Ukrainian Agribusiness Club

Vertical integrated structures in Ukrainian agribusiness: a modern answer for world market challenges

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Structure

- Introduction
- Current Agricultural Sector Developments in Ukraine
- Agriholdings in Ukraine
- Some Issues on the Farmland Market Developments
- Summary and Conclusions

Place of Ukraine in world agricultural output and trade (2007/08 MY)

	Production (rank)	Export (rank)
Sunflower seed oil	3	2
Sunflower seed	3	3
Rapeseed	6	2
Wheat	12	7
Corn	11	5
Barley	5	6
Poultry	23	-
Potato	5	-

Source: USDA, 2008

Average Efficiencies Degree of agricultural enterprises in Central Ukraine

- Model - Data Envelopment Analysis;
- Input parameters: land-plot size, livestock number, number of workers, depreciation, other expenses;
- Output parameters: cash crop revenue, livestock revenue; other revenue;
- Efficiency in 2005: technical efficiency of 2 736 agro-enterprises of Central Ukraine = 0,391
- Efficiency in 2006: technical efficiency of 2 591 agro-enterprises of Central Ukraine = 0,377

Agricultural Sector Developments in Ukraine

Year 2007:

25 agriholdings control over 2,5-3,0 mln. ha of farmland

In addition 75-80 “smaller” agricultural producers operate 1,5-2,0 mln. ha of farmland

Year 2008:

About 40 agriholdings cultivate more than 4,0-4,5 mln. ha of farmland

The next 90-100 agricultural enterprises operate 2,2-2,5 mln. ha of farmland

These ~150 largest agricultural operators produce about:

- 20% of wheat
- 25% of corn
- 35% of sunflower seed
- 75% of sunflower oil
- 70% of rapeseed
- 30% of total meat output
- 7% of milk

Source: UCAB experts' estimates, 2007

Some largest Ukrainian land operators, ha

	2007	2008 estimation	2008 to 2007 change
Myronivski Kliboproduct (Poultry, Beef, Fruits, Cash Crops)	140 000	260 000	+ 85,7%
Ukrainian Agrarian Investments (Cash Crops, Rapeseed)	140 000	250 000	+ 78,6%
Illich Metallurgical Plant (Cash Crops)	238 000	240 000	+ 0,8%
Astarta Kiev (Sugar, Cash Crops)	110 000	150 000	+ 36,4%
Industrial Milk Company (Dairy, Cash Crops, Vegetables)	86 000	150 000	+ 74,4%
Kernel Group (Sunflower oil, Cash Crops)	70 000	150 000	+ 114,3%
UkrRos (Sugar, Cash Crops)	75 000	120 000	+ 60,0%
“Shakhtar” (Cash Crops)	100 000	100 000	n/a
Landkom Ukraine (Cash Crops)	54 000	120 000	+ 122,2%

Source: questionnaire conducted by UCAB, 2008

Financing the expansion of agriholdings

Company	Date of placement	Equity raised on IPO, mln $	Maximum market capitalization mln $	EBIDTA (2007) mln $
Astarta	Aug 2006	31,5	530	21,4
Kernel	Nov 2007	304,0	1 065	10,8
Landkom	Nov 2007	131,4	388	neg.
Landwest	Dec 2007	42,6	292	n/a
MCB Agricole	Mar 2008	56,1	295	51,5
Creativ Group	Oct 2007	30,0	158	19,5
Ukrros	Jul 2007	42,0	274	8,9
Dakor	Jul 2007	21,0	182	11,9
Mironivskiy khliboproduct	May 2008	322,0	1 700	n/a

Source: UCAB's calculations using mass-media releases, 2008

Motivation of Agriholdings establishing

- Preferential terms of agricultural enterprises taxation
- Increasing of crop production profitability
- Comparatively low expenses of land accumulation
- Expectation of farmland market introduction in the nearest future
- Necessity of reliable supply of processing branches with agricultural raw materials

Farmland Market in Ukraine

- Land market is banned by Moratorium which is being prolonged each year
- Land market implementation needs to laws “On land market” and “Land cadastre” to be passed
- All agriholdings lease land from private persons for 5 to 49 years
- Current maximum land-plot-size owned by one person limited at 100 ha

Structure of land resources of Ukraine

	thousand ha
Total area	60 354,8
Agricultural lands, including:	42 893,5
Cultivated arable lands	32 446,2
Grassland	5 515,7
Haymows	2 423,1
Gardens	898,7
Other	1 609,8

Source: State-land-agency, 2007

Farmland use by owner type in Ukraine

	Total farmland, thousand ha	Arable land, thousand ha
Ukraine in total	42 893,5	32 446,2
Including land users:		
• Householders	36,6%	35,4%
• Legal entities	40,5%	48,3%
• Farmers	9,3%	11,5%
• State ownership	13,6%	4,8%

Source: State-land-agency, 2007

Are large land operators interested in land market introduction?

Advantages

- Land as a deposit
- Land as an asset
- Motivation for further investment, including investment into fertility of land

Disadvantages

- Legal risks
- Unpredictable judgment system
- Necessity of funds attracting for land buying
- Possible rise of land rent

Probable Farmland Price

There are three possible scenarios determining land price

- Cancellation of tax preferences for agro-producers will decrease probable farmland price for about 35%;
- Macroeconomic stabilization in Ukraine may increase price of land for 25%;
- Political risks may both whether increase or decrease the price – it depends on specific decisions.

Possible consequences of structural changes

- Land rent will increase due to rising demand
- New possibilities of finance attracting after land will become an asset for companies
- Potential increase of agro-enterprises productivity
- Higher demand on land will lead to land price rise
- Possible deceleration of migration into the sities of well educated employees
- Possible improvement of the general situation and infrastructure in rural areas

- Market structure shifts
- Changes in production pattern

- Unemployment growth
- Cutting down of non-primary (secondary) activities
- Decreasing of animal production and concentration on cash crops

Summary

- Ukraine is already a significant player on the world food market
- Agriholdings and superlarge farms will dominate the farms structure in the next 5-7 years
- Land Market Introduction will be essential for the whole Ag. Sector developments
- The predictable and stabile agricultural policy is necessary for further strengthen positions of Ukraine on the global market

Association

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Thanks for your attention!