

Evidence report

Compassion in World Farming / May 2014

Introduction

The report is part of our ongoing work to document the global money trails that prop up the factory-farming industry.

The report details a Compassion in World Farming investigation that examined several intensive-livestock operations, or “factory farms”, and their impacts on the farm animals, as well as local environments and communities. In all cases, the farms had received substantial funding from the European Bank for Reconstruction and Development (EBRD).

Our investigation suggests that, taking the EBRD’s own definition of socially responsible investment, its investments in factory farming fail on every count.

Factory farming is a fundamentally flawed method of food production, and we call on the EBRD to live up to its promise to “follow the highest standards of corporate governance and sustainable development” by ceasing its involvement in the funding of factory farms.

Specifics

This report documents evidence from three EBRD-funded farms, as follows:

Farm/location	Investigation methodology	Issues	EBRD funding	PSD¹
Keskinoğlu, Turkey	On-the-ground photographic/video	Animal welfare / environmental	€30 million	Link
Danosha, Ukraine	Phone interviews, photographic	Social / environmental	€35 million	Link
MHP, Ukraine	Phone interviews, photographic	Social / environmental	€40 million	Link

¹ Project Summary Document

Case studies

1. Keskinöğlu, Turkey

Keskinöğlu is the largest Turkish egg producer, as well as a leading poultry-meat producer, in Turkey. The company is located in Akhisar, near Izmir, in Turkey.

About the loan: The EBRD will provide up to €30m as a long-term loan to Keskinöğlu to support the company's capacity-expansion programme.

Investigation: Our investigation documented a number of issues, as follows:

- **Poor animal handling**

- Brutal catching of chickens, with birds thrown into crates.
- Crates containing live chickens used as a step for workers to place more crates of live chickens onto the back of a flatbed transport lorry.
- Crates of birds falling off the back of the truck onto the ground and into the back of the truck multiple times.
- A large number of chickens were carried by workers from the shed in both hands, suspended by their legs, and placed into crates already on the back of the flatbed truck.
- Crates with live chickens tossed onto the top tier of already stacked cages in the flatbed truck.

- **Worker safety**

- No signs of bio-security precautions being taken – only one worker was seen wearing overalls and wearing a dust mask (there were multiple dead birds littering the shed floor)
- Fire risks from a worker smoking a cigarette exiting the chicken shed and loading broilers onto the truck.

- **Potential water pollution**

- We carried out a visual inspection of Gorduk Creek, which receives a treated discharge of wastewater from the processing/slaughterhouse site. Just downstream (and in view) of the processing site, we documented very discoloured water – it was a greyish colour, suggestive of faecal contamination – and a heavy odour of sewage. There was debris in the water, which could almost certainly be linked back to the processing site including:
 - Thousands of chicken feathers floating down the creek;
 - Chicken feet on the undersides of the creek's bank;
 - Blue plastic gloves, of the kind used in the company's own DVD promo package, entangled in the slower-running sections of the creek.
- Visual inspections of the river were also done just upstream of the site. This section (approx 300 metres from the processing site) was visibly much clearer and free of litter. Several kilometres downstream of the processor, the creek remained discoloured and there was visual evidence that suggested the river was contaminated.

- **Misleading marketing**

- Perhaps in an attempt to conceal the truth about the farm's activities, much of Keskinöğlu's advertising and packaging paints a bucolic picture – cartoon chickens are seen roaming in fields with big smiles on their faces. The reality does not match this depiction.

2. Danosha, Ukraine

Danosha is a subsidiary of the Danish Axzon Group, and has been operating intensive-pig farms in Ukraine since 2004. It runs five industrial farms in the Ivo-Frankivsk region of western Ukraine, with total capacity for 128,000 pigs. Two further farms are under construction and these will increase capacity to 168,000.

About the loan: In February 2014, the EBRD announced it was giving Danosha €35mⁱ in loans to help facilitate its expansion in Ukraine.

Investigation: In the Ivo-Frankivsk region, which is bordered by the Carpathian Mountains and the Dniester River, farms have been managed in much the same way for centuries, and the area's rich wildlife and unspoilt countryside have made it a popular tourist destination. But since Danosha's arrival, local people say that their health, environment and quality of life have changed for the worse.

They have reported a catalogue of problems, many of which can be traced to the vast quantities of concentrated slurry produced by the 20,000 or so pigs that are held on each farm unit.

- **The stench of factory farming:** The untreated slurry is stored in lagoons before being spread on surrounding farmland. When spreading takes place, an overpowering stench is released and villagers complain of headaches, loss of appetite and nausea.
- **Environmental damage:** Local farmers fear that much of the farmland may take years to recover because slurry concentrations are too great for the soil to absorb. There are also concerns that slurry run-off may be polluting ground water and internationally important wetlands in the Halych National Park.
- **Local housing damage:** To make matters worse, Danosha farms have generated a sharp increase in heavy traffic, with feed and slurry being transported through village centres, and cracks have appeared in the masonry of many houses.

A personal experience of Danosha: Maria Vasylivna Antoniv (resident living near a Danosha farm)

When, in 2006, Danosha announced plans for another new industrial farm in the village of Sivka-Vojnylivska, a grassroots protest movement began to emerge. Its leader was Maria Vasylivna Antoniv, a 64-year-old retired school teacher, whose family has lived in the village for generations.

After witnessing first hand the problems created by an established Danosha farm in nearby Luka, Mrs Antoniv was determined to stop the company proceeding with development in her home village. She called a series of public meetings and, as word spread, more and more villagers joined the campaign. In a local referendum, an

overwhelming majority expressed opposition to Danosha being allowed to continue. Villagers began to organise blockades to stop construction work, and, in June 2012, 50 farmers and landowners sued for termination of their lease agreement with Danosha – after first claiming that the villagers had no right to act unilaterally, the company finally agreed to annul the lease in May 2013. However, Danosha is proceeding with the development of two large factory farms elsewhere, at Delieve and Mariajampil, and campaigners fear the company will continue expanding by targeting villages where opposition is less well-organised.

Maria Vasylyvna Antoniv said: “To begin with we were not against Danosha’s plans for our village. It was only when we saw what was happening in Luka that we realised the scale of the operation.

“When slurry spreading is carried out the smell is so strong it’s almost unbearable and we realised that if another farm was built in our village it wouldn’t be possible to carry on living here – that’s why we fought so hard to stop it.”

A personal experience of Danosha: Natalia Kolomiets (National Ecological Centre of Ukraine)

In its corporate literature, Danosha points out that in 2012 it spent €31,000 from its social fund on improvements to village halls, street lights and children’s play areas.ⁱⁱ But campaigners say such minor improvements are far outweighed by the company’s negative impact on local communities.

The Kiev-based National Ecological Centre of Ukraine says Danosha has failed to settle rent arrears for use of land in Sivka-Vojnliska, and has not responded to repeated requests for details of its environmental-impact assessments. It has lodged formal complaints with the EBRD and the IFC.ⁱⁱⁱ In a letter to the EBRD in February 2014, NECU states: “We are particularly concerned about the transparency of the company’s performance, disclosure of environmental information to the affected communities ... and compliance with Ukrainian national legislation.”

Natalia Kolomiets, NECU’s specialist in environmental protection and community development, said Danosha did little to combat rural unemployment because very few people living in villages around its operations were employed there. She said that the company’s industrial-scale intensive-farming methods were completely alien to the traditional livestock farming of the region, and villagers never realised what they were agreeing to when they signed lease agreements.

“The environment and the future of my people is being jeopardised without them being given the chance to take an active role in the decision-making process,” she said.

“People here are used to farming and dealing with farm animals on a daily basis but it is only when these industrial farms are actually constructed that they realise what kind of enterprises they are.”

3. MHP, Ukraine

Myronivsky Hliboproduct (MHP), Ukraine's biggest agro-industrial company, is headed up by Yuriy Kosiuk, one of the country's richest men, who has an estimated personal fortune of \$1.4bn. In 2013, the company began exporting to EU countries for the first time. MHP is the first Ukrainian agro-industrial conglomerate to be listed on the London Stock Exchange.

Its giant Vinnytsia complex – now under development near Ladyzhin, in central Ukraine – will take large-scale industrial farming to new extremes. When it reaches full capacity, up to 35 million chickens will be kept simultaneously in 1,824 rearing houses – making it one of the world's largest poultry farms.

About the loan: In December 2013, the EBRD announced it was granting a €40m loan to MHP to support the expansion and diversification of the group's farming activities.^{iv}

Investigation: The first phase of the Vinnytsia plant sparked a wave of public disquiet in surrounding villages. Soon after construction work began in 2010, wells in Olyanytsya village began drying up, threatening the population's ancient water supply. As heavy construction traffic rolled through the village, cracks appeared in almost every house in the main street. In September 2012, angry villagers mounted a mass protest outside district-council offices in Ladyzhin.^v

MHP had offered assurances that the new plant would use the latest technology and be run according to strict environmental standards. But when it began operating in the summer of 2012, its impact on the local environment became all too apparent. Thousands of tonnes of untreated poultry manure have been dumped in fields at 38 sites around the complex, sending a foul stench across surrounding villages.^{vi} In February 2013, residents of the village of Zaozerne staged public meetings because of growing public anger over the all-pervading smell.

In 2013, local activists filmed and analysed acidic effluent from a slaughterhouse being pumped into fields and woodland near Lukashika, from where it seeped into a nearby river.^{vii}

On its website, MHP states that it employs 3,000 people at Vinnytsia^{viii}, but local groups say that many of these are temporary construction jobs. According to independent estimates, less than 50 people are employed from villages surrounding the plant, and no more than 500 are employed from the wider Ladyzhyn district.

For the workers themselves, pay is poor and there are persistent allegations that employees work more than the statutory maximum of 40 hours a week, with very little time for breaks. Production workers are paid a basic wage of €150 a month, rising to €280 if they reach all their targets. The average wage in Ukraine is €380 a month.

Controversially, even cheaper labour is provided by convicts transported from a nearby prison. In 2013, Andrei Bondarenko, a regional trade-union official, tried to establish a trade-union branch at the Vinnytsia complex, but attempts to get the union branch officially recognised were blocked. He was later dismissed as branch union leader amid allegations of interference by MHP management. In April 2014, *Ladyzhin News* reported that production worker Alexander Tchaikovsky was sacked from the Vinnytsia plant after successfully registering a local trade-union branch. According to the newspaper, he was

later arrested after returning to the plant and handing out leaflets encouraging workers to join the union.^{ix}

Ladyzhin News – a community-based online newspaper run largely by unpaid volunteers – is still operating despite attempts by MHP to launch criminal proceedings against it over coverage of the company's alleged breaches of labour laws, as well as public demands for an end to the use of convict labour. When this action failed, MHP launched a civil lawsuit for loss of earnings.

There have also been public protests over operations of other MHP plants. In 2007, villagers photographed decaying animal parts dumped in a hole in the ground that had no liner to prevent effluent escaping into water courses near MHP's Oril Leader farm complex in Dnepropetrovsk, in eastern Ukraine.^x

The same year, the state authorities prosecuted the company over leakage from a manure dump that contaminated more than 800 square metres of land with effluent run-off.

Like Danosha, MHP has a social fund that has helped finance improvements to schools, parks and leisure centres close to its operations.

But opponents say that such initiatives amount to little more than tokenism. In October 2013, an alliance of Ukrainian environmental organisations sent an open letter to the EBRD highlighting concerns over the company's social and environmental record.^{xi}

Referring to the Vinnytsia complex, the letter states, "the actual number of people employed from the region is very low ... therefore the local population bears the environmental costs of production while it does not receive the economic benefits."

A personal experience of MHP: Andrij Shakodub, civil-rights lawyer and campaigner for the Public Centre for Ecological Control, Ladyzhyn

Andrij Shakodub said MHP's business model was to reduce production costs and increase profits by ignoring the wider interests of the community and local environment.

"The Vinnytsia plant has violated labour laws while at the same time using up water resources and contaminating the local environment with large volumes of waste.

"This has been achieved with the collusion of officials within local government so that MHP has effectively become an arm of the state sector – and trade unions have been powerless to stop it."

He added: "The type of industrial farming practised by MHP is primarily a form of monopolisation. Costs are driven down and large areas of land bought up so that all competitors – small- and medium-sized farms – are destroyed.

"This leads to a significant reduction in tax revenue and both the state and the community get almost nothing back in return."

Conclusion

Our investigation has revealed worrying findings at each of the three EBRD-funded operations.

If it took place within the EU, the rough handling of poultry at Keskinöglü would be in breach of the following provisions of Council Regulation 1/2005 on the protection of animals during transport:

- Article 3, which provides that “No person shall transport animals or cause animals to be transported in a way likely to cause injury or undue suffering to them.” Article 2 defines “transport” as including the loading process.
- Article 3(e), which provides that “the personnel handling animals [must be] trained or competent as appropriate for this purpose [i.e. the transport of animals] and carry out their tasks without using violence or any method likely to cause unnecessary fear, injury or suffering”.
- Paragraph 5.2 of Chapter II of Annex I, which provides that “During transport and handling, containers shall always be kept upright and severe jolts or shaking shall be minimised.”

And this is happening despite explicit mention in the Keskinöglü-EBRD PSD that the loan will also result in “...a number of benefits including improvement to live bird handling”.

Furthermore, it adds insult to injury that Keskinöglü uses deeply misleading marketing to promote its poultry products. Again, if the company was based in the EU, their labelling and advertising, which suggest the birds are reared outdoors, would be in breach of EU law, which prohibits misleading practices. Article 16 of Regulation (EC) No 178/2002 of the European Parliament and of the Council laying down the general principles and requirements of food law provides that “Without prejudice to more specific provisions of food law, the labelling, advertising and presentation of food or feed, including their shape, appearance or packaging, the packaging materials used, the manner in which they are arranged and the setting in which they are displayed, and the information which is made available about them through whatever medium, shall not mislead consumers”.

In addition, Directive 2005/29 deals with unfair commercial practices. Article 5 prohibits misleading practices. Article 6 states that a practice is misleading “if it contains false information and is therefore untruthful or in any way, including overall presentation, deceives or is likely to deceive the average consumer”.

Even the company’s promotional DVD claims that their broiler chickens “...are raised in conditions that meet and well surpass the requirements of the EU in terms of animal welfare”.

The operations by Danosha and MHP in Ukraine have many characteristics in common. Both were presented to national and local agencies (and the EBRD) as promising significant boosts to the local economy; in both cases, the number of jobs provided to people living in the surrounding countryside has been very low. Both enterprises promised that their factory farms would be operated to the strictest environmental standards; in both cases, local campaigners claim environmental-impact assessments have been illegally withheld from the public; in both cases, local people have been affected by foul smells from untreated animal and biological waste, structural damage to homes from heavy lorry traffic, depletion of ground water supplies and pollution of land and rivers; in both cases, villagers say they were misled over the scale and nature of development; and, in both cases, farmers and landowners say land has been appropriated without agreement or proper compensation.

And there are also animal-welfare concerns at the Danosha and MHP operations. For example, Danosha's website shows pigs in barren cages with no sign of enrichment material as required under Council Directive 2008/120/EC, as well as sows in cramped farrowing crates that barely leave them space to lie down. At MHP, the EBRD's own 2010 Environmental Impact Assessment suggested that improvements in animal welfare were needed.^{xii}

Exporting the worst kinds of farming

In MHP's case, there is particular concern because in 2013 the company began exporting to EU countries for the first time – raising the possibility of EU chicken producers being undercut by subsidised non-EU producers with lower welfare standards. This may also be the case with Keskinöglü, which claims to have export approval from the British Retail Consortium.

Choosing value over values?

The EBRD makes a virtue of its position as “the first Multilateral Development Bank which has an explicit requirement in its mandate to ensure environmentally sound and sustainable development in the full range of [its] investment activities.” Under the heading “Socially Responsible Investments”, its corporate website states that the bank seeks to ensure that the projects it finances are “socially and environmentally sustainable”, “respect the rights of affected workers and communities” and “are designed and operated in compliance with applicable regulatory requirements and good international practices”.

Our investigation suggests that, taking the EBRD's own definition of socially responsible investment, its investments in factory farming fail on every count. Wherever we looked, we found problems, and these are not isolated incidents.

This is not about factory farming done better – this is about moving away from a fundamentally flawed system of food production. A growing body of organisations agree with us on this point.

The EBRD should live up to its promise to “follow the highest standards of corporate governance and sustainable development”. We call on the EBRD to cease its involvement in the funding of factory farms.

This report highlights a unique opportunity for development banks, such as the EBRD, to take a leadership role in promoting the right kinds of food production.

Annex – investigation imagery

Keskinoğlu



A worker smokes a cigarette while he loads up the chickens. A clear fire risk when working in broiler chicken sheds where litter is present.



A crate of live chickens falls off the back of the lorry tailgate – just one of several to fall while filming.



Throughout filming, the workers used four crates of live birds as a step to load other crates.



One of many dead birds found in the shed – likely to have died from stress during the catching process.



We document one catcher throwing birds violently into crates, resulting in loud vocalisations from the birds.



At another shed, chickens are loaded directly into the lorry by hand in large handfuls. In the supporting documents provided to the EBRD, the issue of carrying large groups of birds suspended by their legs was noted as a particular welfare concern, yet despite funding, still continues.



Very close to the Keskinoğlu processing plant, chicken feet were noted floating in Gorduk Creek. The plant discharges "treated wastewater" to this river.



Waste from a Keskinoglu laying-hen/broiler unit outside the perimeter fence. Waste documented here included chickens, chicken manure, plastics and discoloured wastewater pools. The area was not fenced off, so could be accessed by the public.



Keskinoglu advertising showing broiler hens being led through lush fields by a "farmer"/"founder". Broiler chickens are intensively reared indoors by this company.

Danosha



One of Danosha's giant pig-slurry lagoons, under construction.

Picture: Bankwatch



The perimeter of Danosha's Lany farm, built within 50m of the Halych National Nature Park (which begins where the trees start on the right).

Picture: Bankwatch



Maria Vasylivna Antoniv, 64, who lead a successful campaign to prevent Danosha building a factory farm in her home village.

Picture: Bankwatch

MHP



Residents of Olyanytsya village mount a mass protest against MHP outside the Ladyzhyn district-council offices.

Picture: Ladyzhyn News



Foul-smelling effluent leaking from one of 38 chicken-manure dumps around MHP's Vinnytsia complex.

Picture: Ladyzhyn News



MHP worker Alexander Tchaikovsky, who was sacked from the company's Vinnytsia complex after setting up a trade-union branch.



Cracks have appeared in almost every house in Olyanytsva's main street since MHP began expansion of its Vinnitsa complex. Residents blame heavy lorry traffic.

Picture: Ladyzhyn News

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- ⁱ <http://www.ebrd.com/pages/news/press/2014/140207e.shtml>
- ⁱⁱ <http://www.danosha.com.ua/en/2011-09-12-09-47-00/social-responsibility>
- ⁱⁱⁱ <http://bankwatch.org/sites/default/files/letter-EBRD-DanoshaCAO-05Feb2014.pdf>
- ^{iv} <http://www.ebrd.com/pages/news/press/2013/131204c.shtml>
- ^v <http://lad.vn.ua/articles/olyanicya-povstala-proti-nashoi-ryabi.html>
- ^{vi} <http://lad.vn.ua/rss-ladyjin/38-maidanchikiv-z-kuryachim-poslidom-otochili-misto-ladizhin.html>
- ^{vii} <http://lad.vn.ua/articles/silnicyu-zabrudnyue-nasha-ryaba-svoimi-stokami.html>
- ^{viii} <http://lad.vn.ua/blog/control/nasha-ryaba-skidae-v-silnicyu-stoki-nevidomogo-pohodzhennya.html>
- ^{ix} <http://www.mhp.com.ua/en/operations/op-vinnitskaja-ptitsefabrika-oao-mkhp>
- ^x <http://lad.vn.ua/rss-ladyjin/nasha-ryaba-naihala-na-profspilku.html>
- ^x https://plus.google.com/photos/106150536588104081914/albums/5997375074349572241?authkey=CN_2z9Cp-IOW7QE
- ^{xi} <http://bankwatch.org/news-media/blog/guest-post-ebd-financed-ukrainian-agribusiness-causes-local-insecurities>
- ^x <http://bankwatch.org/documents/openletter-EBRD-MHP-25Oct2013.pdf>
- ^{xii} <http://www.ebrd.com/english/pages/project/psd/2010/41132.shtml>