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Problems of food market development of Ukraine

Abstract: *In any country food market trends and the level of foodstuffs provision is a question of urgent importance. The main function of food market is providing victuals in necessary volumes.*

The aim of this paper is to analyze modern state of food market in Ukraine and to research factors of its development. For this purpose we used following methods: analysis and synthesis, statistical, conceptual and logical.

Keywords: *food market, agricultural sector, individual households, agricultural enterprises, Ukraine*

Introduction

Forming of balanced food market is one of topical problems of social-economic development of Ukraine. Overcoming the crisis in agrarian sector of economy is expected on the base of development of market relations in Ukraine.

Domestic food market of Ukraine has expressed regional differences. Each region has its own conditions for its functioning, which are stipulated by resource potential of enterprises, level of development of market infrastructure, natural conditions, regional specialization etc.

Problems of formation and development of agriculture on market principles are explored by many Ukrainian and foreign researches. The studies of Balabanova H., Berezin P., Sabluk P., Shebanin V. and others were directed to solve these problems. However, we can notice that in scientific publication

there are many approaches even concerning meaning of conception "market". Problems of optimal combination of market regulators are still debatable.

The aim of the paper is to identify factors that affect the food market, reasons of too slow development of market relations in agriculture of Ukraine.

Methodology

We used following methods: analysis and synthesis, statistical, conceptual and logical.

Results

The development of agricultural market affects many factors. One of the main among them is the natural conditions of functioning entities. Sectoral structure of agriculture in some regions of Ukraine is forming just under the influence of natural conditions.

Natural resources and conditions of Ukraine in general are favourable for agricultural development. Mostly flat terrain, sufficient heat and moisture during the active growing season, large areas of fertile soils allow growing different crops in the temperate zone and developing all major areas of biotechnology and livestock raising. However, the level of crop yields so far remains low and significantly inferior indexes than in economic-developed countries.

As a result of realized reforms the increase of agricultural lands owned by private farms is observed. Thus, in 2008 the area of agricultural land in individual households amounted to 15.6 million hectares, which is 42% more than in 2002. During this period the area of land in agricultural enterprises decreased by 22% (fig. 1).

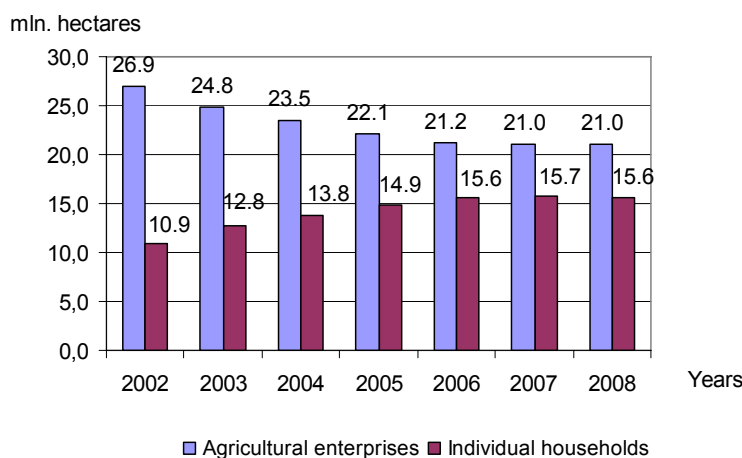


Figure 1. Agricultural land used by different types of producers in Ukraine

We can notice the tendency of increasing production in agricultural enterprises. However, the largest share of agricultural production was still in individual households, where in 2008 it produced 56112.5 million UAH¹ of gross agricultural output, which was 54% of all production (fig. 2).

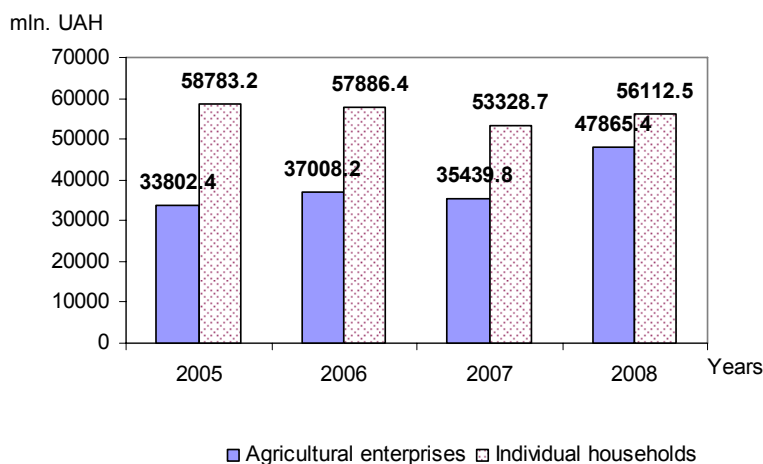


Figure 2. Gross agricultural output of Ukraine

Individual farms have no commercial orientation. The average size of land holdings of these type of agricultural producer mostly do not exceed 0.5 hectares, but occasionally have reached two hectares.

Individual households can be characterized as follows:

- land is an essential means of their livelihood;
- as a rule, members of these households live in rural areas;
- household's members usually have another jobs (including in schools, factories, trading network, etc.).

The comparative major contribution of private farms to total volume of agricultural output is caused by a number of factors. First of them is high level of unemployment and significant excess of labouring rural areas. It forces rural inhabitants to do subsistence farming for the purpose of their survival. Low level of labour compensation leads rural people to produce and sell small volume of agricultural products: potatoes, meat, milk, etc.

The second factor is the higher level of animal productivity and crop yields in individual households than in large-scale farms. This is the result of long-term period reformation of agricultural enterprises and, as usual, inefficient use of their resources. It should be noted that individual households every year increase the area of agricultural land, transforming into farms. Thus they become commodity orientated.

¹ UAH – Ukrainian currency "hryvnia" (100 USD = 505 UAH in 2008).

All enterprises have insufficient of means of production and financial resources. The value of capital assets, which are used in agricultural production, have reduced more rapidly than in other activities, which are carried out by agricultural enterprises. This is a result of difficult financial situations of entities, unfavourable investment environment in agriculture, attempts of diversification of activities of agricultural enterprises by looking for profitable types of economic activities [7].

Low profitability of agricultural enterprises and limited credits doesn't allow to renew the capital assets, to do major repairs of existing means of production. That is why quality of used fixed assets becomes worse. Therefore, the level of provision of tractors, combines and other machinery is 45-50 percent needed. It all affects the volume of agricultural production.

During 2000-2009 gross grain production in Ukraine increased by 88%, vegetables – by 43%. However, volume sugar beet yields decreased by 24% and potatoes – by 1% (fig. 3).

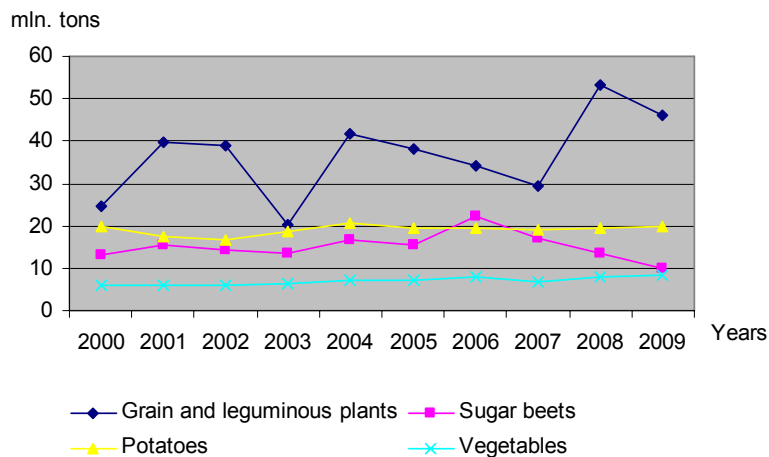


Figure 3. Gross agricultural products yields of Ukraine

Agricultural enterprises are the main producers of grain and sugar beets, because of growing technological features, advantages and technical factors of large-scale production. Thus, 79% of grain and leguminous plants, also 88% sugar beets were grown in agricultural enterprises. Individual households grew 98% potatoes and 86% vegetables (fig. 4).

There is a tendency to increase productivity of all types of crop production (fig. 5)

However, in comparison with the similar indicators of other European countries, yield crop production in Ukraine is in 2-3 times lower (table 1).

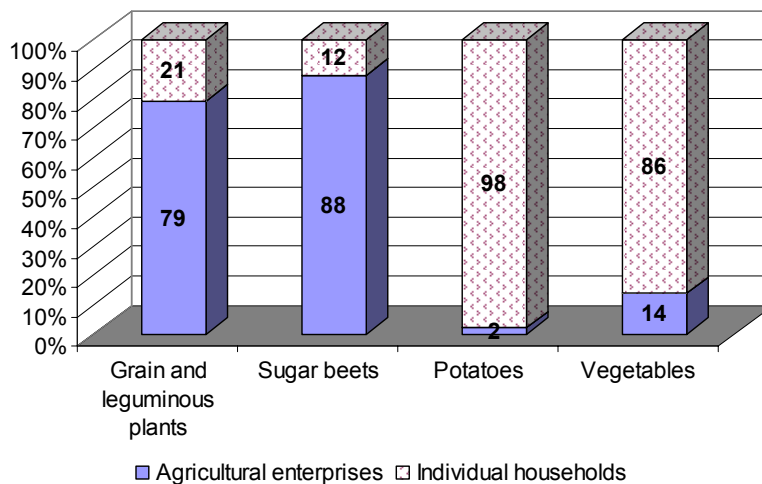


Figure 4. Structure of crop production by the type of producers in Ukraine in 2008

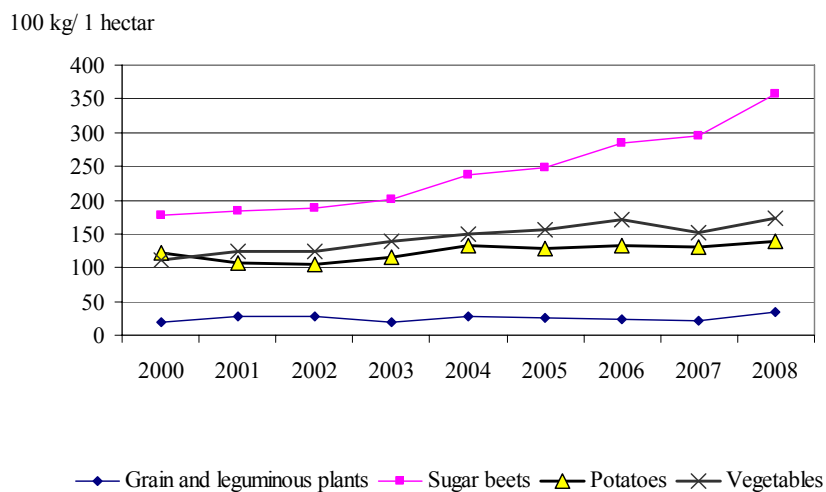


Figure 5. Crop capacity of agricultural products in Ukraine

Table 1. Crop capacity of some agricultural products in Ukraine and European countries (100 kg per 1 hectare)

Name of products	Ukraine	Poland	Slovakia	Austria	Germany	France
Grain and leguminous plants	34.6	41.7	40.6	49.3	78.1	74.5
Sugar beets	356.2	543	565	702.3	666	937
Potatoes	138.7	198.5	184.7	325.3	443	437.9

Certainly low yield is a result of lack of fertilizers and plant protection, delayed implementation of technical operations, lack of means of production, etc.

In conditions of high inflation in the worst condition are sectors of economy with long production period. Therefore, the volume of milk production decreased by 8%, and meat (in the slaughtered weight) - 24% (fig. 6).

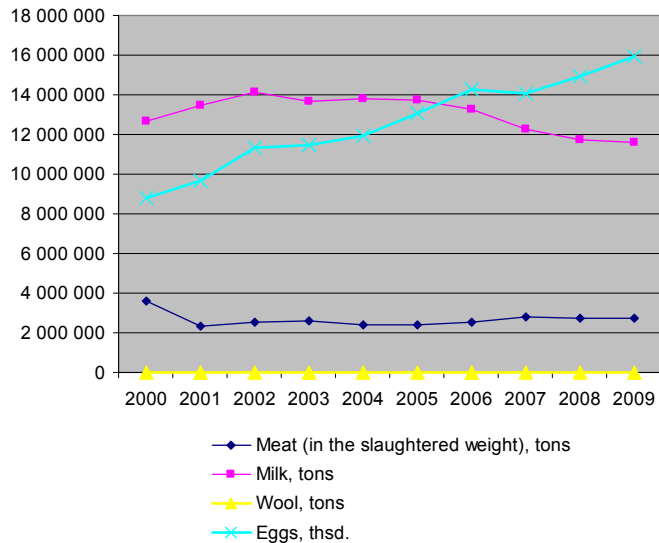


Figure 6. Volume of livestock production in Ukraine

Most of animal products produced in households: 51% of meat, 82% of milk and 78% of wool. Only egg production is concentrated in agricultural enterprises, which share in total volume of production is 57% (fig. 7).

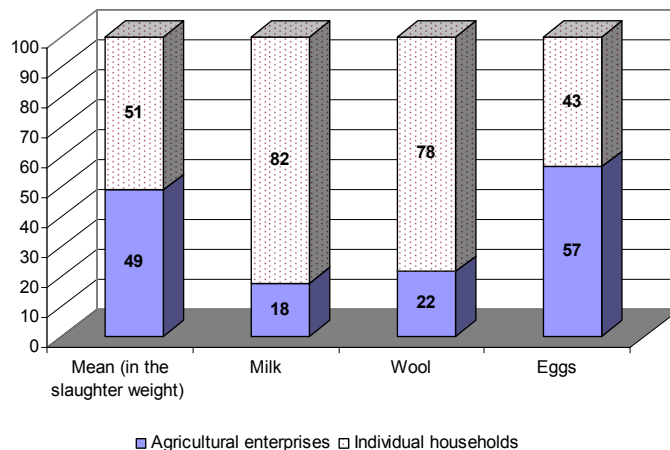


Figure 7. Shares of separate producer in total output of livestock products in Ukraine, %

The main problem in breeding is that in order to survive in difficult economic conditions of 1990's agricultural enterprises sold the most marketable product – cattle. The tendency of decreasing of livestock is not surmounted in Ukraine by this time. Thus, the number of cattle reduced by half and in 2009 was 4.83 million head of cattle.

Recently Ukraine's agriculture remains unprofitable. The livestock production was the most unprofitable, namely meat of all kinds (fig. 8).

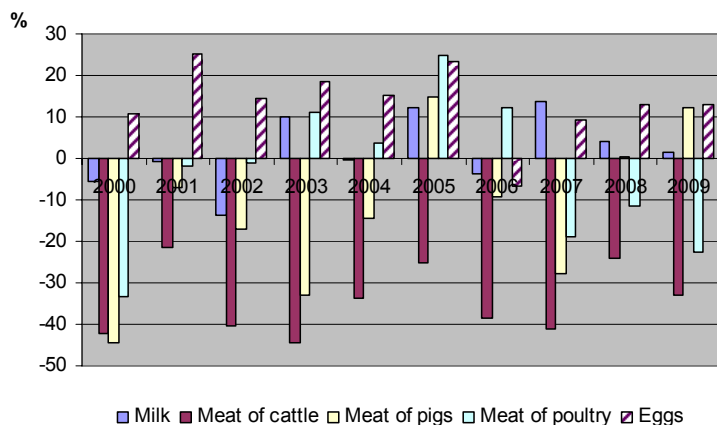


Figure 8. The profitability of livestock production in Ukraine, %

Crop production of such products, as grain, vegetables, and potatoes was profitable (fig. 9).

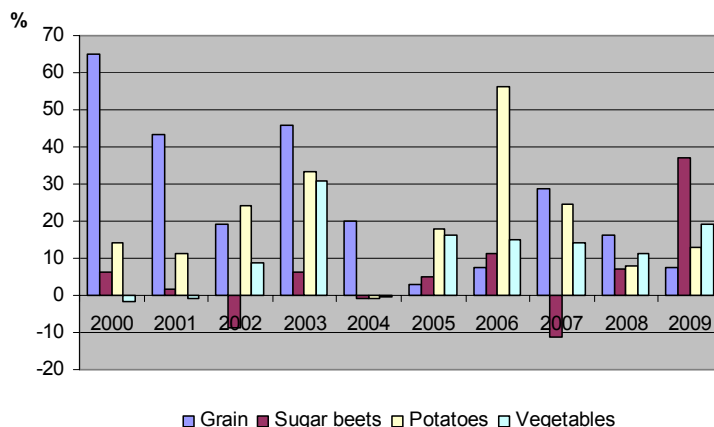


Figure 9. The profitability of crop production in Ukraine

The inadequate formation of agricultural market infrastructure is the one of the main problems of agriculture in Ukraine. Agricultural producers have limited possibilities for the choice of channels on alternative basis. Besides purveyor, having the monopoly, purchase agricultural raw materials at low

prices. Having limited volume of similar products offered on the market, local food supermarkets prefer to purchase large volumes of products from foreign producers [8]. Physical infrastructure of food markets is weak. There is lack of refrigerators, warehouses, information and communication systems.

Low-income consumer and their limiting purchasing power are the limiting factor of food market development; this reduces the demand for food. In 2008 average monthly household expenditures for the purchase of food products were 1316 UAH, which was by 400 UAH more than in 2007. Meeting the needs of food staples, within its purchasing power, was carried out mainly by domestic production.

In 2008 indicator of food affordability was 50.8 %, while 60% is the maximum criteria. It should be noted that in Europe the share of food expenditure in total household expenditures is within 20 to 25 percent.

Thus, we can classify the factors influencing the formation and development of the food market of Ukraine.

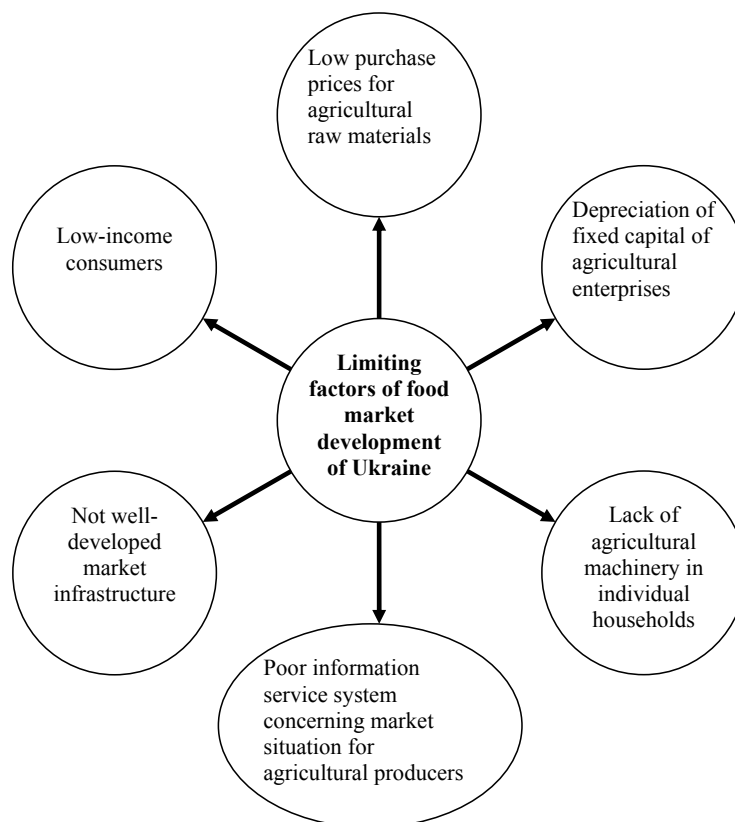


Figure 9. Limiting factors of forming and development of food market in Ukraine

Conclusion

With favourable natural and climatic conditions, Ukraine's inefficient use of agricultural potential is evidenced by low rates of productivity of agricultural crops.

A significant decline in profitability of main products of agriculture can be considered threatening in terms of food security. Therefore, there is no investment for the development of this sector.

Lack of procurement centres of agricultural products produced in individual households leads to excessive reduction of purchase prices. But prices of distribution are in 2-4 times higher.

The disadvantages of the food market can be attributed primarily:

- low level market infrastructure development, namely lack of wholesale trade;
- lack of marketing activities of enterprises and the relevant specialized agencies;
- low-income consumers.

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