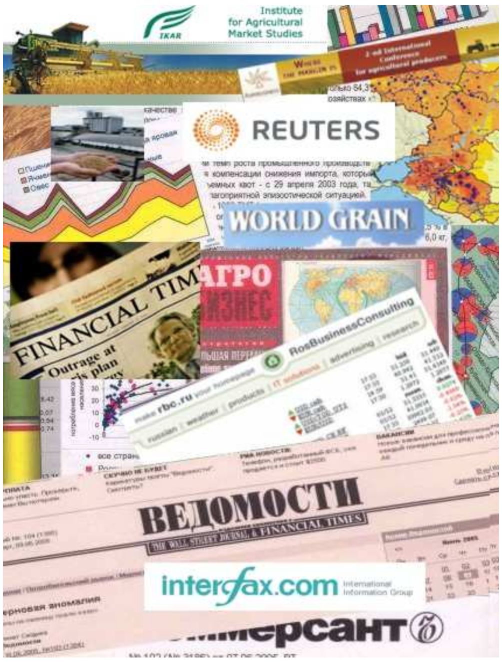
Dmitri Rylko

Russian New Agricultural Operators (Agroholdings): Emergence, Performance, and Impact on the Domestic and World Agriculture and Agribusiness

We are private Moscow-based agricultural&food market information consulting agency

Key industry focus:
Grains
Oilseeds
Sugar
Meats
Dairy
Potato

Agroholdings
Land markets&prices
General agribusiness
Benchmarking



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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»…

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«Agroholdings»

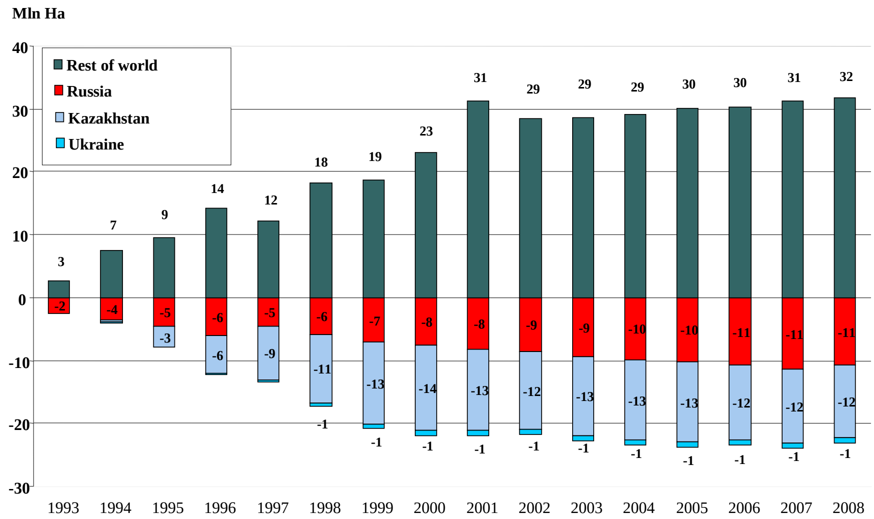
General context

What we know about them

So, why agroholdings

Future

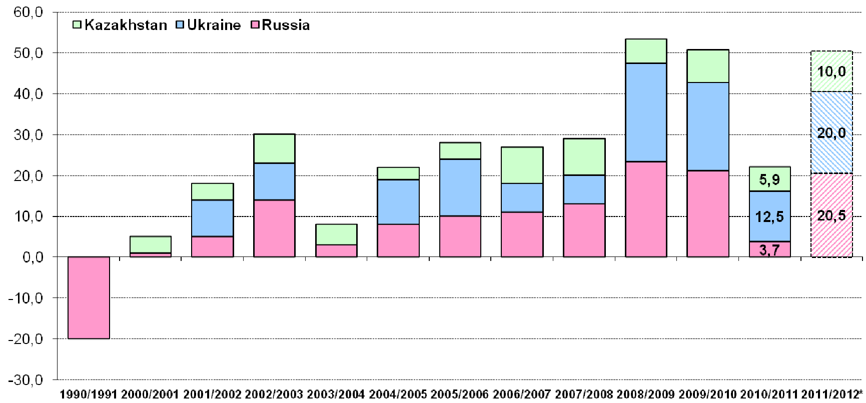
World *gain* and FSU Black Sea *loss* of arable land: 1992=100%



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

The issue of Russian farmland…

Russian, Ukraine, Kazakhstan grain net exports dynamics



After an incredible 'land loss" of 90', Russia, Ukraine, and Kazakhstan have become major grain production and export region…

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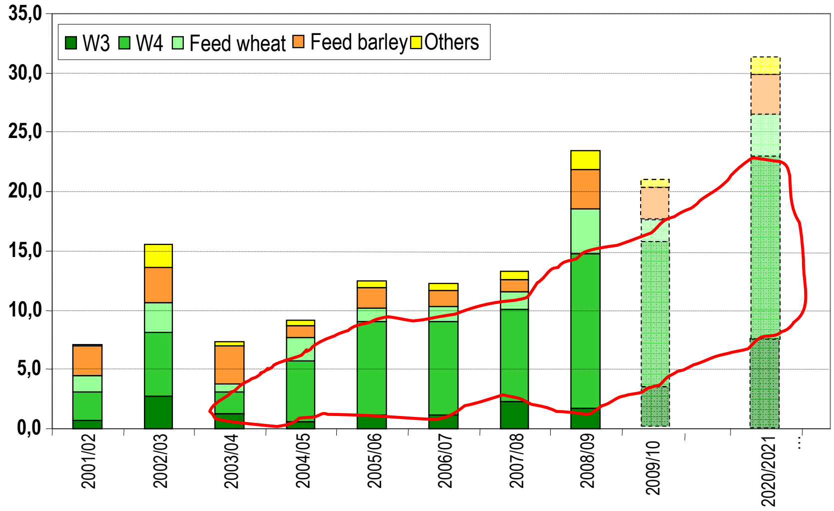
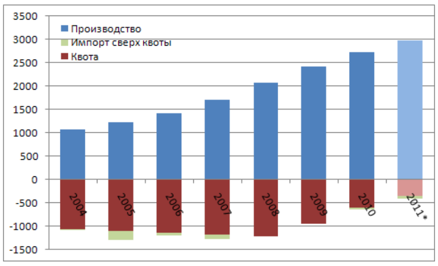
Type/Quality break-downs of Russian grain exports



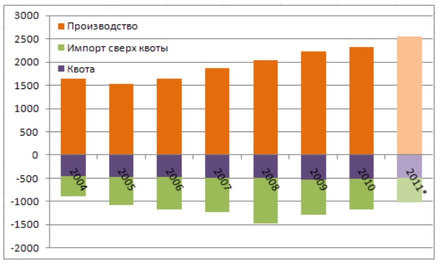
Our key specialization: feeding developing countries of Middle East and North Africa with world's cheapest 11.5-12.5% protein milling wheat

At another angle of Russian agbiz industry: aggressive growth of domestic meat sector…

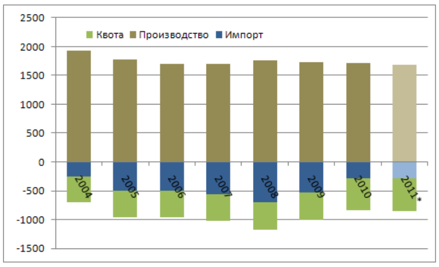
Poultry



Pork



Beef



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The issue of «independent collective farm»

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

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The issue of vertical supply chain…
As it was in 90's, after "privatization"

- 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

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«AGROHOLDINGS» as regional solution

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

and

new organization of farming

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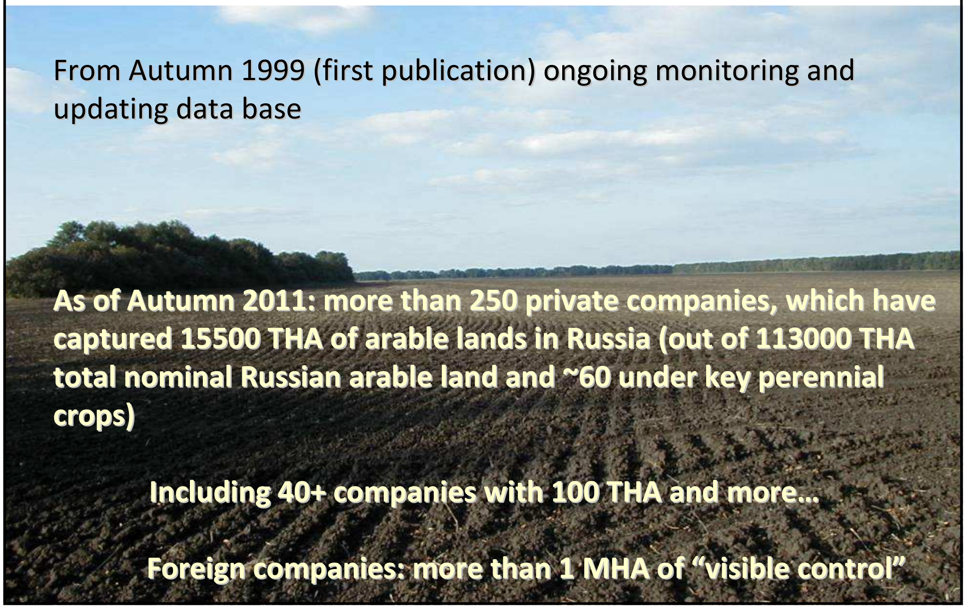
Definitions

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

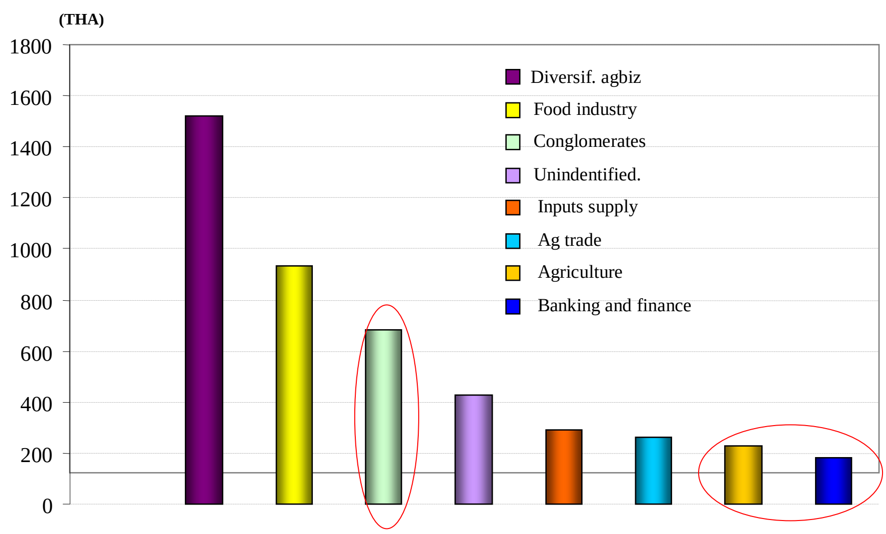
Criteria:

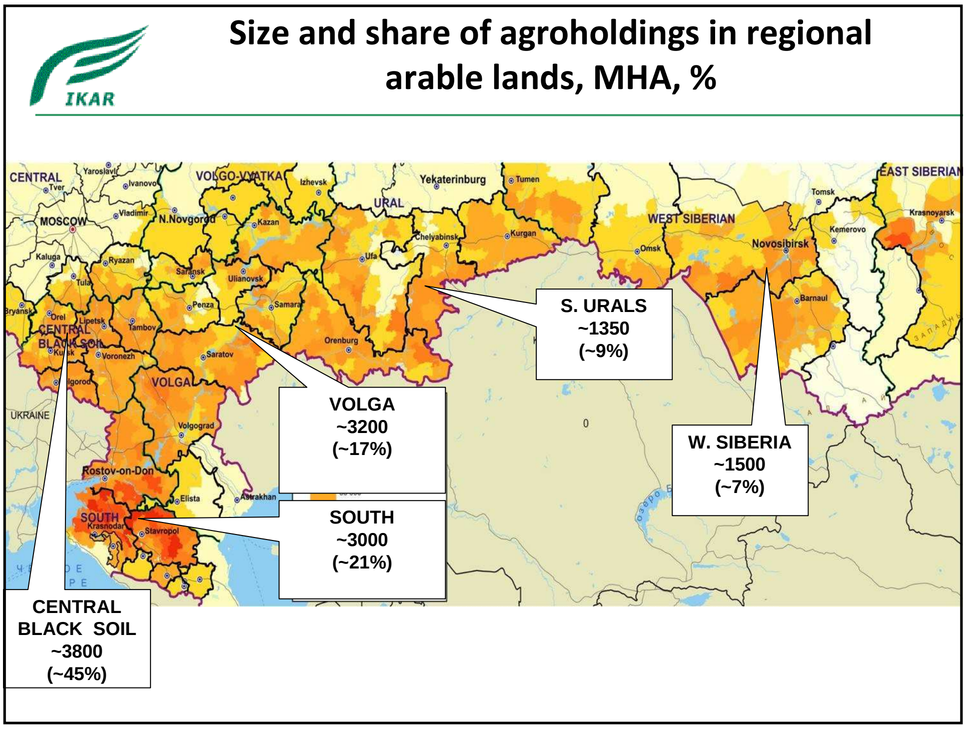
- **Size**
- ***Active, but remote* participation in management and control**
- **Value at risk in agriculture**

Our basic knowledge up-to-date



Who? Land distribution by nature of «mother company»

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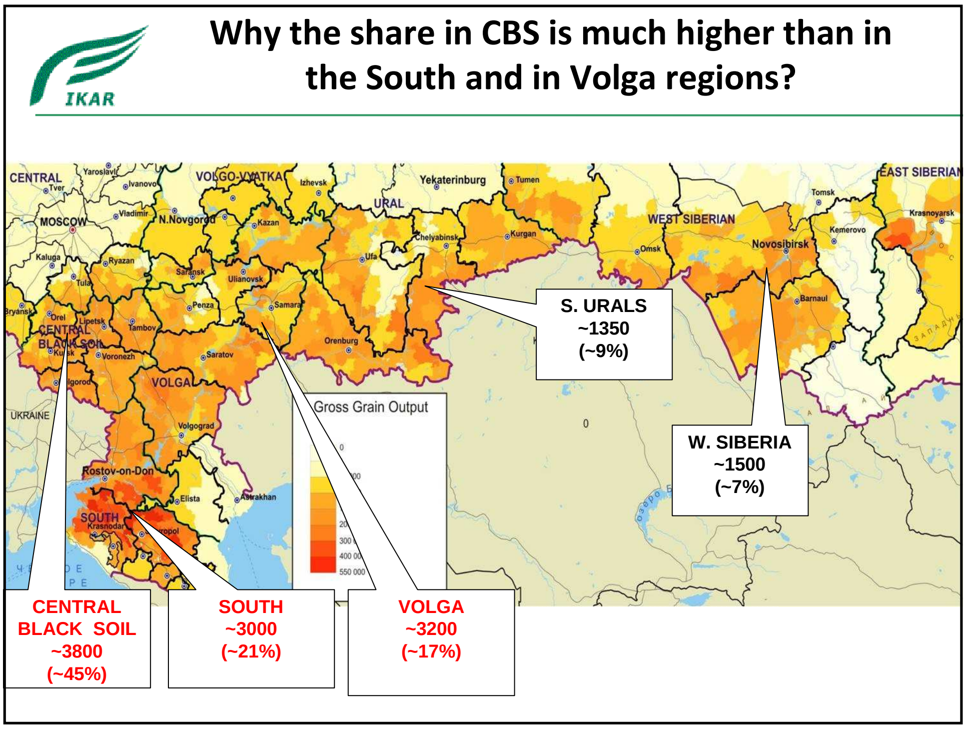
Size and share of agroholdings in regional arable lands, MHA, %
S. URALS ~1350 (~9%)
VOLGA ~3200 (~17%)
W. SIBERIA ~1500 (~7%)
SOUTH ~3000 (~21%)
CENTRAL BLACK SOIL ~3800 (~45%)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Why the share in CBS is much higher than in the South and in Volga regions?
S. URALS ~1350 (~9%)
Gross Grain Output
W. SIBERIA ~1500 (~7%)
CENTRAL BLACK SOIL ~3800 (~45%)
SOUTH ~3000 (~21%)
VOLGA ~3200 (~17%)

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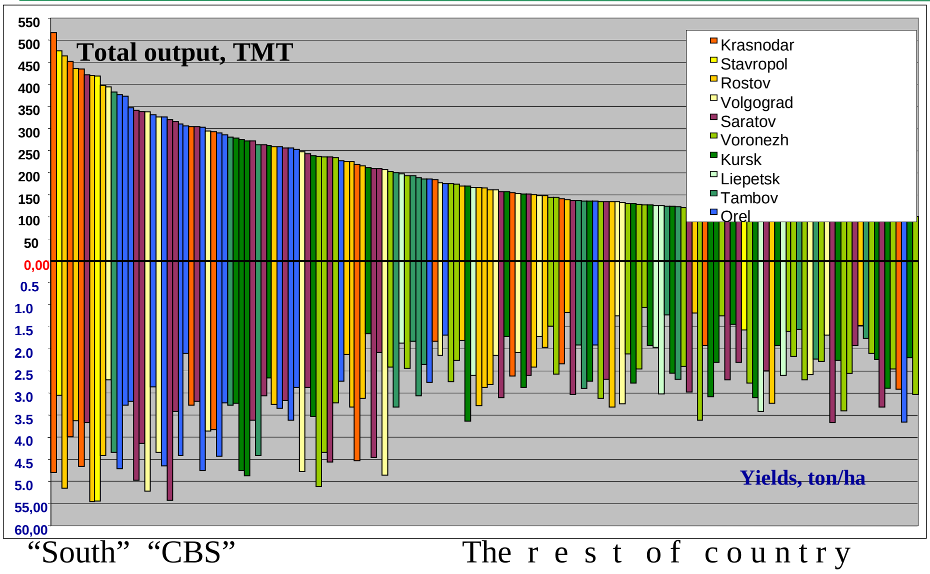
Grain output and yields, 157 biggest grain production districts, 2006-09 average



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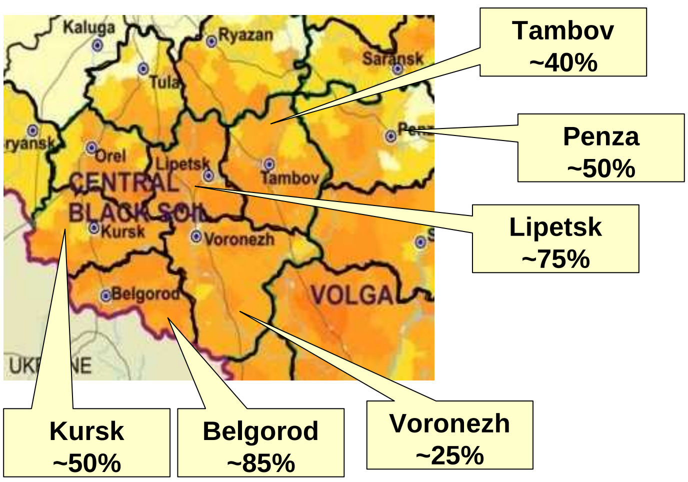
Estimated agroholdings share in CBS regional arable lands



…but even in Central Black Soil the penetration level is highly diverse…

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Selected individual company cases

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Case of Bonduelle

2001: aim: “to process in Russia!”

2002: Krasnodar is the best place. To process there

Custom harvesting insufficient

Production contract does not work

Full scale production on the long term leased irrigated 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!

Most recent (2011): grabs the business of neighboring Secab

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Valars

Started in late 90's as local (Taganrog, Rostov oblast) pre-exporter of grains known as Yugtransitservice.

Beginning of 2000's: successful negotiations with Egypt authorities and businessman regarding potential export of Russian wheat

Second half of 2000's: internal company dispute, company's management creates new grain trader named Valars.

End of 2000's: Valars grabs back Yugtransitservice, and start aggressive acquiring of local farms. Total acreage reaches 350 THA in Russia and neighboring Ukraine. 2010 export's ban damage… Company plans IPO of its ag division at Warsaw stock exchange

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Miratorg

Started in 90's as fresh meats importer (US, Brazil, etc)

Middle of 2000's: JV with Sadia on Brazilian poultry meat processing in Russia

Middle 2000's, after meat TRQ introduction: refocusing of strategy. Aim: to become domestic meat producer. Get into large-scale swine farming and slaughter. Swine heard: about 2 M heads per year

End of 2000: Land grab in Belgorod and Bryansk region. Up-to-date: ~150 th. ha.
Large scale beef cattle project in Bryansk
Partnership with IFC

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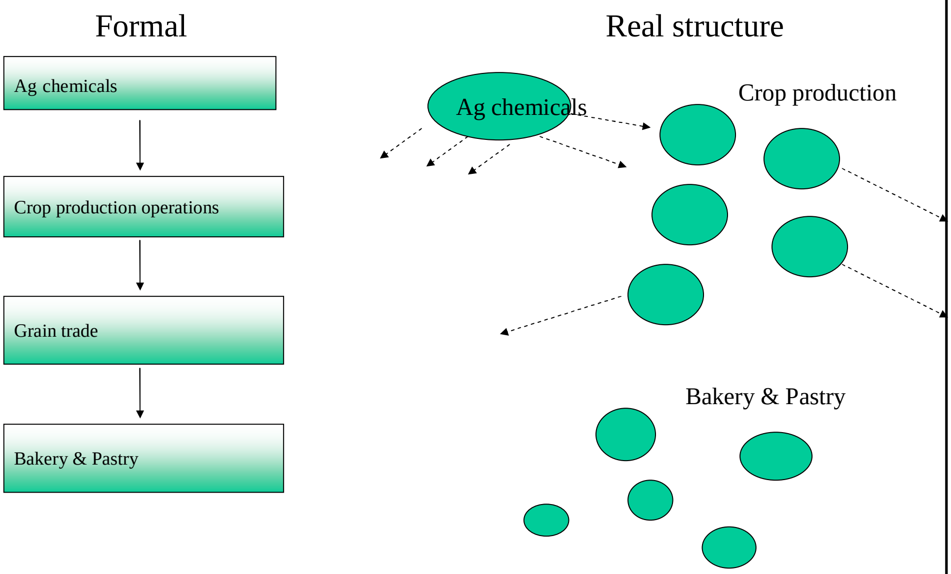
Case of SAHO: formal positioning and real assets structure: pseudo integration



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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. Hedging via CBT/MATIF. Getting into SWAP deals…

Case of «Traditional» and «New» farming

Stavropol, neighboring farms, winter wheat

2.3 tons/ha potential yield

7.0 tons/ha potential yield

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Agroholdings: aggressive "integration" into the state bureaucratic pyramid

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Agroholdings: aggressive "integration" into the state bureaucratic pyramid

New fresh brains. Lobbying preferential conditions for domestic agriculture and agbiz

- Rice: from modest 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
- Dairy: shifting domestic support to dairy sector. Creating of nationwide country "coop".

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Managerial issue

Why is the "family farm"?

THE Rule of Perennial Crop Agriculture: predominance of "family farming" (mother nature and biology).

"THE FARMER WILL NOT CHEAT HIMSELF"

Deviations: plantation crops, modern livestock and poultry operations!)

- Del Monti
- Cosan
- Smithfield
- El Tejar

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Managerial issue

Why is the "family farm"?

THE Rule of Perennial Crop Agriculture: predominance of "family farming" (mother nature and biology.

Deviations: plantation crops, modern livestock and poultry operations!)

FSU *a*groholdings aggressively violate the "rule of agriculture": massive invasion into perennial crop production…

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Management in largest agroholdings

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

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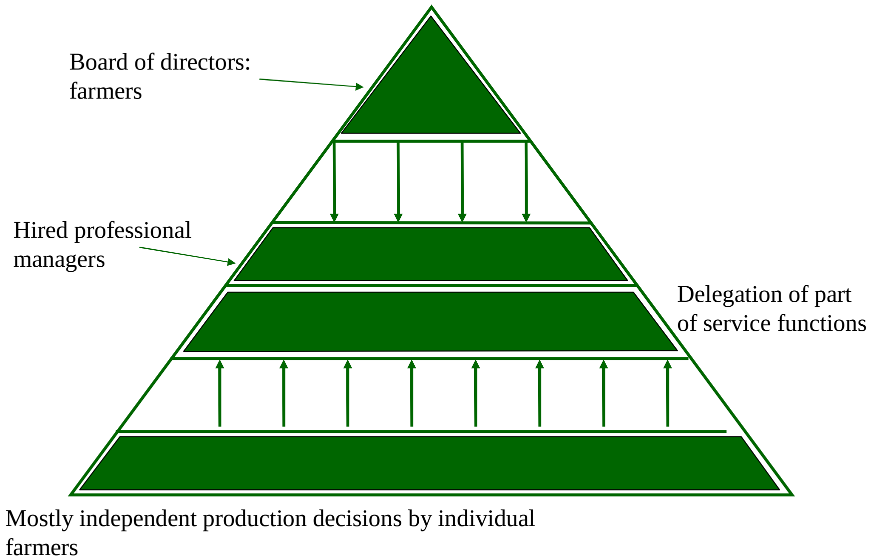
Farmers' coops: «normal pyramid»



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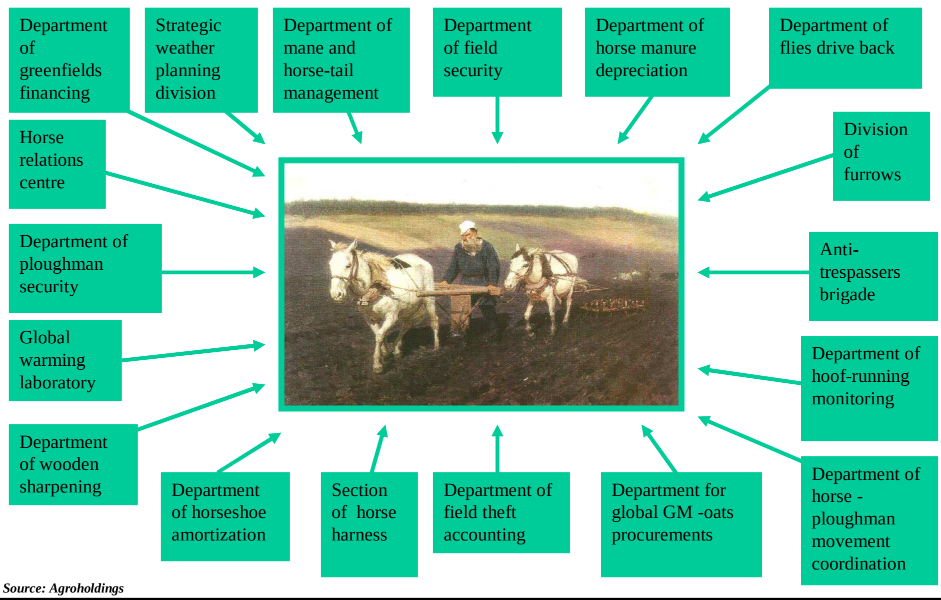
Agriholdings management: with sense of humor



Source: Agroholdings

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Agroholdings managerial dilemmas

«Protection»

New vision

New technologies

New collaterals

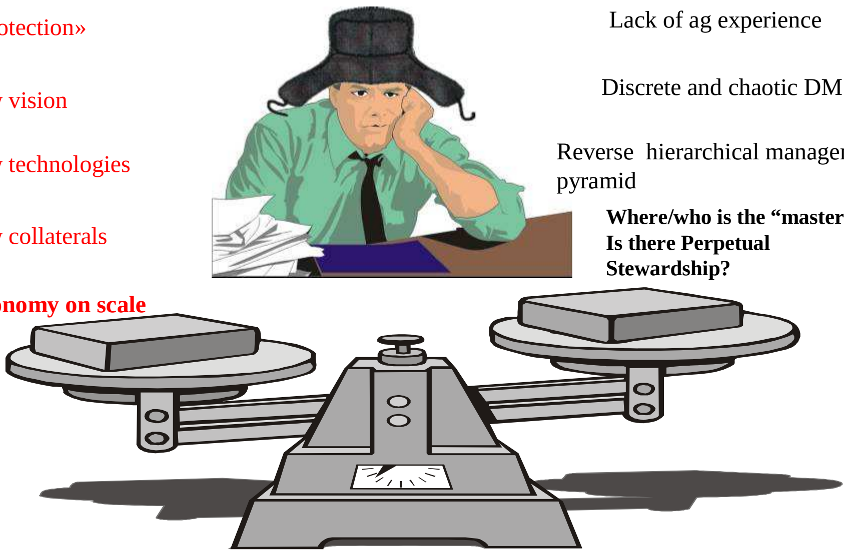
Economy on scale

Lack of ag experience

Discrete and chaotic DM

Reverse hierarchical management pyramid

Where/who is the "master"
Is there Perpetual Stewardship?



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Instead of conclusions. Agroholdings: preliminary observations

Key question. How to treat/sonsider Russian, Ukrainian, Kazakhstan "agroholdings":

Against the background of changing nature of perennial crop agriculture…
An integral part of newly emerging and potentially sustainable world asset class (farm/land assets)?

Or

Something region's specific/temporary/transitional

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Instead of conclusions. Agroholdings: preliminary observations

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 still highly questionable

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

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