

# THE CORPORATE TAKEOVER OF UKRAINIAN AGRICULTURE

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## SUMMARY

In *Walking on the West Side: the World Bank and the IMF in the Ukraine Conflict*, a report released in July 2014, the Oakland Institute exposed how international financial institutions swooped in on the heels of the political upheaval in Ukraine to deregulate and throw open the nation's vast agricultural sector to foreign corporations.

This fact sheet provides details on the transnational agribusinesses that are increasingly investing in Ukraine, including Monsanto, Cargill, and DuPont, and how corporations are taking over all aspects of Ukraine's agricultural system. This includes circumventing land moratoriums, investing in seed and input production facilities, and acquiring commodity production, processing, and transportation facilities.



## INTRODUCTION

Ukraine has generated a great deal of international attention since its streets erupted in violent protests in late 2013. At the heart of the crisis was a set of trade deals – one with the European Union and the other with Russia – and a question of Cold War importance: whether Ukraine would ultimately align with the East or with the West. The crisis led to the deposition of then-President Viktor Yanukovich and the subsequent signing of an Association Agreement with the West.<sup>1</sup>

In the midst of the crisis, the Oakland Institute produced a report detailing various lesser-known aspects of the dispute – for instance, aid packages and economic reforms that were to be imposed by the International Monetary Fund as a condition of the EU trade deal.<sup>2</sup> Along with exposing the harsh austerity measures included in these deals, the Oakland Institute also found evidence of significant investment in Ukraine’s agricultural system by transnational agribusinesses.

Interest from large agribusinesses in Ukraine’s agricultural land is unsurprising. The country was once known as the “breadbasket of Europe” and it is home to over 32 million hectares of incredibly fertile soils, known as “black soil.” Because of its history of collectivized farming, Ukraine’s agricultural sector has been long seen as underdeveloped.<sup>3</sup> Indeed, as stated by Jeff Rowe, the regional

director of DuPont Europe, “Ukraine [is] one of the fastest-growing agricultural markets in the world and an important player in the global food security issue.”<sup>4</sup> Unsurprisingly, businesses want to invest.

This fact sheet provides details on large-scale agribusiness investments in Ukraine since 2010. By examining investments in land, agricultural inputs, and commodities, it exposes how all aspects of the Ukrainian food system and supply chain are being acquired by transnational corporations.

## ACQUISITION OF AGRICULTURAL LAND

Ukraine is a country with rich agricultural potential. It is home to over 32 million hectares (ha) of fertile, arable land.<sup>5</sup> This is equivalent to one-third of the entire arable land in the European Union.<sup>6</sup> Agriculture is also a significant player in Ukraine’s economy. It accounts for eight percent of the country’s GDP and 17 percent of its employment.<sup>7</sup> In addition, Ukraine is the third-largest exporter of corn and fifth-largest exporter of wheat in the world.<sup>8</sup>

Ukraine’s agricultural land is currently under a moratorium that bans its sale until January 1, 2016.<sup>9</sup> Despite this moratorium, at least 1.6 million ha of Ukrainian agricultural land is currently in foreign hands.<sup>10</sup> According to several reports, just 10 large agribusinesses control as much as 2.8 million ha.<sup>11</sup>



**Table 1: Foreign Investments in Agriculture in Ukraine<sup>12</sup>**

Company	Country	Land area (ha)
Trigon Agri	Denmark	52,679
Public Investment Fund (PIF) of Saudi Arabia, Saudi Al Rajhi Group, Almarai Co.	Saudi Arabia	33,000
Renaissance Group	Russian Federation	250,000
MK Group	Serbia	50,000
Glencore Xstrata PLC	Switzerland	80,000
Sintal Agriculture Plc	Cyprus	146,800
Agrokultura AB	Sweden	68,700
AgroGeneration	France	120,000
Kernel Holding S.A.	Luxembourg	405,000
MCB Agricole	Austria	96,000
Mriya Agro Holding Public Limited	Cyprus	298,000
<b>Total</b>		<b>1,600,179</b>

A short history of land reform in Ukraine helps explain how these large acquisitions have materialized. When Ukraine separated from the Soviet Union in 1990, collectivized farms were disbanded and land was distributed in parcels of approximately four hectares each to people living on the collectivized farms.<sup>13</sup> However, there were significant issues in the decade following these reforms. For instance, most people received notice of their claim to land but were not designated a specific plot of land, making cultivation nearly impossible.<sup>14</sup>

In 2001, Ukraine passed its Land Code – legislation that gave people functional titles to land.<sup>15</sup> Since then, there has been a moratorium on the sale of land, which, as noted above, was extended through January 1, 2016.

A document prepared by the legal firm Frishberg & Partners details various ways to circumvent Ukraine’s moratorium.<sup>16</sup> The firm notes that investors can typically lease farmland for up to 49 years at a time, saving “millions of dollars in cash” that would otherwise be required to purchase the land directly.<sup>17</sup> The firm goes on to explain that the moratorium on land sales applies only to agricultural land, making it both legal and affordable for investors

to “build and operate a 100% foreign-owned processing facility on its own industrial land while leasing fields from agricultural land-owners until the moratorium on the sale on agricultural land is lifted.”<sup>18</sup> As a result, they suggest that the moratorium “should not serve as a deterrent to taking advantage of Ukraine’s black, fertile soil.”<sup>19</sup>

A second way that investors can circumvent the land moratorium is by buying shares of large existing Ukrainian agribusinesses. The system of land distribution in the 1990s often led to the concentration of land in the hands of a few elites.<sup>20</sup> This, in turn, created a new era of large Ukrainian agro-entrepreneurs, such as the billionaire Oleg Bakhmatyuk, owner of UkrLandFarming.

UkrLandFarming exemplifies the trend of companies interested in buying up all aspects of the food supply chain. As of 2011, the company was thought to include: 65,000 cattle, 23 million poultry, 18 meat processing plants, six seed plants, six sugar factories, four silos, three grain elevators, three sow farms, six feed milling plants, and three long-term egg storage facilities.<sup>21</sup> By 2013, UkrLandFarming was the largest land bank in all of Ukraine, with more than 670,000 ha total of land.<sup>22</sup>



In January 2014, in the midst of deadly protests and just six weeks before the deposition of then-President Viktor Yanukovich, Cargill bought a five percent share in UkrLandFarming.<sup>23</sup> According to news reports, the \$200 million deal was intended to “boost exports to China.”<sup>24</sup> Although the deal was downplayed by Cargill, it undoubtedly gave the company an entry point to Ukrainian land.<sup>25</sup>

In addition to the proposed strategies, actual land sales to foreign-owned businesses have also been taking place. In 2012, reports were leaked of a large government plan to lease out unused government lands to large-scale agricultural investors.<sup>26</sup> The program intended to offer long-term leases for 400,000-plus ha projects. Investors were to be required to invest a minimum of \$200 million initially, and in return they would be offered significant financial incentives, including tax breaks, free land use, import duty and VAT exemptions, and export and quota exemptions.<sup>27</sup> While it is not clear what happened to this program, what is clear is that in recent years significant parcels of land have ended up under the ownership of foreign investors. As noted above, at least 1.6 million ha of Ukrainian agricultural land is under foreign ownership.<sup>28</sup> Thus, while the land moratorium has created barriers to full land ownership of Ukraine’s black soils, opportunities for tapping into this rich resource abound.

### **AGRICULTURAL INPUTS**

Alongside land, opportunities in Ukraine for the development, production, and use of agricultural inputs like seeds, agrochemicals, and fertilizers have attracted investment by agribusiness giants Monsanto, Cargill, and DuPont.

While all three companies have been in Ukraine for quite some time, their investments in the country have grown significantly over the past few years. For instance, Cargill has been in Ukraine for more than 20 years.<sup>29</sup> Their activities

include, but are not limited to, the sale of pesticides, seeds, and fertilizers.<sup>30</sup> In recent years, they have expanded their agricultural investments to include additional grain storage, an animal nutrition company, and a stake in UkrLandFarming.<sup>31</sup>

Monsanto has had operations in Ukraine since 1992, and has a focus on seeds and agrochemicals.<sup>32</sup> News reports indicate that in 2012, Monsanto’s Ukraine team doubled in size, and in March 2014 – just weeks after President Yanukovich was deposed – the company invested \$140 million in building a new seed plant.<sup>33</sup>

Finally, DuPont has also expanded its investments in Ukraine of late. In June 2013, the company announced that it too would be investing in a new seed plant “to meet increasing demand in the region.”<sup>34</sup> Jeff Rowe, DuPont’s regional director for Europe, noted that the company would be working hard to produce seeds with resistance to drought and heat stress for the country.<sup>35</sup> An extension of this seed facility was completed in September 2014 to support “increased customer demand for Pioneer brand corn hybrids in Ukraine.”<sup>36</sup>

With increased investments in seed production come questions about the possible encroachment of genetically modified (GM) products. In summer 2014, the Oakland Institute reported that the recently signed agreement between Ukraine and the EU included a clause (Article 404) to extend the use of biotechnology within the country.<sup>37</sup> This creates an opening to bring GM products into Europe, an opportunity sought after by large agro-seed companies. Indeed, during a speech for the US-Ukraine Conference in December 2013, Jesus Madrazo, Monsanto’s Vice President of Corporate Engagement said, “we . . . hope that at some point biotechnology is a tool that will be available to Ukrainian farmers in the future.”<sup>38</sup>

It remains unclear how the implications of Article 404 will unfold. In 2013, Monsanto



announced its plan to build a seed plant worth \$140 million, focused specifically on the production of non-GM corn seeds.<sup>39</sup> Ukraine has also increased its shipments of non-GM corn products to China, an agreement detailed below.<sup>40</sup> These nuances aside, the increased investments in seed production by Monsanto and DuPont, alongside Article 404, warrant close watch.

### COMMODITY PRODUCTION & EXPORT

As companies continue their investments in Ukraine, they are also claiming a large stake in commodity markets, including everything from grain and oilseeds to livestock and animal feed and even storage and export infrastructure. Indeed, three of the US-based “ABCD” companies – ADM, Bunge, and Cargill – have invested “billions” in storage and processing facilities for Ukrainian commodities.<sup>41</sup> Cargill recently acquired Ukrainian animal feed company Provimi; and in 2013, a consortium of agribusinesses from Saudi Arabia acquired the Ukrainian Continental Farmers Group, which expects to have crops in production by 2015.<sup>42</sup>

Agribusiness investments in infrastructure and shipping have also increased of late. As noted by the Ukrainian law firm Frishberg & Partners, industrial land for processing, storage, and transportation is not constrained by the same laws that affect farmland.<sup>43</sup> As a result, foreign agribusinesses have invested a substantial amount in these types of infrastructure to support their operations.

Cargill demonstrates this trend. The company owns at least four grain elevators and at least two sunflower seed processing plants, used in the production of sunflower oil.<sup>44</sup> In addition, in December 2013, the company bought a “25% +1 share” in a grain terminal at the Black Sea port of Novorossiysk with a capacity of 3.5 million tons of grain per year. Other companies have similar infrastructure holdings, confirming the statement by Cargill’s CEO Greg Page: “The opportunities in the broader food chain are enormous.”<sup>45</sup>

#### BOX 1: China in Ukraine

Western investments in Ukraine compete with other foreign interests keen to secure their share of Ukraine’s agricultural sector. China is one of them. In September 2011, the Ukrainian News Agency reported that the Export-Import Bank of China was ready to “invest \$10 billion into [the] agricultural sector of Ukraine.”<sup>46</sup> Since then, substantial funds – though totalling much less than \$10 billion – have been invested by Chinese firms. In September 2012, Ukraine signed a \$3 billion loan contract with the Chinese bank, which guaranteed Ukraine a line of credit in exchange for part of the country’s corn harvest for a period of 15 years.<sup>47</sup> According to reports, “Chinese loans will be used to finance the purchase of Chinese agricultural technologies, herbicides and pesticides.”<sup>48</sup> In return, these investments were meant to “boost [the] harvest and, in turn, fulfil export obligations to China.”<sup>49</sup>

Since then, numerous other reports have surfaced regarding China’s interest in securing Ukrainian grain exports. The aim of these loans appears to be to “directly lease domestic farming land or finance local producers, locking them into loan-for-crop deals – all with the intention of securing exports to help food security back home.”<sup>50</sup> From the Ukrainian perspective, increased food exports to China seem to also be a focus. In November 2013, UkrLandFarming stated that it hoped to sell up to 700,000 tons of corn to China that season and reach exports to China of two million tons per year by 2018.<sup>51</sup>



## CONCLUSION

On October 9, 2014, the European Bank for Reconstruction and Development (EBRD) announced that it had ten private agribusinesses willing to invest \$1 billion in the coming year in Ukrainian agriculture as part of a newly created Private Sector Action Plan.<sup>52</sup> The EBRD's press release noted that these investments would require several changes to regulation relating to taxes, import and export laws, and land sales.<sup>53</sup>

Calls for such regulatory changes have been made before by many other investors. In January 2014, a meeting took place between Ukrainian officials and representatives from twenty large German agribusinesses. News reports noted that these companies felt it was "necessary to simplify doing business in Ukraine."<sup>54</sup> This specifically referred to issues such as taxation, VAT refunds, the ongoing land

moratorium, and genetic modification. Likewise, in June 2011, Cargill CEO Greg Page stated that Ukraine is a "great place for the world to grow more food. But all the gifts that nature provides can be undone with bad policies."<sup>55</sup>

The EBRD and other international financial institutions argue that regulatory changes and tax breaks for agribusinesses will increase investments and stimulate economic growth. However, it is unclear how foreign investments in agriculture aided by such measures will improve Ukraine's economy and people's standard of living and not just the interests of large-scale agribusinesses abroad. The current surge of foreign investment in the country's agriculture and the expected lifting of the moratorium on land sales actually raise important concerns. What will be the impact on Ukraine's 7 million farmers? How will it affect Ukraine's ability to control its own food supply and manage its economy?

*This fact sheet was authored by Elizabeth Fraser with Frédéric Mousseau.*

Photo: Image Tweeted by US Secretary of Commerce, Penny Pritzker, after her meeting with Prime Minister Arseniy Yatsenyuk regarding plans to implement pro-business reforms in Ukraine.

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For more information:

[info@oaklandinstitute.org](mailto:info@oaklandinstitute.org)

The Oakland Institute  
PO Box 18978, Oakland, CA, 94619 USA  
[www.oaklandinstitute.org](http://www.oaklandinstitute.org)



## ENDNOTES

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