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KYIV

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## L'affaire Gongadze

### STILL IN THE WOODS

KYIV. On Sept. 25, the experts from Kroll, the US detective agency hired to investigate the disappearance Sept 16, 2000 of opposition journalist Georgiy Gongadze, released their findings to Ukrainian television audiences. A four-way 'telebridge' conference was held between Kyiv, New York, Washington and Brussels during which Kroll president Michael Cherkaskiy related to reporters the course of his agency's investigation into the most sensational Ukrainian event of the past year. The Kroll report did not, however, answer the main question: "Who organized and executed the murder of Georgiy Gongadze?"

The fact that the report said nothing about who actually murdered Gongadze and virtually exonerated President Leonid Kuchma was to be expected, since Kroll was hired for a US \$250,000 fee by Serhiy Tyhyhko of *Trudova Ukraina*, which is known to have the financial backing of Kuchma's 'civil' son-in-law and Verkhovna Rada deputy Viktor Pinchuk. In March 2001, when the cassette scandal got very 'hot', Tyhyhko signed an agreement with Kroll to undertake the investigation into the Gongadze case. The main purpose of the investigation was very concisely outlined: to determine whether or not Kuchma was involved in the disappearance of Gongadze.



Gongadze with his family

In response to this question, Kroll president Cherkaskiy said that there is no conclusive evidence proving or otherwise implicating the president in Gongadze's disappearance. In other words, pro-presidential *Trudova Ukraina* achieved what it set out to do.

#### What the Kroll troll says

The 50-page report, prepared by Kroll's detectives, appears to be merely a compilation of facts which were pretty well known to everyone to begin with. It starts with a detailed description of what

*Continued p. 3*

## Transneft pipeline

### Operation 'Crude Awakening'

NOVOROSSISK. Russian pipeline monopoly Transneft opened this week crude oil shipments to Russia's Black Sea port of Novorossiysk along the newly built 260km 520,000 b/d pipeline Sukhodolnaya-Rodionovskaya. The new US \$180mn link was built by the Russian side in order to bypass Ukrainian territory. Cutting the transit distance will give Russian exporters with cheaper tariffs than the \$2.35/t or US \$0.32/bl tariffs previously applied by the Ukrainian side. The departure of the Russian crude is going to cost Ukraine's Prydniprovskiy trunk pipeline venture with headquarters in Kremenchuk some US \$70mn. The new link was built in 6 months, starting in March of this year.

On Sept. 25-26 Russia's vertically integrated oil giant Yukos loaded the 1mn barrel tanker Marina M with crude delivered via Sukhodolnaya-Rodionovskaya at a lower tariff of US \$1.92/t or US \$0.26/bl. According to Transneft president Semyon Vainstock, in four years, after the cost of the project is paid

off via tariff payments, the tariff will be reduced to as low as US \$0.10/bl, which is going to boost the economics of crude exports via Novorossiysk.

According to Vainstock, in October the new link capacity will be enhanced to 560,000 b/d, leaving no crude to be transited through Ukraine. Previously, Russia's energy ministry indicated at the negotiations with the Ukrainian side that at least part of the transit volumes could still be shipped to Novorossiysk. Yet back in the end of August-early September, information circulated in Russian oil industry circles that the Russian energy ministry was prepared to leave at least 10mn t a year or 200,000 b/d of transit, which would have brought Ukraine some US \$25mn.

#### Reciprocate by reducing

In return, the Ukrainian side was supposed to reduce the transit tariffs on

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#### HIGHLIGHTS THIS WEEK

*"It's hard to imagine a less appropriate building site in Kyiv."*

*See p. 5*

*Ukrainian scientists moving forward in many fields. Checkout the hi-tech!*

*p. 11-22*



## Industry survey: machine-building

# Slow as a snail, hard as a nail

The machine-building industry largely determines a country's production potential and ensures the functioning of all branches of the economy – the fuel and energy sector, transport and communication industries, agro-industrial and military complexes, and ensures that the consumer market is adequately supplied. Over the first seven months of the year the production volume of machine-building increased by 25.5%, which indicates stable demand on the part of potential buyers and good prospects for the development of the entire industry.

## Machinery's magic

The share of Ukraine's powerful machine-building sector, which has unique capabilities, constituted 13.2% in the industry structure in 2000, down from 26.4% in 1991. This drop indicates structural changes that have taken place in the country's industry over the past ten years. The formation of the machine-building production structure is a complex process that is influenced by economic, organizational and technological factors which, in turn, depend on the level of development of consumers of machine-building products, i.e. various branches of the national economy.

In the first 7 months of the year, production of the machine-building and repair industry grew by 25.5%, while in 2000 it increased by 16.8% and in 1999 dropped by 0.8%.

Further growth in production is guaranteed by the industry's strategic orientation toward designing and employing new machines and materials, effectively introducing scientific and technical innovations, and forming a legislative base for creation and efficient use of scientific potential with the aim of entering the international markets of goods and services.

In 2000, the number of enterprises that introduced new types of equipment into operation increased by 11% in comparison with 1999 and constituted 10.3% of the total number. In all, 469 types of new machines were introduced, the bulk of which were automobiles, electro-technical, oil and drilling, agricultural and grain milling machines.

Every third new type of equipment introduced in production was manufactured on the basis of purchased licenses. The volume of license-manufactured products amounted to Hr 172.1mn or 35.3% of the total volume

Domestic car production down

Photo: S. Bozhko



of new products. Nearly 30% of enterprises that manufactured new kinds of machines were exporting their products. The volume of exports amounted to Hr 175.8mn or 36.1% of the total production, where electro-technical equipment accounted for almost 50%, shipbuilding – 13.6%, while oil and gas processing equipment – 6.7%.

## Losing ground?

Despite an increase in the industry's overall output, a majority of machine-building enterprises are operating at a loss. For instance, the industry's income in 2000 amounted to Hr 1.56bn, down by 13.3% on 1999. At the same time, the industry's combined loss was Hr 1.86bn. This situation resulted from the fact that machine-building products were sold below their production cost and often on barter. Balance profit in 2000 dropped by 13% in comparison with 1999. Regarding the net profit, which is used in forming earmarked funds and financing expenses, the industry's enterprises made a net loss of Hr 1.24bn. This was caused by the production structure that can influence the net and balance profits either positively or negatively.

Total exports in 2000 increased by 34.9% in comparison with 1999, and amounted to US \$1.796bn. The geography of exports has not changed: the main partner is Russia which accounts for 46%, Belarus, Turkmenistan, Kazakhstan, and Uzbekistan among the CIS countries, Hungary, Slovakia, Poland, and the Czech Republic among the East-European countries, Turkey among the Black Sea countries, Germany, Austria and Italy among the West-European countries, and India and China in Asia. The main exporting branches of the machine-building sector are automobile, aviation, and shipbuilding industries.

## Going by car

In 2000, the manufacture of buses grew by 18%, cars – by 8%, and trucks – by 2%. The production of most enterprises is geared toward the domestic market. The number of automobiles produced in the first quarter of this year dropped by 135% in comparison with the same period in 2000, in particular, trucks – by 87%, cars – by 179%, and buses – by 156%, which points to a decrease in the effective demand for domestic automobiles despite considerable depreciation of the automobile fleet and the increase in freight traffic. At present, the branch's production capacity is 15% on average. The development of the domestic car industry is largely slowed down by a stiff competition offered by numerous car importers.

## Farm machinery frenzy

Both the capacities of the domestic enterprises and the steps taken by the govern-

ment ensured a steady growth in the production output of this branch. However, the farmers' demand for grain harvesters exceeds the available stock by more than two-fold, plus there is demand in Russia, Kazakhstan and Uzbekistan. Given a steady increase in grain production, the trend toward expanding the output of the machine-building sector is likely to continue in the foreseeable future.

## Adding fuel to the fire

This is the only branch of the machine-building sector which managed to avoid a drop in production over the past years. Stable contracts with Russian oil companies and Gasprom, as well as orders from Nafto-Gaz Ukraïny, seemingly ensure a trouble-free future. However, it should be mentioned that machine-building strongly depends on the state of affairs in each separate branch.

## Aces high

The domestic aircraft industry has all prerequisites to fully satisfy the country's needs in transport and passenger planes with take-off weight of up to 51 t. The aviation industry possesses adequate production and human resources for implementing its main competitive projects, which include AN-140, AN-70, AN-74, and TU-334. New transport planes are also being designed: AN-74-68, AN-70T and AN-74TK-300.

The Kharkiv Aircraft Manufacturing Plant has completed the establishment of production of the AN-140, which will enable it to annually manufacture 12 aircraft. The first plane was already sold to the Ikar aviation company.



Antonov meets transport needs

To facilitate the efficient use of production and scientific potential, modernize aviation enterprises and intensify investment activity, the Verkhovna Rada adopted on July 12 the law on state support of the aircraft industry in Ukraine, followed by a number of Cabinet resolutions.

## Light up our lives

Electro-technical industry enterprises introduced in production such new types of equipment as freight and main-line electric locomotives, high-power transformers, electric power converters, semiconductor devices, and economical light sources, which are in demand on both domestic and foreign markets. Furthermore, modern-



## THIS WEEK IN BRIEF

## MORE COOPERATION WITH EU

KYIV. Premier Anatoliy Kinakh said he stood for the continued development of cooperation with the EU. During his meeting with EU country ambassadors to Ukraine, Kinakh pointed out that cooperation with the EU was a "very important" strategically. The Premier's spokesman Serhiy Nahoriansky said Kinakh recalled Kuchma's statement that Ukraine was already a European state. (UNIAN, Sept. 27)

## US WAITING ON SANCTIONS

KYIV. The US Trade Representative office will wait for several weeks and not introduce economic sanctions against Ukraine for not preventing violation of intellectual property rights, said US Ambassador Carlos Pascual. He added that the steps taken by Ukraine provided hope and the US decided to wait to see if the bill passed the second and third readings. (UNIAN, Sept. 27)

## SETTLING PARIS DEBT

KYIV. Ukraine has launched talks with the Paris Club countries on debt restructuring. Finance Minister Ihor Mitiukov said these talks would be carried out in each creditor country. He added that all issues should be resolved by March 2002. However, he said it may be possible to solve them by the end of the year. (O. Yurchuk, Sept. 26)

## WOMEN AGAINST WORLD TERROR

KYIV. Speaking for all Ukrainian women, National Women's Council Chair Iryna Golubyeva expressed outrage over the recent acts of terror in America. *Reformy i Poriadok* party member Olena Bondarenko said that after its first meeting, the GUUAM Women's Forum would hold a congress on Oct. 24 to discuss the problems of terrorism in GUUAM countries. (A. Yerkovych, Sept. 26)

## UKRAINE: NATO NOT AGGRESSIVE

KYIV. A Razumkov Economic Center for Economic and Policy Studies poll revealed that 51.9% of Ukrainians do not consider NATO an aggressive bloc. 17.3% of those polled said NATO was a peacekeeping organization. At the same time, 50.2% of respondents said NATO expansion was not good for Ukraine. 7.8% said NATO growth would help Ukraine strengthen its independence from Russia. (Studio 1+1, Sept. 26)

## CANADA INVITED TO INVEST

KYIV. Transportation Minister Valeriy Pustovoitenko invited his Canadian counterpart David Collette to visit Ukraine after meeting with him at International Civil Aviation Organization headquarters. The two discussed improving infrastructure for aviation transportation. He also offered proposals for investing into Ukrainian airlines, developing leasing companies. Airline security issues were also discussed. (UNIAN, Sept. 26)

## INDIANS EXPLORE UKRAINE

KYIV. A six-member high level delegation of Indian businessmen visited Ukraine Sept. 24-26. This was the second visit of an Indian business group to Ukraine this year organized by the Confederation of Indian Industry. Business-to-business meetings allowed attendees to explore options for cooperation. (Sept. 26)

ization of power engineering equipment installed at the Dniprovsk hydroelectric station, development of alternative types of power engineering equipment such as 1,000 kW wind power stations, production of mobile communication means for law enforcement agencies and state bodies, privatization of energy distribution companies, and interconnection of Russia's and Ukraine's power grids hold additional promise for the industry.

## Ships ahoy!

In the first half of the year, domestic shipyards have built 8 vessels for a total of US \$37.4mn. In July, new contracts were signed for the construction of four asphalt tankers for Sweden worth US \$56mn, two oil tankers for Turkey worth US \$22mn, and two dry-cargo ships for The Netherlands worth US \$905,000.

In 2001, the production volume of the shipbuilding industry increased by 16.5% over the same period in 2000 and – for the first time in the past several years – accounted for nearly a half of the total production of machine-building – 46%. Measures taken by the government, while creating preconditions for production growth, were nonetheless unable to fully load shipbuilding production capacities.

## A wrench in the machinery

Despite the growth in production volumes, there are certain problems that can hamper further development of the machine-building industry:

- slow reform of enterprises, which reduces their investment attractiveness;
- unavailability of credits for replenishing working capital and investing in production and inadequate use of licensing;
- low incentives for investment;
- substantial obsolescence and wear-and-tear;
- inadequacy of production capacities to meet the demand structure in most of the machine-building branches;
- technological backwardness and gearing of production toward the needs of the military industrial sector;
- absence of coordinated actions regarding technical retooling of raw material supplying industries on the basis of domestic equipment;
- lagging behind in setting up integrated structures such holding companies and financial and industrial groups;
- low demand for the industry's products on the domestic market and their inferior quality in comparison to western counterparts.

## Aiming for the short term

Given the above problems, the main objectives of machine-building enterprises in the short run are:

- expanding innovation activity aimed at increasing the share of competitive products, designing and implementing im-

port substitutes, introducing energy-saving machines and technologies, and developing techno-parks and innovation centers;

- modernizing the production process, adjusting production capacities to the demand structure while strengthening financial stability of enterprises and lowering the production cost;
- implementing regional programs on developing certain machine-building branches;
- restructuring the machine-building sector through gradually increasing investment activity in the country;
- privatizing large state-owned enterprises, including those belonging to the military industrial complex, on the basis of individual projects;
- forming integrated structures that will result in gradual elimination of inefficient owners and implementing institutional changes.

## Experts say...

An analysis of the development of machine-building branches makes it possible to predict that the production will grow by about 40% this year and by some 17-18% in 2002. This can be attributed to a number of factors:

- the absence of production growth during 1995-99 and state support to the tractor and farming machine-building branches, automobile industry, and shipbuilding;
- expansion of innovation activity in the industry;
- development of related sectors which are consumers of machine-building products;
- modernization of power plants and increased load on electricity generating companies;
- execution of state contracts on the production of special kinds of equipment, including military equipment;
- development and reconstruction of general-use telephone networks and mobile communication systems.

A priority in developing the machine-building industry should be gearing production to the domestic market needs and the introduction of new resource and energy saving technologies. •

– Y. Brydun

Harvesters in high demand

Photo: A. Mossienko

