

International Finance Institutions hamper transition to higher welfare systems in animal production

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Abstract: 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 that considerably fall short of EU animal welfare 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 outlawed in the EU in third countries like Turkey or Ukraine. This merely transplants the objectionable practices from the EU to transition countries and may, together with free trade agreements, contribute to the competitive disadvantage of EU farmers who meet higher animal welfare standards than the recipients of IFI agribusiness financing or the beneficiaries of export credit insurances.

These practices grossly obstruct the transition to higher welfare systems as initiated by EU policy in some fields of animal production. On the one hand, IFIs are missing the opportunity to support this transition by linking their financing to the implementation of higher welfare housing systems. On the other hand, such financing practices might create an unfair competitive situation for farmers applying these systems, both in EU countries and in recipient countries.

There are currently no binding animal welfare standards governing the IFIs' investments in the farm animal sector. In order to support the transition to higher welfare housing systems, all IFI financing and all export credit guarantees should be tied to binding animal welfare standards that at least do not fall short of EU standards. As a first step, the EBRD has just announced to address animal welfare by introducing binding criteria for financing practices in 2014.

Keywords: animal welfare, international finance institutions, export credit agencies, investments, farm animals, laying hens, European Union

Introduction

One of the main transition issues for further developing animal production in ethical terms is improving the welfare of the animals kept in agricultural operations.

Efforts to enhance 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.

Animal welfare is gaining increased attention from governmental agencies, academic institutions, food retailers, and producers worldwide. Driven by public opinion, governments throughout the world 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.

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 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.

On the other hand, IFIs as well as ECAs of EU countries continue to provide financial support for large-scale farm animal operations that do not comply with best industry practice nor even with the minimum standards as laid down in the EU directives.

In the following, the current policies of selected IFIs and ECAs are outlined and exemplified using case studies, and their (current and potential) impacts on a transition to higher welfare systems in farm animal production are assessed.

International Finance Institutions

International Finance Corporation

The International Finance Corporation (IFC) is part of the World Bank Group and has identified agribusiness as a key investment area. Between 2001 and 2010, Russia (EUR 190 million) and Ukraine (EUR 173 million) were the largest recipients of IFC agribusiness financing.¹³³ All of these projects were classified in category B (no environmental impact assessment), despite the fact that industrial farm animal production facilities have been known to have significant negative impacts on the environment and surrounding communities.¹³⁴

There are currently no binding animal welfare standards governing the World Bank Group's programs or investments in the farm animal sector, neither in the World Bank's Safeguards nor in the IFC's Performance Standards or EHS Guidelines. The IFC's Good Practice Note on Animal Welfare in Livestock Operations (GPN) is just a set of voluntary guidelines and general recommendations.¹³⁵ 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 launched a process to update the GPN in light of developments in animal welfare policy and practice during the last seven years. The IFC's Environmental, Health, and Safety

¹³³ Both Ends and Nicolaas Pierson Foundation (2012). Nederlands geld – Vreemd vlees. <http://www.ngpf.nl/wp-content/uploads/Nederlands-geld-vreemd-vlees.pdf> Accessed on May 21, 2013.

¹³⁴ Pew Commission on Industrial Farm Animal Production (2008). Putting meat on the table: industrial farm animal production in America. <http://www.ncifap.org/bin/e/j/PCIFAPFin.pdf> Accessed on May 21, 2013.

¹³⁵ International Finance Corporation (2006). Good Practice Note on Animal Welfare in Livestock operations. http://www1.ifc.org/wps/wcm/connect/7ce6d2804885589a80bcd26a6515bb18/AnimalWelfare_GPN.pdf?MOD=AJPERES&CA-CHEID=7ce6d2804885589a80bcd26a6515bb18 Accessed on May 13, 2013.

Guidelines began a 3 year review process starting in 2013.¹³⁶ Currently these EHS Guidelines just 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”.¹³⁷ 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.¹³⁸

European Bank for Reconstruction and Development

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.¹³⁹

As of January 2013, the Bank had financed more than 3,644 projects at a cost of EUR 78.9 billion¹⁴⁰, almost one-tenth of which was devoted to the agribusiness sector.¹⁴¹ The EBRD uses a broad range of financing instruments including loans, equity investments and guarantees. The average investment is EUR 25 million.¹⁴² According to the European Commission, over the past 10 years the EBRD has financed 10 capital expenditure projects for farm animal production facilities.¹⁴³ Between 2002 and 2011 EUR 74.5 million went to projects in Ukraine, and EUR 71 million to Russia.¹⁴⁴

The Bank has stated that they lack a specific approach to animal welfare¹⁴⁵ and are aware of the fact that there is “a gap in current policy requirements”.¹⁴⁶ Thus, the EBRD has also been financing agribusiness facilities employing forms of extreme confinement that have been phased out in the EU, like battery cages.¹⁴⁷

However, at a European Parliament event in November 2013, the Bank announced that it is in 2014 planning to adopt binding standards for animal welfare in its revised Environmental and

¹³⁶ International Finance Corporation.

http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Sustainability+Framework/Environmental,+Health,+and+Safety+Guidelines/EHS+Guidelines+Technical+Revision/

¹³⁷ Answer by Austrian Minister of Finance Maria Fekter to Written question by Member of Parliament Petra Bayr (14497/AB XXIV. GP), 19 July 2013. www.parlament.gv.at/PAKT/VHG/XXIV/AB/AB_14497/index.shtml Accessed October 16, 2013

¹³⁸ Bundesministerium für Wirtschaft und Technologie. Answer to written question in the German Parliament. June 10, 2013. Bundestag-Drucksache 17/13843. <http://dip21.bundestag.de/dip21/btd/17/138/1713843.pdf> Accessed on October 17, 2013.

¹³⁹ European Bank for Reconstruction and Development (2012). Our Shareholders.

<http://www.ebrd.com/pages/about/who/shareholders.shtml> Accessed on May 21, 2013.

¹⁴⁰ European Bank for Reconstruction and Development (2013). About the EBRD.

<http://www.ebrd.com/downloads/research/factsheets/about.pdf> Accessed on May 21, 2013.

¹⁴¹ European Bank for Reconstruction and Development (2012). Agribusiness.

<http://www.ebrd.com/pages/sector/agribusiness.shtml> Accessed on May 21, 2013.

¹⁴² European Bank for Reconstruction and Development (2013). About the EBRD.

<http://www.ebrd.com/downloads/research/factsheets/about.pdf> Accessed on May 21, 2013.

¹⁴³ Parliamentary questions - Answer given by Mr Borg on behalf of the Commission, 20 August 2013 (E-007559/2013) www.europarl.europa.eu/sides/getAllAnswers.do?reference=E-2013-007559&language=EN Accessed October 16, 2013

¹⁴⁴ Both Ends and Nicolaas Pierson Foundation (2012). Nederlands geld – Vreemd vlees. <http://www.ngpf.nl/wp-content/uploads/Nederlands-geld-vreemd-vlees.pdf> Accessed on May 21, 2013.

¹⁴⁵ European Bank for Reconstruction and Development (2013). Animal Welfare into Focus.

<http://www.ebrdblog.com/wordpress/2013/02/animal-welfare-into-focus/> Accessed on May 21, 2013.

¹⁴⁶ Mettetal, G. (EBRD), 30 July 2013, pers. comm.

¹⁴⁷ European Bank for Reconstruction and Development (2012). Keskinoglu.

<http://www.ebrd.com/pages/project/psd/2012/42787.shtml> Accessed on May 21, 2013.

Social Policy, in which there will be a commitment to apply EU animal welfare standards to all projects involving farm animals.

Responding to a parliamentary question, EU Health Commissioner Tonio 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”.¹⁴⁸

Case study 1: Pigs

The IFC provided Muyuan Foodstuff, one of the largest hog breeders in China, with an equity investment of USD 9.59 million in 2010¹⁴⁹ and a loan investment of USD 20 million in 2012¹⁵⁰ to increase Muyuan’s annual hog production capacity from 0.5 million to 1.35 million. The IFC-financed projects involved the construction of large-scale commercial hog farms (capacities of up to 300,000 hogs/year) and sow breeder farms.

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 pregnancy – preventing them from turning around or even making many simple postural adjustments for most of their lives. Continuous confinement in sow stalls has been banned in the EU, 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”. Muyuan is now piloting group housing systems, utilizing electronic sow feeders, on a small portion of their facility, and the IFC has committed to working with the company to promote these improved housing systems.¹⁵¹

Case study 2: Laying hens

In 2013, the EBRD granted a loan of up to EUR 30 million to Keskinoglu, an egg and poultry producing company, mainly for the expansion of its egg production facilities.¹⁵²

Keskinoglu is the largest commercial egg producer in Turkey.¹⁵³ Its facilities produce 4 million eggs per day. It is also the largest exporter of eggs from Turkey. Keskinoglu 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.¹⁵⁴ Keskinoglu exports to 75 countries and is the first Turkish firm exporting processed chicken products to EU countries (meat from 2009, and eggs from 2012).¹⁵⁵

¹⁴⁸ Parliamentary questions - Answer given by Mr Borg on behalf of the Commission, 29 August 2013 (E-007102/2013) www.europarl.europa.eu/sides/getAllAnswers.do?reference=E-2013-007102&language=EN Accessed October 16, 2013

¹⁴⁹ International Finance Corporation. 2010. Muyuan Pig: summary of proposed investment. http://www.ifc.org/ifcext/spiwebsite1.nsf/ProjectDisplay/SPI_DP29089 Accessed on May 21, 2013.

¹⁵⁰ International Finance Corporation (2012). Muyuan Loan: environmental and social review summary <http://www.ifc.org/ifcext/spiwebsite1.nsf/ProjectDisplay/ESRS32156?OpenDocument> Accessed on May 21, 2013.

¹⁵¹ *ibid.*

¹⁵² Pyrkalo S. (2013). First EBRD loan to poultry producer in Turkey. European Bank for Reconstruction and Development. February 4, 2013. <http://www.ebrd.com/pages/news/press/2013/130204.shtml> Accessed on May 21, 2013.

¹⁵³ Environ UK Limited (prepared for Keskinoglu) (2012). Egg-laying poultry facility project: non-technical summary. <http://www.ebrd.com/pages/project/eia/42787.pdf> Accessed on May 21, 2013.

¹⁵⁴ Carlton, S. (2012). Nuffield Poultry Group Study Tour to Turkey 2012. <http://www.bembtrust.org.uk/assets/Turkey%20tour.pdf> Accessed on October 1, 2013

¹⁵⁵ Keskinoglu (2013). About Us. <http://www.keskinoglu.com.tr/L/EN/> Accessed on May 21, 2013.

The expansion project includes the construction of 18 new laying hen facilities at the Rahmiye site, boosting the number of animals there from 0.5 to more than 3.5 million laying hens.¹⁵⁶ The cages are 10 storeys high. Equipment is provided by the German company Big Dutchman.¹⁵⁷

The Environmental Impact Assessment (EIA) found that the company is currently using a non-enriched cage system for its laying hens, failing to comply with EU directives in terms of both enrichment and stocking density. Further, processed animal proteins (PAP) are used as chicken feed, a practise that has been banned in the EU.¹⁵⁸

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.¹⁵⁹ When required by law, the partition between adjacent 'enrichable' cages, holding 20 hens each, will be removed, creating one larger cage that holds 28 hens. Space required per bird is now 550 cm², but might increase to 750 cm² in 2015 (expected to be delayed to later date).¹⁶⁰

The EBRD and Keskinoğlu have stated that they will work together to promote EU compliant animal welfare production techniques in the Turkish poultry industry.¹⁶¹ However, Bank documents do not contain any information about plans to procure enrichment (nesting boxes, perches etc.) for the cages.

Case study 3: Broiler chickens

The Ukrainian agricultural giant Myronivsky Hliboproduct (MHP) is already one of the largest poultry producers in Europe.¹⁶² MHP is a long term client of the IFC. MHP Board Member John Rich is a specialist agri-business consultant for the IFC and IFC invested clients.¹⁶³

Already accounting for half of Ukraine's poultry production, MHP has ambitious plans for further growth¹⁶⁴, 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 2012.¹⁶⁵ 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 Vinnitsa region.¹⁶⁶

¹⁵⁶ Environ UK Limited (prepared for Keskinoğlu) (2012). Egg-laying poultry facility project: non-technical summary. <http://www.ebrd.com/pages/project/eia/42787.pdf> Accessed on May 21, 2013.

¹⁵⁷ Carlton, S. (2012). Nuffield Poultry Group Study Tour to Turkey 2012. <http://www.bembtrust.org.uk/assets/Turkey%20tour.pdf> Accessed on October 1, 2013

¹⁵⁸ Environ UK Limited (prepared for Keskinoğlu) (2012). Egg-laying poultry facility project: supplementary information. <http://www.ebrd.com/pages/project/eia/42787sm.pdf> Accessed on October 12, 2013.

¹⁵⁹ European Bank for Reconstruction and Development (2012). Keskinoğlu. <http://www.ebrd.com/pages/project/psd/2012/42787.shtml> Accessed on May 21, 2013.

¹⁶⁰ Carlton, S (2012). Nuffield Poultry Group Study Tour to Turkey 2012. <http://www.bembtrust.org.uk/assets/Turkey%20tour.pdf> Accessed on October 1, 2013

¹⁶¹ Pyrkalo S. (2013). First EBRD loan to poultry producer in Turkey. European Bank for Reconstruction and Development. February 4, 2013. <http://www.ebrd.com/pages/news/press/2013/130204.shtml> Accessed on May 21, 2013.

¹⁶² International Finance Corporation (2013). MHP environmental and social review summary www.ifc.org/IFCExt/spiwebsite1.nsf/DocsByUNIDForPrint/B1548C84ED6097A985257AA800585CA6?opendocument Accessed on May 21, 2013

¹⁶³ MHP. Board of Directors. <http://www.mhp.com.ua/en/about/board> Accessed on May 28, 2013.

¹⁶⁴ MHP Vinnitsa Management Presentation, September 2010. <http://www.mhp.com.ua/library/file/mhp-vinnitsa-presentation-sept-22-2010-analyst-day-1-15.pdf>, Accessed on May 23, 2013

¹⁶⁵ International Finance Corporation (2013). MHP environmental and social review summary www.ifc.org/IFCExt/spiwebsite1.nsf/DocsByUNIDForPrint/B1548C84ED6097A985257AA800585CA6?opendocument Accessed on May 21, 2013

¹⁶⁶ International Finance Corporation. "IFC Lends to Ukrainian Poultry Producer MHP to Help Firm Expand, Create Jobs", January 14, 2013. <http://ifcext.ifc.org/ifcext/Pressroom/IFCPressRoom.nsf/0/955200B0FE1A0E9085257AF3003FE8D8> Accessed on October 13, 2013.

From 2000 to 2010 a total of EUR 332 million in financial support and export credit insurance was granted for MHP projects, including EUR 40 million from the EBRD.¹⁶⁷

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 needed¹⁶⁸, possibly indicating that the facility does not comply with current EU standards.

Despite a resolution by the Second Chamber of the Dutch Parliament calling on the government not to contribute to the financing of mega-sized livestock operations abroad in any way, in April/May 2012 the Dutch ECA Atradius Dutch State Business granted credit insurances of EUR 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.¹⁶⁹ In total, Atradius has granted credit insurances of EUR 174 million for MHP projects in the past 10 years, about EUR 80 million of which were destined for the Vinnitsa operation.¹⁷⁰

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.¹⁷¹ The stocking density is reported to be 15.5 chickens per square meter¹⁷², which could fall within minimum EU guidelines (33 kg/m²)¹⁷³, depending on the final weight of the birds. 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.¹⁷⁴ The company sees the EU market as most attractive for exports.¹⁷⁵ First deliveries to EU countries are expected by the end of 2013.¹⁷⁶

Export Credit Agencies

Export Credit Agencies (ECAs) from several EU countries are known to grant export insurances for the construction and equipment of operations that do not meet the exporting countries' own farm animal housing standards.

For example, from 2009 to 2012 the German ECA granted EUR 40.86 million in export insurances¹⁷⁷ for the construction of cage systems for laying hens and broilers in countries like Ukraine, Turkey, Belarus, Kazakhstan and Uzbekistan, despite the fact that the use of these cage systems (both barren and enriched) has been banned in Germany.

¹⁶⁷ Both Ends and Nicolaas Pierson Foundation (2012). *Nederlands geld – Vreemd vlees*. <http://www.ngpf.nl/wp-content/uploads/Nederlands-geld-vreemd-vlees.pdf> Accessed on May 21, 2013

¹⁶⁸ European Bank for Reconstruction and Development: 2009. MHP. <http://www.ebrd.com/english/pages/project/psd/2010/41132.shtml> Accessed on May 21, 2013.

¹⁶⁹ Both Ends and Nicolaas Pierson Foundation (2012). *Nederlands geld – Vreemd vlees*. <http://www.ngpf.nl/wp-content/uploads/Nederlands-geld-vreemd-vlees.pdf> Accessed on May 21, 2013.

¹⁷⁰ Beantwoording vragen van de leden Thieme en Van Dekken over financiering van megastallen in het buitenland (2012). <http://www.rijksoverheid.nl/documenten-en-publicaties/kamerstukken/2012/12/21/beantwoording-kamervragen-over-financiering-van-megastallen-in-het-buitenland.html> Accessed on May 21, 2013.

¹⁷¹ Both Ends and Nicolaas Pierson Foundation (2012). *Nederlands geld – Vreemd vlees*. <http://www.ngpf.nl/wp-content/uploads/Nederlands-geld-vreemd-vlees.pdf> Accessed on May 21, 2013.

¹⁷² National Ecological Center of Ukraine, CEE Bankwatch Network (2012): *Construction and Operation of Vinnitsa Broiler Poultry Farm: Environmental and social aspects*. p. 7

¹⁷³ European Commission. Council Directive 2007/43/EC http://ec.europa.eu/food/animal/welfare/farm/broilers_en.htm Accessed on May 21, 2013.

¹⁷⁴ MHP Press Release "IFC Lends to Ukrainian Poultry Producer MHP to Help Expand, Create Jobs", January 14, 2013 <http://www.mhp.com.ua/en/media/news/details/ifc-lends-to-ukrainian-poultry-producer-mhp-to-help-expand-create-jobs> Accessed on October 13, 2013.

¹⁷⁵ MHP Vinnitsa Management Presentation, September 2010. <http://www.mhp.com.ua/library/file/mhp-vinnitsa-presentation-sept-22-2010-analyst-day-1-15.pdf> Accessed on May 23, 2013

¹⁷⁶ <http://www.mhp.com.ua/library/file/mhp-sa-fs-1hy-2013-final-pr-signed-small.pdf>

¹⁷⁷ Bundesministerium für Wirtschaft und Technologie. Answers to written questions in the German Parliament. September 10, 2012, October 1, 2012. <http://dip21.bundestag.de/dip21/btd/17/106/1710626.pdf>, <http://dipbt.bundestag.de/dip21/btd/17/112/1711266.pdf> Accessed on May 21, 2013.

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 agreed to insure exports for the construction of 12 operations in Belarus, where the broilers are being kept in cages.¹⁷⁸

This practice is counteracting the transition to higher welfare systems in animal production. It is prolonging the suffering of animals from poor housing conditions, is detrimental to the competitiveness of EU agriculture and can not expect approval by the public opinion.

In August 2013, the German State Ministers of Agriculture adopted a resolution calling on the Federal Government to grant export credit guarantees only to such farm animal operations that comply with or exceed national and EU standards.¹⁷⁹

Case study: Avangardco

Avangardco IPL (incorporated in Cyprus) claims to be 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.¹⁸⁰ In 2012 Avangardco increased its export volumes of shell eggs by 74.9% to 516 million units and exported its products to 34 countries, mostly in the Middle East, Asia and the CIS countries.¹⁸¹ Avangardco's population of laying hens totalled 22.8 million in 2012 (20.5 million in 2011).¹⁸²

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 expected to start the supply of shell eggs and egg products into the EU market in 2013.¹⁸³ 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."¹⁸⁴

In 2011, Avangardco developed plans for the poultry farm "Chornobaivske" with a capacity of 5 million laying hens in 30 windowless poultry houses in the south-east of Ukraine (Kherson region)¹⁸⁵ as well as for the egg production facility "Avis" housing three million laying hens (Khmelnyskyi region).¹⁸⁶ Each poultry house at Chornobaivske contains 7 rows of battery cages with 6 tiers of cages in each row. At these two complexes, the company uses equipment from Officine Facco (Italy), Big Dutchman International (Germany) and Salmat International (Germany).¹⁸⁷

The German government mandated Euler Hermes in March 2012 to grant export credit insurances amounting to EUR 21.74 million for the installation of 14 poultry houses (Chornobaivske) and

¹⁷⁸ Bundesministerium für Wirtschaft und Technologie. Answer to written questions in the German Parliament. October 1, 2012. <http://dipbt.bundestag.de/dip21/btd/17/112/1711266.pdf> Accessed on October 1, 2013.

¹⁷⁹ Agrarministerkonferenz am 30. August 2013 in Würzburg, Ergebnisprotokoll. https://www.agrarministerkonferenz.de/documents/amk_ergebnisprotokoll.pdf Accessed on November 18, 2013

¹⁸⁰ Avangardco (2013). <http://avangard.co.ua/eng/about/address-director-general/> Accessed on May 28, 2013.

¹⁸¹ Avangardco (2013). avangard.co.ua/eng/press-centre/about/e/year/2013/id/222/news_next/1/ Accessed on May 28, 2013.

¹⁸² Avangardco (2012). Key Facts. http://avangard.co.ua/files/Avangard_factsheet_2012.pdf Accessed on May 28, 2013.

¹⁸³ Avangardco (2013). avangard.co.ua/eng/press-centre/about/e/year/2013/id/222/news_next/1/ Accessed on May 28, 2013.

¹⁸⁴ Avangardco IPL. 2010. Half year results statement. http://avangard.co.ua/eng/press-centre/press-releases/e/year/2010/id/34/news_next/1/ August 25. Accessed on May 28, 2013.

¹⁸⁵ Silenko Portal Group, LLC: JSC Chornobaivske. Poultry farm per 5 million commercial laying hens in Belozersky district, Kherson region, Environmental Impact Assessment http://www.agaportal.de/pdf/nachhaltigkeit/eia/eia_ukraine_legehennenfabrik1.pdf Accessed on May 21, 2013.

¹⁸⁶ Budivelnju Alians LLC: Workingdesign of the poultry plant with capacity 3 mln. laying chickens of production herd AVIS CJSC. http://www.agaportal.de/pdf/nachhaltigkeit/eia/eia_ukraine_legehennenfabrik2.pdf Accessed on May 21, 2013.

¹⁸⁷ Avangardco IPL (2012). Financial Results for the first half of 2012. August 30, 2012.

http://avangard.co.ua/files/news/Avangardco_H12012_29_08_2012_ENG_Final.pdf Accessed on May 21, 2013.

EUR 4.65 million for the installation of four poultry rearing facilities (Avis). The delivery was scheduled for March 2013.¹⁸⁸ 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.¹⁸⁹

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 cm² (+/- 10%) for white laying hens and 500 to 550 cm² (+/- 10%) for brown laying hens."¹⁹⁰

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."¹⁹¹

Trade

Granting investment capital to farm animal operations that use extreme confinement housing systems does not only hamper the transition to higher welfare systems in the recipient countries, but may also negatively affect those producers of animal products who – voluntarily or due to improved legislation – changed to housing systems that better consider the animals' ethological and physiological needs.

Some of the beneficiaries of IFI investments capital or ECA insurances have been or are about to gain access to markets like the EU without having to comply with the animal welfare rules applying there. This poses the threat of unfair competitive disadvantages to the farmers in importing countries.

Case study: Ukraine

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.¹⁹² Pursuant to Regulation 798/2008/EC, the import of class B eggs and egg products from Ukraine has been permitted since February 21st, 2013.¹⁹³

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.^{194, 195} Three businesses that form part of the MHP group already secured the right to export their products to the European Union.¹⁹⁶

¹⁸⁸ Herkes, A., Bundesministerium für Wirtschaft und Technologie. Answer to written question in the German Parliament. October 30, 2012. <http://f-ostendorff.de/fileadmin/datensammlung/dateien/Antwort-KA-Hermes2.pdf> Accessed on May 21, 2013.

¹⁸⁹ http://www.sace.it/GruppoSACE/content/en/consumer/services/environment_focus/news/archive/new133.html Accessed on May 23, 2013.

¹⁹⁰ Bundesministerium für Wirtschaft und Technologie. Answer to written question in the German Parliament. September 10, 2012. <http://dip21.bundestag.de/dip21/btd/17/106/1710626.pdf> Accessed on May 21, 2013.

¹⁹¹ *ibid.*

¹⁹² MHP: Pre-close trading update for the fourth quarter and the full year ended 31 December 2012, Press Release, Feb. 1, 2013, <http://www.mhp.com.ua/library/file/mhp-tu-q42012-final.pdf> Accessed on May 23, 2013

¹⁹³ Bundesministerium für Wirtschaft und Technologie. Answer to written question in the German Parliament. June 10, 2013. Bundestag-Drucksache 17/13843. <http://dip21.bundestag.de/dip21/btd/17/138/1713843.pdf> Accessed on October 17, 2013.

¹⁹⁴ Vorotnikov, V. 2013: Ukraine poultry producers see potential in EU market. World Poultry, Jan 7, 2013.

<http://www.worldpoultry.net/Broilers/Markets--Trade/2013/1/Ukraine-poultry-producers-see-potential-in-EU-market-1140117W/> Accessed on May 21, 2013.

¹⁹⁵ MHP: Pre-close trading update for the fourth quarter and the full year ended 31 December 2012, Press Release, Feb. 1, 2013, <http://www.mhp.com.ua/library/file/mhp-tu-q42012-final.pdf> Accessed on May 23, 2013.

¹⁹⁶ European Bank for Reconstruction and Development (2013). MHP Farming.

<http://www.ebrd.com/pages/project/psd/2013/45253.shtml> Accessed on November 4, 2013

Larger volumes of chicken and eggs could be making their way to the EU if Kiev and Brussels ink a free trade agreement.¹⁹⁷ 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”.¹⁹⁸

Conclusions

International Finance Institutions 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.

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 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 Performance Standards fail to make any mention of animal welfare.

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 transition countries and may contribute to the competitive disadvantage of EU farmers who are required to meet higher animal welfare standards than the recipients of IFI agribusiness financing or the beneficiaries of export credit insurances.

On the other hand, there is a huge potential particularly for IFIs to contribute to the transition to higher welfare systems by investing their monies in businesses that are willing to shift to farming systems that better consider the animals' ethological and physiological needs.

Therefore, there is a need for binding standards that apply to all IFI investments and export credit guarantees in the farm animal sector. Standards set by EU legislation can serve as a basis for minimum requirements. A binding 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. The EBRD's announcement that the Bank will adopt binding standards that will apply EU animal welfare standards to all projects involving farm animals is an important first step in this direction.

It has to be mentioned though 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,

¹⁹⁷ Vorotnikov, V. (2013). Ukraine poultry producers see potential in EU market. World Poultry, Jan 7, 2013.

<http://www.worldpoultry.net/Broilers/Markets--Trade/2013/1/Ukraine-poultry-producers-see-potential-in-EU-market-1140117W/> Accessed on May 21, 2013.

¹⁹⁸ <http://www.bilaterals.org/IMG/pdf/eu-ukraine-association-agreement-english.pdf> Accessed on October 18, 2013.

due to the importance of animal welfare in public opinion. Thus EBRD investment grants should ideally 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 detrimental to the competitiveness of EU agriculture and can not expect approval by public opinion.