

# THE DEVELOPMENT OF REGIONAL FOOD MARKETS OF UKRAINE: CHALLENGES AND PROSPECTS

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## **Abstract:**

*In the article there are defined global and national factors having effect on the development of the Ukrainian food market. There are outlined research directions which will help to develop efficient mechanisms of market regulation in the post-crisis period.*

**Key words:** food market, food security, agricultural complex, basket of goods, food products.

**JEL classification:** L10, P40, P23

## **I. INTRODUCTION**

Economy of Ukraine becomes more open and it is increasing its dependence on global processes. Most clearly this dependence is manifested in the analysis of the conditions of the food market of Ukraine and determining factors that influence its development options.

Food Market is a system of economic relations, consisting in the production, transportation, storage and sale of food. Structural elements of these relations are based on forward and backward market linkages that are under the constant influence of regional peculiarities, effective demand and supply, and also adequate methods of regulation of market relations and decision-making processes.

Food market of the region should be considered as a complex integrated system with lots of businesses and intermediaries, by diversity flows socio-economic processes, ambiguity of tasks, only large amount of information constantly growing number of relationships between market participants and their probabilistic nature of others.

The main system features of regional food market which performs an important social function of meeting the needs of the population for food are: isolation, structuring, divisibility, dynamism. Selected properties allow to explore the regional food market not as a set of economic agents that operate within a certain territory, but as a dynamic system that can adequately respond to organizational and managerial impact.

## **II. CONTENT**

Food market of the region is on the one hand, a subsystem of the national food market, on the other hand – a subsystem of regional socio-economic system. In the first case the regional food market is affected by the dynamics of the overall economic situation in the second – the changes taking place in the region. In turn, the regional food market itself is an important factor of socio-economic development.

Regional food market operates in conditions of variability external factors, which can be divided into two groups.

The first group includes the factors that are formed outside a particular region, they are connected with the processes of globalization and macroeconomic factors and mezoekonomic level. The second group includes intraregional factors caused by relationships between the needs of the region's population and production, supply and demand in the regional market of food products; by

the differentiation of income and consumption patterns; by the the level and structure of consumption; by the current consumption and accumulation; by the socialized and individualized forms of consumption, etc.

Thus, all factors having effect on development of the Ukrainian food market can be conditionally classified into two groups: global and national. At many international conferences initiated by FAO had identified a number of global factors and short-term order, causing increasing price dynamics for the period 2015-2024 years. [1, p.25; 2, p.75; 3]:

- alternation of poor harvests in various parts of the world and as a result of price changes divergence on different food groups;
- restoration of long-term steady decline in real food prices;
- increasing the use and allocation of land for biofuel production in various regions of the world (USA, EU, Brazil, Indonesia, etc.);
- demand for animal protein will act as the main driving force of global food markets;
- increase of production of crops due to improving yields;
- export concentration increased market risks for important food;
- uncertainty fluctuations in world prices of food raw materials intensified in terms of deployment of disparities of the major regions of the world;
- inconsistency of policy actions to ensure the required supply in the domestic markets of some countries, particularly in the form of bans and other restrictions on exports;
- probable at least one strong shock to the world markets for decades.

In the years 2014-2015 the price of crops and livestock products showed different trends. Large harvests of 2013-2015 years caused the further pressure on prices for grains and oilseeds. Simultaneously the limited supply due to various factors, including the recovery of livestock and disease outbreak support the record high meat prices, while prices for dairy products have fallen sharply compared to historical highs.

To further adjustments to short-term factors FAO expects a special index that reflects the dynamics of average prices of five commodity groups: meat, dairy, cereals, oils and fats, sugar (a total of 55 specific trade names). According to a report in January compared to December 2015 the index fell by 1.9% because of decrease prices for all types of goods included in the the index of goods. And the most significant reduction in sugar prices have demonstrated. The index in January was 150.4 points, 5 which is 16% below the level recorded a year ago. This is the lowest result since April 2009. [4]

Food and financial imbalances have become a serious reminder of the vulnerability of the global food system because of the aggravation of military conflicts and showed that the already unacceptably low level of global food security may fall even lower. Simultaneously extremely urgent is national need to identify factors influencing the development of the food market of Ukraine because only activation exploit the potential of agro-industrial sector of our country can be the key to improving its resilience to such shocks during deployment crisis caused by political-military conflict with Russia.

According to experts, it is expected that the 2015/2016 years in Ukraine, Russia and Romania harvest will be lower than last year – at 176 millions tons of grains to 185 millions tons in 2014/2015 years. The decline will primarily due to dry weather conditions, reductions in Russia will be 4%, in Ukraine – 4.2%, Romania - 8%. In turn, the yield reduction will affect the export potential of these countries. Overall, the share of the Black Sea region in the global grain trade increased from 10% in 2006/2007. to 19% in 2014/2015 years [5] (Fig. 1).

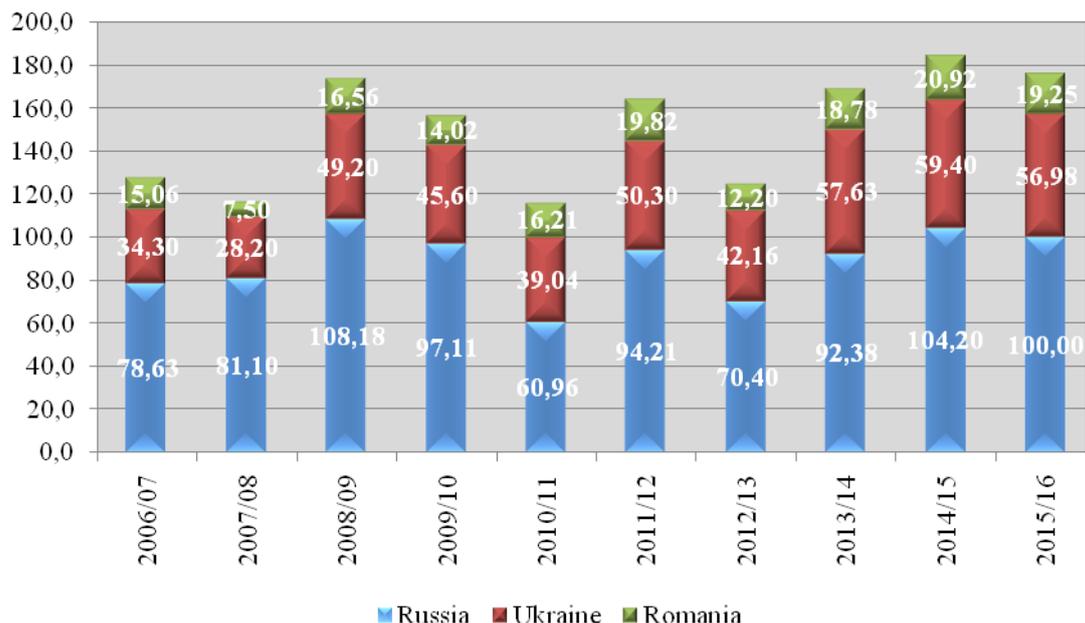
TotalexportsofUkraine, RussiaandRomanianmakein 2015/2016 was 71 milliontonsversus 77 milliontons a yearearlier. The greatest reduction in export performance expects Romania - by 26.1% (to 8.5 mln tons), Russia - 4.5% (30 mln tons), Ukraine - by 3.2% (to 33.3 million . tons) (Fig. 2) [5].

Obviously, in such circumstances, our country has the greatest potential to export grain. The key export destinations for the Black Sea countries will remain North Africa, Middle East, Europe, Southeast Asia, India and Turkey. In general, according to experts, agricultural exports generates

38.8% of total foreign exchange earnings of Ukraine, and in Russia it exceeds in terms of money supply arms abroad. [6]

For Ukraine, the main trends of this season were the rising cost of grain production in local currency by 25%, and reduced margins on 1 hectare by 20% because of decrease of world prices of grain.

Provided that the internal policy of Ukraine may receive positive activation of its presence in the global food market. So in 2016, FAO forecasts that wheat production will be 723 million t that is by 1.4 percent (10 million tones) below the record level in 2015. The main reason for the projected decline will be the reduction of winter in, due, primarily, dry weather. [4] Thus the land resources of Ukraine - are among the largest in Europe; the country has 30% of world reserves of black earth. Thanks to this Ukraine can double food production in a short period of time.



**Figure no. 1 Dynamics of production of grain in the Black Sea region in 2006-2015, thousand tons**

Source: <http://www.ukragroconsult.com>

State authorities consider the domestic food market as the main indicator of credibility. That is why the importance of the state controlled prices for social food products, as a sign of the state authorities' stability, gets political shading.

We believe that instruments of state regulation of the food market should be well-considered, thorough and of systematic, consistent character. Since any fluctuations of prices for major social products activate administrative levers of influence, it testifies to a low safety margin of food security system in the country.

One of the major challenges for the Black Sea region can become a problem and the benefits of increase production of plants based on the achievements of biotechnology.

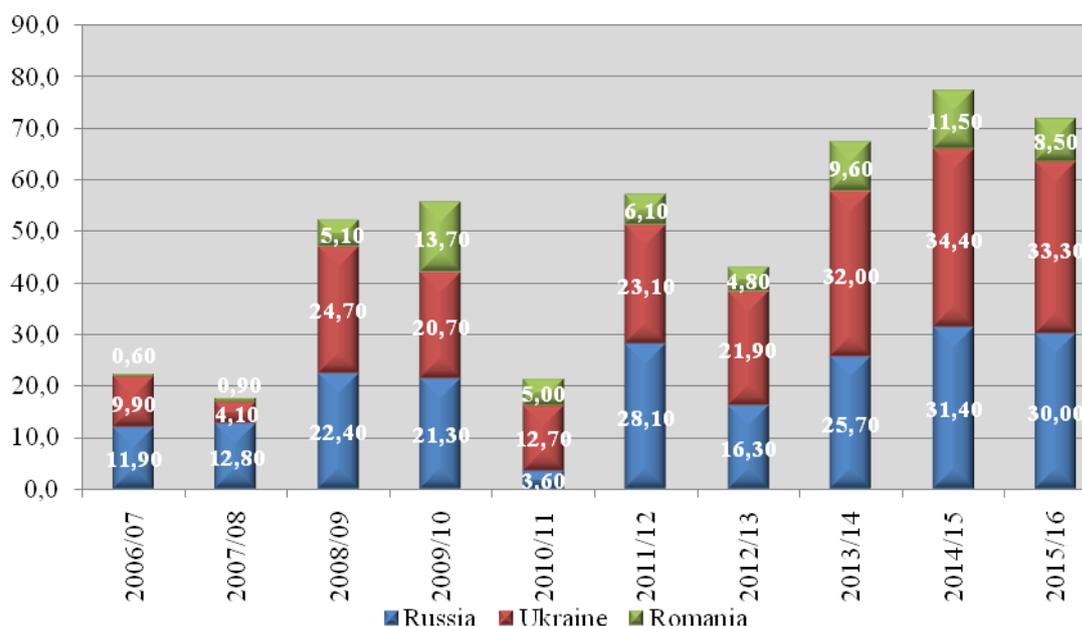
Thus, the Ministry of Agrarian Policy of Ukraine and FAO intends to deepen cooperation in the framework of the strategy to develop agriculture and rural areas 2015-2020, projects of food security and the restoration of the agricultural sector of Ukraine's regions that are in the area ATO. FAO experts conducted field and analytical work, which resulted was designed table of damages to Ukrainian economy and agricultural sector needs assessment of the Donetsk and Lugansk regions.

The result was a methodology of development strategy of agriculture and rural areas 2015-2020 years. [7; 8] Some aspects of the new strategy experts estimate as quite positive initiatives to achieve food security.

At the same time a series of strict regulatory measures are stipulated by the bill in case of threat to food security: introduction of standard trading margins, minimum purchasing prices for

agricultural products, assignment of quotas for the export of foods and finally – a possibility of moratorium imposition for the import of foods. Considering the fact that such restrictive measures are already widely used in Ukraine, adoption of a basic document establishing unified rules of their implementation can be considered a positive evolution factor of the national market of food products.

Today the increase of investment attractiveness of the Ukrainian food market is defined as a major prerequisite of the agricultural complex development of the country on the condition that target investment programs are realized (agricultural parks, urban agriculture, development of farming, building up of the agricultural market infrastructure, etc.). Lack of active efforts to attract such target investment resources will cause extensive increase of food export, which without systemic improvement of the regulatory basis will result in temporary profit for the benefit of certain economically interested groups.



**Figure no. 2. Dynamics of export of grain from Ukraine, Russia and Romania in 2006-2015.**

Source: <http://www.ukragroconsult.com>

Lack of an adequate food storage infrastructure (for grain, vegetables, fruit, etc.) is the major problem causing destabilization of the food market of Ukraine. Monopolization of elevators and storage bases significantly holds back the development of farming enterprises. Infrastructural problems of the agricultural complex have become systematic and their solution is delayed for an indefinite time. It is easier for the government to ensure the need-and-demand balance at the domestic market through the use of administrative methods – regulation of export and import of certain groups of food products. Of course such policy allows adjusting prices for food products at the domestic market, but it is destructive for the domestic agricultural complex. It can lead to food dependency of the country.

In this changing environment, regional market designed to function, the main ones are:

- Ensuring the interaction of buyers and sellers by means purchase and sale agreements and coordination of economic interests of contractors;
- Establishing of quantitative proportions in the structure of demand and supply;
- Determination of the equilibrium price and proportions between the prices of various products;
- Implementation of the distribution of food among different socio-economic groups in the region;

- Ensuring the participation in the interregional trade and economic relations.

One of the key objectives of management of the food market of the region is to ensure maximum predictability of conditions of its operation. And if external to the region's territorial authorities to influence factors is difficult, then intraregional factors can and should actively influence by developing the food market in line with the overall strategy of socio-economic development. It should be borne in mind that among the factors that shape the level of consumption of food, including the needs of the population, production, cash income, trade, etc., are so complex interrelationships that even current support matching of demand for food products and their supply is an extremely difficult management problem. This, in particular, shows the absence of significant relationship between the level of per capita food production and the level of market prices for it in the region.

An important aspect in substantiating the prospects of the food market region's is to determine the future needs of its people for food, which depend on factors such as the demographic structure, the nature of employment and cash income, climatic conditions, national traditions and more. The influence of which should predict in future. Food in turn characterized by quality, structural and energy parameters [9].

The closer the per capita consumption to physiological norms, the higher interest of the population to quality parameters and especially the environmental characteristics of food. Conversely, with the deterioration of dietary regional authorities are increasingly faced with the need not only to monitor the structure of consumption of basic foodstuffs (Dairy and meat products, bread, potatoes, fats, sugar, fruit and vegetables), but to seek to prevent long-term deficit of caloric intake, which affects the deterioration of health.

The structure of food products consumption has a major effect on the perspectives of food market development. Generally the main subject of research is the structure of the food basket and comparison of factual consumption regulations of basic foods by Ukrainians with the recommended consumption regulations and consumption regulations in the developed countries.

The contents of the food basket usually change together with the change of income. At that the poorest sections of the population consume mainly grain products and then, proportional to the increase of their income, their food becomes more varied at the expense of meat, fish, milk products and vegetables, which are a vital source of protein and other nutrients.

The research shows that energy value of dietary intake of the population of Ukraine as compared to the level of such economically highly developed countries as Great Britain, Germany, Italy, Canada, the USA and France makes 48.5- 67.3%. The share of animal products is 23.1% in the structure of the dietary intake. As compared to the dietary intake of the population of highly developed countries, such foods as products of plant origin, and especially potatoes, bread and bakery products prevail in the dietary intake and their share exceeds (according to caloric value) 50% of daily consumption of foods [10].

Because of an irrational food structure, where the majority of calories are received from bakery goods, potatoes and sugar, a great number of people in Ukraine are losing immune potency of the body. It affects the life span, working capacity, morbidity, and finally leads to the decrease of the gene pool.

### III. CONCLUSIONS

Today scientists do not study differentiation problems of consumer food basket structure depending on the place of consumption. That is, they do not determine which products are most needed by residents of rural areas and city residents, in what regions, what products are grown by them and what products they prefer to buy. Regional peculiarities of consumption and production of agricultural goods, consumption rate, and place of purchase are not studied, as well as seasonal fluctuation of demand for food products. Lack of adequate sociological and marketing researches in the above directions significantly narrows possibilities of establishing effective communication connections with the buyers, and hence unprofessional use of this instrument rather often leads to

burst of feverish demand among average consumers arising from the fear of deficit for basic food products and results in the attempt of Ukrainians to create large (often unreasonably large) food supplies, which has already become a characteristic feature of our mentality.

We believe that for the definition of development factors of the food market of Ukraine, alongside with the study of traditional global and national macroeconomic factors there is a need for systematic study of the Ukrainian consumer according to various criteria (income level, region, age, family format) and formation of a task-oriented policy of the food market regulation, which would be based not only on administrative mechanisms, but would also stipulate initiation of effective marketing programs aimed at elimination of disproportions at the food market caused by the detrimental effect of psychographic factors in the models of behavior of regular Ukrainians.

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