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FORMING AND IMPLEMENTATION OF FOOD INDUSTRY'S EXPORT CAPACITY IN A REGION UNDER THE CONDITIONS OF EUROPEAN INTEGRATION

Abstract: The article examines the productive and export capacity of food industry development in Lviv region of Ukraine in terms of strengthening integration processes and defining priority development directions of this sphere in condition of quality and range extension at internal and foreign markets. The share of Lviv region in production of certain types of food products in Ukraine is calculated.

The major functioning problems of regional food industry market are outlined. Strong and weak points of production capacity of food industry development in the region are singled out. Priority commodity groups in exports are determined. Major enterprises - producers and exporters of food production in the region are defined.

Advantages of Free Trade Agreement (FTA) between Ukraine and the European Union (EU) are emphasized. The dynamics of changes of Lviv region's food industry export structure with the EU countries during 2001-2015 is analyzed. Priority directions to increase the efficiency of productive and export capacity of food industry market development are suggested.

Keywords: productive capacity, export capacity, EU member countries, region, food industry.

JEL Classification: L16, P42, O52

Introduction

The process of world economy globalisation stipulates the need for complex analysis of productive and export capacities available in the regions, selection of optimal strategy to enter the domestic and foreign markets by regional enterprises and development of tactical procedures to increase the volumes of its implementation. Processing economy sectors have preserved their structural and resulting positions in the process of structural reconstruction of Ukrainian regional economy due to the fact that their activity is oriented at meeting the residents' needs for consumer goods.

However, under the conditions of competition strengthening at foreign and domestic markets, the issues of food industry functioning efficiency gain huge importancein Ukraine. This sphere produces vital food products, which always enjoy considerable demand among population. Indeed, the share of Ukrainian population expenditures on food products in the structure of households' aggregate consumer expenditures amounts to almost 60%.

Regular monitoring of the major indicators of food industry activity is an important task for science and practice as far as the sphere of residents' productive maintenance has always been characterized by special attention of society to qualitative and quantitative parameters of its functioning.

The purpose of the article

The article aims to research the peculiarities of forming and implementation of food industry productive and export capacity in Lviv region in terms of strengthening European integration processes.

Research results

1. Productive capacity of food industry development in the region

Food industry development in Ukraine nowadays is characterized by considerable regional fluctuations in terms of distribution, structure and dynamics of production. Regional specialization is the specific display of production spatial organization. It manifests itself in predominant development in a region of those branches and productions, which have the most favourable territorial, natural, economic and social preconditions and resources.

Regional specialization of food industry on a rational scale leads to social labour expenditures savings as far as it stipulates the most efficient use of natural conditions and resources and material, technical and labour capacity of a territory (Shadura-Nykyporets 2010, p. 168).

Food products made by Lviv region producers are known well beyond the borders of the state. They include mineral waters «Morshynska» and «Truskavetska», production of «Switoch» chocolate house, ice cream «Limo», beer «Lvivske», diary products of OJSC «Halychyna», etc. Local producers of food products are capable of not only meeting the needs of consumers in the region to the fullest extent, but also of exporting their production (Table 1).

Table 1. **Production of the certain types of food industry products in Lviv region**

Type of products	2011	2012	2013	2014	2015	Absolute deviation of 2015 to 2011
Fresh or cooled cattle meat, tons	1,930	1,827	2,036	1,224	989	-941
Fresh, cooled or frozen pork meat, tons	10,434	15,991	17,700	29,958	34,285	23,851
Fresh or cooled poultry meat, tons	25,679	26,601	31,938	26,250	24,858	-821
Edible offal of the poultry, fresh or cooled, tons	3,039	2,378	2,273	1,855	1,154	-1,885
Sausage products, tons	5,146	5,176	6,161	7,052	6,380	1,234
Jam, fruit jellies, fruit or hazel purees and butter, tons	5,882	4,519	590	1,499	1,102	-4,780
Liquid processed milk, tons	30,771	32,797	32,869	24,144	13,223	-17,548
Dairy butter, tons	2,422	3,140	1,981	2,198	1,084	-1,338
Yogurts and fermented or acidified milk and cream, tons	51,761	46,307	47,398	34,550	20,664	-31,097
Flour, tons	50,330	65,994	68,325	67,138	61,870	11,540
Bread and bakery perishable products, tons	72,165	64,993	60,504	56,538	50,738	-21,427
Sweet biscuits and wafers, tons	15,086	16263	14,193	12,800	13,424	-1,662
Chocolate and prepared food with cocoa, in packaging less than 2 kg, tons	12,123	11,839	11,926	12,025	9,447	-2,676
Natural mineral non-carbonated water, mln dal	14.6	17.1	19.2	18.7	16.6	2
Natural mineral carbonated water, mln dal	26.5	29.7	31.9	30.5	26.8	0.3
Alcohol-free beverages, such as lemonade, mln dal	6	5.8	4.7	3.8	3.6	-2.4

Source: Main Statistical Office in Lviv Region 2016

Apparently, the abovementioned list of products testifies to complicated branch structure of food industry in the region. However, the dynamics of production of major food industry product types has a downward tendency. During the last years it was explained by saturation of internal market with import production.

As it was already stated, PJSC «Lvivska chocolate house «Switoch», private company «Halychyna», individual entrepreneur «Oliyar», limited liability company «Yablunevyi dar», limited liability company «Radehivskyi tsukor», PJSC «Lvivskyi holodokombinat», PJSC «Carlsberg Ukrayina», private company «Morshynskyi zavod mineralnyh wod «Oskar», PJSC «Lvivskyi zhyrkombinat», PJSC «Kontsern Hlibprom», etc are the largest producers in the branch.

Nowadays promotion of innovative activity at the enterprises of food industry is an important feature of their development. Due to this the production market is extended by new types, therefore the range of innovative technologies-based products also expands. Indeed, food industry enterprises introduced 43 innovative types of production in 2015 (32.6% of the overall amount in industry), which is 1.3 times more compared with 2014. In particular, PJSC «Lvivskyi holodokombinat» began production of dessert «Holodnyi yohurt» with probiotic cultures as the main ingredient; PJSC «Lvivskyi zhyrkombinat» - production of mayonnaise «Provansal ORGANIC» with green tea extract as natural antioxidant; affiliate of PJSC «Carlsberg Ukrayina» «Lvivska pyvovarnya» - production of new beer brand «Robert Doms», etc (Teslya 2016, p. 109).

Improvement of food industry enterprises innovation level in terms of limited monetary resources requires significant investment. Therefore, the managers of these enterprises have no choice but to search for investors ready to develop their production.

Lviv region traditionally contributes to the nation-wide production volumes of the following types of food products: mineral water, frozen pork meat, vodka and beer, fruit juices, fermented milk and cream (see Figure 1).

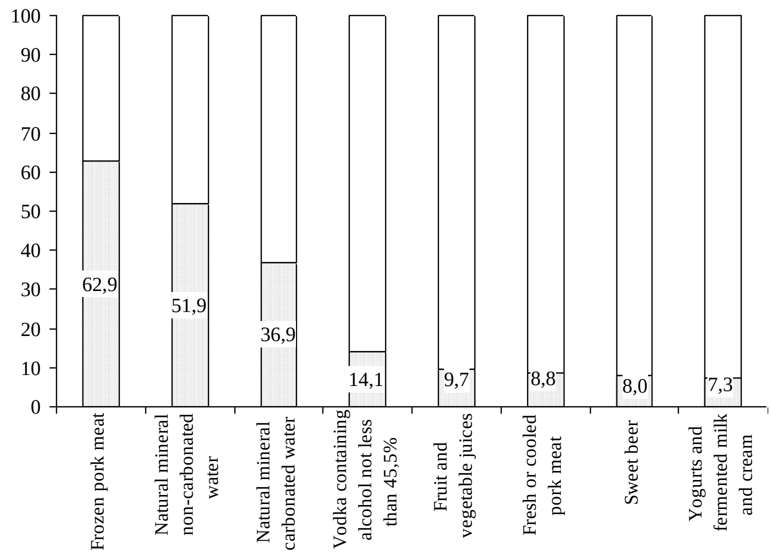

Figure 1. **Lviv region share in Ukraine's production of certain food products in 2015 (% to nationwide volumes)**
Source: Main Statistical Office in Lviv Region 2016

Although the development of food industry is dynamic, it still faces a serious problem of a considerable share of low-quality and falsified goods in the overall volume of sales at domestic market, which can hurt consumers' life and health (Deyneko 2004, p. 112). Indeed, according to various estimates, 30-60% of alcohol beverages and tobacco products sold in Ukraine are counterfeit. The imported cheep products constitute an equal threat.

Following the entry into force of EU-Ukraine Deep and Comprehensive Free Trade Area on January 1, 2016 (DCFTA) (Cabinet of Ministers of Ukraine 2015, Available from: http://www.kmu.gov.ua/control/uk/publish/article?art_id=248387631) domestic producers faced the issue of adjustment of their production to European standards in order to be sold at its markets. In the first place it is important to train residents to work according to these standards, because despite signing the DCFTA agreement the majority of standards are still not harmonized with European norms. Therefore, the producers are still using Ukrainian quality standards. Accordingly, the producers have to examine the requirements and systems of quality and safety control of the countries they are going to export to.

Significant dependence of food industry on the amount of residents' income is another important feature thereof. Indeed, consumers' income decrease not only restricts the consumption volumes, but also leads to reorientation of demand towards the goods with considerable level of cheep substitutes of animal and vegetable raw materials, preservatives, artificial flavours, colourings and other impurities, which enter the domestic market predominantly with imports (Deyneko 2013, p. 75). Therefore, food products market development requires activities on demand stimulation, in particular food subsidies, as far as the practice shows that introduction of price limits and trade allowances does not solve the situation, but contributes to its aggravation, worsening the activity conditions for domestic producers. The latter reacts to them by either production curtailment or deterioration of production consumer values, as it already takes place at the markets of cereal products and baby food.

We have outlined strong and weak points and opportunities of food industry development in order to define its production capacity and future perspectives (Teslya 2016, p. 111).

The following are the strong points of food industry development in the region: historically established traditions of agriculture; favourable raw materials base; well-developed network of transport routs and acceleration of transport corridors construction, contributing to the development of inter-branch links due to swift communication among processing enterprises and raw materials zones and consumers.

The following are the weak points: decrease of region's residents financial income and reduction of consumption; decline of food industry employees qualification level and insufficient level of payment for labour; low paces of small entrepreneurship development of this economic activity type; insufficient level of investment in food industry; fast physical destruction and moral aging of fixed assets contributing to their value and production capacities reduction. Decline in consumption urges producers to reduce production prices and therefore the quality falls as well.

The opportunities of food industry development that define the perspectives of production growth in the region are the following: attraction of investment and extension of innovative developments; improvement of road and transport infrastructure of the region through attraction of foreign grant funds in order to construct public automobile routs.

The use of strong points and optimization of food industry development opportunities will contribute to levelling of misbalances in production process and elimination of weak points of food industry development.

2. Export capacity of food industry development in the region

Perspectives of foreign economic development are related to increase of its export capacity, which defines its competitive advantages on world market.

Export capacity of food industry in a region means a certain volume of goods the region's enterprises are capable to produce with attracting own and imported production factors and to sell them at foreign markets with the maximum efficiency. Food industry export capacity development is influenced by the complex of factors that maintain the opportunity for regional food industry enterprises to enter the foreign markets. In the first place, availability of necessary resources (natural, labour, financial, technological, information) used for food production is among these factors.

Nowadays the growth of food industry export capacity depends on innovations obtained by our country due to the EU-Ukraine Association Agreement, in particular elimination of import duties on production supplied to the EU. The following companies have expanded their export geography among EU member states due to DCFTA: PJSC «Lvivskyi holodokombinat» TM «Limo» (ice-cream, stuffed dumplings, semi-products, meat dumplings, vegetables and fruit blends); private company «OKKO-Biznes» (apple juice, broken flax, dairy butter, cheese, skim milk powder, vegetable oil, soy); T.B. Fruit (specialized in production of directly expressed juices under the TM Galicia); private company «OKKO-Naftoprodukt» (apple juice, soy); «Oliyar» (vegetable oil); private company «Torhovyi dim «Mayola» (sunflower oil) (Lviv Chamber of Commerce and Industry 2016, Available from: http://eng.lcci.com.ua/category-members).

PJSC «Kontsern Hlibprom» has also provided the first supplies of its confectionery products to Poland under the TM «Bandinelli». Similar goods are planned to be delivered to Baltic republics and other EU member states. PJSC «Kontsern Hlibprom» sells rusk production and bread juice through the network of supermarkets in Germany, Spain, Italy and France. Frozen rye bread and French bread «Syhivskyi» have also been successfully exported for several years.

Therefore, Lviv region has increased food production export volumes and expanded its geography due to signing the EU-Ukraine Association Agreement (Table 2).

Table 2. **Share of food products export to the EU member states, 2015 (in%)**

Type of products / Country-Importer	Seeds and oleaginous fruits	Vegetable and animal fats and oils	Vegetable processing products	Food industry remnants and wastes
Austria	20	22	7	-
Belgium	14	6	-	-
Czech Republic	8	38	-	-
Estonia	19	15	6	7
France	25	-	-	13
Greece	22	8	-	-
Hungary	6	7	-	-
Lithuania	15	15	7	23
Poland	29	74	14	10
Portugal	20	22	-	-
Romania	11	25	-	-
Slovak Republic	8	50	-	15

Source: European statistics 2016, Available from: http://ec.europa.eu/eurostat/data/database

The best positive changes were faced by export of plant products (from 2.8% in 2011 to 6.3% in 2015). Major share of exports was represented by seeds and oleaginous fruits, which do not require EU licenses. The structure of Lviv region export during 2011-2015 was characterized by considerable fluctuations of the share of prepared food: in 2012-2013 the share increased from 11% to 17.3% and in 2014-2015 it dropped down by

6% in average (to 5.2% in 2015). As we can see, the export of prepared food, fats and oils amounted to US dollars 207.1 ml in 2015, or 14.2% of the whole export in the region (Main Statistical Office in Lviv Region 2016). Export of fruit and seeds increased almost twice (in the meantime, export of wheat and buckwheat was reduced). It is worth mentioning that the group of prepared food faced internal changes in the analyzed period leading to domination in some years of the export of food industry remnants and wastes (in 2011 their share in the group amounted to 33%, and in 2015- to 58%) and vegetable processing products (78% in 2014). Moreover, the share of sugar and sugar confectionery export was reduced considerably during the analyzed period (in 2011 their share amounted to 14% of prepared food export, while in 2015 it was reduced by 11.6%) (Mihel 2016, p.117). Almost half of export of the abovementioned production accounted for juices, fruit and canned vegetables, the quarter - for fats and vegetable oils. Reduction of prepared food share is stipulated by not only the use of quotas (in particular for juices, processed tomatoes and sugar), but also by the tendency of their prices decrease at European market.

It is worth mentioning that food industry production belongs to the group with high instability. The possibility of export volumes reduction is higher in this group as far as it is much more sensitive regarding the changes at the market. Product groups with less instability relatively more easily react to modern economic conditions of markets (domestic and foreign ones).

Non-compliance of equipment and technologies to modern development level is an undeniable shortcoming from the viewpoint of food industry export capacity increase in a region. This has negative impact on expenditures, quality indicators and technical parameters of production and therefore leads to nonconformity with global standards and hampers competition with similar foreign production. The weakness of Lviv region exporters, with some rare exceptions, lies in the lack of investment that could expand export capacities of producers.

Favourable geographic location of Lviv region strengthens perspective opportunities to establish the export of food production to EU member states. And due to DCFTA Ukrainian producers can efficiently compete at European market, find their niche and promote high-quality Ukrainian production with good price.

Conclusion

Therefore, the following are the priority directions to increase productive and export capacity of food industry development in the region:

- improvement of food production efficiency on the basis of technological innovations introduction in order to expand its quality characteristics;
- priority development of those food industry branches in Lviv region, which have competitive advantages at domestic and foreign markets, i.e. their production can compete with foreign goods, in particular: mineral water, frozen pork meat, vodka and beer, fruit juices, fermented milk and cream;
- development of food engineering enterprises that produce technological equipment, measurement and control devices and filling and packaging equipment for food industry;
- reduction of import of production with poor nutritive properties or the one used by domestic producers of food products as the cheep substitute of animal and vegetable raw materials (palm oil, soy, emulsions, etc);
- maintenance of gradual increase of the level of domestic raw materials processing and reduction of the share of raw materials and semi-products export;
- promotion of participation in international exhibitions, granting of legal advisory services and development of international market strategy for food industry enterprises (those that enter the European market);
- development of export promotion programme granting the wide spectrum of support to domestic producers, in particular the information and consultations on customs duties, quotas, licensing and providing of European quality certificates;
- introduction of export deliveries insurance and target export loans granted to food industry enterprises-exporters and warranties on safety of trade operations, etc.

In such a manner, creation of conditions for efficient use of production and export capacity of food industry in Lviv region will contribute to efficient functioning of both this industrial activity type and economy of the region in general.

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