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Raiffeisen Investment also told media in February that a number of acquisitions by Asian and Middle Eastern buyers are pending in Ukraine’s agricultural sector, naming China for one.

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And they are not alone. A source, asking for anonymity, has confirmed to bne reports that Hassad Food, a $1bn unit of Qatar’s sovereign wealth fund, is in negotiations about making agriculture acquisitions in Ukraine. The source said that talks were in progress with several Asian investors from the east. The source said that it’s “basically not too difficult” for an Asian company to come to Ukraine, buy a Ukrainian agribusiness and then export the produce home.

Foreign investors run fingers through Ukraine's black earth

1 Published: 15 Apr 2011
Short URL: https://farmlandgrab.org/18461
Posted in: China Hassad Food Libya Renaissance Capital UAE Ukraine

Business News Europe | April 15, 2011
Graham Stack in Kyiv

Chinese and other eastern investors are looking to buy agriculture land and agribusiness across the globe, and Ukraine is increasingly on their radar. But given the restrictions on land ownership in Ukraine, how do you value a company with practically no assets?

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However, Ukrainians are well used to a lot of hot air being talked about their black earth, and some suggest it may not be so straightforward, pointing to a 2009 gas-for-food deal with Libya that came to nothing. "The question of Chinese investor interest can be compared to that announcement two years ago that Libya would farm 100,000 hectares," adds Nikolai Vernitsky, director of Proagro Consulting. "Does today Libya farm in Ukraine? No."

Foreign investors face significant obstacles to digging into Ukrainian soil. Legal issues preventing the purchase of agricultural land are a barrier, whilst local players are ready to pounce on anything of value that actually does come onto the market.

**Moratorium**

In the course of privatisation in the 1990s, land held by Soviet collective farms was handed to their workers, but almost immediately a moratorium was imposed on any further sale of that land, due to populist fears the rural population could be dispossessed by unscrupulous investors.

The result is a stalemate. Agrifirms can lease land plot by plot from villagers or middlemen, with leases mostly for five to 15 years. This is an administrative nightmare, and business investors have no incentive to invest long term, nor can they provide collateral to raise capital. The villagers, 70% of whom are pensioners and many without heirs, are also disadvantaged, since they cannot cash out of their land.

This looks likely to change. On February 25, President Viktor Yanukovich told lawmakers during a speech to parliament that Ukraine needs a "fully fledged" market for farmland to boost the agricultural industry's efficiency and so would allow farmland sales next year for the first time to stimulate investment.

In addition, Ukraine's powerful owns around 5m ha of land scattered over the whole country and could privatise this because the moratorium only applies to land still in state ownership, only to its resale. Legal changes would still be required to allow foreign entities to buy the land, though. According to AAA Consulting's Nalivka, the Chinese investors are looking to enter into partnerships with top Ukrainian businessmen close to the ruling Party of Regions.

There are other drawbacks in buying farm businesses in Ukraine. The poor enforcement of property rights in Ukraine is an issue faced by investors across sectors; AIM-listed Landkom was hit by a double whammy of back-tax claims and land raiders in 2009.

Lifting the moratorium on the sale of land looks likely to raise further issues. As it becomes clear that investors will soon be able to buy Ukraine's fertile land, the country's powerful oligarchs are circling.

Three of the eight Ukrainians on the latest Forbes billionaires list are agro-garchs, among them Oleh Bakhmatyuk, whose grain company Ukrlandfarming recently swallowed two other market players – Rise and Dakor – allowing it to build its bank of leased land to a total of 400,000 ha, the largest in Ukraine.

Given their local knowledge, the "agro-garchs" are likely to have first dibs when it comes to M&A opportunities. "The situation is developing now that any Ukrainian agro companies are extremely attractive [as takeover targets to other Ukrainian companies]," says Vernitsky.

However, Konstantin Golovinsky, vice president of Renaissance Capital, Ukraine and Eastern Europe, points out that because of the lack of land ownership in Ukraine, it's extremely difficult to fix a price on Ukrainian agriculture companies, because they don't actually own anything except their equipment.

For all the signs of a developing Sino-Ukraine agricultural partnership, it has bizarrely started with Chinese food exports to Ukraine. Following last summer's drought, there is a shortage in Ukraine of the staple buckwheat used to make the national porridge, kasha. For all the hopes of becoming China's breadbasket, the immediate reality is that Ukraine is now waiting on a 20,000-tonne buckwheat shipment from Dalian.

**Source:** bne
Ill-gotten, ill-spent.

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