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INSTITUTIONAL ENVIRONMENT OF FOREIGN ACTIVITY OF UKRAINIAN AGRICULTURAL ENTERPRISES UNDER CONDITIONS OF THE EUROPEAN INTEGRATION PROCESS

The article highlights the basic statements of the institutional theory and clarifies the categories of "institute" and "institution" in the foreign trade in the European market, as well as the essence of the category of "institutional cooperation" and "integration potential of the company". The current state of integration institutions, the formation of new sub-regional institutions and areas of state support for export-oriented agricultural enterprises are under analysis. On the basis of scientific and practical analysis of contemporary institutional environment and its impact on national foreign economic activity of the enterprise, the necessity of creating new formal institutions, effective cooperation at national and supranational level of European integration is considered.

Key words: institutionalism, institution, institutional environment, transformation, foreign trade, European market, enterprise, trade community.

In the global division of labor, EU specializes in the production of agricultural products. Also, the European market for its capacity is considered the largest one in the world. In the commodity structure of EU export, the greatest share is the agricultural end products with high added value, which accounts for almost two-thirds of total exports. So, geographically close market is sufficiently attractive for Ukraine. Agro-industrial potential of Ukraine is a powerful catalyst for mutually beneficial cooperation with EU in the long term. Ukrainian and European sides realize that extensive reproduction in the European sector of agribusiness is exhausted and intensive one is no longer satisfying the growing demand for food. The European Union is the world leader in the import of food products. Therefore, the EU considers Ukraine quite promising partner for deepening relations. The result of bilateral cooperation is the signing of the Association Agreement between the EU and Ukraine (further the Agreement). The agreement facilitates access to sufficiently developed, capacious and effective European market for Ukrainian agrarians. Instead, the European partners are interested in the potential of the internal market of Ukraine (EU ranks second place in world in terms of exports of agricultural products), as well as stable and relatively high rates of growth of agriculture production in recent years.

In addition, Ukraine has rich natural and agro-climatic resources, high human capital, and the historical traditions of agriculture and so on. The structure of Ukrainian agricultural products exports (last two years) to EU countries shows the tendency similar to the previous period, i.e. Ukraine exports mainly commodities, including wheat, maize, oilseeds and others. In 2015 the share of Ukrainian agricultural producers in the European market of agricultural products exceeded by 4%. The signing and implementation of the Agreement will allow national companies (exporters of agricultural products) significantly strengthen its presence in the European market, not only by increasing exports of raw materials, but also agricultural goods with high added value. Indeed, in Chapter 17 of the Agreement the Parties declared "... to promote the development of modern and sustainable agricultural production; to share knowledge and best practices in agricultural development policy; to improve the competitiveness of the agricultural sector, efficiency and transparency of markets; to share knowledge, to promote development and innovation ..."¹.

In the context of institutional support, to analyze the institutional environment of EU market and its components is extremely important task. The current socio-economic system of Ukraine and its sectoral components are under transformation and structural changes. In addition, it is important for modern

¹ Угода про асоціацію між Україною, з однієї сторони та Європейським Союзом, Європейським співтовариством з атомної енергії і їхніми державами – членами, з іншої сторони.
<<http://www.kmu.gov.ua/kmu>>

Ukraine to be a full part in the international division of labor and become integral with international economic community. Since 2008, Ukraine became a full member of the WTO, and the signing of the Agreement is an unprecedented integration document for the country. Implementation of the Agreement in terms of agriculture requires defining new trends transforming both internal and external institutional environment and to propose measures for improvement at all levels: economic entity (exporters), national, sub-regional (supranational - European integration). Moreover, the implementation of the Agreement considers that the institutional environment of foreign trade enterprises of the agricultural sector must be adapted to similar environment at national and European levels.

Analysis of recent research. The problem of institutionalism in international economic relations and the institutions influence on a market economy was devoted in works of scientists such as A. A. Alchian, O. E. Williamson, T. B. Veblen, R. Coase, M. Olson, D. North, R. Richter, W. W. Rostow, E. G. Furubotn and others. Among Ukrainian researchers of the agricultural aspect of institutionalism and the institution regulation on agricultural market are known authors such as J. Lopatinsky, M. Malik, A. Moroz, P. Sabluk, A. Shpykulyaka and others.

However, despite the strong theoretical, methodological and practical achievements, there are unresolved issues related to the application of certain issues of institutional methods and approaches to identify the specific characteristics and institutional frameworks in economy. In theory and practice there are no clear conditions for the emergence and development of modern institutions and institutes in complex socio-economic system; its impact on sectors of national economy and economic role in ensuring integrated development of the field of agriculture and rural areas is not defined. Structure and components of the institutional environment of agricultural enterprises of all types and ownership require systematic study.

The feature of this system lies in the specifics of a use of particular economic resource as a means of production, such as land, as well as seasonality of production and technological process, which requires the development of appropriate institutions and institutes. Institutionalism, according to T. B. Veblen, is a well-established and stable social environment of agreements and contracts¹. Neo-institutionalism theorists (D. North and R. Coase) define three groups of institutions, whereas the classic institutional theory limited the study to two groups of institutions: norms, habits and traditions; institutions and sustained organizational entity, both with internal differentiation. Institutionalism uses numerical comprehensive arsenal of techniques and methods to study the impact of institutions on the socio-economic systems and their development. Therefore, the use of such techniques, methods and techniques allows us to explore and implement economic analysis of complex socio-economic process, i.e. institutional environment of the transformational economy.

Current research of institutional environment has not covered systematically all levels of development and operation from micro- (enterprises), macro- (national economy in the process of transformation and integration) and meso-level (national, European integration). The systematic approach allows studying the institutional environment as a vertically integrated and adapted to the integration process of all components and elements (institutes and institutions of all levels).

The aim of the article is to analyze the current institutional environment and its impact on national foreign economic activity of the enterprise, to rationalize the creation of new formal institutions for efficient cooperation at national and supranational euro-integration level.

Implementation of structural reforms in Ukrainian socio-economic system and the deepening of integration processes cause the activation of foreign economic activity of economic entities. Accordingly, importance of scientific and practical approach to the study of social and economic phenomena and processes increases. EU-Ukraine Association Agreement requires national institutions to permanently monitor the compliance of the political and socio-economic development with the criteria and indicators achieved in European countries.

Within achievements of classical economic theory, it is difficult to comprehensively and objectively evaluate the current socio-economic processes and phenomena, as well as changing conditions and environmental factors that directly impact the foreign economic activity. To analyze the current integration processes at the micro and macro levels, it is appropriated to apply the methodology and methods of the theory of institutionalism. This will justify the role and importance of economic, legal and social institutions as well as the formation of institutions in order to intensify foreign trade of agricultural enterprises in Ukraine.

¹ Веблен, Т. (1984). Теория праздного класса. Москва: Прогресс, 67.

Analysis of theoretical and methodological features of different approaches in modern institutional theory leads to the conclusion that institutionalism is able to detect economic problems by exploring the formal and informal rules and traditions (institutions) that explain economic behavior of economic agents and form motivational socio-economic mechanism. In scientific publications authors debate on such basic concepts of institutional theory as "institution", "institute" and "institutional"¹. The analysis of the institutionalism works shows that there are different approaches to defining these categories and their interpretation. Comparative analysis of the publications can detect signs of rapprochement of their thinking to explain the genesis of institutes and institutions. For example, P. Sabluk indicates a feature that institutes can take the form of institution at a certain stage of social development. So, institutions may be embodied in institutes, while institutes require institutions to ensure the development of socio-economic formations².

Thus, in our study, "institution" is used to describe the mechanism of the rules (norms) in the field of foreign trade and its organization, management and control. The institutions provide internal and external institutional environment for enterprises of foreign trade, which determines its external relationships and interactions. This sets limits on implementation of its activities in domestic and foreign markets using economic, political, legal, psychological, social and other factors.

In institutional theory numerical approaches are used for classification of institutions. For our study we used specific feature by which institutions are divided into formal and informal. The effectiveness of foreign economic activity entity depends on both. To formal ones we refer economic, legal and political institutions that carry out direct regulation of the activity. In institutional theory, informal institutions include traditions and customs, moral principles, stereotypes, cultural and religious preferences and more. Considering types of institutions, they are divided into: external (rules that determine the nature of foreign economic activity); internal (rules that reduce the level of uncertainty, risk and transaction costs, for example, made of export-import operations). So, in our study institutions are treated as formal and informal rules and regulations that ensure sustainable development of an entity in the internal and external environment. Institutes are set of institutions and organizations that regulate and control the already established laws and regulations (rules and restrictions).

Institutional theory explains the necessity of forming modern "institutes" designed to regulate, coordinate, organize and limit to a certain extent all areas of international relations, taking into account national interests and social aspects of society. Based on the analysis of theoretical achievements of modern institutional theory, core categories and items that directly or indirectly affect the foreign trade of agricultural enterprises in transformational economy include: institutional environment (formal and informal institutions of national, integration and international level, mechanisms, traditions, etc.); norms, rules and regulations; institute of property rights; economic agents and their behavior; fulfillment contacts (agency relationships, contracts); contractual terms; transaction costs; public choice; economics of law and others.

Neo-institutionalism representatives (R. Coase and D. North et al.) have expanded the boundaries of economic analysis and identified areas of scientific and practical research, including analysis of internal and external institutional environment and its impact on the behavior of economic agents, analysis of international contracts and agreements etc., analysis of formation and integration of institutions and the evolution of social institutes and other formal and informal institutes. For example, R. Coase introduced and defined the category of transaction costs of business entities. According to R. Coase, transaction costs are the costs of searching for information on prices, demand, costs of transactions and search for partners³. The results of our study revealed that for Ukrainian agricultural enterprises transaction costs associated with the penetration of the European market is essential. Thus, for large national agri-companies (UkrLandFarming, NCH, "Kernel Group", "MHP" and "Ukrainian Agrarian Investments", for example, have a land fund that amount exceeds the area of Slovakia) who already work in the European market, transaction costs are 15-18% annually.

For companies with an annual turnover of foreign trade in the European market of 10 million USD, these costs rise to 22% and in the farming segment small and medium enterprises are not represented. The share of SMEs of the national agribusiness is more than two-thirds of the total, the number of employees exceeds 2 million of economically active population, which makes up 17.5% of all employed in social

¹ Чухно, А. (2008). Інституціоналізм: теорія, методологія, значення. *Економіка України*, 6, 4-11.

² Саблук, П.Т. (2002). Основні напрямки високоєфективного агропромислового виробництва в Україні. *Економіка АПК*, 7, 3-15.

³ Коуз, Р. (1993). *Фирма, ринок и право*. Москва: Дело ЛТД, 45.

production. Farms, small and medium agribusiness produce annually from 61% (2000) to 43.8% (2015) of agricultural products. For this category of national agribusiness the prospects of entering the European market are unpredictable.

Thus, from 2000 to 2015 agricultural output fell by almost a third. If at the beginning of the analyzed period agricultural output was at 33.5 billion USD (in comparable prices), whereas in 2015 was 23.8 billion USD. Accordingly, the earnings sharply reduced, financial and economic situation of the national agricultural sector deteriorated. Due to lack of operating capital, financial resources are not directed at enhancing foreign trade and development of new foreign markets of agricultural products. Agroindustrial complex's (AIC) entities engaged in foreign economic activities in the European market usually lose the competition to its partners from the numerous EU product groups. This is due to an effective support system for European farmers. In Ukraine annually 10% of GDP is directed to support the agricultural sector, which is not observed in any of the EU countries.

However, in regard of 1 ha of land for Ukrainian agricultural producers, size grants in 2015 was the lowest (around 25 EUR per 1 ha) compared to EU countries, for example, in Germany - 438 EUR, France - 387 EUR and the lowest in Bulgaria - 191 EUR. The share of agriculture industry in the Ukrainian GDP is about 18%, and in EU countries the same figure is from 3 to 9%¹. In addition, in each of the EU country, there is an effective system of preferences and direct budget subsidies to domestic agriculture. Budgetary support for agriculture in the European Union (in all program support and incentives) is 45% of the gross output of the industry, while state support for Ukrainian agricultural producers does not exceed 6%. Hence, the required level of support Ukrainian agriculture should be determined not by abstract numbers (or comparative method), but by the use of real statistical indicators of the industry. They show that the average profitability of domestic agricultural enterprises in 2000-2015 was less than 10% (including subsidies). Taking into account the fact that the companies were operating under conditions of transformation of the socio-economic system and a high level of inflation, the agricultural sector is in stagnation. Agricultural policy analysis around the world shows that a high and effective support to national agriculture is provided by industrially developed countries. In Ukraine, the lowest level of support for the agricultural sector was marked among European countries, including the index of nominal support (in Poland was 15%, Romania - 45%).

Despite the positive trends of state support (there have been positive changes in 2014-2015) and the relative increase in spending on agriculture from the budgets of all levels, even agricultural enterprises of middle-income lack financial resources for expanded production. Economic analysis indicates that expanded reproduction is only possible to ensure profitability at 30% in the livestock and crop production. For expanded reproduction of products with a short period of production (pork, chicken, eggs, etc.) and at the 10% level of inflation, the required level of return is 15-20%. Only 0.3% of all national agribusiness (including SMEs) fulfill this condition. For export-oriented enterprises given figure is much higher, however, they suffer (lost working capital) from delayed VAT refunds.

Currently, despite a number of the studies in Ukraine and abroad, it is difficult to objectively assess the consequences of signing the Agreement with the EU in terms of protection of the domestic (Ukrainian) agricultural market. However, the agreement leaves Ukraine institutional mechanisms to protect it, but the question is about the efficiency of the implementation. World practice shows that among the three groups of state regulation (tariff protection, domestic support, export subsidies), tariff protection has the highest positive impact on domestic agriculture. For Ukrainian agribusiness, the latter is quite important, taking into account the fact that the market infrastructure of the food market is poorly developed, and internal institutional and competitive environment is deformed. So far, Ukraine does not apply practice of "peak" tariffs, i.e. the maximum import tariff on food. However, in Japan, this rate reached 2550% in Mexico - 450%, in USA - 379%, India - 300% in EU - 219%. Number of items under the tariff in the EU is 2200 pcs., in Japan - 1806 pcs., in USA - 1769 pcs. and in Mexico - 1080 pcs.²

Prospects for agricultural enterprises of Ukraine after the full implementations of the Association Agreement with the EU are the most difficult issue for local farmers. Without doubt, the agreement is unprecedented in scope and areas of agreement in the modern history of Ukraine. The economic part of the Agreement to some extent covers key areas and industries. In particular, the Agreement Chapter 17 "Agriculture and rural development" reflects policy and prospects of the industry and rural territories of

¹ *Євростам*. <<http://ec.europa.eu/eurostat/home>>.

² *Євростам*. <<http://ec.europa.eu/eurostat/home>>.

Ukraine¹. The Chapter 17 declares regulations that affect the conditions of foreign economic activity for Ukrainian companies, namely:

- promoting the development of agriculture and rural areas, in particular through the gradual convergence of relevant policies and legislation in this area;
- introduction of modern and sustainable agricultural production not harmful to the environment, including the distribution and use of organic production methods and biotechnology;
- sharing of new knowledge and practical experience in the field of rural development to improve social standards of the rural population;
- improving the competitiveness of the agricultural sector and the efficiency and transparency of the market, together with an investment climate improvement;
- support of innovation through research and extension of service sphere for farmers;
- achievement of a coherent policy on all matters within international organizations;
- implementation of policies to ensure the quality of agricultural products in terms of standards, production requirements and quality schemes and others.

The next factor able to inhibit the development of national agriculture is a negative situation that prevailed in the foreign commodity market. It is comparable to the situation that occurred during the recent crisis (2008). As in the world and in Ukraine agricultural companies face losses and steady decline in the growth rate of world GDP is noted. Ukraine that exports a significant proportion of agricultural products and processed products is sufficiently integrated into the global trading system, so the negative global processes displayed on all domestic producers in general and the trade community of the agricultural sector in particular.

The analysis of Ukraine exports to the EU shows that raw materials are pervading. Since 2014, agricultural product exports to the European market dominate. Thus, in 2014 metallurgical companies exported to the EU market of metal on amount of 12.9 billion USD, and total exports of agricultural products and food industry was 13.6 billion USD. In 2015 the share of Ukrainian exporters in the EU market was 4% (17.5 billion USD), where the share of agricultural production was more than 29%.

Agricultural enterprises mainly export to European market grain foods and vegetable oil. Evaluating Ukrainian export not by the largest profits, but in terms of the number of goods sold, the absolute numbers of reduction of foreign trade are not so enormous. For example, Ukrainian enterprises exported wheat, corn and ore (in real terms) more than in previous years. Thus, the additional income they did not received, as the rate of decline in world commodity prices is much higher than the rate of decline in sales.

The dynamics of the profits from the sale of agricultural enterprises in the European market is characterized by the following parameters. In 2015 Ukrainian farmers exported 3.4 million tons of sunflower oil to the European market (21% more than the previous year) in amount of 2.6 billion USD. Thus, national exporters were 28% less profit than in the previous year.

The same situation is in the European grain market. Sales volumes increased by 10% (1.9 billion USD) and profits fell by 14%; sales of corn fell 6%, while revenues by 14%. When high proportion of raw materials in the structure of Ukrainian exports stay the same, even with increased sales of goods in the European market, agribusiness will receive less revenue. Overall, the share of exports in GDP of Ukraine is almost half (49%). It is extremely important for the country to remain foreign trade on appropriate level, optimize commodity structure of export (decrease exports of raw agricultural products as well as related to raw materials), enhance foreign trade enterprises processing industries. The analysis of the dynamics of the commodity structure of agricultural export of domestic product determines their current potential and prospects of development.

Over the past four years, in the structure of the agricultural export, plant forming is the largest part (more than half) and vegetable oil and animal fat is over 23%. Final consumption products amount about 20%, while animal products in the export structure do not exceed 6%². The signing of the Association Agreement between the EU and Ukraine in 2014, which declared position on the establishment of a full-fledged free trade zone, will become an effective institutional and organizational tool for boosting foreign trade of the national agribusiness and increasing export potential.

However, without diversification of Ukrainian agriculture export, new risks and challenges may arise

¹ Угода про асоціацію між Україною, з однієї сторони та Європейським Союзом, Європейським співтовариством з атомної енергії і їхніми державами – членами, з іншої сторони.
<<http://www.kmu.gov.ua/kmu>>

² Державний комітет статистики України. <<http://www.ukrstat.gov.ua/>>

due to changes in external institutional environment and increasing competition in the free trade. Despite the fact that the European Union is ready to deepen cooperation with Ukraine (Chapter 17 of the Association Agreement EU-Ukraine) on agribusiness development and expansion of export potential, Ukrainian enterprises should consider the complexity of the external institutional environment, when developing a strategy to enter the European market. First of all, there is significant difference between the concepts of “association” and “associated membership”. The first one is a common concept in EU foreign policy, and the "association agreement" is a generally accepted form of consolidation of political, economic, humanitarian and socio-cultural relations and interactions between the EU and its partners. Currently, the EU has concluded an association of 19 countries (excluding Ukraine), another 9 countries have the agreement on free trade. It is countries such as Tunisia (since 1998), Morocco, Israel, Republic of South Africa (2000), Egypt (2004), Algeria (2005), Mexico (2000), Chile (2003), as well as Jordan, Lebanon, the Palestine, and others¹. The benefits and effects of the agricultural sector in these countries since the signing of the EU are as follows:

- increase of the investment attractiveness of the agricultural sector of the national economy after the signing of the Agreement and the growth of foreign direct investment in real production;
- increase of production and export capacity of national agricultural enterprises and the whole of agriculture;
- favorable conditions for accelerated development of deep processing and final product enterprises;
- implementation of measures for increasing competitive advantages of domestic enterprises and ensuring their sustainable development.

Accordingly, these countries, strengthening the competitive advantages of domestic enterprises, has acquired relevant experience of foreign trade and occupied the EU food market. Consequently, national agribusinesses in the European market come into competition with agricultural producers not only EU member states, but food exporters of third countries. In the European market Ukrainian exporters of agricultural products will compete with world leaders in food exports - the USA, Brazil, Canada, Argentina and China.

Besides high competition, national agribusiness has to overcome the certification barriers in the European market. However, possession of European certificate simplifies market penetration in Asia, Africa, Latin America and others for national agribusiness. Regarding the implementation of European standards in the field of national agricultural production, this process is quite complex and prolong. First, to ensure product quality in line with European standards, from 50% to 70% of fixed assets are to be replaced. The renewal of fixed assets of the agricultural sector requires substantial financial resources that they (especially small and medium agribusiness) do not have and loans are not available. So, there is a situation where EU export for most companies in the industry is problematic. As it turned out, the majority of enterprises can not use the opportunities of free trade. In order to obtain the quota ones should fulfill a number of requirements related to product certification and comply with the technical, sanitary and phytosanitary regulations of the European Union, namely HACCP (Hazard Analysis and Critical Control Points); ISO (providing a unified system of production standards); Global G.A.P. (focuses on agriculture, especially the use of water, taking into account social and environmental criteria). The Association Agreement introduced quotas for the supply of certain product groups for Ukrainian agriculture.

The analysis of export industry in the EU shows that within the quota allocated to Ukraine only 20% of agricultural production was exported (in 2014), i.e. from 4,25 million tons within the quota 845 thousand tons were placed on the European market. During the analyzed year Ukrainian farmers have used only 4 quotas of the total 26. In fact, 100% of quota was used for Ukrainian honey, juices, cereals, flour and oats. In 2015 the number of Ukrainian agricultural products within the allocated quotas has increased compared to the previous year. During the year quotas on exports of wheat, corn, poultry, honey, barley flour and cereals, processed tomatoes, fruit juice and oats were completely fulfilled. Partially used quotas for commodities were such as sugar (98%), barley (77%), malt and wheat (73%), bran, waste and residues (22%), processed products with sugar (16%), starch (9.8%), garlic (8.8%) and others².

The main factors that hinder the penetration of the European market for agribusinesses are: mismatch between state and the EU system of quality control, sanitary and phytosanitary standards; low quality products; lack of experience and lack of understanding of target markets; low information support; lack of

¹ Інформація щодо угод між країнами ЄС та іншими країнами. <<http://eeas.europa.eu>>

² Державний комітет статистики України. <<http://www.ukrstat.gov.ua/>>

government programs and institutes for the development of agricultural exports and so on. This explains the lack of improvements in the dynamics of exports of agricultural products to the EU market and facilitating access of Ukrainian goods to the European market after the signing of the Association Agreement. Thus, small and medium agribusiness left aside from the European integration. Farms, small and medium agribusiness are unable to compete in export niches with agricultural holdings in the European market.

In its turn, big agribusiness is not particularly interested in spending additional financial resources to penetrate the foreign market as capacious domestic market and lack of competition allows obtaining high effect without improving the quality of products. In this case, when the Ukrainian agricultural products do not meet European standards, reduction or abolition of duty does not significantly affect the performance of the industry. In addition, the national agricultural management does not have sufficient experience and skills in the European market to promote products and expand markets.

Different legal forms of business associations in agriculture have significant influence on the formation of the institutional environment in transforming the socio-economic system and the deepening of integration in Ukraine. In addition, the current problems of agriculture and rural development (low efficiency of agricultural production, low productivity, high unemployment, poverty and social decline of rural infrastructure, agriculture deindustrialization (agricultural enterprises are equipped with technology on 45-59%), etc.) require the introduction of new institutional mechanisms of management. The institutions and institutes of internal environment should aim at sustainable development of agricultural production, increase of its export potential.

The analysis shows that in the recent years the absolute number of farmers, small and medium-sized agricultural enterprises has sharply reduced. So, starting from 2012 (49415 units) of the total number of farms dropped to 4537 units (2015). In particular, the number of small and medium enterprises decreased from 4220 to 3627 units over the period; farms from 34,035 to 32,303 units and cooperatives from 848 to 596 units. Accordingly, the structure of agricultural commodity production has changed in the country. In 2000 the share of small agricultural business in gross farm production was 61.8%, than in 2015 it dropped to 43.8%. The process of reducing the number of business entities is caused by specific negative trends Ukraine. Massive concentration of the agricultural production and capital occurs spontaneously without public institutions intervention.

In these conditions, the majority of small and medium agribusinesses emerged or came under the control of powerful national agro-industrial units (holdings). This process can be considered positive from the standpoint of foreign economic activity of the industry and enhance its export potential. On the other hand, production overconcentration (a process already completed in Ukraine) causes monopolizing the domestic land market and agricultural market. They displace traditional forms of agricultural production (agricultural enterprises and farms that are organic to the countryside and its infrastructure). Formation of new forms of agricultural production requires the creation of appropriate institutional environment and effective institutions. The role of government and regulation is crucial during the transformation of socio-economic system. First of all, agricultural regulatory policy should be aimed at preventing monopolization of land market and agricultural market as well as keeping fair competition. It should provide equal economic conditions for agricultural enterprises of different types and implement effective institutional and organizational mechanisms to enhance the export potential of enterprises and agriculture sector in general.

The negative consequence of excessive concentration of agricultural production is low effectiveness within industry. Typically, each of existing holdings focuses on production of a limited range of crops, mainly oriented for export. It is mostly grains and industrial crops exported as raw material for further processing and production of food. Hence, domestic farmers (and state) suffer losses because they don't receive potential benefits from processing agricultural raw materials and then export the finished products to foreign markets. If we analyze the exports of wheat and corn on the European market (wheat exported 37.4 million tons, and corn – 19.04 million tons), than potential loss (for every 100 thousand ton of raw materials export 25 million UAH is lost) of Ukrainian farmers have made a total of over 1.8 billion USD annually.

For example, importers of EU countries bought seeds and oleaginous fruits (in 2015 exported to foreign markets subjective Ukrainian foreign trade of almost 1.4 billion USD) and obtained more than 700 USD value added at each tone after processing. Gaps in national institutional environment of foreign economic activity substantially reduce efficiency of the export potential of agriculture in Ukraine, while preserving raw agricultural export orientation. The inefficiency of the institutional environment of transformation economy is conditioned by its unstable intermediate position between the open competitive

market economy and centralized management and control, when the organization of socioeconomic processes carried out in the narrow corporate interests. As a result, a high degree of monopolization of the internal market is present, which directly affect the competitive position of small farmers.

Moreover, national agricultural monopolies receive for more than two-thirds of the funds from budget allocated to support domestic agricultural production. Under these conditions, it is still problematic to talk about the efficient development of all national agribusiness, enhancing their export potential, or the innovative development of Ukrainian agriculture, even under the Agreement on association with the EU.

Under conditions of high corporate domination of monopolies, legal regulation of the agricultural market in Ukraine is changing very slowly, and in some areas may trigger the development of negative social and economic processes in the organization of agribusiness and rural development. The analysis of internal and external institutional environment demonstrates the lack of conditions for radical reform of the agrarian sector of Ukraine. Quick diversification of agricultural exports from Ukraine and a sharp increase in food and commodities with high added value to the European market is not likely in the near future. We can predict that, despite the inevitable evolutionary transformation of economic nature, the structure of Ukrainian exports of agricultural products in the EU will remain at current level in the coming years.

Transformation processes of national socio-economic system significantly affect the composition and structure of internal and external institutional environment. In Ukraine, along with the formation and operation of institutions of a market economy remains the macroeconomic impact of socio-economic legacy of the planned economy institutions. The functioning of the latter determines the efficiency of economic interactions and relationships between entities in the agricultural sector of Ukraine. Practical implementation of the Agreement between the EU and Ukraine should cause a radical change in the internal and external institutional environment for all of the national agribusiness and for businesses involved in foreign economic activity.

Theoretically, for enterprises actively involved in foreign trade activities in agricultural sector the main barrier is in scheme: "organization of production" in Ukraine and "selling products" on the European market. While implementing into practice, there appears much more organizational, economic and institutional issues (especially for farmers, small and medium agribusiness). These issues are shaped by, above all, weak institutional support for their economic and foreign trade capabilities. Internal and external economic activity of enterprises of foreign economic activity is influenced by macroeconomic pressures of inherited economic system, whose elements preserved and have operated during the transformation. Segments of the institutional infrastructure practically impede the development of agribusiness and weaken the domestic agricultural enterprises competitiveness. On the other hand, immature and poorly-functioning institutions of a market economy adversely affect the ability of agricultural enterprises to compete in domestic and foreign agricultural market. Regarding national output of agricultural enterprises on the European market, Ukrainian agricultural producers will be affected by supranational institutions of the EU, laws, rules, requirements, regulations, etc., which operate on the common European market. In fact, all the goods imported into the customs territory of the EU must necessarily meet all the requirements of the European Union. These requirements can be grouped in the following areas: technical requirements; environmental requirements; requirements in the field of sanitary and phytosanitary measures.

In addition, certain products have to meet EU marketing standards and applied import restrictions. National agribusiness, which focuses its activities on the European market must build its social and economic export-oriented interaction and relationships with multiple, different in their nature and structure of the institutional environment, which are: internal social and political institutions of socio-economic transformation; institutions of the open economy and market relations; external supranational institutions of integration and globalization. Moreover, domestic agribusinesses towards the European market must overcome a number of internal production problems that directly affect their competitiveness. The main ones are: low level of intra-industry competition; oligopolistic national agricultural market; dependence on imports of certain technologies and raw materials; a high level of "shadow" sector of agricultural production; low technical and technological support for the industry and so on.

Important role in domestic and foreign institutional environment exporters take coercive institutions of all established formal or informal rules. D. North states that such institutions create certain boundaries in the middle where people interact with each other, namely formal limitations as clearly prevailing regulations; certain procedures to identify deviations from established rules and so on. In their structure the author identifies three main elements:

- 1) informal constraints (traditions, customs, various social conventions);

2) formal rules (constitution, laws, judicial precedents, administrative acts);

3) enforcement mechanisms to ensure compliance with regulations (courts, police, etc.).

At the national level such law enforcement can be endowed by the state. It creates institutions and gives the features that allow them to establish "rules of the game" in all areas of socio-economic development and supervises their implementation. Proponents of institutional theory in the vast majority belong to the enforcement mechanisms of legal entities, law enforcement, fiscal and more.

For businesses, the concept of institutes is associated primarily with external rules and regulations that actually function as coercion. These formal institutes are regulated by the established legal norms, rules and regulations, and informal institutions are determined by conventional rules and regulations.

In the context of our research and analysis, it is recommended to give detailed description of the external institutional environment, including basic mechanisms and tools that allow influencing the behavior of economic agents and directing it into the mainstream of the European integration. In particular, the mechanism of domestic exporter's enforcement, based on the Association Agreement, is considered as a set of regulation, licensing, certification, quotas and other measures and methods of integration, institutional, organizational and legal regulation. It also includes the classic mechanisms of market economy: antitrust regulation, pricing, budgeting, credit and fiscal methods. As means of coercion, in addition to economic responsibility, prohibitions, sanctions, financial compensation, prescriptions and other penalties, standards of technical regulation, taxation, transaction fees and more are considered. Therefore, while assessing institutional framework to ensure foreign economic activity; great attention should be paid not only to formal and informal institutions, but also to the mechanisms and instruments of coercion.

The points of the Agreement about import duties for Ukrainian exporters of agricultural products in the European market are to be analyzed. The ease of customs and tariff regime for Ukrainian exporters, which is defined in the Agreement, is offset by other volume barriers for domestic exports to the EU. We mean the quota regime and technical regulations for the products of Ukrainian exports as well as significant competition barrier. So, low rates of import duty in the EU for Ukraine for agricultural products and food industry will have no commercial sense for farmers, small and medium agribusiness, as their current financial and economic situation does not allow introducing in the production high European standards of technical regulation. The introduction of tariff liberalization for Ukrainian exports does not eliminate other trade barriers. Non-tariff barriers applied to exporters are the following: differences in technical regulations, standards, conformity assessment systems, quality control systems and safety and so on. For manufacturers and exporters it is complicated to follow not only UE required product quality and safety requirements, but also to match the appropriate standards in Ukraine. Furthermore, as the state and the relevant exporters must obtain permission to export such products in the European Union.

In 2016 Ukraine received permission to export basic commodities (poultry, eggs, milk and other milk products), animal products and fish and honey. Among other non-tariff barriers faced by Ukrainian exporters, there is the administration of tariff quotas. This issue is relevant for 20% (of the total exported by the EU) Ukrainian agricultural products. Importantly, domestic exporters do not receive this license, but rather a European importer of Ukrainian products. In the European Union, along with measures of non-tariff regulation of the administrative and technical, there is a practice of private standards. The application of such standards initiated was initiated by private commercial sector, which are outside the European legislation and regulation based on social and ethical principles. In particular, the condition of cooperation with the European trade network is the need to comply with certain social, economic, environmental and moral principles in the production of goods in developing countries. The emergence of such a non-tariff barrier caused by the influence of consumers seeking to purchase products, for example, is made in compliance with labor standards and causing minimal damage to the environment. Ukrainian exporters in the European market should take into account the likelihood of such non-tariff barriers that are created by the private sector and are not regulated by national law and supranational European Union.

Modern institutional theory gained tools of economic analysis of various phenomena and processes that occur in a transition period. The signing of the Association Agreement between EU and Ukraine led to the institutional environment transformation of national foreign trade enterprises. The essence of the institutional environment of agricultural enterprises lies in the organization and accelerated development of formal and informal institutes of cooperation and mechanisms to encourage, regulate, control and coercion, where the main role play is played by supranational European bodies and the state.

Conclusions. External and internal institutional environment of agricultural enterprises of Ukraine involved in foreign economic activity is in a state of transformation and is characterized by asymmetric

internal structure and contradictions, significant correlation between the efficiency of foreign trade enterprises and institutional capacity of public institutes. Modern vector of the institutional environment does not fully meet the demands and needs of national agribusiness and significantly deviates from European theoretical and empirical gains. Adaptation of national standards of agricultural products and infrastructure of domestic agricultural market allows accessing the EU market for domestic producers, which is a precondition for the deepening of the European integration. While deepening the process of institutionalization of international economic activity, agribusinesses must achieve a positive economic impact through the transformation of informal institutions in efficient ones. And that are able to provide effective interaction and relationship between national enterprises-exporters and institutions of European community. An economic analysis of the internal and external structure of the institutional environment of foreign enterprises of the agricultural sector and infrastructure to ensure their penetration of the European market can be promising directions for further research.

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