

January 6-13, 2003

KYIV

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Commentary: Kostiantyn Bondarenko

A YEAR LIKE NO OTHER

In the waning days of December, a Kyiv cabby driving me to my office said, "It doesn't feel like the new year's approaching. There's no feeling of celebration. Maybe people are tired of this year. Maybe it was just too difficult for them." Despite the Administration's efforts to brighten up Khreshchatyk, the average Ukrainian seems to have found 2002 more than difficult. It was a year of great catastrophes in aviation and coal-mines which took the lives of hundreds of people. It was also a year of increased political resistance against the president. A year of choosing Ukraine's geopolitical orientation. A year for declarations of a course for transforming government. An election year and a year of political reorganization.

New and failed illusions

The year 2002 started with an election campaign and ended with talk of another election campaign. In January, deputies and wannabes began their preparations for election to the Verkhovna Rada. In December, talk was of the 2004 presidential election. Possible candidates are already being vetted for the presidential race. Bets are being made, and the list of potential candidates is being drawn up.

The parliamentary election campaign presented Ukraine with several interesting new "parties," not all of them successful. However, the process itself pleased observers



NU's Yushchenko speaks

Photo: Y. Illiyenko

with its fairy-like style and scale. The Greens, *Zhinky za maibutnye, Komanda ozymoho pokolinnia* – then headed by a shiny young businessman by the name of Valeriy Khoroshkovskiy, who is now Minister of the Economy – and the rest have already become part of Ukrainian history, footnotes in future textbooks on campaign tactics.

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AN-140 crash

A Christmas calamity

KYIV. On Dec. 23, 2002, at about 19.59 Iranian time, an Iranian-made Antonov AN-140 disappeared from radar at the Iranian airport in Isfahan. Later, while trying to land, the craft hit the ground in view of airport workers. All 44 passengers, as well as 6 crew members, were killed in the accident. Six Russian citizens were also on board the

craft. A charter flight from Kharkiv to Isfahan, the aircraft was carrying experts and workers from the Kharkiv Aviation Plant who were supposed to participate in the presentation of AN-140 in Iran.

The plane took off from Kharkiv and made a brief stop in Trabzon, Turkey before continuing to Iran. Air traffic controllers said the plane lost contact just minutes before it was due to land. The AN-140 was on its first official flight and was the first Iranian version of the AN-140. It was made in Isfahan as part of a joint Iranian-Ukrainian project. The plane flew on Nov. 30 and successfully carried out 27 landings.

"It was an excellent plane and those on board were the best aviation experts in Ukraine and Russia," said Premier Viktor Yanukovich, after the crash. Passengers included Volodymyr Bochylo,

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Devastating crash site

Photo: AP



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HIGHLIGHTS THIS WEEK

"It's necessary to enact legal decisions on implementing a simplified system of taxation, connected not only with the introduction of a single tax, but also with its administration."

Stepan Havrysh, VR deputy,
Head of the Democratic Initiatives
deputy group

See p. 7

Cover photos courtesy of "Turism
Silsky Zeleny" Magazine

**Happy Julian
Christmas!**

THIS WEEK IN BRIEF

FAMILY CODE IN 2003

KYIV. A new Family Code came into effect as of Jan. 1, 2003. In the electronic Internet database, the document was the most popular in 2002 with more hits than the 2003 budget. The new code allows marriages to be registered in any place throughout the country without regard to residential registration. (STB, Jan. 3)

MINES EXCEED PLANS

LUHANSK. Luhansk oblast mining companies extracted 25.55mn t of coal in 2002. The yearly plan was exceeded by 11.6% with extra production volumes of 2.655mn t of coal. Extraction volumes grew by 1.127mn t of coal, year-on-year. The oblast has eight mining companies. (FinPort, Jan. 3)

NUCLEAR FUEL LACKS FUNDS

KYIV. The 2003 state budget did not allocate finances for the domestic production of nuclear fuel. Earlier, the Fuel and Energy Ministry suggested allocating Hr 70mn for this purpose. About Hr 248mn will be allocated to support the Chornobyl AES and Shelter projects, out of the Hr 308mn which was previously suggested. (BBC, Jan. 3)

LITHUANIA TIGHTENS GRIP

VILNIUS. Lithuania expanded its list of Ukrainian citizens who must have a visa to transit through or stay in the country, as of Jan. 1. Changes are due to the Baltic state's joining of the EU and carrying out EU demands regarding visa policies. (Versii, Jan. 3)

UAI'S MARKETING DEAL

SCOTTSDALE, AZ. Ukraine International Airlines is expanding its sales and marketing with Discover the World Marketing, the world's largest travel trade representation company, into the following markets: Argentina, Brazil, China, Hong Kong, Japan, Southern Africa, and the UAE. Changes begin this month. (ArtUkraine.com Information Service, Jan. 3)

KYIVMISKBUK RETAINS POSITION

KYIV. The KyivMiskBud Holding Company has retained its key position on the residential construction market and continues to attract investment from the population. In January-November 2002, the company built 430,600 sq m of residential space, or 43.7% of general housing construction in the country during that period. Through Arkada Bank, the company attracted Hr 530.7mn in individual household investment. (I. Antypenko, Jan. 3)

HOUSING ON THE MOVE

KYIV. By the end of 2007, all housing service companies will be privatized, said Economy Ministry Housing Services Chair Yuriy Rodionov. Rodionov said the majority of such companies are already in private hands and privatization is continuing. Over the last 11 years, the volume of housing services fell nearly 12-fold and personnel in the sphere were cut back 50%. (Inter, Jan. 3)

30 T-72 TANKS DELIVERED

SKOPJE. In 2002, Ukraine delivered 30 T-72 tanks to Macedonia. Macedonia is to pay Ukraine US \$8.3mn. However, Skopje believes 70% of the amount will be paid by tobacco tolling schemes while Ukraine is demanding cash payments. Political observers in Skopje said Macedonia purchased military equipment from Ukraine for US \$40mn. (ICTV, Jan. 3)

DOMESTIC AFFAIRS

Industry survey: Machine building

Potentially powerful

The growth trends of machine production volumes between 2000 and 2002 have a systematic origin. However, such positive dynamics cannot be maintained for a long period of time if the strategy of industrial policy regarding scientific activity is not changed. The policy aimed at radical liberalization of the domestic market can potentially destroy the technological and productive potential of the industry's scientific sector.

Transitional stage

The transitional Ukrainian economy must achieve the strategic and specific goal of establishing a market socio-oriented economy in which the domestic market is an important factor in controlling economic growth. Therefore, the development of the domestic market requires a weighted state policy which takes into consideration top priorities for the development of certain economic sectors. At this stage, the development of machine-building products is considered decisive, since machine-building provides for the implementation of resource and energy-saving technologies in the real sectors of economy. Moreover, it provides for technological re-equipping and automatization of industrial enterprises.

In the last ten years, machine-building producers have experienced particular problems: a break in economic ties, a decrease of mass production volumes, a decrease in consumers' ability to pay, an acute change in the high-tech products and technologies market, economic intervention of the foreign companies, absence of effective mechanisms for protection of the domestic market, and many others.

The trend of gross production volumes growth in the machine-building sector was observed in 2000-2001 at 16.8% and 18.8%, respectively. These levels were preserved in the first and the second quarters of 2002 at 8.7% and 3.4%, respectively. These positive results obviously had systematic origin and it was a consequence of the interconnection between certain internal and external factors which activated the resources of growth. The positive changes were caused by:

- A favorable situation on the global market and growth of incomes in export sectors – mostly ferrous metallurgy and chemistry, which resulted in growth of the domestic demand for industrial products, including machine-building;
- An increase of gross production and sales volumes of products manufactured by domestically-oriented companies, which caused general activation and growth of the market due to an increased ability to pay by domestic manufactures in the basic sectors.

These systematic changes activated resources and reserves of growth, which in turn allowed for an increase of machine-building production and sales volumes. As a result, the industry experienced a growth in profits, directed at widening domestic demand, comprehensive activation of the sector's capacities, the simultaneous increase of cash settlements and decrease of barter operations, and improvement of business activity on the part of enterprises due to an increase in proceeds from sales. Also, the increase of general capital turnover in the machine-building sector, which was 0.25% in 1998 and 0.5% in 2001.

Beyond that, changes in legislation regarding restructuring of debts and taxes played a significant role in the growth of production volumes. Each sector had a particular law that helped spur production. In the tractor and agro machine-building sector, the law on writing off and restructuring tax debts payable by the tax-paying-enterprises in the tractor and harvester-building; in the automotive sector, the law on stimulating automobile production; in shipbuilding, the law on steps regarding state support of the shipbuilding industry; in the space sector, on state support of space activity, and so on.

Changes in domestic demand

Increases in supply and demand of machine-building products were observed in all economic sectors in the country in 2001. However, in the first half of 2002, the volumes of the machine-building production decreased by 4.8%, except for mechanical and metallurgy equipment manufacturing. This decrease was due to a drop in the domestic demand for machine-building products.

The main consumers of machine-building products in 1999-2000 were ferrous metallurgy, 14.5%; agro sector, 11.1%; coal industry, 6.0%; electric energy sector, 5.5%; and the machine-building sector itself, 28.5%.

Due to an increase in production volumes in the basic sectors of industry in 2000-2001, enterprises directed part of their funds to renewal and purchasing production equipment. This activity initiated growth in the investment sector. The investments in basic capital of the industry totaled Hr 13.651bn, or 41.9%, of the total volume of investment. Investments in transportation and communications totaled Hr 7.453bn, or 22.9%. It is worth noting that there was an increase in the demand for investment in 2000-2001 due to:

- Growth of the industrial enterprises' profits. In 2001, the net profit grew 2.5 times y-on-y;

THIS WEEK IN BRIEF

INTEREST IN FENERBAHCE

KYIV. Serhiy Rebrov confirmed his interest in joining Turkish FC Fenerbahce this month. He could join Fener on loan for the rest of the season from Tottenham and seek a permanent deal in June. (Jan. 3)

UKRAINIAN MS WINDOWS

KYIV. Microsoft released its Windows Ukrainian Interface Language Pack for the Russian version of Windows XP. With the help of a free appendix, users of the Russian version of Windows XP can turn it into a full-fledged Ukrainian version. The pack will be presented at the EnterEx exhibition in Kyiv, Feb. 18-22. (Jan. 3)

HIV INFECTION IN MILITARY

KYIV. By the end of 2002, 334 HIV-positive cases were registered among military troops. The Defense Ministry reported all the cases were revealed accidentally since legislation does not presuppose planned check-ups on troops for HIV-infection. (K. Khivrenko, Jan. 3)

GT DENIES RUMORS

KYIV. Golden Telecom denies claims it is closing down shop in Ukraine. Along with investors, Golden Telecom developed and approved a business plan for 2003, and a five-year business plan for 2003-2007. The plans aim to actively develop the company's presence in Ukraine. GT said while it has not expanded services, it is improving available connections in Odesa and Kyiv. (UFS, Jan. 3)

2003'S FIRST MINING DEATH

DONETSK. A miner died in a cave-in at Krasnolymanska mine in Donetsk oblast. The miner was buried under a load of coal 860 meters deep. This is the first accident in Ukrainian mines since the beginning of the year. In 2002, 260 miners died in the country's mines. (STB, Jan. 3)

KHARKIV TRANSFERS AN-140

KHARKIV. Kharkiv Aviation Plant will transfer a lease for the fourth serial AN-140 passenger aircraft to Odesa Airlines, said Kharkiv Aviation Plant Director Pavlo Naumenko. Naumenko said the transfer was planned for Dec. 27, 2002, but was re-scheduled after the crash in Iran. (UNIAN, Jan. 3)

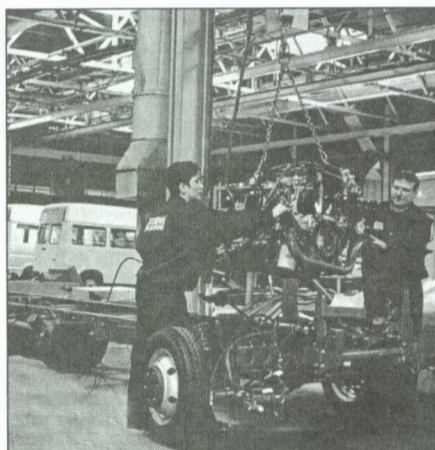
KUCHMA RETURNS PUBLISHING LAW

KYIV. President Kuchma returned the law on state support of publishing in Ukraine to deputies. The law introduces privileges for import duty, corporate income tax and VAT for five years for companies engaged in publishing and printing. Kuchma said it is dangerous for the budget to sign the law introducing privileges worth Hr 700mn, as privileges are not included in the 2003 budget. (FinPort, Jan. 3)

FUND HAS NEW DIRECTOR

KYIV. The Board of Directors of the Ukrainian Opportunity Fund Limited announced that Hanna Dziadevych will be the new director of the Fund beginning on Dec. 9, 2002. Dziadevych is currently Senior Accountant with Foyil Limited, a corporate services company. She obtained a bachelor's degree in Economics and Political Sciences from the University of Kyiv-Mohyla Academy. (ARTUIS, Jan. 2)

- Decrease of the NBU interest rate from 30.6% in 2000 to 8% in 2002, and interest rates of commercial banks from 40.3% in 2000 to 23.5% in 2002 – in national currency – and from 17% in 2000 to 11.9% in 2002 – in foreign currency;
- Intensity of innovations. In 2001, the number of the newly-introduced types of machinery, devices, apparatus and instruments increased 9% y-on-y. 16.4% of the innovations were introduced in electric-technical sector, 11% in ore-mining, 6.6% in agro, 6.3% in chemical and compressing, 4.1% in technological and food sectors;
- An increase in expenditures for innovations. In 2001, expenditures increased 4.5 times y-on-y and totaled Hr 460.7mn.



Machine-building workers in action

The current situation is rather precarious for domestic producers because import penetration is fairly high. Ukraine, with its large export volumes, has an import penetration of 2-7 times more in terms of machines, equipment, electric tools, and transportation equipment, than in developed countries. The Ukrainian machine-building sector attempts to preserve its competitive position in only a number of sectors – aviation, space and water transportation equipment.

The global trend in technical development is to increase the usable life span of a product. This is why the main advantage in foreign trade is to provide for technological outdistancing of rivals. In other words, it requires constant development and innovation of new technologies and products.

There are no serious preconditions in place to preserve and develop the scientific-technical potential of the machine-building sector. The simple reason for this is that there is little support from the state for research within the sector. For instance, in 2001, the expenditures on research and development in the industry totaled some 16.2% of the total sum of investments in industry. The main source of financing of scientific and technical work are domestic clients, providing 33% of total financing. Secondly, the domestic market is not protected from the import of equipment whose quality is not higher than certain domestic products. In other words, it is necessary to radically activate investment activity and mechanisms to create a level playing field on the market, as well as to implement protectionist measures.

The main goals of the machine-building market are to improve both quality and competitiveness of products. The technical basis for restructuring the machine-building complex is through the usage of technologies and equipment, which will considerably raise the efficiency of production, and will in turn increase competitiveness.

Analysis of trends in the domestic machine-building market reveal the following basic problems with the sector:

- Unused potential, which requires expenditures for maintenance, and therefore, a considerable increase in production costs. This complicates the process of

At the same time, the foreign demand played a role in increasing exports. In 2001, exports included electric equipment, 26.2%, transportation, 25.3%, and machine-building, 13.9%. The destinations of exports were Russia, Belarus, Turkmenistan, Kazakhstan, Uzbekistan, Hungary, Poland, Czech Republic, Turkey, Germany, Australia, Italy, India, and China. The basic machine-building products for export were automobiles, aviation products and means for water transportation.

However, the structure of Ukraine's foreign trade does follow modern trends on the global market and is characterized by a low level of competition on the part of traditional and potential export goods.

The dynamics of supply and demand on the machine-building market, % in respect to previous year:

Machine-building products with high

Year	Supply			Domestic Demand
	Production	Export	Import	
1998	-3.0	-19.4	-12.0	-35.4
1999	-2.1	-17.1	-32.5	-26.9
2000	16.8	48.2	25.9	16.0
2001	18.8	26.2	22.5	2.5
1st quart. 2002	8.7	29.3	46.5	24.9
2nd quart. 2002	3.4	9.2	26.8	16.7

Source: DerzhKomStat

technical characteristics are being imported acutely. Such a situation is explained by an increase of domestic demand and the beginning of a phase of equipment modernization. The domestic market is filled with imported products, and in particular, machines and equipment. In this area, data shows an 84.9% growth in Q1 2002, and in electric equipment, there was an 81.9% growth in Q1 2002.

The pace of production growth is lower than the growth of imports. Ironically, imported products include those that can be produced by domestic enterprises, and in some cases, are produced locally. This is a matter of production equipment – generally electric machines and land transportation equipment, with the exception of railway transport – and their availability to domestic producers.

THIS WEEK IN BRIEF

PLANT CURTAILS OUTPUT

DNIPROPETROVSK. Dnipropetrovsk Piping Plant decreased pipe production volumes 15.9% year-on-year to 117,000 t in January-November 2002. In November, the plant produced 8,000 t of pipes. (*FinPort, Jan. 3*)

CRIMEA SPENDS FOR TOURISM

SIMFEROPOL. Expenditures for the upcoming resort season in the 2003 Crimean draft budget will be increased 230% to Hr 3mn. In 2002, the local budget allocated a mere Hr 1.2mn for this purpose while the state budget spent Hr 140mn on implementing programs for developing the peninsula's resorts. The Resort Ministry expects 5mn people to visit Crimea in 2003. (*UFS, Jan. 2*)

LOCALS HAVE SWEET TOOTH

KYIV. The net share of domestic confectionery products on the domestic market in 2002 reached 98%. Confectionery imports reached 14,600 t. Domestic production did not match European levels because of old equipment. Now, the market is finally competitive. (*FinPort, Jan. 2*)

NEW PHONE CHARGES

KYIV. After the president vetoed the law canceling charges on incoming mobile calls, operators began discussing possible charges for incoming calls on land-line phones, said a co-author of the law NU Deputy Borys Besspalii. He also said there was talk President Kuchma is personally interested in the telephone business. (*UFS, Jan. 2*)

QUIET NEW YEAR

KYIV. For police, New Year celebrations were rather quiet in the country. 78 crimes have been committed since the beginning of the New Year and 66 have thus far been investigated and solved. The majority of crimes on New Year's Eve were robberies and hooliganisms. (*ICTV, Jan. 2*)

CASE CLOSED

KYIV. The Kyiv Prosecution has closed a criminal case on the construction of a fitness center near the St. Sofia Cathedral due to lack of crime, reported Kyiv City State Administration. The case was launched in August 2002 when civic protesters said the new center threatened the historic landmark. The case attracted the attention of President Kuchma himself who ordered the matter be thoroughly reviewed. (*BBC, Jan. 2*)

CONSULATE TOO CLOSE

L'VIV. The Ministry of Foreign Affairs is debating the legitimacy of moving the Russian General Consulate in L'viv to a new premises. The conflict centers around a building which is close to the Border Troops Department. The location contradicts the Vienna Convention on consular relations. The L'viv City Council reported consulate representatives have not yet asked city officials for permission to move to the new location. (*Deutsche Welle, Dec. 28*)

BEER PRODUCTION UP

KYIV. In November, breweries increased production volumes 33.8%, or by 2.453mn dal to 9.708mn dal, compared to November 2001. Brewers said production volumes grew due to good weather and an unusually warm November. (*FinPort, Dec. 28*)

improving competitiveness, therefore worsening the financial state of the enterprises;

- The critical financial situation of a greater part of the sector's enterprises, which does not provide the necessary conditions to attract investments to the sector. More than half of the machine-building companies are in the red;
- A low level of research and development activity which does not contribute to improving competitiveness;
- Undeveloped structure for product sales, which negatively influences net income and profits;
- A extremely high coefficient of deterioration of basic funds which are constantly growing. In fact, the deterioration coefficient in the machine-building sector is higher than in the industry as a whole.

Strategic directions of development

At the end of 2002, the Ukrainian economy experienced certain changes connected to the limitation of certain internal and external factors. Mainly, the reduction of incomes from exports and the stabilization of the exchange rate of the hryvnia by the NBU. These factors will result in a decrease in the demand in the basic sectors of industry and will create the conditions to cover this demand with the domestic products. In short, it will limit exports and imports. Thus, the domestic demand will be the main factor of economic and industrial growth.

Economic regulation would provide for industrial growth, vitalization research and development. For that reason, the strategic development should be based on preserving and supporting the potential of the sector, taking into account the ability to finance its development on the domestic and foreign markets.

With the purpose of initiating demand for machine-building products, it is necessary to execute the following strategic steps:

- In the sphere of supply-
- Increasing production volumes for the domestic market while simultaneously raising quality and reducing imports. By 2011, Ukraine's need for machine-building products should be satisfied with domestic products for at least 80-90%;
- Introduction of the new machine-building products in order to minimize waste products, and the possibility of using waste products for the manufacturing of other products. Moreover, the purchasing of technologies and licenses for mastering new machine-building products with high levels of safety and quality. Also, low

prices should be the strategic aim of the sector's enterprises;

- Broadening the variety of machine-building products available for entrepreneurs and the public service sphere through development and production of multi-functional equipment which will be able to compete with foreign products;
- Transition to engineering production, assembly, installation, and service;
- Setting up a mechanism for depreciation of capital equipment costs so that a company gains the right to write off certain types of equipment;
- Establishment of banks that will provide long-term loans for large enterprises against the fiscal interest, stimulating insurance of credits and state guarantees on the basis of collateral;
- Setting up preferences for the import of technologies – but not products – in the high-tech sector;
- In the area of state regulation-
 - Decrease taxes for enterprises of the machine-building sector and implement sector taxes instead of the privileges in certain sub-sectors of machine-building, such as automobile, tractor, agro, and ship-building;
 - Protection of the economic interests of Ukraine on global markets through the establishment of necessary conditions for domestic companies in terms of foreign activity and the protection of the interests of domestic companies in case of violation of the anti-dumping procedures by foreign countries;
 - Support of Ukrainian producers through the preservation of the positions on the traditional foreign markets and the increase of the number of export destinations;
 - Promoting programs aimed at raising competitiveness on global markets, under the condition of preserving the competition on the corresponding Ukrainian markets;
 - Development and implementation of programs for stimulating industrial exports, which will provide for realization of competitive advantages of the domestic industry. The advantages are natural resources, developed mineral-raw materials base and transport infrastructure, high technological potential of the defense and civil production, mass manufacturing of relatively cheap products, which are demanded on domestic and foreign markets, significant scientific-technical potential, patents, know-how, high-professional staff;
 - Protection of the domestic market in

terms of certain traditional types of products;

- Widening of the mutually-beneficial cooperation between Ukraine and members of international unions in the sphere of competitive policy. In particular, through the establishment of coop-

eration with the European Commission and other countries, including members of the Organization for Economic Cooperation and Development. •

— Y. Brydun is a Research Assistant at the Institute for Economic Forecasting.

2003 Budget

A penny-pinching plan

KYIV. On Dec. 26, the VR passed the 2003 budget in the third reading by 348 votes. The budget foresees Hr 50,020,875,900 in revenues and Hr 52,004,254,700 in expenditures. The budget deficit totals Hr 1,983,378,800.

The draft was submitted by First Vice Premier Mykola Azarov and the Budget Committee Chair Petro Poroshenko. Presenting the draft, Azarov called the 2003 plan a "realistic budget."

"The bill represents a compromise and the deficit will be covered by domestic loans," said Poroshenko. "The vote on the budget showed that the political crisis in the parliament can be overcome, and that is the first step toward collaboration between the VR and the Cabinet," he observed.

Three opposition factions supported the bill, with the exception of the communists. Poroshenko commented that the refusal on the part of CPU to participate in the vote will probably not impact relations between opposition factions.

Viktor Yushchenko also commented on the CPU refusal: "No one expected the CPU to vote on the budget because communists will always be communists."

Poroshenko added that there was a budget cut of nearly Hr 40mn from the coal industry, as well as some funding from the Industrial Policy Ministry. Planned indicators were Hr 49bn, but the Hr 51bn approved figure is realistic, taking into account the 4% GDP increase.

As for parliamentary collaboration, NU Deputy Yuriy Kostenko said: "the constructive part of the parliament was not concentrated only around the majority. NU supported the budget along with some opposition and majority factions."

In turn, majority factions were less optimistic regarding the success of the budget bill voting. Democratic Initiatives leader Stepan Havrysh reported the budget was passed because it was the only way to keep stability within the parliament. "It was kind of an instinctual self-defense mechanism on the part of both opposition and majority factions," added Havrysh.

Upon budget bill passing, the VR Speaker Volodymyr Lytvyn said the budget was a victory for the parliament. "Budget 2003 was passed according to the new budget code. Special stress was placed on the social sector, which in the new year, will be more balanced," concluded Lytvyn. •

Legislative deadlock

Barometer rising

Since the elections in March 2002, the issue of forming a majority in the Verkhovna Rada has been very contentious. The opposition, particularly the popular *Nasha Ukraina* bloc led by Viktor Yushchenko, has faced a number of high-profile defections, though it is not always clear what has gone wrong. Even the western press has become aware that many deputies have been bullied into leaving the opposition to join the majority.

At the moment, the VR is in somewhat of a deadlock. The four opposition factions — BYT, CPU, NU, and SPU — offered the VR majority a package of political agreements which could annul the controversial Dec. 17 vote and free work in the VR, Yushchenko reported on Dec. 19. Socialist leader Moroz

said the package included a law on a proportional electoral system, the establishment of a commission for Constitutional reform, and laws on tax reform and budget revenues.

It is clear why the opposition is having problems with what is going on in the VR. In mid-December they suffered five more NU defections to the majority. The bloc's solid 126 has gradually shrunk to barely 100 since Mar. 31. Though the specific reasons for such defections are not always clear, the average person on the street says it is because of the type of people Yushchenko brought into NU.

Yushchenko himself gave as a reason why NU refused to pass changes to the FATF-required money-laundering bill, the fear

THIS WEEK IN BRIEF

UNFINISHED EU IN EAST

KYIV. In 2002, the European Union took a big step toward expanding the zone of peace and its own borders, reported the Financial Times. However, the EU is not complete in the East — unfinished work remains in the former Yugoslavia, Ukraine, Belarus, and Moldova. The FT said these countries cannot be ignored since their instability currently influences the whole continent. Ukrainian, Belarussian and Moldovan presidents do not seem to believe in democracy and open markets, which are basics for the EU. FT said debates on these candidates will be postponed another 10-15 years.

(Financial Times, Jan. 2)

OBOLON'S NEW YEAR PLANS

KYIV. In 2003, Obolon plans to increase production volumes by 20% on 2002, said Honorary Obolon President Oleksandr Slobodian. Slobodian said the company has prepared a production development program, although he did not give any details. In 2003, the company will focus on soft beverages. Obolon expects production growth of 10-12% in 2002, as compared to 2001.

(FinPort, Dec. 28)

PIPING PLANT LAYOFFS

DNIPROPETROVSK. Dnipropetrovsk oblast piping plants finished 2002 with multi-million hryvnia losses. 10 piping plants in the region cut production volumes by 10%. In absolute indicators, losses will total more than Hr 50mn, while in 2001, the branch had revenues of Hr 250mn. (Deutsche Welle, Dec. 28)

PGO PURSUES UES CASE

KYIV. In January 2003, the Prosecutor General's Office plans to submit materials on the case of the former management of United Energy Systems of Ukraine to court. The investigation, claiming charges of embezzlement and abuse of power, is nearly over.

(Dec. 28)

APPROVED BUDGET REVENUES

KYIV. The Kyiv City Council approved the city's budget for 2003. Budget revenues total Hr 4.13bn, including Hr 700mn from outside loans and expenditures equaling Hr 4.83bn. The largest budget revenue article includes personal income tax at Hr 2.5bn.

(UFS, Dec. 28)

ENTREPRENEURS NEEDED

KYIV. President Kuchma said Ukraine is in dire need of developing entrepreneurship, and thus, he appealed to local officials to actively develop small and medium-scale business. He said that developing SME is the government's priority, and when local authorities do not support this priority, negative consequences undermine the image of officials.

(ICTV, Dec. 28)

EUROPE'S DIRTY CHILD

BERLIN. Ukraine's image in the West can now be described as that of Europe's dirty child, said German political scientist Reiner Lindner, who specializes in political processes in Eastern Europe. So as not to remain an outsider, Ukraine should urgently implement cardinal reforms in 2003. Although not generally optimistic about Ukraine, Lindner said 2002 was important for the country in terms of foreign relations. (ForUm, Dec. 28)