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AGRIHOLDINGS IN UKRAINE: GOOD OR BAD?

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AGRIHOLDINGS IN UKRAINE: GOOD OR BAD?

Executive Summary

Agriholdings are leasing about 17.6% of arable land used by agrarian enterprises in 2008 in Ukraine. This figure will most likely rise to about 25% in 2009. If trends persist they will cultivate at least half of this category of land in three to four years. The average area of leased land by agriholdings is about 80,000 ha with a growing tendency. The largest agriholdings are leasing more than 250,000 ha of crop land planning to increase this area up to 350,000 ha and beyond.

Due to agro-industrial vertical integration agriholdings as a rule are efficient business projects with preferential access to capital, markets, policy facilitation and innovation. Integrating all elements of agro-industrial production and food marketing in its structure, the competitive edge is achieved by application of new technologies in agriculture, processing, logistics, quality control and selling the final product. Agriholdings produce competitively, which is an important aspect for Ukraine after WTO accession and expansion to EU and world markets. Therefore, agriholdings contribute positively to growth and economic development.

However, considering the recent development of the agribusiness sector that is related to the rise of agriholdings, some corrections should be considered by the Ukrainian government to allow for a balanced agriculture and rural development with a multitude of organizational forms of farming. The government should establish equal and transparent conditions for doing business by all forms of enterprises in the agriculture and food sector. It should reduce unequally distributed production subsidies and replace them by growth-enhancing public investments, such as investment in applied science and practical education, creation of market information systems, support of farm advisory services, and – most important – investments in rural infrastructure (roads, energy and water supply, health care, schools). Furthermore, it is necessary to put more emphasis on the impact of fiscal support measures to agriculture. Part of the fiscal reform – imminent after WTO accession - should correct tax bias in favor of agriholdings and urban areas with the purpose of sufficient tax inflow to the budgets of rural communes.

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1. The necessity of research of agriholdings activities

The aim of this article is the analysis of the current situation with regard to the creation and functioning of agriholdings in Ukraine and their role in the rural development. In particular, we will attempt to give answers to the following questions:

- Why are agriholdings so important in Ukraine?
- Why have agriholdings appeared?
- What are the main directions of agriholdings activities?
- What is the impact of agriholdings on use of agricultural land?
- What is the impact of agriholdings on the development of rural areas?

The current situation in agricultural business in Ukraine can be characterized as the result of the agrarian reform development. If we look at the existing periodization of agrarian reform in Ukraine[1], the period since 2005 can be referred as the post-reform period. It is characterized by the formal (technical) completion of restructuring of collective agricultural enterprises and transfer to the final stage of agricultural land privatization. Still, the most important feature of this period is that the initiative passed from the state to agribusiness. Thus, during the reform the state initiated restructuring of the collective agricultural enterprises, proposed their business forms, while in the post reform period this initiative passed to agribusiness, and the result was the appearance of agriholdings. The issues concerning research, analysis and assessment of the agriholdings activities in Ukraine are on the initial stage[2], though they are quite urgent and relevant if we take into account the influence of agriholdings on the agricultural and rural area development.

The present situation in the rural areas is primarily defined by the activities of local agrarian enterprises (reformed collective agricultural enterprises of different business forms and farming). If the enterprises function efficiently, the situation in the rural areas is better comparing to the areas where agrarian production is on the decline or where the land is not cultivated at all. Successful agrarian enterprises provide local population with work places, pay taxes to local budgets, support and in some places develop rural infrastructure. Mainly, this kind of their social activity is caused by the factor that the founders of these enterprises are villagers and they and their family members use this infrastructure, i.e. means of communication, medical, cultural and educational establishments (children attend kindergartens and schools, community centers, libraries and so forth). The difference between "successful" and "not successful" agrarian areas has become notably tangible during the agrarian reform and post-reform period. Unlike the Soviet times when almost all the expenses on the development of rural areas were taken by the state and local collective agrarian enterprises, during and after the reform the new principle "one must do its own business" was introduced, i.e. agrarian enterprises had to do agrarian business while local communities had to develop rural areas. Unfortunately, it turned out to be very difficult to implement this fair principle. The main reason was the lack of financial support of rural communities.

[1] Дем'яненко С.І. Аграрна реформа в Україні: генезис, процес та перспективи. Львівський державний аграрний університет. Львів, 2006, с. 223-233.

2 Лапа В., Лисситса А., Поливодский А, Федорченко М., Феофилов С., Янов А. Украина: Агрохолдинги и перспективы рынка земли. – Украинская аграрна конфедерация, Украгроконсалт, Киев, 2007, 169 с. [Lapa, V., Lyssytsa, A., Polyvodsky, A., Fedorchenko, M., Feofilov, S., Yanov, A. Ukraine: Agriholdings and Prospects for the Land Market. - Ukrainian Agrarian Confederation, Ukragroconsult, Kyiv, 2007, 169 p.]; Андрійчук В.Г., Капіталізація сільського господарства: стан та економічне регулювання розвитку: Монографія. – Ніжин: ТОВ «Видавництво «Аспект-Поліграф», 2007. – 216 с. [Andriychuk, V.H., Capitalization of Agriculture: Status and Economic Regulation of Development: Monograph. - Nizhyn: TOV Vydavnytstvo Aspekt-Poligraf, 2007.-216 p.]; Хорунжий М.Й. Організаційно-економічні трансформації у сільськогосподарському виробництві в процесі його капіталізації // Економіка АПК. -2005, № 10, с.51-57. [Khorunzhyi, M.Y. Organizational and Economic Transformations in Agricultural Production in the Process of Its Capitalization // Ekonomika APK.-2005, No.10, pp.51-57.] ; Єранкін О.О. Формування агропромислових формувань в Україні: глобалізацій ний і маркетинговий аспект // Вчені записки, №10. – КНЕУ, 2008. [Yerankin, O.O. Formation of Agroindustrial Formations in Ukraine: Globalization and Marketing Aspects // Vcheni zapysky, No.10. - KNEU, 2008.]

The emergence of agriholdings amended certain corrections to the existing situation in the village. As a rule, agriholdings are purely business projects, whose main goals are capital increase of their founders. Support and development of rural infrastructure is not the function of agriholdings. The founders of agriholdings live in different places, and neither they, nor their family members use rural infrastructure. In fact, agriholdings can easily go out of agrarian business without substantial expenditures. This is especially regarded to those who are occupied with crop production, i.e. leasing the land. In this case, the village is left without anything. Not only the rural population is worried about this matter, but also local authorities and finally the government that is responsible for the situation in rural areas in general and agriculture in particular. That is why the questions about agriholding activities and their influence on the situation in rural economy are being brought up in the press and in the government.

On the other hand, the experience of business development in the countries with stable market economies indicates the tendency of changes in the corporate culture that are revealed by taking over social responsibility. This is becoming an essential part of business and an important indicator of its development. This can be observed, for example, in transnational corporations in Ukraine. Responsibility in social and communal infrastructure in rural areas is therefore an issue for agriholdings as well.

2. Main Reasons Behind The Emergence and Development of Agriholdings

Agriholdings, as a phenomenon of the post-reform development of Ukraine's agrarian sector, emerged as a result of a number of economic stimuli, and are not an exclusively Ukrainian occurrence. Agriholdings operate in many of the post-socialist countries of Eastern Europe and former Soviet Union republics. Countries with substantial land resources, such as Russia and Kazakhstan, also show this development. In general, the emergence of agriholdings in the post-socialist countries is explained by the inadequacies and failures in operation of their economies, lack of the required institutional and legislative framework for conducting effective business, inadequate policies of the State, in particular, absence of a fully-fledged market of agricultural land. However, the main incentive behind the appearance of agriholdings is the aim of capital owners to multiply their capital in the long-term perspective. This is the key incentive of the activity of economic agents in a market economy. Profit generation and capitalization are only the means towards capital increase. The value of the capital invested in agribusiness can grow in the long-term due to the following factors:

a) favorable global and domestic market environment for agricultural commodities;

b) opportunities to increase operational profits due to the access to cheap raw materials via integration of agriculture with the industry of produce processing;

c) low cost of labor;

d) low land rents;

e) tax minimization;

f) access to government grants and subsidies for development of agriculture;

g) opportunities for accumulation of significant tracts of land via lease, and in case of functioning of a fully-fledged agricultural land market, the purchase of the land with the possibility of its subsequent resale;

h) opportunities for reselling the business which value, due to all the above factors, could grow substantially in a couple of years.

All the factors listed above have become a favorable background for the emergence and development of agriholdings in Ukraine. Let us briefly consider these factors.

Global markets. In recent years, agriculture and food industry have faced the situation of a favorable market situation when agricultural commodity prices have started to grow dramatically, unlike the trends of the last 50 years, which were characterized by a continuous reduction in the real prices (especially, since 1972, after the so-called "green revolution"). Such a favorable market situation is linked to the increase in oil prices and launch of the production of biofuels (bioethanol and biodiesel), as an alternative to oil-based gasoline and diesel, the key raw materials of which are grain, sugar and rape-seed oil.[3] A sharp increase in demand for these types of agricultural produce on global markets, in particular, the growth of effective demand in emerging economies (e.g., China and India), as well as a decrease in the supply of these commodities for food processing purposes, have led to the increase of their prices. Besides, the growth in prices of agricultural commodities is also contributed by the global warming and future shortages of water, which leads to declining of agricultural crops production, caused by the spread of pests and diseases of plants and animals, disruptions of irrigation systems, water drainage and catchments areas, droughts, change in vegetation periods of crops, and flooding of agricultural land areas. In this situation, Ukrainian agriculture has comparative advantages: relatively low costs of production of agricultural commodities; and favorable geographic location and climatic conditions. Definitely, all these factors stimulate both the Ukrainian and foreign businesses to invest in this sector.

Vertical integration. The factor of the relatively cheap agricultural raw materials in the generation of profits from the production of finished products, i.e, foodstuffs, is enhanced even more by the integration of the agricultural and processing business. Producing agricultural raw materials in company's own business units, storing and transporting the produce to its processing units make the final product significantly cheaper thanks to opportunities offered by modern technologies and the receipt of higher crop yields, reduction of storage and transportation costs (without intermediaries), absence of the value-added tax (VAT) on the raw materials payment, logistics application for the procurement of raw materials and sales of the finished product.

Labor costs. The fact that average wage in the Ukrainian agricultural sector is a half of those in the rest of the economy speaks for itself. At the same time, the payroll accounts for about 14% of the structure of agricultural produce costs in Ukraine, which is nearly 2.5 times below the 1990 level and far below the level of our largest trading partner, the European Union. Besides, significant reserves for the improvement of a rather low labor productivity in the Ukrainian agricultural sector also present an important factor of reducing the cost of agricultural produce.

Land costs. The agricultural land rent in Ukraine is quite low (about ten times lower than in the European Union).Low land rents in Ukraine allow the tenant businesses maintain the agricultural produce costs at a relatively low level.

Tax advantages. The Ukrainian tax laws set a tax burden for agricultural companies at a level that is approximately three times lower than for other sectors of the economy[4]. No doubt, this is a good incentive to engage in this business. The existing tax preferences include VAT, corporate profit tax, and other statutory payments. According to the current legislation, a business entity whose agricultural produce and its processed products account for at least 75% of its total sales is entitled for tax preferences, which are used by agriholdings, successfully minimizing their tax burden.

Government subsidies. The Ukrainian agricultural enterprises are the main recipients of government grants and subsidies intended for the development of the agricultural sector. In recent years, the State has allocated about Hr 7bn annually for the development of agriculture, including more than Hr 4bn designated for the activities referred to as the *yellow box* and *green box* according to the WTO classification[5]. It should be noted here that approximately 10% of

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[3] The World Biofuel Boom and Ukraine – How to Reap the Benefits?. Institute for Economic Research and Political Consulting, German-Ukrainian Policy Dialogue in Agriculture. Policy Paper No.7, Kyiv, February, 2007.

[4] Сергій Дем'яненко , Сергій Зоря. Система оподаткування у сільському господарстві України // Сільське господарство України: криза та відновлення/ За ред.. Штефана фон Крамола-Таубаделя, Сергія Дем'янена, Арніма Куна. – К.: КНЭУ, 2004, с.26-43. [Serhiy Demyanenko, Serhiy Zorya. The System of Taxation in Agriculture of Ukraine. Agriculture of Ukraine: Crisis and Renewal/Editors: Stephan von Kramol-Taubadel, Serhiy Demyanenko, and Arnim Kuhn.-K.: KNEU, 2004, pp. 26-43.]

[5] Зоря С. Реформування підтримки сільського господарства України. Меєрс.В., Дем'яненко С., Джонсон Т, Зоря С. Зміна фокуса аграрної політики та розвитку села в Україні: висновки та перспективи для руху вперед.К.: КНЕУ, 2005, с.31. [Zorya, S. Reforming the Support of Ukrainian Agriculture. Meers, V., Demyanenko, S., Johnson, T., Zorya, S., Change of Focus in Agrarian Policy and Rural Development in Ukraine: Conclusions and Prospects for Advance. K.: KNEU, 2005, p.31.]

agricultural enterprises receive about 80% of these transfers[6]. These are large agrarian enterprises, especially agriholdings, which are capable of using their contacts in the governmental institutions as well as experienced economists and lawyers to obtain these funds. However, the majority of agrarian enterprises and farms receive less state support, and the governmental resources are dispersed over a significant number of intended uses and fail to bring appropriate results. Besides, not infrequently, top managers of agrarian enterprises complain in private about the existing system of corrupt practices when applying for state funds. Therefore, it can be concluded that the existing system of distribution of the state funds for support of the agricultural sector is inefficient. Moreover, such organizational and legal entities as agriholdings do not need such support altogether. State support is essential for farms and small businesses in rural areas, being an integral part of rural economy and contributing to rural areas development.

Land accumulation. Opportunities for the accumulation of significant tracts of land through lease and potential for buying this land, when agricultural land market becomes operational, present another factor which draws entrepreneurs into the agricultural sector. The first attraction here is the present low value of land and significant appreciation of its price in the future. There is no doubt that given normal economic and political environment, the value of agricultural land in Ukraine would approximate to the European level.

Making cash. Opportunities for selling off a business entity, whose value, taking into account all the abovementioned factors could grow significantly within several years, is one of the key reasons for the investors' interest in establishing of agriholdings. There are already several examples of such successful resale in Ukraine.

The concentration and integration in the agribusiness sector also lead to the emergence of other organizational and legal forms, where agribusiness plays its role in accordance with the mission and goal of the existing entity. Such entities, in the forms of various agro industrial units, are established under the influence of the following factors:

1) security of the provision of an uninterrupted supply of stock for own processing plants;
2) expanding by agricultural enterprises their own secondary processing facilities and using them as a base for the creation of a full-fledged industrial food processing capacity;
3) agrarian enterprises accumulating the accounts payable to banks, which become actual owners of such enterprises;
4) enterprises engaged in the distribution of seeds, fertilizers, pesticides launch their own agricultural business in order to supply modern agribusiness technology rather than individual resources;
5) opportunities to sell off one's business at a good profit.

The above list of key factors contributing to the creation and development of agriholdings and other agroindustrial formations in Ukraine is far from being exhaustive. There could be significantly more such factors, depending on the nature of capital invested in agribusiness, source of such capital, and any intermediate, tactical, and strategic objectives of capital owners. Generally, an agriholding is a special format of a joint stock ownership, whereby the parent company, while holding a controlling interest in other enterprises, also controls and supervises their operation, and thereby combines them into a single organizational entity with appropriate objectives and mission. Let us note, that joint stock companies are attractive organizational forms for establishing agriholdings. Therefore, using this organizational and legal format for conducting business, agriholdings are aggressively attracting capital through issue and placement of their own stocks on foreign stock exchanges, which other agribusiness forms are not capable of. For example, the Landkom International PLC agriholding floats its shares on the London Stock Exchange (AIM LSE) and raised about 110 million USD there. Among other purposes, the company plans to use the resources realized from placement of shares for the expanding of the

[6] Форма статистичної звітності 50 с/г за 2005 р. К.: Держкомстат України, 2006. [Statistical Reporting Form 50 s/h for 2005. K.: State Statistics Committee of Ukraine, 2006.]

area of leased agricultural land up to 115,000 ha by the end of this year[7]. Overall, about ten Ukrainian agriholdings are floating their shares on international stock markets.

In this paper, however, we will review not only the classical types of agriholdings, but also other types of conducting agribusiness, which involve the use of large tracts of agricultural land. For instance the case when industrial companies engage in agriculture to supply their personnel with own foodstuffs, or when banks are involved in agribusiness. We will conventionally regard all such large agro-formations as agriholdings.

The process of the creation and development of agriholdings also needs to be considered in terms of their impact on social development of rural areas, property rights of peasants, preservation and improvement of land fertility, and environmental safety. Therefore, the assessment requires in-depth study and analysis in order to develop recommendations for raising the efficiency of agribusiness and preventing emergence of negative phenomena and trends in this sector.

3. The Main Methods of Establishing Agriholdings and Their Types

The list of key agriholdings active in Ukraine in 2007 can be found in the Appendix. It should be noted that no statistics on the operation of agriholdings are kept in Ukraine. The information used in this study has been gathered from open sources, including mass media outlets, surveys of agriholding CEOs and managers, and data of the State Statistics Committee of Ukraine. Therefore, this information is rather fragmentary, incomplete, and only allows for identifying the main trends with regard to the existing changes in the structure of organizational forms of conducting agribusiness in Ukraine. It should also be borne in mind, that the information on operation of agriholdings is changing quickly, and the statistics supplied in this article are more retrospective and may not reflect the current state of affairs.

The analysis of the activities of agriholdings, as a form for conducting agribusiness, shows that investing capital – either domestic or foreign –in the processing industry first, is the main method to establish agriholdings. It ensures a significantly faster capital turnover and shorter payback period. In particular this applies to fat-and-oil, flour-milling, bakery, sugar, meat-packing and dairy industries. The next investment phase is the creation of product sales channels through building-up of logistics and an own retail chains. As the required financial resources accumulate, phase three involves the establishment of own production units through lease of land and, partially, of property shares, and purchase of the required resources, primarily, of modern machinery.

For example, in Luhansk Oblast this system was employed for the establishment of such agriholdings as TOV Striletsky Step and TOV Lyubava (fat-and-oil industry), VAT Korovay (bakery industry), VAT LuhanskMlyn (flour-milling industry). Such companies as Agroprodinvest and Rais (sugar and seed farming) can also be referred to this group.

Agroprodinvest Concern has its own sugar mills, meat-packaging and dairy processing plants, with farming conducted on over 85,000 ha of arable land. ZAT Myronivsky KKhP, an integrated granary company, in addition to its own integrated granary activity, has also a feed mill and a poultry farm operating under Nasha Ryaba brand, with farming conducted on the area of about 100,000 ha of arable land. The ZAT Kompleks Agromars is also a powerful agroindustrial entity comprising of a broiler farm with an average population of 1,850,000 broilers, a reproduction facility with 50,000 breeding stock, a slaughter unit with a capacity of 6,000 chickens per hour, a feed mill rated for 800 tons of mixed feed per day, a transport unit with 300 vehicles, and a repair shop. Three branches conduct farm operations on 35,000 ha of leased land. They use 65 tractors, 35 combine harvesters, with an average annual number of staff amounting to 2,500 persons.

The Rais company is a holding which comprises of the subsidiary enterprises Rais-Agroservis, Rais-Agrotekhnika, a research and production company Rais-Agro which has six agricultural branches in various regions of Ukraine, with an overall arable land area of 70,000 hectares. The Svitanok Agrofirm, based in Vasylkivsky Rayon holds a controlling interest in the Solyvonkivsky sugar mill (52.9% of shares), thus operating as a holding. It has acquired an opportunity to

[7] Агробізнес сьогодні, № 7 (134), квітень, 2008, с.6. [Agribiznes syohodni, No.7 (134), April, 2008, p.6]

directly influence decisions with regard to the sugar mill to receive mutually-advantageous economic benefits. Thus, a single process chain has been established, linking sugar beet growing and processing. The agricultural firm has supplied nearly 50% of all processed beets to the sugar mill since the year 2000. Besides, the mill leased the land to grow another 37% of its processing capacity. Thanks to this integration the mill has become profitable, even though it operated at a loss without such integration links in the period from 1996 to 1999.

Another method of the establishing of agriholdings involves the development of an agribusiness by non-agricultural companies. The Shakhtar agrarian firm, a subsidiary of the Zasyad'ko colliery, can be an example. It comprises of 26 agricultural enterprises of various legal forms, with a total area of about 100,000 ha of agricultural land, including over 90,000 ha of arable land. The subsidiaries keep 6,000 cows, 25,000 pigs, 500,000 broilers, and 1 million adult chickens. The firm's processing capacity includes the Kramatorsk meat-packing plant, a cannery and the Slovyansk dairy plant. The agrarian firm conducts extensive innovation activities and collaborates with six research institutions in Ukraine. Their own breeding facility grows the Holstein and Simmental breeds. Company's poultry-farming uses the state-of-the-art chicken cross breeds Hein-Line and Bovande-Goldline, and broiler crosses Cobb-500 and Hibro. Farming is conducted using modern technology, with Pioneer breeds applied widely. Further examples can be found in Appendix 1.

4. The Concentration of Agricultural Land by Agriholdings and Problems of Rural Areas

Land is one of the four key resources in agribusiness, alongside with capital, labor, and entrepreneurship. One might wonder why is it specifically for Ukraine, Russia[8], and Kazakhstan to have this phenomenon of significant concentration of land by individual business entities? Why is there no such concentration in developed capitalist countries, including USA, Canada, and the European Union? The answer is simple: in countries, where market economies are only evolving, markets are imperfect, no appropriate institutional and legislative conditions for their effective operation have been established. Indeed, agricultural land in Ukraine, Russia, and Kazakhstan is too cheap; there is no legal, developed market for this type of land. In this situation, agriholdings have no problem leasing significant tracts of land cheaply, and, in fact, agricultural land is not a limited production input. The agriholding size could be limited by other inputs, including capital, labor, and management. Access to capital is not a real problem. However, highly-skilled labor is the scarcest resource, currently including both machine operators, animal-breeding operators, and managers, especially, top managers. Therefore, it is the scarcity of highly-skilled personnel, which is the present bottleneck in operation of agriholdings that limits their further expansion.

Based on the area of land under cultivation and information available, the largest agriholdings are those using anywhere from 100,000 to 250,000 hectares of arable land. However, it is incorrect to state that there are no significantly larger agriholdings in Ukraine in terms of their land area. Some researchers, based on unofficial information, quote the maximum area of some agriholdings at 700,000 to 800,000 ha. To put it more precisely, these are lands controlled by a single legal or physical entity and not officially included into a common organizational structure. Even though the size of agriholdings of 100,000 to 250,000 ha is also quite substantial, taking into account that an average rural rayon in Ukraine is about 123,000 of total area, 85,000 ha of agricultural land, and 66,000 ha of arable land. According to our information, the average size of agriholding in Ukraine equals to about 80,000 ha of arable land in 2008, and is expected to grow to 110,000 ha in 2009. The share of arable land cultivated by agriholdings equal to 17.6% of the total arable land cultivated by agrarian enterprises in 2008. This proportion will be about 25% in 2009, and will continue growing in the nearest future. It can be stated that in four to five years, agriholdings will cultivate at least 50% of this category of arable land in Ukraine. Even though the number of agrarian enterprises, which have emerged based on the reformed collective agricultural enterprises (CAEs) increased by 1,752 or by 13.3% in 2007 against 2000, the average size of

[8] Dmitri N. Rylko, 2000. New agricultural operators, input markets and vertical sector coordination. IMEMO RAN, Moscow - 28 p.; Rylko, D., 2000. «Operators farming»: a new sector in the Russian agriculture. The Russian economic barometer Vol. IX, N2, pp.11-19.

these enterprises decreased significantly from 1,884 ha in 2000 to 1,093 ha in 2007, i.e. nearly halved (Table 1). Also, structural changes in the organizational and legal formats of agrarian enterprises can be observed: the number of private enterprises increased significantly (by 42.5%), as well as their land area (by 18.7%), and the number of producers' cooperatives decreased (by 41.7%), as well as their land area (4.3 times). The number of other organizational and legal types of agrarian enterprises also increased substantially (by 88.3%), mostly, due to increase in the number of detached auxiliary farms of industrial enterprises and enterprises in other economic sectors. In general, the practice has confirmed our forecast regarding changes in the organizational and legal formats of agrarian enterprises due to decline in the number of producers' cooperatives and growth in the number of private enterprises.[9]

With significantly greater financial capacity, agriholdings pay higher rents to land owners (former members of CAEs and their heirs) and, essentially, squeeze out private farmers, unable to compete with them, from the lease market. This hardly means that there is a monopsony on agricultural land lease market since there are over 43,000 private farms in the country, a significant proportion of which are also leasing agricultural land. Besides, other agrarian enterprises also lease agricultural land. However, the impact of agriholdings on the land lease market is unquestionable. In general, this is a positive influence, since by pushing farmers from the agricultural land lease market, agriholdings make them change their specialization, and turn to growing vegetables, fruits, and berries instead of low efficient production of grains and industrial crops. They also take land away from inefficient agrarian enterprises, making them abandon agribusiness. It results in improvement of the overall efficiency of agricultural production, due to the use of better technology on large areas, agriholding are able to produce cheaper products, while farmers fill in the niche of more labor-intensive products, which they are able to produce more efficiently in the present situation. Besides, a significant proportion of agricultural land in some parts of the country was not cultivated at all, and use of this land by agriholdings is a positive factor. Growth of competition on the agricultural land lease market is a positive factor and leads to increase in the level of land rent and prices.[10]

[9] Serhiy Demyanenko, Stephan von Cramon-Taubadel. Organizational Forms and Performance of Agricultural Enterprises in Ukraine: What Conclusions can be Drawn?//Ukrainian Agriculture : Crisis and Recovery/Editors: Stephan von Cramon-Taubadel, Serhiy Demyanenko, and Arnim Kuhn.- Shaker Verlag, Aached, pp .89-96

[10] Arnim Kuhn, Serhiy Demyanenko. Ensuring Competition on Market for Lease Land in Ukraine. //,Ukrainian Agriculture : Crisis and Recovery/Editors: Stephan von Cramon-Taubadel, Serhiy Demyanenko, and Arnim Kuhn.- Shaker Verlag, Aached pp.81-88.]

Table 2. Dynamics of Changes in Organizational Formats of Agrarian Entities and Areas of Their Agricultural Land in Ukraine in 2000-2007.

#	Indicators	2000		2007		2007 vs.2000, %	
		Number of enterprises	Area, thousand ha	Number of enterprises	Area, ha thousand	Number of enterprises	Area, ha thousand
1	Economic partnership	6970	13912.1	7428	9370	106.6	67.4
	Their percentage, %	53.0	56.1	49.8	57.5	- 3.2	1.4
2	Private enterprises	2967	2963	4229	3518	142.5	118.7
	Their percentage, %	22.5	11.9	28.3	21.6	5.8	9.7
3	Production cooperatives	2165	6074.8	1262	1415	58.3	23.3
	Their percentage, %	16.5	7.4	8.5	8.7	- 8.0	1.3
4	Other enterprises	1058	1847.1	1993	1997	188.3	108.1
	Their percentage, %	8.0	7.4	13.4	12.3	5.4	4.9
5	Agrarian enterprises total	13160	24797	14912	16300	113.3	65.7
6	Including agriholdings	x	x	33	2862	x	x
	Their percentage, %			0.2	17.6		
7	Average enterprise size, ha	x	1884	x	1093	x	58.0
8	Number of agrarian enterprises cultivating more than 3,000 ha	x	x	1252	5947	x	x
	Their percentage, %	x	x	8.0	36.5	x	x
9	Number of agrarian enterprises, which have over 3,000 ha under grains	x	x	376	1791	x	x
	Their percentage, %	x	x	2.5	11.0	x	x

*According to the data of Form No.6-zem "Report of Availability of Land and Distribution of Land by Owner, User, Type of Land, and Type of Economic Activity" as of the end of the year, data of the State Statistics Committee, and proprietary calculations.

However, agriholdings' squeezing out a certain number of agrarian enterprises and farmers from the land lease market creates a new socioeconomic situation in rural areas. Its main features are as follows:

- agricultural enterprises cease to exist as legal entities;
- a certain number of villagers loose their job;

- local village councils loose tax and other revenues previously generated by the now-extinct enterprises;
- lack of financing for creation and support of rural infrastructure, previously provided by agricultural enterprises (roads, kindergartens, and schools, houses of culture, medical points, etc.).

It should be noted that some agriholdings are aware of their social obligations and bear the costs related to support of rural social infrastructure. However, due to their registration in cities, agriholdings rarely pay taxes into local budgets. The former collective agricultural enterprises, which have lost their status of legal entities, have been transformed into branches or divisions of agriholdings (the State Statistics Committee includes them in the class of "enterprises of other forms of ownership"). This is obviously a disadvantage for rural areas. Therefore, a special process should be introduced, where agribusiness enterprises and organizations pay their taxes at the place of their business operation, i.e. in the rural area, rather than at the place of registration of their parent company. This would allow village councils to accumulate some resources in local budgets for developing their rural social infrastructure.

Development of small, non-agricultural businesses in the countryside is another important issue for rural areas. Favorable conditions for this should be created. Small non-agricultural businesses in the countryside can employ those who have lost their livelihood in agriculture, is attractive for young people, and can generate additional revenues for local budgets. Small, non-agricultural businesses would provide opportunities for diversification of rural economy, which is quite important for rural communities. Therefore, a government program for development of small rural businesses is essential to grant certain regulatory and tax preferences and financial support for starting up and developing these rural businesses.

5. Integration Processes in Agriholdings

It should be noted that agriholdings have a number of key advantages over other formats of conducting business in rural areas. One of the most important of such advantages is that they achieve real integration of agricultural and processing business and trade. In particular, this allows for internal value added of agricultural produce and, not infrequently, of inputs. Agricultural produce from subsidiaries is sent to proprietary processing plants, and then, as a finished product, to retail outlets. With this internal corporate sales policy, a significant proportion of intermediaries can be bypassed; hence, the profits of agriholdings increase. Therefore, it is not surprising that the majority of agriholding are able to pay higher rents and wages to their staff, and conduct business in a significantly more efficient manner compared to other formats of agricultural business.

The following requires special emphasis. The genuine agro industrial integration achieved in agriholdings is significantly qualitatively different from similar type of integration practiced by agrarian enterprises, which have built small-capacity processing plants, without deep processing of agricultural produce. The reason is that agriholdings conduct large-scale agricultural operations and industrial processing and, thus, they are able to use their advantages and reap economic benefits of the economies of scale. Clearly, a large-scale production allows using modern, high-performance equipment and state-of-the-art technology, and, thus, significantly improve the productivity of inputs, reduce unit costs, and, hence, raise the productive efficiency.

An important aspect in operation of agriholdings is their capacity of assuring the required quality of agricultural commodities. Ukraine's WTO accession and entry on EU markets require maintaining certain standards of product quality. Unfortunately, medium-sized and small agricultural enterprises and processing plants find it difficult to assure observance of these standards, let alone household farms whose share in the output of certain types of products approaches 70% to 90% (milk, vegetables, potatoes). Thanks to application of state-of-the-art technology in the production and processing of agricultural produce, opportunities to control observance of production processes at all phases, and implementation of required quality standards, agriholdings have clear competitive advantages over other formats of agribusiness. For instance, only large modern processing plants can achieve the required agricultural produce depth of processing, range and quality and, hence, cost efficiency.

As follows from the above, agriholdings are, as a rule, engaged in three types of business: agricultural production; processing of agricultural produce and production of foodstuffs; and trade in these foodstuffs. The above activities are supported by respective cash flows, which, based on the considerations of harmonious development of agriholdings, can be concentrated and directed towards the activities, which require accelerated development for the short- or long-term. Therefore, agriholdings are actually capable to optimize cash flows between the above activities, which is much more difficult to achieve in the situation of separate operation of agrarian and processing businesses and trade. In this way, agriholdings find it much easier to accumulate financial resources and invest them in production, including agricultural production, compared to other formats of conducting agribusiness. It is known that agriculture is a seasonal business and circulation of funds is significantly lower here compared to other sectors of economy. Therefore, the problem of financial resources is one of the most important ones for agricultural enterprises and individual farmers. They have insufficient own resources, bank loans are expensive, and banks are not too willing to lend in view of high risks involved in this type of lending. Agriholdings, on the other hand, in addition to their own financial resources mentioned above, use the assets of founding companies, which, not infrequently, have their own banks, attract foreign investors, in particular, funds of offshore companies, and cheap credits of foreign banks. Thus, it can be argued that agriholdings have better access to financial resources, which allows them to introduce modern technology at all phases of production processes – from agriculture to retail food chains. This factor is their clear competitive advantage over other forms of conducting agrarian business.

As already noted above, at the current speed of development, the personnel problem is a bottleneck in operation of agriholdings. The present status of agricultural production is characterized by introduction of modern, science-intensive technology, in particular, biotechnology, improvement and upgrading of productive and quality characteristics of plants and animals, guaranteeing the quality and safety of foodstuffs, ensuring an ecological balance in development of agriculture and its impact on the environment. Therefore, development of agriculture and all agricultural businesses will be more influenced by real possibilities and effective implementation of technological and scientific progress achievements rather than by traditional factors (land, capital). Agriculture is becoming a science-intensive industry, where high-performance, expensive, and complex to operate and support machinery and equipment are used. The agribusiness concentration and integration, i.e., establishment of agriholdings require use of modern management techniques at all management levels, from the bottom to the top. This alone would make it possible to realize the advantages of large-scale agricultural production, i.e., to achieve the economies of scale. And this, in turn, would require an absolutely different structure of human capital. The present capacity of Ukraine's rural population cannot meet these requirements, as the share of employable-age population is declining rapidly; there are no required skilled specialists. Therefore, agriholdings are forced to train such specialists themselves.

6. Conclusions

Summing up all the above, regarding the operation of agriholdings and the problems inherent in the Ukrainian agriculture today, one can conclude that the emergence and development of agriholdings is an outcome of the implemented agrarian, and in particular, land reform. Their impact on raising the efficiency of using the productive resources in agriculture and other segments of agribusiness has to be appraised as beneficial. The operation of agriholdings is in line with modern trends in development of agriculture, which are characterized by introduction of innovative production technology and management, as well as with globalization trends.

However, other organizational and legal forms of agribusiness such as agricultural enterprises and private farms, processing and commercial companies need to be developed alongside agriholdings. In general, a balance of various organizational and legal forms of conducting agribusiness must be achieved to allow the best use of resources, including land, capital, labor, and entrepreneurial talents of individuals. Also, there is a need to revise the existing system of State support for agriculture by moving away from broad-based actions, following the principle of "everyone gets a little bit", to target programs, in particular, to support farmers and small, non-agricultural businesses in rural areas. On the other hand, agriholdings, strong enough to raise capital on foreign capital markets, need no such support. To provide the balance of diverse organizational and legal forms of conducting business, which would assure the best efficiency of use of society's resources, such as land, capital, labor, and entrepreneurial talents of individuals, enterprises engaged in animal-breeding, and also medium and small businesses in rural areas need such support. The government must facilitate the establishment of an equitable and transparent environment for conducting business by all types of enterprises in the agro industrial complex, by concentrating the government support towards growth-enhancing investments such as development of agrarian education and science, creation of market information systems, development of advisory services and, most important, rural infrastructure (roads, energy and water supply systems, schools, and health institutions). An effective operation of agricultural land market, which the government must also ensure, is an important element of establishing equitable and transparent conditions for conducting business.

Farming and agribusiness are inseparable from the situation in the countryside and from development of rural areas. In this context, operation of agriholdings does not have a single meaning. On the one hand, they improve agricultural efficiency, thus contributing to development of rural areas, while on the other hand, they are driving out of the agrarian business the traditional forms of conducting agricultural business, agrarian enterprises and private farms, which are organically connected with the rural area, its infrastructure, since their owners, managers, and their family members also live there.

A balanced and targeted state policy for development of agrarian business and rural areas is needed. The State's agrarian policy to improve the competitiveness of the output produced by the domestic agricultural and food processing complex must guarantee the quality of this production and its conformity with the WTO and EU requirements on the domestic and foreign agricultural and food markets. On the other hand, the measures of agrarian policy cannot resolve the problems of rural areas. These problems are comprehensive in their character, and are not only related to agribusiness, but also to many other sectors of economy, including healthcare, education, culture, construction, communications, and others. Therefore, development of rural areas should be addressed in a comprehensive manner, with coordination and support to be provided by the State. The State can provide incentives to agribusiness to support development of those rural areas, where such business is based, via appropriate tax provisions and other measures. The main focus in rural development, however, should be strengthening of local self-government, rural communities, and local budgets.

To make a general conclusion with regard to the operation of agriholdings in Ukraine, it can be confirmed that their role in the development of agribusiness is considerable and will continue to grow. The process of concentration of agricultural land by agriholdings will continue by means of its lease and bankruptcy of inefficient agrarian enterprises. This factor should be taken into account when developing State's agrarian policy and programs intended to support the development of rural areas. The State must accept agriholdings as objective reality and use the measures of State policy to direct their activities within the framework of the State agrarian strategy, including issues related to the development of rural areas. This primarily applies to the taxation system, which should to be addressed in the context of the general tax reform.

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Appendix 1. The Largest Agriholdings in Ukraine, Their Size and Activities (2007)[11]

#	Agriholding name, founder, year of founding	Type of activity	Oblasts	Area, thd. ha
1	LLC "Ukrainski agrarni investytsii" Renesans Kapital, Russia	Agricultural production, Klub Syru (14 dairy plants)	Kirovohrad, Poltava, Chernihiv, Sumy, Khmelnytskyi, Ternopil, Odesa, Mykolaiv, Chernivtsi	250 (300 planned)
2	OJSC "Mariupol Illicha Steel Plant"	It controls 67 former agricultural enterprises. Cultivation of grains, sunflower, vegetables, potatoes, melon crops; production of milk, eggs, poultry meat, wool	Crimea, Donetsk, Zaporizhzhya, Kyiv	238
3	"Land West Company", Rivne	Growing of grains and oil-bearing crops. Plan to launch production of organic agricultural produce in 2008, intended for export to a number of European countries. Plan to built four grain elevators with a capacity of 50,000 tons each by 2010. Capitalization US$ 215mn	Lviv, Rivne, Zhytomyr, Khmelnytskyi, Ivano-Frankivsk, Ternopil	164 (340 planned)
4	ZAT "Agroton" (Luhansk Oblast), 1997	Grains, oil-bearing, and fodder crops, pig-breeding. Two elevators, two flour mills, oil mill, feed plant, macaroni factory, bakery plant, poultry farm. Milk processing at Markivsky and Luhansk cheese plants. Invested into Derkulsky dairy complex for 1100 cattle in 2007.	Luhansk	150 (200 planned)
5	ZAT "Rais", 1992, Rivne	Includes five subsidiaries specialized in distribution of high-quality seeds, herbicides, mineral fertilizers, agricultural machinery, and trade in grains and oil-bearing crops. Represented by 64 branches all over Ukraine. Two subsidiaries in Russia and one in Moldova. Acquired the Lokhvytsya sugar mill in 2006.	Poltava, Sumy, Ternopil, Zaporizhzhya, Rivne, Kirovohrad, Cherkasy	79 (115 planned) 143 with affiliated companies
6	TOV "Astarta-Kyiv", 1993, Astarta Holding N.V.	Includes 43 production units (36 agrarian enterprises) and two trading companies. Growing of sugar beet, grains, and oil-bearing crops, cattle, production of formula feed, canned vegetables and fruit. Has five sugar mills	Poltava, Vinnytsya	141.7
7	"Ukragroinvest", 2005	Growing, procurement, sales, and processing of grains, rape, and soya beans. ZAT Lannivsky integrated dairy and cannery; Khmelnytskyi dried non-fat milk plant	Vinnytsya, Kirovohrad, Cherkasy, Poltava, Chernihiv, Sumy, Khmelnytskyi, Ternopil, Odesa, Mykolaiv	140 (250 planned)
8	Group of enterprises VAT "Myronivsky Khliboprodukt" - 1995, collaboration with CFS	20 enterprises combined to represent production facilities for complete chain of poultry industry. The group has six poultry factories, groats and	Crimea, Kyiv, Cherkasy, Kherson, Dnipropetrovsk, Vinnytsya, Donetsk,	140 (220 planned)

[11] Source: Єранкін О.О. Формування агропромислових формувань в Україні: глобалізаційний і маркетинговий аспект [Yerankin, O.O. Formation of Agroindustrial Formations in Ukraine: Globalization and Marketing Aspects]. Other sources included media publications, and survey of agriholding owners and managers.

	company under support of Ukrainian and Dutch governments	feed plant. Has about 40% of broilers market. Brands: Nasha Ryaba; Sertyfikovanyi Angus; Fua Gra; Lehko. Horticulture. Agribusiness: TOV "Zernoprodukt"	Ivano-Frankivsk	
9	"Pryvat-Agro" Corporation (Dnipropetrovsk), 2005	Control over 30 agroindustrial and commercial enterprises. Zaporizhzhya oil plant, Kharkiv and Lviv integrated oil plants. Brand Shchedro. Owns over ten grain elevators in Zaporizhzhya Oblast. Plans to put into operation a port grain terminal by 2008/2009	Dnipropetrovsk, Poltava, Kharkiv, Cherkasy, Odesa, Mykolaiv, Lviv, Kirovohrad	133
10	Subsidiary "Nafkom-Agro", "Nafkom"	Production and processing of agricultural produce. Grain elevators and small sugar plant	Chernihiv, Poltava, Vinnytsya, Sumy, Cherkasy	112
11	LLC "Agroprominvest" ("Podillya" Company), "Ukrprominvest", 1993	Growing of grains, corn, soya beans, rape, sugar beet, mustard. Four confectioneries in Ukraine, one in Russia, and one in Lithuania. Plans to develop own dairy business. In 2008, the company is upgrading two commercial dairy farms in the Vinnytsya Oblast for 400 cows each. In 2001, the company bought three sugar plants in the Vinnytsya Oblast. Brands: Ridna Marka, Radomyshl	Vinnytsya, Cherkasy	100
12	LLC "Stiomi-Holding", 1994 (Khmelnytskyi)	A powerful, modern agro industrial holding. Machine and tractor fleet of over 500 units. Production of bakery products (70% of Khmelnytskyi city market, and 58% of Khmelnytskyi Oblast market). A project to built a full-cycle pig-breeding complex for 100,000 to 150,000 pigs per year	Khmelnytskyi and four neighboring oblasts	100
13	Agro industrial Complex "Shakhtar", "Zasiad'ka Coalmine"	26 agricultural enterprises. Animal-breeding: 6,000 cows; 25,000 pigs; 500,000 broilers; 1 mln of chickens	Donetsk	100
14	"Kyiv" Bank Group (Mykola Marchenko, member of Kyiv City Council)	Sugar plants in Kaharlyk and Brailiv	Kyiv, Cherkasy, Poltava, Chernihiv	90 (200 planned)
15	Company Group Land West Company, "Dakor"	Nine agro industrial firms. Growing of grains, rape seed, sugar beets. Includes five sugar plants, 4% share of granulated sugar market (plans to reach 10% by 2010). Plans to build a new sugar plant in western part of Ukraine. Capitalization $ 105mn, plans to reach $ 250mn – $ 300mn in 2009.	Lviv, Rivne, Ternopil	89 (100 planned)
16	CJSC "Industrialna Molochna Kompaniya", 2007, CJSC "Klub Syru"	Growing of grains, rape, soya beans. Plan to build dairy farms for the total of 200,000 cows by 2015 in the Poltava, Chernihiv, and Cherkasy oblasts, and in the Voronezh Oblast in Russia. Project cost €22 - €25m	Poltava, Chernihiv	86 (150 planned)
17	Avias-2000, crude oil trader	Agricultural production	Dnipropetrovsk	80
18	LLC J-V "Nibulon"	Producer (21 agrarian enterprises) and exports of grains and oil-bearing crops. A single vertically-integrated	Kharkiv, Poltava, Luhansk, Mykolaiv, Cherkasy,	70 (90 planned)

		company ensuring control over all links in the field-to-port chain: growing and crop harvesting; transportation using own fleet; storage and post-processing (grain elevators with total capacity of 453,500 tons); shipping via own freight terminal	Khmelnytskyi, Vinnytsya	
19	VAT "Ukrzernoprom", 1998	A vertically-integrated holding, uniting 30 enterprises in flour-mill and bakery industry in various parts of the country: eight bakery plants; poultry factories; grain elevators. It is one of the three largest bakers in Ukraine. 16 agrarian enterprises: growing of grains, oil-bearing plants, rape	Chernihiv, Kharkiv, Poltava, Vinnytsya, Khmelnytskyi, Zhytomyr, Odesa, Mykolaiv, Dnipropetrovsk, Crimea	70(100 planned)
20	"Ukrros" Agroindustrial Corporation, "Razgulai", Russia	Six sugar plants, 12 enterprises, grain elevators. Produced 250,000 tons of sugar in 2006, taking about 9.8% of Ukrainian market	Kharkiv, Cherkasy, Zaporizhzhya, Ternopil, Mykolaiv	75 (120 planned)
21	Landkom International	Growing of grains and rape. Plan to build four grain elevators in western Ukraine	Lviv, Ternopil, Khmelnytskyi, Ivano-Frankivsk	67 (350 planned)
22	LLC "Kernel-Trade" established in 2001 under the name of LLC 'Unigrain"	Procurement of grains and oil-bearing crops, logistics, processing, export. Representative offices in 13 oblasts of Ukraine. Includes: Prykolotnyansky and Poltavsky oil extraction plants, 23 grain elevators (total storage capacity 1.7 m tons), three trucking companies. Acquired assets of Evrotek agriholding in 2006. 25.8% of vegetable oil market, processing 15% of sunflower seed of the total Ukrainian crop. Brands: Stozhar, Chumak, Shchedry Dar; Lyubon'ka	Poltava, Odesa, Cherkasy	56.4
23	Donetskstal, Concern "ENERGO"	Growing of grains and procurement of fodder, animal-breeding, poultry-farming, and apiculture. Members: Donetsk OJSC "Vinter" (ice cream); and dairy plant OJSC "Laktis"	Donetsk	44
24	LLC "Agro-Trade Company", Kharkiv	Production of oil-bearing crops and grains. Controls seven grain elevators and granaries in the Kharkiv, Sumy, and Luhansk oblasts	Kharkiv, Poltava, Sumy	40 (60 planned)
25	LLC "Baryshivska zernova kompania", LLC "Merses plus" (coal merchant). Coorperation with "Harvest Moon East"	Growing of grains. Plan to launch bioethanol plant in Zolotonosha, Cherkasy Oblast, in 2009. Production of feed additives	Kyiv, Cherkasy	40
26	Agrofirm "Sady Ukrayiny"	Agricultural production. Production of high-quality seeds. Includes ten branches.	Kharkiv, Poltava, Mykolaiv, Odesa, Dnipropetrovsk, Cherkasy, Crimea	40
27	Agrofirm "Svitanok"	Three sugar plants. Agricultural production	Kyiv, Chernihiv	40
28	Agro-association "Chysta Krynytsia", petroleum oil trader	Growing of grains and oil-bearing crops	Poltava	35 (36 planned)
29	Ukrainian company	Growing of grains and oil-bearing	Kyiv, Vinnytsya,	35 (100

	Agroinvest, MK Gro-up, Serbia	crops, sugar beets. Started building a grain elevator in Yahotyn, Kyiv Oblast, in 2007, with total capacity 113,000 tons per year. Project investment €10mln	Poltava, Cherkasy	planned)
30	CJSC "Agromars Complex", Village Havrylivka, Kyiv Oblast, in 1998, ApS Agrarian Investment Corporation, Denmark, venture investor until 2006	Production of grains, grain elevators, feed mills. The second largest producer of cooled broiler meat. Brand: Havrylivski kurchata. Acquisitions: OJSC Kurhansky Broiler company with foreign investment, Kharkiv Oblast, in 2006	Kyiv, Ternopil	35
31	LLC "UVS"	The Verensky, Uhroyidsky, and Pivnenkivsky sugar plants in the Sumy Oblast. The Putyvl Partyzan poultry factory (Brand: Slobozhanske yaytse). The Verenska poultry farm, grain elevators with total capacity 80,000 tons.	Sumy	34
32	Grain trader Valars (Russia)	A Russian grain trader. The Kamennomostivsky and Pidhorodnyansky grain elevators in the Mykolaiv Oblast	Mykolaiv, Poltava, Cherkasy	34
33	LLC Gals-K LTD, AVK	Hryhor-Pustoharivsky sugar plant; Lynovytsky Krasny integrated sugar refinery in Chernihiv Oblast; Kashperivske food-processing enterprise	Kyiv, Chernihiv	33
34	Agrofirm "Olimpeks-agro", "Naftova torhova kompania"	Agricultural production	Dnipropetrovsk	32
35	Interagroinvest	13 out of 25 agricultural enterprises of the Stavyshansky Rayon	Kyiv	30
36	CJSC "Agrotekh Corporation", Kyiv, MAK, 2000	Agricultural production	Kyiv	27