AG Chat
Episode Four, Part One
Guest: George Rohr, NCH Capital

George, let's start with a little background. NCH is not only among the largest Western investors of institutional capital in farmland and agri-business related assets in Russia and Eastern Europe today, but it is also one of the earliest—going back as far as just after the collapse of the Soviet Union. What initially attracted you to the region as an investment target?

George: Well, Marc, the attraction was the same then as it is now: There is a massive shortage of capital that prevails across asset classes and across the geography and across eleven time zones.

When the Soviet Union fell, the State ceased to be a participant in so many parts of economic life. There had to be massive restructuring put through in a very compressed time period. What we realized very early on was that at least with respect to private ownership of capital, within short order the genie was out of the bottle and it was pretty clear that there was going to be no going back to the former State-controlled system.

That being the case, we looked at decades ahead of us of privatization activity, of economic reform activity where a tremendous amount of capital had to come both from domestic but very importantly from international investors to bring the economy up to its potential. That theme has prevailed across asset classes and, most notably and most recently, in agri-business as the governments and the regions have looked at their tremendous potential of agricultural wealth as a

source of economic stability and well-being. We are looking for thoughtful and far-reaching ways to bring some of the most productive farmland in the world back into productive capacity.

I mentioned in my initial opening question that NCH is among the largest western investors of institutional capital in Russia and Eastern Europe today. Can you give us an idea, George, of the scale, the scope and the nature of your current portfolio in the region? And perhaps outline the strategy and execution behind it.

George: Sure, Marc. We, at present, have about $1.4 billion of equity dedicated to farmland and agri-business opportunities in the region, exclusively focused on Eastern Europe and the former Soviet Union. We operate through eight offices on the ground throughout the region, which are wholly-owned by us. Over 200 colleagues work full time with us in those eight offices. That headcount does not include, obviously, the staffs of the operating companies that acquire and manage and develop our farming properties.

The main focus really has been Ukraine and Russia, although we have been and continue to be active in Romania and Bulgaria and Kazakhstan and Moldova with somewhat different strategies. In Ukraine and Russia, where our core business is focused, we are acquiring farmland that is in the Black Earth Region of both countries, which is blessed with some of the most fertile farmland in the world and which, before the time of the Bolshevik Revolution, was the bread basket of all of Europe. Then came the Communist Era and then came—20 years after the collapse of the Soviet Union—underinvestment in farming and farmland. So, we are really not yet at the bottom of the first inning in the process of them bringing that farmland back into production.

At present, to give you an idea of the scope of our operations, we have under our management about 450,000 hectares of farmland in Ukraine. A hectare, as you know, is 2.4 acres roughly. Approximately by the time the year is over, we will have approximately 250,000 hectares under our management in Russia.

When you talk about acquiring land, can you give our listeners an idea of the acquisition model that you're using? Are you buying it? Are you leasing it?

George: That's actually a really important question because for us as investors, as we continue to roll out our strategy, that represents a major structural barrier to new entrants in the field.

The process of aggregating farmland is extremely laborious. To answer part of your question directly, in Ukraine we are leasing farmland on the basis of long-term leases—roughly 15-20-year leases. There is currently a moratorium on the further sale of farmland by the farmers who had the exclusive right to buy the farmland from the Ukrainian Government in the first wave of privatization. The expectation is that the moratorium will be lifted in the next several years. Our leases give us the right to buy the farmland, if we choose to, when the moratorium is lifted. In the case of Russia and our other markets, we are actually acquiring the farmland outright.

The process itself is, I think, unique anywhere in the world in that in both countries the farmland was privatized in very small lots of two to five to six hectares in each case, with only the farmer who was working the land having the right to be the initial purchaser of it. The expectation was that, as a result of that, the dynamic and entrepreneurial agri-business sector would develop.

Structurally, though, what these farmers face is a terrible problem in that they themselves don't have capital to invest. There is nothing in the way of farmland lending available in these countries yet or farming lending. Working capital financing is simply not available.

In addition to that, even if they did have capital available for the development of their properties, it wouldn't help them because they don't have the scale. A few hectares is simply too small to bring economies of scale to bear. So, unless some log jam could be broken, these farmers were doomed to continue simply doing subsistence farming.

So, where we and where investors like us come in is to provide the capital necessary to aggregate vast tracts of farmland so that you can then bring scale to bear—economic farming units of 6-7,000 hectares, which then enable you to bring modern, large-scale farming to the particular situation.

So, to give you an idea so that you have a flavor of this, in our very first farm in Ukraine, which we aggregated going back to 2006, we took a very large collection of these small farms, again 2-5-6 hectares, and created an 11,000-hectare economic farming unit. This took 53,000 pages of documentation to get done in order to have everything properly registered and in order for proper legal title to be filed.

Each one of these plots has its own lease. The terms of the lease are the same across the board so that way we can really manage it as one economic farming unit. So, once we aggregate such a farm, then we bring our management teams and our farming equipment and state-of-the-art seeding and harvesting techniques.

From the beginning, we've insisted on bringing the highest level of sustainable farming practices to these farms. This is an extremely local business, so depending on weather conditions, depending on circumstances on the ground, it can take between three and five years to stabilize a particular farming operation and bring the soil and the operations back to its former very high productive capacity. And that's what we've been doing.

On that note, we'll conclude Part One of our "AG Chat" interview with George Rohr, Co-Founder and President of NCH Capital.

Please tune in for Part Two, where we will go into a little bit more of the specifics on capital investment in Eastern Europe and what is entailed today.

I'm Marc Dresner and thanks for joining us!