

Priority directions of development of export agro-food productions of Ukraine

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Abstract

In the article were determined main trends of development of agro-food export of Ukraine. On the base of the complex analysis of the commodity structure agro-production was discovered its disadvantages and was offered the paths of solutions. As a result of the given research of geographical structure of export agro-food production of Ukraine was found essential changes on the different segments of world market for some groups of commodity in the volume and dynamics. It was grounded the paths of development foreign trade of agro-food production and food in the context of functioning Free Trade Agreement between Ukraine and European Union. It was offered the priority directions of development of domestic export agro-food productions in the current conditions.

Key words: foreign trade, agro-food production, export, import, globalization

JEL Classification: F16, F18, Q17, Q11

1. Introduction

In a globalized world economic development of foreign trade and networks are important factors of functioning any national economics and state because it has not only economics meaning, but also political one. Moreover, the challenges that linked with the globalization agro-food systems leading to the acceleration of the expansion of world food trade, compared to the growth of agricultural production and food products. During 2013-2014 Ukraine has lost control under the Crimea and the part of Donbas's territory, which led to the changes in foreign trade in particular agriculture. In such realities consider that the most important issues in the process of integration into the world economic community is the transition to a qualitatively new and effective foreign economic relations in the agricultural sector of Ukraine.

2. Material and methods

The given research is based on general scientific methodology. During the process of research there were used a system analysis and synthesis, monographic, abstract, logical, economically mathematic, grouping, computational and balance methods of scientific researches.

3. Results and Discussion

Entering to the World Trade Organization (WTO) in 2008, signing the association agreement between Ukraine and EU and creation according to this agreement free trade zone. Consequently, this all led to the establishment by Russian Federation trade war against Ukrainian agriculture productions. These actions have changed completely the strategy and forced Ukraine to look for the new markets for agriculture goods.

The country has more than 40 million of the population, 3 out of 40 million are employee in the agriculture. Ukraine has a huge potential and can provide high level of production and accelerated development of manufacturing and exporting agro-food production. Agriculture sphere of Ukrainian economics has demonstrated good results in such extreme conditions. This is the only industry, which still has positive index compare to the others. This industry provides 20% of employment rate in Ukraine, manufactures production in 2, 5 times more than it can be consumed. Furthermore, export surpluses carried out in nearly 190 countries, and actually make foreign economic trade balance of the country, supporting the currency. Each third earned dollar is the result of agriculture activity. During 2014, more than 14% of the total GDP was provided by the agriculture and food industry, and this share always grows. Thus, if I quarter of 2013 it was 3.1% and for I quarter of 2014 year was 3.3%, over the corresponding period in 2015 - already 4.3%. However, the possibility of the industry is far from being exhausted. Consequently, nowadays, the development of exports is a key task to improve the production with value added [Sledz']. Made research has shown that Ukrainian agriculture economic sphere is one of the key positions of foreign trade turnover of Ukraine [fig.1].

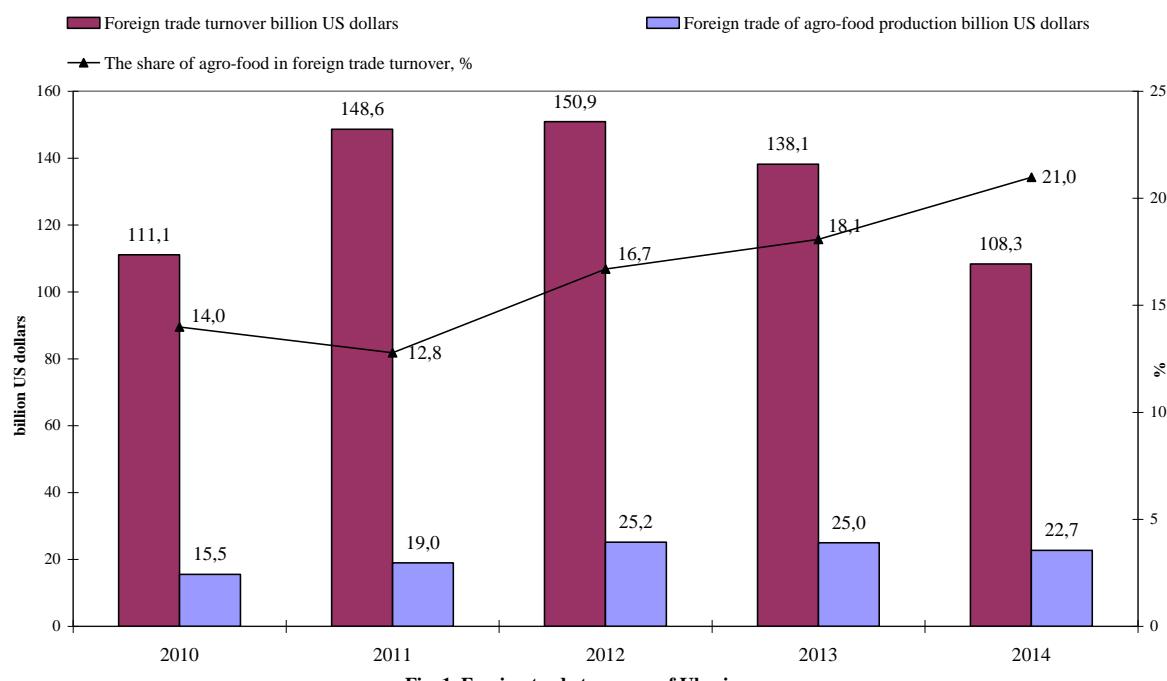


Fig. 1. Foreign trade turnover of Ukraine

Source: Calculated and built according to the State Statistics Service of Ukraine

Following the results of 2014 of foreign trade turnover of Ukraine has become 108,3 billion US dollars. During the period from the 2010 and 2014 the share of agriculture production in the structure of turnover constantly rise from 19,3% in 2010 till 21% in 2014. This tendency saved also in 2015 the share of agriculture production in the general foreign trade turnover (42,4 billion of dollars US) has consisted 23,4% or 9,9%. Total export in 2014 was 16,7 billion US dollars or 31% of total export of Ukrainian good; import was 6,1 billion dollars or 11,1 % of total merchandise imports of Ukraine. The period from January-June in 2015 has illustrated the picture of positive dynamic. Export of agriculture production for the certain period became 7,7 billion dollars US or 35,7% from the total export. Import was 2,2 billion dollars or 10,5% from total import. Last year Ukraine had a trade deficit -527 million dollars US but in 2014, the trade balance of agro-food production was positive and the corresponding period of 10,6 billion dollars US. This trend was stored also in 2015, where foreign trade balance for the 1st half of 2015 is positive and 5,6 billion dollars.

For the last 5 years extend of volume agriculture production in Ukraine has affected rise of exporting ago-food production. (**table 1**).

Table 1 Commodity pattern of exports agro-food production of Ukraine, 2010-2014

	2010		2011		2012		2013		2014	
	mln dollars US	%								
Agri-food exports million dollar USD.	9849,8	100	12732,3	100	17791,4	100	16930,0	100	16669,0	100
1. Live animals, animal products	770,8	7,8	935,0	7,3	959,2	5,4	1083,1	6,4	1014,5	6,1
2. Plant products	3949,9	40,1	5514,5	43,3	9173,1	51,6	8849,1	52,3	8736,1	52,4
3. Fats and oils of animal or plant origin	2605,0	26,4	3380,8	26,6	4184,6	23,5	3497,4	20,7	3822,0	22,9
4. Finished food products	2524,1	25,6	2902,0	22,8	3474,5	19,5	3500,5	20,7	3096,3	18,6

Source: Zovnishnya torhivlya Ukrayiny: statystichnyy zbirnyk / [vidpovid. za vypusk A.O. Fryzorenko]. – K.: Derzhavna sluzhba statystyky Ukrayiny, 2015. - P. 33-35.

According to the data from the government STAT more than half of the export volume of the agriculture production was provided by plant products (51,4% in 2014), mainly by selling crops: corn and wheat. Thus, in 2014 maize exported 17,6 million tons of wheat and 10,5 million tones, Which is 900 thousand tons and 2700 thousand tons more than in 2013. This led to the expansion of trade networks on the world market of grain products.

The key player in importing Ukrainian production from 2010-2014 were Spain, Egypt, China, The Netherlands and South Korea. However, only in the first half a year China has taken first rank in importing Ukrainian corn (90% of all exporting production). The main partners in importing Ukrainian wheat was Egypt, Spain, Pakistan, South Korea and Morocco. Barley was delivered from Ukraine to the Middle East: Saudi Arabia, Iran and Jordan.

A significant share in export of agriculture products account for seeds and oleaginous fruits 3,9 million tons or 10,1%. Exports of this group is developing most rapidly - in 2014 it was increased by 64,1% compared to 2010.

The data from table 1 depicts that not only according to the seeds groups and according to fruit oilseeds of Ukraine have increased in export, but also processing products from them. In 2014, exported fats and oils of animal or plant origin was more than in 2010 by 68,2% and amounted to 3.9 billion dollars US. In general, in 2014, the growth of volume of exports sunflower oil was linked with extending its geography, which has been delivered to the 94 countries of the world (the mail deliveries were done to the Turkey, Pakistan, Belgium, The Netherlands and France). Furthermore, in 2015 (January- June) China joined the list of major importers - almost 97% of all exports of sunflower oil.

Ukrainian sunflower oil on external market especially in Asian and European markets successfully compete with palm and olive oils, which are historical consumer preferences of the population of countries and continents.

However, there is a negative balance in livestock compare to the crop production from 2010 till 2014. Consequently, in 2014 the export of these goods were 92, 6 million dolars US, which is on 8% less then it was in 2010 with 109, 6 million dollars US. The main part of livestock export went to Commonwealth of Independent States (CIS) more than 80% and to the Europe only 3 %. This was based on, firstly, the low quality of Ukrainian meet, diary production and milk that the criteria are only suitable in CIS markets, many of which have not yet raised their standard

requirements to EU standards. As it is known, Legislation of the European Union has very stringent requirements for quality and safety of food supplied to the EU. From these groups only poultry meat can be exported to the EU zone. In 2014, European Union tariff quota for duty-free import of poultry meat amounted to 36 thousand tones, which was contracted quickly [Ugorenko].

Russian Federation launched the trade wars against Ukraine. The annexation of the Crimea and Donbas hybrid warfare was the result of changing the land bank of Ukraine. In addition to that, implementing the Agreement on deep and comprehensive free trade with EU countries resulted in the loss of major trading partners in exports agro products (only the first half of 2014 - on the total volume of domestic exports to Russia collapsed by 25% (to 5.7 billion dollars USA), compared to the previous year) led to dramatic changes in its geographical segment.

In 2014, the diversification of sales markets of food and agro production had happened. A number of export to the CIS countries had declined to the 31%. However, export production had increased to the USA on 33%, to Asia on 10%, to the European Union on 4%, also changes in the geographical structure of the particles upwards exports to Asia(the export share is 46,6%, 12,8), USA(the export share is 0,3%, 0,1), other countries (2,7%, 0,9). Top-10 importing countries of Ukrainian agriculture production are China, Egypt, India, Turkey, Spain, Iran, The Netherlands, Italy, Poland, and Belarus. During seven months of 2015 it has been exported production on amount of 4,4 billions of US dollars, which is 56,9 % of total agriculture export.

According to our research, the fact that development of foreign networks in agriculture it is advisable to focus primarily on diversifying export markets with the goal of preventing economic dependence on individual countries and regions. The state has to play a key role in effective foreign policy, which main goal is to provide for the domestic producers of agro-food products the direct access to foreign markets. In this aim, exporters should be interested as well because of the profit-orientation. Supporting the same goal, producers have to be flexible and be ready for changes, even look over their type of production. Moreover, Russia Federation has provided all necessary conditions to diversification, as it was the main trade partner of Ukraine in the past. 10th September 2014, she had accepted government resolution №959 "On the implementation of import duties on goods originating in Ukraine", and the act of it is going to happen in 1of January 2016, where the association agreement is going to start. Dairy, meat products, vegetables, fruits and nuts originated in Ukraine are going to be forbidden on the territory of Russian Federation according to the given resolution. In fact, implementing in the action this resolution means embargo on Ukrainian agriculture production. However, the process of changing the geographical is already working. According to the State Statistics Service of Ukraine: in January-June 2015, the share of total exports do not exceed 2% [Sledz']. In 2014 during the seven months Ukraine had exported dairy production on 84,2 million US dollars, nevertheless, in 2015 for the same period Ukraine has exported production on the sum of 1 thousands US dollars.

Hence, drastic changes, which has happened in geography of national agro-food export of current year illustrates that it has already changed and do not focus on the Russian sales market. This fact shows that in 2014 focusing on the different world markets Ukraine has occupied first place in the world with exporting sunflower oil; third place with exporting grain; fourth place was taken by exporting corn, fifth place got by exporting sorgo; seven place by exporting wheat and soybean; and eight place in trading poultry meet.

Along with that, effectively implement the new strategy of export expansion must be decided on specific regional priorities and possibly the priorities by countries. This selection should proceed with a comprehensive evaluation of the opportunities and needs of the national

agricultural sector, as well as geopolitical and economic importance to us of a particular region or country.

The significant growth of Ukrainian export production after entering the WTO and after the sanctions set up by the Russian Federation regarding diary and meat production, and confectionery, and other production put the Asian segment of agro-food market in the first place of Ukrainian exports. During 2013-2014 Asian countries has started actively importing Ukrainian production were China, Pakistan, South Korea, and India.

It should be noted that quite promising for Ukrainian agriculture products in this group of countries is China market, the export to which is growing rapidly. Customs statistics of exports demonstrates it. Only for the last 7 months in 2015 agriculture export of Ukraine to China has become 889,7 million US dollars, which is twice bigger than previous index with 407 million US dollars.

In terms of the individual headings pleased to note that for the year in exports to China have increased not only the same position as export grain and sunflower oil. Exports grew twice (chocolate, confectionery 1.2 times, alcohol is almost 6 times). That is significant shifts in export not only raw materials, but also the food industry.

For increasing export to China Ukraine has all conditions for it. The state level of country has done quite intensive work for boosting of agro-food exports and extending the sales market. Negotiations have been conducted with the leadership of the Export-Import Bank of China, representatives of the General Administration of Quality Supervision, Inspection and Quarantine of China, the Chinese corporation export credit insurance, business representatives, state agricultural organizations and agricultural associations. As a result of these negotiations, in the nearest future Ukraine will receive permission to export sunflower meal to China. In addition, the General Administration of Quality Supervision, Inspection and Quarantine of China (AQSIQ) plans to provide appropriate permissions. The Chinese side also assured that no additional requirements for Ukrainian sugar, wine and confectionery. Evidently, domestic exporters will export and are able to export these products.

According to analysts and experts, currently domestic producers of agro products are using its export potential to the China only at 7,5%. Consequently, increased cooperation prospects are extremely significant.

Thus, agro-food production in Asian region is quite competitive, and commodity nomenclature of imported food of these countries almost coincides with the structure of Ukrainian exports. Given the fact that domestic agricultural products are very competitive in this region, and then these foreign markets are appropriate further expansion of mutually beneficial trade and economic relations with the Asian segment. Based on features of Ukrainian AIC, the formation conditions of demand in the countries of the region in the long term it is important to consolidate utilized agro-food market segments, including seeds and sunflower oil, cereals, and make efforts to expand the geography and commodity structure of export agro-food products [**Dudar**].

The results of research has shown that from 2010 till 2014 the most dynamic increased in export Ukrainian agro-food production was to the African countries – in 8 times, to Asian countries - in 6 times, to Europe- in 5,1 times, and to the CIS countries only in 1,9 times. During these four years African segment of Ukrainian export rose from 440,7 to 3488,2 million US dollars. The main import for African countries were grain - 71,2% and sunflower oil - 23%.

Among major integrated international associations of Ukrainian imports of agro-food products are the countries of the Customs Union, exports from Ukraine, which in 2014 compared to 2010 according to the State Statistics Service of Ukraine decreased by 31%.

There was a gradual loss in the past. The traditional and most important for Ukraine CIS market segment, which in best times accounted for the bulk of Ukrainian agro-food exports (44,3% in 2005). Moreover, a number factors in the conduct of foreign policy, especially Russia, which was the main buyer of dairy and meat products of Ukrainian production.

Along with that, economic and technological community, which is saved and complementarity Ukrainian economy with given countries, existing of huge market, and also source of scarce raw materials and already formed transport infrastructure, which create suitable conditions for wide development between not only in trading, but also in scientific, technical, scientific and industrial cooperation in agriculture. Hence, gradual recovery and strengthening the competitiveness of domestic exports in these markets should take place in parallel with the intensification of export diversification in other areas.

Important and perspective market segment for Ukrainian agriculture is European Union market. It is the biggest trade Ukrainian partner of agro-food production; its importance grows every year. With the expansion in the south-east towards the EU turns into the most powerful in the world market, which has more than 500 million consumers. Today it is a continental formation unites 28 states with territory nearly 446,8 million hectares. Earth provision of EU public lands for agricultural production is an average of 0,34 hectares. Rural occupies about 90% of the EU territory, home to more than half of its residents [**Kvasha**].

It is relevant to note that members of EU makes inter-trade between countries, which provides economic integration within Economic Community. Evidence of this is that more than 75% or 295 billion 608 million euro the volume of trade is between them, while a quarter of trade is with other countries.

Bilateral trade turnover of agro-food products between the EU and Ukraine significantly has increased since 2008, due to Ukraine's accession to the WTO, and later in 2014, the ratification of the FTA. Thus, in 2010 the figure was 4,1 billion US Dollars and in 2014 reached 7,3 billion US Dollars USA. The share of the European Union in general foreign trade balance of Ukraine is 3,1%. The trade balance of agro-food production between EU and Ukraine, except in 2010, was positive and was 2,3 billion US dollars in 2014, resulting from the implementation of the Agreement on deep and comprehensive free trade area. Increasing in volume of export in EU countries during investigated period between 2010 and 2014 can be explained by many factors such as favourable situation on the international market, the use of autonomous trade preferences by the EU¹, the devaluation of the hryvnia, which increased the price competitiveness of Ukrainian products, and Ukrainian gradual harmonization with European standards.

The main items of Ukrainian exports to the EU are raw plant products (seeds of grains and oilseeds), fats, and oils of animal or vegetable origin (unrefined sunflower oil and other oils). Its exports to these headings average for 2010-2014 accounts for 78,2%. Another group holds 18,9% of finished food products.

The raw material export orientation of Ukrainian foreign trade position makes Ukraine vulnerable, as demand for commodities is volatile and characterized by significant price fluctuations. At the same time, imports from the EU agro-food products decreased in 2014 by 19,2% or 588.2 million US dollars compared to 2013, resulting from the devaluation of the national currency of Ukraine, import-substitution and a decrease in consumer demand.

¹ The autonomous trade preferences include the abolition of import duties on most industrial goods (commodity groups 25-97) and agricultural products and food products (1-24 commodity groups), implementation of zero tariff rate quotas (TRQ) for 16% of agricultural and food products.

The basis of Ukrainian imports from the EU are products with high added value (-18,4% livestock products and finished food products – 48,3% in 2014).

Above mentioned studies of APD shows that the reduction of import tariffs of Ukraine may increase imports to 7%, mainly due to increased deliveries of drinks, vegetable oils and fats, meat, mineral or chemical fertilizers, animal fats and oils, and sugar. Thus, it appears that the benefits received by Ukraine are likely to be higher than for the EU, at least in the medium and long term.

According to estimates the APD, the abolition of import tariffs EU foreseen in the DCFTA can lead to an increase in agro-food exports by 18-20% during the first ten years of trade liberalization with the EU. It is expected that most export growth will be observed for grain, tobacco, meat and other food products. Ukrainian Cancellation is export duties may double oil exports within ten years. In addition, the liberalization of trade with the EU could result in the volume of exports of 2.3 billion. Dollars. USA, which is not exported by Ukraine. This is especially true for dairy products and birds' eggs, cereals and their products, meat and meat products, marine products, fixed vegetable fats and oils and specialized equipment.

Summing up, it should be noted that the introduction of autonomous trade preferences yielded first promising results in terms of growth of exports to EU countries and also contributed to the improvement of standards of quality and food safety, opening export opportunities for Ukraine.

However, implementation of the DCFTA January 2016, that, bilateral reduction or elimination of import duties on most goods on both sides, will increase competition in the domestic market of Ukraine.

Analysis of trade relations between Ukraine and the EU suggests potential for increased cooperation within countries. Delayed implementation of the FTA gives the government more time to conduct the necessary legislative changes. Ukrainian business has adapted its production processes and standards to EU requirements to strengthen competitiveness on the EU market and to retain and expand its position in the domestic market. The main task in the coming period on export is all necessary legislative changes. Ukrainian business has adapted its production processes and standards to EU requirements to strengthen competitiveness on the EU market and to retain and expand its position in the domestic market; on imports - rationalization of the structure of Ukrainian imports - imports from these countries agro-industrial production of new technologies and their scientific, technical and economic assistance in creation of means of production for such technologies in our country. As a result of the FTA will be winners and losers, both in Ukraine and in the EU, and everything will depend on the competitiveness of each company. However, the FTA will increase the welfare of both parties.

4. Conclusion

Thus, according to a study foreign vectors of agro-food market in Ukraine can be concluded that, without prejudice to the economic integration with the EU, Ukraine in any case should not limit relations with other segments of the food market of the world - Asia, Africa, Customs Union. This cooperation will certainly have problems and inconsistencies that require attention, detailed analysis and solution in terms of preserving national interests and economic security

of Ukraine. At the time of concluding, the Association Agreement between the EU and Ukraine should use the opportunity

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