

Russia's Collective Farms: Hot Capitalist Property



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PODLESNY, [Russia](#) — The fields around this little farming enclave are among the most fertile on earth. But like tens of million of acres of land in this country, after the collapse of the Soviet Union, they literally went to seed.

Now that may be changing. A decade after capitalism transformed Russian industry, an agricultural revolution is stirring the countryside, shaking up village life and sweeping aside the collective farms that resisted earlier reform efforts and remain the dominant form of agriculture.

The change is being driven by soaring global [food prices](#) (the price of wheat alone rose 77 percent last year) and a new reform allowing foreigners to own agricultural land. Together, they have created a land rush in rural Russia.

"Where else do you have such an abundance of land?" Samir Suleymanov, the [World Bank's](#) director for Russia, asked in an interview.

As a result, the business of buying and reforming collective farms is suddenly and improbably very profitable, attracting hedge fund managers, Russian oligarchs, Swedish portfolio investors and even a descendant of White Russian émigré nobility.

Earlier reformers envisioned the collective farms eventually breaking up into family farms. But the new business model rests on a belief that Russia's long, painful history of collectivization is destined to end in large corporate factory farms.

These investments are also a gamble in a country accustomed to government control of business. Some officials have hinted at the prospect of a government takeover of the farming industry reminiscent of the Soviet era.

And Russia's minister of agriculture, Aleksey Gordeyev, speaks often of food in terms of national security. "Russia is very often perceived throughout the world as a major military power," he told a food summit in Rome early in his tenure. "At the same time, and perhaps above and beyond anything else, Russia is a major agrarian power."

Russia occupies an unusual niche in the global food chain. Before the Russian Revolution and the subsequent forced collectivization of farming under Stalin, it was the largest grain exporting nation in the world.

Today, roughly 7 percent of the planet's arable land is either owned by the Russian state or by collective farms, but about a sixth of all that agricultural land — some 35 million hectares — lies fallow. By comparison, all of Britain has 6 million hectares of cultivatable land.

Even excluding the slivers of land contaminated by the Chernobyl disaster or by industrial pollution, Russia also has millions of acres of untouched, pristine land that could be used for agriculture.

Yields in Russia, however, are tiny. The average Russian grain yield is 1.85 tons a hectare — compared with 6.36 tons a hectare in the United States and 3.04 in Canada. (A hectare is about two and a half acres.)

If Russia could regain its old title of leading grain exporter, it would significantly relieve strained world markets and reduce prices, Mr. Suleymanov said. It could also reduce malnutrition and starvation.

What is more, a significant expansion of farming capacity could add to Russia's heft as a world power, much as its prowess in oil and natural gas aided its resurgence in recent years.

"The great story of this land is how big it is," said Kingsmill Bond, chief analyst at the Troika Dialog brokerage in Moscow. Troika is closely watching the transformation of the Russian countryside into an investment opportunity. "You can't buy anything like it anywhere else in the world," he said.

Analysts say the new companies dedicated to breaking up and reforming collective farms hope to bring huge tracts of land into production — tracts that can take advantage of economies of scale.

Financiers See Potential

The last attempt at decollectivization, under the government of President [Boris Yeltsin](#), failed in part because collective farms devolved into small holdings. Those who made the leap to become private farmers failed. The rest remained in the collective farms.

Some trade and agriculture experts say there is still a danger that a country like today's Russia, which jealously guards its natural resources, could one day renationalize farms or form a cartel that dictates to landowners.

Clearly, that fear is not foremost in investors' minds. Land prices have roughly doubled in the last two years, according to Troika. The average price a hectare was \$570 in 2006 and is now \$1,000, Mr. Bond said.

One of the first investors to see value in the Russian countryside was Michel Orloff, a former director of the [Carlyle Group](#)'s Moscow office and the scion of a White Russian noble family. He said a visit to Argentina in 2004 inspired him. He saw large landowners making profits without government subsidies, and envisioned a similar model for Russia that would hark back to the noble estates of his family history, only lubricated by modern finance.

"In Moscow, they said I was crazy for going into agriculture," Mr. Orloff recalled on a visit to one of his factory farms outside Podlesny — formerly the Sunrise of Communism collective farm. "Now, they all envy us."

His model rested on the idea that the collective farms should not be broken up into smaller plots but consolidated into larger factory farms, able to achieve economies of scale. (He calls the new corporate farms "clusters.") Using John Deere tractors and Western-trained agronomists, he has nearly doubled yields.

Last year, Black Earth Farming fields yielded 3.3 tons of wheat a hectare, and the company says it is on track this year to reap 4.4 tons a hectare.

To be sure, this is Russia. Though many investors are piling in, their investments remain small relative to the

size of the huge agricultural sector. Black Earth, Razgulai and Cherkizovo are large public companies involved in buying and reforming collective farms.

(Many Russian oligarchs and regional elites have bought land, too, but their holdings are not generally public.) While Westerners have invested in the companies, the businesses are all local, requiring a Russian connection, as most Russian commodity investment does.

That requirement, as well as the possibility that Russia could become a bigger supplier of food, gives pause to some Europeans. They are concerned about Russia's new assertiveness diplomatically and militarily.

Provincial Attitudes

Even before the recent discord between Russia and the West, the obstacles to tapping Russia's vast farmland were substantial.

The rural population has declined precipitously as young people fled to the cities. The title to land, after the failed decollectivization of the Yeltsin era, is often unclear. Rural Russians' work ethic has been shaped by decades on collectivized farms that offered little reward for individual effort.

"We see an increasing number of entrepreneurs coming to us with business plans trying to convert this land," Mr. Bond said. "Some will be successful, but most will not be able to do it."

Some investors have resorted to hiring psychologists to untangle the village culture and determine how best to instill a work ethic. The best way to motivate the Russian farmer, according to one investor, is not higher salaries for individuals, which tend to create resentment, but rewards emphasizing the team nature of the work, like group bonuses.

Outside this village of log homes with decorative wooden trim, with piles of birch firewood in the yard, and where investors have bought several surrounding collective farms, a drunken man slept on a pile of sawdust one recent afternoon. A cow meandered nearby munching grass.

Specter of State Control

This latest headlong wave of privatization has gone too far and too fast for some in government here. Officials, as is often the case these days, have floated the idea of forming a state monopoly. They would create a Soviet-style grain trading company out of an existing regulatory agency, a notion that has alarmed agricultural experts, though the seriousness of the idea is unclear.

Such a monopoly could control domestic grain prices by limiting exports, benefiting low-income consumers but discouraging investment in agriculture.

That is not stopping entrepreneurs — yet. Mr. Orloff's model is spreading quickly. By this year, about 14 percent of Russia's agricultural land had undergone this process of greater consolidation, according to an analysis by Vedemosti, the business newspaper.

"In 10 or 15 years, Russia will be the leading force in world agriculture, just because of its mass," Mr. Orloff said.

That is if the land rush does not bring muscular government intervention from Moscow or set off rural resentments here.

For instance, each member of the Sunrise of Communism collective farm was offered about \$100 a hectare. Three years later, the land is worth about \$1,100 a hectare, based on Black Earth Farming's stock market value.

Mr. Orloff said the collective farmers did not own title to the land, and that the value of management expertise and capital outlays were included in the valuation of his company.

Still, Vasili I. Kapechnikov, who sold his shares to Mr. Orloff, considers himself to have been on the losing side of the transaction. Interviewed outside the village store, he explained what he did with the money he received for his land: "I bought a new pair of pants."