

## THE IMPLEMENTATION OF PRINCIPLES OF SUSTAINABLE DEVELOPMENT IN UKRAINIAN OIL AND FAT ENTERPRISES

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### The Implementation of Principles of Sustainable Development in Ukrainian Oil and Fat Enterprises

Three main components of the concept of sustainable development are analyzed: economic development, social inclusion and environmental conditions. The expediency of introducing the principles of sustainable development in enterprises of the fat and oil industry is grounded. The state of Ukraine's agriculture is studied, and its influence on the depletion of natural resources is determined. The evolution of the development of the oil and fat industry, its current state and role for the economy of Ukraine are considered. It is found that for successful functioning of the principles of sustainable development, enterprises of the oil and fat industry need to introduce an export duty for the export of rapeseeds and soybeans, a more stringent control of incoming raw materials and international certification of the enterprises. Recommendations are given on the development of innovation activity, attraction of investments and new approaches in logistics.

**Keywords:** sustainable development, oil and fat industry, agro-industrial complex.

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#### Бескупська О. В. Запровадження принципів сталого розвитку на підприємствах олійно-жирової промисловості

Проаналізовано три основні складові концепції сталого розвитку: економічний розвиток, соціальна інклюзія та стан навколишнього середовища. Обґрунтовано доцільність впровадження принципів сталого розвитку на підприємствах олійно-жирової промисловості. Досліджено стан сільського господарства України та визначено його вплив на виснаження природних ресурсів. Розглянуто еволюцію розвитку олійно-жирової промисловості, її теперішній стан і роль для економіки України. Встановлено, що для успішного функціонування принципів сталого розвитку на підприємствах олійно-жирової промисловості необхідне запровадження експортного мита при експорті ріпаку та сої, більш жорсткий контроль вхідної сировини та міжнародна сертифікація підприємств. Надано рекомендації щодо розвитку інноваційної діяльності, залучення інвестицій та нових підходів у логістиці.

**Ключові слова:** сталий розвиток, олійно-жирова промисловість, агропромисловий комплекс.

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#### Бескупская Е. В. Внедрение принципов устойчивого развития на предприятиях масложировой промышленности

Проанализированы три основные составляющие концепции устойчивого развития: экономическое развитие, социальная инклюзия и состояние окружающей среды. Обоснована целесообразность внедрения принципов устойчивого развития на предприятиях масложировой промышленности. Исследовано состояние сельского хозяйства Украины, и определено его влияние на истощение природных ресурсов. Рассмотрены эволюция развития масложировой промышленности, ее нынешнее состояние и роль для экономики Украины. Установлено, что для успешного функционирования принципов устойчивого развития на предприятиях масложировой промышленности необходимы внедрение экспортной пошлины при экспорте рапса и сои, более жесткий контроль входящего сырья и международная сертификация предприятий. Даны рекомендации по развитию инновационной деятельности, привлечению инвестиций и новым подходам в логистике.

**Ключевые слова:** устойчивое развитие, масложировая промышленность, агропромышленный комплекс.

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At the end of the twentieth century humanity faced global economic, demographic, political problems, increasing poverty and rapid depletion of natural resources. Considering the current environmental situation, humanity has gradually come to realize the real threat of the ecological disaster, which is not a contemporary phenomenon but consequences of implementing the modern model of humanity development. In order to solve these problems, the concept of sustainable development was created, which currently has no alternative and is a unique

complex combining recommendations and goals to solve three interrelated tasks: achievement of economic growth, environmental protection and social inclusion.

The concept of sustainable development has been widely elaborated for more than 30 years and is aimed at the establishment of balance between satisfaction of current human needs, including their need for healthy and safe environment, and protection of interest of future generations. This concept has already become the basis of action programs of all developed

countries directed towards meeting the challenges of our time; improving conditions of life; providing economically efficient, socially fair and environmentally friendly development. According to Henrietta Moore [2], the fact that the goals of sustainable development relate not only to the developing world but to every single country, makes this concept crucial and represents a huge opportunity to rethink our approach to achieving prosperity globally.

In Ukraine the concept of sustainable development is not widespread enough because of many reasons: weak information support, financial disability to ensure improvements concerning the issues of social and environmental, political and economic instability, etc. The term «sustainable development» is often used only to define a steady growth of economic indicators of the country, its regions, cities, and individual industries. Sometimes there also included unsystematic measures to preserve the environment and improve health and living conditions of people. However, there is no research and programs that would connect the three aspects of sustainable development: social, environmental and economic.

The issue of sustainable development has been studied by many scientists, both Ukrainian and foreign ones: L. A. Kviatkivska [5], O. V. Shubravskaya [15], O. V. Fedun [12], M. A. Khvetskyk [13], J. Sachs [3], H. Moore [2] and many others. However, sustainable growth of oil and fat enterprises requires more thorough investigation.

In order to elaborate the best strategies for the development of the national economy, factors that improve and slow down the economy have to be analyzed. The aim of the research is to develop practical recommendations and approaches to the implementation of principles of sustainable development in the oil and fat companies.

As far as the Ukrainian economic development strategies are concerned, it should be noted that Ukraine remains behind most Western countries in terms of strategic planning of economy and implementation of these strategies. According to S. I. Tkalenko [10], Ukraine does not have an adequate and clearly defined economic strategy. In her thesis she highlighted the most popular strategies, which can be economically efficient: «Ukraine 2020: strategy of national modernization», «Strategy of innovation development of Ukraine for 2010–2020 in the context of global challenges» and «Strategy for sustainable development «Ukraine-2020»».

The last one was adopted in 2015. It envisages four vectors for the development of the country, implementation of 62 reforms and specifies 25 key performance indicators to evaluate the progress of the reforms and programs. No wonder that under conditions of the current military conflict in the East of the country, the basic indicators relate mainly to the military and state sectors, as well as to social welfare. However, the fact that the document was approved shows that the Ukrainian government is capable to act under crisis and adapt the economy and society to the modern needs, cope with the structural disadvantages and give an adequate response to the global challenges.

The strategy should include vertical and horizontal integration. Vertical integration is caused by the need to comply with the strategies of all other national and regional programs. Horizontal integration is a more complex system, when there is a combination of ecological, social and economic aspects of

the so-called «ecologization» of all spheres of society. In many EU countries horizontal integration emerges in the creation of interdepartmental institutions responsible for the implementation of the sustainable development strategy.

The «Strategy for sustainable development «Ukraine-2020»» deserves attention, but it covers a huge amount of reforms and programs, which can be a real challenge for a country in such a difficult economic and political state. Moreover, most indicators in Paragraph 4 of the Strategy [6] raise doubts in terms of their achievement.

According to the «Strategy of innovation development of Ukraine for 2010–2020 in the context of global challenges», the growing dependence of national economy on external factors, including the negative ones, limited and expensive energy resources, the need for more rational use of resources and workforce should serve as an incentive for transition of the national economy to the standards of economically safe production and consumption to ensure sustainable economic development in general. As a result, we can see that sustainable development is extremely important and inevitable for Ukraine because of the globalization processes and its striving for European integration.

First of all, let's consider the three aspects of sustainable development of Ukraine and analyze their current state. One of the most important sustainable development goals is *social inclusion*. According to the World Bank, social inclusion is the process of improving the terms for individuals and groups to take part in society – improving the ability, opportunity, and dignity of people, disadvantaged on the basis of their identity. As we can see from the structure of GDP of Ukraine, health and social care amount to only 2.6 % of GDP, while in the USA, for example, health expenditure make up more than 17 % of GDP, Ukrainian neighbors, the Russian Federation and Poland, spend 7 and 6.5 %, respectively, and the average world index is 9 %.

According to T. V. Perehudova [8], distinctive features of the Ukrainian social sphere is the decrease in the population purchasing power (consumer price index in January-February 2016 compared to the corresponding period in 2015 was 136.4 %), increase in polarization of the society and the spread of informal employment, and, as a consequence, the unstable labor relations and social insecurity, which creates social inequality and social exclusion. The human development in Ukraine is affected by a large number of destabilizing factors and uncertainties, which significantly increases the social risk levels: reduction in the number of jobs and growth in the unemployment level (there were 97 unemployed people per 10 vacancies at the beginning of 2015, which increased to 189 people at the end of 2015); poverty, including among the working population; risk of not getting a job in accordance with the acquired qualification level; risk of losing a job; budget and off-budget deficit, etc.

*Economic development.* According to the «Strategy for sustainable development», the agro-industrial complex is one of the major budget-forming sectors, responsible for a significant share in the consolidated budget of Ukraine. In the export commodity structure it makes up more than a quarter, providing the first place in the world market for sunflower oil and the second place in grain export. However, almost half of the gross agricultural production accounts for farms. The competitive positions of domestic agricultural products in foreign markets

are unstable due to the incompleteness of the adaptation to the European standards regarding food quality and safety, significant price fluctuations, instability of the trade relations with importing countries.

Until 2016 the agricultural complex had always been among the development priorities, being a kind of a stable point in the difficult crisis situation. During the period from 2007 to 2015 the agricultural sector grew by 44.8 % while the GDP decreased by 19.6 %. Now due to the consistent state policy agriculture is one of the key sectors of the Ukrainian economy: it forms 24 % of the production volume, 12 % of the country's GDP, 32.5 % of its export and is one of the seven world leaders in grain crops and sunflower oil production. However, it is these industries that have the most negative impact on the environmental situation in the country. The positive changes in the agricultural production for the last several years have not helped to solve problems of socio-economic

development of rural areas, including labor migration, unemployment and destruction of the social infrastructure in rural areas, either.

Considering the results of the analysis of the current technological situation in Ukraine we can see that components of the *environment* are excessively overloaded. It is mainly caused by resource intensity of the national economy and predominance of polluting, outdated production technologies. As can be seen from Table 1, the peculiarity of the GDP structure indicates that the industries are raw material oriented: according to the State Statistics Service [4] almost 24 % of the GDP account for the agriculture and manufacturing sector. Investments in agro-industrial complex increase each year. According to the Institute of Agricultural Economics of Ukraine, for the period from January to September 2016, USD2.47 billion was invested in the agro-industrial complex compared to USD2.35 billion for the same period in 2015.

Table 1

## Gross domestic product (production method)

	Mln hrs	% of the total GDP
<b>GDP total (nominal)</b>	<b>2 383 182</b>	<b>100</b>
Agriculture	277 197	11.6
Mining	129 443	5.4
Manufacturing	286 616	12
Electricity and gas supply	72 037	3
Construction	49 871	2.1
Wholesale and retail trade; repair of motor vehicles and motorcycles	331 832	13.9
Financial and insurance activities	60 806	2.5
Information and telecommunication	90 135	3.8
Real estate activities	143 246	6
Health and social care	57 526	2.4
Education	93 410	3.9
Science	68 358	2.9
State defense, social insurance	122 210	5
Transport, storage, postal and courier activities	156 333	6.6
Taxes on products	367 788	15.4
Others	76 374	3.5

Source: developed based on the data of the State Statistics Service of Ukraine, 2016

Despite all the positive changes that the development of agriculture has brought to the Ukrainian economy, this sector is one of the most dangerous for the environment. In Ukraine the utilized agricultural area comprises more than 70 % of the total area of the country. For instance, if we look at other leaders of oil and fat production in Figure 1, in the European Union countries the utilized agricultural area is 48 %, in Russia – 13 %. The world average use of land for agricultural purposes is 37.5 %. What does this mean for Ukraine? According to J. Sachs [3] agriculture is a major source of CO<sub>2</sub> emissions from land use, but also a major source of the second- and third-rank GHGs. The current land use in Ukraine does not meet the requirements of rational nature management. Environmentally acceptable correlation of arable land, natural grassland, forest planting is

ignored, and it undoubtedly affects the sustainability of agriculture development. The excessive tillage and huge impact of human development have led to disruption of natural processes of soil formation and erosion. The soils are contaminated with plant protection chemicals. Pesticides, used in them, affect not only the soils, but also the water and air.

The ecologically unbalanced socio-economic development reduces the effectiveness of social production. Despite the decline in the industrial production volume, the ecological pressure declines disproportionately. It is caused by the deterioration of wastewater treatment facilities by 50–70 %, which cannot be renewed because of the lack of financial means. The pace of development of environmentally friendly and resource saving technologies has decreased significantly. The existing

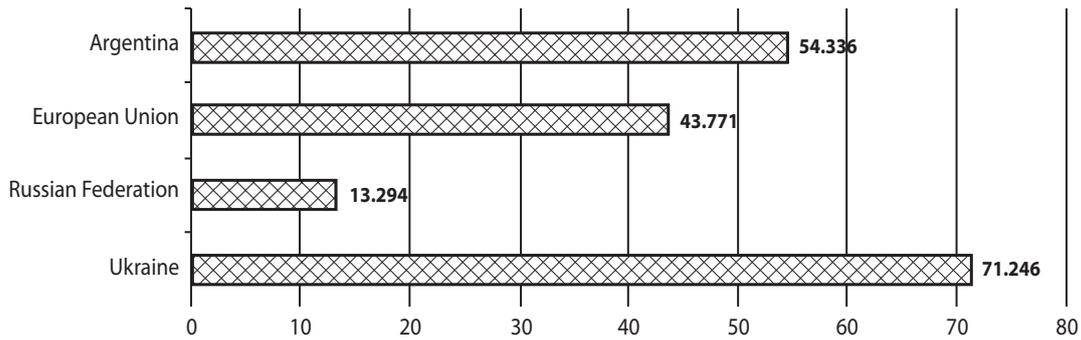


Fig. 1. Agricultural area (% of the total land area)

economic mechanism of nature management neither guarantees ecologically balanced economic development nor gives an opportunity to accumulate financial resources and use them effectively.

According to O. V. Polovian [9], in Ukraine the long-term comprehensive exploitation of natural resources has led to the loss of the ability of ecosystems to self-restoring, which is accompanied by deterioration in the quality and depletion of useful properties of the main components of the biosphere, increased negative impact on population health, deterioration of the working conditions and overall quality of life. Among the main reasons that caused the threatening environmental situation are

- outdated production technologies and equipment;
- high power consumption and material capacity, which exceeds by 2–3 times the corresponding figures in developed countries;
- high concentration of industrial facilities;
- unfavorable obsolete structure of industrial production with high concentration of environmentally dangerous production;
- absence of proper environmental protection systems: treatment plants, circulating water supply systems;
- low level of operation of the existing environmental facilities;
- absence of proper legal and economic mechanisms, which would stimulate the development of environmentally friendly technologies and systems;
- lack of a proper environmental control.

Unlike other agriculture sectors, the oil and fat industry continues increasing internal processing, modernizing production and launching factories. Sixteen years ago the oil and fat industry was not as developed as it is now. At that time Ukraine exported sunflower seeds to Turkey, where oil was produced and then was imported back to Ukraine. The government of Ukraine introduced a 23 % export duty, which was later reduced to 10 %. Export of sunflower seeds became unprofitable for Ukraine, and since then the epoch of the oil and fat industry has begun. The profitability of sunflower seeds processing in Ukraine has grown drastically. The investment flow increased and this all changed the situation in agriculture and revived the industry. As we can see from Figure 2, the production of sunflower seeds grew twice from 2010 to 2016, and, having collected 13.6 million tons of sunflower seeds, Ukrainian enterprises set a record of oil production as well: 5.5 million tons were produced and 5.1 million tons exported. This was caused by an increase in the productivity: from 1500 kilograms per hectare to 2240 kilograms per hectare in 2016.

The oil and fat industry has a lot of strengths. First of all, it is high profitability, as enterprises of this industry in a successful season can have a 80 % return from the oil export. According to O. M. Maslak [7], the profitability of sunflower seeds production can reach 200 %. At using the traditional technology of sunflower seeds growing, the total cost of 1 hectare is UAH12.7 thousand. Considering the productivity of 2500 kilograms per hectare, the cost of 1000 kilograms will equal to UAH5100. The current sales price for sunflower seeds is UAH10 200 per ton, which provides profitability at the level of 200 %.

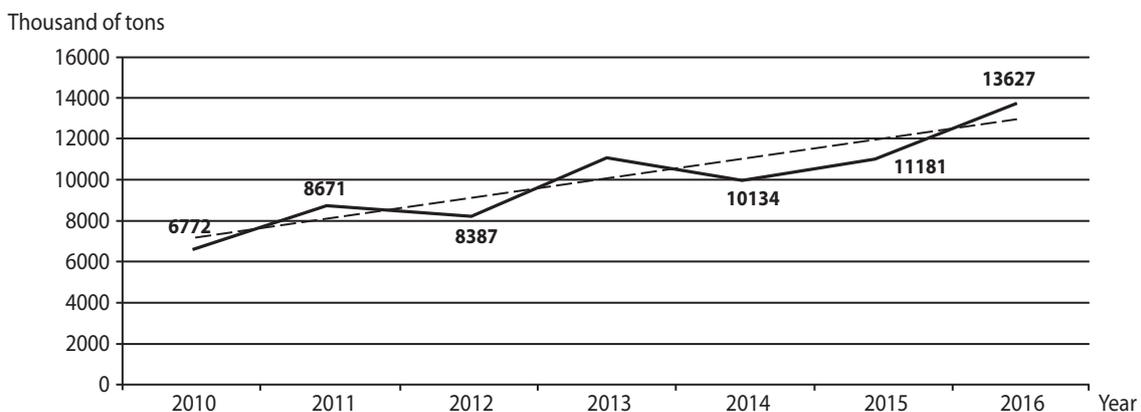


Fig. 2. Production of sunflower seeds in Ukraine

Secondly, the demand for oil and fat products is high, since the consumption of vegetable oils in the whole world is increasing. It was caused by the shift in the dietary pattern of the population to oils and fats of vegetable origin because of their valuable nutritious properties. Moreover, the prices for vegetable oils are more affordable compared to those for animal fats, and the dynamic growth in the production of biodiesel from vegetable oils is caused by the prices for mineral energy resources and depletion of natural resources. The internal needs in vegetable oil in Ukraine are 3.5 times lower than its production volume, so the market is more than 70 % export oriented.

Thirdly, oil and fat industry enterprises invest in infrastructure and logistics, which means building of up-to-date elevators, powerful modernized enterprises and sea ports. In 2015 Allseeds invested in building new oil extraction plant in Yuzhnyi port. The total amount of investment was USD600 million, which was one of the greatest investment projects in Ukraine in recent years. In 2016 Bunge made a huge invest-

ment – USD180 million in the construction of an oil transshipment terminal in Mykolaiv, which was the largest investment of the American concern in the agrarian sector in Europe. The first investment by Allseeds created 250 new jobs and the second one – 170 jobs, which means improvements both in the economic and social spheres.

For more than 25 years of independence of Ukraine, the oil and fat industry managed to grow rapidly and increase production and export with each year, occupying the leading position in sunflower oil export for a long time. According to recent research, production of sunflower oil in September 2016 – February 2017 grew by 34 % compared to the same period of 2015-2016, which is shown in Figure 3. The export volume for the same period showed a 23 % increase. Production of margarine products also increased by 2.6 % in September – February 2016/17, and in January – February 2017 showed a 28 % increase, the export figures exceeded the import volume 6.7 times.

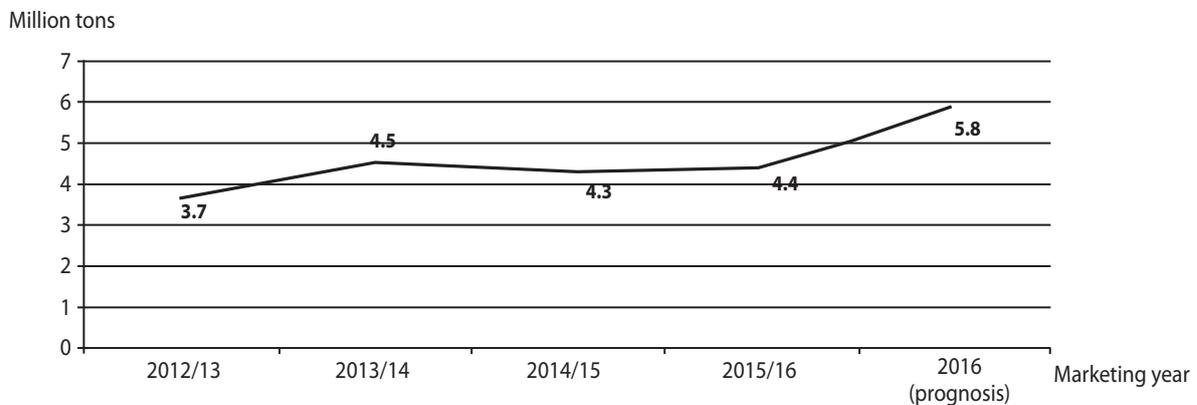


Fig. 3. Production of sunflower oil, mln tn

For the last 15 years, 37 new production plants have been built. The modernization of equipment, using up to date and resource-saving technologies, wide range of products, high level of competitiveness, significant investment attractiveness and export orientation of the industry – all these features show the great potential of the oil and fat industry. However, the modern state of the oil and fat industry is characterized by lots of development problems, which require a more thorough investigation.

The sector is highly monopolized: it is represented by more than 1200 enterprises, but only 8 of them make more than 50 % of oil production. Figure 4 shows that in 2015 the largest oil producers occupied 50.2 % of the market and, as we can see, most of enterprises of the oil industry are part of large corporate agribusiness groups and international corporations. Bila [14] states that the increasing presence of such enterprises in the commodity and raw material market gives them a chance to dictate their conditions in the market, regulate production profitability, and reduce the impact of competitors.

Another drawback in the oil and fat industry is the lack of innovation and investment orientation in oil and fat enterprises. At first glance, this industry is one of the most innovative sectors of the economy. The innovation activities include the application of integrated equipment to ensure the full cycle of production of oil and its derivatives. The technologies of oil

extraction and margarine productions are improved; waste products are being used to manufacture new products. However, most of these projects remain the prerogative of large enterprises, usually with foreign capital, while small enterprises stay on the sidelines. Greater investments in increasing the production capacity of the enterprises do not mean ensuring their total workload. For instance, in 2013 the oilseeds processing enterprises were only 63.9 % loaded, and 8.5 million tons of raw material were processed at a maximum load of 13.3 million tons.

The modernization of oil and fat enterprises is implemented using imported equipment (usually from European Union countries). It can be explained by the lack of Ukrainian counterparts that could significantly expand innovative possibilities of the industry.

What practically can be done and implemented in oil and fat industry enterprises so that their activity would comply with the principles of sustainable development and what benefit can it bring?

1. If we start from the very first step – *cultivation of raw materials*, the increasing production of seeds, which is observed every year, should not exhaust and deplete the soils. The first measure is to comply with the crop rotation and control the pesticides used in crop protection tools. According to FAO [1], improper

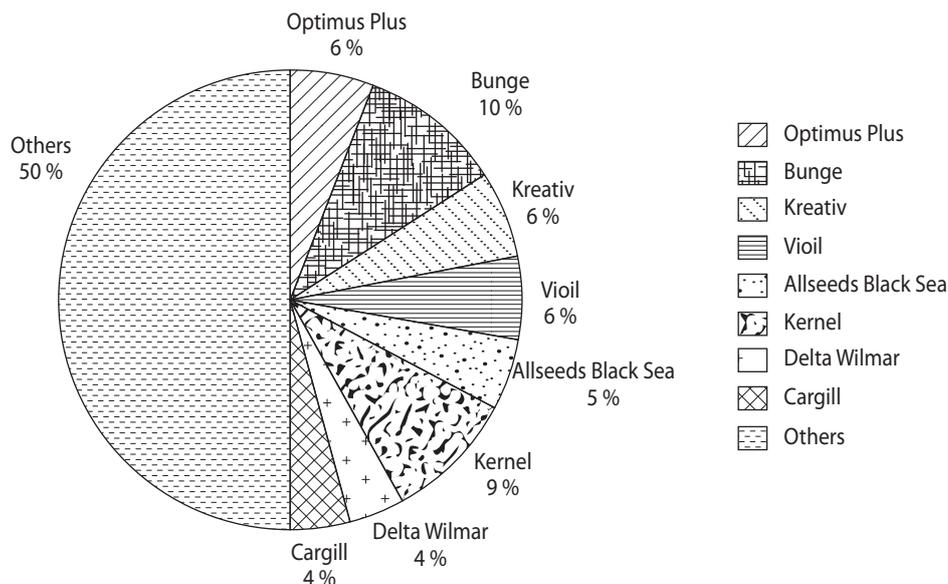


Fig. 4. Largest oil and fat enterprises of Ukraine in 2015

management of natural resources in Ukraine has resulted in negative impacts on the environment and climate, resulting in the reduction of both quality and quantity of agricultural production.

Moreover, more than a half of pesticides used in Ukraine are counterfeit. As a result, farmers get products with an acceptable level of harmful substances, but at the same time the yield does not meet the necessary quality characteristics. The most popular plant protection products used by farmers include such active substances as prometryn, acetochlor, carbendazym, imazapyr. The EU pesticide database proves that these pesticides are forbidden to use. In 2017 UN experts argued the statement of the need of pesticide use to provide food security. There have been also given data on 200 thousand fatal poisonings by pesticides a year. Furthermore, it was claimed that constant contact with pesticide causes cancer, Alzheimer's and Parkinson's diseases, endocrine diseases, development disorders and infertility.

2. Implementing the new *logistic strategies* would not only contribute to improvement of ecological situation but also make a serious economic benefit. One of the main roles in selling oil and fat products is the ability of an enterprise to dispatch large batches fast and by different means of transport. In Ukraine automobile and railway transport is most common. In case of using trucks, a significant inconvenience in delivering large batches occurs, while it is absolutely unprofitable. Furthermore, automobile transport is environmentally unfriendly, which also limits its use. In case of railway delivery, its main drawback is the high cost. «Ukrzaliznytsia» is the monopolist in rail transportation in the country and pursues the policy of raising tariffs for carrying goods by railway. Development of waterways is perspective in terms of oil and fat products export. The port terminals are the main link for exporters in the development strategy in terms of increasing competitiveness. The existing port capacity fully satisfies export needs of the oil and

fat industry. According to the State Statistic Service of Ukraine (2017), the share of railway in transportation of oil and fat products on the territory of Ukraine was 54 %, of automobile transport — 27 %, and for water transport it made up only 0.8 %. In Europe, the share of oil and fat products transportation by river amounts to 15 %.

According to Bila and Shved [14], further development of the water transportation system is to involve water resources of the Dnipro and the Southern Buh. Dredging projects should be promoted and financed more and it would benefit in increasing volumes of oil and fat products transportation and reducing its cost. Moreover, new logistic strategies should include constructing new storages for oilseed crops and oil.

3. The main condition for further stable and sustainable development of the oil and fat industry is preservation of *export duty* for sunflower and linen seeds as well as creating conditions for the maximum processing of rapeseeds and soya beans in national plants by means of introducing export duty or non-refund of VAT when exporting these raw materials. This will undoubtedly make a serious contribution to the economy of the country, while the added value will stay in the country, encouraging the internal processing and capacity building.

Unfortunately, the production volume of rapeseed oil is decreasing. As of September 2016-February 2017, it reduced by 67.5 %, in January-February 2017 — by 81 %. From the 2016 harvest, as of March 1, 2017, more than 950 thousand tons were exported (86 % of its total yield) and only 10 % was received for processing. Soya beans are also actively exported. As of March 1, 2017 1.9 million tons of soya beans were exported, which is by 50 % more than the last year. Because of this the production of soya oil declined by 5.7 %.

4. In order to cope with the second main sustainable principle – *social inclusion*, the working conditions should be improved. This means not only high level of social protection and decent salaries, but also

working with modern equipment, learning new technologies and standards. For the last 15 years 37 new production plants and 10 thousand new jobs have been created, which will contribute to increasing the number of people involved in this sphere. Thus, the main principles should comprise youth social inclusion, in order to stop mass emigration of young people from Ukraine; decent working conditions; human development.

5. The oil and fat industry *is investment attractive*. Huge investments are made in its development by both Ukrainian and foreign investors, which facilitates building new enterprises and reconstruction of the existing ones. The capacity of oilseeds processing increased from 2.5 million tons in 1998 to 18.5 million tons in 2016 (7.4 times) and the capacity utilization increased from 30 % to 85 %. Investments made in this industry amount to more than USD2 billion. The infrastructure was also developing fast: 16 new terminals were built in 6 sea ports. It is important that investments be made not only in foreign companies but also in Ukrainian ones, which need money inflow and support.
6. *Ecologization* is one of the most important goals of sustainable development. The introduction of environmentally friendly programs in oil and fat enterprises is a long lasting process. It will include not only re-equipping production plants, implementing international quality certificates, and ensuring reduction of emissions, but also changing the consciousness of people as to how the way of using the land can change the life of every Ukrainian citizen.

To sum up, economic, social, technological and biological processes that occur in the environment are closely linked and interdependent. Sustainable development goals in agriculture, especially the oil and fat industry, can be seen as one of the methods to reach prosperity for our country. How can each sustainable goal change the existing situation in the economic, social and ecological spheres? Economic development can be ensured through introducing export duty on certain crops, increasing internal processing, attracting more investments. These factors would undoubtedly help enterprises gain more profit, produce and export more goods.

Social inclusion should become a driving factor to improve the living conditions of the people. Special attention should be paid to life security and health of the people, provide decent working conditions, which is not possible without effective medicine, insurance, safe environment, access to safe drinking water, safe food and industrial products. The oil and fat industry, being one of the most developed ones, should provide high salaries, social care and international training for the employees in order to adopt the experience of developed countries and international labor standards in our enterprises.

Environmental protection in oil and fat enterprises should be started from control over raw materials and crop rotation. Sustainable management of resources is a key factor to manufacture safe and high quality products. Moreover, companies should actively implement energy safe programs by using alternative fuels obtained from processed products and

making biofuel. This will help improve ecological conditions in Ukraine, grow a healthy nation and produce safe food.

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