

POTATO BUSINESS IN UKRAINE

Interview of Nick Gordiichuk, Founder and Managing Director of “Agrico Ukraine” with [Landlord Ukraine](#).

Nick Gordiichuk started his professional career in the fruit and vegetable business back in 1996 at the Ukrainian-Swedish joint venture Chumak, which was then called SOUTH FOOD, as assistant to CEO, responsible for marketing. Later he became head of sales of this company which is well known not only in Ukraine but also abroad.

In 2005 Nick participated in a project with the Dutch potato cooperative AGRICO, and in two years - in 2007 - he became the founder and director of "[AGRICO Ukraine](#)". This company imports high quality seed potato from the Netherlands to Ukraine, reproduce the elite seed potato and supply to the farms throughout Ukraine with the best Dutch potato varieties.

[Nick Gordiichuk](#) has a unique experience, as he works at the intersection of different competencies: breeding, agronomy, marketing, investment management, sales, etc. He has a broad vision on the Ukrainian potato sector, its problems and prospects.



ABOUT EVOLUTION AND MARKET STRUCTURE

You have an impressive experience in the potato market. What are the main changes that have taken place since you started your career back in 2005-2007? How does the current situation in potato market differ from that time?

If we analyze the evolution of the market in 15 years as the path point A to point B, the main difference, in my opinion, is a completely different requirement of some consumers to the quality of potatoes. However, in order to understand the nature of this change, it is necessary to analyze the very structure of the market. We are currently saying that there are three segments of potato market. The first segment is seed potatoes, the main business for AGRICO. The second segment is table potatoes, sold directly to end consumers. And finally, the third one - potatoes for processing into other products. This is where high added value is formed. Over the past three to five years, the demand for processed potato products in Ukraine has grown significantly, and the demand for raw material – potato for processing - has increased from the side of processing enterprises. This is how it should be, because in the markets of, for example, the Netherlands or the USA, up to 90% of potatoes are grown for processing - French fries, chips, starch, etc.

You mean that in EU or US 90% of potatoes are consumed in processed form. And what is the structure of production in Ukraine?

In Ukraine we have the opposite situation - about 95% of potatoes are grown by households on their homesteads, individuals, this has its consequences for potato quality. And only 5% of potato growing is done professionally according to the modern technologies, with selection of proper varieties etc. The global statistics say that Ukraine is TOP 4 in the world in terms of potato production, and it is sometimes very difficult for us to explain to our Dutch partners why there is a shortage of quality potatoes on the market.

“95% of Ukrainian potato is grown by households and individuals which has consequences for potato quality”

In total potato in Ukraine is grown on area of about 1 million hectares, while professionally it is cultivated on an area of 50,000-55,000 hectares. On the one hand, every year the younger population of Ukraine dealing less and less with potato growing, on the other - this process is very slow. Therefore, this ratio is 95% and 5%.



Reinoud Nuijten, Nick Gordiichuk, Jaap de Zeeuw

So in which segment those qualitative changes are taking place?

Changes took place in these 5% of professional potato production, this segment has changed qualitatively. The examples are the global companies that entered Ukrainian market: the company Pepsico, which has built the line on production of "Lay's chips in Mykolaiv (South of Ukraine). Mondelez company has been working with Lux chips for a long time, the company Chips Club and several other processors. Agrico Ukraine also grows and supplies potatoes for processing, and thanks to these manufacturers of chips our orders doubled. Additionally, some farmers currently working with table potatoes are considering cooperation with processing companies. After all, in terms of price they experience real "roller coasters" on the market of fresh potato.

ABOUT VOLATILITY, INVESTMENT AND PROFITABILITY

You state that the market is highly volatile?

If we talk about the table potato market, yes, the volatility is very high; there are no guaranteed orders, no fixed price. While working with the processing companies, a contract is signed, a fixed price is set, and potatoes can be picked up straight from the field. Although everything is set individually - for each potato grower the price may be different depending on whether he stores potatoes and when he delivers potato to the processing factory. For example, in June the price will be higher than in September or October, because the harvesting has not yet started. And if the delivery takes place in February, the price will be even higher since storage costs are taken into account. Such stability and predictability attract potato growers. In addition, in recent years there has been a certain "shift" in the market, which has added some momentum to it: many companies that previously thought negatively about the need to invest in potato storage and processing are changing their opinion.

What do you mean by saying market shift?

I have already mentioned the first factor - processors with significant orders entered the market and "encouraged" it a bit. On the other hand, three large professional growers have left the market. I'm talking about company ATK from Zhytomyr region (800 ha of potatoes, Central Ukraine), Chernihiv Industrial Dairy Company (IMC) also stopped potato production (about 600 hectares of potatoes). Agroholding Mriya had a break and now as Continental Farmers Group they are reviving the potato project in Ternopil region (Western Ukraine).

This does not mean that the production of potatoes for processing has decreased – the place of the companies that have left was immediately taken by small companies. For example, in Chernihiv region, three companies each for 150-200 hectares of potato appeared at once. In other regions the smaller potato companies grew in size and volumes.



Why did large companies start closing professional potato production projects?

Everything is simple. Common opinion is that potato business is very profitable. You invest UAH 100 000 / ha and receive UAH 130,000–150,000. What other crop provides profit of 30 000-50 000 hryvnias per hectare? (100 000 UAH = +/- 3 100 EUR). But it all depends on how and what to count. F.e. soybeans, wheat or corn last year were much more profitable. For soybeans, for example, you spend 10 000 UAH per hectare, and you get 15 000-20 000 UAH, or 100% return of investments. It is important to mention that you can use the same field machinery for all these crops and its payback is almost instantaneous. At the same time the machinery for potato production is very specific, you cannot apply it nowhere but for potatoes. And it requires constant update and investments.

“Many potato farmers nowadays are investors. They expect the return of their investments.”

Many farmers today are just investors who came with money, and they are primarily interested in profitability. Small farmers with 100-200 ha of potatoes operate mainly as social projects in the rural areas. Their profitability is low however they provide jobs for local people and pay taxes to local communities. However large companies in the first place expect return on investment. And for potato business it is not easy due to too high market volatility.

ABOUT RETAIL AND STRATEGIC PARTNERS CLUB

We have two questions here at the same time. Despite the complexity of the business, 5% of the potato market in Ukraine is professional. Why do people go into this business and why do big producers leave it?

There is a certain cyclical nature of the market, which is reflected in fluctuations in purchase prices (if we talk about the segment of table potatoes). Those who have left the business say that potato growing is profitable only once every 4-5 years, and at intervals you do not have profit but invest. They are right to some extent, although I believe that with the right approach this would not be the case. I believe the company would not have been dealing with potatoes for 10 years or so with profit only once in 5 years. But in any case, this business is not easy. The farmers not only grow potatoes, they need to store it and supply all year round. It is necessary to create some added value, sort potatoes, wash, pack. At the level of the Association of Ukrainian Potato Producers we promoted these ideas among Ukrainian farmers, provided them with advice and technologies. But unfortunately very few farmers have expressed the willingness to develop in the direction of creation of added value. But the link to you customer is possible only via your own brand. This is the only way to become interesting for retail. There was an idea of cooperation under a common brand, but it was also very difficult to move it forward.

The International company Syngenta is currently creating a similar model of cooperation through the Strategic Partners Club. In your opinion, will they succeed?

Indeed, the idea is absolutely correct - through cooperation and a quality product we will be able to build an effective modern market. This is a very, very slow process and will take a long time. First of all, it requires promotion of the whole idea and educational work, which is exactly what Syngenta does. Now we can see how it works in the Western Europe, and based on this experience form a vision for the development of potato sector for Ukraine. It is difficult to say whether it will be in five or in 10 years. However, it is important to do this, and we at AGRICO already do this: we grow potatoes using European technologies, control the use of pesticides and crop protection agents and promote this concept among our customers.



Agrico Ukraine

“Through cooperation, we will be able to build an effective modern market. This is a very slow process and will take a long time”

But there is one paradox - let's say a farmer is ready to control everything, not to use GMO, ensure traceability of products from every field, keep records. All this actions cost extra money, but retail is not ready to pay for this.

Please explain how cooperation with retail is organized in Ukraine.

Our company has small volumes of table potatoes, and we work with two operators - "Metro" and "Goodwine". These companies want to have a pesticide residue analysis for each batch that comes in, which costs us 3 000 UAH each time. "Goodwine" agrees to include these costs in the purchase price. "Metro" says: "We are not ready to pay more than the market price, but we have regular payment, image, we will provide you with good place on our counters etc." In both cases the position of retail is clear. Unfortunately, other networks state their European standards only in words, and farmers are facing unclarity and unfavorable conditions.

Although the situation here is two-sided. Sometimes it happens that the price in the contract with the retail chain is lower than the market price. This year we contracted 800 tons of potatoes at 4,8 UAH / kg, and we could sell it at 8 UAH / kg. We fulfilled our obligations - I understand that before that, for three years, our partners from retail fulfilled theirs and this allowed my business operate profitably.

ABOUT IMPORT AND PRICE

And yet it is unclear why with such a level of production and opportunities for development in retail we see a lot of imported potatoes?

The most representative period for potato sector is September-October – when potato of previous season is already sold out from storages. Two years ago, the potato price during this period was very high due to bad weather conditions. The season started with the price UAH 14 / kg. This is a lot even for Kyiv, and for smaller towns like Chernihiv it was absolutely unprecedented price. So the farmers decided: hold on, the price will be even higher, let us say 1 USD per kilogram. At the same time retail announced that they are not ready to buy potato for UAH 14 / kg, and signed contracts with Belarusian suppliers for UAH 8-10 / kg. After potato from Belarus the import from Russia has started. As a result during 2020 Ukraine imported 500 000 tons of potatoes. For comparison the average import is 15 000-20 000 tons!

Then, in spring 2021 the farmers offered the same potato for 3,8-4 UAH / kg, however retail was full with imported potato delivered from the Netherlands, Belgium, Poland... This season retail again is looking at the suppliers from Belarus stating: "We already have our own farmers in Belarus, we can track where the goods come from. Why should we agree on UAH 7-8 / kg, if we will buy UAH 5 / kg there ". I hope that this year the situation will gradually improve - it cannot last several years in row.

Should there be a regulator on the market to prevent such situations, lobby interest of local producers, etc.?

The Antimonopoly Committee of Ukraine intervened in the situation last year, but, unfortunately, in this market (I will not say about others) it does not work. At that time, many Ukrainian farmers came to the committee's attention, no matter how much potato they sold during the period of rising prices, 20 tons or 100 tons. Even my company was under attention, three times we provided explanation that haven't raised the price since we had our contracts with retail which we fulfilled. And in general we could not influence the market with our volume of 120 tons of potatoes, while the total import was 500,000 tons...

"Ukraine imported 500 000 tons of potatoes during 1 year, while previously the average import was 15 000-20 000 tons"

It seems to me that the biggest problem in the market is not the presence or absence of a regulator, but communication. Farmers like me do not want to deliver potatoes to 10 networks every day and simply do not have such possibility. In order to do so I would need to create a separate company, hire people, buy specialized transport. MY main task is to grow quality products and store it for a whole season. In Ukraine, there is a lack of companies that for affordable price can provide farmers with logistics services. In the Western Ukraine everything is simple: the farmer knows that today he has to prepare four pallets of potatoes, then a truck arrives and picks the goods. In Ukraine it is still a very complicated issue, the supplier not only loads the truck, but also checks the delivery to every retail point and is involved in a number of other operations.

ABOUT PROCESSING AND STORAGES

We discussed that potato processing in Ukraine is only up to 5% of the professional potato market. So it turns out that Ukraine consumes imported processed potatoes? Why isn't this segment growing?

Processing in Ukraine is gradually growing, but, indeed, we mostly consume imported potato products. For example, French fries potato completely imported. McDonald's chain imports their French fries from Poland, Belgium, and the Netherlands. There is a small factory for the production of French fries in Chernihiv (Northern Ukraine), now they are building a more powerful production in Cherkasy (Central Ukraine). But keep in mind that the entire Ukrainian market of French fries is only 15 000-20 000 tons per year, however for profitable and competitive production you need a line with a capacity higher than the local production. And this requires the guaranteed export possibilities, which is currently not that easy to do for Ukrainian companies.

"Potato processing is a very energy-intensive procedure, and the cost of electricity and gas in Ukraine is higher than in Europe."

We did the researches and evaluated the situation in Ukraine but even processing potatoes into starch due to the high cost of energy, is higher than in China.

Does this factor obviously affect storages? Does farmers want to invest in potato storages?

About 5-7 years ago there was a real boom in investment from bank capital into potato and vegetable storages. That time the cost of potatoes was at the level of 1,5 UAH / kg, and the selling price was 3,8–4 UAH. In total storages for total capacity 120 000 tons have been constructed. The calculations were based on payback period maximum 3 years. Although from my experience it is usually five or seven years. Those storages were used only for couple of seasons



When investing in potato storage it is necessary to analyze at least the last 16 years of potato business. As I explained earlier the good year is only once in 4-5 years. With this information an investor can understand what cycle he is entering the market and what will be a payback period. Companies which are new to potato business often make mistakes when look back on the price of couple of last years, especially when the potato price is lower than the production cost.

ABOUT PERSPECTIVES

Based on our conversation, it is clear that this is a very complex and not very profitable business. Why do you keep doing it?

First of all, I like potato business. And I already have a lot of experience since 2005. I and my team are ready to share this experience with everyone interested, we strive to see more successful potato companies in Ukraine. It's a kind of creativity – some people like painting, and some create successful companies and produce food for others. When you see that your business model works, you get real satisfaction.

There are successful farms in Ukraine that are professionally engaged in potato business. For example, company “Adelaida” started with production of early potato for fresh market in the Kherson region (South of Ukraine), later they started to grow their own seeds in Zhytomyr region (North of Ukraine), and later they launched production of later varieties for storing. Another good example is a company with the TM “Impak” - they have about 400 ha of potatoes in the Zhytomyr region and in other parts of Ukraine.

How do you see the future of the market?

We organize different seminars for potato network and we see more and more young people in this business. Potato business makes their lives, they have various application in their smartphones, they know all their fields.

We created our test field for these young people - to demonstrate them the best practices at every state of potato production: irrigation, fertigation, control of pesticide residues.

“Young people come to potato business”

In nearest future the potato, that Ukrainian farmers used to grow will not be needed in Ukraine. Retail chains and consumers have already "tried" quality potatoes from Belgium, Poland and the Netherlands and expect the same quality from Ukrainian suppliers. Focus on quality is the future of this market.

