UKRAINE

By Interfax-CNA

Real GDP growth in Ukraine was 8.5% in 2003 after a 4.8% increase in 2002. Industrial production in 2003 grew by 15.8%. Output surged 35.8% in machine building, 25.7% in the pulp, paper and printing industry, 23.6% in timber production and 20% in the food and food inputs industry. Ukraine raised production 14.3% in the metallurgy sector, including a 10.8% rise for ferrous metals and 18.6% for nonferrous metals.

Fforeign direct investment in Ukraine in 2003 reached US$1,186 million, up 21.7% and is expected to increase 40% in 2004 to US$1.6 billion. The total volume of accumulated direct foreign investment by January 1, 2004 was US$6,658 million (US$140 per capita).

Ukraine's mining and metals sector is the world's sixth largest by production capacity and it exports more than 80% of output. Annual exports exceed US$5 billion, amounting to about 40% of the country's total exports.

In March 2004, Ukraine's President signed into law a bill amending the law on bankruptcy and expanded the list of mining companies against which insolvency proceedings cannot be instituted later than one year after they have started implementing a privatisation plan. Under the bill, the mandatory condition for the above time period is that state ownership is at least 25%, and that the sale of the company stocks has already started. The bill envisages that the existing ban on bankruptcy proceedings against mining companies (with the state-owned share in their statutory funds of no less than 20%), be prolonged from January 1, 2004 until January 1, 2005. Bankruptcy proceedings that have already been instituted against these companies should be dismissed.

The State Property Fund of Ukraine is planning to sell the following stockholdings: 50% of stocks in Ukrrudprom, 25% of stocks in Zaporizhia aluminium mill, 69.9% of stocks in PivdenDieselMash, 60.9% of stocks in Makeevka metallurgical mill, and stockholdings of at least 25% in more than 300 enterprises. The list also includes the Krivoi Rog state-owned ore mining and metallurgical enterprise, Kryvorozhstal.

In April 2004, the Ukrainian President signed a bill into law on specific aspects of privatising the enterprises incorporated in the state-owned joint-stock company Ukrrudprom. The law provides priority rights to the company's stockholders owning a holding worth 25% of the company's statutory fund plus one stock to buy out stocks in incorporated enterprises. Ukrrudprom is the state-owned umbrella organisation in the iron ore industry. The company controls ten mining enterprises. The property of five of them is transferred to the company's statutory fund in full (the Krivoi Rog iron ore mill, Dokuchaeve dolomite mill, Novotroitsk Ore Department, Balaklava Gorky State Ore

Department and the State iindustrial production enterprise, Kryvbasvzryvprom). The stocks of five other enterprises were partly transferred to the statutory fund (Sukhaya Balka MDM - 25.1%, the Southern MDM - 25.78%, the Central MDM, the Northern MDM and Ingulets MDM - 50%+1 share each). The State Property Fund of Ukraine owns 100% of the shares in JSC Ukrrudprom.

Iron and steel

Iron ore reserves are estimated at around 30,000 Mt, which will be enough to maintain mining for hundreds of years. This ranks the country second among the former USSR republics, behind Russia, and the ores have a relatively high iron content of 45%-55%. The largest iron ore basin is Krivoi Rog in Dnepropetrovsk region, where the bulk of the reserves (as well as key iron ore production capacities) are located. Krivoi Rog's mining and beneficiation plants provide around 80-90% of all Ukraine's iron-ore, concentrate and pellets.

Ukrainian production of iron ore commodities grew 6.1% year-on-year to 62.5 Mt, including 47.6 Mt of concentrate. Agglomerate output fell by 5.5% to 9.8 Mt, whilst pellet output increased by 11.2% to 15.0 Mt.

Ukraine increased iron ore exports 7.8% to 20.19 Mt in 2003 and exported 7.54 Mt of pellets, 5.32 Mt of concentrate and 7.09 Mt of agglomerate, respectively 20.8% more, 1.9% more and 0.3% less. Nearly all the exports were to countries outside the CIS.

Ukraine's largest iron ore producers increased output and sales of their core products in 2003. Inguletsky GOK, the country's biggest iron ore producer, increased output of iron ore concentrate by 10.3% to 13.73 Mt. The second biggest producer, Severny GOK raised iron ore pellet production 6.2% year-on-year to 5.89 Mt and iron ore concentrate 7% to 7.55 Mt in 2003. Yuzhny GOK also raised concentrate production 1.8% to 7.77 Mt in 2003, although this was still slightly short of the year's target, which was 8 Mt. Agglomerate production, though, fell 13% to 3.37 Mt in 2003. Tsentralny GOK produced 4.16 Mt of iron ore concentrate and 2.03 Mt of pellets in 2003, respectively 1% and 7.3% more than in 2002. Krivoi Rog State Iron Ore Combine increased production of iron ore commodities by 3.9% to 6.31 Mt in 2003. Sukhaya Balka increased iron ore extraction by 7.5% in 2003 from 2002 to 3.16 Mt

Ukraine increased output of its main ferrous metals products by between 7% and 10% in 2003. Production of finished roll last year increased 10% to 29.16 Mt; steel 8% to 36.92 Mt, and pig iron 7% to 29.57 Mt. Production growth was strongest at companies that make flat rolled products - the Ilyich Metallurgical Combine of Mariupol, Azovstal and Zaporozhstal, as well as the Alchevsk Metallurgical Combine.

Production of pipes grew 41% to 2.06 Mt and coke 12% to 20.70 Mt. Supplies of scrap to domestic metals plants rose 14% to 5.91 Mt.

Metallurgical enterprises used 95% of their steel production capacities in 2003. Thus, Ukraine has almost exhausted its potential to boost steel output. The internal market keeps on developing, and Ukraine consumed 4.2 Mt of metal products in 2001, 4.9 Mt in 2002 and 6.8 Mt in 2003, and is expected to consume 7.3 Mt in 2004.

Meanwhile, the Fuel & Energy Ministry plans to develop a programme to increase mine production of coking coal by offering financial support for metallurgy companies, and to select mines for the programme. Ukrainian steel mills were short of coke in early 2004 due to the tight supply of coking coal with shortages amounting to 100,000-130,000 t/mth. Azovstal, Zaporozhstal and the Ilyich works are usually most affected. Ukraine produces about 22.5 Mt/y of coking coal and imports 3 Mt-3.5 Mt from Russia.

Manganese and ferroalloys

Ukraine is one of the CIS' biggest manganese ore producing countries and produced 2.53 Mt of manganese ore in 2003, up 2.8% from 2002. Output of high-grade ore was 668,700 t, down 0.1%. Ukraine increased production of ferroalloys by 10% to 1.56 Mt in 2003.

There are two manganese ore producers: Marganetsky GOK, which raised output 15% to 1.11 Mt; and Ordzhonikidziyevsky GOK, which reduced production 5% to 1.43 Mt. The latter reduced output because the Nikopol Ferroalloys Plant (NZF), one of OGOK's main customers, stopped buying manganese concentrate in Ukraine at the beginning of 2003.

Zaporizhiya Ferroalloy Works (ZZF), one of Ukraine's three ferroalloy plants, raised ferroalloy output 29% to 531,600 t in 2003. ZZF produces 47.7% of the country's ferrosilicon, all of the country's 80% medium-carbon ferromanganese and all of its 90%-metallic manganese. The works uses locally-produced concentrate only, the suppliers being Marganetsky GOK and Ordzhonikidziyevsky GOK. It exports 70%-72% of its output, 60% to Russia and the CIS, and 11%-12% to other countries.

The Nikopol Ferroalloys Plant (NFZ) in Dnipropetrovsk region, Ukraine's largest producer of ferroalloys, increased output by 5.5% to 625,900 t of silicon manganese and 18.9% to 219,500 t of ferromanganese. NFZ exported 44.3% of its output. The company is Ukraine's monopoly producer of silicon manganese and ferromanganese. The nominal holder of 13% of its shares is PrivatBank (Dnipropetrovsk), whilst 33.4% of shares belong to the Interregional Stock Union. Prydniprovia Consortium (Dnipropetrovsk region) affiliated with Interpipe Corp owns 50%.

The Stakhanov Works, which specialises in ferrosilicon, is Ukraine's third biggest ferroalloy producer. The works decreased production of ferrosilicon by 23.3% in comparison with 2002 - from 208,500 t to 159,900 t. The plant was at a standstill several times in 2003 due to increased costs for electricity. The enterprise exports nearly 70% of its output.

Meanwhile, Zaporizhiya Aluminium Combine (ZAIK) may boost production of market ferrosilicon under a tolling arrangement with Nikopol Ferroalloys Plant. If ZAIK switches some of its now conserved furnaces to ferrosilicon production, the plant could produce 3,000-3,500 t/mth of ferrosilicon. ZAIK began making ferrosilicon in early November at one of its electrothermal furnaces

Coal

Ukraine is one of the CIS' largest coal producing countries and mined 79.255 Mt of coal in 2003, 2.60 Mt, or 3.2% less than in 2002. Production of coking coal dropped 2.13 Mt, or 5.4%, to 32.7 Mt, and output of steam coal was down 469,000 t, or 1.1%, to 42.1 Mt. Coal mines controlled by the Fuel & Energy Ministry reduced production by 3.30 Mt, or 4.6% to 68.05 Mt, with production of coking coal falling 2.83 Mt, or 9% to 28.61 Mt and output of steam coal down 469,000 t, or 1.2%, to 39.45 Mt.

In 2004, the Fuel & Energy Ministry set a target to increase coal extraction to 80.3 Mt. This year it is planned to set in operation 259 new coalfaces, including 161 for steam coal and 98 for coking coal. In 2004 it is also planned to increase the capacity of faces - the average face should achieve 834 t/d coal (2003 - 518 t/d).

Ukraine is going to grant foreign companies licences to extract methane from coal mines as it spends a lot of money fighting methane hazards. According to various estimates, methane reserves in Donbas are from 11,000 to 25,000 billion cubic metres. Last year (2003) Ukraine's Energy Ministry agreed with US Energy & Communications Solutions LLC to create a joint team to work on implementing methane extraction in the Donbas. Late in 2003, the System Capital Management Co and OJSC Ukrpodshypnik, set up Ekometan Ltd for the industrial extraction of methane from the coal mines in the Donbas.

A wholesale market for steam coal began operating in Ukraine on February 1 2004. This followed a meeting in November 2003 at which coal mining and supply enterprises signed an agreement on co-operation, and organised the wholesale delivery of steam coal. Ukrainian Coal is the operator and its council includes four representatives from power-generating companies and extraction enterprises alike, and one each from the Fuel & Energy and Economics Ministries. The idea is that the market's creation will make it possible to balance out coal enterprises and make them less dependent on state budget financing.

Meanwhile, World Bank specialists think that many of Ukraine's coal mines do not need subsidies to be commercially viable provided that reforms are conducted in the sector. The World Bank specialists marked four most significant spheres for the coal industry and worked out recommendations to increase effectiveness of the state programme of coal industry restructuring. The World Bank also called on the government to reassert regulatory control of the largely state-owned mines and hold managers accountable for financial performance and safety. The Bank experts believe that Ukrainian officials artificially lowered Ukrainian coal prices. The experts concluded that subsidies may be counterproductive, as this mechanism does not stimulate a reduction of production costs. According to them, subsidies may be effective only if the state carries out a strict policy of granting production subsidies for a limited period to implement strictly formulated tasks.

Aluminium

Ukraine's Nikolayev Alumina Plant (NGZ), the FSU's biggest, produced 1.20 Mt of alumina in 2003, up 4.7%. NGZ started to produce large-grain alumina, which accounted for a quarter of the plant's output. NGZ spent US$11 million on routine maintenance and modernisation in 2003. Total investments were more than US$23 million.

NGZ currently has the capacity to produce 1 Mt/y of alumina, but this is due to increase to 1.3 Mt in line with investment pledges made by its owner RusAl. NGZ controls a seaport capable of handling 5 Mt of cargo, a power plant and rail terminal for more than 2 Mt of cargo.

Ukrainian Aluminium (UkrAl), which owns 30% of NGZ and which is in turn controlled by Russian Aluminium, said it does not make sense to build a new aluminium smelter in Ukraine as stipulated by the investment obligations it assumed when buying into the alumina producer. UkrAl has proposed that increasing the capacity of NGZ by 50% would be much cheaper than building a new smelter. Ukraine's Cabinet is considering other alternative investment projects. UkrAl's arguments against the construction of a new smelter are logical, considering the high cost of electricity. UkrAl said Ukrainian electricity prices are so high that it would take 22 years for the smelter costs to be recouped, by which time the smelter would no longer be feasible. UkrAl has asked the government either to allow it to pay a fixed and guaranteed price for the electricity the smelter will use or to alter the investment obligations.

Zaporizhia Aluminium Plant (ZAIK), Ukraine's only producer of prime aluminium, edged production up 1.6% to 107,480 t in 2003. Output grew 5% to 236,050 t of alumina and 50% to 7,943 t of silicon. Its capacity is about 100,000 t of prime aluminium. Russia's Avtovaz-Invest owns 68.01% of the shares in ZAIK. The Ukrainian Government owns 25% of the stock and the remaining shares are held by small shareholders.

ZAIK aims to double expenditures on upgrades in 2004 compared with last year to H22.9 million. About 15% of this will go on the acquisition and modernisation of equipment to treat industrial waste. In March 2004, ZAIK commissioned the first stage of a facility for production of roll casting for aluminium foil with an output of 1,000 t/month of products. ZAIK also plans to install an automated system for its electrolysis process in 2004 in order to cut per-unit electricity and raw material costs. ZAIK signed a contract with a leading Russian manufacturer of such systems, which have been installed at other smelters in the CIS.

Oil and gas

Ukraine increased production of oil and gas condensate 6.1% to 3.98 Mt in 2003, with natural gas production up 3.5% to 19.46 billion cubic metres.

Ukrnafta is planning to boost oil production by 3.61% in 2004 to 3 Mt, and that of gas by 2.3% to 3.350 mcm. The volumes of drilling are expected to be increased by 2.7% to 190,000 m. Ukrnafta is to put 60 new wells into operation against 57 in 2003. Liquefied gas production is planned to grow by 0.1% to 140,500 t, and that of stabilised natural gasoline by 0.6% to 200,000 t. Ukrnafta accounts for 93% of overall oil output, 40% of overall gas condensate output and 18% of overall gas production.

Meanwhile, the state-owned shares of the Ukrtatnafta may be put up for sale if the government fails to decide on creation of the national vertically integrated oil company. Ukraine's State Property Fund in January announced the plans to sell a state stake in Ukrtatnafta in 2004.

Other minerals

The Zaporizhiya Titanium and Magnesium Combine (ZTMK), the only producer of titanium sponge, raised output of the commodity by 13% to 6,934 t in 2003. ZTMK exports 95% of its sponge, which is used mostly in the space industry. Capacity is 20,000 t/y of titanium sponge.

In 2003, the state joint-stock company Titan (Armiansk Crimea), which is one of the biggest producers of dioxide titanium in the CIS, increased production volume in established prices to H357.63 million, which in comparable prices is 44.6% more than a year earlier. The company's sales volume was H359.31 million, with exports growing from 67.4% in 2002 to 74.2% in 2003 and reaching 49 countries. Production of dioxide titanium increased by 38% to 56.02 Mt, ammophos by 2.5 times to 27.35 Mt and sulphuric acid by 61.4% to 305,500 t.

A decision by Titan and British Occidental Titanium to create a joint venture was passed on to the Ukrainian Government after being agreed with the relevant ministries and departments. Occidental Titanium Co was created by Peter Hambro Mining Plc (Ukraine) in order to create a joint venture with Titan. Presumably, Titan's stake in the joint venture will be 50%+1 share. According to a draft of the statutory agreement, Titan is to contribute its production facilities, estimated at US$60 million, to the statutory fund of the joint venture, while the British company will contribute as much in monetary funds. According to agreements, the Ukrainian side will manage production operations. Titan initiated the creation of the joint enterprise in order to attract investment for US$100 million in modernisation work. In 4-5 years, Titan intends to increase output of dioxide titanium twofold to 100,000 t and 680,000 t respectively.

Titanium-Apatite Co (Tako), a Kyiv-based firm that is 70% owned by Russia's Renova, began a feasibility study in June for the development of the Fedorovskoye apatite-ilmenite ore deposit in Zhitomir region. The feasibility study should be completed in the fourth quarter of 2004. Preliminary estimates put the cost of the project at US$180 million. There are plans to build a mining and beneficiation combine with a capacity of 6 Mt/y ore, which would produce 573,000 t of ilmenite, 417,000 t of titanium-magnetite and 450,000 t of apatite concentrate.

Fedorovskoye's ore reserves are put at 170.9 Mt. Tako secured the licence to the deposit in February 2003, and has until now been conducting geological studies and working out beneficiation technology. Tako's other shareholder, with 30% shares, is Rivoli-Ukraine, a company that specialises in distribution of luxury goods. Renova is the main shareholder of Russia's Siberian-Urals Aluminium Co (SUAL) and Tyumen Oil Co (TNK).