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**The reasons of creation and development of holding agro industrial structures
in system of vertical integration sugar business in Russia**

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The reasons of creation and development of holding agro industrial structures in system of vertical integration sugar business in Russia.

Sugar market has been always regulated in our country since sugar is strategic foodstuff. Peter I issued an edict “About sugar Russian and overseas”. The edict gave preferences to merchant Pawel Westov. In 1887 “Sugar syndicate” was organized in Russia and its main task was to keep up high prices in the domestic market. After the revolution in 1917 the state became the sugar monopolist and guaranteed profitability for the sugar industry by the state prices system. At the beginning of 1990s the state ceased the monopoly on sugar production and sale, private companies came into the market. But taking into consideration the great capital intensity of sugar business and sharp competition with cane – sugar the state continued to play the important role in the market, supporting some sugar companies with guaranties. Taking into consideration the changes in the country that time it was very important to provide the required volume of sugar import. That’s why customers duties those days were at 1% for raw sugar and 10 % for white sugar. Also some companies had privileges such as the abolition of import duties.

Due to this state policy by the middle of 90s sugar companies grew to the level of running their own business.

There were big holdings having bought several sugar factories. The question arose before the new owners – raw providing. The system of interaction sugar business and state representatives formed by that time led to protectionist measures in defence of domestic sugar market in 1997. It was resulted in introduction since

15 Mai 1997 import custom duties on sugar by 25% but not less than 70 euros per ton.

Protecting duties which calculation mechanism has changed and at present depends on sugar raw prices at the New York exchange caused considerable reduction of the white sugar import and expansion of beet sugar production. From 1998 to 2002 gross yield of sugar beet increased in Russia from 10,8 to 15,7 m ton. In 2005 the production of sugar beet made up 22,6 m ton (according to the Ministry of Agriculture and Food Production of Russian Federation).

The production of sugar beet increased from 1,3 m ton in 1998 to 2,5 m t in 2005, the forecasting for 2006 to 3m t (according to www.iscoi.ru).

It became profitable to produce sugar in the domestic market and sugar business began to get investments.

The scheme of relationship between the sugar beet producers and processing factories (sugar plants) today is next: commercial and industrial companies or independent plants advance money farmers in the beginning of the agricultural season for sowing campaign and for beet harvesting. After harvesting sugar beet goes to the processing, however the farmers are not the owners of beet, it has changed the owner: it is the property of creditors. After the harvesting and delivery for processing it is time for final payments between the creditors (commercial – and industrial companies) and beet producers. Commercial – and industrial companies often settle accounts with agricultural enterprises by sugar and sugar goes both for the financing of production needs in agricultural enterprises and for sale.

The agricultural enterprises creating for sugar factory beet sowing zone are for it beet suppliers and undoubtedly the factory depends on them. Under the circumstances of increasing indebtedness in payments to the state budget and salary also means shortage for service and maintenance. Every short delivery affects the factory situation. It is especially visible in the regions where sugar factories are concentrated and agricultural producers can choose what factory they should supply beet. It appears the problem here: agricultural farms evade the repayment of a debt to sugar companies for advance payments for sugar beet. So far as factories recover debts from suppliers in sugar from supplied for processing beet agricultural producers made debts by one factory supply beet to another one to postpone terms of indebtedness repayment. They wanted to obtain complete or partial remitting.

The agricultural producers themselves depend on factories. First of all this is getting credits from the factories in general in springtime, when the farms haven't harvested and sold grain yield yet and they don't have their own money. Sometimes plants help agricultural enterprises in buying agricultural machinery. Occasionally farms can't begin the sowing because they don't have money for sown material, fertilizers and fuel in this situation the only way is to appeal to the sugar factory for help. And factories try to help, as far as possible, because otherwise they run risks to be without beet. This help often becomes unprofitable for the factory as far as scheduled

refund coefficients can not to repay the risk of delay in payment or non-recoverable debt. The plant, surely, can't provide completely the process of

production for all agricultural enterprises. But under taking the risk and shortage of funds the work with agricultural enterprises is promising and it will be payment due to increasing of beet processing volume. Many factories' chiefs realize this and try to "feed" farms of neighbour regions in the hope of increasing beet-sowing zone.

Between the plant and agricultural enterprise are there economic relations which are not connected with beet grow. These are deliveries, on the part of plant, of black oil for heating, press for feeding cattle and so on. Besides for farms located nearby the settlement forming plants very important is "binding" with plants units of infrastructure, although the percentage of these farms is very little.

Thus, relations "sugar factory – agricultural enterprise" are the whole complexes of various counter interests based on long – terms economic contacts. Naturally, both sides try to use relations for influence the economic contacts.

Sugar factories in the context of beet program about beet sugar storage use various forms of contractual relations with farms – producers for realising loading plans. Among them are beet sugar deliveries:

- On commodity crediting (advancing of deliveries);
- On tolling;
- On purchase of sugar beet at outside farms;
- On integrated in holding agro firms;
- As payment for commercial harvesting by beet harvesting

complexes.

The tendency to increasing beet sugar produced in Russia is mainly based on increasing raw production – sugar beet.

As far as the supplying of beet program is a very difficult process in finance – organization and sugar factories are interested in maximum possible volume of coming in sugar beet, so in large holdings the production of sugar beet in the plant zone is under the permanent control. It is necessary for agro holding and sugar factory to stimulate farms in increasing sown areas and raise crop capacity of this culture for obtaining guaranteed volume of sugar beet.

Recently more and more sugar companies practices their own sugar beet production expecting to achieve high efficiency on the tenancies. There are two points on the production: you can rent new plots and grow only sugar beet, or take field in long – term rent and grow all the cultures participated in the crop rotation.

Large holdings for developing beetroot zone include new production units – agro firms formed, as a rule, on the bases of several small farms.

The new name of agricultural production cooperative (APC) shouldn't mislead anybody. Agro holdings include agro firms forced and try to emphasize appropriate specialization – in our case this is the sugar beet growth. That is why there is not complex development of agro firms at least during the first years and the main problems of the former joint stock company or APC are not solved before the stable carrying out of sugar beet production plan.

At the same time large agro industrial companies are primary headed for highly performance production. These companies are able to provide the application of high performance technologies. These companies pay much money

for quite expensive import seeds and means for plants protection, however the competent agricultural technician covers these investments and purchases of import techniques, seeds and means for plants protection are growing from year to year. At the same time costs for one hectare of beetroot at these companies are considerable – more than 25 thousand rubbles. However by the productivity of 40 – 65 ton/hectare cost is quite attractive.

It is necessary to touch upon a question about beetroots harvesting machinery. Modern harvesting machinery is not only very expensive (cost of the beetroots harvesting complex “Holmer”, for example, is about 350 thousands euros) but also it demands special knowledge of mechanization expert and effective work organisation. That’s why often for beetroots sowing farm it is beyond its power to use import machinery. And it is not the only reason that the farm doesn’t have means for buying but also this farm can’t completely use capacity of high performance harvester – modern beetroots harvester is able to gather for one season – 750 hectares.

Large sugar holdings from year to year increase the sugar beet production in their own agro firms. Especially the company “Prodimex” has increased sown areas of this culture in 2006 by 10 %, sugar company “Rasgulyai”- by 18% to 26000 hectares.

Next year “Rasgulyai” plan to sow 58 000 hectares in other words combined increase will be more than 120 % (according to isco – i.ru).

Thus creation and development integrated sugar companies and agro firms – natural process. It is aimed at guaranteed getting of the own raw volume,

minimization of costs, providing effectively logistics launching the plant by sugar beet processing (or raw sugar) also at business diversity as large holdings have to be occupied not only with sugar beet growth but also with attended agricultural production.