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**Date:** 6/8/2012

**GAIN Report Number:** RS1240

## **Russian Federation**

**Post:** Moscow

### **Privatization of the United Grain Company**

**Report Categories:**

Grain and Feed

Agricultural Situation

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**Report Highlights:**

On May 28, 2012, one of the largest Russian private investment holding companies, Summa Group, purchased half of the shares (minus 1 share) of the state owned United Grain Company (UGC). Summa Group has not been in the grain trading business, but among other assets owns the largest Russian Black Sea port -Novorossiysk commercial Sea Port- which handles the largest portion of grain exports through Novorossiysk. Other grain exports from Novorossiysk go through port facilities that belong to the UGC. As a result, some Russian agribusiness companies have already expressed concerns that Summa Group's purchase of UGC may lead to the monopolization of Russia's sea export handling facilities and increase grain handling and storing fees for agricultural producers and traders.

## General Information

In 2010, in accordance with the Presidential Decree of June 18, 2010 the state owned United Grain Company (UGC)<sup>1</sup> was included in the list of state owned companies that must be privatized in 2012. Since then mass media has reported on several agro-holding and grain trading companies that were reportedly interested in purchasing the UGC. However, the decision was made to sell shares to Summa Group, a huge investment holding company which has not been previously involved in agriculture. Based on the recommendation of the investment advisors Troika Dialog, the board of directors of the UGC made the unanimous decision on May 28, 2012 to sell 3,514,939 shares of UGC (or a 50 percent stake minus one share, after an additional issue of shares) to *Investor, LLC* (a subsidiary of Summa Group<sup>2</sup>), for the price of 5.951 billion rubles (\$198 million). Agrobusiness holding company “Rusagro”, the second participant of the closed tender, offered a price that was 226 million rubles (\$7.5 million) less than *Investor, LLC*'s offer. The board of directors of the UGC recommended to a general meeting of shareholders that the UGC increase its share capital by making a private offering of additional shares for the benefit of *Investor, LLC*. After issuing the additional shares of the UGC, the Russian government will maintain a 50 percent stake, plus one voting share, in the UGC capital. At present the Charter Capital of the UGC is 3.515 billion rubles (\$117 million), divided by 3.515 million shares 1,000 rubles each.

According to Sergei Aleksashenko, the Chairman of the UGC, proceeds from additional issuance of shares will allow the UGC to increase investments into the development of Russia's grain logistics and infrastructure. Aleksandr Vinokurov, the President of Summa Group, commented on the decision made by the UGC board of directors to sell shares to the Summa Group, "One of the UGC's main strategic objectives is to ensure the high-quality expansion of the infrastructure of the grain market in order to strengthen the international position of Russian grain. By our calculations, the amount of grain that could be shipped from Southern Russia could be increased by 7-8 million tons per year, and by as much as 10 million tons from the Russian Far East. We understand what has to be done to achieve this and it fits well with the UGC's business strategy. A definitive action plan will be drawn up in conjunction with the UGC's management in the near future that will help meet these goals as quickly as possible."

As for the grain handling infrastructure, Summa Group began gaining this experience in 2011 with the acquisition of the Novorossiysk Commercial Sea Port (NMTP – Novorossiysk Morskoy Torgovyi Port), the largest Russian sea port in the Black Sea, which handles petroleum, metal, and other cargoes, including most of the grain exported from Novorossiysk. The acquisition of shares of UGC, which owns the only other grain exporting terminal in Novorossiysk (Combine of Bread Products - Combinat

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<sup>1</sup> United Grain Company, UGC is a state owned company created by the Russian presidential decree No. 290 of March 20, 2009, and aimed at developing the infrastructure of Russia's grain market and marketing grain both domestically and abroad in order to realize Russia's grain export potential. As a contribution to the UGC's Charter capital the Russian government transferred shares of 30 grain elevators, mills and other grain handling enterprises in 18 Russian provinces, including the big elevator and grain handling facilities in the port of Novorossiysk. Among other functions, the UGC acts as a government agent in the government grain interventions (both sales and procurement).

<sup>2</sup> The Summa Group is a diversified holding company for high-potential, fast growing assets that specializes in port logistics, engineering, construction, telecommunications, and the oil and gas industries: <http://www.summagroup.ru/en/>. Among other assets Summa Group owns the Novorossiysk Commercial Sea Port, the biggest Russian sea port in the Black Sea, and Primorskiy Commercial Port (Leningrad oblast), that handles half of Russia's petroleum sea exports.

Khleboproductov), will make Summa Group the largest owner of grain export port capacity in European Russia.

### **Background Information**

Discussions on the privatization of the state-owned UGC began two years ago, and at the end of 2010 the Russian Government decided to issue additional share of the company, and sell them by private (closed) subscription. According to mass media, selecting a closed subscription in favor of a strategic investor was due to the fact that the public offering (IPO) of shares of UGC would have caused a number of difficulties: first, not more than 20 -30 percent of shares would sell at a time, and second, the preparation of IPO at the stock exchange would require much longer time, and the privatization would begin no earlier than 2013, while the presidential decree required the UGC privatization in 2012.

However, according to mass media, the main arguments in favor of a private offering were attracting a single strategic investor for the UGC, which cannot be done when selling shares in the open market, as well as the restriction on the transfer of the UGC shares to multinational corporations on basis of “national security”.

In the coming years the Russian authorities intend to double Russia’s annual grain exports from the current 20 million metric tons, but the existing facilities for handling grain may not be enough. In this regard, according to mass media, the selection of Summa Group as a strategic partner is the best choice, because Summa already has port facilities in Novorossiysk and announced construction of a grain terminal in the Far East with capacity of 5 million metric tons (MMT) per year.

### **Business Comments**

Most of Russian big grain trading businessmen consider the purchase of UGC’s shares by Summa Group an expected and inevitable deal that may benefit development of Russian grain handling logistics. Alexander Korbut , the Vice-President of the Russian Grain Union said that the "Summa Group" is a company which is professionally engaged in logistics, infrastructure and transshipment, and the UGC’s choice is clear and logical.

Meanwhile, some agribusiness companies, which along with being involved in grain trading also have assets in agricultural production (including grain), are worried that this purchase of UGC by Summa Group may lead to monopolization of the grain export handling business. Thus, the agroholding “Kuban” (a subsidiary of Basic Element group of companies: <http://www.basel.ru/en/> ) asked the Russian government to reconsider the additional issuance of UGC shares. Kuban has asked for a change to the criteria of the selection of investors and for an additional issuance of shares of the state-owned grain company on a competitive basis. If this is not done, then Kuban feels that the sale of UGC’s shares (especially to a company with no dealings in agriculture) could lead to the monopolization of export shipping facilities and increased costs for agricultural producers.