

The problems with MHP's expansion in Ukraine

[For more information](#)

Contact

Natalia Kolomiets
National Ecological Centre of
Ukraine
Environmental protection
expert
nkolomiets@necu.org.ua

MHP is at the centre of concern for local communities and CSOs in Ukraine, because of the way the company engages stakeholders, acquires land, and impacts the environment, water and local economic development.

Since 2010 the EBRD has approved three loans for Ukraine's industrial chicken producer Myronivsky Hliboproduct (MHP), totaling USD 205 million. The last one,¹ for USD 85 million, was approved in October 2015 to finance agricultural working capital and capital expenditures related to growing and processing grains and oilseeds for fodder production. MHP has also received support from the International Finance Corporation, the European Investment Bank and the Dutch export credit agency Atradius. Altogether MHP has received more than half a billion euros from international financial institutions.

In April 2016 Bankwatch and National Ecological Centre of Ukraine made a field trip to the Cherkasy oblast (Cherkasy, Chyhyryn and Kamyanka rayons) where the new poultry rearing zones are planned for construction. The team visited five villages (Yasnoziryra, Moshny, Racevo, Kulykivka and Lyubentsi) and spoke to local activists, village heads, village and regional deputies, MHP company representatives and local business. This field trip builds on concerns raised by Bankwatch and NECU after a field trip to Vinnytsya oblast in May 2015,² and on the numerous appeals from villages around Ukraine since 2013.

One of the main findings of field trip to the Cherkasy oblast is that people perceive that costs and benefits for communities are incomparable in terms of environmental, social, economic and rural development impacts. This relates to the villages where the company's facilities are already in place as well as when they are planned.

Whether or not the company is in compliance with Ukrainian law, local people think they are not adequately protected and do not have an equal voice against a large corporation if it decides to begin construction. The company should focus not only on ensuring compliance with national legislation and formal requirements, but also aim to genuinely address local problems and provide answers to concerns.

The EBRD and MHP

The problems with MHP operations in the regions have been raised several times with the EBRD. However, the bank takes a different view of its relationship with the company.

In a bank response regarding the 2015 public consultations on Phase II in the Vinnytsya oblast, it said: "The Bank did not participate in public hearings conducted by MHP this summer. There was no need in the context of the projects financed by the Bank."³ We believe the approach to focus on soy in 2015 – five years after the initial corporate-level environmental and social due diligence (ESDD) – does not bode well with the fact that

CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

www.bankwatch.org

MHP is a vertically integrated company. Fodder production is an integral part of the company's core business of poultry production. In identifying the transition impacts of the project there is an acknowledgement by the EBRD that soy production is not and cannot be regarded as a stand-alone activity. The EBRD project summary documents points out that "iii) The launch of the new soya processing plant will allow MHP to become vertically integrated in relation to fodder production (soy is currently processed externally), and the new plant will use energy efficient technology."⁴

Independent third party experts hired by the EBRD did a full ESDD in 2010 and did not identify problems with stakeholder engagement. Indeed, back in 2010 communities in the Vinnytsia oblast have indicated that they were not concerned because the impacts before the construction of Phase I were not yet visible. For example, villagers in Olyanitsa near Ladyzhyn stressed that at that stage, they did not have enough information and a full awareness about the negative impacts of Phase I. During the field visit to the Vinnytsia oblast in May 2015, we repeatedly heard opinions that "had they known about what impacts were to be expected, they would have opposed the project".

By 2013 and 2015, the situation had changed and communities were vocal about the impacts caused by increased traffic during construction, odour, labour conditions, water levels in wells and the like. In both 2013⁵ and in 2015 before the project was approved by the EBRD, NECU flagged these problems. However, the ESDD for the 2013 and 2015 loans had a very narrow focus: on land acquisition, machinery for crop production and on the soy processing facility.

Not surprisingly, the limited scope of the ESDD led to limited findings and a failure to note and address the problems with stakeholder engagement. In 2015 after the Black Earth⁶ and Chicken Run⁷ reports produced by NGOs, the EBRD disregarded these concerns and failed to expand the scope of the ESDD and carry out adequate assessments.

The choice of client is somewhat odd for a bank that is supposed to promote market competitiveness, since MHP is the largest industrial chicken producer in Ukraine, with around 60 per cent of the chicken-rearing market as of 2014, and is headed and majority owned by Yuriy Kosiuk, one of the country's

richest men, who has an estimated personal fortune of USD 1.16 billion.⁸

The most recent field trip by Bankwach and NECU revealed a number of concerns. Locals are worried about problems with stakeholder engagement, land leases and the use of black soil, and environmental risks, in particular concerns about underground water intake, manure management and water pollution, odour, risks to health because of allergies, threats to the local economy, and historical and cultural heritage. The major concerns are detailed below.

Stakeholder engagement

In the Cherkasy oblast, the company's stakeholder engagement practices have not changed much, even after concerns with the company's practices were raised with the EBRD in the Black Earth report. The company invited local NGOs to closed meetings and claimed this was open dialogue with all stakeholders. However, the main complaints of local communities remain, namely that there was a lack of access to information and meaningful participation in decision-making about the expansion and construction of the company's new sites. For instance, in the villages of Yasnoziryia and Moshny, the company is pushing construction even where the communities are strongly against it.

In Yasnoziryia there was a public meeting in 2003, and the village council decided against construction at the end of 2014. Nevertheless, that did not prevent MHP from quiet negotiations to lease land from individual landowners. MHP leases several land plots and has brought the construction materials to the field. People organised road blocks and a 24-hour watch so as not to allow the machinery to work.

As of now, there are no developments with the construction. Meetings with village representatives confirmed that people are ready to renew the roadblocks and protests should the company attempt to resume construction works. At the same time, the meeting with the company revealed that MHP has not abandoned the idea of construction in Yasnoziryia.

Yasnoziryia and other villages like Moshny, where opposition and protests occurred, are still seen as potential construction areas.

The preliminary-EIA⁹ for the expansion of the Peremoha Nova facilities within Yasnozirya and Moshny was provided by MHP to Atradius, Dutch export-credit agency, in late 2015. These EIAs are of a low quality and in some respects do not meet international standards.

At the Primoga Nova offices near the villages the company staff said it did not have an EIA for review.¹⁰ In this office the company has only a detailed plan of the territory within the Yasnozirya and Moshny village councils of the Cherkasy rayon that shows the area of the planned construction.

This begs the question, how is it that the company already submitted the (preliminary) EIA for the equipment insurance to Atradius, while there has been no Ukrainian EIA released and consulted, and the Moshny and Yasnozirya communities have not approved the project as such?

Moreover, we reported¹¹ the beatings of activists, representatives of a Ladyzhyn NGO and a Yasnozirya village council chair in October-November 2015. In both cases people attribute the attacks to their active positions against MHP. Unfortunately investigations failed to establish causality and to find the guilty parties.

Shortcomings in public consultations and quiet negotiations of land leases behind the back of the community are mentioned as problems in the number of villages across Ukraine, including Yasnozirya, Moshny and Racevo in Cherkasy oblast, and in villages around Ladyzhyn of Vinnytsya oblast. Such an approach contributes to the negative image of the company in the eyes of communities.

The company must halt the closed and exclusive negotiation practices that exclude the majority of community members.

Land leases and 'chornozem'

MHP leases lands from locals for long periods of time and pays significant sums (for rural areas) – as long as leases are for 49 years the sums are from approximately EUR 3000-3500, depending on the land and location. However according to calculations of activists in Racevo, the price of the land lease, adjusted for inflation and the taxes that plot owners pay, is low and inadequate compared to renting. Especially over

a 49 year-term, this is de-facto a land purchase. If landowners are 40 to 50 years old, and if lands are leased for 49 years, there is little chance any of those current land owners will claim them back.

According to the State Land Agency, the Cherkasy oblast's soils are highly fertile and on average valuable,¹² and their price is the highest in the country.^{13,14} Villagers know this, and so soil use by MHP is another concern for these communities. During construction, the company uses agricultural fields and removes approximately 40 centimeters of subsoil. There is almost no information about where the company stores the subsoil, apart from greening its territories. The locals have serious doubts that it is realistic that after 49 years of poultry production, the soils will be rehabilitated to a state where crop cultivation can occur.

Some villagers (because of poverty and the lack of jobs in rural areas) are attracted to the idea of receiving big sums of money immediately and so sign land leases. Then later, they become aware of the consequences and change their minds, but they are then unable to pay back the land lease sums as the money was already spent.

The preliminary consultations with communities and land owners should ensure that landowners make a conscious decision without being pressured. In addition, a grievance mechanism developed by the company should help find a solution in all relations between land owners and the company.

Concerns with underground water intake

One of the most serious and frequent concerns raised in all villages relates to the volume of underground water taken by the poultry facilities. People are particularly afraid that MHP's water usage will result in levels decreasing across all of the Cherkasy oblast.

A special permission for the use of water has been issued until 2019 for Peremoga Nova (the MHP subsidiary in the Cherkasy rayon) for its parent flock-rearing complexes that are already in operation. The farm consumes around 430 000¹⁵ cubic metres of underground water annually. MHP already has 13 deep wells for its

underground water supply in Bereznyaky (1), Svydivok(1), Lozivok(3), Moshny(2), Budyshe(4), Novoselivka villages(2), but an assessment of the underground water reserves has not been done. Additionally the company uses 72046¹⁶ cubic metres annually from the village's water supply. This needs to be justified, and an assessment of how this impacts people's consumption should be conducted.

Villagers in Moshny close to the Peremoga Nova facilities raised concerns about access to water, because low water levels have appeared especially in summer when water levels drop and people use water for gardens, and as well the possible contamination of water. If Peremoga Nova takes water on top of what is needed locally, villagers expect a serious threat to water levels across all of the Cherkasy oblast.

Previously water issues had been raised by authorities¹⁷ and villagers in another area - the Kaniv rayon of the Cherkasy oblast. Since it began operations in the Kaniv region in 2010, MHP has promised to arrange water supplies from the Dniper River. This has not yet materialised.

In the Kaniv rayon in 2012, MHP received approval and a special allowance for water use from the Lipyave and Stepanets-Kozariv underground aquifers.¹⁸ The underground water intake has been approved in the amounts of 2720 and 10725.8 cubic metres from the Lipyave and Stepanets-Kozariv aquifers, respectively, within the territories of Lipyave, Stepantsi, Kuryliv, Kozarivka and the Yabluniv village councils. The consumption of MHP facilities were declared at levels of 800 and 6909 cubic metres. The allowance was issued on the condition that by 2015, the company will investigate, document and apply alternative water resource usage.

The State Commission of Ukraine at the Ministry of Environment found that there are resources available until 2034. The interaction with upper water wells used by the villagers was recognised and claimed that an 'over-normative impact' would not occur. However, it is not clear what this means, especially since 2012 when the company expanded its poultry production in the area.

There is a need for a comprehensive, independent study of the water resources in the Kaniv, Cherkasy and Chygyryn rayons of the Cherkasy oblast.

Waste management and possible water pollution

Another area of concern is the potential water contamination with manure and litter from the washing facilities. The underground water intake facilities for Chygyryn are situated near Recevo. The planned MHP poultry rearing sites are very close (one to two kilometres) to the intake and pumping stations. In case of water pollution, the whole town will be affected. Also, as there is believed to be a quite specific hydrological structure with a granite monolith that spreads for several square kilometres at a thickness of 200-300 metres, an alternative source of water will be difficult to access. Hard and deep drilling will not be possible for the people in case the current water supply sources will be depleted or polluted.

The concerns of Raceve and Chygyryn, where there are no MHP facilities now, are based on the experiences from the nearby rayons: in Kaniv where Stepantsi is located and in Cherkasy where Moshny is located. For example, in Moshny water quality is said to have worsened.

The entire technological chain should be in line with best available technology, including poultry breeding and manure storage and its use as a fertiliser. In particular, manure management systems should be redesigned in line with EU Directive 2010/75/EC that should be adopted by Ukraine.

Odour

Odour was mentioned as one of the threats people are not ready to live with. In Yasnozirya and Moshny, people mentioned that all nearby villages are situated in a valley, with the villages forming a kind of circle around the potential construction site. Therefore, whenever the wind blows, one or another village will be affected.

Health concerns

Health concerns like skin diseases and allergies have been mentioned as threats to the communities' well-being. In the villages where there are already facilities and people work there (like Moshny), severe allergic reactions due to irritants from the poultry production have been mentioned.

In our letter dated 10 November we provided information from the media about an unscheduled check of the Gorodenkivska branch of JSC “Zernoproduct MHP - Perspektiv”¹⁹ on 18-20 May 2015 after the injury of one of workers, which revealed 81 breaches of legislative requirements and regulations on operational safety. It would appear that either MHP does not disclose this kind of information in its annual report, or that the EBRD does not consider 81 breaches to be significant.

Further on MHP stated that no state labour inspections of its facilities were conducted in 2015, only internal audits. MHP data shows there have not been many improvements in this area since 2011. Accidents remain at the same level: 33 incidents both in 2011 and in 2015, two fatalities in 2011 and one in 2015. While the number of employees increased by 25 per cent, it is still questionable if workers’ health and safety is being pursued significantly.

Biodiversity protection

The preliminary EIA for Peremoga Nova says, “There is no influence on flora, fauna and preserved areas.” This might not be true, as currently parts of Yasnoziryia and Moshny are in the process of forming the Serednyodniprovsky nature park.

Kholodny Yar in the Kamyanka and Chygyryn rayons also has value as a biodiversity conservation area. A number of red book species are located there (such as *Euonymus nanus*, *Galanthus nivalis*, *Galanthus plicatus*, *Cephalanthera longifolia*, *Neottia nidus-avis*), and the areas were proposed as a national nature preserve. It is also famous as an archeological site of the Skiphia epoch, one which has international cultural status.

Threats to existing business and tourism

With the expansion of MHP in the Cherkasy oblast, there are reasonable threats to existing and traditional economic activities in the region, mainly small and medium-scale agriculture and tourism.

The competition for land plots is increasing significantly in Raceve with the potential new lands leased to MHP. Among the existing businesses that operate in the area, there are

big agribusiness companies, as well as medium and small farmers. The most vulnerable will be farmers with less than 100 hectares, who already are trying to survive in competition with huge neighbouring agribusiness companies like Nibulon.

Traditional agriculture practices can hardly compete with large agribusiness holdings. In addition, soil and water contamination from manure and its odour create additional pressures on local, small-scale producers. In Moshny, people mentioned that the value of land plots and retail in the villages would decrease if large polluters are found nearby. Local people also see a threat to tourism once large poultry production begins in the area. For example, around 300000 tourists are claimed to attend the Chygyryn rayon annually thanks to its environment, cultural and historical attractions.

Intensive, export-oriented production would decrease the potential for local, traditional agriculture and tourism, while the economic benefits for the local economy are questionable.

Recreation, cultural and historical heritage

The Cherkasy, Chygyryn and Kamyanka rayons are of high recreational, cultural and historical value. These regions have a huge potential for tourism and other forms of development beyond industry.

Moshny has been used as an area of recreation since the 17th century. Pine forests, several old churches and houses with historical significance are still in place.

The areas around Cherkasy are also famous for their forests, semi-steppes and access to open waters. The Chygyryn and Kamyanka rayons are famous for the Kholodny Yar (Cold Ravine), a forest of historical significance and with conservation value. It is a place where Bohdan Khmelnytsky, Hetman of Cossacks, leader of the Ukrainian protest movement and a patriotic figure, is believed to be buried. Now Kholodny Yar is a picturesque place where thousands of people head for recreation and tourism. It is also a gathering place for nationalist and patriotic movements at least once annually at the end of April, including radical ones like Azov.

Recommendations

The EBRD should ensure that its client MHP applies best international practice with regards to transparency, stakeholder engagement and public consultations in decision-making. The bank should carry out corporate level due diligence in order to take stock of developments since the first and last full due diligence was done in 2010.

Through its agribusiness projects and policy dialogue, the EBRD should ensure democratic land governance in Ukraine and the preservation of the country's soil resources and rich biodiversity of cultivated species and breeds. The bank should update its strategy for Ukraine and the agribusiness sector to prioritise support for small and medium-sized farmers, and should redirect its investments away from big corporates that occupy monopolistic positions in the agricultural subsectors.

The EBRD should ensure its client:

1. Improves stakeholder engagement and engages in open community dialogue, especially in relation to land leases.
2. Recognises and accepts the community's right to say 'no' to construction.
3. Publishes environmental information in an easily understandable and accessible form prior to public consultations, in a clearly identified place and upon request.
4. Complies and adheres to international legislation, especially in the areas of access to information, stakeholder engagement, the assessment of social and environmental impacts, so that meaningful mitigation measures of environmental and social impacts can take place.
5. Receives trainings about the basics of communication and environmental and social responsibility of businesses. It should also introduce "good communication code" for employees and scheme of penalties for misconduct.
6. Engages in meaningful work with local communities before land leases for construction are signed, including:
 - Standard documents to share with the public (non-technical summary, full EIA reports), information on the amount of land in possession for fertilisation, crop rotations and fertilisation plans. All documents need to be disclosed before public hearings,

which should be organised before the company obtains any necessary permits, and at the stage where all alternative options are still possible.

- Schemes for informing the public (announcements on the company's website, in the village council, school and postoffice, village newspaper), schemes for public hearings in areas where the company is planning to construct,
 - The results of the public hearings need to be provided to authorities before any permit is issued.
7. Conducts genuine ESIA's, which should assess and mitigate possible impacts on the environment, rather than produce pro forma assessments in order to obtain permits. In addition, cumulative ESIA's should be done, including for all existing and potential facilities in the area of construction. ESIA's for the construction phase should be elaborated and aimed to assess and mitigate the impacts during the construction phase.
 8. Brings the entire technological chain in line with BAT, especially manure storage, and its use as a fertiliser.
 9. Conducts comprehensive independent assessments of underground water resources.

Notes

1. EBRD PSD for the MHP Corporate Support Loan: <http://www.ebrd.com/work-with-us/projects/psd/mhp-corporate-support-loan.html> accessed 02 May 2016
2. Black Earth Report. Bankwatch, 2015: <http://bankwatch.org/sites/default/files/BlackEarth-UAagri.pdf>
3. Letter from Alistair Clark on 25 January 2016
4. EBRD PSD for the MHP Corporate Support Loan: <http://www.ebrd.com/work-with-us/projects/psd/mhp-corporate-support-loan.html> accessed 02May2016
5. NECU letter to the EBRD dated 25 October 2013: <http://bankwatch.org/documents/openletter-EBRD-MHP-25Oct2013.pdf>
6. Bankwatch's report "Black Earth: Agribusiness in Ukraine and the Marginalisation of Rural Communities" can be found here: <http://bankwatch.org/publications/black-earth>
7. SOMO's report "Chicken Run: The BUSINESS Strategies and Adverse Impacts of Poultry Producer MHP in Ukraine" can be found here: <http://www.somo.nl/>

- publications-en/Publication_4228?set_language=en
8. Lost in transition. 25 years of the European Bank of Reconstruction and Development. Bankwatch, 2016: <http://bankwatch.org/sites/default/files/lost-in-transition.pdf>
 9. A document with such a status is non-existent in Ukrainian legislation
 10. Meeting with the company at Peremoha Nova farm, 22 April 2016
 11. Briefing: Problematic MHP expansion in Ukraine with EBRD support January 2016: <http://bankwatch.org/sites/default/files/briefing-EBRD-MHPUkraine-01Feb2016.pdf>
 12. The agricultural land and soil normative price is correlated with such characteristics as, among other, the yield capacity and production costs from hectare. Source: <http://zakon4.rada.gov.ua/laws/show/z0388-06> , accessed 6 May 2016
 13. <http://04744.info/novyny-umani-ta-rehionu/item/19314-na>
 14. <http://www.dkz.ck.ua/13.htm>
 15. Allowance for Special water usage to MHP's subsidiary "Peremoha Nova" in Svydivok, Lozivok, Moshny, Budyshe of Cherkasy rayon issued by Department of ecology and natural resources of Cherkasy oblast State Administration for the period from 16 April 2015 till 17 April 2019.
 16. *ibid*
 17. <http://dzvin.org/iz-sichnya-nasha-ryaba-na-kanivschyni-ne-matyme-prava-korystuvatys-pytnoyu-vodoyu/>
 18. Decision of Kaniv rayon Council from 29 February 2012 #13-7/VI on Approval for intercession of JSC Myroniv poultry factory for acquiring the Special Allowance for underground water use in Lipyave and Stepanets-Kozariv aquifers of deep waters aiming at their intake: <http://dzvin.org/iz-sichnya-nasha-ryaba-na-kanivschyni-ne-matyme-prava-korystuvatys-pytnoyu-vodoyu/>
 19. <http://dnopif.gov.ua/cgi-bin/index.cgi?action=show&kind=news&lang=ukr&sub=28052015>