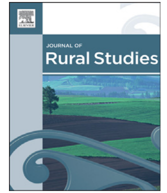
Journal of Rural Studies 45 (2016) 199–217

Contents lists available at ScienceDirect

Journal of Rural Studies

journal homepage: www.elsevier.com/locate/jrurstud



The stock market and the steppe: The challenges faced by stock-market financed, Nordic farming ventures in Russia and Ukraine

Brian Kuns [a, *], Oane Visser [b, 1], Anders Wästfelt [a, 2]

[a] Department of Human Geography, Stockholm University, 106 91 Stockholm, Sweden
[b] International Institute of Social Studies, Kortenaerkade 12, 2518AX, The Hague, Netherlands

ARTICLE INFO

Article history:
Received 1 October 2015
Received in revised form
3 March 2016
Accepted 12 March 2016

Keywords:
Financialization
Agriculture
Ukraine
Russia
Farmland

ABSTRACT

Situated in the global discussion on large-scale land acquisitions, this paper examines the poor performance of Nordic owned, publicly traded, very large-scale farms (agroholdings) in Russia and Ukraine. In depth study of concrete examples of this emerging farm organization is still rare. This paper investigates the impact of the financialization of agriculture on the performance, agricultural and otherwise, of such farm companies, which is also an emerging field of inquiry. In other words, this paper seeks to go beyond discussion of "land-grabbing" and return to an older question concerning large-scale farming in developing country settings: is it even successful? In unique, exploratory research, the authors have gone "inside" these companies through interviews and attending shareholder meetings. Also, the authors have examined the discourse found in press accounts and corporate documents, the latter an underutilized source in research on corporate mega-farms. We find that finance, usually asserted as an advantage for such large-scale farms, proved in important respects to be incompatible with farming in the investigated companies, as it led to the initial prioritization of short-term speculative strategies over longer-term production-oriented strategies. We further find that investors initially failed to appreciate the unique climatic and other local challenges presented by agriculture, compared to other economic endeavors. Finally we note that these corporations are struggling to demonstrate economies of scale. Our results suggest that, unless conditions change, stock market financed large-scale farming companies are unlikely to play an important role in future direct food production in the region.

© 2016 Elsevier Ltd. All rights reserved.

1. Introduction and aims

Since the food crisis of 2007, the world has witnessed a sharp rise in large-scale agricultural land acquisitions, particularly in developing countries. While this has justifiably generated a lot of attention, it is not a new phenomenon – there is a history of investment in large-scale agriculture in developing country settings (Cotula, 2012), a history generally littered with failure (Scott, 1998; Johnson and Ruttan, 1994). What is new today is the unprecedented financial backing and scope of such investments, and of course the enormous size of today's large-scale farms. Most critical discussion of this new wave of investment has focused on the question of "land-grabbing" – the degree to which such investments threaten to displace local populations and undermine local food security (e.g. Van der Ploeg et al., 2015; Borras et al., 2012; McKay and Colque, 2015; McMichael, 2012; Moreda and Spoor, 2015). While an important question, this article will re-visit the original question with respect to large-scale investments in agriculture in developing economies: are such farm operations successful?

Proponents of such mega farms today argue that the financial backing and organizational and technological innovations behind such investments will make these farm investments successful where previous efforts failed (Deininger and Byerlee, 2012). Many of the studies examining this proposition are from the former Soviet Union and they lean either towards accepting this proposition (Balmann et al., 2013) or rejecting it (Matyukha et al., 2015; Visser et al., 2014). However, this research is based on large samples (or even whole countries) that are good at providing an interesting overview of the large farm sector and general drivers, but do not give insight into the more intricate reasons for success or failure of large farm companies. Processes and tensions inside such

* Corresponding author. Tel.: +995 595 388990, +46 76 1250595 (mobile); fax: +46 (0) 8 16 49 69.
E-mail addresses: Brian.kuns@humangeo.su.se (B. Kuns), Visser@iss.nl (O. Visser), Anders.wastfelt@humangeo.su.se (A. Wästfelt).
[1] Tel.: +31 070 4260686.
[2] Tel.: +46 8 16 4856.

http://dx.doi.org/10.1016/j.jrurstud.2016.03.009
0743-0167/© 2016 Elsevier Ltd. All rights reserved.

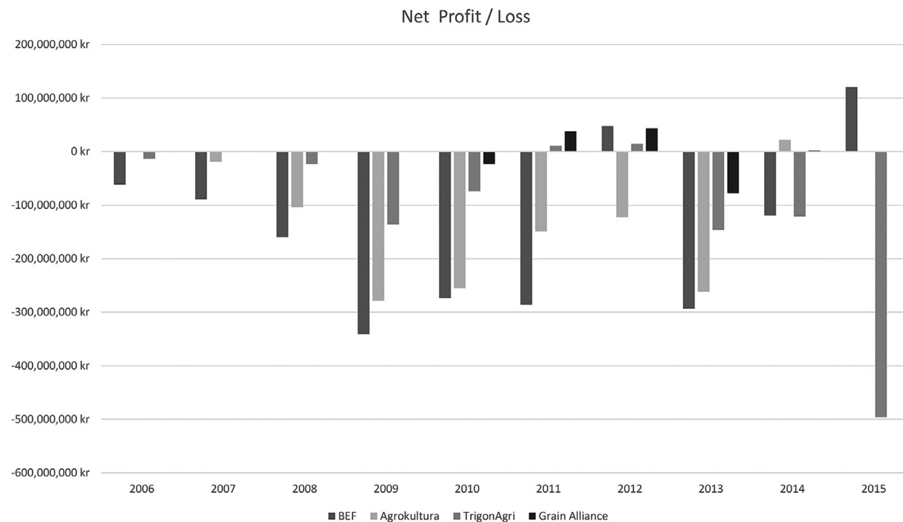


Fig. 1. Net profit and loss of nordic agroholdings. The sources of the net profit and loss figures for these companies are their annual reports. Note that figures for 2015 profit or loss come from Q4 reports of the two companies in question; annual reports have yet to be published. Agrokultura, as of delisting in 2015, no longer publishes this kind of information, and Grain Alliance had not yet reported their 2015 results when this article was completed. Grain Alliance actually made a slight profit of 2,230,000 kr. in 2014, which, given the scale on the y-axis, is not visible in the present figure. The average Euro-kr (Swedish kronor) exchange rate for this period is ~9.3 kr/1 Euro. The average USD-SEK exchange rate for this period is ~7.1 kr/1 USD.

companies remain a ‘black box’.

Among the few studies that go inside companies, Chaddad (2014) argues that public BrasilAgro's innovative organizational architecture and labor incentives are key to its success, while Plunkett (2015) and Magnan (2015) identify preferences for short-term profits among publicly traded PrimeAg Australia's shareholders as contributing to its lack of success.

We seek to add to this literature by explaining the disappointing performance of super large-scale Nordic owned and run “agroholdings” in Russia and Ukraine. The companies studied here are Black Earth Farming (BEF), Agrokultura, and Trigon Agri, currently or formerly traded on the Stockholm stock exchange, and Grain Alliance AB, a Swedish owned company seeking to be publicly traded. These agroholdings began operations in the mid to late 2000s, promising to “revolutionize” (Lundin, 2008) or “unlock the potential of …” (BEF, 2009, 4) agriculture in this region. Investors believed that speculating on rising land values and pursuing a strategy of agricultural production were compatible, because, among other reasons, international best practice and modern technology would generate quick and significant production increases. While some aspects of these companies' operations have been successful, the overall performance of these companies, particularly the much hyped, larger public companies, continues to disappoint, albeit with some variation (See Fig. 1).

The main question to be addressed in this paper is: why have these investments not been more successful? Building on an emerging critique, we will argue that the performance of these companies shows that finance, which is seen by investors as advantageous for farming, has proven to be incompatible in important respects with farming. This incompatibility is articulated in three inter-related tensions that arise from the heavy financial involvement in these companies: (1) a lack of balance and synergy between land speculation and production strategies; (2) the short-term orientation of many investors in these companies versus a longer-term development cycle in agriculture; and (3) the difficulty in aligning, on the one hand, a global, corporate outlook informed by strong confidence in modern technology and “international best practice” with, on the other hand, agriculture's local agro-ecological challenges. The broader aim of this paper is to contribute to an emerging discussion on the consequences of financial sector involvement in farming with insights into the problems faced by the new kinds of corporate farm entities that the financial sector is supporting or creating. Within this type of farming, we aim to generate particular insights into the sub-set of investor-led farms financed by stock exchanges. Note, that while the recent and ongoing conflict and accompanying economic crisis in the region has had some negative effects on the performance and future prospects of these companies, there have also been some positive effects, and, in any case, the tensions identified in this article all pre-date the conflict.[1]

The organization of this paper is as follows. Section 2 discusses the growing financial involvement in agriculture, and presents the emerging consequences that have been highlighted in the literature on the relationship between finance and farming. Section 3 explains the sources and approach used in this research, and Section 4 introduces the companies under study in this paper and the main investors behind these companies, also providing background information on land markets in Russia and Ukraine. Sections 5–7 analyze in detail some of the incompatibilities arising between the interests of financial actors (or the financial sector more generally) and the realities of farming that investors encountered. In Section 8 we contrast yield promises with actual yield performance of two of the companies, while Section 9 details (some of) the changes made to the original business plan in the face of problems and low returns – changes that may save some of the companies, but, importantly, also serve to illustrate the tensions of the original business model. Section 10 concludes.

[1] In this regard, BEF speaks of the “improved commercial environment offered by the weaker ruble” in Russia (Black Earth Farming, 2015a, 8), which among other things lowers costs on domestically produced inputs. Trigon Agri, however, has decided to exit the Russian market as a result of the ongoing economic crisis there. They are trying to sell their Russian dairy operation (Trigon Agri, 2016), and have announced a preliminary deal to sell all their land in southern Russia (Agrimoney.com 2015), the latter, apparently, at a great loss (The preliminary loss figures shown for 2015 for Trigon Agri in Fig. 1 reflect the effect of the land sale on the 2015 corporate income statement.).

Download English Version:

https://daneshyari.com/en/article/6545421

Download Persian Version:

https://daneshyari.com/article/6545421

Daneshyari.com