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Hyundai Heavy Ind. Tests Russian Investment



April 15, 2009

Robin Paxton and Miyoung Kim, *Reuters*

South Korea's Hyundai Heavy Industries has acquired a farm in the Russian Far East, a purchase that could test the water for further Asian investment in Russia's burgeoning agriculture sector. Hyundai Heavy, also the world's largest shipbuilder, has agreed to pay \$6.5 million for a 67.6 percent stake in Khorol Zerno LLC, which operates a 10,000-hectare farm growing maize and soybeans near Vladivostok.

Hyundai said in a statement it will invest \$9 million more to raise this area fivefold by 2012. It plans to grow 60,000 tonnes of maize and beans annually by 2014, becoming a stable supplier to South Korea, the world's No. 3 maize importer.

"It's a modest project, but it's an investigation into whether it's worthwhile to develop projects on a much larger scale," said Dmitry Rylko, general director of the Moscow-based Institute for Agricultural Market Studies (IKAR).

"The Russian Far East would seem to be a natural place for foreign investment from neighbouring countries: Japan, Korea and China," he told Reuters.

Russia, the world's No. 5 grain grower, last year harvested its biggest crop in nearly two decades. Maize exports in the current season have reached about 750,000 tonnes -- 10 times higher than the previous record high, IKAR said.

South Korea, which depends almost completely on imported grain, has sought to develop overseas farmland to boost food security after grain prices rallied to record highs last year.

"We expect to help Korean livestock farms by freeing them up from sudden price changes and supply shortages," Hyundai Heavy said in the statement, adding the deal was part of its strategy to diversify its business into food and renewable energy.

FAILED ATTEMPT

South Korea's biggest feed maker, Nonghyup Feed, and trading firm Daewoo Logistics agreed last year to jointly develop a 20,000-hectare maize farm in Indonesia starting from this year.

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But recent attempts to secure overseas farmland have not all been successful. A separate project by Daewoo to lease over 1 million hectares in Madagascar, an area larger than Qatar, hit a snag last month when the country's new leader scrapped the deal.

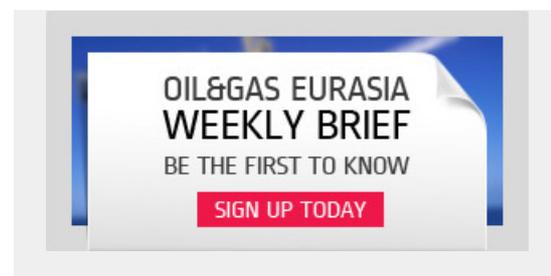
Daewoo's long-term aim was to replace more than half the maize that South Korea imports. In 2008, South Korea imported 8.7 million tonnes, mainly for animal feed. Foreign and local companies have bought large tracts of arable land in Russia at relatively low prices, encouraged by a government keen to resuscitate a sector crippled by the legacy of collectivisation and a decade of post-Soviet neglect.

Stockholm-listed Black Earth Farming and Heartland Farms, run by two Englishmen, are among those firms to cultivate Russian land. But almost all this investment has been in the European part of Russia, where the vast majority of the country's grain is grown.

Hyundai said it would station staff permanently at the farm in the Khorol region, which operates a crop rotation system to minimise fertiliser use.

IKAR's Rylko said the lack of a dedicated grain export terminal in the Russian Far East --

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