Development of the large-scale agricultural holdings in the system of agricultural production in Ukraine

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The main trends in the development of the large-scale agricultural companies in Ukraine and the place of agricultural holdings in agriculture are analyzed. There is estimated the classification of the large-scale agricultural entities. There are justified the reasons constraining the further growth of large-scale agricultural production. There are characterized properties of the potential agricultural holdings, as well as their advantages in comparison with other market operators.

Key words: large-scale agricultural production, large-scale agricultural companies, agricultural holdings, farming, farmland

JEL Classification: B26, O14, O20, C11, C82, H26, H32

In Ukraine, during the reforming of agriculture there was created a situation where commodity producers (agricultural enterprise) is not the owner of the land, and de facto uses them for operations. In connection with this, underestimation of investment attractiveness of agriculture acquires enormous proportions.

The low efficiency of agricultural production (30.7% of the total number of enterprises) is due to the presence in the agrarian market of grain traders who buy produced goods in several times lower than the market prices. Agricultural holdings, in turn, have advantages over conventional farmers. They have a vertically integrated structure, which allows to efficiently managing of the entire value chain of agriculture – from seed production, planning and growing crops to storage, transportation and logistics. For example, the yield of grain grown in the vast fields of agricultural holdings, even in dry years is approaching western standards [8].

Agricultural holdings are considered companies which have more than 50 thousand hectares of land. Such, according to experts from Ukraine, account for 40 structures. About 150 companies have land fund in the amount of 20-50 thousand hectares. According to experts, in the future, these companies will increase the amount of arable land and may soon turn into agricultural holdings [5].

Formation of rational organizational model of agricultural development involves achieving in 2015 the optimum dimensions of land use of agricultural enterprises: medium (rational) – 2.0-2.1 hectares, large – 10-15 thousand hectares, associations of enterprises – up to 100 thousand hectares; farms, depending on the direction of specialization: fruit – 30-60 hectares, vegetables – 25-50 hectares, grain and technical livestock – 350-400 hectares [11, p. 43].

Introduction. Formation and the development of large-scale agricultural companies in Ukraine have several reasons. Firstly, the low-cost of the lease of farmland in comparison with other countries (EU, USA, etc.), as well as the lack of restrictions on the size of the lease, and secondly, the low cost of labor recruitment (40 times lower than in Germany and 20 times lower than in Latin American countries), and thirdly, the growth of the population of the earth requires large amounts of agricultural production.

Basic content. The issues on the development and formation of large-scale agricultural enterprises were approached in their studies by such scholars as: V. Andriichuk, A.Dankevich, V. Meseli-Veselyak, P. Sabluk, Tcherevko G., M. Kropivko and others. These matters are disclosed in the works of these authors.

Large-scale agricultural production in Ukraine at the present stage of its development resembles the model of agricultural development of Latin American countries. Such enterprises have large plots of farmland, optimized organizational and operational structure that allows efficient use of the available financial, human, land, material and technical resources.

Most agricultural holdings are specialized in growing crops, sunflower, rapeseed, sugar beet; they produce animal products (pork, poultry, and milk). In addition, their activity is also storing, processing and marketing of both raw materials and finished goods are other activities [12].

98% of large-scale agribusinesses are working with the cultivation of crops: oilseeds – 29%, vegetables – 11%. In the livestock production are engaged 54% of large-scale agribusiness (growing cattle and pigs in live weight), poultry – 12% and milk – 6%. Refined products (flour – 4%), services (product storage of grains and oilseeds – 16%) and feed production (16%) also occupy a large proportion.

Analysis of financial statements of Western agri-food corporations shows that about 40% of their own and borrowed capital refers to the agricultural land, about 40% – to non-current assets and more than 20% – as current assets. Mainly in such an approach the capital is attracted in the branch of financial resources [1].

In articol sunt analizate principalele tendințe de dezvoltare a întreprinderilor agricole mari în Ucraina și locul ocupat de acestea în agricultură. Este prezentată estimarea clasificării întreprinderilor mari de producție agricolă. Sunt justificate motivele de constrângere a creșterii pe viitor a producției agricole de scară largă. Sunt caracterizate proprietățile potențialului întreprinderilor mari agricole, precum și avantajele acestora în comparație cu alți operatori de pe piață.

Cuvinte cheie: producția agricolă de scară largă, întreprinderi agricole mari, holdinguri agricole, agricoltură, terenuri agricole.
M. Zubets and M. Bezuglyi present five forms of existence in the agricultural sector: agricultural holdings, large-scale production, medium-scale production (LLC), farms and private households.

These are agricultural holdings that handle hundreds of thousands of hectares of land, large-scale agricultural producers who process from three to ten thousand hectares, medium-scale manufacturers that process several thousand of hectares, farms, in processing of which there are several hundred acres and farmhouses that have from one to two acres of land and produce the major share of animal products, potatoes, vegetables and fruits. [4]

According to the above mentioned classifications, some authors agree that large-scale agribusiness takes up to 10 hectares, others – 25-50 thousand hectares; agricultural holdings – more than 15-20 thousand hectares and 50 hectares respectively. It is very difficult to draw a parallel within the classification, which is associated with different approaches to the separation of the authors of large-scale enterprises and agricultural holdings, as it does not take into account other aspects of operating activities (livestock, services, etc.).

In this study, we consider the large-scale production and agricultural holdings, and stick to concepts as similar in content and identical.

The main incentive for their (agricultural holdings) occurrence is striving to increase its capital owners in the long run. This is the main incentive for business entities in a market economy. Making a profit and its market capitalization – is just a way to increase capital. Meanwhile, the cost of capital invested in agribusiness grows today and can grow in the long term due to:

- favorable market conditions in global and domestic markets of agricultural products and foodstuffs;
- opportunities to increase profits from the activities at the expense of low-cost raw materials through the integration of agriculture and processing industry;
- low cost of labor;
- low-rent for the land;
- minimization of tax payments;
- opportunities to accumulate large tracts of land through their rent, and in the conditions of functioning of the agricultural land market – buy them in the property with the possibility of resale;
- resell business opportunities, the value of which, taking into account all of these factors can increase dramatically in a few years. [7]

A. Dankевич believes that "the creation of agricultural holdings is a unique response to the agrarian economy of Ukraine market requirements, aimed at restoring the broken links and cross-sectoral disparity between prices of agricultural products and logistical resources of industrial origin, self-sustaining recovery credit system" [3].

At the same time, according to J. Berezivskii, the growth in production should be accompanied by improved production technologies, improvement of farm forms of work organization, more efficient use of production capacity and labor. However, increasing the level of concentration of production has a positive impact on the economy only to a certain limit, the transition for which reduces the efficiency. In extremely large enterprises, there is complicated the process of production management, rising transportation costs, deteriorating quality control of works and compliance technology [2].

Properties of potential of agricultural holding as an integrated economic system are:

- The integrity of the potential is a whole and has certain properties:
  - Polystructural potential – the potential is composed of certain parts (enterprises for the production, processing, storage and production);
  - The complexity of the potential – the potential is determined by heterogeneity components, hierarchical links between them;
  - Dependency of the potential – the potential has changing parameters and is characterized by stochastical behavior;
  - Unique of the potential – the potential has inherent features and properties in any time;
  - Adaptability of the potential – potential has the ability to adapt under the influence of environmental factors;
  - Synergy of the potential – the potential has the effect of amplification of elements characterized by their interaction;
  - Anti-entropy – is the ability to counteract the destructive tendencies [9].

These facts indicate a lack of alternatives in agriculture of Ukraine compared with large-scale agribusinesses that dominate the medium and small forms of management, not including private households.

Agricultural holdings in Ukraine occupy about 6.5 million hectares of land, ie more than 10% of the area of Ukraine.

In Ukraine there are 45.5 million people, including 7.2 million people living in rural areas. Accordingly, per capita rural area is 0.9 hectares of land in Ukraine and the largest landowners per inhabitant – 0.1 ha.

Most popular in the process of operational activity of agricultural land are the Poltava (23%), Kiev (20%), Chernigov (18%), Vinnytsia (15%) and Zhytomyr (15%) regions. Less suitable for agricultural purposes are lands from Uzhgorod, Volyn, Rivne and Zaporizhia regions – 4% of used areas.

According to the magazine "Focus", the largest agricultural companies of Ukraine are located in the following regions: Suny (9), Khmelnytsky (8), Zhitomir and Poltava (7), Kharkiv and Chernihiv (6), Cherkasy and Ternopil (5).

The above information indicates not only the territorial fragmentation of enterprises belonging to the agricultural holding, but also to diversify its activities in order to minimize production and technological risks and lowering depending on market conditions.

Assessment of the dynamics of change of land leased for agricultural holdings for implementation of production activities, indicates not only their growth, but also a decrease, which is caused by the processes of optimization of the company’s structure and operations, improving logistic component (construction or acquisition of elevator facilities, acquisition of modern technologies, the introduction of advanced agricultural technologies, etc.).

The lack of the real market for agricultural land is an important factor that stops the development of large-scale agribusiness in Ukraine.

As buyers of agricultural land in Ukraine can act not only individual foreigners, but also large foreign agricultural holdings.
In this regard, according to L. Kozachenko, for large foreign companies the law must provide for the limitation of 50% of land for sale in the region [10]. Given the above, it is necessary to stress about monopolization of the land by foreign and domestic agricultural holdings, which is unacceptable for Ukraine as it drops employment in rural areas, will outflow abroad mostly grown production, capital (and income taxes paid in the country of company’s origin).

Academician M. F. Krapivko emphasizes: "...considering that the land market has territorial features, it is advisable to limit the area of land lease to a single tenant up to 30% of the total agricultural purposes of the administrative district, leaving space for the activities of other, less competitive operators in this market: agricultural companies, farming and personal farms, etc."[6]. We agree with the academician in the issue of limiting the lease of agricultural land by one agricultural holding. But at the same time, we should be aware that these structures can act in the region in the number of three or more. Accordingly, it is necessary to limit this percentage of land lease in the administrative district – not more than 30% of agricultural holdings as a whole. Only in this case there will be observed the parity in the development of various operators in the market.

The achievement of the strategic goals in the area of development and integration of forms of economic production has to be implemented through the formation of industrial structures, which by their organizational form and size correspond to the analogs of the world agriculture: agricultural enterprises – American and former Soviet, farms – European, private farms, farm population – Japanese and Chinese organizational forms [11, p. 44-45].

Development of agricultural enterprises is aimed at:
- The formation of large-scale production in regions that are favorable for the production of profitable agricultural products, such as: cereals and legumes, industrial crops, and in the southern regions – growing of vegetables and melons, by the formation of large lands on the basis of the lease relations, the creation of agricultural holdings, regional and inter-regional associations of pigs and poultry;
- The achievement of rational dimensions of production through the co-operation of agricultural enterprises on the joint use of machines, tractors and vehicles;
- The introduction of conditions for competition in the rental market due to size limitations of land of the major economic structures within the administrative areas and in general in Ukraine; mandatory state registration of land users at the location of land;
- The introduction of industry standards for cropping patterns and density of livestock at the regional level and at the level of economic entities;
- Stimulation of the development of agricultural service cooperatives for procurement, storage, processing and marketing of animal and plant products as an alternative to mediation of commercial structures.

Conclusions. Our studies show that agricultural holdings have the following advantages over other operators of agricultural market:
- The lower cost of production and high value-added products;
- Well-developed logistics system;
- Infrastructure development;
- The introduction of innovative technologies in production;
- Efficient use of available resources;
- A high level of professional qualifications of the managerial staff;
- A high level of technical and technological support.

In general, the agriculture of Ukraine is undertaking the following processes characterizing the development of agricultural holdings:
- Capitalization of agricultural production on the basis of concentration of agricultural land;
- Structures are formed, that are horizontally and vertically integrated, export-oriented (sometimes by type of land);
- Increase in the volume of agricultural production through economies of scale;
- The concentration of capital, which is not under the power of small and medium-sized companies;
- Integration of production and subsequent processing of agricultural products;
- Investment attractiveness for foreign companies through the placement of securities on the stock markets and attracting loans from international financial institutions.

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Recomandat spre publicare: 08.11.2013

Nr. 4 / 2013