

KRASOVSKA

Halyna

galina.krasovska7@gmail.com

УДК 658.003.13:339.9.012.23(045)

ANALYSIS OF THE EFFICIENCY OF  
EXPORT OPERATIONS OF UKRAINIAN  
AGRICULTURAL ENTERPRISES TO  
THE EU MARKET

OSTAPENKO

Tatiana

ostapenco@ukr.net

Student of magistracy of National  
Aviation University, KyivАНАЛІЗ ЕФЕКТИВНОСТІ  
ЕКСПОРТНИХ ОПЕРАЦІЙ  
СІЛЬСЬКОГОСПОДАРСЬКИХ  
ПІДПРИЄМСТВ УКРАЇНИ НА РИНОК  
ЄСPhD, Professor Assistant of  
National Aviation University,  
Kyiv

*The present article investigates the economic activity of Ukrainian agricultural enterprises which have decided to redirect their export potential towards the European market due to the current geopolitical situation. Empirical statistics from 2005-2015 in order to find out the most promising and appropriate agricultural products which Ukrainian enterprises can present to Europe and possible areas for further cooperation are analysed.*

*У цій статті досліджується економічна діяльність українських сільськогосподарських підприємств, які вирішили перенаправити свій експортний потенціал в напрямку європейського ринку у зв'язку з нинішньою геополітичною ситуацією. Емпірична статистика з 2005-2015 була проаналізована з метою з'ясувати найбільш перспективні і необхідні сільськогосподарські продукти, які українські підприємства можуть експортувати в Європу та можливі області для подальшої співпраці.*

**Keywords:** management, export potential, Ukrainian agricultural enterprises, European agricultural markets

**Ключові слова:** управління, експортний потенціал, українські сільськогосподарські підприємства, європейський ринок

## INTRODUCTION

The modern processes of the globalization, integration and internationalization of the world economy have led to increased competition in world markets, as well as in the domestic market in Ukraine. This problem is particularly acute for Ukrainian enterprises, whose developmental level significantly influences the state of the Ukraine's economy as a whole. This means that Ukrainian enterprises have a key role in the promotion of a product's competitiveness in both domestic and foreign markets [5].

The problems of increasing the international competitiveness of Ukrainian enterprises in the current global business environment are directly related to the state of its export potential. The issue of export potential expansion is one of many urgent matters for Ukrainian enterprises which carry out foreign economic activity in order to be able to be competitive. The realization of their export potential allows them to become integrated into global value chains and to achieve economic goals such as technical modernization, market expansion, increased productivity and profit-making [2].

The theoretical and applied aspects of the formation and development of export potential are highlighted in scientific works by national and international scientists including Alexandrova, Komarkova, Kubickova, Kuzmin, Kirichenko, Piddubna, Pirozek, Pyrec, Skornyakova, Sotnikov, Starzyczna and others. A variety of theoretical models and approaches are offered to clarify the nature, characteristics and structural features of the formation of export potential for enterprises and countries, as well as the interrelation between export

potential and the level of competitiveness. However, there is no universally acknowledged definition of export potential or its method of evaluation.

**THE PURPOSE OF THE WORK** is to show the possibility of Ukrainian agricultural enterprises to increase exports to the EU.

## RESEARCH METHODS

Methodological and informational foundation of the article are periodical materials, resources in the Internet, regulations and statistical information.

## RESULTS

The agricultural sector plays a major role in the Ukrainian economy. Ukraine has approximately 43 million hectares (ha) of agricultural land, including 32 million ha of arable land, an area equivalent to one third of the arable land in the European Union (EU). Half of it is black soil, the highest productive soil type in the world and a commodity in such demand that an illegal market has developed in selling it. While Ukraine has some of the largest farms in the world, covering up to 500 000 ha, small-scale farmers produce about 50% of agricultural output [10].

Ukraine is the third largest world exporter of grain after the US and the EU. In 2014, it produced 64 million tonnes of grains, 2.4% more than in 2013 even excluding occupied Crimea (MAPF, 2015). It has a comparative advantage in grain production due to high soil fertility, low production costs, and a strategic location. Its potential is estimated at 100 million tonnes (Hervé, 2013). Ukraine is also the largest producer and exporter of sunflower, the third largest exporter of maize, the

fourth of barley, the sixth of soybean, and the seventh of poultry (MAPF, 2015). Wheat, barley and maize represent 60% of the crop area. Crop production has doubled over the last decade and the production of some livestock products has also significantly increased in recent years.

The current situation concerning Ukraine's export potential was explored using research into the dynamics of the general volume of Ukraine's exports in comparison with its imports from 2008 to 2015, as well as with an explanation of the trends which were discovered (Tab.1).

Table 1

**Key indicators of Ukraine's export potential from 2007 to 2014 (thousand U.S. dollars)**

[Official web-site of State Statistics Service of Ukraine. [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua)]

| Year | Exports  | Imports  | Foreign trade balance | Foreign trade turnover |
|------|----------|----------|-----------------------|------------------------|
| 2007 | 49248064 | 60669923 | -11421859             | 109917987              |
| 2008 | 66954430 | 85535356 | -18580927             | 152489786              |
| 2009 | 39702883 | 45435559 | -5732676              | 85138443               |
| 2010 | 51430522 | 60739969 | -9309448              | 112170491              |
| 2011 | 68394196 | 82608240 | -14214044             | 151002436              |
| 2012 | 68809811 | 84658060 | -15848249             | 153467871              |
| 2013 | 63312022 | 76963965 | -13651943             | 140275988              |
| 2014 | 53913548 | 54381792 | -468244               | 108295341              |
| 2015 | 34523300 | 34273800 | 249500                | 58797100               |

When comparing the volumes of exports and imports, it is obvious that during the whole research period there was a foreign trade deficit, which indicates inefficient management of the export potential of Ukrainian enterprises' foreign economic activities. It is also partly explained by the ineffectiveness of Ukrainian foreign policy. The lowest indicator of the foreign trade deficit was achieved in 2015 due to a fall in imports rather than a growth in exports.

After a general overview of Ukraine's current export potential, it is necessary to consider the commodity composition of Ukraine's foreign trade, which will show Ukrainian enterprises' place in the world markets. Ukrainian exports in 2014 were made up of commodities from the metallurgical, mineral, machine-building and chemical industries, as well as agriculture (Tab.2).

Table 2

**Ukrainian exports: the share of basic commodity groups in 2013 compared to 2014**

[Official web-site of State Statistics Service of Ukraine. [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua)]

| Commodity groups                                 | 2015<br>(% of general export volume) | 2014<br>(% compared to 2014) | 2014–2015<br>(abs. deviate in %) |
|--|--------------------------------------|------------------------------|----------------------------------|
| Base metals and processing                       | 28.3                                 | 86.9                         | -13.1                            |
| Plant products                                   | 16.2                                 | 98.7                         | -1.3                             |
| Mineral products                                 | 11.3                                 | 84.9                         | -15.1                            |
| Machines, electrical and technical equipment     | 10.5                                 | 82.9                         | -17.1                            |
| Animal or vegetable fats and oils                | 7.1                                  | 109.3                        | +9.3                             |
| Finished food industry products                  | 5.7                                  | 88.5                         | -11.5                            |
| Products from chemical and associated industries | 5.7                                  | 76.2                         | -23.8                            |
| Ground, air and water transport facilities       | 2.7                                  | 45.0                         | -55.0                            |
| Wood and wood products                           | 2.3                                  | 110.4                        | +10.4                            |
| Milk and dairy products; eggs; organic honey     | 1.1                                  | 83.2                         | -16.8                            |
| Other products                                   | 9.1                                  | –                            | –                                |
| Total  | 100.0                                | 85.6                         | -14.4                            |

Ukraine is mainly an exporter of steel products (28.3%) and other products with low added value. In comparison to 2013, the volumes of almost all commodity groups in 2015 fell. The exceptions were wood and wood products (+10.4%) and animal or

vegetable fats and oils (+ 9.3%). The greatest decline was seen in the products from chemical and associated industries (-23.8%), machines, electrical and technical equipment (-17.1%) and milk and dairy products; eggs; organic honey (-16.8%) [3].

Together EU countries account for 40.6% of the total agri-food import to Ukraine. (The four largest exporters to Ukraine are Germany (8.3% of the total Ukraine's agri-food import), Poland (6.1%), France (3.8%), Netherlands (3.3%) and Italy (3.1%). Germany specializes in extracts of tea, coffee, mate (13.1% of German agri-food export to Ukraine, largest supplier to Ukraine), ice-cream (8.7%) and meat (swine – 10% and poultry- 4.8%). Poland exports to Ukraine apples (14.4% of Polish agri-food export to Ukraine), animal feed (9.3%) and pig fat (9.1%). France is the large supplier of maize (23.9% of France's agri-food export to Ukraine), oil-cakes (12.3%), sunflower seeds (8.6%) and wine (8.0%). Italy exports mostly wine and citrus fruits. Spain is also important supplier of citrus fruits – 12.2% of all citrus import.

So, at present agricultural produce is one of Ukraine's main exports to the EU. In the future, agriculture is expected to have a significant share in the structure of Ukrainian exports. In addition to crop production, which currently dominates agricultural exports, Ukraine also has great potential for increasing its supplies of animal products. Recently, Ukrainian producers have significantly increased exports of poultry to the EU countries. Preferential treatment given to Ukraine will likely result in the abolition of 94.7% of the duty on Ukrainian industrial products and more than 80% for Ukrainian agricultural exports.

The European Commission has extended the validity of quota tariffs on exports of Ukrainian agricultural products. The changes were made to European Union regulations relating to the management and delivery of Ukrainian agricultural tariff quotas.

These are the quotas for various product groups: eggs – 3,000 tons, egg products – 1,400 tons, poultry meat – 35,000 tons, beef – 11,000 tons, pork – 35,000 tons. Volume of quotas on tariffs which have been provided within autonomous trade preferences of the EU: wheat – 1 million tons, barley – 300,000 tons, corn – 450,000 tons. Ukraine also made full use of EU quotas for honey, grape juice, wheat flour and corn. 77% of the quota was met for the export of meat and semi-finished products, 78% for cereals and 72% for tomatoes. While the sale of meat to Russia fell by 81%, Ukrainian exports of various kinds of products increased by 30-100% to other countries. While sunflower oil exports decreased by 50%, the supply to the EU, India and Iran increased on average by 17% [6].

Therefore, in 2014 agricultural production in Ukraine increased by 16%, and is probably the only branch of the Ukrainian economy which is growing.

Ukraine has the potential to increase its food-industry sales to the EU, especially milk and milk products. One of the main barriers which prevents the increase of exports of milk and dairy products is the problem of the certification of products and raw materials. As much of the milk is produced by households, it cannot be certified. As a result, it is impossible to certify products derived from milk, particularly cheese. In order to provide certification, it is necessary to create cooperative associations of individual households under one "roof" or to engage larger farms in this business. On the other hand, Ukrainian dairy products can be competitive due to

their cheapness. Ukrainian milk producers are attracted by the possibility of trade with the EU - the second largest market in the world after the United States, where prices for dairy products are several times higher than in Ukraine. The quotas are as follows: milk powder – 1, 600 tons, butter – 1,400 tons, milk, dairy products and yogurt – 9,000 tons. However, EU countries are only allowed to import extra-class milk. In Ukraine this accounts for only 1% of milk, so only a small number of Ukrainian milk processing enterprises will enter the European market [7].

Cheese is the main product of Ukrainian dairy export (52.3% of dairy export) and 86% of it was destined to Russia. The exported amount was gradually falling over last ten years as a result of competition from European producers. It is expected that cheese export will considerably fall in the near future due to the 2014 prohibition of Ukrainian cheese export to Russia. Ukrainian producers are unlikely to find new markets but still will be able shift to skimmed milk powder and butter exports and thus minimize their losses (USDA 2014b).

Therefore, the Ukrainian dairy industry has the potential to win a highly competitive position in foreign markets, which is why it is so promising and attractive for the investment sectors of agriculture. However, the lack of government support significantly inhibits the development of this industry's export potential. In order to change the situation it is necessary to suggest improvements to the budget, tax, investment, financial and credit policy, and make the appropriate changes to the legislative framework, which will provide an opportunity to transform the current market situation of milk producers [6].

In 2014, Ukraine exported to the EU agri-food goods worth of 4.5 billion USD. Over the last ten years the value of Ukrainian agri-food export to the EU has increased by 5.9 times, however the share of the EU countries in the total agri-food export remained fairly constant – 24% in 2004, 27% in 2014. Ukraine exports to the EU mostly raw products (cereals – 39% of the total agri-food export to the EU; oilseeds – 28%) or products with low value added (vegetable oils, animal fats – 11%; food industry wastes, animal fodder – 11%). Spain was the largest export recipient in 2014 – it imported 17.0% of Ukrainian agri-food exports. Maize accounted for 69% of this export, 13.7% was sunflower oil and 6.7% soya beans. Other large EU importers were Netherlands (15.5% of export to the EU), Italy (13.4%) and Poland (11.8%) [3].

## CONCLUSIONS

Recent Association Agreement between Ukraine and the EU is seen especially promising for Ukraine's agriculture. Aside from different tariff reductions and import facilitation opportunities, Ukraine should strive for harmonization of its TBT and SPS, that in fact implies approximation of Ukrainian both sectoral and horizontal legislation to the 44 Directives of EU.

While agriculture has fallen from as a share of gross domestic product (GDP) and from 19.8% to 17.2% as a share of employment between 1990 and 2012 (WB, 2015a), it was the only economic sector that displayed positive economic growth in 2014, i.e. 7% against -10% for the industry and for services (EIU, 2015b).

Agricultural exports, specially to the EU, remain a key engine of the Ukrainian economy, representing almost 20% of the value of exports. By lowering trade barriers, the recent conclusion of several bilateral trade agreements offers additional opportunities for export growth.

### **References**

1. USDA (2013), "Grain Transportation Report". United States Department of Agriculture, 24 October 2013, Washington DC.
2. Chukhrai, N., Suhomlin, L., 2010. The problem of the Ukrainian enterprises entrance to the European market. [online] available at: <http://ena.lp.edu.ua:8080/bitstream/ntb/18784/1/20-90-94.pdf>
3. AgriCIS Trade. Country report: Ukraine. [online] available at: [http://www.agricistrade.eu/wp-content/uploads/2015/06/Agricistrade\\_Ukraine.pdf](http://www.agricistrade.eu/wp-content/uploads/2015/06/Agricistrade_Ukraine.pdf)
4. Official web-site of State Statistics Service of Ukraine. [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua)
5. Hutiv, H., 2012. The essence of machine-building industry export potential and factors influencing it. Proceedings of the National University "Lviv Polytechnic". Management and Entrepreneurship in Ukraine: stages of formation and development problems. – No.748. – pp.133-140. [online] available at: [http://nbuv.gov.ua/j-pdf/VNULPM\\_2012\\_748\\_23.pdf](http://nbuv.gov.ua/j-pdf/VNULPM_2012_748_23.pdf)
6. Kushnir, N., Dyachenko, B., 2014. Association Ukraine-EU: potential benefits and possible risks for the development of the Ukraine's economy. Scientific bulletin of the Uzhgorod University. – Vol.2 (43). – pp.224-228
7. Vengerska, N., Kalantarova, A., 2014. Export potential of the food industry of Ukraine. Economy of Development. – No.4. – pp.15-18
8. Central European journal of management, Managing the export potential of Ukrainian enterprises in the context of entering the European market. [online] available at: [file:///C:/Users/Alex/Desktop/3375-4712-1-PB%20\(2\).pdf](file:///C:/Users/Alex/Desktop/3375-4712-1-PB%20(2).pdf)
9. Vlasyuk, V., 2014. Why exports to the EU more perspective deliveries to Russia. Ukraine Forbes. [online] available at: <http://forbes.ua/opinions/1380585-pochemu-eksport-v-es-perspektivnee-postavok-v-rossiyu>
10. Kobuta I., Sikachyna O., Zhygadlo V. - FAO Regional Office for Europe and Central Asia. Policy Studies on Rural Transition No. 2012-4: Wheat export economy in Ukraine. [online] available at: <http://www.fao.org/docrep/017/aq344e/aq344e.pdf>
11. V. Zhygadlo, O. Sikachyna. Prospects for Increasing Agricultural Production: Options and Possible Consequences – Kyiv: UNDP Blue Ribbon Analytical and Advisory Center, 2013
12. European Commission - Directorate-General for Trade, April 2014: Trade sustainability impact assessment of the negotiations on a free trade area between the Eu and Ukraine: Position paper. [online] available at: [http://trade.ec.europa.eu/doclib/docs/2009/may/tradoc\\_143165.pdf](http://trade.ec.europa.eu/doclib/docs/2009/may/tradoc_143165.pdf)
13. Stoyozhka, A. (2014), "Ukrainian Grain Congress - under the trend of pro-reform ideas", APK-Inform, December 15, <http://www.apk-inform.com/en/exclusive/topic/1039556#.VPSPcvnF-So>.