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# **PROBLEMS OF WORLD AGRICULTURE**

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**Oksana Kiforenko**<sup>1</sup>

Uman National University of Horticulture, Ukraine

## **Agroholdings as the Subjects of the Economy Globalization – the Example of Ukraine**

**Abstract.** The objective of the paper is to define the factors that contribute to the development of the agricultural sector of Ukraine's economy, to analyze the places Ukraine takes in the world rankings of agricultural production and export and the share of the agricultural and food industry products in the total exports volume of Ukraine, to define the main markets for Ukrainian agricultural products, to identify the role agroholdings play in the functioning of the Ukrainian agricultural sector, to define the main factors that contributed to the emergence and development of the agroholdings in Ukraine and to make the list of the most profitable agroholdings in Ukraine.

The following general scientific and specific economic methods were used in the paper: the statistical analysis methods, the method of ratings, the information – computer methods, the critical analysis method, the monographic method, the case study method and the graphical method.

**Keywords:** agroholdings, globalization, agriculture, production, export, market, grain.

### **Introduction**

The objective advantages of large commodity production known in the economic science and the economy globalization processes are realized through the creation of the so-called agroholdings nowadays. Since these enterprises are relatively new in Ukraine, their formation, development and its prospects require appropriate scientific research, so that they can take the adequate niche in the structure of the agricultural business of Ukraine as an equal and effective organizational form of agricultural management. Everything mentioned above is extremely important in the period of the transition to the market – oriented land relations as it has not only economic but also social and environmental value. The extent of land involved into the use by the agroholdings makes us to research the peculiarities of their activity and the opportunities to improve its regulation by the state.

Since the process of the development of agroholdings as a new form of management in the agricultural business of Ukraine began relatively recently, so the scientific thought of the Ukrainian economists about the said process became more active also only in recent years. Many Ukrainian and foreign scientists try to give their own definition of an agroholding taking into account different aspects of its activity. As, for example, according to the Law of Ukraine of 15.03.2006 p. №3528-1U "On holding companies in Ukraine" – "a holding company is a joint stock company, which owns, uses and disposes of holding corporate shares of two or more corporate businesses" (Law..., 2006). So, the creation of agroholdings can be considered a kind of response of Ukraine's agricultural economics to the market demands, aiming to restore the disturbed intersectoral ties and disparity in prices between the sold agricultural production and material and technical resources of industrial origin as well as recover the self-sufficient credit system (Dankevych, 2011). Consequently, from the juridical point of view, agroholdings are the association of business capitals under

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<sup>1</sup> PhD, Uman National University of Horticulture, 1 Institutska st. Uman, 20305, e-mail: o.kiforenko\_1@ukr.net

the supervision of the management company. From the organizational point of view, an agroholding is a „state within a state” with all its characteristic features. From the point of view of management, an agroholding is the symbiosis of the planned economy standards based on the new technological, innovation and organizational framework, with its fundamentals in the computerized management, accounting and auditing of the industrial activity system. From the economical point of view, an agroholding is an effective tool to improve the domestic production competitiveness and increase the working people social standards, arrange well rural territories and implement social programs (Dankevych, 2012). As a result of the capitalization process in Ukraine there appeared and function various forms of agro – industrial formations, which have not been identified in the official legal acts and have a different interpretation in the economic literature but in practice the said subjects are being treated freely. Everything mentioned above forms a wide field for research in the area mentioned above.

## **Material and Methods**

The objective of the article is to define the factors that contribute to the development of the agricultural sector of Ukraine’s economy, to determine the main directions of the Ukrainian agribusiness functioning, to analyze the places Ukraine takes in the world rankings of agricultural production and export and the share of the agricultural and food industry products in the total exports volume of Ukraine, to define the main markets for Ukrainian agricultural products, to identify the role agroholdings play in the functioning of the Ukrainian agricultural sector, to define the main factors that contributed to the emergence and development of the agroholdings in Ukraine and to make the list of the most powerful and profitable agroholdings in Ukraine.

The following general scientific and specific economic methods were used in the paper: the statistical analysis methods - to define the factors that contribute to the development of the agricultural sector of Ukraine’s economy; the method of ratings – to determine the places Ukraine takes in the world rankings of agricultural production and export; the information – computer methods - to analyze the state and dynamics of the agricultural sector components; the critical analysis method - to define the main factors that contributed to the emergence and development of the agroholdings in Ukraine and to make the list of the most powerful and profitable agroholdings in the country; the monographic method - to synthesize of the scientists’ viewpoints on the problems under research; the case study method - to study certain components of the Ukrainian agricultural sector development as a whole and some of its components in particular; the graphical method – to graphically represent the dynamics of the subjects under research and others.

The materials for the article presented were the legislative acts of the European countries, the official statistics of the State Statistics Committee of Ukraine and the European Union, the analytical reviews of the National Bank of Ukraine, Ministry of Finance of Ukraine, Ministry of Economic Development and Trade of Ukraine, the scientific literature on the topic under research and the personal research and observations of the author.

## Results

Agriculture - is one of the leading sectors of Ukraine's economy, which has significant natural competitive advantages. The area of the agricultural land of Ukraine is the largest in Europe – 41.5 million hectares, that is 70 % of the country's territory. 32.5 million hectares of the said land is used for growing agricultural crops.

The following factors contribute to the development of the agricultural sector of Ukraine's economy:

- the proximity of major markets (as Ukraine is situated in the central part of Europe on the crossroads of the main logistic routes from different European countries);
- transport infrastructure (railways, highways, ports);
- the steady growth of the global demand for food products and alternative energy;
- the availability of relatively cheap workforce.

The main direction of Ukrainian agribusiness is plant growing – it takes approximately 70% of all the agricultural products of the country. Ukraine takes the first place in the world in terms of sunflower seeds production (Figure 1).

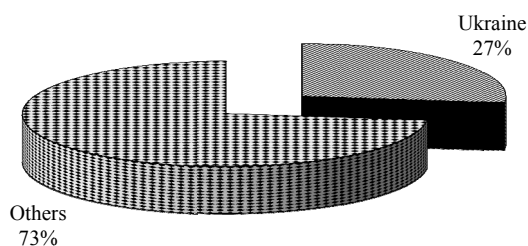


Fig. 1. Ukraine's Share in the Global Production of Sunflower Seeds, %

Source: State Statistics Service of Ukraine.

Ukraine also takes the first place in the world in terms of the production and export of sunflower oil (Figure 2).

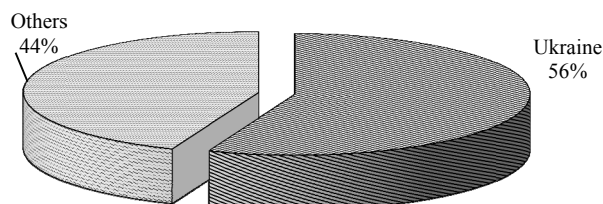


Fig. 2. Ukraine's Share in the Global Production and Export of Sunflower Oil, %

Source: State Statistics Service of Ukraine.

Ukraine has significantly increased its revenues from the agricultural exports over the last decade - they increased almost 4 times due to the increase of the world prices for

agricultural products and the increase of the agricultural exports volume from Ukraine (Figure 3).

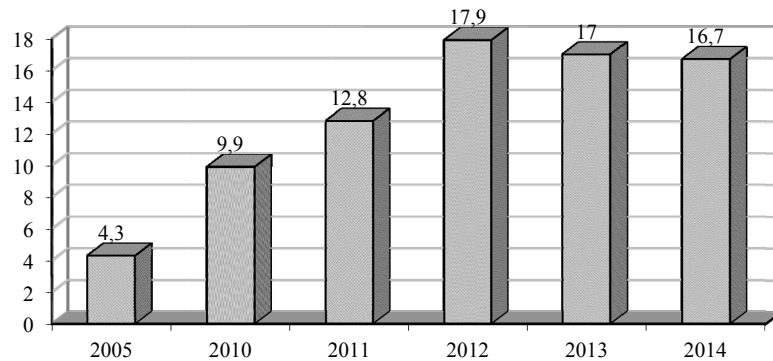


Fig. 3. The Agricultural Exports Volume from Ukraine, bln. USD

Source: State Statistics Service of Ukraine.

The role of the agricultural production in the total exports volume has also increased (Figure 4).

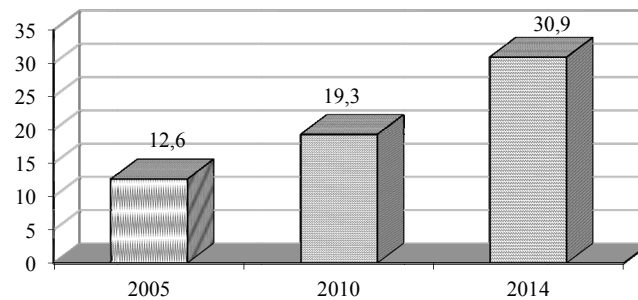


Fig. 4. The Share of the Agricultural and Food Industry Products in the Total Exports Volume of Ukraine, %

Source: State Statistics Service of Ukraine.

In 2014 the share of the agricultural and food industry products in the total exports volume was 30.9 %, while in 2010 it was 19.3% and in 2005 - 12.6%. In 2014 the agricultural sector became the leader in the exports volume of Ukraine for the first time.

The main product groups of agricultural exports from Ukraine traditionally include grain, oil plants seeds, fats and oils of animal or vegetable origin, ready food products, milk and dairy products, poultry eggs, natural honey (Figure 5).

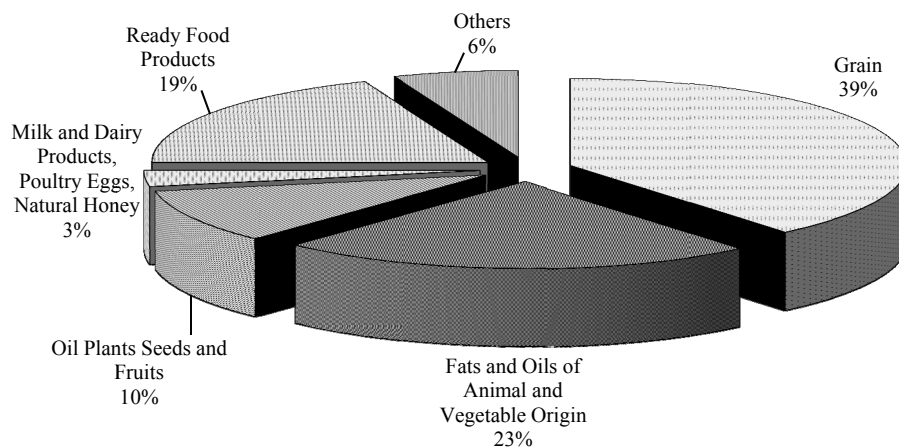


Fig. 5. The Structure of Agricultural Exports in 2014, % of Agricultural Exports Volume of Ukraine

Source: State Statistics Service of Ukraine.

The main markets for Ukrainian agricultural products nowadays are Asia countries (39 %), EU countries (29 %), CIS countries (15 %), Africa countries (16 %), other countries (1%) (Figure 6).

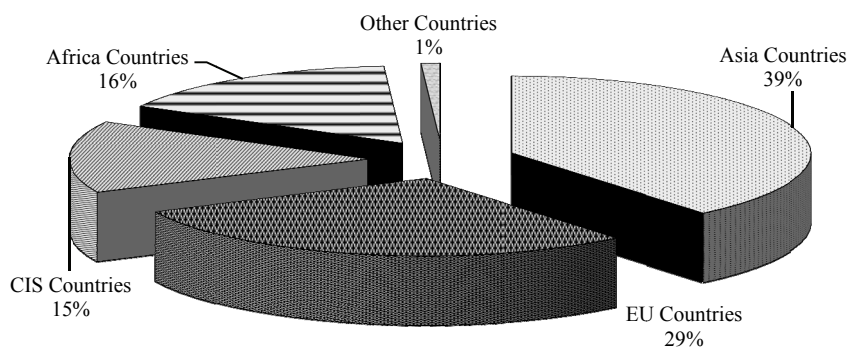


Fig. 6. The Main Markets for Ukrainian Agricultural Products in 2014, %

Source: <http://businessviews.com.ua/ru/economy/id/20-grafikov-i-kart-kotorye-dostupno-objasnjajutagrobiznes-ukrainy-328/>.

In 2014 the exports of the agricultural and food products from Ukraine into the EU increased by 6.7% if compared with that of 2013.

In the structure of the agricultural and food products exports from Ukraine into the EU the following items prevail: grain – 37.9%, oil plants seeds and fruits – 19.3 %, fats and oils of animal or vegetable origin – 16.6 % (sunflower oil – 14.2 %) (Figure 7).

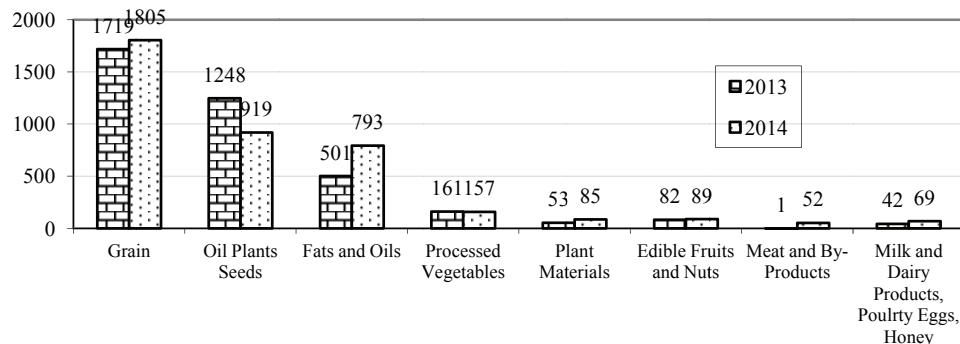


Fig. 7. The Main Commodity Positions of Agricultural Exports from Ukraine into the EU in 2013-2014, mln USD  
Source: State Statistics Service of Ukraine.

In order to foster the cooperation between Ukraine and the EU, Ukrainian enterprises should adapt to the EU standards in such areas as sanitary and phytosanitary measures, certification and metrology, customs clearance, market surveillance and conformity assessment.

In Ukraine there are hundreds of agricultural companies nowadays. During the last decade there has been a clear tendency to increase the role and influence of the large agricultural enterprises in the total production of the said sector. In 2013 agroholdings produced 21.3 % of the total agricultural production of Ukraine, 46 % - by the households and 32.7 % - by the other agricultural producers (Figure 8).

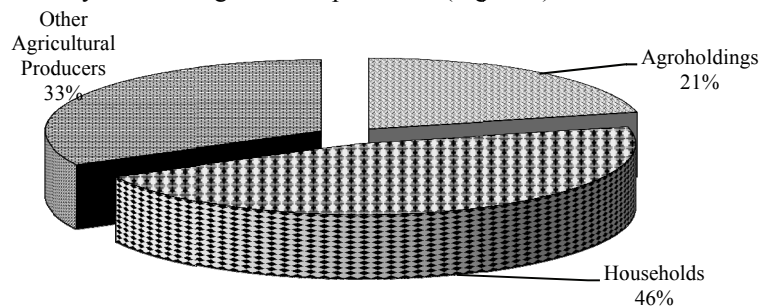


Fig. 8. The Structure of Agricultural Production of Ukraine in 2013, %

Source: <http://expres.ua/main/2015/06/15/139585-milyardy-dolariv-ukrayinskogo-sela-dyvovyzhni-cyfy-malovidomi-geroyi>.

Agroholdings play a very important role in both agricultural sector and the whole economy of Ukraine as they concentrate significant financial resources under their control, have access to the export markets and new technologies as well as political influence on the local and national levels. In addition, very often powerful international companies are



among the shareholders of such companies, that gives them additional advantages in the international lobbying.

Among the most powerful agroholdings (in terms of the area of land bank under their operational management), the following ones should be highlighted: "UkrLandFarming", NCH, "Kernel Group", "Mironivsky Hliboproduct", "Ukrainian Agrarian Investments (UAI)", "Astarta-Kyiv", "Mriya Agroholding", "HarvEast", "Agroton" (Figure 9).

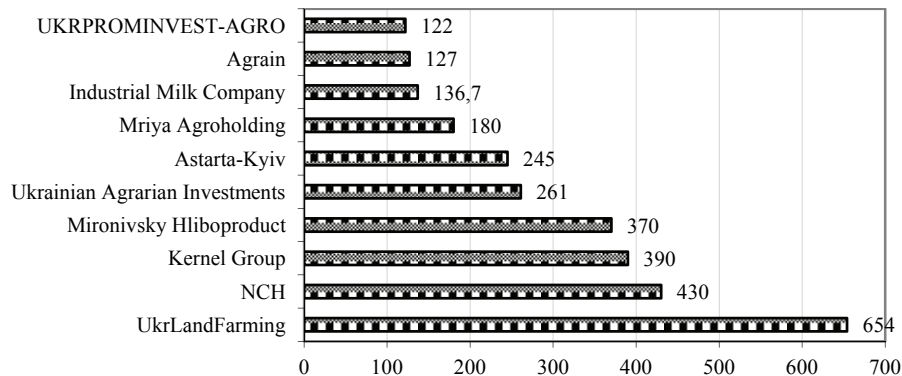
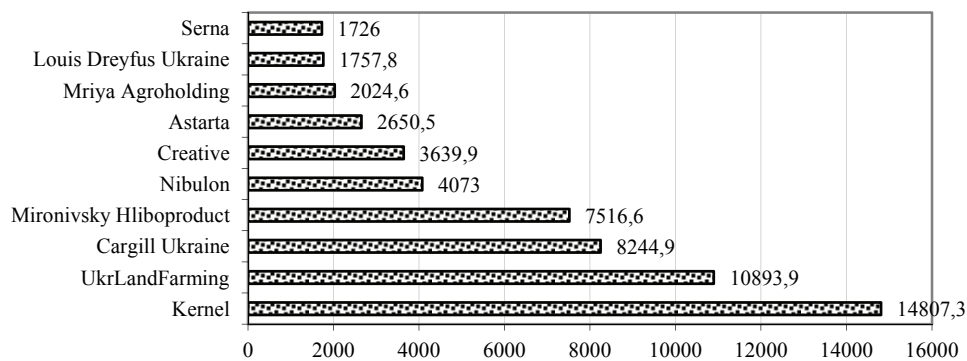


Fig. 9. Top 10 Agroholdings of Ukraine in Terms of Land Bank (on the 1st of January, 2015), thousands of hectares

Source: latifundist.com/rating/top100#88.

Under the management of the top 10 agricultural holdings of Ukraine there is about 7.5% of all the agricultural land in Ukraine. But the ranking of the agroholdings of Ukraine according to the revenue they received in the first half of 2014 is somewhat different from that of the size of their land bank. The said difference can be explained by the significant differences in the kinds of activities the holdings are engaged into as well as by the differences in their business models (Figure 10).



Exchange rate of Hryvnia to Euro – 1 – 16 (1.07.2014).

Fig. 10. Top 10 Agricultural Companies of Ukraine in Terms of the Revenues Received in the 1st half of 2014, bln. UAH

Source: <http://forbes.net.ua/ratings/2>.

If we consider the role of agroholdings in the exports of the agricultural production of Ukraine, the following grain exporters were among top 10 biggest ones in 2014 (Table 1).

Table 1. Top 10 biggest Ukrainian grain exporters in 2014

№	Company	Share in the Total Export
1	Nibulon	13.1 %
2	State Food and Grain Corporation of Ukraine	9.6 %
3	Louis Dreyfus Ukraine	9.3 %
4	Kernel	7.3 %
5	Cargill	4.8 %
6	Bunge	4.4 %
7	Alfred C. Toepfer International Ukraine (nowadays - Archer Daniels Midland Company)	4.0 %
8	Serna	3.2 %
9	Rise	2.3 %
10	Agrotrade Group	2.4 %

Source: Agrochart.

With the help of the data given in the table presented, you see that agroholdings together with intermediary trade companies, the so-called grain-traders, which are mostly often founded by the foreign companies, are the main exporters of the agricultural products of Ukraine.

Another important characteristic feature of the agricultural holdings is the power of the elevators, which they control.

The list of 10 largest companies – owners of private grain elevators is as follows:

1. Kernel;
2. Glencore;
3. Nibulon;
4. Mironivsky Hliboproduct;
5. UkrLandFarming;
6. Mriya;
7. Alfred C. Toepfer;
8. Bunge;
9. Agrotrade;
10. Astarta (Source: <http://newukraineinstitute.org/media/news/549/file/Agro%202015.pdf>).

So, taking into consideration everything mentioned above, we can point out four main agroholdings in Ukraine, which take the first places according to the most indicators researched in the article. These are:

1. UkrLandFarming;
2. Kernel;
3. Mironivsky Hliboproduct;
4. Nibulon.

More than that, these companies are leaders in the specific market segments of agriculture, in which they specialize.

During the last decade we observe the rapid formation of large agricultural holdings, that is connected with the consolidation of the capital by some agricultural enterprises and the deterioration of the financial condition of a large number of small enterprises. In some cases, this process was a little bit chaotic as during the first phase of agricultural assets consolidation the agricultural enterprises of different profiles amalgamated.

So, the main factors that contributed to the emergence and development of the agricoholdings in Ukraine are:

- 1) the availability of the basic asset that has become the basis for the formation of the holding. That is, the following situation is meant, when the basis for the holding was a large asset that could be get into possession by the owner of the holding during the late 90's – early 2000's;
- 2) the consolidation of assets and land by the agricultural holdings within a short period of time – the owners of the agricultural holdings consolidated large agricultural assets and thanks to that got operational control over large land banks. More than that, the lack of the necessity to redeem the land from its owners allowed the agroholdings to rapidly increase their land banks;
- 3) the usage of advanced technologies – together with the consolidation of assets the agricultural holdings invested into infrastructure, accounting and quality management systems as well as into human capital. On the one hand, the implementation of advanced technologies made it possible to unite and increase the effectiveness of different agricultural enterprises that were integrated into the holding. And on the other hand – to achieve the quality level acceptable for the entering foreign markets, first of all, the EU market;
- 4) the availability of one's own production storage and exports facilities - the largest agricultural holdings actively invest into the development of their elevators, which they use for the storage of their own production and for rent. However, recently the agricultural holdings began to invest into the capacities of goods transshipment (ports, logistics centers, etc.);
- 5) access to the markets (for production sell) – the two following factors led to the demand creation for the agricultural production, that is: a) global economy growth in the pre-crisis period, which contributed to the increase of demand and food prices in the world, and b) the increase of the purchasing power of Ukraine's population in the pre-crisis period. During the said period, the most powerful Ukrainian agricultural holdings allocated on the external and internal markets and got the financial capacity for consolidation and development;
- 6) access to the capital markets – the access to the capital market of the agroholdings was preceded by the work for their transfer to the international standards of operation.

The entrance to the external capital markets took place by placing a certain percentage of their shares at international stock exchanges. After the said placement of shares, the foreign markets of credit financing opened in front of the agroholdings. So the holdings began to attract loans at low rates, getting another competitive advantage if compared with the other Ukrainian producers of agricultural products.

## Conclusions

So, as you see from everything mentioned above, the agricultural sector of Ukraine has significant potential for further growth as it is one of the leading sectors of Ukraine's economy, which has significant natural competitive advantages.

As a result of the rapid growth of domestic and external demand for agricultural products, quite powerful agro-industrial complex was formed in Ukraine. The following factors contribute to the development of the agricultural sector of Ukraine's economy: the proximity of major markets, transport infrastructure, the steady growth of the global demand for food products and alternative energy and the availability of relatively cheap workforce. Thanks to that, the country occupies the first places on the amount of agricultural exports onto the world markets.

In Ukraine there are hundreds of agricultural companies nowadays. During the last decade there has been a clear tendency to increase the role and influence of the large agricultural enterprises in the total production of the said sector. In addition, the Ukrainian corporations are also presented in the world rankings of the producers and suppliers of agricultural products. The most powerful members of the agricultural market of Ukraine are agroholdings. Despite of some difficulties caused by the internal and external factors, they do not abandon their plans for the infrastructure development and their presence expansion in the foreign markets.

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