



Ukraine to become China's largest overseas farmer in 3m hectare deal

Three million hectares will eventually be used to provide grain and meat for Chinese consumers

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Mandy Zuo

China will plough billions of yuan into farmland in Ukraine that will eventually become its biggest overseas agricultural project.



The move is a significant step in China's recent efforts to encourage domestic companies to farm overseas as China's food demand grows in pace with urbanisation.

Under the 50-year plan, Ukraine will initially provide China with at least 100,000 hectares - an area almost the size of Hong Kong - of high-quality farmland in the eastern Dnipropetrovsk region, mainly for growing crops and raising pigs.

The produce will be sold to two Chinese state-owned grain conglomerates at preferential prices. The project will eventually expand to three million hectares.

Ding Li, a senior researcher in agriculture at Anbound Consulting in Beijing, said the deal was a big move for China compared with earlier overseas agriculture.

In April 2009, China had slightly over two million hectares of farmland abroad, he said. "So three million hectares would mean a very big project."

The agreement was signed in June between the Xinjiang Production and Construction Corps and

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KSG Agro, Ukraine's leading agricultural company, XPCC said in a statement.

XPCC, also known as Bingtuan, is a quasi-military organisation established in Xinjiang in the 1950s to reclaim farmland and consolidate defences against the Soviet Union, whose "granary" at that time was, ironically, the Ukraine.

The statement did not reveal the value of the investment, but the *Kyiv Post* reported last month that it would be more than US\$2.6 billion. The newspaper called it an "unprecedented foreign investment" in Ukraine's agriculture sector.

This would make it China's biggest reported lease or purchase of farmland overseas. The Beidahuang Group, China's largest agribusiness, based in Heilongjiang province, and the Chongqing Grain Group have made similar moves to expand abroad.

The farming project was an important part of China's food security programme and a response to the central government's strategy of outsourcing the production of food to farms overseas, the statement said.

It would also help the XPCC expand, and provide jobs abroad for Chinese labourers and boost their incomes, it said.

China has made substantial agricultural investments elsewhere, notably in South America. Beidahuang acquired 234,000 hectares to grow soya bean and corn in Argentina, while Chongqing Grain paid US\$375 million for soya bean plantations in Brazil and US\$1.2 billion for land in Argentina to grow soya beans, corn and cotton.

Although China's domestic grain output had grown for 10 straight years, Ding said demand for imported grain had also grown. It imported nearly 14 million tonnes of cereal and cereal flours last year, an increase of more than 150 per cent from 2011.

The trend is making it more difficult to fulfil Beijing's ambition for the country to remain 90 per cent self-sufficient in food production.

"As urbanisation speeds up, consumption has led to greater food demand and domestic grain prices have stayed above global prices," Ding said. "Therefore, China has been importing more and more grain."

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A country with well-developed agriculture, Ukraine is one of the world's top 10 wheat exporters.

Professor Tian Zhihong, a specialist in international agricultural trade at China Agricultural University, said Ukraine offered a number of advantages for the XPCC, such as excellent soil and experience in international trade.

The XPCC investment would also help upgrade farm technology in Ukraine, which was still relatively basic, Tian said. Chinese agricultural co-operation with Ukraine started in 2011, when the then vice-premier Zhang Dejiang signed a memorandum to create a model farm in Ukraine.

Last year, the Export-Import Bank of China approved a US\$3 billion agricultural loan to the country. A fund for joint construction projects was set up, with contributions of US\$600 million expected this year.

XPCC is also investing in Ukraine in other ways. It has signed a memorandum earlier this month with the Autonomous Republic of Crimea on infrastructure investments in the peninsula, including an expressway, a government housing project and a bridge across the Strait of Kerch.

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