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Dear Mr. Mettetal and Mr. Clark,

The EBRD is considering increasing debt exposure to MHP (Myronivsky Hliboproduct) Group up to USD 100 million to finance the acquisition of agricultural, grain infrastructure operations and finance capital expenditures related to agricultural equipment¹. The board date for the project is scheduled 29 October 2013. However, the operations of MHP group in Ukraine have raised serious environmental and social concerns among the local population and civil society organisations. We ask you to review and address these concerns before any kind of additional support for the MHP group is considered.

The environmental and social concerns relate to the operations of the MHP group's livestock production facilities in the Vinnitsa and Dnepropetrovsk regions. In particular, the local population and Ukrainian CSOs are worried about labour and working conditions, waste management practices, problems with land acquisition, shortcomings in the environmental impact assessments, failures to address environmental and social needs during the construction of new facilities, limited access to environmental and social information and a history of irresponsible operations.

MHP is already one of the largest poultry producers in Europe with a full cycle of operations, from growing grain and producing fodder to livestock production and meat distribution. The expansion of its grain infrastructure related to poultry production is the main source of the concern at the moment.

The Vinnitsa poultry farm is a new facility, with construction beginning in 2010. It is expected to be the largest of poultry complex in the world with 24 rearing zones for more than 1.5 million birds, with an estimated 440 000 tonnes of poultry per annum.²

¹ <http://www.ebrd.com/english/pages/project/psd/2013/45253.shtml>

² MHP official webpage: <http://www.mhp.com.ua/en/operations/op-vinnitskaja-ptitsefabrika-oao-mkhp>

Currently only part of the complex is operational, while other parts of the facilities are still under construction or trial operations.

Local jobs and labour conditions

In information released to its investors and donors, MHP claims to have created thousands of new local jobs³ as evidence of its economic impacts on the region. However independent estimates by local CSOs suggest that the actual number of people employed from the region is very low – just about five hundreds – and the majority of people are employed from other locations. Moreover, MHP recently signed a trial agreement with a prison intending to use panel labour, which pays significantly less than the usual employment contract. Therefore the local population bears the environmental costs of production while it does not receive the economic benefits. We believe that the **positive economic effect of MHP operations on the region is questionable and does not correspond to results it has promised, resulting in cause for dissatisfaction among the locals.**

Moreover the company is distrusted among trade unions. Trade unions at two subdivisions of the Vinnytsa poultry farm were not registered until July 2013. After registration, trade union members claim that **the company interfered in the operations of the trade union**, including in their communications and pressuring workers to change union leaders. Such activities are unacceptable and contradict EBRD's Environmental and Social Policy⁴.

In addition to labour and working conditions, MHP operations in the Vinnytsa region are associated with serious environmental concerns.

Waste Management

MHP committed to adopt and implement a comprehensive waste management programme for the Vinnytsa poultry farm. The waste management plan includes the

³ MHP official webpage: <http://www.mhp.com.ua/en/operations/op-vinnitskaja-ptitsefabrika-oao-mkhp>;

⁴ PR 2 Labor and Working Conditions where client's procedure shall be designed to "promote compliance with any collective agreements to which the client is a party, national labour and employment laws, and the fundamental principles and key regulatory standards embodied in the ILO conventions that are central to this relationship"

appropriate disposal of biological waste and manure.⁵ The biological waste from poultry farms is estimated to be around 1.6 thousand tonnes per annum.⁶ The amount of state processing plant capacity assigned for the disposal (Tulchin veterinary and sanitary factory) is already at the limits, which makes the appropriate disposal of biological wastes uncertain.

Manure will be collected, stored, processed and spread on the fields as fertilizer in the future. According to the information released by state authorities, there are 38 specialised sites on the fields. However, within these 38 sites, manure is stored unpacked in open sites or temporary storage containers that would not prevent the manure leaking into the soil, ground and open waters, including the Ladyzhyn water reservoir. The geographical spread of the sites makes it difficult to control and monitor potential leakages. It is not clear why the option to have centralised waste storage was abandoned and whether the biogas plant is not envisioned in the future. Also due to the absence of prevention measures, the smell from the manure is very disturbing, particularly in the village of Mytkivka. **MHP has failed to ensure safe and sustainable waste management systems**, and this should be addressed.

Land acquisition

MHP group has also experienced problems in acquiring land for its Vinnytsa complex. Due to the set-up of the real estate market, the company should have arranged numerous lease agreements in order to use the agricultural field. One field is subdivided into several smaller shares that are owned by individual farmers. In order to use the whole field, the company should have signed agreements with all farmers. However in the Vinnytsa region there is at least one instance in which MHP failed to sign a lease agreement with all farmers that owned shares within one field. **However the company still used the parts of the field that were not under contract.**

Shortcomings in the EIA

The company also failed to produce a comprehensive EIA for the construction of the Vinnytsa complex. The EIA was prepared for individual parts of the complex and **lacks cumulative assessments** of the environmental and social impacts. Moreover an EIA for the construction phase was not done, and the **EIA did not include an analysis of the alternative locations for the facilities**. Finally, access to the full EIA

⁵ EIA of the MHP Vinnytsa poultry farm

⁶ Estimates based on the information from EIA of the MHP Vinnytsa poultry farm

documentation is limited as documents are not posted anywhere in the public domain. During a site visit to the Vinnytsa complex in July 2012 by NECU representatives, it was difficult to get access onsite to the full EIA documentation for all of the poultry farm facilities because access to the offices where the documents were supposed to be stored is not open for every one.

At the same time the construction of the MHP facilities in Vinnytsa are associated with impacts that are not assessed in the EIA. For example during the construction phase, the company used mainly existing roads, including one that passes through the village of Olyanytsya. **The intense use of the road by the loaded tracks increased dust exposure, noise and vibrations that affected the health and well-being of the population as well as the natural environment.** Vibrations also caused cracks in walls and roofs of several houses within the village lining both sides of the road.

Communication with locals and CSOs

Access to information related to the company's environmental performance is limited. As of 21 October 2013, no EIA documentation for the facilities, including EIA summaries or environmental action plans, were available online in either Ukrainian or English at the MHP group website.⁷ The information that is available to the public has only general information about the use of GMOs, steroids and pesticides in production processes.⁸ **The company should improve the information flow about its activities, cooperate with local initiative groups and react to public concerns to avoid any misunderstanding and mistrust.**

Oril leader poultry farm and past irresponsible practices

The reputation of the MHP group and its ability to work in a socially and environmentally-responsible manner is also undermined by the company's past operations in the Dnepropetrovsk region at the Oril leader poultry farm.

The Oril leader poultry farm has been in operation since 2001. It specialises in broiler chicken and currently produces around 55 000 tonnes of poultry per annum. In

⁷ <http://www.mhp.com.ua/>

⁸ <http://www.mhp.com.ua/ru/responsibility/environmental-protection>

recent years locals in the village of Elizavetovka near the Oril leader farm complained about the social and environmental impacts of the poultry facilities. In particular, the Oril leader farm had similar problems with biological waste disposal and manure storage as are now seen at the Vinnitsa complex. There were complaints from locals about the unofficial disposal of biological waste on the fields. Even though these complaints were not supported by the state sanitation inspection, CSOs had no information about the regular monitoring of the fields regarding the storage of uncertified biological waste. Manure from the Oril leader poultry farm was disposed at several waste disposal sites, similar to the Vinnitsa complex. In 2007, **the company operated without regular environmental monitoring of the manure storage sites**, which was the subject of a lawsuit by the state authorities⁹. That same year, **the manure leakage from one of the storage sites was detected, resulting in the contamination of 820 square meters of land**. Because of these irresponsible waste management practices, **locals expressed concerns about the safety of the water in wells, which are used for drinking and housing purposes, and the effects on ecosystems**.

Conclusions

The operations of MHP group are associated with a number of social and environmental issues and continuous failures to manage waste in a sustainable way. Given the large scale at which it operates, each of MHP's mistake comes with tremendous environmental and social costs.

We ask the EBRD to address these concerns by disclosing the monitoring reports about the company to see how the EBRD assesses the compliance of its client with the bank's policies at all MHP production sites and subsidiaries in different regions.

We look forward to your response,

Sincerely,

Yurii Urbanskyi
Executive director

⁹ Letter from Dniprodzerzhinsk prosecutor's office in Dnipropetrovsk region to NGO Golos pryrody dated 24.05.2007

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Additional information is available on request