

Ripe for growth

WITH VAST EXPANSES OF FERTILE LAND, A LARGE LABOUR FORCE AND A CLOSE PROXIMITY TO RAW MATERIALS, UKRAINE'S AGRICULTURE SECTOR HAS ENORMOUS PROMISE, AND WITH GLOBAL FOOD SHORTAGES AND PRICE SPIKES, THE TIME APPEARS RIPE FOR IT TO REALISE THIS POTENTIAL. BUT FIRST IT MUST ATTRACT INVESTORS, AND TO DO THAT IT MUST REFORM ITS LAND POLICIES. MICHAL KACZMARSKI REPORTS

From Dubai's skyscrapers to the quickly changing landscape of Angola's capital Luanda, oil has been a catalyst for growth in economies across the world. Ukraine may not have abundant supplies of oil but it is rich in another kind of black gold, which is equally capable of transforming its economy. The country has vast plains of chernozems, a highly fertile black-coloured soil.

"An immense source of wealth is literally under our feet," says Nataliya Korolevska, head of the Committee on Industrial and Regulatory Policy and Entrepreneurship at Ukraine's parliament. "Ukraine can feed up to 200 million people, if the full potential of its soil is realised," she adds.

Nataliya Kozachenko, managing director of Vasant Connect, a London-based finance brokerage and advisory, says that Ukraine has "[some] of the most fertile soil in the world and the capacity to export food products abroad". Given that global food prices have recorded dramatic increases in recent years, and the UN's Food and Agriculture Organisation forecasts that global agricultural production needs to increase by 60% over the next 40 years to meet the rising demand for food, Ukraine's agribusiness sector is ripe for rapid expansion in the coming years.

"There is no doubt that the potential for agriculture production is unlimited and as an agricultural leader Ukraine can make an impact around the world," says Jim Mazurkiewicz, director of the Texas Agricultural Lifetime Leadership programme, an agency within the Texas A&M University System.

Seeds of growth

Foreign businesses have started to take notice of Ukraine's immense potential in agricultural produc-

tion. "After the first wave of early adopters, we can observe a second wave of investment into agriculture. There is a lot of interest from both domestic businesses and international ones," says Jock Mendoza-Wilson, director of international and investor relations at System Capital Management (SCM).

Mr Mendoza-Wilson's company has made a foray into Ukraine's agricultural sector itself. In 2011, SCM partnered with Ukrainian investment group Smart Holding to create HarvEast, which rapidly became one of the largest agricultural companies in Ukraine. HarvEast already has 2200 square kilometres of farmland and employs 7200 people, but Mr Mendoza-Wilson says that the company is likely to "expand its operations even further".

Experts agree that Ukraine's agribusiness industry looks set to grow, but they also stress that significant investment is still needed. "Infrastructure around the agribusiness sector is in need of improvement, especially when it comes to grain storage facilities and food processing plants," says Ms Kozachenko. She sees this as yet another reason why investors should keep Ukraine on their radar. "The market is still not saturated there, and on top of that the price of labour still remains competitive," she adds.

Ukraine is ranked alongside Russia as the best site for grain processing manufacturing plants in central and eastern Europe (CEE), according to location assessment tool **fDi** Benchmark. Ukraine scores high when it comes to size and quality of labour, specialisation of industry, proximity to raw materials and the presence of industrial clusters. Operating a grain processing manufacturing plant in Ukraine costs on average \$793,600, making it the most cost-effective location in CEE. Running such an operation in

Kazakhstan costs \$843,500, and in Russia \$956,300.

fDi Benchmark also ranks Ukraine as the best location for food and beverage processing plants. The operational costs of such facilities in Ukraine are, again, the lowest in the region, averaging at \$2.23m, and compare very favourably to \$2.81m in Russia and \$2.87m in Kazakhstan.

Getting to market

There is room for improvement in Ukraine's agricultural sector, however. The country ranks quite low in terms of its access to overseas markets, with **fDi** Benchmark ranking Ukraine behind Kazakhstan – a landlocked country that is much further away from the key market of western Europe. Mr Mendoza-Wilson says that this makes for an attractive investment proposition, with myriad opportunities for investment, especially along Ukraine's Black Sea coast.

"Cargo handling and storage facilities in ports are the areas that can be especially interesting for foreign entrepreneurs. If Ukraine is about to produce a significantly higher quantity of food products, it has to be shipped quickly to the market," he says.

Nonetheless, an International Finance Corporation survey published in 2011 shows that only 14% of all investments, both domestic and international, into Ukraine's agricultural sector are made in infrastructure. However, the situation is changing. In 2012, UkrLandFarming, a Cyprus-based entity, announced plans to build a \$1bn pig farming complex in the Mikolayiv region and a \$200m grain elevator in a port in the south of the country.

According to a statement from the European Bank for Reconstruction and Development: "Countries such as Russia, Ukraine and Kazakhstan can probably double their [agricultural] production –



Farmers harvest grain on land near Zhovtneve village in the Chernigov area, which is north of Kiev; operating a grain processing plant in Ukraine costs about \$793,000 and is the most cost-effective location in CEE

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following necessary reform and given investment in land, technologies, infrastructure and a proper business climate.”

What might still keep many investors away from Ukraine is the fact that they can only lease, and not buy, land. The terms of the leases are up to 50 years, which, according to Ms Kozachenko, “gives investors plenty of time to benefit from investing in Ukraine”. There has been an ongoing debate on land reform, however, which may soon come to a positive conclusion. At the end of 2011, Ukrainian president Viktor

Yanukovich said that land reform cannot be delayed any longer.

With demand for agricultural products growing and a third spike in five years hitting global food prices, the expansion of Ukraine’s agricultural sector cannot happen soon enough. The country is already the world’s top producer of sunflower oil, the third largest producer of barley and fourth largest of potatoes. If foreign investors decide to take the full advantage of its ‘black gold’, Ukraine may soon join the ranks of the leading global food producers. ■