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Putin Allies Poised to Profit on Russia's Food Sanctions

By The Moscow Times

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Businessman Gennady Timchenko attends a session of the St. Petersburg International Economic Forum 2014 (SPIEF 2014) in St. Petersburg in this May 24, 2014 file photo.

ABINSK, Russia — As U.S. and European sanctions piled pressure on Russia earlier this year, the Kremlin hit back with an unusual weapon: apples.

From Aug. 7 Russia banned imports of fruit from various countries that supported sanctions, including Poland, which has been a strong critic of Russia's actions in Ukraine. The ban had real impact: Poland is the world's biggest exporter of apples and last year sent more than $380 million worth to Russia, according to International Trade Center figures.

While Poland's apple growers are suffering, the ban has also been an opportunity for an old friend of Russian President Vladimir Putin.

A day after Russia decreed Polish apples forbidden, Gennady Timchenko, who made a fortune from oil trading during Putin's years in power, applied to buy a large stake in one of Russia's biggest apple producers. Through his investment company Volga Group, he now owns 40 percent of Alma Holding, which has orchards in the Krasnodar region of southern Russia.

For Timchenko, 62, it is a chance both to profit from a market suddenly in need of homegrown apples and to support Russia in the face of Western sanctions. He portrays the investment as a patriotic act, a show of support for Putin, whom he has known since the 1990s, and of defiance against U.S. and EU sanctions imposed on Russia over its meddling in Ukraine.

"This is our first asset in agriculture. I am sure ... it will complement Volga's portfolio of initiatives to strengthen food security," Timchenko said in a statement in October. "For me it is not just business, it is part of the social mission of my group."

The deal also affords a chance for personal payback. In March, as part of its measures to punish Moscow over Ukraine, the U.S. Treasury put Timchenko on a list of individuals sanctioned as "members of the Russian leadership's inner circle."

Timchenko did not respond to a request for an interview. Volga Group told Reuters: "Apples are the number one fruit for Russian consumers. Russia is the biggest importer of apples in the world, and less than 50 percent of demand is produced in Russia ... We see good opportunities to increase the company's business."

The investment suggests Putin's circle may be benefiting from the very sanctions that the West hoped would spur them to persuade the Kremlin to change tack over Ukraine. While external investors have taken fright as the value of oil and the ruble have plunged, allies of Putin such as Timchenko are cash-rich and willing to strengthen their hold on Russia's economy. Nikolai Shamalov, another long-standing associate of Putin, has also recently invested in agriculture.

Vladimir Milov, a former deputy energy minister and current opposition figure, said allies of Putin were adept at exploiting "niches" created by the government.

"If you take a look at the pattern of guys like Timchenko, they have always been moving in a similar way," he said. Timchenko has previously denied that Putin ever helped him with his businesses, and Putin has said that Timchenko did not need his help.

Alma's CEO declined to discuss Timchenko's apple plans. But staff at Alma's orchards in Abinsk, the company's base in Krasnodar, told Reuters the company was poised to expand. Alma now has 800 hectares of land, and may buy 500 hectares more, said Christophe Arlandes, the technical director.

"There is a lot of land available here," said Arlandes. "There is good potential in the Russian market."

China, Serbia and Azerbaijan have increased exports to Russia to fill the gap caused by Putin's ban on food imports from countries supporting sanctions against Moscow. But Russian farmers and investors still see a chance to exploit one of the few buoyant industries as the country's economy falters.

They can do so with the Kremlin's help. When the ban on foreign fruit and various other foods was imposed, the Russian government announced it would increase spending on agriculture to help reduce the country's dependence on imports. It is considering a proposal to boost state support for agriculture by 30 percent to 1.76 trillion rubles ($31 billion) over five years.

The Multi-Billionaire

Timchenko has known Putin since at least the 1990s, when Putin was a local government official in St. Petersburg. The Russian leader is honorary president of a judo club that Timchenko co-financed in the city.

The bulk of Timchenko's wealth comes from Gunvor, an oil trading business he co-founded that grew rapidly after Putin became president in 2000. Gunvor became one of the largest commodity traders in the world, and Timchenko has amassed a personal fortune of $10 billion, according to a current estimate by Forbes. In March, the U.S. Treasury alleged that Putin "may have access" to Gunvor funds; Putin and Gunvor have said the Russian leader has no connection to the company.

For many years Timchenko denied being close to Putin. More recently, he has been less coy. In an interview with Russia's TASS news agency in August, he said he had known Putin for 20 years, and confirmed that his Labrador dog had been given to him by Putin. It was a puppy from a litter of Putin's own Labrador.

As Russia's relations with the West turned arctic earlier this year over the turmoil in Ukraine, Russians operating in Europe faced a dilemma over where their loyalties lay: with their European business interests or with Russia. Timchenko made his allegiance clear. Even before he was sanctioned, he told TASS, he quit his luxury home in Geneva with its underground tennis court, left his family in Europe and returned to Russia.

"I felt it was about time," he said.

Then on March 19, Timchenko sold his near-50 percent stake in Gunvor to his partner, Swedish billionaire Torbjorn Tornqvist. It was timely: The next day, Timchenko was sanctioned by the United States, a move that would have complicated or even prevented

Gunvor's business with U.S. companies. With the sale of his stake in Gunvor, he is now intent on building up new businesses in Russia.

Volga Group said it began discussions on buying a stake in apple company Alma in 2013, well before any sign of a ban on Polish apples, and that negotiations had "intensified in early 2014."

After applying in August for permission to take a stake in Alma, Timchenko received approval on Sept. 4 and completed the deal on Oct. 17, according to Russia's Federal Anti-Monopoly Service.

Apples might not have the glamour or riches of the oil industry; Alma Holding made a net profit of just $77,000 in 2013, according to corporate records. But the company is growing and the investment provides Timchenko with possibilities beyond simply supplying fruit for eating. He also owns a mineral water and juice company, Aquanika, in Nizhny Novgorod.

Arlandes, the technical director at Alma, said the apple producer aims to double output next year. It needs to increase its storage facilities, he said, and may build its own juice factory in Abinsk.



Alexander Demianchuk / Reuters

A vendor sells apples at the city market in St.Petersburg.

"Food Patriots"

Agricultural produce has become a proxy battleground in East-West tensions. In Poland, apple growers face a surplus of fruit they cannot sell and orchards that are now redundant. The Russian ban "has hit us very hard" said Jacek Pruszkowski, an apple producer from Grojec, near Warsaw.

Polish growers "still have 1 million tons in storage ⊠ We now know that this will not get sold. At some point, it will have to be destroyed," Pruszkowski said.

He believes that some of Poland's former export market will be permanently lost as Russian growers take over.

In Russia, a group of self-described "Food Patriots," formed in February, has been encouraging consumers outside supermarkets across the country to exchange what they describe as "harmful" Western products for Russian alternatives.

"Every one of us is a consumer and can vote with our rubles against the products of our ideological enemies," the group said on its page on Russia's biggest social networking site, VKontakte.

The Communist Party has proposed imposing a new tax on foreign producers of sugary drinks, naming Coca-Cola directly. Russia's agriculture minister sparked controversy late last month when he was quoted by state news agency TASS as saying that PepsiCo and French producer Danone, two of Russia's biggest foreign investors, used cheap ingredients in their dairy products. The ministry has since said the minister did not name the companies but simply referred to "transnational companies."

At the time, Danone said it was outraged and accused the minister of defamation. A spokeswoman for Danone told Reuters the company had subsequently had a "conciliatory meeting" with government officials which confirmed there were no complaints over the quality of its products. "Overall, we are satisfied with the result," the spokeswoman said.

A spokeswoman for PepsiCo said: "We produce dairy products of high quality in full compliance with Russian legislation."

Coca-Cola has said that the proposed legislation to tax sugary drinks would only harm Russia's economy.

In a televised address to the nation on Dec. 18, Putin said Russia's economy would rebound from its current woes. Taking questions from the audience, he used one about a traditional

Russian beverage made from fermented rye bread to imply that Coca-Cola was an unhealthy drink and to make the case for homegrown products.

"I don't want to offend Coca-Cola," Putin said. "But we have our own national non-alcoholic drinks ... and they need to be pushed forward."

Self-Sufficiency?

Timchenko is not the only one who sees opportunities in a subsidized industry where some international competition has been banned.

One of his business associates is Shamalov, who has also known Putin for about 20 years. Shamalov is a shareholder, along with Timchenko, in Bank Rossiya, which the U.S. Treasury has described as the "personal bank for senior officials of the Russian Federation."

In July, Shamalov became the sole shareholder of a company in Karelia, a republic in northeast Russia, whose purpose is listed in corporate documents as crop research and animal breeding. A newspaper in St. Petersburg reported that Shamalov was investing about 1 billion rubles ($18 million) in beef production. Reuters was unable to confirm the report. Shamalov did not respond to requests for comment.

Dmitry Steinsapir, managing partner at AVG Capital Partners in Moscow, is a private equity investor with more than $200 million invested in agriculture projects. He says he has been surprised by the surge of interest in investing in agriculture. Before the ban, he saw only a trickle of people pass through his doors looking to invest in the sector.

"Now everyone seems to be asking us, 'Guys, can I invest some money?'" he said. His company is currently in talks with between six and 10 private Russian investors each looking to put $5 million or more into agriculture and related logistics, he said.

"What we see is that local investors want to protect their savings ... and it is difficult for Russian money to be invested abroad. People want to invest their money into industries which have the potential to grow," Steinsapir said.

Russia's Agriculture Ministry has said the industry needs an additional $8.1 billion from the state budget to meet Putin's demand for the country to become self-sufficient and reduce its dependence on what the government sees as an increasingly hostile West.

"We believe that we have the resources to replace imports with domestic production 100 percent," said Anatoly Kutsenko, director of the economics department at the ministry. He said the effects should be felt by consumers in two to three years.

In this volatile stew of politics, food and drink, the beneficiaries could include Timchenko's businesses in apple growing and fruit juices.

His investment company, Volga Group, was circumspect when asked about the possibility of it obtaining state aid for apple-growing. Arlandes, the technical director at Alma, was more forthcoming. Looking out over the orchards in Abinsk, he said: "We're hoping for government support."

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