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CURRENT STATUS AND PROSPECTS OF THE FOOD INDUSTRY DEVELOPMENT OF UKRAINE IN THE SYSTEM OF EUROINTEGRATION COORDINATES

Abstract: *The current status of the food industry in Ukraine was analyzed and the assessment of the main economic indicators of the industry was implemented. The tendencies of development of the domestic food production in the system of eurointegration coordinates were researched and the prospects were determined.*

Keywords: *food industry, production, export, investments.*

I. Introduction

Food industry has always been a priority and strategically important industry for Ukraine, which can provide not only the needs of the domestic market, but also an important place among the world's leading countries in the food production. Food availability, quality and its ecological compatibility affect on the state's food security, and they are indicators of its social stability. Therefore it is necessary to analyze the food industry problems and to develop the practical recommendations for its determination.

Increasing globalization and integration of Ukraine into the international community made the economy of our country more vulnerable to external

threats and put strict requirements to ensure the proper level of competitiveness. This is particularly applies to the food industry. The conformity international standards can be achieved only providing the industry's transition to innovation model of development and active implementation of modern technologies in food production. That's why there is a special relevance today of increasing the efficiency of the domestic food companies, the definition of threats and potential growth of the industry, improving the quality and competitiveness of the domestic food products.

II. Formulation of the problem

The analysis of last researches and publications showed us that a number of leading Russian scientists are concerned about the ways for an effective development of the food industry in Ukraine and the elimination the negative trends of its functioning. The development of food subsectors at various stages were investigated by such scientists as P. Borschevskiy, L. Deyneko, A. Zainchkovskiy, P. Kupchak, D. Krysanov, P. Osipov, V. Pryadko, M. Sychevskiy, N. Skopenko, L. Chernyuk and others.

The purpose of the article is to analyze the current status and trends of the national food industry development in the system of eurointegration coordinates.

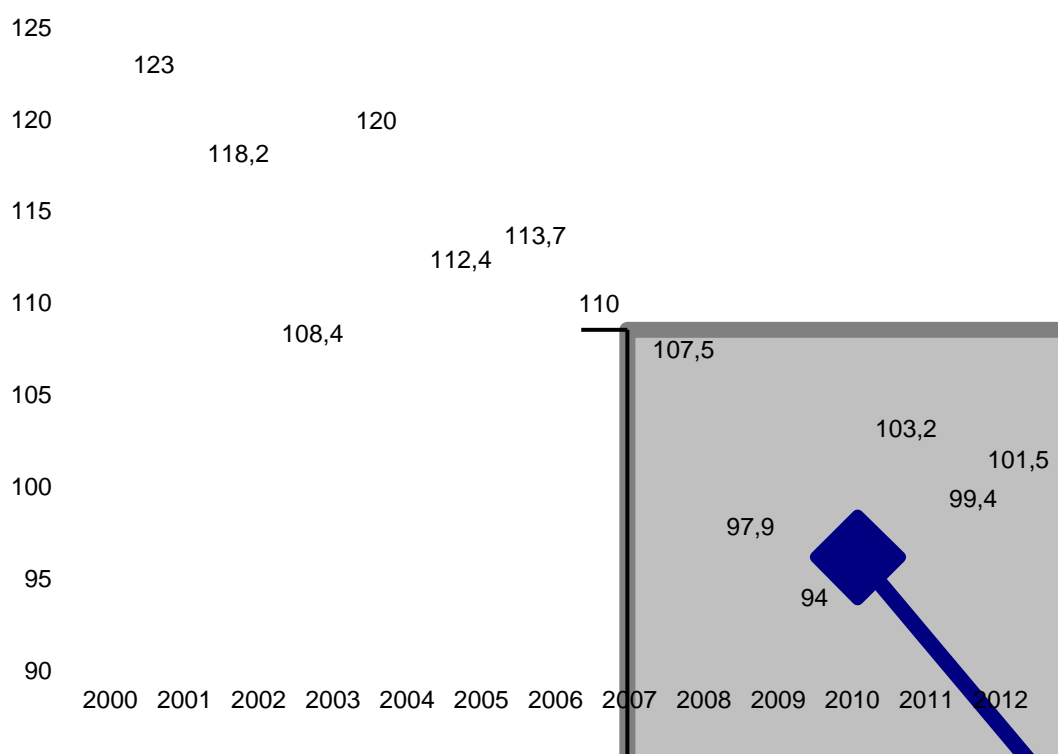
III. Results

The food industry is one of the leading systemically important industries of the national economy. It is directly involved in the ensuring of food security of our country, in the formation of its export potential and can positively influence on the dynamics of economic growth in Ukraine.

Like in any other industry, the food industry has certain features. In particular products manufactured by food companies are the essential goods,

and therefore these products are in constant demand (the half of budgets of the domestic households spent on food products). The industry has a close connection with the agriculture, and thus the improving of the efficiency of agricultural enterprises is impossible without solving the problems existing today in the livestock and plant cultivation. Food market is characterized by significant capacity, which makes the food industry quite attractive for investments.

The importance of the industry for the state economy is due to its specific weight in total volume of production and sales of industrial products, export potential and volume of tax revenues that it provides. In 2012, the food industry took the second place on volumes of sales (the metallurgical industry traditionally holds the first place). Its share was 16%, including beverages and tobacco products. [8] However, according to data presented in Picture 1, the decrease of food production is observed since 2005 in Ukraine.



Picture 1. Indexes of production of the food Industry products in Ukraine in 2000-2012, % of the previous year [8]

But in our opinion more negative issue is a steady tendency to slowdown of production (trend line), which characterized by the last 11 years of the industry. This is associated with a low level of effective demand because more than a third of households in the country has less per capita income than the subsistence minimum [12, p. 163]. And this is due to the lack of the system approach in public policy to ensure sustainable and efficient growth of the industry. As a consequence it is a reduction of profitability of domestic food companies.

The production of grape wine, canned natural vegetables and frozen pork (Table 1) is characterized by high rates of decrease. However, during the research period, there is an increase of consumption of semi-finished meat, oils and juices.

Table 1. The change of production volumes of main products of food and processing industry in Ukraine in 2012, % to 2011 [6]

Product types	The change of production volumes, %
Concentrated juices, including blended, except tomato juice	+95,2
Meat preparations	+32,9
Sunflower unrefined oil	+16,6
Butter	+15,7
Noncarbonated natural mineral water	+12,5
Frozen meat and food offal of poultry	+6,4
Processed liquid milk	+6,0
Fresh cheese and curd	+4,4
Fermented milk products	+3,6
Fresh or chilled meat and food offal of poultry	+2,7
Vodka, other strong drinks	+1,6
Groats	+1,2
Chocolate	+0,6
Sausage products	+0,4
Nonalcoholic drinks	+0,1
Flour	-0,2
Brandy	-0,7
Malt beer	-1,5
Cigarettes	-1,7
Carbonated natural mineral water	-1,9
Fresh or chilled beef and veal	-2,1
Natural juices (including orange)	-3,9

Confectionery products made of sugar	-4,1
Liqueurs, sweet cordials, alcohol tinctures, other alcoholic drinks	-4,5
Bakery products	-5,3
Natural blended juices	-6,3
Fresh or chilled pork	-7,1
Fat cheeses	-7,6
White crystalline sugar of beet	-8,0
Margarine and similar products	-8,9
Frozen beef and veal	-9,7
Rennet cheeses	-11,1
Undenatured ethyl spirit with alcohol content of more than 80 %	-12,2
Frozen pork	-13,9
Canned natural vegetables	-18,3
Grape wine	-26,6

According to the State Statistics Service of Ukraine, the profitability of food production is low enough. In 2012 it was only 4.5%, that is lower by 1.3%, 2.1% and 10.3% than the profitability of the pulp and paper industry, mechanical engineering and activities related to the production of all kinds of minerals, respectively. Therefore it is constantly growing number of food companies that incur losses. If the share of unprofitable enterprises in the food industry of Ukraine in 2007 was 33.2%, by the end of 2012 59.3% of industry manufacturers have already finished the year with a negative financial result [6].

As a consequence, the number of food enterprises and, respectively, the number of its employees is constantly shrinking.

Despite of existing problems, the food industry remains a powerful budget-source. In 2005-2012 the total amount of taxes and mandatory charges paid by food companies of the country to all budgets, has increased by 4 times. In 2012 according to the State Statistics Service of Ukraine the food industry has provided 86.7% of tax revenues from the agricultural enterprises. [10]

Growth of the production of certain kinds of food was the result of their export orientation. According to the analytical research conducted by specialists of JSC "Erstebank", in 2011, Ukraine ranked first place in the world on volumes of production and export of sunflower oil. [11] The total

volume of its export amounted 2701.4 thousand tons (90% of the total volume of oil produced in the country), that is \$ 2 370.2 (comparable to 2001: the sales of these products abroad were almost 6 times lower that is 473.2 thousand tons of oil, totaling \$ 216.6 million) [5, 6]. The largest consumers of Ukrainian sunflower oil were: India, which accounted for 26% of total export, Turkey - 12% and Egypt - 9%.

The export of bakery products is gradually increasing. These products are mainly sent to the border towns of neighboring regions of Russia and Ukraine, Belarus and Moldova. Although the bakery goods have short storage term, but the domestic baking industry has advantage that is easier and closer to deliver them from the Ukrainian bakeries than from the major cities of these countries. Besides the selling price of bread and bakery products from the domestic enterprises is lower and the quality is high enough.

Also the domestic confectionery is in demand among the European consumers. Recently, however, the number of imported products has increased in the Ukrainian confectionery market, mainly from Belarus, Russia and the EU countries. The possibility of price competition between foreign and domestic confectionery is often associated with unfair methods of competitive struggle, namely the replacement of some expensive and high quality components at a much cheaper and lesser quality. Repeatedly it was found out that the content of chocolate cocoa butter is understated in many varieties imported from abroad, or this product is generally replaced by cheaper vegetable fat. Reduction of production cost can be achieved by replacing hazelnuts by peanuts; increasing the milk powder content and increasing content of soybean, using cheap varieties of confectionery fat, etc. As a result, cheap import of low quality is gradually beginning to replace Ukrainian confectionery from the domestic market.

In Ukraine, beef was another export item for a long time. However, in recent years there has been a gradual reduction of volumes of its realization abroad. It should be noted that this trend is typical for many countries. The

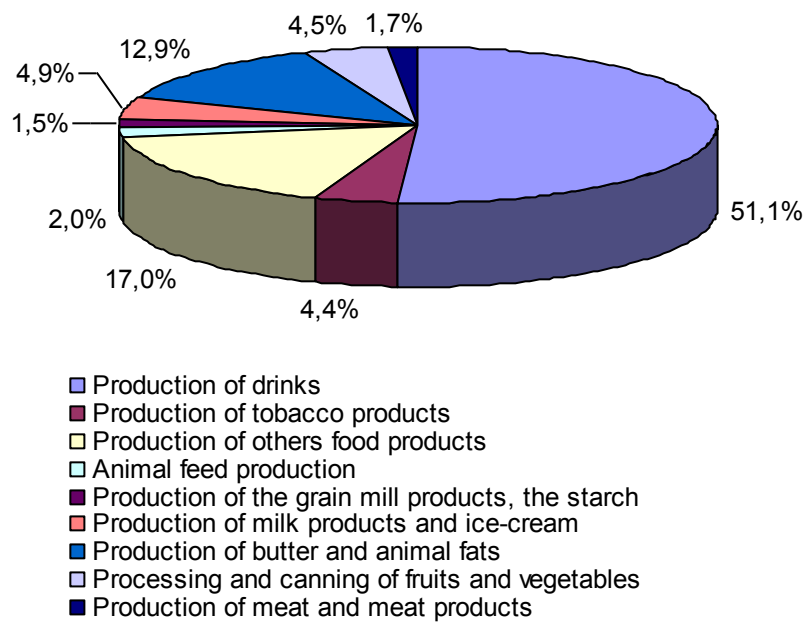
global market for beef is stagnating of consumption and the decline in production. World leaders are scaling back the production of these products, and Asian countries increase only to satisfy domestic demand.

Absolutely opposite situation is observed in the pork market. Despite all the crises, its production in the world is growing. One of the reasons is the increase of demand from China, U.S., EU and the new Asian economies. However, the range of pork exporters is very limited. Theoretically, this could give a good chance to restore the influence of the domestic food industry in the global meat market.

Besides the products that mentioned above, products such as cheese, vodka, beer and cigarettes are characterized by certain export capacity.

Quite good export potential of the food industry makes it attractive for foreign investors. According to the State Statistics Service this industry ranks second on volumes of foreign direct investment (after metallurgy, which is traditionally has more than 40% of all foreign investments). For example, in 2012, the food enterprises of Ukraine received \$ 2,995.3 million of foreign direct investments (Picture 2). But improving the technical level of the food industry is a problem "number one" despite the significant cash receipts from abroad and considering the lack of own funds and limited public investment for the intensification of food production.

As scientists say, one of the most effective ways of increasing the efficiency of the food industry is the development of eurointegration relations based on their integral associations. As noted by N. Skopenko more significant competitive advantages (in particular, minimizing the dependence on suppliers and fluctuations in commodity prices) will have those companies that will go into a vertically integrated structure. They are characterized by a closed production cycle - from the cultivation, storage and processing of raw materials to production and sales of finished products, that allows to receive cost savings and to manage the resource and information flows efficiently [3, p. 181].



Picture 2. The structure of direct foreign investment in the production of foodstuffs, drinks and tobacco products as of 01.10.2012, % [4]

The food industry is an important component of agroindustrial complex of Ukraine. As the final link in the technological chain this industry should perform its direct appointment - to preserve and process agricultural products as best as possible, turning it into high quality goods. However, the issue of compliance the quality and environmental safety of the food products still remain sharp enough for our state.

In contrast to the European countries, the main criterion for domestic producers and consumers is not the quality of foodstuffs, but their price. Safety standards that contained in state standards are unchanged for a long period of time. Efforts of the domestic developers of standards and consumers are often ignored by public institutions.

IV. Conclusions

The membership of Ukraine in the international structures of European and world levels motivates the domestic economy to implement activities on specialization and concentration of production, international cooperation and integration. Successful implementation of these activities will allow the food industry of Ukraine to take its proper place in domestic and international markets.

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