

Special international report:

Farming in the 'Heart' of Russia

First reported in last month's news pages, 'Heartland Farms' is now up and running in the Penza region of Russia. Colin Hinchley, of trading firm Matrix, reviews the current Russian scene and outlines the prospects for Heartland

Since the early 1990s the Russian government has shown little sympathy to its agricultural sector. But this situation is changing. During the past two years there has been a more positive political will to rejuvenate this once formidable state industry.

Land reforms for the purchase of construction sites have now been passed by the State Duma and debates for agricultural land reform are progressing apace.

It's against this background that Matrix, established in the Central Black soil regions of Russia, has developed a radical new approach to Russian agriculture. Its project, named 'Heartland Farms', brings together fertile Russian land and resources with European technology and modern farm management. The aim is for these modern techniques and machinery to have a dramatic effect on land productivity, hence generating realistic profitability.

Fully supported by State and Regional Administrations as well as Regional Agricultural

Academies, the Heartland project also involves international machinery and input suppliers along with recognised advisory and business support groups. Matrix provides the all-important co-ordination.

So, having met the 'players', here's the detail. The project is based in the regional state of Penza, which is 700km south east of Moscow and has a population of 1.5 million. Farmland area stretches to 1.65 million hectares, from which in former times the region was a major supplier of produce to the Moscow markets. Nowadays, however, Penza has more than 400,000 hectares of land, which is currently unused or under-utilised by the region's farmers.

This land is now being leased on a 49-year term by the 100%-owned

More rich Russian soil goes under the plough. Western machinery plays a vital role in getting land into good 'heart'.

Russian company of Matrix Nova Ltd based in Penza city. Matrix Nova, in turn, then plans to offer the land for rent in units of 3,000-5,000ha to individuals or groups of investors, both of Western and Russian origin.

Each lease package runs for a minimum of five years and is supported by machinery and crop input schemes provided by major international suppliers. Also included in the lease package is the formation of the lessee's own Russian legal entity, accountancy interpreters, technical support from the Penza Agricultural Academy and very importantly the full support of the Penza Governor and assistance of his Administration.

In addition, Matrix also provides modern living accommodation, machinery storage and security. Assistance is given with travel plans and documentation, and a unique





Many Russian buildings are in a poor state of repair...

crop loss insurance scheme is also being developed. This scheme should minimise any unforeseen crop losses, thus protecting an investor's financial interests.

There is certainly no denying the agricultural potential. Penza land is predominantly Black Chernozem soil of high fertility and is free draining, friable and easily cultivated. Usual field size is in excess of 100ha. The regional climate is best described as 'mild continental' with an average rainfall of around 500mm. Summer temperatures of 20-30°C provide a good growing medium whilst the winter average is near to -10°C.

Wheat, rye, barley, sunflowers, buckwheat and sugar beet dominate Penza's current cropping, although there is also a limited amount of vegetable production.

From experience already gained by practical farming operations on Matrix demonstration farms, it is clear that there is huge scope to increase yields and productivity – and this potential is realistically achievable (see table).

In terms of logistics, for a non-Russian citizen to participate in this project, they have to set up a 100%



Doing the deal – Governor of Penza, Vasily Bochkarev (right), with Matrix's Kamil Devlikamov (left) and Colin Hinchley.

... although the Heartland project provides more modern facilities.



Russian company, a service provided by Matrix in Penza. With the lessee's company established, normal business activities can proceed.

All transactions are in local currency – this includes machinery leases, inputs etc – which is fully convertible in most major international currencies. Tax treaties with many European countries allow straightforward repatriation of post-tax profits. Profits. Remember those? As for machinery hardware, this is purchased on operating leases very similar to European schemes currently in use. These comprise a deposit, followed by bi-annual payments over a five-year term; crop inputs are supplied on a similar

Typical margins

	Wheat	Buckwheat
Yield	4t/ha	2t/ha
Price	£66/t	£133/t
Output	£264/ha	£266/ha
Seed	£21/ha	£15/ha
Fertiliser	£23/ha	£14/ha
Chemical	£23/ha	£9/ha
Gross margin	£197/ha	£228/ha
Less operating costs	£23/ha	£23/ha
Less capital and land	£66/ha	£66/ha
Net margin	£108/ha	£139/ha

basis – an initial deposit, with the balance paid after harvest. All crop production is marketed on a pool basis, and payments are made on a fixed schedule.

Summary: Over the past 30 years European farmers have moved their agricultural businesses into a strong global position, with technical and agronomic developments resulting in yield increases beyond most expectations.

Today, however, we are seeing a dramatic exodus from many agricultural businesses, particularly in the UK. The harsh reality is that low commodity prices and reducing subsidy payments are making European farming economically unattractive to many people.

The Heartland Farms project offers a genuine alternative for interested farmers and investors. With commodity values at a similar level to European prices and cost structures around 10% of European norms, it shows enormous potential for those looking to capitalise on investment. Any increase in commodity values directly influences profitability to the investor.

For further information on the Heartland Farms project, contact Colin Hinchley by e-mail on colin@matrixcoltd.demon.co.uk



Russian mechanics are skilled and capable of maintaining modern machinery.