UKRAINE

By Interfax-CNA

Last year was the most successful in the ten years of Ukraine's independence as regards economic development. GDP grew by 9% in 2001. However, the Ukrainian economy still remains structurally weak, and there are complex problems with streamlining and privatisation in such politically significant areas as mining and heavy industry, and also with the restructuring and privatisation of the inefficient energy sector.

Ukrainian industrial enterprises increased output by 14.2% in 2001, although growth declined considerably in the second half of the year. Production increased by 3.3% in the extractive industry, in particular, output of bituminous coal and lignite, turf climbed by 5.3%. Metal ore production declined by 1.6%. Investments made in Ukraine's capital assets grew by 17.2% and the extractive industry, mainly fuel, accounted for 15% of total capital investments.

Ukraine is noted mainly for its iron and steel industry, and the country is the second biggest, behind Russia, in size and output among the former Soviet republics. The iron and steel sector has its own mineral resource base and a big export potential. Also, Ukraine is a major producer of coal, manganese, ferroalloys, ilmenite and alumina. A number of other mineral products, including aluminium, rare metals, nickel, copper, oil and gas, and some industrial minerals, such as dolomite, kaolin, graphite and quartz are also produced.

The Law on the Further Development of the Ukrainian Mining and Metals Industry passed by the Verkhovna Rada on January 17, 2002, ushers in special tax regulations for companies in the minerals sector, but it does not grant them any tax breaks. The law had been proposed by the cabinet and some parliament deputies who wanted to create the conditions for the metals industry to upgrade and trim surplus capacity. The law makes Ukraine one of the few countries to have passed legislation that, in effect, makes it possible to trim surplus capacity. The special tax regime ushered in by the law is effective until January 1, 2003. Companies will pay only half of their profits tax into the budget. The rest will go into a special account with the State Treasury and be disbursed to finance investment projects. The cabinet decides how these funds will be used.

In 2001, the Ukrainian Government made substantial reductions to basic charges for the right to develop selected types of mineral resources. A resolution of August 8 states that charges will reduce by 78.3% for iron ore and 70.6% for manganese ore with effect from January 1, 2002. Other minerals, too, will be subject to reductions.

On February 28, 2002, the government passed a resolution on differentiated charges for the right to mine titanium ore, titanium-zirconium ore and ore containing amber. The charges are differentiated according to the mineral content of the ore and replace the previous scale. This is to take into account the deteriorating mining and geological conditions for their extraction and the abolition this year of reduced-payment coefficients. In recent years, the grade of titanium-zirconium ore at the Malyshevskoye deposit has declined by a third to a half, and that of the titanium ore in the Irshanskaya group of deposits by a third. Because leaner ores are now being mined, and more overburden is being stripped, the cost of mining a cubic meter of titanium ore has risen by 53% since 1998 at the Irshansky mining complex and by 91% at the Volnogorsk mining complex. Similar trends are evident for the mining of amber ore.

Iron and Steel

According to the Ukrainian calculation method, the country's iron-ore reserves are estimated at around 30,000 Mt, sufficient to maintain mining for hundreds of years. Ukraine's iron-ore reserves rank the country second among the former Soviet republics, behind Russia. The ores have a relatively high iron content of 45%-55%. The biggest 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 benefication plants provide around 80-90% of all Ukraine's iron ore, concentrate and pellets.

In 2001 Ukraine decreased commodity-grade iron-ore production by 1.8% to 54.66 Mt, and concentrate production by 2.5% to 42.29 Mt. Production fell mainly because steel mills bought less ore than originally agreed, and imported ore from Russia. Ukraine's pellets production fell by 2.9% to 11.99 Mt in 2001. Agglomerate output was up by 7.4% to 10.92 Mt.

Inguletsky GOK (Mining and Enriching Combine) remained the top producer with output of 10.4 Mt (down 9.6%). Yuzhny GOK decreased output by 0.6% to 8.3 Mt, Poltavsky GOK by 20.3% to 5.19 Mt of concentrate. Meanwhile, Novokrivorozhsky GOK boosted output by 9.8% to 6.59 Mt, and Severny GOK - by 9.9% to 6.57 Mt.

Ukraine intends to complete the Krivoi Rog mining and beneficiation plant for oxidised ores. Work on the Krivoi Rog complex started in 1985 and Ukraine inherited the plant when the Soviet-Union broke up. Ukraine has a 56.4% interest in the project, Romania 28% and Slovakia 15.6%. Romania has also called for the plant to be completed and incorporated. By preliminary counts, Ukraine will have to ship about 28 Mt of ore to Romania and 14 Mt to Slovakia to settle accounts. To date the Krivoi Rog project has absorbed US$1.6 billion of a projected US$2.4 billion in costs. Another US$200 million will be needed to launch the first stage of the plant for 7.5 Mt/y of iron ore.

Ukraine produced 33.1 Mt of steel in 2001, 5.4% more than in 2000. It is still the world's seventh biggest steel-producing country, and share on the global steel market has increased from 3.7% to 4%. The steel industry is extremely dependent on exports. Last year these amounted to 28.7 Mt of steel, equivalent to 87% of output.

Metal exports provided 47% of the country's foreign exchange earnings. Last year, domestic steel consumption increased from 0.7 Mt to 4.4 Mt, which was only 14%-15% of output. The share of barter operations dropped from 3.5% to 2.7%.

Manganese and Ferroalloys

Ukraine is one of the biggest manganese ore producers in the CIS. It produced 2.71 Mt of manganese concentrate in 2001, 1.5% less than in 2000.

Ordzhonikidze GOK, Ukraine's biggest manganese concentrate producer, produced 1.7 Mt in 2001, 7% less than in 2000. The GOK mines all of its ore by open-pit methods. Prior to a rights issue, Blumberg Industries of the US owned 24.9% of the shares, Rafels Commodities Ltd of the UK, 23.88% and St John Trading Ltd of Cyprus 24.55%. Ukraine's Inter-regional Stock Union is nominal holder of 26.37% and the rest of the shares are held by various legal entities, among them Privat Intertrading, and private individuals.

Another joint stock company, Marganetsky GOK, a manganese concentrate producer from Ukraine's Dnepropetrovsk region, produced 1 Mt of manganese concentrate in 2001, 9.4% more than in 2000. The GOK plans to be mining 2.95 Mt/y of ore by 2010. This will include 1.78 Mt from deep mines and 1.17 Mt from open pits. The company plans to produce 1.14 Mt of manganese concentrate in 2002, including 400,000 t of high-grade concentrate. It will have to mine 2.29 Mt of ore and strip 6.6 million m^3 of overburden. Reserves at the Nos. 1 and 2 deep mines are depleting and in order to sustain production, the GOK plans in the first half of 2002 to put

the first stage of a separate section of the No 9/10 deep mine and two faces of the No 14/15 mine on stream. This year, the GOK plans to start repairing storage facilities for finished commodities, to continue to replace worn equipment at the beneficiation plant and to repair core equipment.

Marganetsky is Ukraine's only manganese enterprise with underground operations. They provide 80% of the output with the balance coming from open pits. The assets include five deep mines, two open pits (Grushevsky and Basansky), the beneficiation plant, and a R&D complex for chemical equipment. The GOK's biggest customerss are the Nikopol and Zaporizhiye ferroalloy plants.

Ukraine's Metallurhiya Industrial and Investment Consortium, which represents the Zaporozhye Ferroalloys Plant, and Vizavi (a Donetsk firm and a founder of the Donbass Industry Union), is working out a development programme for the Tavrichesky GOK. Tavrichesky GOK was set up to develop the Velikotokmakskoye manganese ore field in Stepnogorsk, Zaporozhye region. The GOK was mothballed in the early 1990s because it was unprofitable. The GOK had proven reserves of 98.8 Mt as of January 1, 2001.

Vizavi owns large or controlling share blocks in nine companies from the Donetsk region, including the Kramatorsk Metallurgical Plant, which will process the manganese ore. Vizavi plans to invest about US$10 million in the mine and to start mining ore on a commercial basis within a year of receiving the licence.

Zaporozhye Ferroalloy Works produced 406,000 t of ferroalloys in 2001, 5.5% more than in 2000. Zaporozhye produces 48% of Ukraine's ferrosilicon, all of the country's 80% medium-carbon ferromanganese and all of its 90% metallic manganese. It is currently upgrading its No. 3 smelting division, which consists of eight furnaces that smelt metallic manganese. The productivity of each furnace is expected to rise by 25%. The biggest shareholders are Fullway Consultants Ltd with 16.4%, Punchel Investments Ltd with 21.5%, Hambay Trading Corp. with 9.1% and Inter-regional Stock Union, which is the nominal holder of 43.7%.

Nikopol Ferroalloy Works in the Dnepropetrovsk region, increased output by 3.7% in 2001, to 797,200 t. It exports 80% of its output, mainly to Russia and countries outside the CIS. The company is Ukraine's major producer of of silico-manganese and ferro-manganese.

The Stakhanov Ferroalloy Works in the Luhansk region produced 185,000 t of ferroalloy in 2001, down 9.3% from 2000. The Stakhanov works, which specialises in ferrosilicon, produces US$4.5 million worth of ferroalloys every year and is the country's third biggest ferroalloy producer. It exports about 80% of its output. Like Nikopol and Zaporozhye Stakhanov is part of the Ukrainian Ferroalloys Association.

Coal

Ukraine, is one of the biggest coal-producing countries in the CIS and last year it produced 83.9 Mt of coal against 81.0 Mt in 2000.

Ukraine's Cabinet of Ministers issued resolution N1205 on September 19, 2001, to pass the state programme Ukrainian Coal for 2001-2010. The programme provides for a reduction in the number of coal mines from 196 in 2001 to 157 in 2010. In addition, it is planned to increase the number of mines producing about 1 Mt/y from 22 to 40, and to increase the annual budget for coal from H 2.13 billion in 2001 to H 6.03 billion in 2002, and H 5.21 billion in 2003. Also, the programme outlines measures aimed at improving the quality of coal products, in particular, reducing ash content from 23.1% to 22.7%. Implementation of the programme is expected to help towards raising annual raw coal production to 110 Mt in 2010 (comprising 63 Mt of thermal coal, and 47.1 Mt of coking coal).

By 2010, coal consumption in Ukraine will rise by almost 1.8 times to 123.1 Mt, and by 2030

- to 180.6 Mt. This basic forecast was made by the authors of a project outlining Ukraine's energy strategy until 2030 and beyond. The strategy stresses that Ukraine has sufficient coal reserves to last for several hundred years, and that coal should remain the main source of power generation. Among the prospects for future development, the project offers brown coal extraction and the use of mine methane.

In January 2002 the Ukrainian Government issued a resolution on the procedure for allocating state financing to coal producers. Producers will have to submit business- plans drafted in conjunction with the Ministry of Fuel and Energy to qualify for state funding. The funding will be issued specifically to cover production costs and capital investments, the amount of which will be determined by the Energy Ministry, based on projections submitted by coal producers. In addition, mines with significant coal reserves but which are unable to finance production themselves will be eligible for state financing. Mines capable of financing their own operations and mines slated for liquidation will not receive state financing.

Aluminium

The Nikolayev alumina plant (NGZ), the former Soviet Union's biggest alumina producer, produced 1.12 Mt of alumina in 2001, 0.4% more than in 2000. NGZ has embarked on a set of upgrades that will increase capacity from 1 Mt to 1.3 Mt of alumina annually by the end of 2002. Its gallium division's capabilities will also increase, as will recycling of red mud. NGZ has also started to renovate its existing slurry pond and to build a new one. Ukrainian Aluminium, a subsidiary of Russian Aluminium, owns 49% of NGZ shares. ZAO Trudovoi Kollektiv NGZ, which is also controlled by Russian Aluminium, owns 26.4%, and the Baltic investment company, Ukio Bankas, owns 5.33%.

Meanwhile, Russian Aluminium continues searching for bauxite deposits to ensure stable bauxite supplies to Nikolayev. The company has appraised deposits in Guinea, Brazil, Australia, and India as possible bauxite supplies. In 2001, a total of 250,000 - 300,000 t/mth of bauxite were supplied to the Nikolaev alumina refinery from Guinea, Australia, Brazil and Guyana.

In 2001, Zaporizhiya Aluminium Combine (ZAlK), Ukraine's only aluminium smelter, produced tentatively 106,093 t of primary aluminium, including silumin and alloys, which was 2% more than in 2000. The company also produced 223,900 t of alumina, down 9%, and 4,804 t of silicon, a decrease of 22%. The company's development plans for 2002 envisage that production will not be boosted by increasing the productivity of current equipment, which is already working to full capacity, but by introducing new equipment or that previously taken out of operation. For example, the company plans to re-launch a thermal-electric division that was halted in 2000.

ZAlK has the capacity to produce 100,000 t/y of primary aluminium. In February 2001, the combine started a facility to produce 16,000 t of feedstock for aluminium foil in coils per year. Russia's Avtovaz-Invest owns 68.01% of the shares, and the state 25%. In November 2001, the Ukrainian Cabinet voted to keep 25% of shares in ZAlK under government ownership for three years. This will enable the government to run the company's strategic development.

Others

Volnogorsk State Mining and Metallurgical Combine, a producer of zirconium and rutile concentrates in the Dnepropetrovsk region, increased production of rare-earth concentrates in 2001. The company reported that production figures for 2001 grew by 7.7% to 60,800 t of rutile concentrate, 2.2% to 33,700 t of zirconium concentrate and 10.1% to 179,500 t of ilmenite concentrate. The combine, set up in 1961, specialises in mining and processing titano-zirconium ores. It accounts for half of the ilmenite concentrate produced in the CIS and Europe. The combine is on a list of enterprises that cannot be privatised.

Titan, the country's biggest titanium dioxide producer, produced 49,700 t in 2001. Since 1998, the company has belonged to the Sivash special economic area, which guarantees it concessions on profits tax, VAT and customs duties. Titan intends to build its own power-generating capacity financed by credit from the Ukrainian Energy Saving Service Co, (ESKO). The company's biggest project, would cost at least US$1.5 million.

State-owned Ukrainskiye Polimetally, or Ukrainian Polymetals, is Ukraine's only gold producer, and plans to increase its charter capital to H660.9 million by issuing sharesworth H45.1 million, with a par value of H100 each. The company is issuing the shares in order to bring its long-term investments and charter capital into line with the equity of its subsidiaries and associated enterprises. The company was set up on March 28, 1999, to deliver the Zoloto Ukrainy (Ukrainian Gold programme). Its activities include geological exploration, feasibility studies, and the construction of mining and milling capacity and gold-refining equipment. Ukraine's State Committee for Geology and the Use of Subsurface Resources has put Ukraine's probable gold reserves at 3,200 t. A total of 236 occurrences have been identified, with ten classified as deposits containing 80-135 t of gold each.