

# PROCUREMENT OF AGRICULTURAL MACHINERY IN RUSSIA AS IT RELATES TO THE OPEN BURNING MITIGATION AND ALTERNATIVES PROJECT

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## Purpose:

To “characterize the purchase and procurement process for agricultural equipment, in Russia generally and in the pilot oblasts specifically;” to “see what process actually drives or underlies such procurement or purchases” and to determine “whether conditions are such as to make micro-financing or similar measures unviable.”

## Finding:

Until the last two years, there were conditions which could have hampered micro-financing or similar measures designed to make agricultural equipment available to farmers, as part of the effort to stop open burning.

When banks gave farmers credit, they also controlled how the funds were spent. Farmers not only described, in detail, the purpose for which the funds were needed, but were given a list of vendors, certified/approved by the bank, from whom they must choose to obtain the services or machinery. The funds were not released to the farmer, but were paid to the vendor directly.

This mechanism would have been the primary method to influence what farmers could or could not purchase, and could have been vulnerable to local pressures or regional pressures related to who does or does not get on the list of preferred vendors. After lobbying by the Farmer’s Union, these restrictions have been removed. While loans are still granted on the basis of a specific purpose, the bank no longer restricts the way the funds are used. In cases where the loan is for a construction project, for example, the farmer can even do the construction himself. Without a firm grasp on the purse-strings, local banks or local authority have no overt mechanism to restrict the use of funds for any kind of purchase, if the loan only needs to state a general purpose, without detailed specifications that constitute a contractual obligation.

If there are procurement issues, they do not appear to be systemic, and there is no evidence that there are other mechanisms that would get in the way of a micro-financing scheme. Procurement issues are not associated with barriers to executing the Project. If there are issues, they could be related to contract sizes far beyond the scope of the project. At a certain order of magnitude, successful large-scale farm machinery contracts may depend on the ability to connect with a tandem of local power centers consisting of governor’s offices and the favored regional banks, but even there, can’t be considered barriers to the project or any financing schemes.

In terms of choices of what can be procured, it is not a local issue, but clearly articulated guidelines. Russian agricultural policy has influenced the kind of equipment that is procured (both bought and leased) through the use of discounted interest rates for Russian or Belarus-made machinery, and by high tariffs on imports.

While the advantageous domestically-oriented interest rates will be reduced as a result of Russia's ascension to the WTO, this will not happen for several years.

Tariffs are now reduced to 5%. However, according to the St. Petersburg team, Russian farmers buy foreign machinery in large volumes despite these disadvantages.

## **METHODS OF PROCUREMENT**

Most farm machinery is obtained either through leasing (estimates range from 50%, by a Russian farm sector leader, to 90% by foreign analysts) bought on bank credit, financed by the companies offering equipment, or bought for cash from savings.

In Leningradskaya Oblast, it was estimated by a farm sector leader to break down as follows:

1. Banks and Leasing (around 50%)
2. Purchases (about 20%) from companies including from farmers who have set up small businesses that bring in machinery from Europe; this is almost exclusively used
3. Purchases from old Sovkhoses (10%) bought at rock-bottom prices, possibly broken and abandoned, needing major repairs
4. Brought in from Europe by various methods, including as gifts from relatives there.

Since determining the exact figures is not likely to affect decision-making in the project, the figures have not been investigated further.

### **Leasing**

Leasing as the most popular method of procuring farm machinery is recognizable in form to anyone familiar with leasing in countries other than Russia. It includes components associated with leasing, including the opportunity to purchase the equipment at the end of the contract.

The largest provider of leasing is Rosagroleasing which is essentially an arm of the Russian government (the Chairman of the Board is the Minister of Agriculture.) It operates centrally through its headquarters, as well as through local operators in all regions of Russia. Rosagroleasing dominates the agricultural leasing sector with (in 2006) a portfolio of over \$850 million, and distorts market forces through subsidized, below market interest rates.

At first, Rosagroleasing only offered domestically produced tractors, combines, and other equipment. Around 2006, however, they signed a \$25 million agreement with John Deere, guaranteed by the U.S. ExIm Bank, allowing them to lease foreign equipment.

Where leasing in Russia differs is that, in the agricultural sector, it has benefited from interest-rate subsidies, and specifically, in lowering the rate at which the interest rate rises each year during the life of the lease. These subsidies have been the instrument for limiting the Country of Origin of machinery, rather than any other kind of extra-legal pressure. In effect, you could lease what you wanted, but you were not able to afford it because the “raw” rates are astronomical. The barriers have been falling. In the beginning, all leasing was restricted to Russian or CIS (Commonwealth of Independent States) made machinery. Then, as of 2006, foreign-made machinery began to be included, but with restrictions on the deep discounts that Rosagroleasing provides to farmers who lease Russian-made machinery. During the last decade, many of the largest foreign manufacturers (including John Deere) of agricultural equipment have set up operations in Russia, making them, in effect, local companies that enjoy the same discounts as part of the leasing program.

The interest rate discounts are significant. Interest rates may start at 8 to 12% annually for a leasing contract (with associated per-year rises), but by leasing through, for example, Sanktpeterburg leasing in Leningradskaya Oblast, they may get a discount that brings the rate down to 1.5%. This means that the “stick” in the form of restrictions brings with it a significant “carrot”. It means that a farmer could theoretically buy or lease non-Russian machinery, but would not get the benefit of interest-rate subsidies, making the contract prohibitive.

Russia’s ascension as a member of the World Trade Organization has lowered tariffs on the import of farm machinery (see attached info from US Dept. of Commerce). However, the deep discounts on interest rates for leasing locally-made machinery will stay in force for the next three years. Since a number of foreign manufacturers have set up local operations, it is moving toward becoming a non-issue, but only for as long as Russian agricultural policy continues its practice of subsidizing agriculture and interest rates. (The new Agricultural Policy going into effect on January 1, 2013, announces a commitment to leaving the subsidies behind. Instead it favors direct investment by the federal government, redirecting the flow of funds significantly, and creating a role for public-private partnerships. )

Rosagroleasing does its work through 200 operators dispersed throughout the 72 regions and oblasts. The fact that this is a quasi-governmental organization may explain the rumors about oblast-level pressure in the direction of one type of machinery to another, perhaps encountered through a specific operator, in a specific place, at a specific time. A very large contract (beyond the scope of the Open Burning Project) could potentially attract the attention of a certain type of bank and administration power groupings, but with the power of banks to determine the specifics of how funds are spent, this likelihood is even less likely to affect the project at any order of magnitude.

### *Leasing procedures*

The main Rosagroleasing website contains all the documentation required and is standard for all operators. The mechanics of leasing are really the mechanics of downloading, filling out, and submitting the forms. The forms include not only facts, but are very similar to the kinds of forms a business would fill out in order to get a loan in a bank, i.e., the kinds of information that would be found in a business plan, including forecasts.

The terms and conditions include everything we would expect in a lease, including the opportunity to buy the object of the lease at the end of the contract. The exact terms would be determined by the value of the object and the nature of the object itself. For example, Rosagroleasing deals with leasing what it calls “tribal cattle” to indigenous tribes in the regions, and is therefore equipped to deal with both very sophisticated machinery, as well as farm animals.

The process is lengthy, and designed to encompass the needs of the largest possible contract, and does not adjust its volume downward to accommodate smaller enterprises, although this does not appear to be based on an intention to exclude them.

The advantage, up until this time, has been that equipment is offered at below-market interest rates, if an enterprise has the skills and the manpower to deal with the paperwork and follow-up required.

### **Procurement through bank credits**

With regard to bank loans for the purchase of machinery, the instrument that controls what can be financed is similar to leasing. Regular bank loans may carry a rate of 16%, with a lowering of rates if they are for the purchase of locally built machinery. Again, the foreign manufacturers with local production operations benefit from lower rates as “local” companies. Since the most recent research by project staff has identified acceptable machinery for consideration in the project, and it is made in Russia, (see attached) there is no need to consider Country of Origin interest rate or leasing discount issues to be barriers to micro-financing schemes.

### **Tariff barriers**

Attempts have been made by project staff to check on the current status of tariffs of imported farm machinery. That has so far not been successful. Customs officials say they can only respond with a figure based on a specific piece of machinery that is in the process of being imported – so far, they have not agreed to give a hypothetical answer. Officially, however, tariffs are to be restricted to 5% (down from 15% before WTO ascension.) Russian farmers have been buying foreign equipment despite the higher tariff barriers, and foreign manufacturers have set up local operations that nullify their impact.

### **Other barriers**

While some of the systemic procurement barriers (the bank’s powers to impose its choice of vendors) have been removed, some practical barriers remain, as touched on above: the paperwork.

As mentioned in the discussions of leasing and bank loans, applications are long, complex, and the documentation required to support them are voluminous. The requirements appear standardized to be appropriate to the largest possible enterprise or contract. No adjustment is made to reduce the burden according to the size of the enterprise. To a small enterprise, the process is overwhelming, not due to intentional barriers, but due to lack the manpower and time. For example, in the Leningradskaya Oblast, a number of farms are very small. They can be categorized as follows:

1. 2 – 3 pigs, 2 – 3 cows.
2. 100 pigs, 50 – 60 cows

3. 300 – 1000 hectares, 600 cattle, or 4000 pigs, rich enough to buy machinery from abroad

The paperwork burden on the first one is almost insurmountable, difficult for the second, but not a big problem for the 3<sup>rd</sup>, since at that size, they are likely to have people designated for that purpose.

The fact that the paperwork burden is more than a small detail in terms of the procurement of both leasing contracts and bank loans points to a potential advantage for aggregating small farmers into mid-sized “contracts” or mid-sized “virtual enterprises” that can benefit from sharing this burden, but not so large as to enter the ranks of enterprises that vie for positions of power and influence with administrations and their allied banks. In other words, while larger farms have the manpower and knowledge to deal with the paperwork, as well as their local “system” smaller farmers may benefit from being supported by something as modest as the administration of paperwork related to leasing or applications for bank credit.

## **OTHER PROCUREMENT ISSUES: COMPARING LEASING AND BANK CREDITS**

### **Leasing**

The 2002 Federal Law “On Amendments and Addenda to the Federal Law on Leasing,” reduced the investment risks of leasing and removed certain legal and tax uncertainties. Chapter 25 of the Tax Code in 2001 changed some of the ways of calculating profit tax and several other changes:

- A reduction of profit tax from 35 to 24 percent
- Changes to the calculation of depreciation
- The removal of restrictions on deducting expenses and
- A new system for deducting interest expense.

These reforms, together with the retention of certain key principles, stimulated the leasing industry. However, while there may be over 500 leasing companies, about 100 of them appear to matter in terms of the market.

A survey conducted in 2004 (by Expert Magazine) indicated that only 37 of them work with agricultural leasing, due to the perceived and actual risk having to do with seasons, low returns, and competition from the government owned Rosagroleasing.

### **Main advantages to leasing appear to be, as reported by a presentation to USAID in support of an initiative to guarantee loans in Moldova, but described issues in Russia:**

- The flexibility to record an asset on either the balance sheet of the lessor or lessee;
- Accelerated depreciation of the asset up to a factor of 3, lowering profit and property taxes; and
- The ability of lessees to fully expense leasing payments, lowering the taxable profit base. Lessees include lease payments in the cost of production, which lowers their profit tax payable.

(In Russia, leasing payments are subject to VAT, but lessees can deduct VAT paid, and are entitled to government reimbursement within three months.)

Many agricultural enterprises are exempt from VAT and simply expense VAT paid as part of a leasing payment. Starting in 2006, VAT was allowed to be reduced to 15-16 percent, making it even more cost efficient.

Leasing therefore seems to work especially well for businesses with low taxable income such as most ag producers and processors in Russia, many of which may still operate in the informal sector and are unable to take full advantage of depreciation benefits.

***Comparing leasing and purchasing (bank credits):***

This chart is based on conditions offered by one major leasing company, Europlan, but is likely to reflect conditions in most others, but should be checked out. These are being presented without necessarily fully working through the implications of each comparison for the Open Burning project.

BANK CREDIT	LEASING (AT ONE LEASING COMPANY, EUROPLAN)
The maximum term of a bank credit on the market for banking services is 12-24 months.	Financing for 24-60 months.
The principal on a credit is paid from new profit	Leasing payments are listed as costs, reducing the taxable base for profit tax
Liquid collateral and a current account history are required by the creditor bank	It is sufficient to have 25%-30% of the cost of the equipment to make an advance payments, no collateral required
The mechanism of accelerated amortization with a coefficient of 3 is not applied	By applying accelerated amortization with a coefficient of 3, savings are made on property tax
As a rule, banks make additional demands before providing a credit (the opening of an account, transfer of turnover, etc.)	Generally no additional requirements are made, and projects are dealt with quickly.

**PROCUREMENT OF FOREIGN FARM EQUIPMENT**

***John Deere in Russia***

John Deere has a presence in Russia both for sales and leasing. Their business in Russia is now indistinguishable in its operations from local Russian companies, with some foreign staff in their headquarters in Moscow (John Deere Agriculture Holding, Inc.) and sales and operations done through dealers and sales branches ( in the town of Domodedovo (near Moscow) and in the city of Orenburg, the administrative center of Orenburg Oblast, which is located in the central part of Russia, not far from the border with Kazakhstan.) Their presence as fully functioning farm machinery providers in Russia is unambiguous. Their staff, in response to requests for a conversation about their operations, only wanted to know if there was interest in either buying or leasing.

Their site, however, shows that they not only lease and sell, but have set up a separate John Deere Financial that acts like the financial arm of a car dealership. For example, they were advertising “specials”, offering the financing of leases starting at 4.49% a year, for 36 months, with a 20% down-payment, which appear competitive.

Further conversations should happen on the basis of specific comparison shopping questions, based on already identified machinery, since they do not appear to be equipped to entertain hypothetical or exploratory conversations.

## **OTHER FOREIGN MANUFACTURERS MENTIONED BY PROJECT CONSULTANTS**

### **Vaderstad in Russia**

<http://www.vaderstad.com/ru/>

This Swedish manufacturer has had a subsidiary in Ukraine since 2006 (with 13 employees right now) where they sell both new machines, but also a number of second-hand Väderstad machines that they import from Western Europe, and sell to recently established farmers in the Ukraine. They soon followed up with a Russian subsidiary, and now also have a manufacturing plant.

"Russia is one of our fastest growing markets and ...the new subsidiary will be active in southern Russia, where we have selected *Krasnodar* as our base. Overall, the establishment in the Krasnodar region will reinforce and extend our presence in Russia. ..The Krasnodar region has the advantages of good soils and a favourable growing climate. The region, which is the size of Holland and Denmark combined, contains three percent of the arable land in Russia but is responsible for e.g. as much as 60 percent of all oilseed production in the country. The city of Krasnodar, which has around 635 000 inhabitants, is home to Russia's only specialist agricultural university....We already know that our concept for crop establishment – a combination of machines and cultivation methods – is very successful. The high quality of our machines will make for a long life on the enormous farms and soils of southern Russia."

The key information about this company is that they have set up manufacturing in Russia, which makes it, defacto, a Russian company. The manufacturing of part of the Vaderstad product line takes place in Liski, in the Voronezh region.

### **Claas in Russia**

[www.claas.com](http://www.claas.com)

[http://www.claas.com/cl-pw/ru/home\\_feature,lang=ru\\_RU.html](http://www.claas.com/cl-pw/ru/home_feature,lang=ru_RU.html) (in Russian)

Claas, the German agricultural machinery manufacturer and seller sold its first combine in Russia in 1992, opening an office in 1997, sales of parts in 1999 and began building a combine manufacturing



plant in Krasnodar in 2003, which opened in 2005 in Krasnodar. By 2008 they had inaugurated a “Technoparc” in Russia, were manufacturing tractors and had established a sales company in Moscow.

### **Lemken GMBH**

<http://lemken.com/en/home/>

This is the German manufacturer identified by Russian farmers associated with the project, which carries the equipment they feel they need. Three product groupings have been identified by project staff as potential acquisitions related to supporting open burning mitigation: Geliodor, Kristall and Rubin. The fliers submitted by the St. Petersburg team have been examined by Swedish farm experts associated with the project and are within the frame for potential selection. In terms of procurement, this company’s products will benefit either from the advantageous interest rates given local producers, if they have subsidiaries in Russia, or from the lower tariffs (a maximum of 5%) arising from WTO membership.

## **FOREIGN MANUFACTURERS WITH NO OPERATIONS IN RUSSIA**

### **Rekordverken AB**

<http://www.rekordverken.se/Historia/historiaUK.htm>

Even though this is not a “local” Russian company, either in a direct sense, or in the sense of a foreign manufacturer with Russian operations, it is being included here because of the role the straw choppers may play in the Open Burning Mitigation Project.

According to a Swedish project team member, Rekordverken AB is a Swedish manufacturer of straw choppers (designed to be attached to combines). Its straw chopper is considered outstanding. John Deere sells this straw chopper as a part of their own product offering for the combines they sell in Sweden.

### **KPAB**

<http://www.kpab.com/om-oss/bakgrund-10428267>

This is another Swedish manufacturer recommended by a team member from the Swedish Institute of Farm Technology, in the same context as above. The site is in Swedish so is being listed now for future reference.

A discussion of which equipment is optimal is beyond the scope of this report on procurement, but more information on pros and cons is in another report.

## PROCUREMENT OF INPUTS OTHER THAN EQUIPMENT

### “ADDITIVES”

Several of the farmers the Project is working with in the Rostov Oblast have requested “additives” as one of the components of an approach to open burning mitigation. While the discussion of the pros and cons of using chemicals or microbiological substances as a means to this end are beyond the scope of this report (and are outlined separately), the procurement process shows no systemic barriers to such a purchase: farmers could obtain bank credits as they would for machinery and equipment. All the manufacturers of such additives cited by the participating farmers are Russian, and would therefore benefit from interest-rate advantages that remain after the new Russian Agricultural Program goes into effect.

According to the St. Petersburg team, of the additive manufacturers named, only one has been widely tested. It functions by being sprayed on the land after the clearing of the previous crop, and is to be inserted to the depth of 5 to 7 centimeters.

### “EM COOPERATION”

[www.emcooperation.ru](http://www.emcooperation.ru)

Baikal EM1 is the substance that, according to St. Petersburg project staff, appears to have been tested. While its site has a link to an English version, this is “under construction.” The home page announces that it sells only to companies and enterprises, which can be assumed to mean “wholesale.”

Project staff has investigated prices and amounts and details have been submitted to the project group in a separate memo.

The slogan associated with Baikal EM1 is “without disturbing the harmony of nature, restore and support fertility and increase yield.” It is described as a microbiological fertilizer.

### Bioinvest (Ukraine)

[http://www.bioinvest.com.ua/index.php?option=com\\_content&view=article&id=13&Itemid=36](http://www.bioinvest.com.ua/index.php?option=com_content&view=article&id=13&Itemid=36)

The site of this manufacturer is also not available in English. Although it is a Ukrainian company, the site is in Russian. It appears that the company is an enterprise formed to monetize the research performed by the Institute of Bio-organic chemistry and Petrochemical Chemistry of the National Academy of Science of Ukraine. A list of products is given, with the assumption that they are known quantities: (Biolan, Biomax, Emistim S, Agrostimul, Treptolem, Charkor, Zeastimulin, Poteitin and others). They describe the offerings using terms such as “complex microbiological preparations that facilitate the restoration of the fertility of soils, decompose agricultural residues, reduce the negative effects of new plant diseases (bacterial, and complex root rots) reduce the need for chemical means of protection.”

In addition to the National Academy of Science of Ukraine and the Agrarian Academy of Ukraine, they list the National University of Biotechnology, scientists of Russia, Belarus, Kazakhstan and Germany as active participants or partners in their process (without details).

### **Vostok EM 1**

This manufacturer or provider of additives has no website, and lists only an e-mail hosted by a free provider and has not been investigated any further.

## **PROCUREMENT AND RUSSIAN AGRICULTURAL POLICY 2013-2020**

As of January 1, 2013, a new agricultural policy will be in effect in Russia. It points to a new direction for the approach the government will take with regard to agriculture. The main difference is that the government intends to move away from being centered on subsidizing farmers, away from giving credits (which have plunged many into debt) and away from then having to subsidize farmers in paying the interest on those debts. Instead, they plan to make funds available, some directly from the federal level, some through the oblast level, for investments in agriculture. This includes investment in seed stock, reviving the decimated livestock industry, in new farm machinery, and in innovative farming methods.

The mechanisms the policy promotes include what we would call “public private partnerships.”

That this is more than a pronouncement of general intentions is shown by the fact that the Minister of Agriculture has already made a presentation about specific mechanisms that are being put into place at local levels for this kind of financing. The flow of funds will be managed centrally by the government, in order to exclude extra-legal “interference.”

The St. Petersburg staff has obtained documentation about the mechanism being used locally, although it is one which is directed at financing chicken-farming. The mechanism may prove interesting as a way of looking for opportunities to leverage Project funding during Phase 2. An example of a model is to have the federal government (or through a stream at the oblast level) finance machinery that increases yield (for example, cultivators) which may or may not guarantee (although increases the likelihood of) the incorporation of straw into the soil, while the Open Burning project finances a high-grade chopper which guarantees the success of the incorporation of the soil and the cessation of burning.

### **Conclusion and further research in the area of procurement:**

The procurement process for agricultural machinery and equipment in Russia can be characterized as gradually normalizing to conform to the standards of more developed economies. The specific barriers that made the procurement process especially vulnerable to local pressures were related to the degree of power a bank was able to exercise with regard to the way a client spent the funds. Spending was limited to approved/certified vendors. The way vendors were approved included that they were “licensed” by the local administration, or found other ways to get onto the list of approved suppliers. Not only were the funds restricted to being spent with these vendors, the spending itself was controlled

by the bank (done through direct transfers, rather than being paid by the client borrowing the money.) With the removal of this restriction (and power), these vulnerabilities have also been reduced.

It goes without saying that there is no way to guarantee that other ways have not been found for local powers to insert themselves into the procurement process, but as of the time of this writing, the representatives of the Project in Russia assert that this is no longer a significant enough problem anywhere in Russia to warrant concern with regard to being able to implement any of the current plans of the Project.

The Country of Origin barriers to procurement of equipment through leasing (the extraordinary discounts offered for the leasing of domestically produced machinery) are still in place, despite ascension to the WTO, at least for the next three years. However, the foreign machinery producers examined – American (John Deere), Swedish (Vaderstad) and German (Claas) have all established production facilities in Russia, making them “domestic” producers, and the restriction is therefore moot.

If it turns out that the best way to guarantee the cessation of burning is to offer the best possible straw chopper attachment to combines, these barriers may have to be considered again, since some of the best choppers are produced in Sweden, and have no “domestic” advantages in Russia. However, the reduction in tariffs to 5%, from 15% (as reflected in the attached information from the Department of International Trade to the American agricultural machinery industry) may keep this option realistic as well. In addition, the St. Petersburg team asserts that the larger farmers do not hesitate to buy the foreign machinery they want, even though these are burdened by tariffs. This fits with the readiness of Russian drivers to pay much higher prices to purchase foreign cars disadvantaged by high tariffs.

## **APPENDIX 1: ROSAGROLEASING**

From the Rosagroleasing site:

*"Rosagroleasing" is the largest state owned agro industrial leasing company in Russia, working on the leasing market of agricultural equipment.*

*The company tops the list of the published ratings of the leasing companies every year. "Rosagroleasing" was established in February 2001. In fact the company commenced its activities in February 2002. The authorized capital stock of the company is 35.3 billion roubles. The main shareholder of the company is the Ministry of Property Relations of the Russian Federation.*

*Starting from the date of its establishment up to July 2006, the company has concluded 3150 leasing agreements, with the total value of 39.8 billion roubles. "Rosagroleasing" has supplied 22 040 units of agricultural equipment, including 9 940 combines, 6 882 tractors, 2 488 units of automobile equipment, 2 730 units of soil treatment machines, with the total value of 27.9 billion roubles, around 50000 heads of tribal cattle amounting to 2.6 billion roubles.*

*The state company "Rosagroleasing" is represented by 200 operator companies in 72 areas of the Russian Federation. The agricultural equipment, machinery and the tribal cattles are being supplied to all federal regions of the Russian Federation. More than 5 thousand entities can be considered as the final customers of the company.*

*The company is the leading company amongst Russia's leasing companies on the value of the concluded agreements and is one of the top 50 European companies (judged by the European association of leasing companies).*

*The Chairman of the Board of Directors is the Minister of the Agriculture of the Russian Federation.*

### **National system of Agrarian Leasing**

*The main aim of "Rosagroleasing" is to pursue a policy of state support of the agricultural manufacturer, based on the newly created national system of agrarian leasing, which is considered to be a highly protected kind of investment on federal as well as regional levels.*

*The national system of agrarian leasing involves a network of large regional leasing companies, which have a good experience of leasing contracts, a confident financial state, a good servicing base and a very good reputation amongst the final customers of the leasing services. The regional leasing companies are being selected in the course of the competitions and in accordance with the requirements set by the board of the directors of the joint stock company "Rosagroleasing". The availability of good references by the Federation entities as well as their support of the companies is the factors that play an important role in the selection process.*

*These companies are capable of combining its business in the area of federal leasing and their activity within the regional programs of the leasing of agricultural equipment, machinery and tribal cattle and may play a role of reliable partners of "Rosagroleasing" in pursuit of important investment.*

*The regional leasing companies use its own practical experience to form a base of customers interested in their services, which have a stable ground and show a great potential for further growth and development.*

## **Appendix 2: Anecdotal evidence regarding former restrictions on procurement**

Experiences shared by both a western businessman and a Russian farm sector leader about past practices describe the nature of certain bottlenecks or "toll-booths" in the procurement process, in which forces outside the buyer/ lessee and seller/lessor relationship skewed the transactions. The

western businessman described running into barriers that highlighted the role and unexpected power of local banks in interfering with and influencing contracts, as well as the malign influence of procurement managers on large contracts.

On a more local level, the Russian farm-sector leader told the story of an older, lone woman farmer invested a great deal of effort and work in applying for a relatively small loan. The paperwork alone was daunting, and weighed, once completed, 5.5 kilograms. The purpose of the loan was to build an outbuilding for her pigs. When she informed the bank that she had found a cheaper vendor for the construction, who was reputed to be of better quality than the vendor on the bank's list, they refused to permit the change. She was only allowed to use a vendor that had been vetted by the bank and had been licensed by the authorities. In fact, she could not withdraw the money and make her own payment – the bank had to transfer the money to their approved vendor directly.

### **Appendix 3: potential partnerships with foreign machinery manufacturers**

John Deere's main website has a page titled CITIZENSHIP, with the following message:

#### ***Protecting the environment***

*Safeguarding the environment is nothing new to John Deere. We know that responsible resource management is vital to our company, our employees, our customers, our neighbors, and our world. John Deere works tirelessly to develop and offer products that are sound and sensible, efficient and effective.*

The page includes the following link:

#### *Global Harvest Initiative*

*We are proud to be a partner in the Global Harvest Initiative, whose mission is doubling agricultural output to meet the needs of a growing world.*



[Check out GHI's progress at globalharvestinitiative.org.](http://globalharvestinitiative.org)

### **Links:**

Rosabroleasing

[http://www.rosagroleasing.ru/documents\\_for\\_lessees/](http://www.rosagroleasing.ru/documents_for_lessees/)

OECD report on Russian Agriculture

<http://www.oecd.org/russia/russia-agriculturalpolicymonitoringandevaluation2011.htm>

Russian Ministry of Agriculture Program 2013 – 2020

[http://www.mcx.ru/documents/document/v7\\_show/16834.342.htm](http://www.mcx.ru/documents/document/v7_show/16834.342.htm)

USDA summary of Russian Ministry of Agriculture Program 2013 – 2020 (does not break out to level of the new models for financing)

[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Agriculture%20Development%20Program%202013-2020\\_Moscow\\_Russian%20Federation\\_11-6-2012.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Agriculture%20Development%20Program%202013-2020_Moscow_Russian%20Federation_11-6-2012.pdf)

Overview of Russian Agriculture with emphasis on history

[http://www.commercialdiplomacy.org/ma\\_projects/grig2.htm](http://www.commercialdiplomacy.org/ma_projects/grig2.htm)

USDA overview of Russian Agriculture

[http://www.fas.usda.gov/pecad2/highlights/2005/03/Russia\\_Ag/index.htm](http://www.fas.usda.gov/pecad2/highlights/2005/03/Russia_Ag/index.htm)

Possible effects of Russia's Accession to the WTO

<http://ictsd.org/i/publications/132074/>

News articles about the Russian Agricultural program and new opportunities for agriculture as a result of the trade bill (WTO ascension)

[http://www.trade.gov/mas/ian/build/groups/public/@tg\\_ian/documents/webcontent/tg\\_ian\\_003443.pdf](http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_003443.pdf)

<http://www.wisconsinagconnection.com/story-national.php?id=1336&yr=2012>

<http://www.bloomberg.com/news/print/2012-08-01/drought-is-added-to-fedorov-s-tasks-as-russia-joins-wto.html>