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EXCLUSIVITY SINGS IN REGULATING THE DEVELOPMENT OF REGIONAL FOOD MARKETS

Abstract: The article reveals the exclusivity reasons of the regional commodity markets functioning and their impact on the economic stability of the market. The patterns and consequences of market exclusion in the development of regional markets are disclosed. The exclusivity signs in regulating the development of regional food markets are analyzed. The tools identified are aimed at overcoming and leveling the exclusivity signs in regulating the development of regional food markets. The analysis of the legislative framework is carried out and its influence on overcoming exclusive processes in the commodity markets is established.
Keywords: food products, exclusive development, regional markets, monopoly, competitiveness.
JEL classification: L10, L11

Introduction

The effectiveness of the functioning of regional commodity markets today is the formation determinant of an endogenously oriented development model of Ukraine. The crowding out of domestic production on the domestic market and the decline in its competitiveness on world markets does not contribute to long-term economic growth processes. The consequences of excessive exogenization of regional commodity markets prompt us to reconsider the priorities of their formation in the context of trade development and individual areas of production in order to implement the import substitution policy and increase the level of consumption of domestic products by increasing its quality and competitiveness, which will improve the domestic consumer market.

The research of the regional commodity markets development is determined by the number of enterprises in it, which affects the concentration, as well as the intensity of potential competition, since the threat of market entry leads to increased competition.

Research results

One of the first exclusive signs of the market was investigated by J. Bain, according to whom these were the so-called barriers to entry into the market. In particular, he believed that barriers are the ability of enterprises to set selling prices that exceed the minimum average costs of production and marketing of products, excluding new competitors entering the market. That is, since making a profit makes the market attractive for entry, it is precisely the difference between price and costs, that is, profitability, which determines whether new competitors will enter the market (Bain, 1950). The main exclusive features he identified were:

- economies of scale;
- investment requirements needed to enter the market;
- government restrictions (tariffs, patents);
- absolute benefits to certain enterprises in terms of costs;
- best technologies (protected by patents or trade secrets), control over supplies sources of cheap raw materials and materials;
- learning curve.

Since the influence of these signs leads to a decrease in production costs, i.e. if its efficiency increases, then, according to J. Bain, their elimination does not always mean an increase in public welfare.

In contrast to J. Bain, G. Stigler provided a somewhat broader significance to the issues of exclusivity, who defined them as expenses of an enterprise seeking to enter the market, and which do not have enterprises that already operate in this market (Stigler, 1968). That is, when certain exclusive features are overcome and the enterprise enters the market, they receive such expenses that in the future period can be unstoppable and thus the enterprise becomes uncompetitive.

C. von Weizsacker singled out exclusive signs of socially undesirable restrictions on the resources inflow to the market caused by measures by the resources owners, they are already using them in the market" (Weizsacker, 1980).

Based on these studies, we can assume that the market exclusive features are all the factors of objective or subjective nature that prevent the company in one way or another to function in the market.

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That is, the emergence of market exclusion is that when the difference between the price and the average cost increases, the cost of entry increases so as to prevent the entry of new enterprises.

One of the first who explained the emergence of market-specific exclusive features is M. Porter, who identified six major obstacles to the penetration of new economic entities into the market (Porter, 1998):

- economies of production scale;
- product differentiation;
- investment requirement;
- transition costs;
- access to distribution channels;
- additional costs not related to scale.

If we analyze the antitrust regulatory acts of the leading countries of the world, then each country determines the corresponding signs of exclusion. According to Finnish regulations, they are divided into legal (in our case, institutional), economic (combination of structural and strategic) and technical (related to production technology). German antitrust laws highlight legislative, structural and strategic. Norway gives the following classification: civil (public) and structural. The Spanish government in normative documents identifies them as legislative and economic, which is the "golden mean" between the German and Finnish classification.

The European Commission divides exclusive attributes into legislative, technical, constituent and strategic ones, while strategic ones are also divided into non-price and price ones (Organization for Economic Co-operation and Development, 2006).

The market exclusion research must be carried out in two stages. At the first stage, all assumptions that underlie the specific argument that a certain phenomenon is a barrier in the market are analyzed, it is determined that indeed the economic entities available in the market may contain an appropriate price at a level higher than expenses and at the same time prevent new participants from entering the market. At the second stage, it is necessary to find out whether there is a policy today that can "eliminate" exclusive features and positively affect public welfare.

Determining the regulation directions of market exclusion in regional commodity markets, it is worth noting that these signs can be structural in nature, due to the characteristics of a particular type of economic activity, or determined by the behavior of economic entities. Particular importance is given to market exclusion, which manifests itself in the actions of authorities, namely: licensing, taxation, price fixing, state assistance to individual economic entities (subsidies, preferential taxation).

To determine the factors contributing to the regulation of market exclusion in regional commodity markets, it is worth noting that its attributes may be strategic, which are a consequence of the strategic activity and policies of the enterprise in the market and are subjective and non-strategic, that is, are formed independently of the enterprise's activity on other regional market, and (Fig. 1).

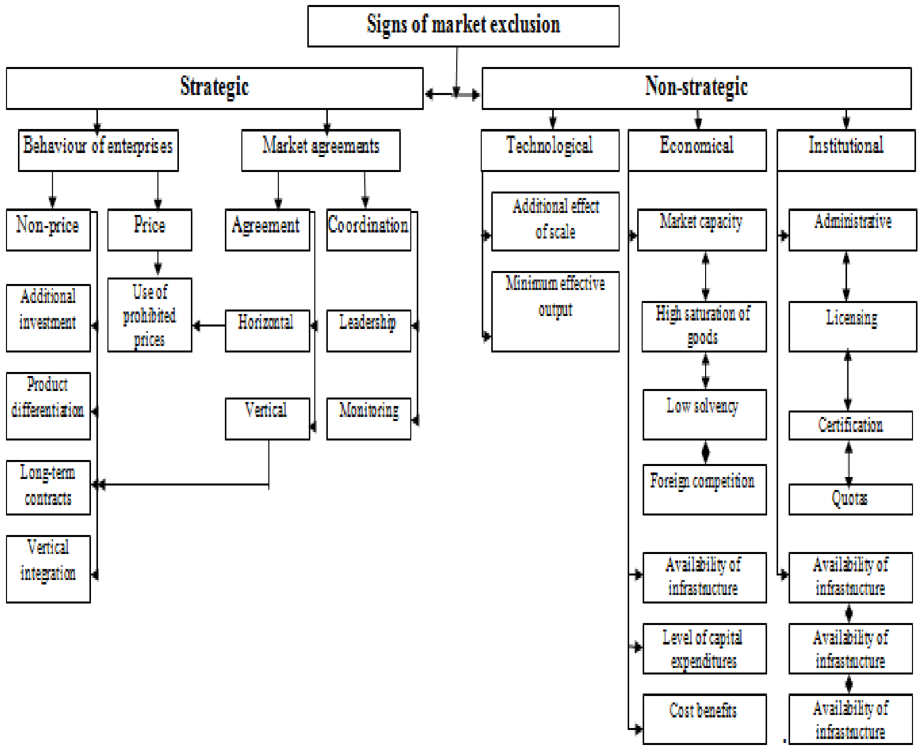

Figure 1: **Signs of market exclusion in regional commodity markets**
Source: developed by the author

Strategic ones are those that are created by the conscious activity of an enterprise in the market and their strategic behavior. These include such activities as saving innovations, long-term contracts with suppliers, obtaining patents and licenses, preserving unloaded capacities, as well as all ways to increase the minimum effective output for a certain type of activity, in particular: increasing advertising costs, marketing research, expenses for creating an image and the like.

Today, in order to eliminate most of the obstacles in the market, enterprises need to focus on attracting additional investment in their activities in particular it can be either a technological update or the attraction of high-quality labor resources. Indeed, if an enterprise in the market has excess production capacity then it will be difficult for a potential competitor to enter the market, because those enterprises in the market will be able to increase output in such a way that entry becomes unprofitable.

Another sign of exclusivity is the differentiation of the product on the market, which creates additional barriers to entry into the market, since it creates the attractiveness of a particular product brand for a particular category of consumers, as a result of which new enterprises have to overcome stereotypes of consumer behavior. It also leads to significant advertising costs for enterprises and sometimes leads to unprofitability of the products they offer. Therefore, the differentiation of goods in regional markets is still used by local businesses, namely when only products manufactured in the same region are promoted in a particular region. Therefore, the more differentiated the product, the more the market is imperfect.

Long-term contracts with suppliers of raw materials and buyers of products (vertical agreements) are also an exclusive feature on the goods market. Indeed, franchising relations are aimed at creating a wide distribution network, and to buy a franchise this means to conclude a franchising agreement with the franchisor to open a franchisee company using franchisor technology using its brand, as well as consultations and marketing developments. It uses many enterprises in various regions to spread its network (Ihnatyuk, 2010).

Vertical integration also creates problems for enterprises with access to resources or distribution channels, so it can enter the market if it is vertically integrated which requires additional costs and reduces the risk of entry.

Non-strategic are those that are primarily associated with limited demand (market capacity). This may be due to high market saturation with goods, low solvency, and the presence of a large number of competitors.

One of the essential features is capital expenditures or the volume of initial investments necessary for the development of activities in the market. Capital costs in this context include: expenses for the development of new goods; the cost of new construction or reconstruction and technological re-equipment of existing capacities; personnel training; sales network organization; time of the production development.

The value of capital costs determines the optimal economic size of the enterprise, that is, the size and structure of production assets necessary for the effective functioning of the production of a given product with the current level of technology, technology and organization of production.

Also important are administrative barriers, the establishment by state bodies of mandatory rules of economic activity, the implementation of which is associated with costs in order to prevent illegal activities, quality control, overcoming the difficulties of effective implementation. Administrative ones include those that regulate: access to resources and property rights to them; obtaining rights to carry out activities; provide for control over activities; monopoly control.

Access to resources and obtaining ownership of them are controlled by registering entities; subject status changes; obtaining rental rights; restrictions on land, subsoil, mineral reserves; regulation of access to credit; leasing. Limit the acquisition of rights to conduct licensing activities and product certification. Now this is a significant obstacle to the import of domestic products into world markets for goods and services. In Ukraine, the most significant exclusive sign is verification; sanctions for violations; privileges granted to enterprises in the interests of political groups; the need for harmonized decisions. Therefore, today it is administrative restrictions that lead to imbalances in regional markets, since the conception is being lobbied by the interests of certain business groups or politicians.

It is also worth noting that the functioning of the shadow economy also leads to market exclusion. That is, the shadow economy brings direct losses to the trading sector, and also carries the threat of destructive "latent influences", among which the researchers assign paramount importance: a reduction in domestic investment resources due to problems with the use of funds acquired in the shadow method and their further outflow for the border reduces the interest of potential strategic investors in Ukrainian enterprises, significantly slows down the process of their financial recovery; deformation of the employment structure; moral consequences of the spread of the shadow circulation of goods and services, including social pessimism and deformity of the majority of market participants, the rooting of various forms of unhealthy competition between them (Tsvigun, Nechyporuk, 2018).

To reduce the shadow segment of the goods market in the regions of Ukraine and increase on this basis the efficiency of using the potential of their socio-economic development, it is advisable to introduce a number of institutional measures aimed at restricting the ability of retail chains to use individual entrepreneurs to evade taxes. In addition, it is advisable to increase the effectiveness of control over the activities of wholesale and retail trade institutions, as well as change the mechanism for levying a single tax and income tax on individuals in order to enhance the influence of local governments on their income and increase their financial viability (Borshchevskyy, 2020).

No less dangerous among these exclusive features is the formation of monopoly power of an enterprise in the regional market of goods. The creation of monopoly dominance in one or another market of goods in the regions indicates the capture of the market by the entrepreneur as a monopolist and the oppression of small businesses. In this case, most small businesses cannot withstand competition and are forced to look for another market, go bankrupt, or reprofile their production. A monopoly position in the market can lead to the formation of an exclusive partnership, which provides for the conclusion of a contract between the supplier and dealer, according to which the latter will buy all the goods he needs only from this supplier, which creates anticompetitive consequences and threatens to block access to the market for small competitors.

Therefore, one of the important areas of antitrust policy is the regulation of enterprise behavior, restricts competition in markets and reduces their economic efficiency. There is also an opinion that a monopolized market can be technologically progressive, highly efficient, and offer quality products at affordable prices. Therefore, if such a market successfully functions and develops rapidly, and its subjects are not engaged in anti-competitive activities, then they should not be accused of violating market rules and legislation only on the basis that they concentrate economic power.

An important exclusivity manifestation of the functioning of regional markets is the high concentration of trading facilities in many regions and areas of economic activity, because this leads to the formation of barriers to entry into commodity markets and becomes one of the main structural barriers to the effective functioning of competitive mechanisms, the elimination of which will help ensure market pricing and will reduce the amount of costs associated with the implementation of state price regulation, in particular price control.

Therefore, the main way to reduce the level of concentration of retail facilities in regional commodity markets is the entry into the commodity markets of new business entities. However, their entry and consolidation there is adversely affected by the complexity of the licensing and control procedures necessary to start, produce and terminate economic activity, the cost of related administrative and other services provided by state bodies is overestimated, as well as a combination of power and economic functions.

The problem of the development of regional markets also lies in the fact that the opportunities for new participants to enter product markets are significantly reduced due to the insufficient development of market infrastructure, which should provide free and non-discriminatory access for business entities to land plots, retail space, market information, advertising media, as well as due to the high cost of credit resources and tax burden (Popadynets. 2020).

The problems related to the functioning of regional retail markets, which mainly sell low-quality and counterfeit products remain relevant. The unresolved issue regarding the implementation of trading activities in the markets is the reason for the ineffectiveness of quality control of goods in which they are sold, and also determines the creation of discriminatory conditions for small enterprises (Cabinet of Ministers of Ukraine, 2009).

The dynamic development of e-commerce brought no fewer problems to the regional commodity markets, which revealed consumer insecurity when making purchases through a network of online stores. The lack of legal regulation of this issue allows fraudsters often to sell low-quality products or not to transfer the goods to the customer at all, and also makes it possible for such business entities to avoid paying taxes and, as a result, reducing budget revenues.

Today, state regulation of trade in the market is carried out through a system of legal, economic, financial, scientific, technical, investment, socio-economic and other regulatory mechanisms. It represents a set of measures implemented by the state aimed at satisfying the needs of the end consumer in goods, organizing the supply of goods and protecting the rights and interests of buyers and other subjects of trading activity.

The main regulation directions of market exclusion in regional commodity markets is the formation of an appropriate regulatory framework, in particular the adoption of the Draft Law of Ukraine "On Internal Trade", which defines the legal and organizational framework for the implementation of economic activity in the field of domestic trade in Ukraine and regulates relations arising from conducting trade and production and trading activities. However, it has not yet been adopted since 2011.

To regulate the behavior of economic entities that impede competition in Ukraine, the Law of Ukraine "On the Protection of Economic Competition" was adopted, which states that the abuse of a monopoly (dominant) position in the market or the inaction of a business entity that occupies a monopoly (dominant) position in the market, which led or may lead to the prevention, elimination or restriction of competition or the infringement of the interests of other business entities or consumers, which would be impossible if there was significant competition in the market (Verkhovna Rada of Ukraine, 2001).

The central place in the system of control authorities in the field of competition in the goods market is held by the Antimonopoly Committee of Ukraine (AMCU), established in 1993. The legal status of the Committee is determined by the Law of Ukraine "On the Antimonopoly Committee of Ukraine". According to this law, the AMCU is a state body with a special status, the purpose of which is to ensure state protection of competition in business. The main tasks of the Antimonopoly Committee of Ukraine are as follows: state control over compliance with legislation on the protection of economic competition based on the principles of equality of business entities with the law and the priority of consumer rights, prevention, detection and violations suppression of legislation on the protection of economic competition; control over concentration, coordinated actions of business entities and regulation of prices for goods produced by natural monopolies; promotion of fair competition. The territorial branches of the AMCU operate in all regions of the country. The bodies of the Committee, which include administrative colleges, state authorized bodies, territorial branches, investigate and investigate cases of violation of competition law and, after consideration, make binding decisions, in particular on the forced separation of monopolistic entities, the termination of anti-competitive actions, submit materials about violations current legislation in the presence of signs of criminal manifestations, impose fines in cases stipulated by law. According to the Law of Ukraine "On Amending Certain Laws of Ukraine on the Protection of Economic Competition" adopted in January 2004, the powers of the AMCU have significantly expanded (Verkhovna Rada of Ukraine, 2003).

Also, state regulation is carried out by the Cabinet of Ministers of Ukraine, a specially authorized executive body in the field of trade, local authorities and local governments. Its main forms are (Shubin, 2007):

• patenting of trade types;

• state registration of trade entities;

• licensing of trading activities;

• confirmation of compliance, technical regulation, standardization of goods;

• establishment of trade rules and regulation of individual trade processes by regulatory legal acts at the state and local levels;

• state control and supervision in the field of trade.

The importance of the implementation of these forms of state and regulation in the field of trade at the regional level should also be played by specially authorized executive bodies in the field of trade (divisions, departments for trade regulation). They must implement a single trade policy through state regulation and coordination of activities in this area by other executive organizations and business entities of other industries engaged in trade activities. Such structural units of local authorities should perform the functions of coordinating the development of the market through the creation of an appropriate regulatory framework and long-term plans, monitoring the implementation of Ukrainian legislation within their competence, representing the interests of the industry in local self-government, etc. Also, the rights transfer to local authorities for issuing licenses and registration of business entities simplifies the procedure for obtaining permits, and also allows local authorities to obtain additional powers to control the activities of registered business entities, and thus prevent the creation of exclusive factors.

Conclusion

Summing up, we can note that the manifestations of exclusive factors on the functioning and development of regional commodity markets associated with the negative impact of inhibitory factors of the institutional subsystem on the social, economic and managerial subsystems, inhibit the development of trade on an intensive basis. The imbalance between the subsystems and the contradictions between them arise, do not correspond to the theoretical foundations of the formation of trade in the domestic market and reduce the effectiveness of the trade system development as a whole.

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