

## STATE REGULATION OF DAIRY FOOD SUBCOMPLEX OF AGRICULTURAL PRODUCTION

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*The article describes the peculiarities of state regulation of dairy food subcomplex in agricultural production in Ukraine during the period of its independence and key directions for improvement of the system regarding the requirements of public policies and programs for national development.*

State Target Ukrainian Village Development Program for the period till 2015 would increase milk production in 1.4 times [1]. Of course, such increase in the production requires involvement of certain investment resources. The indicated program does not specify the amount investment of milk production should be increased in. But if the increase in gross output by 1.6 times requires increasing of investment twice, then the proportional increase of 1.4 times requires more investment in approximately 1.6-1.7 times. However, investing into dairy food subcomplex applies to all its sectors – breeding, forage production, milk production (raw material), dairy products. Here is the analogy with the well-known Liebig agronomy principle (the principle of minimum – harvest of crops is caused by the substance that is the scarcest). That scarcity of investment resources causes expansion of the government involvement in regulating the functioning and development of such systems as complex of milk production in APP.

Economic Code of Ukraine in art. 5 indicates that in Ukraine the economic legal order is based on the optimal combination of market self-regulation of economic relations of businesses and government regulation of macroeconomic processes. In accordance with the paragraph 2 of art. 12 of the Code, the main means of regulating the state's influence on the activity of business entities are: public procurement, licensing, patenting and quotas, certification and standardization, the use of standards and limits, regulation of prices and tariffs, providing investment, tax and other incentives, providing subsidies, compensation, trust and innovation grants. Conditions, amounts, the scope and the application of certain types of the state regulation of economic activities are defined by this Code and other laws, and current programs of economic and social development [2].

Thus, the search for consistency in the choice of basic state regulatory effect on the activity of economic entities in dairy food subcomplex of APP of Ukraine is the urgent task of science and practice today.

**Methodology of research.** In terms of methodology, the study is based on the work of national scientists, among which there can be distinguished M.M. Ilchuk [3], R.P. Mudrak [4], V.V. Hlyvenko [5], L.P. Iskrenko [6], M.M. Odintsova [7], O.V. Senya [8], V.M. Mykytyuk [9]. These scientists developed methodological

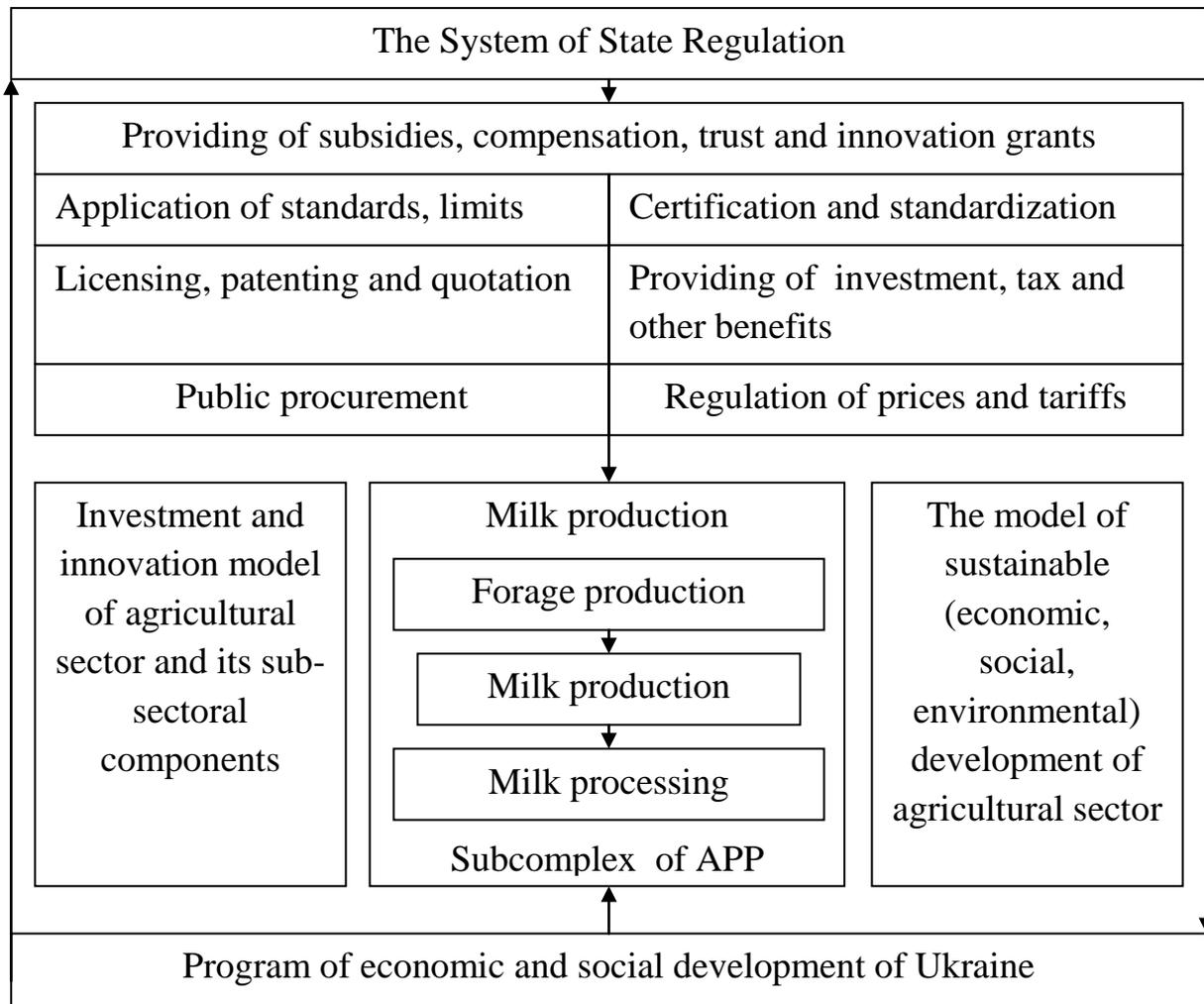
framework to find the most suitable forms of investment into dairy livestock production, integrative framework of development of dairy food subcomplex, analytical techniques for production of dairy cattle, the general principles of financial support to milk processing plants, essential vision of organizational-economic mechanism of formation and development of the livestock products, the scientific basis of market development for milk and dairy agribusiness companies, the principles of revival livestock industry in terms of market transformation. But the worsening situation in dairy food subcomplex of Ukraine requires deeper research in state regulation of these processes.

**Research results.** The general scheme (fig.) of government regulation of dairy food subcomplex of agricultural production in Ukraine shows its steady improvement. Thus, the Law of Ukraine “On Milk and Milk Products” [10] is focused on the assessment of compliance with regulatory requirements to sanitary, veterinary and technical condition of milk production, raw milk and dairy products. The main principles of the state policy on ensuring safety and quality of milk and dairy products include promotion of the integration processes between producers, processors, distributors. The State shall control and supervise the production, processing, sale, export and import of milk, raw milk and dairy products. At the same time, the government supports milk, raw milk and dairy products producers basing on the priority of the dairy industry of agriculture, through its financing from the State Budget of Ukraine: programs of selection and breeding of dairy farming, epidemic measures, subsidies for unskimmed milk of extra, high, first and second quality and not concentrated cream; support to the production of baby food, providing with favorable short-and long-term credits, leasing to get the equipment of domestic and foreign production for technical re-equipment and introduction of modern technologies of production and processing of milk and dairy products to the entities within the Act; incentives to improve milk quality that meets state standards of Ukraine (a supplement to the purchase price: milk of extra class – 25% and milk of the highest quality – 20%).

With the Resolutions (№ 145, 1998; № 805, 1999) the Cabinet of Ministers of Ukraine approved the procedure of allowance and payment of subsidies to the agricultural producers for milk sold and the processing companies. With the Resolution No.646 (2006) it is also established taking under the state guarantee signing of a loan contract between Japan Bank of International Cooperation “JBIC” as a lender and the National Joint Stock Company “Ukragroleasing” as a borrower in the amount of up to 100 million USD for the investment projects on implementation of technology, technical means and equipment (resource) for collecting, storage and processing of milk.

In 2009, the Cabinet of Ministers of Ukraine (Act № 772) approved the involvement of sovereign guaranteed loans within an amount not to exceed \$ 300 million by the conclusion of the agreements between the National Joint Stock Company “Ukragroleasing” as a borrower, the Canadian export agency “EDC” as a creditor to fulfil the implementation of the project of saving technologies with the purchase of hardware and infrastructure with equipment for collecting milk, its storage and processing. A similar project was also anticipated in 2009 (Resolution

No. 1012) on the basis of involvement by “Ukragroleasing” loan to 100 million USD in Korea for the investment project implementation of saving technologies with the purchase of technical equipment for collecting and storing milk.



**Fig. General scheme of State regulation in dairy food subcomplex of agricultural production in Ukraine**

In 2012, the Cabinet of Ministers of Ukraine (Act № 807) adopted the minimum acceptable price level for unskimmed milk (without any processing, reprocessing or packaging for the purposes of sale) of the second quality for the year of 2012. So the government is considering the support mechanism mainly to milk producers, basically without any support provided to its processors and forage producers.

State Target Ukrainian Village Development Program for the period till 2015 [1] includes: gradual increase in the number of highly producing dairy cows at agricultural enterprises and on the farms and bringing it to 1.7-1.9 million heads in 2015 by means of reproduction and organizing the procurement of remountant heifers outside Ukraine on their own; competitive production by means of supporting the formation of mechanized livestock farms and complexes for them to be completed with highly productive livestock and provided with sufficient feeding material base;

concentration of livestock production on private farms (the establishment of cooperatives in order to produce high quality raw materials and animal products safe for human health, expanding of procurement of infrastructure, increase in commercialization of livestock production by 1.5 times); as well as promotion provided to forage producing industry on a cooperative basis and making of pastures.

However, according to the above-mentioned Program planned measures are expected to be accomplished within certain requirements, firstly, regarding sustainable development of all branches of APP, secondly, the formation of investment and innovative model of the industry development through: the development and implementation of national, regional and other programs of the sector; achieve of proactive investment growth by means of internal and external ones; market development of innovative products; the formation of investment support to existing farms with its primary direction for the implementation of innovative projects; providing benefits to agricultural producers in the process of competitive selection among innovative projects for their financial support at the expense of the State. In accordance to these measures, priority areas of fiscal policy were considered as follows: innovation industry development; creating of conditions for competitive agricultural production; providing credits to industry producers; ensuring participation of the State in the programs of insurance and income security of farmers; financial support to the companies in purchasing of industrial resources and financial support to livestock production and crop production.

Conclusively, state support can not be a “reward” for manufacturers for their passive observation over the negative trends, wasting means of production and others. National researchers found that today the share of agricultural enterprises which can participate in the formation of investment and innovation model independently does not exceed 3-15% of the total. In such circumstances, they need to coordinate their actions with those public and private agencies that can ensure the preparation and implementation of appropriate investment and innovation projects in agriculture. It is important to emphasize the fact that the government offers its support (providing with certain benefits and advantages in the implementation of economic activity) only to those entities whose activities are consistent with the public interest, presented in the position papers of economic and social development [2]. In other words, government regulation by itself is becoming more systematic and it requires the same systematic activity from the producers in all sectors of the economy.

**Conclusions.** The study of current status and defining trends in the system of state regulation of dairy food subcomplex within agricultural and industrial production defined the following: 1) although investment into the subcomplex applies to all its sectors – from breeding and forage production to milk production (as raw material) and industrial production of dairy products, today still there are no any proved conceptions on optimal allocation of investments between them; 2) current research methodology applied for the subcomplex is mainly focused on its individual sectors that in its turn actualizes the study of it as an integrity (a system); 3) during the last period of time the government is seeking actively for the most appropriate scheme of relations between the whole sectors of the subcomplex, but in the sector of

milk producers there have not been any active preparedness to interaction with the government and potential investors under the applicable law.

A promising direction for further research in government regulation regarding dairy food subcomplex is to establish the most suitable forms of interaction between all sectors of the subcomplex with each other and with the state on basis of the requirements for its sustainable development and its transfer in terms of investment and innovation mode.

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