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SUNFLOWER DOMESTIC MARKET SITUATION IN CONDITIONS OF GLOBALIZATION

Abstract

Introduction. This article describes the Ukrainian seed production as a major driver of domestic agriculture. The dynamics of acreage, yield, production and processing of sunflower is presented. The tendency to production increasing is defined, the main factors that influenced the prevailing trend, are indicated. Reasons for reduction of sunflower seed crushing in Ukraine are identified. The pricing policy of domestic and foreign markets of sunflower seeds and oil also are analyzed. The basic directions of export of sunflower oil are identified. The influence of globalization processes on the development of the market of sunflower is defined. Conclusions and forecasts for domestic farmers based on the calculations and the prevailing market dynamics are made.

Methods. Research period was the past five years. As the information base of research we used the statistical data of state-level legislative materials, special literature on the researched topic. The following methods were used: dialectical, comprehensive and systematic approach to the study of economic processes, graphical method.

Results. In order to balance production and processing capacities we have to follow next: the transition from extensive to intensive mode of production; increase quality oilseeds production; development and modernization of technical base and production processes with the use of non-waste, environmentally friendly technologies; development of organizational forms of integration and the mechanism of economic relations between producers of agricultural products, processing enterprises and market with the active government support; innovation efforts.

Discussion. The balance of the sunflower seeds production and crushing would allow receive high financial results to all participants of the process, as well as minimize the risks associated with a lack of raw materials. Herewith a state has received its benefits - revealed black market of sunflower seeds.

Keywords: market conditions, globalization, production, processing, export.

Introduction. Globalization causes emerging issues, related to the effective functioning of the food market, because food security is part of the economic independence of the country. Sunflower market occupies a relatively large segment of the food industry of Ukraine concerning both the capacity and the number of participants. Only three states – Ukraine, Russia and Argentina – produce more than half of sunflower seeds in the world, and Ukraine ranks second in this list. Herewith in the ranking of exporters of sunflower seeds oil Ukraine is the first. Experts estimate that within 10 months of 2015/2016 marketing year, it exported more than 90% (4154 tons) the volume of domestic oil, which accounted for about 60% of world exports of sunflower seeds oil [1].

Considering the rapid increase in the cultivation and processing of sunflower in Ukraine, active development of oil and fat industry, and access to international markets, sunflower market situation require complex analysis in modern conditions.

Analysis of recent research and publications. Research of the sunflower market situation attracts many domestic scientists: O. Bronin, O. Hudzynsky, V. Zbarsky, V. Osadchyk, A. Poberezhna, L. Chernyuk, O. Shpychak as well as foreign ones: A. Wagner, M. Kondratyev, F. Kotler, A. Marshall, S. Nikitin, M. Porter and others. Despite the large number of studies in the chosen subject, continuous

process of operating conditions changing and development of sunflower market gives grounds for further research in this area.

The purpose is to analyze the sunflower market in Ukraine, to investigate the dynamics of acreage and yield, determine the balance of production and processing of sunflower, identify the cultivation impact of this crop on the soil and analyze the current sunflower market situation and perspectives of its development in the modern world.

Research methodology. The methodological basis of the study are the basic provisions of economic theory. To assess the situation of the domestic market of sunflower in Ukraine used the following methods:

- dialectical and abstract-logical methods (theoretical generalizations and conclusions forming);
- statistical and economic methods (analysis of the production and processing of sunflower);
- graphical method.

Results. Production of sunflower belongs to the main activities in the agricultural sector of Ukraine. Its share in the total production of oilseeds is about two-thirds. Consider the dynamics of the factors that shape gross yield of sunflower (Fig. 1).

During the analyzed period there is a tendency to expand acreage of sunflower. In the period from 1990 to 2000, notes the decline in yield of 15.8 quintals from 1 hectare to 12.2 quintals per 1 hectare, due to the adjustment period in the country. Indicator yield in 2000 was the lowest for the entire period of the study. Over the next eleven years there has been a gradual increase in yield to 18.4 quintals per 1 hectare. Under the influence of unfavorable climatic conditions in 2012, the yield of sunflower decreased to 16.5 quintals per 1 hectare. In 2013, the figure reached maximum yield (21.7 quintals per 1 hectare) in 2014 following the crisis in the country led to a decrease in yield to 19.4 quintals per 1 hectare, but in 2015 the yield reached almost its maximum value (21.6 quintals per 1 hectare).

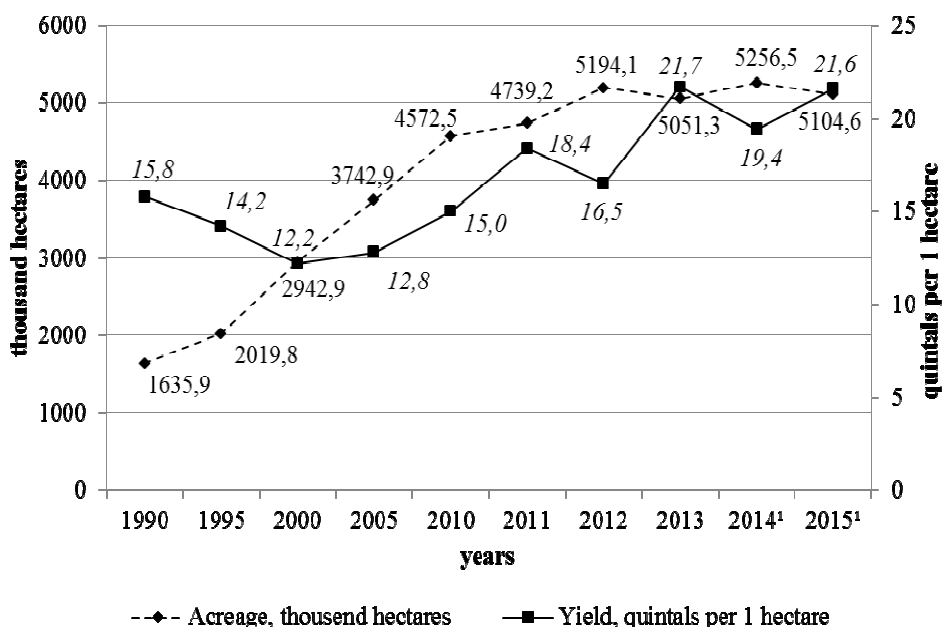


Fig. 1 Dynamics of acreage and yield of sunflower in Ukraine for 1990-2015 years. *

* Made by the author based on data from the State Statistics Service of Ukraine [2]

¹ Exclude data from temporarily occupied territory of the Autonomous Republic of Crimea and the zone of the antiterrorist operation.

Over the past five years there is a decrease of companies engaged in the cultivation of sunflower - almost 9% (from 22,303 to 20,317 companies). But analyzing the structure of enterprises engaged in the cultivation of sunflower we found that the reduction was due to consolidation of small enterprises, which, because of the constant growth of sunflower processing capacities, are unable to compete with larger farms. In order to assess the balance of production and processing of sunflower, let's analyze data in Figure 2.

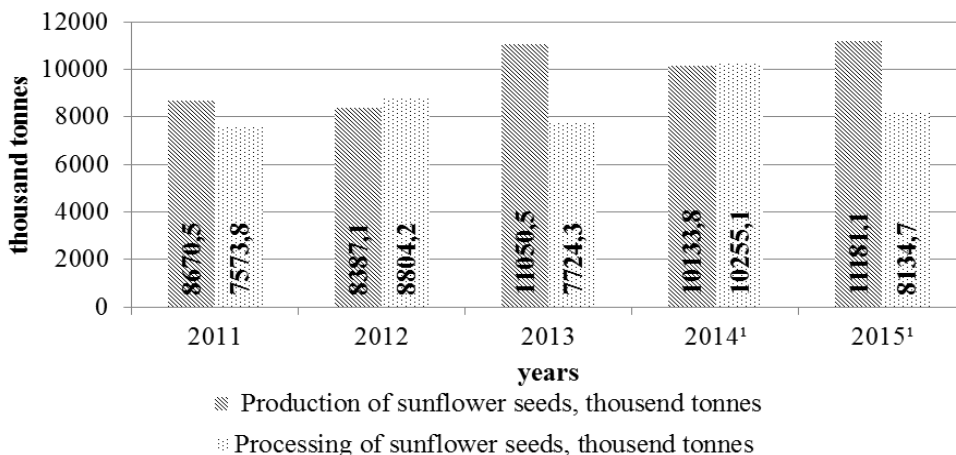


Fig. 2. Dynamics of production and processing of sunflower seeds in Ukraine for 2011-2015. *

* Made by the author based on data from the State Statistics Service of Ukraine [2]

¹ Excluding data from temporarily occupied territory of the Autonomous Republic of Crimea and the zone of the antiterrorist operation.

In 2015, yields of sunflower seeds were at a record high - 11.2 million tons. But while compared to the last year the volumes of processing sunflower seed were decreased by 21%. It should also be noted that in 2012 and 2014 the processing volumes exceeded production volumes. This was due to the fact that one of the largest refineries of the US Company Cargill in July 2014 wasn't operating and there was a need to process about 1 million tons of sunflower seeds elsewhere [3]. At the end of 2015 the company "Bunge" completed construction of a new oil processing plant at Mykolayiv Commercial Sea Port. Plant capacity is 2.4 thousand tons of oilseeds per day.

Oil and fat industry in Ukraine is characterized by high concentration. 25 largest oil-extracting companies give more than 80% of the total production of oil. This is both international and domestic companies that have their factories in the central and southern regions of Ukraine. The main players in this industry are Kernel Group, Bunge, Creative Group, Sargill, "Myronivsky Hliboproduct" [3].

Consequently, competition in the market has increased significantly. After all, in order to recover investments made at these objects, farmers need the maximum load capacity of processing. In this case, some companies will have to expand the geography of purchases of sunflower seeds, increasing the cost of logistics.

Market analysts explain the oil production decline that due to shortage of raw material supply and considering curbing sales of agricultural producers in the hope of rising prices, some companies stopped processing and prefer to conduct routine repairs. During the repairs they were expected to form the raw material supply for capacity utilization at the end of oilseed season of the 2015/16 marketing year.

According to the State Statistics Service, on July 1, 2016 stocks of sunflower in Ukraine totaled 852,800 tons; 15,5% less than the same date a year earlier [2]. This allows predicting that by the end of 2015/16 marketing year (October-November) the volumes of processing sunflower will continue to

decrease. Accordingly, if all the companies will work with the same workload, domestic raw materials will exhaust in a six month of work, which will give producers of sunflower seeds certain advantages. The most competitive in this situation would be companies:

- with good logistics (the closer to raw materials and ports, the better);
- with good infrastructure (bigger storages means more opportunities to buy raw materials);
- with good financing (interest rate on the UAH loans up to 25% a year; if producers will have to loan at such a high interest rate, then only banks will benefit, not farmers);
- with good modern facilities (good coefficients for sunflower seeds crushing and energy efficiency);
- with the ability to finance their crops;
- companies that will be able to process soybeans and rapeseed in order to additionally workload their enterprise.

Competition for raw materials among processors stabilized prices of sunflower in the domestic market, despite the negative trends in the world. As of August 10, 2016, domestic purchasing prices for sunflower were at 10,07-11 thousand UAH / ton on EXW terms, CPT prices were 11-11,3 thousand UAH / ton. The value of sunflower oil in the domestic market on EXW terms was 21,5-21,7 thousand UAH/ ton. In the export market price of sunflower oil from 27 July to 10 August decreased by 1.96% or \$ 15 to \$ 750 per ton in FOB delivery conditions. Export prices for Ukrainian sunflower stood at \$ 385-385 per ton [4].

In the ranking of Ukrainian sunflower seeds oil importers EU kept the first place this season. This year the EU bypassed the states of the Middle East and South Asia.

The main European countries-importers of Ukrainian sunflower oil in the 2015/16 marketing year are:

- 1) Spain – 343 thousand tons (138 thousand tons in the previous year);
- 2) Netherlands – 336 thousand tons (124 thousand tons in the previous year);
- 3) Italy – 245 thousand tons (135 thousand tons in the previous year);
- 4) France – 151 thousand tons (33 thousand tons in the previous year).

In the ranking of importers these countries occupy third, fourth, fifth and sixth place respectively, while in the 2014/15 marketing year Spain was on the 5th place, Italy and the Netherlands – on 7 and 8 respectively and France – only 17 place.

Traditionally, India is an important importer – 1,19 million tons (compared to 1,3 million tons), followed by China – 0,52 million tons (compared to 0,45 million tons). In addition, the Ukrainian sunflower seeds oil exported to over 100 countries. The main consumers on the world markets are countries from Asia, EU, Middle East, Africa and CIS [5].

The signing of the Association Agreement between Ukraine and the EU, and the establishment under this Agreement free trade area (FTA) with the European Union are important factors in the development of the agricultural sector, because Ukraine opens prospects for the gradual exploration of the EU markets by the domestic companies. Accordingly, the goal is to develop mechanisms for public policy in order to improve the efficiency of existing potential of the agricultural sector and its adaptation to the new conditions, including risk management [6].

The Agreement prescribes sunflower seeds trade mechanism. So, article 9 of Annex 1-D “Special measures for export duties” founds that the export duties on sunflower seeds (before signing it was 10%) will be canceled for the next 10 years. However, introduces additional fee, annually increasing by the amount of reduction of export duties. This mechanism allows save 10% export duty on of sunflower seeds (limiting export volume is set at 100 thousand tons per year). So oil processing industry partly received protection for the next 10 years (+5 years of the annual surcharge reduction), which in turn leads to lack of sunflower seeds for the domestic processing companies [7].

This situation will stop a large part of enterprises of the Ukrainian oil and fat industry, especially small and medium enterprises facilities, located in smaller regional cities and towns by reducing the production and export of oil, so that will be lost jobs and significantly reduced revenues to the state

budget.

Changes in tax laws considerably affect the market – the abolition of the so-called special regime of VAT farmers. This is, first of all, will change the structure of grain trading from Ukraine. VAT refunds generally not affect sunflower seeds oil in terms of sales, but price, the market rules, the farmer attitude to the market will change.

New tax rules, according to which the farmer would have to pay VAT to the budget, will block "oxygen" to the black seed market. The so-called small "oil mills" that used to buy raw materials from farmers for cash, cannot stand the competition – especially in terms of productivity: their level of production of oil and the quality of cleaning greatly inferior to the effective medium or large plants, which are in compliance with all standards production. Moreover, for the farmer, in fact, selling goods for cash will not make sense anymore. This is, after all, will make market much healthier and transparent. Today the black seeds market is estimated to 2 million tons, and it is too much in a brutal processors competition for raw materials [8].

The main ways of improving the competitiveness of sunflower in the domestic and international markets is to ensure high product quality and international standards, but the process of its implementation in agricultural production in Ukraine is extremely slow.

An important condition for improving product competitiveness is industry intensification. Technical re-equipment and implementation of new production technologies will improve the quality of sunflower seeds and reduce production costs. Situation of sunflower seeds on the world market, the active participation of Ukraine in it and a relatively higher level of the commercial products profitability leading to unlimited expansion of cultivation of this crop. Lack of intangible and technical support in the majority of agricultural enterprises, inefficient land use, financial problems and economic instability causing the problem of the farming violation and growing sunflower in extra volumes. Considering that the sunflower production is mainly accompanied by extensive technology, it is necessary to introduce innovations that will improve the sunflower seeds yields, which more fully meet the needs of producers.

At this stage it is difficult to predict the situation in the market of sunflower and its products. However, for the 2015/2016 marketing year, producers can make some profit due to increasing competition among processors. Processing plants operate in slightly different conditions. According to the processors, unattractive and unnecessarily high prices for seeds may lead to negative margins since price of supply and demand for sunflower oil is disparate from purchasing prices for sunflower seeds.

Analysts predict that the further market situation will depend mainly on the world market sunflower situation. The stabilization and decline in prices will be a major deterrent to the growth of purchasing prices for raw materials, including fact of the reduction of the sunflower processing margin in the current season because of crisis phenomena in Ukraine's economy. But increasing processing capacities of sunflower, large export potential of the oil and fat industry and contractionary policy of manufacturers of sunflower seeds make a very risky situation today. Any restrictions on exports of sunflower oil may have unpredictable consequences not only for oil and fat industry, but for the food market of Ukraine as a whole.

Another threat to the development of the market of sunflower and sunflower seeds oil is the inconsistency of Ukrainian products to European standards. This hinders the delivery of products to the markets of the EU for the period of implementation of the necessary technical regulations and obtaining certificates of compliance, reduces the profitability of domestic small and medium-sized agricultural enterprises.

Conclusions and discussion. In order for Ukraine to remain the leader in production and sale of sunflower seeds oil in the world, it is necessary to create economically favorable conditions for interaction between the production and processing industry, id est to balance production and processing capacities. In order to achieve it we have to follow next:

– the transition from extensive to intensive mode of production (increasing the volume of sunflower production by increasing productivity, not the expansion of cultivated areas, namely the use of

seed with high potential yields, use of mineral and organic fertilizers and plant protection products in accordance with established standards, adherence to crop rotation, etc.);

- increase quality oilseeds production;
- development and modernization of technical base and production processes with the use of non-waste, environmentally friendly technologies;
- development of organizational forms of integration and the mechanism of economic relations between producers of agricultural products, processing enterprises and market with the active government support;
- innovation efforts.

Also in these circumstances creation of operational information base becomes very important, because it make possible to monitor and assess the situation at both the domestic and world market of sunflower oil. Thus, the balance of the sunflower seeds production and crushing would allow receive high financial results to all participants of the process, as well as minimize the risks associated with a lack of raw materials. Herewith a state has received its benefits - revealed black market of sunflower seeds.

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