

UKRAINIAN AGRO-COOPERATION PROSPECTS WITH MENA-COUNTRIES

NOVEMBER 7, 2013 WRITTEN BY ANATOLI BARONIN, ANDRII KOLPAKOV PUBLISHED IN EASTERN EUROPE



The Ukrainian agro-industrial complex (AIC) has been traditional subject of both interest and scare for foreign investors. Despite high-yielding black earth lands, sufficient water resources, agricultural traditions and cheap yet qualified labour force, foreign companies are scared off by corruption and unfavourable business climate.

In addition, ownership of Ukrainian agricultural lands still may not be acquired – the government has not yet adopted the land sale moratorium. However, this does not prevent investors from working under long-term lease schemes, accumulating vast land banks and promptly earning money due to export of agricultural products.

There are at least 15 companies in Ukraine having farmland bank that exceeds 100,000 hectares. These are large latifundia that actively develop both plant production and storage and processing of animal products. As a rule, these are companies where Ukrainian stock prevails. However, even today large western companies, as well as Arabic companies operate both as traders and manufacturers in Ukraine. Such companies have adapted to the Ukrainian reality.

Firstly, it is important to mention NCH company with its headquarters in NY, as well as its regional offices in other countries within the region, in particular, Russia, Latvia and Romania. According to expert assessments this company cultivates 400,000 hectares of Ukrainian land. The Ukrainian Agrarian Investments Company founded by Russian Renaissance Partners Company has land bank of no less significance. This company has approximately 240,000 hectares of land under lease.

Swedish companies are also active market participants. Thus, Alpcot Agro controls 93,000 hectares of Ukrainian land concentrated mostly in the country's West. In 2012 this Swedish company has focused on maize and wheat production and has harvested thousands of tons of grain and oil crops in 2012. In addition, there are also other Scandinavian participants on the market. Thus, Trigon Agri, with its headquarters in Copenhagen, operating also in Russia and Estonia, controls approximately 55,000 hectares of Ukrainian land, and the world known Swiss Glencore Company grows agricultural products on over 80,000 hectares of land.

French businesses are also among active market participants and one of them is AgroGeneration Company that has control over approximately 52,000 hectares of land. Recently it has decided to merge with the American SigmaBleyzer Company that also invests in the Ukrainian agro-industrial complex. As a result, Ukrainian market will meet a company cultivating approximately 120,000 hectares of the country's land.

There is also a number of small agricultural enterprises with foreign stock that cultivate few thousands hectares of land. Thus, foreign companies control approximately more than 1 million hectares of high-grade lands while Ukraine has 40 millions of cropland in total. In addition, latifundia being considered large by Ukrainian standards and having land banks exceeding 50,000 hectares of land, controls about 5.5 million hectares of land. The rest of lessees are represented by small companies with performance decreasing every year, which are forced to sell their businesses to larger market players.

It is AIC market consolidation that is the main Ukrainian trend within the last 3-4 years. In 2012, 7 companies have increased their land bank by more than 20,000 hectares by way of purchasing smaller and weaker businesses. The leader is Kernel Company, which specializes in oil crops and has increased its land bank by 120,000 hectares in 2012.

Meanwhile, Eastern companies are only examining the Ukrainian market, first market entry attempts being made by Arabic companies. Their potential interest may be cultivation of more than 1 million of Ukrainian land. However, nowadays they only try to adapt to Ukrainian reality and follow the way of Western corporations.

Interest of Arab companies is easy to understand as Ukraine is one of the serious trade partners for Arab countries supplying grain crops to them. According to the 2011/2012 marketing year results Arab countries are apparent leaders in grain import in total share of Ukrainian export. Thus, their share in export of Ukrainian barley is 87% with fair share of 69% belonging to Saudi Arabia. Ukraine also exports 44% of wheat in these countries, and Egypt is its largest importing country with a 22% share. There is also 41% of maize export falling on Arab countries. The largest export share also falls on Egypt and comprises 26%.

Naturally, under such import performance entry of foreign companies to the production market is only a matter of time as Ukraine fits excellently the national foreign investment strategies to ensure food security.

However, Arab investors are now only beginning their entering the market. Thus, businessmen from UAE expressed their interest in entering the Ukrainian market already during Yushchenko's presidency; however, these were just talks. At the same time, investors from Saudi Arabia are more decisive. This year consortium of Arab investors including such largest companies as Almarai and Al Rajhi, purchased Continental Farmers Group Company having small land bank in Ukraine and Poland (23.7 thousand hectares and 2.5 thousand hectares of farmland, respectively). It should be noted that, having production capacities in Agypt, Jordan and UAE, Almarai with its specializing in dairy, baking, juice and other types of production markets 65% of its products in Saudi Arabia. In its turn, Al Rajhi has been operating in Ukraine since 2006 through International Investment Co LLC., and is engaged in grain trade.

Ukrainian experience of these companies may become a litmus paper for activation of Arab investors on the market. Such investments have quite many potential stakeholders. Among Saudi Arabic companies one may mention Foras International Investment Co. This company has experience of work in Tatarstan (Russia) and Bosnia and Herzegovina and meanwhile develops AIC direction in African countries such as Mali, Senegal and Sudan. Among UAE companies we may mention Al dahra Agricultural Company as potential investor. This company has subdivisions in Egypt and Pakistan. In addition, governmental Abu Dhabi Fund for Development (ADFD) also is potentially interested in investments in Ukraine. This company has agricultural assets in Morocco, Mauritania, Senegal and Egypt. Among other Qatari companies with potential interest in entering the Ukrainian market we may mention national structure, the Hassad Food Company. This company is an active participant of land and AIC company sale and purchase markets in Pakistan, India, Australia, Turkey, Brazil, Nigeria, Ghana, Sudan, and, what is important for future work in Ukraine – in Russia. Among potential Kuwaiti investors to the Ukrainian AIC one may call Kharafi Group. Food industry is not primary business for this company; however, it has experience of successful work in this direction.

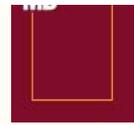
It should be noted that there will be no mass entry to the Ukrainian market of governmental structures from Arab countries which could purchase agricultural business directly as they do in Eastern African countries. In case of large inflow, investments shall be made by investors entering the existing Ukrainian companies with further increase of land bank in case of adaptation to social and economic reality.

There are also many talks in Ukraine about investments from China. However, there are currently no obvious practical steps by Chinese investors towards coming to the agricultural production sector observed.

Tagged under

Ukraine





ANATOLII BARONIN, ANDRII KOLPAKOV

YOU MAY ALSO LIKE



Putin's Problems



How International Sanctions Helped Putin at Home



The West should engage in a course correction strategy with Russia



The West is culpable for the bloodshed in Ukraine and Syria

LATEST FROM ANATOLII BARONIN, ANDRII KOLPAKOV

- Russia tries to use Iranian geopolitical ambitions to undermine U.S. in the Gulf region
- The situation over the detention of the Nour M vessel
- Russia is increasing its influence on Central Asia states
- West is Unlikely to Slap Heavy Economic Sanctions on Russia. Why?

More in this category: « Strategic Dialogue on the Future of Ukraine Eastern Europe – The World's Last Underachiever »



SEARCH MD

