Grain giant Viterra, part-owned by Canada Pension Plan, continues operations in Russia despite international sanctions

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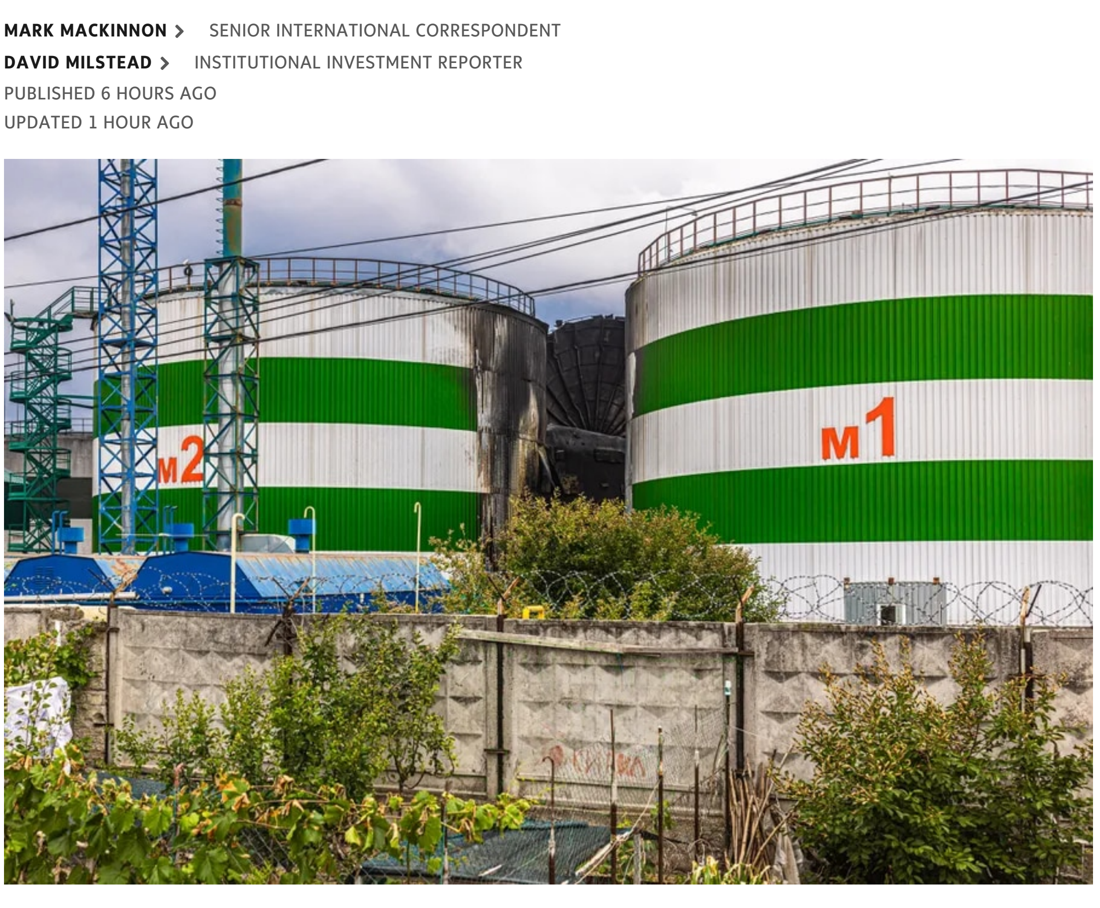

Viterra-owned vegetable oil barrels are shown damaged by Russian missiles in Mykolaiv, Ukraine, on June 24, 2022.
ANTON SKYBA/THE GLOBE AND MAIL

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Viterra Ltd., the global grain company that counts two of Canada's big pension plans as major investors, has continued to work in the Russian market despite other companies exiting the country – and over the objections of its own staff in Ukraine.

Viterra's Russian business holdings include a grain-storage terminal co-owned with VTB, a Russian bank that has been under Canadian sanctions since 2014, when Russia seized and illegally annexed Crimea.

An industry source said the company separately ignored warnings from its own staff about continuing its operations at two facilities in Ukraine, where workers feared for their safety if Russia targeted the facilities for attack. The Globe and Mail is not naming the industry source because they were not authorized to speak publicly about the matter.

The same source said Viterra's Ukrainian staff were also angry that the company continued operations in Russia after the Feb. 24 invasion.

The risks attached to the decision to keep operating in Ukraine were made plain in June when Viterra's sunflower seed oil terminal in the Black Sea port of Mykolaiv was struck by a Russian cruise missile. One Viterra employee was injured in the attack, which saw two of the company's oil containers explode into flames, sending debris flying into the surrounding neighbourhood.

Viterra, headquartered in Rotterdam, the Netherlands, but with significant operations in Regina, traces its roots to Canada's grain cooperatives and the Saskatchewan Wheat Pool. Glencore PLC, an Anglo-Swiss commodity trading giant, bought the Toronto Stock Exchange-traded Viterra in 2013, and folded its own agricultural division into the company. In 2021, it recorded US$40.7-billion in revenue, $7.3-billion of it from Canada, and has nearly 1,600 employees in this country.

Its shareholders now include many Canadian pensioners, via the Canada Pension Plan Investment Board (CPPIB) and the British Columbia Investment Management Corp. (BCI), which combined to buy a stake in the private company in 2016. CPP Investments owns 39.99 per cent of Viterra, while BCI owns 9.99 per cent. Glencore owns 49.99 per cent, with the rest held by Viterra's management.

The Russian and Ukrainian operations illustrate the perils for Canadian companies, and their major investors, from conducting business in the region after Russia's invasion of Ukraine. Owning businesses in Russia is widely seen internationally as supporting Vladimir Putin's regime. And operating in Ukraine subjects employees to immense safety risks as Russia continues a military campaign that has targeted the citizens and the economic engines of the country.

Soon after the military assault began, CPPIB and BCI, as well as all other large Canadian pensions, were quick to disavow investment in Russia, issuing public statements in response to Canadians' concerns about propping up Mr. Putin's economy.

At the time, CPPIB called its Russian holdings "insignificant," saying it had "made a deliberate decision" several years prior to avoid Russia as "one of our markets." BCI chief executive Gordon J. Fyfe said on March 1 that the manager was "actively working to sell the remaining Russian securities from our clients' portfolios."

But the two pensions, like their peers, were addressing the issue of whether they owned Russian-headquartered companies, infrastructure or real estate in the country. Generally, Canadian pension funds also acknowledged that they owned shares in multinational companies that may have been doing business in Russia – and it would take time for those companies to explore whether to make an exit.

That would include Viterra, a Dutch-Canadian company that had just US$241-million in assets in Russia at the year-end of 2021, roughly 1 per cent of its nearly US$20-billion in total assets. (It listed its Ukrainian operations at US$417-million, a little more than 2 per cent of the balance sheet.)

The Viterra investment is likely worth billions to CPPIB and hundreds of millions of dollars to BCI, based on current market valuations of other publicly traded agricultural companies.

Before the invasion, Ukraine was the world's fifth-largest grain exporter. The country's inability to export staples such as wheat and sunflower-seed oil has helped propel skyrocketing food prices around the world.

Asked why Viterra continued to operate in Russia, Jeff Cockwill, the company's vice-president of corporate affairs for North America, said in a statement that the company had suspended any new development and expansion projects in the country.

However, "disruptions to the global food supply chain are having a disproportionate impact on the people who live in the lowest-income nations of the world. As an exporter of essential agricultural commodities, we believe that it is our duty as an industry leader to continue providing food and feed products for people in need."

Viterra said it owns 50 per cent of the Taman grain terminal in Russia, with the remaining 50 per cent owned by a holding company of which VTB, the Russian bank, is a minority 45-per-cent shareholder. "As such, because VTB is only a minority shareholder in this holding company, the Taman grain terminal is not a sanctioned entity."

VTB bought into the Taman terminal in March, 2020. Demetra-Holding LLC, then described in news reports as a subsidiary of VTB, purchased the 50-per-cent stake from Ukraine agricultural company Kernel for US$65-million in cash. According to S&P Global Market Intelligence, two Russian entities – Agronova JSC and Marathon Group – were VTB's partners in Demetra-Holding LLC.

Viterra's Mr. Cockwill said VTB sold 5 per cent of its stake in Demetra-Holding LLC in February of this year to slip below the 50-per-cent threshold.

VTB, which is also under sanctions by the United States and the European Union, is Russia's second-largest bank. Since the start of the year, it has had its international assets frozen and has been cut off from the SWIFT system of banking payments.

"Viterra does not conduct any prohibited business activities with VTB in respect of the Taman grain terminal, or otherwise," Viterra said. "It is also worth noting that agriculture commodities are not included under the current EU and US sanctions."

CPPIB, which holds two of the company's six board seats, and BCI, which holds one, declined to answer most of The Globe's specific questions about Viterra's Russian and Ukrainian businesses, referring them to the company.

Michel Leduc, CPPIB's global head of public affairs and communications, said Viterra is "the exact type of operation helping the world address what is arguably one of its biggest challenges today: a global food supply crisis. The pandemic, Russia's invasion of Ukraine, inflation and climate change have conspired to cause this crisis. … No responsible shareholder should ever force operational decisions that might cause greater harm or exacerbate challenges such as a global food crisis, noting the real potential for famine in parts of the world."

Mr. Leduc said the idea that Viterra's VTB relationship could run afoul of sanctions is "misinformed and misplaced."

Gwen-Ann Chittenden, BCI's vice-president, corporate stakeholder engagement, acknowledged the fund manager's stake in Viterra and said BCI "can confirm that Viterra is committed to the safety of its employees and global food security."

The safety of its Ukrainian employees was in question, however, even before the late-June Russian attack on the Mykolaiv terminal.

Viterra had stopped full-scale operations in Kharkiv because the city was on the front lines. Still, more than 20 people were working on the site that day, the industry source says. The source described it as "a miracle" that more people weren't injured and that nobody died.

The industry source said the giant metal vats of sunflower oil at the Mykolaiv terminal are dangerously flammable even in peacetime, and that "you just don't" continue working at a facility like that in the middle of a war. With Viterra unable to get its product out by sea because of a Russian blockade, the company is still working – even after the attack – to get the oil stored in the port terminal out of Ukraine on trucks.

Viterra's Mr. Cockwill said the company has a crisis-management team in daily contact with local management to understand the risks and "is ready to resume business operations in Ukraine if it is safe to do so. We are continuing to monitor the situation daily."

"Since the war began, we have reminded employees that they have the right to stop work if they feel it is dangerous for themselves, the people around them, as well as the work environment," he said. "There are no negative consequences if an employee chooses to stop work."

He said Viterra is "not aware of any concerns raised" through the communications channels it established for employees in Ukraine to raise concerns, including safety-related issues.

Mr. Cockwill said that since the war began, Viterra has continued to pay the full salaries of all its employees in Ukraine, "regardless if they have expressed willingness to work on site or not." The company has committed US$3-million ($3.8-million) for direct support to its workers and humanitarian aid to the wider Ukrainian population, donated 3,000 metric tonnes of milling wheat to be made into flour and distributed across Ukraine; and given €50,000 (about $65,500) to the Okhmatdyt Children's Hospital in Kyiv.

Andy Hunder, the president of the American Chamber of Commerce in Ukraine, said he e-mailed Viterra senior management in March, shortly after the Russian invasion began, to urge them to end their operations in Russia. He said he received no reply.

"Dozens of employees of American Chamber of Commerce member companies have been killed during the initial months of Russia's brutal war in Ukraine. It is not only immoral but in many cases now also illegal to invest in Russia," Mr. Hunder said in a written statement to The Globe. "We applaud the companies that have made the decision to leave Russia, and encourage companies to follow suit, to do the right thing, be on the right side of history."

As Viterra wrestles with the operations in both Russia and Ukraine, it is working to acquire the Nebraska-based Gavilon Agricultural Investment Inc. Viterra announced the US$1.13-billion ($1.443-billion) deal in late January, less than a month before the Russian President ordered the invasion of Ukraine.

The purchase of Gavilon is seen as significant for Viterra as it would give the company a major presence in the U.S. market, something it currently lacks. "Viterra is now present in all major agricultural origination regions of the world," chief executive Gary Nagle said when the deal was announced. "This will enable the company to take advantage of structural opportunities across global agricultural markets."

S&P Global Ratings, which analyzes Viterra's publicly owned bonds, said the company's better-than-expected results in 2021 made its balance sheet healthier, but it was taking on debt to pay for Gavilon that gave it "reduced headroom" to maintain its debt ratings if things went wrong. S&P could "lower the rating if Viterra's [profits] suffered from strong operational headwinds," analyst Maxime Puget wrote in an April report.

He also said Viterra "has strong sourcing capabilities thanks to its global reach," including the U.S., once it acquires Gavilon, and is "therefore not dependent on Ukraine and Russia."

Viterra's Mr. Cockwill said in response to The Globe's questions that "any reduction to revenues from Russia and Ukraine will not impact the Gavilon acquisition."

Mark Dixon, the founder of the Moral Rating Agency, a London-based group that evaluates companies based on their ethics, has called for both Viterra and Glencore – which also owns stakes in major Kremlin-controlled natural-resource companies – to immediately stop doing business in Russia.

"Viterra is acting commercially not morally – it is supporting Russia financially by importing gain while it profits from postinvasion escalating prices. Viterra's argument about 'food security' is just an excuse to make more money," Mr. Dixon said.

"Its three shareholders – Glencore, Canada Pension Plan Investment Board and British Columbia Investment Management Corp. – must speak out. Since none of them own more than 50 per cent of Viterra, each needs to disclose if it is for or against leaving Russia. Otherwise, any shareholder saying it doesn't control the company looks like it's making a fake excuse."

Glencore, which was founded by the late Marc Rich – a controversial financier who was indicted for illegally trading in oil with Iran during the 1979 hostage crisis, only to later get a presidential pardon from Bill Clinton – has a reputation for investing in companies and markets that other Western companies have avoided. Glencore announced in February that it was setting aside US$1.5-billion ($1.915-billion) to cover the potential costs of ongoing bribery and corruption investigations connected to its work in Venezuela, Nigeria, and the Democratic Republic of Congo.

The company's ties to Russia were once deep and were powered by personal connections. Mr. Putin awarded the Order of Friendship medal to Glencore's former chief executive, Ivan Glasenberg, in 2016 after Glencore bucked sanctions to buy a 19.5-per-cent stake in Rosneft, the Kremlin-owned oil giant, providing it with a desperately needed US$11-billion ($14.05-billion) injection of cash.

Though Glencore later reduced its stake in Rosneft to 0.57 per cent, it still holds 10.55 of EN+, the parent company of aluminum producer Rusal. EN+ was founded by Oleg Deripaska, a Kremlin-friendly oligarch who is also on the Canadian, U.S. and EU sanctions lists.

Mr. Glasenberg retired as chief executive last July and was succeeded by his fellow South African, Mr. Nagle. Since the invasion, Glencore has condemned the attack on Ukraine and said in March that it was "reviewing all our business activities in [Russia] including our equity stakes in En+ and Rosneft."

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