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Ukraine

Oilseeds and Products

Sunflower Update

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Report Highlights:

Ukraine will produce less sunflower seed this year despite an increase in planted area. Significantly reduced plant protection chemicals and periods of hot and dry weather reduced crop yields. A lower than expected crop will still assure domestic oil needs and allow exports of both seed and oil. Sunflower remains one of the most valuable cash crops in Ukraine today, attracting the interest of private business.

Includes PSD changes: Yes

Includes Trade Matrix: No

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EXECUTIVE SUMMARY

Sunflower seed output in Ukraine in 1998 is far below early season expectations, despite a significantly higher planted area this year. The area increase is attributed to more certain income expectations compared to cereals where government intervention has left little income to the farm and sugar beets where an even more uncertain market prevailed during the past couple of years. The estimates of Ukraine's sunflower seed and oil production are at 2.5 million tons and 590,000 tons, respectively.

Ukraine will still produce enough sunflower seed to cover domestic oil needs and export sunflower seed, oil and meal. The Government of Ukraine (GOU) will continue to take actions to limit exports in an effort to assure local oilseed crushing operations. Sunflower seed exports may reach 1 million tons this marketing year.

PRODUCTION

Sunflower seed has become a very important cash crop for Ukrainian producers, guaranteeing better returns than cereals which are increasingly being confiscated by government entities in payment for provided producer inputs. Sunflower seed production is being maintained only by an expansion in the planted area. Crop yields remain low because of an extreme reduction in the volume of overall inputs, particularly chemicals used in weed control and also the usage of less than improved hybrid planting seeds. In so many fields where harvesting has occurred, there remains a thick mat of weeds covering the ground.

Another reason for low yields this year is extremely dry growing conditions, particularly in the major sunflower production regions of east and southeast Ukraine where yields were off from an average of 2.1 tons to 1.2 tons per hectare. The southeastern regions had no rain for 120-150 days which affected even a drought-resistant crop as sunflower.

Weather conditions have been favorable for harvesting through the end of September. Early harvest progress reports showed that yields were 1.0-1.1 ton per hectare with an increase in the areas not affected by extremely hot and dry weather.

The share of private farmers growing sunflowers increased to 13% of total sunflower area this year. In 1997 only 8.3% of the sunflower planted area belonged to the private sector. It has become more difficult to realize official statistics for both state and private producers as neither wish to report the correct data because of the fear of meeting their tax obligations.

The situation with the oil crushing industry is also not very optimistic. Ukraine has a oil crushing industry with 17 fairly large oil crushing factories and several smaller operations capable of processing 2.5 million tons of seeds per year. Domestic crushing, however, has been limited because of the high volume of exports, almost 1 million tons during the last season. Some factories have been encouraging farmers to produce rape seed in an effort to remain operational.

This year different sources estimate that there will only be 1.3 million tons of sunflower seeds available for domestic processing. If this happens, Ukraine would produce 590,000 tons of sunflower oil. Oil factories hope that seeds supplied for processing this year would let them operate from 90 to 100 days. Such a situation disturbs local and central government officials because it creates unemployment and decreases budget revenues.

INPUTS

Like with all other agricultural crops in Ukraine, farmers are experiencing extreme difficulty in financing crop production. The interest of commercial Ukrainian and international input providers has been complicated by increasing controls on farm crops, not only by federal authorities but also by oblast administration, who insist that crops cannot be sold or leave the oblast until all previous farm debts to the state have been paid. This has left many commercial input providers without a source of payment for inputs provided for the third year in a row.

Many commercial companies provided inputs to the farmers to plant sunflowers this spring. Unofficial estimates indicate that 70% of the crop this year had been contracted earlier this spring. Many input providers had intended to export sunflower seed because of better prices than can be realized by selling to crushers in Ukraine.

The domination of commercial input providers controlling the larger share of sunflower seed output has disturbed local and central government officials who want to involve processors into a vertically integrated system of having to provide inputs to producers. Oilseed crushers, according to this system, would receive fuel and other inputs from the selected suppliers on a commodity credit basis, provide these to producers and in return pay in processed product after the crop has been harvested, processed and sold.

CONSUMPTION

The preference of government authorities is that all domestically produced sunflower seed be crushed locally in the widely scattered facilities throughout Ukraine. Sunflower seed oil is the preference of Ukrainian customers. No serious shifts in usage of sunflower oil are expected. There are some imported brands of olive and corn oil that are almost double the retail price of sunflower oil in the market.

Taking into account low buying power of consumers, domestic food use will remain relatively constant. Margarines, however, which are based on other vegetable oils, are becoming more popular and may replace sunflower oil in some uses but it would again depend on the price of sunflower oil.

At the same time consumers are beginning to pay more attention to product content and packaging when making their purchases. Some trade brands with improved quality have gained a significant share of the market. For instance, “Oleyna” sunflower oil produced and packed in plastic bottles at the Dnipropetrovsk Oil Factory has taken a 30% share of the refined and packed oil market.

The industrial use of sunflower oil will probably decline because of the general economic crisis that is affecting industrial usage of sunflower oil and its products.

TRADE

Commodity trading through local exchange markets is still not developed even though sunflower seed is one of the more widely traded commodities. The largest share of sunflower seed is delivered direct to processors under barter agreements, whereby production inputs which may have been provided by the processor are paid or as salary-in-kind payments to farm employees.

Trade between seed owners and processors is conducted on a tolling (“give and take”) basis. It is expected that

processors would keep in average 20% from 1998 crop delivered for processing and return oil and meal from the remaining 80% to the supplier. The share of a processor in tolling contracts has decreased from 26% in 1996 to attract suppliers to crush their sunflower seeds domestically. Such a mechanism avoiding trade for money will remain popular until crushers are able to accumulate enough working capital to pay in cash to their suppliers.

Ukraine will continue to be an exporter of sunflower seeds, oil and meal. The main destinations for seed exports in 1997/98 MY were the Netherlands, Belgium, Spain and the U.K. in Europe; Turkey was the major Asian importer of Ukrainian sunflower seeds. Other importers include countries of the Former Soviet Union, Baltic States and some African countries.

Russia and Belarus have been the major market for Ukrainian sunflower oil, amounting by some estimates to 33% of Ukrainian sunflower oil exports. Many sources report, however, that it is difficult to estimate real sunflower seed and oil trade volumes with Russia because of the large number of small crushing facilities neighboring with Russia that do not likely report shipments to Russia. Some 35% of oil were exported to Europe (mostly Switzerland and Hungary).

The volume of sunflower meal exports is rather small. Ukraine exported 232,000 tons of sunflower meal, amounting US\$31.2 million in 1997. Because commercial traders basically owe the crop, they prefer to export sunflower meal and cake received from a processor to Belarus, Switzerland, Lithuania, Italy, Estonia and other countries where they can receive a secure and immediate cash payment rather than utilize their meal in Ukraine.

Some big contracts have been signed already to supply sunflower meal to Russia during the next year. But, the Ukrainian Oil Association experienced some difficulties with Russian railways in approving sunflower meal shipments in grain railroad cars.

Ukraine is expected to import very little sunflower seed. The introduction of a seasonal (valid September 1 through December 1) import duty rate on sunflower seed of 100% of the imported value but not less than ECU1,000 per 1 MT, will prevent imports. Ukraine will continue to import crude vegetable oils in an effort to keep some factories operational.

POLICY

Due to the extreme importance of sunflower in both Ukrainian agriculture and oilseed crushing, GOU has tried numerous actions to regulate the movement and trade in sunflower seed. Last year local processors had to stop operations sooner than usual because of the lack of seed for local crushing. Much of the crop was exported because of the lack of funds on the part of local processors to pay for seeds.

Processors decided to lobby their interests in GOU and the Parliament in an effort to limit seed export from Ukraine. Their efforts succeed first and on July 8 the President of Ukraine signed a decree which introduced a system of an export deposit requirement for the export of oilseeds. This decree was supposed to become effective September 15, requiring an exporter of Ukrainian sunflower seed to make a deposit to a Ukrainian bank, equaling 100% of the value of the exported seed prior to shipment.

Since such a large part of the crop already had been contracted earlier this spring, international and local traders lobbied hard for the withdrawal of the above mentioned decree. The President canceled it on September 3 just

before it was to come into force. The fear of extremely low prices, without the potential for export, also was a factor in this decision.

GOU officials still have plans to limit sunflower seed exports in an effort to assure operations of the local crushers. Potential actions might include introduction of a 5-7% export tariff on sunflower seed. Ministry of Foreign Economic Relations officials recently introduced a minimal export price for sunflower seed at US\$255 per ton.

In an effort to protect local budget and pension fund revenues, local authorities have established barriers for sunflower seed movement outside of local boundaries if producers have unpaid debts. Thus, even if local governmental bodies did not participate in providing inputs to farmers, they are trying to ensure that government interests are first met before farms can pay their contract obligations to commercial input providers and traders.

Another factor which possibly will distract traders from exporting the crop from Ukraine is that following the crisis in Russia, the National Bank of Ukraine reintroduced the practice requiring Ukrainian exporters to exchange 50% of their currency holdings into local currency (hryvna). This practice existed until 1996 and was banned later. For the Ukrainian trader, this means that he will have to bare the risk to keep continuously devaluating the hryvna. Many traders, therefore, think that the existing trade situation and export regulation are discouraging prospects for sunflower seed exports.

PSD Table						
Country:	Ukraine					
Commodity:	Sunflowerseed					
		1996		1997		1998
	Old	New	Old	New	Old	New
Market Year Begin		10/1996		10/1997		10/1998
Area Planted	1900	2090	2200	2065	0	2350
Area Harvested	2114	2025	2200	2000	2300	2300
Beginning Stocks	50	170	0	0	0	0
Production	2100	2123	2300	2300	2700	2500
MY Imports	10	15	10	15	0	15
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from the EC	0	0	0	0	0	0
TOTAL SUPPLY	2160	2308	2310	2315	2700	2515
MY Exports	900	660	400	900	400	1000
MY Exp. to the EC	725	0	100	0	100	0
Crush Dom. Consumption	1175	1525	1840	1100	2200	1340
Food Use Dom. Consump.	0	25	0	25	0	25
Feed Waste Dom.Consum.	85	98	70	290	100	150
Total Dom. Consumption	1260	1648	1910	1415	2300	1515
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2160	2308	2310	2315	2700	2515
Calendar Year Imports	10	0	10	0	0	0
Calendar Yr Imp. U.S.	0	0	0	0	0	0
Calendar Year Exports	838	0	400	0	0	0
Calndr Yr Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country:	Ukraine					
Commodity:	Sunflower oil					
		1996		1997		1998
	Old	New	Old	New	Old	New
Market Year Begin		10/1996		10/1997		10/1998
Crush	1175	1525	1840	1100	2200	1340
Extr. Rate	0.44	0.45	0.41	0.43	0.41	0.44
Beginning Stocks	150	11	30	8	34	3
Production	517	686	754	475	902	590
MY Imports	0	30	0	100	0	50
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from the EC	0	0	0	0	0	0
TOTAL SUPPLY	667	727	784	583	936	643
MY Exports	147	220	200	120	200	185
MY Exp. to the EC	0	0	0	0	0	0
Industrial Dom. Consum	0	64	0	60	0	55
Food Use Dom. Consump.	490	435	550	400	736	400
Feed Waste Dom.Consum.	0	0	0	0	0	0
Total Dom. Consumption	490	499	550	460	736	455
Ending Stocks	30	8	34	3	0	3
TOTAL DISTRIBUTION	667	727	784	583	936	643
Calendar Year Imports	0	0	0	0	0	0
Calendar Yr Imp. U.S.	0	0	0	0	0	0
Calendar Year Exports	135	0	200	0	0	0
Calndr Yr Exp. to U.S.	0	0	0	0	0	0