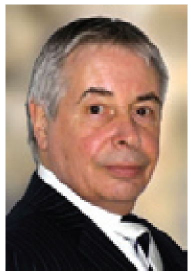
Developing the Seed Industry in Central and Eastern Europe

By: Lajos Zubek and
Alan Williams[1]
Verdant Partners LLC



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Whence the food for the growing world population?

Our analysis of the global issue of feeding some 9 billion people by the middle of the century focuses on the fact that there are four regions of the world with the land area, suitable climatic conditions and farmers experienced in applying technology to make the significant growth contributions necessary beyond today's level of output. These "baskets" will lead food supply for decades to come.

The four regions include:

- The Great Plains and Prairies of North America
- The agricultural heartland of South America, principally in Argentina and Brazil
- The Asian continental zone of China and South-East Asia together with the sub-continent of India
- Central and Eastern Europe, especially the great sweep from Hungary through Romania, the Ukraine, the Steppes of Russia and into the "Stans"

Our perception of the remaining areas of the world is that they are either too small to make a significantly greater contribution than today, or that technology and farming systems are unlikely to move most of the other great land area much beyond the subsistence level where perils of drought and pests can be so devastating.[2]

Historical agricultural developments in Central and Eastern Europe

Three main historical phases can be perceived. Until the 1920s farming in the region had relatively little access to technology – as, of course, was the case elsewhere in the world. Seed breeding was unscientific, seed was farm-saved, fertilisation was derived from animal waste, pesticides were rare and machinery mostly restricted to what could be powered by draught animals. Nevertheless, people were generally fed and there were exportable surpluses from some areas in some years (e.g. Latvia and Ukraine).

In much of the region, the 1920s saw the imposition of collectivisation and industrialisation; this was imposed on most of the rest of the region in the late 1940s. For the next few decades, the lack of free market systems restricted individual enterprises to following through their own operations as if they were on separate islands. Seed breeding was conducted in state owned institutes; seeds and other

[1] Lajos Zubek is an Associate of Verdant Partners Europe and is based in Hungary. Alan Williams is a Director of Verdant Partners Europe and is based in the United Kingdom.

[2] But, there will be local successes such as Egypt, Ghana, Kenya and South Africa; in other places political intervention and conflict may continue to restrict progress.

inputs were delivered to mega-farms, harvests were taken away and processed elsewhere – everything was in line with the overall economic plan; price signals were missing and managers operated with little knowledge of opportunities beyond what THE PLAN dictated for their enterprises.

After 1990, the breakdown of the state-organised systems had a variety of profound effects. Competition for resources started to occur, farmers and advisers are now much more aware of the range of opportunities available to them and input and output flows follow price signals in markets that are much more open and transparent. But, it is rare to find local integrated seed businesses (viz carrying out the full range of activities breeding, adaptation, registration, production, marketing and distribution) that are common elsewhere. This continuing "siloisation" of activities is a legacy from past times that seems to be difficult to unpick.

The Seed Industry in the Region

Agriculture in the region now divides into two parts. One part, in which farmers have access to finance and know-how, is adopting technologies offered by Western seed companies. Pioneer, Monsanto, Dow AgroSciences and Syngenta are all very active as also are the French and German companies like Limagrain, KWS, Maisadour and Euralis. These companies are adapting their offerings to the various sub-regions and are increasingly localising their operations, particularly in relation to local production.

The other part of the sector is more dependent on locally derived offers that may not include the most up-to-date technology but have the merit of being more affordable. These offers come from local institutes, which have a proud record, but are usually under-funded. In 2008, the seed industry largely assumed that volumes would continue to grow strongly in the first part and decline somewhat in the second. This swing was expected to advance furthest and fastest in the more democratic countries and rather slowly in the less open societies further east. Without exception, to our knowledge, none of the players foresaw the impact of the financial hurricane that struck the world in late 2008. It had a devastating impact everywhere, but more so in this region than in others. Economic output may have fallen by 5-8% in the USA and Western Europe, but it typically fell 12-20% in Central and Eastern Europe. This fall was compounded by exchange rate volatility (local currencies fell against the dollar and the euro by as much as 50%, though some have begun to strengthen a little in the last few months). Credit risk insurance disappeared almost throughout the region. As a result, Western seed companies declined to supply the volumes they had planned (and produced). At the same time, farmers had the choice of saving seed from the 2008 harvest (which was not always easy to sell anyway) or of purchasing local supplies that were both available and cheaper; some farmers who were really short of funds took the third option of fallowing.

Where now?

Now that the worst of the financial hurricane appears to be behind us, what can we suggest for future trends in the region? Making predictions is difficult – error is par for the course.[3] We will restrict ourselves to identifying trends (and avoid precise time scales). Some possibilities are:

- There will be a resumption in the adoption of varieties from western breeding programmes but it may take some years to hit the levels predicted for 2009
- Input prices, including seed prices, will trend upwards
- Western companies will increasingly move into the territory, particularly for production purposes; local production shortens supply chains, reduces costs accordingly and offers some hedge against currency and liquidity risks
- Locally owned seed businesses (breeding, production and distribution) are unlikely to remain free-standing forever because they generally lack the financial resources to integrate and to challenge the Western companies
- Some consolidation of local businesses into western companies can be expected
- Local businesses may well turn out to enclose some hidden jewels which have been poorly exploited to date; an interesting question is whether the purchasers will mine their acquisitions fully
- New technology (GM probably) is likely to enter parts of the region; in the first instance this will probably happen where the activists' clout is weakest. Hungary, Poland, Slovenia and the Czech Republic are the most anti-GM countries in the region but others seem likely to be more accommodating. The question, to which we do not have an answer though we have a view, is whether the region will effectively become a Trojan horse that leads to reconsideration of GM policies in the rest of Europe.

To paraphrase a Chinese proverb "interesting times are coming to the seed industry and agriculture generally, in Central and Eastern Europe." The one thing that is sure is that there will be changes; those who really think through their strategies will prosper.

Verdant Partners LLC is a leading business brokerage and consulting firm specializing in the global crop genetics sector. With over 300 years of combined experience in all crops and in all phases of the international crop genetics industry, as well as in other sectors of agribusiness, Verdant's business brokerage and consulting skills are sharply focused and experience-based. Each of Verdant's principals has senior management experience in leading agribusiness companies. Together, Verdant has initiated and managed transactions and alliances valued in excess of U.S. $1.5 billion. ■

[3] "It is difficult to make predictions, especially a bout the future", and its variants, is an observation attributed to such luminaries as Yogi Berra, Niels Bohr, Winston Churchill, George Bernard Shaw, Sam Goldwyn, Groucho Marx and Mark Twain – amongst others.