International Finance Institutions, Export Credit Agencies and Farm Animal Welfare

revised version

November 2013
Contents

1. Introduction .................................................................................................................... 3

2. International Finance Corporation .................................................................................. 4
   2.1. The International Finance Corporation and Farm Animal Welfare ......................... 4
   2.2. Recent projects in the farm animal sector funded by the IFC ..................................... 5
       2.2.1. Muyuan Foodstuff Co., Ltd................................................................................ 5
       2.2.2. Myronivsky Hliboproduct (MHP).................................................................... 5
       2.2.3. Globino............................................................................................................ 7

3. European Bank for Reconstruction and Development ............................................... 10
   3.1. The EBRD and Farm Animal Welfare ....................................................................... 10
   3.2. Trade Finance Program (TFP): Environmental and Social Procedures to be followed by Participating Banks.................................................................................. 11
   3.3. EBRD investments .................................................................................................. 11
       3.3.1. Keskinoğlu .................................................................................................... 11
       3.3.2. Kuzbassky Pischekombinat............................................................................. 13
       3.3.3. Myronivsky Hliboproduct; Globino................................................................. 13
       3.3.4. Sütaş .............................................................................................................. 14

4. Export Credit Agencies .............................................................................................. 14
   4.1. Germany ................................................................................................................ 14
       4.1.1. Avangardco, Ukraine ..................................................................................... 15
   4.2. The Netherlands ...................................................................................................... 18
   4.3. Austria ................................................................................................................... 18

5. Conclusions and Recommendations ......................................................................... 19
1. Introduction

Efforts to improve farm animal welfare standards are usually focused on national legislation and farming practices. Little attention is paid to the influence of International Finance Institutions (IFIs) and Export Credit Agencies (ECAs) on agricultural development and farm animal welfare in developing and transition countries. This report aims to cast light on the investments supported by selected IFIs, namely the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), as well as ECAs of European Union Member States in animal agribusiness internationally.

Animal welfare is gaining increased attention from governmental agencies, academic institutions, food retailers, and producers worldwide. Driven by public opinion, governments throughout the world, including in emerging economies, have started to improve animal welfare legislation and enforcement. For example, in 2012, the Animal Welfare Board of India stated that barren battery cage confinement is in violation of India’s Prevention of Cruelty to Animals Act of 1960, and the majority of Indian states have subsequently concurred with this interpretation. The caged confinement of laying hens has been banned in Bhutan and Tasmania, and is being phased out in New Zealand. Israel and three U.S. states are also restricting the use of barren battery cages. Tasmania and nine U.S. States also restrict the confinement of pregnant sows in gestation stalls.

As a significant geo-economic region, the European Union has made noteworthy progress in the area of farm animal welfare over the past decade. For example, Directive 2001/88/EC outlaws the sow stall for most of a sow’s pregnancy from 2013, and Directive 1999/74/EC lays down minimum standards for the housing of laying hens. The latter outlawed the construction of new conventional battery cage facilities in the EU in 2003, and instituted a complete ban on this extreme confinement system in 2012.

EU producers of animal products, particularly eggs and meat, have been required to respond to this new legislation by investing in higher welfare housing and production systems, resulting in the improved quality of animal products produced within the EU.

The majority of countries still lag significantly behind the European Union in terms of farm animal welfare standards. The European Union is working to include animal welfare in trade agreements in order to create a level playing field with regard to animal welfare. The EU is also exploring ways to integrate animal welfare into the EU Neighbourhood policy.

**EU legislation relating to farm animal welfare**

Council Directive 98/58/EC concerning the protection of animals kept for farming purposes: states that animals should not be bred or fed in ways that may cause suffering.


Council Directive 2008/120/EC of 18 December 2008 (consolidating previous legislation) laying down minimum standards for the protection of pigs: prohibits routine tail docking of growing pigs and requires sufficient enrichment material to allow the pigs “proper investigation and manipulation activities”.


2. International Finance Corporation

2.1. The International Finance Corporation and Farm Animal Welfare

The IFC is part of the World Bank Group, and constitutes the “largest global development institution focused exclusively on the private sector in developing countries.”¹ The IFC has identified agribusiness as a key investment area because they believe this sector holds significant potential for poverty reduction and could have a broad impact on development.²

There are currently no binding animal welfare standards governing the World Bank Group’s programs or investments in the farm animal sector. Compassion in World Farming and Humane Society International contributed to the IFC’s 2006 Good Practice Note on Animal Welfare in Livestock Operations (GPN), which are a set of voluntary guidelines and recommendations developed for the IFC’s agribusiness clients.³ Since 2006, animal protection organizations have expressed concern that IFC investments may not consistently conform to the GPN.

Further, while the current version of the GPN acknowledges the behavioural needs of animals, and the need for movement, it does not explicitly discourage the extreme and continual confinement of hens in conventional battery cages or breeding pigs in sow stalls, or other practices banned in the EU.

In 2013, the IFC commissioned International Animal Welfare Consultants Limited to update the 2006 GPN in light of developments in animal welfare policy and practice during the last seven years. The IFC’s Environmental, Health, and Safety Guidelines began a 3 year review process starting in 2013.⁴ One of the revision’s rationales is “to reflect the current state of Good International Industry Practice (GIIP) worldwide, particularly in those sectors where industry practice and technologies have evolved significantly since the last update. This includes revising the EHS Guidelines to ensure they contain the performance levels and measures that are generally considered to be achievable in new facilities at reasonable costs by existing technology.”⁵ Currently these EHS Guidelines point to the GPN for guidance on animal welfare.

Responding to a parliamentary question, the Austrian Ministry of Finance stated that “Austria is, together with other EU member states, calling for a binding character of the GPN”.⁶ The German government stated that it was considering to what extent minimum standards for animal husbandry can be meaningfully integrated into the ongoing World Bank’s Safeguards Review process.⁷
2.2. Recent projects in the farm animal sector funded by the IFC

The IFC granted approximately € 665 million to 30 projects in the animal agriculture sector between 2001 and 2010. On average, financing from the IFC accounted for 37% of a company’s total project investment.8

All 30 projects were classified in category B9 (indicating limited potential for adverse environmental or social impacts10), despite the fact that industrial farm animal production facilities, like many of those financed by the IFC in this category, have been known to have significant negative impacts on the environment and surrounding communities.11

Russia (€ 190 million) and Ukraine (€ 173 million) were the largest recipients of IFC agribusiness financing. Other recipient countries include China, Ecuador, Egypt and Croatia.12

2.2.1. Muyuan Foodstuff Co., Ltd

Muyuan Foodstuff, located in Neixiang, Henan province, is one of the largest hog breeders in China.13

The IFC provided the company with an equity investment of USD 9.59 million in 201014 and a loan investment of USD 20 million in 2012 (accounting for nearly one-third of the total project costs)15 to increase Muyuan’s annual hog production capacity from 0.5 million to 1.35 million. The 2010 IFC-financed project involved the construction of two commercial hog farms (one with a 120,000 hog/year capacity and the second with a capacity of 80,000 hogs/year), and two sow breeder farms (each with a capacity of 15,000 sows). One of the breeder farms was to be linked to another commercial farm rearing hogs for meat with a capacity of 300,000 hogs/year. Upon completion of the project, Muyuan’s annual hog production capacity was to increase from 0.5 million to 1 million.16 The second corporate loan from the IFC in 2012 facilitated further expansion of Muyuan’s hog production to 1.3 million hogs/year.17

The animals on these facilities are kept on slatted floors, and project documents indicate that the majority of sows are confined in sow stalls for their entire pregnancy18 – preventing them from turning around or even making many simple postural adjustments for most of their lives. Continual confinement in sow stalls has been banned in the EU1, and the IFC has stated that such intensive confinement on Muyuan’s facilities “could be subject to a change in practice to better align it with contemporary practices in the industry elsewhere in the world”.19 Muyuan is now piloting group housing systems, utilizing electronic sow feeders, on a small portion of their facility. Such higher welfare group housing systems allow the animals a greater freedom of movement, and the IFC has committed to working with the company to promote these improved housing systems.20

2.2.2. Myronivsky Hliboprodukt (MHP)

The Ukrainian agricultural giant Myronivsky Hliboproduct (MHP) is already one of the largest poultry producers in Europe.21 MHP is listed on the London Stock Exchange. It is

---

1 In 2001 the EU outlawed the sow stall for most of a sow’s pregnancy, the ban taking effect from 2013 (Directive 2001/88/EC).
wholly owned by MHP S.A., a holding company registered in Luxembourg. The controlling shareholder of the group is Ukraine based WTI Trading Limited.22

MHP is a long term client of the IFC. Until December 31st, 2006, the IFC owned 6.3% of MHP’s shares.23 MHP Board Member John Rich is a specialist agri-business consultant for the IFC and IFC invested clients.24

Already accounting for half of Ukraine’s poultry production, MHP has ambitious plans for further growth25, and it expects to become the largest poultry meat producer in Europe. To finance this expansion, MHP was granted an additional working capital loan from the IFC in December 2012.26 This USD 50 million loan is the IFC’s fourth investment in MHP and serves to support MHP in implementing its expansion program in the central Ukraine region of Vinnitsa.27 The company sees the EU market as most attractive for exports.28 First deliveries to EU countries are expected by the end of 2013.29

Up to 17.8 million chickens will be kept simultaneously in MHP’s new Vinnitsa complex by the time the project is completed, and 111.7 million chickens will be produced each year.30 The new plant is designed to have a production capacity of 440,000 tons of poultry a year to supply both Ukraine and export markets.31 The IFC reports that the rearing practices on new MHP facilities comply with the GPN on Animal Welfare.32

The stocking density is reported to be 15.5 chickens per square meter33, which could fall within minimum EU guidelines (33 kg/m²)34, depending on the final weight of the birds. However, the average slaughter weight of broiler chickens is between 1.8 and 2.2 kg, so there is a potential for exceeding even the bare minimum EU guidelines. The EU directives also lay down a number of other conditions to ensure better animal welfare in broiler production facilities, such as lighting, litter, feeding, and ventilation requirements.

While the IFC notes that well-maintained bedding, feed and water availability, disease control, adequate temperature, ventilation, and humidity are key parameters which are closely monitored, details on these other parameters are not available for MHP, so it is difficult to assess whether or not the facilities meet EU standards.35

MHP claims that, in trying to meet the “highest standards of international practice” in animal welfare, they are successfully implementing recommendations concerning possible innovations and improvements provided by EBRD and IFC representatives.36

Fig. 1: pictures from MHP website (www.mhp.com.ua/en/media/library)
As will be discussed later, further support for the MHP project (in the form of credit insurances) was granted by Dutch, Swiss, and other ECAs. Overall “ECA loans” for the Vinnitsa project will total USD 189 million.37

2.2.3. Globino

Globino Group is a major Ukrainian pig breeder. Its core businesses include pig breeding, meat processing, and production of sausages, butter and cheese. The Group is vertically integrated with a feed mill, pig breeding/growing complex and meat processing plant.38

The IFC provided a USD 25 million loan to Globino in 2010 to: a) boost the production capacity of Globino’s pig farms from 90,000 pigs to 400,000 pigs; b) increase sausage capacity at Globino meat processing plant from 1700 mt/month to 2500 mt/month, and c) to modernize the slaughter house (increasing the capacity from 50 animals/hour to 150 animals/hour).39

The IFC states, that “Ukraine has the potential to become a large exporter of dairy, meat, fruits, and vegetables, but exports to the EU remain extremely limited, primarily due to food safety concerns.” Therefore, in partnership with Austria (Ministry of Finance), the IFC is working with Ukrainian food producers such as Globino, to adopt better food safety procedures and increase their competitiveness.40

The IFC’s Environmental & Social Review Summary of the project includes a section titled “Animal welfare and biosecurity”41, but speaks only about biosecurity and does not mention animal welfare or housing conditions at all. Photos posted on the company’s website suggest that Globino keeps pigs on slatted floors and confines sows in sow stalls.42

![Fig. 2: pictures from Globino website](image-url)
EU-Ukraine poultry products trade agreement

The EU is among Ukraine’s most important commercial partners and accounts for about one third of its external trade. On Dec. 4th, 2012, the European Commission formally allowed imports of Ukrainian poultry, eggs and other products to the European Union, opening the market for Ukraine’s top agricultural holdings. Pursuant to Regulation 798/2008/EC, the import of class B eggs and egg products from Ukraine has been permitted since February 21st, 2013. Class B eggs are used for processing, not as table eggs. The German government points out that the pricing pressure in this category is high and is considering whether the EU Commission and member states should agree on compensatory measures.

Exports, curtailed by tariffs, are expected to begin within months. Larger volumes of chicken and eggs could be making their way to the EU if Kiev and Brussels ink a free trade agreement in 2013 (negotiations began in 2008). The draft Association Agreement between the EU and Ukraine, containing a free trade agreement, states in article 64 (1) that Ukraine shall approximate its animal welfare legislation to that of the EU. According to article 404, cooperation between the parties in the field of agriculture and rural development shall cover, inter alia, “promoting modern and sustainable agricultural production, respectful of the environment and of animal welfare”.

MHP hopes to export up to 20,000 tons of poultry meat to EU markets in 2013. Several of its production sites have already passed the necessary checks and were certified by the EU Commission in 2010. Three businesses that form part of the MHP group were amongst the first four Ukrainian enterprises to secure the right to export their products to the European Union since 2013.

As will be discussed later, MHP and Globino have also received significant support from the EBRD and various EU country ECAs.

2.2.4. SIPRA

In June 2012 the IFC approved an investment of USD 10.67 million in the Société Ivoirienne de Productions Animales S.A. (“SIPRA”), a leader in the Ivorian poultry industry. The investment is part of a larger USD 28.6 million project aimed at (a) expanding broiler production to 8 million birds per year; (b) expanding annual egg production to 70 million (from currently 20 million eggs); (c) nearly doubling the number of poultry & egg retail outlets to 80; and (d) increasing feed capacity.

The IFC’s Environmental & Social Review Summary states that the housing systems allow animals to engage in natural behaviours and that rearing practices comply with the GPN. However, details are not provided on housing systems or stocking densities.

2.2.5. Zalagh

In September 2013 the IFC approved a USD 24 million equity investment in Zalagh Holding. Zalagh Holding is a leading vertically-integrated industrial poultry producer in Morocco. Zalagh operates through twelve active subsidiaries, including Atlas Couvoirs (chick/poult...
hatchery), UMA Volailles (broiler production), Eldin (slaughtering), and Banchereau Maroc (meat processing).\textsuperscript{55}

Zalagh Holding’s plans to strengthen its position in the Moroccan poultry sector include\textsuperscript{56}:

- Chick hatchery: capacity extension of Atlas Couvoirs’ chick hatchery in Tiddas with accompanying rearing and laying farms, doubling the capacity from 400,000 to 800,000 chicks per week;
- Poult hatchery: capacity extension of Atlas Couvoirs’ poult hatchery in Chtouka with accompanying rearing and laying farms; increasing the current capacity of 49,000 chicks/week to 80,000 chicks/week;
- Turkey broilers: capacity increase of UMA Volailles’ broiler farms as well as the addition of 7 new farms – instantly increasing the capacity of UMA Volailles from 700,000 to 1.05 million turkey broilers.

In its Environmental & Social Review Summary (ESRS) the IFC states that Zalagh’s “poultry rearing practices comply with IFC’s Good Practice Note (GPN) on Animal Welfare”. “Breeders and broilers housing systems allow turkeys and chickens to engage in natural behaviors. Well-maintained bedding, feed and water availability, disease control, adequate temperature, ventilation, and humidity are key parameters which are closely monitored. ... Overall annual mortality rates at the broiler rearing houses are less than six percent ... Broiler chickens are then sold to Eldin for slaughtering”, where an electrical stunning device is used to render the animal unconscious before slaughter.\textsuperscript{57} However, the ESRS does not provide details (such as stocking density, ammonia levels, or incidence of lameness) that would allow assessment of animal welfare on these facilities.

\subsection*{2.2.6. Axzon}

In May 2013 the IFC board approved € 47.08 million in loans and € 23.52 million in equity to Polen Invest A/S, a 99.76% shareholder of Axzon A/S. Polen Invest is a Danish holding company owned by 90 individual Danish pig farmers and their families.\textsuperscript{58}

Axzon currently has more than 30 pig production facilities in North-western Poland (Poldanor subsidiary), 10 production facilities in Western Ukraine (Danosha subsidiary), a slaughtering and meat processing facility in Poland, and a smaller specialty slaughtering facility in Denmark. The Axzon pig farms in Poland and Ukraine house around 28,000 sows in total. According the IFC’s Environmental and Social Review, the Axzon project is intended to both consolidate and expand the current production capacity and construct additional pig production facilities in Ukraine.\textsuperscript{59} According to the Axzon website, the IFC equity and loan help finance further expansions in Poland, Ukraine, and also Russia.\textsuperscript{60}

One of the expected development impacts of the project is to help a producer to expand EU standards of livestock production and animal welfare to new farms in Ukraine. The total project cost is estimated at € 133 million.\textsuperscript{61}
In addition to this IFC financed expansion, Axzon has finalized a merger with another Danish farmer-owned company in Russia – Dan Invest A/S. According to the IFC’s Environmental & Social Review Summary, the farms in Poland and Ukraine were reconstructed overtime in order to comply with both local and European Union animal welfare requirements. New farms in Ukraine are designed and established according to EU criteria for animal welfare, as a copy of latest farm designs from Denmark.

According to the group’s website, Axzon tackled several animal welfare issues in 2012, including a transition to group housing for sows, and the adoption of anaesthesia for castration of piglets. In the beginning of December 2012, Axzon finished rebuilding the last Poldanor stable for loose sows in order to comply with the new 2013 welfare demands. Sows on Danosha are already in group housing, per EU rules.

3. European Bank for Reconstruction and Development

3.1. The EBRD and Farm Animal Welfare

The European Bank for Reconstruction and Development (EBRD) was established in 1991 to foster the transition to market economies in countries across Europe to central Asia. It is now expanding its operations to the southern and eastern Mediterranean region.

The EBRD is owned by 63 countries and two intergovernmental institutions (the European Union and the European Investment Bank). EU countries, the EU and the EIB control 62.86% of EBRD shares.

As of January 2013, the Bank had financed more than 3,644 projects at a cost of EUR 78.9 billion, almost one-tenth of which was devoted to the agribusiness sector. The EBRD uses a broad range of financing instruments including loans, equity investments and guarantees. The average investment is EUR 25 million.

Responding to a parliamentary question, Commissioner Tonio Borg stated that while the EBRD is not an EU body, “EU rules and principles generally set the standard for EBRD interventions, and many of the Bank’s policies make direct reference to the EU policy framework and acquis. In non-EU countries, the EBRD endeavours to get their projects to meet or approximate to EU requirements, but not all of the Bank’s clients in the countries of operations are able to do so from the outset.” Accordingly “the Commission is considering how best to discuss these issues with other bodies, including with the EBRD”.

In another response, Commissioner Borg stated that “any future discussions on these issues with other EU or international institutions should ensure that a balance between quick down payments of the credit is not conflicting with EU rules on animal welfare and is not detrimental to EU farmers”.

The Bank has stated that “in all its operations the EBRD follows the highest standards in corporate governance and sustainable development”. However, they have confirmed that they lack a specific approach to animal welfare and are aware of the fact that there is “a gap in current policy requirements”.

International Finance Institutions, Export Credit Agencies and Farm Animal Welfare; November 2013
Thus, the EBRD has also financed agribusiness facilities employing battery cages and other forms of extreme confinement that have been phased out in the EU.\textsuperscript{77}

However, the EBRD is currently “considering how the issue of animal welfare might be addressed in a policy context”.\textsuperscript{78} In response to parliamentary questions, the Austrian and the German governments have stated that in designing the EBRD’s new environmental and social strategy, special emphasis will be given to animal welfare.\textsuperscript{79, 80}

### 3.2. Trade Finance Program (TFP): Environmental and Social Procedures to be followed by Participating Banks

The EBRD is required to “promote in the full range of its activities environmentally sound and sustainable development”. This “Sustainability Mandate” also applies to the lending and investment activities of Financial Intermediaries supported by the EBRD, such as local commercial banks.\textsuperscript{81}

For transactions that involve environmentally/socially high risk activities specified in Annex 2(2) of the TFP Procedures, participating banks must submit the results of their environmental and social due diligence to the EBRD in the form of an Environmental and Social Review Summary (ESRS) when applying for EBRD support or financing (in case that the amount of the transaction is over USD 1 million AND the tenor is over 1 year OR the amount of the transaction is over USD 5 million, regardless of the tenor).\textsuperscript{82}

In recognition of the serious and negative potential impacts of large scale animal agribusiness, farm animal production facilities with housing for more than 40,000 poultry birds, 2,000 growing pigs (over 30 kg), or 750 sows are listed in Annex 2(2).\textsuperscript{83}

### 3.3. EBRD investments

The EBRD granted EUR 218 million to 11 projects in the farm animal sector between 2002 and 2011, with the funding covering 43% of project costs on average. EUR 74.5 million went to projects in Ukraine, EUR 71 million to Russia, the rest to projects in Bulgaria, Romania, Poland, Serbia and Azerbaijan.\textsuperscript{84}

According to the European Commission, over the past 10 years the EBRD has financed 10 capital expenditure projects for farm animal production facilities, including 2 pig production facilities, 2 egg production facilities and one egg production and live bird handling facility.\textsuperscript{85}

#### 3.3.1. Keskinoğlu

The EBRD launched operations in Turkey in 2008. In 2013, the Bank signed its first deal with a primary agricultural production company in the country, stating that agribusiness has a higher potential for growth in Turkey than other sectors. Specifically, Turkey is an increasingly important regional exporter of poultry and eggs.\textsuperscript{86}
The Bank is providing a loan of up to EUR 30 million to Keskinoğlu, an egg and poultry producing company, for the expansion of its egg production facilities and investment in new cogeneration units.\textsuperscript{87}

Keskinoğlu is the largest commercial egg producer in Turkey.\textsuperscript{88} Its facilities produce 4 million eggs per day. It is also the largest exporter of eggs from Turkey. The Keskinoğlu hatchery hatches both commercial broiler and layer chicks. Layer chicks are subjected to hot blade beak trimming at 7-10 days of age. The company also has a broiler site with 100,000 broilers on floor and 80,000 in cages.\textsuperscript{89} The chicken processing facility has a capacity of 400,000 meat chickens per day. Keskinoğlu exports to 75 countries and is the first Turkish firm exporting processed chicken products to EU countries (chicken meat from 2009, and eggs from 2012).\textsuperscript{90} Keskinoğlu group turnover is 600 million dollars.\textsuperscript{91}

The expansion project will include (but is not limited to) the construction of 18 new laying hen facilities at the Rahmiye site, housing an additional three million hens. It is expected to rear a total of more than 3.5 million laying hens within the Rahmiye Project.\textsuperscript{92} The cages are 10 storeys high. Equipment is provided by the German company Big Dutchman.\textsuperscript{93}

Given the potentially significant environmental and social impacts of such large industrial farm animal production facilities, the project was placed in Category A under EBRD’s Environmental and Social Policy – meaning that it required an Environmental Impact Assessment (EIA).\textsuperscript{94}

The EIA found that the company is currently using a non-enriched cage system for its laying hens, failing to comply with EU Farm Animal Welfare Directives in terms of both enrichment and stocking density. The EIA report recommended that stocking densities should be reviewed, enriched cages should be introduced according to EU standards, and additional consideration should be given to the phase-out of processed animal proteins (PAP) to chickens as feed, a practise that has been banned in the EU.\textsuperscript{95}

Keskinoğlu has agreed to procure ‘enrichable’ cages. Once the expansion programme is completed, 60% of the company’s cages will be ‘enrichable’ and 40% will be non-enrichable cages.\textsuperscript{96}

When required by law (currently expected for 2015), the partition between adjacent ‘enrichable’ cages, holding 20 hens each, will be removed, creating one larger cage that holds 28 hens.\textsuperscript{97} Space required per bird is now 550 cm\textsuperscript{2}, but shall increase to 750 cm\textsuperscript{2} in 2015. However, Bank documents do not contain any information about the company’s plans to procure enrichment (nesting boxes, perches etc.) for the cage. Further, Yum Bir – Turkish egg producers association – is pushing for a later deadline for shifting to the larger cages, and they expect to be successful.\textsuperscript{98}

Birds may be moulted when prices are low, but information is not provided on methods for moulting, specifically the level of feed and water withdrawal.\textsuperscript{99} Starvation force moulting regimes raise serious food safety (salmonella) and animal welfare concerns.

The EBRD and Keskinoğlu have stated that they will work together to promote EU compliant animal welfare production techniques in the Turkish poultry industry.\textsuperscript{100}
3.3.2. Kuzbassky Pischekombinat

The Kuzbassky Pischekombinat Company (KPK) produces animal products for sale within Siberia, operating a number of dairy, beef, and pig farms. In 2008, KPK requested € 10 to 20 million in financing from the EBRD to expand its facilities through a series of farm acquisitions, expansions and the construction of new facilities.

Project plans included (but were not limited to) the expansion of a newly constructed pig breeding farm and associated pig fattening farm, doubling the size and capacity of the farm by the end of 2009.

The Dutch government provided € 132,500 to finance the environmental and social due diligence which included a full Environmental Impact Assessment and Audit and public consultations with the local population.

The assessment of KPK facilities revealed that animal welfare conditions on the farm fell short of international standards. While some of the problems, such as poor integrity of housing systems and poor condition of equipment in the dairy and slaughter facilities were to be addressed as part of the proposed investment, there did not appear to be concrete plans in place to bring the pig production facility in line with EU standards for housing. For example, the Environmental Social and Management Monitoring Plan noted that pigs must be able to obtain straw or other suitable material or objects in order to satisfy behavioural needs and to prevent tail biting, and dry pregnant sows and gilts must be given sufficient quantity of bulky high-fibre food in addition to high-energy food.

Further investigation is required to determine whether KPK facilities now meet these recommendations.

3.3.3. Myronivsky Hliboproduct; Globino

The EBRD has invested in animal agribusiness companies also receiving financing from the IFC (please see sections 2.2.2 and 2.2.3.).

3.3.3.1. Myronivsky Hliboproduct (MHP)

From 2000 to 2010 a total of € 332 million in financial support and export credit insurance (see also section 4.2) was granted for MHP projects, including € 40 million from the EBRD.

In April 2010, the EBRD approved an additional USD 65 million loan to MHP. The Environmental Impact Assessment suggested that improvements in animal welfare were needed, possibly indicating that the facility does not comply with current EU standards.

3.3.3.2. Globino

In July 2011 the EBRD provided a USD 25 million loan to Globino to finance the modernisation of the “Globinsky Meat Plant” and the “Globinsky Pig Complex” as well as the construction of a biogas facility and a restructuring of Globino’s balance sheet. “Thus the EBRD is continuing to bolster Ukraine’s strong position as a major producer, processor and
exporter of agricultural commodities via its large-scale programme of investments with major players in the national food and farming sector.108

3.3.4. Sütaş

In October 2013, the EBRD was to approve a long-term loan of up to EUR 50 million to Sütaş Group, one of the leading dairy companies in Turkey. The loan will support the construction of two new integrated milk facilities in Western and Eastern Turkey which will include feed plants, breeding farms, practice farms, educational centres, milk processing plants, reclamation facilities and animal waste power plants. The company will expand its supplier base, providing farmers with access to markets and technical assistance to improve milk output.109 The project description provided on the EBRD website does not mention animal welfare safeguards or standards.

4. Export Credit Agencies

4.1. Germany

The state export credit guarantee scheme (“Hermes Cover”) protects German exporters and banks from the non-payment risks of the export business. The Federal Government of Germany insures the exports and has mandated a consortium consisting of Euler Hermes and PricewaterhouseCoopers to manage the scheme.110 Euler Hermes is the leading export credit insurance company in Germany.111 Decisions about granting export credit guarantees are made by an interdepartmental council, comprised of four ministries and led by the Federal Ministry of Economics and Technology. Notably, the Federal Ministry of Food, Agriculture, and Consumer Protection has not been involved.112

According to the government’s answers to written questions in the German parliament113, Germany provided the following export credit guarantees for farm animal production from 2000 to 2012:

<table>
<thead>
<tr>
<th>year</th>
<th>recipient country</th>
<th>type of goods</th>
<th>insured sum (million €)</th>
<th>number of animals; housing system</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>Kazakhstan</td>
<td>equipment for chicken farm</td>
<td>3.28</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Turkey</td>
<td>housing facility for laying hens</td>
<td>2.92</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Turkey</td>
<td>housing facility for poultry</td>
<td>0.60</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>Turkey</td>
<td>housing facility for laying hens</td>
<td>1.65</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>Serbia</td>
<td>equipment for laying hen facility</td>
<td>0.27</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>Belarus</td>
<td>housing facility for laying hens</td>
<td>0.82</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>Belarus</td>
<td>housing facility for laying hens</td>
<td>0.63</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>Uzbekistan</td>
<td>housing facility for laying hens</td>
<td>1.45</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Belarus</td>
<td>housing facility for laying hens</td>
<td>0.29</td>
<td>Cage</td>
</tr>
<tr>
<td>2008</td>
<td>Russia</td>
<td>pig rearing facility</td>
<td>6.79</td>
<td></td>
</tr>
</tbody>
</table>
### Table: Equipment for Poultry and Livestock Facilities

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Facility Type</th>
<th>Amount</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>Kazakhstan</td>
<td>equipment for poultry farm</td>
<td>0.92</td>
<td>Cage</td>
</tr>
<tr>
<td></td>
<td>Croatia</td>
<td>equipment for pig rearing</td>
<td>1.54</td>
<td>2,000 animals</td>
</tr>
<tr>
<td></td>
<td>Russia</td>
<td>equipment for laying hen facility</td>
<td>1.06</td>
<td>Cage</td>
</tr>
<tr>
<td></td>
<td>Ukraine</td>
<td>equipment for poultry farm</td>
<td>10.28</td>
<td>Floor</td>
</tr>
<tr>
<td></td>
<td>Belarus</td>
<td>housing facility for poultry</td>
<td>4.04</td>
<td>Cage</td>
</tr>
<tr>
<td></td>
<td>Croatia</td>
<td>sow farm</td>
<td>1.47</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Belarus</td>
<td>chick rearing facility</td>
<td>2.00</td>
<td>Cage</td>
</tr>
<tr>
<td></td>
<td>Belarus</td>
<td>housing facility for laying hens, including equipment</td>
<td>1.19</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>Uzbekistan</td>
<td>equipment for poultry farm</td>
<td>0.59</td>
<td>Cage; 112,000 animals</td>
</tr>
<tr>
<td></td>
<td>Belarus</td>
<td>equipment for poultry farm</td>
<td>0.41</td>
<td>Cage</td>
</tr>
<tr>
<td></td>
<td>Belarus</td>
<td>equipment for laying hen facility</td>
<td>0.21</td>
<td>Cage</td>
</tr>
<tr>
<td></td>
<td>Cyprus</td>
<td>poultry breeding facility</td>
<td>5.31</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>Russia</td>
<td>pig breeding facility</td>
<td>21.50</td>
<td>5,245 sows, 115,000 pigs</td>
</tr>
<tr>
<td></td>
<td>Ukraine</td>
<td>housing facility for laying hens</td>
<td>21.74</td>
<td>Cage; 5 million</td>
</tr>
<tr>
<td></td>
<td>Ukraine</td>
<td>chick rearing facility</td>
<td>4.65</td>
<td>Cage; 2.5 million</td>
</tr>
<tr>
<td></td>
<td>Belarus</td>
<td>equipment for laying hen facility</td>
<td>1.56</td>
<td>Cage</td>
</tr>
<tr>
<td></td>
<td>Belarus</td>
<td>equipment for laying hen breeding</td>
<td>1.92</td>
<td>Cage</td>
</tr>
<tr>
<td></td>
<td>Turkey</td>
<td>poultry farming systems</td>
<td>1.76</td>
<td>Cage</td>
</tr>
</tbody>
</table>

This means that in the poultry sector alone in the last four years € 40.86 million in credit insurance was granted for the construction of cage systems. The use of these cage systems (both barren and enriched) is banned in Germany.

The use of cages for broiler chickens is in effect banned in the EU as Council Directive 2007/43/EC requires all chickens to have permanent access to litter. Nonetheless the German Government in 2009 insured exports for the construction of 12 operations in Belarus, where the broilers are being kept in cages. (This insurance was divided in three parts, two of which concerned all the equipment apart from the cages themselves, while no information is given on the third part. Thus, it remains unclear, whether or not the cages too were supplied by German companies.)

Equipment for the expansion of Keskinoağa, which has also been supported by the EBRD (see 3.3.1), is provided by the German company Big Dutchman. However, it is unclear whether the € 1.76 million in export credit guarantees granted to projects in Turkey in 2012 relates to the Keskinoağa project or another project in the poultry sector.

The provision of such export guarantees by the German government seems to contradict the response by the Federal Ministry of Economics and Technology to written questions in the German parliament regarding animal welfare criteria for export credits, in which they stated that “usually equipment delivered from Germany complies with EU standards, when the Federal Government accepts an export credit guarantee”.

### 4.1.1. Avangardco, Ukraine

EU ECAs have supported companies selling confinement housing systems to Ukrainian agribusiness giant Avangardco Investments Public Ltd.
Avangardco IPL (incorporated in Cyprus) claims to be one of the largest agro-industrial companies in Ukraine, and the largest producer of shell eggs and egg products in Eurasia (2nd in the world). It accounts for more than 75% of Ukraine’s egg product exports.\(^{117}\)

77.5% of Avangardco shares belong to UkrLandFarming\(^{118}\), owner of 480,000 ha land in Ukraine, which is 100% owned by billionaire Oleg Bakhmatyuk.\(^{119}\) The rest of shares are in free float after Avangardco entered the London Stock Exchange (the 2nd Ukrainian agro-industry group after MHP to do this). UkrLandFarming is based in Cyprus.\(^{120}\)

In 2012 Avangardco increased its export volumes of shell eggs by 74.9% to 516 million units (2011: 295 million units). As of September 30, 2012, the company exported its products to 34 countries, mostly in the Middle East, Asia and the CIS countries, with Iraq, Turkmenistan, Liberia and UAE being among the main export markets for the company’s shell eggs.\(^{121}\)

Several production facilities of the company have already been certified and passed all the necessary quality and veterinary checks to start export of eggs into the EU. Following the conclusion of final agreements Avangardco expects that it will start the supply of shell eggs and egg products into the EU market in 2013.\(^{122}\) According to a company press release, by 2010 Avangardco had already “been approached by a number of large consumers of shell eggs and egg products in leading European Union countries and [was] confident that this presents a significant and obtainable market opportunity for the Company.”\(^{123}\)

Avangardco’s total poultry flock in 2012 was up by 9.6% year-on-year, with the population of laying hens increasing by 11.2% year-on-year to 22.8 million (in 2011 20.5 million).\(^{124}\) The increase in poultry flock in 2012 was due to the construction and launch of new capacities at poultry complexes “Chornobaivske” and “Avis”.\(^{125}\)

4.1.1.1. **Chornobaivske**

In 2011, Avangardco developed plans for a poultry farm with a capacity of 5 million laying hens in the south-east of Ukraine (Belozersky district, Kherson region). The project included the construction of a rearing station (1.5 million birds), a compound feed plant, a slaughterhouse, an egg grading and packing plant, and a biogas plant with a thermal power output of 16.5 MWth.\(^{126}\)

According to the 2011 Environmental Impact Analysis\(^{127}\), the project included 30 windowless poultry houses (10 in the “rearing flocks area” and 20 in the “commercial poultry area”). Each poultry house contained 7 rows of battery cages with 6 tiers of cages in each row. The cages are produced by the German company Salmet.

The German government mandated Euler Hermes in March 2012 to grant export credit insurance amounting to € 21.74 million for the installation of 14 poultry houses. The delivery of the poultry houses was scheduled for March 2013.\(^{128}\) While the recipient of this fund is unclear from the documents provided by the German government, based on the dates, this appears to be related to the Chornobaivske facility.
4.1.1.2. Avis

Avangardco also invested in Avis, an egg production facility housing three million laying hens, in the Khmelnytskyi region of Ukraine. While recent additions to the farm have focused on related enhancements – such as a facility for raising chicks/pullets till the age of lay (birth to 20 weeks), the development of egg grading/packing plants, and a biogas plant – the farm itself is a battery cage egg production facility.\(^{129}\)

In March 2012, the German government mandated Euler Hermes to grant export credit insurance amounting to € 4.65 million for the installation of four poultry rearing facilities. The delivery was scheduled for March 2013.\(^{130}\) Due to the unclear description of the project in the EIA and the sparse information given by the German government, it remains unclear whether or not this insurance is related to the Avis project. But according to an investigation by German broadcasting corporation ZDF, the cages for the Avis project are supplied by German enterprise Big Dutchman, backed by Euler Hermes credit insurance.\(^{131}\)

SACE (ECA of Italy) also has received an application for insurance coverage for the construction of two plants for the breeding of poultry as part of the Avis project.\(^{132}\)

Thus, it seems that support for four of the six new poultry buildings has come from Germany, and support for two others from Italy.

4.1.1.3. Cages used at “Avis” and “Chornobaivske”

At these two complexes, the company uses equipment from Officine Facco & C. SpA (Italy), Big Dutchman International GmbH (Germany) and Salmet International GmbH (Germany). According to a press release by the company, enriched cages used at the poultry farms meet the European Council Directive 1999/74/EC on the protection of laying hens.\(^{133}\)

However, the German Government’s response to a written question in parliament stated that “in both cases a battery cage system will be applied. Cage size complies with Ukrainian standards. According to the state of the Federal Government’s knowledge, these provide 400 to 450 cm\(^2\) (+/- 10%) for white laying hens and 500 to 550 cm\(^2\) (+/- 10%) for brown laying hens.”\(^{134}\)

Asked, if the “planned housing systems comply with German or EU laws”, the Government responded: “No. Here the international requirements set by the OECD environment guidelines
are the relevant examination criteria for granting export credit guarantees. ... In the present case, according to the information given, Ukrainian standards are met."135

4.2. The Netherlands

From 2003 to 2011, the Dutch Export Credit Agency Atradius Dutch State Business insured exports for 67 projects related to farm animal production, covering a total amount of € 94.5 million, predominantly in Ukraine (25 projects, € 154 million) and Russia (23 projects, € 74 million). Environmental and social impact assessments are carried out for projects exceeding the sum of € 10 million.136 Atradius also carries out social and environmental due diligence assessments for transactions of less than € 10 million, when a sensitive sector or region area is involved. Large-scale agriculture, including large-scale animal farming, is classified as a sensitive sector.137

In March 2012, the Second Chamber of the Dutch Parliament passed a resolution calling on the government not to contribute to the financing of mega-sized2 livestock operations abroad in any way. Despite this resolution, in April/May 2012 Atradius granted credit insurances of € 8.7 million to MHP for the Vinnitsa project, where the chicken stocks will be 74 times higher than the legal maximum for one operation in the Netherlands. In 2011 Atradius had already granted credit insurances of € 62.24 million related to MHP.138

In total, the Dutch Export Credit Agency has granted credit insurances of € 174 million for MHP projects in the past 10 years, about € 80 million of which were destined for the Vinnitsa operation.139

Swiss Export Risk Insurance granted insurance for a feed facility on the Vinnitsa complex.140

4.3. Austria

In the past ten years, the Austrian ECA Oesterreichische Kontrollbank AG granted 15 export credit guarantees for pig and cattle housing equipment and construction. The majority of the credit guarantees, € 1.31 million, were directed towards projects in Ukraine between 2009 and 2012, while an additional € 640,000 supported projects in Croatia, Slovakia, Romania, and the Czech Republic.141

---

2 Defined as bigger than 300 Nederlandse Grootte Eenheid (NGE), equating to 7,500 rearing pigs, 1,200 sows, 220,000 broilers, 120,000 laying hens, 2,500 veal calves or 250 dairy cows in one operation.
5. Conclusions and Recommendations

International Finance Institutions, like the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), have been granting investment capital to large-scale animal agribusiness companies in developing and transition countries (including China, Russia, Ukraine and Turkey) where animal welfare standards considerably fall short of EU standards.

Export Credit Agencies of EU countries have also been providing export insurances for the construction and equipment in agribusiness operations that do not meet the exporting countries’ own farm animal housing standards.

Thus, public money of EU countries is used to support the establishment of housing systems in third countries that are outlawed in the EU. This merely transplants the objectionable practices from the EU to developing or transition countries.

There are currently no binding animal welfare standards governing the IFIs’ investments in the farm animal sector. The IFC’s Good Practice Note (GPN) on Animal Welfare in Livestock Operations provides some guidance on animal welfare in agribusiness, but is neither sufficiently specific nor binding. Other safeguards and standards espoused by the World Bank Group, including the World Bank’s Safeguard Policies and the IFC’s Environmental, Health, and Safety Guidelines fail to make any mention of animal welfare apart from pointing to the GPN.

Therefore, there is a need for a separate Performance Standard on Animal Welfare. Standards set by EU legislation can serve as a basis for minimum requirements. A binding Performance Standard on Animal Welfare will not only help guarantee higher animal welfare standards within the IFC’s investments, but also within the investments of regional development banks and other Equator Banks who similarly lack binding animal welfare safeguards.

EU member states, the European Union, and the EBRD should also develop and implement their own animal welfare policies relating to the use of public monies for agricultural investments in third countries. Once again, these standards must meet or exceed those required by the EU Farm Animal Welfare Directives. For an EU controlled bank like the EBRD, it seems particularly inadequate to support the construction of farm animal housing systems that fall short of animal welfare standards applied by EU countries.

It has to be mentioned that the farm animal welfare standards set by the EU directives still require significant improvement, especially with regard to meeting the animals’ behavioural needs. However, it can be expected that animal welfare standards will continue to rise in the EU, due to the importance of animal welfare in public opinion. Thus EBRD investment grants should be tied to the application of best practice animal welfare standards that exceed the current EU legal minimum.

Regarding ECAs, it seems to be double-faced to grant export insurances for the construction and equipment in agribusiness operations that do not meet the exporting countries’ own farm animal housing standards, e.g. cage systems for laying hens or broilers. Such a policy prolongs the suffering of animals from poor housing conditions, is contradictory to the values of EU citizens, and can not expect approval by public opinion. Some of the recipient countries (e.g. Ukraine) are in the final stages of negotiating Free Trade Agreements covering
agricultural goods with the EU. Therefore it should be in the utmost interest of the Member States of the European Union to promote EU standards for animal welfare, especially when it comes to the usage of investment and funding capital.

**Key Recommendations**

- Include animal welfare standards in the World Bank’s Safeguard Policies, the IFC’s EHS Guidelines, and farm animal initiatives supported by the World Bank Group (i.e. the Global Agenda for Action for Sustainable Livestock Sector Development).

- The IFC should introduce a Performance Standard for Animal Welfare.

- Support the development of a progressive animal welfare policy by the EBRD with the introduction of binding animal welfare criteria, and stimulate similar processes within other regional development banks using public money.

- Employ, at minimum, EU farm animal welfare standards when evaluating potential IFI investments in the farm animal sector.

- EU countries should not grant nor support granting any investment capital towards agribusiness operations outside the European Union, unless they meet EU standards for animal welfare.

- Tie export credit insurances, at minimum, to the EU animal welfare standards.

---


6. Answer by Austrian Minister of Finance Maria Fekter to Written question by Member of Parliament Petra Bayr (14497/AB XXIV. GP), 19 July 2013. 


9. Ibid.


