most major agricultural decisions were made by Moscow. Through the State Agro-Industrial Committee (GOSAGROPROM), the central government controlled investment, prices and procurement levels and thus there has traditionally been little room for independent economic decision making. This situation has stifled individual initiative and innovation in Soviet agriculture. Private farming activity functioned on a marginal scale through the cultivation of small, personal plots of land. For most of the past 70 years, individual agricultural enterprise was pursued on a very small scale - if at all.

Various types of agricultural reforms were adopted under the previous leadership of Nikita Krushchev and Leonid Brezhnev. Limited reforms were enacted which never challenged the premises of the command economy. Recent agricultural reforms by Soviet President Mikhail Gorbachev have been more far reaching. These reforms have included the abolition of GOSAGROPROM and the encouragement of foreign investment, joint ventures, private plots and long term leases of land to individuals. Previous agricultural reforms supported by Gorbachev have shown lukewarm support for a market oriented Soviet agricultural



economy. Laws on land, property and leasing did not give up on Gorbachev's initial belief in the possibility of a hybrid economy of both capitalism and socialism. Capitalist forms of property relations were not adopted. Laws were passed in the Supreme Soviet which allowed for long term leasing and inheritance of land, but not its sale or permanent ownership. Other laws were adopted to limit bureaucratic control over farmers however, these laws did not fully support independent supply and purchasing transactions. It remains to be seen how the agricultural economy will be reshaped amidst the current economic collapse and political upheaval which threatens Gorbachev's leadership and indeed, the very Union itself.

### **Economic Policy Debate**

AER's arrival was marked by the second month of feverish debate within and outside the Supreme Soviet over different "road maps" designed to navigate the uncharted territory from centrally-planned economy to free market - an unprecedented achievement in history. Debate raged at the Union level over the relative merits of the moderate Ryzhkov plan and a more radical '500 Day' course plotted by the committee chaired by Stanislav Shatalin and influenced by Russian President Boris Yeltsin's advisors. The Ryzhkov plan is characterized by a gradual process controlled by the Ministries and professes to offer some hope for minimizing the trauma of transition. Many critics feel a period of hardship is inescapable and assert that the plan will simply result in continued control by government bureaucrats perpetuating a system that has supposedly been discredited. The radical plan devised by a committee chaired by Gorbachev loyalist Shatalin prescribes a 500 day transition characterized by the legalization of full property rights for Soviet and foreign citizens, and then the rapid conversion of state property to private property. Subsidies would be abolished, as would certain government ministries. Government spending cuts, and other politically explosive issues like the control of the money supply and decontrol of prices would be postponed until later in the reform process. The 'plan' has been seen by many as falling far short of a blueprint for transition, but merely a vehement declaration of intentions. Critics of the so-called '500 day plan' assert that it is unrealistic in expecting that the reform process will take any less than at least ten years or perhaps a full generation to show results.



On October 19 however, the Soviet legislature gave its approval to the cautious economic reform plan favored by Gorbachev to gradually transform the Soviet economy in the direction of free-enterprise. The plan combines elements of the government and radical plans, erasing the 500 day timetable:<sup>1</sup>

- o maintain many price controls, and subsidies to unprofitable enterprises through 1991
- o federal government retains right to tax and control export revenues
- o reduce by 50% the government budget deficit estimated at more than 10% of GNP
- o state price controls to be gradually phased out by the end of 1992 except for certain essential consumer goods
- o sell state-owned factories and farms into private hands
- o index salaries for inflation and guarantee each family a minimum income
- o four stage timetable implemented in the next one and a half to two years, but with no time limit for each stage

The legislature overwhelmingly adopted the plan in principle to officially initiate the U.S.S.R.'s painful makeover to a market economy, even though the Kremlin has been lagging far behind a free enterprise system that is already evolving. Gorbachev emphasized that the decision could be postponed no longer and warned that decades lay between the Soviet Union and its final goal, a goal which has yet to be specifically defined by anyone.

It seems evident that the economic breakdown of the old, central planning system has reached its terminal stages, but it remains unclear as to whether or not the political bonds of the Union can withstand the

---

<sup>1</sup> This plan was effectively scheduled in late December with the rise of the Soviet military and Gorbachev's turn to the right for "law and order"



hardships of transition. The war of words and recriminations flared recently over accusations that Russia undermined the Soviet Union's financial condition by compounding inflation through its 50% increase in the procurement price of meat which drove the price of a Big Mac to half a day's salary. This latest move has drastically changed the climate of economic reform and despite the Supreme Soviet's vote last month, the fractious rivalry between Gorbachev and Yeltsin continues to boil. Yeltsin's popularity seems to gain if gauged by Muscovite expressions of support and the September 16 protest in Red Square against the Ryzhkov government. The conflict is larger than the two men however as it encompasses the basic questions of the free market transition like the Republics' push for independence and the strategic preservation of the elements of the old system in managing change. How far down the road to free enterprise should the U.S.S.R. travel? At what pace should a reform program proceed? How will goods be priced in the medium term? Should state properties be ceded to the workers? Sold, and if so at what price? It is these questions and the prospects for their resolution, that will shape the agro-enterprise future in the U.S.S.R. Especially in a climate of extreme domestic unrest, republican independence and ethnic strife, the Union's very existence is threatened as its underpinnings of dominant political and economic control are swept away and new relationships are fashioned.

### **The Agricultural Economy at Present**

At present, the Soviet economy is somewhere between "plan and market," and how the dire situation will be remedied without decisive and drastic action is unclear. Bottlenecks and chaos threaten the entire food system.

The state budget deficit stands officially at 10% of GNP, and agricultural growth lags behind population growth at a paltry 0.8% when adjusted for inflation. The USSR's external debt ranges in the forty to fifty billion rouble range, and food imports continue to grow to alleviate the severe shortages. The situation of repressed inflation has resulted in many roubles and few goods, as managers raised wages faster than was justified by production

The economic situation grows worse, especially on the consumer end, and nowhere are its failings more evident than in the agro-food sector. The conservative mid-level state and collective bureaucracy continues to maintain a near monopoly on land use, unwilling to parcel out land and



dilute ownership control in the countryside. It is certain that any reforms will be challenged by the entrenched state and local farm chairman and local party bureaucrats who feel that the current command system merely requires more generous investment to improve productivity. Fear among emerging private entrepreneurs in the farm sector over the possibility of a conservative backlash against them and their families slows the piecemeal free enterprise transformation. AER heard several accounts of violence and sabotage against entrepreneurial farmers and others, evidence of the deeply ingrained psychological and societal factors acting against the accumulation of individual wealth. Stalin's Terror-Famine which was aimed at the most successful individual farmers is not easily forgotten it seems. Combined with these factors is the countervailing force of what some call the "Russian character" which values security and is disinclined toward work. In either case, 70 years of authoritative rule has its effect on the minds of the people. The results of a December 1989 survey remain relevant: only 24% of Soviets polled felt it necessary to revive independent farming to solve the agricultural problem.

The Achilles Heel of Soviet economic policy, agriculture's heavy subsidization and marginal productivity, will be the number one challenge facing reformers, conservative and radical alike. Since 1985 agriculture has received one third of the USSR's total investment capital. The inefficacy of the Soviet command economy, emphasizing "extensive" over "intensive" agro-development, distorts prices and misallocates resources for reasons of political control are now in full view. Average Soviet cattle weight and milk yields are approximately half of those in the U.S.. Despite the existence of some of the world's most fertile agricultural land in southern Russia, Beyelorussia and the Ukraine, the USSR adds to its crippling external debt by importing over 300 million metric tons of grain alone to meet the domestic shortfall. In a situation where farmers have been known to feed livestock with heavily subsidized and inexpensive bread, it is clear that the inefficiencies of the agro-food sector will not quickly or painlessly be corrected.

One of the primary weaknesses of Soviet agriculture is its extremely weak physical infrastructure, especially for the delivery of inputs. The delivery system for both raw materials and equipment is almost completely broken-down since the former network of party bosses, planners and security forces through which it functioned is in disarray. Barter trade



among productive regions and factories alike increases to cope with the need for essentials and foodstuffs, however this piecemeal "free market" does not even begin to fill the gap. It is estimated that 25% of farm machinery is inoperable owing to lack of spare parts. For instance, current drying capacity can only process 65% of the total crop harvest. Post-harvest losses of potatoes, fruits and vegetables may range up to 40%, with over 40% of irrigation water lost to infiltration and evaporation. The short supply of raw materials leaves existing facilities and equipment underutilized.

The failings of Soviet agriculture began to receive broad international attention only this past Fall when a crisis point was reached and Muscovites were unable to purchase bread. Procuring the necessary food items becomes a full-time job for many families in Moscow, and even though exclusive restaurants seemed well stocked, the lack of basic food items in Moscow was painfully evident in stores and hotels. Scenes of consumers lined up before storefronts were all too common during the AER visit, although Georgians and others assured us that similar problems did not exist outside of Moscow and other large cities. The Soviet Union faces a long winter sure to compound food shortages for Moscow's over ten million inhabitants. Government leaders recognize the potential for disaster, rationing has already begun. With agro-food distribution mechanisms virtually non-functional, certain crops rotted in the fields for lack of timely labor. Collective farms hoard in expectation of rising prices. Food shortages will remain necessitating rationing programs in Leningrad and Moscow where certain staple commodities are unavailable.

Despite the lack of food in urban retail food outlets, there has been some positive development in various crop sectors. The total grain harvest in 1989 was over 211 million metric tons (MMT) up from 195 MMT in 1988. The U.S. Department of Agriculture (USDA) forecasted a 1990 Soviet grain harvest of 215 MMT in 1990 including the following: 95 MMT of wheat (winter and spring); 51.5 MMT of barley; 21 MMT of rye; 16 MMT of corn; and 15 MMT of oats.

The livestock sector is an equally troubled sector. Livestock production has been hobbled by major protein deficiencies, as in much of Eastern Europe. It was anticipated that even if state and collective farms retain their grains for feed, 1990 Soviet livestock production will increase by a mere 1.1%. Egg production fell last year for the first time in thirteen



years and production is unlikely to rebound this year due to salmonella concerns. Experts do foresee opportunities for foreign firms due to the shortage of meat and milk products and disruption of trade with Eastern Europe.

The problems of the production sector have arisen in part from emphasizing large scale construction and land reclamation projects over the retooling and development of more reliable equipment. Resource flows in these areas were hindered by administratively-set prices and compounded by poor quality inputs and outmoded farming methods. Food processing has been neglected by the government for years and one U.S. Department of Commerce official estimated that the Soviet Union will spend the equivalent of \$100 million on this industry over the next decade. Defense Ministry enterprises are being retooled to provide additional processing capacity. By 1995 the Defense Ministry should be producing more than 45% of the total value of Soviet food processing equipment.

#### **Financial & Legal Framework**

The emerging legal and financial framework of the Soviet Union as a whole will certainly move commercial activities away from the traditionally hierarchical Soviet system within the context of the new economic "plan" - although it is still largely lacking in detail. In Poland and Hungary, hundreds of laws have been passed and intense debate over the privatization process has slowed the economic reform process, especially in those areas most pertinent to foreign investment and financial transactions. Hungary has opened its first stock market in response to the need for an efficient and liquid system of realizing the many proposals for investing there and doubtlessly other Eastern European countries and the Soviet Union will follow suit. The Soviet Companies Fund that will invest from \$400 million to \$1 billion in Soviet companies was announced in mid-October by a U.S. financial management group and Soviet officials. A recent conference in Moscow on stock exchanges yielded that limited trading in the USSR may begin in a year with notes and bonds, but that a larger, liquid market in a country where profit-making trades are still illegal is many years off in the future. Still, the Government is likely to demonopolize banking, create a securities market and privatize some state-owned enterprises through the sale of market-traded stock.



It is also important to recognize that the initial decentralization of Moscow's economic powers to the Republics and the government's official support of cooperatives and joint ventures represent significant strides forward in this area. The Soviet government passed into law a unified tax rate for all companies and rouble convertibility is part of stage four of the new economic plan. Rouble convertibility holds the key for earnings repatriation and a wealth of opportunities for agro-industry investment in the USSR, but first labor, capital and consumer goods prices must be reconciled with the world market. Pending bills at the Union level included proposals to decontrol certain prices, protect foreign investment and provide tax breaks to large companies. Individual Republics are moving as well to fashion favorable investment conditions designed to attract foreign partners. One Soviet described the incentives in his Republic such as a two year tax holiday, profits in roubles for years one and two, and repatriation of profits after three years.

### Joint Ventures

As evidenced on Gorbachev's last visit to the U.S., the Soviet government has followed the lead of its Eastern European neighbors in promoting joint ventures as a way to attract foreign investment, technology and management; and reinvigorate various Soviet industries by raising their efficiency and competitiveness. To advance this process further, capital restrictions forcing foreigners into minority shareholder positions were lifted earlier this year. Generally, such ventures are to be capitalized by foreign investors providing hard currency and the "entrepreneurial" or human capital of management, with labor and land usage coming from the Soviet side. The amount of physical capital is negotiable, but as revealed in AER's March visit to Poland, issues of depreciation and other nuances often are not understood and remain unaddressed. Prospective Soviet partners are state and local governmental enterprises, farms, cooperatives and a small number of private companies.

Despite the attention given them, joint ventures have produced little in the way of new industrial and agricultural development. Similar to Poland, where the majority of joint ventures are only on paper or consist of foreign companies "looking for local partners," only 541 of the 1800 joint ventures in the Soviet Union are active.

There are selected cases of joint ventures in agribusiness most notably in the Moscow and Stavropol regions of Russia and in the Baltic states, and privately financed agricultural development and model agro-industrial



complexes are in the early stages. In Georgia since July 1, 1990 AER was told, the Republic registered 53 joint ventures with foreign companies. Twenty-four of those registered are in operation and of those only two (8%) are related to agriculture. Beyond the extensive problems of supply, transportation, communication and to a lesser extent, marketing, that agricultural ventures are saddled with, Western partners are also assuming the bulk of the financial risk. Adequate means for repatriating earnings or implementing management decisions still do not exist. For example, the highly popular McDonald's on Pushkin Square which opened last year sources its raw materials locally but was forced to establish its own processing facilities.

### **Agricultural Trade**

In the area of trade, the Soviet government has gained a great deal of experience in agricultural trade. In the grains and oilseeds sector, some of the Soviet Union's biggest trading partners are the United States, Canada and Argentina, but the most promising area for Western exports of agricultural products will be meat and milk products. Overall Western-Soviet trade in consumer and agricultural goods has increased sharply in the past year. Huge imports, financed by the Soviet gold supply, resulted in the trade deficit of \$1.3 billion, the first since 1976. Certain border nations of Western Europe are capitalizing on their historical trade links to various Soviet Republics and these connections will continue to provide medium-sized foreign firms the best access point to the Soviet economy in the short run.

Trade between the former members of COMECON has decreased significantly in the last year and may provide opportunities for Western firms in the long run. Even though critical trade between the USSR and Eastern Europe continues, many nations have sought to distance themselves from the USSR during this period immediately following the overthrow of the Communist regimes. As the Soviet Union cuts back on oil exports and cuts foreign aid in the struggle to stabilize its domestic situation however, the Eastern European nations have begun to feel the squeeze. In many ways, the Soviet command economy encompassed Eastern European nations, who cannot realistically survive without a steady flow of Soviet energy, spare parts and roubles.

Eastern Europeans are recognizing the harsh reality of competition on the international market and are beginning to consider alternatives to



"export-to-the-West-led growth." Visits to the United States by nearly every Eastern European Head of State, including Gorbachev's, have been targeted at sparking more Western investment in their crippled, but nascent free market, economies. Unfortunately, after an initial wave of interest and reconnaissance trips by many Western business people at all levels and in all industries, the resulting capital investment or joint venture signing has been quite disillusionary for the local population. Indeed, on numerous occasions plant managers and others expressed their exasperation at the lack of "serious" investors or even return visitors. In the case of Poland, the managerial class has been made to feel somehow responsible for the perceived slow pace of Western investment and assistance in agriculture.

The prospects of exporting goods, especially agricultural products, to Western Europe and beyond are very slim due to the tight controls of the Common Agricultural Policy (CAP) and the poor quality of most Eastern European goods. Several individuals from the West and Eastern Europe expressed the belief to AER that Eastern Europe's future will depend on its ability to develop regional trading patterns - if only through countertrade and barter at first. A Hungarian delegate proposed that AER assist in establishing a barter "bank" or countertrade mechanism for Eastern European countries as this would accelerate the market development process and efficiently redistribute agricultural goods to regions of scarcity. At the East European Agriculture Conference, the development of a "CAP"-like policy was generally met with disapproval from most economists.

In the Soviet Union, trading enterprises are no longer exchanging all the money they can for roubles, leaving many Western suppliers and creditors unpaid and worried. These debts amassed to unprecedented levels after oil-export earnings dropped and reforms legalized independent foreign trade for companies for the first time. Of late, the reputation of Soviet foreign trade organizations as reliable and timely payers is being restored. Within the last two months over \$1.75 billion has been repaid, but the problem of contracts being signed without regard for sources of repayment is reportedly still a problem.

### **Doing Agribusiness in the USSR**

The practical difficulties of operating in the USSR must not be underestimated. Serious investors or foreign partners of any kind



take into account a host of problems including poor communication channels and shortages of office space. The expense of setting-up shop in the USSR is also prohibitive for many since rents are astronomically high and foreigners - be they individuals or incorporations - are required to pay top hard currency prices for goods and services that may seem substandard; from a hotel room to a taxi ride to translation/secretarial services. Potential investors in agriculture will find it difficult to anticipate market size, secure reliable transportation and procurement of goods and manage partners or employees with little or no experience in Western-style business practices. There are few true entrepreneurs in the agriculture sector and many have a distorted view of the world agricultural market due to lack of communication and information.

A key problem for anyone in the USSR is identifying useful contacts, especially since an increasing number of worthwhile contacts are outside of Moscow. It is still a full-time job to maintain the necessary relationships with government officials in Moscow, but increasingly real authority does not exist at the Union level.

### **The "Republican" Future**

One point that emerged during the planning and preliminary communications surrounding the AER mission, was the importance of developing relationships independently with the various republics. Last year's dissolution of the Union-level Gosagroprom and the government's continued inability to respond to the worsening situation with sufficiently radical measures has prompted Republics to speed-up the local market transition linked to their struggle for political independence. As a consequence, matters relating to agricultural development and trade in the Republics has fallen into the hands of newly created Ministries which are tackling an agenda of market-oriented reforms that include everything from decollectivization to technical training to foreign investment and trade. In the case of Russia, Yeltsin's radical push for reform is looked upon with a good deal of support as well as a certain amount of unease within the Republics in recognition of Russia's overwhelmingly dominant economic position. In recent months Moscow has attempted to exert its influence on the maverick Republics either in an aggressive manner as seen in the Baltic, or by virtue of the remaining elements of the centralized command system in communication and procurement of vital raw materials.



That the Republic governments are grappling with the pragmatic questions of fashioning a viable economic machine to follow-up on their recent declarations of independence from Moscow was clear throughout the AER visit. Despite the increased ethnic strife in many Republics that has added an additional burden to their reorganization of the agro-economy, developing contacts with these new powers to balance relations with Moscow will be crucial for any dealings with the USSR. The Republics are eager to open direct international channels not only with Europe (where some already possess a historical advantage) but especially the United States and beyond. Ideas for establishing more creative agro-enterprise linkages with Third World and other emerging countries received a positive reaction, although many still viewed the United States as the most desirable source of technology, information and capital. Efforts by the Republics to seek independent free-enterprise opportunities will result in the formation of new private sector groups hoping to improve contacts, technical and managerial skills and attract capital investment.

#### **Opportunities amidst the chaos**

It is now unlikely that Soviet agriculture can return to the old days of complete administrative control. Conservative policies have already generated popular discontent and only prolong stagnation. Nevertheless, measures designed to institute a market economy will bring great hardship to the Soviet people in the coming years. Inflation will be severe as price subsidies are eliminated and savings are spent on higher priced goods. Purchasing power will erode and the enormous social costs of unemployment will be unleashed. Indeed, the USSR is watching the experiments in Poland closely.

The harsh circumstances to be endured through reforms will provide experience to the next generation of Soviet farmers if the political maelstrom can be weathered. It is this generation that will create a truly market oriented agro-food system and only after this phase can the country's vast natural wealth be harnessed and productive capacities be realized.

In the meantime as the free market climate is slowly shaped and the USSR looks for solutions to its myriad of agro-related problems, the opportunities for Western companies will grow. Already those companies with an eye toward (and perhaps more importantly, the means to sustain)



long term investments and gains are becoming more active in the Soviet market. Many large U.S. agribusiness concerns have been intricately involved in grain supply and transport, and U.S. government sales to the Soviets. Food companies too are developing relationships in the USSR hoping to capitalize on several attractive features over the long haul: the large consumer market; vast agricultural resources; and well-trained human capital that is at the forefront of many scientific and technical areas. Associated Soviet enterprises, collectives and now, entrepreneurs, currently represent a great source of demand for Western expertise and investment in small machinery, transportation, fertilizer and feed, and value-added processing especially. Advantages lay with those that are able to support long-term strategies, but examples of small and medium-size companies, technical institutes, associations, non-governmental organizations (NGOs) and investment funds developing activities in the agro-enterprise area are on the rise. How the Middle East crisis and downturn of the global economy will affect the influx of foreign partners or forthcoming economic aid is problematical.

Whatever the undertaking, when operating in the USSR or Eastern Europe one must remember to hold firmly to one's business needs and principles whatever they may be. As Jack Matlock, U.S. ambassador to the Soviet Union advised: "Take close notice of business conditions there. And if they don't meet your needs, be very frank in explaining what your needs are and hold firm until you get what you want." In the current climate of uncertainty in Eastern Europe and the Soviet Union, success will visit those who can develop contacts, relationships and ongoing communication in the short term; monitor the situation first-hand and maintain a practical level of activity in the medium term; plan for the long term; and follow Ambassador Matlock's advice throughout.

### **Role of AER/ABC and Future Programming**

It is clear that while the scope for developing closer agro-enterprise contacts with the Eastern Europe and the Soviet Union is great in terms of both local need and long-term trade/investment and development benefits, the institutional groundwork for free-market interactions in agribusiness and open policy discussion that solicits private sector perspectives is sorely lacking.

With the likely break-up of collective farms and moves toward the free market, new cooperative configurations of private producers and state



officials are emerging and will require development. At the heart of these developments is the issue of private property and ownership rights. Despite some positive moves last March in the Supreme Soviet, this area remains ambiguous. There is evidence of increased dialogue between public and private managers and producers, with a general recognition that a healthy agriculture needs a mix of owned and rented land. Within this milieu, this type of open dialogue must be encouraged to develop and to catalyze the reshaping of agribusiness enterprises that will rebuild the Soviet economy<sup>2</sup>.

International outreach and information on business, policy and technical issues is also in short supply. Response from the local officials, researchers and managers has been overwhelmingly positive and the benefits of establishing an indigenous agribusiness association activity affiliated to the growing AER network are well recognized. There was particularly strong interest on the part of individual Republics to undertake home-on-home business development and training missions primarily organized through ABC and the state and local councils. Several delegates presented AER with proposals for ventures and technical assistance in various agro-industrial sub-sectors in the hopes of developing partnerships. Follow-up communications have been received from Estonia, Lithuania, Georgia, and Moldavia.

There is a growing desire among producers and managers to acquire knowledge and practical experience with free market business structures and operations. Training the new generation of entrepreneurs in technical and managerial skills presents a great opportunity for exchange and cooperation for AER/ABC, universities and companies alike. There is intense interest in new agribusiness management, training, and above all - worthwhile contacts that will lead to business partnerships.

With the worldwide attention on Eastern Europe waning and economic assistance slow in coming, the importance of continuous, low-risk, cost-efficient agro-enterprise initiatives was not lost on any of those met by AER. Perhaps the value of the association in a transition economy is to perform as a catalyst to democratic institution-building providing a

---

<sup>2</sup>The Soviets have also been debating enactment of a range of new laws including property law, commercial law, bankruptcy and corporations, to mention the more visible proposals. With a weak or non-existent infrastructure, this process cannot proceed smoothly - and will await the rebuilding of institutional foundations - some of which have been neglected since 1917.



neutral platform for frank interchange- a function taken so much for granted in the Western industrialized world - which must be revisited in the context of an emerging private agriculture sector.

\* This report was written by Agri-Energy Roundtable staff members, James Hafner and Tim Stryker. AER wishes to acknowledge the contributions of S. Ilioukhin, AER correspondent in Moscow for his contribution to this report. Mr. Ilioukhin's report on USSR and Pacific Rim Agro-Industrial Trade and Development Prospects is available from the AER Secretariat for members and non-members (fee).

*For more information on the recent Agribusiness Council mission, upcoming activities and joint venture opportunities in the USSR and Eastern Europe, contact:*

*The Agribusiness Council  
2550 M Street, N.W.  
Washington, D.C. 20037  
TEL (202) 296-4563  
FAX (202) 887-9178*



USSR Contacts: September 1990 Mission

Mr. E. Yakolev\*  
Editor-in Chief  
MOSCOW NEWS  
16/2 Gorky Street  
Moscow 103829, USSR  
tel/209-1984  
secy=Elena

Peter P. Ryzhov\*  
Head of the Dept. for International Economic Affairs of the USSR  
Ministry of Foreign Economic Relations of the USSR  
Institute for Advanced Studies for Managerial Staff  
and Specialists in Foreign Economic Relations  
Mosfilmovskaya, 35, b.1  
Moscow 117330, USSR  
tel/147-15-46  
fax/095-147-21-94  
tlx/64411380

Dr. Ghelij I. Shmelev  
Sector Head, Institute of Economics  
All-Union USSR Academy of Sciences  
Novochereemushkinskaya ul., 46  
Moscow 117418, USSR  
tel/120-82-00

Jann Kivistik  
Estonian Agriculture Academy  
Riia tn. 12, EPA  
202 m400 Tartu  
Estonian SSR, USSR  
tel/7-44-91(o); 6-14-05(h)

Antanas Sviderskis  
Deputy Minister  
Ministry of Agriculture  
Gedimino pr. 19



232025 Vilnius, Lithuania  
tel/62-51-05  
fax/22-0444  
tlx/261181 AGRO SU

Ms. Natali E. Kazlauskiene (to Iowa State in November)  
Scientific Staff  
Lithuanian Research Institute of Agricultural Economics  
232000 Serakausko 18  
Vilnius, Lithuania  
tel/61-72-30

Petras Tvarionavitchus (spoke French)  
President, Lithuania Scientific and Technical Associations  
Baltic Management Foundation  
Traku 9/1  
232600 Vilnius, Lithuania, USSR  
tel/61-26-92, 66-43-15  
fax/22-27-27

Rimas Varkulevichius\*  
Chief of Section  
Food Industry Department  
Ministry of Agriculture  
Gedimino av. 19  
232025 Vilnius, Lithuania, USSR  
tel/(0122)629994  
fax/(0122)224440  
tlx/261181 AGRO SU

Following three were related by Varkulevichius:

Hon. V. Knachis, Minister  
Lithuanian Ministry of Agriculture

Mr. CHle Jevichius, First Deputy for Food  
Lithuanian Ministry of Agriculture

Mr. Jkvilda, Deputy Minister of Agriculture  
Lithuanian Ministry of Agriculture



**Uldis Benikis (with his wife)**  
 Deputy Minister  
 Ministry of Agriculture  
 2, Republic Square  
 226168 Riga, Latvia, USSR  
 tel/325-142

**Valery Yakushev (young man, Russian, good English)**  
 Chief Specialist, External Relations Division  
 Latvian Ministry of Agriculture  
 2, Republic Square  
 226168 Riga, Latvia, USSR  
 tel/(0132)327-524  
 fax/(0132) 320-593  
 tlx/161143 AGRO SU

**George E nukidze\***  
 Foreign Trade Executive  
 Scientific, Technical and  
 Economic Cooperative (EFECTY-88)  
 22 Gamsakhurdia av.,fl.12  
 Tblisi, Georgia 380094, USSR  
 tel/38-51-92 (O)  
 TLX/212184 SLAVA SU

**Dr. Revaz Chodrishvili\***  
 Chairman, Scientific, Technical, and Economic Cooperative  
 EFECTY-88  
 22Gamsakhurdia av.,fl.12  
 Tblisi, Georgia 3800094, USSR  
 tel/38-51-92  
 tlx/212184 SLAVA SU

**Erekle Chodrishvili\* (spoke French)**  
 Deputy Chairman, Scientific, Technical, and Economic Cooperative  
 EFECTY-88  
 Vice President, Union of Leaseholders and Free Owners of Georgia  
 22 Gamsakhurdia av.,fl.12  
 Tblisi, georgia 380094, USSR



tel/38-51-92(o)  
tlx/212184 SLAVA SU

Vakhtang V. Makharadze\*  
General Director  
INTERFERMA (Joint Venture)  
tel/200-52-00  
tlx/412177 IFP SU  
fax/200-32-20

Viacheslav Balan\*  
Director (moscow)  
R.V.O. "Moldinteragro"  
Department of External Relations  
Shtefan Chal Maze, 162  
Kishinev, Moldavian SSR, USSR  
tel/Moscow 396-75-26

Julian Skiscko Ivanovitch (did not attend Moscow Meeting)  
General Director  
R.V.O. "Moldinteragro"  
Shtefan Chal Maze, 162  
Kishinev, Moldavian SSR, USSR  
tel/Kishinev 24-86-48

Tamara Karpukina Petrovna\*  
Chief Specialist  
Scientific and Technical Institute  
"Belplodoovochtexpoect"  
ul. Platonova, 10  
220600 Minsk, Beyelorussia, USSR  
tel/36-80-22

Yelena Yemelyanova\* (in meeting at Russian Council of Misnisters)  
"ConsultRussia"  
17, Dmitrijeoskrov  
119304 Moscow, USSR  
tel/201-79-29

Cathy M. Criley\*



U.S. Commercial Office  
Ulitsa Chaikovsko 15  
Moscow, USSR  
tel/7-096-255-4848  
fax/7-096-230-2101  
tlx/413205 USCOSU

David M. Schoonover\*  
Agricultural Counselor  
USDA  
American Embassy  
Ulitsa Chaikovskofo, 19/23  
Moscow, USSR  
tel/252-2451  
tlx/413160 USGSOSU

Nicola Savoretti  
c/o Hotel Spros  
Leninsky Prospect 95/15  
117313 Moscow USSR  
tel/007095-1333-589  
fax/007095-93821-00  
tlx/414711 SPROS SU

Claire Cornuau - Affiance

Vakhtang V. Makharadze  
General Director  
International Farm Products  
INTERFERMA  
Str. B. Sadovay, 5/1  
Moscow 103268 USSR  
tel/200-52-00, 200-52-03  
fax/200-32-20

\*met in Moscow

