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CREATING CONDITIONS FOR EFFICIENT PRODUCTION
AND CONSUMPTION OF FOOD IN THE STATE

Annotation

Factors that influence prices for agricultural goods are determined. The relationship «expenditures – price» in agriculture are grounded. Goals of agri-food market in terms of the state are identified.

Keywords: agri-food market, state regulation, food safety, risks, agricultural production.

Анотація

Визначено фактори впливу на ціну сільськогосподарських товарів. Обґрунтовано зв'язки «витрати – ціна» в аграрній сфері. Визначено цілі агропродовольчого ринку з погляду держави.

Ключові слова: агропродовольчий ринок, державне регулювання, продовольча безпека, ризики, сільськогосподарське виробництво.

Аннотация

Определены факторы влияния на цену сельскохозяйственных товаров. Обоснованы связи «затраты – цена» в аграрной сфере. Определены цели агропродовольственного рынка с точки зрения государства.

Ключевые слова: агропродовольственный рынок, государственное регулирование, продовольственная безопасность, риски, сельскохозяйственное производство.

Introduction

The theory of state regulation of agri-food market in Ukraine is still under development. A sharp lack of fundamental works, in which agri-food market would be presented as an integrated system, is observed. But more and more theoretical studies of its individual components appear in recent years.

It should be noted that many Ukrainian agricultural markets are still in a formative stage, however, agri-food market has a special place in the system of market relations. This is due to the fact that state food security depends on the quality and volume of products produced in agricultural sector; agricultural products serve as a form of finished goods and as a raw material for further processing in 30 different industries of the economy.

Analysis of recent research

Significant contribution to the study of methodology and solution of practical problems of state regulation of agrarian food markets have made domestic scholars such as W. Ambrosov, P. Borshevsky, A. Amosov, M. Besedin, V. Heyets, S. Hudzynsky, B. Danylyshyn, O. Datsiy, L. Deineko, T. Zayets, O. Ivanytska, M. Koretsky, A. Kutsenko, M. Lobas, O. Lebedynska, A. Lisiecki, G. Mostovyi, P. Makarenko, M. Malik, A. Mogilny, M. Orlaty, B. Paskhaver, T. Pepa,

P. Sabluk, M. Hvesyk, L. Chernjuk, O. Shpychak, V. Yurchyshyn and also foreign scholars: J. Bolt, M. Bunkina, J. Hotin, D. Rechmen, M. Tracy, and others.

Statement of research objectives

- to identify factors influencing the price of agricultural products;
- to justify the relationship «expenditures – price» in the agricultural sector;
- to determine goals of agri market from the viewpoint of the state.

Results

Peculiarities of state regulation of agri-food market, in particular, separate markets of agricultural raw materials and products are caused by the specific agricultural production and, above all, uncertainty and a seasonal character of products. At the same time the demand for food during the year remains stable. It causes state regulation of unstable and relatively low prices for agricultural products and revenues from agricultural activities.

Rural producers have other problems associated with production and distribution of products, bringing it to the final consumer, which are called marketing problems in agriculture. The following can be attributed to them:

- rural producers can not in the short and long run control the release of their products in the same way as non-agricultural enterprises;

- high risk and uncertainty of agricultural production;
- difficulties of influence of agricultural producer on prices through their individual and group activities;
- pressure of relationship «expenditures – price» for agricultural products;
- exceeding market power of buyers of agricultural products compared with the market power of rural producers;
- change of the effectiveness of pricing on food markets;
- strengthening the conflict of interests between the agrarian sector and food sector.

The problem of controlling the total output of agricultural products is connected with the fact that rural producers can not control the release of their products in the same way as non-agricultural enterprises. This is because, firstly, the total amount of grown products is determined by the work of many smaller producers acting independently; secondly, the production results largely depend on weather conditions and biological systems.

Opportunities of rural producers to respond to changes on agro-food market are objectively fairly limited: except for known temporary lag caused by the duration of the biological cycles of growth of the product, the costs of its production are mostly permanent. It is impossible to quickly stop or change the agricultural production. Conversely, many industrial or commercial enterprises can adapt to changes in supply of agricultural raw materials and products in the short term rather than farms can adapt to changes of the factors of production.

In addition to the marked adjustment problems in the short term, it must be considered that there are extended periods for changing production of some agricultural products. Unlike other industries, instantaneous splash of growth of production and, therefore, profits for its producers with a sharp increase in demand from consumers is impossible on agricultural markets. This process - balancing supply and demand - has a known time lag. For example, fruit trees grow several years before they begin to bear fruits, but during this period market conditions can change significantly. The increase in milk production is also a slow process. Also, when investing in agricultural buildings, equipment and other real capital assets is made, the changes in these are very difficult and expensive.

Risks and uncertainty in agricultural production are related primarily to the inability to quickly

adapt to changing conditions. So, the market, for which production is being cultivated for a long time, may change before the period of its market delivery. Changes in consumer tastes and preferences may lead the reevaluation of the allocation of resources by agricultural enterprises, as they presumably provided too much attention to production of those products that are no longer needed. High prices, formed as a result of temporary shortage of any agricultural product, may change the purchasing behavior and reduce the consumer market for this product until its former production is restored.

These relatively unpredictable and uncontrollable factors create many marketing problems for agricultural producers.

It is known that a large portion of food products refers to the basic necessities. This means that growth of demand for agricultural products is slower than growth of consumer incomes. In particular, as a result of research by many scientists found that families with at the beginning low income spend most of their income on food, but with growth of income they stabilize their spending on basic necessities (primarily food). Moreover, there is clearly visible, in accordance with law of E. Engel, trend: the higher the level of family income in the country, the lower if the share of expenditures on food (and vice versa).

From the fact that consumption of food products (as basic necessities) has a strong «niche» in the structure of expenditures of individuals does not follow that on every market of a given agricultural product remains stable situation. The main threat to the market of a particular food product is its variability. Consumers prefer to buy specific products: bread, milk, beef, potatoes, etc., rather than «kilo of food». Therefore, if the price on any product changes (for example, increases) consumers can always replace it with another under market economy conditions.

Rural producers, trying to influence prices through their collective and individual actions, are constantly faced with other difficulties, as they are in most cases «pricing recipients» in the market. In order to increase the price through the control of supply, agricultural commodity producers should act as a coherent group. However, the higher the number of participants and their different economic conditions, as practice shows, the harder they organize and act jointly on the market. For instance, suburban farms that are located near each other coordinate prices for vegetables, but sometimes farms that have a large amount of

products at their disposal reduce prices, thereby undermining the general policy. In this regard, Western scientists have noted the so-called problem of «riders» (free rider problem), when farmers can try to increase prices through the program of voluntary control over the supply of agricultural products or through farmers' associations for negotiation [2, 3, 4].

If all goes well, then the productive cost brings benefit to all agricultural producers regardless of whether they participate in the «contract» or not. But in practice, as it is already noted, it is very difficult to achieve concerted actions of producers to achieve this result [1, p.18].

At the same time, if the price for products and, therefore, profit is high, then some rural producers will seek to increase its production, and some of them can do so without consequences. But if all the producers try to increase the production of these products at the same time, the market prices and their profits may be reduced sharply as a result of market saturation.

Highly competitive conditions in the agricultural sector lead to the fact that prices for agricultural products are kept close to production costs. Therefore, the problem of pressure of relationship «expenditures - price» in the agricultural sector has two sides. On the one hand, the fall of prices for agricultural product will not be as dangerous to the producers, if they can accommodate the use of factors of production to prices that declined. The dependence of rural producers, however growing, on suppliers of industrial means of production leaves them very little time to adapt to falling prices for agricultural products.

On the other hand, prices for agricultural products that grow increase the profitability of farms and lead, in turn, to increased prices for factors of production.

A serious problem is the overwhelming market power of industrial consumers of agricultural raw materials. Companies involved in food marketing, have two major advantages over producers of agricultural products: they are larger and have sufficient and timely market information.

Some time ago there was no need for rural producers to be related to the food sector, because the administrative-command system guaranteed fair, or at least, equal prices to all. However, in modern conditions direct contracts with processors and wholesalers, vertical integration and contractual relationships actually derive a significant portion of food products from the action of market

forces and no longer provide guarantees of high efficiency in food markets. In this context, rural producers should now be more skilled in their management decisions.

Formation and evolution of the market of agricultural products and food have shown that goals of this market with respect to consumers of these products, producers and the state are not identical. Consumers see the goals of this market in food production of high quality (range, caloric value, consumer characteristics, reducing the content of harmful substances, etc.); provision of food in accordance with the principles of balanced diet, compliance with the retail prices of their purchasing power.

From the point of view of rural commodity producers, the goals of the market lie in interest in the production of certain types of plant and animal products, availability of optimal conditions for providing production resources, effective tax policy of the state, equivalent exchange with other sectors and social protection of rural workers.

From the viewpoint of the state, the objectives of food market are to provide conditions for efficient production and consumption of food; improving product quality; environmental protection, rational land use and optimal self-supporting of food.

Conducted researches have shown that it is very difficult to implement fully the interests of all market players on the modern agro-food market, because the conflict of interests between the agricultural and processing enterprises continue to increase. Rural commodity producers maintain product orientation, and enterprises and firms of the food sector support orientation on commercial production planning, including the choice of product for production, determination of its characteristics, terms and certain prices. Moreover, most rural commodity producers are not involved in those kinds of food marketing that have great growth potential. Not participating in the recycling of products, advertising campaigns, trade and marketing activities, they just keep the status of producer of raw materials for food industry.

The formation and operation of agro-food market largely depends on the condition of markets of production, labor, land and finance. For instance, operational efficiency and competitiveness of commodity producers largely depend on the state and the development of the market of the means of production. To a greater extent this market is represented by national industrial enter-

prises, which, often as a monopoly, set appropriate prices for material and technical resources. This, in turn, considering disparity of prices, puts a lot of rural commodity producers in a difficult financial position.

It is no accident that in recent years many Western companies, specializing in the production of means of production for agriculture, have started to rapidly conquer this market. This process develops in two main areas: on the one hand, Western firms seek to sell their products at dumping prices in the relatively prosperous and promising regions of the country; on the other hand, they buy and reconstruct Ukrainian machine-building enterprises. In this context it is already possible to see fierce competition between domestic and Western companies in the market of means of production for agriculture. In this situation if specific regulatory measures are not adopted by the state in the near future, the result of this competitive struggle is completely foreseen.

Unlike funded supply, the market of means of production in the form of wholesale trade implies:

- the right to choose the supplier by the consumer, that is all questions consumer can decide directly with the supplier, in the role of which supply agencies, commercial enterprises, designer shops, and producers directly can act. The only condition for purchasing products is the solvency of the consumer;
- balance of the needs of rural commodity producers in technology, spare parts and materials with production capabilities (facilities) of engineering enterprises that meet those needs;
- competition of enterprises-manufacturers and enterprises-suppliers of machinery, that usually means the excess of their total capacity for supplies over the overall need of production in machinery, spare parts and materials. This circumstance leads to reduction of prices on material resources and the increase of the competitiveness of domestic products.

Essential role in the development of agro-food market belongs to the labor market, which becomes a commodity in the presence of two conditions:

- firstly, when a person is free and has the opportunity to independently dispose his or her labor force;
- secondly, when he or she is deprived of the means of production, because otherwise he or she would not need to sell his or her labor force.

That is, in fact, this market is some form of labor movement. At the same, developed labor

market usually provides full payment of the latter, stimulates business activities, initiative, improves the quality of labor force and determines its high mobility.

In modern conditions of the diversity of ownership and management, freedom of choice of a particular place of work, application of each person's his or her labor force expands drastically: work in agriculture, hired labor, work in cooperative or state enterprise. This, in turn, requires freedom in the choice of his or her place of residence. However, in the conditions of market relations specific workplace is not guaranteed to anyone. That is why the labor market in the agricultural sector is a subject to active state regulation, in particular, by setting a guaranteed minimum wage level, providing material support for temporarily unemployed, organization of the system of retraining of personnel, allocation of concessional loans, realization of the effective resettlement policy and others.

A necessary condition for effective operation and development of agro-food market is the market of land, especially lands of agricultural purpose.

Established land market in our country is a part of the system of land relations, regulators of which are: right of ownership (possession, use, disposal), the ability to transfer this right (rent, sale, mortgage, etc.), competition (free choice of the participant), monetary evaluation and prices, which are freely composed for land.

In our view, statutory set of conditions, privileges and restrictions (easements) to use of the data of regulators must be activated for lands of agricultural purpose.

In general, the land market performs important functions and promotes:

- the solution of social and economic problems in rural areas, especially the problem of rural employment;
- efficient use of land through intensification of agricultural production;
- increasing the level of commercialization of agricultural enterprises;
- solution of food problem.

Ideally, the land market creates and supports attitude to the land as a special value, leads to its efficient use, creates a mechanism for transfer of land to those who can effectively manage it. In practice, the ideal system is often violated. And yet, even imperfect land market reflects real interests of the vast number of participants of land relations.

For example, state structures support the land market as a fundamental principle of market

economy, because they are interested not only in big budget revenues (in the form of taxes from land owners, fees from land transactions and land lease), but also in the growth of investment, business activity, the release of parts of concerns about support of the land fund in good condition.

Great influence on the development of agro-food market makes the financial market, which is based on two sources – free financial resources of enterprises and free cash of the population. It is divided into the credit market and equity market.

Short- and long-term loans of agricultural and processing enterprises to ensure their rhythmic and effective industrial activity are the tasks of the credit market. Credit market implies creating a system and branching network of state and commercial specialized and cooperative banks.

Conclusions

Thus, the stock market, which is designed to pull money out of circulation in emergency sav-

ings, is of a great importance for the normalization of monetary state of enterprises – shares of companies, associations and labor groups, bonds of state and local loans, certificates, treasury bills, etc. The stock market means basically, on the one hand, de-centralized market system of financing production activities of enterprises, and on the other hand, it reinforces the material interest of their teams in the final results. Specificity of agri-food market is largely characterized, as it is already noted, by a variety of its objects and subjects.

Above all it should be noted a great variety of products presented in this market: by type, range, degree of readiness for final consumption (fresh, different degree of processing – from primary to deep), terms of storage and also by the level of demand (goods of prime necessity and special demand – all sorts of delicacies), energy potential (high- or low-calorie foods), vitamins and so on.

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