

## DIRECTIONS OF DEVELOPMENT AND IMPLEMENTATION OF THE UKRAINIAN EXPORT POTENTIAL

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### *Abstract*

*In the article are researched the main trends of forming and realization of the agrarian enterprises' export potential. There is conducted an analysis of interdependence between the separate factors (in particular, investments into the agrarian sector) and the quantitative indicators of the export potential development. There are proposed the ways of the agrarian enterprises' export potential realization within the context of the eurointegrational processes, which harbour contemporary specificities of the agrarian enterprises development, tendencies of the agrarian enterprises' foreign economic activity and the analysis of the possible opportunities and main threats for Ukrainian enterprises when carrying out the export activity. There is produced a typical algorithm of the certification undergoing devoted to the agricultural commodities export in accordance to the European requirements under the GlobalGAP standards, that will facilitate the growth in production of the agricultural products, specially for the sale onto the European markets.*

*Key words:* export potential, agriculture, foreign economic activity, agricultural products certification

### INTRODUCTION

The export potential of the enterprise as an economic category and an object of analysis got the increased attention of scientists and practitioners in the international business. The experience of highly developed countries and countries that are rapidly developing convinced that the dynamism of the positive development of most national economies largely achieved through an effective export policy, depending on the level of excellence of the processes associated with the formation and using of the export potential of both the state and entities, as well as the selection of methods and tools that can provide a successful course of these processes. Nowadays, agriculture is a main sector of the Ukrainian economy that is why we chose the agrarian enterprises to research the export potential.

### MATERIALS AND METHODS

The theoretical and methodological basis of the study is the dialectical method of cognition, a systematic approach to the study of economic phenomena and processes, the

fundamental provisions of economics and scientific works of domestic and foreign scientists on the problems of export activities of agricultural enterprises.

### RESULTS AND DISCUSSIONS

Agricultural enterprises are on the first and the lowest stage of the technological chain, which last stage is export of the agricultural products. For the agricultural enterprises the organization and provision of foreign-economic (export) operations is a difficult task. For its solving it is necessary to leave the boundaries of the material-resource, financial or marketing components of a business activity subject economic potential. For instance, the function of an export activity organization can be carried out outside the enterprises [1, 2, 7].

Thus, organization and carrying out of export operations with the agricultural products can become possible upon the condition of the participation of a big number of business subjects, specialized on different kinds of activities. The final export displays the efforts results not only of agricultural manufacturers, but also of processing enterprises and other

auxiliary productions. Additionally it should be mentioned, that the ways of export stimulation, such as the return of the Value-Added Tax to the exporters, include states into the list of export subjects. Export subsidies make the products export operation to be efficient. Their production cost is a bit higher than the cost in the international market.

Undoubtedly, the further effective development of the agrarian sector enterprises and uprising of its export potential is connected with the increasing of the part of the agricultural products export with a high added value. The modern Ukrainian export is characterized by a meaningful relative weight of raw-material orientation products and a low level of an added value. It leads to exhaustion of a resource base of the country and increases the level of its economy perceptivity to different exogenous factors, as well as to the change of pricing environment [10, p. 57-58]. The diversity of the factors, which influence the export potential of agrarian enterprises of Ukraine, can be classified in different ways. For example, according to the way of influence the factors can be divided into the factors of direct and indirect influence. The factors, which make negative influence on the enterprise operations are the factors direct influence. As a rule, the factors of indirect influence do not influence the operations of an agrarian enterprise immediately, but they should be taken into account in management decisions. Indirect influence is more difficult than the direct influence. The factors of direct influence include the influence of business rivals and consumers, legal coverage, inflation, information provision, etc. The factors of indirect influence are the following: political stability; the state of the economy; scientific-technical progress; world market; social-cultural factors.

The international experience shows, that the countries with transitive economies can not leave the economic crisis without involving and effective use of foreign investments. Foreign investments, accumulating business, state and mixed capitals, help to form national investment markets, and they are the impulse for creation of internal services and goods markets.

During recent years, we observe increasing of national and foreign investments into agriculture, but the part of investments into this sphere in general volume of foreign investments is still small.

The main source of the direct foreign investments into the Ukrainian agrarian sector are the European countries. Besides, the volume of investments from China and Persian Gulf countries increases every year. Despite the fact that Ukraine rises in the rating of cleared conditions for making business, there are unused opportunities for further improvement in different directions, for instance in state regulation sphere.

Investors are attracted by a huge potential of the country agriculture, but they still meet great obstacles in the process of investment, in addition to economic downturn and tension in policy, which take place nowadays.

Ukraine has an open and clear legal order of foreign investment, which meets international standards.

Currently, according to the size of investments and capitalization the agrarian sector is a leading industry of the Ukrainian economy. It is also observable in compliance to the statistical data, despite the fact that in 2019 the volume of investments decreased. For instance, in accordance to the data of the Office for National Statistics of Ukraine, as a result of 2018, the sum of the capital investments in the national agrarian sector yielded to 578.8 million USD. This result was 76.4 million dollars more than the result of the corresponding period of the year 2016, but 7.8 less than in 2017 (Fig. 1). In spite of all economic challenges, large foreign transnational companies, such as Bunge and Cargill, etc. invest money into the sphere of national agriculture. Mostly, they are interested in the development of the sphere of infrastructure, since without its improvement it is not possible to increase the volumes of production, neither to increase its export [5].

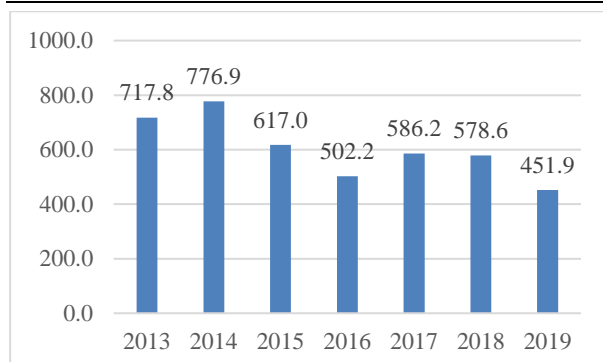


Fig. 1. Foreign direct investment, involved into the agrarian sector, million dollars during years 2013-2019. Source: Accounted by the author according to the data of the Office for National Statistics of Ukraine [5].

In agriculture there are different types of enterprises: corporate enterprises, farming enterprises, individual enterprises.

According to the experience of some European countries, the success on the way of transformation of their economies was partially achieved due to the activity of small and middle enterprises, which for 50 % supply gross national product, for 50% they supply export, and 60 % for import of the country.

In the countries of the European Union there are more cleared conditions for manufactures to carry out foreign-economic activities. First of all, it is stipulated by the work of institutions, analytical agencies, which quickly give the information, which can be used by small manufacturers for strategic planning. The system of state support of agriculture through the dotation system functions successfully [6, p. 38].

Nowadays, in spite of a very difficult economic situation in Ukraine, there is a big number of foreign investors, working in the country. There are some, who are interested to invest into our country. For instance, these are small and middle enterprises from such countries as Czech Republic, Poland, India, UAI.

Professor Onysko S.M. states in his work [12, p. 57], that the agrarian enterprises lack their own sources of capital investments. In these conditions the only way of their compensation should be the investment credits of banking establishments, which have passed the liquidity crisis and have their own corresponding index of capital.

By reason of the state support and limited access to financing, many small and middle business owners are often ready to sell their agrarian business, taking into account its popularity, and they expect having a chance to sell it to foreign investors.

In the nearest future the access to the credit resources for national agricultural manufacturers will also be limited, especially taking into account the financial state of the banking system in Ukraine during the previous three years. By the latest estimates, in Ukraine the part of the bank crediting is less than 20 % of the agrarian sector floating funds. At the same time in developed countries it is 70 %. Interest rate for agricultural enterprises was about 19.8 % in the end of February, 2016. It exceeds average interest rate in economics (16.4 %). Besides, it should be mentioned, that mostly these are short-term credits for current operation needs of the agrarian sector activity (the preparation for sowing with the purchase of fuel, fertilizers, seeds, planting material, forage reserve, etc.), but not long-term ones – for the development and purchase of basic assets, which was allowed by the special treatment of VAT [5].

In the countries of the European Union there acts common agricultural policy. The total volume of support of the agrarian sector in the countries of the European Union during 2017-2019 was almost 60 billion Euros per year, which is about 525 Euro/ha, or 20 % of gross production of an agricultural enterprise. Depending on the country, the state support of the industry is different. For instance, in the Netherlands and Belgium it is 500 Euro/ha, in Poland it is 345 Euro/ha. At the same time, in Ukraine this index is 10-20 Euro/ha (including the assets, which remained under the special treatment of VAT).

Diversification and increase of export of the Ukrainian agricultural production is a real task to be carried out. The output of products with a big part of added value is prospective. According to the analysis, the main export products are grain and oil crops. But in 2018-2019 more than 200 Ukrainian enterprises increased the volume of export of poultry and meat products, started exporting eggs, fish,

honey, flocks, raw leather, forage for pets, other byproducts, etc. to the countries-members of the EU. These facts prove that Ukrainian manufacturers can be not only the

suppliers of raw materials in the world or European markets, but also can find their way in manufacturing of ready-made products.

Table 1. Commodity composition of trade in 2015-2019 -groups I-IV according to Ukrainian Commodity Coding System (UCCS)

| Groups                                       | 2015            |                | 2016            |                | 2017            |                | 2018            |                | 2019            |                | 2019 to 2015, %/ item |
|--|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------------|
|  | million dollars | % in structure | million dollars | % in structure | million dollars | % in structure | million dollars | % in structure | million dollars | % in structure |                       |
| <b>Export</b>                                |                 |                |                 |                |                 |                |                 |                |                 |                |                       |
| Together groups I-IV according to UCCS       | 14,563.1        | 100.0          | 15,280.8        | 100.0          | 17,756.9        | 100.0          | 18,611.8        | 100.0          | 22,144.1        | 100.0          | 152.1                 |
| I. Alive animals; products of animal origin  | 823.4           | 5.7            | 775.0           | 5.1            | 1,108.8         | 6.2            | 1,210.6         | 6.5            | 1,277.0         | 5.8            | 155.1                 |
| II. products of plant origin                 | 7,971.5         | 54.7           | 8,093.7         | 53.0           | 9,215.7         | 51.9           | 9,886.1         | 53.1           | 12,914.4        | 58.3           | 162.0                 |
| III. Fats and oils of animal or plant origin | 3,299.8         | 22.7           | 3,962.0         | 25.9           | 4,605.7         | 25.9           | 4,496.5         | 24.2           | 4,732.2         | 21.4           | 143.4                 |
| IV. Ready-to-use food products               | 2,468.4         | 16.9           | 2,450.1         | 16.0           | 2,826.7         | 15.9           | 3,018.6         | 16.2           | 3,220.4         | 14.5           | 130.5                 |
| <b>Import</b>                                |                 |                |                 |                |                 |                |                 |                |                 |                |                       |
| Together groups I-IV according to UCCS       | 3,484.4         | 100.0          | 3,891.1         | 100.0          | 4,301.1         | 100.0          | 5,055.5         | 100.0          | 5,736.0         | 100.0          | 164.6                 |
| I. Alive animals; products of animal origin  | 548.2           | 15.7           | 626.3           | 16.1           | 731.5           | 17.0           | 318.0           | 18.2           | 1,071.5         | 18.7           | 195.5                 |
| II. products of plant origin                 | 1,146.2         | 32.9           | 1,284.8         | 33.0           | 1,368.0         | 31.8           | 1,529.2         | 30.2           | 1,794.6         | 31.3           | 156.6                 |
| III. Fats and oils of animal or plant origin | 182.3           | 5.2            | 246.0           | 6.3            | 266.6           | 6.2            | 267.4           | 5.3            | 253.3           | 4.4            | 138.9                 |
| IV. Ready-to-use food products               | 1,607.7         | 46.1           | 1,734.0         | 44.6           | 1,935.0         | 45.0           | 2,340.9         | 46.3           | 2,616.6         | 45.6           | 162.8                 |

Source: accounted by the author according to the data of the Office for National Statistics of Ukraine [5].

Researches show that the part of agricultural food products in the commodity composition of Ukrainian exports comprised 40-45 % in 2015-2019. It is the evidence of a high level of dependence of the national economy on the export of these commodities. Thus, taking into account the performance of export activity, we can make a conclusion, that the agricultural industry is rather prospective.

In the 21<sup>st</sup> century the sustained development of the national agrarian sphere can be supplied only by means of using new high-producing and drought resistant varieties of agricultural plants, application of innovative technologies and modern technical means, which demands remarkable capital investments into the industry [8].

According to estimates of the director of the International Bleyzer Fund O. Ustenko, Ukraine needs annual investments in the amount of 5 billion dollars during 10 years in

order to reach a European level of agrarian enterprises development. He mentioned the following high priority measures for investment climate improving: coping with the corruption, creation of regulatory environment and administrative barriers liquidation [13, p. 104-110].

For the volumes of exports to grow, it is necessary to increase the production of the high-quality agricultural products and search for new sales markets or to increase the share of sales on the present ones.

The prospective sales markets definition and the agrarian enterprises factual export activity on these markets are the important aspects in predicting the export potential of the agrarian enterprises.

Proceeding from the results of the previous researches, it was found that the EU member-countries' markets are the most prospective foreign sales markets for the agricultural

products made by the L'viv region's agrarian enterprises.

It is worth noting that the exports to the EU countries had increased in more than two times during five years at the expense of the volumes of the crops exports growth, whereas, on the contrary, the volumes of the livestock breeding exports had decreased by 35%. There are two main reasons concerning the reduction of the livestock breeding products exports: shortage of its production volumes and the veterinary restrictions pertaining to its exports.

The partial removal of unequal trade conditions between the EU and Ukraine, which showed itself after Ukraine, had joined the WTO, is a main advantage of the free trade area for trading with the agricultural products. The removal of unequal conditions is being made real by means of the following:

- cancellation of the customs within the frame of the tariff quotas for the agricultural goods;
- cancellation of the export subsidies for the agricultural products to the EU entrepreneurs while exporting to Ukraine;
- granting the Ukrainian party with the right to use extra trade conditions and protective measures [3].

Implementation of zero-rate import duty quotas on the crops exports to the EU countries is a way to augment the exports volume on the crop products market. In spite of that, the Ukrainian agricultural products export expansion onto the EU countries'

markets will be hindered, because of the little import tariff quotas volume for customs-free import of the national agricultural products into the EU countries and the insufficiency of the majority of the national agricultural producers, currently, to meet the technical, sanitary, phytosanitary conditions of the products export onto the EU markets.

There is a high possibility of the national meat and meat products, milk, vegetables and fruits producers' competitiveness weakening, as a result of the imports growth from the EU.

Generally, Ukraine and in particular the L'viv region has a vast export potential in the agricultural sector, but they cannot fully implement it. It is explained by the fact that the Ukrainian agricultural producers faced too tough level of competition on the international markets.

Keeping the tendency to the increase of the volume of the agricultural products exports to the EU countries is possible in case of implementation of three types of export-oriented enterprises development, which can provide a sustainable level of the agrarian enterprises exporting potential development within context of the European integration (Fig. 2).

The given options of the agrarian enterprises exporting potential development are aimed at defining the development vectors as for agrarian enterprises export activity and for their entrepreneurship development in general, as well.

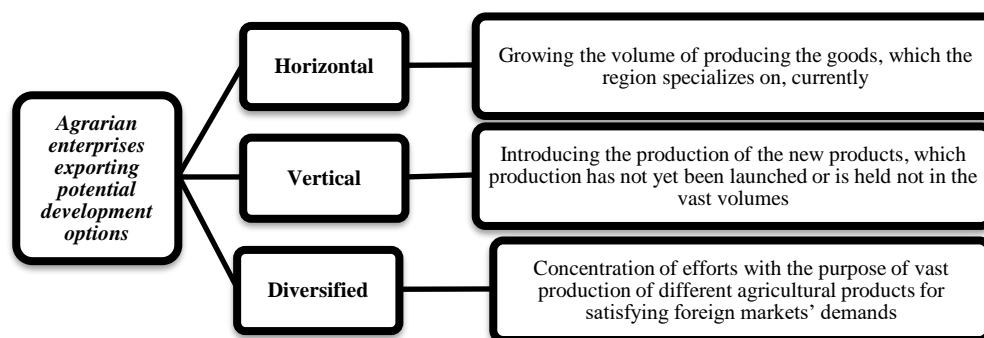


Fig. 2. The agrarian enterprises exporting potential development options within the context of the EU integration. Source: designed by authors [11].

There are opportunities for the agricultural development in Ukraine, nevertheless the main part of agricultural products are being made within the households. Horizontal

option of development is aimed at deepening the region's specialization on the output of the products which production already, nowadays, has the necessary resources for. In particular,

such crops can be represented by fruits, berries and vegetables, which demand for is high enough on the national as well as foreign markets.

Vertical option of the agrarian enterprises exporting potential development involves the establishment of the new or consolidation of the existing technologically interconnected productions. This option may be implemented by the production of the, so-called niche crops, particularly the garlic and the sweetcorn, whose export quotas are not fulfilled. Currently, the corn export is being carried out for fodder and technical purposes. Changing the orientation onto the sweetcorn production may become a prospective way of the agricultural enterprises export activity development.

As to the garlic, it is worth noting that the demand for it is quite high and stable in the European countries. Today, large-scale production of the garlic is not conducted, that is why, the small and the middle agrarian goods-producers consolidation for the joint garlic planting is a prospective. Such a way of production arrangement will allow to conjoin the harvests into the large consignments for exporting.

The diversified exporting potential development option can be implemented by means of researching the foreign market's needs and consolidating the various types of productions into the common production system. We can include the production of the organic agricultural products to this option. This idea is followed in the works of I. Kostyrko, T. Hrom'yak [9, p. 4-5]. Such diversification of production will allow to conquer a stable share of foreign markets, since organic products are getting more and more popular.

The agrarian sector of the Ukraine's economy has to reach the high level of the agricultural production organization, which would correspond to modern world and European demands and which, at the same time, secures and strengthens one's own identity, for the comprehensive integration into the European area. Particularly, such scholars as N. Zalisko,

V. Krupa [14, p. 50-53] highlight that it is necessary to proceed with the researches of the state governance mechanisms in the sphere of implementation of the European guarantying model of the nutrition quality and security in order to develop the Ukraine's Agricultural production complex foreign trade prospects.

Meanwhile, using the accomplishments, which can be gained, as a result of uniting a member-countries regional integrative grouping's agrarian potentials, their agrarian markets and thanks to the solidary responsibility for the final outcome at every stage of the agrarian cooperation and all integration process participants common financial interest, will guaranty the achievement of the best economic result, which is impossible to reach without integration, or it is economically unreasonable.

There is defined a priority of measures in the process of researching the conditions for the agrarian sector of economy adaptation to the European model of the agricultural development:

- 1) Conducting an estimate of one's own financial capacities and opportunities of access to the EU structural funds financial resources.
- 2) Classifying the rural territories types in conciliation to the EU standards.
- 3) Designing some alternative schemes of the rural development organization; specifying the criteria of rural territories depressiveness; overcoming the deficit of information among the peasants in the sphere of agricultural policy, etc.

After the European Union opened its markets to Ukrainian producers, the latter can compete with world producers without duties and on equal terms. However, due to the different supply of agricultural products in the EU, not all countries are promising to export products. In order to analyze which countries have higher prices for agricultural products and which markets are more promising, in our opinion, it is advisable to group them at the average selling price.

Table 2. Grouping of EU countries at the highest sales prices of agricultural products, 2019\*

| Product     | Price range (Euro/100 kg)     | Countries                         |
|-------------|-------------------------------|-----------------------------------|
| Sugar beets | 31.06–32.61                   | Finland, Bulgaria, Slovakia       |
| Potato      | 31.2–47.89                    | Luxembourg, Malta, Greece         |
| Barley      | 16.72–19.52                   | Greece, Romania, Portugal         |
| Oat         | 18.47–23.64                   | Bulgaria, Romania, Czech Republic |
| Corn        | 17.1–21.03                    | Romania, Portugal, Greece         |
| Wheat       | 17.01–19.4                    | Great Britain, Portugal, Greece   |
| Eggs        | 13.74–18.5 Euro per 100 units | Austria, Luxembourg, Greece       |
| Chicken     | 145.16–363.8                  | Greece, Denmark, Luxembourg       |
| Veal        | 322.8–368.8                   | Malta, Austria, Luxembourg        |

\* Source: calculated by the author according to Eurostat [4].

Agrarian enterprises of Ukraine has the capacities to increase the volumes of the their production, however an inappropriance of their products' quality to the international standards is an obstacle. Within the frame of the reasearch, are proposed the main stages for the implementation of the systems of the products quality management at the common

agrarian enterprise as to the GMP+ and GlobalGAP standards. These standards encompass basic rules of ISO 9001 and ISO 22000 (HACCP). Standards GMP+ pertains to the feed production branch and are applicable for the enterprises, which produce the fodder for animal feeding.

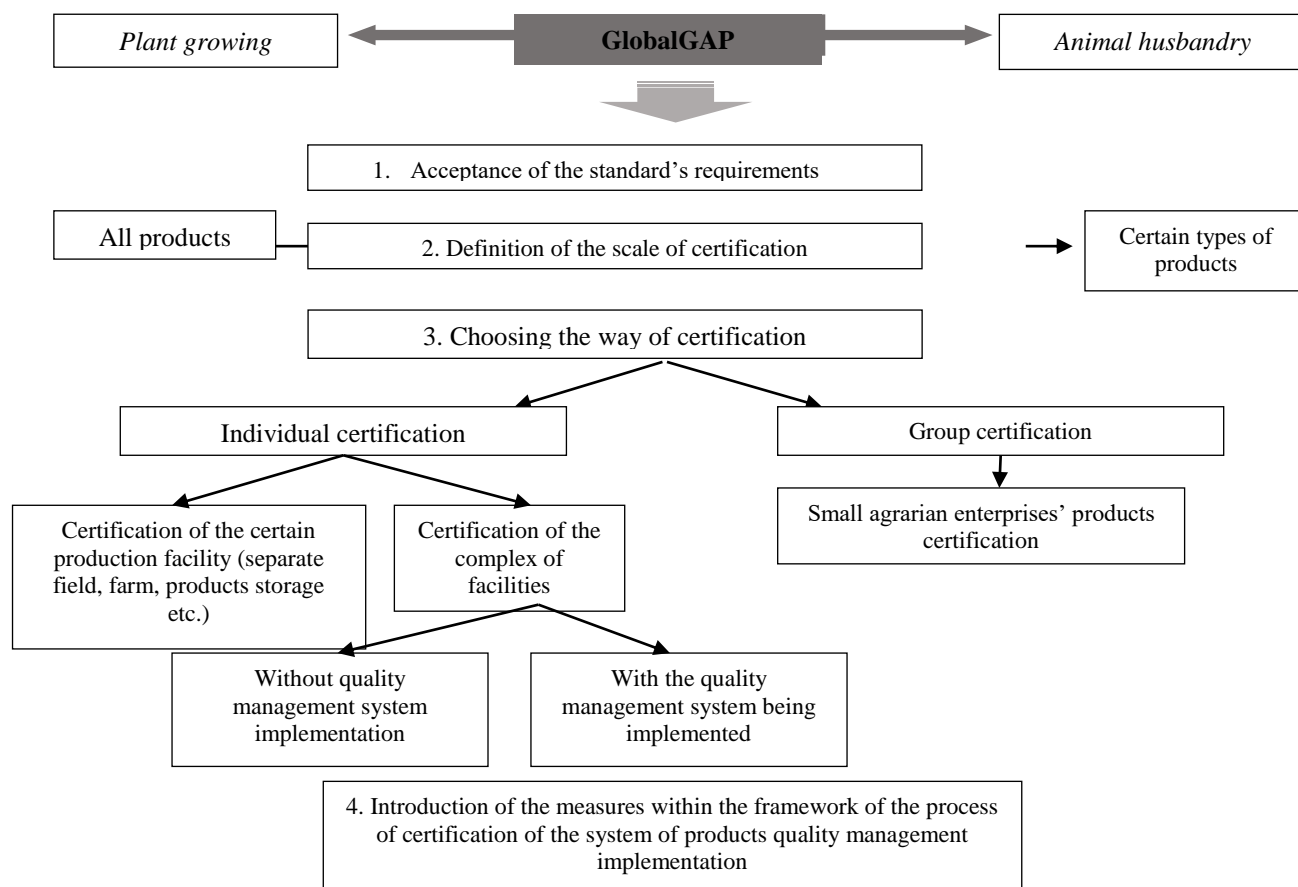


Fig. 3. Typical algorithm of the GlobalGAP standards implementation at the agrarian enterprise. Source: designed by authors.

The scheme shows the typical algorithm of the standards Global GAP implementation at the agrarian enterprise.

Nowadays, GlobalGAP is a solemn integrated standard for the primary products with the possibility of its separate modules usage

concerning the different groups of goods and commodities production in plant growing and animal husbandry, and in compound feed industry.

The abovementioned algorithm is useful as for big agricultural enterprises and for small producers as well. Its application provides the agrarian enterprises with the possibility to sell the primary agricultural products on the European markets, securing a high level of competitiveness of these products.

## CONCLUSIONS

Finally, as a result of the conducted prediction of the export potential development, there have been defined the main development options, which must be oriented toward the adaptation to the European market. Meanwhile, the European standards attainment in the functioning of the agrarian sector of economy is possible only in conditions for defining the basic priorities, which will drive the European integration process in conformity with the strengthened agreement between Ukraine and the EU. These are:

- 1) improvement of the state mechanisms of providing the rural inhabitants with the societal goods as a factor for their welfare growth;
- 2) the fullest realization of the agricultural formations of all legally-organizational forms;
- 3) the agricultural products valid national standards harmonization with the European and world requirements;
- 4) making agrarian production more ecological due to introduction and usage of the environmentally friendly farming methods;
- 5) bioenergy development based on the national raw materials.

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