

Agriculture in Ukraine towards European integration

G. Cherevko

Department of Economics, Lviv National Agrarian University,

Str. Vladimir the Great, 1, Dublany, Ukraine

Department of Macroeconomics and International Relations, Zheshov University,

Str. Cviklinskiej, 2, Zheshow, Poland

E-mail: gcherevko@ukr.net

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Summary. Ukraine has already made a number of important steps on the way to the European integration. But they are mostly not quite systematic or incomplete. First of all it concerns agriculture. There are favourable natural conditions in Ukraine but economic and political situation here is an obstacle to its successful development. Agriculture today is the most profitable sector of Ukraine's economy. It brings the biggest foreign exchange impact of exports of agricultural products and food. So, on the way to European integration we should pay great attention to this sector of the economy. However, it is clear that in future we cannot rely only on the agricultural sector, since in this case there is a real danger to become an agrarian supplement rather than an agrarian country. The more so, that a structure of export of agricultural produce of Ukraine is on a large account unsatisfactory, as raw material prevails in it, and in the structure of its import there are mainly the finished products. In addition, for the necessities of agrarian economy much technique is imported, which makes the prevailing part in the general mass of technology serving this sector. Therefore, the main results of agricultural research, its trends and prospects in terms of European integration are depicted and analyzed in this article. The agriculture and fulfilment of its mission in Ukraine are shown. The analysis results of Ukrainian export and import of agricultural products and food as well as the determination of the present situation causes and the main ways and possibilities of its improvement are presented.

Key words: European integration, Ukraine, agriculture, food, export, import.

needs such as hunger [1]. The global population is growing and as a result of significant urbanization more than half of the world's population lives in urban areas, which affects agricultural resources, land use and food distribution, as a result raising demand for agricultural commodities [2]. The dynamics of economic indicators suggests that Ukraine has already transformed into an agrarian country. It is shown not only from the ratio of agriculture in GDP or employment, but the share of people who live in rural areas. From an economic perspective, this trend is of great importance. But the willingness of Ukraine for this step greatly depends on economic development of the country and efficiency of its agribusiness. We must also keep in mind that Ukraine's integration towards European Union is the way to improve the conditions of economic development and people's lives. That is why the study of this problem is relevant and of great economic significance. So, the main purpose of this article is to highlight the results of the study and possibilities to develop the main directions of further growth of agricultural sector in Ukraine and to increase the level of readiness of the country towards European economic integration. To achieve this goal, we have studied and analyzed the current state of agriculture in Ukraine as well as its trends to provide the country with raw materials for food production industry, export-import activities, the level and structure of investments, the role of farmer groups and the state of rural areas. The article is an analytical review of the current problems situation in the agricultural sector of Ukraine and prospects of their improvement to increase the level of the country's readiness to implement certain strategic directions towards European integration.

INTRODUCTION

Food industry is one of the most important industrial sectors as it is connected to one of primary

THE ANALYSIS OF RECENT RESEARCHES AND PUBLICATIONS

The problem of eurointegration is extraordinarily important for Ukraine, that is why it has been the object of study of researchers since the forming of such idea. Some scientists especially actively engaged in this problem are S.Demianenko [5], A.Fesyha [7], L. Hoffman [3], Ju.Hubeni [4], Kernasyuk Yu. [15; 17], M.Khorunzhyi [14], O.Kowalchuk [10], O.Kramar [6], M.Lisak [9], F. Mellers [3], M.Mykhno [20], V.Nelep [19], S.Sledz [18] and others. In the opinion of the known politicians and economists, in particular of Chairmen of the International Centre of Political Researches and Institute of International Management – doctor B.Gavrylyshyn, Ukraine has never been fully torn off Europe, and for Ukraine the aspiration to join in with the EU is the question of to be or not to be [3, 26]. However, practically none of the articles of these scientists could arrive at completeness and finishing in the resolving of the whole complex of important questions, related to the probed phenomenon. There is a package of questions, the answer to which for today does not yet seem final and concrete enough. In particular, the possibility of resolving the question of eurointegration of Ukraine needs especially attentive study in a considerable measure due to successes in the agrarian sphere of economy, which, however, now has a whole complex of unsolved problems that block the noted process mightily. In economic literature there are different ideas in relation to the perspective of entry of Ukraine to the EU. Some of the scientists determine the possibility of this action even in 15-20 years [4]. Other ones determine condition of entry of Ukraine to EU as its policy including agrarian adaptation possibility to the requirements and standards of ES [5, 49]. "Agriculture has become a powerful component of Ukrainian economy and its share is growing rapidly" [6]. Thus, it is considered that there are all objective terms in the agriindustrial complex of Ukraine, considerably to intensify food commodity turnover of agricultural produce and food [7,17]. However the level of actual penetration of the Ukrainian agrarian economy to the European market is yet obviously insufficient, that restrains temper and by this market – according to I. Levickyi, «so far Ukraine did not get from Free trade zone with UE the most important – directly free trade» [8,41.]. In addition, on the present stage economic integration of Ukraine is characterized by absence of wide production-technological connections with the countries of EU, from what the export of it is presented mainly by products with the low degree of processing, and the prepared products with the higher added value are importing to Ukraine from the countries of EU [9, 66]. Thus for today the important enough

practical aspects of further development of main ways of increase of efficiency of functioning of APK of Ukraine remain studied not enough with that on this basis largely to extend possibilities of foreign trade of agricultural origin commodities of the Ukrainian production, which will be instrumental in forming of the proper complex of high-quality and quantitative terms, necessary for its entering into European Union.

All of it gives the grounds in order to ratify, that continuation of researches of this significant for Ukraine and, in particular – for its agrarian economy problem is extraordinarily urgent.

OBJECTIVES

The purpose of this paper is to present some main results of investigation of agriculture in Ukraine, of its trends and prospects in terms of European integration as well as of Ukrainian export and import of agricultural products, to identify the causes of present situation and justify the main ways and possibilities of its improvement.

MATERIAL AND METHODS OF THE RESEARCH

The research is held on the basis of Ukraine's agricultural production materials. It uses the official data of state bodies of statistics and governmental administration as well as the Ministry of Agrarian Policy and Food. The main materials for writing were the data of the State Statistical Service of Ukraine and publications of scientists on a similar theme. In the course of research the following methods were used: comparative analysis, graphics, synthesis, induction and deduction. The most common method in studies is the application of monographic method that allowed a thorough and comprehensive processing of available scientific literature and the reported data of agricultural enterprises and statistical and accounting structures. The unity of historical and logical methods as well as abstract logical method of comparative analysis contributes the goal of carrying out this scientific economic research. In addition, a set of economic and statistical methods of scientific inquiry has been also used to enable the appropriate process and analyze extensive factual information concerning the study of the problem. The methods of expert evaluations, diagnostic system, structural and logical analysis were applied to study the processes and phenomena that influence the formation of modern state of agrarian economy and its foreign economic activity. In this article the author sufficiently uses his own observations,

analysis and assessment of certain state laws and decisions on further development of agriculture in Ukraine. The research results are presented descriptively and in the form of tables, graphs and charts.

THE MAIN RESULTS OF THE RESEARCH

Over the past decade significant changes in the Ukrainian economy can be seen towards reduction of metallurgical production, engineering and chemical industry due to their non-competitiveness on the world market. Besides, the rapid growth in agricultural production and food industry can be seen with naked eye.

At the business forum "Investment in Ukrainian agricultural sector," noted that "the Ukrainian economy is in a poor condition, but agriculture now shows record levels of exports, despite geopolitical challenges and conflicts in the east. Today Ukrainian agriculture which showed the overall development during the past 15 years is an industry that is worth 13.5 bln. dollars" [10]. However, according to the State Statistics Service of Ukraine the real "price" of the agrarian sector of Ukraine is much higher. At the end of 2014, the share of agribusiness in Ukraine's GDP was 17% (amounting to 31.4 billion. dollars. USA), the share of AIC in state revenues was 11% (amounting to 4.8 bln. dollars. USA) [11]. Between 2007 and 2014 the share of agriculture in GDP in Ukraine increased from 6.6% to 10.3%, and manufacturing industry - fell from 19.9% to 11.4%. The amount of added value for the same period in agriculture in Ukraine increased from \$ 9.3 billion to \$ 15 billion, while the manufacturing industry - from \$ 27.4 billion decreased \$ 13.5 billion [6].

Based on the results of the analysis of the situation in the economy and its possible short term, in the next decade, agriculture is likely to determine the development of the Ukrainian economy and its place in the global division of labour will be significant. But this requires a significant change in the consciousness of the Ukrainians. They stipulate that agrarian country is a backward and poor "raw materials appendage" to the developed civilized society. It should be understood that we can produce industrial products basically everywhere but agricultural ones - only where there are favourable climate conditions. The share of agricultural products in the export structure of the country is determined not so much from the level of economic development but from the availability of its potential. In Ukraine, agriculture is not only purely economic sector but the potential and a real source of repayment of international loans and the foundation of food security and economic independence. If we neglect this, it can lead to rapid recession and, as a consequence, there will be a great need to import food products that will cost much more expensive [6].

The potential for development of this sector in Ukraine is powerful. Modern Ukraine - a country with high potential for the agricultural sector in the growing row crops, implementation of which is impossible without the introduction of new technologies and providing high-performance manufacturers of agricultural machinery [12, 85]. It is known, that the level of socioeconomic development is the result of previous economic growth and the factor of ensuing development [13, 40]. Arable areas under grain crops in Ukraine (14.9 million hectares) are comparable to Canadian or Australian ones. They are more than 1.5 times higher than in Argentina and France. Although apart from Australia (where there are more than one and a half times less inhabitants), these countries have even significantly greater population than Ukraine (France - 1.6 times). This is especially the actual and potential yields due to objective factors such as climate and soil fertility. Ukraine greatly exceeds them all, except for France. If the production of 63.9 million tons of corn grain export potential of Ukraine is 34-35 million tons, with the increase of production by 1.5 times it can be up to 96 97 million tons. If it were increased by half, it could become 66-68 million tons. That would give grounds to apply for the first place in the world [6]. Currently, a total of agriculture in Ukraine provides \$ 17 bln. of GDP, while in countries that are comparable to Ukraine, the agricultural potential, agriculture provides many times more GDP. In France, for example, it is \$ 55 billion, in Argentina - \$ 45 billion, in Canada and Australia - about \$ 35 billion. However, nowadays, in Ukrainian agricultural enterprises and farms work roughly the same number of people as in highly mechanized agriculture of the UK (535 thousand.). But our country has a much broader area of agricultural land than Great Britain (2.5 times more farmland and 5,5 times of arable land). Ukraine has almost as much arable land as France and Germany combined, but 3.6 times less inhabitants and at least 4.5 - of people are engaged in agriculture (except farms peasants) [6].

The level of food consumption in Ukraine is quite low though. In 1990 the energy component of the average daily consumption of Ukraine amounted to 3597 calories, which are almost consistent scientifically justified standards. The average protein consumption per person was at 105.3 grams. In 2013 the daily diet was only 2969 calories and protein - 90.4 g. Consumption of milk and dairy products decreased by 41%, sugar - by 26%. Bread and bakery products decreased by 18% and fish - by 17%. If in 1990 the family spent 35% of funds for food, now an ordinary Ukrainian family has to spend 62%. Therefore the energy intake decreased in 2.3 times [14]. Motivator of food deterioration of the population became the state. During the period of 1990-2013 for the sake of high profits on foreign markets it contributed the great amount of agrarian enterprises that were sowing crops, including

sunflower, soybean and rapeseed, respectively, in 3, 11, 15 times. Instead export food production of these crops just undermined the basis of cattle breeding by reducing the amount of farms [14].

It should be noted that in general in Ukraine does not work practically any of the programs of state support of agriculture and agribusiness, except taxing, which share in the price of agricultural products is 7-15%. In the whole world, the agriculture is the recipient of funds, and in Ukraine, agriculture subsidizes the state budget at about 20 billion USD per year. The total amount of subsidies to agricultural sector in the EU countries during 2013-2014 was about 526 €/ha (20% from gross of agricultural products). In Japan, the share produced by various programs of state support for agricultural production is 50%; Turkey - 28%; Canada - 18%; in the USA - 7%, etc. The cost of credit for agricultural producers in the USA is up to 2%, in Europe - by 5.7% and in Ukraine - more than 30% per year.

The general state of the national economy and foreign economic relations of any country in the world is reflected in its balance of payments. The positive nature of it is the basis for the stability of the national currency, depending on the ratio of the rate increase exports compared to its imports, or even reduce it in case of import for domestic production. In 2015, according to official data of the State Service of Statistics of Ukraine, the balance of payments in foreign trade commodity structure had positive balance of \$ 632.5 mln with a total value of \$38134.8 mln and import - \$37502,3 mln. [15]

Geographic structure of agricultural products imports of Ukraine shows, that the main share in it belongs to Germany (9,1%) and Poland (8,8%) [16].

Due to the diversification of markets for agricultural and food products in 2014 - 2015 the geographical structure of exports of agricultural products of Ukraine shows, that the main share in it belongs to China (10,2%), India (7,5%) and Egypt (7,2%) [16].

The top ten countries, the largest importers of Ukrainian agricultural products, are China, Egypt, India, Turkey, Spain, Iran, the Netherlands, Italy, Poland and Saudi Arabia. Exports to CIS countries decreased in 31%. Exports to the USA increased in 33%, Asia - 10% to the EU countries - by 4%. Moreover, the geographical structure varies upward shares of exports to Asia (export share 46.6% 12.8 p. P.), US (export share of 0.3%, 0.1 p. P.), other countries (2.7%, 0.9 p. p.). Recently an agreement on free trade with Canada was initialled and permission was received for two Ukrainian companies to export eggs to Israel lifted temporary restrictions on the export of Ukrainian milk and meat in Kazakhstan [18]. A new export position for trade with Egypt is being developed. Intergovernmental agreement on cooperation with the USA and France is coming into force too.

Structure of exports in favour of products is changing gradually as well. In 2014 40% of agricultural exports from Ukraine were produced with high added value of 6.9 billion dollars. Thus, in the first half of 2014 the share of exports of raw products to the EU was 76%, in 2015 it decreased to 67% with an increase in exports of processed products [18]. In 2015 year trading in commodities and services with EU was 37% of general volume of trade - it is a historical maximum [9, p.71]. Mostly the raw materials of two groups (grain and oil) are exported. They have more than 70% of total exports [19]. Production and export of poultry has been markedly increased. The manufacturers not only replaced imports, but also transformed the industry to one more focused on foreign markets. Almost one third of all chicken meat produced in the country is now being exported. Among countries-exporters there are the United States, the Netherlands, France, Belgium, Germany, Turkey, Poland and Argentina. But it appears that in many developed Western countries agriculture and food industries are in much more positive situation while the majority of industrial goods are being imported [6].

Significant prospects for Ukraine is manufacturing and exporting of dairy products. After losing the Russian market, Ukrainian cheese export is still in crisis. But we have already found new markets for milk and cream. They are countries of the Mediterranean and the Middle East. For example, the main importers of Ukrainian oil became Egypt, Morocco and Azerbaijan. But, in this respect, there are some problems with entering the European market, as supply exceeds the demand here [20]. Europe now provides milk by itself to 107.8% [21]. There are lots of their own producers in France, Italy and Germany who are well oriented in the tastes of local consumers [20]. Due to extremely serious competition, the prospect of entering the European market of dairy products for Ukrainian producers is currently very remote. Taking into account the specific economic and political situation of our country, the domestic milk market does not support global growth trends. Production has been reduced due to cut demand for milk and dairy products. Milk consumption in Ukraine in per capita income in 2013 was 252.3 liters, and in 2014 - declined to 247.3 l, and in early 2015 this figure decreased an average of another 8.7% (i.e. 15.5 kg physical weight). It was the result of purchasing decrease power of Ukrainian. In addition, imports decreased by simultaneous loss of export items [21]. Entering the European dairy market is also impossible by the poor quality Ukrainian raw materials - milk, which by our standards belongs to the 1st and 2nd grade, in the EU countries is determined as unusable. Production of extra high quality milk is only 10% from the total. There are only two companies in Ukraine that are certified as organic - "Etnoprodukt" and "Organic Milk" [21].

During the recent years Ukraine's dairy market is more or less successfully carried out in exports of butter, the volume of which increased from 2013 to 2015 nearly from 3 ths. tons to 8 ths. tons. And its imports generally stopped. For this period exports of skimmed milk powder increased - from 12 to 30 thousand tons [22].

Nowadays, more than 4.3 mln. tones of sunflower oil (1st in the world), 18 million tons of corn (3rd place), 2.7 million tones of barley (4th place), 11 million tones of wheat (6th place), soybean (7th place), 170 ths. tones of chicken (8th place) are being exported from Ukraine [23]. The biggest exporters of Ukrainian grains and oilseeds in January-September 2015 became China (15.7%). Egypt (13.2%), Spain (8.0%), Saudi Arabia (7.3%), Korea (5.8%). The share of Israel, the Netherlands and Italy, is close to 5%. In general, these countries account for 60% of the whole volume of export crops. Nearly 50% of oil exported from Ukraine in 2015 was purchased by two countries - India and China. Turkey's share is (24%), Iran (13.2%), France (12.9%), Belgium (9.0%), Portugal (7.5%) and Pakistan (5.2%) [24].

In Ukraine processing grain, cereals and flour was traditionally focused on domestic consumers. Exporters always preferred raw materials in pure form, because they had no interest to pay extra money to Ukrainian producers. Therefore, the most important factor affecting the domestic consumption of flour is population dynamics which has a tendency to decrease during the period of independence. Furthermore, cereals, bread and pasta products are the cheapest in the group (excluding potatoes), so reducing the number of people directly form the domestic consumption of these products of grain processing. This is reflected in the fact that over the past 10 years, flour production in Ukraine decreased by 20%., Bread and bakery products - by 40% (excluding the production of small bakeries) but production of confectionery and pasta - hardly changed. The number of population has been decreasing gradually from 47.1 million people to 42.8 million [25].

Unlike domestic consumption, export component in this segment is increasing every year, while export of flour is still only 10% of its production. The largest Ukrainian flour exporter is China (24%).

Experts say that the potential of Ukrainian lands lets harvest 100-120 million tons of grain per year, which will increase exports in 2-2.5 times. But the main obstacle to the further development is the current structure of land cultivation. At the end of 2013 in the hands of Ukrainian citizens were concentrated 11.8 million hectares of arable land and agricultural enterprises have available 19.2 million hectares, of which 47.6% were cultivation enterprises in 1616 (2.9% of all) with the bank over 3,000 hectares of land, and the rest were scattered among smaller firms, of which three quarters - farms that

generally slows down the development of the industry for a minimum of farmland defines penetration rate in modern cropping technology. As households do not have special reasons to increase productivity in their areas, and the farm sector is peculiar to a chronic shortage of funding needed for implementation of modern technologies indirectly confirms the official statistics. In 2000-2013 the volume index of agricultural production in crop grown in agribusiness at 135% and in households only 58%, which implies that the future rate of decline of crop, limited structure of land cultivation. The concentration of agricultural land will create conditions for full disclosure potential of Ukrainian land [26].

The main obstacles for further rapid development of agriculture are the following: lack of adequate infrastructure, causing yield losses, such as cereals, 25% (against 1.2% can not be avoided in civilized countries); lack of quality roads and vehicles that increases production losses during its transportation; lack of efficient equipment, favourable business climate and lack of cooperation. Regarding the latter, in 2015 the Ukrainian club of agribusiness cooperation together with the German-Ukrainian Policy Dialogue launched the project "Business climate in Ukrainian agricultural sector" to track trends of the industry by interviewing a representative group of farmers across the country and analyze the information received. Last year assessment of the business climate in Ukraine has decreased by almost 20 points. Moreover, the negative factors relate almost exclusively of government regulation that is a block of macroeconomic problems [27]. These positive changes are measured in access to modern technology, equipment and skilled personnel. Those factors depend mainly upon skilled farmers but not from the state. In general, the situation is most favourable for agricultural holdings and businesses with land of over 5,000 hectares, while the proportion of small (up to 2000 hectares) and average (4,000 hectare) farm in the country is about 80%. The problem is that large farms using its economic power towards the formation of his dominant political influence the government, practically themselves under a form and state agricultural policy, leaving smaller producers face to face with the market problems.

In addition to it, grain exports record does not guarantee a stable presence of a loaf of bread on the tables of the average consumers, because it seems that our agricultural ministry's main task is to feed the citizens of other countries but not their own ones. In Ukraine, nearly 13 million people live in rural areas and take care of their own gardens, and even sell excess products to the market, helping urban residents to survive [28]. The characteristic feature of Ukrainian agrarian economy is its dualization towards polarization on one side large agriholdings and on the other - small and private farms. The latter are

deprived of effective access to credit and government resources due to the fact that large enterprises use their economic power and turn it into a political force. State agricultural policy is formed almost to fit their needs. Over the past 15 years, the area of arable lands in the agricultural and agro-industrial holdings increased in 14 times (from 0.5 to 7 million hectares) [19].

In North America and Western Europe there was once a tendency to create big agricultural holdings. But society realized their extremely negative impact on the efficiency of agricultural production and rural development. That is why drastic measures were taken to limit their further development. In particular, in 1970 a law was passed forbidding agricultural activity for those companies whose capital exceeds 3 million dollars. Therefore, there aren't such monsters there as the Ukrainian "MHP" (300 thousand hectares of land and 52% of Ukrainian market of broiler chickens) and "Ukrlandfarminh" (680 thousand ha and 33% of the market of eggs) [Nelep 2015]. Such restrictive laws were adopted also in France and other West European countries. Moreover, such countries of Latin America as Brazil, Chile, Bolivia, Venezuela and Mexico took some measures to return farmers to villages creating farms instead of agricultural holdings [19].

Overall this agricultural policy prefers to invest not its own but foreign food production. Prevalence of exporting raw materials, rather than focusing on their domestic market, not only runs counter to the latest features, but threatens the current situation in the country. The point is that the world market significantly decreases the prices on sunflower, canola and soybeans. However, the price for beef, pork, butter, cheese and milk is rising constantly. If we do not renew offset by a balanced development of agro-food sector, Ukraine will become a sunflower, rapeseed and soybean state, which will ensure the development of global markets. Ultimately this will continue to ensure that domestic resources will be limited, and countries with developed economies take advantage of this convenient opportunity by increasing their exports [14]. Raw material commodity exports should gradually be replaced in the nearest future by developing new capacities towards the export value of animal product sectors, stimulating these areas for investment to meet bioenergetic goals [17].

CONCLUSIONS

1. Ukraine needs eurointegration in order to change our life to the best; eurointegration of the country does not necessarily mean any formal entering into the EU, although already today such formalization of this membership would have a substantial influence on the improvement of situation in Ukraine; an entering
2. Success of Ukraine's preparation process for integration into the European Union will mostly depend on the development level of its agri-industrial complex, as Ukraine is an agrarian country in a good sense of the word.
3. However, the modern state of the Ukrainian economy and especially of its agrarian sector obviously requires to be better because the agricultural sector of Ukraine did not fully fulfil its mission as the material and technical base of the agriindustrial complex (AIC) is divided into small units and worn out both morally and materially; more than a half of agricultural enterprises is constantly non profitable, labour potential is employed rather not productively.
4. The population level of the food provision in Ukraine is very far from scientifically proven. The general condition of the sector is characterized by low productivity, low level of mechanization of production processes, the low quality of its material and technical base, unstable economic relations, undeveloped market infrastructure, weak institutional support, insufficient state support, high level dualization of economy in two major groups of manufacturers: the giant agriholdings and small farms and private households, which are under unfair access to credit and government funds.
5. Ukraine should study the international experience and quickly make radical changes in agricultural policy, export – import food policy, promote the switch to farmer cooperative-type of agricultural development with institutional restrictions for agriholdings, taking into account foreign experience. In connection with this, the main ways of improving the situation in AIC of Ukraine for the nearest period must be development of cooperation and agriindustrial integration, scientific substantiation of functioning and land market introducing principles and sustainable development of rural areas.
6. This current agrarian economy gives the state the largest share of foreign exchange earnings from exports. However, this issue shows that agribusiness leaders came out in export due to the significant export reduction of steel products from Ukraine because of metal demand reduction in the world.
7. The European market needs Ukrainian raw materials but it is much harder to enter it with Ukrainian own products. Therefore, the bulk of exports are raw material commodities such as grain, oil, fats. About 46% of total agricultural imports accounts for food

products. Quite a significant share in imports takes herbal products that make up 33% of total.

8. The agrarian type of economy of Ukraine can not be a priority and decisive in the future. The raw nature of the agrarian economy in general is not a prospect. Thus it follows to mean that now a structure of the Ukrainian export of agrarian products is utterly unsatisfactory, as raw material prevails in it. Domestic consumer demand for food at reasonable prices should be met first. Therefore, we must develop recycling in close connection with the promotion of domestic consumption.
9. The strategy of import of agricultural products should primarily be aimed at developing their own processing facilities for import substitution and foodstuffs that have high added value. The main guidelines for Ukrainian agricultural and food products export must be focused on traditional consumers as well as searching for new directions. With high economic growth, increasing population level and its average income, countries of Africa and Asia should certainly be taken into account.

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