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DEVELOPMENT OF INTEGRATION PROCESSES IN AGRICULTURAL PRODUCTION

Summary

To restore the economy of Ukraine it is necessary to develop agricultural production on an intensive basis, which will ensure food security of the country, as well as to realize the competitive advantages of the country on world food markets. It is determined that integration is aimed at ensuring the continuous functioning of all types of reproductive technological chain (production of raw materials, storage, processing and sales of released products to consumers). The principles of formation of integration system of production and processing of agricultural products to implement the tasks of its modern development were determined. It is proved that a promising direction to improve the efficiency of production and processing of raw materials is the creation of an agricultural financial group (AIFG), which includes several associations of enterprises, as well as an insurance company and operating bank, which will be independent participants of AIFG. During the formation of the agroindustrial financial group, a possible cash flow between its members was suggested.

Introduction

In the modern conditions of globalization in the world economy there is an increase in competition, which is typical for all countries and sectors of national economies. The development of market activity in the country is accompanied by processes of creation of new enterprises and brands, which leads to further intensification of competition. Domestic producers are forced to compete not

only on the domestic but also on the foreign market. One of the reasons for low competitiveness of domestic enterprises is insufficient activity in the struggle to expand their share on the domestic and foreign markets, promote their goods and win consumer loyalty. In this regard, there is an urgent need to improve the competitiveness of Ukrainian manufacturers, which should be an important priority in their competition policy.

The development of market relations requires enterprises to improve the efficiency of production, competitiveness of products and services through the introduction of scientific and technological progress, efficiency of management and production management forms, increased entrepreneurial activity. Therefore, at the present stage of economic development, it is particularly important to address the issue of creating integrated structures in various industries.

The reason for this is low production efficiency and uncompetitive producers of goods. More and more companies are finding opportunities to create a structure that is based on the factor of technology and production efficiency.

Currently, this problem is most urgent for agricultural producers with low energy security, high depreciation of fixed assets, low profitability of production and technological culture. This leads to the fact that in such an economic state, enterprises cannot not only develop, but even maintain the previous level of production. Therefore, it is necessary to look for ways to solve the economic problems of the agro-industrial sector.

The prerequisites for economic integration are a shortening of the product life cycle, diversification of consumer demand, increased competition on a global scale and, accordingly, significant risk in decision-making and a high level of adaptation to constantly changing conditions.

Part 1. Theoretical foundations of integration processes: factors and principles

The essence of competitiveness management involves constant evaluation and monitoring of changes in the enterprise, as well as maintaining its ability to survive and develop in an unstable environment [1; 2]. A competitive agro-industrial enterprise must not only outperform its competitors in terms of more effective use of internal potential, but also respond flexibly, adaptively to external opportunities and threats.

Competition, as an inherent attribute of the market, has become a necessary condition for the existence of a market economy [3; 4]. Within the framework of the behavioral concept, economists see competition as a permanent mechanism of free competition, competition between producers, enterprises, firms for the most favorable conditions of production and sale of goods in order to achieve the best results of their business activities. According to the structural interpretation of competition, the emphasis is placed on the analysis of the structure of the market as well as the conditions that dominate it. The functional approach to the treatment of competition considers it in terms

of its functions and the role it plays in the market process. From the point of view of a systemic approach, market competition is an economic system that includes a number of competing entities and the environment that creates the conditions for the functioning of these entities.

Rivalry, as one of the types of interaction between subjects, occurs when competitors operate in a certain area of economic relations. If the subject of rivalry is of exceptional importance for the life of subjects, the struggle becomes more rigid. The other extreme of competitive relations is mutually beneficial cooperation, which depends on the influence of external conditions on the activities of business entities and their capabilities.

Competitive advantages are important and integral components of competitiveness, testifying to its factor nature. The analysis of epistemological preconditions of the categorical content of competitive advantages allowed to determine several stages in its evolution. The first stage is associated with the emergence of the theory of absolute advantage, when the market is dominated by countries with the most favorable climatic conditions. The idea of comparative cost theory is that in the exchange process preference is given to those countries that create products with lower costs. According to the theory of comparative advantage, the country exports goods, in the production of which the most effective use of surplus factors, and imports goods with scarce factors of production. The modern stage of evolution is characterized by the emergence of the concept of competitive advantage, and competitiveness reflects the ability of an entity to compete on the basis of competitive advantages.

The competitive status of the producer affects the development and selection of strategic management decisions in the area of competitive advantage. Different types of producers vary in size and market share. They also differ in internal capabilities, which together with the nature and strength of external influence affects the process of formation of competitive advantages and leads to the creation of their characteristic types. Thus, each of variants is characterized by individual types of advantages, which are determined by the existing combination of external and internal factors. The change in the competitive status of the producer as a result of the influence of external economic conditions also includes a change in the types of advantages created.

The formation and development of the agrarian economy determine the necessity of establishing close mutually beneficial relations between producers, their active involvement in the processes of economic integration. Today, agricultural production is a poorly integrated structure, and this situation must be radically changed in order to take a leading economic position both in the domestic and global markets. Given the current state of agro-industrial production, a very important way of its development is the formation of its own direction of effective integration, which would best meet the national interests, available resources, geographical location and potential of the country.

Integration promotes the expansion and deepening of industrial and economic ties, makes it possible to share resources, and creates favorable conditions for joint business activities. Integration management is the realization of socio-economic benefits from the joint interaction of subjects of integration, creating conditions for the use of benefits and improving production efficiency by dividing the technological process into separate technological stages, which are interrelated in the reproduction process. Integration (*integratio*) is a state, meaning the connection of separate differentiated parts into a unified whole, as well as the process that leads to the formation of such a state [5].

An integrated corporate structure may be represented by a group of independent businesses that work together by combining assets or establishing a contractual relationship to obtain a desired result. Its main task is to achieve competitive economic advantages by increasing synergies, productivity, diversification and rational specialization of production, reducing overheads, increasing the level of management.

The essence and importance of integration is that the production and delivery to the final consumer of food products is organizationally a complex system of industries, including agriculture, harvesting, transportation, storage, processing and marketing products. This system is called the food subcomplex. But all these sectors are currently separated from each other in their development by factors of logistics, financial and credit support, pricing, and so on. Such an unbalanced system of management in the agricultural sector of Ukraine has led to imbalances in the development of its industries and the associated losses of products, inefficient use of production resources, reduced food consumption, high prices for them, and thus reduce the welfare of the population.

Administrative measures to reorganize management structures have not eliminated the causes of imbalance in agricultural production and its low efficiency. Therefore, the solution to this problem is to strengthen the integration of agricultural production with processing and service enterprises by creating agro-industrial enterprises, agro-industrial complexes and agro-industrial associations. However, for a long time the administrative principle prevailed in the organization of these formations, without taking into account the economic interests of agro-industrial formations, and the liberalization of pricing led to the final collapse of agro-industrial formations. Production and economic ties between enterprises in various sectors of the agro-industrial complex, between agricultural companies and processing enterprises have been destroyed.

The monopolistic position of processing enterprises and enterprises servicing agricultural production led to the establishment of low prices for raw materials and high prices for the final products (works, services), which compensated monopolistically high costs and ensured excess profits. With the existing disparity of prices for the products of the processing industry and agricultural raw materials, the production of a number of agricultural products,

especially livestock in agricultural enterprises became unprofitable, which led to a decrease in its volume.

The current situation in agro-industrial production in general requires a solution to the issue of improving efficiency through the formation of integrative associations. The need for effective agro-industrial integration is dictated by the possibility of creating a more modern system of economic relations with a fair distribution of total income between its subjects, which is necessary to improve the entire reproduction process at the scientific level. This is confirmed by world experience in agriculture, where cooperation and integration have been strongly developed and are an important condition for scientific and technological progress and efficiency in the agricultural sector of many Western countries and the United States [6; 7; 8; 9].

The importance of integration formations is determined, first, by the possibility of minimizing the technological cycle, and second, by the effect of scale, when, as production grows, there is a transition from a loss-making production area to a profitable business area. In traditional entrepreneurial activity, agricultural enterprises sell agricultural products at prices that take into account transaction costs and tax burdens. In turn, the following subjects of the technological chain of distribution of final products to the consumer, sell their product, taking into account additional production, commercial costs and other deductions. There may be several such links in the technological cycle before the sale of the final product. The consequence of these processes can be considered layering, a sharp increase in costs and a corresponding increase in prices [10]. These problems can be solved by creating integrated business structures.

The development of integration processes in agro-industrial production will contribute to the gradual organizational unification on a parity basis of individual cross-sectional specialized producers, acting within the existing social division of labor, in a single production and legal integrated structure. Integration will ensure the continuous work of all the formed links of a single reproductive technological chain: production of raw materials, storage of raw materials, processing and sales of released products to consumers. According to A. Harasym, the constant deepening of specialization of enterprises in integrated systems objectively determines the development of economic and financial ties, interdependence, up to organizational, technological and economic-legal merger into one unified agro-industrial association [11].

Building an integration formation involves the establishment of vertical ties based on contractual relations between formally independent integration participants. The proposed composition of such formation is shown in Figure 1.

To increase the interest of agricultural producers, processing companies often provide commodity credits for the purchase of equipment and other tangible assets to ensure the technology of production in accordance with modern requirements for the organization of the production process. The study also suggested the following set of measures to improve the system of

integration with the participation of agricultural producers and processing enterprises: crediting of stocks; a premium on the purchase price for quality, volume of production, delivery time, variety and chilling; incentive bonuses for integration, etc.

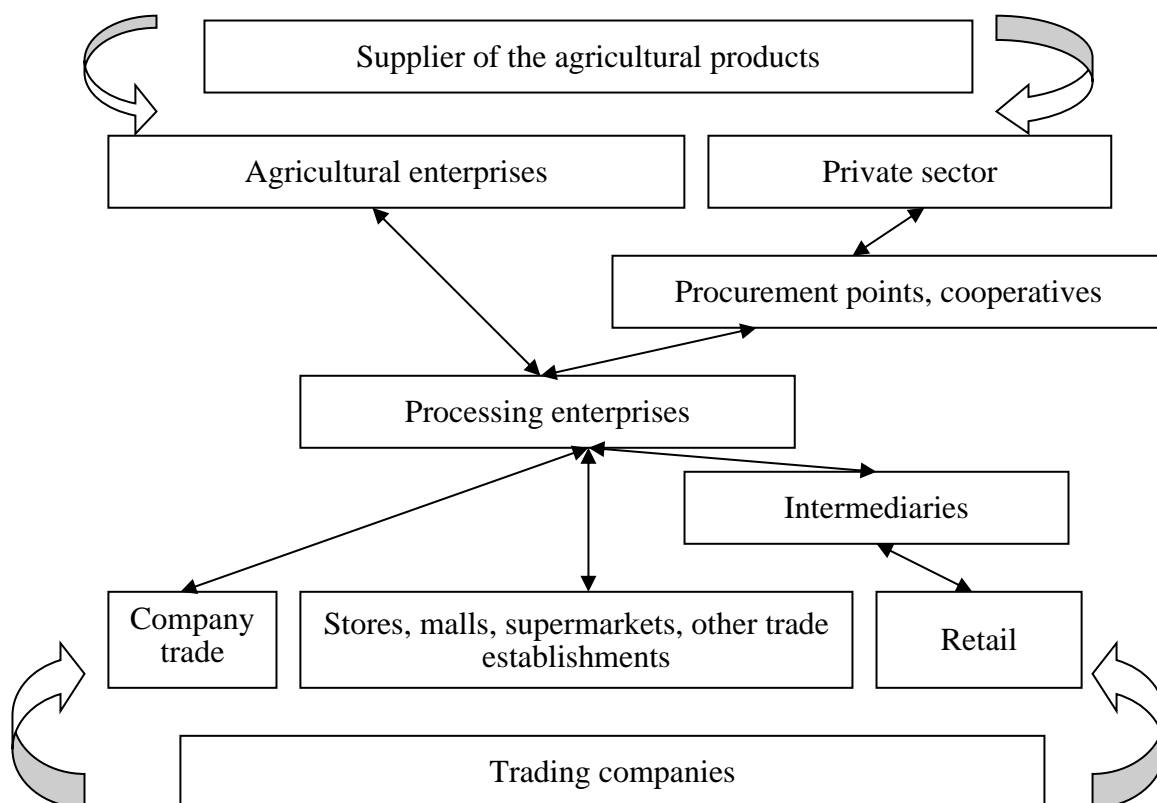


Figure 1. Formation of relations between the subjects of the integrated association

In modern conditions of development the integrated system of formation of the sphere of production and processing of agricultural products should be based on certain general scientific methodological principles, such as: consistency, priority, complexity, scientific validity, formation of the optimal organizational and economic management mechanism, balance and proportionality, adequacy, combination of regional and sectoral planning, etc. Modern problems of development of the sphere of processing and production of agricultural products make it necessary to supplement the existing principles in the table 1.

In agricultural production the effectiveness of the proposed principles reflects the use of the system of resource, social and other conditions of productive forces and production relations. The efficiency of relations between raw material producers and processing enterprises is determined by the diversity of inter-branch and inter-farm relations in the corresponding sub-

complex, which significantly affects the efficiency of raw material production, as well as the level of consumer satisfaction with high-quality products.

Table 1

Principles of formation of the integration system of agricultural production and processing to realize the tasks of its modern development

Principle	Interpretation of the essence of the principle
Consistency of interests and efficiency	Combining all stages of production in a single process, managed by a system of productive-economic relations and mutually beneficial inter-branch trade relations
Planning and balance	Organization of effective production management of the product range, taking into account the dynamics of the country's needs and global trends
Modernization and development	Technical re-equipment of enterprises of integration subjects, introduction of new materials and means, improvement of logistic component of production continuity
Regulation of foreign economic relations	The need for economically sound regulation of imports and exports of products and the means of labor for their production
Activation of innovation processes	The use of resource-saving, environmentally friendly production technologies, modern biotechnological and physical-chemical methods and processes aimed at improving the quality of products

The formation of mutually beneficial economic relations between enterprises for the production of agricultural products and its processing is influenced by various factors, which necessitates their further study, identification and classification (Figure 2).

Among the factors listed above, *economic* factors include the system of economic relations; sales channels for the products produced; the level of fulfillment of contractual obligations of the participants in the integration association; the dynamics of production volumes in the industry; state and use of production resources, their quantitative and qualitative characteristics; quality of purchased raw materials and released products; state regulation of industry development (taxes, subsidies, benefits, subventions, etc.); financial and credit system; investment attractiveness of enterprises-participants of integration formation, their adaptation to market requirements, etc.

Technological factors include the use of modern technologies that increase labor productivity; organization of production processes; growth of livestock productivity; high level of mechanization and automation of production processes at all stages of production and processing of raw materials and delivery of final products to the final consumer; seasonality of production and improving its quality; condition of the feed base and level of animal feeding; expansion of the product range, etc.

Organizational and legal factors provide legal regulation of the functioning of the subjects of integration in the subcomplex, etc.

Socioeconomic factors determine the conditions of work and life of people, a certain level of wages, qualifications of workers, meeting the needs of consumers in certain types of products, the formation of effective demand and the cost structure of the population, the demographic situation in the country, etc.

Natural and climatic factors determine the influence of the natural environment on the conditions and results of activities of enterprises of the subcomplex.

Ecological – compliance of quality parameters of agricultural products with the quality standards of products regulated in the country; the impact of technological production processes on the environment, etc.

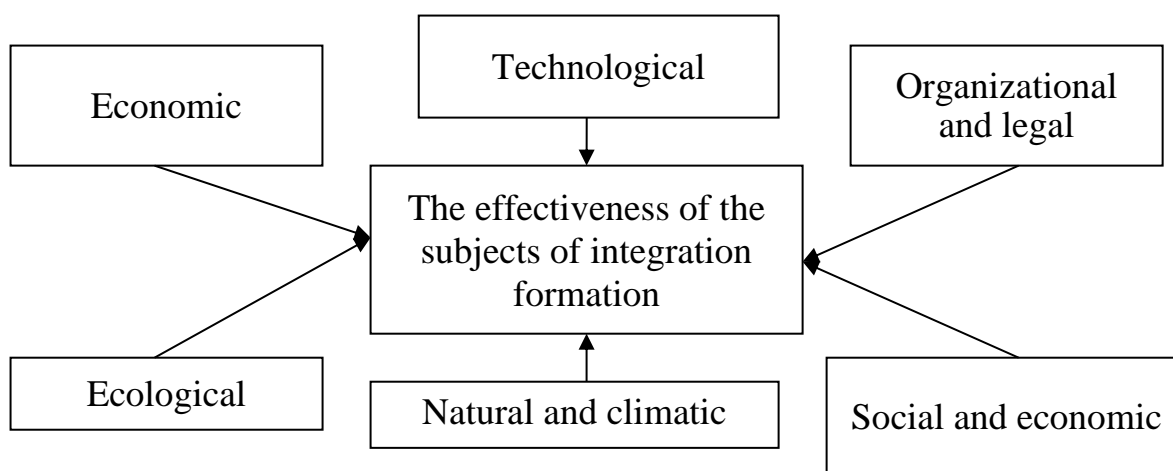


Figure 2. The main factors influencing the efficiency of economic activity of integration formations

To assess the effectiveness of economic relations of enterprises of production and processing of agricultural products it is advisable to use a system of indicators that determine the impact of various factors on the process of reproduction in the integration association. Indicators of production efficiency reflect the level of production efficiency and allow a comparative assessment of the effectiveness in the dynamics of the entire association and / or individual companies. When studying the effectiveness of economic relations in the system «production-storage-processing-sales» it is necessary to determine the natural and cost indicators of efficiency. Methodological approaches to assessing the effectiveness of integration association can be based on the comparison of costs and results of production, capital turnover, labor productivity, investment efficiency, financial stability, etc.

Part 2. Directions for improving agribusiness

One of the main problems studied in agricultural economics is the substantiation of the methodology and development of practical proposals for the parity of economic relations of producing and processing agricultural raw

material enterprises, which means equality of participants in the reproduction process, regardless of ownership and management at all stages. Such equality implies, on the one hand, the formation of a unified regulatory framework for the regulation of economic processes, and on the other hand, the presence of equal starting opportunities for all manufacturers in the sale of goods and services, their adaptation to the state credit and tax policy and market conditions [12].

The equivalence of cross-sector exchange, according to researchers, means that a certain amount of social labor, embodied in the use value of agricultural products, is to be exchanged for an equal share of social labor, embodied in the use value of industrial products and services. The creation of equal economic conditions for all participants in sectoral exchange can theoretically be achieved by setting prices for agricultural and industrial products in accordance with the requirements of the law of value.

The increase in the parity of economic relations is associated with the role of agriculture as a systemic link in agrobusiness. As for the fund-forming industries (agricultural machine-building, fuel production, mineral fertilizers, etc.), they are only conditionally included in the agrobusiness, and the Ministry of Agrarian Policy and Food, as a public administration body, has no influence on their functioning. At present, organizational and economic measures are needed to regulate the activities of all agrobusiness sectors: fund-raising, agriculture, processing enterprises and trade, which is an important task at the state level.

Effective integration of agricultural and processing enterprises, marketing and economic services, which should assist the management of the association in the development of supply schedules of raw materials from its various producers, products to trade enterprises, the implementation of effective industrial and economic relations between suppliers of agricultural products and processing, transport and trade organizations are important in regulating the supply of raw materials to processing enterprises. Without integration, competitive food production is impossible.

An important aspect characterizing the negative situation in the relationship between producers of agricultural raw materials and processing enterprises is the significant difference between the level of procurement prices for raw materials and the level of wholesale and retail prices for processed products, which determines the uneven distribution of income of integration participants and affects the performance of producers of raw materials, which are economically dependent on the monopoly position of enterprises of the first sphere, the fuel and energy complex of the country, on the one hand, and the monopsony of processing enterprises, on the other.

Organizational and economic mechanism of integration processes management is a system of legal, organizational and economic measures to use the competitive advantages of integration processes. The mechanism for managing integration processes includes goals and objectives, the composition

of integration formations, assessment of the effectiveness of integration, control over the use of combined means of production, including means of state support, as well as legal regulation of integration processes.

New forms of trade and marketing tools are widely used in world practice, which contribute to obtaining fairer prices for products. Marketing and production contracts between agricultural enterprises and processors are becoming more widespread every year. The advantages of contracts are that they reduce market price fluctuations, stabilize producers' incomes, ensure more rhythmic operation of processing plants, and reduce market risks. Processing companies are usually the contactors. Contracting, as Ya. Tivonchuk points out, allows them to get the necessary amount of raw materials from farmers on schedule, use logistics and solve the problem of stocks more successfully [13].

At present, processing enterprises occupy a monopoly position in relation to agricultural enterprises producing agricultural products (e.g., milk, meat). The contradictions in the interests and goals of rural producers, processors, and service enterprises in the agrobusiness have become even more profound than in the pre-reform period. As O. Aksyonov points out, the relationship between the subjects of agriculture – producers and consumers of final products is based on its consumer value, the meaning of which lies in the ability to constantly restore and meet the changing needs of the population for food within the existing quantitative and qualitative standards [14]. Processing and service enterprises in the agricultural sector use the disparity of prices for industrial and agricultural products as a positive factor for them. Agricultural enterprises cannot resist the aspirations of these partners in the common technological chain, and they are more interested in organizing mutually beneficial production-economic relations. Unjustified benefit for one partner is possible only at the expense of the interests of the other, which leads to a violation of common interests and a decrease in production efficiency.

Procurement and processing enterprises are interested in cheaper purchase of agricultural products, more expensive to process them and more expensive to sell released products. The efficiency of processing enterprises producing food products from agricultural raw materials is determined by the level of purchasing prices for bought raw materials, selling prices for released products and the cost of processing raw materials. In these conditions, agricultural enterprises are in a worse position. The formation of parity in the economic relations of the participants of integration formations is argued by scientists in several ways.

The first method involves the distribution of monetary proceeds of the integration formation between its members in proportion to the planned costs. However, in this case there is a maintenance of farms, which will be expressed in their desire to overestimate the planned and actual costs of production, which will be allocated to cash proceeds or profit, and this can lead to a decrease in the planned profit.

The second method consists in the distribution of total profit between the enterprises of formation in proportion to the planned (normalized) material costs. This method ensures equal profitability of material costs. However, the cost method in the distribution of profits has a significant drawback, which is that companies are not interested in an objective calculation of the actual planned material costs of production of their products, seeking, as the first method, to overestimate in order to get more profit on the planned material costs. Which, in turn, requires the specialists of the association to strictly control the planned material costs for the production of each subject of integration.

The third method is the application of transfer prices for raw materials and services, which provide the average value of the planned economic efficiency. In this case the actual profitability will differ from the planned one, because it will depend on the level of enterprise management and will perform an incentive function to increase production, reduce costs and increase the actual profit. Therefore, the most effective option in the integration association is the use of transfer prices for agricultural raw materials of agricultural enterprises.

A promising direction to improve the efficiency of production and processing of agricultural raw materials is the creation of an agro-industrial financial group that takes into account the balance of interests of all its participants – from producers of agricultural raw materials to the end consumer. The necessary condition for the effective implementation of the proposed model of agroindustrial financial group is protection from the negative external influence of other enterprises. An important subject of the agroindustrial financial group should be a financial institution. It is proposed to create several associations of enterprises, as well as an insurance company and a bank-operator, which will become independent members of the agribusiness financial group (Figure 3).

Creation of the agroindustrial financial group will help to involve enterprises of different forms of ownership in the project. This will make it possible to create economic and social conditions in the region to expand the production of competitive products, to ensure the deep processing of raw materials. The association of enterprises for the production of milk and dairy products, meat, honey and other products may include agricultural enterprises, farms, personal subsidiary farms as sources of agricultural products and processing enterprises. Independent structures can be: association of information and technical support enterprises (marketing center, equipment leasing center, fodder production and procurement center, interregional fair); association of firm trade enterprises; insurance company; operating bank.

Associations can unite into larger integrated structures, which can organize the breeding of cattle, pigs, the creation of a feed mill and so on. agribusiness financial group combines the interests and capabilities of enterprises throughout the cycle of agricultural raw materials, its processing, production and sale of released products.

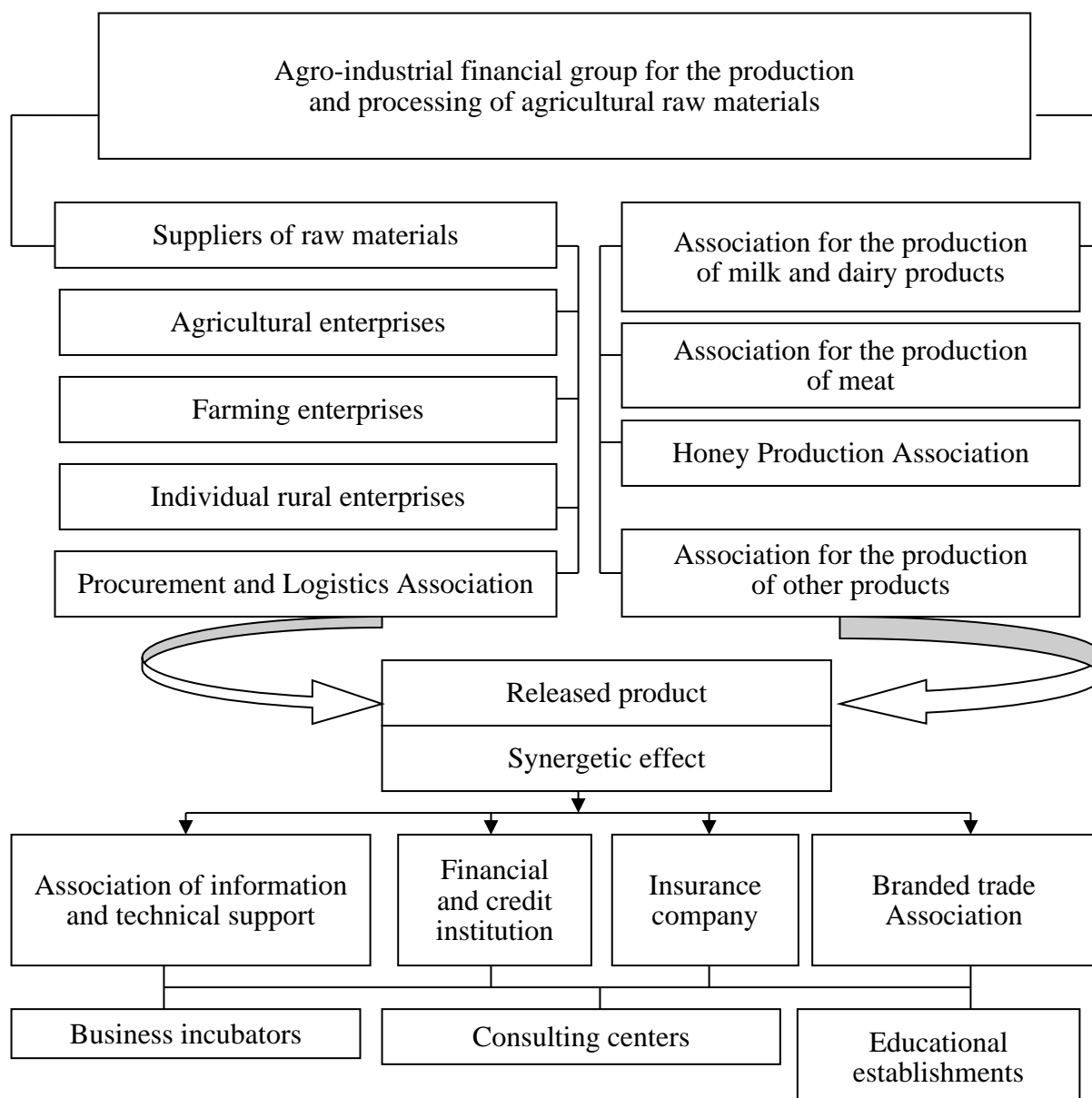


Figure 3. Organizational structure of the agroindustrial financial group for the production of agricultural products

According to the authors, the agroindustrial financial group should also perform the functions of the organization of research and development; foreign economic and investment activities; market research; training. The supreme body of an agroindustrial financial group is a meeting of founding members, which should be held at least once a year.

The meeting appoints a director for a specified period from among the founders to manage the current activities. At the expense of contributions of all participants of the agroindustrial financial group and borrowed funds the development fund of the integrated association can be formed. The mechanism of functioning of the model of agroindustrial financial group is as follows. The supplier of raw materials from farms of various forms of ownership and

population is a procurement association. Processing enterprises purchase agricultural raw materials at transfer prices and send the released products to the trade network free of charge. In this case, the status of the actual price is only the retail price of a particular product in the firm trade.

To ensure the rapid circulation of products, the regulation of financial flows is carried out through the authorized operating bank, which monitors the compliance with the established regulatory terms of payments between the firm trade, processing enterprises, agricultural producers, development fund of the group. Regulatory conditions of mutual settlements should be agreed within the region and approved by the participants of the agroindustrial financial group. At the same time the «operational bank» system guarantees the financial stability of mutual settlements between the participants of trade. Proceeds from the sale of products are credited to the account of the operating bank, which within three working days transfers it to the current accounts of the members of the association in accordance with approved proportions. The latter should be formed taking into account that the price of products at each stage of the process from production to the sale of the final product to the consumer is set at a level that provides compensation of at least 20% of profit for producers of raw materials. At the same time the volume of its production should be sufficient to load the capacity of processing enterprises. According to calculations, the proportions of distribution of monetary proceeds between the participants of the agroindustrial financial group can be as follows: agricultural producers – 46%; processing enterprises – 32%; procurement, logistics and trade enterprises – 22% (Figure 4).

Each association distributes the proceeds from the sale of its products among the participants in the production process in accordance with the proposed proportion. The monetary proceeds are then used by the enterprise to ensure the process of expanded reproduction, and part of it in the form of obligatory payments goes to the development fund of the agroindustrial financial group. The fund, in turn, allocates funds to cover the costs of the bank, the insurance company, the management staff, as well as to pay expenses and organize scientific and technical support. Most of the fund's money should be used to stimulate the expansion of dairy production. Thus, the cycle ends and the reproduction process begins again.

The creation of the agroindustrial financial group benefits all participants of the integration formation: each enterprise-member of the agroindustrial group will have a stable sales channel; since all companies are served by one bank, there is no problem of non-payments and delays; the efficiency of production and processing of agricultural products at all stages of the passage of goods from producer to consumer increases and balances; each enterprise can calculate the expected income in accordance with the established proportions of distribution of its total amount, which in turn will stimulate the reduction of production costs and enterprise development; the growth of production in the

agribusiness financial group will increase employment and income in related industries.

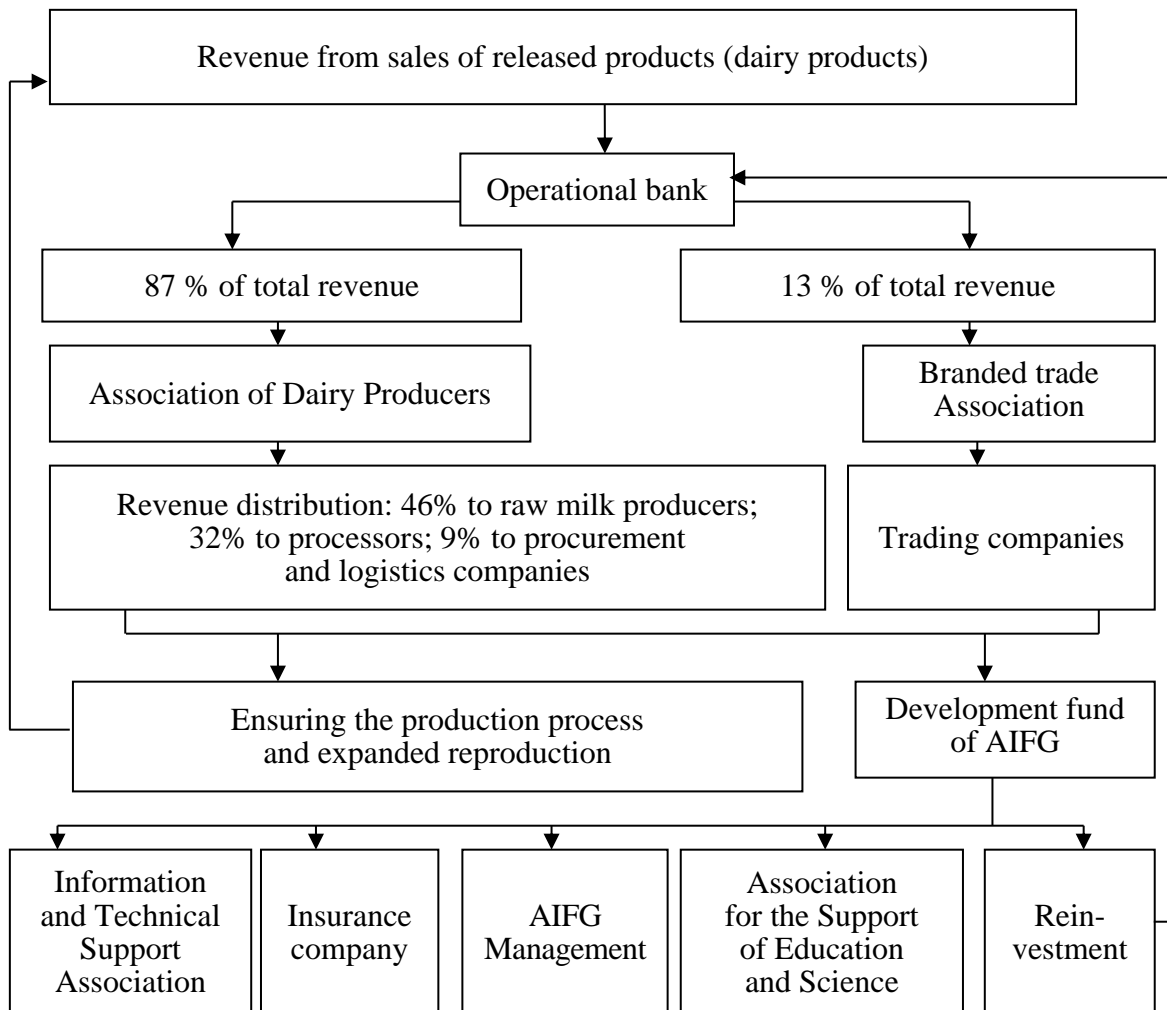


Figure 4. Cash flow of agro-industrial financial group

The authors believe that the development and implementation of the proposed model will serve as a basis for reforms in the regional agricultural sector, which will contribute to the development of domestic production, improve its competitiveness and food security.

Conclusions

A promising way to improve the efficiency of production and processing of agricultural products is to create an agribusiness financial group that takes into account the balance of interests of all its participants – from agricultural producers to end consumers. The condition for the effectiveness of the proposed model of agroindustrial financial group is protection from the negative external influence of other enterprises and the presence of financial institutions in its composition. The creation of the agroindustrial financial group in the region implies the involvement of enterprises of different forms of

ownership in the project. This will make it possible to create economic and social conditions in the region for the development of the sub-complex (e.g., dairy products), to expand the production of competitive products, to ensure deep processing of raw materials.

The mechanism of functioning of the agroindustrial financial group model includes the involvement of a single supplier of agricultural products from farms of different forms of ownership and population (procurement association); the use of transfer prices, at which processing enterprises work; involvement of an authorized operating bank to monitor compliance with the established normative conditions of mutual settlements between firm trading, processing enterprises, agricultural producers and the group development fund; establishment of normative conditions of mutual settlements agreed within the region and approved by the participants of the agroindustrial financial group. Each association, which is a part of the agroindustrial financial group, distributes according to the reasonable share of proceeds from the sale of its products among the participants of the production process. The proceeds are then used by the enterprise to ensure the process of expanded reproduction, and part of it in the form of obligatory payments goes to the development fund of the agroindustrial financial group. Distribution proportions are formed taking into account that the price of products at each stage of the process from production to the sale of finished products to the consumer is set at a level that provides cost recovery and a minimum profit for milk producers.

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