Agriculture in the Eastern Neighbours of the EU

Large Farm Enterprises in Russia and the Ukraine

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The CAP towards 2020
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Agriculture in the Eastern Neighbours of the EU

• Rusting state farms? Or:
• New agricultural powerhouse of Europe?

• Russia, Ukraine (Belarus)
• Focus on Russia
• Difference Russia – Ukraine
  – Internal demand vs. Export (biofuel)
  – WTO
  – Infrastructure

• Roughly similar internal processes
• Beyond the statistics
Agriculture in Russia

• ´According to the recipe of our babushka´
• ´The milk of your childhood´
• ´Completely natural and from village origin´

• Wimm Bill Dann
‘Completely natural and from village origin’
Privatisation

- Privatisation:
  - of collective farm enterprises (kolhozes) & state farm enterprises (sovkhозes)
  - Term: Large farm enterprises (LFEs)
  - Employees became shareholders & had the choice regarding their share:
    - take out & state private family farm
    - ‘invest’ in LFE (stay employee)
Private family farms
## Private farms in Russia

<table>
<thead>
<tr>
<th>Number and size of private family farms in Russia</th>
<th>1990</th>
<th>1995</th>
<th>2000</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nr of farms (x1000)</td>
<td>4,4</td>
<td>280,1</td>
<td>261,7</td>
<td>257,4</td>
<td>255,4</td>
</tr>
<tr>
<td>Average size (ha)</td>
<td>41</td>
<td>43</td>
<td>58</td>
<td>75</td>
<td>81</td>
</tr>
</tbody>
</table>
Problems of Soviet agriculture

- ‘labour on the field does not wait!’
Household plots
Expectations
Large farm enterprises
Agriculture in Russia: reality

• Wimm Bill Dann –

• Magnitude:
  • Numerous dairies
  • Other food factories
  • Over 40 large scale farms
  • 20,000 ha owned
  • 250,000 ha rented
  • Port infrastructure
Central questions:

• How is it possible that the large farms persist?
• What causes the drastic enlargement?
• To what extent are they a threat (or opportunity) for EU agriculture?
Particularities of RUSSIA – Former SU

• Reasons for enlargement
  – Soviet legacy
    • concepts: Big is beautiful (incl. subsidies)
    • Infrastructure: very large scale
    • Institutions: absent or large scale
    • Importance of networks
  – Lack human capital (incentive for scale)
  – Emergence of agroholdings IPOs
  – coincides with investor interest & discours
### Forward Integration by LFEs

**STORAGE, PROCESSING AND SALES CAPACITY OF LARGE FARM ENTERPRISES**

<table>
<thead>
<tr>
<th>Financial State</th>
<th>Cold Storage</th>
<th>Processing</th>
<th>Own Selling Outlets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
<td>(N)</td>
</tr>
<tr>
<td>1</td>
<td>7</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>10</td>
<td>13</td>
</tr>
<tr>
<td>4</td>
<td>0</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>29</td>
<td>43</td>
</tr>
</tbody>
</table>

*Source: Own survey*
Profitability and Networks

- Profitable enterprises report
  - More often a positive influence on payment
  - Larger social networks
Outcome:
Russian agriculture as a threat to EU agriculture?

- ‘Russia’s Farming Revolution Could Kill Off US Agriculture Sector’
- ‘A Land Rush in Rural Russia’
- ‘Farming Makes a Comeback in Russia’
Problems hindering growth of agriculture in Russia

• Concealed bankruptcy of agroholdings
• Shortage of experienced managers and specialists (extension services, academics)
• Labour motivation & diseconomies of scale
• Volatility of prices & production

• Increase in internal consumption
• Livestock farming still far below SU level
• Increase of livestock, more internal demand for feed grains
Conclusions

• Huge potential, also for EU investors, BUT

• Very uneven growth (annually, regionally, specialisation)

• Lots of obstacles in terms of:
  – increase of quality products,
  – rural development
Thanks...

• ...for your attention.