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Cabinet forecasts

SUMMER WEATHER REPORT

The hot July weather has not in any way affected the climate in the cool marble halls of the Cabinet of Minsters building. Business was as usual since the new legislature has aligned itself conveniently with the president. Calm winds and sunny skies are perfect for the Verkhovna Rada's summer recess as well as vacations for part of the Cabinet and the president. Summer is traditionally a dead season in Ukrainian politics. Using some simple logic, a modest political forecast can be made for the next few weeks, when it can be assumed that the crisp autumn air, in an absolutely different way, will influence weather conditions among the powers-that-be. Once deputies are back from the summer cottage or high-end sanatorium in Crimea, some thunder and lightening can be expected, perhaps even a gale or two.

Steady temperatures

The Cabinet is the only branch of government which must perform its constitutional functions unrelieved by weather conditions or vacation periods. Any forecast should be based upon the observation of recent events – of which there are a few critical ones –, their explanation and analysis.

First, the last VR session ended July 12. A legislative overhaul was in the works, including a bid to dismiss the Kinakh government, and the air in the Verkhovna Rada gives reason to assume that the fall will bring a stormy season to the legislature.

Lately, the Cabinet itself has been engaged in rather routine work: preparing bills, working with IFIs, and so on. Sometimes the work does get more interesting, such as when ministers debate the sale of attractive state assets like UkrTelecom. A really stimulating day in the Cabinet is when the government needs to handle "street democracy" – kicking striking miners off Khreshchatyk and listening to various interest groups heckle them from the street. Unfortunately, this time, they also had to deal with the tragic aftermath of an explosion in a coal mine and the burial of the victims.

A traditional summer preoccupation for the Cabinet is the battle for the harvest, although that arena is gradually shifting from domestic farms to international markets. The harvest is as important to Ukraine as ever, since it is keen to restore its "Breadbasket of Europe" image. At the same time, the European Union is concerned about cheap East European grain flooding the market.

Clear horizons

Despite such a variety of responsibilities and circumstances, the Cabinet once again has undertaken to give hope to the nation. This time around, they published an optimistic list of economic indicators for the first half of 2002`.

Continued p. 3

GUUAM summit

Things fall apart

YALTA. On July 19-20, GUUAM heads of state held their fifth meeting in Yalta. As was expected, the leaders signed several strategic documents: a declaration of joint efforts to ensure stability and safety in the region; a decision regarding the status of observers of GUUAM activity; and a joint communiqué on the results of the summit.

Agreeing on cooperation Photo: A. Ivanov

Foreign ministers also signed an agreement on establishing a free trade zone among member countries, and setting up temporary regulations on the GUUAM information office in Kyiv. In addition, they agreed to cooperation among member governments on fighting terrorism, organized crime and other dangerous activities. Culture ministers signed a protocol on cooperation in the cultural sector for

Continued p. 4

FEATURES

NEWS...

DEPARTMENTS...

HIGHLIGHTS THIS WEEK

Crash at air show
83 dead

see p. 8

protection.

VM: Unfortunately, Ukrainian producers do not want to protect their products with control stamps or special labels or packaging, saying the production cycle would be slowed down and production costs would increase. But every mass production label may be produced with protection and a number. It is not so expensive for the well-to-do company. Truthfully, production costs for a good-quality label is not cheap. Undoubtedly, labels for legal and illegal products are often being printed at the same printing offices, since there is no strict accounting control of polygraphic products. Implementation of numbers and holographic elements would solve the problems of forgeries at least for 5-10 years.

Dovhan was the first company to find the best way out, joining the accounting of its products with an advertisement campaign. The numbers on the labels were covered with a hologram, which could be torn off. Every number was registered in a prize drawing.

The control stamp costs Hr 0.019-0.11. Is it really big money, compared to the retail trade rate of 15-50%? I think it is impossible to have control without control stamps. Audio- and video-products have been protected with these stamps for almost two years. Moreover, the paper stamps will be changed for holographic labels with numbers. There was global reaction to the lack of control of intellectual property products in Ukraine. I consider the consumer market also to be an important issue. •

– O. Ihnatenko

DOMESTIC AFFAIRS

Regional survey: Kreminna

The East's quiet success

Luhansk oblast's Kreminna region is known as the beautiful part of Donbas. It is rich in minerals, natural resources, flora and fauna, not to mention a 35 ha forested area that is a favorite vacation spot for the area's residents. The Kreminna region is 1,626 sq km, or 6% of Luhansk oblast, and includes one town, one town-like settlement, 38 villages. There are 52,600 residents, including 21,500 rural residents. The region is primarily agro-industrial. In 2001, industrial production included: combine fodder, 62.4%, food, 16.6%, machine-building, 12.4%, chemical industry, 3.9%, wood processing, 4.4%, other, 0.3%.

Industry

Luhansk oblast is fourth in industrial output production in the country. The economic potential of the region is founded upon 19 industrial enterprises and 130 small enterprises. In 2001, the industrial enterprise production volumes totaled Hr 14mn plus Hr 16.6mn worth of public works and housing construction enterprises, which was 31.7% more than in 2000. The production volume growth index made up 86.1%. The main reason for the decrease in industrial production was institutional reorganization at the Kreminna Milk Plant, which has recently joined the new enterprise Kreminna Milk Plant of Donetsk. The annual production volume losses totaled Hr 2.5mn. Also, Krasnorechensk's Frunze Plant has been in a difficult financial situation and played a considerable role in decreasing production volumes – even its energy supply was cut off.

The region's priority sectors are food and mixed fodder, which provided 79.1%, or Hr 11mn, of the total volume of industrial production in 2001. The reasons behind the success of the sectors' enterprises like Kremen Flavoring Plant, Pinta, and the Krasnorechensk branch of the Lysychansk Poultry, were expanding of product assortment, active marketing, implementation of new approaches and methods to management, the establishment of their own trade networks and cooperation with entrepreneurs.

It is worth noting that the Ukrainian-Polish company VIKO Ukraïna is functioning within the framework of the law on Special Regime of Investment Activity on a Territory of Priority Development in Luhansk Oblast. In four months of 2001, the company's production volume totaled Hr 660,100. The company specializes in production of furniture for offices and shops. As a result of the Ukrainian-Polish enterprise's investment of US $406,000, or Hr 2.2mn, into furniture production in 2001, 80 new jobs were created.

The main contributors to 2001 production volumes were: Politeks, with a production growth of 1.5%, Kreminna Flavoring, 7.9%, the Krasnorechensk branch of Lysychansk Poultry, 25.8%, KremenMash Plant, 30.3%, and Kvalitet, 4.1 times.

Domestic machine-building problems have effected Kreminna enterprises. The main problems are worsening of the financial state, deterioration of basic assets, breakdown of partnerships with CIS countries, consumer loss of purchasing power, lack of circulating assets, and out-of-date production facilities. The share of the machine-building enterprises in the total volume of industrial production of the region is 13.2%. Such essential enterprises as Ritm Plant, KremenMash, PressMash and KhimAvtomatyka all use about 20% of their capacities.

In connection with the close of Kreminna region coal mine LysychanskVuhillia, the state budget released Hr 2.178mn to realize an investment project to reconstruct the enterprise into the ag product processing center, LKB LTD. US $3.756mn of investments are planned to be distributed in 2002, creating 172 new jobs.

On the whole, there were qualitative changes in the region's economy in 2001.

Sales volumes increased Hr 9.8mn, or 33%, caused by consumer demand increase and a 55.2% decrease of barter transactions. The region's economic complex suffered Hr 572,000 in losses in 2001, or 64.4% less than in 2000. Enterprise profit totaled Hr 1.3mn, or 85% more Y-on-Y. Accounts payable was decreased 50.7%, or Hr 30.9mn. Accounts receivable was also decreased 17.3%, or Hr 3.3mn.

Ag sector

The Kreminna region's area totals 162,700 ha, including 94,600 ha of ag land. The region's ag sector includes 19 ag enterprises, six private enterprises, six ag co-operatives, 102 farms, two milk and flavoring processing enterprises, three service companies, RaySnab, AgroPromTechnika and SelkhozService –, 23 processing workshops, windmills, shellers, oil refineries, bakeries, slaughterhouses and sausage factories. The last several years have seen a trend in the improvement of the ag-industrial sector – gross output totals Hr 19.7mn. The ag sector gathered its best harvest in eight years, with grain crops of 56,300 t with a yield of 22 c/ha which exceed the 2000 harvest by two times. The winter crop harvest totaled

Economic and social indicators

	2000	2001
Production development		
Industrial production volume Hr, mn	12.600	14.40
2000, %		103.00
Gross output, ag products , Hr mn	14.300	19.70
Financial indicators		
Enterprise profit, Hr mn	2.550	1.84
including ag, Hr mn	1.872	0.89
Enterprises losses, Hr mn	39.200	2.86
including ag, Hr mn	2.143	0.34
Share of the enterprises in total production, %	42.000	56.60
including ag, %	73.000	36.00
Local budget revenues, Hr mn	2.400	3.50
Local budget expenditures, Hr mn	10.900	10.70
Ag sector credits, Hr mn	1.8	4.80
Social indicators		
Services, Hr mn	8.909	10.78
Residents' income, Hr mn	46.800	55.20
Per head, Hr	889.000	1,055.00
Jobs, '000	11,577.000	9,200.00
in industry	1,823.000	1,100.00
in ag	4,760.000	3,200.00
in construction	292.000	200.00
New jobs	200.000	250.00
Wages fund, Hr mn	19.800	18.80
Investments		
Investments, Hr mn	0.600	0.84
Foreign investments, US mn		854.50
Small enterprise support		
Small enterprises		130.00
Jobs		1,569.00
Investment companies, credit unions		1.00

36,800 t, yield, 28.9 c/ha. It allowed a decrease in flour and bread product prices.

The sunoil harvest totaled 9,700 t, or 3,200 less than in 2000, mainly due to unfavorable weather conditions and lack of equipment. Milk production grew considerably, totaling 6,791 t. Unfortunately, meat production was not stabilized due to the low provision of food for cattle – it decreased 14%. Annual revenues from different sources totaled Hr 5.6mn, including banking credits of Hr 5.4mn, which is 2.9 times as much compared to 2000.

Wage issues

Positive changes in the economy of the Kreminna region reflected favorably upon the social sector. Wage payment issues improved a great deal and wage arrears decreased Hr 3.2mn Y-on-Y, totaling Hr 1.6mn as of January 1.

The best situation in terms of arrears payment was in the ag sector. Arrears decreased Hr 2.075mn and totaled Hr 725,400 as of January 1.

Arrears decreases in industry totaled Hr 971,200 and made up Hr 617,000. The budget does not have any debts. •

– Y. Brydun/M. Nikishyn

Real estate trends, 2

A tale of two markets

Arriving in Kyiv a few years back, it was possible to see changes to the cityscape although they were occurring at a snail's pace. As Ukraine moved into the third millennium, the cityscape began to change more rapidly. The increase was caused by a number of factors: world events, activity of domestic authorities, construction companies, realty firms and common citizens. The demand for real estate has grown considerably. The first part of this two-part series examined some of the trends in the real estate market. Part two looks at different aspects of the market.

Purchasing power

Despite the rather high level of construction activity in Kyiv and an increase in housing demands, there are apartments in certain new buildings that are not selling. The reason for this is very straightforward and a has a social component to it. Often, there is a discrepancy between the housing unit's layout and cost, and the potential buyer, but more often than not, it is a matter of potential buyer's lack of purchasing power. Ukraine does not have a developed middle class, which could be interested and be able to pay for a new apartment. A major portion of the population are citizens who are perched between poverty and limited savings, and these people are neither real potential purchasers on the primary nor on the secondary markets.

However, new apartment buyers have become more demanding. Not only do they consider the apartment itself and its price, but the state of the entire apartment complex. Very often, they are interested in the exclusiveness of the project, the different know-how used in its construction, specific territorial peculiarities, location, developed infrastructure and whether the building meets their esthetic and ecological requirements. Sometimes factors influencing buyers on what they are willing to pay for an apartment may be as simple as a view from a window or the social status of their future neighbors.

One of the most important issues for home buyers is to determine where they can get the money from for their purchase. Therefore, housing mortagages are one of the most important things that the government and real estate market operators need to address.

Finding financing

A major portion of state officials believe that the government should set a mechanism of mortgaging for housing which would allow the state to sell apartments to citizens on installment for a reasonable price. In fact, citizens have contributed to the costs of housing construction before. However, to date, the required legislation is not in place. The laws themselves are a stumbling point in the housing problem. There are no problems with the builders, since according to the State Building and Architecture Committee, the building sector is capable of realizing investment projects. Only 15-20% of construction companies and other related enterprises are working, and only half of the industry's material-technical base is being used.

There are three sources of construction financing in Ukraine. The first source are banks, the second, personal funds, and the third are public funds. It is too early to use the third source, since the population does not have much money. The way out is to increase incomes, which looks like a fairy tale. Therefore, only the state's stimulation of privileges can help. However, this is also likely to fail without the legislation.

Upscale housing

Some may say that there is no "elite" housing in Ukraine. However, even the Soviet Union had different types of houses for citizens of different social rank. Upscale housing meant big apartments in buildings known as stalinky, 4-to-5 story buildings, located downtown. A lot of time has passed, and the new elite is not satisfied with just a great deal of floor space any more, and thus, apartment owners began to invest money in the comprehensive renovations of their homes.

Upscale housing exists in Kyiv. Upscale in Kyiv means comfortable apartments in buildings with correspondent infrastructure: a guard, parking, modern means of communications, medical services, shops, bars, laundry services, reception areas, and so on. The price per sq m of such apartments start at US $2,500. Compared to the capital, the development of 'elite' housing is slow to develop in other cities and towns. Outside of the capital elite often means new apartments in new houses, built as individual projects. However, this housing rarely can be called housing of high comfort.

For instance, 90-140 sq m apartments are called elite in Chernihiv. However, purchasers of such properties have to finish the interiors themselves. Until recently, the upper echelons of Ukraine's developing elite could stake their claim on bigger, better apartments in new buildings in quiet areas of the city with two bathrooms, guard, garages and so on. Such apartments are available in Ternopil, Odesa, Sumy, and Mariupol. The average price of such an apartment is US $250-310 per sq m.

Rentals

The cost of renting an apartment varies depending on the exchange rate on the US dollar and the time of year. According Kyiv-area realtors, the prices grow in late August-early September when the students and job seekers arrive in the city.

In the first half of 2002, the demand for