



Leibniz Institute of Agricultural Development
in Transition Economies

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Opportunities and challenges of large-scale agriculture

More than 160 international experts from research, business, politics and international institutions discussed issues of large-scale agriculture at the IAMO Forum 2018

Halle (Saale), 16 July 2018 – The worldwide increase in very large agricultural enterprises is setting new standards in farming and leading to a range of debates. For instance, the 100 largest companies in the agricultural sector in Russia, often called agroholdings, farm in total more than 12 million hectares, with four of these companies managing over 600,000 hectares each. The entrepreneurial challenges, opportunities and social effects that accompany the emergence of such enterprises were discussed at the IAMO Forum 2018, entitled “Large-scale agriculture – for profit and society?”. From 27 to 29 of June 2018, more than 160 participants from 19 countries exchanged on scientific findings and agricultural practices at IAMO in Halle (Germany). Recognized speakers from the fields of research, the agricultural sector and international institutions participated in three plenary sessions, 15 parallel meetings and two moderated panel discussions. The geographical focus was laid on the transition economies of Eastern Europe, the former Soviet Union and East Asia, as well as on emerging and developed market economies in Europe, America and Australasia.

This year’s IAMO Forum was opened by IAMO Director **Alfons Balmann**. He pointed out that large-scale corporate farming structures, often organised as business groups, manage significant areas of agricultural land in many parts of the world, particularly in Eastern Europe and South America. However, these companies face considerable challenges with regard to their ecological, social and economic sustainability. For example, high profit margins cannot be achieved continuously in agriculture. This is not at least a consequence of the so called “agricultural treadmill”, which implies fierce competition and progressing structural change. Balmann added that fluctuating yields and prices place high demands on risk management, especially for large-scale agricultural enterprises with a high share of external production factors because hired workers, leased land and loans require regular remuneration. At the same time, large agricultural enterprises are particularly visible to the public and, therefore, have to encounter actively the often-critical attention by society.

On the subject of the forces driving the (re)emergence of large-scale agriculture in Eastern Europe, **Eugenia Serova**, Director of the FAO Liaison Office (Russia), provided an overview on the development and prospects of large agroholdings. She characterised these businesses in comparison to the corporate groups

in the upstream and downstream stages of the agricultural value chain as small, although they often farm several hundred thousands of hectares in Russia and other parts of the world. Investments in agriculture as risk diversification strategy, the shortage of skilled labour, the institutional environment, the political networks and the Soviet legacy of the large enterprises were named as reasons for the increasing significance of agroholdings in the post-Soviet sphere. Competitive advantages on the world market, effective administrative structures and strong negotiation power over market partners were pointed out as strengths. However, Serova also mentioned sustainability risks of an agricultural sector based on a comparatively small number of large enterprises. She called for a balanced relationship between different farm sizes to reduce risks and stimulate market competition.

Richard J. Sexton, Professor at the University of California, Davis (USA), delivered an overview of the challenges facing agriculture in view of changing societal perceptions. He addressed the tension between the need to feed a growing global population with changing consumer habits under productivity-limiting conditions such as climate change and the desire of society for animal welfare-oriented, fair, regional and sustainable production. As a possible response to these challenges Sexton took a critical look at what he called the “naturalistic paradigm”, which strives for ecological, local and GM-free production in particular. He pointed out that the production forms proposed by this naturalistic paradigm are accompanied with numerous unresolved conflicting goals and trade-offs, warning particularly of potential negative environmental effects which might go along with regionalisation and extensification of agriculture, as well as hindering technological developments such as biotechnology.

The plenary presentations of the second day of the conference were concerned with the ability of large-scale agriculture to serve the requirements of its stakeholders. **Philipp Schreck**, Professor at Martin Luther University of Halle-Wittenberg (Germany), discussed the potential and requirements of voluntary sustainability reporting of companies. He highlighted the conflicting interests of companies and society with regard to transparency and the use of sustainability reporting as a modern accounting instrument that serves the interests of profit-orientated companies in particular. In this regard, he pointed out that good sustainability reporting depends on quality assurance.

Mila Kletschy, President and Scientific Director of the investment consultancy Picking Alpha (Belgium), presented an overview on “Trends in investment in large-scale agricultural operations around the world: from foreign investment to stock market listing”. She provided insights into global trends in the financing of agricultural companies, such as the importance of pension funds, direct investment and bank loans. She also pointed to the very mixed experiences of stock market listings for large-scale agricultural enterprises as a source of funding, using genuine cases from the USA, China, Australia, the EU, South America, Japan, Kenya and other countries. In particular, she pointed out that investors place high demands on possible returns, which contrasts with an agricultural sector characterised by intense competition, tight profit margins and a high level of uncertainty. Professional management of agricultural companies is a key factor in access to funding.

A debate moderated by Professor **Ingo Pies** of Martin Luther University of Halle-Wittenberg (Germany) was titled “Moral challenges of modern agriculture”. In the debate it was firstly unanimously agreed that all discussion participants pursue the same goal of ensuring long-term food security. **Silvia Bender**, Team Leader Biodiversity at BUND – Friends of the Earth Germany, saw the best means of achieving this in helping the many millions of small farmers worldwide to increase their productivity. **Carl-Albrecht Bartmer**, Chairman of the Supervisory Board of DLG e.V. (Germany), countered that size and sustainable farming do not correlate. The idea of primarily looking to support smallholders in developing and emerging countries by enabling small gains in productivity would contradict the development successes in economically developed regions, in which the migration of the rural population was primarily the result of economic

developments, whilst remaining enterprises were able to subsequently benefit from growth and access to innovations. Referring to international trade, Bartmer spoke strongly in favour of free trade. Trade would be a prerequisite of a collaborative international agriculture and multilateral international trade agreements are indispensable. Despite being essentially in favour of free trade, Bender assessed the current process of developing trade agreements as too undemocratic. Regarding biodiversity protection and conservation, Bender pointed out that it would not be sufficient to secure biodiversity in one part of the world in order to increase the intensity of monocultures in another area. Instead, it would be important to promote biodiversity worldwide. Bartmer highlighted that state programmes to promote biodiversity should utilise the existing creativity and local knowledge of individual farmers to a greater extent. Biological diversity would be of decisive importance for agricultural production and farmers would therefore have strong incentives to help securing biological diversity.

On the final conference day, CEOs of large agricultural enterprises from Eastern Europe and South America presented their view on the subject "Fit for the future: prospects and challenges facing large-scale agriculture". **Alex Lissitsa**, CEO of IMC SA (Luxemburg/Ukraine), which farms 126,000 hectares of arable land in Ukraine, provided an insight into the past and present of Ukrainian agriculture and presented the milestones in the development of the agroholding IMC since it was founded in 2007. He expects the future of agriculture and of IMC as closely tied to digitisation. As a consequence, for years now IMC has invested increasingly in digital tools such as E-portals, Mobile Agronomist, geoportals and GPS monitoring. Addressing the corporate social responsibility activities of IMC, a large portion of expenditure would be directed towards the support of individual landowners, including personal financial assistance and medical care, as well as improving living conditions in the villages. Key challenges facing Ukrainian agriculture would include increasing weather volatility, land market regulation, corruption as well as the increasing difficulty of finding qualified young employees willing to live and work in rural areas. **Aurélio Pavinato**, CEO of SLC Agrícola SA (Brazil), explained the development of Brazilian agriculture parallel to the development of SLC Agrícola, which was established in 1945, and provided further insights into the future potential of Brazilian agriculture. Digital expertise, big data and sustainable technologies are the future focal points in the development of SLC Agrícola, which now cultivates 400,000 hectares of soya, corn and cotton annually. He illustrated sustainability successes by referring to achievements of modernization in the scope of a crop rotation with two harvests per year based on soybeans and either corn or cotton. These achievements include increased levels of soil carbon, as well as a reduction in fuel consumption from 76 to 48 l/ha over the time period of 2012/13 to 2017/18. The company also would play an active role in the development and utilisation of sustainability certifications and conduct sustainability reporting. At the same time, Pavinato pointed out that Brazil has now developed its own capable technologies for tropical regions and that in the Cerrados there is subsequently - and despite the self-imposed commitment to designate large areas for long-term nature conservation - enormous potential for agricultural expansion.

In the concluding panel discussion on the subject of "Large-scale agriculture - for profit and society?" **Anna Catharina Voges**, General Partner at Saat-Gut Plaußig Voges KG (Germany) farming 2,500 hectares of arable land nearby Leipzig, pointed to the challenges of advancing urbanisation. To keep pace with societal requirements her company would focus on precision agriculture as well as the establishment of niche and regional produce, including partially organic farming. As German society now would often regard food and nutrition as a lifestyle rather than a necessity, agriculture should be prepared to serve these lifestyle requirements.

Ruud Huirne, Director of Food and Agriculture at Rabobank (Netherlands), stressed the importance of agriculture in preserving rural areas as the starting point for the work of the internationally operating

Rabobank. He also pointed to the increasing significance of digitisation. In the future, a bank would ultimately be an ICT company with a banking licence. Digital data, large-scale data analysis, data security and data protection will also become increasingly important for family-run operations. Here Rabobank is striving to ease the access for smaller enterprises. With regard to the customer types that Rabobank supports, he emphasised that size is important for success, but ethical aspects are also becoming more significant. Huirne also pointed out that weather volatility as a result of climate change would be likely to increase which will considerably affect the decision-making and risk behaviour of farmers.

In the view of **Taras Vysotskyi**, Director General of the Ukrainian Agribusiness Club (Ukraine), it is not possible to talk about profit-oriented sustainable agriculture without including the needs of society and communication with the stakeholders of agricultural enterprises. Agricultural companies naturally have close links to the rural area and its population. Vysotskyi criticised the argument that large-scale agriculture would harm rural areas. In many villages in Ukraine, without agrohholdings there would be no rural development at all. Many agrohholdings would provide considerable financial support for rural communities. Their strategic goal would not at least be to create attractive living conditions for current and future employees. In contrast, state programmes for rural development have extremely tight budgets in Ukraine and offer few opportunities for long-term, sustainable approaches.

Oane Visser, Professor at the International Institute of Social Studies (Netherlands), pointed to different academic studies of agrohholdings in Russia, Ukraine and Kazakhstan. These studies would often show low productivity and efficiency for the early years of the agrohholdings compared to independent large agricultural operations. However, over the course of time agrohholdings have increased their productivity significantly. Nevertheless, Visser warned against interpreting the growth of agrohholdings solely with regard to their number as an indication of the “superiority” of this production form. Long-term studies would be required to justify this optimism. It should not be forgotten that around half of the large agrohholdings in these countries would struggle with financial and economic problems including delisting, insolvency or the sale of assets.

As moderator of the panel discussion, IAMO Director **Alfons Balmann** summarised that the IAMO Forum 2018 had shown that large-scale agricultural enterprises need to document their profitability and economic stability as well as their social added value. This is all the more relevant as a considerable number of corporations have failed economically. Economic success and corresponding progress alone are not enough, however. The enduring debate on modern agriculture would require that large agricultural enterprises in particular engage in public debates. In this respect scientists also face considerable challenges, as so far little research and few findings are available on the management requirements of large agricultural enterprises. Similarly, there would so far be few reliable research findings on the economic, social and ecological effects of corporate agriculture. Against this background, he sees one key contribution of the IAMO Forum 2018 in the dialogue that took place during the conference between science, business, civil society and political actors.

The IAMO Forum 2018 was jointly organized by the Department of Structural Development of Farms and Rural Areas of IAMO, DLG e.V. and the Ukrainian Agribusiness Club (UCAB). The conference was funded by the German Research Foundation (DFG), the Federal German State Saxony-Anhalt, the Rentenbank, the Leibniz ScienceCampus "Eastern Europe – Global Area" (EEGA) and the city of Halle (Saale). Please find further conference information at: www.iamo.de/forum/2018.

Next year the IAMO Forum will take place from 26 - 28 June 2019 in Halle (Saale). It will address the subject “Small farms in transition: How to stimulate inclusive growth?”.

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About IAMO

The Leibniz Institute of Agricultural Development in Transition Economies (IAMO) analyses economic, social and political processes of change in the agricultural and food sector, and in rural areas. The geographic focus covers the enlarging EU, transition regions of Central, Eastern and South Eastern Europe, as well as Central and Eastern Asia. IAMO works to enhance the understanding of institutional, structural and technological changes. Moreover, IAMO studies the resulting impacts on the agricultural and food sector as well as the living conditions of rural populations. The outcomes of our work are used to derive and analyse strategies and options for enterprises, agricultural markets and politics. Since its founding in 1994, IAMO has been part of the Leibniz Association, a German community of independent research institutes.

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