



FOREIGN DIRECT INVESTMENTS INTO RUSSIAN AGRICULTURE

DOING BUSINESS IN RUSSIA

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Plan



1. Market of agricultural land: structure
 - 1.1. Land reforms in Russia
 - 1.2. Forms of property rights on the lands
 - 1.3. State registration of rights to land
 - 1.4. Market of agricultural land: structure
 - 1.5. The price of land by region

2. Legal aspects
 - 2.1. Particular difficulties of land buyers
 - 2.2. Land plots title. Key risks.
 - 2.3. Legislative restrictions the turnover of lands
 - 2.4. The scheme of Corporate structure which lets to acquire the rights to agricultural land

3. Taxation
 - 3.1. The taxation system for agricultural tax
 - 3.2. Profit tax.
 - 3.3. Land tax.

1. Market of agricultural land: structure

1.1. Land reforms in Russia (1/2)



1861

- The first attempt to allocate land to farmers was the land reform of 1861 which abolished the law of serfdom and gave a farmer the opportunity to buy out land shares on a consignment basis. In the course of this reform around 20% of land was transferred to farmers.

1906

- The purpose of the land reform designed by Mr. P.A. Stolypin (1906) was to do away with communal land tenure and the establishment of market relations in rural areas. By 1915 around 7 million families of farmers privately owned land.

1917

- In 1917 land was nationalized and in the course of collectivisation it was transferred for permanent tenure of established collective and State Farms.

1.1. Land reforms in Russia (2/2)



1991

- The Decree of the President of the Russian Federation of 27.12.1991 No. 323 "On Urgent Measures on Implementing Land Reform in RSFSR", Resolutions of the Government of the Russian Federation of 29.12.1991 No. 86 "On Procedure to Restructure Collective and Soviet Farms" and of 04.09.1992 No. 708 "On Procedure to Privatise and Restructure Enterprises of Agro-Industrial Complex" where collective and State farms were allocated a duty to execute restructuring in 1992 and bring its status in line with the Law of RSFSR "On Enterprises and Entrepreneurship". **As a result, farmland** became the common ownership of citizens, each of which received a Land Title.

2001-
2002

- Federal Law "On Turnover of Agricultural Lands" of 24.07.2002 No 101-FZ (as amended). There were 18 amendments to the law.

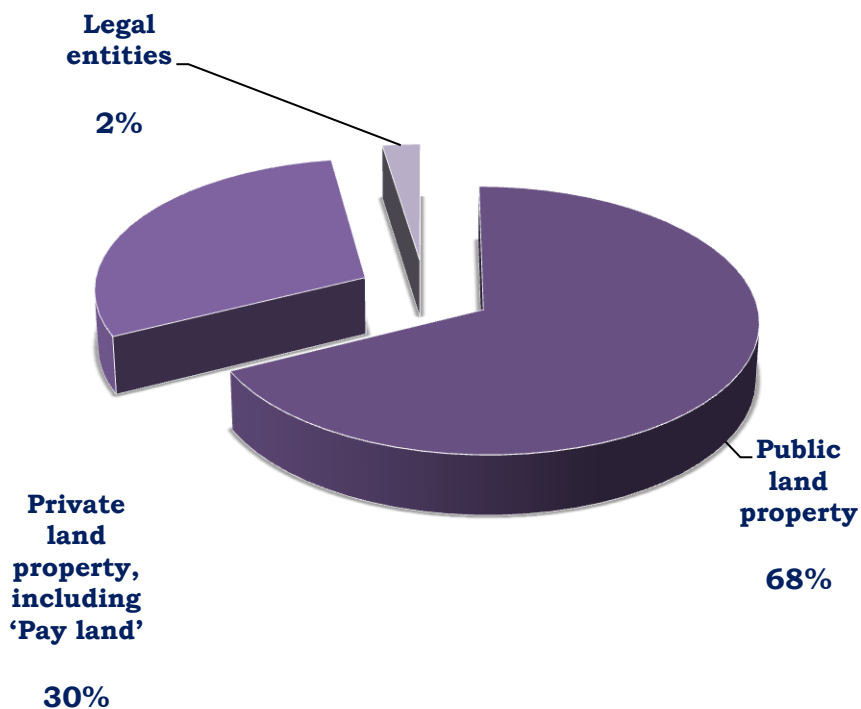
1.2. Forms of property rights on the lands



Type of right	Specifics
Land common ownership ('Pay land')	Restrictions on the purchase of land shares, the special subject structure. The high risks and the biggest time in transactions (from 9 months to 3 years). Has the lowest cost.
Unclaimed land common ownership	It will be performed procedure for the recognition the ownership rights of municipalities. After that will be done the conclusion of lease agreements and purchase. At present are used undocumented ("Gentleman's" agreement with the district administration).
Private land property	There are the priority rights to purchase for the subjects of the Federation by the sale of lands. It's necessary by transaction to obtain the rejection of the right of priority. For sale at market value. Low risk, fast time (from 2 till 4 months). Is necessary verification of rights, there are violations, according to which the transaction may be invalidated.
Public land property	There are the moratorium to the sale of lands in public ownership in many regions. There are benefits to buy after 3 years of rent (price - 15% of the market cost of land).

1.3. State registration of rights to land

(Data provided by Department of Agricultural RF, 2011)



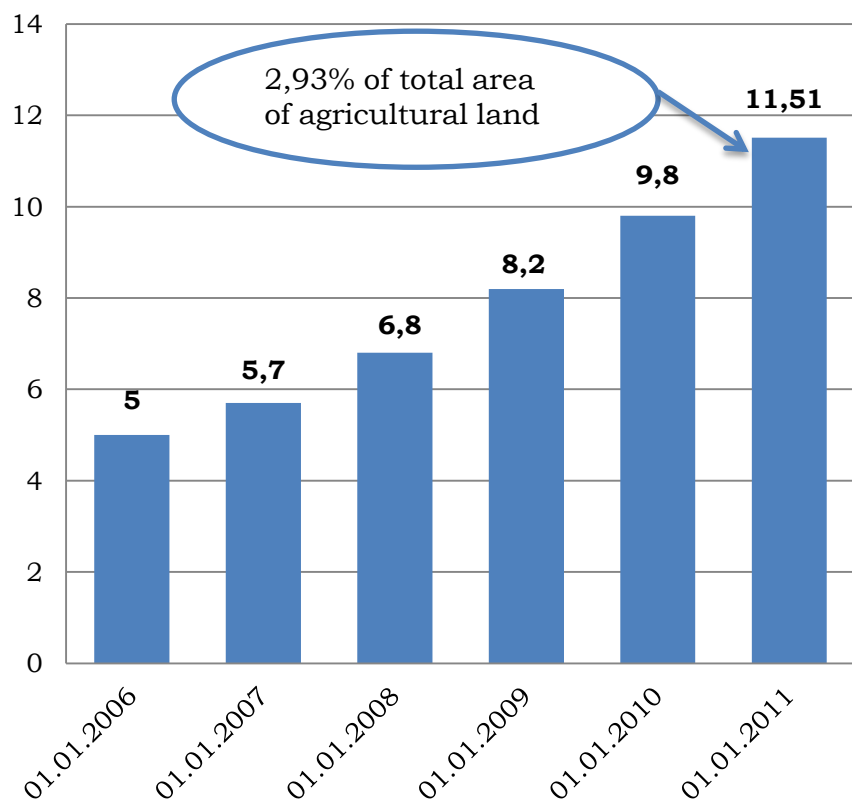
Type of property	Ml. ha	%
Public land property	270,7	67,7
Private land property, including 'Pay land'	119,5	29,9
Legal entities	9,8	2,4

1.4. Market of Agricultural Land: Structure (1/2)

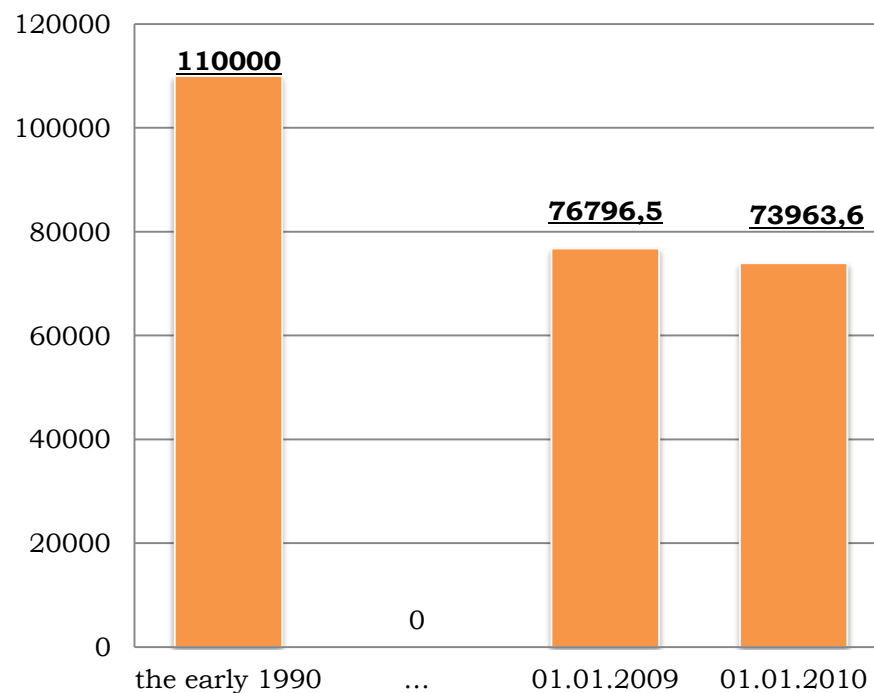
(Data provided by State Registration)



Dynamics for land owned by legal entities (ml ha)



'Pay land' owned by individuals, used by legal entities (th. ha)

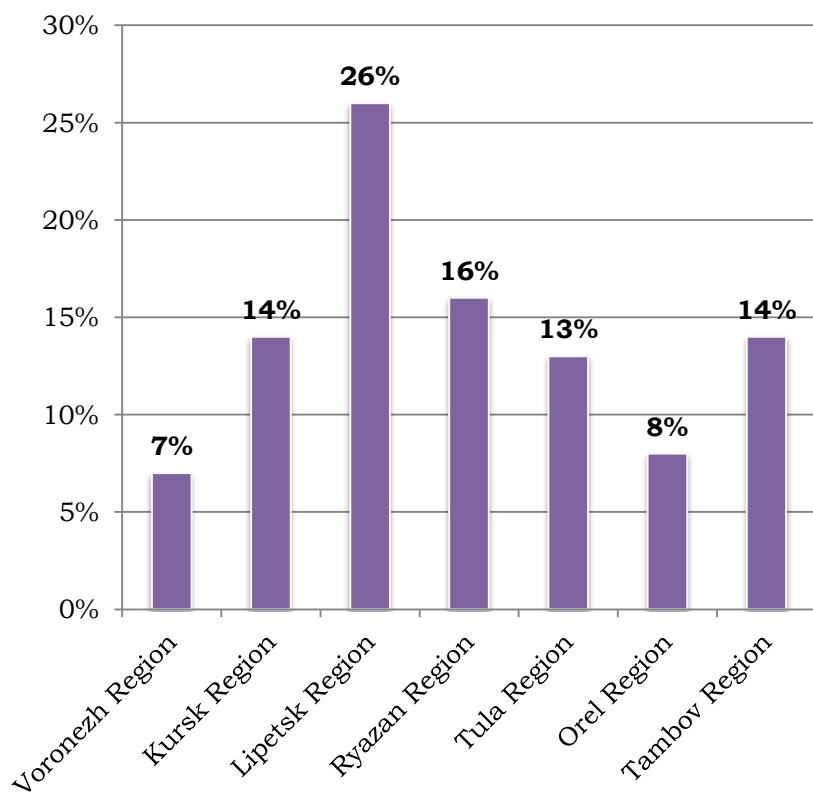


1.4. Market of Agricultural Land: Structure (2/2)

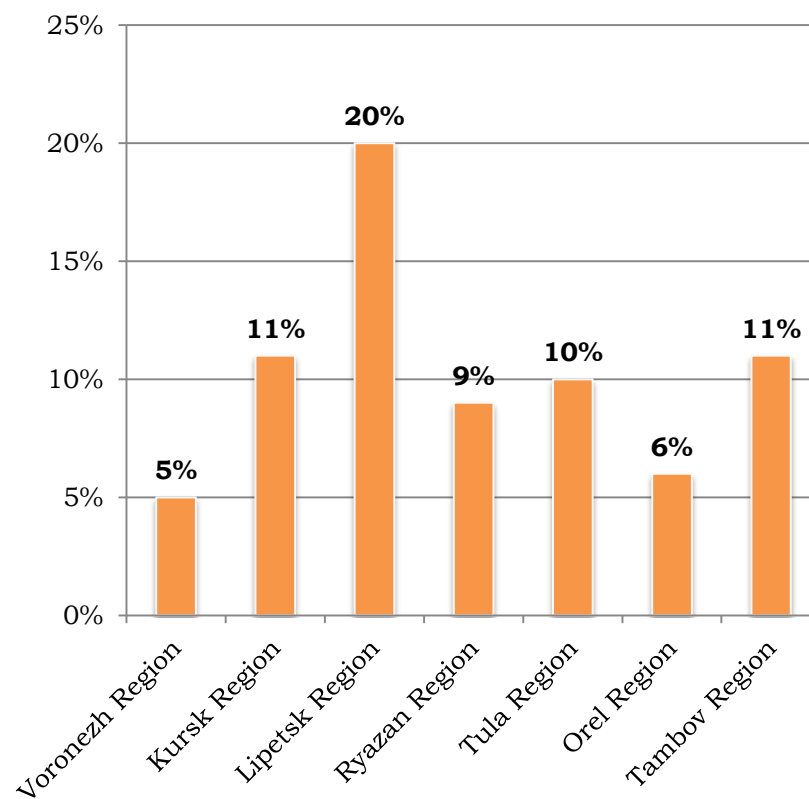
(Data provided by State Registration)



Land owned by legal entities of the total area of arable land (per cent)



Land owned by legal entities of the total area of agricultural land (per cent)



The price of land by region (euro/ha) taking into account the cost of legal registration



Region	Land common ownership ('Pay land')	Private land property	Public land property	The right of long-term lease
Kursk	160-200	375-500	Moratorium till 01.01.2020	100-160
Lipetsk	160-250	425-500	Moratorium till 01.01.2029	175-230
Belgorod	200-300	500	Based on the assessment. Market	225-250
Voronezh	160-250	440-500	20% of the cadastral value, after three years of rent	200-210
Tambov	150-250	290-450	Based on the assessment. Market	150
Ryazan	150-200	400	10% of the cadastral value, after three years of rent	135-150
Orel	110-180	375-425	Established by the Government of Orel region, but not below cadastral	75-175
Tula	135-160	360-425	Based on the assessment. Market	75-175
Penza	95-160	225-400	Based on the assessment. Market	90-130
Samara	95-160	225-400	Moratorium till 01.01.2015	110-120
Krasnodar	300-400	625-1400	Moratorium till 2051	225-250

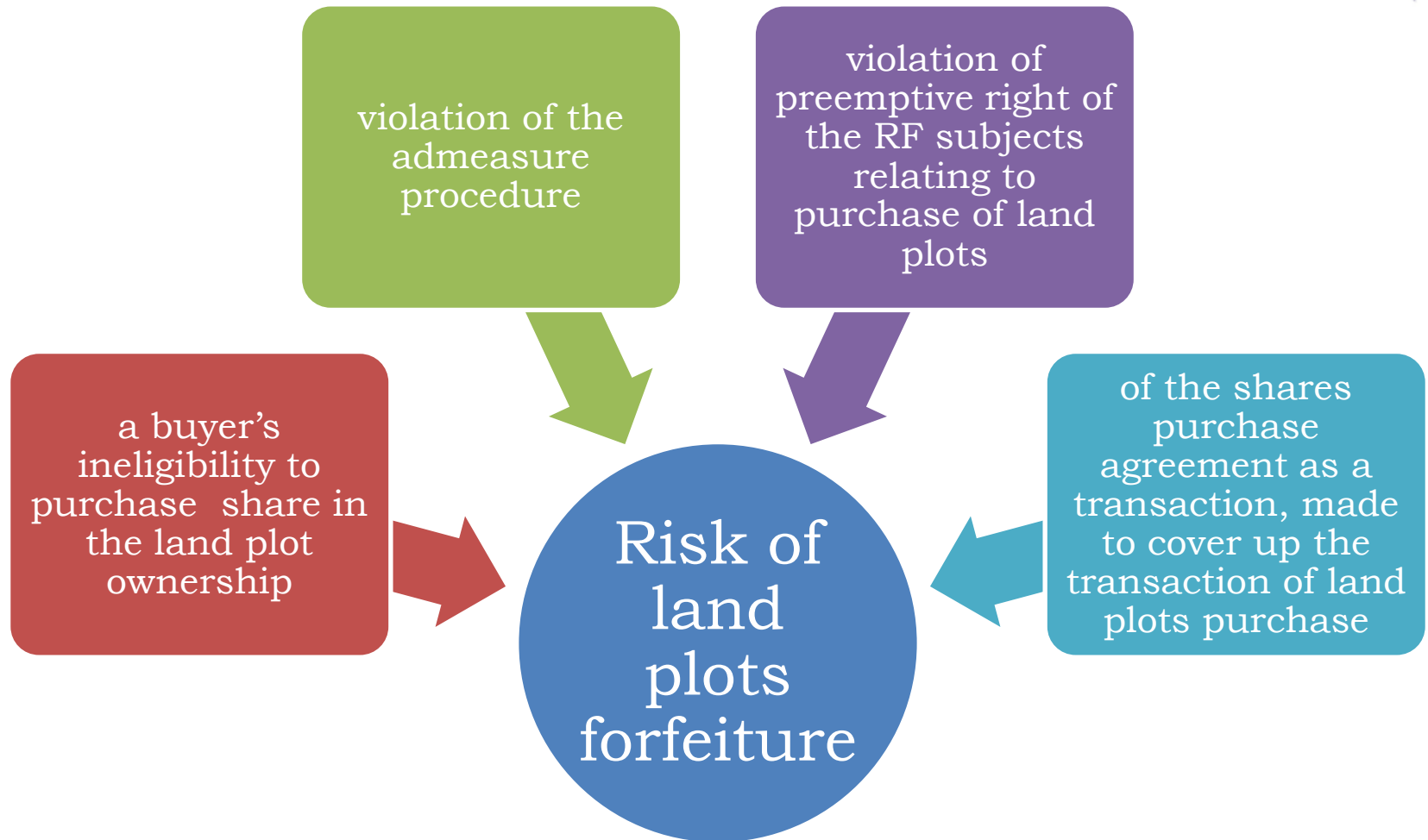
2. Legal aspects

2.1. Particular difficulties of land buyers



1. Risks of forfeit lease rights to land plots have increased.
Clause 5 Article 14 of the Federal Law 'On Turnover of Agricultural Lands'
2. High risks in the process of acquisition of 'Pay land'. Sources of risks:
 - ✓ restrictions on turnover of shares in common ownership to land plots
 - ✓ dishonesty of buyers
 - ✓ issue of regulations contradicting the federal legislation by the RF subjects authorities
 - ✓ a long list of rights enjoyed by local self-government bodies together with a minimum level of responsibilities
 - ✓ Lack of unified approach to enforcement of the Federal Law 'On Turnover of Agricultural Lands'
3. Difficulty in funding a list of ownership
4. Problems of cadastral registration. Cadastral plan of land plots includes a special note: 'A land plot boundary is not set or set in violation of the land law'

2.2. Land plots title. Key risks (1/2)



2.2. Land plots title. Key risks (2/2)



Risk of a lease agreement termination

- Regardless of a lessor status
- Not using of land plots
- Failure to pay rent more than twice at a stretch

Risk of a lease agreement rescission. Risk rent increase

- Land plots owned by state or municipal entity or state ownership to land plots is not separated:
- violation of procedure on making a lease agreement;
- violation of procedure on preparation and holding of trading for the right to make lease agreement;
- non-compliance of legislation of the RF subject with the RF legislation on determination of the rental amount
- Revision on the land plot cadastral value (cadastral revaluation can be conducted on an annual basis potentially)

Risk of declaration of a lease agreement as void

- Land plots owned by legal entities and individuals.
- The amount and order of rental payment are not approved (the amount of the rental payment is often determined as liabilities related to grain transfer, performance of particular works, ect. Meanwhile, the exact type of grain to be transferred in consideration for rental payment, is not specified)

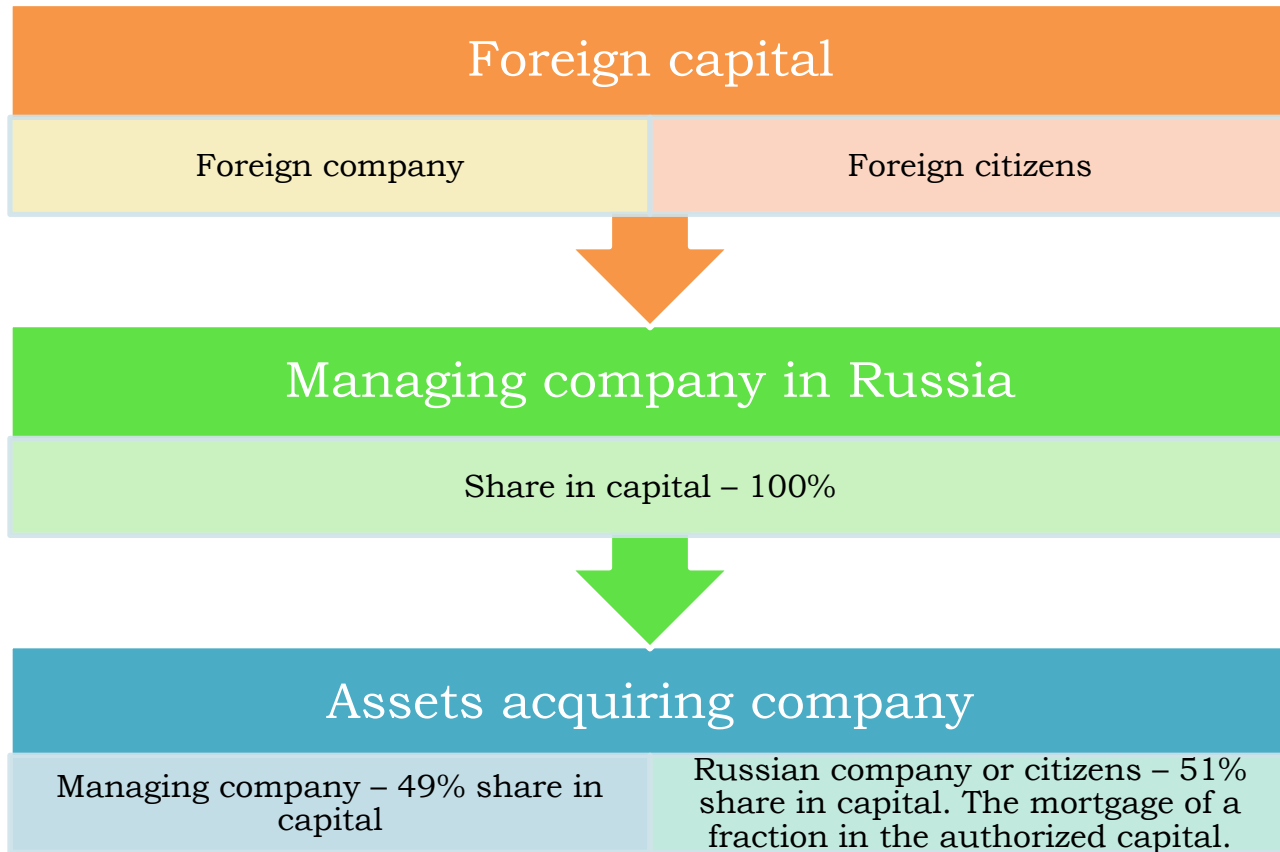
2.3. Legislative restrictions the turnover of lands



The following was enacted:

- 1) list of land plots not for privatisation;
- 2) ban on foreigners owning land plots (only lease allowed);
- 3) ban on changing targeted use of farmland without the agreement of state authorities of the Russian Federation;
- 4) prerogative right to acquire a land plot for state authorities of the Russian Federation;
- 5) prerogative right to acquire land plot by the participant of common ownership, agricultural enterprise or farmer;
- 6) cases of free or privileged state land privatisation;
- 7) size limits for land plots owned by one person;
- 8) minimum and maximum terms of lease;
- 9) details of land transactions (with or without permission of the state authorities);
- 10) reasons and procedure to withdraw idle land;
- 11) Procedure to allocate a land plot against a land share.

2.4. The scheme of Corporate structure which lets to acquire the rights to agricultural land



3. Taxation

3.1. The taxation system for agricultural tax



Organizations which are considered to be agricultural commodity producers have a right to apply a special taxation regime stipulated by the tax legislation of the Russian Federation- which is the taxation system for agricultural commodity producers with payment of common agricultural tax (hereinafter referred to as CAT). According to the tax code of the Russian Federation, those organizations are considered to be agricultural commodity producers whose income share from the realization of the produced by them agricultural products including the produce of its primary processing, produced by them from agricultural raw materials of own manufacture, makes 70%.

Category of tax payers – organization which come agricultural commodity producers. Tax rate – 6%. Tax base - Monetary value of income decreased in the amount of expenditures.

3.2. Profit tax.



Tax denomination	Tax payers	Tax rate, %	Tax base
Profit tax	Organizations which come agricultural commodity producers applying CAT	0	-
	Organizations which come agricultural commodity producers not using CAT *	2004 to 2012 – 0	Activity connected with realization of agricultural output produced by them, and also with realization of own agricultural output produced and recycled by this organization
	Organizations which are not agricultural commodity producers	0	Income obtained by Russian organizations as dividends (clause 284 Tax Code of Russian Federation)
		9	Income obtained by Russian organizations as dividends, which is not indicated when applying tax rate at 0
		15	Income obtained as dividends by foreign organizations from Russian organizations
		20	From all the incomings except those incomings which are liable to tax rate 0,9 and 15 %

3.3. Land tax. Tax base – cadastral valuation



Region	Tax rate, %	Cadastral valuation, euro/ha
Kursk	0,3	500-1500
Lipetsk	0,3	600-2000
Belgorod	0,3	500-2000
Voronezh	0,3	675-4330
Tambov	0,13 - 0,3	425-1200
Ryazan	0,1 - 0,35	225- 1160
Orel	0,16 - 0,3	80-1170
Tula	0,035-0,3	120-870
Penza	0,3	80-820
Samara	0,3	80-850
Krasnodar	0,04 – 0,3	200-2000



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Thank you for attention!

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