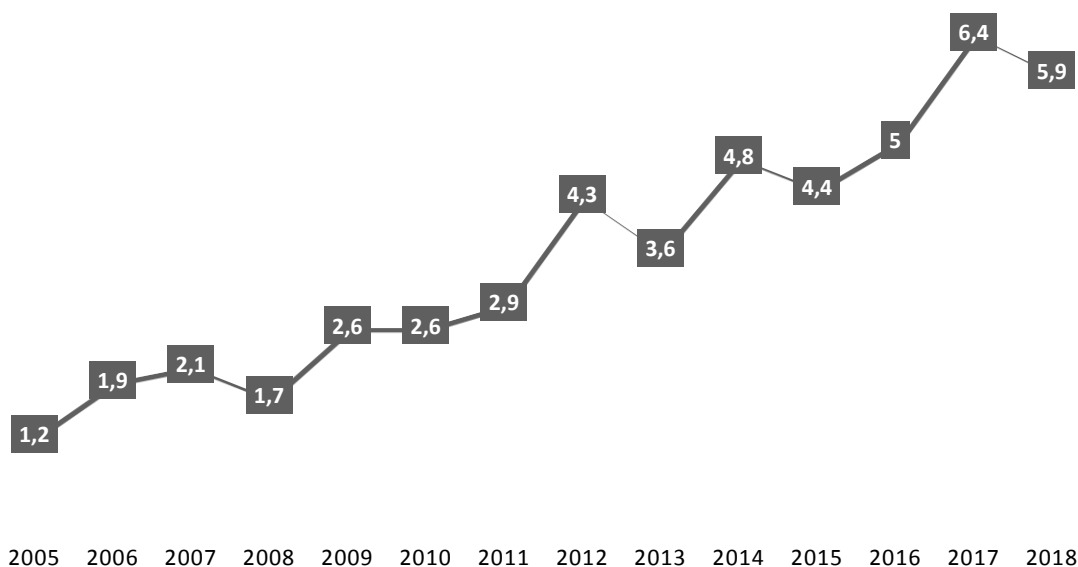


SUNFLOWER OIL MARKET: GENERAL TRENDS AND OPPORTUNITIES FOR UKRAINE

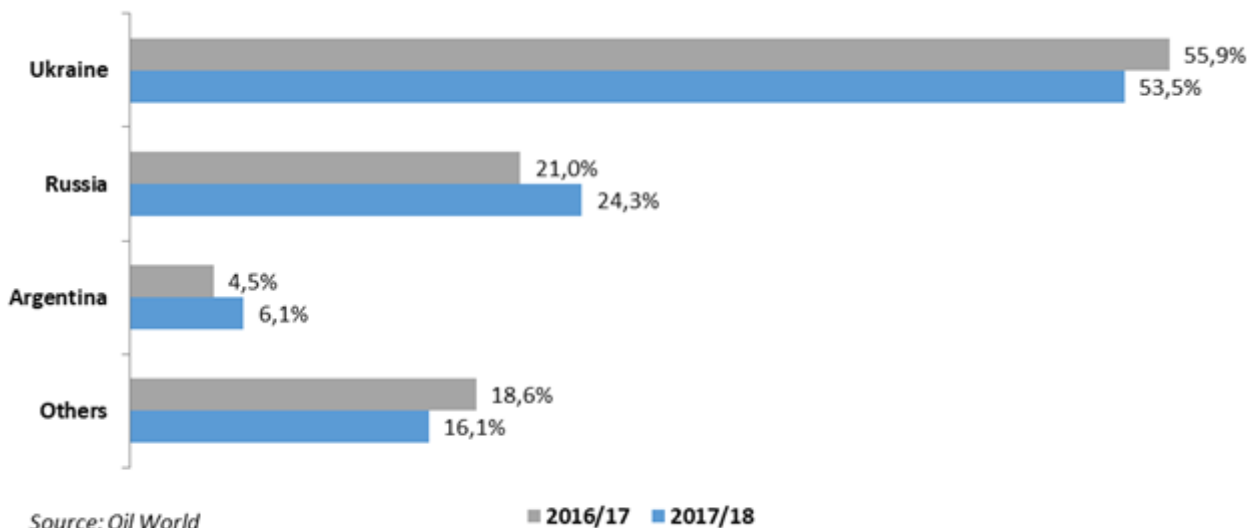
During last years Ukrainian market of sunflower seeds and products of its processing is booming. Since year 2005 sunflower seeds production grew by more than four times, crushing capacities - by more than five times (pic. 1) , in 2018 sunflower oil and meal accounted for about 12% of total Ukrainian export [1].



Picture 1. Production of sunflower oil in Ukraine, mln t [1]

Sunflower seed export was crowded out by sunflower oil export during the last several years. This has happened mainly because of the sunflower export duty introduction. The agricultural export structure has been substantially changed. Ukrainian sunflower oil export prices are approximately 10% lower than European ones [2]. That is the main reason of Ukrainian part in the world export market significant increase during the last several years. Ukraine is a main sunflower oil exporter now, having pushed off Argentina from the leader position. Ukrainian sunflower oil is characterized by the highest comparative advantage after sunflower seed and, therefore, is one of the most competitive products on the world market. The weight of Ukrainian sunflower oil export in a world volume is more than 50% now (pic. 2).

Sunflower oil import levels are almost equal to zero, because of more than enough domestic production and high import duty. Furthermore, the whole Ukrainian agricultural market is imported soundproof because of the next factors: high transportation costs of imported products; receiving and distribution of huge consignments of imported agricultural goods structure absence in regions; relatively low consumers' purchasing power; traditional Ukrainian tastes.



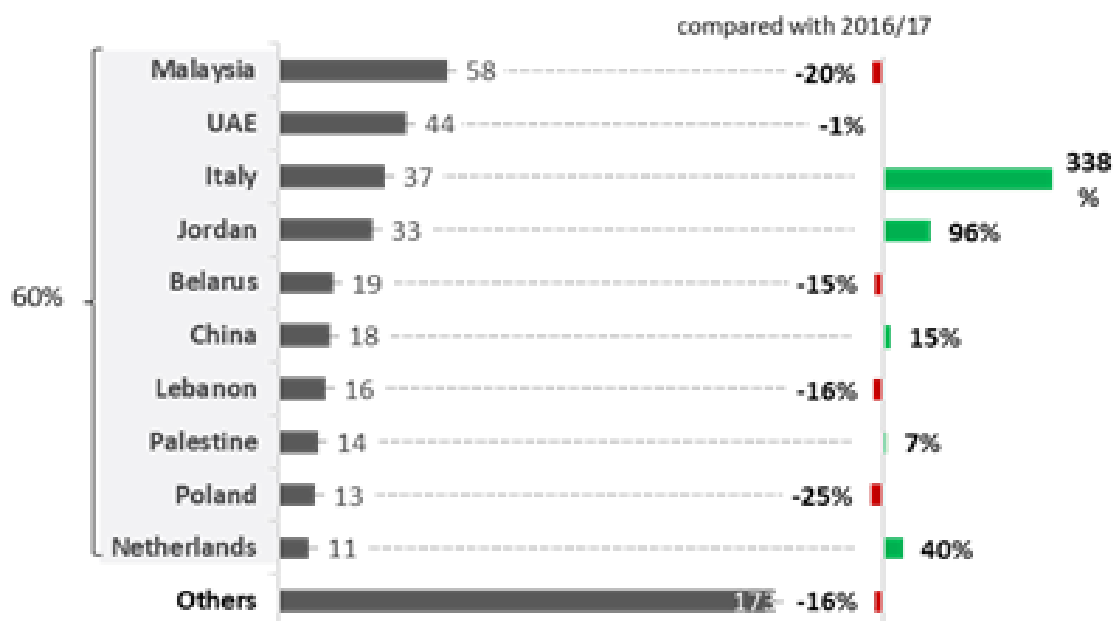
Picture 2. Sunflower oil exports in the world [1]

Sunflowers' cultivation is a very profitable business with good potential for development. Nevertheless, there are certain challenges:

The sunflower seeds processing capacity increases faster than the production of the primary product. 25% of processing facilities aren't used due to the lack of at least 3 million tons of sunflower seeds [3].

Climate changes, provoking long droughts in summer, are another reason behind the yield decrease.

The largest part of Ukrainian sunflower oil export goes to Asian and CIS countries while the share of the EU market is quite modest. Thus, the export potential of this product is highly dependable on the demand fluctuations in unstable developing markets (pic. 3).



Picture 3. Export geography of Ukrainian sunflower oil, 2018 [2]

One of the problems is that oil is exported at reduced prices. It is necessary to improve the mechanism of adaptation of the Ukrainian market to the world, and also need to increase the efficiency of exports of sunflower oil.

The decrease of export prices for the main types of export-oriented products of Ukraine is a negative trend, as it can create a threat to the domestic market and slow down the export process, giving it signs of spontaneity.

According to the State Statistics Service of Ukraine, the export of Ukrainian sunflower oil has increased by 46.8% over the last five years. For the last three years, the cost of Ukrainian oil is an average of \$ 770 per ton [3]. The world leadership of Ukraine on the external market of sunflower oil also has negative consequences associated with the development of agriculture in general.

In particular, serious problems for the agrarian sector of the country can be caused by the constant expansion of sown areas. Over the past 20 years, the sown area of sunflower has tripled.

Extensions of the territories and breaches of cultivation technology can lead to land depletion and crop yield loss. Most farmers do not fertilize the land, because of the lack of money and, as a result, the crop depends only on weather conditions. However, the problem of inadequate fertilization can be solved by livestock farming, which is closely linked to the production of crop and, in particular, the production of sunflower oil.

The livestock sector is a direct supplier of organic fertilizers, and the product of sunflower processing is the main source of the protein component for the production of feed. The development of livestock farming and compliance with crop rotation will solve one of the main problems of growing sunflower while maintaining the profitability of this crop.

The reasons for such disproportions are increasing the volume of production of oilseeds on an extensive basis through the expansion of sown areas, as well as violations of agrotechnological methods of cultivation (non-compliance with crop rotation, norms for the introduction of mineral and organic fertilizers, plant protection products, use of low-quality seed), which leads to lower yields and the quality of oilseed.

During last years Ukrainian sunflower seeds and oil market has been one of the most dynamic industries in the country. Good demand on sunflower oil from countries-importers led to further increase of crushing capacities in Ukraine and growth of sunflower seeds sown area by farmers. On the other side from crop rotation perspective potential for further sown area growth is exhausted, so that we do not expect significant growth of sunflower seeds production in the next years. It means competition between crushers is not to decrease, which means most likely the industry will start to consolidate.

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