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FOOD MARKET OF UKRAINE: RISKS AND NEW POSSIBILITIES IN THE CONTEXT OF EUROPEAN INTEGRATION

Creation of a free trade EU-Ukraine is an important political, economic and cultural theme. It is actively being discussed at all levels of Ukrainian society. Economic component integration is the main object of analysis. This is due to the desire of ordinary citizens and representatives of the business sector to predict the effects of the deepening economic cooperation. Consumers expect to expand the range of quality products and stabilize consumer prices by increasing production of European manufacturers. Employers expect to increase access to the rich European market, which caters to wealthy consumers.

There are attractive opportunities. However, there are risks. For consumers there is a risk of buying imported products, which is not responsible for the European standards of safety and quality, as directed on the markets of countries with less stringent sanitary requirements. For employers is strengthening competitive pressures, reduce profits, increase the threat of bankruptcy.

This problem - quite new, but because of its exceptional urgency is lively debated in the national scientific community. The Ukrainian scientists who explore issues of cooperation between Ukraine and the EU, paying attention to the work of O. Babanin, O. Bilorus, I. Burakovs'kyy, A. Hal'chyns'kyy, V. Heyets', I. Zhurba, T. Ostashko, V. Pyatnyts'kyy, I. Todorov, V. Chuzhykov, O. Shnurkov, O. Shubravs'ka and other.

However, the announced issue is complicated. This is due to the fact that a deep free trade area covering all sectors without exception economic activity of national economy. Conducting a thorough analysis and develop an appropriate prediction requires each sector and related sectors.

Research methodology. The methodological basis of the research is a systematic approach to the study of economic and social consequences of a deep free trade area Ukraine-EU. The study used methods such as analysis and synthesis, historical, monographic, deduction, observation and comparison.

Results. We propose to compare the risks and benefits of a deep free trade area Ukraine-EU one of the most sensitive sectors of the national economy - food market. The nature of the risks, and benefits may be different if their estimate of the position of the consumer or enterprise (Table 1).

Table 1

Risks and Benefits of a Deep Free Trade Area of the EU-Ukraine

What are the factors	Impact on consumers	Impact on producers
Risks		
1. Entry into force from January 1, 2015 Law of Ukraine «On the safety and quality of food». The law passed at the request of the WTO to organize trade in meat and dairy products in the domestic market of Ukraine in accordance with international quality standards. Accordance	The increase in the cost of buying these products online retailers, as prices in organized markets mostly lower than in the	The decrease in production or offsetting reduction or loss of household income, which traditionally has been manufactur-

with the requirements of this document is prohibited implementation of raw milk and homemade cheese and meat from animals slaughtered for food markets	shops	ing these products and/or implementation
2. Bringing Ukrainian legislation governing the safety and quality of food products to European standards: - implementation in the Ukraine system of food safety in accordance with the standards ISO 22000; - fulfillment of the requirements of the European Parliament and of the Council 178/2002 EC of 28 January 2002 «Laying down the general principles and requirements of food law, establishing the European Food Safety Authority products and establishing procedures in matters of food safety»; - the requirements of Regulation (EC) № 882/2004 of the European Parliament and of the Council of 29 April 2004 «On the official control inspections to ensure compliance with the law on food and feed and regulations relating to animal health and welfare»	-	The presence of European technical barriers – Ukrainian enterprises not modernize industrial production according to European standards of quality and safety will not be able to sell their products on the EU market
3. The increase in exports of Ukrainian agricultural products in the EU under conditions of extensive production growth.	Rising of the consumer prices for certain types of food	-
4. Deteriorating economic and trade relations with the countries of the Customs Union	Reduced incomes due to job losses	Reducing markets
5. Increased competitive pressure from European manufacturers	Reduced incomes due to job losses	The reduction or cessation of production
6. The spread of monocultures in agricultural production caused by the raw nature of Ukrainian food exports to the EU market	-	Depletion and loss of soil fertility
Benefits		
1. Bringing Ukrainian legislation governing the safety and quality of food products to European standards: - implementation in the Ukraine system of food safety in accordance with the standards ISO 22000; - fulfillment of the requirements of the European Parliament and of the Council 178/2002 EC of 28 January 2002 «Laying down the general principles and requirements of food law, establishing the European Food Safety Authority products and establishing procedures in matters of food safety»; - the requirements of Regulation (EC) № 882/2004 of the European Parliament and of the Council of 29 April 2004 «On the official control inspections to ensure compliance with the law on food and feed and regulations relating to animal health and welfare»	European legislation on consumer protection in the quality and safety of food are much stricter than Ukrainian. The adoption of these and other regulations would mean expanding public access to better quality and safe food	Businesses that modernized production line with European standards of safety and quality of food significantly strengthen its competitive position in the domestic market. They also have access to the European market, which, unlike the market of the Customs Union is rather predictable and stable
2. Consent of the European side not to use export subsidies for food product lines included in the free trade regime with Ukraine	-	Reducing opportunities for unfair competition against the Ukrainian manufacturers
3. The increase in exports of Ukrainian agricultural products in the EU	-	Export diversification by increasing access to stable markets (EU), increase production, increase the investment attractiveness of Ukrainian agricultural sector, opportunity to develop long-term development plans
4. Increased competitive pressures by increasing the domestic market of Ukraine products produced in Europe	Improving food quality and stability of consumer prices for food	-
5. Improving the investment image of Ukraine	Increase revenues by	Increased investments

	creating new jobs	by European and international financial institutions, reducing the cost of credit
6. The introduction of European standards of business conduct and protection of private property	Increase revenues by creating new jobs	Increasing the number of small and medium-sized businesses, including in the agricultural sector

To quantify the risks and opportunities are very difficult. Assessment is dependent on a number of factors many of which are not amenable to prediction as subjective. However, there is a need to make clarification on the actions of individual risks, the negative effect of which is greatly exaggerated. For example, a common view is that the FTA EU-Ukraine will cause the bankruptcy of entire industries. First of all the food industry. Because the Ukrainian manufacturers and their products have a lower level of competitiveness compared to their European counterparts. Of course such a risk exists, but its scale is much exaggerated. Here is why. Ukrainian economy started liberalizing foreign trade back in 2003. Then, due to the shortage of the product in the domestic market, the government has reduced the import duty on pork by 15%. In preparation for accession to the WTO, the Ukrainian government, as part of commitments, in 2006 liberalized foreign trade by 85% of the food product lines. Tariff rates were reduced to a minimum (Table 2).

Table 2

Import duties on certain types of food products imported to Ukraine after talks working group on Ukraine's accession to the WTO, % [1]

Type of product	The rate of import duty
Meat of bovine animals, fresh, chilled or frozen	15
Pork, fresh, chilled or frozen	10-12
Mutton and goat meat, fresh, chilled or frozen	10
Meat and edible offal of poultry fresh, chilled or frozen	5-15
Milk and milk products	10
Birds' eggs in shell, fresh, preserved or cooked	5-12
Potatoes, fresh or chilled	2-10
Tomatoes, fresh or chilled	10
Onion	10
Cabbage	10-20
Carrots, turnips, table beets, sweet root, radish, celeriac and other	20
Cucumbers, gherkins, fresh or chilled	10
Sweet pepper	17-20
Grapes, fresh or dried:	0-10
Apples, pears and quinces, fresh	0-10
Wheat flour or a mixture of wheat and rye	15
Sunflower, safflower or cotton and their fractions, whether or not refined	8-20
Sugar from sugar cane or sugar beet and chemically pure sucrose	50
Bakery, pastry, whether or not containing cocoa	10
Wines, including fortified wines; grape must	0,3-1,5 EUR/l

Therefore, if our country is formally became a member of the WTO only in April 2008, in fact it was back in 2006. At the same time, European producers who import food products in Ukraine derived from the common EU budget Agricultural export subsidies that compensate for their costs associated with importing products to the Ukrainian market.

Provided FTA EU-Ukraine European partners have committed to eliminate export subsidies.

Therefore, if the previous 8 years, we have not seen massive bankruptcies Ukrainian enterprises, with a high level of probability that will happen after the FTA EU-Ukraine. Of course, the presence of products produced in Europe in the Ukrainian food market is growing and will continue to grow (Table 3). Intensify competition, which will improve the quality and stabilize consumer prices. But the competitive advantage of European producers at a price no export subsidies are offset by.

Table 3

The share of the European Union's foreign trade structure Ukraine food, % [2]

Type of product	Year									
	2006		2010		2011		2012		2013	
	export	imports	export	imports	export	imports	export	imports	export	imports
Grain	15,1	9,1	8,1	14,7	27,8	66,4	22,5	75,5	26,9	75,2
Sugar	14,8	9,2	0	0,9	49,3	3,3	18,1	29,4	4,1	43,7
Oil seed	81,8	10,4	71,5	15,5	75,6	40,5	73,2	35,8	65,9	35,9
Oil	50,8	5,8	20,7	3,9	20,3	8,5	20,2	9,2	15,2	8,2
Potato	6,3	12,8	0,1	43,1	0,3	76,7	8,2	67,3	21,5	43,2
Vegetables	57,7	49,1	26,8	58,3	14,0	37,3	26,0	42,1	9,6	42,0
Fruits	73,4	20,4	26,8	33,5	46,0	24,3	74,2	28,3	22,9	21,9
Dairy products	2,6	20,4	0	42,9	0,1	47,2	0,1	50,5	0	52,7
Meat and meat by-products	0,5	37,7	0	56,7	0	68,2	0	55,9	0,3	43,8
Eggs	0	97,4	0	57,6	0	32,0	0	20,2	0	37,6

This is indicated by comparing the prices of basic foodstuffs in Ukraine and EU countries with which we have common borders (Table 4). Moreover, studies show, food prices in the EU it is the lowest in Eastern Europe.

Table 4

Average prices of basic foodstuffs in Ukraine and the EU member states in Eastern Europe by 2012, UAH/kg [3, 4]

Type of product	Poland	Slovakia	Hungary	Romania	Ukraine
Rice	17,77	17,05	19,00	13,66	8,27
Bread flour, higher grade	10,78	n. a.	10,17	10,07	6,41
Flour	5,65	4,93	5,85	6,98	4,30
Pasta from durum wheat	21,77	24,65	22,80	20,54	26,30

Beef	32,04	n. a.	83,50	43,14	55,87
Pork	33,48	50,12	45,50	50,02	50,34
Poultry	19,10	26,81	27,73	24,24	24,99
Milk, 2.5%	6,27	9,04	8,22	10,37	7,22
Fat soft cheese	9,76	17,15	10,07	14,48	38,75
Butter	50,12	83,40	80,52	74,36	66,70
Eggs, 10 pcs.	15,10	21,05	14,89	16,33	8,35
Oil	16,74	18,80	17,56	16,64	15,41
Sugar	9,45	11,71	10,68	11,61	6,81
Carrots	8,42	7,91	9,14	5,55	3,55
Potato	5,14	4,42	4,42	3,49	2,29
Apples	8,94	12,02	9,55	9,65	8,75

For domestic producers increased risks in the sector of meat and meat products, pasta from durum wheat, dairy products. But unlike producers, consumers feel positive from entering the Ukrainian market of products produced in Europe. As expected - will stabilize prices and increase quality indicators of food. This is indicated by the experience of Ukraine's western regions bordering the EU Member States (Table 5).

Table 5

The price index for foodstuffs statistics 2005-2013 [4]

Region	Mean, %	Base price index, times
Zakarpattia Oblast	106,2	1,714
Kirovohrad Oblast	106,8	1,811
Ivano-Frankivsk Oblast	107,0	1,836
Zhytomyr Oblast	107,1	1,851
Chernivtsi Oblast	107,3	1,878
Volyn Oblast	107,4	1,896
Sumy Oblast	107,6	1,926
Ternopil Oblast	107,7	1,949
Rivne Oblast	107,7	1,949
Kiev Oblast	108,0	1,996
Vinnytsia Oblast	108,1	2,019
Zaporizhia Oblast	108,2	2,034
Chernihiv Oblast	108,2	2,036
Kharkiv Oblast	108,3	2,041
Poltava Oblast	108,3	2,047
Khmelnytskyi Oblast	108,4	2,069
Kherson Oblast	108,4	2,074
Dnipropetrovsk Oblast	108,5	2,077
Lviv Oblast	108,5	2,078
Cherkasy Oblast	108,6	2,102
Mykolaiv Oblast	108,9	2,157
Autonomous Republic of Crimea	109,1	2,190
Luhansk Oblast	109,2	2,214
Donetsk Oblast	109,5	2,258
Odesa Oblast	109,6	2,282

City of Kyiv	110,4	2,438
City of Sevastopol	110,4	2,438

As we can see in the top ten areas with the lowest average annual values of the growth rate of consumer prices for food and consequently the lowest base price index for the last 9 years - six western regions. This is no accident. The population of these areas makes periodic trips into the territory of the EU for the purpose of food procurement. The exception was only the Lviv region. Apparently this is because the Region - one of the most developed tourist areas where citizens are provided with sufficient rest. This creates a favorable background for the higher price premiums entrepreneurs engaged in the sphere of tourist services, including those related to food.

The FTA EU-Ukraine opens for Ukrainian company previously unattainable access to the markets of European countries (Table 6). Under the agreement reached, Ukraine will be entitled to duty-free importation into the EU livestock production sectors and sugar production, which is currently in the EU, is almost imported. If you have time Ukraine sign agreement on free trade zone with the EU before the end of the autonomous trade preferences (September-October 2014.), for Ukrainian producers will develop a unique situation, which will double the volumes of tariff quotas in the EU indicated in the table 7.

Table 7

The volume of duty-free export of Ukrainian goods to the EU market in the event of signing a free trade zone, thousand tons [6]

Production	The actual amounts for 2013	A year after signing the agreement				
		1	2	3	4	5
Chickens, carcass	0,4	20	20	20	20	20
Processed poultry products		16	17	18	19	20
Pigs, carcasses	0	20	20	20	20	20
Pigs crafted, quarter carcasses		20	20	20	20	20
Beef	0	12	12	12	12	12
Total for animal products	0,4	88	89	90	91	92
Sugar beet	6,1	30	30	30	30	30

Conclusions. The major risks are from the setting-up of the free-trade zone Ukraine-EU:

1) curtailing of the trading of diary and meat products of household production at organized markets. The solution of this problem should be found in the founding of certificated slaughterhouses in rural area on the co-op. The providing of credits according to state insurance arrangements for building of slaughterhouses for household owners who buy cattle for further slaughtering and selling of meat at organized markets.

2) partial or the complete loss of product market in countries of Custom union due to increasing of custom rates from zero tariffs to those which are fixed in

agreements about the accession to the ITR, as well as through the use of more complex bureaucratic customs procedures. In the short term - it will cause a decrease in the volume of Ukrainian foreign trade of agricultural products. Neutralization of this risk can be achieved through several activities:

a) the diversification of markets due to growing markets in Africa and Asia;

b) improving of the investment climate;

c) the development of the domestic consumer market.

The advantages of creating deep free-trade zone Ukraine-EU:

1) the increase of accessing of public to food of better quality, the stability of consumer food prices;

2) the expand of accessing of Ukrainian products to the EU market, the increase of agricultural production;

3) the reduction of the potential of unfair competition against the Ukrainian producers from the European ones;

4) the increasing of investment attractiveness of Ukrainian agrarian sector, the possibility of development of long-term plans;

5) the increasing of incomes by creating new jobs;

6) the increasing of investments from European and international financial institutions, reducing the cost of credit resources;

7) the increasing of the number of small and medium-sized businesses, including the ones in the agricultural sector.

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