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KYIV

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Oil giants tighten grip

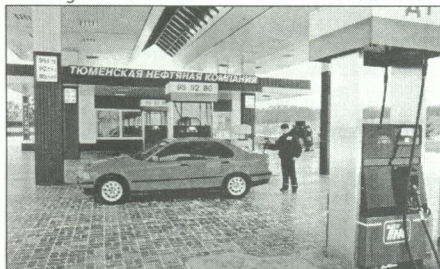
SMALL PRODUCERS DESPAIR

Russia's vertically-integrated monopolies apply increasing pressure to small and medium-sized businesses in all sectors. It is a particularly acute problem in today's energy sector, in which Ukraine plays a pivotal role. Ukraine has always been interested in the diversification of oil suppliers, but today, many small producers are losing crude oil export opportunities, and large producers are taking full advantage of their power. Attempting to support independent firms, Ukrainian leadership is simultaneously hoping to capitalize on the wave of crude oil overproduction in Russia and Kazakhstan. Part one of this two-part piece examines the general situation within the oil sector and aims to bring to light problems facing independent oil producers in Russia and Ukraine.

Dancing with elephants

As November came to a close, the European Bank of Reconstruction and Development, or EBRD, published a study which clearly

Motoring in on the indies Photo: V. Falin



indicates that Russia's large monopolies are increasingly squeezing small and medium-sized independent businesses out of the market, particularly in the oil sector. EBRD research shows that monopolistic holdings violate conditions of fair competition. In neighboring Poland, companies with less than 250 employees provide jobs for up to 70% of the population, but in Russia, this share does not exceed 26%. The trend toward growing monopolization has not gone unnoticed by the Russian government and legislators.

In October, Russian State Duma member Vladimir Medvedev told EE that today's Russia faces the prospect of becoming a country run by a new POLITBUREAU, or super rich oligarchs. Legislative and political means must be utilized to retain a market share for small oil and energy producers. Unfortunately, big Russian holdings in Ukraine are putting increasing pressure on refineries controlled by the Ukrainian government, or which have Ukrainian operators. This includes 320,000 b/d from the Kremenchug refinery, 78,000 b/d from Drohobych, and 72,000 b/d from Naftohymyk Prykarpattia. A trader working for Drohobych refinery said: "it becomes increasingly difficult to buy crude oil from Russian companies at acceptable prices because several big players have divided their spheres of interest within Ukraine."

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Freedom of speech hearing

United they stand

KYIV. The Verkhovna Rada was standing room only at 10:00 Dec. 4, when hearings began under the title, "Society, Media and State: Freedom of speech and censorship in Ukraine." Some 1,000, including journalists, diplomats and civic leaders are estimated to have attended. The reverberations could be heard throughout the capital for the entire week.

In his opening remarks Deputy Speaker Oleksandr Zinchenko remarked, "Public debate versus hushing up sensitive social issues is a natural process. By this open discussion, we are testing our loyalty. We each have our own outlooks, advantages and problems. We're open to friends, to friendly advice and we don't accept didactical style as well as disrespect."

Zinchenko, who is himself the "honorary" president of the Russian-

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Shevchenko: "We will act!"

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HIGHLIGHTS THIS WEEK

"I don't recommend launching in Kyiv, since the market is already saturated."

— Valeriy Lazar, Director of AgroProd on the soya market

See p. 6

Influence on the Yanukovich government

See p. 12

THIS WEEK IN BRIEF

SA DISAPPOINTS INVESTORS

BRUSSELS. Over the last decade, the Belgian brewer best-known for making Stella Artois lager has gobbled up 35 beer companies around the globe, transforming itself into the world's third largest brewer by volume. As it has moved into developing markets, however, it has been dogged by a series of managerial missteps that have led to a 33% slide in its share price. Still, most analysts rate Interbrew a good buy. (M. Williams, Dec. 6)

RUHRGAS IS READY

KYIV. The German Ruhrgas is ready to enter the international consortium on the management and development of Ukraine's gas transporting system, said a chief representative of the German company. However, he stressed that Ukraine was still not clear about the role of foreign companies in the consortium. On Oct. 7, Ukraine and Russia signed an intergovernmental agreement for strategic cooperation in the gas sphere and a corporate agreement between GazProm and the national NaftoGaz Ukrainy for establishment of an enterprise entitled "The International Consortium for Management and Development of Ukraine's Gas Transportation System." Initially, the companies are to each place \$1mn into the statutory capital of the consortium. (Interfax, Dec. 6)

NO BONDS

KYIV. NaftoGaz Ukrainy can not issue Gaz Ukrainy bonds because it has no financial ability to repay them, said Minister of Economy and European integration of Ukraine, Valeriy Khoroshkovskiy, after the meeting with Luca Barbone, World Bank Regional Director for Ukraine, Moldova and Belarus. Despite the fact that NaftoGaz Ukrainy is a big enterprise, according to its financial report, it will not be able to produce payment for bonds. Barbone indicated that to issue NaftoGaz bonds is in some ways problematic, and finances should be thoroughly investigated before making a move. (UFS, Dec. 6)

STA CHAIR YURIY KRAVCHENKO

KYIV. Former Home Affairs Minister Yuriy Kravchenko was appointed Chair of the State Tax Administration. He replaced Mykola Azarov, who was STA Chair since the administration's foundation in 1996, and who is now a First Vice Premier and Finance Minister. Since December 2001, Kravchenko was a Kherson Oblast Administration Chair. He was Interior Affairs Minister from July 1995 until March 2001. Many politicians explain his dismissal from the Interior Ministry position through his ineffective investigation of the Gongadze case. [See story p. 11-12] (Interfax, Dec. 6)

5TH CITY CENTER IN UKRAINE

SIMFEROPOL. On Dec. 6, the fifth Lufthansa City Center was opened in Ukraine. Lufthansa signed an agreement with Aquavita travel agency to work under the name of Lufthansa City Center Aquavita, Simferopol. Lufthansa considers the Ukrainian market very important, noting its great potential for further growth. The opening of Lufthansa's City Center in Simferopol is the first step toward penetrating the Crimean market, said Lufthansa General Director for Ukraine, Antonio Cuoco. Currently, there are four Lufthansa City Centers in Ukraine: Kyiv, Odesa, L'viv, and Dnipropetrovsk. (IStaff writers, Dec. 6)

Regional survey: Volochysk

Becoming a horn of plenty

The first time Volochysk was mentioned in any known document was on July 9, 1463 in an act relating to the Zbarazkiy princes' land. At that time, the town was situated on the trade route between the east and the west and was therefore highly sought after. In 1569, Volochysk fell under Poland's rule, and nearly 80 years later, in 1648, the armies of Bohdan Khmelnytskyi liberated it from the Poles. However, it was later conquered by Poland again. Volochysk is located in the western part of Khmelnytskyi oblast, on the left bank of Zbruch river, a tributary of the Dnister, 69 km west from Khmelnytskyi and 318 km from Kyiv.

In the 17th century, Volochysk was one of the trading centers of the Podillia region, which occupied the current territories of Khmelnytskyi and Vynnytsia oblasts. After the right-bank Ukraine was joined to Russia, Volochysk was included into the Starokonstantynivsk district of Volyn province. A border town, Volochysk was an important aspect of Russia's foreign trade, and in 1795, a customs service was opened. Various ag products, horses and cattle were exported and citrus fruits, furniture and other goods were imported. By 1913, Volochysk boasted over 190 private stores, two libraries and 3 book shops.

With both the Kyiv-L'viv highway and railroad running through this town, Volochysk, population of 24,000, is the thriving center of this region by the same name, which covers 1,100 sq km. The region's population totals 77,400 people.

Industry

In the first half of 2002, the volume of the region's industrial output totaled Hr 21.1mn, or 2% lower y-on-y. Although industrial output was down, there were some firms that saw substantial growth. For instance: Meteor Plant, 108.4%, Machine-Building Plant-branch of Motor-Sich, 106.1%, and a subsidiary of Mineral Waters Plant of Motor Sich, 101.6%. Overall, the region's enterprises launched 11 new products during the first six months of 2002.

With production came an increase in sales volumes. During the first six months of 2002, sales volumes of industrial enterprises totaled Hr 11.1mn, including Hr 3.3mn from barter operations, or 29.8% of total sales. Yet there were some firms that managed to decrease their barter transactions: the Volochysk branch of Khmelnytsk-MolProm, the local vegetable cannery, the brick plant, machine-building plant, and the Nominal Company.

In Jan.-June, Volochysk Cheese Plant produced 286.7 t of butter, or 93% more y-on-y. The plant also produced 9,565 t of milk. Also, the plant launched the Volohodske butter line.

Volochysk's Machine-Building Plant pro-

duced one electric power station EG-2500-M1 and one repairing engine. Moreover, the plant increased production of consumer goods for the domestic market, and produced spare car parts for Hr 6mn, or 23% more y-on-y. There are 6 building companies operating in the region, and in the first half of 2002, their production volumes totaled Hr 246,000.

In Jan.-June, there were Hr 2.043mn of basic investment funds within the region's enterprises - Hr 288,000 of these were private funds and Hr 1.755mn in collective funds.

In Jan.-May, 15 of the region's enterprises and organizations were profitable. Total profits reached Hr 246,000. The remaining organizations were unprofitable, and losses totaled Hr 1.838mn. In all, 70 of the region's enterprises have accounts receivable of Hr 37.213mn and accounts payable at Hr 86.105. Compared to Jan. 1, 2002, the A/P decreased by Hr 9.985mn and A/R increased Hr 2.485mn. The main debtors are sugar refineries and ag companies.

Down on the farm

There are 134 farms registered in the region. These farms sit on 3,848 ha of land, or 28.7 ha per farm. Farmers received Hr 50,000 of loans in 2002.

On the whole, 511 persons took 1.356 ha of their allocated land shares from the former kolhosps in order to expand their land plots. Private farmers received their property shares in kind for the sum of Hr 1.083mn. All farmers in the region have received their property certificates.

The main goal in developing the ag-industrial complex is setting up conditions to stabilize horticulture and food production volumes. In order to increase grain production and to meet the requirements of the Grain-2002 program, 41,826 ha were sown with grain in 2002. This included 16,084 ha of winter wheat, 4,855 ha of buckwheat, 2,246 ha of corn for seed, and 13,762 ha of oats. In addition, 7,466 ha of sugar beets, 4,037 ha of potatoes, 692 ha of vegetables, and 15,895 of fodder were sown.

In the first six months of production, all types of live-stock increased. In particular, meat volumes increased by 42 t, milk by 717 t, wool by 1 centner, eggs by 650,000, pigs by 3,500, sheep by 10 heads, and poultry by 77,000 y-on-y.

Consumer market

The region's consumer market continues to show promising developments. The regional trade network has widened, although there was a drop in spontaneous sales points. In fact, the region's enterprises now

THIS WEEK IN BRIEF

APPLE PRODUCT OUTLETS

KYIV. WEGA Distribution, Apple's official partner in Ukraine, is now selling computers to IT outlets. The company has plans to sell a wide range of products, including eMac, iMac G4 and iBook, and has high hopes for its latest MP3 player – Apple iPod. Oleg Lakhotsky, from WEGA Distribution, said that the decision to put Apple machines on store shelves stemmed from great public interest in Macintosh. (*EuropeMedia*, Dec. 5)

NO EUROPE WITHOUT UKRAINE

KYIV. Lithuanian President Valdas Adamkus told US President Bush that Lithuania can not imagine Europe without Ukraine. Bush's response to Adamkus, however, was mixed. Bush said that he now better understands Lithuanian interests in Ukraine, and agrees with Adamkus' position regarding the role of Ukraine in Europe. However, Bush's attitude toward Ukraine is still somewhat fickle. (*Ukrainska Pravda*, Dec. 5)

2003 DRAFT BUDGET TOO LARGE

KYIV. The 2003 draft budget is Hr 5-7bn over the target budget, said Economy and European Integration Minister Khoroshkovskiy. He indicated that the government is adjusting the final indicators of the draft with the Budget Committee. (*UFS*, Dec. 5)

QUESTIONING OF ECONOMY MINISTER

KYIV. According to Kyiv prosecutor and Deputy PG Vasyl Prysiazniuk, the prosecution investigating the case on the murder of Ukrainian News information agency's Director, Mykhailo Kolomiets, plans to question Economy Minister Khoroshkovskiy, co-owner of the agency. Prysiazniuk did not specify whether Khoroshkovskiy was to be interrogated as a witness or a suspect. Additional court medical examinations of Kolomiets' body are set for Dec. 9. (*UNIAN*, Dec. 5)

ACADEMY HONORS TYMOSHENKO

KYIV. BYT leader Tymoshenko was awarded a diploma, making her an honorary member and professor of the Russian Defense and Security Academy. The award was given for her reforms in the fuel and energy complex, her fight against corruption, and her radically new approaches within the energy sector. (*UNIAN*, Dec. 5)

UKRAINE LOSES IN BRAIN DRAIN

KYIV. Ukraine has turned into a country exporting its labor force, said Economic Forecasting Institute Director Yevhen Medvedyev. He said the country is losing up to US \$10bn due to the brain drain. According to recent estimations, 1.5mn to 5mn Ukrainians are currently working abroad. The average age of Ukrainian emigrants is 35-45 years. Medvedyev added that immigrants earn about US \$500-600 a month. (*FinPort*, Dec. 5)

DEFENSE MUST CUT ARMY BY 20%

KYIV. President Kuchma instructed the Defense Ministry to prepare the dismissal of 20% of the manpower in the Ukrainian Armed Forces. He said the decision is due to a reorganization of the Armed Forces and improvements in its fighting abilities. According to current military reform programs, the Army should become absolutely professional by 2015. (*Studio 1+1*, Dec. 5)



Education is central to the development of any society. The region has managed to preserve a network of institutions including 29 pre-schools, 60 schools, and an innovative educational complex which houses an athletic school for youth, an art school and an inter-regional technical training facility which is also a functioning and productive factory. There are 9 educational unions operating in the region. 8,154 students are involved in the secondary educational system which is fed by 1,181 pupils in the pre-school system.

To supplement the educational system, the region has 105 cultural institutions, which include 56 cultural clubs, 45 libraries, 2 museums, and 1 cultural-recreational park. The current goal in the region is to maintain the existent network of cultural institutions, to improve the material-technical base, and to maintain and improve library collections. In addition, the decision has been made to support arts groups in the region by the name of Narodniy and Zrazkoviy.

A real problem which has plagued the state for some time has been its arrears of social service payments; however, as of June 6 of this year, the arrears for state allowances for children were eliminated. Social service payments for a sum of Hr 629,500 were made to 5,262 families. 7,368 families with children received a total of Hr 725,300 in social assistance, and 607 individuals received assistance for providing care for the elderly.

As with many societies, the number of pensioners grows every year, and as a result, the Pension Fund of the region provided 20,535 pensions, which was in fact 106.3% of what had been budgeted. As of July 6, wage arrears totaled Hr 3.25mn. However, arrears do not exceed 1.6 months in the region.

Arrears in different sectors

Sector	Hr
Ag	1,851,700
Industry	1,087,400
Building	53,900
Trade	8,000
Housing-public	800
Other	229,300

While there are probably many who are responsible for wage arrears, there are always a few exceptions. The following enterprises do not have any arrears: Machine-Building Plant, Mineral Water Plant, AgroKhim, Volochysk branch of KhmelnytskGaz, Shveyina Fabryka, public-housing agencies, transport services, and 9 ag trade-producers. •

have their own points of sale, and several company stores are also under development.

In Jan.-June, production of consumer goods totaled Hr 11.38mn, or 4.8% more y-on-y. Non-food production grew as much as 8.8% and retail trade turnover totaled Hr 5.246mn. Not only has the region seen an increase in the sale of products, but in the first six months of the year the volume of services increased by 14.6% y-on-y and reached Hr 899,100. The population paid Hr 608,200 for services, or 12.9% more than in the previous year.

The region has a commercial market made up of 315 sales kiosks which sits on 3,000 sq m of land. 161 of these kiosks are occupied by local businesses. In addition, another market, 587 sq m, is located in the Volochysk central store. The market includes 42 sales kiosks. Plans are underway for a third market to be built in the near future.

Community life

Volochysk Housing Agency provides residential housing on 188,000 sq m of land. On the whole, the region has 98 state owned buildings. Most construction is carried out according to individual orders, partially at the cost of the region's businesses, institutions and organizations. Since the beginning of the year, housing initiatives span 1,005 sq m, including 335 sq m in rural areas.