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EU MARKET BY UKRAINE'S ENTERPRISES WITH
THE FOCUS ON THE CONSTRUCTION SECTOR*

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The issues and prospects of entering the EU market by Ukraine's enterprises with the focus on the construction sector

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Abstract

The paper represents an analytical research of perspectives and challenges of entering the EU market by Ukrainian enterprises specifically in the construction sector, since the issues related to integration processes have gained a special priority in Ukraine's economy upon signing the Ukraine and European Union Association Agreement. The unilateral opening the EU market for Ukrainian goods by the European Parliament provides for a number of potential opportunities, however, due to the fast changing situation in Ukraine, they remain insufficiently studied for the further implementation. Ukraine's promising opportunities of international economic integration are preconditioned by the need for radical changes in activities of enterprises in relation to achieving a certain level of competitiveness of Ukrainian goods inherent in the European market. Herewith, the study considers barriers of entering the EU market concerned with unreadiness of enterprises to adapt to new market conditions and proposes an algorithm of the EU market entry by Ukrainian enterprises by taking into account the introduction of quality management systems and approximation to the EU environmental requirements.

Questo lavoro rappresenta una ricerca analitica delle prospettive e delle sfide per l'ingresso nel mercato dell'UE da parte delle imprese ucraine, in particolare del settore delle costruzioni, dato che le problematiche legate ai processi di integrazione hanno meritato una speciale priorità nell'economia dell'Ucraina al momento della firma dell'accordo tra l'Ucraina e la European Union Association. L'apertura unilaterale del mercato dell'UE per le merci ucraine, sancita dal Parlamento europeo, fornisce un numero di potenziali opportunità; tuttavia, a causa della veloce evoluzione della situazione in Ucraina, tali opportunità rimangono insufficientemente studiate nella loro attuazione. Promettenti opportunità di integrazione economica internazionale dell'Ucraina sono condizionate dalla necessità di cambiamenti radicali nelle attività delle imprese in relazione al raggiungimento di un certo livello di competitività delle merci ucraine, tipico del mercato europeo. Questo paper considera le barriere di ingresso nel mercato UE derivanti dalla resistenza delle imprese ad adattarsi alle nuove condizioni di mercato e propone una procedura per l'ingresso nel mercato EU delle aziende ucraine, tenendo conto dell'introduzione di sistemi di gestione della qualità e la necessità di avvicinarsi ai requisiti ambientali UE.

Keywords: foreign trade, export, EU market, certification, construction sector

1 – Introduction

Given the geographical proximity and potential prospects, the EU market that comprises over 500 mln

consumers in 28 countries is attractive for Ukrainian exporters. However, entering the European market in terms of the global financial crisis and a significant reduction of consumers' solvency in the domestic market constitutes a substantial challenge for Ukrain-

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ian enterprises, which involves such barriers as lack of financial funds, poor condition of fixed assets, non-compliance with international standards of production and outdated technology. Along with that, there are businesses, products and services in Ukraine, which are competitive not only in the domestic market, and their production capacity exceeds domestic needs of the country. Therefore, to increase sales and better use the production capacities these companies need to find new markets.

Unfortunately, in most cases Ukraine's enterprises cannot overcome the barriers of entering foreign markets on their own, not so much because of the poor quality of the goods or services but rather due to their inability to adapt to the requirements of these markets, especially the EU standards. This requires a thorough analysis of the existing barriers and ways of their overcoming.

The goal of the study is to analyze the prospects gained by Ukrainian producers in the construction sector from entering the European market and the economic cooperation between Ukraine and the European Union, as well as to highlight the issues that accompany these processes and require immediate solutions.

2 – Literature Review

The Ukraine and European Union Association Agreement with the economic part signed on 27 June 2014 opens up new opportunities for economic development of Ukraine. This requires not only a new approach to product characteristics, but also fundamental restructuring the entire management system of enterprises.

In the process of internationalization, an enterprise has to face new conditions of external environment, which involves such factors as other types of taxes, currency, prices, logistics that needs obtaining precise information on each new condition of the external environment to ensure success of entering a foreign market.

The choice of a specific market is also determined by its proximity to the domestic market of a producer (Czinkota, 2013), business culture specifics (Hofstede, 2001), differences in methods of work in the market (Romanchyk, 2014), etc.

The major issues of entering a foreign market by an enterprise have been highlighted in the works of Bradley (2005), Philip Kotler & Gary Armstrong (2010), Johanson & Vahlne (2009), Nakos (2011), Seringhaus (2011); with the focus on internationalization of Ukrainian enterprises - Didkivskyi M.U. (2006), Kharchuk T.V. (2009), Merza N.Z. (2009), Chukhray & Sukhomlyn (2010), Hrabynskyi I.M.

(2015). Each author identifies diverse components of each factor and differently assesses its value for a company. In our view, the issues of Ukraine's enterprises specifically in the construction sector entering a foreign market have been examined insufficiently and they require further analytical study.

3 – Statistical data analysis of Ukraine's exports

Based on the data of the State Statistics Service of Ukraine the export dynamics of Ukraine is characterized by the increase of foreign trade partners from 167 to 229 countries in 2009-2013 with their following decrease to 217 countries in 2014-2015. The volume of sales in foreign markets increased by 14.217 million US dollars in 2009-2014, however, it decreased by 29.3% in 2015.

Export to the EU amounted to 17,004 million US dollars in 2014 and it constituted 31.5% of total exports. Even though it declined by 23.4% in 2015, its share of the total exports increased up to 34.1% (Table 1).

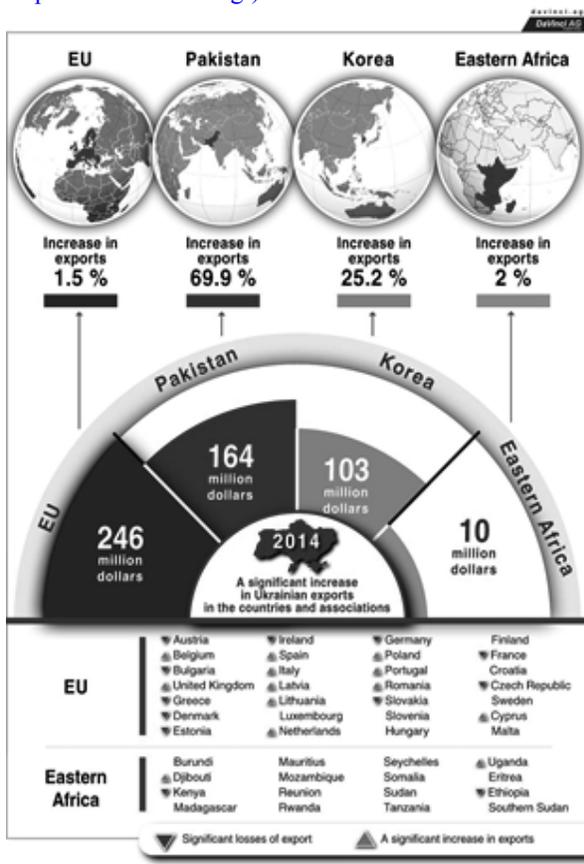
Table 1 - Export activity of Ukraine, 2009-2015
(Source: the State Statistics Service of Ukraine)

Year	Number of partner countries	Export, million US dollars	Export to the EU countries, million US dollars
2009	167	39696	9499
2010	217	51431	13062
2011	222	68410	17970
2012	215	68810	17065
2013	229	63312	16778
2014	217	53913	17004
2015	217	38134,8	13017,5

The analytical group Da Vinci AG published infographics on changes of the volume of the Ukrainian exports in 2014. The exports demonstrated a significant increase to only two countries and two trade associations, among them is the European Union.

The export increase to the EU, compared to 2013, was only about one and a half percent. At the same time, the absolute growth in monetary terms in the exports to the EU was the largest among Ukraine's partners. It increased to 246 million US dollars (Figure 1).

Figure 1 - Ukraine's exports in the countries and associations, 2014 (Source: Da Vinci AG: <http://www.davinci.ag/>)



The infographics also demonstrates country partners with a strong negative dynamics of Ukraine's exports, which involves far more states and associations. They include the Eurasian Union including Russia (- 6,687 million US dollars or - 34.6%), Southeast Asia (- 527 million US dollars or - 41%), the GUAM countries (- \$ 478 million US dollars or - 20.7%) and others (Figure 2).

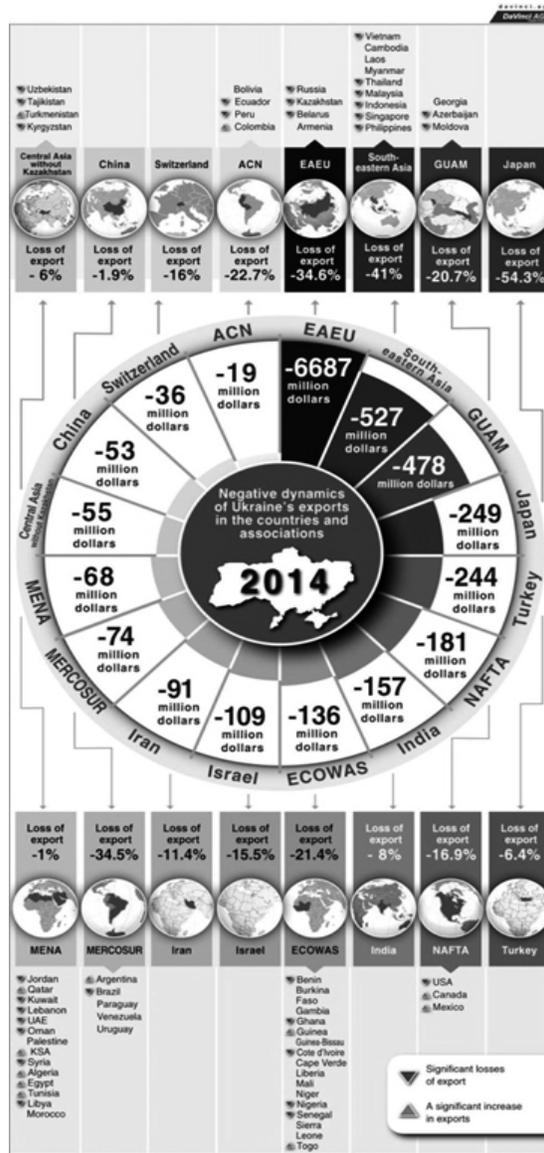
In 2015, the decline of Ukraine's exports not only continued, but also deepened. On the behalf of the government, the fall of Ukraine's exports to the EU was explained primarily by the conflict in the Donbass region, which consequence was worsening the general economic situation in Ukraine.

The research "The EU Autonomous trade preferences: exporters' view" accomplished by the Institute for Economic Research and Policy Consulting allows to compare the findings of officials and business (Panchenko, 2015). The research is based on a survey of 1,009 companies, most of which carry out export activities or are planning to initiate them

The results of the research show that since the beginning of the EU Autonomous trade preferences on April 23, 2014, Ukraine's export to the EU has been initiated by 5302 companies that have never

worked in this market before. Along with that, 2299 companies that previously exported to the EU have ceased their export transactions.

Figure 2 - Negative dynamics of Ukraine's exports, 2014 (Source: Da Vinci AG: <http://www.davinci.ag/>)



One can assume that the majority of the latter are companies from the temporary occupied areas of Donetsk, Luhansk Regions and Crimea, which are not able to supply their products to the EU. However, the number of new Ukrainian business players in the European market fully compensates this loss including by the volume of exports.

The research also states that 55% of companies that previously performed and kept their export transactions to the EU have sharply reduced their volume of sales.

Therefore, it turns out that the main reason for the fall of Ukraine's exports to the EU is not a matter

of failed business activities of companies from the temporary occupied areas. Ukrainian companies are losing their share in the European market due to their inability to adapt to the new market conditions.

Nevertheless, a positive aspect indicating the untapped potential of Ukraine's exports is that a large number of Ukrainian companies have started their operation in the EU market. Most of these companies are able to increase their presence in Europe, and therefore, in the nearest future to ensure high rates of Ukraine's exports to the EU.

4 – Entering the EU market: algorithm and factors for consideration

Based on the statistical data, it is worthwhile mentioning negative factors that cannot be ignored by Ukrainian companies while introducing their products in the EU market:

- unreadiness of Ukrainian producers for a fierce competition by marketing, technical and economic parameters of products;
- raw material prevail in the structure of Ukraine's exports;
- the need for additional costs to introduce international quality standards in the system of Ukraine's national production;
- unavailability of appropriate marketing strategies: most companies have difficulties in finding business partners, ensuring efficient product promotion, accessing business associations in the EU;
- lack of proper evidence of Ukrainian products meeting the EU requirements;
- deficit of working capital in Ukrainian companies;
- lack of competence of the EU law and regulation;
- failure to adjust to the EU business culture;
- insufficient research of the EU consumption culture.

Herewith, we propose the following algorithm for Ukrainian companies to enter the EU market:

- Collecting the information on the EU regulations and requirements for a product/service, quotas, duties and fees applicable to goods/services that you plan to export (e.g. the EU Export Helpdesk).
- Assessment of the dynamics of a particular product and country market (e.g. statistical information of the EU Export Helpdesk can be used for the analysis of exports to the EU).
- Searching business partners, networking with business associations.

- Selection of an optimal legal structure to enter a market.

- Standardization and package design, following local technical and registration requirements.

- Receiving a EUR.1 movement certificate that is issued by the Chamber of Commerce of Ukraine and its regional divisions.

One of the major obstacles for Ukraine's exports to the EU is inconsistency with product quality standards adopted in the EU, which is substantiated by the following factors in Ukraine:

- cost of production remains high compared to developed economies;
- competitiveness of domestic industrial production is low;
- most industrial enterprises are in dire financial condition;
- insufficiently developed national systems of certification and quality control of exports along with the recent significant reinforcement of requirements to consumer and environmental performance, safety of products sold in markets of industrially developed countries;
- lack of Ukrainian entrepreneurs' expertise and experience in export activities, absence of coordination of their activities in foreign markets;
- low Ukraine's credit and investment rating making it difficult to attract foreign financial resources for the development of export potential (Didkivskiy, 2006; Romanchyk, 2014; Hrabynskiy, 2015).

Among these negative factors, the most significant is the unreadiness of Ukrainian companies to manufacture products in accordance with the quality requirements of the European market, which is preconditioned the high level of depreciation of fixed assets, outdated production technologies, differences between the parameters of product quality in Ukraine and the EU.

4.1 – Adopting quality management systems

Adoption of the quality management system ISO 9001:2008 represents a solution to address the issue of product quality provision by Ukrainian companies. The cooperation of companies with other business organizations that have received quality standard certificates is to be taken into account: working with uncertified contractors reduces the chances of a company to prove that the quality of its products meets international standards. Uncertified companies should be prepared for the fact that their usual business partners (customers of their products), which received a certificate will refuse to cooperate in order to avoid risks to their business. Thus, all Ukrainian businesses

that seek to be successful in the course of Ukraine's European integration should adopt quality management system (QMS).

International Standard ISO 9001:2008 focuses on the process approach to management. The standard states that for a successful operation of an enterprise numerous interconnected activities are to be determined. An activity that involves resources and performs to transform inputs into outputs can be considered a process. It is often when the output from one process directly forms the input to the next one.

Application of a system of processes along with their identification and interactions and managing these processes defines the process approach. The advantage of the process approach is the ongoing control that it provides at the intersection of individual processes within a system of processes, as well as their combination and interaction. In this sense, the international standard states that the desired result is achieved more efficiently when activities and related resources are managed as a process.

Most Ukrainian producers are not prepared for voluntary strategic improvement of their quality management system at the perception level to break away from the "compulsory certification" or conformity assessment procedures.

However, such an approach is incomprehensible to the European manufacturer. In the European business perception, the introduction of voluntary standards serves the benefits of the business itself: management system is for more efficient company management, voluntary standards on products (in the construction industry these are usually environmental standards) is to confirm improved environmental and exploitation characteristics. All these are efficient tools for business improvement and reliable basis of competitiveness. Thus, compliance with the norms of voluntary standards does not negate, but complements the rules of business performance.

4.2 – Approximation to the EU environmental legislation

The European legislation pays a special attention to environmental protection, environmental safety and rational use of natural resources. The EU environmental legislation is based on 32 main directives and regulations, which have a direct effect and regulation over the impact on all sectors of economy.

In accordance to the Basic Approximation Plan fixed in the EU-Ukraine Association Agreement, the directives are to be fully implemented in the Ukrainian legislation within 5 years after signing the Agreement. The Basic Plan of Adaptation (Approximation) of Ukraine's environmental legislation to the EU legislation developed by Ukrainian and EU experts with the support of the Swedish Agency for Environment

Protection is based on the aspects of legal transposition (approximation of legislation) of convergence of the EU - Ukraine Association Agreement.

The reform of the Ukrainian environmental legislation will affect significantly improvement of environmental safety standards and maximum allowable pollution indicators, rules of subsoil, waste management as well as environmental impact assessment for manufacturers of construction materials and construction companies. Penalties for failure are not only fines but also suspension of enterprise activities. Enterprises in the Eastern Europe that failed to meet the requirements of the EU environmental legislation were suspended.

The transition to a single integrated permit, which brings together all types of environmental permits based on the Directive 96/61/EU concerning Integrated Pollution Prevention and Control has its pros and cons.

The general principles of the directive determine the following conditions of the use of industrial equipment: providing for energy efficiency; adoption of preventive measures against environmental pollution, particularly with the use of the best technologies (BAT); coordination of the hierarchy in the management of industrial waste in compliance with Waste Framework Directive (WFD). To achieve these requirements, companies have to follow different types of audit (energy, environmental, management system) to analyze their current condition and technological (technical) modernization. These processes require investment, which is difficult to attract in terms of crisis. Preconditioned by political stability and favorable investment climate, Ukrainian companies can be supported by European technology and investors to successfully follow this period of adaptation. Ukrainian businesses interested in European markets that understand the inevitability of integration processes and their regulatory implications will conduct their own internal reform and modernization by taking into account the European best practice, which requires a certain level of understanding, knowledge, strategic planning and contemporary management approaches. Unfortunately, there are not many companies being fluent in adopting these instruments in Ukraine though time for implementing changes is limited.

The benefit of environmental certification embeds its basic principle - to emphasize improved environmental performance compared to other products in the same category with the same functional characteristics. This type of certification meets the requirements of ISO 14024 and, unlike ISO 14001, allows consumers to receive reliable information on the origin and quality of raw materials, production technology, performance and impact on the environment and human health.

The ISO 14024 certificate allows entering international markets in the category "Eco-product" to par-

ticipate in green construction projects and have advantages in competitive procurement. Such products are included in international registers of products with improved environmental characteristics with the following ecolabelling, which consequentially results in increase of product sales.

In 2011, the Law of Ukraine "On the Fundamentals (strategy) of the State Environmental Policy of Ukraine till 2020" was adopted and it defines one of mechanisms of ecological economics as green procurement. This means that a customer includes compliance with environmental standards in the quality requirements technical specifications. Eco-certification and labelling in accordance with ISO 14024 confirms conformity to environmental technical specifications for competitive procurement.

A special attention is to be paid to new opportunities and potential risks to the business. The most important part of the EU-Ukraine Agreement is creation of the free-trade zone, which provides for free movement of goods (some of them will have a quota and the rest will be imported duty-free into the territory of the EU and Ukraine).

In Ukraine, evaluation of products for compliance with environmental standards is conducted by the Center for environmental certification and labeling all-Ukraine NGO "Living Planet" – the only organization that has received the required national and international accreditation. It acts in accordance with the Technical Regulation and Laws of Ukraine "On accreditation of conformity assessment bodies" and "On Standards, Technical Regulations and Conformity Assessment Procedures". The Center is accredited by the National Agency of Accreditation of Ukraine in accordance with the State Standard of Ukraine EN 45011 "General requirements for bodies managing product certification systems" and the International system of certification. "Living Planet" is also one of the parties to the Agreement with the Ministry of Environmental Protection of Ukraine on cooperation development of environmentally safe consumption and environmental labeling.

"Green Crane" is the only sign of eco-labeling in Ukraine. The right of its use is provided by the certification body based on the certificate of conformity and license agreement.

The common environmental criteria are developed by the Subcommittee "Life Cycle Assessment" of the National Technical Committee of Standardization TC 82 "Environmental Protection", agreed with stakeholders and approved by the Coordinating Council on environmental labeling and environmental certification introduced in the form of an industry-specific standard (Berezina, 2015).

ISO 14024 Certification covers the following construction materials in Ukraine: concrete and concrete products, drywall, dry mixes, products made of polymeric materials, ceramic products for construc-

tion, non-woven textile products, timber products, paints, mineral construction materials and products, heat and sound insulating materials, galvanized rolled stock. Each of the categories of products complies with a separate standard, which sets environmental criteria for evaluating a life cycle. The cost of certification is based on the methodology developed by the certification body depending on their complexity due to the reported number of categories and types of products. The certification application needs to include test reports for products and to provide comprehensive answers to all questions on the environmental aspects of its life cycle. Besides, the laboratory that issues test reports must have a certificate of accreditation in accordance with ISO 17025 or the State Standard of Ukraine ISO 17025 ISO.

5 – Prospects of the EU market for Ukraine's construction sector

Although the leading industry experts believe that it is the development of the construction complex that will trigger rehabilitation of Ukraine's economy, the current difficult situation in the Ukrainian construction industry is characterized by a low demand in the domestic market and a narrowed sales market in the neighboring foreign countries. Even though most of Ukrainian construction companies are certified, only few ones can take advantage of the opportunity to export their products to the EU countries as the EU market sets new requirements to be complied with that involve not only quality but also the price.

The European market is quite achievable for the Ukrainian producers of construction materials, however, the dilemma of entering the EU market is much more complex for construction companies. The potential of the domestic market for Ukrainian construction companies remains high preconditioned by gaining the political stability in the country, maintaining the adequate mortgage lending system (the average mortgage interest rate in Ukraine is 30-32 % compared to 3-5% in the EU countries) and innovative modernization of the material and technical base of construction enterprises. Therefore, Ukraine's construction industry needs the support of the state to introduce programs aimed at development of construction enterprises that will provide for the growth of the sector.

The issue of readiness of Ukraine's construction industry to enter the European Union market is more concerned with producers of construction materials. On the one hand, they have received an opportunity to internationalize in the EU market; on the other hand, they will also have to compete with European construction products in the domestic market.

To succeed in the European markets, Ukraine's producers of construction materials are to ensure

compliance with European safety standards combined with confirmation of improved product quality and the environmental performance. This process will result in a significant regulatory impact on the Ukrainian construction industry. As such, Ukraine must take all the necessary steps to progressively achieve compliance with the EU technical regulations and systems of standardization, metrology, accreditation, conformity assessment and the EU market surveillance.

6 – Conclusions

Opening the European markets for Ukrainian enterprises including the construction industry is an important step in gaining competitiveness in the global market and an efficient tool for strengthening the Ukrainian economy. In order to make these steps successful, it is necessary to study the experience of other countries that are already operating in the EU market, to identify the main issues they have faced with and to adapt the findings to the economic situation in Ukraine.

Taking into account that Ukraine seeks to join the EU market, the benefits of this process can result in:

- obtaining better conditions for the access of Ukrainian goods to foreign markets;
- creating a more favorable foreign investment climate as a result of bringing the legislation in line with the rules of the international trade;
- maintaining conditions for improving the quality and competitiveness of domestic products as a result of the increased flow of foreign goods, services and investments to the Ukrainian market;
- participation in the development of international trade rules along with consideration of the national interests;
- improvement of Ukraine's image as a full member of the international trade.

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