



INDUSTRIAL COMMITTEES



AGRIBUSINESS COMMITTEE



CHAIRMAN:

**DIRK SEELIG,
CLAAS**

LOCALIZATION OF AGRICULTURAL MACHINERY PRODUCTION IN RUSSIA

In 2020, discussions began on draft Decree No. 719 on grain and forage harvesters. At the moment, an agreement has yet to be reached on several key issues, which raises concerns that the situation with the amendments in Decree No. 719 regarding tractors and towed machinery will be repeated. As in the previous year, the Committee would like to highlight again the significant shortcomings of this approach to localization requirements.

To date, the Committee member companies have successfully opened production facilities in various countries in Asia, Europe, and Latin America. It should be noted that none of these countries have similar requirements for the use of local components. The use of components manufactured by global leaders is due both to innovation and quality requirements and to the price factor (mass production is less expensive). Thus, the investments required for the performance of the operations provided for by this methodology have no economic justification and will ultimately lead to the loss of key product parameters, such as quality, price, and the cost of ownership for the end consumer.

The responsibility for the development of a supplier network falls on equipment manufacturers since there is no government program or strategy for the development of suppliers for the agricultural sector. The main problem is the search for Russian suppliers of such components as engines, hydraulic systems, harvester controls, final drives, transmission elements, harvester drive elements, and bearings. Manufacturers of finished products are unable to independently attract foreign component suppliers to Russia, partly due to insufficient volumes. And there are no Russian suppliers of components of the required quality today.

This approach does not provide for measures to stimulate the introduction and development of the latest technologies or yet-to-be-implemented but promising technologies.

Wording on R&D and percentage limit of total points. The text of the Decree uses a rather narrow understanding of the entire range of R&D activities and excludes the process of implementing R&D in serial production. For the technological development of the agricultural machinery industry, R&D alone is not enough: the implementation process is important, and it requires the technological modernization of production and the introduction of high technologies in the equipment manufacturing process.

In the current version of the Decree, the maximum percentage of the total number of points for the tractor production localization is set at 80% by 2026. It is proposed to reduce this requirement to 50% with an extension in the fulfillment term to 2030. With the current localization requirements, there is no economic incentive for manufacturers to invest in localization.

As for the localization of towed agricultural machinery, first of all, it seems appropriate to make a proposal on the starting point of the company's work on the localization thereof within the Russian Federation, for example, issuance of a TR CU 010 certificate (Russian production). Moreover, it is also proposed to reduce the initial degree of localization for towed machinery from 30% to 10% and establish a maximum degree of 50%.

The main message that manufacturers are trying to convey to the Ministry of Industry and Trade of Russia is that the requirements should be proportionate to the real possibilities for localizing their products in Russia. The goal of agricultural machine manufacturers is still to develop and improve their

model range and provide Russian farmers with modern equipment that meets international quality standards.

RECOMMENDATIONS

- ▶ Broad and transparent discussions of the criteria for localizing equipment are required, including with the involvement of companies interested in developing their own production in the Russian Federation. These requirements should be long-term and should not be revised every few years. This is an important and necessary condition for planning investments in production and further localization.
- ▶ Localization requirements should be economically feasible and take global experience into account, including the implementation of advanced global innovative products and solutions.
- ▶ It is necessary to create and adopt a long-term strategy for the development of suppliers for the agricultural sector. The Ministry of Industry and Trade of Russia should be the driver of this issue. The Committee members are ready to support this initiative in every possible way and share their global experience and expertise.

SCRAPPAGE FEE

On January 1, 2016, the Federal Law "On Amendments to Clause 24-1 of the Federal Law "On Production and Consumption Waste" came into force in order to provide the safe disposal of self-propelled vehicles and trailers by charging a scrappage fee. Later, in February 2016, Decree No. 81 was published with rates and payment methodology.

According to the Committee's experts, scrappage fees were not economically justified, and the actual cost of recycling should not exceed 2% of equipment cost, so fee amounts do not comply with the goals of the Federal Law to ensure the recycling procedure. This fee has significantly increased the burden on business and creates additional barriers to the purchase of modern agricultural machinery. On May 31, 2018, the base rate of the scrappage fee grew by 15% from RUB 150,000 to RUB 172,500.

In January 2021, a draft decree of the Government of the Russian Federation on increasing the scrappage fee for agricultural and road construction machinery was published on the official website for information on the preparation of draft regulations by federal executive authorities. The draft decree proposed to increase the coefficients for calculating the scrappage fee for agricultural machinery by 2–3.5 times, depending on the type of machinery and engine power.

This proposal to increase the scrappage fee caused the expected criticism from the business community, and numerous appeals were sent to the Government of the Russian Federation from both individual companies and business associations. As a result, the draft decree was sent for revision, and in September 2021, the Ministry of Industry and Trade of the

Russian Federation announced that there were no plans to increase the scrappage fee this year. However, the issue was not completely removed from the agenda.

It should be noted that increasing the scrappage fee makes no sense for improving the environmental situation or reducing the negative impact on the environment. The fact is that agricultural machines are made of high-quality materials and components that can be reused (as spare parts) or recycled; in the latter case, compensation for raw materials may be received.

Moreover, the periodically appearing information about a possible increase of the scrappage fee causes uncertainty in the market and makes it difficult to forecast demand for products. In addition, this is a factor adding additional pressure on importers or manufacturers who do not manufacture their products in full compliance with current requirements and therefore are not entitled to receive subsidies and who must fulfill their obligations to the state, employees, and customers in the current circumstances of rouble devaluation and anti-COVID-19 measures.

We also believe that this decision goes against the idea of the need to increase the power supply capacity of domestic agriculture, which chronically suffers from a shortage of agricultural machinery due to low effective demand. These needs cannot be satisfied by increasing the production volumes of local producers, so this decision will make high-performance machinery even less affordable for agricultural commodity producers. The income of agricultural producers has already significantly decreased due to the rise in prices of fertilizers, seeds, plant protection products, and energy resources, which directly affects the growth of production costs.

RECOMMENDATIONS

- ▶ An increase in the scrappage fee should be economically justified (taking into account the rate of inflation and other macroeconomic indicators).
- ▶ We also believe that a broad public discussion of this issue involving all stakeholders, including agricultural producers, will positively affect the situation in the industry and increase the investment attractiveness of agricultural businesses.

OTHER ISSUES

- ▶ Key trends of the agro-industrial market of Russia.
- ▶ Subsidies for agricultural machinery producers (Government Decree No. 1432).
- ▶ Electronic passports for self-propelled machines.



**More information on the
Committee page**