

## **Study in brief**

This study has been made for the target in mind to encourage Finnish food processing companies to establish their economic activities in Russia and Ukraine. The growth potential in Finland has been fully utilized. Moreover, the direct export has attained its limits. Common agriculture policy (CAP) in EU will in the long run push Finland's farms to specialize, grow and also move into multi business entrepreneurs. Food processing industry has its place to process the raw material in that chain. The scale of food processing companies is limited by the supply of Finnish raw material. Because international food processing companies grow by consolidation and green field investment especially in former socialist countries, Finnish companies have to follow the suit or being consolidated. Finnish evidence shows right strategic development in our neighboring countries. However, Ukraine, Belorussia and Caucasian countries are the areas where Finnish technology and knowledge transfer should be directed to, either by own resources or in partnership with European big food processing companies. The food processing companies should imitate the pattern of Finnish technology industry which employs an equal number of employees abroad as in Finland.

# **Structural development and change of the Finnish food processing industry 1995 - 2005 and challenges to make FDI's to Russian and Ukrainian markets**

Pekka Lehtonen, Arseniy Svynarenko

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In the project preparation we got valuable advice from Professor Matti Ylätaalo and MD Ensio Hytönen. They also commented the manuscript in several phases. Aleksanteri Institute has included this research report in their electronic report series. Suomen Kulttuurirahasto contributed the research by funding to the project. We express our warmest thanks for their inputs.

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Authors

## **Abbreviations**

FDI - foreign direct investment

FDI Flows. For associates and subsidiaries, FDI flows consist of the net sales of shares and loans (including non-cash acquisitions made against equipment, manufacturing rights etc.) to the parent company plus the parent firm's share of the affiliate's reinvested earnings plus total net intra-company loans (short- and long-term) provided by the parent company.

For branches, FDI flows consist of the increase in reinvested earnings plus the net increase in funds received from the foreign direct investor.

FDI flows with a negative sign (reverse flows) indicate that at least one of the components in the above definition is negative and not offset by positive amounts of the remaining components.

FDI Stock. For associate and subsidiary enterprises, it is the value of the share of their capital and reserves (including retained profits) attributable to the parent enterprise (this is equal to total assets minus total liabilities), plus the net indebtedness of the associate or subsidiary to the parent firm. For branches, it is the value of fixed assets and the value of current assets and investments, excluding amounts due from the parent, less liabilities to third parties.

CEE – Central and Eastern Europe

IPO – Initial public offering

## **Introduction: goals of the study**

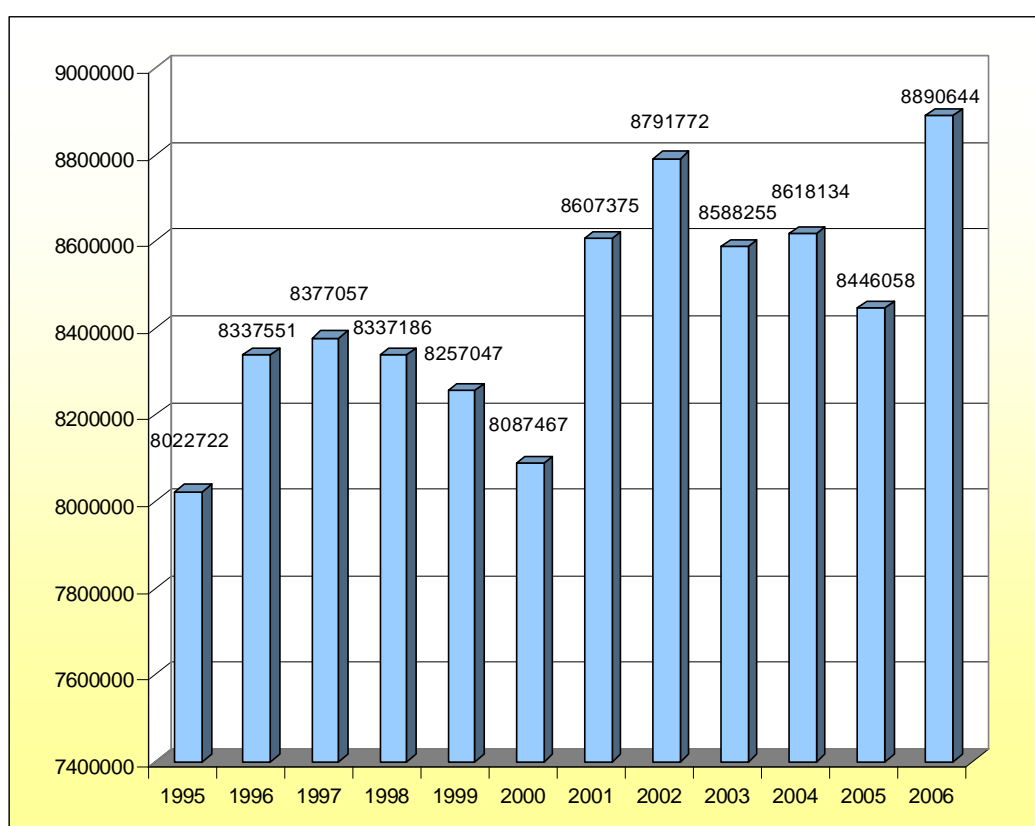
The main aim of this study is to examine the changes in Finnish agricultural and food processing industry between years 1995-2005. In Part 1 the study looks into major output indicators by categories of production. Comparisons of profitability of agricultural producers between EU countries will also be made on annual basis 1995 - 2004. In Part 2 the emphasis will be on international aspect and possibilities of Finland's agricultural business agents, target countries being Russia and Ukraine. For that purpose trade flows between the target countries and Finland are analyzed. Also some trends will be identified for the future. Analysis is made for understanding the basis of agricultural business activities of Finland and the target countries, the final goal being to help Finnish food processing companies to internationalize their businesses by entering markets via direct foreign investments (FDI). Further FDI studies will be carried out by joint cooperation of the investing food processing companies and Aleksanteri Institute, University of Helsinki. This FDI stage is under preparation.

## Part One. Finnish food processing industry and agricultural producers: a decade of growth

### 1. Finnish food processing industry between 1995 and 2005

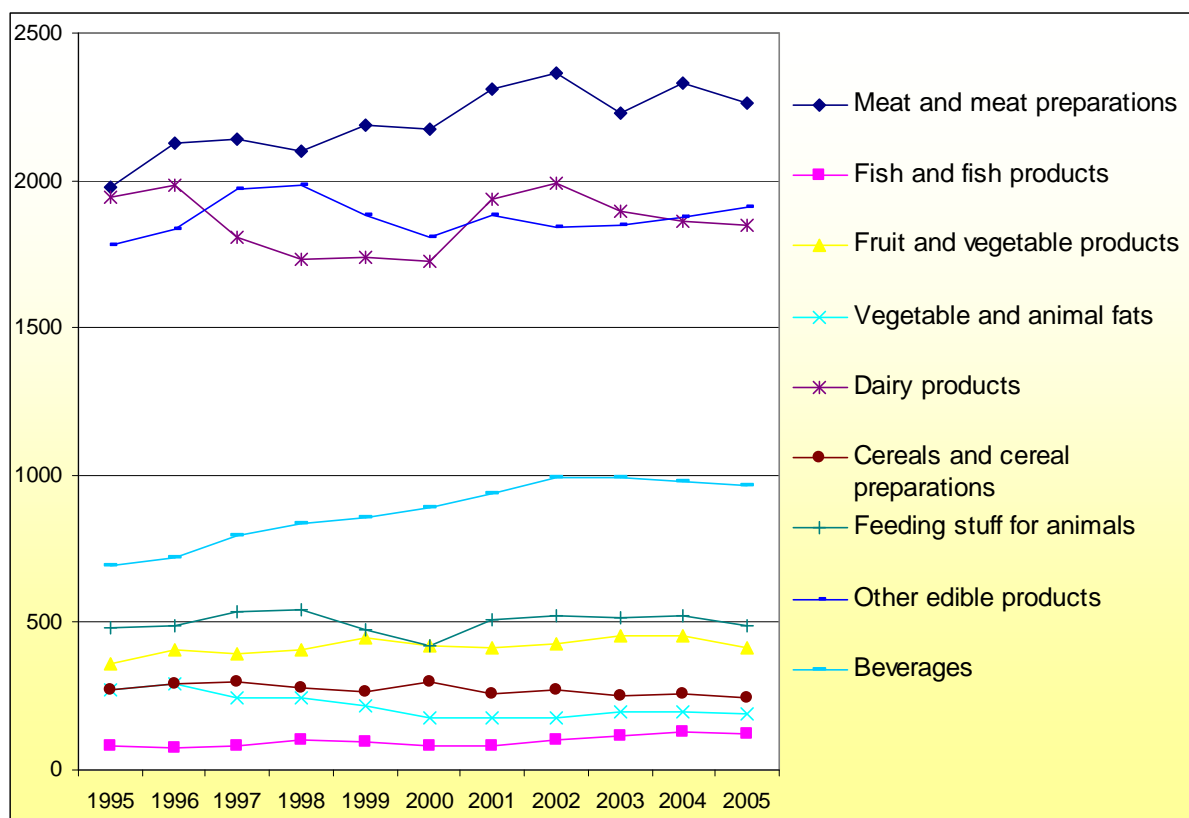
#### 1.1. Finnish food processing industry: annual values of production

Production of food and beverages is a well performing branch of Finland's national economy. During the past decade there was an overall positive tendency in its development. Between 1995 and 2006 the value of produced food, beverages and tobacco grew by 10.8%.



**Figure 1.1. Food, beverages and tobacco production in Finland. Annual production values from 1995 to 2006. In 1000 Euros. Source: Statistics Finland.**

The annual production values peaked in 2002 and 2006 at the level of 8.79 billion and 8.89 billion Euros (Figure 1.1). Both periods exemplify the industry's capabilities for fast recovery from previous declines. From the low point in 2000 to its peak in 2002 production grew by 8.7% and from the next low point in 2005 to the new peak in 2006 – by 5.26%.



**Figure 1.1a. Compared annual production (by product type) in Finland between 1995 and 2005. In 1 000 000 Euros. Source: Statistics Finland.**

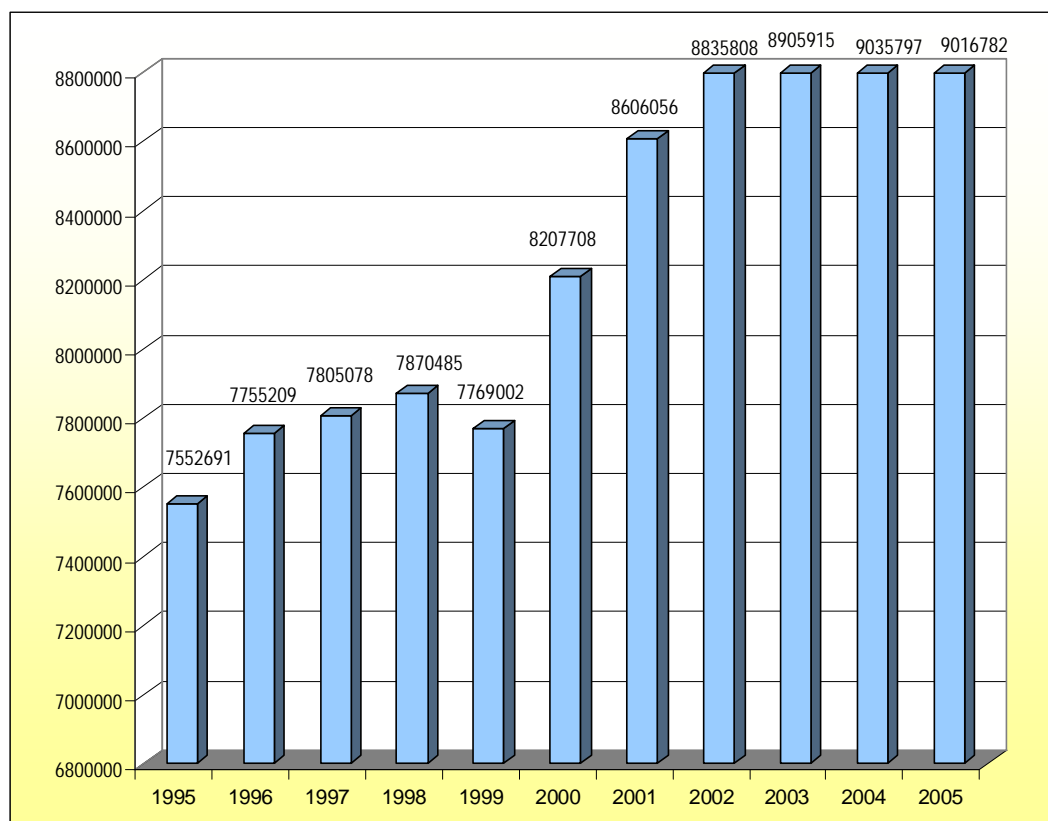
This respective period the Finnish food industry did not witness significant structural change (Figure 1.1a). Two branches are undisputed leaders in the industry. These are meat production with 26.8% in 2005, and manufacture of dairy products with 21.9% of total food production (Table 1.1a). The least value of production in 2005 was registered in the fisheries and production of fish products at 1.4 percent – although it is a branch with the highest growth of production (this will be shown later in figure 1.11).

**Table 1.1. Comparison of annual production (by product type) in Finland between 1995 and 2005. In percents to total production of beverages and tobacco production. Source: Statistics Finland.**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
meat and meat products	25.1	25.9	25.9	25.5	26.8	27.2	27.1	27.2	26.2	27.1	26.8
fish and fish products	1.1	0.9	1.0	1.2	1.2	1.0	1.0	1.2	1.4	1.5	1.4
fruit and vegetables	4.6	5.0	4.7	4.9	5.5	5.2	4.9	4.9	5.4	5.3	4.9
vegetable and animal oils and fats	3.5	3.5	3.0	3.0	2.6	2.2	2.1	2.0	2.3	2.3	2.2
dairy products	24.7	24.1	21.9	21.1	21.3	21.6	22.7	22.9	22.3	21.7	21.9
cereals and cereal preparations	3.5	3.5	3.6	3.4	3.3	3.8	3.0	3.1	3.0	3.0	2.9
prepared animal feeds	6.2	6.0	6.5	6.6	5.8	5.2	6.0	6.1	6.1	6.0	5.8
other food products	22.6	22.3	23.8	24.1	23.1	22.6	22.1	21.2	21.7	21.8	22.6
beverages	8.8	8.8	9.6	10.1	10.5	11.1	11.0	11.4	11.7	11.4	11.4

## 1.2. Annual turnover in Finnish food processing industry

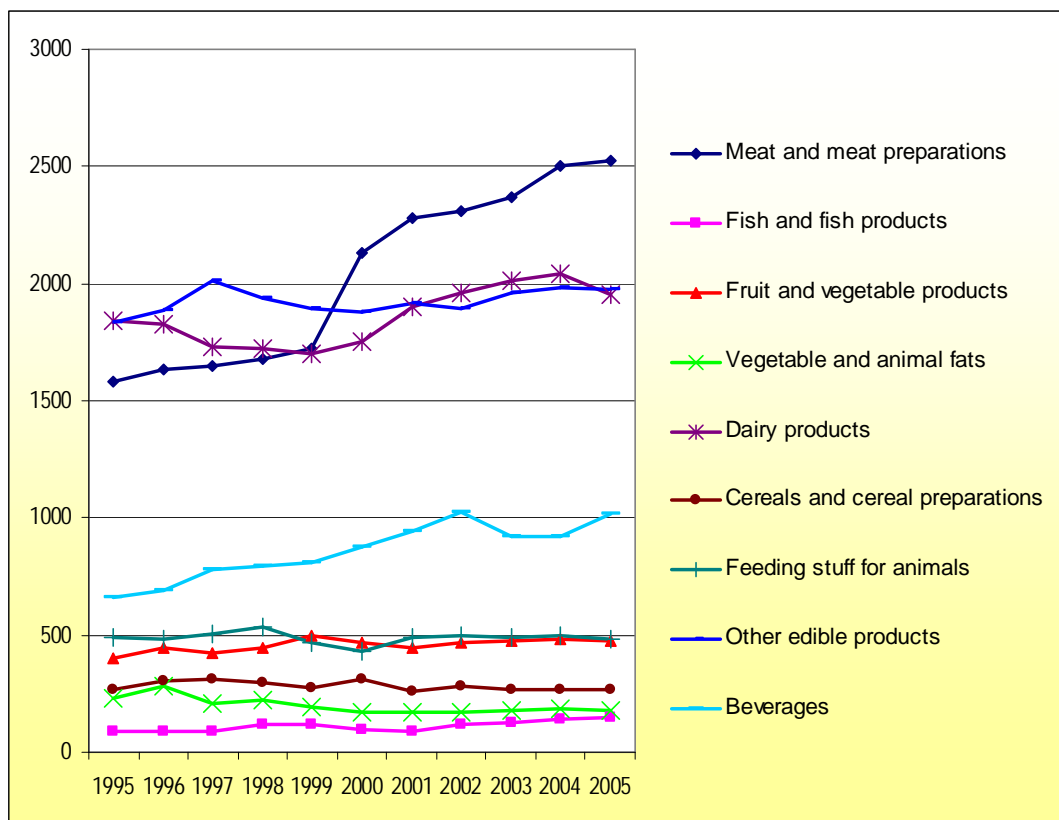
Despite of overall growth, there were evident annual fluctuations of the production values of Finnish food processing industry. The annual reports about turnovers demonstrate a greater degree of consistency the development if this sector. Indeed the major growth in the annual turnovers took place between 1999 and 2002. During this period the annual turnovers grew by 13.7 percent, from 7.76 to 8.83 billion Euros (Figure 1.2).



**Figure 1.2. Food, beverages and tobacco production in Finland. Registered annual turnover, from 1995 to 2005. In 1000 Euros. Source: Statistics Finland.**

While in 1995 the annual turnover in food industries amounted only 7.55 billion Euros and in following four years the industry's development stagnated, some ten years later in 2005 turnover amounted 9.01 billion Euros. A remarkable fact is that while the turnover in food industries remained very stable between 2002 and 2005 and growth was 2 %, on contrary the value of production declined by almost 4 percent during the same period (see Appendix 3).

The largest turnovers in Finnish food industry were registered in production of meat and dairy products (Figure 1.2a). Furthermore, the turnovers in these two branches demonstrated significant growth between 1995 and 2005.

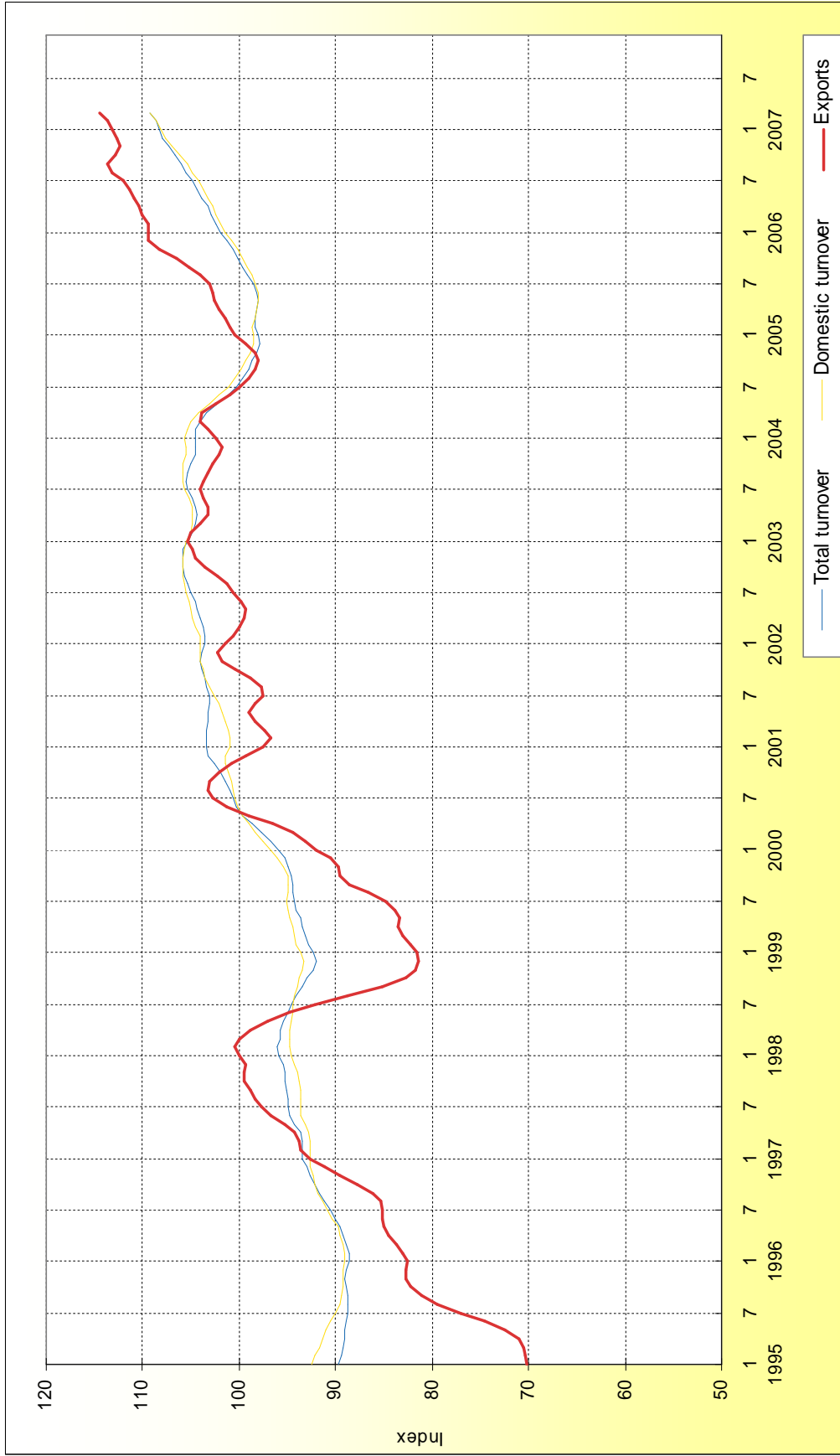


**Figure 1.2a. Comparison of annual turnover in Finnish food processing industry (by type of product). Between 1995 and 2005. In 1000 Euros. Source: Statistics Finland.**

### ***1.3. Finnish food processing industry: comparison of total turnover, domestic turnover and exports***

Exports reflect both general tendencies in the development of Finland's food industry and the development of international markets. Between 1995 and 2005 the value of exported food products, beverages and tobacco grew by impressive 25 percent (see Figure 1.3)

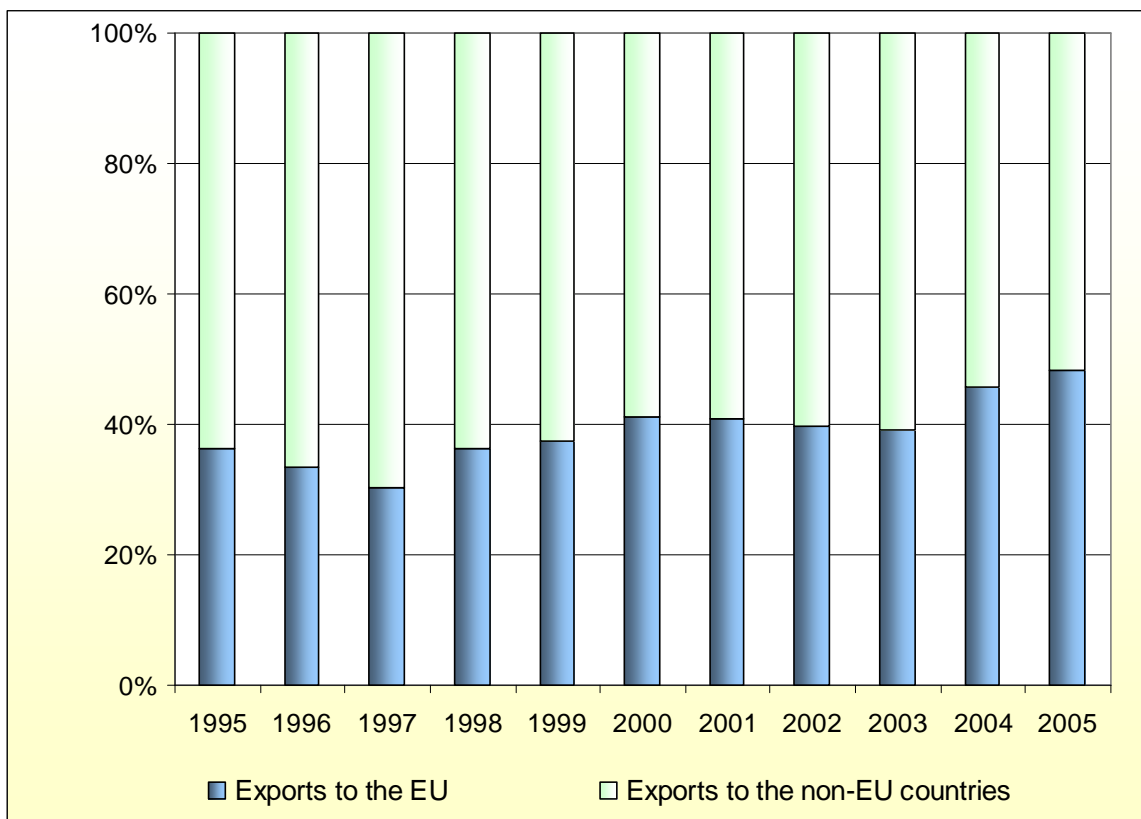
There is an evident growth in both in food industries' turnover and exports between 1995 and 2007. In 1995 Finland exported food products for the total value of 789 million Euros which was the lowest value during the eleven year period. The international crisis (particularly the crisis of the Russian economy) in 1998 significantly undermined the exports of Finnish food products. A short-term growth in the value of exports to 1 billion Euros in 1997 was followed by a significant decline. In 1999 exports dropped down by 189 million to the level of 815 million Euros. Nonetheless, this crisis had little impact on the domestic turnover of the Finnish food industry and exports did recover rapidly in the next few years (see Appendix 4). After 1999 the value of exports continued to grow and reached 987 million Euros in 2005. It is important to highlight that despite of the significant fluctuations in the values of exports there was little change in the proportion of exports to the overall value of production. In 1995 some 9.8 percent of Finnish food products were exported and by 2005 the value of exports grew only by 1.2 percent point to the level of 11.1 percent.



**Figure 1.3. Food, beverages and tobacco production in Finland. Comparison of indexes of total turnover, domestic turnover and exports, from 1995 to 2007. 2000=100. Source: Statistics Finland.**

#### **1.4. Food, beverages and tobacco exports from Finland to the EU and non-EU countries**

The gradual growth of Finnish exports of food and beverages to the EU coincided with the expansion of the EU during the recent decade (Figure 1.4). In 1997 Finland's exports to non-EU countries peaked mostly because of increased share of exports to Russian Federation (at that time Russian agricultural production suffered a major decline). After a short period of steep decline between 1998 and 1999 the value of Finland's exports to the non-EU states remained relatively stable at around 500 million Euros each year.



**Figure 1.4. Food, beverages and tobacco exports from in Finland to the EU and other countries between 1995 and 2005. In percents of total exports. Source: Statistics Finland.**

Between 1995 and 2005 the exports to the EU countries grew by 66 percent, while exports to non-EU countries grew by only 1.3 percent (Appendix 5). Both closer integration of Finland into the EU and the expansion of the EU had an important impact on Finland's trade with the EU and non-EU countries. In 1995 exports to the EU countries were 1.7 times smaller than exports to outside of the EU. Already in 2005 exports almost equalized.

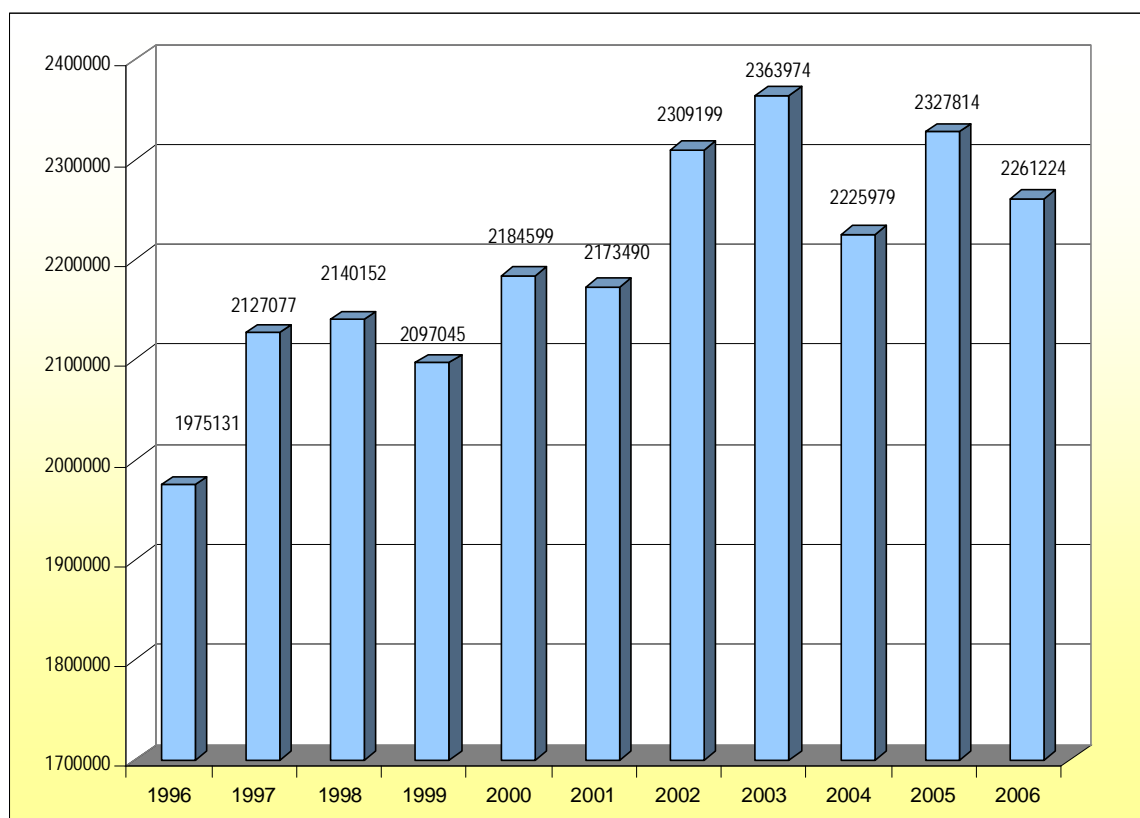
**Table 1.4. Comparison of annual exports (by type of product) from Finland between 1995 and 2005. In 1000 Euros. Source: Statistics Finland.**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Change %
Meat and meat preparations	50	50	71	58	64	104	102	102	120	131	109	118.0
Fish and fish products	4	5	7	13	8	5	7	8	7	8	12	200.0
Fruit and vegetable products	32	50	47	38	22	19	18	17	23	25	27	-15.6
Vegetable and animal fats	58	72	70	102	78	53	48	41	34	72	75	29.3
Dairy products	229	264	318	293	254	343	350	369	358	346	363	58.5
Cereals and cereal preparations	13	37	46	40	33	46	50	44	37	30	28	115.4
Feeding stuff for animals	12	14	33	37	34	15	22	21	18	18	21	75.0
Other edible products	235	266	258	243	198	208	186	180	203	206	240	2.1
Beverages	133	136	147	128	116	108	91	80	129	94	111	-16.5

The export of dairy products is among the leaders of the food exports from Finland and during the past decade it demonstrated a remarkable growth of 58.5% (Table 1.4). The absolute leader in the export growth was fish and fish products (the smallest branch of Finland's food industry) which grew by record breaking pace of 200%. They were followed by growing exports of meat and meat preparations. Between 1995 and 2005 exports of meat and meat preparation grew by remarkable 118%. Similarly grew exports of cereals and cereal preparations: 115%. On the contrary/Instead, the most significant declines were registered in exports of beverages as well as of fruit and vegetable products: -16.5% and -15.6% respectively. Dairy products are absolute leaders of the all food product exports from Finland with value of 363 million of Euros in 2006 (Appendix 6).

### **1.5. Structural indicators: Production of meat and meat preparations**

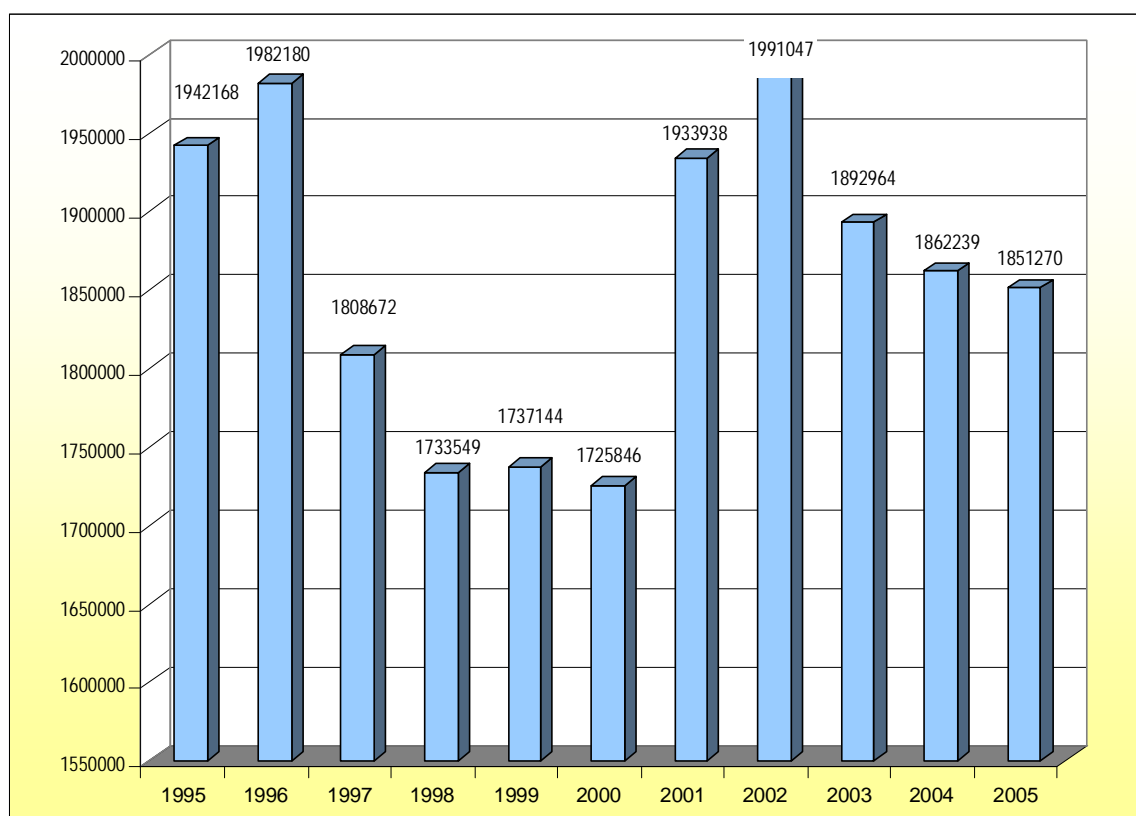
Production of meat and meat preparations is a leading branch of Finland's food industry. From 1995 to 2005 the total value of meat and meat preparations produced in Finland grew by 14.5 percent, from 1.97 billion to 2.32 billion euro (between 2005 and 2006 it dropped by 2.8 percent to 2.26 billion Euros). The highest value of yearly produced meat and meat preparations during ten years was registered in 2002 at the level of 2.36 million Euros (Figure 1.5).



**Figure 1.5. Production of meat and meat preparations in Finland between 1995 and 2005. In 1000 Euros. Source: Statistics Finland.**

## 1.6. Structural indicators: production of dairy products

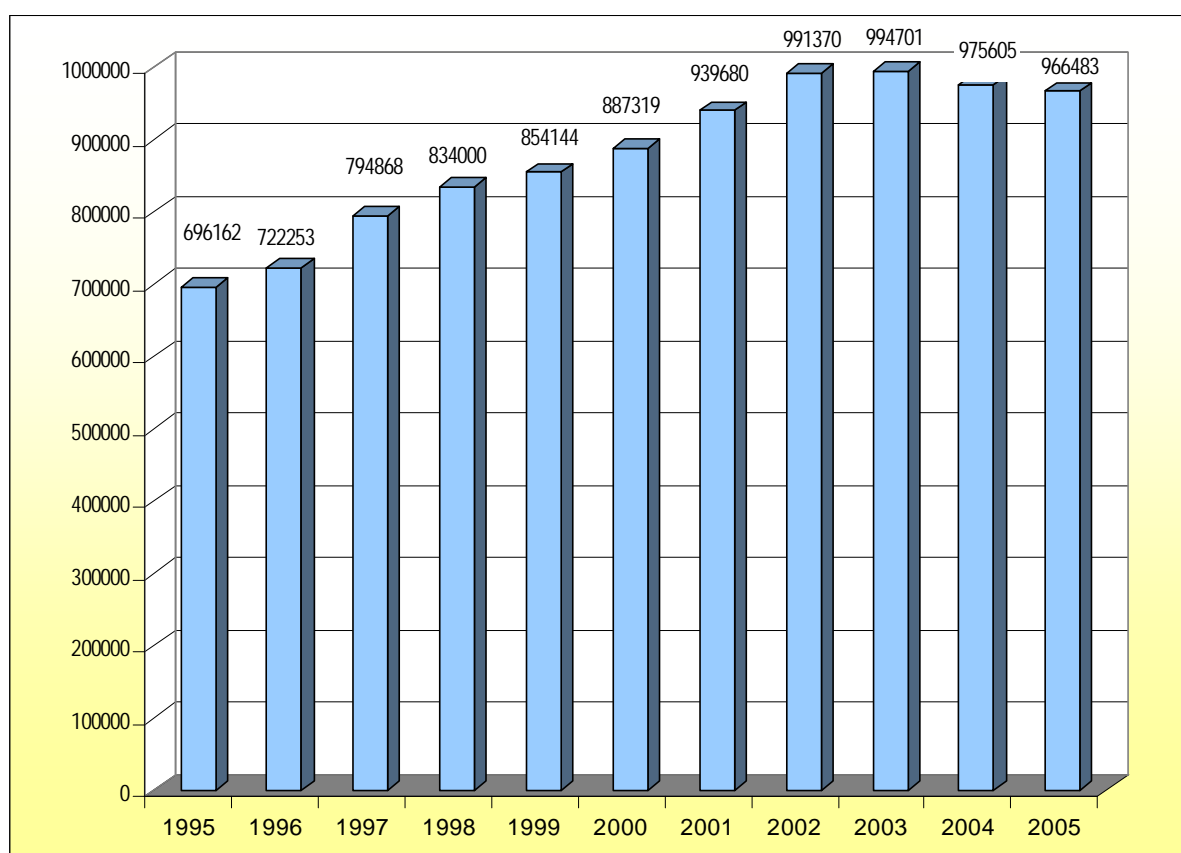
By the value of production, the manufacturing of dairy products can be regarded as the second largest branch of Finland's food industry, although between 1995 and 2005 the value of produced dairy products fell by 4.6%. This is a very dynamic and volatile branch?. Both in 1996 and 2002 the value of produced dairy products peaked to record levels of 1.98 and 1.99 billion Euros (Figure 1.6). The overall development of this branch of food industry during the passed decade was volatile with remarkable declines and subsequent recoveries in the value of production. Between 1996 and 1998 value fell by 12.5%. In 2000 manufacturing of dairy products fell further down to 1.72 billion Euros and rapidly grew by 15.3% to 1.99 billion in 2002. Already in 2003 the values started to drop again reaching the mark of 1.85 billion in 2005. During the period between 2002 and 2005 the overall decline was at about 7%.



**Figure 1.6. Production of dairy products in Finland between 1995 and 2005. In 1000 Euros. Source: Statistics Finland.**

### 1.7. Structural indicators: production of beverages

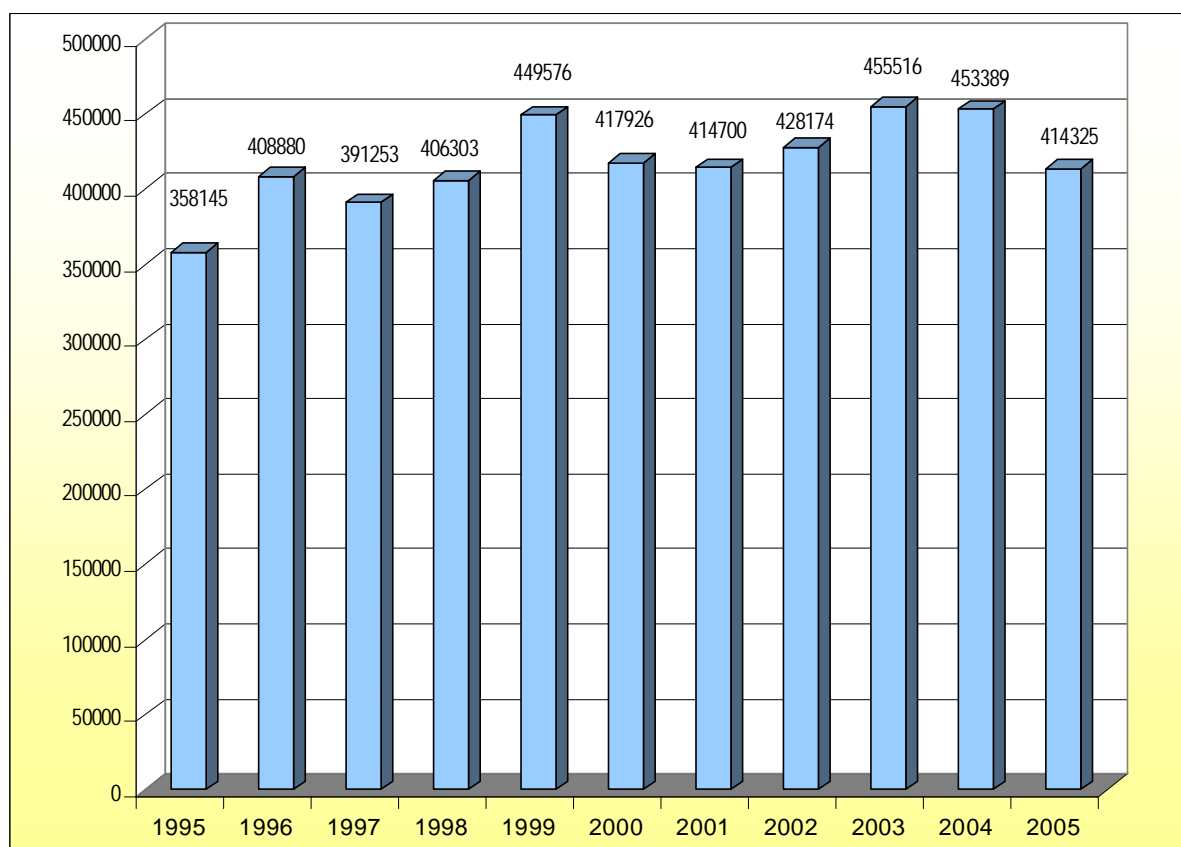
A very remarkable and highly consistent growth by 38.8% in the value of produced beverages was registered between 1995 and 2005. At the beginning of this period the value was 696.1 million and it grew by 298,5 million reaching its ten-year peak at almost one billion Euros (994.7) in 2003 (Figure 1.7). After 2003 there was only a slight decrease in the value of produced beverages: in 2004 and 2005 the registered values were 975.6 and 966.4 million respectively.



**Figure 1.7. Production of beverages in Finland between 1995 and 2005. In 1000 Euros. Source: Statistics Finland.**

### **1.8. Structural indicators: production of fruit and vegetable products**

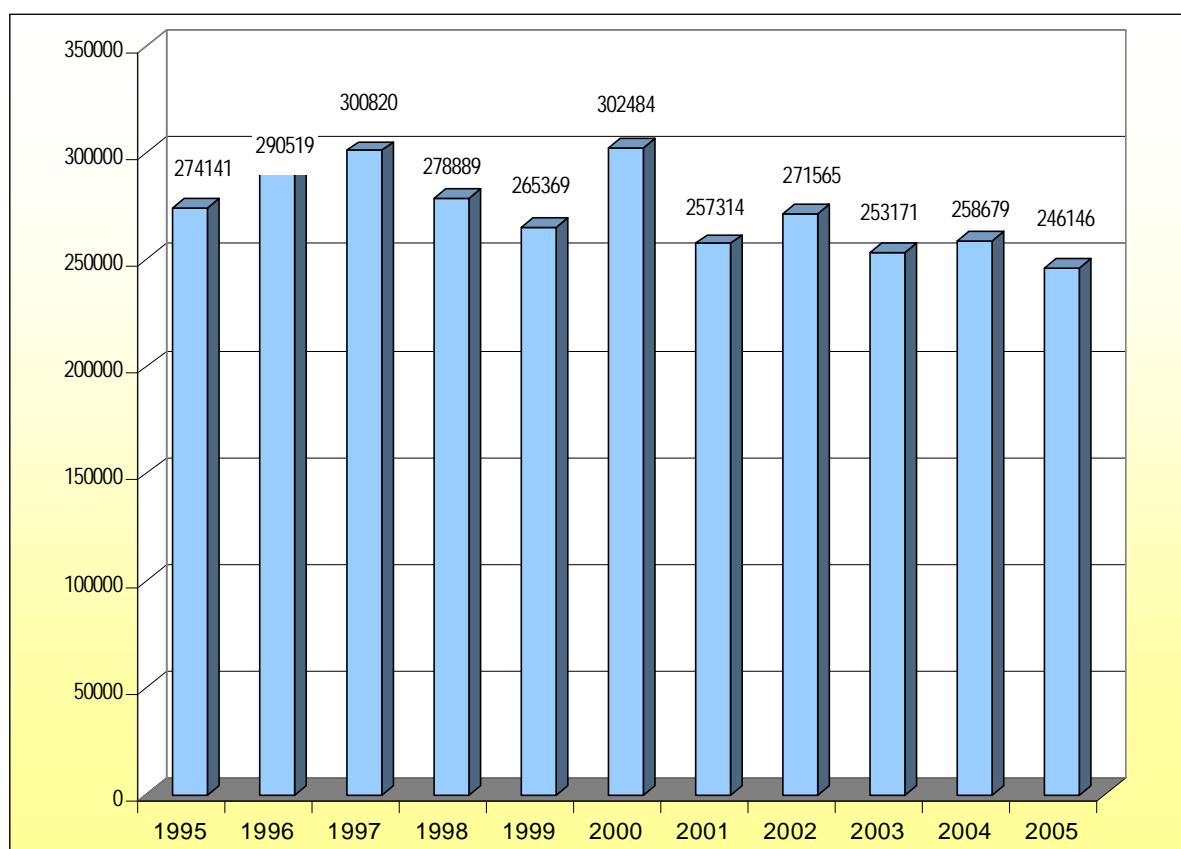
Since 1995 to 2005 the value of production of fruit and vegetables repeated the same pattern which was evident in the dynamics of production of many other food products. During the respective period the overall value of production grew by 15.6 percent, which is similar to the dynamics of meat productions. The highest yearly values were registered in 1999 at the level of 449.5 million Euros, in 2003 – 445.5 million Euros, and in 2004 – 453.3million Euros (Figure 1.8).



**Figure 1.8. Production of fruit and vegetable products in Finland between 1995 and 2005. In 1000 Euros. Source: Statistics Finland.**

### **1.9. Structural indicators: production of cereals and cereal preparations**

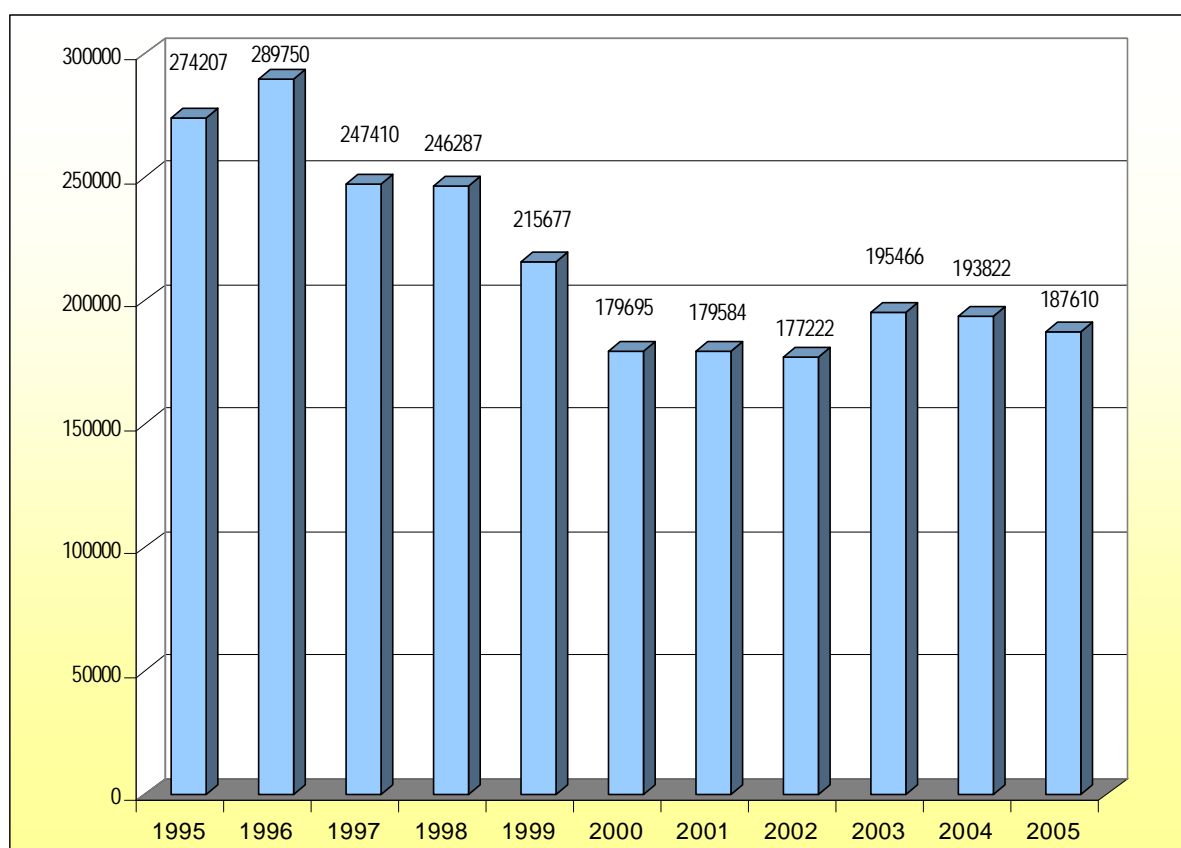
Unlike the production of dairy products, the value of produced cereals and cereal preparations did not witness significant fluctuations between 1995 and 2005, although the overall decline was at the level of 10.2%: from 274.41 million Euros in the beginning of this period to 246.14 million by its end (Figure 1.9). Value of produced cereals and cereal preparations peaked in 1997 and 2000 to 300.82 million and 302.48 million respectively.



**Figure 1.9. Production of cereals and cereal preparations in Finland between 1995 and 2005. In 1000 Euros. Source: Statistics Finland.**

### **1.10. Structural indicators: production of vegetable and animal fats**

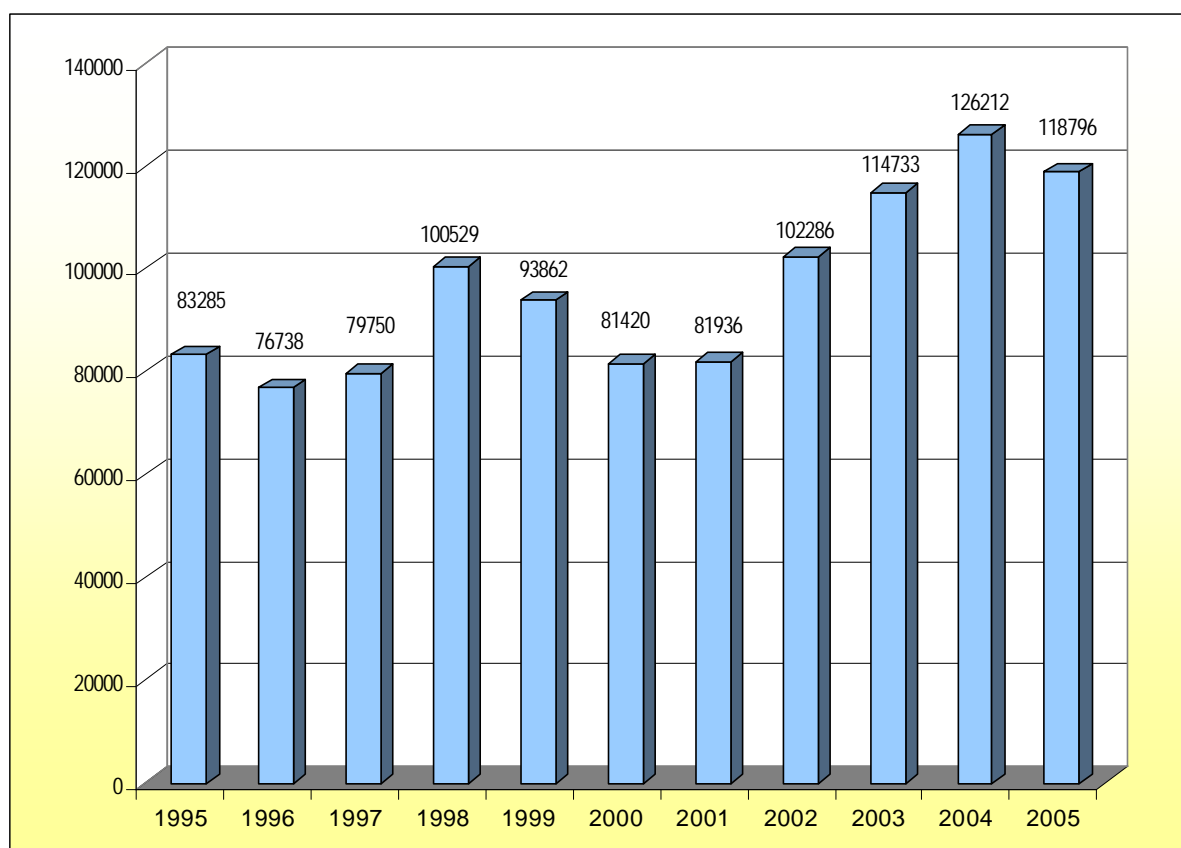
Since 1995 a production of vegetable and animal fats suffered a very significant decline of 31.5 percent. Major shift happened between 1996 and 2000 when the value of manufactured fats fell by 37.9 % from 289.7 million Euros in 1996 to 179.6 million only four years later (Figure 1.10). Since 2000 the value of manufactured fats changed little and totaled 187.8 million Euros in 2005.



**Figure 1.10. Production of vegetable and animal fats in Finland between 1995 and 2005. In 1000 Euros. Source: Statistics Finland.**

### **1.11. Structural indicators: production of fish and fish products**

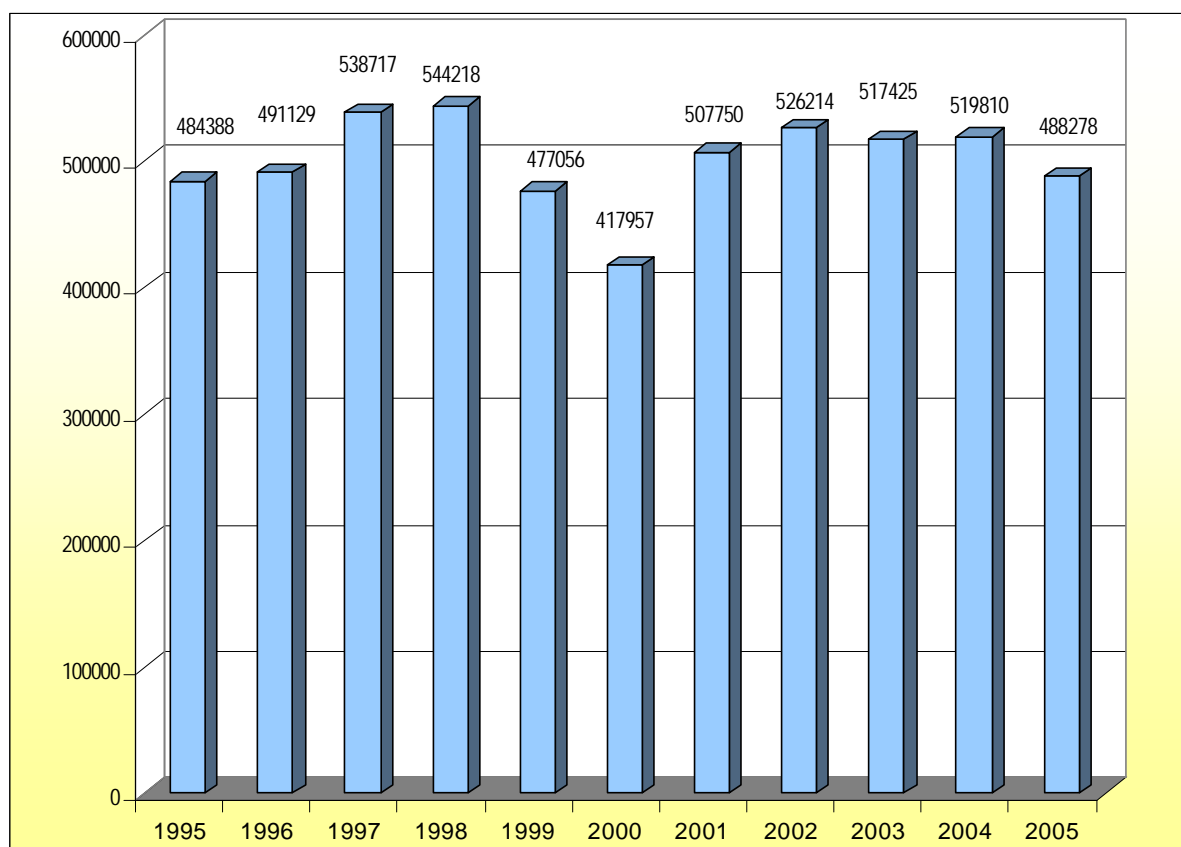
Production of fish and fish products has the smallest value of production among Finnish food industries. Nonetheless, between 1995 and 2005 this sector grew by the very remarkable 42.6 percent. During this period of time the value of production fluctuated between 76.7 and 126.2 million Euros (Figure 1.11). The lowest value was registered in 1996 while the most significant growth of production took place between 2003 and 2004 reaching the levels of 114.7 and 126.2 million Euros respectively.



**Figure 1.11. Production of fish and fish products in Finland between 1995 and 2005. In 1000 Euros. Source: Statistics Finland.**

### **1.12. Structural indicators: production of feeding stuff for animals**

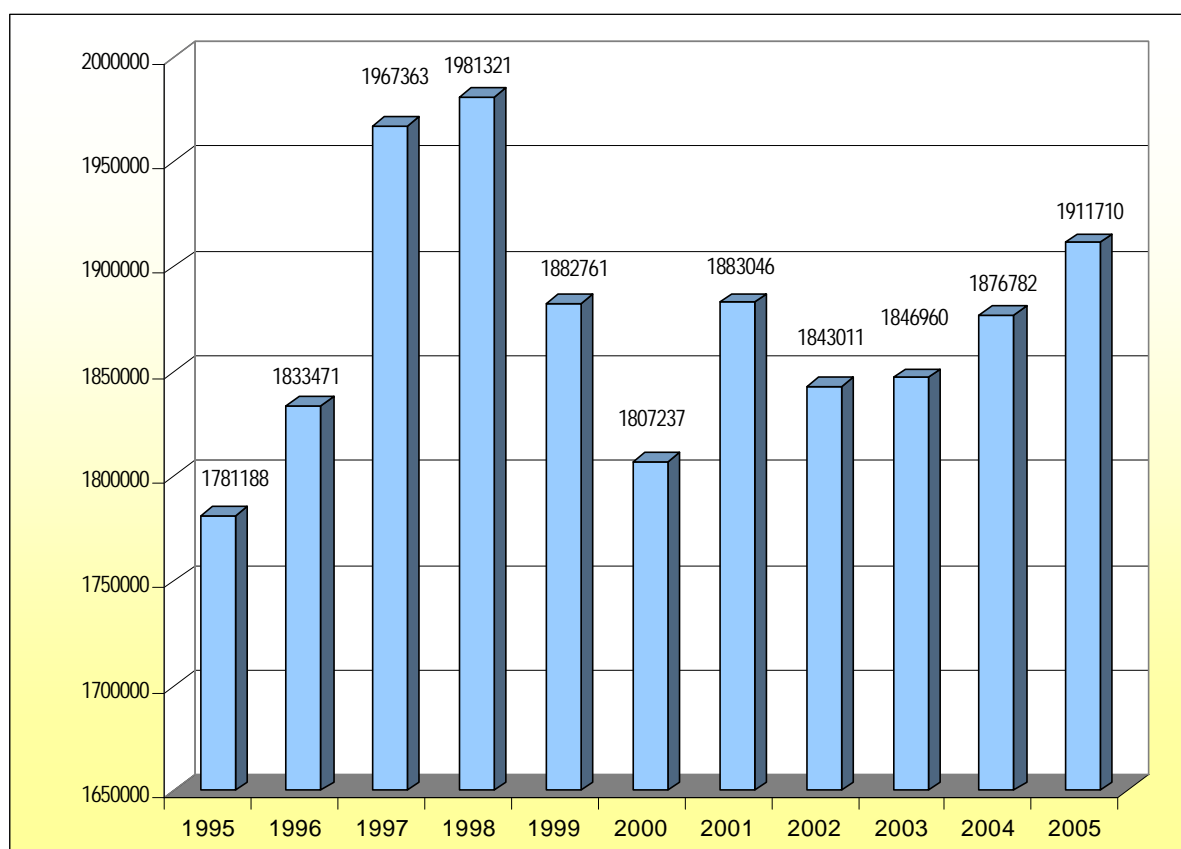
Between 1995 and 2005 the values of produced feeding stuff for animals in Finland were very stable. The average yearly value amounted at about 500 million Euros (Figure 1.12). Production peaked in 1998 at 544.2 million Euros, while the lowest value was in 2000 at 417.9. Although the growth of production of feeding stuff for animals was less than 1%, there was a 75% growth in the value of exports.



**Figure 1.12. Production of feeding stuff for animals in Finland between 1995 and 2005. In 1000 Euros. Source: Statistics Finland.**

### **1.13. Structural indicators: production of other edible products**

The decade that passed since 1995 brought about a steady growth in the production of other edible products which are not included in previous classifications. A remarkable level of production was reached in 1997 and 1998 with 1.96 and 1.98 billion Euros of values of production in respective years (Figure 1.13). In 2005 the value of produced edible products reached 1.91 billion Euros. The overall growth of production between 1995 and 2005 was 7.3%.

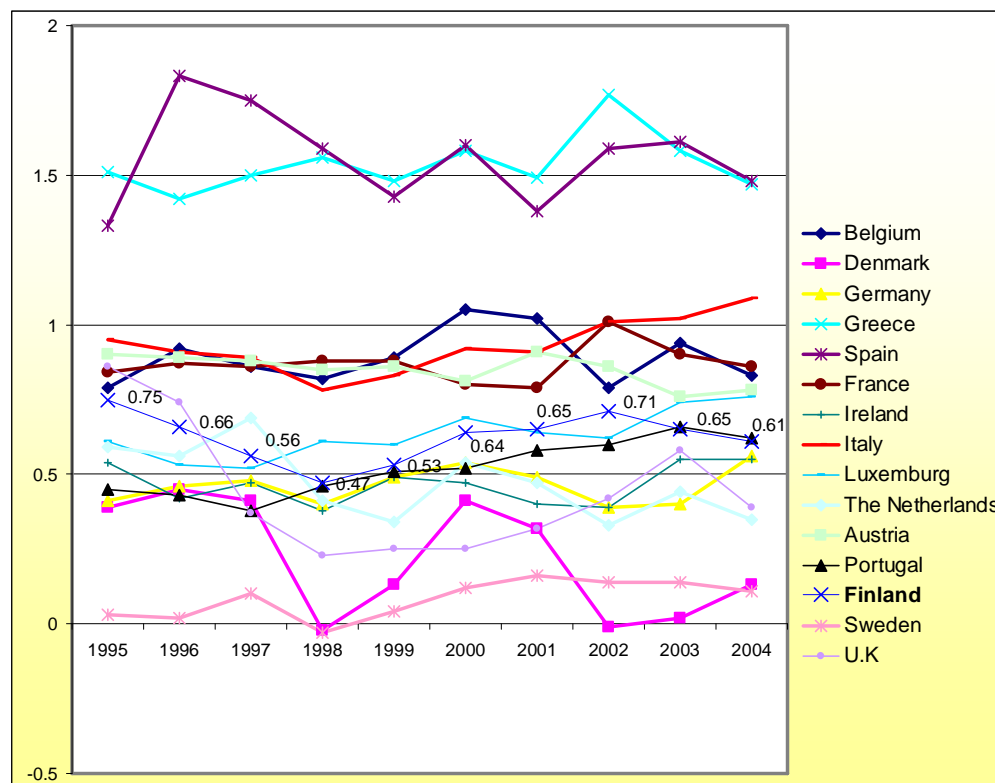


**Figure 1.13. Production of other edible products in Finland between 1995 and 2005. In 1000 Euros. Source: Statistics Finland.**

## 2. Profitability of agricultural producers in Finland compared to the other EU countries between 1995 and 2004.

### 2.1. Profitability ratio for farms in 15 EU member states

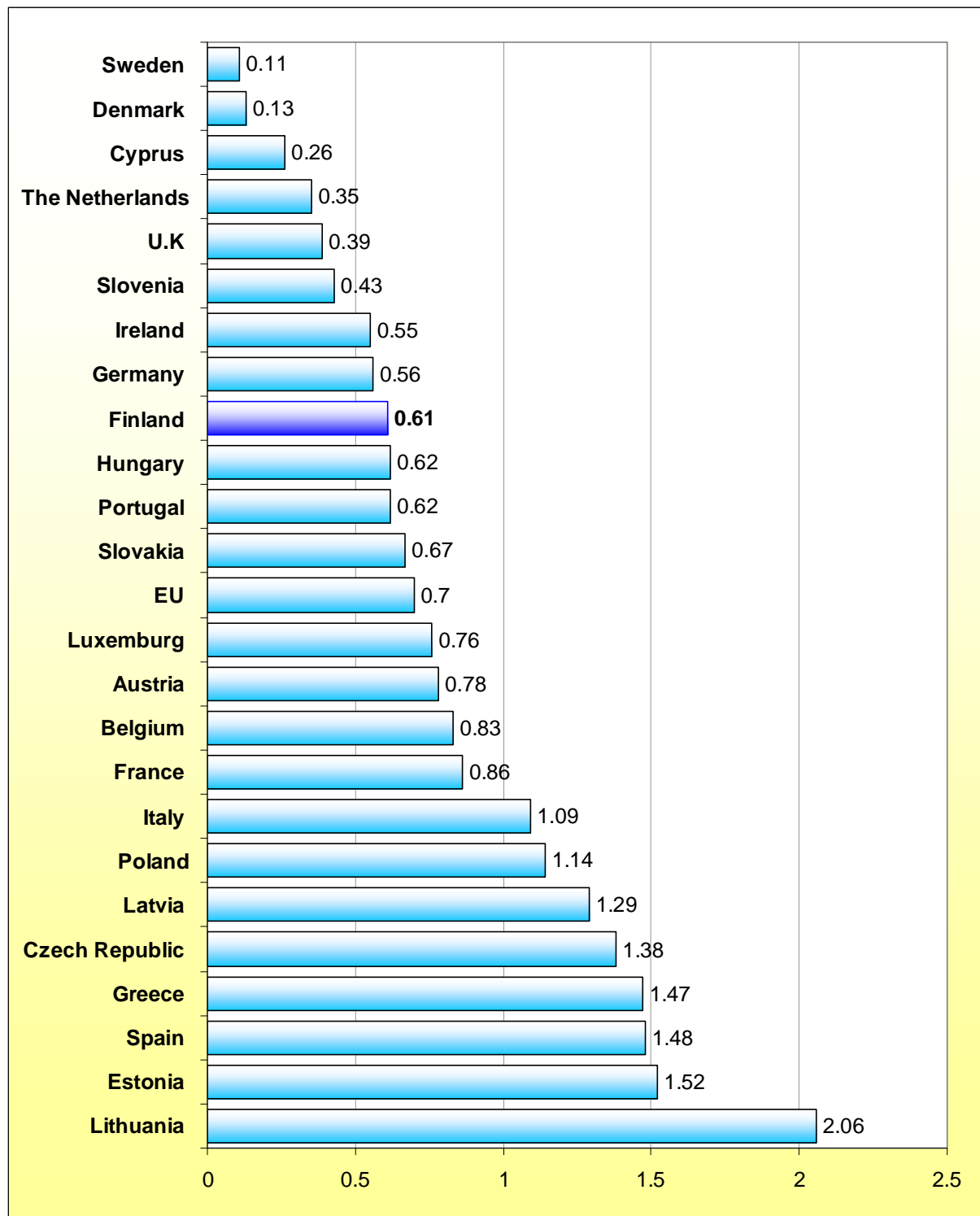
Within the EU the profitability<sup>1</sup> of farms is one of the very complicated issues. The profitability indexes calculated by MTT Economic Research demonstrate that in majority of EU member states, farms are not profitable. Only two EU countries, Greece and Spain consistently maintain profitable agricultural production from 1995 to 2004. Starting from 2002 also Italian farms became profitable. Despite of specific climate conditions, the profitability ratio for Finland's farms is higher than the EU average (in Finland 0.61 in 2004 comparing to EU average 0.7). In Sweden and Denmark farms have the lowest profitability.



<sup>1</sup> The profitability ratio is calculated by dividing Family Farm Income (FFI) by the sum of costs for family factors, i.e. the wage claim and the interest claim of agriculture (opportunity costs of family labour and equity). When the profitability ratio is 1.0 all production costs including costs of family factors (opportunity costs) have been covered and the entrepreneur's profit is zero. As a relative concept profitability ratio is well suited for comparisons between different years as well as farms representing different size classes and production sectors. The Family Farm Income (FFI) can be divided proportionately into the returns to the family factors, i.e. own labour and capital by the profitability ratio. When the hourly wage claim and the interest claim (%) are multiplied by the profitability ratio, we get the actually earned returns on the factors measured per working hour and interest rate. In this method labour and capital are considered to be equal as production factors. Source: MTT Economic Research

**Figure 2.1. Profitability ratio for farms in 15 EU member states from 1995 to 2004. Source: MTT Economic Research, Finland (statistics are not available for Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Slovakia, Slovenia between 2005 and 2003. Data for 2004 is given in a separate Figure)**

**2.2. Profitability ratio for farms in 24 EU states in 2004**



**Figure 2.2. Profitability ratio for farms in 24 EU states in 2004. Source: MTT Economic Research, Finland**

### 2.3. Profitability ratio for farms in Finland by production type

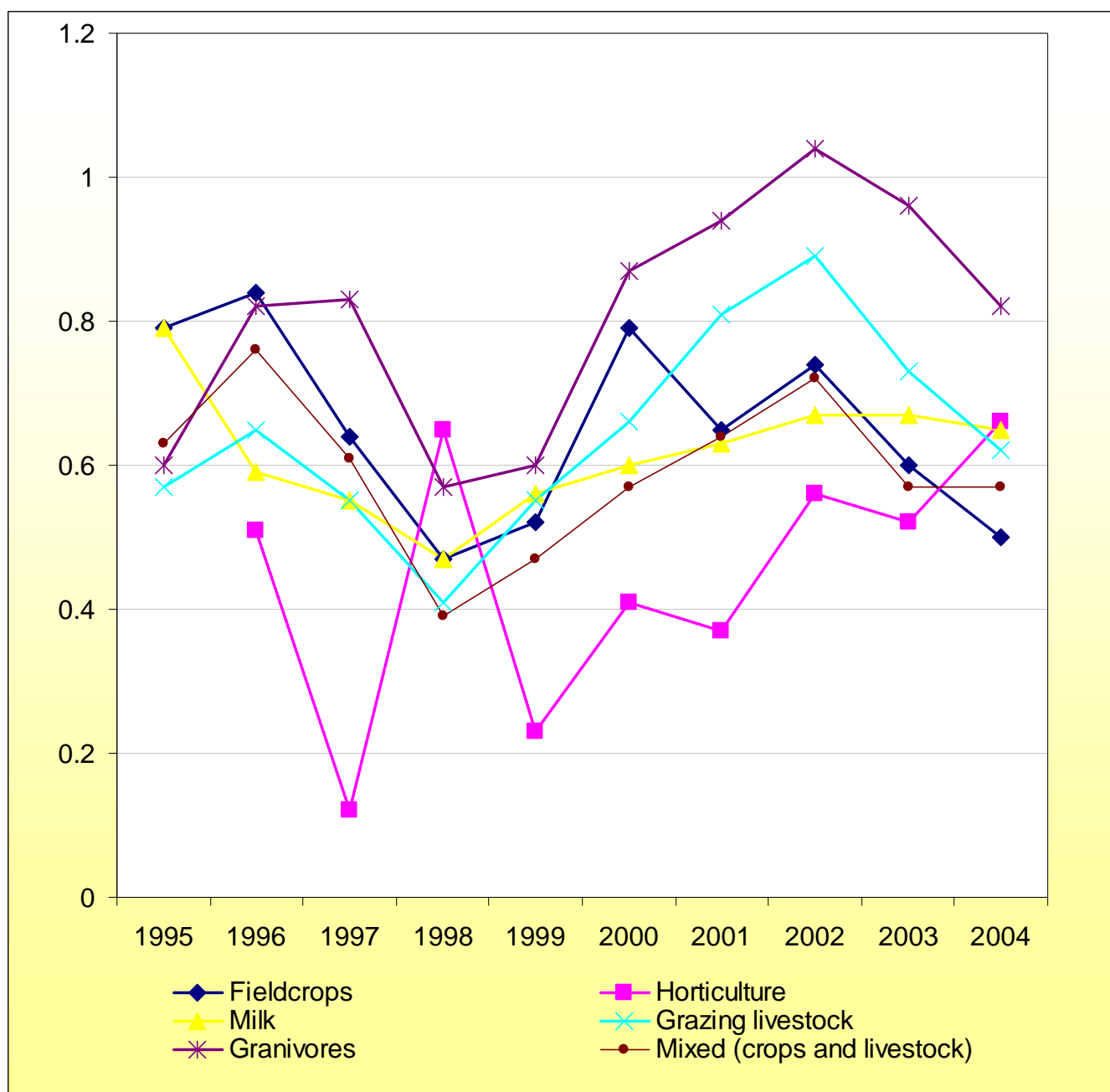


Figure 2.3. Profitability ratio for farms in Finland by production type from 1995 to 2004. Source: MTT Economic Research, Finland

Table 2.3.1. Profitability ratio for farms in Finland by production type from 1995 to 2004. Source: MTT Economic Research, Finland

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Fieldcrops	0.79	0.84	0.64	0.47	0.52	0.79	0.65	0.74	0.6	0.5
Horticulture		0.51	0.12	0.65	0.23	0.41	0.37	0.56	0.52	0.66
Milk	0.79	0.59	0.55	0.47	0.56	0.6	0.63	0.67	0.67	0.65
Grazing livestock	0.57	0.65	0.55	0.41	0.55	0.66	0.81	0.89	0.73	0.62
Granivores	0.6	0.82	0.83	0.57	0.6	0.87	0.94	1.04	0.96	0.82
Mixed (crops and livestock)	0.63	0.76	0.61	0.39	0.47	0.57	0.64	0.72	0.57	0.57

## 2.4. Profitability ratio for farms in Finland by production type (extended categories)

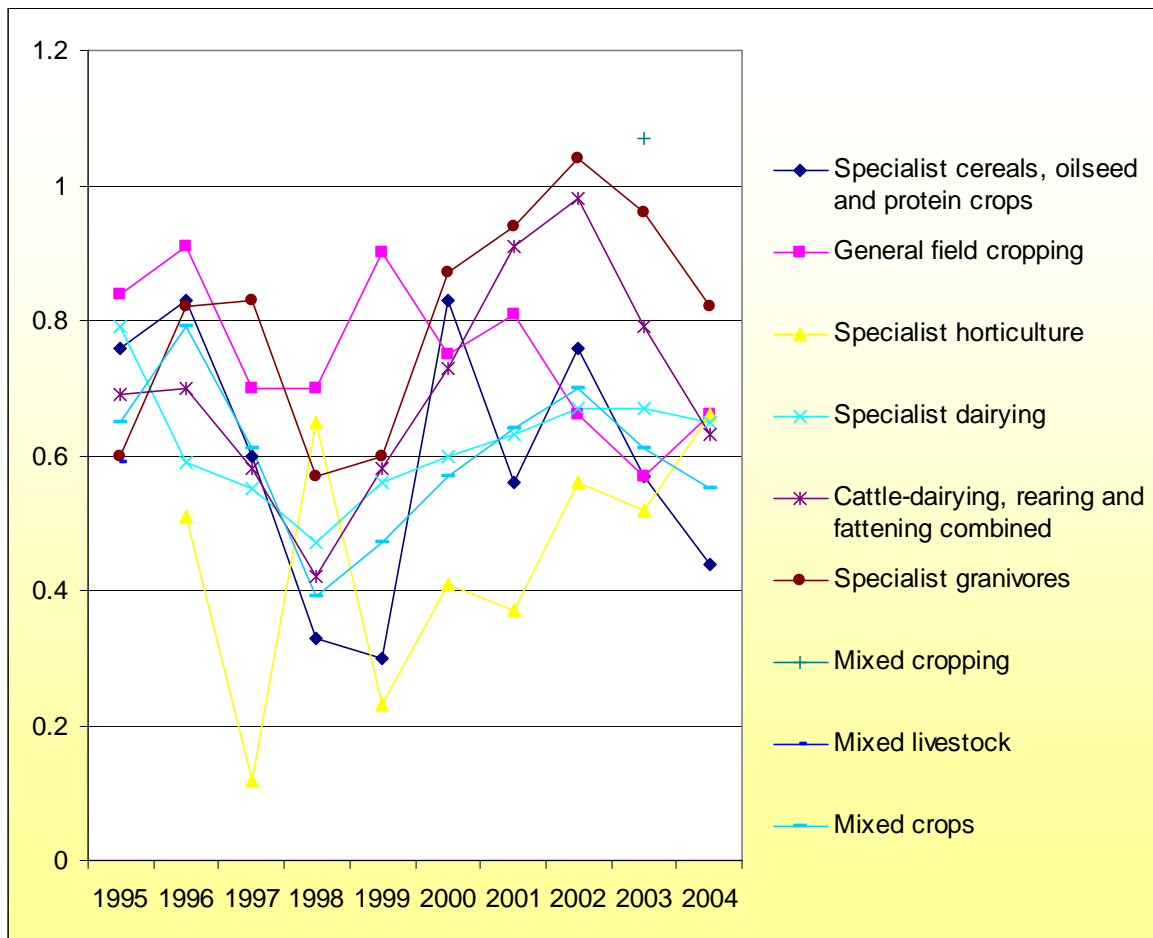


Figure 2.4. Profitability ratio for farms in Finland by production type (extended categories) from 1995 to 2004. Source: MTT Economic Research, Finland

Table 2.4.1. Profitability ratio for farms in Finland by production type (extended categories) from 1995 to 2004. Source: MTT Economic Research, Finland

Profitability Ratio	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Specialist cereals, oilseed and protein crops	0.76	0.83	0.6	0.33	0.3	0.83	0.56	0.76	0.57	0.44
General field cropping	0.84	0.91	0.7	0.7	0.9	0.75	0.81	0.66	0.57	0.66
Specialist horticulture		0.51	0.12	0.65	0.23	0.41	0.37	0.56	0.52	0.66
Specialist dairying	0.79	0.59	0.55	0.47	0.56	0.6	0.63	0.67	0.67	0.65
Cattle-dairying, rearing and fattening combined	0.69	0.7	0.58	0.42	0.58	0.73	0.91	0.98	0.79	0.63
Specialist granivores	0.6	0.82	0.83	0.57	0.6	0.87	0.94	1.04	0.96	0.82
Mixed cropping									1.07	
Mixed livestock	0.59									
Mixed crops	0.65	0.79	0.61	0.39	0.47	0.57	0.64	0.7	0.61	0.55

**Table 2.4.2. Number of farms in Finland by production type (extended categories) from 1995 to 2004. Source: MTT Economic Research, Finland**

Farms represented	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Specialist cereals, oilseed and protein crops	6890	9750	9750	9750	10120	9720	10650	12570	12060	12570
General field cropping	4150	4310	4550	4340	4360	3690	3990	4040	3540	4500
Specialist horticulture		2540	2490	2630	2400	2780	2720	2400	2400	2080
Specialist fruit and citrus fruit		770	720	560	560	330	400	180	140	330
Various permanent crops combined				60	60	40	60	40	50	50
Specialist dairying	25900	24110	23920	23580	20170	20370	19710	16050	16170	16170
Sheep, goats and other grazing livestock	560	590	530	580	420	630	600	400	480	430
Cattle-dairying, rearing and fattening combined	1450	5630	5360	6770	3290	2730	3070	1520	1390	1500
Specialist granivores	3750	3620	3540	3230	1920	2000	2010	1500	1830	1560
Mixed cropping	30	340	90	120	40	720	490	720	890	580
Mixed livestock	1480	660	670	630	440	190	430	340	100	190
Mixed crops	5040	3500	3560	3730	3130	3230	3250	4330	4410	4690

## Conclusions to Part One

In the period of study the structural pattern of the Finnish food processing industry was quite stable. When measured in value of production or value of turnover the volatility over the period is app. of 10 percent magnitude. The shift in volumes occurred after year 2001. The components resulting to ten percent rise of volumes were due to meat and dairy production.

Export was growing steadily except in year 1999 when the Russian economic crisis caused a decline of 20% in total exports. The bottom rapidly achieved its normal level and the steady growing development of the total food processing production. The level of exports was 25% greater compared to the year 1995, a very remarkable growth. Exports to the non-EU countries remained relatively stable under the period under consideration at a level of €500M each year. Exports to the EU countries were growing steadily so that the relative share moved from under 40% of total exports to 50% in 2005. Meat and meat preparations and dairy products accounted the absolute growth of exports. Dairy products in year 2005, accounted for €363M where

as the second largest single item, meat and meat preparations, accounted for €109M in 2005. It is worth to mention that dairy products are the major item in exports. This is due to the Russian structure of export dairy products being the major component. In production meat and meat preparations dominate

Sustainable supply of food requires that every component in the chain of food processing can reach and maintain a sound profitability level. The critical component in this chain is agriculture and specifically farm productivity and profitability. The EU regulates the profitability of farms in various EU- countries by the CAP- procedure. Moreover it encourages farms to increase productivity by regulations, leading to better profitability. However, sufficient profitability of farms needs also subsidies from national sources. The Figure 2.1, where profitability indexes for various countries with common metrics are calculated, shows that a sufficient profitability has been attained by only two countries viz. Spain and Belgium during the period 1995-2004. Finland's relative profitability has been quite good but remained every year below sustainable profitability level. The profitability metric scaled between zero and one shows to Finland app. 0.6 values for the period 1995-2004. If the metric is one, farms on the average, could gain the normal economic profit. Normal economic profit means that farms can distribute compensation for reinvestments (i.e. depreciations), for own labor input and interest for capital employed. For instance countries like Sweden, Denmark and U.K were well below 0.5. The new EU members, the Baltic countries, Czech Republic and Poland had a profitability index of over one in year 2004, which can be explained by relatively high subsidies compared to relatively low input prices (Figure 2.2). The buffer for insufficient profit consists of underpaid labor for farm owner, insufficient depreciation and return on investment. Boosting the productivity is the main source for improving the economic profit ceteris paribus. The productivity increase is attained by scale economics. For instance in Finland the consolidation of farms has been a continuous trend (Table 2.4.2). Last but not least the evidence for Finland shows that specialized production means better profitability than bulk production in some categories but is not a remedy in general (Table 2.3.1).

## Part Two. International possibilities for Finland's agricultural business agents. Target countries: Russia and Ukraine

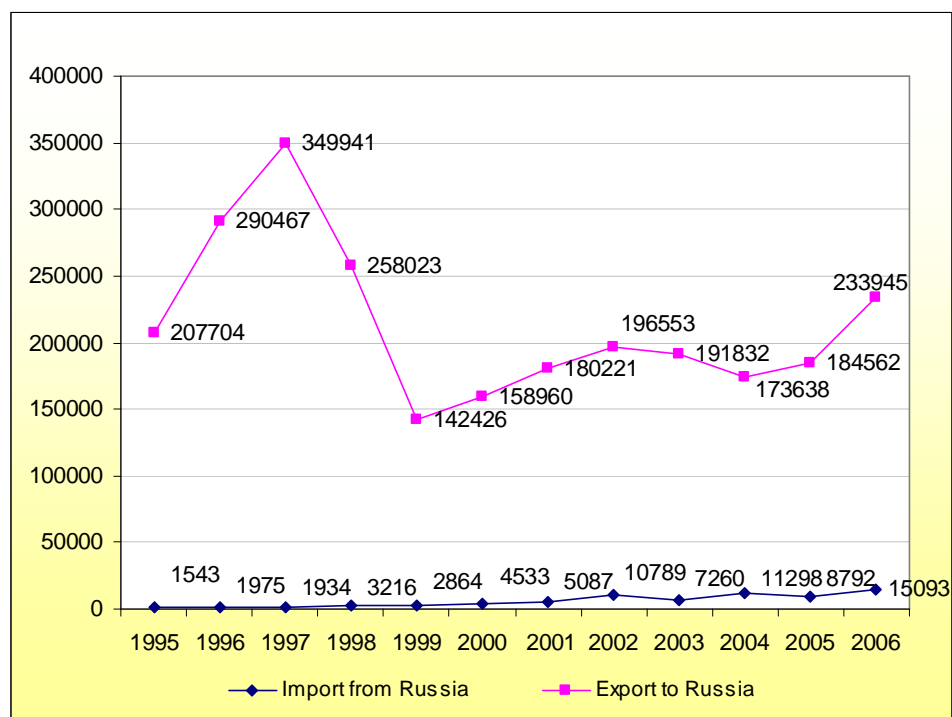
### 3. Trends in Finland's trade with Russia and Ukraine (for specified agriculture goods)

#### 3.1. Finland's trade with Russia: dynamics of imports and exports of food, live animals, beverages and tobacco

From 1995 to 2006 there were significant changes in the exports trends of food, live animals and tobacco from Finland to Russia

The exports of the above specified goods peaked in 1997 to unprecedented value of 345 million euro. The financial crisis caused a significant drop in Finland's the exports, down to the level of 142,4 million euro in 1998. After 1999 one can observe a slow growth of exports of food products to Russia and in 2006 the amount of exports from Finland reached 234 million euro.

It is also noteworthy that between 2005 and 2006 the imports from Russia almost doubled: from 8,8 million to 15 million euro.

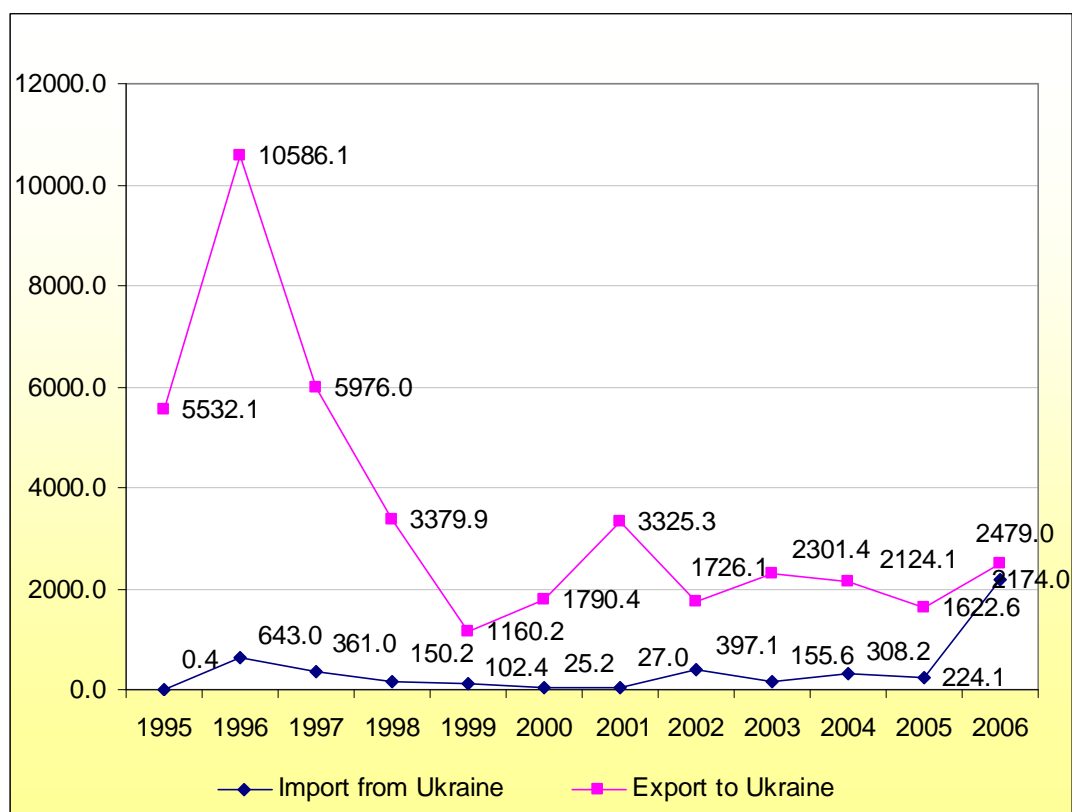


**Figure 3.1. Finland's trade with Russia: dynamics of imports and exports of food, live animals, beverages and tobacco between 1995 and 2006. Unit: 1 000 Euro. Source: Eurostat**

### 3.2. Finland's trade with Ukraine: dynamics of imports and exports of food, live animals, beverages and tobacco

Exports of food industry production from Finland to Ukraine from Ukraine to Finland peaked in 1996 reaching the value of 10.5 million Euro and dropped by 1999 to 10 year minimum, at the level of 102 million Euros. By 2006 Finland's exports to Ukraine show no signs of sustainable growth. There was a slight increase in exports in 2006 to the level of 2.4 million Euros and this was preceded by a decline in exports in 2005 (2.1million Euros).

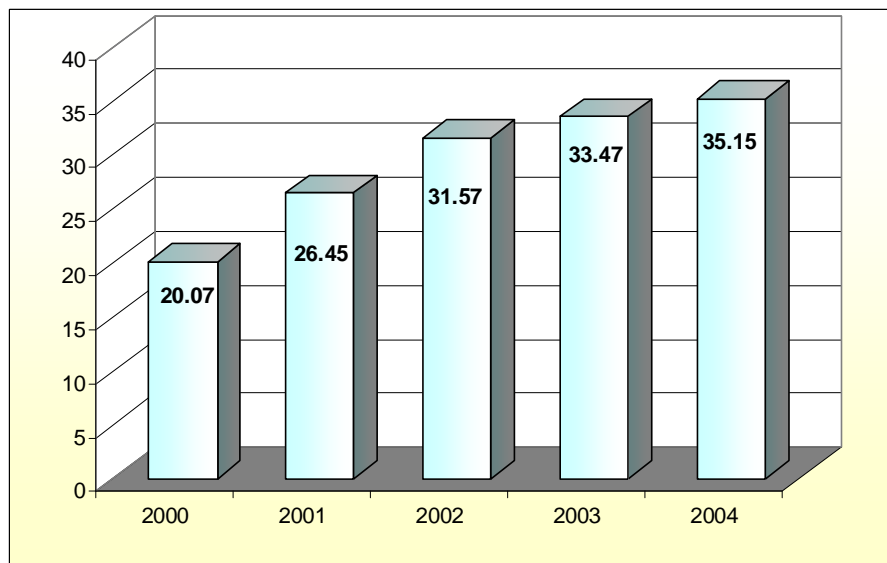
While buying ability of Ukraine suffered a remarkable setback since 1996, the attractiveness of Ukrainian agricultural goods remained at very low level through recent decade. The only exception was year 2006 with almost a tenfold increase in exports from Ukraine (224 thousand Euros in 2005 and 2.1 million in 2006).



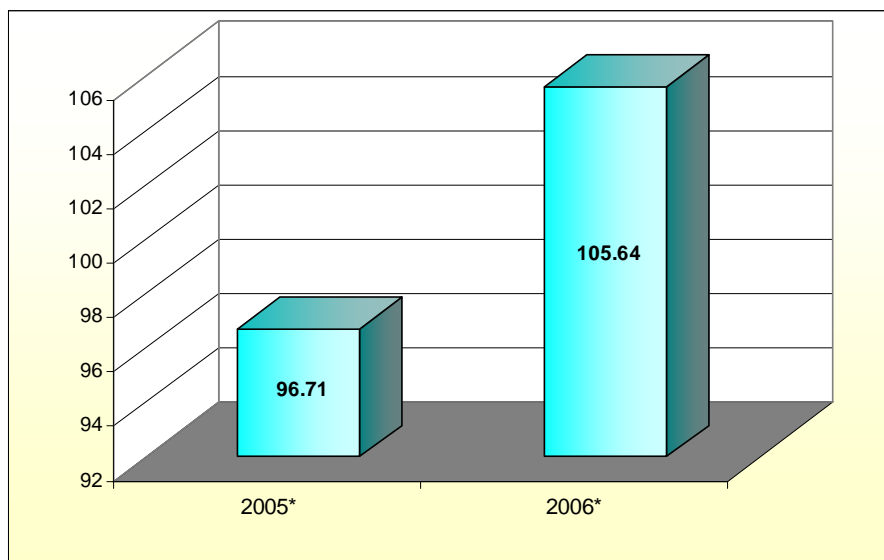
**Figure 3.2. Finland's trade with Ukraine: dynamics of imports and exports of food, live animals, beverages and tobacco between 1995 and 2006. Unit: 1 000 Euro. Source: Eurostat**

## 4. Trends in Russian and Ukrainian food processing industry

Between 1999 and 2004 Russia's food processing industry grew by 75% (Figure 4.1) and between 2005-2006 growth was 9.2 percent (Figure 4.2). Unfortunately due to changes in the methodology of data collection by Federal Statistics Service in 2005 it is impossible to give a precise estimation for the entire period of between 2000 and 2006. Nonetheless the data presented in two separate figures gives sufficient information about existing growth of production by Russia's food industry.

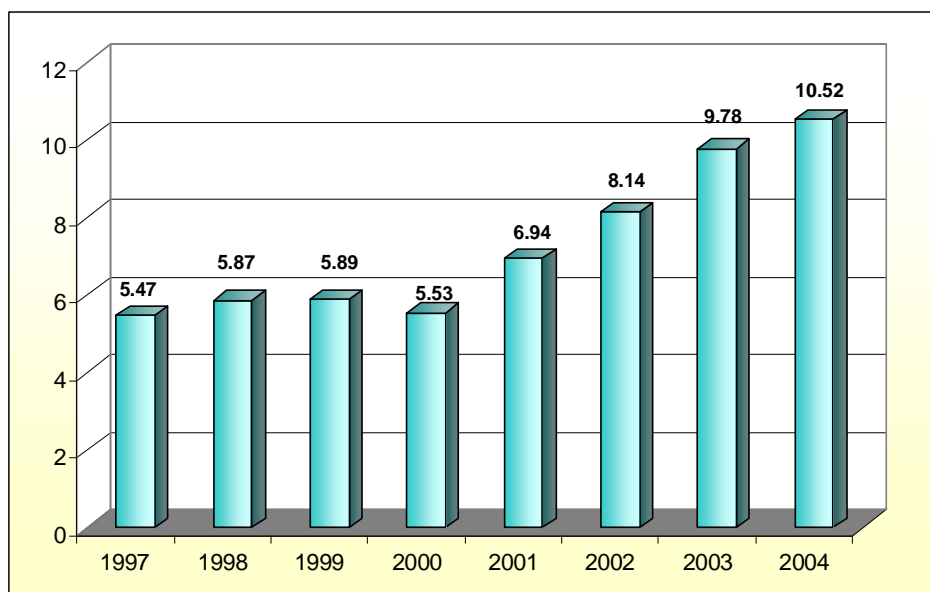


**Figure 4.1. Volume of food industry production in Russia: 1999-2004. In billions of Euros Source: Federal State Statistics Service**



**Figure 4.2. Volume of food industry production in Russia: 2005-2006. In billions of Euros Source: Federal State Statistics Service**

Food production in Ukraine follows a pattern which is somewhat similar to Russian case. The collapse of the communist political and economic system brought about a lengthy crisis in food industry. Some ten years later, in 2001, Ukraine's food industry demonstrated a tendency for recovery. This recovery took a very fast pace and during 5 years from 2000 and 2004 the production grew by 90% (Figure 4.3). There is no doubt that such remarkable recovery of production benefited from increasing volume of foreign direct investments in this branch of Ukraine's economy.



**Figure 4.3. Volume of food industry production in Ukraine: 1997-2004. In billions of Euros Source: Ukrainian State Statistics Committee**

Between 2001 and 2007 foreign direct investments in Ukraine's food industry grew by 60.1%. If in 2001 foreign companies invested only 795.7 million US dollars, by 2007 this number reached unprecedented 1.27 billion US dollars of FDI (Table 4.4). No doubt that there will be further growth of FDI in Ukrainian economy in general and in food industry in particular. This will be facilitated by long expected further improvements in state's administration of national economy, namely by adoption of needed land ownership legislation and improvement of tax administration. Specifically Finland has bilateral agreements with Ukraine about investment protection and avoidance of double tax charges.

**Table 4.4. Foreign direct investment in Ukrainian food industry, production of beverages and tobacco (in millions of US dollars at the beginning of each year) Source: Ukrainian State Statistics Committee**

	2001	2002	2003	2004	2005	2006	2007
food industry, production of beverages and tobacco	795,7	808	862	1006,4	1127,6	1171,6	1274,6

## 5. Foreign Direct Investment

### 5.1. Finland's direct investment positions

During the 10 year period Finland's direct investments in economies of central and Eastern European countries grew substantially. A truly remarkable doubling of Finland's investments took between 1999 and 2002 was a directly effected by the adjoining to EU of its new members from this region. During this short period a growth of Finland's FDI in CEE food industries can be observed (Table 5.1.1).

**Table 5.1.1. Finland's direct investment positions. Partner: Central and Eastern Europe, with specifications for food industries. In millions of Euros (from 1.1.1999)/Millions of ECU (up to 31.12.1998). Source: Eurostat**

<i>Partner/time</i>	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Finland's direct investment in Central and Eastern Europe	65	136	176	228	828	1373	1515	1667	c	15	: c
Direct investment from Central and Eastern Europe to Finland	10	-2	-20	-57	-45	161	-5	3	174	0	0
Finland's direct investment in Central and Eastern European food industries	:	:	:	:	95	119	145	:	:	:	:

**Notes: data for 2004 is incomplete , C - confidential, : no data**

A very remarkable fact is that between 1998 and 2001 three Baltic countries (Estonia, Latvia and Lithuania) attracted some 50-60% of Finland's direct investment in economies of central and Eastern European countries. During three year period between 1999 and 2001 FDI by Finnish companies in food industries of three Baltic States grew by over 100 percent (Table 5.1.2).

**Table 5.1.2. Finland's direct investment positions. Partner: Baltic States, with specifications for food industries. In millions of Euros (from 1.1.1999)/Millions of ECU (up to 31.12.1998). Source: Eurostat**

<i>Partner/time</i>	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Finland's direct investment in Baltic countries (EE, LV, LT)	49	76	105	126	515	645	834	:	:	:	:
Finland's direct investment in Baltic countries' food industries	:	:	:	:	75	109	135	:	:	:	:

**Notes: C - confidential, : no data**

During the past decade Finnish companies continued to increase their investments in Russian economy. Between 1999 and 2006 investments grew by 8.5 times: from 196 million euro to 1.66 billion (Table 5.1.3). Nonetheless in 2006 Finland's FDI in Russia was one 30<sup>th</sup> of Finnish investments in other 27 European countries. In 2004 and 2005 Finnish companies invested 30 and 60 million Euro in Russian food industry. But in 2006 they suffered significant setback caused by difficulties in expanding activities in Russia. In 2006 a number of projects by largest Finnish food industry companies were frozen or terminated. As a result in 2006 the FDI in food production amounted only 22 million of Euros.

**Table 5.1.3. Finland's direct investment positions. Partner: Russian Federaiton, with specifications for food industries. In millions of Euros (from 1.1.1999)/Millions of ECU (up to 31.12.1998). Source: Eurostat**

Partner\time	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Finland's direct investment in Russian Federation	2	25	63	91	196	314	458	342	374	559	1097	1665
Finland's direct investment in Russian food industries	:	:	:	:	42	90	:c	:c	30	30	60	22
Finland's direct investment in Russian food industries <i>Equity capital and reinvested earnings</i>	:	:	:	:	45	44	:c	:	:	:	:	:
Finland's direct investment in Russian food industries <i>Other capital</i>	:	:	:	:	-3	46	:c	:	:	:	:	:

**notes: C - confidential**

The growing economy of Russia continues to attract greater amounts of investments from Finnish companies. In this comparison the Ukrainian case as rather different. Since 2001 Finnish companies invest more and more in Ukrainian economy, investments grew from 7 millions Euros in 2001 to 17 millions in 2006 (Table 5.1.4). This is only marginally more than investments from, for instance, Malta.

**Table 5.1.4. Finland's direct investment positions. Partner: Ukraine, with specifications for food industries. In millions of Euros (from 1.1.1999)/Millions of ECU (up to 31.12.1998). Source: Eurostat**

Partner\time	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Finland's direct investment in Ukraine	:	:	:	:	:	:c	7	1	0	3	10	17
Finland's direct investment in Ukrainian food industries	:	:	:	:	:	:	:	:	:	:	:	:

**Notes: C confidential, : no data**

**Table 5.1.5. European Union (15 countries) direct investment positions, breakdown by partner country. In millions of Euros (from 1.1.1999)/Millions of ECU (up to 31.12.1998). Source: Eurostat**

<i>Partner/time</i>	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Direct investment in Baltic countries (EE, LV, LT)	501	537	882	1656	2899	3584	4445	5209	:	:	:
Direct investment in Russian Federation	776	1417	2419	2854	4949	7320	10562	10070	14597	20518	30460
Direct investment in Ukraine	90	146	308	400	593	579	727	1049	1211	1411	:

**Notes:** : no data

## **5.2. Finland's direct investments in Russia and Ukraine**

Finland's direct investments in Russia and Ukraine grew at the very rapid pace. There was 96% growth of Finnish investments in stocks in Russia between 2004 and 2005, and 52% growth between 2005 and 2006. In comparison to Russian case Finnish investments in Ukraine demonstrate similar rapid growth, although it is of a much more modest scale. Companies that were surveyed by the Bank of Finland reported 80% increase of the investments in stocks in Ukraine between 2005 and 2006 (Table 5.2.1).

Some 60 Finnish companies worked in Ukraine in 2007 and the interest of Finnish businesses grows along with strengthening of the Ukrainian economy. The most active Finnish companies in Ukraine are Tikkurilla OY, Ruukki, Konecranes and Sanitec Group (Spiridovitch, 2007). Finland has agreements with Ukraine about protection of Investments and avoidance of double taxing. It is worth noting that there are great prospects for the growth of Ukraine's food industry. Some 69.3 percent of country's territory is agricultural land: this is 41.8 million hectares, from which 33 million hectares are cultivated land. At the same time, agricultural production contributes only 10 percent of GDP. Production of food, beverages and tobacco contributes some 20 percent of total manufacturing in Ukraine and food production alone is a rapidly growing branch of economy.

**Table 5.2.1. Finland's direct investments in Russia and Ukraine, stocks at the end of the period. In millions of euro (from 1.1.1999)/millions of ECU (up to 31.12.1998). Sources: Eurostat, Bank of Finland**

<i>Account/time</i>	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Finland's direct investments in Russia	2	25	63	91	196	314	458	342	374	559	1097	1676
<i>Russia's direct investment in Finland</i>	251	260	273	272	241	240	306	449	338	366	378	:
Finland's direct investments in Ukraine								1		3	10*	18*

**Notes:**\* preliminary

Similarly rapid growth can be observed in the FDI net flows. Finland's direct investments in both Russia and Ukraine peaked in 2006 reaching unprecedented maximums of 377 and 9 millions of Euros respectively (Table 5.2.2).

**Table 5.2.2. Finland's direct investments in Russia and Ukraine, net flows. In millions of euro (from 1.1.1999)/Millions of ECU (up to 31.12.1998). Source: Eurostat, Bank of Finland**

Partner\time	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Finland's direct investments in Russia	8	58	63	16	65	54	141	-26	77	151	93	377
<i>Russia's direct investments in Finland</i>	12	14	9	-4	-12	18	59	34	11	48	38	:
Finland's direct investments in Ukraine	:	:	:	:	:C	:C	:C	-6	:C	2	2	9

Notes: Net= Outward – Inward, C: - confidential \* preliminary

**Table 5.2.3. Main indicators: direct investment income. In millions of euro (from 1.1.1999)/millions of ECU (up to 31.12.1998). Source: Eurostat**

Account\time	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Direct investments in Russia	-23	0	9	-58	14	11	69	58	41	85	82	:
Direct investment in Finland	15	26	13	0	17	18	13	24	28	18	36	:

### **5.3. Finland's direct investment in Russia and Ukraine: breakdown by economic activity**

Two sectors of Russian economy had the largest Finnish investments in stocks. These are manufacturing and construction. Here the leaders are manufacture of pulp, paper and paper products with 223 million Euros of Finnish investments in 2006, manufacture of basic metals and fabricated metal products with 123 million Euros, manufacture of electrical and optical equipment with 121 million Euros, and manufacture of rubber and plastic products with 101 million Euros of investment in stock (Table 5.3.3). Finnish investment in Russia's food industry peaked in 2005 with 61 million Euros. During year 2005 a number of Finnish food industry projects were closed in Russia. This resulted in 64% reduction of investment in 2006 comparing to previous year.

**Table 5.3.3. Main indicators: direct investments in Russia: stocks at the end of the period. In millions of euro. Bank of Finland**

	2002	2003	2004	2005'	2006'
<b>All</b>	<b>342</b>	<b>374</b>	<b>559</b>	<b>1,097</b>	<b>1,676</b>
Agriculture, hunting and forestry					C
Mining and quarrying	C	C		C	C
Manufacturing	217	217	381	656	774
<b>Manufacture of food products; beverages and tobacco</b>	<b>C</b>	<b>30</b>	<b>30</b>	<b>61</b>	<b>22</b>
Manufacture of textiles and textile products		C	C	C	C
Manufacture of wood and wood products	18	17	C	C	
Manufacture of pulp, paper and paper products, publishing	75	111	133	201	223
Manufacture of coke, refined petroleum products and nuclear fuel	C	C	C	C	C
Manufacture of chemicals, chemical products and man-made	C	7	0	2	18
Manufacture of rubber and plastic products	12	8	0	8	101
Manufacture of other non-metallic mineral products	C	1	C	C	C
Manufacture of basic metals and fabricated metal products	C	5	47	C	123
Manufacture of machinery and equipment n.e.c.	4	12	15	15	12
Manufacture of electrical and optical equipment	C	-18	11	57	121
Manufacturing n.e.c.		1	C	C	C
Electricity, gas and water supply				C	C
Construction	2	C	C	C	311
Wholesale and retail trade; repair of motor vehicles,	10	44	56	108	118
Transport, storage and communication	48	C	35	42	43
Financial intermediation	C	C	C	C	C
Real estate, renting and business activities	0	2	25	30	117
Other community, social and personal service activities	C	C	C	C	C

Notes: C: - confidential, \* preliminary

After 2002 the yearly net flows of Finland's direct investment in Russia grew to a very remarkable level of 377 million in 2006. The largest net flows are registered in metal industries and construction (Table 5.3.4).

**Table 5.3.4. Main indicators: direct investments in Russia: net flows. In millions of euro. Bank of Finland.**

	2002	2003	2004	2005'	2006'
<b>All</b>	<b>-26</b>	<b>77</b>	<b>151</b>	<b>93</b>	<b>377</b>
Agriculture, hunting and forestry					C
Mining and quarrying	C	C		C	C
Manufacturing	-11	-4	96	-112	283
<b>Manufacture of food products; beverages and tobacco</b>	<b>-64</b>	<b>0</b>	<b>10</b>	<b>37</b>	<b>1</b>
Manufacture of textiles and textile products		C	C	C	C
Manufacture of wood and wood products	1	-1	C	C	C
Manufacture of pulp, paper and paper products; publishing and	33	19	31	47	13
Manufacture of coke, refined petroleum products and nuclear fuel	C	C	C	C	C
Manufacture of chemicals, chemical products and man-made	C	-3	-1	2	16
Manufacture of rubber and plastic products	4	-4	-2	-1	34
Manufacture of other non-metallic mineral products		1	C	C	C
Manufacture of basic metals and fabricated metal products	7	2	15	3	158
Manufacture of machinery and equipment n.e.c.	2	7	12	1	-4
Manufacture of electrical and optical equipment	C	-28	C	47	37
Manufacturing n.e.c.		1	C	C	C
Electricity, gas and water supply				C	C
Construction	0	C	C	C	153
Wholesale and retail trade; repair of motor vehicles,	-27	45	11	49	53
Transport, storage and communication	9	13	1	3	6
Financial intermediation	C	C	C	C	C
Real estate, renting and business activities	-2	1	24	-2	49
Other community, social and personal service activities	C	C	C	C	C

Notes: C: - confidential, \* preliminary

In the past 5 years Finnish direct investments in stocks in Ukraine grew very rapidly from 1 million Euros in 2002 to 18 million Euros in 2006 (Table 5.3.5). The majority of investments were directed to manufacturing (16 million Euros). There were no investments made by Finnish companies into Ukrainian food industry.

**Table 5.3.5. Main indicators: direct investment in Ukraine: stocks at the end of the period. In millions of euro. Bank of Finland.**

	2002	2003	2004	2005'	2006'
<b>All</b>	<b>1</b>		<b>3</b>	<b>10</b>	<b>18</b>
Manufacturing	C		C	9	16
Manufacture of pulp, paper and paper products; publishing and					C
Manufacture of chemicals, chemical products and man-made			C	C	C
Manufacture of other non-metallic mineral products			C	C	C
Manufacture of basic metals and fabricated metal products				C	C
Manufacture of machinery and equipment n.e.c.	C			C	C
Manufacture of electrical and optical equipment				C	
Construction				C	C
Wholesale and retail trade; repair of motor vehicles,					C
Transport, storage and communication	C				
Real estate, renting and business activities			C	C	C
Other community, social and personal service activities					C

Notes: C: - confidential, \* preliminary

Largest net flows (over 70 percent) of Finland's direct investments in Ukraine are directed into at manufacturing. The total net flows were 2 million in 2005 and 9 million Euros 2006.

**Table 5.3.6. Main indicators: direct investment in Ukraine: net flows. In millions of euro. Bank of Finland**

	2002	2003	2004	2005'	2006'
<b>All</b>	<b>-6</b>	<b>C</b>	<b>2</b>	<b>2</b>	<b>9</b>
Manufacturing	C	C	C	2	7
Manufacture of pulp, paper and paper products; publishing and					C
Manufacture of chemicals, chemical products and man-made	C		C	C	C
Manufacture of other non-metallic mineral products			C	C	C
Manufacture of basic metals and fabricated metal products				C	C
Manufacture of machinery and equipment n.e.c.	C	C		C	C
Construction				C	C
Wholesale and retail trade; repair of motor vehicles,					C
Transport, storage and communication	C				
Real estate, renting and business activities			C	C	C
Other community, social and personal service activities					C

Notes: C: - confidential, \* preliminary

#### **5.4. Number of employees and turnover for Russian and Ukrainian subsidiaries of companies resident in Finland**

During five years between 2002 and 2006 there was more than 100% increase in the number of employees working in Russian subsidiaries of companies resident in Finland (Table 5.4.1). It certainly continues to grow as the Finnish investments grow too. This also reflects the change in the directions of Finnish investments. Between 2005 and 2006 Finnish companies closed a number of large projects Russian in the food industry, and as a result there is a significant drop from 5,528 to 2,770 in the number of food industry workers employed by these companies.

**Table 5.4.1. Number of employees for Russian subsidiaries of companies resident in Finland. Bank of Finland**

	2002	2003	2004	2005'	2006'
<b>All</b>	<b>9,512</b>	<b>7,922</b>	<b>8,367</b>	<b>15,487</b>	<b>20,563</b>
Agriculture, hunting and forestry				C	C
Manufacturing	6,481	6,046	5,853	9,353	13,874
<b>Manufacture of food products; beverages and tobacco</b>	<b>C</b>	<b>C</b>	<b>C</b>	<b>5,528</b>	<b>2,770</b>
Manufacture of textiles and textile products	C				
Manufacture of wood and wood products	C	C	C	1,430	C
Manufacture of pulp, paper and paper products; publishing and	827	897	1,307	C	C
Manufacture of chemicals, chemical products and man-made		C	C	C	C
Manufacture of rubber and plastic products	C	C			C
Manufacture of other non-metallic mineral products	C	C	C	C	C
Manufacture of basic metals and fabricated metal products	C	C	C	C	C
Manufacture of machinery and equipment n.e.c.	900	815	492	C	426
Manufacture of electrical and optical equipment	C	C	C	C	3,361
Manufacturing n.e.c.	C	C	C	C	C
Construction	274	258		C	1,371
Wholesale and retail trade; repair of motor vehicles,	2,060	1,395	2,418	4,693	3,966
Hotels and restaurants					C
Transport, storage and communication	339	C	C		C
Financial intermediation	C	C	C		C
Real estate, renting and business activities	344	C	C	68	243

Notes: C: - confidential, \* preliminary

Despite of 50% decrease in the number of employees, the turnover in the food industry sustained relatively minor decrease from 174 to 121 million euro. This indicates that the closed projects suffered from inefficiency and overinflated numbers of employees. These several recently acquired plants (including Raisio Group), which did not yet go through reorganization.

**Table 5.4.2. Turnover for Russian subsidiaries of companies resident in Finland. In millions of euro. Bank of Finland**

	2002	2003	2004	2005'	2006'
<b>All</b>	<b>1,003</b>	<b>810</b>	<b>964</b>	<b>1,549</b>	<b>1,970</b>
Agriculture, hunting and forestry				C	C
Manufacturing	399	403	592	726	1,009
<b>Manufacture of food products; beverages and tobacco</b>	<b>C</b>	<b>C</b>	<b>C</b>	<b>174</b>	<b>121</b>
Manufacture of textiles and textile products	C				
Manufacture of wood and wood products	C	C	C	149	C
Manufacture of pulp, paper and paper products; publishing and	76	79	165	C	C
Manufacture of chemicals, chemical products and man-made		C	C	C	C
Manufacture of rubber and plastic products	C	C			C
Manufacture of other non-metallic mineral products	C	C	C	C	C
Manufacture of basic metals and fabricated metal products	C	C	C	C	C
Manufacture of machinery and equipment n.e.c.	123	107	54	C	100
Manufacture of electrical and optical equipment	C	C	C	C	34
Manufacturing n.e.c.	C	C	C	C	C
Construction	9	17		C	144
Wholesale and retail trade; repair of motor vehicles,	363	328	360	681	740
Hotels and restaurants					C
Transport, storage and communication	178	C	C		C
Financial intermediation	C	C	C		C
Real estate, renting and business activities	53	C	C	9	32

Notes: C: - confidential, \* preliminary

Just as in Russian case, the majority of Ukrainian employees of Finnish companies work in manufacturing. There are positive tendencies both in the growth of turnover as well as in the growth of the number of employees.

**Table 5.4.3. Number of employees for Ukrainian subsidiaries of companies resident in Finland. Bank of Finland**

	2002	2004	2005'	2006'
<b>All</b>	<b>68</b>	<b>C</b>	<b>275</b>	<b>2,971</b>
Manufacturing			C	2,859
Manufacture of other non-metallic mineral products				C
Manufacture of basic metals and fabricated metal products			C	C
Manufacture of machinery and equipment n.e.c.			C	C
Construction			C	
Wholesale and retail trade; repair of motor vehicles,		C	53	C
Transport, storage and communication	C			
Real estate, renting and business activities	C			C

Notes: C: - confidential, \* preliminary

**Table 5.4.4. Turnover for Ukrainian subsidiaries of companies resident in Finland. In millions of euro. Bank of Finland**

	2002	2004	2005'	2006'
<b>All</b>	<b>C</b>	<b>C</b>	<b>55</b>	<b>79</b>
Manufacturing			C	52
Manufacture of other non-metallic mineral products				C
Manufacture of basic metals and fabricated metal products			C	C
Manufacture of machinery and equipment n.e.c.			C	C
Construction			C	
Wholesale and retail trade; repair of motor vehicles,		C	12	C
Transport, storage and communication	C			
Real estate, renting and business activities				C

**Notes: C: - confidential, \* preliminary**

## 6. FDI in Russia and Ukraine: case studies.

### 6.1. FDI: an overview

FDI is thought to stimulate national economies. It can contribute to Gross Domestic Product (GDP), Gross Fixed Capital Formation (total investment in a host economy) and balance of payments. There have been empirical studies indicating a positive link between higher GDP and FDI inflows (OECD a.), however the link does not hold for all regions, e.g. over the last ten years.<sup>2</sup> The impact of FDI will largely depend on the conditions of the host economy, e.g. the level of domestic investments/savings, the mode of entry (merger & acquisitions or Greenfield (new) investments) and the sector involved, as well as a country's ability to regulate foreign investment.<sup>3</sup>

In overall the FDI flows can be rather stable, as they are less affected by change in national exchange rates as compared to other private sources (portfolio investments or loans). This is partly because currency devaluation means a drop in the relative cost of production and assets (capital, goods and services) for foreign companies and thereby increases the relative attraction of a "host" country. FDI can stimulate product diversification through investments into new businesses, so reducing market reliance on a limited number of sectors/products.<sup>4</sup> However, if international flows of trade and investment fall globally and for lengthy periods, then stability is less certain. New inflows of FDI are especially affected by these global trends, because it is harder for a foreign company to de-invest or reverse from foreign affiliates as compared to portfolio investment. Companies are therefore more likely to be careful to ensure they will accrue benefits before making any new investments.

Inevitably FDI has an impact on the social development in the host countries FDI, where it generates and expands businesses, can help to stimulate employment, raise wages and replace declining market sectors. However, the benefits may only be felt by small portion of the population, e.g. where employment and training is given to more educated, typically wealthy elites or there is an urban emphasis, wage differentials (or dual economies) between income groups will be exacerbated. Cultural and social impacts may occur with investment directed at non-traditional goods. Within local economies, small scale and rural businesses of

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<sup>2</sup> Towards Earth Summit 2002, Economic Briefing Series No. 1, London: UNED Forum

<sup>3</sup> UNCTAD (1999) World Investment Report 1999. Foreign Direct Investment and the Challenge of Development

<sup>4</sup> UNCTAD (1999) World Investment Report 1999. Foreign Direct Investment and the Challenge of Development

FDI host countries there is less capacity to attract foreign investment and bank credits, and as a result certain domestic businesses may either be forced out of business or to use more informal sources of finance.<sup>5</sup>

Parent companies can support their foreign subsidiaries by ensuring that adequate human resources and infrastructure are in place. In particular “Greenfield” investments into new business sectors can stimulate new infrastructure development and technologies to host economies. These developments can also result in social and environmental benefits, but only where they “spill over” into host communities and businesses.<sup>6</sup> Investment in research & development (R&D) from parent companies can stimulate innovation in production and processing techniques in the host country. However, this assumes that in-house investments (in R&D, production, management, personnel training) will result in improvements. Foreign technology and organizational techniques may actually be inappropriate to local needs, capital intensive and have a negative affect on local competitors, especially on smaller businesses who are less able to make equivalent adaptations.

## ***6.2. FDI in Russia’s Food Processing Sector***

Russia's food processing industry has been growing rapidly in recent years and it is one of the most dynamic sectors of the Russian economy. Huge market potential and rather undeveloped sector boosts local production but attracts also foreign investors. Since the early 90’s some of the world’s largest food and beverage manufacturers, such as Mars, Coca-Cola and Nestle, have been interested in Russian markets. Lack of funding and raw material shortages have hindered the development of the local industry. Those who have been able to overcome these obstacles have been able to grow substantially, such as the leading food and drink producer Vimm-Bill-Dann. The food processing industry is an important investment target for foreign investors, but also imports have a significant role in Russian food markets.

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<sup>5</sup> ECOSOC (2000) Financial resources and mechanisms (ch.33 Agenda 21). Report of the Secretary General. Commission for Sustainable Development. Eighth Session. [http://www.un.org/esa/sustdev/csd8/sg\\_finance.pdf](http://www.un.org/esa/sustdev/csd8/sg_finance.pdf)

<sup>6</sup> ECOSOC (2000) Financial resources and mechanisms (ch.33 Agenda 21). Report of the Secretary General. Commission for Sustainable Development. Eighth Session. [http://www.un.org/esa/sustdev/csd8/sg\\_finance.pdf](http://www.un.org/esa/sustdev/csd8/sg_finance.pdf)

Approximately 20 percent of all imports are food products.<sup>7</sup> Finnish food companies have been rather cautious in Russia and have concentrated mostly on direct exports to Russia.<sup>8</sup>

Food processing companies are investing in production facilities to keep pace with demand, and analysts expect the sector to grow 10-15% per year.<sup>9</sup> The demand for higher-quality ingredients is also increasing as more local food processors strive to meet international quality standards. However some companies are reporting that domestic supplies of raw materials and specialized ingredients for meat, bakery, confectionary, juice, and dairy processing are not sufficient to meet future demand.

### **Case 1: Valio**

Valio is one of the biggest and foremost food companies exporting to Russia. Valio's Russian operations has been organized under OOO Valio covering activities in St. Petersburg and Moscow. Valio founded ZAO Valio in St. Petersburg in 1994. The company is responsible for the sales, marketing and distribution of Valio products in Russia. Sales are channeled through two main distributors in Moscow and one in St. Petersburg, as well as direct deliveries to shops in Moscow and St. Petersburg. The key market areas are Moscow, St. Petersburg and selected regions. Valio is strongly placed in butter, cheese and processed cheese in Russia. Valio Butter and Viola processed cheese hold a strong position in their product groups. Valio Butter has won the Brand of the Year Gold Award several times in its product group in a contest arranged annually in Russia. The biggest sellers in fresh dairy products are sour cream, cottage cheese, yoghurts and creams.<sup>10</sup> In Russia Valio's brand positioning makes an emphasis on high quality of its products.

Valio group has a very long tradition of supplying Russian market with dairy products. In the beginning of 20<sup>th</sup> century Valio supplied its products to Russia's royal court and regular exports (of cheese Viola) to Soviet Russia started in 1956. In the early 1990's Valio's management was by far too careful and did not use the chance to improve company's position on the Russian market. Those years most of the sales of food products in Russian were through wholesale markets. These days Valio is Russia's third largest producer of butter and cheese.

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<sup>7</sup> <http://www.fas.usda.gov/gainfiles/200711/146293117.pdf>

<sup>8</sup> Ylä-Kojola, A-M (2006) Assessment of Russian Food Processing Industry – Finnish Perspective. Lappeenranta University of Technology

<sup>9</sup> Ylä-Kojola, A-M (2006) Assessment of Russian Food Processing Industry – Finnish Perspective. Lappeenranta University of Technology

<sup>10</sup> <http://www.valio.fi/portal/page/portal/valiocom>

Although Valio occupies less than 1% of Russia's market of milk, yogurts, and cooking preparations (cottage cheese, sour cream and cream), in overall in Russia Valio sells only 50 thousand tons of products, while such leaders as Vim-Bill-Dan sell 2 million tons, Unimilk 1,2 million tons. Danone – 700 thousand tons of dairy products.<sup>11</sup> Despite the fact that Valio's marketing strategy in Russia is unpretentious, the whole sales continue to grow steadily. If in 2005 the sales of Valio dairy products were at the level of 100 million Euro, some two years later in 2007 sales grew to the level of 167 million Euros, and the company plan for sales in 2009 is 250 million Euros. This growth can be attributed to the successful introduction of new brand specific to Russian market (e.g. butter "Fin" – a lower price product developed specifically for broader range of consumers in Russian regions). Valio takes some 12 percent of Russia's market of butter, while such large competitors as Vimm-Bill-Dann – only 3.5%, and New-Zeeland's Anchor – 2%. In its attempt to reduce the cost of production Valio attempted to open own production facilities in Russia. In 2006 the announcement to build a plant in Moscow region came as a very late move by the company. It is estimated that investment "Valio-Lobnea" project amounted some 50 million Euros. Another investment project "Plant Galactica" is implemented in Leningrad oblast in cooperation with Russian strategic partners - management of Russian companies Foodline and Terra Logistica. The production should have started under the outsourcing type of contract with Valio, where Finns perform and consultants and provide the production equipment.

The launch of both production lines was planned for 2008. Valio-Lobnea was expected to produce from 20 to 40 thousand tons of products each year, Galactica – 300 thousand tons. Because of difficulties in supplying plants with milk of a required quality, the management of Valio postponed the realization of "Galactica" project and had to change the specialty of "Valio-Lobnea" plant. Valio Lobnea will probably use Finnish materials to produce cheese.

## **Case 2: Atria**

Atria's first large investment project in Russia was an acquiring of "Pit-Product" in 2005.<sup>12</sup> "Pit-Product" for 18 million Euros, a largest meat processing company in Saint Petersburg that operates two plants and has some 20% share on the market in Saint Petersburg and Leningrad region. Just three years later in 2008 Atria bought a plant "Kampomos" in Moscow

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<sup>11</sup> Финн с маслом. Kommersant, 13.10.2008 <http://www.kommersant.ru/doc.aspx?DocsID=1038713>

<sup>12</sup> Сампрофио отказалась от российской колбасы. Kommersant, 01.08.2008 <http://www.kommersant.ru/doc.aspx?DocsID=991735>

for 75 million Euros from the Spanish group Campofrio Alimentacion S.A. “Kampomos” takes some 2.5% of Russian market of meat and meat preparations. “Kampomos” together with “Pit-Product” can significantly improve the position of Atria on Russian market. Both plants supply some 20-24% of market in Saint Petersburg and 7-8% in Moscow.

### **6.3. FDI in agricultural production and food processing in Ukraine**

Currently for the Ukrainian economy, the FDI play a rather marginal role. First of all, this is because of high risks and because the FDI is concentrated on a limited range of Ukrainian economy: there where the rapid returns can be expected. Secondly, many large Ukrainian companies prefer to use own resources instead of attracting foreign investments.<sup>13</sup>

Particularly Cyprus is the largest investor in Ukraine, which in reality means a returning of Ukrainian capital. As a result of these two factors, during the past five years the largest investment flows were registered in financial sector, real estate, retail trade.

The past six years have been a relatively stable period for the Ukrainian economy. The Ukrainian GDP growth rates have maintained positive levels, eclipsing rates of both China and India at certain points, and per capita income has increased accordingly. In 2005, the country experienced an economic slowdown that saw GDP growth fall from average levels of 8% to 2.5%. The GDP growth level has stayed on the same level for most of 2006. The fall in the GDP growth has been attributed to a contraction in the retail and construction sectors. However, a turnaround has been forecast for 2007 which was expected to continue through 2008 with growth expected to return to levels above 6%. The grey market economy is estimated to be worth as much as 60% of the official economy. Steps have been made to limit the size of the grey market economy, by promoting business and increasing access to development capital.

Ukraine is heavily reliant on the import of energy. Imports are estimated to meet over 80% of national requirements. This is a major issue for the future of the economy. Russia and the countries of Central Asia are Ukraine's major suppliers of energy (natural gas and oil). Past disputes have led to a temporary "cutting" of supply. A new deal to avoid a reoccurrence was reached between Russia and Ukraine in 2006 to ensure a constant supply, but that deal has doubled the cost of natural gas for Ukraine. Experts are unsure on the severity of this deal on

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<sup>13</sup> Кипр остается главным инвестором <http://www.eizvestia.com/state/full/39058>

Ukrainian economy. In Ukraine main oil refineries are owned by Russian oil giants and the obstructions in their work caused large fluctuations in the cost of fuels, especially dramatic impact was on agriculture, causing government interference with various degree of success at times.

Despite and owing to Russia's policies in relation to Ukraine, country continues to look west to Europe for its future and the EU has now displaced Russia as the countries most important trade partner, although Russia maintains its status as the most important single partner. Foreign policy, political strategies and future aspirations all surround drawing closer to its European neighbors.<sup>14</sup>  
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Due to slow reforms and dependence on foreign energy most believe the Ukrainian economy still being susceptible to external shocks. Year 2005 marked a watershed of sorts for foreign investment in the country as totals for the year equaled those of the combined 2001-2004 period. Inflation was expected to reach 10% in 2007. Strong GDP growth was expected for 2007, although the effects of global financial crisis were to cause slowing of Ukrainian economy growth in 2008. Grey market continues to be a major factor in the overall Ukraine economy. Some experts suggest that this market exists out of necessity as infrastructure is not in place to provide the necessary inputs to encourage the legal economy required for a country of this size. Under the influence of strong internal factors (political instability, lack of dedication to fight gray economy and corruption) and external (first of all, global financial crisis) Foreign Direct Investment will continue to lag behind that of neighboring countries.

### **Ukrainian Food Processing Industry**

The agricultural sector and food processing are the key elements of Ukraine economy. Despite vast improvements over the last five years, including a return to a positive trade balance, problems continue to plague the long anticipated development of the sector. The problems in the Ukrainian agricultural sector have been attributed to Ukraine's dependence upon imported energy (Russian and Central Asian oil and natural gas), the absence of agricultural market, a lack of foreign currency to purchase necessary inputs, such as seeds and pesticides, lack of technology and know-how. Despite of problems Ukraine's agricultural production is approximately four times larger than the output of the next highest ranking

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<sup>14</sup> Agri-Food Past, Present & Future Report: Ukraine November 2006 [http://www.ats-sea.agr.gc.ca/europe/4268\\_e.htm](http://www.ats-sea.agr.gc.ca/europe/4268_e.htm)

country in the area, except Russia. For this reason the Ukrainian agricultural sector is one of the brightest prospects for western trade and investments.

Despite certain perceived dangers of investing in Ukraine, the agricultural sector continues to lure foreign capital. In fact, large part of FDI in Ukraine to-date has been focused in this sector.

Ukraine possesses some of the world's richest soil, with one third of the world's black soil (chernozem) located in the country. Approximately 60% of Ukraine is arable land. Agriculture accounts for about 22% of Ukraine's overall economic output, while food processing accounted for an additional 8%. The sector (agriculture) is a very significant, employing 30% of the country's labor force. Ukraine's primary agricultural products include grain, sugar beets, sunflower seeds, vegetables, meat and milk.

Despite potential, limitations to the sector persist. Local pesticide production currently meets only 20% of the country's needs and it is estimated that 30% of the country's agricultural production is currently lost to fungi, weeds and insects annually. The need for new agricultural machinery is huge, but existing debt in the sector makes the gap between the ability to buy and the need huge. This situation also exists in the food processing where technology dated. This market is heavily supplied by refurbished equipment from Europe.

Reactivating and transforming Ukrainian agriculture and the entire food production system is central to Ukraine's economic recovery and reform. The government of Ukraine is restructuring this sector through a nationwide agricultural strategy that focuses on developing private sector sources of inputs to agriculture, and private processing of agricultural products. A positive sign is that the government is tempering its goal of economic development with the goal of reducing the environmental impact of agricultural chemicals, limiting the environmental impact the sector has on the landscape.

The food processing sector is a €10 billion industry which is developing very rapidly with the aid of foreign capital and foreign inputs. Growth in this sector since 2001 has exceeded 15% annually and the share of this sector of the total national manufacturing exceeds 20%. Ukraine has over 9,000 enterprises in the food processing industry, about 25% of which are

large and medium-sized, which means more than 50 employees and more than 60.5 million in annual gross revenue. To the rapid expansion currently ongoing, it is unclear whether or not this number will shrink in the near future due to consolidation. Currently the sector simply cannot keep up with the demand. Domestic producers have been unable to produce the required inputs and imports are filling the void. Additionally, the product selection and quality of domestic products has been questioned by the processing industry and imports have become preferred in some cases. There has been considerable investment in the areas of alcoholic beverage production (a key export product), and baby food production, but all areas involving the processing of oils, fruits and vegetables and beverage production have seen impressive expansion.<sup>15</sup>

Food processing industry which is capable of producing internationally competitive food products is an essential pre-condition for utilizing Ukraine's significant agricultural potential. The privatization of Ukraine's food processing sector is already quite advanced. Unfortunately, many of the new owners do not have the financial resources for technological improvements and have made less investments and improvements in efficiency than expected. The food processing industry is still not able to be an engine of agricultural growth and produce the quality processed products required by the international marketplace. There is a need for significant post-privatization restructuring and the promotion of further FDI should remain a high priority.

## **Land market in Ukraine**

The state agency for land estimates that today the price for 1 hectare of agricultural land is 1764 Euro (12000 hryvnia). After dissolution of kolkhozes, 6,8 million citizens received certificates for their land shares and the total amount of land in shares is 27,2 million hectares, or on average about four hectares per share<sup>16</sup>. By 1 July 2007 6,1 million citizens (89% of those who earlier received certificates) also received new state certificates that confirm their rights for land share.

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<sup>15</sup> [http://www.ats-sea.agr.gc.ca/europe/4268\\_e.htm](http://www.ats-sea.agr.gc.ca/europe/4268_e.htm)

<sup>16</sup> applies only to the land which is used for the purposes of agricultural production

By 2007 were the state registered 4,3 million contracts for rent of land shares, or 61 percent of land shares are rented out. From this amount 2,3 million land shares (53,6%) are rented to agricultural enterprises, 0,5 million land shares (12,2%) land shares are rented to farmers, 1,5 million of shares are rented to elsewhere. The officially registered average yearly cost of the rent of one land share is 20,2 Euro<sup>17</sup> (137,3 hryvnia) per hectare and in 77,5 percent of cases the payments is done in goods.

The official records of received payments to the state or municipal budgets tell that in recent years the non-agricultural<sup>18</sup> lands were sold by the state and local administration for the total amount of close to 590 million euros (3,85 billion hryvnia)<sup>19</sup>. In 2006 alone non agricultural lands were sold for 184 million euro (1,2 billion hryvnia).

Still some 29,8 million hectares of land that is in state or local authority are to be land surveyed. The law states that land surveys are carried at the expense of local budgets.

January 1, 2009, was a deadline for the currently active moratorium on the land trade (land or agricultural use). Before this deadline several key legal acts are to be passed: concerning the national land cadastre, the law on the land market, revision of the regulations for investment projects, and the conflicts between the Land Code and legislation that regulates local self governance local regulations have to be legally regulated.<sup>20</sup>

In 2007 during seven months 3900 hectare of non-agricultural land were sold or rented for total amount of 323 million euros (2,2 billion hryvnia). In the end of August 2007 the State agency for land resources reported that total 20000 hectare have been prepared for sale or rent for the total estimated amount of 764 million euros (5,2 billion hryvnia).

Surveys are to be carried out by municipalities and many of them already have their local cadastres. For instance in Kiev there were as many as three cadastres one was in possession of the former general architect of Kiev, another was in the department for general

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<sup>17</sup> 1 euro = 6.8 hryvnia, the currency conversion rate used here is the average value Euro/hryvnia of exchange rates set by the national bank of Ukraine during 10 months of 2007.

<sup>18</sup> "Non-agricultural lands" are defined as lands that are officially registered as lands that are not intended to be used for the purposes of agricultural production .

<sup>19</sup> average of exchange rates for Euro/hryvnia in 2006 set to 1 euro = 6.5 hryvnia

<sup>20</sup> This once again demonstrates interconnections between planned reforms: reform of land market and the reform of local/regional self governance, both will have a potential to influence the relations between the political elites and in a long run these reforms will promote local elites.

plan of the Kiev city Kievproekt, and the newest one in the municipal y agency Kievarchitecture. The lands in municipal property and in municipal cadastre are normally to be related to the general municipal – city plans. The problem is that these general city plans are loosely regulated. Also the municipalities make own decisions concerning the regulations and procedures for renting land and choosing investors. It also has to be noted that the reform of the system local/municipal administration is inevitable, perhaps already within 5 years.

Regions own some 50,7 percent of land, that is some 30 million hectares (the rest is owned by the state). Regional councils/parliaments make decision about renting out of land for non-agricultural use.

Laws that are missing and have to be approved after that Our Ukraine, Timoshenko's block, Party of Regions will vote to lift the moratorium in the land trade: on national cadastre, on the land market, on state reserve, and on conservation land. Most of the agricultural land in rented form the owners of land shares (those were distributed among peasants during the dissolution of kolkhozes). Farmers rent the land form share holders and usually pay this rent with the goods that are produced by the farm or agricultural enterprise. Therefore a moratorium on the land trade and private ownership allows some companies to avoid taxes, as they rent agreements with share holders are loosely regulated. There is also no tax on land or private property and this taxation will be regulated within few years.

Some 59,4% of rent contracts are for 4-5 years, 16,1% for 1-3 years, 18,2 % for 6-10 years, 6,3% - for over 10 years (state agency for land resources). By 2007 the notary registered only 1,2 percent of land shares being sold, 90% are inherited, 8,7 transmitted as gifts. The state agency responsible for land resources is planning to complete a land survey in 2008.

Another political issue in about land ownership rights for Ukrainian residents and non residents (individual and companies) and the limits of possible land plots for each category. At present the maximum allowed size of the land plot fro residents is 100 hectares. One of the ideas shared my many political parties is that the question about landownership by non-residents has to be addressed no earlier when Ukraine becomes a member of the EU (if otherwise than an expansion of Russian owners is expected).

## Conclusions to Part Two

The food processing industry can expand its value added in Finland by exporting a share of its potential production to other countries. Traditionally Russia (former Soviet Union) has been the major country for export. The export peaked 350M Euros in year 1997 and leveled to 200M Euros after the peak. Import to Finland from Russia has remained negligible. Export to Ukraine and also import from Ukraine has very small economic significance for both countries. In year 2006 the level of both was 2,5M and 1,7M respectively.

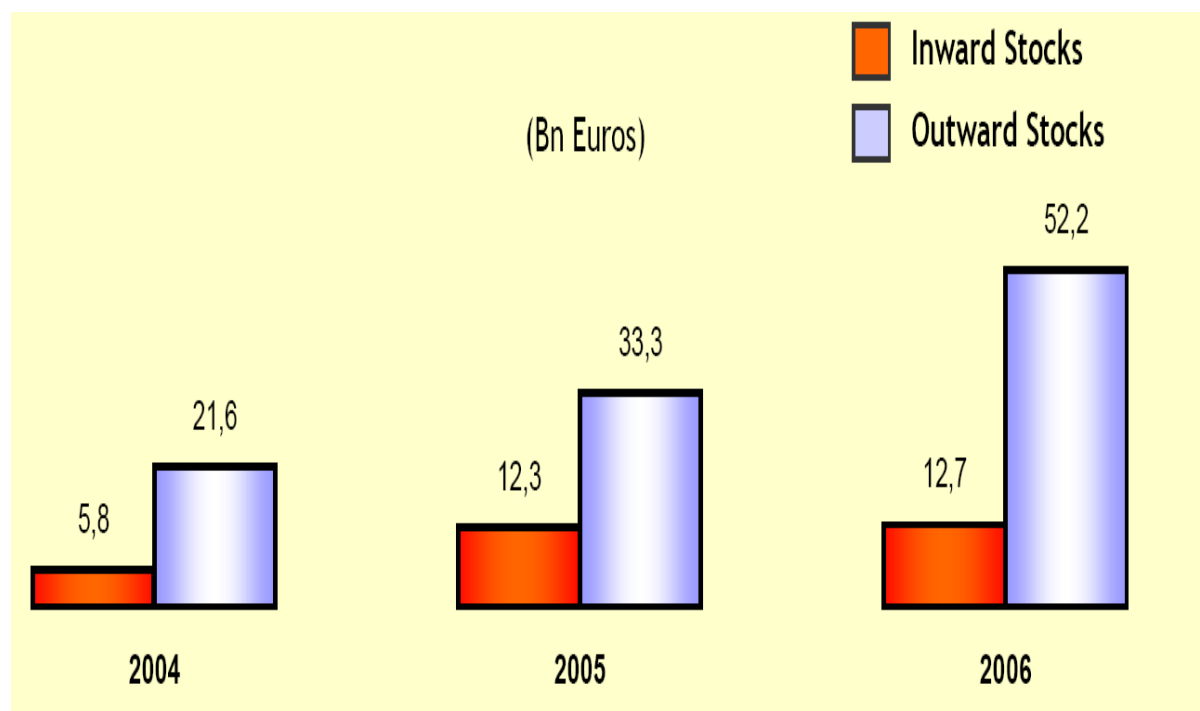
Another chance for Finnish food processing companies is to grow via foreign direct investment (FDI). After the collapse of Soviet Union and other socialist countries in Europe a massive flow of FDI took place into former socialist countries. Also Finnish food processing companies took footage from Baltic countries, Poland and Russia to mention the most important ones.

Food processing industry growth in Russia was from 20 billions of Euros in 2000 to 36 billions of Euros in 2004 (Figure 4.1). In Ukraine the food processing industry growth was from 6 Billions of Euros in 2000 to 11 billions of Euros in 2004 (Figure 4.3). In both countries the production almost doubled. These trends reflect the fact that FDI's have had significant effects in the growth.

Finnish FDI position has strengthened in Central and Eastern Europe (CEE) continuously from 1995 to 2005. EU membership of some CEE countries had a significant incentive for Finnish companies to shift FDI's in this area to a higher level 1,5M (Table 5.1.1). A very remarkable fact is that during three year period between 1999 and 2001 Baltic States accounted for 50 %- 60 % of FDI's in CEE (Table 5.1.2). FDI's in food processing industry for CEE were almost totally directed to Baltic countries.

Interest to invest in Russia has grown steadily after the year 2000. The increase begun 2004 and has been from EU countries 50 % annually (Figure 0.1). A remarkable portion of it is supposed to be generated from Russian sources first transferred to countries like Cyprus and Netherland and then transferred back to

Russia (about 65 % of investment flows inwards and outwards are generated such a way).



**Figure 5. EU-Russia Investment flows. Source EU 2008. Source: prof. Kari Liuhto presentation to Finnish-Russian Commission for Scientific and Technological Cooperation seminar “Russia in the Global Economy” September 30, 2008**

Finnish FDI's are of course in small magnitude in the overall picture. However Finnish companies have invested in growing speed during 1995 – 2006 (Tables 5.2.1 and 5.2.2). In years 2005 and 2006 the stock of investments reached 1,1M and 1,7M Euros respectively. In an FDI Overview chapter we present two case companies which made FDI's in Russia, viz. Valio Ltd and Atria Ltd.

Finnish FDI's in Ukraine have been very modest. Reason for that has been that due to limited resources Finnish companies have preferred Russia and neglected Ukraine (Tables 5.2.1 and 5.2.2).

The number of employees of Finnish owned subsidiaries and companies in Russia has steadily increased. From 2004 on the increase has been 90 % to 30 % reaching 20 600 employees in 2006. The main industries have been manufacturing, wholesale

and retail trade and construction. In manufacturing food product as beverages has a big share (Table 5.4.1).

In Ukraine the number of employees has had a jump in 2006 reaching the level 3000 from 275 in 2005. Employers are workers in manufacturing industry.

## **Concluding remarks to the study**

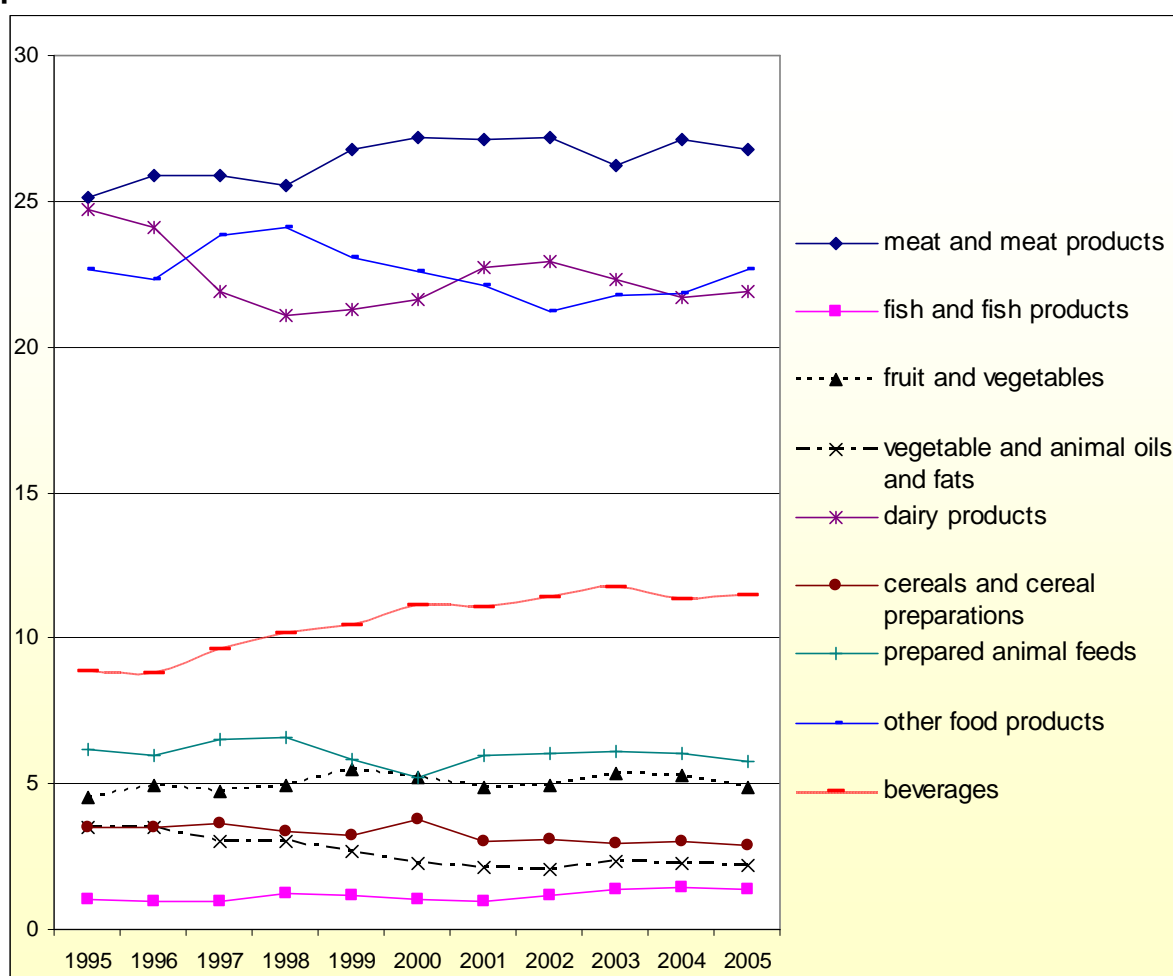
The study has been made for the target in mind to encourage Finnish companies especially food processing companies to establish their economic activities in Russia and Ukraine. The growth potential in Finland has been fully utilized. Also the direct export has attained its limits. Common agriculture policy (CAP) in EU will in the long run push Finland's farms to specialize, grow and also move into multi business entrepreneurs. Food processing industry has its place to process the raw material in that chain. The scale of food processing companies is limited by the supply of Finnish raw material. Because international food processing companies grow by consolidation and green field investment especially in former socialist countries Finnish companies have to follow the suit or being consolidated. Finnish evidence shows right strategic development in our neighboring countries. However Ukraine, Belorussia and Caucasian countries are areas where Finnish technology and knowledge transfer should be directed either by own resources or in partnership with European big food processing companies.

## **Appendixes**

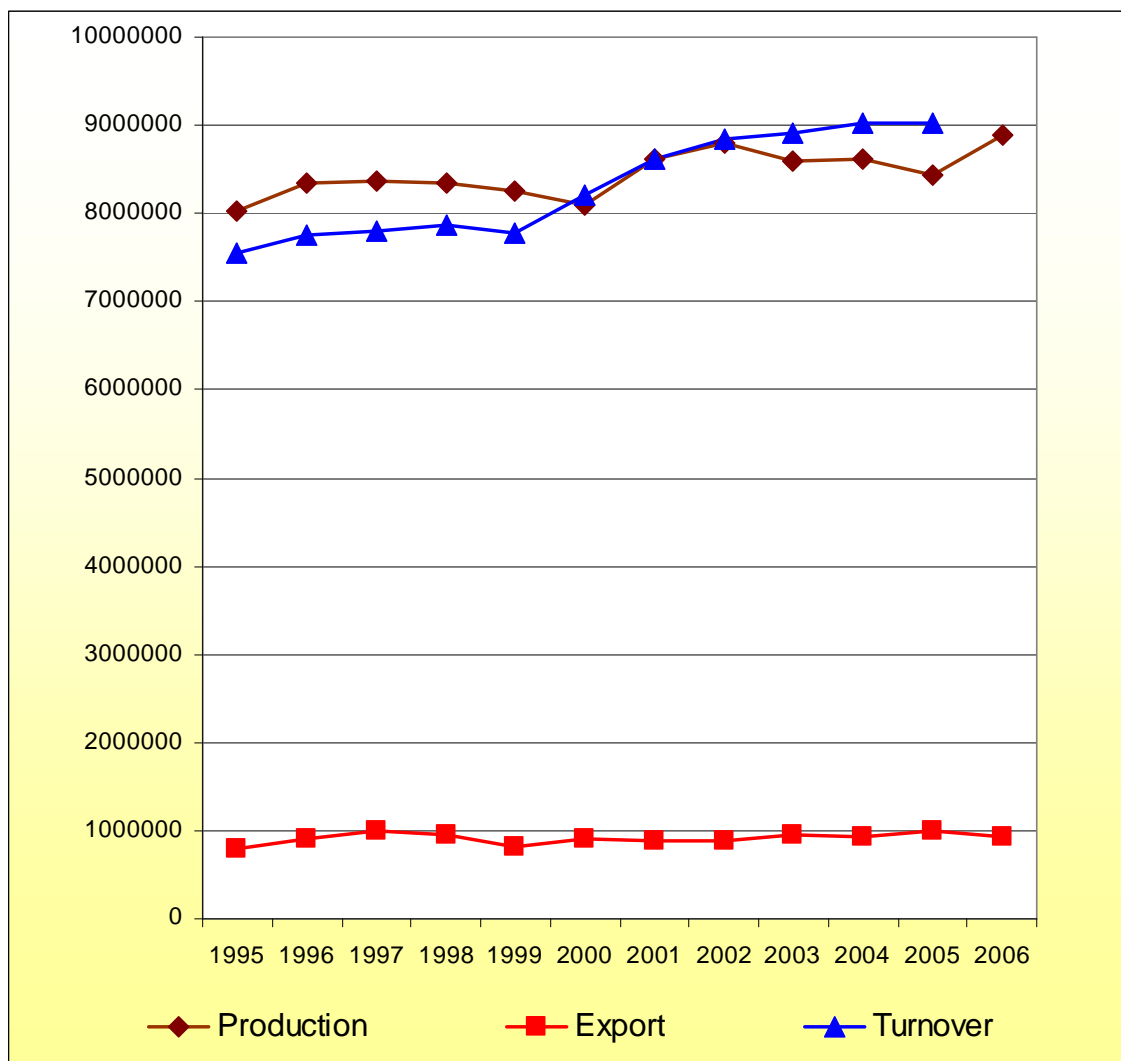
**Appendix 1. Compared annual production (by product type) in Finland between 1995 and 2005. In 1 000 000 Euros. Source: Statistics Finland.**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Meat and meat preparations	1975	2127	2140	2097	2185	2173	2309	2364	2226	2328	2261
Fish and fish products	83	77	80	101	94	81	82	102	115	126	119
Fruit and vegetable products	358	409	391	406	450	418	415	428	456	453	414
Vegetable and animal fats	274	290	247	246	216	180	180	177	195	194	188
Dairy products	1942	1982	1809	1734	1737	1726	1934	1991	1893	1862	1851
Cereals and cereal preparations	274	291	301	279	265	302	257	272	253	259	246
Feeding stuff for animals	484	491	539	544	477	418	508	526	517	520	488
Other edible products	1781	1833	1967	1981	1883	1807	1883	1843	1847	1877	1912
Beverages	696	722	795	834	854	887	940	991	995	976	966

**Appendix 2. Structure of food, beverages and tobacco production in Finland. Annual production values from 1995 to 2006. In percents of total food production. Source: Statistics Finland.**

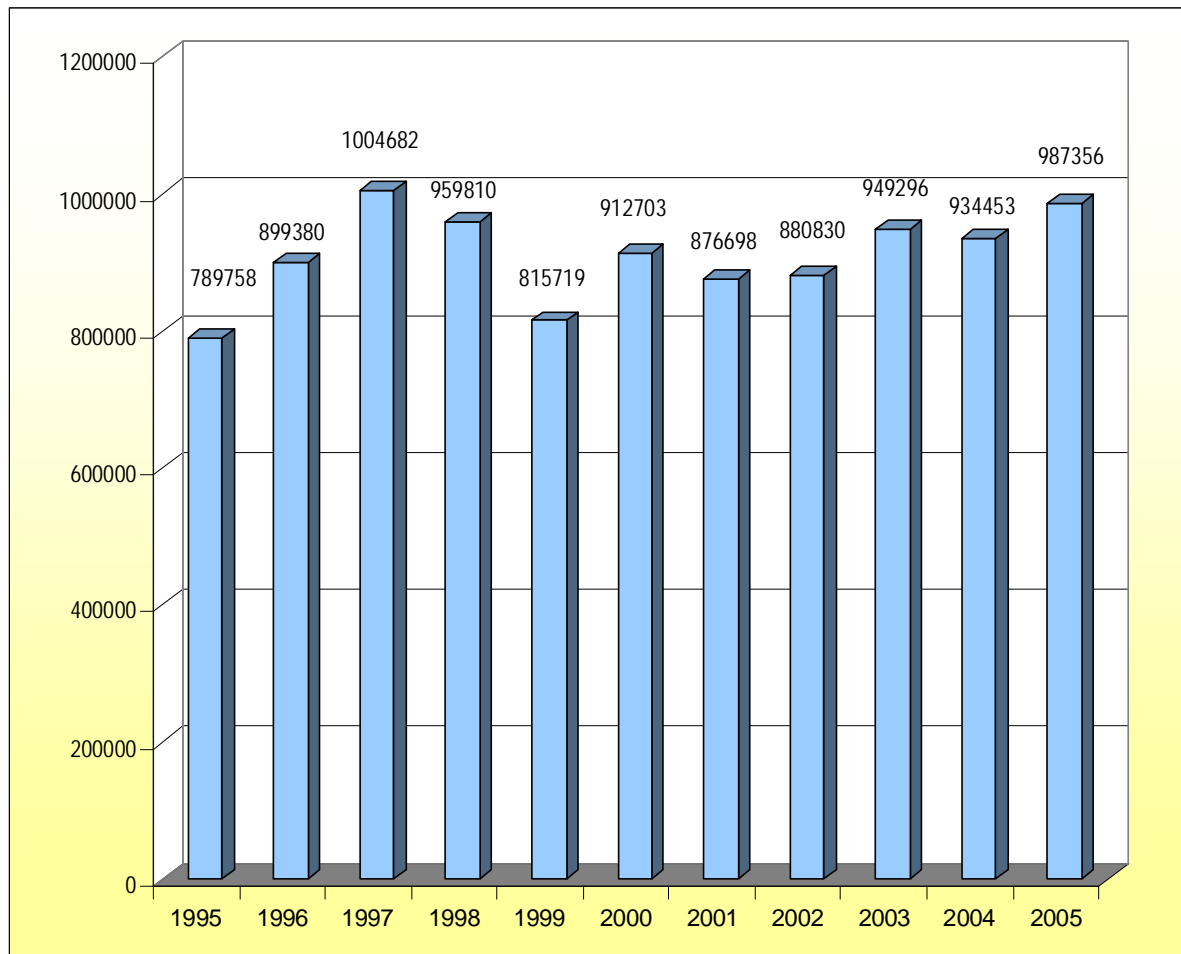


**Appendix 3. Compared annual production, turnover and export between 1995 and 2005. In 1000 euro. Source: Statistics Finland.**

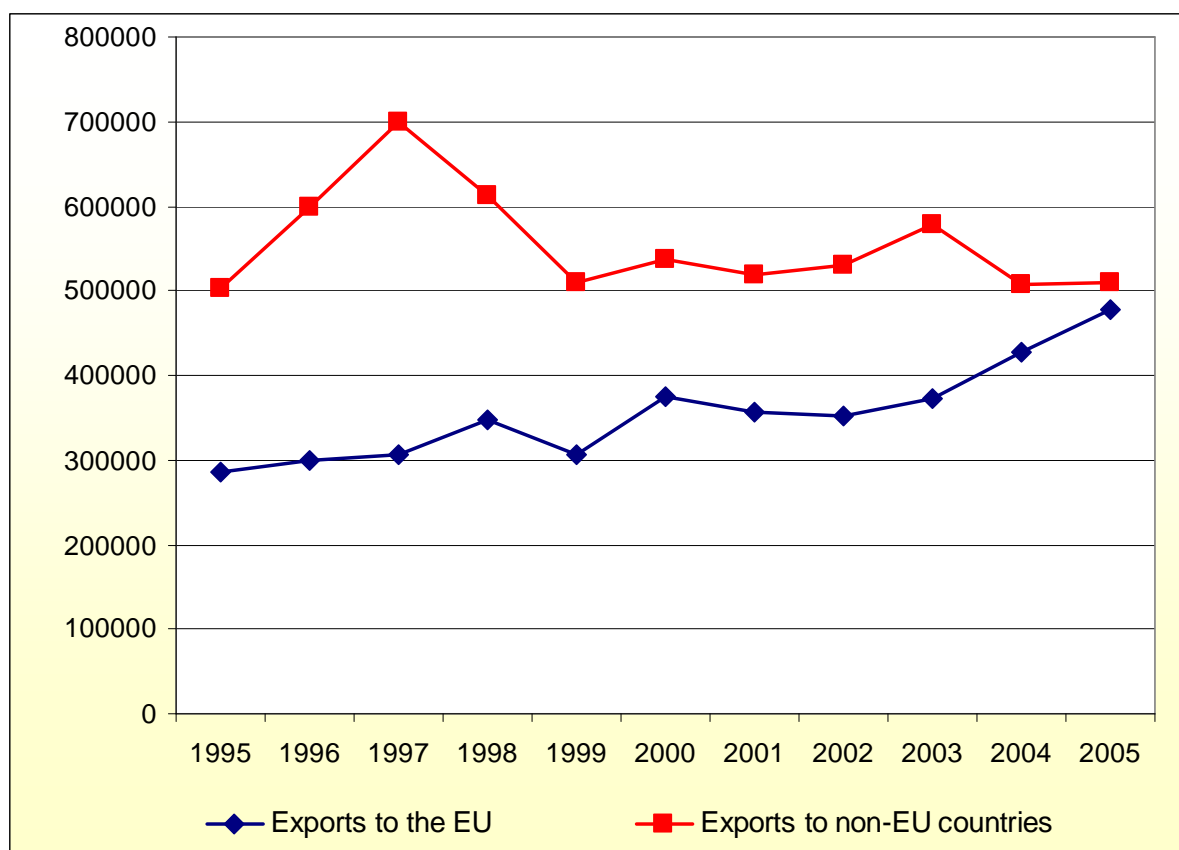


	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Production value	8022722	8337551	8377057	8337186	8257047	8087467	8607375	8791772	8588255	8618134	8446058
Turnover	7552691	7755209	7805078	7870485	7769002	8207708	8606056	8835808	8905915	9035797	9016782
Export	789758	899380	1004682	959810	815719	912703	876698	880830	949296	934453	987356

**Appendix 4. Food, beverages and tobacco exports from Finland (all countries) between 1995 and 2005. In 1000 euro. Source: Statistics Finland.**

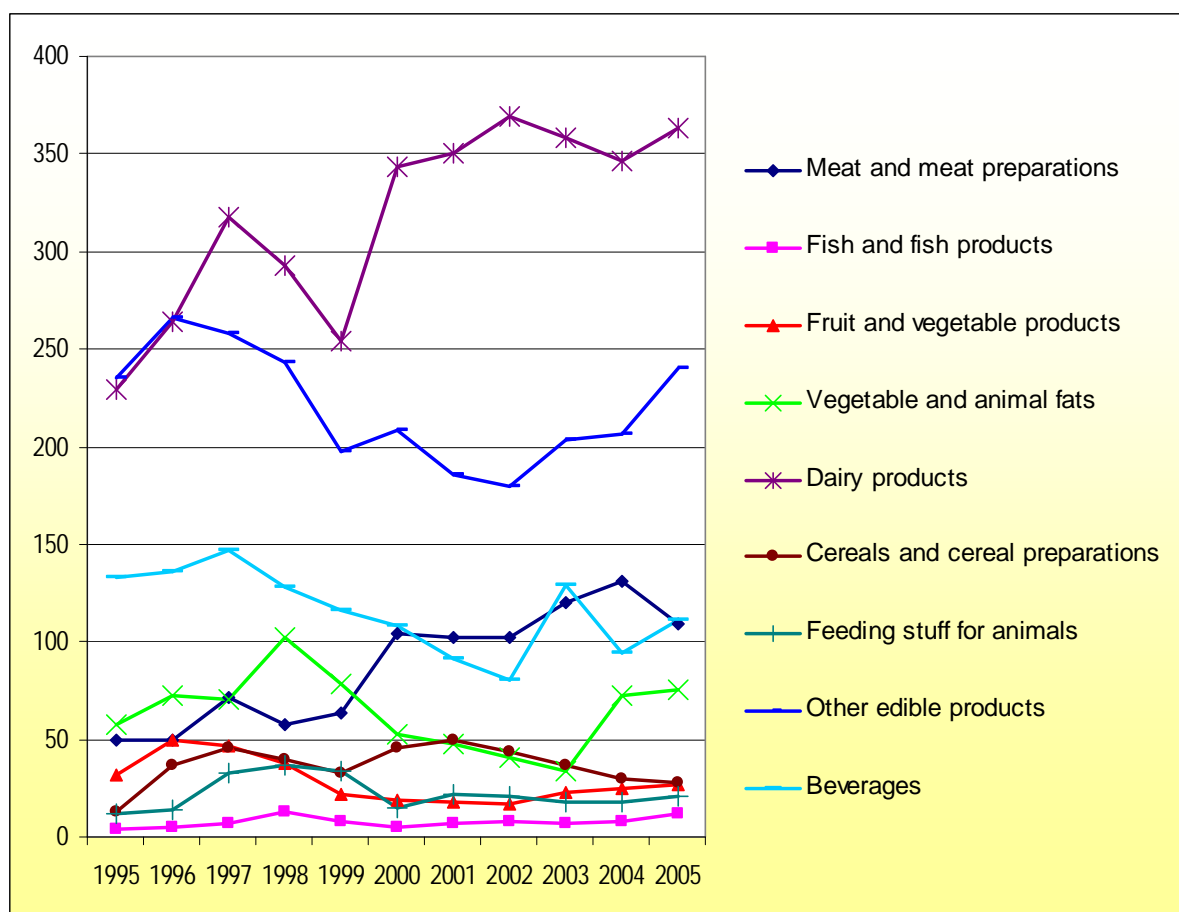


**Appendix 5 Food, beverages and tobacco exports from Finland to the EU and other countries between 1995 and 2005. In 1000 Euros. Source: Statistics Finland.**



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Exports to the EU countries	286532	299645	305213	347172	305663	374708	357060	351030	372094	427020	477497
Exports to countries outside of the EU	503226	599735	699470	612638	510056	537995	519638	529800	577202	507433	509860

**Appendix 6. Compared annual exports (by type of product) from Finland between 1995 and 2005. In 1000 Euros. Source: Statistics Finland.**



**Appendix 7. Compared annual turnover in Finnish food processing industry (by type of product). Between 1995 and 2005. In 1 000 000 Euros. Source: Statistics Finland.**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Meat and meat preparations	1581	1636	1645	1681	1723	2133	2278	2309	2371	2499	2526
Fish and fish products	87	87	86	120	116	95	90	118	123	139	147
Fruit and vegetable products	398	448	426	446	495	467	448	468	473	482	473
Vegetable and animal fats	229	285	206	221	193	169	171	170	177	185	179
Dairy products	1844	1824	1733	1726	1704	1754	1902	1959	2013	2039	1950
Cereals and cereal preparations	271	303	313	294	276	309	262	281	267	267	267
Feeding stuff for animals	490	485	505	536	465	427	488	500	493	497	486
Other edible products	1836	1883	2009	1941	1893	1882	1918	1894	1959	1982	1973
Beverages	660	692	778	797	812	877	945	1022	923	919	1017

**Appendix 8. Profitability ratios for farms in 24 EU member states from 1995 to 2004. Source: MTT Economic Research, Finland**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Belgium	0.79	0.92	0.86	0.82	0.89	1.05	1.02	0.79	0.94	0.83
Denmark	0.39	0.45	0.41	-0.02	0.13	0.41	0.32	-0.01	0.02	0.13
Germany	0.41	0.46	0.48	0.4	0.49	0.54	0.49	0.39	0.4	0.56
Greece	1.51	1.42	1.5	1.56	1.48	1.58	1.49	1.77	1.58	1.47
Spain	1.33	1.83	1.75	1.59	1.43	1.6	1.38	1.59	1.61	1.48
France	0.84	0.87	0.86	0.88	0.88	0.8	0.79	1.01	0.9	0.86
Ireland	0.54	0.42	0.47	0.38	0.49	0.47	0.4	0.39	0.55	0.55
Italy	0.95	0.91	0.89	0.78	0.83	0.92	0.91	1.01	1.02	1.09
Luxemburg	0.61	0.53	0.52	0.61	0.6	0.69	0.64	0.62	0.74	0.76
The Netherlands	0.59	0.56	0.69	0.41	0.34	0.54	0.47	0.33	0.44	0.35
Austria	0.9	0.89	0.88	0.85	0.86	0.81	0.91	0.86	0.76	0.78
Portugal	0.45	0.43	0.38	0.46	0.51	0.52	0.58	0.6	0.66	0.62
Finland	0.75	0.66	0.56	0.47	0.53	0.64	0.65	0.71	0.65	0.61
Sweden	0.03	0.02	0.1	-0.03	0.04	0.12	0.16	0.14	0.14	0.11
U.K	0.86	0.74	0.37	0.23	0.25	0.25	0.32	0.42	0.58	0.39
Cyprus										0.26
Czech Republic										1.38
Estonia										1.52
Hungary										0.62
Lithuania										2.06
Latvia										1.29
Polen										1.14
Slovakia										0.67
Slovenia										0.43
EU	0.65	0.7	0.68	0.59	0.63	0.68	0.65	0.69	0.68	0.7

**Appendix 9 Finland's trade with Russia: dynamics of imports and exports of food, live animals, beverages and tobacco between 1995 and 2006. Unit: 1 000 Euro. Source: Eurostat**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Import from Russia	1542	1975	1934	3215	2863	4533	5087	10789	7260	11298	8792	15093
Export to Russia	207703	290466	349941	258023	142426	158959	180220	196553	191831	173637	184561	233945

**Appendix 10 Finland's trade with Ukraine: dynamics of imports and exports of food, live animals, beverages and tobacco between 1995 and 2006. Unit: 1 000 Euro Source: Eurostat**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Import from Ukraine	0.37	643.05	360.96	150.19	102.39	25.16	27.04	397.08	155.55	308.24	224.10	2174.00
Export to Ukraine	5532.11	10586.05	5975.98	3379.91	1160.20	1790.44	3325.34	1726.10	2301.36	2124.09	1622.60	2479.00

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