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## UKRAINE'S OIL AND FAT INDUSTRY INVESTMENT OPPORTUNITIES: DEVELOPMENT, MARKET ANALYSIS AND FORECASTS

***Annotation.** Output and development prospects of oil and fat industry in Ukraine are considered in terms of investment attractiveness; basic indices of oil crop seed production and processing are assessed. Ukraine's place in the global market of oilseed and vegetable oil is considered. Key problems of oil and fat industry development and growth of its production and export potential are outlined.*

***Keywords:** oil and fat industry, production and processing of oilseed crops, investment attractiveness, export duty, export of oilseeds and vegetable oil.*

***Анотація.** У статті розглянуто обсяги виробництва та перспективи розвитку олійно-жирового підкомплексу України з позицій інвестиційної привабливості, оцінено основні показники виробництва насіння олійних культур та продуктів їх переробки. Розглянуто місце України на світових ринках насіння олійних культур та олії. Окреслено основні проблеми розвитку олійно-жирового підкомплексу та підвищення його виробничого та експортного потенціалу.*

***Ключові слова:** олійно-жировий підкомплекс, виробництво і переробка насіння олійних культур, інвестиційна привабливість, експортне мито, експорт насіння олійних культур та олії.*

***Аннотация.** В статье рассмотрены объемы производства и перспективы развития масложировой отрасли Украины с позиций инвестиционной привлекательности, оценены основные показатели производства семян масличных культур и продуктов их переработки. Рассмотрено место Украины на мировых рынках семян масличных культур и растительного масла. Очерчены основные проблемы развития масложировой отрасли и повышения ее производственного и экспортного потенциала.*

***Ключевые слова:** масложировая отрасль, производство и переработка семян масличных культур, инвестиционная привлекательность, экспортная пошлина, экспорт семян масличных культур и растительного масла.*

**Statement of the problem.** Food security of Ukraine has always been one of the priority targets of the state policy. Ukraine is able to hold a leading position in the world food markets, though the development of production and export potential of produced food is impossible without substantial growth of its competitiveness. All these require enhancement of production efficiency, innovative development of sectors of the national economy, sufficient involvement of investments, in particular by the companies of oil and fat industry of Ukraine.

**Analysis of recent researches and publications.** The problems of the development and features of oil and fat industry, issues of enhancement of the investment attractiveness of the enterprises are studied in the works of such scholars as V.H. Andriichuk, I.O. Blank, A.F. Hoiko, S.P. Kapshuk, V.S. Karetnikova, V.H. Kukhta, T.I. Oliinyk, A.A. Peresada, P.T. Sabluk, A.V. Faizova, V.H. Fedorenko,

O.M.Shpychak and others. However, in current economic condition it is especially urgent to search and justify the ways that enhance investment attractiveness of the enterprises of oil and fat industry.

**The aim of the study** is to analyze basic indices of the development of the enterprises of oil and fat industry as an important component of their investment attractiveness.

**Statement of the main material of the study.** In modern economic studies, there is no single definition of the investment attractiveness and system of its evaluation. In many studies investment attractiveness is regarded to be equivalent to investment project assessment. However, potential investors are always able to estimate all possible investment projects, as it requires preliminary evaluation of the investment attractiveness of countries, regions, industries and individual businesses.

From this point of view, investment attractiveness of the investee can be defined as

an integral feature of certain objects of future investment in terms of development, volume and prospects of sales, effective use of assets and their liquidity, solvency and financial stability [2].

Despite recessionary trends in the global and national economies, in the last decade oil and fat industry of Ukraine has been sufficiently attractive for investors, and it is rapidly increasing production rates reflecting a sustainable demand for its products in the domestic and global food markets. Traditionally, in the global market there is a demand for Ukrainian sunflower seed, rapeseed, soybean seed and sunflower oil. Powerful production and export capacity of oil

and fat industry as well as the state policy of industry's protectionism are the key factors that promote high investment attractiveness of oil and fat enterprises.

Production and processing of oil crops are important components of the strategy of economic development of Ukraine's agricultural sector. As oil crop seed is a feedstuff for oil and fat industry, there is a tendency towards sustainable growth of cropping areas of oilseeds because of their higher profitability compared to other crops [1,3].

Traditionally Ukrainian farms grow sunflower, soybean and canola (table 1).

*Table 1*

**Harvested Area, Production and Yield of the Major Oil Crops**

Index	2011	2012	2013	Deviation, 2013 from 2011	
				(+,-)	%
<b>Sunflower</b>					
Area harvested, Million Hectares	4.7	5.2	5.0	0.3	106.4
Production, Million Metric Tons	8.7	8.4	11.1	2.4	127.6
Yield, Metric Centners per Hectare	18.4	16.5	21.7	3.3	117.9
<b>Rapeseed</b>					
Area harvested, Million Hectares	0.8	0.5	0.5	-0.3	62.5
Production, Million Metric Tons	1.4	1.2	1.2	-0.2	85.7
Yield, Metric Centners per Hectare	17.3	22.0	24.0	6.7	138.7
<b>Soybean</b>					
Area harvested, Million Hectares	1.1	1.5	1.6	0.5	145.5
Production, Million Metric Tons	2.3	2.5	3.0	0.7	130.4
Yield, Metric Centners per Hectare	20.4	17.1	19.0	-1.4	93.1

Source: Data of the State Committee of Statistics of Ukraine

During the last 5-7 years there was been a tendency towards the increase of harvested areas and production of oil crop seed under relatively stable yielding capacity. Thus, in 2011-2013 harvested areas of sunflower and soybean increased by 300 and 500 hectares respectively, gross yields of sunflower totaled 127.6% from the rate of 2011, soybeans - 145.5%. In the same period rapeseed harvested area decreased by 37.5%, but its production decreased only by 14.3% due to increase of the yielding capacity [1].

There are three groups of oil seed processing enterprises that operate within oil and fat industry. The first one is represented by the specialized companies producing vegetable oil -

oil and fat (vegetable extraction) plants or industrial complexes. They can produce other oil and fat products as well. The second group includes small companies producing oil of two types – oil mills that are departments of plants for which vegetable oil production is not the main activity and oil mills that operate independently. The third group consists of manufacturers of fat products different from vegetable oil - margarine and soap factories and industrial complexes.

Overview of 2013 shows that oil and fat enterprises of Ukraine processed 7.6 million metric tons of oil seed, which is 0.7% more than in 2011 (Table 2) [3].

Table 2

**Volume of Seed Processing of Oil Crops by the Specialized Enterprises of Ukraine**

Feedstuff	Volume of Processing, Metric Tons			Deviation, 2013 to 2011	
	2011	2012	2013	(+,-)	%
Sunflower	7216362	8445964	7612517	396155	105.5
Soybean	306599	474791	577474	270875	188.3
Rapeseed	26023	2459	115075	89052	442.2
Flax	8144	2875	384	-7760	4.7
Total:	7560180	8445964	7612517	52337	100.7

Source: Data of the Information and Analytical Bulletin of Oil and Fat Industry of Ukraine and Russian Federation

Large specialized companies produce nearly 95% of the total amount of processed oil seed in Ukraine. Total production capacity of all Ukrainian processors of oil seed in 2013 made it possible to process 13.3 million metric tons of seed, while only 7.6 million metric tons were processed; workload rate was only 57.1%.

Volumes of sunflower seed processing increased by 5.5%; volumes of soybean and rape seed processing increased 1.9 and 4.4 times, respectively.

Output of the major oilseeds products in 2011-2013 are shown in table 3.

Table 3

**Production of the Major Oilseeds Products by the Specialized Enterprises of Ukraine**

Type of product	Output, Metric Tons			Deviation, 2013 to 2011	
	2011	2012	2013	(+,-)	%
Crude oil	3243815	3631741	3266187	22372	100.7
Refined oil	589861	640811	589154	-707	99.9
Meal	3181352	3753929	3566301	384949	112.1
Phosphatide concentrate	7034	6683	5257	-1777	74.7
Packed oil	336225	277993	285316	-50909	84.9
Total:	7358287	8311157	7712215	353928	104.8

Source: Data of the Information and Analytical Bulletin of Oil and Fat Industry of Ukraine and Russian Federation

During the period under research oilseeds production remained at the same level (except packed vegetable), meal production increased by 12.1%, production of phosphatide concentrate decreased by 15.3%.

In 2013 total indices of margarine and fat production in Ukraine were almost the same as in 2011.

Oil crop seed processing in Vinnitsa region is performed by large specialized enterprises (Vinnitsia Oil and Fat Plant (Vinnitsia OFP), company "Avis" Ltd., Haisyn affiliate Theeuwes Holding "Tegra Ukraine" Ltd.) and small oilseeds mills. In 2013 local specialized enterprises processed 647.8 thousand metric tons of oilseeds (Table 4).

Table 4

**Oilseeds Processing by the Specialized Enterprises of Vinnytsia region,  
Metric Tons**

Volumes of Processing	2011	2012	2013	Deviation, 2013 to 2011	
				(+,-)	%
Vinnytsia OFP	284841	316160	382313	97472	134.2
“Avis” Ltd.	26223	22393	15315	-10908	58.4
Haysyn “Tegra Ukraine”	61213	54454	67414	6201	110.1
Vinnytsia Poultry Factory	-	11514	182775	X	x
Total in Vinnytsia region	372277	404521	647817	275540	174.1
Total in Ukraine	7560180	8926089	8305450	745270	109.9
Share of Vinnytsia region from the total amount in Ukraine, %	4.9	4.5	7.8	2.9 п.	x

Source: Data of the Information and Analytical Bulletin of Oil and Fat Industry of Ukraine and Russian Federation

During 2011-2013 all specialized enterprises of the region (except “Avis” Ltd.) increased output of processed oil seed. In this period they processed seed of sunflower, soybean, rape was processed in insufficient amount (2013, 32 thousand metric tons).

Output of the major types of oil products in the region are given in Table 5.

Vinnytsia OFP (Industrial Group “Vioil”) is a leading oil extracting plant in Vinnytsia region with the production capacity of processing oilseeds of 876 thousand metric tons per year. In 2013 the level of capacity utilization amounted 57.9%. The share of Vinnytsia OFP in the domestic market of processing oilseeds amounted 3.8% in 2013 compared to 3.5% in 2011.

The main products of “Avis” Ltd. are vegetable oil, meal, margarine, mayonnaise and sauces. Production capacity is 32.5 metric tons per year, the workload was only 47.1% in 2013.

Haysyn affiliate DP Theeuwes Holding JSC “Tegra Ukraine” Ltd. is the only company that specializes in the processing of soybean seed, production of soybean oil and meal. In 2013 production capacity of the branch amounted 65 thousand metric tons per year, and the level of workload - 103.7%.

In December, 2012 in Vinnitsa region there was started production of sunflower crude oil by the new venture “Vinnitsa Poultry Factory” from the group of companies “Myronivsky Grain Product” - oil pressing plant with

capacity of 500 metric tons per day or 163 metric tons per year. The company specializes in the production of oilcake for their own needs in feeding and production of vegetable oil. Thus, in 2013 the company produced 78.6 thousand metric tons of oilcake and 69.2 thousand metric tons of crude oil.

Seed of oil crops and products of their processing have a steady demand both in the domestic and global markets.

Ukraine holds a leading position in the global production of sunflower seed providing in some years up to 20% of the world's total seed production. Besides, Ukraine is one of the leaders of the global exports of seed and products of sunflower processing. Traditionally, there is a demand for soybean seed, rapeseed and meal of all oil crops in the foreign market.

According to the USDA, the global market received from Ukraine 3.9 million metric tons of sunflower oil in 2012/13 marketing year [4]. Ukraine's share in the world sunflower oil market is estimated at level of 57%, which confirms the sole leadership in foreign sales of the product. For comparison, oil export of our main rivals Russia and Argentina equals 11% and 17% of the global sales, respectively. Overall, Ukraine exports sunflower oil in 88 countries, including India, the EU, Turkey, Egypt, Russia and other countries. Vinnytsia region exports oilseeds and their products to 15 countries.

Table 5

**Production of the Major Types of Oil Products at the Specialized Enterprises of Vinnytsia region,  
Metric Tons**

Enterprises	2011	2012	2013	Deviation, 2013 to 2011	
				(+,-)	%
Production of Sunflower Crude Oil					
Vinnytsia OFP	124291	138822	156879	32588	126.2
“Avis” Ltd.	10489	8957	6126	-4363	58.4
Vinnytsia Poultry Factory	-	-	69089	X	X
Production of Refined Oil					
Vinnytsia OFP	6094	9216	5726	-368	93.6
“Avis” Ltd.	3546	3070	4031	485	113.7
Production of Soybean Crude Oil					
Haisyn “Tegra Ukraine”	7958	7079	8420	462	105.8
Production of Packed Oil					
Vinnytsia OFP	3377	3517	1375	-2002	40.7
Production of Cake (Meal)					
Vinnytsia OFP	117245	124948	151850	34605	129.5
Vinnytsia Poultry Factory	-	4951	78593	X	X
“Avis” Ltd.	10489	8957	6126	-4363	58.4
Haisyn “Tegra Ukraine”	48970	43563	56628	7658	115.6
Production of Margarine Products					
Vinnytsia OFP	10063	11633	4902	-5161	48.7
“Avis” Ltd.	12011	13020	12027	16	100.1
Haisyn Dairy Plant	592	231	291	-301	49.2
Production of Mayonnaise and Sauces					
“Avis” Ltd.	2097	2140	1970	-127	93.9
Production of Hydrogenated Fat					
Vinnytsia OFP	17612	12167	4941	-12671	28.1

Source: Data of the Information and Analytical Bulletin of Oil and Fat Industry of Ukraine and Russian Federation

Export duty on sunflower seeds is an important factor of the formation of export potential of oil and fat industry in Ukraine. Introduction of such tax at the end of the 90s allowed to workload national enterprises specialized in processing sunflower from the level of 20-30% to 90% in some years. It made it possible to maintain existing national capacities and significantly enhance investment attractiveness of both internal and external investors [7].

Ukraine's accession to the WTO and implementation of the plan aimed to join the European Economic Community require gradual decrease and future abolition of tariff barriers. Fulfilling assumed international obligations, Ukraine have reduced this duty

from 23% in 1999 to 10% in 2014. Under the influence of favorable global market, despite the effect of export duty, export of sunflower seed from Ukraine continues to grow [5].

For more than 15 years there has been a conflict of interests concerning the existence and size of export duty on sunflower seed, and it will remain in the nearest future, being one of the most important factors that determine trends of development of oil and fat industry in Ukraine and the global market of sunflower seed and sunflower oil. Thus, in November 2013 the Verkhovna Rada of Ukraine has rejected a bill that called for the abolition of export duties on exports of sunflower seeds.

There is no export duty for soybean seed and rapeseed. Domestic capacities of seed

processing for feed and biofuels are rather insufficient resulting in the growth of the open and "shadow" exports of most seed produced abroad (e.g. in Poland).

Global trends of consumption of food (growth of population) and non-food use of oilseeds (feeds and biodiesel), which is causing the problem of internal meeting individual needs, stimulate replacement of soybean and palm oils for sunflower in many countries of the world, including North Africa, India and Iran, which is a powerful indicator for investors to invest in oil and fat industry of Ukraine.

However, in Ukraine there are some factors that hinder realization of the potential production and export capacity and enhancement of economic efficiency of enterprises of oil and fat industry: extensive development of production and processing of oil crop seed and the problem of innovative development. Oil and fat industry is not provided with advanced domestic technologies and equipment that is caused by both objective and subjective reasons [6]. It is necessary to implement advanced technologies of oilseed production, technical renovation of the enterprises, equipment upgrading, introduction of energy-saving technologies, improvement of the complex oil crop seed processing. It is essential to note that oilseed production should be performed in accordance with science-based principles of farming and rational environmental management.

Generally, domestic researchers are forecasting future growth of oilseed production up to 15 million metric tons, including soybeans up to 5 million metric tons, rapeseed - 2 million metric tons, and maintaining sunflower production at the rate of 8 million metric tons. Thus, competition in the domestic commodity market will grow. Such development may result in gradual rise of product prices, but the level of prices will greatly depend on the situation in the world market. In 2014-2015 marketing year capacity of the domestic market of oilseeds will not be less than \$6.5-7 billion.

**Conclusions.** Favorable soil and climatic conditions for the cultivation of the major oilseed crops in Ukraine and in Vinnytsia region in particular ensure significant production and export potential of oil and fat industry in Ukraine. To enhance investment attractiveness of oil and fat industry it is necessary to improve organization of production and processing of oilseed crops.

Analysis of dynamics of the global and domestic markets of oilseed crops, vegetable oil and other oil and fat products shows that there is a tendency towards the increase of their capacity, and enhancement of their investment attractiveness for both internal and external investors. Therefore, there are viable prospects for further development of oil and fat industry in Ukraine and Vinnitsa region.

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