



Comment on EBRD project 50764 'MHP Regional'

On the 22nd of May, the EBRD Board of Directors is scheduled to decide on project 50764 to „support MHP Group’s strategy to expand its operations in the EU and other countries with the aim to become a multinational producer“. EBRD financing shall cover 100% of the project costs of EUR 100 million.

This paper presents a range of facts which, in our view, speak **against approving this project**. In short:

- The project description does not specify the use of the loan; the environmental categorization is questionable.
- Fostering monopolization is against the EBRD’s objectives.
- The client is able to obtain sufficient financing or facilities elsewhere.
- A broad range of evidence raises severe doubts about the client’s trustability, including with regard to animal welfare standards.

1. Lacking project contents

Despite the considerable sum of € 100 million, the project description is very unclear about how the money is going to be used. The project consists of two elements: acquisition of a majority stake in Perutnina Ptuj group; subsequent capital investments in it.

However, on 21 February 2019, MHP announced that it has already completed the deal to acquire Perutnina Ptuj, now controlling more than 90% of Perutnina Ptuj shares for a price of € 176.3 million.¹ Will the EBRD finance the acquisition of the remaining 9.31% shares for about € 22.69 million and if so, what kind of development impact should this have? Or will all of the € 100 million be used for “investments” and if so, what kind of investments and where? Will this include “expanding production”² and if so, why isn’t the project categorized A according to Appendix 2 to the EBRD’s Environmental and Social Policy?

2. Article 2 of the Agreement Establishing the EBRD

According to of this article, the Bank’s activities shall promote in particular small and medium-sized enterprises and demonopolization.

MHP is far from being an SME. On the contrary, MHP gained „**monopoly power**“³ (not least through support by International Finance Institutions) in Ukraine’s poultry market. While still in 2010 MHP’s share in the poultry market was no more than twice that of the 2nd largest poultry producer Agromars⁴, in 2013 MHP had already gained a market share of 52%.⁵ In 2015, MHP’s share was 61%⁶, and 64% in 2017 (Agromars 11%).⁷ In addition, MHP has been the 4th largest landowner in Ukraine in 2018.⁸

MHP has been Europe’s 6th largest poultry producer in terms of animals slaughtered (312 million broilers) in 2017⁹ and is likely to become the largest producer in Europe in 2019 after the takeover of Perutnina and capacity increases in its facility in Vinnytsia, Ukraine.

3. Article 13 of the Agreement Establishing the EBRD

Article 13 says that „the Bank shall not undertake any financing, or provide any facilities, when the applicant is able to obtain sufficient financing or facilities elsewhere on terms and conditions that the Bank considers reasonable“.

However, MHP has already completed the acquisition of Perutnina Ptuj for € 176.3m and installed a new board. Thus it seems that MHP already financed the acquisition through other sources.

The fact that MHP „is able to obtain sufficient financing or facilities elsewhere” is further underpinned by a EUR 120 million loan, which MHP recently received from ING Bank N.V.¹⁰

4. Practices raising doubts about MHP

The EU-Ukraine Association Agreement includes quotas for duty free imports of chicken breasts. However, MHP managed to **bypass quotas and tariffs** and to export chicken breast into the EU under a fully liberalised tariff line („other cuts”) by leaving the humerus bone of the wing attached. This bony cut is sent to MHP’s cutting facilities in the EU, where the bone is then sliced out and the meat sold as prize chicken breast – a practice considered by the European Commission to contravene the spirit of the agreement¹¹ and called “a fair swindle” by the Austrian agriculture minister.

This caused tensions which made it even necessary for the European Commission and Ukraine to negotiate a tentative agreement modifying the deep and comprehensive free trade agreement (DCFTA) in the first quarter of 2019.

Three communities in the Vinnytsia region have filed **formal grievances** at the World Bank and the EBRD, alleging that MHP has failed to ensure basic transparency regarding the environmental and health impacts at its ‘largest poultry farm in Europe’ and that risks from pollution to air, water and soil have not been studied properly.

A 2016 assessment report prepared for the EBRD proposed “additional focused programmes and actions” to “improve **alignment with the EBRD PRs**” (emphasis added).¹² This raises the question, why after three EBRD grants there were still focused programmes and actions needed to align MHP’s operations with the EBRD Performance Requirements.

Further, secret footage taken at MHP’s foie gras production site shows a range of **extreme forms of cruelty to animals**. This raises severe doubts about MHP’s capacities or willingness to ensure that animals at their facilities are treated as required by its internal standards.

The fact that the EBRD – even after nine years, during which the Bank provided USD 250 million and EUR 25 million to MHP – has **no information on basic animal welfare parameters** in chicken housing at MHP does not contribute to relaxation in this context.

A European Commission audit visit to Ukraine in 2018 found – without naming specific companies – that official controls **cannot guarantee EU animal welfare requirements** (on stunning in particular) are met for poultry entering the EU export production chain. Most of the slaughterhouses visited used stunning parameters different from those required by EU legislation. Similar deficiencies in relation to hanging and stunning of birds were also detected during the 2010 audit.¹³

Endnotes

- 1 <https://www.mhp.com.ua/en/media/press-releases/details/mhp-agreed-deal-to-acquire-perutnina-ptuj> , <http://www.sloveniatimes.com/mhp-raises-share-price-in-perutnina-ptuj-takeover>
- 2 <https://www.investslovenia.org/news-media/business-news/perutnina-gets-new-board-as-mhp-takeover-completed-5487/>
- 3 http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Poultry%20and%20Products%20Annual_Kiev_Ukraine_9-2-2014.pdf
- 4 http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Poultry%20and%20Products%20Annual%20Report_Kiev_Ukraine_8-22-2011.pdf
- 5 http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Poultry%20and%20Products%20Annual_Kiev_Ukraine_9-2-2014.pdf
- 6 https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Poultry%20and%20Products%20Annual_Kiev_Ukraine_8-31-2016.pdf
- 7 <https://latifundist.com/rating/top-10-proizvoditelej-kuryatiny-za-i-polugodie-2017-goda>
- 8 <https://www.largescaleagriculture.com/home/news-details/top-10-ukraines-largest-agricultural-landholders-2018/> ; <https://latifundist.com/rating/top100#189>
- 9 <https://www.wattagnet.com/articles/36087-the-top-10-poultry-companies-in-europe>
- 10 <http://www.blackseagrains.net/novosti/ukraine-mhp-to-get-eur120-million-loan-from-ing-bank>
- 11 <https://www.politico.eu/article/ukrainian-chicken-oligarch-makes-bid-for-eu-market/>
- 12 <https://bankwatch.org/wp-content/uploads/2018/05/47806-monitor.pdf>
- 13 Final Report of an Audit Carried out in Ukraine from 27 February 2018 to 11 March 2018 in order to evaluate the control system in place governing the production of poultry meat and products derived therefrom intended for export to the European Union http://ec.europa.eu/food/audits-analysis/audit_reports/details.cfm?rep_id=4002