

# Promoting economic diversity in Ukraine:

The role of the enabling environment for the basic metal and metal processing industry

*Yaroslav Zhalilo*  
*Kiev, March 11, 2010*

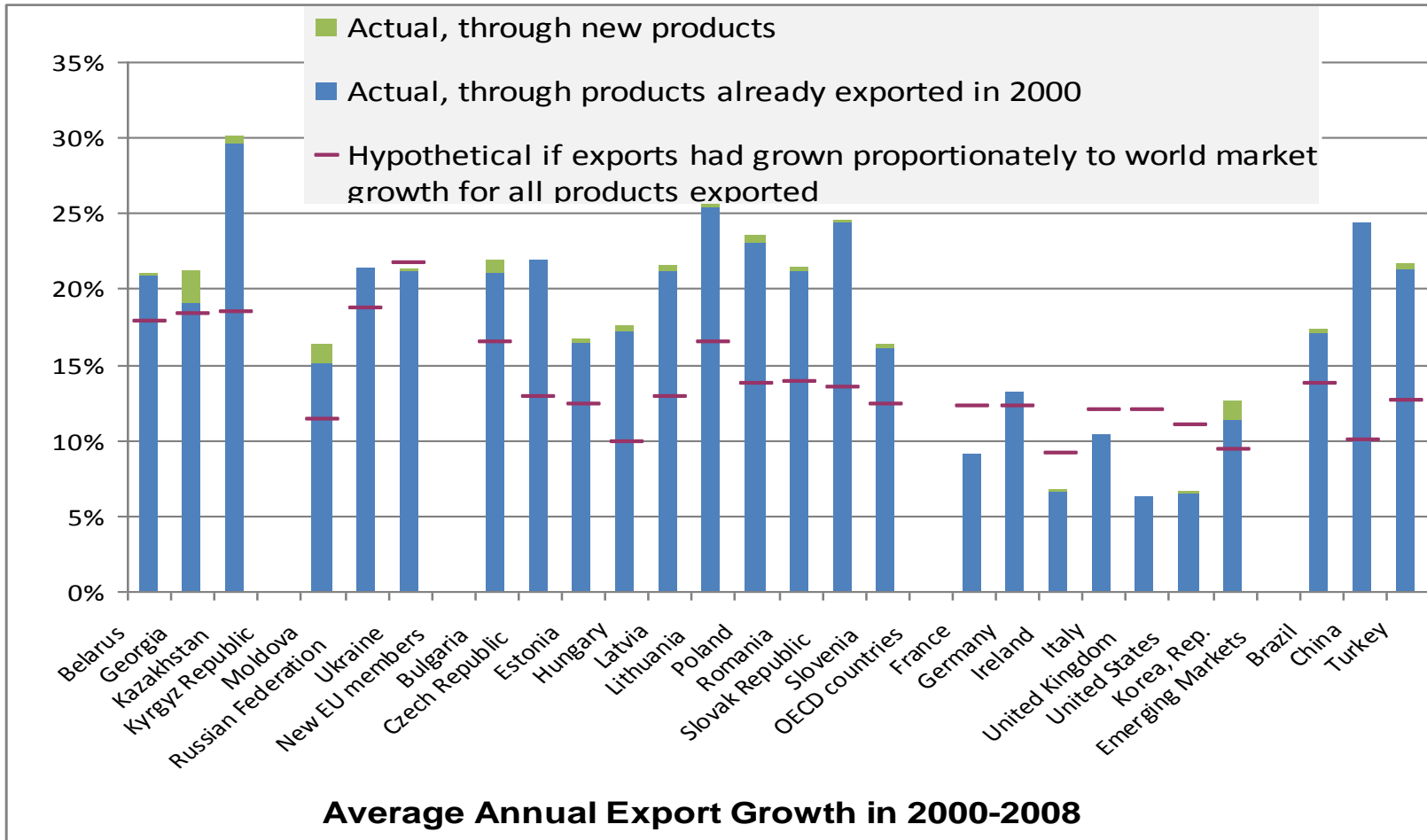


# Where are the bottlenecks?

## **The key factors of crisis in sector:**

- Sharp worsening of terms of foreign trade
- Shrinking of domestic market:
  - decline of demand from the side of main steel products users
  - deterioration of main steel consumers' liquidity
  - cuts of public investment in infrastructure projects
- Increasing protectionism in the world
- Limited access to “long” finance due to liquidity crisis at world financial markets

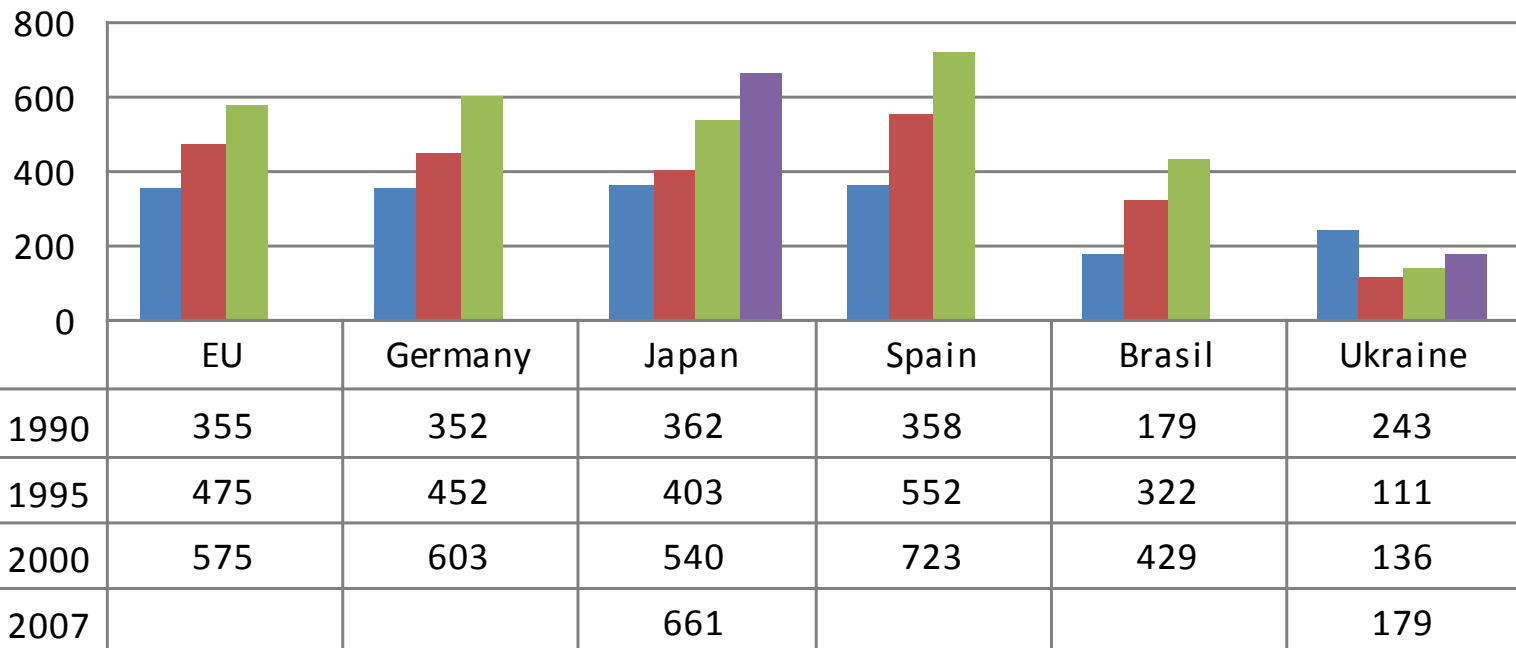
# Pre-crisis growth: lost chances?



# Poor resources efficiency

<b>Resources</b>	<b>Ukraine</b>	<b>Developed countries, average</b>
Coke (kg/t of iron)	520	320
Iron ore (t/t of iron)	1,8	1,5
Natural gas(m <sup>3</sup> /t of iron)	79	practically not used
Energy (GJ/t of rolled metal)	30	25
Standard coal (t/t of rolled metal)	1,28	0,96

# Low labor productivity

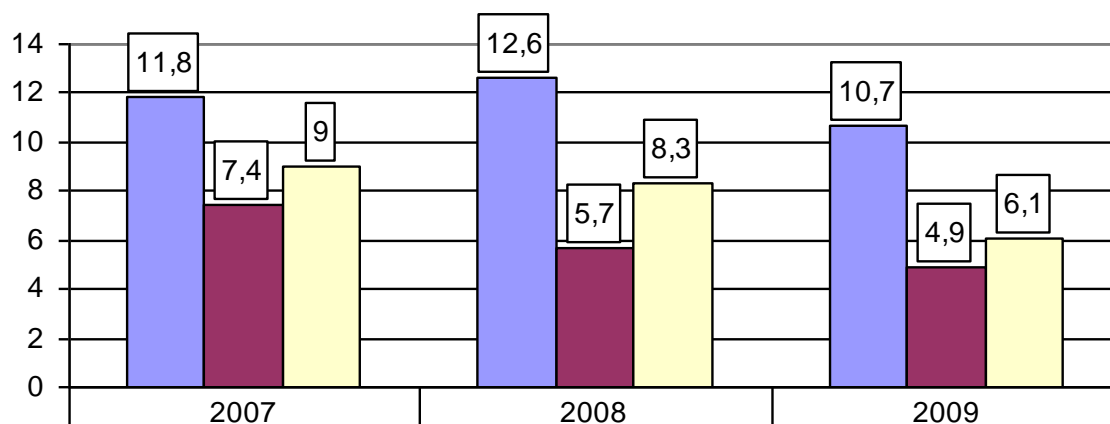


Labor productivity in 1990-2007, tonnes of steel per person

# Constraints to meet competitive challenges

- High material and energy consumption of steel production
- Monopolies at raw materials' markets of Ukraine, resulting in higher prices at lower quality
- Growth of prices and tariffs for the services of state-owned monopolies in 2005-2008
- Lack of adequate efficient anti-crisis Government policy
- Social burden on metallurgical companies

# Worsening of value-added structure



■ half-finished products	11,8	12,6	10,7
■ long rolled metal	7,4	5,7	4,9
■ flat rolled metal	9	8,3	6,1

**Structure of rolled metal export from Ukraine in 2007-2009, mln t**

# Metal producers managed to adapt to new crisis conditions:

- “freezing” of prices for some resources and tariffs
- hryvnia devaluation
- reduction of product cost
- decrease of natural gas consumption
- optimization of employment



# Main directions of further development of Ukrainian metallurgy:

- increase of the share of higher value-added products
- revising the value chain and efficiency improvement of its links
- improvement of legal and regulatory environment
- development of sales network and clients servicing improvement
- improvement of business and managerial skills of personnel both managerial and engineering

# Measures to enhance competitiveness

## **Support of geographical widening of metal products sales**

- counteraction to tariff and non-tariff barriers establishment for Ukrainian products
- economic diplomacy and trade missions' activity

# Measures to enhance competitiveness

## **Domestic market extension**

- development of large steel-intensive infrastructure projects (bridges construction, railroads, public utilities infrastructure modernization)
- competition enforcement: anti-monopolist measures at horizontal levels
- transparent and competitive public orders and purchases distribution
- counteraction to excess import

# Measures to enhance competitiveness

## **Active development of financial instruments of sectoral support**

- tax credit for the share of the profit, directed to productive reinvestment
- tax preferences for energy-saving equipment import
- accelerated depreciation of productive assets
- special credit lines for renovation projects financing in Ukrainian state-owned banks

# Measures to enhance competitiveness

**Development of systemic export promotion measures –**

will directly favor metallurgy as one of the most export-oriented sectors of Ukrainian economy.