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## **DEVELOPING THE EXPORT POTENTIAL OF DOMESTIC ENTERPRISES IN TERMS OF EUROPEAN INTEGRATION**

### **РОЗВИТОК ЕКСПОРТНОГО ПОТЕНЦІАЛУ ВІТЧИЗНЯНИХ ПІДПРИЄМСТВ В УМОВАХ ЄВРОІНТЕГРАЦІЇ**

*The effective functioning of the internal market is one of the determinants that forms endogenously oriented model of development of Ukraine. Increase the competitiveness of the national economy depends on the development of foreign economic activity, including stimulation of export potential and cooperation with strategic partner's countries. The export potential of the enterprise is the basis for the development of the foreign economic strategy, and its factors determine the procedure for the formation of the strategy. The essence of concepts of "export" and "export potential" as economic categories are considered in the article. The components of the export potential of the enterprise, the basic principles and factors of influence on it are distinguished. The dynamics and modern tendencies of export development of woodworking industry of Ukraine are investigated, key partner countries are determined. Identified factors that restrain the development of the export potential of the woodworking industry and reduce the competitiveness of Ukraine's economy on the world market. Measures have proposed to stimulate the development of export potential of domestic wood processing enterprises, the use of which, in the end, will lead to intensive development of export potential of the investigated branch. The main barriers to effective use of export potential in the field of implementation of the FTA with the EU are: outdated material and technical base and high degree of deterioration of the existing production potential; imbalance of the internal market; cost-effectiveness of wood processing in Ukraine; differences in technical and sanitary standards; the prevalence of exports of untreated wood; import dependence of the industry. The established recommendations, the introduction of which will enable to accelerate the development of export potential: export diversification; import substitution; implementation of the Institute of the Authorized Economic Operator in Ukraine; European Certification System for Wood.*

**Keywords:** export potential, enterprise, woodworking industry, development prospects, association with the EU.

*Ефективне функціонування внутрішнього ринку є однією із детермінант, котрий формує ендогенно-орієнтовану модель розвитку України. Зростання конкурентоспроможності вітчизняної економіки залежить від розвитку її зовнішньоекономічної діяльності, зокрема стимулювання експортного потенціалу та налагодження співпраці з стратегічними країнами-партнерами. Експортний потенціал підприємства є основою для розробки зовнішньоекономічної стратегії, а його фактори визначають механізм формування стратегії. У статті розглянуто сутність понять «експорт» та «експортний потенціал» як економічних категорій. Виокремлено складові експортного потенціалу підприємства, основні принципи та фактори впливу на нього. Досліджено динаміку та сучасні тенденції розвитку експорту деревообробної*

*промисловості України, визначено ключові країни-партнери. Ідентифіковано фактори, які стримують розвиток експортного потенціалу деревообробної промисловості й знижують конкурентоспроможність економіки України на світовому ринку. Запропоновано заходи щодо стимулювання розвитку експортного потенціалу вітчизняних деревообробних підприємств, використання яких, у перспективі, призведе до інтенсивного розвитку експортного потенціалу досліджуваної галузі. Основними бар'єрами ефективного використання експортного потенціалу у сфері імплементації ЗВТ з ЄС є: застаріла матеріально-технічна база та високий ступінь зносу наявного виробничого потенціалу; незбалансованість внутрішнього ринку; витратомісткість переробки деревини в Україні; розбіжності в технічних і санітарних стандартах; переважання експорту необробленої деревини; імпортозалежність галузі. Сформовані рекомендації, впровадження яких надасть змогу прискорити розвиток експортного потенціалу: експортна диверсифікація; імпортозаміщення; впровадження інституту уповноваженого економічного оператора в Україні; система Європейської сертифікації готової продукції з деревини.*

**Ключові слова:** експортний потенціал, підприємство, деревообробна промисловість, перспективи розвитку, асоціація з ЄС.

**Introduction.** The effective functioning of the internal market is one of the determinants that forms endogenously oriented model of development of Ukraine. Increase the competitiveness of the national economy depends on the development of foreign economic activity, including stimulation of export potential and cooperation with strategic partner's countries. The export potential of the enterprise is the basis for the development of the foreign economic strategy, and its factors determine the procedure for the formation of the strategy. The consequences of excessive exogenousization of the domestic market make it necessary to reconsider the priorities of its formation in the context of separate branches of production in order to implement the policy of import substitution and increase the consumption of domestic products, which will help to optimize the state of the domestic market. The development of export potential of domestic enterprises in the sphere of woodworking industry is one of the priorities of the state policy, which determines the relevance of the study of this problem.

The work of scientists is devoted to the development of export potential of the Ukrainian woodworking industry: Azrylian A. N., Seyfullaeva M. E., Deineko LV, Pinchevskaya O. O., Kovaly Ya. V., Bondara V. S., etc. However, this issue doesn't lose its relevance and needs further research.

**Setting objectives.** The main aim of the article is to study the influence of deepening of European integration processes on the development of export potential of enterprises of the woodworking industry and identification the problems of adapting Ukrainian producers to the conditions of the European market.

**Methodology.** The research was carried out using economic-mathematical, calculation-analytical, visual-graphical methods for the analysis of trends of foreign economic activity of enterprises of the woodworking industry.

**Research results.** The current stage of the Ukrainian economy's development is aimed at ensuring sustainable economic growth through the technological modernization and its structural adjustment. An important factor in the integration into the world economic community is the export of goods - the sale of goods by Ukrainian subjects of foreign economic activity to foreign business entities with the

export or without the export of these goods through the customs border of Ukraine, including the re-export of goods [1]. Implementation of exports is in the range of export potential, which is the total production capacity of a country as a whole to produce the required number of competitive products to foreign markets [2]. The basis of the export potential is the resource-raw materials base and the state of the economy, which provide scientific, technological, industrial, social and cultural development, which allows achieving steady growth of export production, taking into account market conditions [3]. The main components of the export potential are the potential of internal resources; the potential of the target foreign market and the conditions for its release; external conditions [4, p. 233].

The development of the export potential requires compliance with interrelated principles such as: ensuring the innovation and protection of intellectual property rights for the products of the exporting company; monitoring of consumer requests; constancy and adequacy of the positioning of products on the market; anticipating ways of protecting an enterprise from changes in market conditions; ensuring economic efficiency and investment attractiveness of the exporting company [5, p. 231].

The woodworking industry of Ukraine, the basis of which are forestry, logging, woodworking and other enterprises of forest resource management, is an important component of the state's economy. The total forest area of Ukraine is 10.8 million hectares, of which 9.6 million hectares are covered with forest vegetation. Forestland is 15.9%. Forests of Ukraine are subordinated to a significant number of ministries, departments and organizations. The largest of them are State Forestry Agency of Ukraine - 73.0% of forests, local government - 13.0%, Ministry of Agrarian Policy of Ukraine - 5.0%. About 8% of forests (0.8 million hectares, including 0.4 million hectares of field forest bands) are located on the lands of the village councils and are not using [6, 7, 8].

The implementation of the Association Agreement between Ukraine and the EU opens new opportunities for Ukrainian woodworking companies, such as: access to new segments of the external market, simplification of access of Ukrainian producers to the EU market, and the conclusion of new contracts. In addition to the mentioned, the favorable opportunities for developing the export potential of the industry are compounded of additional benefits: cheap labor and natural resource potential, which are prerequisites for the effective development of exports of the woodworking industry. At the same time, the market for wood products in the European Union has a tendency to a dynamic expansion, according to the UN Economic Commission for Europe, in 2016 the deficit of the round forest was 77 million m<sup>3</sup>, lumber - 8.1 million m<sup>3</sup>, wood fibrous semi-finished products - 7.7 million tons, that increases the importance of the implementation of the conditions of the FTA with the EU for products of the Ukrainian woodworking industry [9, p. 98].

The study of dynamics of the commodity structure of the foreign trade of ukrainian woodworking industry for 2012-2016 is conducted (Fig. 1).

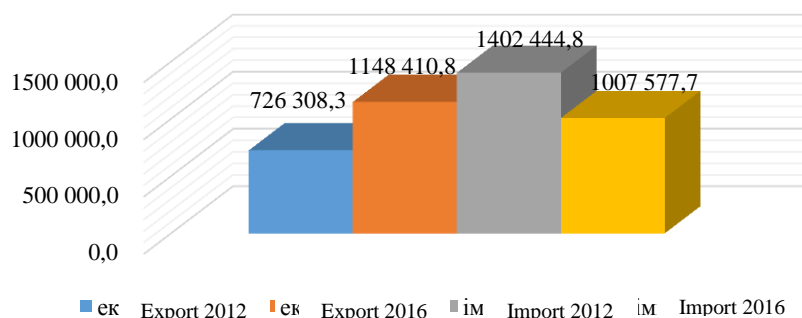


Figure 1 - Foreign trade in products of the woodworking industry, 2012-2016, thousands USD

Source: compiled by authors based on [10]

Ukraine's woodworking industry is one of the most export-oriented industries. In 2016, woodworking enterprises exported wood and products from it on the total amount USD 1148.4 million (it is 8.5% of total exports of goods from Ukraine to the EU), compared to 2012, the figure increased by 58.1% (by USD 422.1 million). The indicated dynamics is a consequence of the growth of trade in the studied product categories (except for straw products), in particular: exports of wood and products from it is increased on 40.5% (on USD 226.1 million), crust and articles from it - 78, 3% (on 0.03 million USD), mass of wood in 13 times (by USD 7.3 million), paper and cardboard - 23.3% (by USD 14.3 million), printed materials in 4 times (by USD 12.3 million), furniture - in 2.5 times (USD 162.2 million) (Fig. 1).

The total imports of the studied categories in 2016 was amount USD 1007.6 million (5.9% of the total import of goods from the EU), during the researching period was decrease on 28.2% (on USD 394.9 million) (Fig. 1). The noted tendency is investigation of reduction of import of wood and wares from it, to the paper and cardboard - on 23.7% (on USD 209.1 million), manufacturing - on 46.8% (USD 94.7 million).

It should be noted that the woodworking industry is import-dependent, since most of the component parts are imported from abroad, such as: furniture, wood chipboard and wood-fiber boards (used in furniture production), pulp and paper mass (for paper production), etc., for which are additionally paid import duty in the amount of 10% of the value of the goods, which is included in forming of the cost of finished products. This weakens the competitiveness of domestic products and increases the importance of import substitution in the industry. The export coverage ratio for imports of the investigated category in 2016 was 114.0%, in 2012 the value of the indicator was negative - 51.8%.

The research of commodity structure of trade by products woodworking complex of Ukraine after 2016 is presented on Fig. 2. Basis of commodity structure of export to the countries of ES of woodworking, pulp and paper and furniture industries in 2016 is made: wood and wares from it – 68,0 %, paper and cardboard – 7,0 %, printing products – 1,0 %, furnitures – 23,0 % (Fig. 2).

The study of the commodity structure of foreign trade in products of the woodworking industry of Ukraine for 2016 is presented in Fig. 2. The basis of the commodity structure of exports to the EU countries of woodworking, pulp and paper and furniture industries in 2016 is made up of wood and goods made of it - 68.0%, paper and paperboard - 7.0%, printed matter - 1.0% , furniture - 23.0% (Fig. 2). As for the commodity structure of imports, it should be noted that in 2016 - 11,0% is made from wood and articles thereof, 3,0% - wood, 67% - paper and cardboard products, 6% - printed products, 2,0% - a cork and wares is from it, 11% - furniture.

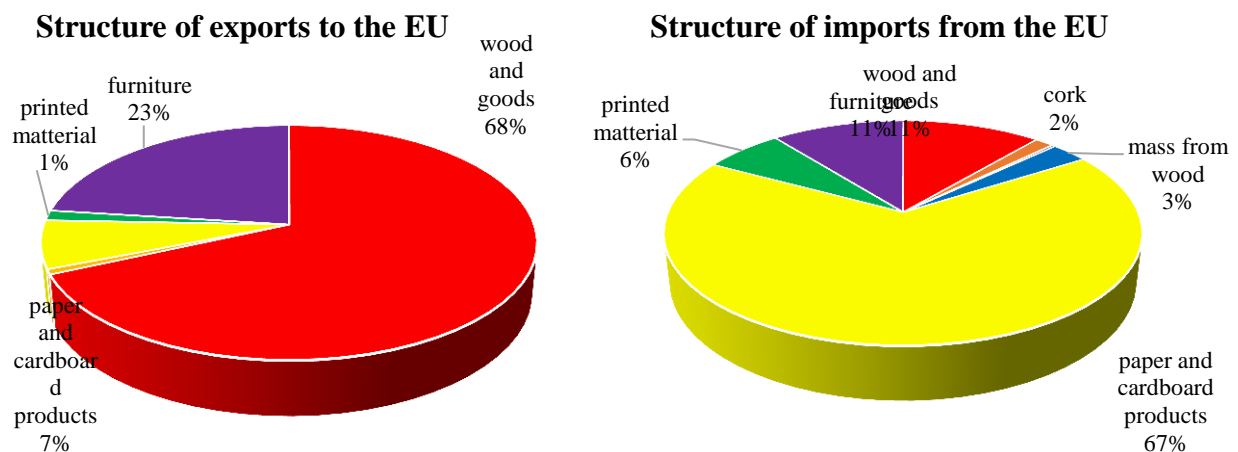


Figure 2 - Share of products exported to the EU (imported from the EU) in the foreign trade of products of the woodworking industry of Ukraine, 2016, %

*Source: compiled by authors based on [10]*

The largest export in 2016 were made to Poland - 28.5% (USD 327.4 million), Romania - 12.5% (USD 143.6 million), Germany - 12.0% (USD 137.3 million), Hungary - 6.1% (USD 70.1 million), Italy - 5.8% (USD 66.3 million), Austria – 4.0% (USD 46.0 million), Lithuania - 3.8% (USD 43.3 million), Slovakia - 3.1% (USD 35.3 million), Czech Republic - 3.0% (34.1 million) USD), Belgium - 2.9% (USD 33.2 million). These countries account for 81.7% of the total exports of the studied categories in 2016 (table) [10].

Ukrainian wood products, pulp and paper and furniture industries are imported from Poland - 19.7% (USD 198.8 million), Germany - 16.9% (USD 170.0 million), the Netherlands - 15,6% (USD 157.1 million), Finland - 8.7% (USD 87.4 million), Sweden - 7.3% (USD 73.2 million), Austria - 5.4% (USD 53.9 million), Italy - 4.6% (USD 46.3 million), Romania - 3.4% (USD 34.2 million), Portugal 3.1% (USD 31.4 million), Hungary - 2.3% (USD 23.5 million) [10].

During the analyzed period, export to Poland increased on 61.5% (the share of total exports of the country increased from 7.9% to 14.0%), which is the result of an increase in exports of wood and articles of wood on 47.0% (share exports make up 57.4% in the total exports of the woodworking industry), furniture in 2.5 times (the share of exports is 37.0%). However, there is a negative tendency to reduce the export of paper and paper products - on 36.5% (export share - 5.2%). An important

partner in the volume of export supplies is Romania the total exports of the product categories under study increased on 84.2% (the share of total exports increased from 14.1% to 20.0%), the main export item is wood and articles made from it - 89,5% (has a positive dynamics of growth on 92,4%). The TOP-3 exporters include Germany, export grew on 73.9% (share in total country's exports increased from 4.8% to 9.6%), the positive dynamics was the result of an increase in exports of wood and articles of wood on 19.3 % (export share - 63.3% in the total export of the woodworking industry), furniture in 9 times (export share - 28.5%), paper and cardboard in 8 times (export share - 6.5%).

For Hungary, Italy, Austria, Lithuania and the Czech Republic, the prevalence of exports of wood and articles of wood is 79.7% to 97.1% (Fig. 3). It should be noted that Belgium is one of the strategic partner for domestic enterprises, exports are insignificant - 2.9% in 2016, but the share of furniture exports is 41.2% and during the period researching period, furniture exports increased from USD 152500 to USD 13686900.

Thus, the positive trend in the export potential of the woodworking industry is the growth of exports of paper and paperboard (23.3%), printed materials (in 4 times) and furniture (in 2.6 times). In 2016, Ukraine exported furniture to the EU countries the total amount USD 264.1 million, which is 66.4% of the total export of Ukrainian furniture, is the result of attracting investment in technology and modernizing furniture production [9, c. 102]. The largest buyers of Ukrainian furniture in 2016 were: Poland – USD 121.6 million (46.0% of total exports), Germany - over USD 39.1 million (14.8%), Belgium - USD 13.7 million (5.1%), Italy - USD 8.7 million (3.3%).

In order to overcome the export disproportions, the Law No. 3246 "On the peculiarities of state regulation of activity of business entities related to the sale and export of timber" was adopted with regard to the temporary (for a period of 10 years) prohibit on the export of unprocessed timber wood species, except pine, which came into effect on 1st Nov. 2015 (Law of Ukraine dated April 9, 2015 No. 325-VIII) [11]. The temporary ban on the export of pine wood species has entered into force on 1st Jan. 2017. However, this has led to an unsatisfactory assessment of EU timber importers, as the moratorium is a restriction on free trade and is in contravention of Ukraine's international commitments within the framework of the WTO and within the framework of the Association Agreement between EU and Ukraine (Article № 35).

Let's consider the consequences of the ban on the export of unprocessed timber. On the one hand, the official data of the moratorium show that it works in the interests of the Ukrainian economy, since the volume of export of unprocessed timber actually decreased and exports of wood processing enterprises increased, tax revenues from the industry increased, and the export of woodworking equipment increased in three times. However, the moratorium, even in the short term, didn't justify itself, since the export ban didn't contribute to the achievement of the goals of preventing illegal logging, although in 2016 exports of logs fell twice, but still the export of raw wood in the form of firewood or other wood products is continuing and the deforestation is growing (the moratorium is more in keeping

with the needs of some interested groups in the wood industry, allowing them to receive exclusive and unrestricted access to the forest resources) [12].

In the long-term, the moratorium may have even worse impact because it doesn't solve either economic or environmental issues and will contribute to inhibition of the development of the timber market and the implementation of sectorial reforms. Therefore, additional measures are needed, first of all in the field of reforming the system of state forestry, organization of harvesting and sale of forests.

Today, the technical level of the development of the woodworking industry doesn't allow use of the export potential of the FTA with the EU in the area, as there are certain problem aspects and obstacles such as [9, 100-102]:

1. There is an outdated material and technical base and a high degree of deterioration of the existing production potential, which prevents the production of high quality products in accordance with EU standards.

2. The misbalance of the domestic market, characterized by unsatisfactory demand for round timber, is due to the lack of production capacities for the processing of certain varieties of forest raw materials.

3. The cost-effectiveness of wood processing in Ukraine: rising prices for unprocessed wood and electric energy, and overpriced transportation tariffs for Ukrainian producers.

4. Differences in technical and sanitary standards, the system of standardization and certification and distortion of competition conditions in the EU. The EU regulation requires from enterprises that place timber products on European markets compliance with the requirements for: product safety (Directive 2001/95/EU); liability for defective products (Directive 85/374/EU); packaging and packaging waste (Directive 64/62/EU). For all types of wood, regulations should be applied regarding: the legality of timber products (Reg. EU995/2010); FLEGT Licensing Schemes (Reg. 2173/2005).

5. The prevalence of exports of raw wood, indicating Ukraine's loss of potential economic gains and the import dependence of the industry.

Taking into account the mentioned problem aspects of realization of export potential by domestic enterprises of the woodworking industry on the EU market and a number of factors that determined the current situation, possible measures have been formed, the introduction of which will enable to accelerate the development of the export potential of the industry:

1. Growth of the export base and export diversification, namely: development of export of products from high-quality wood. It is important for an effective regulation of foreign instruments by which the possible successful implementation of the Agreement on cooperation with the EU, which ultimately stimulate the development of woodworking industry. For example, the reduction of duties on imported equipment and components, which will promote the modernization of the industry. It is important to create a center, which will help and give a consultation for exporters to inform European companies about the proposals Ukrainian producers, exporters meeting in the format B2B, participation in programs of international technical assistance.

2. Carrying out of import substitution in woodworking and pulp and paper industry, which is a significant lever of minimizing risks for the domestic manufacturer. At the expense of the introduction of state, regional and branch programs of import substitution, which will facilitate the coordination of the use of forests and will make the development of public-private partnership as a promising form of cooperation among the participants of the domestic timber market.

3. Facilitation of meeting the requirements of technical and sanitary standards through the introduction of the institution of the authorized economic operator in Ukraine, which was established by the World Customs Organization in 2005 through the adoption of the Framework Safety and Trade Facilitation Standards. The status of authorized economic operator for the exporting company has significant synergistic effects: simplification of customs procedures, accession to the international chain of safe deliveries; minimizing customs control of goods and reducing the time of crossing the border.

4. The introduction of European wood products certification, which takes into account the complex of ecological, economic and social aspects of wood processing and safe forest management (the European Forest Certification System (PEFC) and the Forest Stewardship Council (FCS), which will enhance confidence in Ukrainian wood products and will allow to gain competitive advantages in other vectors of international trade. Additional advantages when exporting wood products to the EU can provide eco-labels for wood furniture and wood flooring, which provides voluntary terms of exports to the EU.

**Conclusions.** Taking into account the research of export potential of domestic woodworking enterprises, it should be noted the positive dynamics of growth of exports of goods to the EU countries in 2016 on 58,1 % compared with 2012. The basis of the commodity structure of exports to the EU countries is wood, pulp, paper and furniture. The branches in 2016 comprise wood, articles made of it - 68.0%, furniture - 23.0%, paper, and cardboard - 7.0%, printed materials - 1.0%. The coverage ratio for exports of industry imports in 2016 amounted to 114.0%. The largest export deliveries were made to Poland - 28.5%, Romania - 12.5%, Germany - 12.0, Hungary - 6.1%, Italy - 5.8%, Austria - 4.0%, Lithuania - 3, 8%, Slovakia - 3.1%, Czech Republic - 3.0%, Belgium - 2.9% (81.7% of total industry exports in 2016).

The main barriers to effective use of export potential in the field of implementation of the FTA with the EU are: outdated material and technical base and high degree of deterioration of the existing production potential; imbalance of the internal market; cost-effectiveness of wood processing in Ukraine; differences in technical and sanitary standards; the prevalence of exports of untreated wood; import dependence of the industry.

The established recommendations, the introduction of which will enable to accelerate the development of export potential: export diversification; import substitution; implementation of the Institute of the Authorized Economic Operator in Ukraine; European Certification System for Wood.



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