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**In-between Boundaries: An Analysis of the Emerging Agrofuel Sector
in Ukraine from the State’s Perspective**

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I. Context

Against the background of peak oil, an energy security discourse and discussions about climate change agrofuels are being propagated as a sustainable solution to the “multiple crisis”¹ (Brand 2009). The European Union contributes to this development through regulatory measures such as the so-called Biofuel Directive (EU 2003) and the Directive on Renewable Energy (EU 2009). In line with the latter, all EU member states are obliged to reach the mandatory target of 10% alternative fuel in transport petrol and diesel consumption by 2020. Further, the EU countries depend on imports because there is not enough cultivable acreage available in order to ensure the production of agrofuels within their own territory (Carthane 2009). Agricultural land is therefore becoming increasingly relevant not only for the production of food but also for energy crops.

Given Ukraine’s favorable location in geographical proximity to EU end markets as well as its potential of acreage, the EU member states aim to cooperate with their neighbor in the field of agrofuel production. Even during the Soviet era, this country between East and West was known for being an important food producer for the states of the then USSR thanks to its particularly fertile soil - the black earth (OECD 1983). Today, global investors, governments and international institutions are showing an increasing interest in its agricultural potential. With over 32 millions of hectares the Ukrainian agricultural land is more than double the amount of Germany’s acreage (Sauer 2010: 2). In addition to the reactivation of acreage, an intensification of agriculture would be possible and could increase the current average grain yield from 2,4 to 6-7 tonnes per hectares (FAO 2008: 2). The European Bank for Reconstruction and Development (EBRD) as well as the World Bank - both active investors in the agricultural sector in Ukraine - do see Ukraine as an important player in global agriculture. According to them, the production of grain could double, from currently 35 to 70 millions tonnes, and the surplus could be exported to the EU and other countries (EBRD 2008).

Besides its traditional use as food feedstock is becoming increasingly attractive for the production of agrofuels in Ukraine (AKH/gtai 2009: 4f). In 2008/2009 almost 90% of the Ukrainian rap seeds were exported to the EU (Strubenhoff 2009: 6). Its cultivation via intensified methods is very recent and can be related to the new emerging market opportunities in the EU (Lakemeyer 2007). A further indication of the rising interest of the EU-countries in the “breadbasket” is an increasing amount of various cooperations in the field

¹ The term “multiple crisis“ highlights the fact that there is not a single but a multitude of crisis of capitalism concerning the financial sector as well as issues as climate change, migration or the crisis of energy and food.

of agriculture and bioenergy. However, it is noteworthy that the EU is not acting as one consistent actor (SEC Biomass 2009, AEA: n.d., Sauer 2010: 6)². Moreover, the production of agrofuels also drives the phenomenon of “land grabbing” since companies of EU-countries lease land in order to plant energy crops. Along the same lines investors who are looking for lucrative investment opportunities pursue this strategy. Therefore, speculations with land cannot be excluded (GRAIN 2009).

Apart from the EU-countries’ interest, the role of the Ukrainian state is crucial for the development of the Ukrainian agrofuel production. Key in this regard is a Ukrainian law that contains several tax incentives, including tax holidays for profit taxes on agrofuels, abolition of import duties on processing equipment as well as accelerated amortization opportunities, to promote the emerging Ukrainian agrofuels sector (Caturjan 2009). Besides, the monopoly of ethanol production of the state was abolished, which serves as an additional driver for future private producers (RBA 2010). Even a moratorium which prohibits land sale and purchase until the beginning of 2012 in Ukraine (Kniazhansky 2009) does not constitute a real obstacle since leasing contracts are negotiated for an average of ten years time and are legally allowed to run up to 50 years (Invest in Ukraine: n.d.). In this sense, the state is important for the “agrofuel project” that pushes, according to McMichael (2008: 14), the growing influence of the agrobusiness sector.

II. Research Questions

This research project analyzes processes that target the emergence of the agrofuel sector in Ukraine, a transition country situated at the semi-periphery of the EU. Particularly, attention is being paid at the institutional framework and its interaction with the actors as well as at the social-ecological consequences. Hence, the main research question analyzes: *What are the political-institutional conditions for the development of the agrofuel sector in Ukraine?*

The following subquestions shed light on the dimensions that are important for the emergence of the agrofuel sector:

- *What domestic and international actors are represented in the field with what kind of interests and strategies?*
- *How are the relations of forces reflected in the state through laws, treaties or agreements in the state apparatus?*
- *What kind of opposition interferes with the “agrofuel project” and why? What are the characteristics of the post-socialist region that become evident?*
- *What kind of social-ecological consequences manifest due to the development of the agrofuel sector?*

III. Theoretical Approach

The theoretical framework is based on historic-materialistic state theory and incorporates findings of the “varieties of capitalism” and the “financialization” literature. I draw on Nicos Poulantzas’ (2002) conception of the state as a “social relation” (Brand 2007: 166).

² The Dutch and Ukrainian government developed together a Biomass Action Plan for Ukraine in autumn 2009 (SEC Biomass 2009). The Austrian Energy Agency leads a long lasting energy-partnership with Ukraine (AEA: n.d.) and Germany cooperates in form of a Committee on Eastern European Economic Relations at ministerial level respectively through the German agrarian centre in the region Cherkasy (Sauer 2010: 6).

Accordingly, the state is neither considered to be neutral nor the instrument of the ruling class. His concept of “material condensation of societal relations between different forces” (Poulantzas 2002: 159) highlights the highly competitive character of the state, the state apparatuses and the way interests are being enforced depending on the prevalent form of the state. Jessop’s concept of “strategic selectivity” (Jessop 1990: 9f) underlines this as well and can be applied to analyze what kind of relations of forces have preferred access to the state apparatuses. The strategic-relational approach can be helpful to explore who more or less influences the law making process concerning agrofuels.

Closely interwoven with the process of globalization is the internationalization of the state. In this context it is crucial to emphasize that nation states remain key actors and are not losing any significance. Poulantzas’ category of interiorization clarifies how international developments operate on individual nation states and how these developments are inscribed in their politics. The international state apparatuses influence in this way the politics of the nation states which, otherwise, might not have been implemented without their interference (Brand et al. 2007). In the course of globalization, changes do appear not only concerning the forms of statehood but also with regard to class relations. On the basis of Wissel’s term of the “transnational inner bourgeoisie” (Wissel 2006: 245) it is possible to explore to what extent those new elites who possess material basis in the nation state are at the same time interwoven with transnational capital. The latter is especially important for the emergence of the Ukrainian agrofuel sector.

To adequately consider the particularities of the post-soviet region the research project draws on approaches in the “varieties of capitalism” tradition. King and Szelényi (2005) underline that Ukraine is not an easily accessible country for foreign investors. Bohle and Greskovits (2007) develop a typology for the new EU member states and identify the domestic elite, the EU and TNCs as crucial elements in understanding the different forms of capitalism. These concepts help exploring the characteristics of Ukrainian capitalism and explaining why the “agrofuel project” may encounter resistance. The financialization of nature will be analyzed by applying Zeller’s concept of rents (income gained through ownership) (Zeller 2010).

IV. Methodological Approach

My research will be based on the application of a mix of qualitative methods. Hence, the study will use content analysis (Mayring 2008), participatory observation (Behnke et al. 2006) and qualitative interviews to gather the needed data. The latter will contain expert interviews (Meuser et al. 2005) as well as problem-centred qualitative interviews (Witzel 1982).

a) Actors and their economic interests

At the beginning of the research project the economic sphere will be explored in order to map the most important actors and their economic interests. Major actors will be identified by exploring documents like reports of companies open to the public, balance sheets, newspapers articles, financial web fora and websites of the companies and funds which should allow me to determine their overt and hidden interests. A variety of factors such as the development of business markets, price building processes, loan giving through e.g. the EBRD, export restrictions or speculation will be examined as well. Moreover, I will visit business congresses which will take place during the research project and have agrofuels or bioenergy as their main topic.

Apart from the analysis of the real economy, special attention will be paid to the financial sector by asking what kinds of actors (such as investment banks and institutional investors) are active in the business regarding Ukrainian land and the production of agrofuels (by using what kind of financial products like e.g. investment, equity or hedge funds). Companies and funds of EU-countries are crucial actors for the agrofuel project. On the one hand, funds that directly lease land will be examined. On the other hand, funds that are part of Ukrainian or foreign agroholdings will also be taken into consideration. The identification of the interdependence of local and foreign capital which should be explored according to Wissel (2006) is not an easy but necessary task since the sector has the reputation of intransparency. The analysis of financialization follows Zeller's (2010) term of rents that serves as a basis for the inquiry of sale and lease of Ukrainian land by showing who benefits in what kind of way from income through ownership³. Although the moratorium for land sale and purchase officially is valid, Kniazhansky (2009) assumes that some of the land is probably already being sold at the black market.

b) The state and the EU

How those economic interests manifest themselves in laws, treaties, agreements, upcoming institutions or different forms of cooperations will be examined by means of Jessop's (1990) strategic-relational approach. Thereby, programs like the Ukrainian Energy Strategy for the period until 2030 (Ministerstvo palyva ta enerhetyky Ukrayiny: n.d.), export restrictions of the Ukrainian government and laws and programs dealing with the production of agrofuels (OECD 2009) will be analyzed in order to examine which interests are put through and which are being marginalized. Also, the ongoing development concerning the moratorium for land sale and purchase is of importance and has to be considered.

Especially relevant is the consideration of foreign actors and their behavior during negotiations; these will be analyzed through Poulantzas' category of interiorization. Therefore, the EU being an international state apparatuses is of importance for the development in Ukraine, which can be noticed in e.g. negotiations about a future free trade agreement that will constitute the core of the association agreement. Also, the sustainability criteria of the EU with regard to agrofuels could influence the development of the Ukrainian agrofuel sector (Topagrar 2010). Finally, different initiatives from single EU-countries as the Biomass Action Plan of the Netherlands (SEC Biomass 2009) or other forms of cooperation of e.g. Austria (AEA: n.d.) and Germany (Sauer 2010: 6) regarding bioenergy have to be considered.

c) Opposition to the agrofuel project?

Since I assume that the unopposed implementation of political programs in the post-Soviet states is only given to a certain extent, one has to ask what kind of resistance is going to appear to hinder the agrofuel project. A transition country like Ukraine is characterized by oligarchic structures that can counter the "modernization" of the sector. The different "varieties of capitalism" approaches can be helpful to identify and analyze the problematic issues of the Ukrainian economic system and to locate them in the international context.

In this sense, the main focus has to be put on the relation to Russia since Ukraine is still embedded in the former Soviet structures and takes therefore advantage of now-again lower energy prices. The extension of the deployment of the Russian fleet in the Black Sea has been discussed a lot and put the question to what extent the Ukraine depends on Russian gas back

³ A broader term of ownership is applied that includes as well land which is leased for a longer period.

into the centre of interest (Euractiv 2010). The existence of cheap fossil energy hinders the development of the agrofuel sector and has to be taken for this reason into consideration. The interests of the West in Ukrainian fertile acreage might be immense. However, whether the trust in the stability of the country is sufficient in order to invest in it is indeed questionable.

d) Social-ecological consequences

The state is not only dominated by the elites, but constitutes itself out of different relations of forces. For this reason, the analysis should also consider how the local population codetermines or experiences the developments and what kind of social-ecological consequences become apparent. Thereby, the question whether they are organized in any kind of association needs to be treated and their possible actions connected to the agrofuel process need to be analyzed. Therefore, I will visit agricultural holdings and Ukrainian villages in order to observe processes like e.g. assemblies when leasing contracts are closed. The inquiry will be delimited to certain regions in the East and the West of the country which will be selected after the first chapter of the research concerning the economic interests of the actors has been accomplished. I assume that beside important agricultural regions, the land around Kiev is of high interest due to its proximity to the capital and will thus also become part of the analyzed regions.

V. Relevance of the Study

The theoretical relevance of the research project stems from its introduction of a historic-materialistic understanding of the state through a research that focuses on the CEE and that analyzes the interaction of actors and institutions. In analyzing the interaction, it is not only the role of the elites that is considered; the contribution of the local population – a sector often overlooked in research – is also highlighted. Furthermore, through the social-ecological analysis of the emergence of the agrofuel sector in a transition country an important regional research gap will be addressed.

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