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**New Agricultural Operators
 (“agroholdings”) in Russia and Black Sea
 FSU:
 causes, current state, and future challenges**



Institute for Agricultural Market Studies

We are Moscow based private agbiz market intelligence company

Founded: August 1998

18+ employees

Revenues (2009): 12% founder, 15% government, 73% industry



For the second time during last century Russia challenges the organizational landscape of the world agriculture...

- 30's of 20's century: massive collectivization

- 00's of New Century: New Agricultural Operators (NAOs) or «agroholdings»...



“Agroholdings”

General context

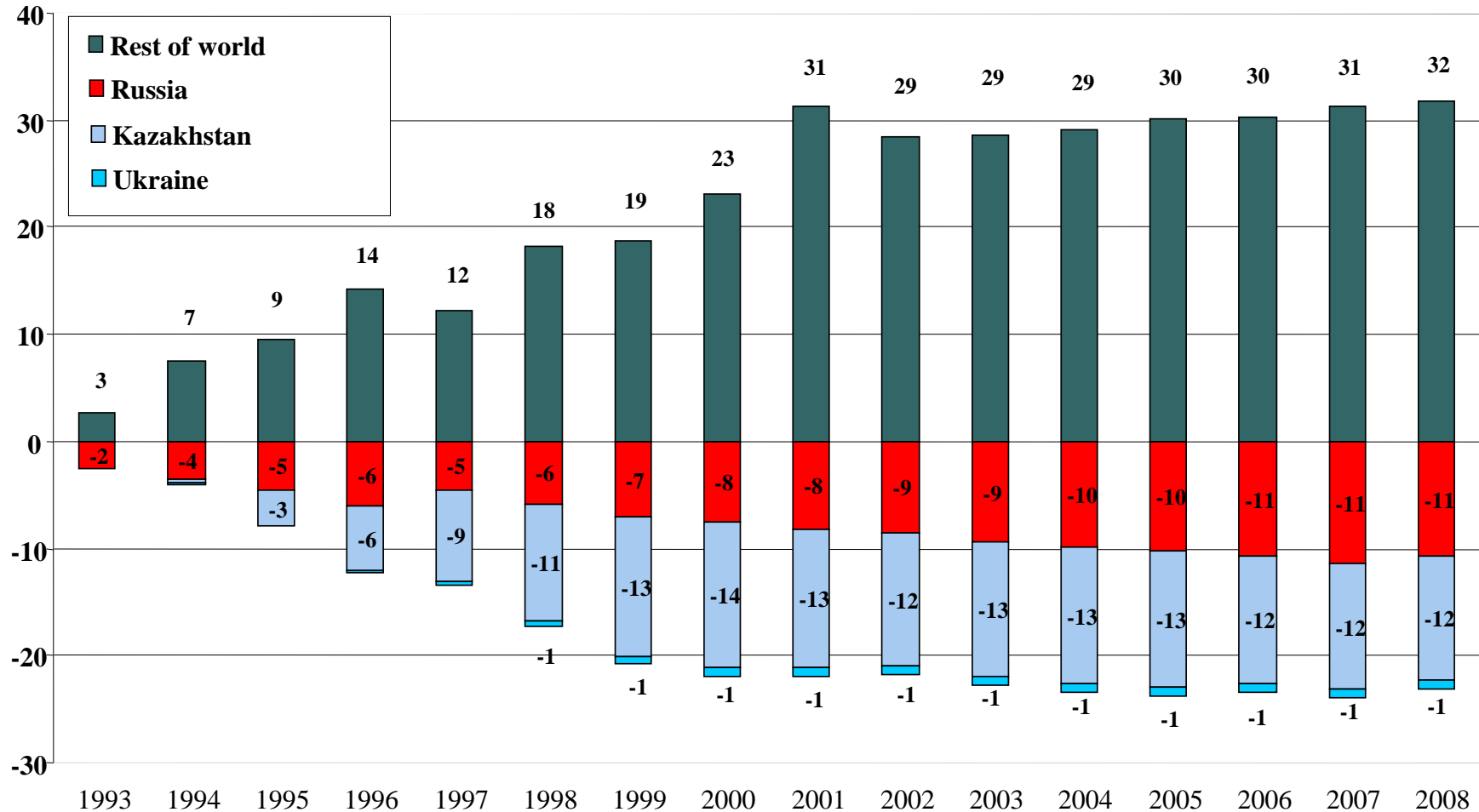
Why agroholdings

What we know about them

Future

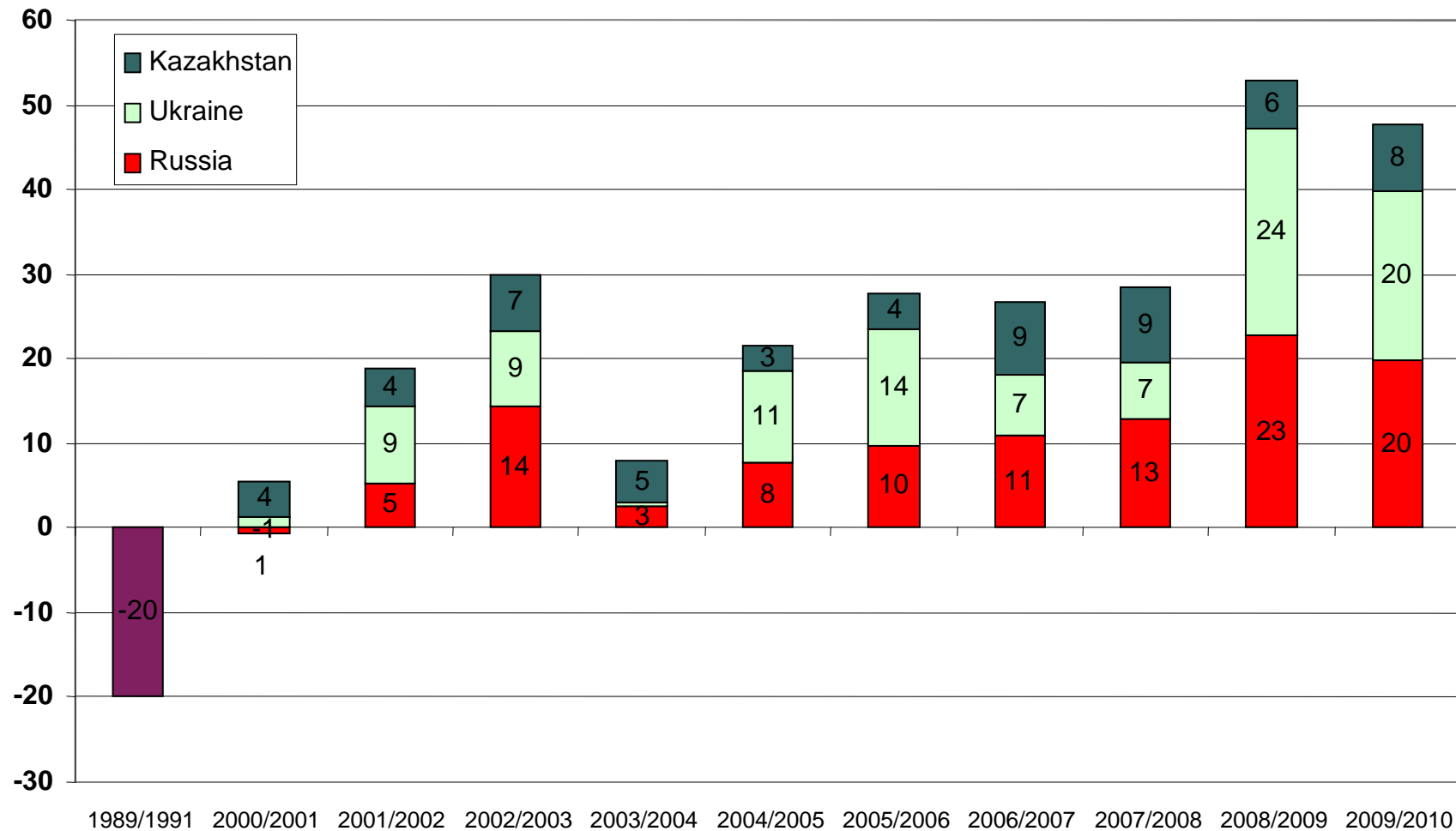
World gain and FSU Black Sea loss of arable land: 1992=100%

Mln Ha



Over last two decades the dramatic arable land shrinkage has taken place
In three FSU Black Sea countries...

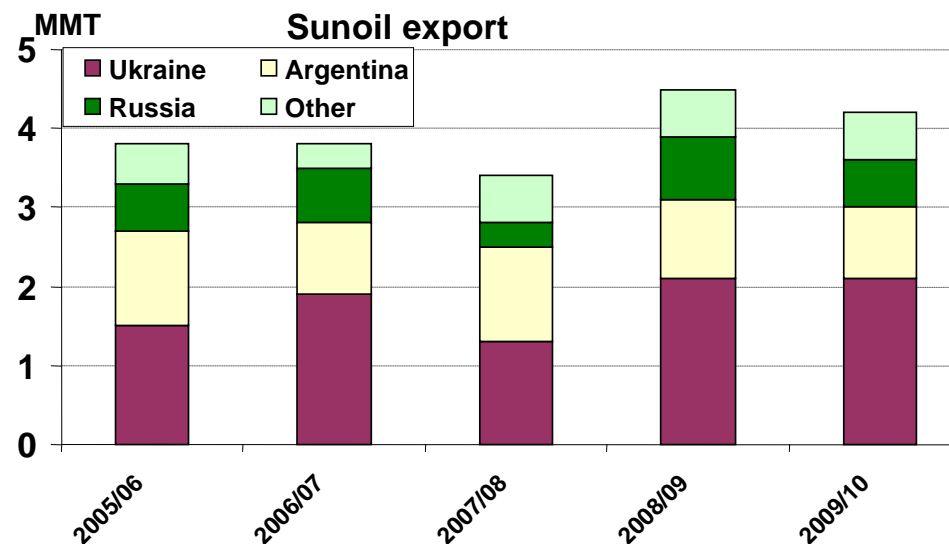
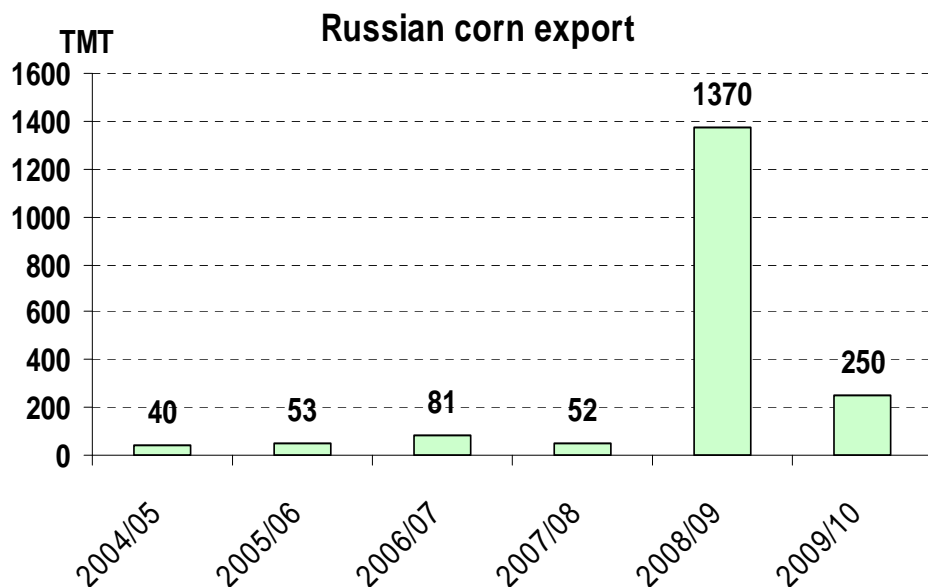
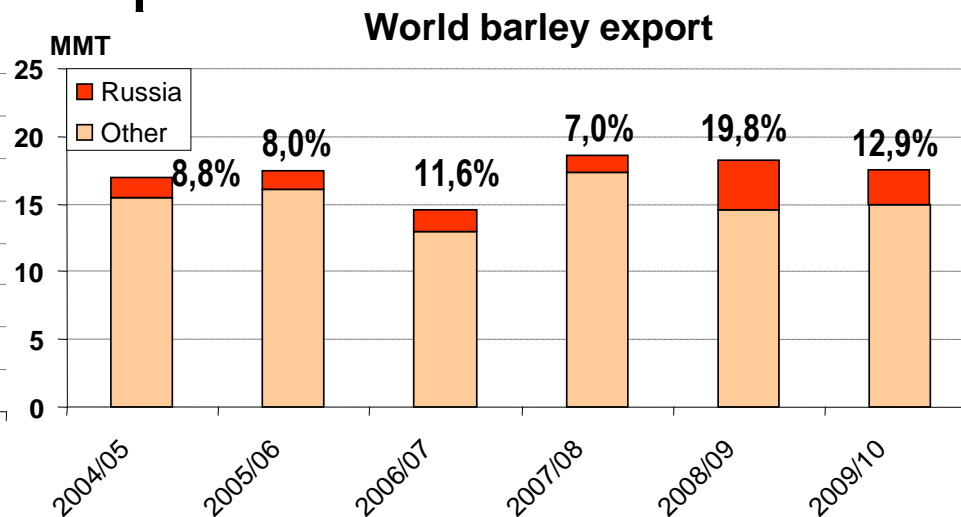
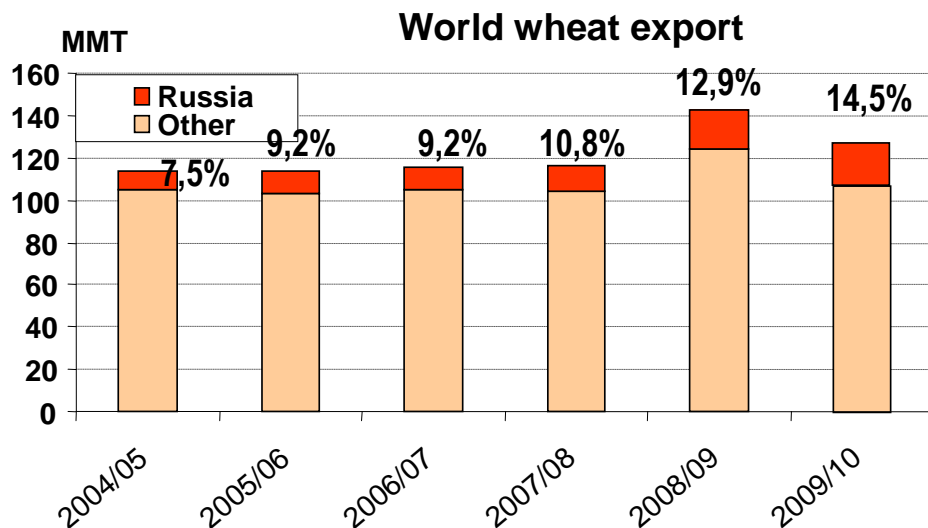
Net grain export from FSU Black Sea countries



...In parallel three FSU Black Sea nations have transited from being world biggest grain importer to the major grain exporting nations...



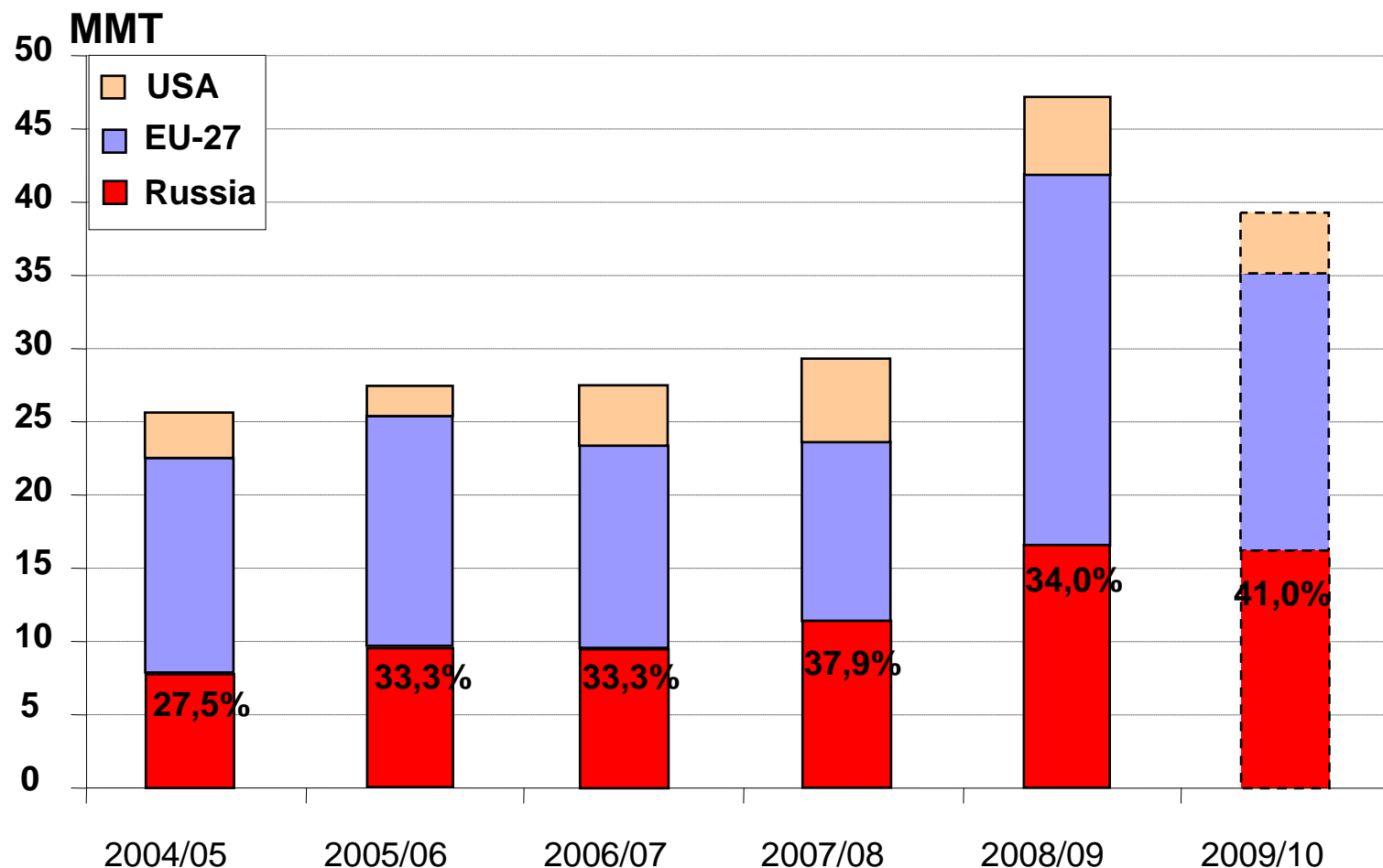
Shares of Russian grain & oilseed complex exports



The country has occupied strongest positions on the world wheat, barley, and sunoil export markets



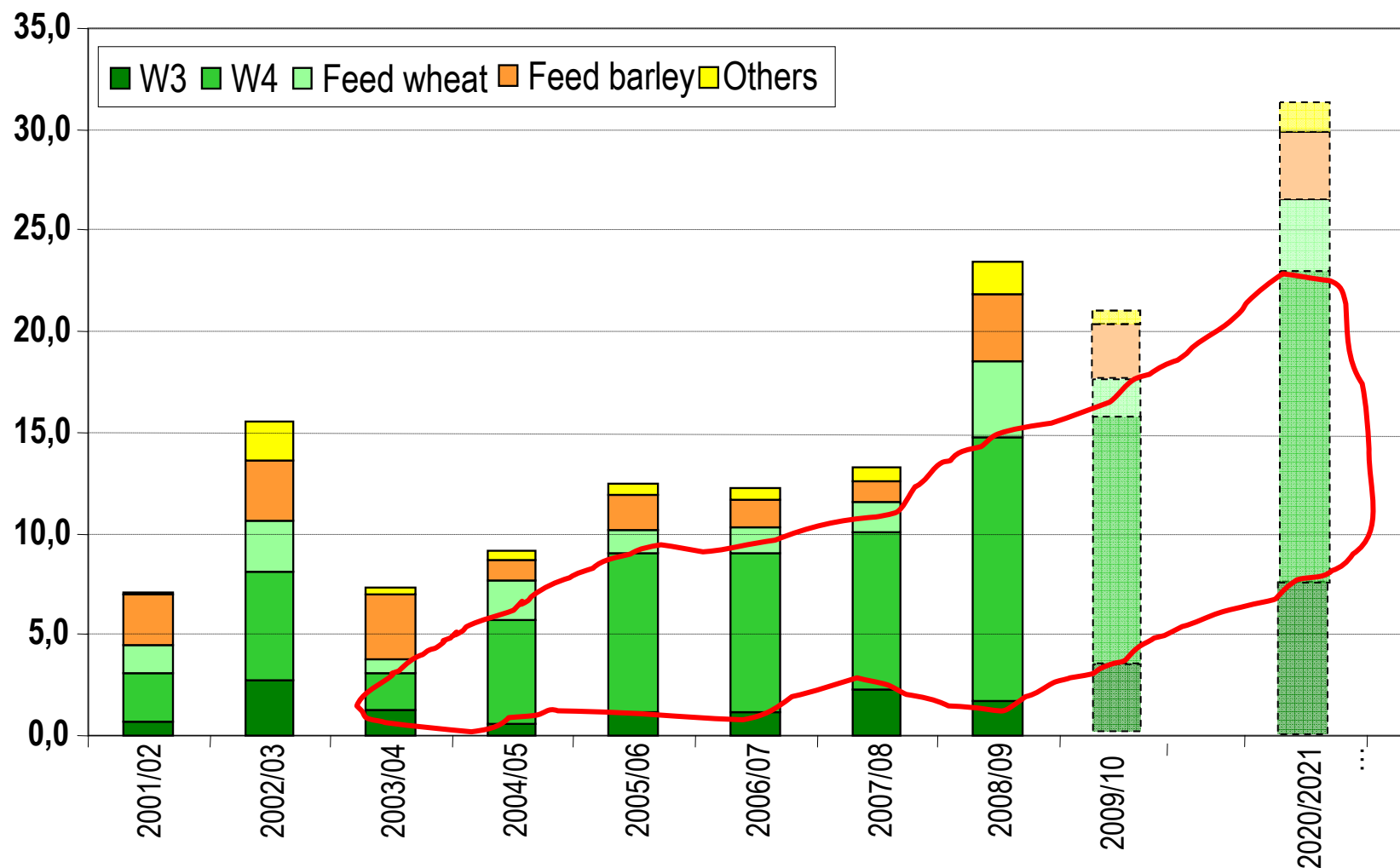
Russian's wheat share in our key export segment: winter milling (conditionally) soft red wheat world export markets



As wheat in reality is highly heterogenous commodity, our role in specific export market is even much stronger...



Type/Quality break-downs of Russian grain exports



Our key specialization: feeding developing countries of Middle East and North Africa with world's cheapest 11.5-12.5% protein milling wheat



The issue of «independent collective farm»





The issue of «independent collective farm»

- Lack of ownership and control
- Lack of efficient management
- Lack of legal and administrative protection

The issue of vertical supply chain

- Fragmentation and disappearance of traditional input and service institutions and supply channels to/from agriculture
- Absence/weakness of «rule of contract law», or simply wrong contract legislation
- Lack of commodity market price volatility protection
- Extremely) high open market transaction cost



«AGROHOLDINGS» as regional solution

**Combination of new organization of vertical supply chain
and**

new organization of farming



Our basic knowledge up-to-date

NAOs/agroholdings: mega-multi farming projects of mostly non-agricultural entities, which have entered primary ag production

Criteria:

- **Size**
- ***Active, but remote participation in management and control***
- **Value at risk in agriculture**



Our basic knowledge up-to-date

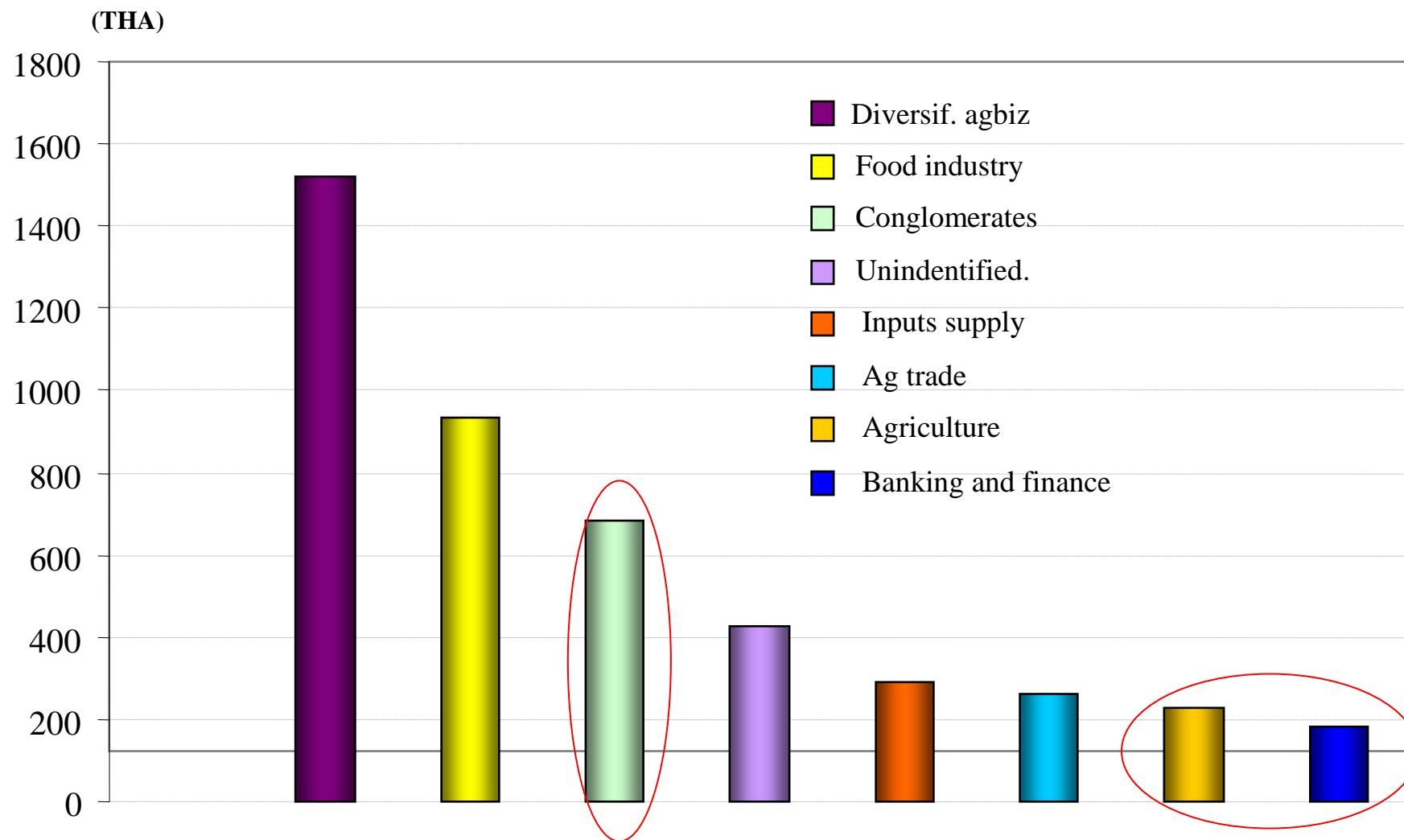
From Autumn 1999 (first publication) ongoing monitoring and updating data base

As of Autumn 2009: more than 200 private companies, which have captured 14500 THA of arable lands in Russia (out of 113000 THA total nominal Russian arable land and ~60 under key perennial crops)

Including 35+ companies with 100 THA and more...

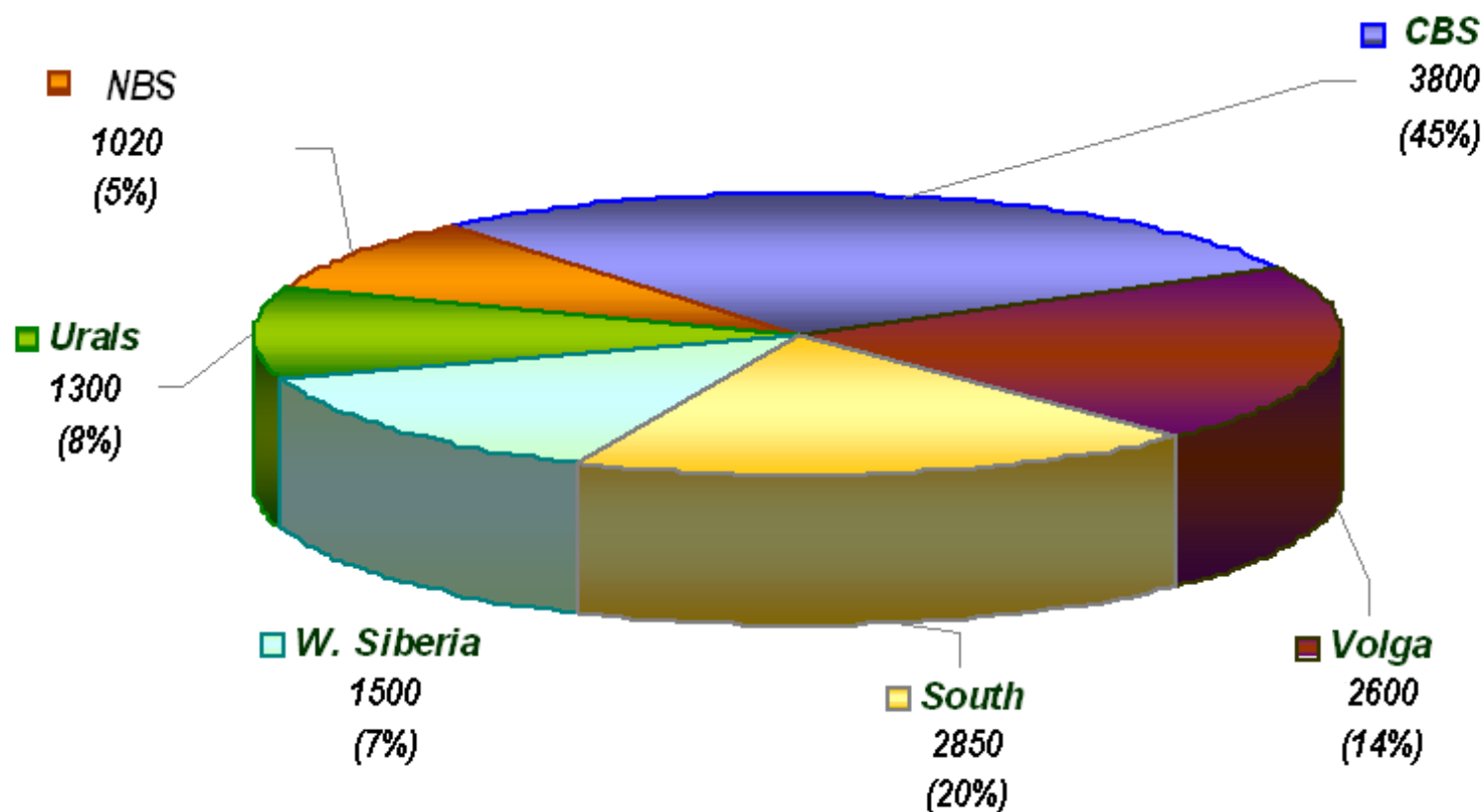


Who? Land distribution by nature of «mother company»



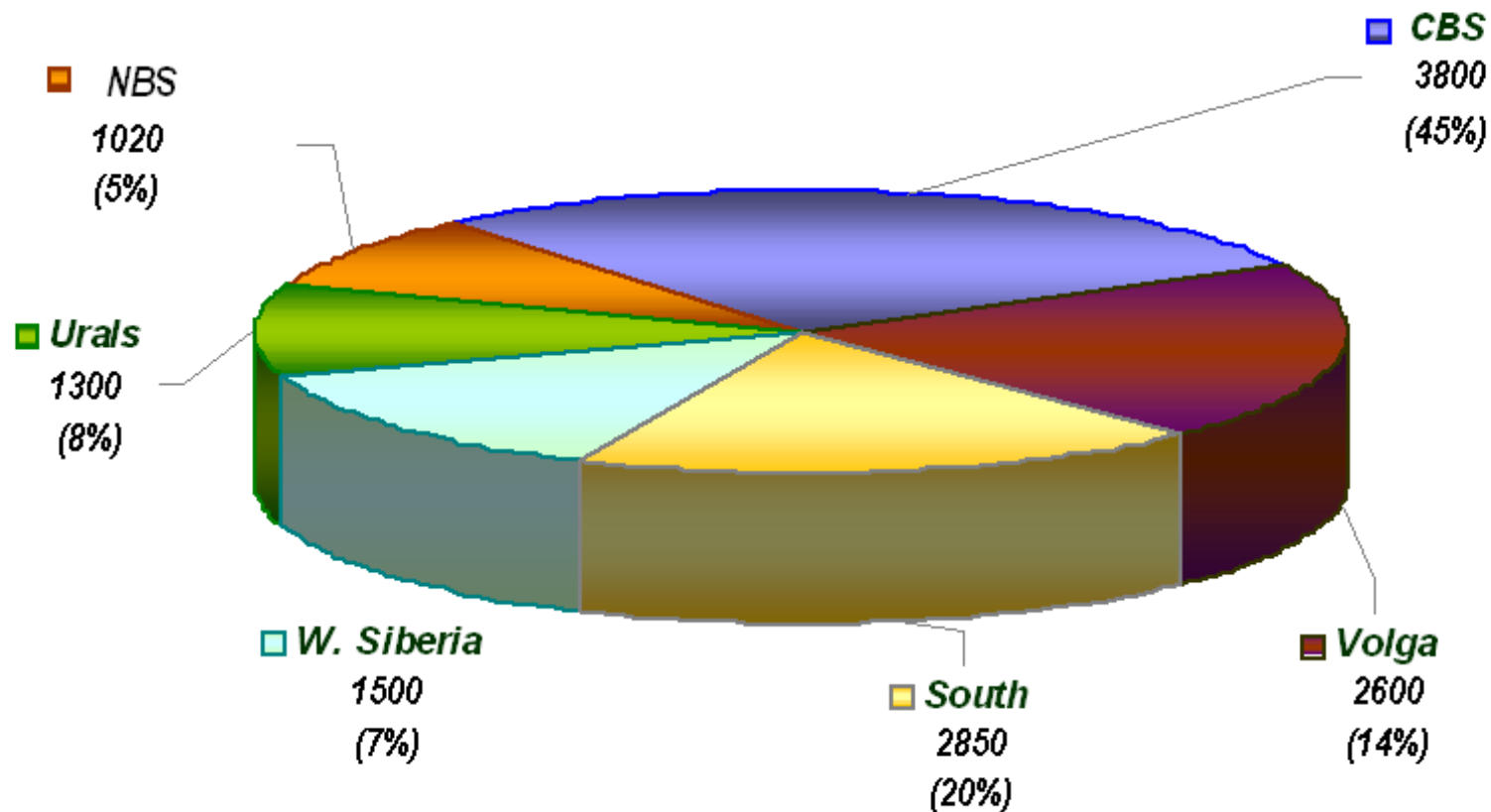


Estimated break-down of arable land under agroholdings' control by regions (THA and % of regional arable land)





Estimated break-down of arable land under agroholdings' control by regions (THA and % of regional arable land)



Why most fertile (South) and least fertile Siberia are least captured by agroholdings?



Individual company cases



Case of Bonduelle

2001: aim: “to process in Russia!”

2002: Krasnodar is the best place to grow raw materials. To process there

Custom harvesting insufficient

Production contract does not work

Full scale production on the long term leased land is the only realistic way to arrange the local raw material (corn and peas)

“Captured” 5 th ha farm in Krasnodar, brought full scale technology, trained and brought the labor, modernized irrigation system

In 2004 Bonduelle, global food processor, never ever involved into agriculture, found itself farming in Russia!



AgroTechGarant

Started in 90's as local (Voronezh region) distributor of agricultural chemicals for global agribusiness brands.

From late 90's: gradual acquisition of local independent collective farms (assets against debt payback arrears)

**00's: adding dealership of farm machinery;
growing farming portfolio (to 60 th. ha of arable lands
nowadays)**

Performance: much faster company economic growth than the sector growth; outpacing yields; questioning company's assets/liabilities...



Yug Rusi

Started in middle 90's as local (Rostov) grain trader

Late 90's: one of first grain export terminals in Delta of Don River

1999: huge investment into oilseed crushing and further processing facility in Rostov

2000: successfully lobbied 20% oilseeds export duty

From 2002: grabbing(mostly bankrupt) collective farms in Rostov, Krasnodar, Volgograd. Total arable land under control: 180 THA



Cherkizovo Group

Started in mid 90's as middle-size Moscow based pure animal meat protein importer and processor...

From the end of 90's: aggressive backward integration into poultry and swine operations against the background of becoming biggest domestic meat protein group

From middle 00's: further expansion into animal farming backed by government' National Priority Project. Successful IPO and SPOs, although questioning assets/liabilities

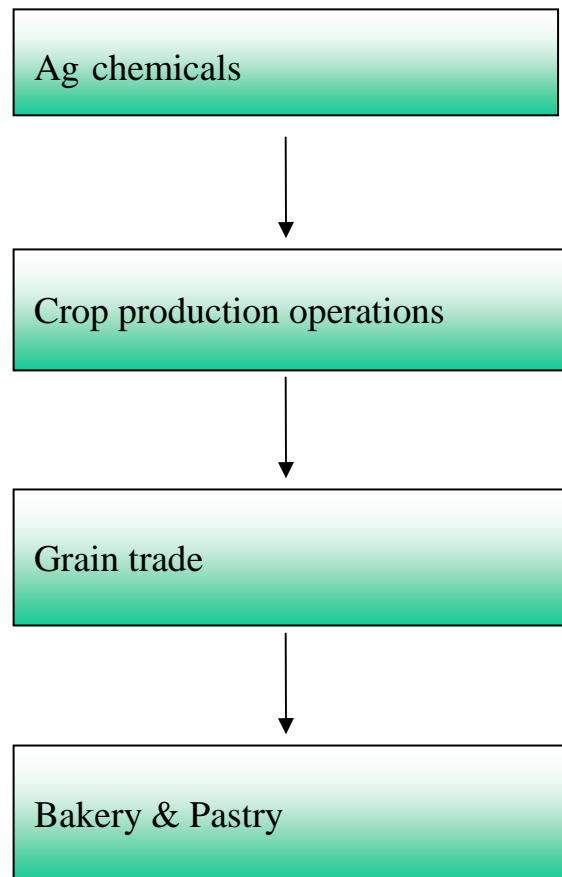
From 2007; aggressive expansion into crop production for origination of in-house feedstuffs, «land bank» formation of 300 th/ ha.

Currently: biggest investor into metal country grain storage elevators and dairy farming...

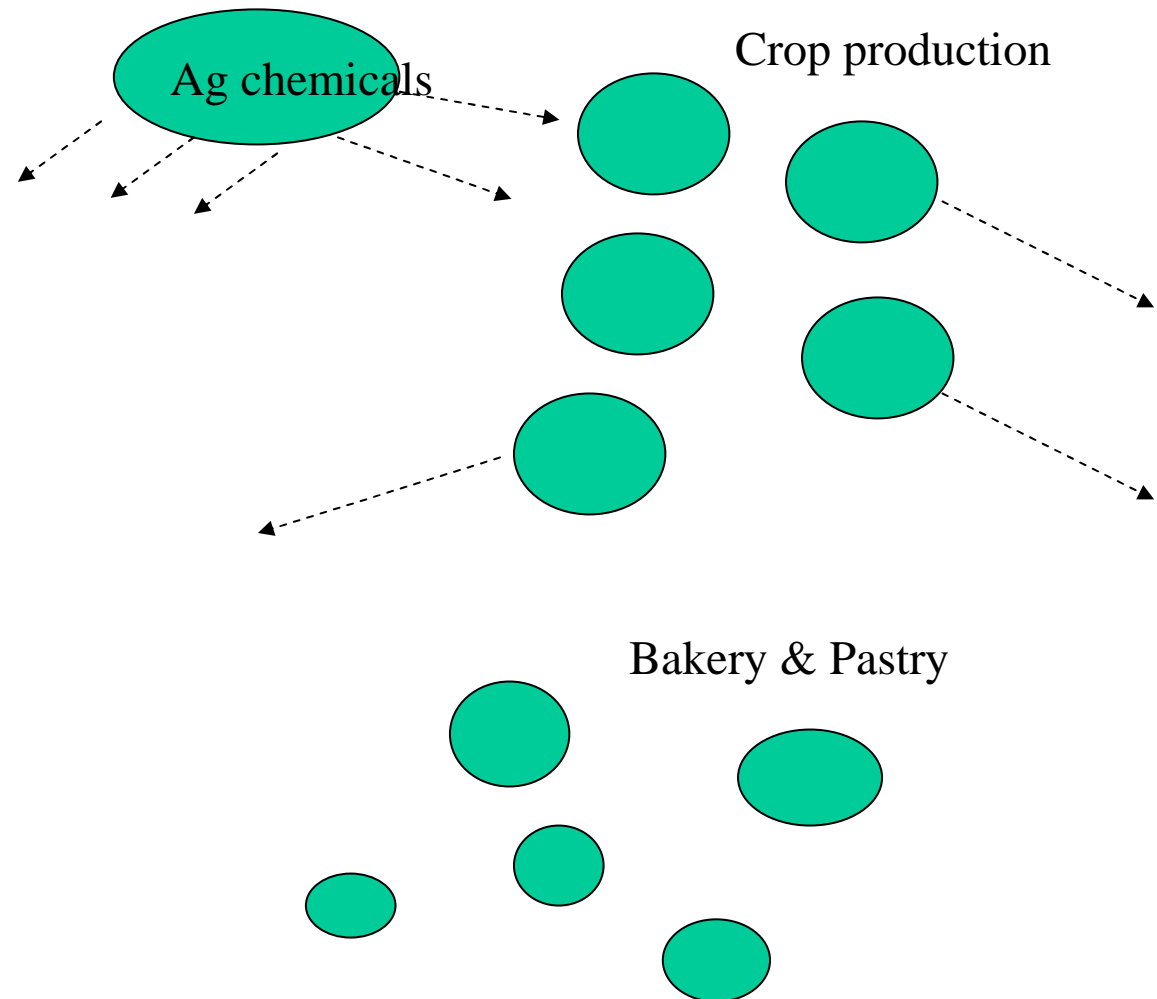


Case of SAHO: formal positioning and real assets structure: pseudo integration

Formal



Real structure





Agroholdings and «traditional» farming: what is the change?

- **Input supply: mega-deals**
- **Credit: new collateral mass**
- **(Super)Quick crop rotation swings**
- **Marketing: «in-house», or «captured» markets, or more professional approach to commodity sales**



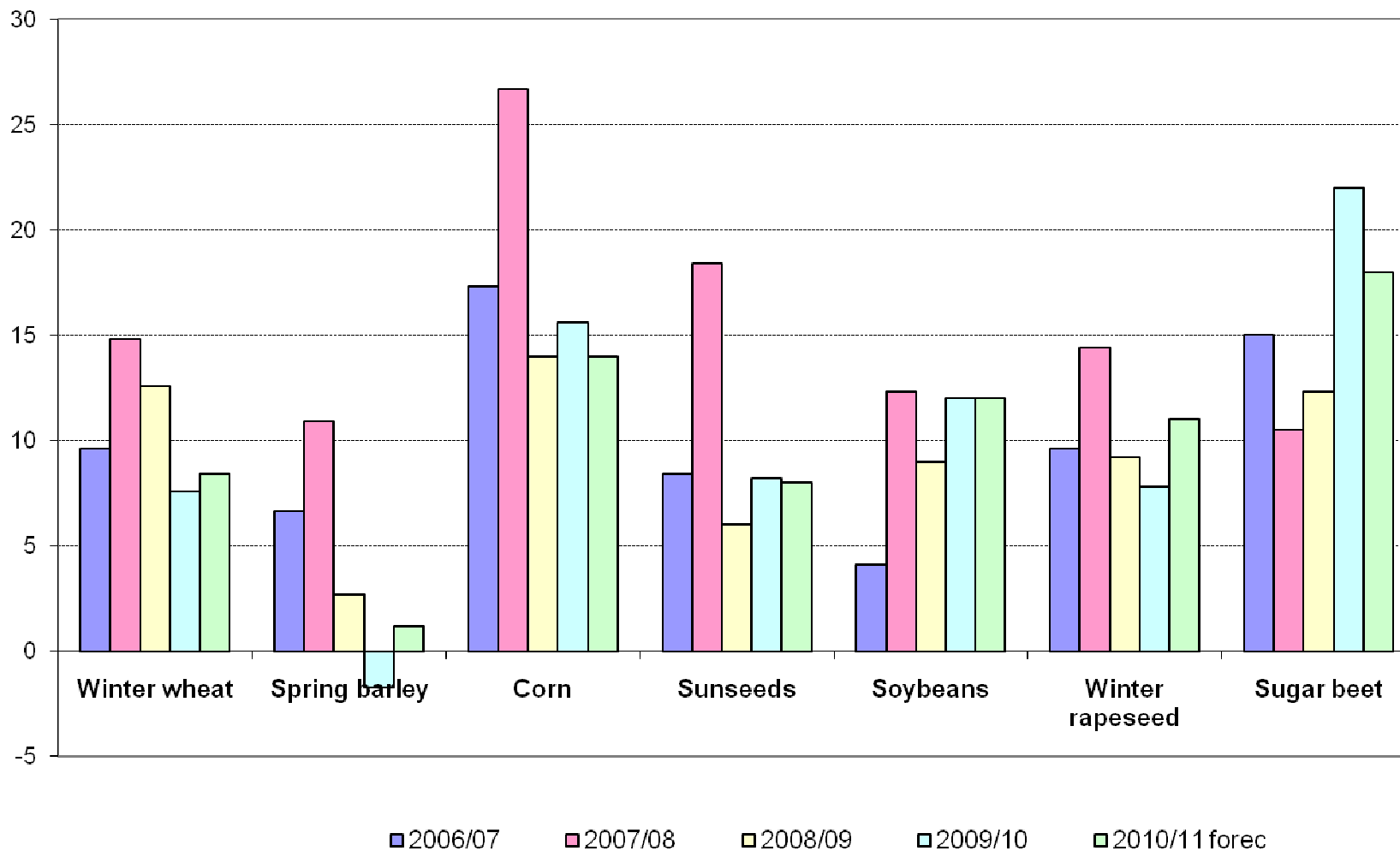
Agroholdings: aggressive “integration” into the state bureaucratic pyramid

Lobbying preferential conditions for domestic agriculture and agbiz

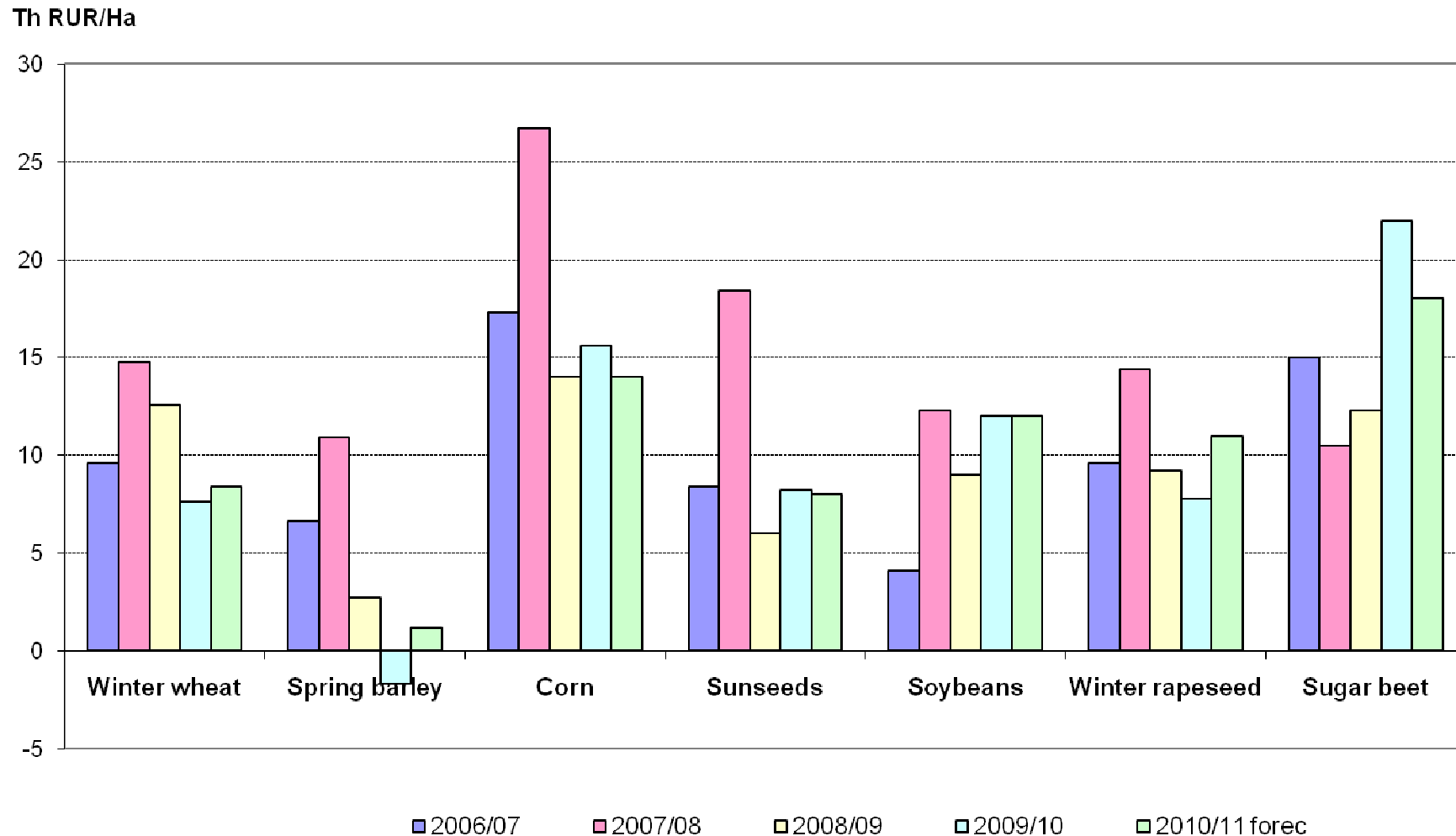
- Rice: from small 10% import duty to \$120 per ton
- Sugar: introduction of flexible rate raw sugar import tariff up to \$270 per ton
- Grains: Intervention fund and subsidized investment credits on farm, country and export elevators’ construction
- Meats: transfer from 0% to import TRQ incl. prohibitive over-quota tariffs

Evolution of domestic crop “margins”

Th RUR/Ha



Evolution of domestic crop “margins”



Agroholdings have generally evolved in spite of general and individual margin fluctuations...



Case of «Traditional» and «New» farming.

Stavropol, neighboring farms, winter wheat. June, 2009



2.3 tons/ha potential
yield

7.0 tons/ha potential
yield





Managerial issue

Why is the “family farm” in the rest of the world?

THE Rule of Agriculture. Perennial crops: predominance of “family farming” (mother nature and biology. Deviations: plantation crops, modern livestock and poultry operations!)

Agroholdings aggressively do against the “rule of agriculture”: massive invasion into perennial crop production!

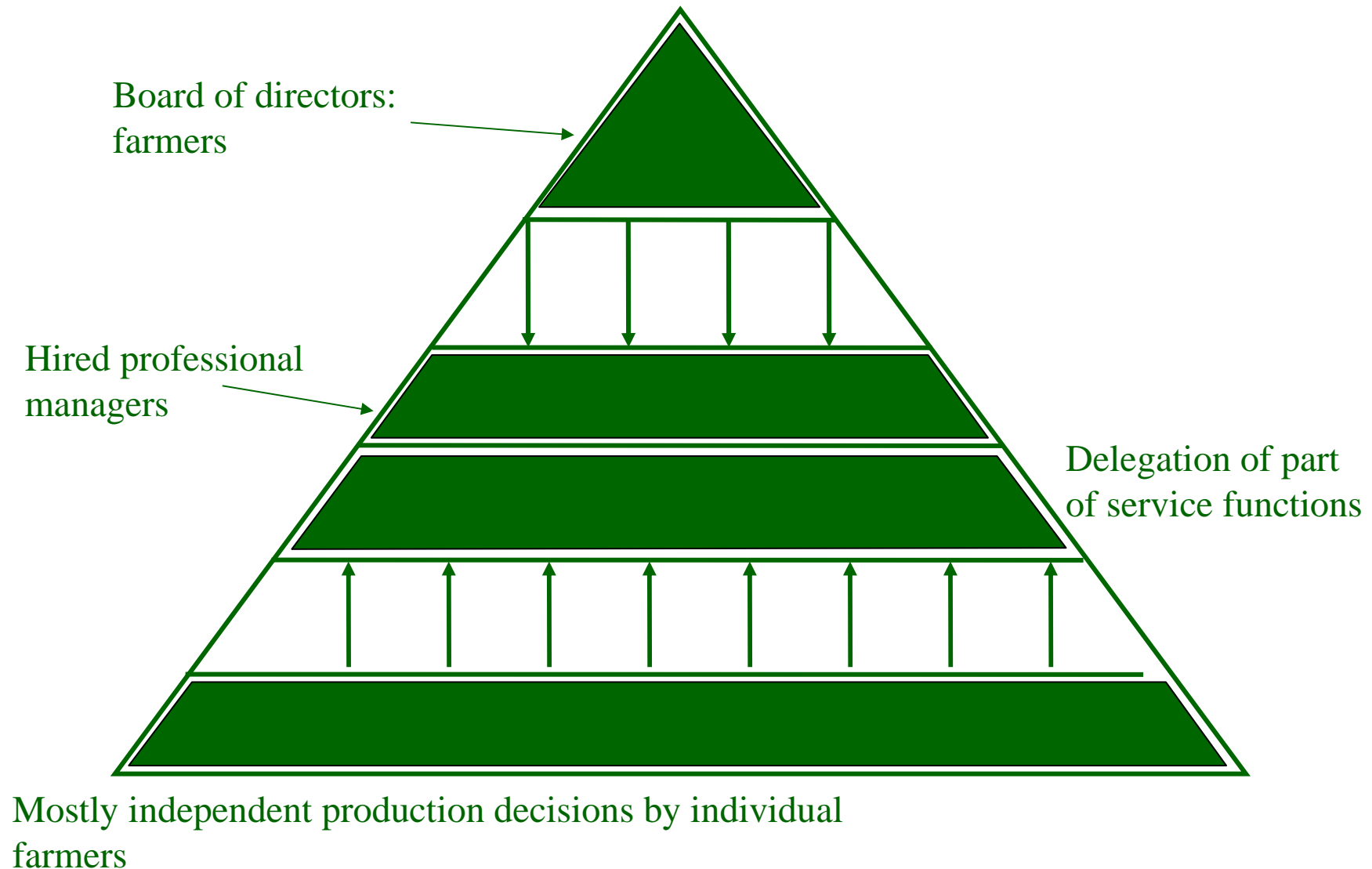


Management in agroholdings

**Creation of «reverse managerial pyramids»
and
highly hierarchical up-to-down decision
making pipelines**

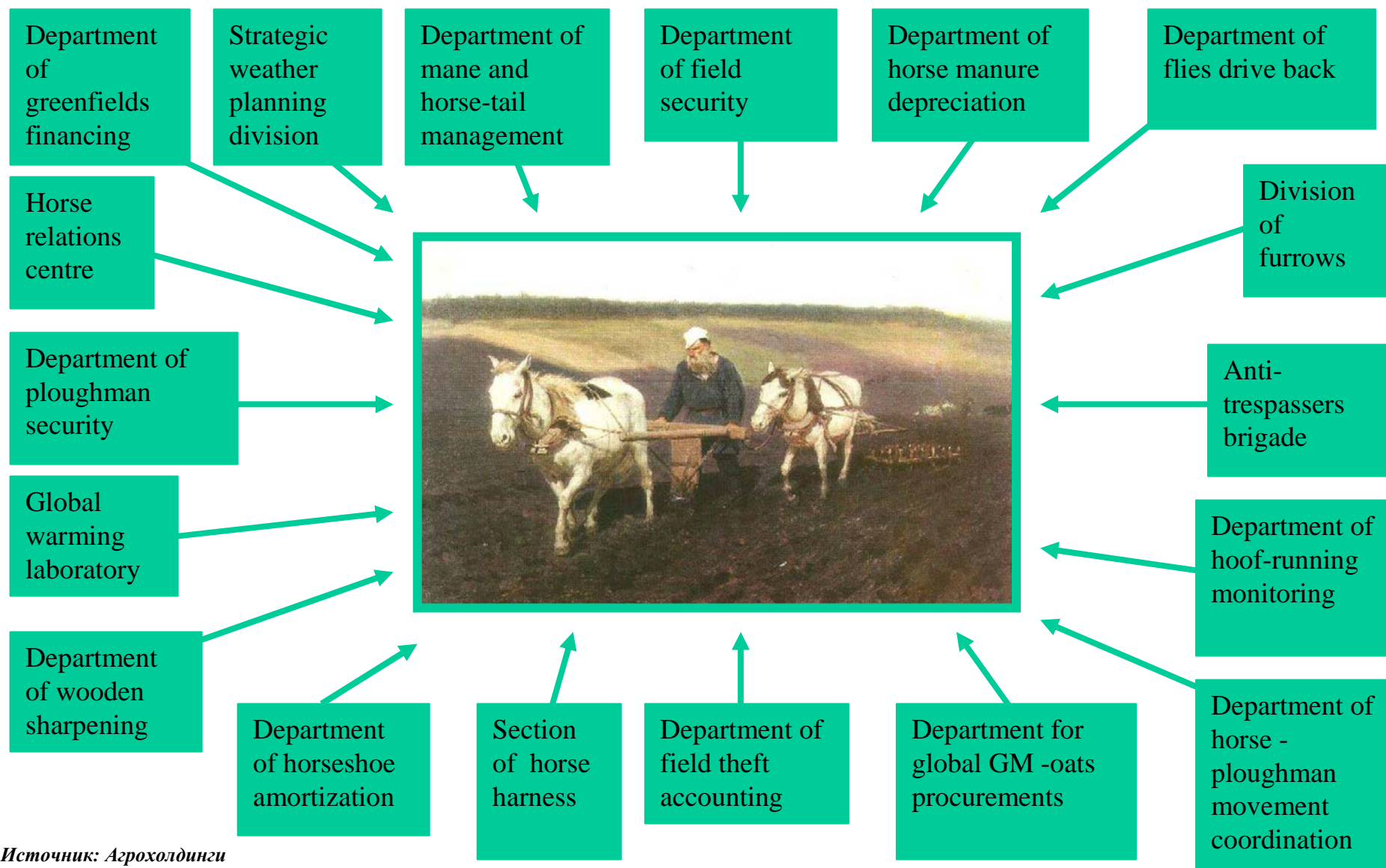


World analogies. Farmers' coops: «normal pyramid»





Agriholdings management: with sense of humor



Источник: Агрохолдинги

Agroholdings managerial dilemmas

«Protection»

New vision

New technologies

New collaterals

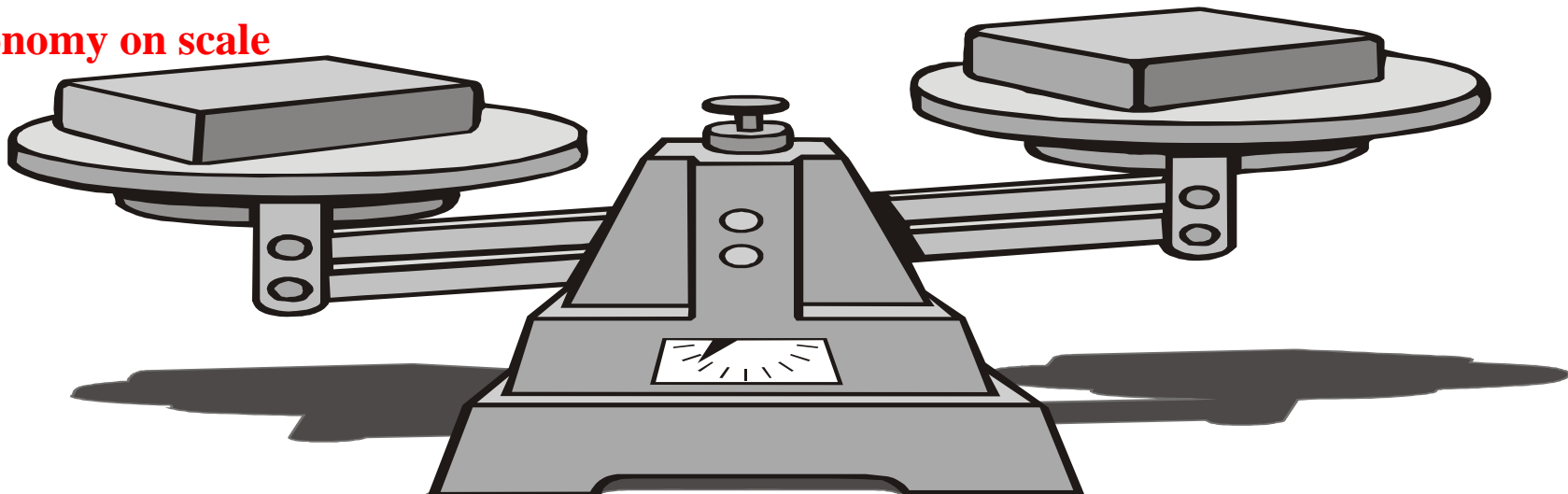
Economy on scale

Lack of ag experience

Discrete and chaotic DM

Reverse hierarchical management pyramid

Where/who is the “master”
Is there Perpetual
Stewardship?





What's next: regional context

Kazakhstan

20 companies “capture”
4/5 of the grain output

Russia

200 NAOs control 1/4 of
grain output

Ukraine

From second part of 00's
are growing fast!

Russia is not a unique story at all. The country is type of *in-transitional-between* of Kazakhstan (dominance of «agroholdings», and Ukraine (quick emergence of agroholdings))



Instead of conclusions. Agroholdings: preliminary observations

Our regional («Black Sea FSU countries»)’ agroholdings are really unique case (size/scope/industry focus)

Agroholdings as a way of speedy re-industrialization of domestic agriculture (to «quickatch» & expand much faster than «average» farming operation)

Long term technical and managerial efficiency of agroholdings is highly questionable

Agroholdings will continue to expand until they fully digest independent collective farms, until farm land is undervalued, until markets are not complete and efficient.



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