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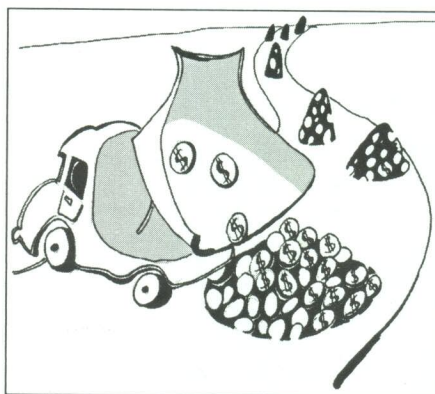
### Taxation

## GONE WITH THE ROAD

Legislators do not seem to be keeping their promise to reduce taxes. While the new tax code languishingly awaits second reading, deputies are coming up with new taxes which promise to make taxpayers' lives even more complicated. Although the most recently proposed tax is called the 'road-use tax', the title is deceptive because everyone could be required to pay it if the law is passed. Why this is called a road-use tax is anyone's guess, given that it will be paid even by consumers who only use a road for the rare walk to the village baker.

### Transport workers hungry

Needless to say, the state does not have enough money to repair existing roads, not to mention constructing new ones. The Verkhovna Rada Committee for Construction,



Transportation, and Communication has therefore submitted for consideration some draft amendments to the Law on Road Financing and is insisting

Continued p. 14

### Politics

## The next premier

KYIV. Immediately after the resignation of Premier Viktor Yushchenko's cabinet Apr. 26, President Leonid Kuchma had said that he would decide on Yushchenko's successor by the beginning of May. In the mean time, however, the president recently announced that he was going to begin consultations no earlier than May 15 with representatives of the various parliamentary groups and factions regarding the Verkhovna Rada's approval of a new prime minister. It therefore appears that it was much easier to dismiss the premier than to appoint a new one. To be approved, the new candidate must have the support of 226 deputies.

Given the delay in selecting a new prime minister, Ukraine's government crisis could continue for several more weeks. A rough estimate of the time required for nominating, discussing and appointing a new premier suggests that the entire process will not be concluded until early June. The president, however, is more optimistic and said that he thinks a new government could be formed as early as the end of the month.

In the mean time, Yushchenko continues to carry out his duties, although as acting prime minister, despite his earlier statements that he would never agree to serve in this capacity. On Apr. 27, Yushchenko somewhat unexpectedly announced that, at Kuchma's request, he would stay in this position for some "three or four more days." By the

looks of things, he might have to play this role for some time yet.

In the mean time, Kuchma has said that, if the VR refuses to approve his nominee, he will appoint a new acting premier. One can draw several inferences from this statement.

First of all, Yushchenko could remain prime minister throughout the entire period during which his successor is being chosen.

Second, Kuchma made it clear that he was going to exercise his power as much as possible to nominate candidates for the post. In other words, if there is a disagreement between the VR and the president on the candidacy of a new premier, Kuchma will prefer to carry on with an acting premier.

The current list of prospective candidates for the premiership contains more than 20 names. The chances of the president and the VR striking a compromise are rather uncertain because there are too many players involved in the process. Obviously, this political game is being played at two levels.

At the parliamentary level, something akin to a joint-stock company, called New Premier, has emerged in the VR. A specific feature of this group, however, is that none of the 'shareholders' has a controlling stake. The shareholders themselves can be divided into three categories:

- (1) Communists, with 112 votes. Their leader Petro Symonenko says that the Communist Party would

Continued p. 3

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FEATURES...	
Interview: Ivan Fediv	5
"Turn the entire country into a free economic zone"	
Balancing the books	6
Accounting reform	
Cabinet report card	7
Industrial development	
Potter's field	9
Ceramics 2001	
Patriarch of Ukrainian nationalism	10
Book review	
A lesson in rich history	11
City survey: Pereyaslav-Khmelnytskyi	
Acting global against AIDS	12
Sustainable and confident	13
Ukraine's consumers	
Waiting for political stability	16
April stock report	
Commercial crediting growth	18
UBA Q1 report	
Ironing the wrinkles	19
New Land Code	
Preserving the riches	20
Canning industry, part 2	
Rites of spring	27
Kyiv Travniviy Festival	
Reluctant capitalists	30
Madness Multiplied	

NEWS...	
Tarashcha corpse is Gongadze	4
Licensing alcohol and tobacco	12
L'viv beer to recover its fame?	20
Agro-chemicals registration	21
Wind of Spring festival	27
Horowitz young pianists competition	27

DEPARTMENTS...	
This week in brief	4,6,8,10,12,14
Regional news: Biryk, Cherkasy, Kharkiv, Kherson, Kyiv, Rivne, Ternopil, Vinnytsia, Volyn, Zaporizhzhia	15
From the ground up	19-21
Hrushevsky Street news	22
HSN: On the books	23
Financial Markets & Companies	24-26
Lifestyles: Shopping for sneakers	28
What's going on	28
Theater listings	29

### HIGHLIGHTS THIS WEEK

**Consumer confidence increasing**  
p. 13



## Industrial development

## Cabinet report card

*The Cabinet reported Apr. 17 to the Verkhovna Rada on the implementation of its Government Action Program for the past year. Premier Viktor Yushchenko made a point of saying that conditions were created in 2000 for the development of national industry as a major factor in the economic development of Ukrainian society, as well as in strategic sectors of the economy.*

In 2000, the volume of industrial production increased by 12.9%, compared to 4.3% in 1999. The high rate of growth was observed in export-oriented industries like ferrous and non-ferrous metallurgy – 20.7% and 18.8% respectively, car manufacturing – 61.4%, aviation – 51.9%, and shipbuilding – 42.0%. The increase in the growth rate in 2000 was especially impressive in light industry – 39.0% over 5.7% in 1999, in food industry – 26.1% over 7.8%, wood processing and pulp-and-paper industry – 37.1% over 23.6%.

After three years of shrinking numbers, Ukraine's exports to CIS countries grew by 38.3%. The export of ferrous metals and their products increased by 4.79mn t, or by US \$258.5mn in terms of proceeds. The share of ferrous metals in Ukraine's total exports to CIS countries constituted 26.9%. Unfortunately, there were certain difficulties this year in Ukraine's pipe trade with Russia but the government managed to settle the problem, although the export quota had to be reduced.

Last year was crucial in reducing the number of barter operations and for increasing cash payments in all branches of industry. Thus, cash settlements in ferrous metallurgy grew by 50%, in the fuel sector – by 60%, and in the power sector – by 80%.

Despite a certain growth of GDP, the factors that led to a growth in industrial production cannot be regarded as the basis for long-term social and economic development. GDP growth was caused by the increased share and larger volume of exports occupied by raw material processing industries, like metallurgy and chemical and wood-processing industries, the efficiency of which largely depends on a favorable situation in the foreign exports market.

This, in turn, increases the share of the fuel and energy sector in the cost of industrial products production, and this complicates the fuel energy supply problem. The government should therefore take more steps to restructure various branches of the economy and to develop the domestic goods and services market.

### Fuel and energy sector

The electricity generation sector is still distorted as far as the use of primary fuels is concerned, because actual use does not correspond to the installed capacities of power

generation plants. The formation of a wholesale electricity market had a paramount importance for the implementation of energy policy. The urgent need to restructure the electricity sector was caused by the shortage of the country's own primary fuels and by difficulties in obtaining imported fuels. As a result, that sector – the production of which belongs to the natural monopolies market, was restructured well ahead of other sectors.

However, unlike in Western European countries, where liberalization of the electricity and gas markets – as well as that of the communications and railway transport services markets – took place when the markets for competitive end-use products and services had already been developed, the restructuring of Ukraine's fuel and energy sector inevitably led to a crisis of non-payments for consumed energy.

As a result of government subsidies and the implementation of measures aimed at fulfilling various developmental programs in the coal-mining sector, coal production has steadily increased since 1997. Important steps were taken in the coal industry in 1996-99 when new organizational and economic mechanisms were introduced into the functioning of sector enterprises and a number of holding companies were set up.

In the meantime, the pace of restructuring the sector, as well as its adapting to market economy conditions, was slowed down by the lack of budget financing, the absence of which did not allow a reduction in production costs and an increase in the quality of coal.

There were also a number of problems with transferring local government-owned facilities previously used for social and cultural purposes, with the migration of miners to economically more solvent mines, with the creation of new jobs and, consequently, with the finding of alternative sources for filling local budgets.

Production in the oil and gas sector has generally stabilized. At the same time, however, domestic production has little chance of further expanding because the main oil and gas fields in Ukraine are already depleted, and less geological surveying is being conducted. Oil and gas sector reforms should continue – particularly the restructuring of the national joint-stock company NaftoGaz Ukraïny and the creation of the domestic natural gas market.

Due to the privatization of oil refineries and the coming to Ukraine of vertically integrated, mostly Russian companies, the volume of refined oil is steadily increasing. Meanwhile, the pace of privatization picked up to such a degree that it practically excluded the possibility of creating domestic vertically integrated oil companies, even though all of the necessary conditions exist.

Energy conservation remains a priority

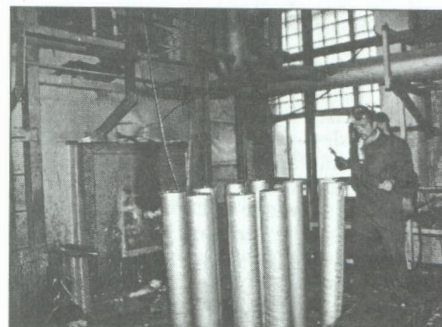
for Ukraine. The existing system of industrial production causes excessive fuel and energy consumption, and because of technological backwardness, the production of major industrial products consumes 6-9 times more energy than in more developed countries, which renders these products uncompetitive on international markets.

Overall, positive changes took place in the fuel and energy sector in 2000 and early this year, especially with regard to the reduction of consumer debt and non-cash settlements. However, despite the adoption of medium-term programs in the power sector and a great number of by-laws, previous Cabinet measures for stabilizing the fuel and energy sector and forming the fuel market were carried out in an unsystematic manner because of the lack of a long-term state strategy for developing power engineering.

Given the lack of appropriate legislation which would support the proper operation of the electricity market, previous cabinets too often tried to improve the situation with resolutions calling for the implementation of administrative measures.

### Metallurgy

Ferrous metallurgy continues to occupy the leading place among non-energy branches, judging by its share in industrial output which has been growing since 1992. A decline in metallurgical production, which began in 1990, leveled out in 1994-95 and changed very little until 1998. As of 1999, production volumes have grown considerably – by 6.2% in 1999, and by 20.7% in 2000.



Brovary aluminium works

Photo: S. Bozhko

The high growth rate in ferrous metal production was facilitated by several factors: the possibility to sell metal products on international markets, a very low demand on the part of domestic consumers, and the reduction of the sector's tax burden as a result of the economic experiment conducted in the branch.

The financial situation in ferrous metallurgy has now generally improved. In 2000, steelmakers reduced their gas debt from Hr 419mn to Hr 222mn, electricity debt from Hr 438mn to Hr 420mn, and salary arrears from Hr 220mn to Hr 128mn.

Furthermore, mining and smelting paid Hr 1.86bn to the State Budget, which is up by 44% over 1999, and Hr 615mn to the Pension Fund, which is an increase of 38.5%. At the same time, lack of working



## THIS WEEK IN BRIEF

**PERSONAL SAVINGS SPLIT**

KYIV. NBU Supervision Department Head Petro Andrushchenko reported that personal deposits in domestic commercial banks grew 10.8% in Q1 2001 and totalled Hr 7.37bn as of Apr. 1. Deposits in hryvnia made up 51.9% of all deposits while foreign currency deposits made up the remaining 48.1%. (STB, May 8)

**SPF: PRIVATIZATION WORKS**

KYIV. Privatized Ukrainian factories produced 240% more goods than state-owned and municipal companies in 2000, said SPF Deputy Chair Hryshan. This shows that privatization was "dynamic and effective" from 1992 through 2000. He added that last year privatized companies began producing 6,800 new items, up 12% from 1999. (UNIAN-Biznes, May 8)

**JAPAN AIDS CHAOS CLEAN-UP**

KYIV. Japan's newly-elected premier, Junichiro Koizumi, wrote in his first letter to President Kuchma that Japan would continue helping Ukraine clean up the aftermath of the Chernobyl accident. The Japanese premier noted that the catastrophe had drawn attention to "serious problems that have no territorial boundaries." (STB, May 8)

**BRETTON WOODS TWINS TO VISIT**

KYIV. IMF and World Bank representatives are expected in Kyiv in late May and early June. Kyiv will first be visited by a Bank mission, after which the capital will host a mission from the Fund, as agreed in early May with a Ukrainian government delegation in Washington. Some US \$176mn in aid to Ukraine is expected this coming fiscal year. Kyiv is hoping that the IMF credits will be released as early as July. (Inter, May 8)

**NATO-UKRAINE LINK IS UNIQUE**

KYIV. NATO Assistant Secretary General for Defense Planning and Operations Edgar Buckley said in the course of discussing military reform in the country that the experience of NATO-Ukraine co-operation is unique and proves the special character of the partnership. Buckley also noted that NATO was trying to cooperate with partner countries on questions of military reform in areas of planning and analysis, which he considers important instruments in working effectively together. (K. Khivrenko, May 8)

**KUCHMA ASKS FOR WAGES**

KYIV. President Kuchma signed a decree on urgent measures to pay wage arrears. It calls for the Cabinet to put pressure on regional, city and district commissions that were established to ensure a timely and full payment of taxes as well as payments for wages, pensions, and other social debts. (UNIAN, May 8)

**CRIMEAN CRITIQUE**

KYIV. Commenting on criticism expressed by the president, Crimean Premier Kunitsyn said he found it hard to argue with accusations that the peninsula's industry was underperforming. Kunitsyn said he found the work of his government unsatisfactory and suggested that some ministers be dismissed. (UT-1, May 8)

capital was reduced from Hr 4.77bn at the end of Q3 1999, to about Hr 0.25bn by the end of 2000. The branch's accounts payable grew only slightly – from Hr 12.8bn to 13bn, while accounts receivable increased from Hr 5.8bn to Hr 8.1bn.

Financial improvements in mining and smelting allowed enterprises to increase their capital investments from Hr 1.6bn in 1999 to Hr 2.35bn in 2000. Significantly, more than 90% of the invested funds was enterprise money, and bank loans constituted as little as 2-3% of the total amount.

The excessive export orientation strategy imposed on enterprises makes the development of metallurgy too dependent on international markets where domestic metal products increasingly encounter difficulties finding unoccupied niches. This is especially reflected in Ukrainian-Russian relations regarding the export-import of metal products. The stable development of metallurgy can only be ensured by the domestic market which, in turn, depends on the development of the machine-building and construction industries. The consumption of rolled products inside the country last year amounted to 20.9%, and in 1999 – 16.8%, which is much less than 53.4% in 1990.

**Machine-building**

Ill-conceived and poorly managed reforms distorted the structure of the industry, with the result that the share of the fuel and raw materials sector increased, and the production of knowledge-intensive sectors, like machine-building, dropped sharply. The increased output in machine-building sector was accompanied by a revival in the range of products. 469 new products were manufactured last year, which is 37.5% more than in 1999. Meanwhile, the production of new equipment declined by 37.2% between 1996-1999.

Since 1991, the Cabinet has adopted nearly 50 pieces of legislation aimed at facilitating the development of various branches of machine-building. It is difficult to give a comprehensive assessment of the efficiency of these measures but, in 2000, the volume of machine-building and metal working increased by 16.5%, while the sector's share in the industry's total output reached 13.2%. Unfortunately, foreign trade operations are in decline and the foreign trade balance of machine-building in 2000 amounted to US \$648mn. Six machine-building branches – aviation and space, shipbuilding, power engineering, electronics, and heavy machine-building – account for 80% of foreign trade turnover.

It should be noted that certain of the Cabinet's decisions – in particular, on writing off and restructuring tax arrears of tractor and harvester manufacturing enterprises – had a positive effect on the production of goods. However, measures taken by the government are not enough to ensure the steady development of machine-building branches and to saturate the domestic market with goods because most Cabinet resolutions only solve problems of particular enterprises and do not facilitate the production of competitive goods. Neither do they satisfy domestic market needs, nor stimulate the development of science-intensive technologies.

There is an urgent need for a well-balanced program to stimulate the demand for products manufactured by machine-building in general and its branches. In implementing its industrial policy, the Cabinet should focus on ensuring the active relationship between production and consumption which a market economy demands. Preferably, this type of activity should be defined in the state industrial policy program. •

– Y. Brydun

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