



# Big Land Deals in Eastern Europe





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**LAND MATRIX**



**TRANSITION**

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## **Introduction**

Since 2000, at the land markets of the countries around the world the process of consolidation of lands by companies has begun and gradually gained momentum. It became particularly explicit in 2008-2009 when land became a profitable asset for investment as a result of the global financial crisis. It was at that time that the phenomenon of “land grabbing”<sup>1</sup> has gained extraordinary scales in the world. The whole continents suffered and continue to suffer from it: Africa, Latin America, Asia, and Eastern Europe.

The lack of transparency in the acquisition or use of land and the neglect of the rights of the local population are the main characteristics of the land “grabbing”. Companies that want to take control on land, use all available mechanisms that sometimes violate the principles of rule of law and humanity.

Following are some of the brightest examples of “grabbing” land deals tracked by Land Matrix<sup>2</sup> during 2015-2017. They illustrate the scale of the process on the example of the countries of Eastern Europe..

## **Features of the region**

The countries of Eastern Europe, which formed in the past the so-called socialist camp, have unique natural and political conditions that significantly favor to the process of large-scale investments in land.

Belarus, Ukraine, Romania, Russia, Bulgaria (countries currently followed by Land Matrix) have a fairly similar history of land ownership. After the collapse of the USSR, those countries reorganized the ownership of land, dividing the land between the citizens of the country. Obtained in 90’s and early 2000s, small plots were intended for use for peoples own needs.

Immediately after that, the gradual concentration of land was started by commercial companies. In some countries, this was done via purchase and in the others through lease agreements. As a result, a large proportion of agricultural land ended up in the hands of big land owners or latifundia. For example, in Romania, as of 2012, about 8,5% of cultivated land belonged to agricultural companies with foreign investments<sup>3</sup>. In 2015, in Ukraine, about 32 thousand farms processed 4,3 million hectares of land<sup>4</sup> - 10% of all agricultural land, while the top 10 of the agricultural holdings also owned 10% of the land.

At present, Eastern Europe is still a region where enormous areas continue to be bought up by investors, both international and local, as well as in cooperation with each other. Similar investments involving local companies and foreign investors have led to the emergence of companies with a land bank of hundreds of thousands of acres, as happened, for example, with Ukrlandfarming in Ukraine (654 thousand ha). The company is registered in Cyprus, but the ultimate beneficiary is a citizen of Ukraine.

Typically the land used by agricultural companies is obtained through leasing, joint ventures, mergers and acquisitions of smaller companies. These processes are actively taking place in Ukraine now, not least due to the “efforts” of the Antimonopoly Committee of Ukraine.

In addition, large agro companies receive comprehensive support at national and international levels. For example, in Ukraine large agricultural producers receive subsidies from state, and in Romania and Bulgaria large export-oriented farms receive subsidies from the state and the EU (European Union).

1 - Definition of the term “land grabbing”: “Large-scale acquisition of land mainly by private investors, as well as state investors and agribusiness of agricultural land or leasing it on a long-term basis” <http://www.landcoalition.org/sites/default/files/documents/resources/tiranadecaration.pdf>

2 - Land Matrix Initiative - <http://www.landmatrix.org/en/>

3 - Report of the civil society organization EcoRuralis (Romania) from 2015 - [http://www.accesstoland.eu/IMG/pdf/land\\_grabbing\\_in\\_romania\\_report\\_eco\\_ruralis\\_2015\\_finalsmall.pdf](http://www.accesstoland.eu/IMG/pdf/land_grabbing_in_romania_report_eco_ruralis_2015_finalsmall.pdf)

4 - [http://www.ukrstat.gov.ua/druk/publicat/kat\\_u/publ7\\_u.htm](http://www.ukrstat.gov.ua/druk/publicat/kat_u/publ7_u.htm) - State Statistics Service of Ukraine

### **Features of land “grabbing” today**

Most companies keep getting control over lands via specially created companies registered in **offshore or semi-offshore zones**. It is usually such countries as Luxembourg, Cyprus, Bailiwick of Jersey and the British Virgin Islands. This greatly reduces revenues to national and local budgets, and rural areas are often socially depressed regions and these tax revenues would have helped them develop.

The final beneficiaries of the buyer companies are often citizens of the country where the land is or planned to be bought. As in an example below when the Russian assets of Black Earth Farming (BEF) were purchased by VolgodonSilGospInvest enterprise. VolgodonSilGospInvest is controlled by the Cyprus company Erneal Limited, where the final beneficiaries are citizens of the Russian Federation - Sergei and Alexei Kukura.

Box 1. Black Earth Farming Limited, Jersey and VolgodonSilGospInvest, controlled by Erneal Limited, Cyprus

**Region:** Kursk, Lipetsk, Voronezh and Tambov regions of the Russian Federation.

The size of the land bank at the end of 2016 – 244 thousand hectares.

Starting from 2016 the company was preparing to sell and at the beginning of 2017 sold all its assets concentrated in Russia due to permanent losses. Land assets amounted up to 244 thousand hectares, of which 227 thousand hectares - in direct ownership.

The announced deal value amounted to \$ 184 million with \$ 10 million of prepayments. The buyer was Russian company VolgodonSilGospInvest, which in turn controls VAIC (Volgograd agro-industrial company). The company already owns 130,000 hectares in Russia (according to the report BEFL<sup>1</sup> (analytical company)).

This acquisition allowed the agrocompany to

1 - <http://www.befl.ru/news/detail.php?ID=954> - Auditing and consulting company in Russia.

more than double its land bank.

In Russia, BEF is represented by Agroinvestor and Agroinvestor Regions, which in turn are subsidiaries of Planalto Enterprize Ltd (Cyprus). In fact, Planalto was created to coordinate Russian assets.

The lack of effective management led the company to losses year after year. Because of the inability to adapt to the Russian reality of doing business, the company suffered losses. Only in 2012 it managed to get a minor profit of \$ 7,2 million. This amount was clearly lower than expected by investors.

This is the largest purchase of land in recent years among the post-Soviet countries.

**Deals at Land Matrix Database:** # 1016, 4336, 4337, 4338 and 5406.

Some companies, mostly in the Russian Federation, enjoy their proximity to the high officials of the country. This allows them to buy land

easily and in almost completely non-transparent way. It also helps to prevent all kind of obstacles for its economic activities in the future.



Box 2. M. Tkachev Agrocomplex - Valinor (controlled by Valars Management Ltd, Cyprus)

**Region:** Rostov region and Stavropol Krai.

In 2015 Agrocomplex acquired the Russian part of Valinor agroholding assets (Ukrainian part was acquired by Ukrlandfarming, Cyprus).

The size of land assets amounted to 180 thousand hectares. Over time, this size has decreased by 10 thousand hectares due to the expiration of the lease agreements with farmers.

The peculiarity of this company is its close proximity to the Minister of Agriculture of the Russian Federation - Alexander Tkachev. The

agroholding is named after the father of the current minister, and the management of the agroholding is carried out by the family of the Minister.

Tkachev himself doesn't see any conflict of interests, assuring that it is "absolutely normal" and "the company doesn't enjoy any preferences from the state".

**Deal at Land Matrix Database:** # 5003.

In cases where a genuine foreign investor is involved, land acquisition negotiations take place at the level of the country and the corpo-

ration or company under the guise of **investment projects**. Such cases can be found in Serbia and Macedonia.

Box 3. Al Rafawed, United Arab Emirates - Ministry of Defense of Serbia

**Region:** province Vojvodina.

The company already owns 3000 hectares in Serbia.

The investment agreement signed with the Government of Serbia contained a list of both agricultural enterprises and enterprises of other sectors of the economy.

Remarkably the company is interested in the production of potable water with a prospect of export.

An interesting fact is that the land, controlled by company, is owned by the state, namely, by the Ministry of Defense of Serbia. Land is leased with minimal rent.

Local farmers have struggled with this injustice for a long time, but failed to achieve justice. The authorities deliberately ignored their calls and requests.

The plans are to expand up to 9,000 hectares.

**Deal at Land Matrix database:** # 5383.

There is an obvious movement of funds from developed wealthy countries to low income countries. Agriculture is still a driving force for

the economy, but at the same time it remains underdeveloped.

#### Box 4. Clemens Tonnies, Germany - Government of Serbia

**Region:** Province of Zrenjanin.

Clemens Tonnies is the largest producer of pork in Germany. In the process of expansion, the company in 2016 gained control over 15 thousand hectares of land for the production of feed for pigs and the construction of new production facilities in the region of Zrenjanin.

The agreement was supported by the Government of Serbia. At the moment the project has not started yet.

In addition, the company has assets in Romania (4,2 thousand hectares) and Russia (33,8 thousand hectares).

**Deal at Land Matrix database:** # 5382.

After the financial crisis of 2008-2009 the value of land is realized not only by agricultural companies but by banks, pension funds, etc. They invest in acquisition or lease of land, gradually concentrating in their assets the area of land comparable with the territories

of some countries. For example, the financial corporation Sistema (Russia) during 18 months has concentrated in its ownership over 26,000 square km, which is equal to the area of Macedonia.

#### Box 5. Joint-Stock Financial Corporation Sistema, Russia, controlled by Rayson International Corporation (British Virgin Islands) and Step Agroholding, Russia

**Region:** Rostov region, Stavropol and Krasnodar Krai, Karachay-Cherkess Republic.

In 2014 Joint-Stock Financial Corporation Sistema acquired the Step Agroholding with a total land bank of 26,000 hectares.

Later on throughout 2016 JSFC Sistema have actively expanded its land bank.

As a result the Step Agroholding has increased its size in the region of its activity, namely - in the Southern region of Russia. Only in 2017 the company already managed to purchase 30 thousand hectares of land in the Rostov region and Stavropol Krai.

In spring 2016 the company acquired 110 thou-

sand hectares in Stavropol Krai and Rostov region. In autumn of the same year JSFC Sistema has acquired 66,000 hectares from the subsidiary company Glencore, the International Grain Company, in the same region.

In general, the company successfully gained control over 260 thousand hectares in just 18 months.

In addition, JSFC Sistema shares an ownership with the family of Louis Dreyfus over the RZ Agro agroholding with a land bank of about 110 thousand hectares.

**Deals at Land Matrix database:** # 5489, 5501.

We should also mention here the latest acquisition of Kernel, the company has purchased a Ukrainian agroholding Ukrainian Agrarian Investments (Luxembourg), with a land bank of 190 thousand hectares and production capacities for grain storage of 200 thousand

tons, through the subsidiary Jerstey B.V. (The Netherlands).

This allows the company to receive extra profits at the expense of a high level of land fertility, without making any additional efforts.

## Box 6. Kernel (though Jerstey B.V. (The Netherlands)) - Ukrainian Agrarian Investments (Luxembourg)

**Region:** the central part of Ukraine.

At the beginning of May 2017, an information appeared that the Ukrainian Agrarian Investments (UAI) was purchased by the Kernel Group. According to the agreement, about 190 thousand hectares of land and grain storage capacities for 200 thousand tons, passed under the control of the Kernel Group. It should be noted that the main motive for acquiring UAI assets was their direct geographical proximity to the assets of Kernel Group.

Interestingly all the deals were approved and supported by the Antimonopoly Committee of Ukraine.

The operation was completed already in early June. The total value of the deal is \$ 155 million. Thanks to this agreement, Kernel became the new largest landowner in Europe with a land bank of about 700 thousand hectares.

**Deal at Land Matrix database: # 1033.**

The **production** is often **exported**, mainly to the ones from **where the investor comes from**. For example, investors from the Arab countries

in Serbia. Under the agreement of the parties, part of the manufactured products will be exported to the countries of the Middle East

## Box 7. PHI Group, USA and Maxagro, Romania

**Region:** Timis County.

In mid-April 2017, it became known that a US investment company that apart of other activities is actively and regularly buying agricultural assets around the world, has signed a Memorandum of Understanding with the Romanian company Maxagro. The final deal was signed at the end of May 2017, the PHI Group received a majority stake in Maxagro - 51%.

At present, the company's assets are 12 thousand hectares of Romania's most productive lands. Under the conditions of efficient economy, the company can increase and rationally use its land bank in the amount of 50 thousand hectares.

According to a press release, the company will develop organic farming in this area.

**Deal at Land Matrix database: # 5532.**

### **Forecast for the coming years**

The agricultural land market of Ukraine and Russia will be transformed significantly.

This is primarily due to the launch of agricultural land sales in Ukraine. If Russia continue imposing sanctions and putting pressure

on foreign investors and companies, they will continue to withdraw from the market. The land plots under their control, both in their property and in the lease, will most likely go under the control of persons close to the current authorities. Consequently, the process of consolidation of agro companies will continue. The interest to land from foreign companies

will remain, as farming conditions in Eastern Europe are unique and bring maximum profits.

Support for small-scale farmers from the state will remain at declarative level in all countries of the region. It is worth to highlight Romania. The development of a small farmer movement in the country is gradually gaining momentum and taking its place, forcing the

state to pay attention to the problems in the industry.

As a positive point, we should mention the initiatives of governments of many countries aimed to prevent offshore tax evasion. If this trend continues, the budgets of the countries will receive considerable funds, and one can only hope for their effective use.

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## **Conclusions**

There is strong evidence of the existence of the process of land “grabbing” by companies in the world and Eastern Europe in particular. It may lead to further growth of social tension in the countries most affected by this phenomenon, and gradual harm to the environment - soil degradation, air and water pollution as a result of intensive farming.

The examined examples of deals and activities of companies in post-Soviet countries indicate that companies invest in acquisition or lease of land, gradually concentrating under their control the area of land comparable with the territories of some countries. Usually they act through offshore companies (Cyprus, British Virgin Islands, Jersey and Luxembourg) enjoying proximity to the high officials of countries and having much more financial security compared to local businesses. Negotiations on the purchase or transfer of land, often occur at the level of government and under the guise of investment projects.

There can be traced the flow of funds from

high-income to low-income countries, where agriculture is still a driving force for the economy, forcing some countries to remain as suppliers of raw materials only. Unfortunately, such a scenario leads to the economic decline of large areas, and the impoverishment of the population.

Even not agri profile players are involved in the land market and large-scale land acquisitions in Eastern Europe. They see great prospects in agriculture because of the steady increase of the planet population and thus demand for food. Potentially, they could be the agents of agricultural and rural development in the countries they invest in because they use the most advanced technologies and are more socially responsible.

Successful development of rural areas and socially just business can become reality only under constant public control, proper communication and cooperation with local communities. Influential world organizations (UN, FAO, World Bank, etc.) should play an active role opposing the threatening trends of land grabbing.



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