

Kyiv Post

LEGAL
QUARTERLY

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Editor's Note

Ukraine's agriculture is one of the most vital sectors of the nation's economy. It has been dubbed as the "Breadbasket of Europe" for a reason: having around 30 percent of the earth's most fertile soil — chernozem (meaning "black soil") — has proven to be a great asset for boosting the country's economy. In 2018 alone, agriculture made up about 40 percent, or a historic \$18.6 billion, of the country's exports in terms of financial value.

This has also allowed Ukraine to top global rankings of agricultural production and exports: it leads both in wheat and sunflower production and exports, is fourth in corn and barley exports, third in walnut exports, and second in rapeseed exports.

But, with all of the impressive figures, Ukraine's agriculture is still far from perfect and much can be done to improve the sustainability and efficiency of production, the education of farmers, the transparency of trade, as well as production diversification and the economic value share of small and medium farmers.

But most importantly, Ukraine must wisely lift a nearly two-decade land sales moratorium. If removed, Ukraine can unleash billions of dollars of investments that will pour into its economy. But to achieve this, activists, members of parliament and government officials must change public opinion and explain the benefits. Smartly crafted, a land sales market will give more power and freedom to landowners, of which there are an estimated seven million in this agrarian nation. Owning land will also allow these farmers to use their land as collateral bringing down the high loan interest rates of around 20 percent. With more affordable rates, small farmers will be able to take out loans to improve their equipment and use better technology.

And Ukrainian farmers must learn and switch to finished products rather than continue selling agricultural commodities as most of the value of their goods ends up out of Ukraine's economy and in someone else's pockets.

In the Kyiv Post's 22nd edition of Legal Quarterly, we look at all of this and more as we cover one of Ukraine's most exciting industries.

All of our contacts are available online at <http://www.kyivpost.com/contacts/>

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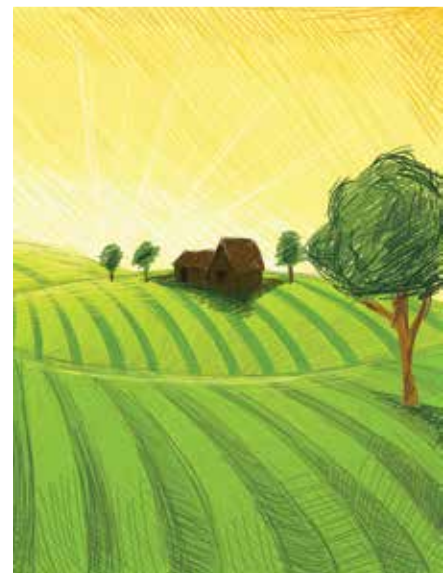
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COVER: Ukraine's soil is so fertile that it routinely produces bountiful harvests. But the agricultural sector is not even close to reaching its full economic potential.



Lawmaker Vitaly Khomutynnik attends the congress of political party Trust in Deeds, on June 2, 2019. The party eventually joined the Opposition Bloc, with Khomutynnik receiving 11th spot on the party's list in the upcoming snap parliamentary election. (Oleg Petrasliuk)

Conflict of interests? Plenty of them as MPs with agroholding ties decide public policy

By **Oleksiy Sorokin**
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In 2017, two anti-corruption activists researched and wrote a report assessing conflicts of interest among Ukrainian lawmakers.

The two researchers — Yaroslav Yurchyshyn, then the head of Transparency International in Ukraine, and Ulyana Poltavets, program director of the Agency for Legislative Initiatives — came to a startling conclusion.

They found that 131 lawmakers, or 31 percent of parliament, had corporate rights of some sort. Out of them, 38 lawmakers had direct conflicts of interest — they sat on parliamentary committees associated with their businesses.

The parliament's 29-member agrarian policy and land committee led the pack in conflicts; 20 of its members had

direct conflict of interests, Yurchyshyn and Poltavets concluded.

The Kyiv Post looked at Ukraine's largest agrarian holdings and their connections in parliament.

Kernel

Kernel is Ukraine's leading agrarian company in amount of land cultivated and profit. It is also among the leaders in parliamentary representation, with at least six people with links to the company and the Verkhovna Rada.

Kernel doesn't hide its representation in parliament. Their main asset is Vitaly Khomutynnik, a politician with a net worth of \$390 million in 2018, according to Novoe Vremya magazine. He owns 6.6 percent of Kernel through his Cascade Investment Fund.

Khomutynnik is the leader of the 24-member Vidrozhennia faction in parliament, formerly serving as the head of the parliament's taxation and customs committee. He is running for re-election on the ballot of Opposition Bloc.

Khomutynnik wants tax cuts for large companies. In 2016, Khomutynnik authored a law by which large companies who export more than 40 percent of their products abroad receive an automatic reimbursement of the value-added tax (VAT). The law benefits large agrarian companies, but leaves out smaller ones.

Officially, Kernel received over Hr 3.5 billion (\$135 million) in VAT reimbursement in 2017 alone, but a number of lawmakers saying that the actual figure was at least two times higher. That same year, Yurchyshyn requested that the National Agency for the Prevention of Corruption (NAPC) investigate a possible conflict of interest. The NAPC opened a probe, but didn't find any wrongdoing.

Khomutynnik said in multiple interviews that he doesn't lobby Kernel's interests and doesn't intervene in the work of the Cascade Investment Fund.

Khomutynnik is not the only lawmaker tied to Kernel.

Oleksiy Mushak, a lawmaker from the 135-member Petro Poroshenko Bloc, is the first cousin of Andriy Verevsky, founder and co-owner of Kernel.

Verevsky was a lawmaker between 2002 and 2013. In 2013, a court stripped him of his seat in parliament due to a conflict of interest: he served on the land committee in the parliament and headed Kernel at the same time.

In 2014, a year after Verevsky was ousted, his cousin Mushak became a lawmaker. His assistant in parliament is Maryan Zablotsky, who heads an organization called the Ukrainian Agrarian Association, registered at the same address as Kernel's legal entities.

Zablotsky heads the civic council overseeing the parliament's tax and customs committee, which was formerly headed by Khomutynnik.

In a written comment to the Kyiv Post, Mushak denied any connections to both Kernel and Nibulon, a large agrarian and shipping company.

Mushak said that his family ties to Verevsky do not



interfere in his political life. He added that he is a vocal supporter of lifting the land sale moratorium, which is supported by the European Union and most international organizations.

Oleh Kulynych, a lawmaker from Vidrozhennia and a member of the parliament's agrarian committee, used to be Verevsky's assistant. A number of Kulynych's assistants in parliament work for the Ukrainian Agrarian Association.

Nibulon, one of Ukraine's largest grain exporters that transports its grain via the Dnipro River, is allegedly blocking legislation aimed at opening the river transportation market to investors. (Nibulon)

Nibulon

It's not hard to find Nibulon's representative in parliament. In 2014, Andriy Vadatursky, the co-owner of Nibulon and the son of the company's main shareholder, Oleksiy Vadatursky, became a lawmaker through a single-member district in Mykolaiv Oblast, Nibulon's stronghold.

Vadatursky is a member of the Petro Poroshenko Bloc, which received official financial contributions from

Verkhovna Rada Agrarian Policy and Land Committee

KERNEL

Oleksiy Mushak
Oleh Kulynych

НИБУЛОН

Andriy Vadatursky

МХП
АГРОБІЗНЕС ПРАКТИКА

Oleksandr Bakumenko
(deputy head)
Mykola Kucher

Serhiy Martyniak, Serhiy Labazyuk, Vasyl Petyovk, Vadym Nesterenko, Leonid Kozachenko, Hennady Bobov, Valery Davydenko, Ivan Miroshnichenko

Other representatives of agricultural companies who wield influence in parliament

Vitaliy Khomutynnik
(former head of tax and customs committee)

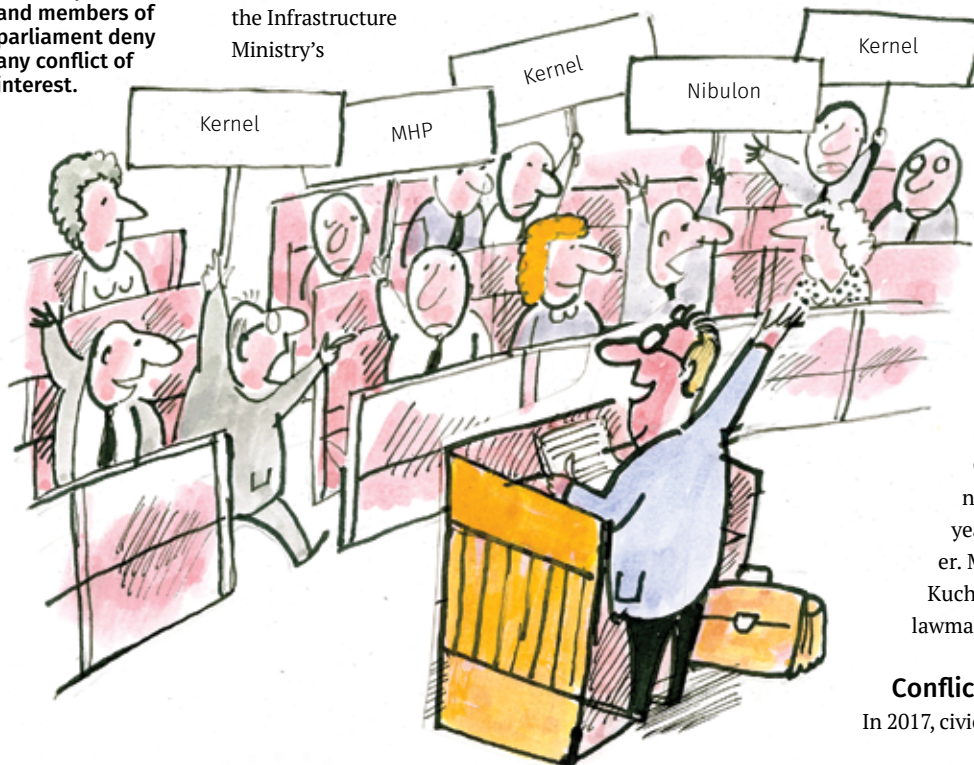
Maryan Zablotsky
(tax and customs civic council)

Yuriy Kosyuk
(former president's advisor-at-large)



Yuriy Kosyuk (R), CEO of Myronivsky Hliboproduct, attends Capture New Markets conference organized by Kyiv Post, on March 29, 2016. (Pavlo Podufalov)

Some of Ukraine's top agroholding companies have representatives in parliament. Both the companies and members of parliament deny any conflict of interest.



Nibulon. Vadatursky would not confirm whether the company financed his party, but he does not influence the decision-making process in Nibulon. Lawmaker Vadatursky owns 20 percent of Nibulon.

Vadatursky is best known for his stance against a new river transportation law. Currently, Ukrainian river infrastructure includes 18 ports (including terminals) on the Dnipro River, six of which are reloading terminals owned by Nibulon.

Initially, three laws on river transportation were presented to parliament, one of which Vadatursky authored. Vadatursky's draft law was dropped, while others were drowned in amendments and never passed the floor.

"Vadatursky represents Nibulon's interests," says Aleksandra Klitina, head of the Infrastructure Ministry's

reform support group. "If you read Vadatursky's proposals, they are absurd, meant to stall the legislation."

Vadatursky denies all accusations, saying that he has no operational role in Nibulon. He cites guarantee letters he gave to the European Bank for Reconstruction and Development and its affiliates, which provided Nibulon with loans.

Vadatursky also tried to pass a bill reestablishing VAT returns for soy and rapeseed producers, which had the backing of farmers. Nibulon doesn't have a strong presence in that area.

Myronivsky Hliboproduct

Myronivsky Hliboproduct, or MHP, is Ukraine's largest poultry producer, controlling over 60 percent of poultry production in Ukraine. Though MHP doesn't have clear representation in parliament, it did, until recently, in the presidential administration.

MHP owner Yuriy Kosyuk — who has a net worth of \$908 million, according to *Novoe Vremya* — maintained good relations with former President Petro Poroshenko. In 2014, the ex-president appointed Kosyuk deputy head of the presidential administration. He held the job for six months. From 2014 to 2018 Kosyuk was Poroshenko's advisor-at-large.

Under Poroshenko's presidency, MHP was the largest recipient of government subsidies, with over Hr 812 million (\$30 million) in subsidies for building chicken farms in 2018.

In 2017, MHP received Hr 1.4 billion (\$50 million) from the state budget, or 35 percent of all the government's subsidies for the agrarian sector.

The company also controls more than half of Ukraine's quotas to export poultry and dairy to the European Union.

In April, European Bank of Reconstruction and Development stopped financing MHP due to the company using a loophole in EU regulations to export more poultry to the EU.

Subsidy allocations must pass parliament's agrarian committee, where 16 out of 29 members represent the Petro Poroshenko Bloc.

The committee's deputy head is Oleksandr Bakumenko, who has business ties with Kosyuk. For over 10 years, he worked with the MHP owner. Meanwhile, committee member Mykola Kucher worked for MHP prior to becoming a lawmaker.

Conflicted committee

In 2017, civic watchdog CHESNO analyzed the

online asset declarations of agrarian committee members and confirmed Yurchyshyn and Poltavets' report.

The watchdog concluded that most committee members have a conflict of interest. In fact, only three committee members and their family members lack a direct connection to agribusiness.

Serhiy Martyniak, from the 18-member People's Will faction, registered 15 companies tied to the agrarian sector, with his largest asset being Pan Kurchak, Ukraine's second largest poultry brand. It also receives government subsidies.

Serhiy Labazyuk has nine agrarian companies, while Vasyl Petyovk has six. Both represent the same party as Martyniak.

Vadym Nesterenko, from the Petro Poroshenko Bloc, has 19 agrarian companies registered on his name.

Nesterenko is not the only Poroshenko Bloc committee member with multiple agrarian companies tied to his name. Leonid Kozachenko owns four companies, while Kucher has a stake in two companies.

Hennady Bobov, from Vidrozhennia, the party headed by Khomutynnik, owns 15 agricultural companies with his wife.

Six committee members have relatives with business interests in the agrarian sector. Among them is Valery Davydenko from the Petro Poroshenko Bloc, whose mother owns 12 agrarian companies.

Ivan Miroshnichenko, from the 25-member Samopomich faction, and his wife own four agrarian companies. He was formerly the deputy head of Cargill Ukraine. Cargill is one of the largest privately held agrarian corporations in the world and is based in the American state of Minnesota.

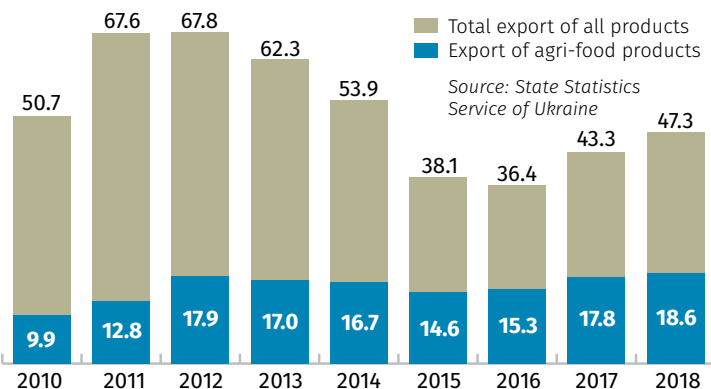
Miroshnichenko has supported Vadatursky's bills on river transportation and VAT reimbursement for soy and rapeseed producers, neither of which passed through parliament.

The July 21 parliamentary elections might decrease the number of lawmakers with a stake in or connections to large agrarian companies. Currently, 20 members of the parliament's agrarian committee represent single-member constituencies where agrarian companies are major employers. Most of the lawmakers mentioned in this report are registered as candidates in the snap vote.

Khomutynnik appears on the list of the Opposition Bloc, while Miroshnichenko is fourth on the Strength and Honor party list. Both parties are polling below the 5 percent threshold. ■

Ukraine's export dynamics, 2010-2018

Billion, \$



The share of food products exports has doubled in eight years, and so has its value.

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In 2018, Ukrainian exporters earned \$78.2 million from selling frozen berries and \$8.2 million from fresh berries. (Volodymyr Petrov)

Ukrainian berry market grows fast despite serious hurdles

By **Natalia Datskevych**
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The demand for berries — a food full of vitamins, minerals and antioxidants — is on the rise globally, and Ukraine is becoming an increasingly important player on the market for these delicious fruits.

This is especially clear from the country's berry exports to the European Union, African countries and China. During the past five years, Ukraine has increased its exports of frozen berries — mainly blueberries, raspberries, strawberries, lingonberries and currants — threefold to export 47,803 tons in 2018.

Exports of fresh berries have grown even more noticeably — up to 5,972 tons, or tenfold, during the same period. Top destinations of Ukrainian berries are Poland, Belarus, the Netherlands and the United Kingdom.

“Berry production is a very strong trend today. On

average, the berry trade is growing at 6.2 percent a year globally,” said Andriy Yarmak, investment officer at the Food and Agriculture Organization of the United Nations.

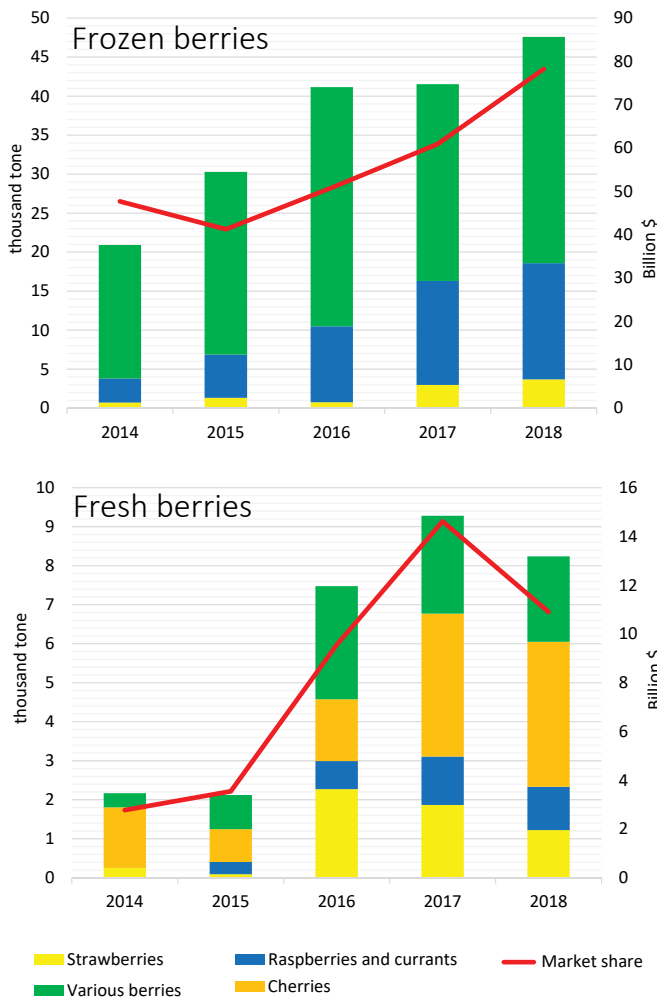
According to Tom Joyce, a fruit market expert at London-based Fruitnet Media International, every other year Asia is adding as many berries as Germany produces in one year. The market “is still a small share of the global market, but it is increasing very quickly,” said Joyce.

In 2018, Ukrainian exporters earned \$78.2 million from selling frozen berries and \$8.2 million from fresh berries.

But those figures could be much higher.

Ukraine loses around \$24 million in exports annually due to poor marketing, underdeveloped services, and much lower prices for berries compared to EU countries, according to Yarmak.

Frozen vs. fresh berries exports in Ukraine



Ukraine's exports of fresh and frozen berries have increased since 2014. Fresh cherries as well as fresh and frozen raspberries and currants had the most significant growth.

Source: APK-Inform: Vegetables and Fruits

“Many producers have a ‘kolkhoz’ (collective farm) mentality — their main goal is to produce more. In fact, it is more profitable to produce less but with high quality, and sell at a higher price,” said Yarmak.

In total, Ukraine produced some 132,900 tons of berries last year, according to the Ministry of Agrarian Policy and Food of Ukraine. Strawberries made up almost half of the crop, followed by raspberries with a 17-percent share and currants with a 22-percent share.

Stumbling blocks

In addition to a lack of management skills, Ukrainian farmers are struggling to find labor.

This is not a new problem for Ukraine, but it is getting worse, according to Oleksandr Khorev, head of the Fruit-Inform online agricultural platform.

“If earlier we talked only about the lack of berry pickers, now Ukraine has problems with skilled workers, like agronomists and technicians. This problem is growing,” he said.

Today, many firms are ready to increase last year’s salaries by 20

percent, but this salary boost can hardly solve the problem for the next few years, he said.

For some companies, the trend is more optimistic. In Vesna-2011, a 500-hectare berry cluster with 17 small farmer enterprises located some 65 kilometers west of Kyiv, many families come from western Ukraine to work as berry pickers.

“People from western Ukraine say that currently Ukrainians are treated in Poland as animals — no hot water and they are not fed there. Some of them thought: why should they go to Poland if they can earn the same money here,” said Lesya Bernadska, director of a campus for workers at Vesna-2011.

According to Bernadska, berry pickers can earn up to Hr 1,500 per day, or \$56. For this they have to pick 130 kilograms of strawberries.

Another serious issue is the required quality of berries sold on the global market — for example, the standards for sweet cherries exported to China.

“Currently foreign markets do not (consume) the berries that we have in Zaporizhia Oblast. It cannot all be collected and sold. There are requirements for color, the presence of a stalk on each sweet cherry,” said Khorev. “In China, they offer very good prices but we cannot export (the needed) volumes yet.”

Exports to Belarus, however, are expected to grow as Ukraine uses updated technology for new gardens of sweet cherries, according to Khorev.

On the other hand, there is a high likelihood that the production of raspberries will decrease because of a deficit of freezing technologies as well as a lack of markets for fresh berry exports.

According to Oleg Bosiy, managing partner at FruiTech, almost all

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Ukrainian producers of raspberries are focused on the processing market.

“The raspberry is the most expensive product on the market. In the U.S., in Europe and it is supposed to be the same in Ukraine,” said Bosiy. “But growing raspberries requires serious technology, special breeds, protection. Ukrainian producers still cannot afford such investments.”

Of the 1,000 tons of fresh raspberries exported from Ukraine to Poland last year, most were intended for processing into a puree concentrate, as these berries had the lowest quality.

But unlike the negative forecast for the raspberry market, the demand for blueberries is growing.

Only since 2017 has Ukraine’s government recognized the blueberry as a commercial berry. During the past 12 years, the berry has evolved from a little-known niche product to one of the main berries that Ukraine exports.

In 2018, around 2,000 tons of Ukrainian blueberries were exported to the U.K., Netherlands and Belarus. The highest price for exported blueberries was in the U.K. — around \$6 per kilogram.

“The blueberry is the only berry that is truly exported fresh from Ukraine and I don’t expect to see any changes in the next few years,” said Bosiy.

Ukraine is currently one of the top five countries in Europe with the biggest territory dedicated to blueberry farming, according to Bosiy. And in the next three to five years, an additional 400–600 hectares will be added annually.

“If we look at blueberries, the market is increasing

rapidly even in the U.K., where blueberries are very popular and yet we see that” there is still much room for growth.

“So, there is still room for growth in countries, where blueberries are as popular as in the U.K. This means that the market will grow,” he said.

Bosiy forecasts that Ukraine will produce some 4,700 tons of blueberries this year. However, only seven companies which operate 30 percent of the blueberry farming in Ukraine have the Global Good Agricultural Practice (Global GAP) food safety standard qualification, a “must have” to be able to export to EU countries.

Global GAP and legal issues

Getting Global GAP is not that easy.

According to Igor Chechitko, a Global GAP expert, there are many strict requirements that berry producers must follow in order to receive it.

For example, in Ukraine, there is a list of officially approved plant protection products that are not allowed in the EU. And purchases of plant protection products must be legally proven.

In addition, Ukrainian certification is often not trusted abroad.

Poland or Germany do their own analysis instead, said Chechitko.

Despite the presence of laboratories in Ukraine, the auditor may have questions for the farmer about the adequacy of the analyses done in these labs, which test for at least 200 active substances that are banned in EU.

“Usually, 400–450 active substances are tested there (in Germany),” said Chechitko.

It is also quite expensive to get a Global GAP. According to Yanina Suarishvili, financial director at Vesna-2011, it can cost thousands of euros to receive the certification and needs to be redone every year.■



Even though Ukraine could export large amounts of cherries to China, due to strict requirements Ukrainian farmers still do not have access to the market. Today, Ukraine mainly exports its berries to Belarus, much of which is then re-exported to Russia.



A truck from Astarta unloads grain. More than half of the company's revenue, or \$236 million, comes from exports. (Courtesy of Astarta)

5 giant agroholdings dominate farm sector

By **Gabriel Hardy-Françon**
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Ukraine is an agricultural powerhouse, the "Breadbasket of Europe," as a land of blue skies over sweeping fields of sunflower and wheat, an image so iconic that it is represented on the Ukrainian flag.

But if that image harkens back to the bucolic days of yore, when village peasants tilled the fields that ancestors had cultivated for generations, modern Ukrainian agriculture is a bit different.

It is not local, but national and even international. The country is a major global producer and exporter of oilseeds, grains, soy, corn, honey, and chicken meat.

And much of that production is done by giant industrial agroholdings, companies with enormous land banks, huge revenues, and powerful political influence.

The agroholdings are not an entirely

positive feature of Ukrainian agriculture.

They dominate the agricultural sector, while a healthier economy would feature more small and medium producers. And they heavily lobby parliament for favorable conditions, often at the expense of smaller competitors.

But they are still a central component of Ukraine's agrarian economy. These are the top five agricultural companies in Ukraine.

Ukrlandfarming

The Ukrlandfarming group was founded in 2007 by Oleg Bakhmatyuk. It remains the largest agricultural holding, despite experiencing serious setbacks in the past five years.

The group's debt reached Hr 19 billion (\$722 million) in 2018, which forced the company to restructure its loan. Oschadbank, Ukraine's state-owned bank, signed an agreement on

Feb. 4, 2019 to restructure Hr 4.4 billion (\$115 million) of the company's debt. Ukrlandfarming is still holding discussions to settle the rest of its debt with state-owned UkreximBank.

The holding had to trim its staff from 37,000 to 31,000 and its distribution by 80 percent due to a lack of working capital, according to Bakhmatyuk.

Ukrlandfarming owned 570,000 hectares of land in 2018, but lost 60,000 hectares, bringing the figure down to 510,000 in 2019.

The company owns 19 laying farms, 10 rearing farms, three hatcheries, six feed mills, three long-term storage facilities, two poultry complexes, one biogas plant and one egg processing plant. Seven of these assets are located in the Russian-occupied territories of Crimea, Luhansk Oblast and Donetsk Oblast.

The growing demand for exports has enabled the company — through its Avangard holding — to increase its total livestock by 41 percent in 2018 to reach 13.4 million chickens, as well as its egg product exports from 35 to 45 percent. Its 822 million eggs are shipped to 23 export destinations. The company recently made its first shipment to Hong Kong.

These are the five agricultural powerhouses in Ukraine: Ukrlandfarming, Agroprosperis, Myronivsky Hliboproduct, Astarta, and Kernel.

Its main production areas remain the same: crops, livestock, grain elevators for storage and seed production.

Ukrlandfarming's deputy CEO, Ihor Petrashko, told the Kyiv Post that 2015 and 2016 were tough "due to adverse conditions related to the loss of significant market shares in eastern Ukraine and Crimea... so 2018 and the beginning of 2019 was more of a stabilization period for us."

Agroprosperis

Agroprosperis Group was founded in 2007. As of 2018, the company had a total of 400,000 hectares of rental land. This represents a decrease of 30,000 hectares compared to 2017.

The company works with smaller farms in a supply chain system, giving them opportunities to enter world markets with the help of a major player.

American NCH Capital is the group's main investor. It has invested over \$3 billion in Eastern Europe and Eurasia during the last 20 years.

Agroprosperis produces and exports over 3.5 million crops annually, among which 1.5 million come from the company's own production. The rest is produced by smaller Ukrainian farmers working in partnership with the group.

The main production: wheat, corn, rapeseed, soya and sunflower while 20 percent of the group's total sales, mainly sunflower, are destined for the national market.

The company exports 80 percent of its crops to more than 35 world

markets. The main destinations are Asia (30 percent), Europe (23 percent) and Africa (11 percent).

The company spent a great deal of time and money in 2018 building its logistics capacity by improving its elevators and investing in new dryers to accelerate the intake and drying of corn. It also added 100 new railway cars to its car park, enabling the company to increase its transportation volume to 800,000 tons yearly.

The company has also been developing its banking business. In November 2018, Agroprosperis Bank signed a partnership agreement with Agrimatco-Ukraine that enables small-scale farmers — of approximately 100 hectares — to purchase equipment from global manufacturers on credit for seven years at 0.01 percent interest in U.S. dollars and 6.57 percent interest in Ukrainian hryvnia per annum.

Agroprosperis Group refused to disclose any revenues.

Michael Bertram, the manager of NCH Capital for Ukraine told the Kyiv Post that "the last five years were very satisfying... we had good conditions for core production in Ukraine."

Myronivsky Hliboproduct

Founded in 1998, Myronivsky Hliboproduct (MHP) is continuing to grow and prove itself as a major world player in the production of chicken meat.

With a landbank of approximately 370,000 hectares, MHP has earned \$1.5 billion in revenues as of 2018, with more than half — \$924 million, or 59 percent — coming from exports to 20 countries.

Chicken production accounts for 80 percent of the company's revenue while grain is 11 percent and 9 percent from other agricultural products.

The company encountered a few problems in 2018. As MHP expanded its poultry production in Vinnytsya, it suffered attacks from environmental activists.

But according to the company, the \$300 million production plant should reach full operation capacity by the end of 2021 and increase the production of chicken meat to 560,000 tons per year.

2018 was also a time of international expansion for MHP. It signed an agreement of intent to acquire Slovenian chicken and turkey production company Perutnina Ptuj — the largest of its kind in southeastern Europe, with companies in Slovenia, Serbia, Bosnia and Herzegovina and Croatia. The acquisition became effective on Feb. 21, 2019.

When it comes to priorities for the near future, Anastasiya Sobotyuk, director of investor relations and international communication, was clear: The EU.

"We will be grateful to our country if it will continue adopting legislation that meets European standards. As a company already working to that effect, we want all of the system to correspond with our goals."

Astarta

Established in 1993, Astarta holding's main commodity is by far sugar — the company produced 21 percent of all Ukrainian sugar in 2018. It also produces dairy, grains, oilseeds and soybean.

However, the company's revenues have decreased by \$98 million due to an unfavorable sugar market, falling to \$422 million in 2018 compared to \$521 million in 2017. This has forced the holding to diversify its production and intensify traditional crop cultivation, which accounted for 34 percent (\$144 million) of the company's revenues in 2018.

Sugar made 32 percent of the company's revenues in 2018, or \$119 million, a 40-percent nosedive from the previous year. Sugar production

decreased to 352,000 tons in 2018, which represents a 24 percent decrease year on year. Dairy production also decreased slightly by 4,000 tons, to roughly 106,000 tons produced.

More than half — 56 percent — of the company’s production is exported.

As of 2019, Astarta has a land bank of about 250,000 hectares.

The company has also put a lot of efforts and money — \$36 million — into increasing its elevator capacities. It put three major elevators into operation in Poltava Oblast, adding 230,000 tons of storage capacity to the existing 270,000 tons.

The company’s latest report describes a 28 percent increase in revenues for the first quarter of 2019 — \$131 million.

Yuliya Bereshchenko, the business development and investor relations director of the company, told the Kyiv Post that, at the moment, “it is a difficult business environment for soft commodity both nationally and internationally... but the market is cyclical... so we do expect the prices to recover in the mid-term.”

Kernel

Founded in 1995, Kernel Holding owns a total of 560,000 hectares of land, 200,000 of which was acquired in 2017.

This drastic increase in Kernel’s land bank has had a direct effect on the company’s earnings before interest, tax, depreciation and amortization (EBITDA) — a measure used to evaluate a company’s performance.

Kernel’s EBITDA per hectare decreased from July 2017 until June 2018 by 61 percent from \$378 to \$149, which had a direct impact on its profitability.

The company has changed its investment strategy from 2017 to 2018, going from investments in subsidiaries acquisition to the expansion of fixed assets.

Kernel Holding aims to invest \$500 million in various projects over three years, including the construction of a terminal in the port of Chornomorsk, several elevators and other projects.

So far in 2019, the company reports \$800 million in revenues, a 48 percent increase year on year.

Kernel Holding did not respond to a request for comment from the Kyiv Post. ■

Ukraine's agricultural sector is destined to become an even more important part of the nation's economy.



AGRICULTURE IN UKRAINE

ROLE IN THE UKRAINIAN ECONOMY

OF EMPLOYMENT
20%

3.25 MILLION PEOPLE
were employed in the agricultural sector in 2018

39 %
OF EXPORT

In 2018 agricultural exports came to
\$18.6 BILLION

OF GDP
19%

Agricultural production in 2018 amounted to
€843 BILLION

Source: Ministry of Agriculture of Ukraine

ROLE IN WORLD AGRICULTURE

		Export, mln \$	Production	Export
EXPORT EARNINGS	sunflower oil	4 113	#1	#1
	corn	3 506	#6	#4
	wheat	3 004	#8	#5
	rapeseed	1 011	#5	#2
	sunflower meal	922	#1	#1
	soybeans	831	#8	#6
	barley	682	#5	#4
	poultry meat	507	#17	#7
	white sugar	217	#14	#9
	soybean meal	162	#23	#8
	soybean oil	153	#23	#8
	butter	129	#9	#5
	bovine meat	125	#21	#14
	walnuts	117	#4	#3
	rapeseed oil	112	#13	#7
	powdered milk, cream	59	#11	#8

LEGAL SERVICES

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38 044 578 2337	Dima Gadomskiy, Oksana Kobzar, Yuriy Kornaga	Kyiv, Lviv, Kharkiv Ukraine	2016	Software development, Gaming, E-commerce, Fintech, Agrotech, Legaltech, VC, IT integration, IT outsourcing, Medtech, Telecom	BlaBlaCar, TripMyDream, 908.vc, DOU, rabota.ua, Hosting Ukraine, Myhelix, RadarTech, Poster, Vitagramma, Grupa Pracuj, Datas, Invisible, LikarniCOM, POA.Networks, Infobip, Preply, SeedStars, VGS Inc, Cryptagio, Beetroot	English, Ukrainian, Russian
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Phone number	Top executives	HQ	Est.	Main Specialization, services	Major clients	Languages
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+38 044 391 3377	Graham Conlon	London, UK	2007	Infrastructure; Corporate and M&A; Banking and Finance; Commercial; Tax&Customs; Competition; Dispute Resolution; Compliance; Employment; Property; Technology Media and Communication; Agribusiness; Lifesciences/ Pharmaceuticals; Intellectual Property; Energy; Private Equity	WND	English, French, Ukrainian, Russian
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+38 044 486 0047	Igor Golovan	Kyiv, Ukraine	1996	Complex Business Protection; Crimea & ATO Zone Issues; White Collar Crimes; Litigation & International Arbitration; Investment Disputes; Copyright & Related Rights; Data-Driven, Data-Based, Data-Intensive	Privileged	English, Russian, Ukrainian
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Phone number	Top executives	HQ	Est.	Main Specialization, services	Major clients	Languages
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Ukraine's agricultural sector needs more small, medium enterprises

A farmer plows a field on April 17, 2018, in Kyiv Oblast. In 2017, small and medium businesses made up only 20 percent of Ukraine's gross domestic product, or \$22 billion. (Oleg Petراسиuk)



By **Gabriel Hardy-Françon**
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Small and medium enterprises, abbreviated as SMEs, are the backbone of any successful free-market industry, including Ukrainian agriculture.

But Ukraine's agricultural SMEs lag far behind their European Union counterparts due to a number of serious challenges, including limited affordable financing and low levels of technological literacy. That hinders their growth and influence in legislative decision-making, providing more room for large agro-holdings to dominate the agricultural economy.

Changing this will require significant efforts from the SMEs to become more competitive, productive and attractive, experts say.

But it will also likely require the government and international organizations to do more to help the enterprises realize their full potential.

Statistics

Overall, Ukraine has about 43,000 farmers, of whom 33,000 are active, according to Ukraine's Ministry of Agriculture. And out of these 33,000 private farmers, roughly 80 percent are small farmers with 500 hectares or less, according to the ministry.

In 2017, SMEs made up 20 percent of Ukraine's gross domestic product (GDP), according to the European

Union's EU4Business. In Germany, SMEs constituted 55 percent of the country's GDP during the same period, according to Germany's Ministry of Economic Affairs and Energy.

This gap can be explained by the productivity of Ukrainian companies, which is "25 to 40 percent lower than in European companies," according to Dmytro Lyvch, a consultant at Ukrainian policy think tank EasyBusiness in Kyiv.

Financing

The economic environment in Ukraine for agricultural SMEs might not be wholly positive, but at least it is "favorable," says Oksana Chernozub, head of SME product development from Crédit Agricole, an international bank that specializes in agricultural loans in Ukraine.

Despite Ukraine's high interest rates of nearly 17.5 percent, contrary to popular belief it is not so difficult to obtain a loan, according to Chernozub.

And the experience itself could be beneficial, especially for those who do not meet the eligibility standards, as it helps applicants to see what they need to improve in order to make their businesses more attractive.

"The questions asked are quite beneficial... it is like a self-check," Chernozub said.



Of Ukraine's 33,000 private farmers, roughly 80 percent have 500 hectares or less, according to the Agricultural Ministry. (Volodymyr Petrov)

Chernozub says that SMEs include businesses of various sizes, knowledge and capacities.

"Those who have 10 hectares and those who have 100 hectares... they are both SMEs but do not possess the same level of financial knowledge," Chernozub said.

Companies that are experienced enough and demonstrate honesty in their financial records usually do not have any issues obtaining loans when needed. *Crédit Agricole* works with companies that own a minimum of 200 hectares, specifically because it is easier to work with companies that keep better records.

"It is more difficult for any smaller company to obtain a classic loan, but the customer can always apply, or go to the supplier and ask for a deferred payment," which would allow small enterprises to develop their business incrementally, Chernozub said.

"The key to ease access to financing would be to increase their financial knowledge... and awareness that they should be thinking more like a legal entity rather than a private individual.

"When it comes to small companies in general, Ukraine does not have a culture of financing SMEs... by government or financial institutions."

The current effective interest rate for agricultural loans to SMEs in Ukraine is 20 to 21 percent, much "higher than in Europe," Chernozub conceded.

Technology

In today's digital age, one of the main contributors to an enterprise's success on both national and international markets is its "ability to develop and implement innovations," said Lyvch.

According to him, Ukrainian SMEs do not pay enough attention to research and development.

"Only 3.5 percent of Ukrainian SMEs invest in it, comparing to 9.9 percent for European SMEs." This could also be explained by a lack of financial resources, Lyvch said.

Lyvch emphasized the need for SMEs to hone their skills in information technology in order to optimize their communication with partners and customers as well as to increase their efficiency.

According to him, "only 55.6 percent of Ukrainian SMEs have their own website, compared with 63.6 percent of European SMEs," which limits the ability of Ukrainians to "internationalize their activities and integrate themselves into the EU's value chains."

Lyvch believes that, in order to cope with these issues, SMEs should receive more financial support as well as assistance from consultants who can help them navigate today's numerous challenges.

This would help them to develop their own technologies and ease communication between Ukrainian SMEs so that they can share technical solutions with each other.

Knowledge

Whether it is about finance or technology, it all boils down to two things: knowledge and effort.

Knowledge is by far one of the most important factors in order to help Ukrainian SMEs to grow, but there needs to be a desire to acquire the necessary knowledge in order to grow one's business.

Too often, SMEs do not seem to know how to obtain key information about existing opportunities, potential clients, or general knowledge about the market that would help them increase the attractiveness of their companies.

Lyvch says that grants and many international technical assistance projects by various European commissions are available, but Ukrainian SMEs have never heard of them and don't know how to apply.

"The level of access to info and communication on those grants is crucial," he said.

When it comes to acquiring knowledge, both Lyvch and Chernozub agree that Ukrainian SMEs must make the necessary efforts in order to hone their skills.

"They should understand that if they want to grow their business, they need to put personal efforts into education for finance..." Chernozub said. "Knowledge is accessible... (but) many companies are not making the necessary efforts."

Long-term constraints

But SMEs are not responsible for all their issues.

Backwards legislation and a lack of trust are also making the business environment for Ukraine's agricultural SMEs tougher than in more developed countries.

Chernozub says that "companies should be encouraged to cooperate and form clusters at the regional level... it doesn't cost anything."

However, *EasyBusiness* interviewed hundreds of agricultural SMEs and found that the level of trust is too low.

According to Lyvch, SME owners "don't believe in partnership or trust each other... but in order to increase your

capacity you need to find partners... to attract investment and improve your skills on the market.”

There must be “structural reforms, farmland market reforms, privatization and (an increase in) the index of economic freedom,” he says.

Example to follow

But Natalia Sudarkina, co-owner of Agro-Patriot, an Odesa-based agricultural SME that produces garlic, says that it is still possible for an SME to be successful.

Founded in 2008, Agro-Patriot went from only one hectare 10 years ago to 200 as of 2019. The company managed to do exactly what Chernozub and Lyvch advise SMEs to do, which is bring producers together in order to form a larger more attractive group.

As a result, today Agro-Patriot assembles over 20 garlic farmers and has successfully built the first garlic storage in Ukraine, with a capacity of 1,000 tons.

Sudarkina was happy to tell the Kyiv Post that they “received this year the (American) Global Good Agricultural Practices certification and passed the Walmart audit.”

The company produces for both domestic and international markets.

“This year we exported our garlic to Canada, Poland, Germany, Great Britain and others... 80 percent we sell in

Ukraine (whereas) 20 percent goes to export,” Sudarkina said.

Of course, the path to success is not easy, she said.

The top problems in Ukraine are the absence of a fair judicial system and the lack of financing for SMEs.

The lack of affordable credit and lack of rule of law hamper the development of smaller agricultural businesses.

“It’s the main problem for SMEs in Ukraine. That’s why we do not grow as quickly as we would like to... I see lots of opportunities for doing business in our country, but it’s rather difficult to implement without affordable financing,” she said.

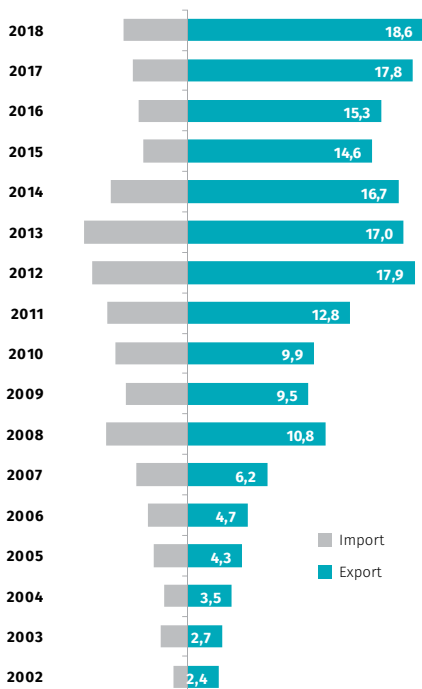
But Sudarkina remains positive.

“We believe in our idea and work hard every day,” she said. ■



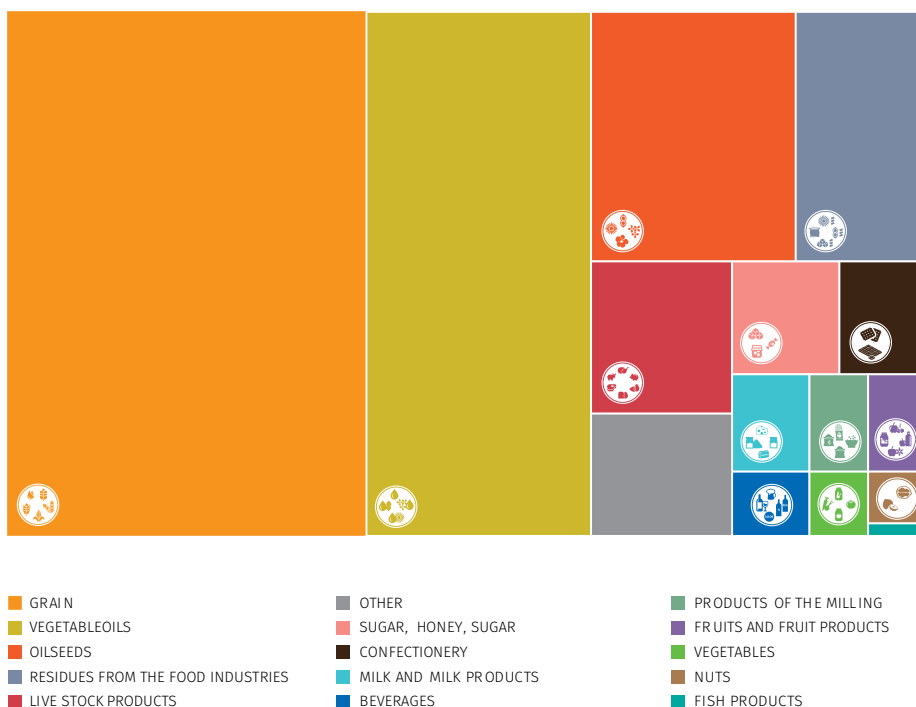
DYNAMICS AND STRUCTURE OF AGRICULTURAL TRADE, BLN \$

DYNAMICS OF TRADE, BLN \$



Source: Ministry of Agriculture of Ukraine

STRUCTURE OF TRADE IN 2018





Why does Ukraine export more commodities than pricier finished goods?

By **Gabriel Hardy-Françon**
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Ukrainian companies would benefit from exporting more value-added finished food products than raw agricultural commodities, as it does today. But outdated infrastructure and a poor investment climate are among the reasons that the agricultural industry is not fulfilling its potential.

Statistics

In 2010, the total export of all products from Ukraine represented \$50.7 billion. This number reached \$67.8 billion in 2012 and fell as low as \$38.1 billion in 2015, the year after the EuroMaidan Revolution ousted former President Viktor Yanukovich. In 2018, the number rose again to \$47.3 billion.

Meanwhile, exports of food products have been steadily growing with the exception of 2015. The export of agricultural products reached \$18.6 billion in 2018 — the highest figure of the last eight years.

Raw over processed

In 2014, the export of raw materials stood at \$9.3 billion against \$7.3 billion of processed food — a ratio of 56 to 44 percent, according to Ukraine's State Statistics Service. In

2018, the ratio was unchanged. Some \$10.6 billion worth of raw materials (57 percent) were exported against \$7.9 billion in processed food (43 percent).

In 2018, the largest share of exports was sunflower seeds, safflower or cotton-seed oil, constituting 22 percent of exports, followed by maize or corn (19 percent) and wheat (16 percent).

The main regions of destinations were Asia (45 percent), the European Union (33 percent) and Africa (13 percent). Post-Soviet countries made up only 8 percent of Ukrainian export destinations in 2018; they were Ukraine's main trade partners prior to the EuroMaidan Revolution.

But how can Ukraine export more processed food products that are worth more than raw materials?

Outdated infrastructure

Daria Grytsenko, head of the analytical department at the Ukrainian Agribusiness Club, said that much has to do with Ukraine's revolution five years ago.

"Until 2014, most of (Ukraine's) partners were mostly from (ex-Soviet) countries and Russia... after the EuroMaidan and the war with Russia though, our producers and exporters diversified their trade," she said.



In 2014, Ukraine's exports of raw materials was \$9.3 billion and exports of processed food was \$7.3 billion — a ratio of 56 to 44 percent. In 2018, the ratio was unchanged. (UNIAN)

This, in turn, had an effect on switching to value-added products.

But first Ukrainian companies had to meet higher standards so that they could sell their products abroad in markets like the European Union or Asia.

“For this you need to invest in quality by investing in basic input and equipment... most of the equipment today in Ukraine dates from the Soviet Union... the quality of the equipment is pretty low because it is outdated...,” she said. “The EU standards do not focus only on the product itself but on the technology and the production process.”

Long-term investment vs. quick cash

In order to cope with this issue, most of Ukrainian enterprises that produce grain or oil seeds sell their harvest to intermediaries who then resell the produce abroad.

“If you want to sell something on the Ukrainian market you can do it directly without intermediaries,” Grytsenko said. “If you want to export, you do it through traders.”

“This is also one of the key obstacles to increasing the share of processed food because producers want to make quick money... I harvest the grain then I sell it immediately... The majority of producers sign contracts in advance in order to sell their grain at a set value, regardless of the market’s fluctuation... the price is set by future and forwards contracts.”

One of the key issues that forces farmers into short-term planning is the land market, Grytsenko said.

“Only once the market will be free will producers be able to fully develop these lands. For example, when talking about vegetables of horticulture, I could not cultivate these high-margin crops if I don’t own the land — to cultivate apples you need eight to 10 years, but my land is rented for four to six years and there is no certainty for the future.”

Wheat types

Although when it comes to crops such as wheat, producers could export on their own if there was not an issue with the type of wheat being cultivated in Ukraine, which does not correspond to foreign markets’ demands.

“There are hard types and soft types,” Grytsenko said.

Hard wheat types are most commonly used for products like pasta, but the issue is that in Ukraine we produce mostly the soft sorts... 40 percent is hard wheat, 60 percent soft, and they cannot export it because most countries want hard wheat, especially in the EU because hard wheat is of a higher quality.”

Ukraine’s finished products, therefore,

Most Ukrainian agricultural exports are raw materials and not value-added finished goods, meaning that most of the economic value of what is produced ends up outside of the country.

tend to use soft types of wheat, making it less attractive for EU importers.

Ukrainian producers’ finished products are therefore not so common to see in other countries and used mostly domestically.

Unfavorable environment

Ukrainian producers are learning now how to be more effective on the world market and seem more willing to invest in their businesses, but key obstacles remain.

“Some companies among our members produce tomatoes and vegetables that they now process into tomato paste and ketchup that they export to the EU,” said Grytsenko.

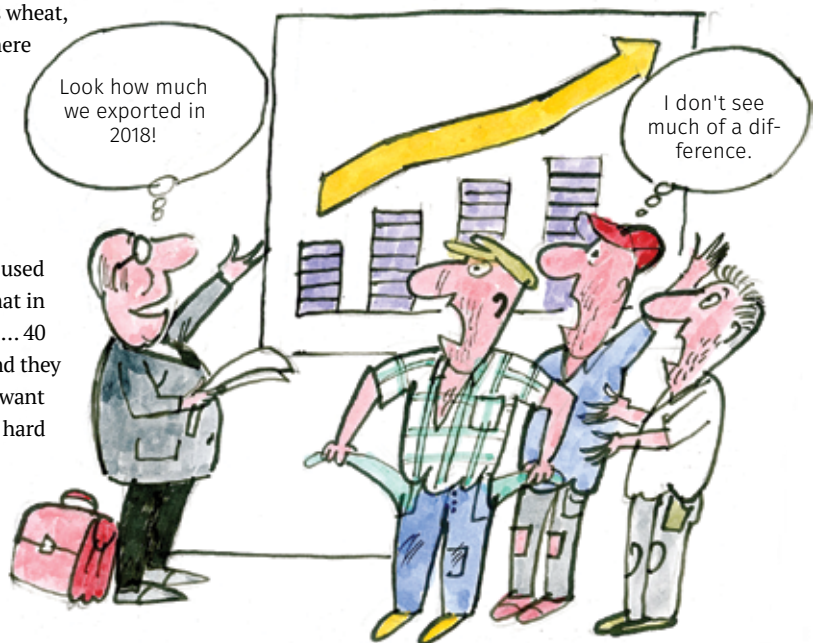
This is largely thanks to important investments in production technology that certain companies have decided to make because they understand that value-added products are more beneficial.

Even though most entrepreneurs go for short-term investments in Ukraine, Michael Bertram, the manager of NCH Capital in Ukraine, says that long-term investments are still possible.

“If you want to go into added-value products, you need to invest in fixed assets... facilities and infrastructure... and that means that as an investor you need to make a 10-year forecast of the market... this is a bigger challenge to do it for Ukraine than it is for Norway,” he said.

But “the big problem is perception... Ukraine is better than 10 years ago, but the perception is worse than it was 10 years ago.”

“The investment environment today is better than ever before... but even under Yanukovich, (foreign direct investment) was \$6 to \$7 billion (compared to \$2.5 billion today), so investors had more trust in Yanukovich than they have today, which is ridiculous... it is a lot about psychology.” ■





People protest the possible lifting of a moratorium on the sale of agricultural land at a protest organized by the Agrarian Party outside the Verkhovna Rada, Ukraine's parliament, in 2017. (Volodymyr Petrov)

Lawyers talk about best way to end ban on farmland sales

By Vyacheslav Hnatyuk
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For the past 17 years, Ukraine's moratorium on the sale of agricultural land was a given. But recently the drive to lift the moratorium is gaining strength, with more support from activists, members of parliament and farmers.

Switching to a land market, however, will require careful attention to avoid land grabbing by oligarchs and foreign players like Russia or China that can pose a security threat. According to World Bank estimates, with a land market, Ukraine's annual gross domestic product will increase by up to 1.7 percent annually, or billions of dollars. So it is important to ensure that the rules are fair.

Even though most Ukrainians still oppose a land market in Ukraine, experts are confident that the moratorium will be lifted before long.

In 2001, the country introduced the moratorium to prevent the concentration of land ownership in the hands of a few wealthy citizens and to ensure that land was not sold to foreigners. This step, they said, would help small farmers compete. Initially, the moratorium was supposed to be temporary.

Igor Ogorodnychuk, a partner at OMP law firm, says that people have effectively been trading land plots all this time.

"For decades we have had the means to bypass the moratorium. And a lot of farmers

have been using this circumvention — sometimes out of their own will, and sometimes out of necessity,” explains Ogorodnychuk. “One such (method of) circumvention is the land plot exchange scheme.”

Under this scheme, parties sign a contract to exchange land plots. The party with the smaller land plot pays additional money to compensate for the size difference. Legally, this is an exchange and not a sale.

But this bypass is inefficient and still slows down economic activity, which is why Ukraine’s Western donors, business associations, the European Court of Human Rights, and pro-market politicians want to end the moratorium and allow the free circulation of arable land.

Polls show most against land market

According to a report published in November 2018 by three leading sociological groups — Kyiv International Institute of Sociology, Rating Group and Razumkov Center — 71 percent of the country’s population opposes a land market, with most of the opponents living in rural areas.

Acting Agriculture Minister Olga Trofimtseva, a supporter of lifting the moratorium, says that a land market should be created carefully.

“I am very cautious about that... because I know about the sensitivity of this topic, I know about the complexity of this topic and that’s why, to tell the truth, this is exactly the kind of reform where we cannot allow ourselves any kind of mistakes,” Trofimtseva told the Kyiv Post. “We should be prepared perfectly here. Because in such an important and sensitive issue like the land market, even a small gap can be the reason for huge turmoil...”

There are two legal ways to lift the moratorium, explains Oleg Kachmar, a partner at Vasil Kisel & Partners law firm: “Either the Verkhovna Rada passes the respective law and abolishes the moratorium, or the Constitutional Court recognizes (the moratorium as unconstitutional).”

In September 2018, 69 members of parliament submitted a motion to Ukraine’s Constitutional Court to lift the moratorium. But the court refused to accept the motion.

The outgoing parliament upheld the moratorium in December and then-President Petro Poroshenko signed the bill in February. The legislation will be in effect until Jan. 1, 2020.

However, activists are trying to abolish the moratorium by using international courts. This resulted in a European Court of Human Rights ruling that the state violated the rights of property ownership of two Ukrainian retirees. Moreover, the court established that “the burden imposed (by the moratorium) on the two applicants had been excessive.” The court advised Ukraine to “take appropriate legislative or other

measures to ensure a fair balance between the interests of farmland owners and the general community.”

Olga Balytska, a lawyer at PWC Legal in Ukraine, is outspoken against the land moratorium. “I have personally spoken with the judges (of the European Court of Human Rights). The European courts do not write anything just for the sake of writing. They have left the possibility for the citizens to protect their rights not only through the legislative branch but also in Ukrainian courts.”

Balytska and her colleagues have decided to refer land disputes of their clients to courts. They are currently handling a pro bono case of selling one hectare of land in Lviv Oblast to farmer Dmytro Ogniov. So far the case is heard by the court of appeals in Lviv, the city of 720,000 people located 541 kilometers west of Kyiv. Balytska is upbeat about winning the case. Kachmar, however, is not.

Trofimtseva thinks the moratorium might be lifted in 2020, but that creation of a land market would take another five years.

Limiting amount of land that can be owned

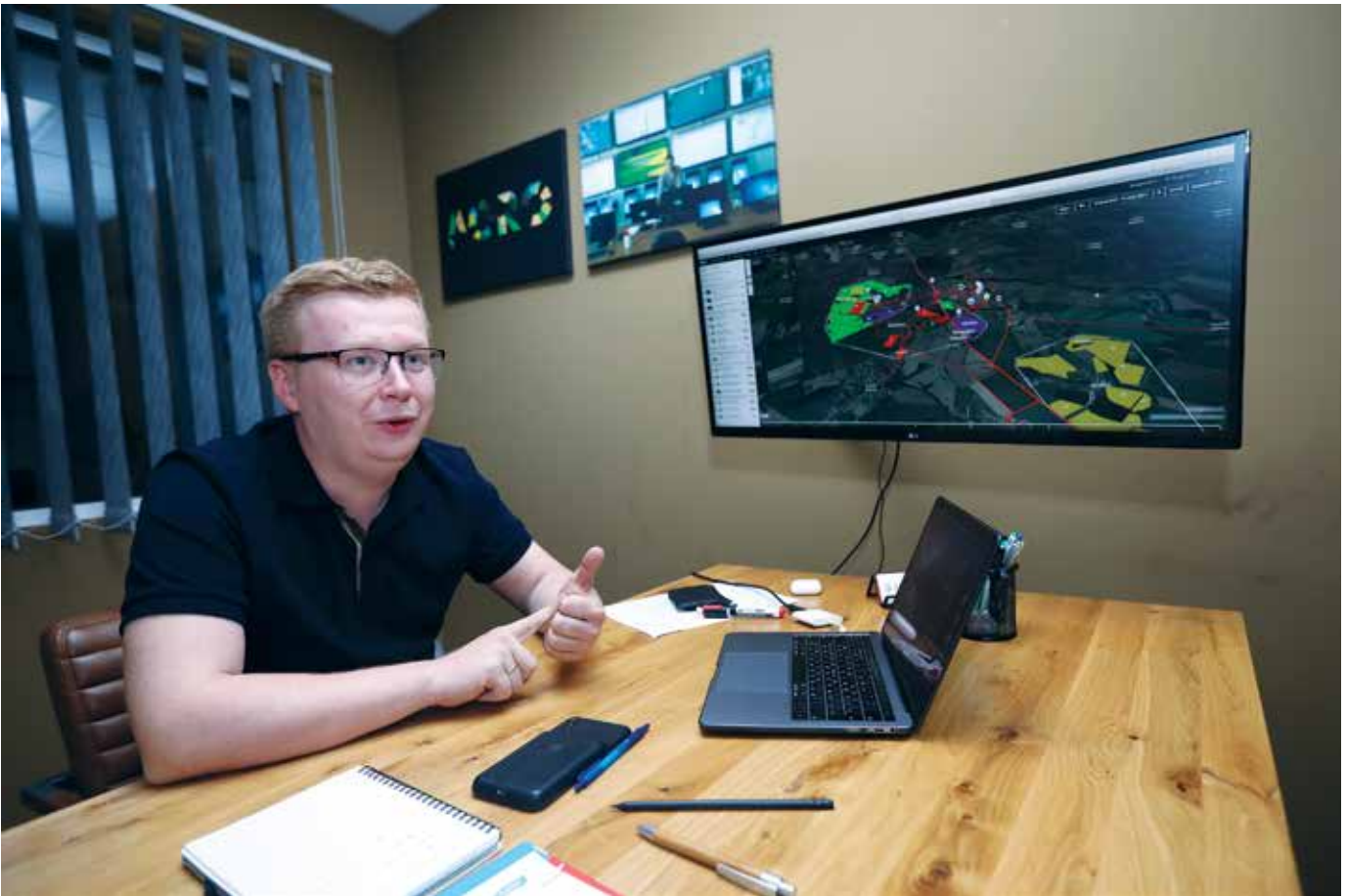
Balytska says that Ukraine’s “registration system is ready” for ending the moratorium, but thinks that lawmakers might impose additional safeguards to limit the number of hectares that a person can own.

Kachmar says that modernizing the state land cadaster is important to ensure transactions are properly filed and to make it more difficult to rent land plots to several lessees — a widespread practice in Ukraine.

Ogorodnychuk also supports the idea of establishing the rules of the game before letting market forces rule. He advises to limit the scope of the market “to citizens of Ukraine by the number of hectares held in one pair of hands” and by establishing the minimum price per hectare. Establishing such safeguards “will take away the social tension,” says Ogorodnychuk.

When people start selling and buying land, the courts will face a wave of cases, Kachmar predicts. “There is no ideal system or ideal regulation and no matter how good our law is time will call for corrections of some issues,” he says. “The earlier the state starts this process and opens up this market, the earlier we will be able to overcome all the difficulties, obstacles and gaps in regulation. The earlier this happens, the better for all.” ■





Dmytro Grushetskyi, the founder and CEO of tech firm Studio of Agricultural Systems, talks with the Kyiv Post on June 18 in Kyiv. (Kostyantyn Chernichkin)

Ukrainian tech startup helps farmers produce much more efficiently

By **Denys Krasnikov**
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Imagine one of those computer games about farms where one can have a virtual land plot to grow crops, harvest and sell them.

So Ukrainian high-tech company Studio of Agricultural Systems, or SAS, has created something very similar. In the company's case, however, when one grows crops online, they appear in reality, and so does the money when these crops are sold.

The trick is that the SAS game-like app links its system with real tractors and real fields, while also collecting data about the land from satellites, drones, special small planes, and various sensors across the domain connected to it.

As a result, farmers see maps with fields, the number of plants and their ripeness, tractors moving around, and many other small details, including the amount of fuel in combines, ground humidity and even the soil's mineral content.

Accessible from any mobile device, this precise information helps farmers keep records, supervise employees, save money, and improve the harvest.

"Farmers have become highly literate in technology," Dmytro Grushetskyi, SAS founder and CEO, told the Kyiv Post. "The thing is, many underestimate farmers and perceive them as aborigines. They are tech-savvy in reality."

Beyond agricultural holdings

Post-Soviet countries are dominated by large agricultural holdings, the form of land ownership that, according to Grushetskiy, isn't that popular in the West. A typical holding owns dozens of farms and controls them through a central management structure.

In Ukraine, for example, there are holdings like UkrLandFarming, Nibulon, and Mironivsky Hliboproduct. These three alone collectively own 1.5 million hectares. Altogether Ukraine has about 100 holdings.

Grushetskiy worked for a holding, too. In 2011, he was the head of control monitoring for Russian-based Black Earth Farming. The firm was looking to automate how it manages its land, and Grushetskiy developed a \$2 million high-tech control system for them.

The system allowed monitoring all the firm's 36 land plots from one location, allowing to view its agriculture machinery, how ripe the plants are on different fields, and keep accounting and history records of all the activities on the fields (useful for seasonal soil rotation).

Grushetskiy is proud of his innovation. He points at a photo on his office wall of monitors with sophisticated graphics. "This is a system I developed for them," he said.

In fact, in the room depicted in the photo, his own business idea started.

When the system was ready, Grushetskiy understood that it can be interesting for farmers too, who — unlike large

agroholdings — couldn't afford building a remote system themselves, but would like to pay to use someone's.

But Black Earth Farming refused to sell the system to other farmers. In 2014, Grushetskiy left the company and one more time created a remote tech control system but this time his own, bringing tech to small and medium-sized farmers.

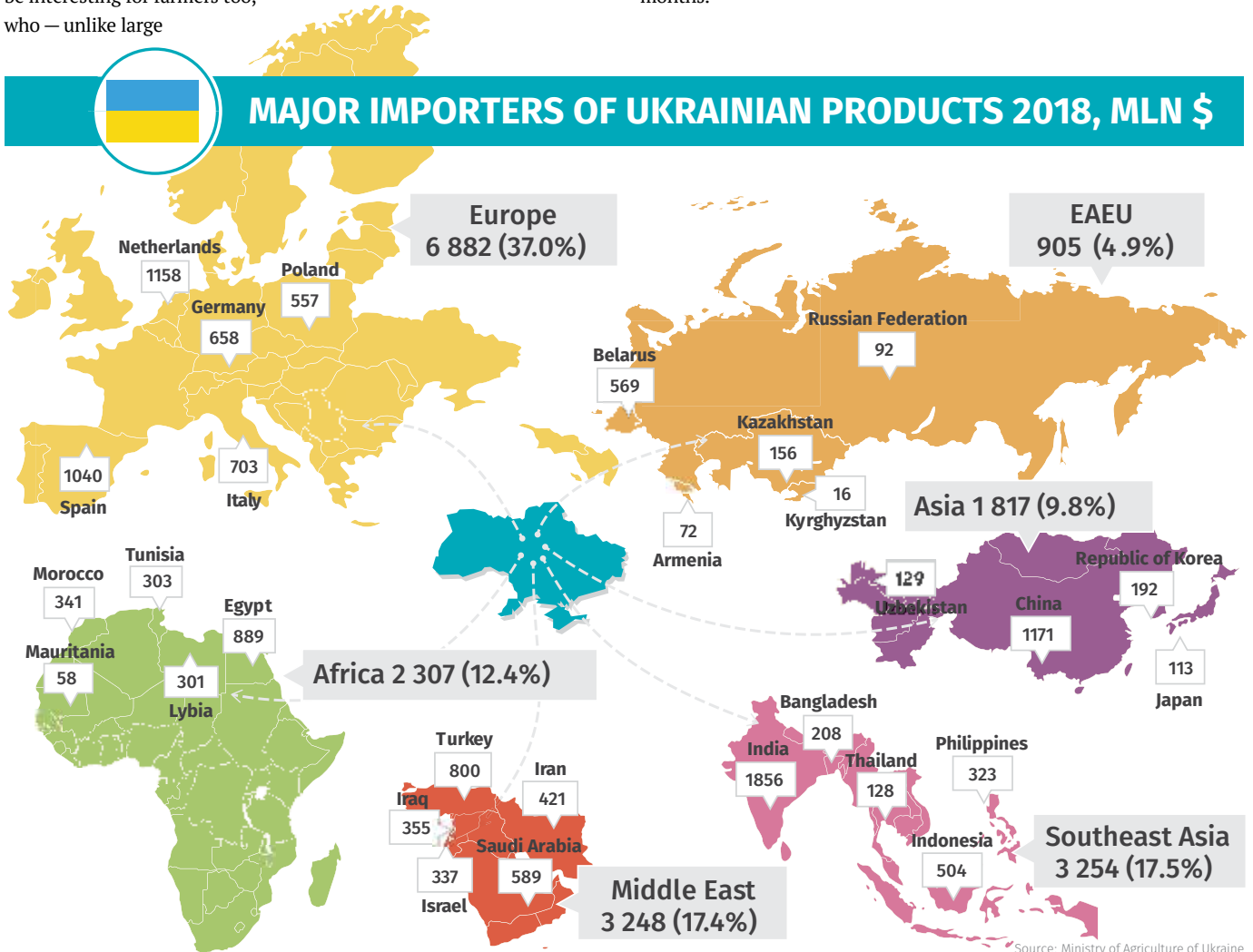
Package deal

Grushetskiy launched SAS with a desire to bring "visual revolution to farming" as well as save farmers up to 15 percent on the cost of their everyday operations, according to his estimates.

However, the company's 65-person SAS develops very little innovation on its own. It rather seeks the best technologies already available in the world: drones, sensors, algorithms and other software from Norwegian, British, American, and Ukrainian firms. Grushetskiy puts them together, integrates their data into one interface, and sells everything as a package deal.

One hectare covered by this package deal costs \$3.7 on average in Ukraine per year. So it will cost \$15,000 to connect 4,000 hectares to the SAS system. The price is a bit more for European farmers as SAS has a \$5 price tag per hectare.

When a farmer signs up, SAS sends its team to scan fields with drones and small planes. After that, the firm does regular scans once every two months.



Source: Ministry of Agriculture of Ukraine

Timeliness

Agriculture is about seasons and timing: land must be plowed, seeds planted, and harvest collected — all at a particular time. Delays could cost hundreds of thousands of dollars in losses.

One day of delay to collect corn, for example, means minus 3 percent from the total harvest, according to Grushetskyi. Last year Ukraine's average harvest of wheat from 1 hectare was 7 tons. So 3,000 hectares bring a farmer 21,000 tons of wheat, while a 3-percent shortfall means a loss of 630 tons of corn, or about \$100,000 a day.

And Grushetskyi points to another task for farmers — maintenance and proper use of machinery. Farmers can spend \$250,000 on a tractor and \$150,000 on seeding systems. Machines like these sometimes are needed just once a year.

"If they stand idle, have wrong logistics, then farmers face a problem — they invest money, but don't meet deadlines and don't use their investment to the fullest extent," Grushetskyi said. His system, in turn, shows when it's time to harvest particular fields as well as the best routes for agricultural machinery across fields.

Core audience

Middle-sized farmers own lands from 1,000 to 5,000 hectares in Ukraine, and Grushetskyi believes they are the core of the agriculture industry as they take up 75 percent of the market. They are also the ones Grushetskyi caters to.

"By focusing on middle-sized farmers, we also make sure that we won't go out of business because we depend on one-to-two large agroholdings," Grushetskyi said.

In Ukraine, there are about 45,000 farms today of which about 33,000 are active, according to Ukraine's Ministry of Agriculture. Their amount increases 1–2 percent a year. They share 4.5 million hectares of the local black soil mostly in southern and southeastern Ukraine.

For them, farming is a high margin business, but with the inflation rate going up about 9 percent every year in

Ukraine and competition with

the European Union,

farmers have to be more efficient or leave the market.

"Farmers earn money but costs grow and margins drop. So farmers need to analyze precisely every element," Grushetskyi said. "They need precision farming."

Precision farming, or also satellite farming, is exactly what the global agriculture experts call Grushetskyi's activity. It is based on observing, measuring

and responding to inter and intra-field variability in crops.

According to the AgTech Ukraine association, Ukraine has about 70 tech startups that alike SAS work on introducing precision farming to Ukrainian and foreign farmers. This includes Agrieye, Skokagro, Cropio, SmartLand, eFarmer, DroneUa.

In fact, the agriculture-tech startups are appearing so fast in Ukraine that the government is paying more to it. Acting Agriculture Minister Olga Trofimtseva thinks that one day, Ukraine might even export agricultural tech at the same levels as Ukraine today exports grain.

"We would like to export not only grains, oilseeds, and sunflower," Trofimtseva told the Kyiv Post, "but also drones and agricultural tech solutions worldwide."

All the same, investment company InVenture estimates that only 10 percent of the local agriculture industry players use technologies at all in Ukraine, which shows that Ukraine's agriculture still has unfulfilled potential. Trofimtseva agrees with the data and thinks that farmers should adapt tech solutions faster to manage their challenges more efficiently.

Grushetskyi agrees, but he differentiates between having technologies at one's disposal and actually using them. Precision farming is not just about gadgets and programs, it's more about the farmers' approach — they must be willing to use it — he said.

"Farmers might have all these statistics that we give them, but nothing will happen if they don't use the data for their benefit," he said. "I can't say that people who don't use technologies will disappear quickly. But they will be less competitive, that's a fact. Eventually, they will either adapt to tech or leave the business."

'Russia? I don't care where to work'

SAS has 200 clients and considers Eastern Europe as its priority market. The company's two biggest markets today, however, are predominantly Ukraine and Russia, and despite the war between the countries, Grushetskyi doesn't want to take sides and leave neither market.

Even one of SAS's core technologies is Russian book-keeping software 1C Company, which is banned in Ukraine, but Grushetskyi reported no problems with it working in his system.

SAS has four offices in Ukraine, including its headquarters, and two in Russia as well as one in Romania and Moldova.

"We have 50 clients in Russia, healthy clients," said Grushetskyi, who always speaks Ukrainian and reads independent Ukrainian media. "Listen, we started there. So whatever happens, we won't stop working on the Russian market. This is our market, the farmers are the same there."

"Only fools say, 'Oh look, he is working with Russians, boo!' Those who talk like this have never had success neither here nor there."

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Modern technologies allow farmers to control their land plots remotely from computers, phones or tablets. Equipped with various sensors, farmers can track their tractors and see the amount of fuel in them, count the seedlings on their fields, and even analyze the mineral content of the soil.





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