



Agriculture in Russia



Industry overview and investment
opportunities

—
May 2016

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The agricultural sector in the Russian economy

A clear trend of domestic production replacing imported food and the weak rouble coupled with a food import ban enable rapid expansion of local production and make agriculture one of the most attractive sectors of the Russian economy

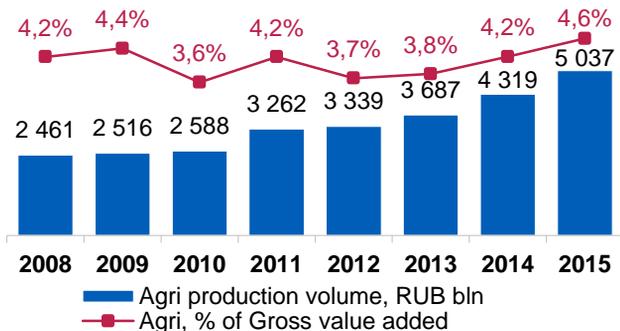
Agriculture's share in the gross value added (GVA) of Russia fluctuated at around 4% from 2008 to 2015 (from 3.6% to 4.6%). Fisheries are viewed separately from agriculture, and its share was around 0.3% of GVA.

In 2015 agricultural production increased by 17% compared to 2014 (from RUB4,319 bn to RUB5,037 bn).

The proportion of key agricultural sub-sectors, namely crop cultivation and livestock breeding, in the total value of agricultural output was almost equal throughout 2008-2015 and averaged 50%.

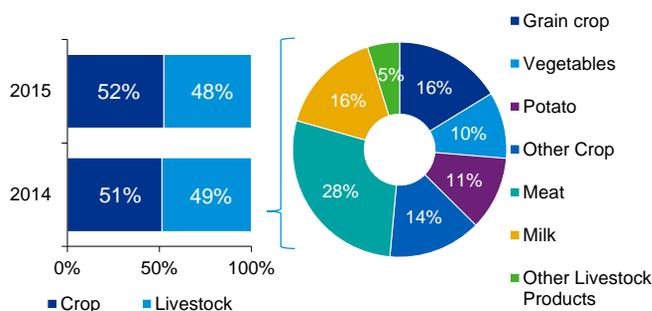
64% of total agricultural production is concentrated in three Federal Districts: Central (25%), Volga (24%) and Southern (15%).

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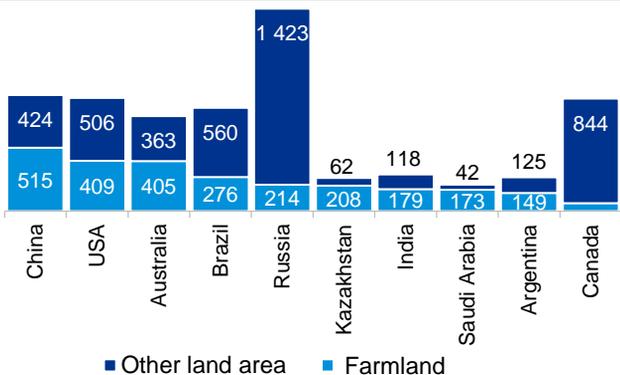
Source: Rosstat

Agricultural production by key sub-segments



Source: Rosstat

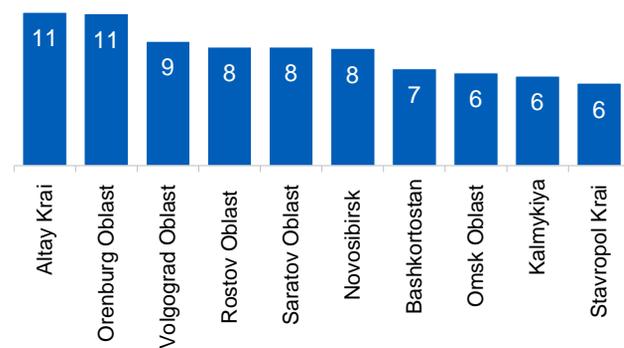
Top-10 countries by farmland, m hectares



Note: Total farmland in Russia shown in this diagram differs from that in the pie chart on the next slide due to different sources

Source: FAO UN

Top-10 regions in Russia by farmland area, m hectares



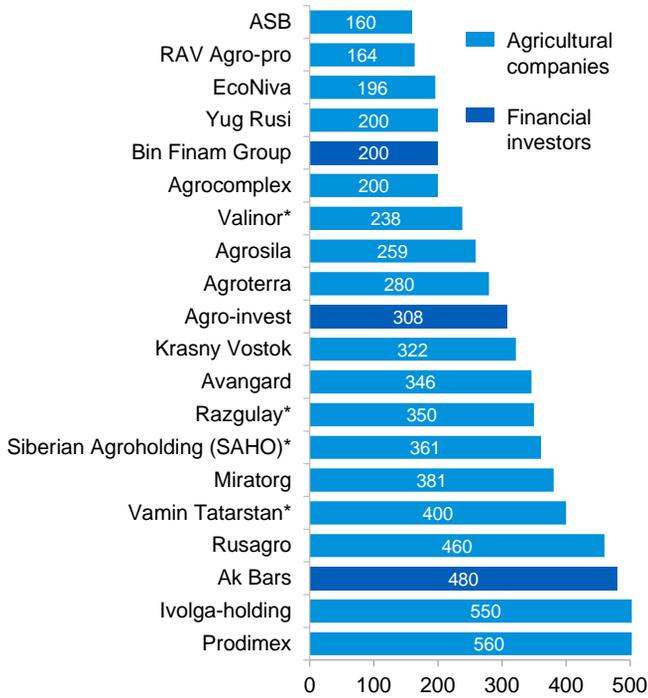
Source: Rosstat



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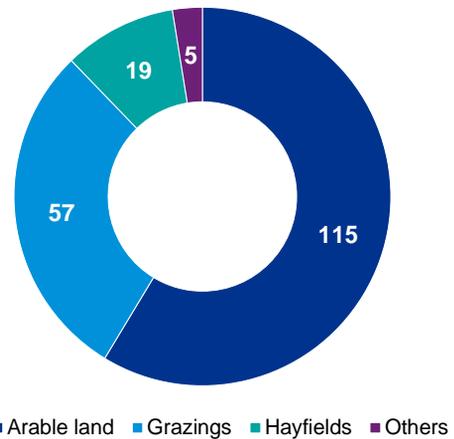
Top-20 farmland holders as at 2014, k hectares



Top-20 farmland holders account for only 7.7 million hectares, or 4% of total farmland.

Out of the top land holders, a number of holdings are in financial difficulties or close to bankruptcy. This relates only to publicly available information and the actual number of distressed companies could be even higher.

Farmland in Russia by types, m hectares



Source: Rosstat

Note: * the company or part of the holding is in financial distress

Source: Companies' official info

Legislation	Impact	Suggested approach
Ownership restrictions	Foreign nationals and legal entities as well as entities controlled by them (more than 50% equity) can only rent farmland. The minimal term for rent is set at three years (N 101-Federal Law , N 87-Federal Law) and is suggested to be limited by ten years maximum	Co-ownership with Russian owners
Requirements for farmland use	The owner or lessee should use farmland in accordance with its category. A land plot unused for three or more years can be withdrawn from the owner	It is essential for a farmland owner to be aware of and compliant with this regulation
Requirements for changing land type	A change in land type is only allowed in exceptional cases such as changes of locality borders or inability to use the land under its current category. Changing land type is prohibited if the cadastral value of the land is more than 30% higher than the average in the area. (N 172-Federal Law)	If a change of land type is planned, it is important to check if it is possible and prepare all of the required documentation

Source: Russian legislation

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Ban on imports

In August 2014 Russia introduced a ban on imports from the US, the EU, Canada, Australia and Norway for the following agricultural products: beef, pork, poultry, fish, milk, dairy products, vegetables, fruit and nuts. In August 2015 the list of countries was expanded to include Albania, Liechtenstein, Iceland and Montenegro. In January 2016 Ukraine was also included in this list.



Major implications

As a result of Russia's ban on agricultural imports the country is expected to lose more than 72% of its pork imports, more than 52% and 9% of its poultry imports and beef imports respectively.

The US poultry and Norwegian fish sectors are expected to be the biggest losers from the bans, while the Brazilian meat sector and the Belarussian agricultural industry are expected to be the main beneficiaries.

Banned food products and implications

Product	Imports, as % of Russian consumption	% of imports banned	Major exporters	Countries suffering negative impact	Major beneficiaries
Beef	43%	9%	Brazil, Paraguay, Belarus	Australia	Brazil, Paraguay
Pork	17%	72%	Brazil, Denmark, Germany, Canada	Denmark, Germany, Canada	Brazil
Poultry	10%	52%	US, Belarus, Brazil	US	Belarus, Brazil
Dairy	n/a	n/a	Belarus	Netherlands, Finland	Belarus
Fish	n/a	n/a	Norway, Chile, China	Norway	Chile, China
Vegetables	n/a	n/a	Turkey, China	Netherlands, Poland	Turkey, China
Fruit	n/a	n/a	Ecuador, Turkey	Poland, Spain	Ecuador, Turkey

Source: USDA, Trade MAP, Rosstat



Investment climate

Strengths

- Government policy aimed at import substitution
- Maintaining the ban on imports of certain products from certain countries. As a result increased prices for agricultural production
- Government subsidies of the interest rate (up to 100% of the CBR key rate) for investment loans and loans to carry out field work
- Many companies are experiencing financial difficulties; now there is an opportunity to buy at a low price
- Crop cultivation is resistant to economic cycles (livestock less stable): there is no clear correlation with household income

Weaknesses

- Increase in the effective interest rate (net off subsidies) and increase in the quality requirements for collateral
- Many components are imported (seeds, fertilisers, machinery, etc.) as it is impossible to switch to the domestic production in the short term
- Legal risks (i.e. problem of ownership, use and disposal of the agricultural land, risks associated with rent of land)
- The grain sector is highly regulated: the government has restricted export several times (i.e. export duties from Feb-15)
- Lack of transparency among most players, weak corporate governance

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Agriculture Segments to invest in

Agriculture segments	Rationale for investing	Potential sellers
Pork	<ul style="list-style-type: none"> — Opportunity to replace imports, as 17% of pork is imported — Russian pork market has growth potential, due to consumption per capita lagging behind that on many western countries and China 	Local players looking for growth or exit
Poultry	<ul style="list-style-type: none"> — Despite the near saturation of the market, growth is forecast due to lower prices compared to pork and beef — Poultry consumption per capita in Russia is substantially lower than in many other countries, i.e. Argentina, Brazil, the US, etc. 	Local players looking for growth or exit
Dairy farming	<ul style="list-style-type: none"> — Many regions with shortfall of raw milk — Stable demand for raw milk from dairy products manufacturers (approximately 21% of the total value of the minimum food products selection, according to data from Rosstat, is attributable to dairy products) 	Local players looking for growth or exit/ Green field
Dairy products	<ul style="list-style-type: none"> — Insufficient domestic supply, opportunity to replace imports — Opportunity for export (growing demand in Asia) 	Local players looking for growth or exit/ Green field
Land holding	<ul style="list-style-type: none"> — Opportunity to invest at a low price, at present many land-controlling companies are suffering financial difficulties — The acquisition of good productive land is only possible by investing in a land holding company (all good land is currently controlled by these market players) — Growth potential in the grain sector due to current low yields (24 centners per hectare in Russia compared to 60-75 for developed countries) and low utilisation of agro land (1.4 times lower than in 1992) — Favourable forecast for the wheat market (major grain in Russia): it is expected to be in strong demand as other foods (e.g. meat) become more expensive 	Management companies owning distressed assets Banks holding collateral of distressed companies Non-core investors (i.e. private equity funds, wishing to exit investments)
Lettuce	<ul style="list-style-type: none"> — Heavy dependence on imports, lack of greenhouses — Unconsolidated and underdeveloped market 	Green field
Beef	<ul style="list-style-type: none"> — Opportunity to replace imports, as 43% of beef is imported — Increase in production in 2015 vs. 2014 	Green field
Vegetables	<ul style="list-style-type: none"> — Heavy dependence on imports, lack of greenhouses 	Green field
Fishery	<ul style="list-style-type: none"> — Opportunities for growth and import replacement — Exports are expected to become attractive while imports are likely to decline 	Local players looking for growth or exit

Source: KPMG Analysis

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