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Sector Diagnostics

FURNITURE

October 2006

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ADDITIONAL REFERENCES

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SECTOR DIAGNOSTICS

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SUMMARY

The furniture sector has shown sustainable growth in recent years. This growth was seen in terms of production volumes among Ukrainian enterprises as well as in sales, imports, and exports of furniture. Industry experts claim that such growth will continue for the next several years (barring adverse changes in the economic, social, and political situation in Ukraine).

Over the 2000-2004 period, total furniture production volume growth was 29.9 percent per annum. The average growth of sales among enterprises with furniture manufacturing as a primary activity was 33.1 percent per annum during this period.

The largest market share currently belongs to the Kyiv and Donetsk Oblasts; however, there is now a current trend of market restructuring in favor of other regions of Ukraine.

Exports of Ukrainian furniture from 2000 to 2005 were characterized by an average monthly growth rate of 24.8 percent in monetary terms (taking negative growth in 2002 into consideration), and by 18.9 percent in physical terms. The main export destination country for Ukrainian furniture was Russia, accounting for about half of all exports. Most of the remaining share was exported to other CIS and Western European countries. Roughly a quarter of all furniture manufacturers were engaged in exports. The most significant exporters were large furniture enterprises.

Imports of foreign furniture in 2000-2005 had an average annual growth rate of 24.1 percent in monetary terms and 18.9 percent in physical terms. At the same time, the share of imported furniture in the Ukrainian market decreased from year to year. Domestic manufacturers gradually replaced imported furniture in the lower and medium-priced segments, relegating foreign companies to the expensive and exclusive segments. Italian products were still the top imports into the Ukrainian market. Moreover, significant shares of imports were held by Belarusian, Lithuanian, German, Polish, Romanian, French, Finnish, and Czech manufacturers.

The average annual growth of foreign direct investment in the furniture sector in 2000-2004 was 31.6 percent per annum (taking the negative growth of 2004 into consideration). The largest growth of FDI was recorded in 2003.

In terms of future predictions, industry experts anticipate continued growth of the furniture market over the next several years. The estimated average growth rate for all subsectors (home furniture, office furniture, and specialized furniture) combined will be 10-15 percent per annum. The trend toward a decrease in the market share of economy-class furniture and an increase in the medium-priced category will continue. Consumers will become more demanding in terms of quality and design requirements. It is also predicted that the market share of imported furniture will continue to decrease. The market will expand, and the share of regional sales (outside the capital and other large cities) will grow.

Furniture enterprises were quite active in terms of modernizing their production facilities. In 2005, over two-thirds of the surveyed enterprises purchased new equipment, and the shares of enterprises that purchased equipment were almost equal among companies of different sizes. Ukrainian enterprises purchased equipment of both domestic and foreign origin, with no significant preferences shown for either category. Large furniture enterprises were more likely to buy foreign-made equipment (most likely due to better financing capabilities).

The majority of enterprises in the furniture sector engaged in their own product modifications. This primarily concerned modifying existing products; however, about one-third tried to design brand-new products. New production technologies were purchased by only about one-third of the surveyed companies. According to the experts' findings, the problem of illegal copying of industrial designs in the furniture sector was insignificant.

The level of product certification was rather low in the furniture sector. International certification was completed mainly by large and export-oriented enterprises.

At present, Ukrainian furniture enterprises primarily use domestic raw materials. Industry experts presume that the share of domestic raw materials will keep growing as a result of protectionist government measures (introduction of an import duty on Eastern European chipboard, for example) and improvement of product quality among Ukrainian enterprises producing raw and semi-processed materials.

Investment in production by Ukrainian enterprises almost exclusively used companies' own funds. Even though foreign investment in the furniture

industry grew during the surveyed period, these volumes were still insufficient. This situation will most likely remain the same in the future: according to expert estimates, the attractiveness of furniture enterprises to investors was low due to the unfavorable investment climate. The majority of investment funds were found to have been used to purchase new equipment. Investments in production technologies were made primarily by large enterprises.

The main energy resource used by furniture enterprises was electricity: this was the main type of energy used by about 90 percent of the sector's enterprises. Energy expenses accounted for 10-15 percent of overall production costs. The majority of furniture manufacturers were aware of the need to save energy and had introduced appropriate production technologies for this purpose to various extents.

The most popular sales method among furniture enterprises was direct sales to consumers through their own retail networks, warehouses, and individual orders. Intermediaries were used by less than half of the surveyed enterprises.

The key players identified in the furniture market were Nowy Styl CJSC, Gerbor Holding, Ltd., Art Metal Furnitura, Ltd., Merx-Trade, Ltd., Eno-Mebli, Ltd., Modern-Expo, Ltd., UKRYUG, Ltd., Enran CJSC, Progress OJSC, and Klasum Factory, Ltd.

The majority of Ukrainian furniture manufacturers welcomed the idea of Ukraine's potential accession to the following organizations: the World Trade Organization (WTO), the European Union (EU), and the Common Economic Space (CES). The most controversial issue was Ukraine's accession to the WTO. Most furniture market industry experts were convinced that joining this organization would either not change anything for the majority of enterprises or would be beneficial. A small number of entrepreneurs assumed that WTO accession and a subsequent expansion of foreign furniture manufacturers into the Ukrainian market would mean bankruptcy for their companies, but the majority anticipated that they would preserve their market shares, albeit perhaps with lower profits. Additionally, the respondents believed that WTO accession would stimulate consolidation of furniture manufacturing enterprises, takeovers of smaller enterprises by larger firms, and an improvement in product quality.

According to the surveyed entrepreneurs, administrative procedures that they had to complete were of medium complexity on average. Only a small percentage of entrepreneurs stated that completing administrative procedures was less complicated in 2005 than in previous years. There was a prevailing opinion among entrepreneurs that nothing had changed for better or for worse in terms of government regulation of their enterprises. Furniture enterprises' abilities to legally influence the regulatory environment for business activities at both the national and the local levels were very insignificant.

Offering unofficial payments in various forms to officials to speed up completion of administrative procedures was quite common in the furniture sector. Around half of the surveyed entrepreneurs believed that this problem was a serious concern. These payments were most often in monetary form.

The participation level of furniture enterprises in business associations was rather low. About 20 percent were members of such associations. Most enterprises with association membership were involved with local rather than national associations. The largest national associations were the Ukrainian Mebliderevprom Association (this association is also a member of the European Federation of Furniture Retailers, or FENA) and the Ukrainian Association of Furniture Manufacturers (established in 2001).

RESEARCH METHODOLOGY

The purpose of this survey was to research the status and dynamics of the furniture sector over the 2000-2005 period.

The following data was used:

1. Secondary data

1. Summarized data of the State Statistics Committee of Ukraine regarding production and sales volumes, quantities of exports and imports, and foreign direct investment in the furniture sector.
2. Data obtained from mass media sources and other public sources of information.
3. USAID | BIZPRO's *Diagnostics of the Ukrainian Furniture Sector* (2004).

2. Results of a nationwide survey of 117 furniture enterprise CEOs organized and implemented by the BIZPRO project

The national survey of chief executive officers in various industry sectors was conducted with the goal of studying internal and external obstacles to business activity.

The survey was conducted among enterprise CEOs; their businesses were defined as legal entities of all sizes that identified furniture as their primary activity. The survey was carried out only among production enterprises and did not include retail businesses and consumers. The total sample consisted of **117** enterprise CEOs.

The questioning was performed by means of a structured interview. The questionnaire had the following sections:

1. Key enterprise data
2. Exports
3. Investment
4. Raw materials, equipment, and energy resources
5. Distribution channels
6. Foreign economic policy
7. Standardization and certification
8. Competition
9. New developments and industrial designs
10. Regulatory environment
11. Levels of civic engagement

Enterprises were divided by size: small (up to 50 employees), medium-sized (51-250 employees), and large (over 250 employees). The shares of enterprises of different sizes in the sample were dictated according to their shares among all enterprises in the sector.

3. Results of the survey of industry experts conducted by KPD 100

The purpose of this survey was to obtain estimates regarding the furniture market from industry experts. The tasks of the survey included charting trends in various sectors of the furniture market, composing a market development forecast, identifying the ratio of domestic vs. foreign furniture sales, determining ratios of different distribution channels used, pinpointing key market players, studying furniture manufacturers' attitudes toward Ukraine's accession to the WTO, and exploring purchasing criteria of furniture buyers.

The sample included ten industry experts. These industry experts were managers of large and medium-sized furniture enterprises.

As part of data representation, an index of average annual growth (decline) was used. The index was computed as an arithmetical average using the following formula:

$$\sqrt[n]{x_1 * x_2 * \ldots * x_n}$$

wherein x_1, x_2, x_n = growth chain rates, and n = the number of rates.

This formula was used according to the standards set forth in *General Theory of Statistics: Statistical Methodology in Studying Commercial Activity*, edited by A.A. Smirin and O.E. Bashina (1995).

1. STRUCTURE AND MARKET VOLUME OF THE FURNITURE SECTOR

1.1. SEGMENTATION OF THE FURNITURE SECTOR BY PRODUCT GROUPS

The following types of classification for furniture products were used in this survey: furniture classification by destination, furniture classification by function, classification according to the Ukrainian Classification of Trade and Foreign Economic Activity (UKTZED) codes, local codes of the State Statistics Committee of Ukraine (NOM), and product statistical classification (SKP) codes.

Industry experts divided the existing furniture types into the following groups by intended use:

- home furniture
- office furniture
- specialized furniture

In terms of function, home furniture was divided into the following groups:

TABLE 1.1. HOME FURNITURE

Product group	Description
Soft furniture	Armchairs, couches, sofas, and divans (covered with leather, synthetics, etc.)
Living room furniture	Dressers, coffee tables, sideboards, furniture for TV/video/stereo appliances
Kitchen furniture	Kitchen tables and chairs, kitchen wall cabinets, etc.
Bedroom furniture	Beds, dressers, wardrobes, etc.
Children’s furniture	Beds, wardrobes, tables, chairs, etc.
Home office furniture	Tables, chairs, drawers, etc.
Other	Cupboards, bookcases, coffee tables, mirrors, furniture for bathrooms, etc.

Office furniture was divided into the following main product groups according to function:

TABLE 1.2. OFFICE FURNITURE

Product group	Description
Armchairs and chairs	Office armchairs, office chairs
Workplace furniture	Desks, drawers, etc.
Executive furniture	Desks, armchairs, drawers, cabinets, etc.
Computer desks	Computer desks
Office partitions	Office partitions
Accessories	

Specialized furniture was divided into the following main groups by function:

TABLE 1.3. SPECIALIZED FURNITURE

Product group	Description
Furniture for stores and supermarkets	Shelving, display windows, counters, etc.
Furniture for hotels	Beds, drawers, cabinets, small tables, etc.
Furniture for bars and restaurants	Bar stools and armchairs, tables, etc.
Furniture for educational institutions	Desks, chairs, boards, etc.

Furniture for medical institutions, laboratories	Desks, beds, cabinets, etc.
Furniture for theater and entertainment companies and cultural institutions	Chairs, desks, wardrobes
Furniture for hairdressers and beauty salons	Chairs for hairdressers and beauty salons
Furniture for vehicles	Seats for cars and trucks, seats for railroad carriages and aircraft, etc.

Furniture could also be classified by materials used in manufacturing:

- wood
- metal
- glass
- plastic
- stone
- cane, willow sticks, bamboo, or similar materials
- a combination of materials

Furniture was also classified by styles:

- classic
- modern
- colonial
- contemporary
- other

Furniture could be classified according to Ukrainian foreign trade codes (UKTZED). These classifications were used by the State Customs Service of Ukraine to identify furniture crossing the Customs border of Ukraine. (Table 1.4)

Classification of furniture according to local codes

Until December 31, 2003, the nomenclature of industrial products was based on local codes of the State Statistics Committee of Ukraine. (Table 1.5)

Classification of furniture according to Statistical Classification of Products (SKP) codes

Starting in 2004, the State Statistics Committee of Ukraine made amendments to the list of industrial products according to a new classification (SKP). (Table 1.6)

TABLE 1.4. CLASSIFICATION OF FURNITURE ACCORDING TO UKTZED CODES

UKTZED code	Description
9401	Seats (other than those under code No. 9402), convertible into beds (or not), and parts thereof:
9402	Medical, surgical, dental, or veterinary furniture (operating tables, examination tables, hospital beds with mechanical features, dentist's chairs); barber's chairs and similar chairs
9403	Other furniture and parts thereof, including:
940310	- Metal office furniture:
9403101000	-- Drawing tables (other than those under code No. 9017)
9403105100	---- Desks
9403105900	---- Other drawing tables (other than those under code No. 9017)
9403109100	---- Cupboards with doors, shutters, or flaps
9403109300	---- Filing, card-filing, and other cabinets
9403109900	---- Other cupboards with doors, shutters, or flaps
940320	- Other metal furniture:
940330	- Wooden office furniture, including:
9403301100	--- Desks
9403301900	--- Other wooden office furniture
9403309100	--- Cupboards with doors, shutters, or flaps; filing, card-filing, and other cabinets
9403309900	--- Other
940340	- Wooden kitchen furniture:
9403401000	-- Fitted kitchen units

9403409000	-- Other kitchen furniture
9403500000	- Wooden bedroom furniture
940360	- Other wooden furniture, including:
9403601000	-- Wooden dining room and living room furniture
9403603000	-- Wooden furniture for shops
9403609000	-- Other wooden furniture
940370	- Plastic furniture, including:
9403800000	- Furniture made of other materials, including cane, willow sticks, and bamboo
940390	- Furniture parts
9404100000	- Mattress supports
940421	-- Mattress supports, cellular rubber or plastics, covered or not:
9404211000	--- Mattress supports, rubber
9404219000	--- Mattress supports, plastics
940429	-- Mattress supports, other materials:
9404291000	--- Mattress supports with spring interiors
9404299000	--- Other mattress supports

TABLE 1.5. CLASSIFICATION OF FURNITURE BY LOCAL CODES (NOM) OF THE STATE STATISTICS COMMITTEE OF UKRAINE

NOM code	Description (in monetary/physical terms)
676010	Furniture, except for built-in models (UAH thousand)
676020	Home furniture (share of total furniture production) (UAH thousand)
676153	Specialized furniture (UAH thousand)
676160	Furniture for schools and educational institutions, incl. desks and boards (UAH thousand)
676170	Children's furniture (share of total home furniture production) (UAH thousand)
676175	Furniture for nursery schools (UAH thousand)
676183	Kitchen furniture (UAH thousand)
676193	Soft furniture, including mattresses (UAH thousand)
676259	Desks, including children's (pcs.)
676261	Dinner tables (pcs.)
676262	Writing tables (pcs.)
676263	Kitchen tables (pcs.)
676264	Coffee tables (pcs.)
676329	Chairs, including children's (pcs.)
676371	Stools (pcs.)
676399	Armchairs (pcs.)
676401	Cupboards, total (pcs.)
676405	Combined cupboards (pcs.)
676406	Kitchen cupboards (pcs.)
676407	Cupboards and sideboards for dishes (pcs.)
676411	Wardrobes for clothing and linens (pcs.)
676421	Bookcases (pcs.)
676423	Writing desks (pcs.)
676424	Bookshelves and individual shelves (pcs.)
676609	Divans, ottomans, couches, sofas (pcs.)
676611	Sofas, soft (pcs.)
676612	Ottomans, sofas (pcs.)
676651	Foldout chairs (pcs.)
676661	Folding divans (pcs.)
676691	Wooden beds (pcs.)
676693	Children's beds (pcs.)
676761	Bookshelves (pcs.)
676771	One-sided soft mattresses (pcs.)

676781	Two-sided soft mattresses (pcs.)
676791	Children's mattresses (pcs.)
677010	Furniture suites (share of total furniture production), including: children's sets, sets for rooms, kitchens, and hallway sets
677011	Furniture suites (sets)

TABLE 1.6. CLASSIFICATION OF FURNITURE BY SKP CODES

SKP code	Description
36.11.11.999	*Furniture for sitting, pcs.*
36.11.11	Furniture for sitting, specialized (mainly with metal frameworks), pcs.
36.11.11.100	Furniture for sitting, used in civil airplanes, pcs.
36.11.11.300	Furniture for sitting, used in vehicles, pcs.
36.11.11.500	Furniture for sitting, rotating, with adjustable heights, pcs.
36.11.11.700	Furniture for sitting, soft with metal frameworks, pcs.
36.11.11.900	Furniture for sitting, hard with metal frameworks, pcs.
36.11.12	Furniture for sitting (mainly with wooden frameworks), pcs.
36.11.12.100	Furniture for sitting (except for garden and camping armchairs), transformable into beds, pcs.
36.11.12.300	Furniture for sitting, cane, pcs.
36.11.12.500	Furniture for sitting, soft with wooden frameworks, pcs.
36.11.12.900	Furniture for sitting, hard with wooden frameworks, pcs.
36.11.13	Furniture for sitting, other, pcs.
36.12.1	*Office furniture and furniture for stores and supermarkets, pcs.*
36.12.11	Office furniture, metal, pcs.
36.12.11.100	Office desks for drawing, pcs.
36.12.11.300	Office desks, metal, up to 80 cm in height, pcs.
36.12.11.500	Office furniture, metal, up to 80 cm in height (excl. desks), pcs.
36.12.11.700	Office cabinets, metal, over 80 cm in height, pcs.
36.12.11.900	Office furniture, metal, over 80 cm in height, other; pcs.
36.12.12	Office furniture, wooden, pcs.
36.12.12.300	Office desks, wooden, up to 80 cm in height, pcs.
36.12.12.500	Office desks, wooden, up to 80 in height, other, pcs.
36.12.12.700	Office cabinets, wooden, over 80 cm in height, with doors and drawers; shelves, card-filing cabinets, etc.; pcs.
36.12.12.900	Office furniture, wooden, over 80 cm in height, other, pcs.
36.12.13	Furniture for stores and supermarkets, wooden, pcs.
36.13.10	*Kitchen furniture, pcs.*
36.13.10.500	Kitchen furniture, wooden: individual products, pcs.
36.13.10.900	Kitchen furniture, wooden, other (excl. individual products), pcs.
36.14.11.999	Other furniture (excl. components and furniture details), pcs.
36.14.11	Metal furniture, pcs.
36.14.12	*Wooden home furniture, pcs.*
36.14.12.300	Wooden furniture for bedrooms, pcs.
36.14.12.350	Wooden beds, pcs.
36.14.12.500	Wooden furniture for living quarters (kitchens and living rooms), pcs.
36.14.13	Wooden furniture, pcs.
36.14.14	Furniture made of plastic and other materials (incl. cane, willow sticks, and bamboo), pcs.
36.14.14.300	Plastic furniture, pcs.
36.14.14.500	Furniture made of other materials, in other segments, pcs.

This report also categorizes furniture by price segments.

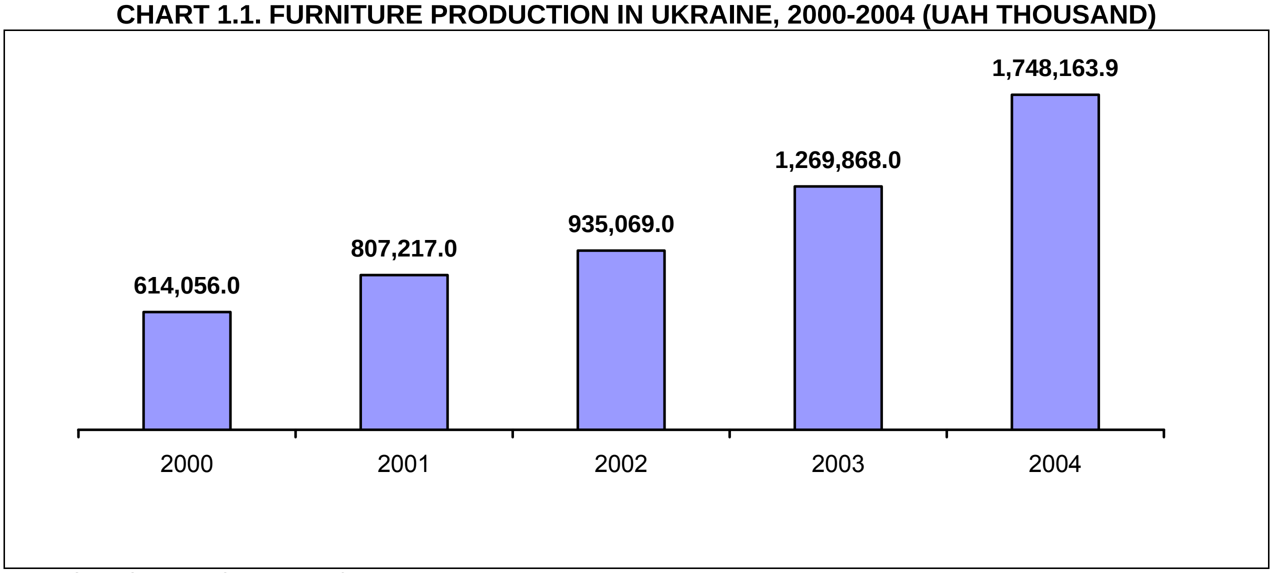
TABLE 1.7. CLASSIFICATION OF FURNITURE BY PRICE SEGMENTS

Price segment	Description
Economy-class	Furniture sets; up to USD 300 Soft furniture (fabrics, leather was not represented); up to USD 400 Bedroom furniture; up to USD 1,000 Kitchen furniture; up to USD 200 per linear meter
Medium-priced	Furniture sets; from USD 300 to 750 Soft furniture (fabrics); up to USD 1,600 Soft furniture (leather); up to USD 3,000 Bedroom furniture; from USD 1,000 to 3,000 Kitchen furniture; from USD 200 to 700 per linear meter
Expensive/Exclusive (with no price ceiling; typical offers in this segment are shown)	Furniture sets; from USD 750 to 2,500 Soft furniture (fabrics); USD 1,600 and above Soft furniture (leather); USD 3,000 and above Bedroom furniture; from USD 3,000 to 7,000 Kitchen furniture; USD 700 and above per linear meter

1.2. PRODUCTION VOLUME: 2000-2004

According to the data provided by the State Statistics Committee of Ukraine, furniture production steadily increased from 2000 to 2004.

CHART 1.1. FURNITURE PRODUCTION IN UKRAINE, 2000-2004 (UAH THOUSAND)

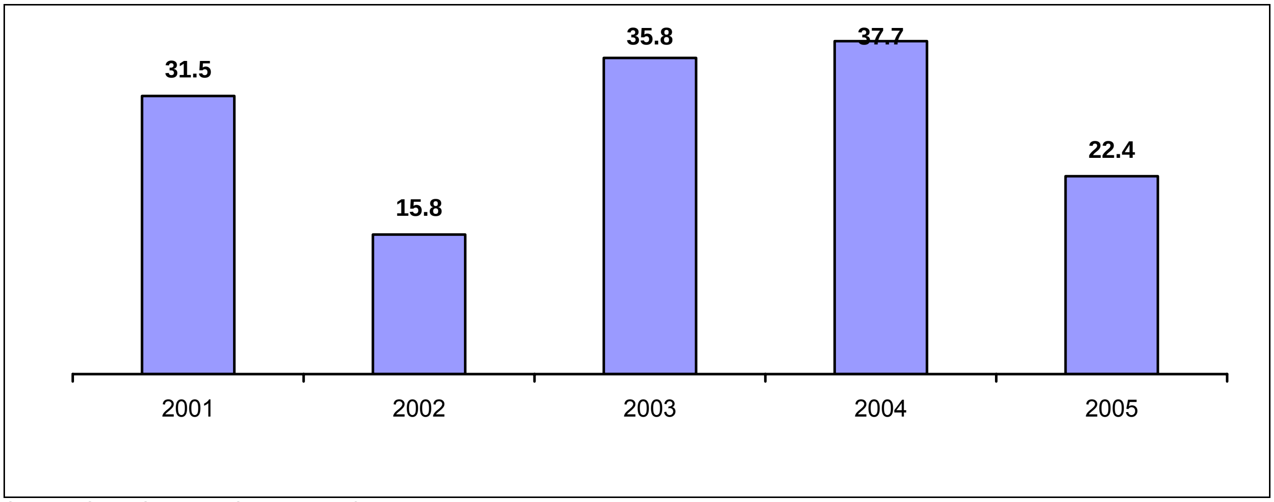


Source: State Statistics Committee of Ukraine.

Thus, production increased by 2.8 times in the period from 2000 to 2004. This growth was especially notable in 2001, 2003, and 2004. Average annual growth during the 2000-2004 period was 29.9 percent.

According to data provided by the State Statistics Committee of Ukraine, growth of furniture production in 2005 compared to 2004 was 22.4 percent (Source: http://mebli.org.ua/ua/v-expert/news/members/ 680.html).

CHART 1.2. FURNITURE PRODUCTION GROWTH RATES IN MONETARY TERMS, 2001-2005 (IN %)



Source: State Statistics Committee of Ukraine.

Almost of all types of furniture enterprises recorded growth of production in the period from 2000 to 2003. The only exception in this period was a drop in production in 2002 in the segments of furniture for schools and educational institutions (by 13.1 percent) and furniture for nursery schools (by 34.5 percent). Production volumes of other types of furniture showed sustained growth. It was impossible to supply comparative data for the year 2004 because the range of industrial products was recorded according to different codes by the State Statistics Committee of Ukraine from 2004 onward. Data for 2004 is provided separately in Table 1.12.

TABLE 1.8. FURNITURE PRODUCTION VOLUMES IN MONETARY TERMS BY MARKET SEGMENT, 2000-2003 (UAH THOUSAND)

NOM code	Description	2000	2001	2002	2003
676020	Home furniture (share of total furniture production)	418,641.0	493,672.0	556,152.0	701,296.0
676153	Specialized furniture	176,579.0	291,299.0	346,360.0	455,413.0
676160	Furniture for schools and educational institutions (incl. school desks and boards)	12,854.0	21,941.0	19,059.0	21,181.0
676170	Children's furniture (share of total home furniture production)	9,348.0	12,654.0	14,827.0	24,754.0
676175	Furniture for nursery schools	28.0	116.0	76.0	1,327.0
676183	Kitchen furniture	38,248.0	38,458.0	47,255.0	60,587.0
676193	Soft furniture (including mattresses)	90,897.0	101,549.0	116,290.0	136,049.0

Source: State Statistics Committee of Ukraine.

The most sustained development took place in the kitchen and soft furniture segments, where growth rates increased steadily from 2000 to 2003. In contrast, the largest growth for specialized furniture was in 2001, followed by a significant decrease in the growth rate in 2002 (by 3.4 times); in 2003, the growth rate increased again but failed to reach 2001 levels (2.1 times less). Similar dynamics were at work in the segments of furniture for nursery schools, general schools, and educational institutions. A significant slowdown of the production growth rate was observed in 2002, probably as a result of parliamentary elections held that year in Ukraine. Negative growth was found in the segments of furniture for schools and other educational institutions as well as nursery schools; i.e., segments in which purchases were primarily financed through the national and municipal budgets. This can be explained by the fact that in the election year, these budget expenditures were cut in order to be allocated for other purposes.

TABLE 1.9. DYNAMICS OF PRODUCTION VOLUME RATES IN MONETARY TERMS BY MARKET SEGMENT (IN %)

SKP code	Description	2001 (vs. 2000)	2002 (vs. 2001)	2003 (vs. 2002)
676020	Home furniture (share of total furniture production)	17.9	12.7	**26.1**
676153	Specialized furniture	**65.0**	18.9	31.5
676160	Furniture for schools and educational institutions (incl. school desks and boards)	**70.7**	-13.1	11.1
676170	Children's furniture (share of total home furniture production)	35.4	17.2	67.0
676175	Furniture for nursery schools	314.3	-34.5	1,646.1
676183	Kitchen furniture	0.6	22.9	28.2
676193	Soft furniture (including mattresses)	11.7	14.5	17.0

Source: State Statistics Committee of Ukraine.

Constant growth of production volumes in 2000-2003 was observed in both physical and monetary terms for types of furniture such as kitchen tables, wooden items, and children's beds. As for writing and coffee tables, sets of furniture products (including children's), room sets, kitchens, and hallways, there was a decline of production both in physical and monetary terms in 2001 compared to 2000, followed by growth in 2002 and 2003. The most dramatic growth rates took place in terms of production of folding divans, children's beds, and mattresses.

TABLE 1.10. PRODUCTION VOLUMES BY FURNITURE TYPE, 2000-2003

NOM code	Description	2000		2001		2002		2003	
		Product units	Monetary units (UAH)	Product units	Monetary units (UAH)	Product units	Monetary units (UAH)	Product units	Monetary units (UAH)
676259	Desks (including children's, pcs.)	336,114.0	77,490.0	320,948.0	80,422.0	448,636.0	115,729.0	504,925.0	135,033.0
676261	Dinner tables (pcs.)	50,518.0	8,693.0	36,799.0	7,486.0	33,247.0	6,785.0	37,450.0	9,318.0
676262	Writing tables (pcs.)	117,509.0	33129.0	103,366.0	30845.0	134,963.0	39,185.0	149035.0	49,882.0
676263	Kitchen tables (pcs.)	25,691.0	6,094.0	38,218.0	7,480.0	71,409.0	15,947.0	98,190.0	17,347.0
676264	Coffee tables (pcs.)	17,913.0	3,483.0	12,779.0	2,225.0	15,241.0	3,884.0	18,379.0	5,226.0
676329	Chairs (incl. children's, pcs.)	741,724.0	37,847.0	963,019.0	44,230.0	881,740.0	39,910.0	1,032,686.0	49,595.0
676371	Stools (pcs.)	115,868.0	2,644.0	79,031.0	2,613.0	78,307.0	2,377.0	97,473.0	2,946.0
676399	Armchairs (pcs.)	276,674.0	41,073.0	279,691.0	39,446.0	284,805.0	36,883.0	340,983.0	56,300.0
676401	Cupboards, total (pcs.)	195,127.0	71,486.0	157,727.0	90,069.0	346,233.0	128,058.0	471,386.0	160,823.0
676405	Combined cupboards (pcs.)	25,987.0	10,085.0	18,433.0	17,639.0	41,743.0	20,701.0	114,863.0	49,070.0
676406	Kitchen cupboards (pcs.)	17,049.0	5,159.0	18,874.0	7,743.0	76,410.0	13,171.0	67,236.0	9,331.0
676407	Cupboards and sideboards for dishes (pcs.)	10,374.0	-	4,989.0	-	34,023.0	-	66,317.0	-

676411	Wardrobes for clothing and linens (pcs.)	86,139.0	-	55,590.0	-	111,185.0	-	123,317.0	-
676421	Bookcases (pcs.)	32,208.0	-	38,022.0	-	61,111.0	-	75,690.0	-
676423	Writing desks (pcs.)	634.0	92.0	474.0	128.0	49.0	52.0	604.0	160.0
676424	Bookshelves and individual shelves (pcs.)	14,296.0	5,567.0	14,072.0	6,380.0	17,411.0	5,211.0	23,530.0	12,982.0
676609	Divans, ottomans, couches, sofas (pcs.)	14,471.0	8,653.0	14,761.0	11,786.0	20,994.0	17,870.0	26,431.0	21,751.0
676611	Sofas, soft (pcs.)	8,925.0	5,644.0	6,382.0	6,897.0	8,683.0	9,611.0	12,240.0	10,737.0
676612	Ottomans, sofas (pcs.)	1,615.0	823.0	3,456.0	2,095.0	3,531.0	2,507.0	5,096.0	3,367.0
676651	Foldout chairs (pcs.)	5,903.0	3,077.0	4,482.0	2,417.0	5,683.0	2,459.0	5,142.0	2,639.0
676661	Folding divans (pcs.)	63,524.0	47,569.0	58,259.0	48,163.0	64,803.0	50,680.0	74,261.0	71,671.0
676691	Wooden beds (pcs.)	94,798.0	20,318.0	119,097.0	24,577.0	166,281.0	33,026.0	218,995.0	48,055.0
676693	Children’s beds (pcs.)	56,559.0	8,623.0	68,031.0	9,394.0	104,626.0	14,201.0	140,761.0	23,039.0
676761	Bookshelves (pcs.)	11,341.0	-	12,546.0	-	7,901.0	-	16,644.0	-
676771	One-sided soft mattresses (pcs.)	13,458.0	-	16,646.0	-	33,885.0	6,324.0	48,687.0	6,486.0
676781	Two-sided soft mattresses (pcs.)	53,738.0	-	83,058.0	-	162,546.0	33,750.0	181,490.0	68,034.0
676791	Children’s mattresses (pcs.)	66.0	-	17.0	-	67.0	3.0	31.0	2.0
677010	Furniture suites (share of total furniture production), including: children’s sets, sets for rooms, kitchens, and hallway sets	94,637.0	145,022.0	82,429.0	134,152.0	100,806.0	166,251.0	180,416.0	212,036.0
677011	Furniture suites (sets)	15,082.0	23,677.0	9,795.0	15,929.0	38,769.0	45,422.0	72,331.0	74,531.0

Source: State Statistics Committee of Ukraine.

TABLE 1.11. DYNAMICS OF FURNITURE PRODUCTION BY TYPE, 2000-2003

NOM code	Description	*Product units*			*Monetary units (UAH)*		
		2001	*2002*	*2003*	*2001*	*2002*	*2003*
676259	Desks (including children’s, pcs.)	-4.5	**39.8**	**12.6**	**3.8**	**43.9**	**16.7**
676261	Dinner tables (pcs.)	-27.2	-9.7	12.6	-13.9	-9.4	37.3
676262	Writing tables (pcs.)	-12.0	**30.6**	**10.4**	-6.9	**27.0**	**27.3**
676263	Kitchen tables (pcs.)	**48.8**	**86.9**	**37.5**	**22.7**	**113.2**	**8.8**
676264	Coffee tables (pcs.)	-28.7	**19.3**	**20.6**	-36.1	**74.6**	**34.6**
676329	Chairs (incl. children’s, pcs.)	29.8	-8.4	17.1	16.9	-9.8	24.3
676371	Stools (pcs.)	-31.8	-0.9	24.5	-1.2	-9.0	23.9
676399	Armchairs (pcs.)	**1.1**	**1.8**	**19.7**	-4.0	-6.5	52.7

676401	Cupboards, total (pcs.)	-19.2	**119.5**	**36.2**	**26.0**	**42.2**	**25.6**
676405	Combined cupboards (pcs.)	-29.1	**126.5**	**175.2**	**74.9**	**17.4**	**137.0**
676406	Kitchen cupboards (pcs.)	10.7	304.8	-12.0	50.1	70.1	-29.2
676407	Cupboards and sideboards for dishes (pcs.)	-51.9	**582.0**	**94.9**	-	-	-
676411	Wardrobes for clothing and linens (pcs.)	-35.5	**100.0**	**10.9**	-	-	-
676421	Bookcases (pcs.)	**18.1**	**60.7**	**23.9**	-	-	-
676423	Writing desks (pcs.)	-25.2	-89.7	1132.7	39.1	-59.4	207.7
676424	Bookshelves and individual shelves (pcs.)	-1.6	23.7	35.2	14.6	-18.3	149.1
676609	Divans, ottomans, couches, sofas (pcs.)	**2.0**	**42.2**	**25.9**	36.2	51.6	21.7
676611	Sofas, soft (pcs.)	-28.5	36.1	41.0	22.2	39.4	11.7
676612	Ottomans, sofas (pcs.)	114.0	2.2	44.3	154.6	19.7	34.3
676651	Foldout chairs (pcs.)	-24.1	26.8	-9.5	-21.5	1.7	7.3
676661	Folding divans (pcs.)	-8.3	**11.2**	**14.6**	**1.3**	**5.2**	**41.4**
676691	Wooden beds (pcs.)	**25.6**	**39.6**	**31.7**	**21.0**	**34.4**	**45.5**
676693	Children's beds (pcs.)	**20.3**	**53.8**	**34.5**	**8.9**	**51.2**	**62.2**
676761	Bookshelves (pcs.)	10.6	-37.0	110.7	-	-	-
676771	One-sided soft mattresses (pcs.)	**23.7**	**103.6**	**43.7**	-	-	2.6
676781	Two-sided soft mattresses (pcs.)	**54.6**	**95.7**	**11.7**	-	-	101.6
676791	Children's mattresses (pcs.)	-74.2	294.1	-53.7	-	-	-33.3
677010	Furniture suites (share of total furniture production), including: children's sets, sets for rooms, kitchens, and hallway sets	-12.9	**22.3**	**79.0**	-7.5	**23.9**	**27.5**
677011	Furniture suites (sets)	-35.1	**295.8**	**86.6**	-32.7	**185.2**	**64.1**

Changes in production of different types of furniture in 2003-2004 were recorded by the State Statistics Committee of Ukraine according to a different classification system (SKP). During this period, production of furniture for sitting grew by 37.2 percent, production of office furniture and furniture for stores and supermarkets increased by 50.0 percent, and production of kitchen furniture grew by 21.9 percent. In the category of furniture for sitting, the highest rates of production growth were found in the segments of furniture for sitting used in vehicles (83.7 percent) and rotating furniture for sitting with adjustable heights (63.7 percent), whereas production of cane furniture and hard furniture for sitting with wooden frameworks declined (by 14.6 percent and 86.5 percent, respectively). The highest growth rate for kitchen furniture was found in the wooden kitchen furniture segment (26.8 percent); meanwhile, growth in both the office furniture and furniture for stores and supermarkets segments was led by both metal office furniture and metal office cabinets.

TABLE 1.12. FURNITURE PRODUCTION VOLUME BY TYPE AND PRODUCTION DYNAMICS, 2003-2004

SKP code	Description	*Production in 2003 (units)*	*Production in 2004 (units)*	*Dynamics of production change in 2004 vs. 2003 (in %)*
36.11.11.999	*Sitting furniture, pcs.*	*4,484,366.0*	*6,150,916.0*	*37.2*
36.11.11	Furniture for sitting, specialized (mainly with metal frameworks), pcs.	3,100,265.0	4,265,781.0	37.6
36.11.11.100	Furniture for sitting, used in civil airplanes, pcs.		4.0	-
36.11.11.300	Furniture for sitting, used in vehicles, pcs.	12,493.0	22,954.0	83.7
36.11.11.500	Furniture for sitting, rotating, with adjustable heights, pcs.	905,671.0	1,482,534.0	63.7
36.11.11.700	Furniture for sitting, soft with metal frameworks, pcs.	1,855,461.0	2,338,914.0	26.1
36.11.11.900	Furniture for sitting, hard with metal frameworks, pcs.	290,369.0	315,130.0	8.5
36.11.12	Furniture for sitting (mainly with wooden frameworks), pcs.	1,171,004.0	1,488,494.0	27.1
36.11.12.100	Furniture for sitting (except for garden and camping armchairs), transformable into beds, pcs.	78,752.0	81,016.0	2.9
36.11.12.300	Furniture for sitting, cane, pcs.	3,681.0	3,143.0	-14.6
36.11.12.500	Furniture for sitting, soft with wooden frameworks, pcs.	884,757.0	1,223,295.0	38.3
36.11.12.900	Furniture for sitting, hard with wooden frameworks, pcs.	135,758.0	77,288.0	-43.1
36.11.13	Furniture for sitting, other, pcs.	212,558.0	396,471.0	86.5
36.12.1	*Office furniture and furniture for stores and supermarkets, pcs.*	*1,101,175.0*	*1,651,646.0*	*50.0*
36.12.11	Office furniture, metal, pcs.	344,739.0	616,526.0	78.8
36.12.11.100	Office desks for drawing, pcs.	22,981.0	651.0	-97.2
36.12.11.300	Office desks, metal, up to 80 cm in height, pcs.	13,302.0	5,755.0	-56.7
36.12.11.500	Office furniture, metal, up to 80 cm in height (excl. desks), pcs.	1,512.0	17,956.0	1,087.6
36.12.11.700	Office cabinets, metal, over 80 cm in height, pcs.	2,776.0	7,449.0	168.3
36.12.11.900	Office furniture, metal, over 80 cm in height, other, pcs.	27,956.0	177,553.0	535.1
36.12.12	Office furniture, wooden, pcs.	721,469.8	923,268.1	28.0
36.12.12.300	Office desks, wooden, up to 80 cm in height, pcs.	213,120.0	222,603.0	4.5
36.12.12.500	Office desks, wooden, up to 80 cm in height, other, pcs.	158,732.0	201,776.0	27.1
36.12.12.700	Office cabinets, wooden, over 80 cm in height, with doors and drawers; shelves, card-filing cabinets, etc., pcs.	104,094.0	152,517.0	46.5
36.12.12.900	Office furniture, wooden, over 80 cm in height, other, pcs.	103,054.0	128,227.0	24.4

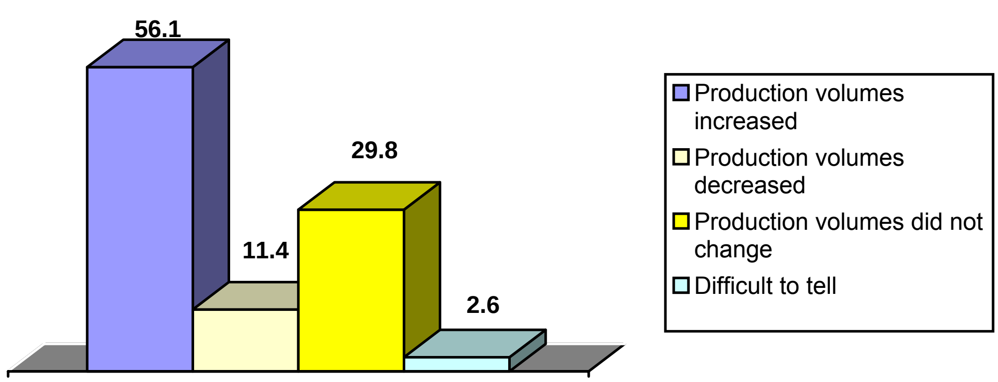
36.12.13	Furniture for stores and supermarkets, wooden, pcs.	34,966.0	111,852.0	219.9
36.13.10	*Kitchen furniture, pcs.*	*250,981.0*	*305,987.2*	*21.9*
36.13.10.500	Kitchen furniture, wooden: individual products, pcs.	200,444.0	254,181.0	26.8
36.13.10.900	Kitchen furniture, wooden, other (excl. individual products), pcs.	34,261.0	24,980.0	-27.1
36.14.11.999	Other furniture (excl. components and furniture details), pcs.	1,278,033.0	1,450,617.0	13.5
36.14.11	Metal furniture, pcs.	70,657.0	79,907.7	13.1
36.14.12	*Wooden home furniture, pcs.*	*1,045,341.0*	*1,193,640.0*	*14.2*
36.14.12.300	Wooden bedroom furniture, pcs.	425,579.0	279,023.0	-34.4
36.14.12.350	Wooden beds, pcs.	213,787.0	144,140.0	-32.6
36.14.12.500	Wooden furniture for living quarters (kitchens and living rooms), pcs.	511,502.0	712,163.0	39.3
36.14.13	Wooden furniture, pcs.	23,770.0	33,299.0	40.1
36.14.14	Furniture made of plastic and other materials (incl. cane, willow sticks, and bamboo), pcs.	138,241.0	140,853.0	1.9
36.14.14.300	Plastic furniture, pcs.	133,906.0	134,948.0	0.8
36.14.14.500	Furniture of other materials, in other segments, pcs.	2,088.0	3,219.0	54.2

Source: State Statistics Committee of Ukraine.

Growth of furniture production was also confirmed by the findings of a survey of 117 enterprise CEOs in the furniture sector. According to these entrepreneurs, growth or stability of production levels were observed for almost all measures of production (production in physical terms, percentage of potential production capacity, and potential production capacity).

An increase in production in physical terms was mentioned by 56.1 percent of the surveyed enterprises, whereas a decline was recorded by only 11.4 percent of the enterprises. Among the remainder of the surveyed enterprises, no changes in production in physical terms took place between 2004 and 2005.

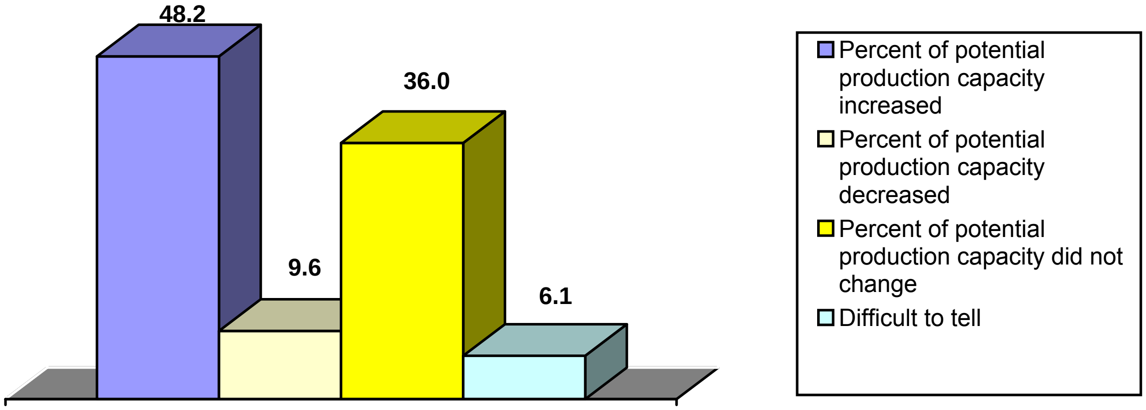
CHART 1.3. CHANGES IN PHYSICAL PRODUCTION VOLUMES AMONG SECTOR ENTERPRISES, 2005 VS. 2004 (IN %)



Source: Survey of 117 furniture enterprise CEOs.

Both increases and decreases in production were insignificant. On average, the increase of production volumes in physical terms among enterprises that experienced growth was 22.0 percent, whereas among enterprises that had experienced a decline, this fall averaged 22.0 percent. In addition to changes in production volumes, the percentage of potential production capacity achieved also changed. About half of the surveyed enterprises experienced an increase of this index (48.2 percent), whereas only 9.6 percent of enterprises suffered a decrease.

CHART 1.4. CHANGES IN PERCENTAGES OF POTENTIAL PRODUCTION CAPACITY AMONG FURNITURE ENTERPRISES, 2005 VS. 2004 (IN %)

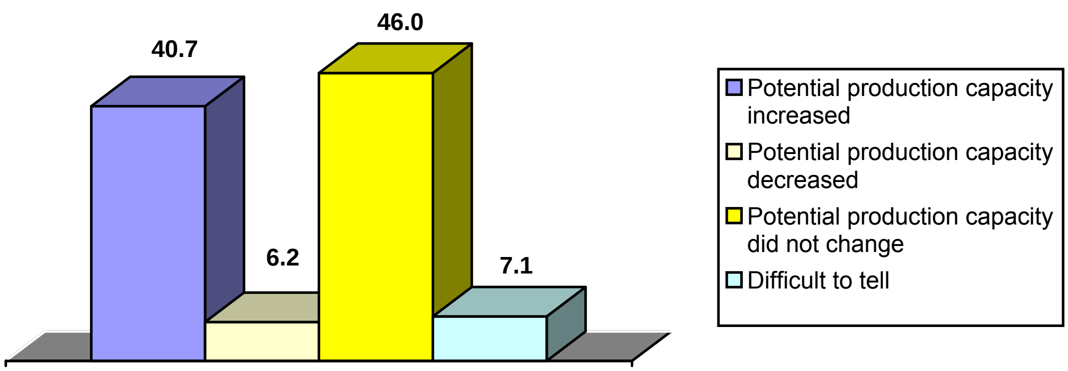


Source: Survey of 117 furniture enterprise CEOs.

Among enterprises that experienced an increase of the percentage of potential production capacity, the average level of this increase was 26.0 percent. For those that experienced a decrease, the average decline was by 25.0 percent.

As for changes in potential production capacity, most enterprises preserved existing potential production capacity (46.0 percent of enterprises), while this index increased among 40.7 percent of enterprises. Only 7.1 percent of enterprises saw this index decrease.

CHART 1.5. CHANGES IN POTENTIAL PRODUCTION CAPACITY, 2005 VS. 2004 (IN %)



Source: Survey of 117 furniture enterprise CEOs.

The average increase in potential production capacity was 15 percent.

The following companies were considered to be the most significant in the Ukrainian furniture sector:

- **Nowy Styl Ukraine** (includes Nowy Styl CJSC and Mebli Trade CJSC)
- **Gerbor Holding and BRW-Ukraine** (a joint venture with Poland, with furniture production licensed by the parent company BRW-Ukraine, Art Metal Furnitura)
- **Merx** (including Brovary Furniture Plant CJSC; a branch of Merx-Trade, Ltd. that produces office furniture in Zhytomyr; a branch of Merx-Trade that produces soft furniture in Zhytomyr; and another affiliate of Merx-Trade, Ltd.)
- **Eno-Mebli, Ltd.** (Ukrainian-Austrian-British enterprise)
- **Modern-Expo, Ltd.**
- **UKRYUG, Ltd.**
- **Enran CJSC**
- **Progress OJSC**
- **Klasum Factory, Ltd.**

Merx, Enran-Akros (together with the “Akros” brand), Irma, and Intechservice, Ltd. were considered to be the most significant players in the office furniture segment.

The leader of the kitchen furniture segment was Klasum Factory, Ltd. (Zhytomyr; production of wood furniture under the "Interstyl" trademark), Roda Trade House (Kyiv; furniture production under the "Roda" and "Domino" trademarks), Merx (Kyiv), and Progress (Kyiv).

1.3. SALES VOLUMES OF FURNITURE BY SEGMENTS: 2000-2004

Sales of furniture sector products grew dramatically during the surveyed period. Overall sales by enterprises engaging in furniture sales as their primary activity grew by more than a third per year in 2001, 2003, and 2004, but growth was insignificant in 2002 (this decrease also applied to companies engaging in furniture production, a fall that was attributed to parliamentary elections in Ukraine that year).

However, in the case of all enterprises involved in furniture production, the most unsuccessful year was 2001 (when a significant drop in sales took place). On the other hand, from 2002 to 2004, the sales growth rate was constantly on the increase. The most sustainable indices were found among enterprises manufacturing chairs and other seats – sales volumes of these products went up constantly in 2000-2004 for both enterprises with furniture as their primary activity and enterprises involved in furniture manufacturing as a non-primary activity. At the same time, sales of furniture for offices and shops, kitchen furniture, and mattresses grew in 2003 and 2004, but declined in the other surveyed years.

Average annual sales growth reached 33.1 percent for the surveyed period among enterprises with furniture as their primary activity.

Data for furniture sales among companies with furniture production as their primary activity as well as all enterprises engaging in furniture production can be found in Tables 1.13-1.16.

TABLE 1.13. FURNITURE SALES VOLUMES AMONG ENTERPRISES LISTING FURNITURE PRODUCTION AS THEIR PRIMARY ACTIVITY (UAH THOUSAND)

	2000	2001	2002	2003	2004
Furniture	**886,820.7**	**1,335,532.7**	**1,399,362.5**	**1,997,520.0**	**2,781,773.1**
Chairs and seats	47,889.5	246,839.3	265,605.3	360,956.8	526,374.9
Furniture for offices and shops	278,365.2	336,203.5	283,121.7	472,846.3	595,983.6
Kitchen furniture	68,301.4	47,899.6	44,575.7	63,626.8	70,325.1
Other types of furniture	486,838.3	685,283.3	771,087.8	1,062,681.9	1,531,272.4
Mattresses	5,426.3	19,307.0	34,972.0	37,408.2	57,817.1

Source: State Statistics Committee of Ukraine.

TABLE 1.14. DYNAMICS OF FURNITURE SALES VOLUMES AMONG ENTERPRISES LISTING FURNITURE PRODUCTION AS THEIR PRIMARY ACTIVITY (IN %)

	2001 (vs. 2000)	2002 (vs. 2001)	2003 (vs. 2002)	2004 (vs. 2003)
Furniture	**50.6**	**4.8**	**42.8**	**39.3**
Chairs and seats	415.4	7.6	35.9	45.8
Furniture for offices and shops	20.8	-15.8	67.0	26.0
Kitchen furniture	-29.9	-6.9	42.7	10.5
Other types of furniture	40.8	12.5	37.8	44.1
Mattresses	255.8	81.1	7.0	54.6

Source: State Statistics Committee of Ukraine.

TABLE 1.15. FURNITURE SALES VOLUMES OF ALL ENTERPRISES ENGAGED IN FURNITURE PRODUCTION (UAH THOUSAND)

	2000	2001	2002	2003	2004
Furniture	**3,591,517.6**	**1,102,390.4**	**1,215,056.5**	**1,631,903.6**	**2,203,190.6**
Chairs and seats	358,414.2	411,824.0	651,037.4	768,036.4	1,336,689.2
Furniture for offices and shops	378,304.0	690,981.4	583,277.6	879,768.2	1,117,628.4
Kitchen furniture	116,718.4	80,412.6	91,010.2	104,053.6	135,082.2
Other types of furniture	919,408.4	957,727.0	1,053,041.0	1,420,446.6	1,693,370.6
Mattresses	22,913.8	63,835.8	51,746.8	91,502.4	123,610.8

Source: State Statistics Committee of Ukraine.

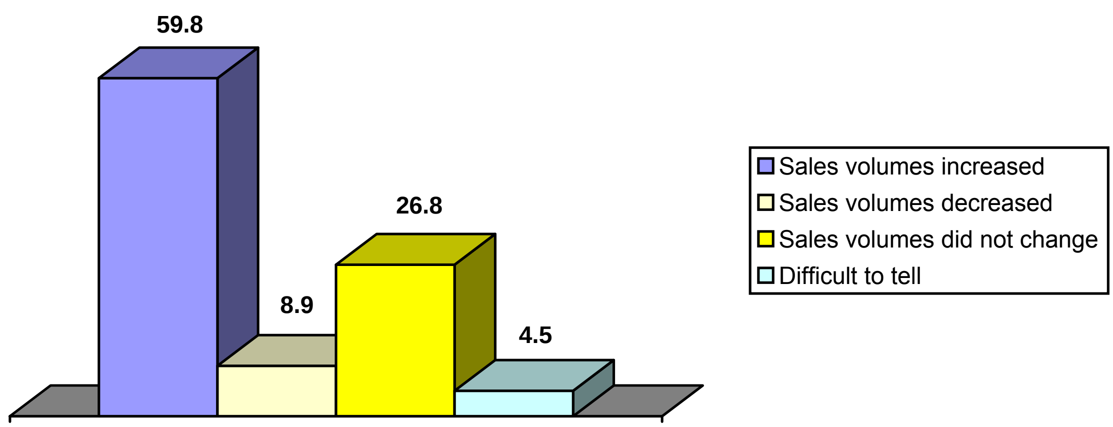
TABLE 1.16. DYNAMICS OF FURNITURE SALES VOLUMES AMONG ALL ENTERPRISES ENGAGED IN FURNITURE PRODUCTION (IN %)

	2001 (vs. 2000)	2002 (vs. 2001)	2003 (vs. 2002)	2004 (vs. 2003)
Furniture	**-69.3**	**10.2**	**34.3**	**35.0**
Chairs and seats	14.9	58.1	18.0	74.0
Furniture for offices and shops	82.7	-15.6	50.8	27.0
Kitchen furniture	-31.1	13.2	14.3	29.8
Other types of furniture	4.2	10.0	34.9	19.2
Mattresses	178.6	-18.9	76.8	35.1

Source: State Statistics Committee of Ukraine.

The survey of 117 furniture enterprise CEOs stated that sales growth was characteristic for the majority of furniture sector enterprises: 59.8 percent of entrepreneurs claimed positive sales growth (the average growth rate was 17.4 percent), whereas sales dropped among only 8.9 percent of enterprises (the average degree of decline was by 17.4 percent).

CHART 1.6. CHANGES IN ENTERPRISE SALES VOLUMES IN MONETARY TERMS, 2005 VS. 2004 (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

1.4. VOLUMES AND STRUCTURES OF FURNITURE EXPORTS IN 2000-2005

In 2000-2005, furniture exports grew constantly in both physical and monetary terms. Overall, total exports of Ukrainian furniture in 2000-2005 increased in monetary terms by more than 3 times, and in physical terms (kg) by 2.4 times.

CHART 1.7. EXPORT VOLUMES OF UKRAINIAN FURNITURE IN PHYSICAL TERMS, 2000-2005 (KG)

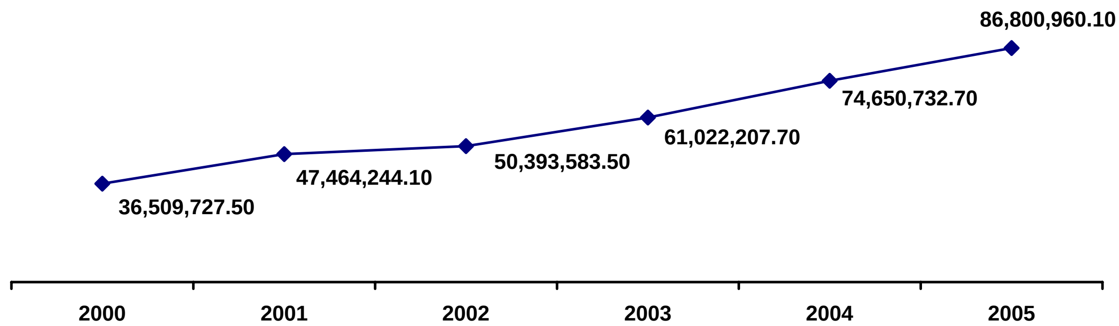
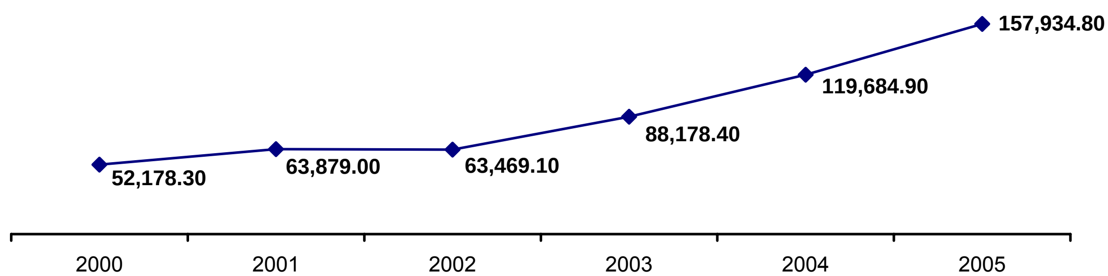


CHART 1.8. EXPORT VOLUMES OF UKRAINIAN FURNITURE IN MONETARY TERMS, 2000-2005 (USD THOUSAND)

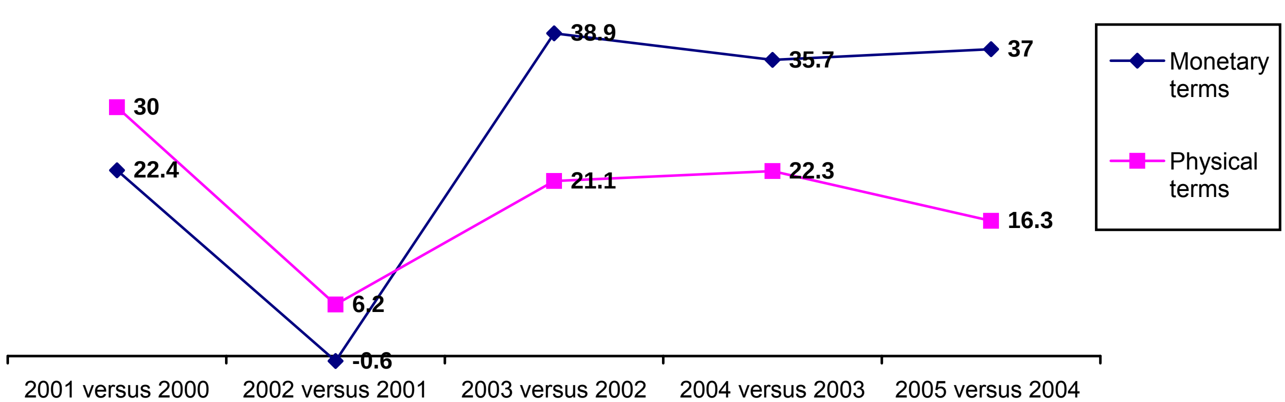


Source: State Statistics Committee of Ukraine.

The increase of exports in monetary terms rose between 2000 and 2001 by 22.4 percent; declined between 2001 and 2002 by 0.6 percent; grew between 2002 and 2003 by 38.9 percent; grew by 35.7 percent between 2003 and 2004; and grew by 37.0 percent between 2004 and 2005. Overall exports increased by over 3 times in monetary terms during the 2000-2005 period.

Shifts in growth between 2000-2005 in physical terms (kilograms) were somewhat less significant, but generally positive: in 2001 compared to 2000 by 30.0 percent, in 2002 compared to 2001 by 6.2 percent, in 2003 compared to 2002 by 21.1 percent, and in 2004 compared to 2003 by 22.3 percent.

CHART 1.9. COMPARATIVE DYNAMICS OF UKRAINIAN FURNITURE EXPORT VOLUMES IN PHYSICAL AND MONETARY TERMS (IN %)



Source: State Statistics Committee of Ukraine.

Chairs led different types of exported furniture in 2003-2005; these accounted for 51.7 percent of total exports of furniture in 2003, 56.1 percent in 2004, and 58.6 percent in 2005.

TABLE 1.17. EXPORT STRUCTURES OF DIFFERENT TYPES OF UKRAINIAN FURNITURE, 2003-2005 (IN %)

Year	*Chairs*	*Specialized furniture*	*Office and home furniture (combined)*
2003	51.7	0.0	48.3
2004	56.1	0.0	43.9
2005	58.6	0.4	41.0

Source: State Statistics Committee of Ukraine.

Exports of Ukrainian furniture from different product groups in 2000-2004 are shown below.

TABLE 1.18. THE VOLUME AND STRUCTURE OF FURNITURE EXPORTS IN PHYSICAL TERMS, 2000-2004 (KG)

UKTZED code	Description	**2000**	**2001**	**2002**	**2003**	**2004**
9401	Seats (other than those under code No. 9402), convertible into beds or not, and parts thereof:	11,743,215.2	17,543,681.0	18,119,254.0	25,172,037.0	36,388,068.0
9402	Medical, surgical, dental, or veterinary furniture (operating tables, examination tables, hospital beds with mechanical features, dentist's chairs); barber's chairs and similar chairs	9,965.5	4,302.5	8220.0	1,534.0	10,325.0
9403	Other furniture and parts thereof, including:	17,841,309.6	23,112,495.0	25,431,459.0	28,326,013.0	31,292,106.0
940310	-Metal office furniture:	218,155.0	1,337,840.0	1,283,511.0	828,625.0	406,855.9
9403101000	--Drawing tables (other than those under code No. 9017)	1,045.0	600.0	-	-	-
9403105100	----Desks	189,215.0	1,220,268.0	1,242,457.0	806,735.0	342,913.0
9403105900	----Other drawing tables (other than those under code No. 9017)	5,608.0	5,058.0	7,062.0	14,200.0	7,452.9
9403109100	----Cupboards with doors, shutters, or flaps	16,900.0	28,586.0	5,544.0	1,177.0	18,619.0
9403109300	----Filing, card-filing, and other cabinets	50.0	-	-	480.0	1,735.0
9403109900	----Other cupboards with doors, shutters, or flaps	5,337.0	83,328.0	28,447.5	6,033.0	36,136.0
940320	-Other metal furniture:	165,275. 0	222,521.7	303,997.7	1,366,794.0	806,774.7
940330	-Wooden office furniture, including:	4,172,899.2	5,326,917.0	4,229,886.0	3,960,151.0	3,744,773.0
9403301100	---Desks	1,859,643.4	2,078,665.0	1,544,147.0	1,458,217.0	1,391,309.0
9403301900	---Other wooden office furniture	924,452.7	1,300,272.0	997,498.6	1,152,897.0	1,101,785.0

9403309100	---Cupboards with doors, shutters, or flaps; filing, card-filing, and other cabinets	1,070,104.1	1,521,125.0	1,382,590.0	1,188,436.0	1,139,712.0
9403309900	---Other	318,699. 0	426,855.9	305,650.1	160,600.5	111,967.0
940340	-Wooden kitchen furniture:	269,365. 0	435,776.0	462,617.9	485,067.5	657,930.0
9403401000	--Fitted kitchen units	-	182,779.0	383,958.9	427,200.5	606,099.0
9403409000	--Other kitchen furniture	-	44,390.0	78,659.0	57,867.0	51,831.0
9403500000	-Wooden bedroom furniture	1,555,776.9	2,055,702.0	2,681,930.0	316,0294.0	2,517,068.0
940360	-Other wooden furniture, including:	6,486,840.2	9,581,902.0	12,532,756.0	12,004,470.0	16,139,265.0
9403601000	--Wooden dining room and living room furniture	2,708,644. 0	7,682,956.0	11,200,293.0	10,496,514.0	14,273,461.0
9403603000	--Wooden furniture for shops	9,590. 0	78,968.0	252,785.0	251,491.0	205,895.0
9403609000	--Other wooden furniture	3,768,606.2	1,819,977.0	1,079,678.0	1,256,465.0	1,659,910.0
940370	-Plastic furniture, including:	6,425. 0	34,734.2	40,279.0	136,163.0	34,291.5
9403800000	-Furniture made of other materials, including cane, willow sticks, and bamboo	1,235. 0	7,835.0	2,063.0	5,321.0	67,351.0
940390	-Furniture parts	4,965,338 .4	4,109,267. 0	3,894,419.0	6,344,408.0	6,917,797.0
9404100000	-Mattress supports	6,350.0	67,785.0	9,014.0	21,147.0	19,764.0
940421	--Mattress supports, cellular rubber or plastics, covered or not:	-	571.0	-	122.0	334.0
9404211000	---Mattress supports, rubber	-	-	-	-	10.0
9404219000	---Mattress supports, plastics	-	571.0	-	122.0	324.0
940429	--Mattress supports, other materials:	13,605.8	10,096.0	10,488.0	31,596.0	79,120.0
9404291000	---Mattress supports with spring interiors	10,875. 0	8,423.0	8,315.0	29,079.0	56,168.0
9404299000	---Other mattress supports	2,730.8	1,673.0	2,173.0	2,517.0	22,952.0

– Data for the first half of 2001 only (blue)

– Data for second half of 2001 only (yellow)

Source: State Statistics Committee of Ukraine.

During the 2000-2004 period (except 2002), the most sustainable growth was shown for exports of furniture for sitting. While export growth in monetary terms was 24.9 percent in 2001 compared to 2000, this index reached 44 percent in 2003 compared to 2002, and 52.4 percent in 2004 compared to 2003. Sustainable growth also took place in exports of wooden kitchen furniture (84.4 percent in 2001, 27.8 percent in 2002, 7.3 percent in 2003, and 21.2 percent in 2004), wooden furniture for dining rooms and living rooms (187.3 percent in 2001, 61.2 percent in 2002, 8.8 percent in 2003, and 44.9 percent in 2004), wooden furniture for shops (553.2 percent in 2001, 53.8 percent in 2002, 8.6 percent in 2003, and 36.2 percent in 2004). Exports of wooden bedroom furniture increased during the 2001-2003 period (by 28.2 percent in 2001, 35.0 percent in 2002, and 40.1 percent in 2003), but in 2004 compared to 2003, exports dropped by 24.8 percent.

After a decrease in exports in 2001 and 2002, a considerable leap in medical furniture exports took place (by 70.0 percent in 2003 and by 744.7 percent in 2004).

Starting in 2002, exports of metal furniture for government institutions were in constant decline (dropping by 19.8 percent in 2002, 41.7 percent in 2003, and 24.3 percent in 2004).

TABLE 1.19. DYNAMICS OF FURNITURE EXPORTS IN PHYSICAL TERMS (KG), 2000-2004 (IN %)

UKTZED code	Description	2001 (vs. 2000)	2002 (vs. 2001)	2003 (vs. 2002)	2004 (vs. 2003)
9401	Seats (other than those under code No. 9402), convertible into beds or not, and parts thereof:	49.4	3.3	38.9	44.6
9402	Medical, surgical, dental, or veterinary furniture (operating tables, examination tables, hospital beds with mechanical features, dentist's chairs); barber's chairs and similar chairs	-56.8	91.1	-81.3	573.1
9403	Other furniture and parts thereof, including:	29.5	10.0	11.4	10.5
940310	-Metal office furniture:	513.3	-4.1	-35.4	-50.9
9403101000	--Drawing tables (other than those under code No. 9017)	-	-	-	-
9403105100	----Desks	544.9	1.8	-35.1	-57.5
9403105900	----Other drawing tables (other than those under code No. 9017)	-9.8	39.6	101.1	-47.5
9403109100	----Cupboards with doors, shutters, or flaps	69.1	-80.6	-78.8	1,481.9
9403109300	----Filing, card-filing, and other cabinets	-	-	-	261.5
9403109900	----Other cupboards with doors, shutters, or flaps	1,461.3	-65.9	-78.8	499
940320	-Other metal furniture:	34.6	36.6	349.6	-41.0
940330	-Wooden office furniture, including:	27.7	-20.6	-6.4	-5.4
9403301100	---Desks	11.8	-25.7	-5.6	-4.6
9403301900	---Other wooden office furniture	40.7	-23.3	15.6	-4.4
9403309100	---Cupboards with doors, shutters, or flaps; filing, card-filing, and other cabinets	42.1	-9.1	-14.0	-4.1
9403309900	---Other	33.9	-28.4	-47.5	-30.3
940340	-Wooden kitchen furniture:	61.8	6.2	4.9	35.6
9403401000	--Fitted kitchen units	-	-	11.3	41.9
9403409000	--Other wooden kitchen furniture	-	-	-26.4	-10.4
9403500000	-Wooden bedroom furniture	32.1	30.5	17.8	-20.4
940360	-Other wooden furniture, including:	47.7	30.8	-4.2	34.4
9403601000	--Wooden dining room and living room furniture	183.6	45.8	-6.3	36.0
9403603000	--Wooden furniture for shops	723.4	220.1	-0.5	-18.1
9403609000	--Other wooden furniture	-51.7	-40.7	16.4	32.1
940370	-Plastic furniture, including:	440.6	16.0	238.0	-74.8
9403800000	-Furniture made of other materials, including cane, willow sticks, and bamboo	534.4	-73.7	157.9	1,165.8
940390	-Furniture parts	-91.7	847.7	62.9	9.0
9404100000	-Mattress supports	-	-	134.6	-6.5
940421	--Mattress supports, cellular rubber or plastics, covered or not:	-	-	-	173.8
9404211000	---Mattress supports, rubber	-	-	-	-
9404219000	---Mattress supports, plastics	-	-	-	165.6
940429	--Mattress supports, other materials:	-25.8	3.9	201.3	150.4
9404291000	---Mattress supports with spring interiors	-22.5	-1.3	249.7	93.2
9404299000	---Other mattress supports	-38.7	29.9	15.8	811.9

Source: State Statistics Committee of Ukraine.

TABLE 1.20. VOLUME AND STRUCTURE OF FURNITURE EXPORTS IN MONETARY TERMS, 2000-2004 (USD THOUSAND)

UKTZED code	Description	2000	2001	2002	2003	2004
9401	Seats (other than those under code No. 9402), convertible into beds or not, and parts thereof:	22,548.5	28,165.8	26,770.6	38,545.9	58,728.4
9402	Medical, surgical, dental, or veterinary furniture (operating tables, examination tables, hospital beds with mechanical features, dentist's chairs); barber's chairs and similar chairs	75.9	41.8	10.0	17.0	143.6
9403	Other furniture and parts thereof, including:	19,254.1	24,903.1	25,477.3	32,449.9	40,112.2
940310	-Metal office furniture:	250.1	1,324.5	1,062.1	618.9	468.7
9403101000	--Drawing tables (other than those under code No. 9017)	1.6	0.2	-	-	-
9403105100	----Desks	201.6	969.9	932.1	559.8	277.4
9403105900	----Other drawing tables (other than those under code No. 9017)	5.6	9.7	11.3	31.5	28.9
9403109100	----Cupboards with doors, shutters, or flaps	28.6	40.9	7.3	2.8	40.8
9403109300	----Filing, card-filing, and other cabinets	0.1	-	-	1.5	4.9
9403109900	----Other cupboards with doors, shutters, or flaps	12.8	303.8	111.5	23.3	116.8
940320	-Other metal furniture:	153.7	314.4	399.1	1,680.1	1,601.6
940330	-Wooden office furniture, including:	6,108.3	6,803.1	3,857.0	3921.5	3,926.2
9403301100	---Desks	2,374.7	2,262.4	1,231.5	1,393.1	1,310.9
9403301900	---Other wooden office furniture	1,813.1	2,274.6	1,216.2	1,362.9	1,502.7
9403309100	---Cupboards with doors, shutters, or flaps; filing, card-filing, and other cabinets	1,362.9	1,534.3	985.6	909.0	936.7
9403309900	---Other	557.5	731.9	423.7	256.5	175.9
940340	-Wooden kitchen furniture:	510.2	940.8	1,202.8	1,290.5	1,564.7
9403401000	--Fitted kitchen units	-	443.4	1,085.2	1,220.0	1,500.5
9403409000	--Other	-	61.7	117.6	70.5	64.2
9403500000	-Wooden bedroom furniture	1,903.6	2,441.3	3,295.9	4,616.6	3,473.0
940360	-Other wooden furniture, including:	5,022.3	8,369.3	11,765.5	13,471.9	20,135.9
9403601000	--Wooden living room and dining room furniture	2,271.5	6,526.4	10,520.5	11,448.7	16,589.1
9403603000	--Wooden furniture for shops	22.0	143.7	221.0	240.0	326.8
9403609000	--Other wooden furniture	2,728.8	1,699.1	1,024.0	1,783.1	3,220.0

940370	-Plastic furniture, including:	25.1	139.7	117.7	192.9	106.2
9403800000	-Furniture made of other materials, including cane, willow sticks, and bamboo	5.4	23.1	7.9	11.9	160.2
940390	-Furniture parts	5,275.6	4,547.0	3,769.4	6,591.7	8,675.7
9404100000	-Mattress supports	2.3	20.7	5.6	17.4	14.8
940421	--Mattress supports, cellular rubber or plastics, covered or not:	-	0.7	-	0.9	2.5
9404211000	---Mattress supports, rubber	-	-	-	-	0.1
9404219000	---Mattress supports, plastics	-	0.7	-	0.9	2.4
940429	--Mattress supports, other materials:	32.1	29.7	37.7	95.1	253.8
9404291000	---Mattress supports with spring interiors	26.0	21.4	26.5	82.3	178.1
9404299000	---Other	6.1	8.3	11.2	12.8	75.7

– Data for the first half of 2001 only

– Data for the second half of 2001 only

Source: State Statistics Committee of Ukraine.

TABLE 1.21. DYNAMICS OF FURNITURE EXPORTS IN MONETARY TERMS (USD THOUSAND), 2000-2004 (IN %)

UKTZED code	Description	**2001 (vs. 2000)**	**2002 (vs. 2001)**	**2003 (vs. 2002)**	**2004 (vs. 2003)**
9401	Seats (other than those under code No. 9402), convertible into beds or not, and parts thereof:	24.9	-5.0	44.0	52.4
9402	Medical, surgical, dental, or veterinary furniture (examination tables, hospital beds with mechanical features, dentist's chairs); barber's chairs and similar chairs	-44.9	-76.1	70.0	744.7
9403	Other furniture and parts thereof, including:	29.3	2.3	27.4	23.6
940310	-Metal office furniture:	429.6	-19.8	-41.7	-24.3
9403101000	--Drawing tables (other than those under code No. 9017)	-	-	-	-
9403105100	----Desks	381.1	-3.9	-39.9	-50.4
9403105900	----Other drawing tables (other than those under code No. 9017)	73.2	16.5	178.8	-8.3
9403109100	----Cupboards with doors, shutters, or flaps	43.0	-82.2	-61.6	1,357.1
9403109300	----Filing, card-filing, and other cabinets	-	-	-	226.7
9403109900	----Other cupboards with doors, shutters, or flaps	2,273.4	-63.3	-79.1	401.3
940320	-Other metal furniture:	104.6	26.9	321.0	-4.7
940330	-Wooden office furniture, including:	11.4	-43.3	1.7	0.1
9403301100	---Desks	-4.7	-45.6	13.1	-5.9
9403301900	---Other wooden office furniture	25.5	-46.5	12.1	10.3
9403309100	---Cupboards with doors, shutters, or flaps; filing, card-filing, and other cabinets	12.6	-35.8	-7.8	3.0

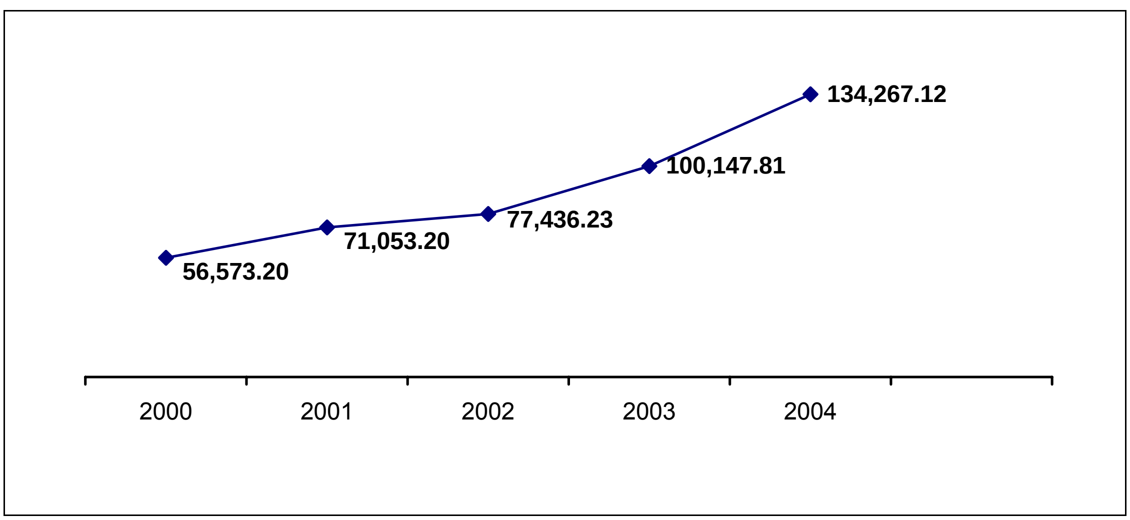
9403309900	---Other	31.3	-42.1	-39.5	-31.4
940340	-Wooden kitchen furniture	84.4	27.8	7.3	21.2
9403401000	--Fitted kitchen units	-	-	12.4	23.0
9403409000	--Other kitchen furniture	-	-	-40.1	-8.9
9403500000	-Wooden bedroom furniture	28.2	35.0	40.1	-24.8
940360	-Other wooden furniture, including:	66.6	40.6	14.5	49.5
9403601000	--Wooden dining room and living room furniture	187.3	61.2	8.8	44.9
9403603000	--Wooden furniture for shops	553.2	53.8	8.6	36.2
9403609000	--Other wooden furniture	-37.7	-39.7	74.1	80.6
940370	-Plastic furniture, including:	456.6	-15.7	63.9	-44.9
9403800000	-Furniture made of other materials, including cane, willow - sticks, and bamboo	327.8	-65.8	50.6	1246.2
940390	-Furniture parts	-13.8	-17.1	74.9	31.6
9404100000	-Mattress supports	-	-	210.7	-14.9
940421	--Mattress supports, cellular rubber or plastics, covered or not:	-	-	-	177.8
9404211000	---Mattress supports, rubber	-	-	-	-
9404219000	---Mattress supports, plastics	-	-	-	166.7
940429	--Mattress supports, other materials:	-7.5	26.9	152.3	166.9
9404291000	---Mattress supports with spring interiors	-17.7	23.8	210.6	116.4
9404299000	---Other mattress supports	36.1	34.9	14.3	491.4

Source: State Statistics Committee of Ukraine.

1.5. VOLUMES AND STRUCTURES OF FURNITURE IMPORTS IN 2000-2004

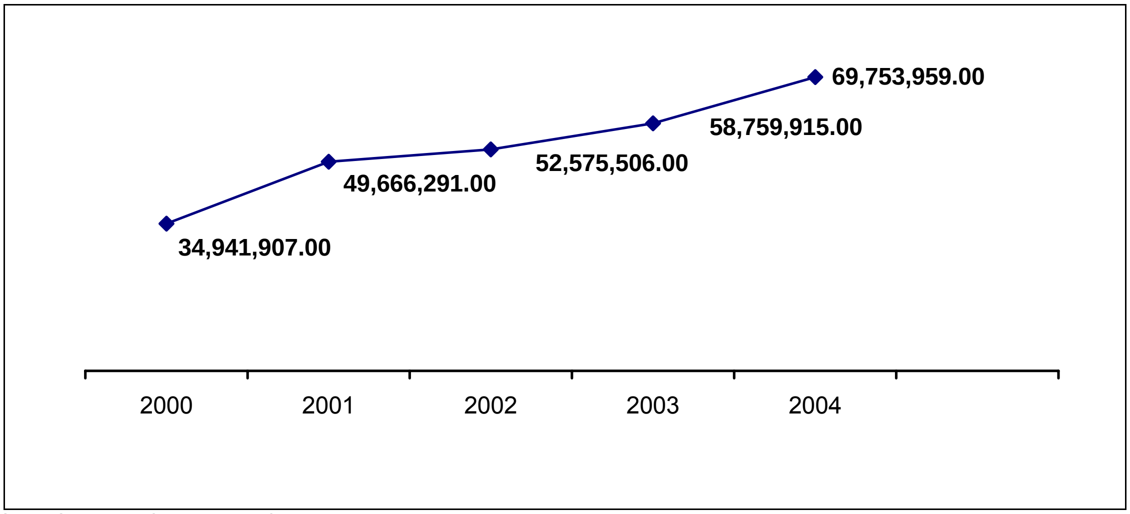
Imports of furniture products grew in the period from 2000 to 2004, albeit at a low rate. In 2004, this growth reached 99.6 percent in physical terms, or an increase of 2.4 times compared to 2000 in monetary terms. This rate was evidence of an increase in the average price of exported furniture.

CHART 1.10. FURNITURE IMPORTS INTO UKRAINE IN MONETARY TERMS, 2000-2004 (USD THOUSAND)



Source: State Statistics Committee of Ukraine.

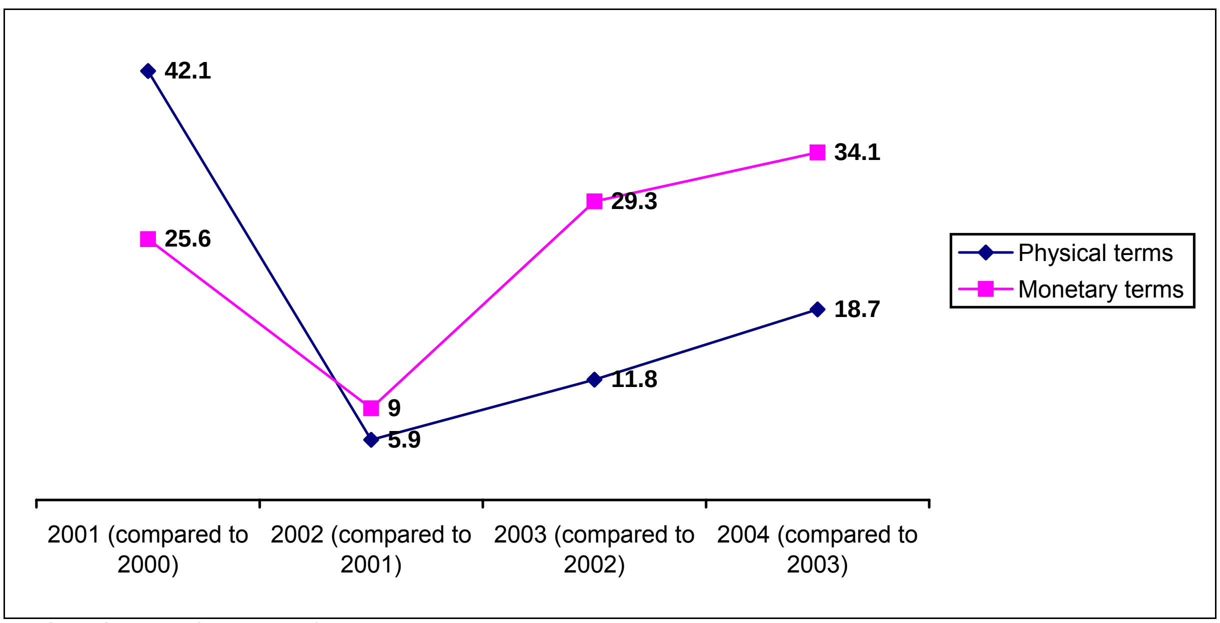
CHART 1.11. FURNITURE IMPORTS INTO UKRAINE IN PHYSICAL TERMS, 2000-2004 (KG)



Source: State Statistics Committee of Ukraine.

Uninterrupted growth of furniture imports was observed from 2000 to 2004. In monetary terms, this growth was 26.6 percent in 2001 compared to 2000, 9 percent in 2002 compared to 2001, 29.3 percent in 2003 compared to 2002, 34.1 percent in 2004 compared to 2003, and 31.1 percent in 2005 compared to 2004. In physical terms, furniture imports grew by 25.6 percent in 2001, 5.9 percent in 2002, 11.8 percent in 2003, and 18.7 percent in 2004. Thus, import growth rates were more significant in monetary terms (except for 2001).

CHART 1.12. COMPARATIVE DYNAMICS OF FURNITURE IMPORTS INTO UKRAINE IN PHYSICAL AND MONETARY TERMS



Source: State Statistics Committee of Ukraine.

Office and home furniture comprised the majority of furniture imports. The combined share of these types of furniture in total imports was 53.1 percent in 2003, 57.7 percent in 2004, and 62.1 percent in 2005. The second place was retained by chairs (their share of total imports reached 35.6 percent in 2003, 38.1 percent in 2004, and 34.0 percent in 2005).

TABLE 1.22. FURNITURE IMPORTS IN 2003-2005 BY TYPE (IN %)

Years	*Chairs*	*Specialized furniture*	*Office and home furniture*
2003	35.6	11.3	53.1
2004	38.1	4.1	57.7
2005	34.0	3.8	62.1

Source: State Statistics Committee of Ukraine.

In the period from 2000 to 2004, constant import growth in monetary terms was maintained only by wooden furniture (for bedrooms, dining rooms, and living rooms) and mattress supports. Imports of furniture for sitting, metal furniture for government institutions, cupboards (with doors, shutters, or flaps), and various types of metal furniture increased during this entire period, with the exception of 2001.

TABLE 1.23. VOLUME AND STRUCTURE OF FURNITURE IMPORTS IN MONETARY TERMS, 2000-2004 (USD THOUSAND)

UKTZED code	Description	2000	2001	2002	2003	2004
9401	Seats (other than those under code No. 9402), convertible into beds or not, and parts thereof:	13,648.3	16,967.4	16,902.8	21,740.3	29,778.8
9402	Medical, surgical, dental, or veterinary furniture (operating tables, examination tables, hospital beds with mechanical features, dentist's chairs); barber's chairs and similar chairs	2,983.3	2,645.9	3,281.1	9,687.9	6,456.7
9403	Other furniture and parts thereof, including:	20,407.0	26,218.4	25,172.5	31,195.7	44398.9
940310	-Metal office furniture:	896.3	1,498.6	1,239.0	1,363.1	2,648.0
9403101000	--Drawing tables (other than those under code No. 9017)	36.1	30.6	2.2	0.1	1.4
9403105100	----Desks	199.4	272.8	209.1	102.6	82.5
9403105900	----Other drawing tables (other than those under code No. 9017)	185.0	402.2	294.2	283.6	580.0
9403109100	----Cupboards with doors, shutters, or flaps	170.3	229.4	215.7	293.2	424.1
9403109300	----Filing, card-filing, and other cabinets	10.3	209.1	155.5	105.0	204.8
9403109900	----Other cupboards with doors, shutters, or flaps	295.2	354.5	362.4	578.8	1,355.3
940320	-Other metal furniture:	2,093.7	3,719.8	3,181.6	6,379.8	7,875.4
940330	-Wooden office furniture, including:	3,292.8	2,988.8	3,352.4	3,232.5	4,522.6
9403301100	---Desks	1,132.6	1,097.7	750.5	1,086.0	1,628.7
9403301900	---Other wooden office furniture	805.6	749.0	950.5	854.4	1,357.2
9403309100	---Cupboards with doors, shutters, or flaps; filing, card-filing, and other cabinets	1,065.6	828.8	975.5	969.5	1,016.6
9403309900	---Other	289.0	313.2	675.9	322.6	520.1
940340	-Wooden kitchen furniture:	1,884.6	1,768.8	1,620.6	1,721.6	1,617.5
9403401000	--Fitted kitchen units	-	821.0	1,239.9	1,214.8	1,262.5
9403409000	--Other wooden kitchen furniture	-	212.6	380.7	506.8	355.0
9403500000	-Wooden bedroom furniture	2,559.5	3,036.2	3,300.3	3,586.7	5,104.7
940360	-Other wooden furniture, including:	5,822.3	7,558.9	7,608.9	8,356.3	15,022.6
9403601000	--Wooden dining room and living room furniture	2,788.8	3,738.5	4,143.3	5,002.4	9,253.5

9403603000	--Wooden furniture for shops	306.0	263.1	438.2	587.0	1,261.9
9403609000	--Other wooden furniture	2,727.6	3,557.3	3,027.5	2,766.9	4,507.2
940370	-Plastic furniture, including:	371.6	531.1	911.5	1,065.2	601.2
9403800000	-Furniture made of other materials, including cane, willow sticks, and bamboo	157.9	407.9	948.7	472.1	666.4
940390	-Furniture parts	3,248.0	4,599.5	2,879.5	4,481.1	5,941.7
9404100000	-Mattress supports	235.5	369.8	454.4	642.7	936.2
940421	--Mattress supports, cellular rubber or plastics, covered or not:	298.1	244.4	190.2	156.4	112.0
9404211000	---Mattress supports, rubber	88.3	9.0	6.0	11.8	39.2
9404219000	---Mattress supports, plastics	209.8	235.5	184.2	144.6	72.8
940429	--Mattress supports, other materials:	506.4	698.4	569.5	777.1	1,158.5
9404291000	---Mattress supports with spring interiors	267.3	416.0	366.1	416.4	848.4
9404299000	---Other mattress supports	239.2	282.4	203.5	360.8	310.1

– Data for the second half of 2001 only

Source: State Statistics Committee of Ukraine.

TABLE 1.24. DYNAMICS OF CHANGES IN THE VOLUME AND STRUCTURE OF FURNITURE IMPORTS IN MONETARY TERMS, 2000-2004 (IN %)

UKTZED code	Description	2001 (compared to 2000)	2002 (compared to 2001)	2003 (compared to 2002)	2004 (compared to 2003)
9401	Seats (other than those under code No. 9402), convertible into beds or not, and parts thereof:	24.3	-0.4	28.6	37.0
9402	Medical, surgical, dental, or veterinary furniture (operating tables, examination tables, hospital beds with mechanical features, dentist's chairs); barber's chairs and similar chairs	-11.3	24.0	195.3	-33.4
9403	Other furniture and parts thereof, including:	28.5	-4.0	23.9	42.3
940310	-Metal office furniture:	67.2	-17.3	10.0	94.3
9403101000	--Drawing tables (other than those under code No. 9017)	-	-	-	-
9403105100	----Desks	36.8	-23.4	-50.9	-19.6
9403105900	----Other drawing tables (other than those under code No. 9017)	117.4	-26.9	-3.6	104.5
9403109100	----Cupboards with doors, shutters, or flaps	34.7	-6.0	35.9	44.6
9403109300	----Filing, card-filing, and other cabinets	-	-	-	95.0
9403109900	----Other cupboards with doors, shutters, or flaps	20.1	2.2	59.7	134.2
940320	-Other metal furniture:	77.7	-14.5	100.5	23.4
940330	-Wooden office furniture, including:	-9.2	12.2	-3.6	39.9
9403301100	---Desks	-3.1	-31.6	44.7	50.0
9403301900	---Other wooden office furniture	-7.0	26.9	-10.1	58.8
9403309100	---Cupboards with doors, shutters, or flaps; filing, card-filing, and other cabinets	-22.2	17.7	-0.6	4.9
9403309900	---Other	8.4	115.8	-52.3	61.2
940340	-Wooden kitchen furniture:	-6.1	-8.4	6.2	-6.0

9403401000	--Fitted kitchen units	-	-	-2.0	3.9
9403409000	--Other wooden kitchen furniture	-	-	33.1	-30.0
9403500000	-Wooden bedroom furniture	18.6	8.7	8.7	42.3
940360	-Other wooden furniture, including:	29.8	0.7	9.8	79.8
9403601000	--Wooden dining room and living room furniture	34.1	10.8	20.7	85.0
9403603000	--Wooden furniture for shops	-14.0	66.6	34.0	115.0
9403609000	--Other wooden furniture	30.4	-14.9	-8.6	62.9
940370	-Plastic furniture, including:	42.9	71.6	16.9	-43.6
9403800000	-Furniture made of other materials, including cane, willow sticks, and bamboo	158.3	132.6	-50.2	41.2
940390	-Furniture parts	41.6	-37.4	55.6	32.6
9404100000	-Mattress supports	57.0	22.9	41.4	45.7
940421	--Mattress supports, cellular rubber or plastics, covered or not:	-	-	-	-28.4
9404211000	---Mattress supports, rubber	-	-	-	-
9404219000	---Mattress supports, plastics	-	-	-	-49.7
940429	--Mattress supports, other materials:	37.9	-18.5	36.5	49.1
9404291000	---Mattress supports with spring interiors	55.6	-12.0	13.7	103.7
9404299000	---Other mattress supports	18.1	-27.9	77.3	-14.1

Source: State Statistics Committee of Ukraine.

When examining import volumes in physical terms (kilograms), the same shares among different types of furniture were observed. Continued growth of imports was registered in the segments of furniture for sitting, wooden furniture (for bedrooms, dining rooms, and living rooms) and mattress supports.

Constant growth was observed (except in 2002) in the segments of metal furniture for government institutions, other metal furniture, cupboards (with doors, shutters, and flaps), cupboards with drawers, and card-filing cabinets.

TABLE 1.25. VOLUME AND STRUCTURE OF FURNITURE IMPORTS IN PHYSICAL TERMS, 2000-2004 (KG)

UKTZED code	Description	2000	2001	2002	2003	2004
9401	Seats (other than those under code No. 9402), convertible into beds or not, and parts thereof:	6,690,999.0	8,052,228.0	8,882,408.0	9,417,645.0	10,455,760.0
9402	Medical, surgical, dental, or veterinary furniture (operating tables, examination tables, hospital beds with mechanical features, dentist's chairs); barber's chairs and similar chairs	1,127,539.0	1,234,175.0	1,339,574.0	1,375,128.0	1,289,147.0
9403	Other furniture and parts thereof, including:	16,731,285.0	21,647,467.0	18,709,257.0	22,665,570.0	27,281,169.0
940310	-Metal office furniture:	340,716.9	535,844.7	510,712.3	746,506.2	1,034,224.0
9403101000	--Drawing tables (other than those under code No. 9017)	7,316.0	25,304.0	3,560.0	10.0	90.0
9403105100	----Desks	78,813.9	93,480.4	69,388.0	57,671.0	80,668.0

94031059 00	----Other drawing tables (other than those under code No. 9017)	80,618.7	137,956.2	140,760.4	135,713.7	173,669.0
94031091 00	----Cupboards with doors, shutters, or flaps	81,802.0	102,849.0	89,990.5	153,885.5	204,993.6
94031093 00	----Filing, card-filing, and other cabinets	5,596.0	24,777.5	21,899.0	54,952.6	91,167.5
94031099 00	----Other cupboards with doors, shutters, or flaps	86,570.2	151,477.6	185,114.4	344,273.4	483,636.2
940320	-Other metal furniture:	1,485,796.0	3,367,236.0	2,490,012.0	3,241,077.0	3,878,610.0
940330	-Wooden office furniture, including:	2,847,741.0	1,883,735.0	1,631,501.0	1,560,788.0	1,909,647.0
94033011 00	---Desks	1,170,974.0	596,057.3	460,544.2	447,841.8	672,248.0
94033019 00	---Other wooden office furniture	501,294.1	454,947.1	382,329.5	429,045.7	518,313.0
94033091 00	---Cupboards with doors, shutters, or flaps; filing, card-filing, and other cabinets	985,712.6	576,336.8	502,236.9	463,870.7	550,436.0
94033099 00	---Other	189,760.2	256,393.8	286,390.7	220,030.1	168,650.0
940340	-Wooden kitchen furniture:	1,721,027.0	1,811,321.0	1,675,324.0	1,538,913.0	1,468,834.0
94034010 00	--Fitted kitchen units	-	799,078.4	1,221,170.4	1,064,419.0	1,095,609.0
94034090 00	--Other wooden kitchen furniture	-	228,819.6	454,153.8	474,493.5	373,224.5
94035000 00	-Wooden bedroom furniture	2,302,031.0	2,849,981.0	3,389,417.0	3,544,898.0	4,143,728.0
940360	-Other wooden furniture, including:	3,967,087.0	5,232,231.0	5,721,818.0	6,678,953.0	8,472,381.0
94036010 00	--Wooden dining room and living room furniture	2,094,720.0	2,687,494.0	3,309,396.0	4,305,047.0	5,922,412.0
94036030 00	--Wooden furniture for shops	108,636.1	228,889.7	245,354.8	210,285.1	282,827.0
94036090 00	--Other wooden furniture	1,763,731.0	2,315,848.0	2,167,067.0	2,163,621.0	2,267,141.0
940370	-Plastic furniture, including:	276,683.4	332,840.8	527,750.4	669,381.2	314,485.5
94038000 00	-Furniture made of other materials, including cane, willow sticks, and bamboo	100,175.3	112,156.0	336,782.9	244,688.0	285,489.0
940390	-Furniture parts	3,615,172.0	5,305,291.0	2,239,402.0	4,073,876.0	5,172,434.0
94041000 00	-Mattress supports	184,335.8	299,534.3	518,492.3	659,190.3	666,054.0
940421	--Mattress supports, cellular rubber or plastics, covered or not:	120,355.7	142,562.2	133,897.6	87,635.3	77,460.6
94042110 00	---Mattress supports, rubber	14,086.5	11,876.0	6,110.0	4,688.0	6,994.0
94042190 00	---Mattress supports, plastics	106,269.2	130,686.2	127,787.6	82,947.3	70,466.6
940429	--Mattress supports, other materials:	377,871.1	480,040.0	399,952.9	448,815.0	468,091.9

9404291000	---Mattress supports with spring interiors	159,764.4	202,385.5	193,079.5	220,735.3	302,501.4
9404299000	---Other mattress supports	218,106.7	277,654.5	206,873.4	228,079.7	165,590.5

– Data for the second half of 2001 only

Source: State Statistics Committee of Ukraine.

TABLE 1.26. DYNAMICS OF THE VOLUME AND STRUCTURE OF FURNITURE IMPORTS IN PHYSICAL TERMS, 2000-2004 (IN %)

UKTZED code	Description	2001 (compared to 2000)	2002 (compared to 2001)	2003 (compared to 2002)	2004 (compared to 2003)
9401	Seats (other than those under code No. 9402), convertible into beds or not, and parts thereof:	20.3	10.3	6.0	11.0
9402	Medical, surgical, dental, or veterinary furniture (operating tables, examination tables, hospital beds with mechanical features, dentist's chairs); barber's chairs and similar chairs	9.5	8.5	2.7	-6.3
9403	Other furniture and parts thereof, including:	29.4	-13.6	21.1	20.4
940310	-Metal office furniture:	57.3	-4.7	46.2	38.5
9403101000	--Drawing tables (other than those under code No. 9017)	-	-	-	-
9403105100	----Desks	18.6	-25.8	-16.9	39.9
9403105900	----Other drawing tables (other than those under code No. 9017)	71.1	2.0	-3.6	28.0
9403109100	----Cupboards with doors, shutters, or flaps	25.7	-12.5	71.0	33.2
9403109300	----Filing, card-filing, and other cabinets	-	-	-	65.9
9403109900	----Other cupboards with doors, shutters, or flaps	75.0	22.2	86.0	40.5
940320	-Other metal furniture:	126.6	-26.1	30.2	19.7
940330	-Wooden office furniture, including:	-33.9	-13.4	-4.3	22.4
9403301100	---Desks	-49.1	-22.7	-2.8	50.1
9403301900	---Other wooden office furniture	-9.2	-16.0	12.2	20.8
9403309100	---Cupboards with doors, shutters, or flaps; filing, card-filing, and other cabinets	-41.5	-12.9	-7.6	18.7
9403309900	---Other	35.1	11.7	-23.2	-23.4
940340	-Wooden kitchen furniture:	5.2	-7.5	-8.1	-4.6
9403401000	--Fitted kitchen units	-	-	-12.8	2.9
9403409000	--Other wooden kitchen furniture	-	-	4.5	-21.3
9403500000	-Wooden bedroom furniture	23.8	18.9	4.6	16.9
940360	-Other wooden furniture, including:	31.9	9.4	16.7	26.9
9403601000	--Wooden dining room and living room furniture	28.3	23.1	30.1	37.6
9403603000	--Wooden furniture for shops	110.7	7.2	-14.3	34.5

9403609000	--Other wooden furniture	31.3	-6.4	-0.2	4.8
940370	-Plastic furniture, including:	20.3	58.6	26.8	-53.0
9403800000	-Furniture made of other materials, including cane, willow sticks, and bamboo	12.0	200.3	-27.3	16.7
940390	-Furniture parts	46.8	-57.8	81.9	27.0
9404100000	-Mattress supports	62.5	73.1	27.1	1.0
940421	--Mattress supports, cellular rubber or plastics, covered or not:	-	-	-	-11.6
9404211000	---Mattress supports, rubber	-	-	-	-
9404219000	---Mattress supports, plastics	-	-	-	-15.0
940429	--Mattress supports, other materials:	27.0	-16.7	12.2	4.3
9404291000	---Mattress supports with spring interiors	26.7	-4.6	14.3	37.0
9404299000	---Other mattress supports	27.3	-25.5	10.3	-27.4

Source: State Statistics Committee of Ukraine.

From 2002 onward, the market experienced continued growth of furniture imports. At the same time, it should be noted that growth of imports was exceeded by overall market growth; hence, the share of imports in the market became smaller over time. Industry experts agreed that the share of imports in the market decreased steadily during the 2000-2004 period because imports of economy-class and medium-priced furniture decreased (however, the share of imports in the expensive/exclusive segments remained stable). In 2004, the share of domestic furniture in the market was 75-80 percent, whereas imported furniture accounted for 20-25 percent.

The key importing countries during the surveyed period were Italy, Poland, and Germany.

Ratios of shares of domestic and imported furniture were somewhat different in different market segments. The most significant share occupied by domestic furniture producers was in the soft furniture segment, where they held about 93 percent of the market (in the economy-class and medium-priced segments, this share was almost 100 percent, while in the expensive furniture segment, foreign manufacturers accounted for about 60 percent). As for soft furniture, the key importers were Italy, Germany, and France.

The share of Ukrainian producers was about 80 percent in both the office and kitchen furniture segments. However, imported products prevailed for office furniture in the expensive/exclusive segment (75.0 percent). Leadership in that segment was held by Italian products with about 40 percent of the total amount of imported office furniture. Additionally, furniture made by French, Lithuanian, Polish, Czech, and Finnish companies was also available. Similarly, in the premium kitchen furniture segment, leaders were mainly foreign manufacturers (about 80 percent); this furniture was primarily Italian and German.

Imported furniture was strongest in the home furniture segment. In general, the ratio of domestic versus imported furniture in this segment was relatively close (58 percent versus 42 percent). Home furniture was imported from Italy, Poland, Romania, Germany, and Belarus. The leader among importers was Italy – in 2004, this country accounted for 30 percent of total imports in monetary terms. Importers differed in terms of price: economy-class furniture was brought into Ukraine from Poland, medium-priced furniture was imported from Belarus, and expensive/exclusive furniture came from Italy and Romania.

The largest importers in the Ukrainian market were as follows:

- BRW-Center, Ltd. (Kyiv) – chairs and furniture for homes and offices
- Nabukas-K (Kyiv) – chairs and furniture for homes and offices
- Marcus (Odessa) – chairs and furniture for homes and offices
- Mebli Firm (Donetsk) – chairs and furniture for homes and offices
- Seiba Private Enterprise (Kyiv) – chairs and furniture for homes and offices

- Nowy Styl Ukraine CJSC (Kharkiv) – chairs and furniture for homes and offices
- Energia (Dnipropetrovsk) – chairs and furniture for homes and offices
- Arteks (Odessa) – chairs and furniture for homes and offices
- Eno-Mebli, Ltd. (Mukacheve) – chairs and furniture for homes and offices
- Domovy, Ltd. (Kyiv) – chairs and furniture for homes and offices

1.6. FOREIGN DIRECT INVESTMENT IN 2000-2004

Foreign direct investment offers the prospect of long-term relationships between investors and recipient companies; however, these relationships are dependent on foreign investors' continued interest in the recipient enterprise and the country in which it is located. Potential direct investors are attracted by significant influence over management of the recipient enterprise. Foreign direct investment includes contributions of non-residents into a company's equity capital, property purchased by the non-residents, property complexes, or stocks, bonds, and other securities; the non-resident's assets comprise no less than 10 percent of the cost of the resident company's equity capital. It also includes investments received through concession contracts and contracts for joint investment activities. An enterprise that receives foreign direct investment is one in which a foreign investor owns no less than 10 percent of the equity capital.

The furniture sector was characterized by growth of foreign direct investment in the period from 2001 to 2004. Foreign direct investment increased by 16.9 percent in 2002 compared to 2001, and by over 2 times in 2003 compared to 2002. However, there was a 4.2 percent decrease in 2004. As for specific segments of the furniture market, there were fluctuations of investment in manufacturing of chairs and seats (this decreased by 2.6 times in 2002, increased by 60.2 times in 2003, and decreased by 15.4 percent in 2004). In 2002-2003, there was a decrease in levels of investment in manufacturing furniture for offices and shops (by 65.5 percent in 2002, and 6.1 percent in 2003); in 2004, investment in these products grew by 4.4 times. Investment in production of kitchen furniture decreased in 2002 (by 82.7 percent), but then increased in 2003 and 2004 (by 16.7 percent and 47.6 percent, respectively). Additionally, there was a decline in investment in mattress manufacturing in 2003-2004.

TABLE 1.27. FOREIGN DIRECT INVESTMENT IN FURNITURE MANUFACTURING (USD THOUSAND)

	2001	2002	2003	2004
Total furniture manufacturing	**5,031.7**	**5,880.7**	**11,952.0**	**11,454.5**
Manufacturing chairs and seats	186.1	-108.3	6,298.8	5,331.5
Manufacturing furniture for offices and shops	1,768.8	611.0	573.9	2,515.4
Manufacturing kitchen furniture	2,427.5	419.3	489.2	721.9
Manufacturing other types of furniture	629.5	4,865.0	4,559.1	2,901.3
Manufacturing mattresses	19.9	93.6	31.1	-15.4

Source: State Statistics Committee of Ukraine.

TABLE 1.28. DYNAMICS OF INVESTMENT IN FURNITURE MANUFACTURING (IN %)

	2002 (compared to 2001)	2003 (compared to 2002)	2004 (compared to 2003)
Furniture manufacturing	16.9	103.2	**-4.2**
Manufacturing chairs and seats	-158.2	5,916.1	-15.4
Manufacturing furniture for offices and shops	-65.5	-6.1	338.3
Manufacturing kitchen furniture	-82.7	16.7	47.6
Manufacturing other types of furniture	672.8	-6.3	-36.4
Manufacturing mattresses	370.4	-66.8	-149.5

Source: State Statistics Committee of Ukraine.

Meanwhile, there were changes in the structure of foreign investment. While almost half of all investment was directed toward production of kitchen furniture in 2001, production of chairs and seats led in terms of investment received in 2003-2004 (52.7 percent in 2003 and 46.5 percent in 2004) and the share of investment in kitchen furniture fell below the 10 percent mark.

TABLE 1.29. PATTERNS OF INVESTMENT IN MANUFACTURING DIFFERENT TYPES OF FURNITURE (IN %)

Description	2001	2002	2003	2004
Manufacturing chairs and seats	3.7	0.0	**52.7**	**46.5**
Manufacturing furniture for offices and shops	35.2	10.2	4.8	21.9
Manufacturing kitchen furniture	**48.2**	7.0	4.1	6.3
Manufacturing other types of furniture	12.5	81.2	38.1	25.3
Manufacturing mattresses	0.4	1.6	0.3	0.0
Total	*100.0*	*100.0*	*100.0*	*100.0*

Source: State Statistics Committee of Ukraine.

Growth of investment in production of wooden panels was dynamic as well. Over the period of 2001-2004, investment in this sphere increased by 231 percent (18 percent in 2002, 52.6 percent in 2003, and 83.8 percent in 2004 – a very high growth rate indeed).

The same was true for manufacturing of joinery and carpentry products. Growth dynamics of investment in these products were positive (with the exception of 2003).

2. MANUFACTURING

2.1. THE ORGANIZATION AND STRUCTURE OF MANUFACTURING

A number of various types of manufacturing systems are used depending upon the type of furniture being produced: for example, office furniture, soft furniture, office armchairs, and chairs. In addition, furniture manufacturing is divided into glass, genuine wood, and equipment for stores and supermarkets.

Manufacturing office furniture

The technological process of office furniture manufacturing consists of the following key operations: 1) cutting boards into details, 2) drilling connecting holes, 3) lining detail edges, 4) assembly, and 5) packing.

Cutting boards into details

The main raw materials used for manufacturing office furniture are wood chipboard and fiberboard. Chipboard requires cutting, drilling, and lining. Fiberboards require only cutting.

In terms of cutting boards, sizing machines as well as rotary saw machines are used for vertical and horizontal cutting. Simple machinery is used if there is no need for complex operations to cut rectangular details, particularly in the case of small and medium-sized manufacturers. Other equipment used includes machines with clamps (these can cut several boards per single operation, and are used by large manufacturers of batches of furniture; after cutting with these machines, the boards are transferred to sizing machines for final cutting of details) and NC machines (characterized by high productivity and used by large-scale manufacturers; these can process curved parts).

These equipment groups have different modifications and are designed for cutting different lengths of details. Selection of equipment depends upon the size of furniture details required. The type of equipment used influences selection of chipboard or fiberboard.

Drilling connecting holes

A multi-spindle drilling machine can be used both for drilling completely through materials and closed vertical and horizontal holes. This operation can also be performed manually.

Lining detail edges

For this type of work, an edge-lining machine is used. Edges that do not connect with each other or the floor need to be lined. Lining material is glued to the end of a movable detail. Materials for lining of edges are divided the following categories: those with a layer of glue, and those without glue.

There are two methods of lining: the hot-cold technique (using glue-less lining material with liquid glue applied to the edge of the detail) and the cold-hot method (when the lining material already has a layer of melted adhesive).

Various lining materials are used, in particular: furniture film, plastic lining, polyvinylchloride film, and paper-layered plastic. Use of specific types of materials depends upon furniture models.

In addition, two other types of supplementary equipment are used in the manufacturing process: a machine for sharpening cutting tools, and a dust-collecting machine (it removes the byproducts of cutting from the machine work area; this is vital for the manufacturing process). Sharpening machines are used to a smaller extent; this is why it is sometimes more beneficial to outsource sharpening to other enterprises.

Accessories used are predominantly produced abroad. Ukrainian manufacturers use accessories made by the following producers: Agifirm, Gamat, Hatt.ch, Hafala, Kriniarg, Laguna, Marcipil, Nimat, and Pil.mir oa.

Organization of soft furniture manufacturing

This process includes the following stages: 1) quality control of raw materials and inputs, 2) furniture manufacturing, and 3) quality control of finished products.

Manufacturing of soft furniture consists of the following operations: 1) assembling frames, 2) cutting foam rubber and stuffing, 3) sewing covers, and 4) applying furniture coverings.

Necessary manufacturing sections include:

1) wood processing (cutting wood, plywood, chipboard, and fiberboard on woodworking machines);

2) polyurethane cutting (an electric or manual contour band saw machine is used; cutting is done according to templates and molds);
3) cutting synthepon, spandbond, hollow fiber (cutting is performed manually or using electric tools with rotary blades);
4) cutting furniture fabric (cutting is done manually or according to process charts using electric tools with rotary blades);
5) sewing (for sewing covers, special sewing machines are used);
6) assembly of wooden furniture (in the case of frame construction, balks, chipboard, and plywood are used and are then connected with staples (using a staple gun) or glued; parts are also connected with screws, crampons with glue, bolts, hinges, hooks, and metal edge corners; unified joints are also used, including elbow rests, cushion frames, seats, and bases); and
7) coverings (these are attached to furniture with staples using pneumatic staple guns; this assembly line is also where pillows are stuffed and furniture is assembled and joined).

Organization of manufacturing using natural wood

In order to manufacture furniture made of natural wood, it is necessary either to have equipment for cutting and drying wood, or to buy ready-made boards.

Manufacturing with natural wood requires highly qualified workers. Necessary operations are as follows: milling, profiling, mortising, drilling, polishing, cutting studs, sawing, and shaping curved details with tools of various sizes.

In order to manufacture wooden chairs and armchairs, it is necessary to use milling/polishing machines and lathes. Equipment of foreign and domestic origin is used.

Manufacturing glass furniture

Machines for edging and facet grinding are needed. Italian machinery is the most common.

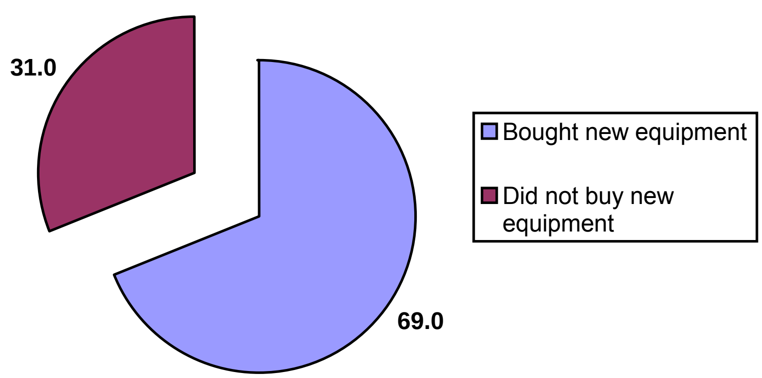
Manufacturing furniture for shops and supermarkets

Chipboard, medium-density fiberboard (MDF), fiberboard, and various metal constructions and glass are used.

2.2. LEVELS OF TECHNOLOGY AND INNOVATION AMONG FURNITURE SECTOR COMPANIES

According to the survey data, most businesses in the furniture sector (69.0 percent) bought new equipment for manufacturing purposes in 2005. Less than one-third did not do so (31 percent).

CHART 2.1. PURCHASES OF NEW EQUIPMENT BY FURNITURE SECTOR COMPANIES, 2005 (% OF ENTERPRISES)



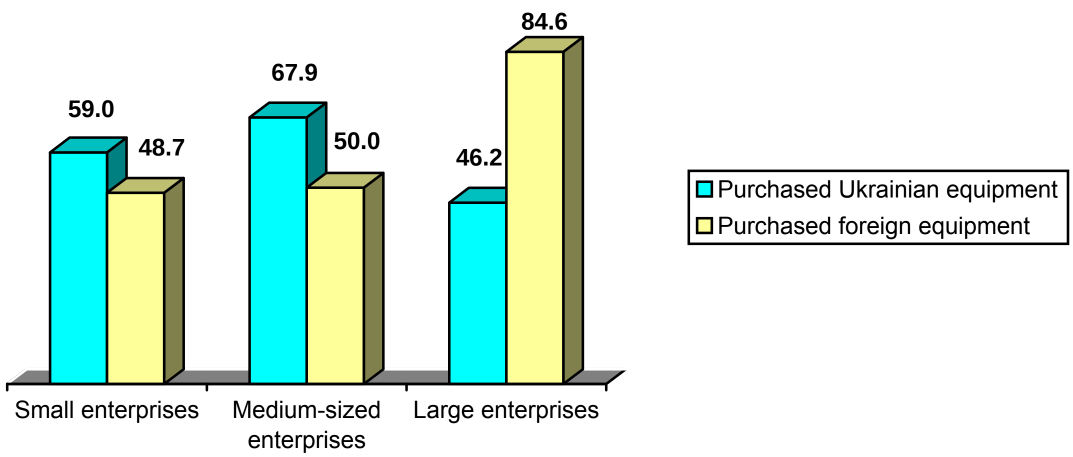
Source: Survey of 117 furniture enterprise CEOs.

At the same time, no considerable differences were observed between companies of different sizes. The largest share of those that bought new equipment was found among large companies (72.0 percent), whereas smaller businesses were not far behind. Among medium-sized companies this figure was 70.0 percent, and for small businesses it was 67.0 percent.

Furniture sector companies bought new equipment from both domestic and foreign producers: 60.0 percent of companies that purchased equipment bought domestic models, and 55.0 percent purchased equipment of foreign origin. Foreign equipment was most often bought from German, Italian, and Polish producers. Twenty-five percent of businesses bought both domestic and foreign-made equipment.

Buying domestic equipment was more common among small and medium-sized enterprises, whereas large companies preferred foreign-made equipment (among these businesses, 84.6 percent bought foreign-made equipment, and 46.2 percent bought domestic equipment). It may be assumed that this was due to differing financial situations among various businesses. Due to their higher financial capacities, large companies could afford to buy more expensive foreign-made equipment, whereas smaller companies had to make do with low quality (but cheaper) domestic equipment.

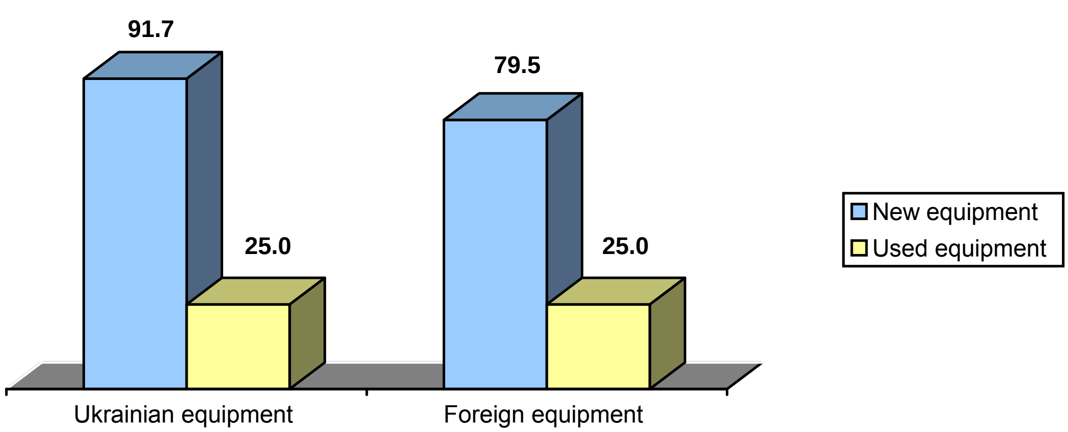
CHART 2.2. SHARES OF FOREIGN AND DOMESTICALLY MANUFACTURED EQUIPMENT PURCHASED IN 2005 BY FURNITURE COMPANIES OF DIFFERENT SIZES (% OF ENTERPRISES)*



Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

Most equipment of Ukrainian and foreign origin that furniture companies bought was new rather than used. Of those companies that bought Ukrainian equipment, 91.7 percent purchased new equipment, and 25.0 percent opted for used equipment. As for foreign equipment, these shares were 79.5 percent and 25.0 percent, respectively.

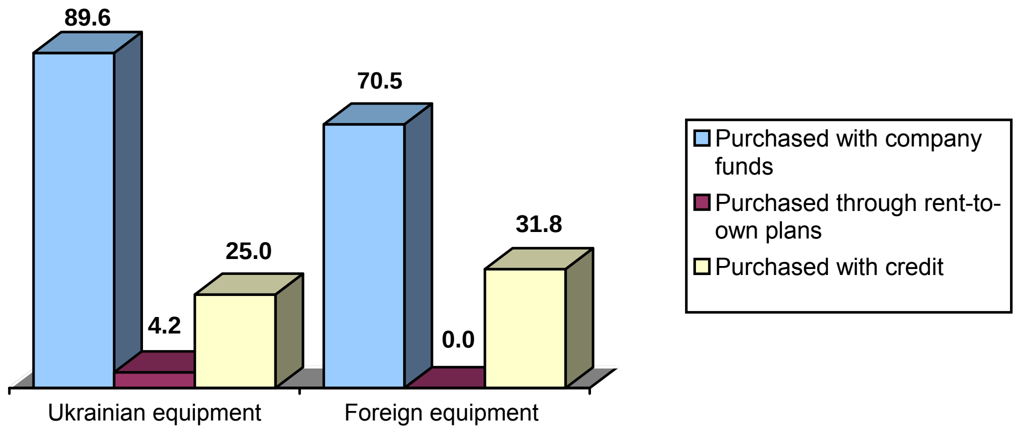
CHART 2.3. SHARES OF NEW VS. USED EQUIPMENT BOUGHT IN 2005 (% OF ENTERPRISES)*



Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

Furniture sector companies mostly bought new equipment using their own funds. For instance, 89.6 percent of those who bought Ukrainian equipment bought it with their own funds, as did 70.5 percent of those who bought foreign-made equipment. The share of those who bought domestic equipment with credit was 25.0 percent, and those who bought foreign equipment with credit comprised 31.8 percent.

CHART 2.4. METHODS OF PURCHASING NEW EQUIPMENT IN 2005 (% OF ENTERPRISES)*



Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

According to furniture market industry experts, the level of technology used by Ukrainian businesses varied depending on enterprise size. Most industry experts agreed that large furniture companies had a higher level of technical advancement, whereas medium-sized companies had a lower level and small businesses had the lowest level of all. This was connected to the financial capacities of different companies: large businesses had sufficient financial assets to purchase new equipment, while small businesses did not have such funds and therefore did not replace their equipment as often.

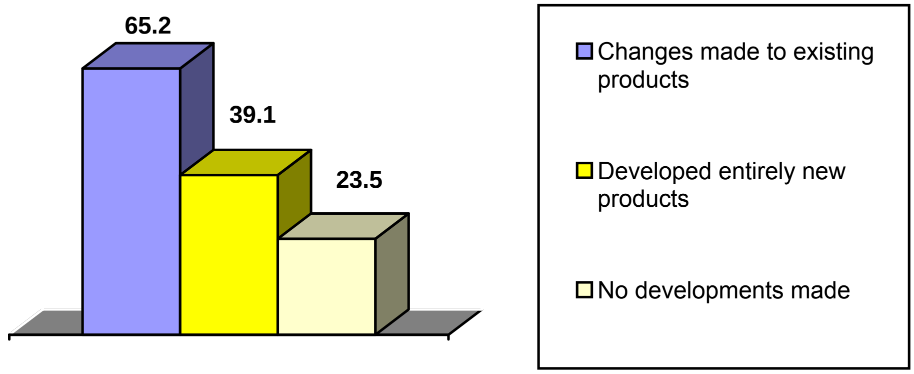
However, some of the respondents stated that such simple conclusions could not be made regarding large enterprises, either: on one hand, there were large companies with new state-of-the-art equipment, while other large companies were equipped with old machines. Large companies mostly used foreign equipment since it was of higher quality than Ukrainian equipment.

According to the industry experts, the share of companies that replaced old equipment with new technology was highest among large enterprises, whereas this activity was less intensive among medium-sized companies and low or non-existent among small enterprises.

2.3. RESEARCH AND DEVELOPMENT ACTIVITIES AND COPYRIGHT ISSUES

The vast majority of businesses in the furniture sector were engaged in development of new furniture models in 2003-2005. Only 23.5 percent of companies did not develop new models, whereas 65.2 percent of enterprises made changes to their products based on customer requirements, and 39.1 percent of companies were in the process of developing entirely new products. Simultaneous development of new products and improvement of existing products was conducted by 42.7 percent of companies.

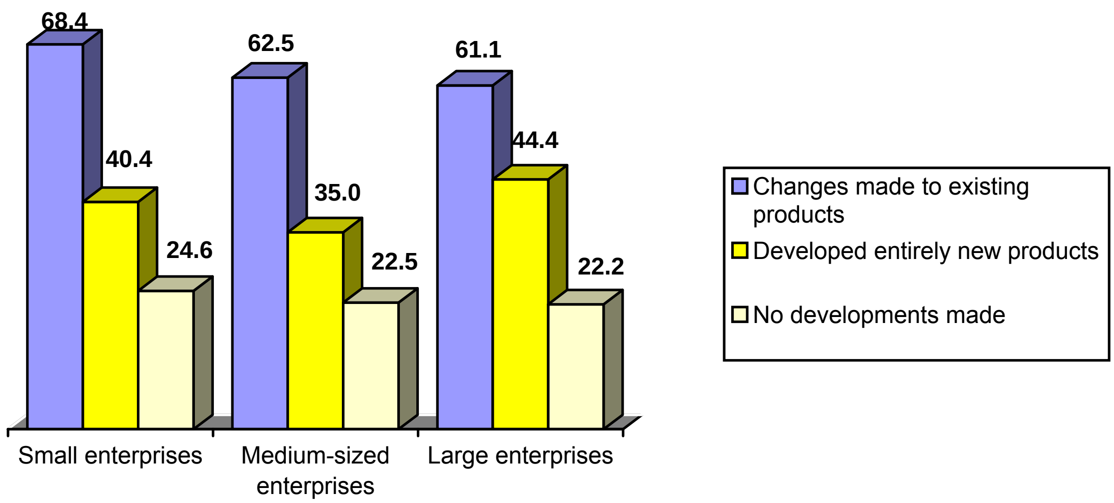
CHART 2.5. PRODUCT DEVELOPMENT BY FURNITURE SECTOR COMPANIES IN 2003-2005 (% OF ENTERPRISES)*



Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

New developments were equally common among companies of different sizes. Some only differed in terms of the purpose of development; for example, there was a somewhat larger share of those who tried to develop primarily new products among large companies (44.4 percent, while this share was 35.0 percent among medium-sized enterprises, and 40.4 percent among small enterprises).

CHART 2.6. NEW DEVELOPMENTS BY FURNITURE COMPANIES OF VARIOUS SIZES IN 2003-2005 (% OF ENTERPRISES)*

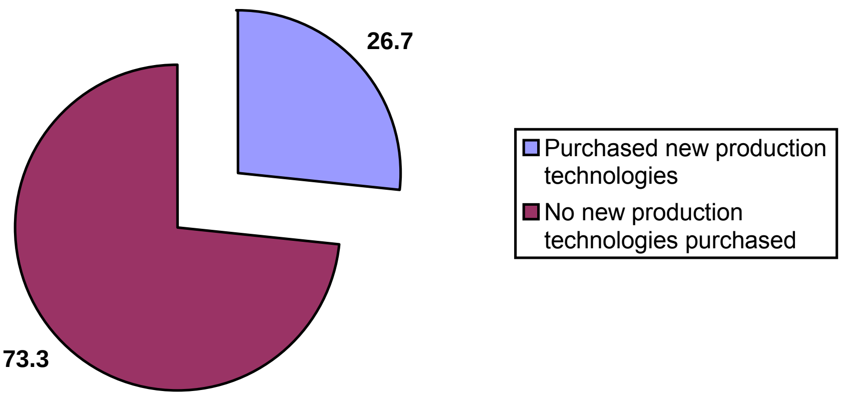


Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

At the same time, a combination of improvement of existing products and development of new products was implemented by 48.7 percent of small businesses, 32.0 percent of medium-sized enterprises, and 45.5 percent of large businesses.

Over one-fourth of the surveyed companies purchased new production technologies in 2003-2005 (26.7 percent). Those who did purchase new production technologies did so an average of two times over the surveyed period.

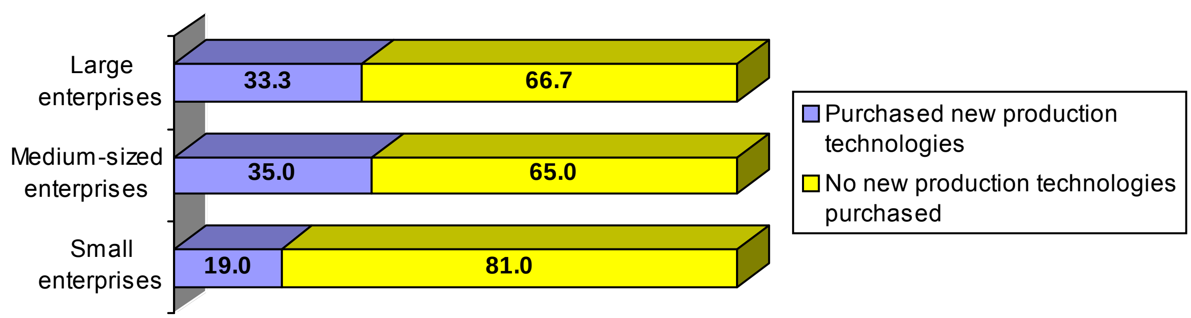
CHART 2.7. PURCHASES OF NEW PRODUCTION TECHNOLOGIES IN 2003-2005 (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

Small companies bought new production technologies the least compared to enterprises of other sizes; in 2003-2005, only 19.0 percent of them made such purchases, while about one-third of larger companies did so (35.0 percent of medium-sized companies and 33.3 percent of large companies).

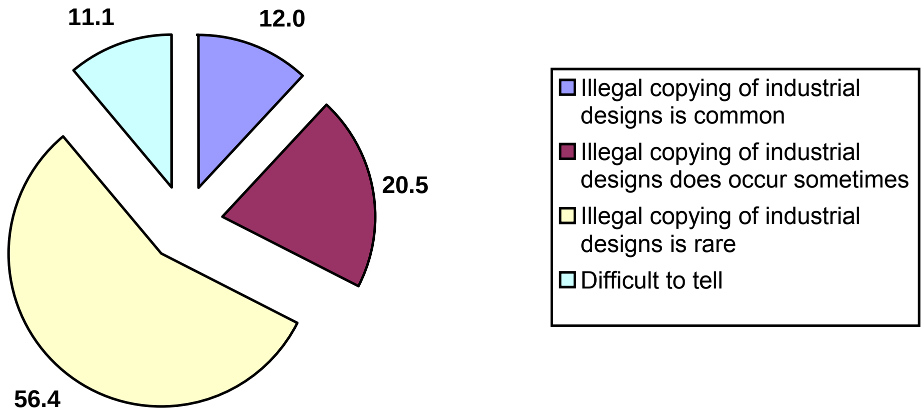
CHART 2.8. PURCHASES OF NEW PRODUCTION TECHNOLOGIES BY ENTERPRISE SIZE IN 2003-2005 (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

The issue of copyright infringement was not very widespread in the furniture sector. Only 12.0 percent of the respondents stated that illegal copying of industrial designs was a common occurrence, whereas 56.4 percent believed that such cases were rare.

CHART 2.9. OPINIONS REGARDING THE EXTENT OF ILLEGAL COPYING OF INDUSTRIAL DESIGNS IN THE FURNITURE SECTOR (% OF ENTERPRISES)

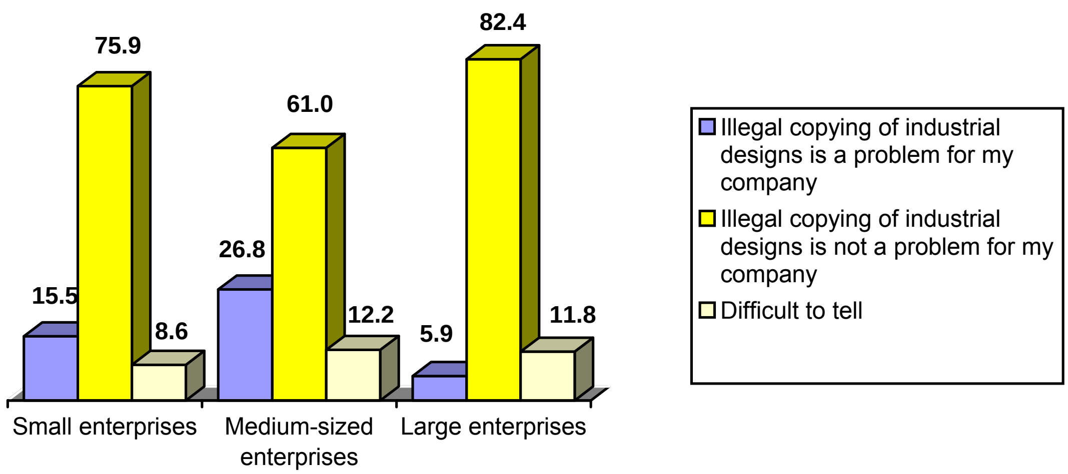


Source: Survey of 117 furniture enterprise CEOs.

In the opinion of most entrepreneurs, illegal copying of industrial designs was not a problem that affected their businesses. This was stated by 71.6 percent of the entrepreneurs surveyed, while only 18.1 percent viewed illegal copying of industrial designs as a problem for their enterprises.

Medium-sized enterprises encountered problems with copying of industrial designs the most frequently: 30.6 percent of these enterprises stated that it was a problem, while only 6.7 percent of large companies and 17.0 percent of small enterprises viewed it as a problem.

CHART 2.10. OPINIONS REGARDING THE EFFECTS OF ILLEGAL COPYING OF INDUSTRIAL DESIGNS (% OF ENTREPRENEUR RESPONSES)



Source: Survey of 117 furniture enterprise CEOs.

2.4. PRODUCT CERTIFICATION AND STANDARDIZATION PROBLEMS

Current standards applied to furniture manufacturing in Ukraine were introduced back in the Soviet era. The key standards are: 1) GOST 16371-93 ("Furniture. General technical terms."), 2) GOST 19917-93 ("Furniture for sitting and lying down. General technical terms."), and 3) RST of the Ukrainian SSR 1950-84 ("Custom-made household furniture"). It should be noted that the last standard was replaced by DSTU Standard 4414:2005 as of July 1, 2006.

Among companies with products subject to mandatory standardization in Ukraine (the share of these companies was 45.3 percent) about one-fifth did not consider existing domestic standards to be outdated. In particular, 18.9 percent of entrepreneurs with products subject to mandatory standardization in Ukraine believed that existing domestic standards did not interfere with use of modern production technologies, 22.6 percent of entrepreneurs believed that products manufactured according to domestic standards were still in demand in the Ukrainian market, 20.8 percent did not agree with the statement that domestic standards were a barrier to expanding their product lines, and 22.6 percent of entrepreneurs did not agree with the idea that compliance with national standards would entail considerable growth of production costs. Another 5.7 percent of entrepreneurs could not give a definite answer as to whether or not existing domestic standards were outdated.

The rest of entrepreneurs whose products were subject to mandatory certification in Ukraine considered national standards to be outdated and a negative influence on various aspects of furniture manufacturing and sales. In particular, 22.6 percent of these entrepreneurs stated that outdated standards created serious impediments for their business operations due to incompatibility with modern manufacturing technologies; for 20.8 percent of entrepreneurs, outdated standards created serious problems with demand for their goods; 17.0 percent of entrepreneurs emphasized a very negative impact of outdated standards on attempts to expand their product lines; and for 22.6 percent of entrepreneurs, outdated domestic standards caused the cost of production to go up significantly, making their end products noncompetitive.

On the other hand, significant shares of enterprises stated that outdated standards did not have a serious impact on their activities. The share of entrepreneurs for whom this was not a serious factor comprised 20.8 percent in terms of the influence of outdated standards on use of modern manufacturing technologies, 28.3 percent in terms of demand for products made in compliance with outdated standards, 34.0 percent in terms of the influence of outdated standards on expansion of product lines, and 30.2 percent in terms of competitiveness of products due to increased production costs.

TABLE 2.1. SIGNIFICANCE OF PROBLEMS RELATED TO OUTDATED DOMESTIC STANDARDS

	Domestic standards are not outdated	1 (minor problems)	2	3	4	5 (major problems)	Difficult to tell	***Average relevance***
Outdated standards are incompatible with modern manufacturing technologies	18.9	20.8	7.5	18.9	5.7	22.6	5.7	***3.0***
No demand for products made according to outdated standards	22.6	28.3	9.4	9.4	3.8	20.8	5.7	***2.7***
Outdated standards do not allow for expanding product lines	20.8	34.0	9.4	9.4	3.8	17.0	5.7	***2.5***
Compliance with outdated standards causes considerable growth of production costs, making products non-competitive	22.6	30.2	1.9	11.3	5.7	22.6	5.7	***2.8***

Source: Survey of 117 furniture enterprise CEOs.

3. RAW MATERIALS AND ENERGY RESOURCES

3.1. RAW MATERIALS

The following inputs are used for manufacturing furniture: chipboard, fiberboard, medium-density fiberboard (MDF), various metal constructions for tables and chairs, fabric and leather covers, stuffing, expandable materials, and transforming mechanisms. Furniture manufacturing also requires materials for lining detail edges, hinges, expanding mechanisms for sliding door wardrobes, mechanisms for drawers, fixing materials, handles, plugs, etc. The main raw materials used in furniture manufacturing were as follows:

1. Chipboard
2. Fiberboard
3. Plywood
4. Medium-density fiberboard (MDF)
5. Genuine wood
6. Metal (in sheets or pipes)
7. Cover fabrics and leather
8. Foam polyurethane and stuffing

In terms of production technologies, furniture manufacturing can be divided into the following main groups:

1. Office furniture (tables, cabinets, kitchens, shelves, file cabinets, etc.)
2. Soft furniture (sofas, armchairs, soft furniture sets, etc.)
3. Office chairs and armchairs
4. Genuine wood furniture
5. Glass furniture

Different types of raw materials and components are used for manufacturing different types of furniture.

OFFICE FURNITURE

Office furniture is divided into household and office tables, household and office cabinets, furniture sets, hallway furniture, kitchens, furniture for stores and supermarkets, furniture for hotels and educational institutions, shelves, file cabinets, etc.

Raw materials for office furniture manufacturing

1. Resin-bonded chipboard (DSP) is used to make furniture frames, furniture, chairs, etc.
2. Fiberboard and high-density fiberboard (HDF) are both used to make backsides of furniture frames and drawer bottoms, etc.
3. Medium-density fiberboard (MDF) is used to make façades.
4. Metal sheets or pipes are used to make legs for tables and chairs and other elements of office furniture.
5. Lining materials includes edge lining, veneer, etc.

Components for office furniture manufacturing

1. Drawer systems
2. Sliding door mechanisms
3. MDF profiles and façades
4. Tabletops
5. Dryers, washers, drawers, baskets, etc.

Accessories for office furniture manufacturing

1. Fixing accessories (clamps, etc.) used to attach furniture parts
2. Façades or decorative accessories (handles and other finishing elements)
3. Hinges for cabinet doors
4. Drawer guides (for opening and closing drawers)
5. Rollers for sliding door mechanisms
6. Buttresses, bump stops, hangers, plugs, etc.

SOFT FURNITURE

Soft furniture is divided into sofas, armchairs, soft furniture sets, etc.

Raw materials for soft furniture manufacturing

1. PVC (soft foam polyurethane)
2. Studding (synthepon, spandbond, hollow fiber, etc.)
3. Chipboard
4. Plywood
5. Genuine wood
6. Electrotechnical cardboard
7. Cover fabrics and leather

Components for soft furniture manufacturing

1. Spring cartridges
2. Unified assemblies: armrests, back frames, seats, supports
3. Transforming mechanisms
4. Frames

Soft furniture manufacturing accessories

1. Fastening materials (staples, special hooks, metal angles)
2. PVA glue

OFFICE CHAIRS AND ARMCHAIRS

Raw materials for manufacturing office chairs and armchairs

1. Soft foam polyurethane
2. Stuffing (synthepon, spandbond, hollow fiber, etc.)
3. Fabric and leather covers

Components for manufacturing office chairs and armchairs

1. Modular components: armrests, back frames, seats, supports
2. Transformation mechanisms
3. Frames

Genuine wood furniture

The most common raw materials for manufacturing genuine wood furniture are as follows: alder, oak, and other wood species, and veneer sheets.

Genuine wood furniture is mostly made by companies specializing in carpentry.

Glass furniture

This primary raw material for manufacturing this type of furniture is hardened float glass.

Main types of raw materials

Chipboard (referred to as DStP in the GOST system)

The wood-processing industry produces the following types of chipboard:

1. Laminated chipboard and chipboard covered with melamine resin. These are manufactured at a temperature of 140-210° C and a 25-28 MPa pressure level. Melamine is used to ensure high wear and temperature resistance. Melamine is widely used for manufacturing office furniture.
2. Masked chipboard, or chipboard fully covered with hardened paper and resin films (with or without varnish applied), with glue initially applied to the baseboard under pressure and high temperature. As the surface of this board does not contain melamine resins, it does not last long. The cost of melamine resin is about 50 percent of the production cost of facing film; this is why backed chipboard is cheaper than laminated. It is used for frame manufacturing and building construction.
3. Chipboard covered with multi-layered plastic. This is used for making tabletops.
4. Polished chipboard. This has a smooth surface and is used to apply finishing agents like veneer.
5. Unprocessed chipboard. This is widely used in construction and as raw material for plywood-based chipboard. In the furniture sector, this is used to make soft furniture with frames.

Chipboard detail sizes

The most common sizes are 2,750 x 1,830 and 2,750 x 2,070. Less common sizes are 3,500 x 1,830, 3,500 x 1,750, and 2,440 x 1,830.

Chipboard thickness

In furniture manufacturing, chipboard with the following measurements of thickness was primarily used:

1. 6-8 mm for backs of cabinets

2. 8-10 mm for façades of sliding door wardrobes
3. 16, 18, and 19 mm for frames and façades
4. 22-25 mm for laminated tabletops and frames for expensive furniture
5. 28 and 38 mm for kitchen tabletops

In 2004, furniture manufacturers fought (unsuccessfully) against an increase on Customs duties for Eastern European chipboard entering Ukraine. The year 2005 was marked by massive changes in terms of suppliers used and expansion of the geographic structure of chipboard supply networks.

The absolute favorite types of chipboard among furniture producers were those from Poland and Slovakia. However, at the end of 2004, an antidumping Customs duty was imposed on chipboards imported from those countries and this product became 10-15 percent more expensive, forcing some companies to stop using it. This process is not widespread yet, as re-profiling production to accommodate use of chipboard from other countries will take a certain amount of time and expenditures.

However, some industry experts were sure that manufacturers would gradually stop using Polish chipboard anyway. Some companies have started buying chipboard from Hungarian or Austrian companies (the latter includes the Austrian-German company Egger). Egger and the Hungarian Falko Company plan to open official representative offices and licensed warehouses in Kyiv.

However, some industry experts believed that Ukrainian manufacturers will not completely turn away from Polish and Slovak products. After antidumping duties were introduced, practically all other producers raised their prices as well (Source: *Delovaya Stolitsa No. 45[223]*, November 7, 2005).

DVP

Fiberboard (DVP) is used to make backs and bases of office furniture pieces. In the Ukrainian furniture industry, domestic fiberboard is used most often except in cases when elements made of this material need to match the overall appearance of a high quality product, in which case domestic fiberboard is unacceptable.

Foam polyurethane or foam rubber

Foam polyurethane is made in blocks or ready-made forms (molded). Polyurethane in blocks is cut into details in necessary sizes. There are two ways of making polyurethane in blocks: in box-shaped molds, and through continuous foaming.

In the first method, rectangular forms are filled with foam that coagulates into a cubic block. This technology is outdated, and its main shortcoming is that the mass created is not structurally homogeneous.

This process is used to produce polyurethane of standard and low degrees of firmness. This type of polyurethane is relatively cheap and widely used for manufacturing inexpensive soft furniture.

In the continuous foaming process, foam is moved along a conveyer to make polyurethane blocks of various lengths. This type of polyurethane is of a higher quality.

When making molded polyurethane, foam is poured into shaped molds to make finished products. This polyurethane has a high density level and non-homogeneous structure (the surface density is higher). The cost of this polyurethane is higher, as it includes the cost of molds. Molded polyurethane is used to make expensive furniture, car seats, seats for airplanes, etc.

According to the industry experts, use of chipboard is common among all types of furniture (household, office, or specialized furniture), comprising over 50 percent of all materials used.

The share of this material is the highest for furniture for public places (about 80 percent) and office furniture (about 80 percent), and comprises about 50 percent of materials used to make household furniture and furniture for stores and supermarkets.

According to industry experts, the main producers of chipboard used in the Ukrainian furniture industry include the following domestic companies: Avers (Kyiv City) and Krono-Lviv (Kamyanka-Buzka).

They also include the following foreign enterprises: Kronospan (Poland), Swisspan, Ltd., and Egger (Austria-Germany). Key suppliers of fiberboard are as follows: Avers (Kyiv City), Krono-Lviv (Kamyanka-Buzka), and Swisspan, Ltd. Fanplit and Parapan are the most significant among plastic suppliers. MDF was supplied by Avers, Fanplit, Eurosan, and Eurotech.

As for suppliers of genuine wood, industry experts could not name any leaders since many different companies supply this type of material.

3.2. SHARES OF DOMESTIC AND FOREIGN RAW MATERIALS USED BY FURNITURE SECTOR COMPANIES

According to industry experts, shares of domestic and foreign chipboard used by Ukrainian companies were approximately equal: domestic chipboard claimed 50-60 percent of the market, while foreign chipboard comprised 50-40 percent.

Domestic products were somewhat more dominant in the fiberboard market. According to industry experts, fiberboard products used were 30 percent foreign and about 70 percent domestic.

Plastics used in manufacturing were mostly of foreign origin (80 percent), while domestic plastics comprised only 20 percent. MDF used for furniture manufacturing was mainly foreign. According to industry experts, the share of foreign-made MDF used in Ukraine was 80-90 percent. As for genuine wood, domestic materials dominated the Ukrainian market with 80-90 percent of total consumption. Similarly, about 70-80 percent of metal used in furniture production was of domestic origin.

During the survey period, there was a trend toward increasing the share of domestic products among raw materials used in the furniture sector. According to most industry experts, the share of domestic raw materials has grown considerably within the last 2-3 years, especially in certain segments.

Interestingly, industry experts expect this trend to remain steady in the future as well. In their opinion, use of Ukrainian chipboard within the next 2-3 years will increase by 15-20 percent, thus constituting 70-85 percent of the market. The share of Ukrainian fiberboard used is expected to grow to about 75-80 percent. As for use of MDF, imported products are expected to prevail (with 70-80 percent of products of foreign origin, and 20-30 percent of domestic origin). In terms of genuine wood supplies, the current absolute prevalence of domestic products will continue (about 90 percent). The same will be true for metal products.

3.3. STRUCTURES AND EFFICIENCY OF ENERGY RESOURCE UTILIZATION

For the absolute majority of furniture sector enterprises, electricity was the main energy resource used (about 90 percent of businesses). Only a few enterprises were oriented toward other types of energy (gas, oil, coal, etc.).

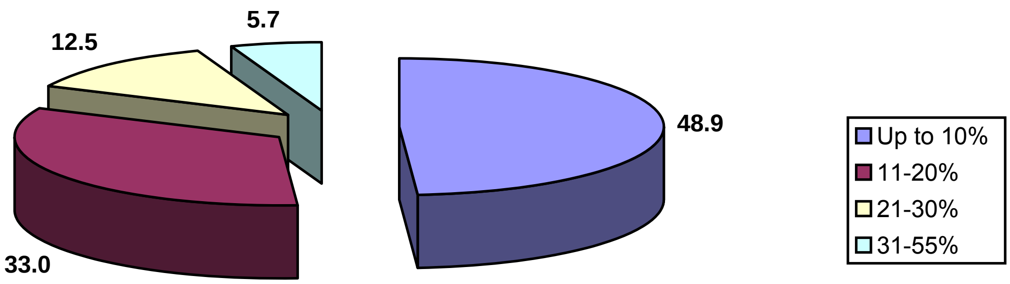
TABLE 3.1. KEY ENERGY RESOURCES FOR FURNITURE SECTOR COMPANIES (% OF ENTERPRISES)

Energy resource	% of enterprises
Electricity	90.5
Natural gas	2.6
Oil products	1.7
Coal and coal products	0.9
Other	3.5

Source: Survey of 117 furniture enterprise CEOs.

Among the furniture sector companies surveyed, the average cost of energy resources was 14.6 percent of total production costs. These costs constituted up to 10 percent of production costs for almost half of the surveyed companies (48.9 percent). Another 33.0 percent of companies stated that energy expenses comprised from 11 percent to 20 percent of their total production costs. The remaining 18.2 percent of companies reported that over 20 percent of production costs came from energy expenses.

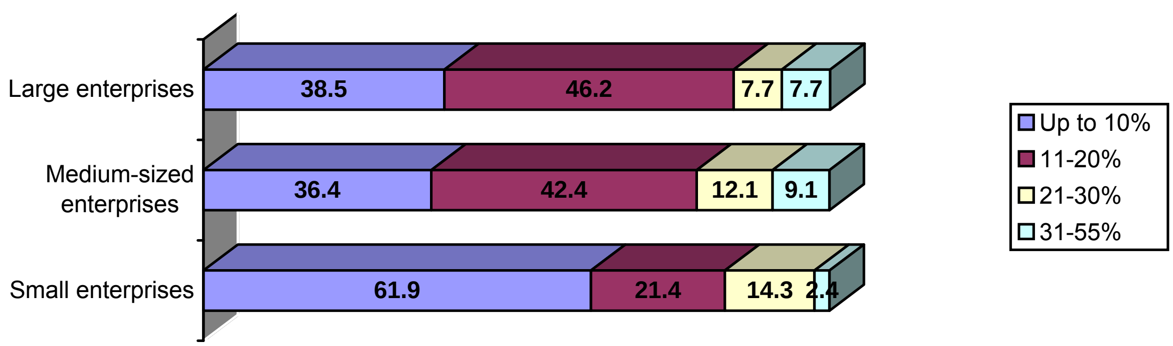
CHART 3.1. THE SHARE OF ENERGY EXPENSES IN TOTAL PRODUCTION COSTS (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

The share of energy expenses in total production costs was lower among the majority of small enterprises: 61.9 percent of these companies spent only up to 10 percent on energy costs, whereas 42.4 percent of medium-sized companies and 46.2 percent of large enterprises spent from 11 to 20 percent of their production costs on energy.

CHART 3.2. SHARE OF ENERGY COSTS OUT OF TOTAL PRODUCTION COSTS FOR COMPANIES OF DIFFERENT SIZES (% OF ENTERPRISES)

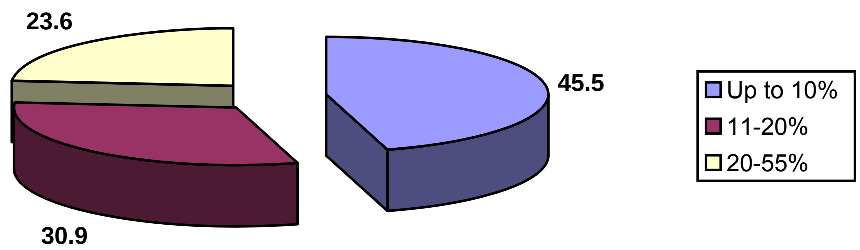


Source: Survey of 117 furniture enterprise CEOs.

More than half of the surveyed companies (53.0 percent) declined to state whether higher prices for energy resources would have a considerable impact on the competitiveness of their products or not. This was connected with the fact that electricity was practically the only energy resource used by furniture companies. Electricity is relatively inexpensive in Ukraine. This is why a significant share of entrepreneurs did not fear the influence of fluctuating energy costs on the overall cost of production and thus did not perform calculations to determine how rising electricity prices would affect their business operations.

However, most of the entrepreneurs who could predict the results of such fluctuations were convinced that even a relatively small increase in prices for energy resources would have an impact on their competitiveness. In particular, about half of the respondents (45.5 percent) expected a decrease of their competitiveness even if energy costs grew by only 10 percent or less. Only 23.6 percent of businesses stated that energy prices would have to rise by over 20 percent in order to impact their competitiveness.

CHART 3.3. OPINIONS REGARDING THE INFLUENCE OF RISING ENERGY COSTS ON PRODUCT COMPETITIVENESS (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

According to the surveyed enterprise CEOs, the main way to decrease production costs in the event of a rise in energy costs would be to improve production technologies and equipment (39.0 percent of entrepreneurs agreed with this statement). Another 29.0 percent stated that they would shift to less expensive energy resources, while the remaining 24.0 percent would cut spending on raw materials and inputs.

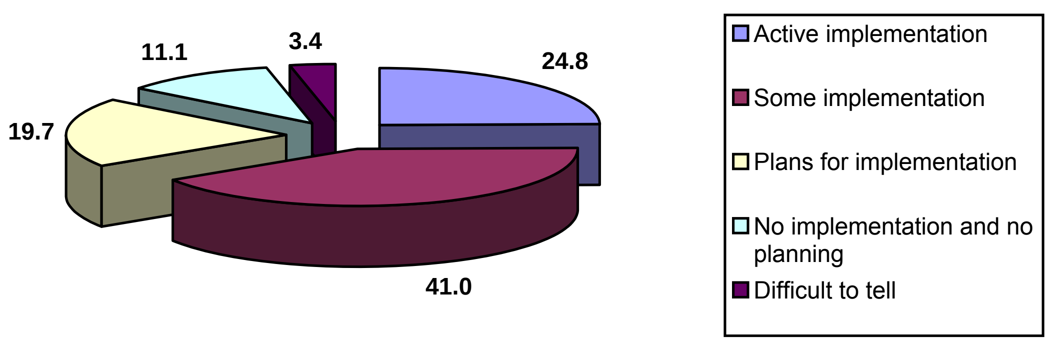
TABLE 3.2. MEASURES FOR REDUCING PRODUCTION COSTS IN THE EVENT OF RISING ENERGY PRICES (% OF ENTERPRISES)*

Measure for reducing production costs	% of enterprises
Improving production technologies and equipment	39.0
Switching to cheaper energy resources	29.0
Reducing raw material and input expenditures	24.0
Halting new equipment purchases, production development activities, etc.	19.0
Reducing funds directed toward payroll	13.0
Increasing the price of end products	10.0

Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

Most companies reported that they were already taking steps to reduce energy consumption: 24.8 percent of businesses were actively implementing energy-saving measures, while 41.0 percent were involved in energy-saving activities to a lesser degree. Another 11.1 percent of businesses were not implementing any energy-saving measures and had no intentions of doing so in the future.

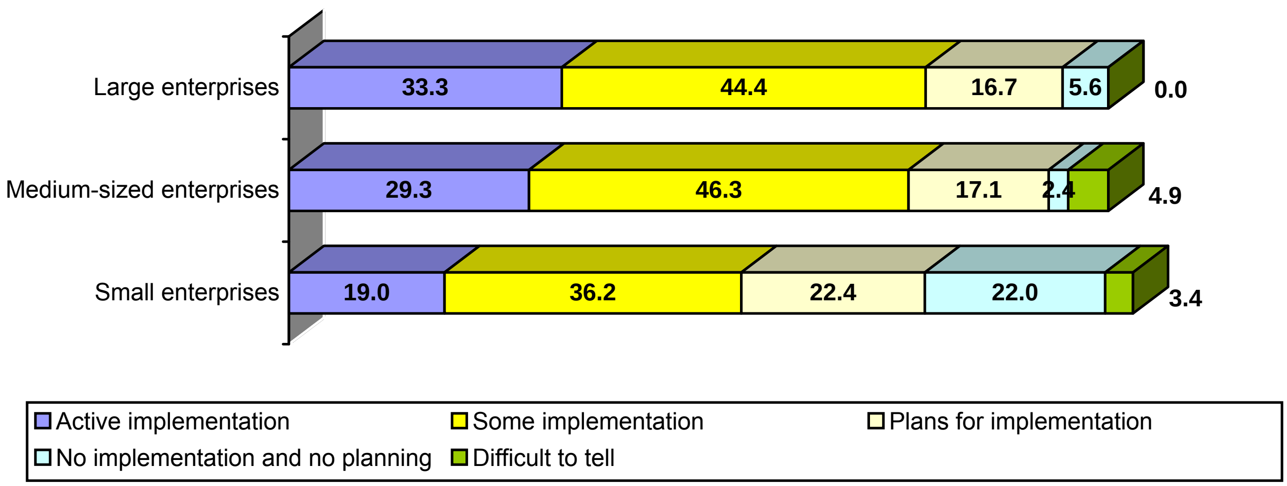
CHART 3.4. USE OF ENERGY-SAVING MEASURES (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

Large and medium-sized companies were more active in terms of introducing energy-saving technologies: the share of enterprises that were actively or somewhat involved in these activities was 77.7 percent among large companies and 75.6 percent among medium-sized companies. It should be noted that 55.2 percent of small companies were actively or somewhat engaged in energy-saving measures.

CHART 3.5. IMPLEMENTATION OF ENERGY-SAVING MEASURES AMONG COMPANIES OF DIFFERENT SIZES (% OF ENTERPRISES)

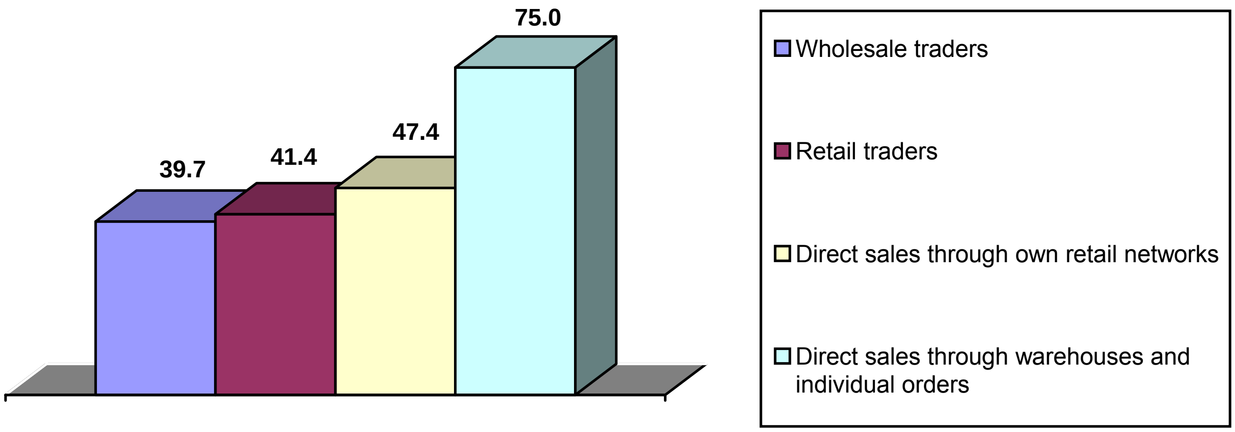


Source: Survey of 117 furniture enterprise CEOs.

4. SALES

Most Ukrainian companies that produced furniture during the studied period used several sales channels for their products. The distribution channel that was most frequently used by the surveyed companies in 2005 was direct sales to end consumers through warehouses and individual orders. Seventy-five percent of companies sold their products in this way, while 47 percent implemented direct sales through their own retail networks. At the same time, other sales channels were used to a considerable extent: 40 percent of companies sold their furniture through wholesale traders, and 41 percent sold their goods through retail traders.

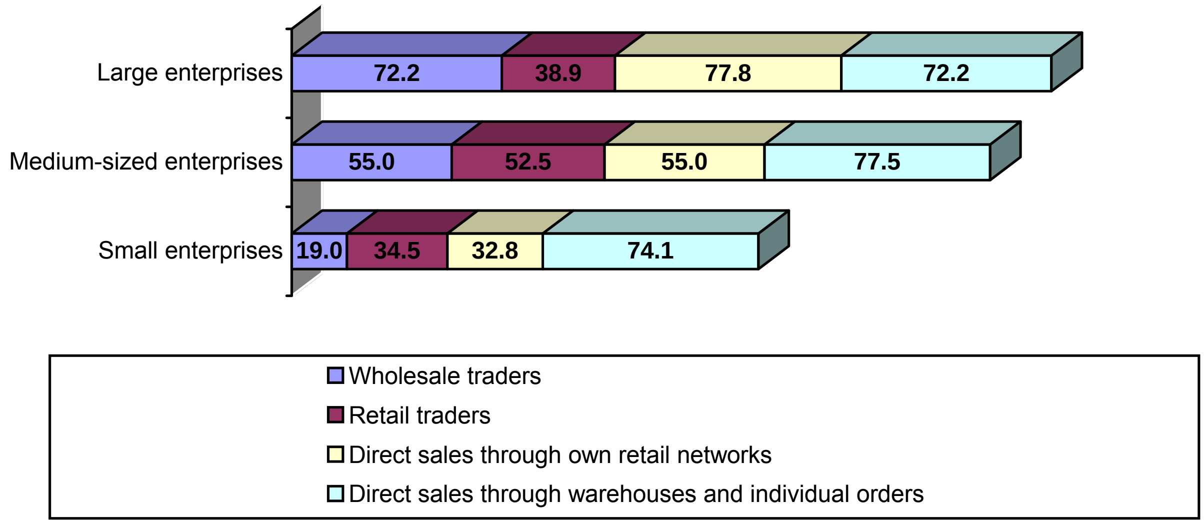
CHART 4.1. PRODUCT DISTRIBUTION CHANNELS (% OF ENTERPRISES)*



Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

Certain differences were based on company size. While direct sales through warehouses and individual orders were used equally by companies of different sizes, the share of companies using their own distribution networks was lower among smaller companies. Of large companies, 77.8 percent sold their products through their own distribution networks, whereas only 55.0 percent of medium-sized and 32.8 percent of small businesses sold their products this way. A similar tendency was found in terms of sales through wholesale traders: their services were used by small companies to the smallest extent (only 19.0 percent), while 72.2 percent of large companies and 55.0 percent of medium-sized companies used this sales channel.

CHART 4.2. PRODUCT SALES METHODS AMONG COMPANIES OF DIFFERENT SIZES (% OF ENTERPRISES)*



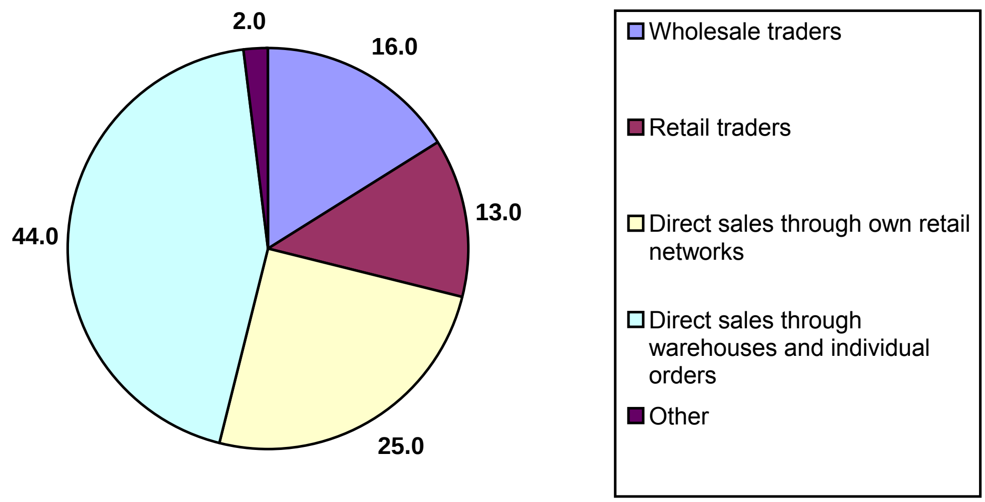
Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

In addition, means of product sales were more diversified among large and medium-sized companies: more than half of small companies (53.4 percent) used only one sales channel, whereas only one-fourth (25 percent) of medium-sized companies and 11.1 percent of large businesses used only one. More than half of large companies (55.6 percent) sold their products through an average of 3-4 channels, while only 12.0 percent of small companies did so. This situation could be due to differences in production volumes.

Small businesses had low production volumes and were satisfied with using a limited number of sales channels. On the other hand, large companies had to use as many different sales channels as possible to accommodate large production volumes.

In terms of use of various distribution channels by the sector overall, the largest share of sales of finished products was through direct sales through warehouses and individual orders (44 percent) and direct sales through own retail networks (25 percent).

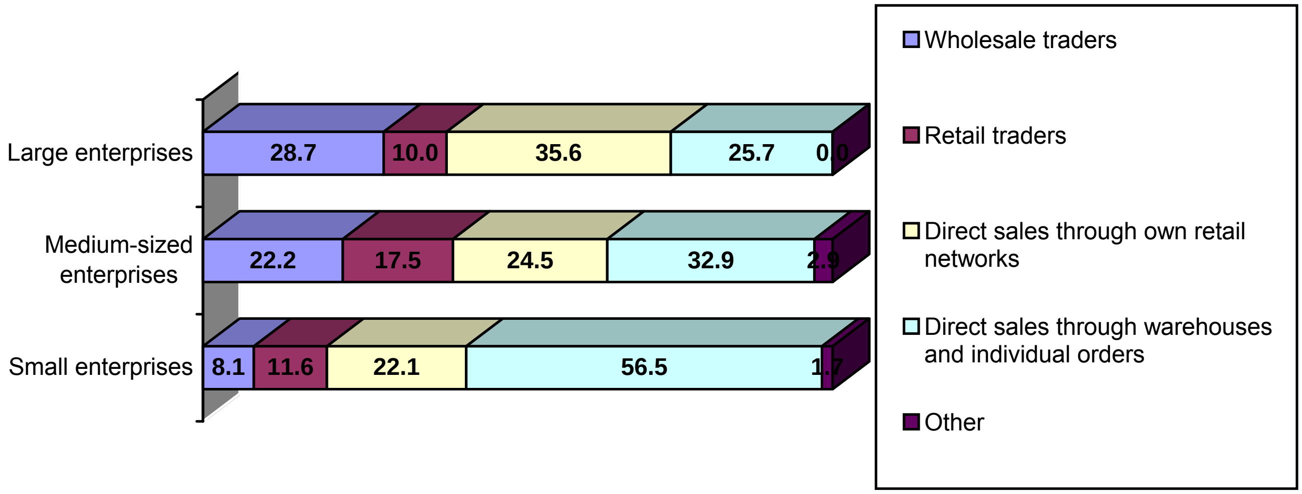
CHART 4.3. USE OF VARIOUS SALES CHANNELS (% OF PRODUCTS)



Source: Survey of 117 furniture enterprise CEOs.

Direct sale of goods to consumers through warehouses and individual orders was the most common tactic among small enterprises (56.5 percent of total sales); the share of this type of sales was 32.9 percent among medium-sized companies and 25.7 percent among large enterprises. Among large companies, a significantly larger share of products (28.7 percent) was sold through wholesale traders, while small companies sold only 8.1 percent of their products this way. In addition, more large companies conducted direct sales through their own retail networks (35.6 percent) than medium-sized and small companies.

CHART 4.4. USE OF VARIOUS SALES CHANNELS AMONG COMPANIES OF DIFFERENT SIZES (% OF SALES)



Source: Survey of 117 furniture enterprise CEOs.

Use of own retail networks among large companies was connected with their need to have maximum control over manufacturing and sales of their products. According to the manufacturers, the most negative aspects of sales through intermediaries were their inability to influence the behavior of intermediaries, and the inability of intermediaries to meet manufacturers' expectations in terms of standards. Distribution of products through their own retail networks allowed enterprises to maintain their image and sales techniques, provide pre- and post-sales services, and train sales staff. In addition, this approach allowed enterprises to respond promptly to customer's complaints, a factor that made it possible to plan future production activities more efficiently.

At the same time, direct sales through own retail networks are expensive to maintain; hence, large manufacturers with sufficient funds comprised the majority of those who could afford it.

If own retail networks were not an option, industry experts stated that selling furniture through wholesale and retail traders was an efficient alternative distribution technique that would allow an enterprise to expand the geographic scale of their sales. According to the industry experts, the least efficient sales channels were via newspaper announcements or the Internet.

Sales of furniture through hypermarkets have proven to be rather promising. For example, the Liga-Nova Company opened one hypermarket in June 2006 in Donetsk. Its total surface area is about 13,000 square meters.

Leaders of the Ukrainian furniture market (including both domestic and foreign manufacturers) are all represented there, along with sales of a wide range of various furnishings and accessories. Companies that lease space there include Merx, Enran, Ekmi-Mebli, and others.

The Liga-Nova Company plans to develop a network of furniture hypermarkets throughout Ukraine. A number of large operators also plan to start using this sales format. The Swedish concern IKEA is expected to enter the hypermarket segment of the Ukrainian furniture industry with a focus on the medium-priced and economy-class segments. Some industry experts stated that multi-brand hypermarkets with a wide range of goods are the future of the furniture market.

5. COMPETITION

5.1. MARKET SHARES OF KEY PARTICIPANTS

According to industry experts, the leaders of the Ukrainian furniture-manufacturing sector are:

1. Nowy Styl Ukraine (consisting of Nowy Styl CJSC and Mebli-Trade CJSC), with a market share of approximately 15 percent;
2. Gerbor Holding, Ltd., with 8 percent;
3. Art Metal Furnitura, with 5 percent;
4. Merx, claiming 5 percent;
5. Eno-Mebli, Ltd.(a Ukrainian-Austrian-British venture), with 4 percent;
6. Modern-Expo, Ltd. (a Polish-Ukrainian joint venture), comprising 4 percent;
7. UKRYUG, Ltd., with 2 percent;
8. Enran CJSC, comprising 2 percent;
9. Progress OJSC, with 1 percent; and
10. Klasum Factory, Ltd., with 1 percent.

5.2. KEY MARKET PLAYERS

Nowy Styl Ukraine CJSC

This company was founded in 1997 when CIT (Kharkiv) joined Nowy Styl (Poland). Since 2004, Nowy Styl Ukraine has maintained a representative office in Russia.

Products include chairs and armchairs for offices, bars, and restaurants. Overall, Nowy Styl Ukraine offers more than 200 types of their own chairs, armchairs, and soft furniture units for offices, bars, cafes, and restaurants.

All Nowy Styl Ukraine products have been awarded RosTest and ISO 9001 certificates and are compliant with Ukrainian and foreign quality standards. A one-year warranty term has been established for all products (for the Ergonika Collection, the warranty term is 2 years).

The company has a network of dealers operating in Kyiv City, Alchevsk, Vinnytsya, Dnipropetrovsk, Donetsk, Zhytomyr, Zaporizhzhya, Kirovohrad, Kramatorsk, Kryvyi Rih, Luhansk, Lutsk, Lviv, Mariupol, Mykolayiv, Odessa, Orzhev, Poltava, Simferopol, Slovyansk, Sumy, Ternopil, Kharkiv, Kherson, Khmelnytsky, Cherkasy, and Chernivtsi.

Gerbor Holding, Ltd.

During the survey period, this company was in the process of actively developing. In 2005, a new production complex with a total area of over 5,000 square meters was put into operation. The total area of all production and warehouse premises is over 40,000 square meters and continues to expand.

Gerbor Holding, Ltd. employs over 1,000 people.

The company's main activity is manufacturing a broad range of office furniture such as drawing room sets, finished furniture sets, children's furniture, bedroom sets, hallway sets, and kitchens. System (module) sets that allow for various arrangements of furniture for any type of rooms and offices are also offered. Gerbor Holding, Ltd. does not manufacture any soft furniture.

The company’s production volume is over 10,000 furniture sets per month.

Gerbor Holding, Ltd. uses environmentally friendly materials in their manufacturing processes. Products are fully certified and comply with generally accepted standards and norms.

This company is almost exclusively oriented toward working with wholesale buyers but also practices direct sales to consumers.

Gerbor Holding, Ltd. maintains partnerships with more than 300 Ukrainian and foreign wholesale firms. Forty percent of products are exported; destination countries include Russia, Armenia, Kazakhstan, Lithuania, Latvia, Estonia, Greece, Bosnia and Herzegovina, and others.

Every year, Gerbor Holding, Ltd. participates in industry exhibitions either in Ukraine or abroad.

Art Metal Furnitura

This company has engaged in manufacturing office furniture since 1999 (office chairs, technical operator armchairs, armchairs for managers, office furniture, and chairs for bars, cafes, and restaurants), and also engages in sales of furniture components. Art Metal Furnitura is oriented toward manufacturing ergonomic, esthetic, and high quality products.

The total area of the Art Metal Furnitura plant is 30 hectares. The surface area of production facilities consists of about 25,000 square meters.

This company employs a total of 1,200 people.

Art Metal Furnitura products are exported to other CIS countries, the U.K., France, Greece, Hungary, Austria, Germany, Bulgaria, Poland, the Baltic States, and Malta.

All production components are produced by the company itself. Metallurgic semifinished products (sheets, pipes, and rods) are used to make metal furniture parts. Foam polyurethane and various types of foam rubber are used to make chair and armchair stuffing (standard, firm, extra-firm, soft, and extra-soft). The company produces a wide range of pipes. Bent and glued frames for seats and seatbacks are made of veneer attached with special glue. High quality, powder-based paints are used for dyeing products.

The company's products are fully certified. Certificates of origin have been obtained for all products (the CT-1 Type Certificate of Origin). Art Metal Furnitura is certified according to the ISO 9001:2001 standard.

Merx

Merx consists of several factories producing office furniture, kitchens, and special office furniture; several trading and exhibition halls in Kyiv; regional branches throughout Ukraine; a dealer network both in Ukraine and the CIS countries; and a representative office in Moscow. It is one of the leaders in the office furniture segment and one of the best manufacturers of kitchen, household, and hotel furniture.

Merx products consist of several series of office furniture, office partitions, and office chairs, a wide range of kitchen models, mini-kitchens, cabinets, and soft furniture. The company plans to expand the mix of office and household furniture, create new kitchen models, and develop production of office partitions in the future.

The company's clients include a number of government authorities (the Secretariat of the President of Ukraine, Cabinet of Ministers, Verkhovna Rada (Parliament) of Ukraine, Constitutional Court of Ukraine, State Tax Administration of Ukraine, Security Service of Ukraine, Ministry of Internal Affairs of Ukraine, and the National Bank of Ukraine) and large companies (such as Ukrsotsbank, Prominvestbank, Ukrnafta, Naftogaz of Ukraine, Ukrposhta, and Darnitsa) and many others.

Merx fills prepaid order for their products.

Modern-Expo, Ltd.

This Polish-Ukrainian joint venture has worked in the Ukrainian trade outlet equipment market since 1996. The company specializes in production of equipment for supermarkets, specialized stores, pharmacies, cafes, and bars.

Modern-Expo manufactures a wide assortment of products, including those made of laminated chipboard (DSP), glass, and metal. The company offers metal shelf sets, furniture sets for stores (selling clothes, footwear, and manufactured goods), metal shelving racks made of laminated chipboard (DSP), display case sets made of glass and laminated chipboard (DSP), and furniture systems for stores selling manufactured goods (particularly household electric appliances), name-brand technological equipment to be used in public catering places (cafes, restaurants, bars), and cash registers for self-service stores. For customer convenience, there is a full range of services in design and furnishing of trading equipment for bars, stores, boutiques, and salons, as well as manufacturing of custom-made furniture sets according to individual customer requests.

Modern-Expo products are certified in accordance with the ISO 9001 international standard.

Italian, German, Finnish, and Danish equipment is used in production.

The company has representative offices in the cities of Kyiv, Dnipropetrovsk, Odessa, Kharkiv, Vinnytsya, Zaporizhzhya, and (since May 2006) Donetsk. Representative offices will be opened soon in Lviv and Simferopol.

UKRYUG Furniture Factory, Ltd.

This enterprise specializes in household furniture production. It offers furniture sets made of MDF and DSP chipboard (Certificate of Compliance UA1. 144. 46828.04), bedroom furniture made of MDF and DSP chipboard (Certificate of Compliance UA1. 144. 46828.04), children's furniture sets (MDF), hallways (MDF), and kitchens (soft).

Enran CJSC

The Enran joint venture was established in 1992. Today, Enran is a concern consisting of the following companies: Enran-ZLK, Enran-Akros, Akros, Enran Amor, Enran-Komfort, Integral Joint-Stock Commercial Bank, Enran Telecom, and the Ekostrum Engineering Center. Enran is a multi-profile company that with a wide range of activities: window and furniture manufacturing, construction, finance and investment, communications, transport, and trade. The company operates its own retail network.

Enran's manufacturing complex (in the village of Stari Petrivtsi, Kyiv Oblast) is a state-of-the-art high-technology center that combines two manufacturing facilities: 1) window production (metal/plastic and aluminum, façade systems, winter gardens, and internal partitions), and 2) production of furniture for offices, residential areas, children's rooms, hotels, and banking institutions.

In 2001, the Enran Production Complex earned the ISO 9001 international quality system certificate.

Products manufactured under the Enran-Akros trademark are sold through a network of stores in Kyiv (8 salons) and over 50 dealers throughout Ukraine. Enran-Akros furniture is also exported abroad (mainly to Russia).

Progress OJSC

Progress produces soft furniture, bedroom sets, kitchens, mattresses, accessories, and cabinets (for modern kitchens with built-in equipment and bedroom suites). Manufacturing operations aim to satisfy customers' needs and maintain a broad price range. The company offers over 40 models of soft furniture; some furniture models can be assembled on-site. A new sofa or furniture set prototype is developed every two months. The warranty period is 18 months for soft furniture and 24 months for office furniture. Manufacturing is mainly oriented toward Ukrainian consumers. Furniture is transported to stores by the company's own specially equipped automobiles in order to ensure product quality.

Production activities are divided between two factories that create soft furniture and office furniture, respectively. Both are located in Dnipropetrovsk. Over 1,000 people are engaged in the company's manufacturing wing alone. Progress has its own engineering bureau and design section.

Both domestic and imported certified materials are used in the manufacturing process, particularly: high quality wood (beech, pine, ash), foam polyurethanes of various thicknesses and densities, over 300 types of material for furniture covers (flock, velour, tapestries, chenille, jacquard, bouclé, and artificial and genuine leather; these include materials produced in the U.S., Canada, Lithuania, Turkey, Belgium, and Germany). Wood, chipboard (DSP), fiberboard (DVP), and veneer sheets are all of Ukrainian origin.

Progress has its own distribution network consisting of 48 salons in 31 cities of Ukraine: Alchevsk, Vinnytsya, Dniprodzerzhynsk, Dnipropetrovsk, Donetsk, Zhytomyr, Zaporizhzhya, Ivano-Frankivsk, Kyiv, Kirovohrad, Kremenchuk, Kryvyi Rih, Luhansk, Makiyivka, Mariupol, Melitopol, Mykolayiv, Nikopol, Odessa, Pavlohrad, Poltava, Rivne, Rubizhne, Sevastopol, Simferopol, Sumy, Kharkiv, Kherson, Khmelnytsky, Cherkasy, and Chernivtsi.

Klasum Factory, Ltd.

This facility for manufacturing classic and modern furniture under the "Interstyl" trademark was founded in 1997. Klasum Factory, Ltd. offers elite furniture sets for kitchens and hand-made carpentry supplies made of genuine wood by individual order.

The company's product assortment consists of furniture for kitchens, dining rooms, living rooms, hallways, and studies; carpentry products; and façades covered with veneer sheets. According to the company managers, no other manufacturer makes products similar to theirs (specifically, façades made of genuine wood, S-shaped and radius doors, S-shaped and radius tabletops, S-shaped and radius cornices, and S-shaped and radius plinths).

Maintenance services are provided both during and after the warranty period.

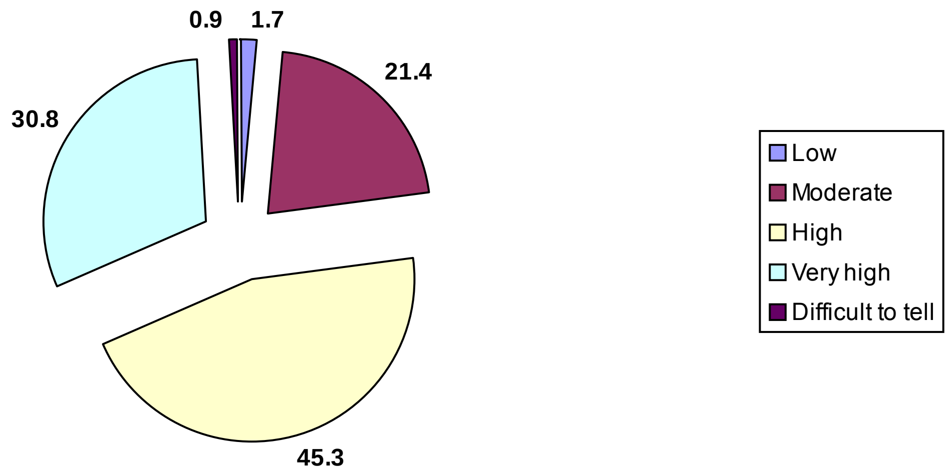
Raw materials used for manufacturing have certificates of compliance of Ukraine and other respective countries of origin, as well as hygiene certificates.

A quality control system was developed and certified in 2000 in accordance with ISO 9001-2000 requirements. The "Interstyl" trademark's quality control system is BVQI-certified.

5.3. COMPETITION IN THE MARKET AND COMPETITIVE ADVANTAGES OF DIFFERENT FURNITURE COMPANIES

The vast majority of enterprises surveyed considered the level of competition in the furniture market to be significantly high. In particular, 45.3 percent of entrepreneurs characterized the competition level as “high,” while 30.8 percent described it as “very high.” Only an insignificant share of entrepreneurs (1.7 percent) stated that the level of competition in this market was “low.”

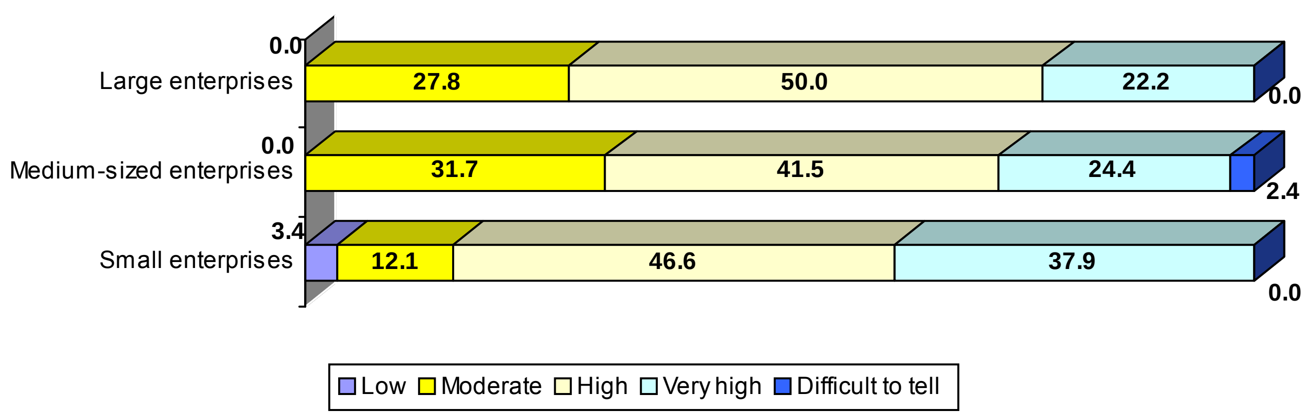
CHART 5.1. THE LEVEL OF COMPETITION IN THE FURNITURE MARKET (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

Small companies in the furniture sector were more sensitive to competition than medium-sized or large enterprises. Among small companies, 84.5 percent defined the level of competition as either “high” or “very high,” while this combined share was 67.5 percent among medium-sized companies and 72.2 percent among small businesses.

CHART 5.2. THE LEVEL OF COMPETITION IN THE FURNITURE MARKET AS DESCRIBED BY COMPANIES OF DIFFERENT SIZES (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

These differences probably existed because large companies had already established themselves, found specific market niches, and became well-known and respected in the sector over time. By the time of the survey, buyers were already focusing on trademarks of furniture they bought. Therefore, it was easier for large companies with high production and sales volumes to compete in the market. They could even afford to “dump” cheap products in external markets. In addition, large furniture companies typically exported a certain share of their products, while very few of the small companies exported their products. Small companies felt pressure both from large companies and other small companies in the market (the latter were rather numerous).

5.4. THE SHADOW MARKET

According to industry experts, the shadow market's share of the furniture sector was about 25.0 percent.

TABLE 5.1. THE SHARE OF SHADOW MARKET SALES (ACCORDING TO INDUSTRY EXPERTS)

	Sales (USD million)	%
Furniture market total	1,200	100
Legitimate market	**900***	**75**
Gray/black market	**300**	**25**

*According to official statistics, total legitimate furniture sales amounted to about USD 500 million; most likely, the industry experts understated the extent of the black/gray market (consisting of sole proprietors and smuggling operations).

Industry experts stated that the share of black/gray-market companies out of all enterprises differed considerably in different segments. This share was highest in the household furniture sector.

TABLE 5.2. THE EXTENT OF THE SHADOW MARKET (BY MARKET SEGMENT)

	Share of gray-/black-market enterprises
Household furniture	Approximately 50%
Office furniture	Approximately 15-20%
Furniture for stores and supermarkets	Approximately 10%
Furniture for public places	Approximately 10-15%

The differences in shadow market shares between different market segments were connected with types of consumers in each segment. Goods in the categories of office furniture, furniture for stores and supermarkets, and furniture for public places were purchased by legal entities that almost always bought furniture from known, reliable, and legally recognized manufacturers and sellers. As for household furniture, this was purchased by individual people who mostly tried to find furniture in markets and other trading sites rather than through well-known firms or salons, because they were mainly concerned with product price. This was why they often had little concern over who produced the furniture they bought.

6. FINANCE

6.1. COST STRUCTURES

The key company expense in the sphere of furniture manufacturing was cited as raw materials, comprising about 50 percent of total production costs. In addition, other shares in the total cost of production were payroll expenses, energy resources for production, marketing activities, equipment amortization, and transportation. Shares of manufacturing costs for the overall sector as estimated by industry experts are shown below.

TABLE 6.1. FURNITURE MANUFACTURING COSTS

	%
Raw materials/components	55.0%
Payroll	17.5%
Energy	10%
Marketing and promotion of goods	7.5%
Equipment amortization	5%
Transport	5%

According to the industry experts, there were insignificant differences in these shares between market segments. The share of raw materials costs was somewhat larger in the segments of manufacturing furniture for stores and supermarkets and public places, while the payroll costs were lower for this type of furniture. The shares of other line items hardly differed. Higher payroll expenses for manufacturing household and office furniture may be explained by the higher level of complexity in the production process, which requires a larger amount of labor hours for assembly. The segments of furniture for stores and supermarkets and furniture for public places were simpler in terms of having uniform design and construction processes; hence, the cost of labor was lower.

TABLE 6.2. FURNITURE MANUFACTURING COSTS IN DIFFERENT SEGMENTS

	Household furniture	Office furniture	Furniture for stores and supermarkets	Furniture for public places
Raw materials/components	50%	50%	60%	60%
Payroll	20%	20%	15%	15%
Energy	10%	10%	10%	10%
Marketing and promotion of goods	8%	5%	5%	5%
Equipment amortization	7%	10%	5%	5%
Transport	5%	5%	5%	5%

In terms of production materials, the largest share of expenses out of total production costs was attributable to raw materials and components, which combined to form 68.0 percent. Purchases of semifinished products amounted to 18.0 percent of production costs, and purchases of finished products for own manufacturing comprised 14.0 percent. It should be noted that domestic products prevailed in each of these segments.

TABLE 6.3. SHARE OF MANUFACTURING COSTS BY ORIGIN (IN %)

	Domestic origin, in %	Foreign origin, in %	Combined share, in %
Raw materials used for own manufacturing	56.0	12.0	68.0
Semifinished products used for own manufacturing	13.0	5.0	18.0
Finished products used for own manufacturing	12.0	2.0	14.0

Source: Survey of 117 furniture enterprise CEOs.

There was little difference between the shares of manufacturing costs among enterprises of different sizes. The share of costs for raw materials and inputs were nearly the same for companies of different sizes (about 70 percent). Some differences existed only in terms of the shares of costs for finished products used in companies' own manufacturing. This share was the lowest among large companies at 9 percent. Among medium-sized and small companies, these shares were 14 percent and 16 percent, respectively.

TABLE 6.4. SHARE OF MANUFACTURING COSTS BY COMPANY SIZE (IN %)

	Raw materials/inputs used for own manufacturing	**Semifinished products** used for own manufacturing	**Finished products** needed for own manufacturing
Small enterprises	68.0	16.0	16.0
Medium-sized enterprises	67.0	19.0	14.0
Large enterprises	70.0	20.0	**9.0**

Source: Survey of 117 furniture enterprise CEOs.

6.2. AVERAGE PROFITABILITY BY SEGMENT

According to industry experts, the level of profitability of Ukrainian furniture companies in different segments was almost the same and fluctuated between 15-20 percent. It was somewhat lower for enterprises manufacturing household furniture, with 10-15 percent.

TABLE 6.5. PROFITABILITY OF FURNITURE SECTOR COMPANIES ACCORDING TO INDUSTRY EXPERTS (IN %)

	Profitability
Household furniture	12.5%
Office furniture	17.5%
Furniture for stores and supermarkets	17.5%
Furniture for public places	17.5%

Similarities among profitability levels in different segments of the furniture market could be attributed to the fact that the market had reached its profitability ceiling. It will be impossible to attain higher profitability levels than those found in the survey due to the low average income of the general population and the large number of companies operating in the market. Producers stated that unless an enterprise can reach 10-20 percent profitability, it is not worth launching. This explains why similar profitability levels were maintained in all segments.

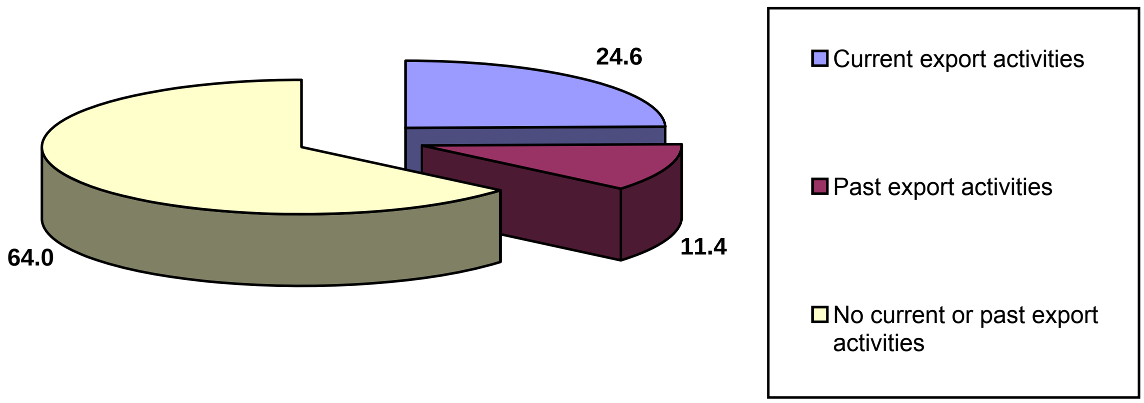
In fact, profitability in more expensive furniture segments (for example, inlaid furniture) was somewhat higher, but these segments were so small that they were not indicative of the overall situation in the sector.

7. EXPORTS

7.1. EXPORT ACTIVITIES

A relatively small number of companies exported their products. The random survey of 117 furniture enterprise CEOs showed that only one-fourth exported their products (24.6 percent). Another 11.4 percent of companies had previously engaged in export activities but had ceased doing so since then, but the vast majority (64.0 percent) had never exported their products.

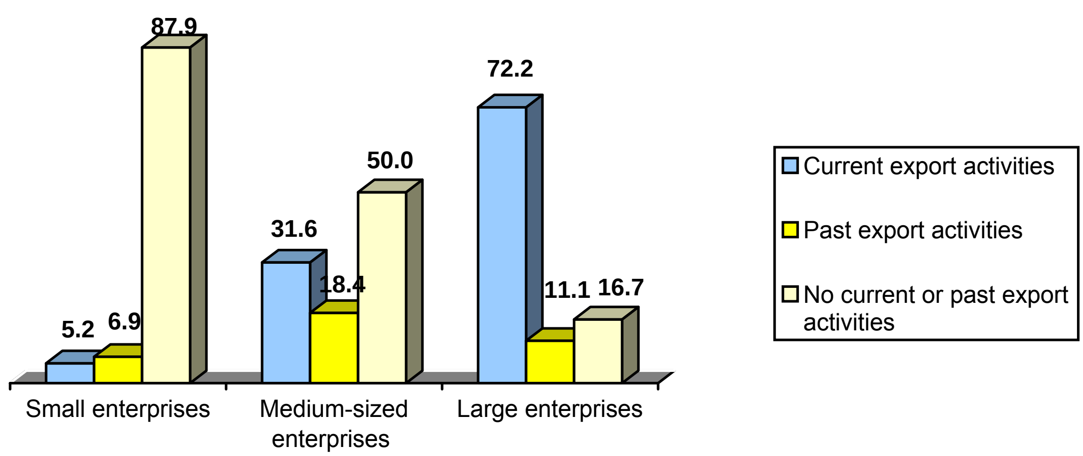
CHART 7.1. EXPORT ACTIVITIES (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

Key exporters were large furniture companies, of which 83.3 percent were engaged in export activities or had been at some time (72.2 percent were engaging in exports at the time of the survey), whereas among medium-sized companies, this share was 50.0 percent (31.6 percent of exporters at that time), and 12.1 percent among small businesses (only 5.2 percent were exporting at the time of the survey, and 87.8 percent had never engaged in export activities).

CHART 7.2. EXPORT ACTIVITIES AMONG COMPANIES OF DIFFERENT SIZES (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

This situation results from different production capacities among companies of different sizes. Large companies had large production volumes, part of which could be exported; small businesses produced much smaller quantities and could export only small batches, which was not very profitable. In addition, larger companies had more financial resources that could be directed toward searches for foreign partners and maintaining these relationships by continuing to make promising business offers. Foreign partners were more inclined to work with large, well-known, and reliable enterprises rather than with small and obscure companies that were less likely to fulfill their commitments.

The key market for companies engaged in export activities was the CIS: **85.7 percent** of manufacturers directed their exports toward these countries. European countries were in second place, with **39.3 percent** of exporter companies oriented toward this market.

TABLE 7.1. EXTERNAL MARKETS FOR FURNITURE COMPANIES (% OF ENTERPRISES)*

Market	% of exporting enterprises
CIS	85.7
Europe	39.3
U.S. and Canada	3.6
Other	14.3

Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

Most companies that exported their products to the CIS countries had not been operating there for very long. The largest group of exporters (41.7 percent) had been exporting for the last 3-5 years, while another fourth (25.0 percent) of exporting companies had been doing so less than 3 years. It was impossible to evaluate operations in other markets, as very few of the surveyed companies engaged in exports at all.

TABLE 7.2. YEARS OF EXPERIENCE IN CIS MARKETS (% OF ENTERPRISES)

Years of experience	% of enterprises exporting to CIS countries
Less than 3 years	25.0
3-5 years	41.7
6-10 years	16.7
Over 10 years	16.7

Source: Survey of 117 furniture enterprise CEOs.

In terms of the main obstacles that companies faced when exporting their products to CIS countries, entrepreneurs identified administrative and bureaucratic barriers to exporting products out of Ukraine (56.0 percent of exporting companies) and high competition (52.0 percent). Only 12.0 percent of exporter companies did not encounter any obstacles when entering CIS markets.

TABLE 7.3. OBSTACLES TO ENTERING CIS MARKETS (% OF ENTERPRISES)*

Obstacles	% of enterprises exporting to CIS countries
Administrative and bureaucratic barriers in Ukraine	56.0
High level of competition	52.0
Administrative and bureaucratic barriers in destination countries	12.0
Non-competitiveness of products due to low quality	4.0
Non-competitiveness of products due to high prices	4.0
Other	8.0
No obstacles	12.0

Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

One-half of exporting companies found partners in CIS markets by using personal connections. One-third of companies found partners by participating in seminars and exhibitions (33.3 percent), through company databases (29.2 percent), and via the Internet (29.2 percent). The potential partners themselves approached 29.2 percent of exporting companies; of those companies that were approached, none of them were contacted through a business association.

The fact that business associations were not involved in searching for overseas business partners could be explained by the fact that these associations were not well established in the Ukrainian furniture market at the time of the survey, but were focused more on resolving the domestic furniture sector's problems.

TABLE 7.4. HOW FURNITURE COMPANIES LOCATED PARTNERS IN CIS MARKETS (% OF ENTERPRISES)*

Ways to contact partners	% of exporting enterprises
Personal connections	50.0
Participation in seminars and exhibitions	33.3
Databases	29.2
Internet	29.2
Approached by partners	29.2
Diplomatic/trade missions, chambers of commerce, embassies	4.2
Business associations	0.0

Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

Almost one-half of the exporter companies (46 percent) exported up to 20 percent of their products in 2005. Another 29 percent of businesses exported 30 percent to 50 percent of their products, while only one-fourth exported more than half of their products.

TABLE 7.5. SHARE OF EXPORTED PRODUCTS IN 2005 (% OF ENTERPRISES)

Share of products exported	% of exporting enterprises
Up to 10%	12.5
11-20 %	33.3
30-50%	29.2
Over 50%	25.0

Source: Survey of 117 furniture enterprise CEOs.

The vast majority of exporter companies (82.1 percent) exported the same types of products that they sold in the domestic market, and only every fifth company (21.4 percent) produced separate product lines or adapted existing lines of furniture for export.

Another 4.3 percent of companies exported both products created for the domestic market and products adapted to suit foreign consumers. Nearly all exporter companies (89.3 percent) sold finished furniture abroad, and only 10.7 percent exported raw materials and semifinished products. When manufacturing furniture to be exported, exporting companies used both domestic (82.1 percent of companies), and imported raw materials and inputs (50.0 percent of companies).

Export production volumes were not very significant in monetary terms: about one-half of companies (45.8 percent) in 2005 exported up to UAH 250,000 worth of products.

TABLE 7.6. EXPORT VOLUMES IN 2005 (% OF ENTERPRISES)

Export volumes	% of exporting enterprises
Up to UAH 100,000	41.6
UAH 100,000 to 500,000	20.9
UAH 500,000 to 1,000,000	4.2
UAH 1,000,000 to 10,000,000	20.8
UAH 10,000,000 to 25,000,000	12.5

Source: Survey of 117 furniture enterprise CEOs.

The main reasons why the surveyed companies did not export their products were insufficient production volumes (40.7 percent of companies did not produce enough to merit engaging in export activities) and the high level of competition in external markets (this reason was cited by 39.5 percent of companies). Many companies also had difficulties finding partners abroad (30.9 percent) and completing export procedures (27.2 percent).

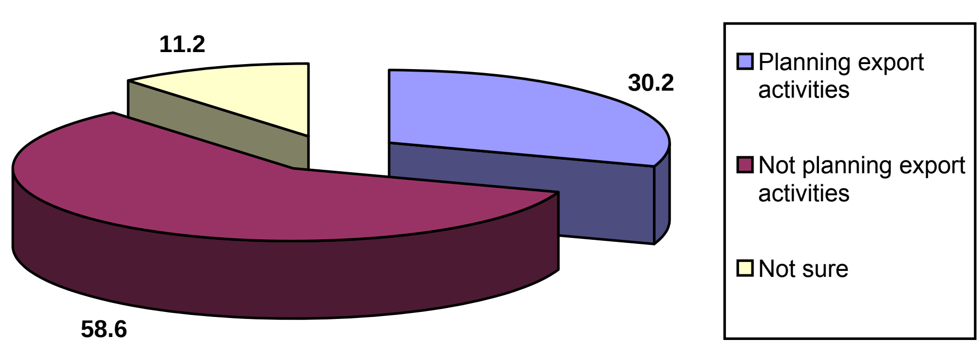
TABLE 7.7. OBSTACLES TO EXPORT ACTIVITIES*

Obstacles	% of enterprises not engaged in export activities
Production volumes do not allow for entering foreign markets	40.7
High competition in external markets	39.5
Difficulties in finding business partners	30.9
Complexity of export procedures	27.2
Companies were satisfied with income from sales in the internal market	21.0
High costs of export procedures	14.8
Lack of international quality certificates	14.8
Non-competitive because of price	11.1
Lack of information regarding demand for products in foreign markets	11.1
Lack of demand for products offered	3.7
Non-competitive because of quality	2.5

Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

As for plans to export furniture in the upcoming year, these figures were not high either: less than one-third of the companies (30.2 percent) were planning to continue or launch export activities. Another 11.2 percent were not sure, and others did not have any plans to engage in or start export activities.

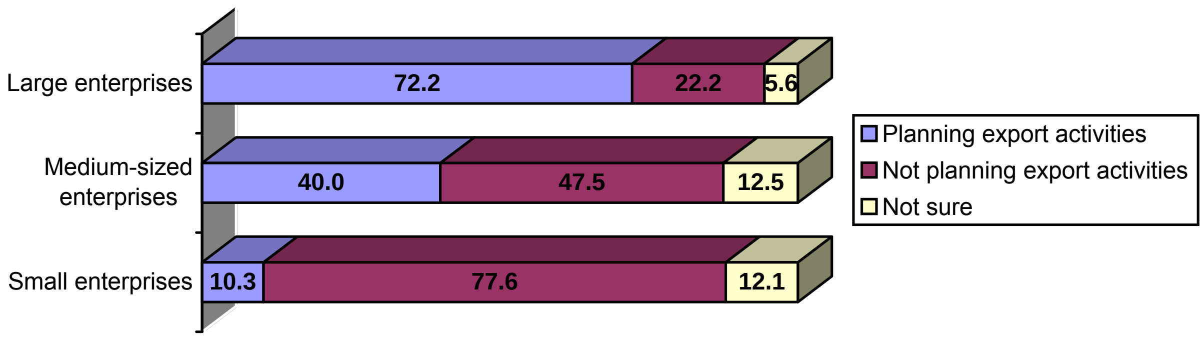
CHART 7.3. PLANS FOR EXPORT ACTIVITIES IN 2007 (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

Large companies were the most oriented toward establishing export activities in the future: 72.2 percent of them planned to engage in export activities in the future, while only 40.0 percent of medium-sized companies and 10.3 percent of small companies planned to do so.

CHART 7.4. PLANS TO EXPORT PRODUCTS IN 2007 (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

In general, according to the industry experts (Source: http://eizvestia.com/?a=article_review&id=243), Ukrainian furniture was exported to 57 countries, although Russia was an absolute leader among them. In 2000-2004, about 50 percent of all Ukrainian furniture exports were directed toward Russia. Key exporting companies were located in the Kharkiv, Kyiv, Dnipropetrovsk, Lviv, Volyn, and Zakarpatya Oblasts. The share of these regions in total exports was 90.0 percent. Soft furniture, tables, chairs, and kitchen sets were exported the most frequently.

The industry experts stated that the highest share of companies engaging in export activities was found among large companies. According to their estimates, large companies exported about 20.0 percent of their products on average, medium-sized companies exported 10.0-15.0 percent, and small companies did not export more than 5.0 percent.

Shares of different types of furniture out of total exports were estimated as follows: 40.0-50.0 percent belonged to household furniture, 20.0-30.0 percent was occupied by office furniture, about 10.0 percent was held by furniture for stores and supermarkets, and about 10.0 percent belonged to furniture for public places.

As for countries that imported Ukrainian furniture, the industry experts believed that Russia's share was 50.0-60.0 percent, Belarus claimed 15.0 percent, and the other CIS countries combined to occupy about 15.0 percent; the rest was distributed in small portions among different European countries.

According to the State Customs Service of Ukraine, Ukrainian furniture was exported to 60 countries in 2004 (only 14 of these countries received more than 1.0 percent of total exports from Ukraine). Russia was the leading destination country in physical terms (42.1 percent) and in monetary terms (38.7 percent). Besides Russia, large shares of exports – in monetary terms – were sent to Ireland (15.9 percent), Sweden (8.5 percent), and Poland (8.0 percent).

TABLE 7.8. FURNITURE EXPORTS TO DIFFERENT COUNTRIES IN 2004 (% OF TOTAL EXPORTS)*

Country	*In physical terms (kg)*	*In monetary terms (UAH)*
Russia	42.1	38.7
Ireland	13.0	15.9
U.S.	10.2	2.0
Sweden	9.2	8.5
Kazakhstan	2.8	3.9
Lithuania	2.5	2.4

Italy	1.8	1.2
Poland	1.8	8.0
Switzerland	1.8	2.4
Germany	1.5	1.6
Moldova	1.4	1.6
U.K.	1.3	1.5
Latvia	1.2	1.4
Uzbekistan	1.0	1.1
Belarus	0.8	1.0
Netherlands	0.8	1.0
Israel	0.7	0.8
Hungary	0.7	0.8
Bulgaria	0.6	0.6
Czech Republic	0.6	0.6
Georgia	0.5	0.7
France	0.5	0.8
Greece	0.4	0.2
Armenia	0.3	0.2
Denmark	0.3	0.4
Kyrgyzstan	0.3	0.3
Belgium	0.2	0.4
Estonia	0.2	0.2
Canada	0.2	0.2
China	0.2	0.3
Austria	0.1	0.2
Azerbaijan	0.1	0.2
Spain	0.1	0.3
Malta	0.1	0.1
Slovakia	0.1	0.1
Other countries (Algeria, Belize, Bosnia and Herzegovina, Vietnam, United Arab Emirates, Egypt, India, Indonesia, Iraq, Cyprus, South Korea, Liechtenstein, Liberia, F.Y.R. of Macedonia, New Zealand, Norway, Panama, Portugal, Romania, Syria, Slovenia, Tajikistan, Turkey, Turkmenistan, and Finland)	0.4	0.7

Source: State Statistics Committee of Ukraine.
* Percentages may be less or more than 100% because the numbers were rounded up.

Key exports were chairs, office furniture, and household furniture; specialized furniture was exported in very insignificant quantities. Russia led the destination countries in monetary terms (shares of exports to this country were as follows: 40.7 percent of exported chairs and 35.9 percent of combined office and household furniture exports). The second places in the segments of chairs and combined office and household furniture exports were occupied by Ireland (16.0 percent) and Sweden (20.6 percent), respectively. The third place for exports of chairs in monetary terms was occupied by Poland (11.6 percent); in exports of office and household furniture, this rank was held by Ireland (15.9 percent).

TABLE 7.9. FURNITURE EXPORTS TO DIFFERENT COUNTRIES IN 2004 BY UKTZED CODE (% OF EXPORTS)*

Country	*9401(chairs)*		*9402 (specialized furniture)*		*9403 (office and household furniture)*	
	In physical terms (kg)	*In monetary terms (UAH)*	*In physical terms (kg)*	*In monetary terms (UAH)*	*In physical terms (kg)*	*In monetary terms (UAH)*
Austria	0.2	0.3	-	-	0.0	0.1
Azerbaijan	0.3	0.3	-	-	0.0	0.0
Algeria	0.0	0.0	-	-	0.0	0.0
Armenia	0.2	0.3	-	-	0.3	0.2
Belize	0.0	0.0	-	-	0.0	0.0
Belgium	0.0	0.0	-	-	0.5	0.8
Belarus	1.3	1.4	-	-	0.3	0.5
Bulgaria	0.9	0.9	-	-	0.1	0.1
Bosnia and Herzegovina	-	-	-	-	0.1	0.1
U.K.	1.8	1.5	-	-	0.7	1.5
Vietnam	0.0	0.0	-	-	-	-
Greece	0.0	0.0	-	-	0.8	0.5
Georgia	0.4	0.5	-	-	0.7	0.9
Denmark	0.4	0.5	-	-	0.1	0.2
United Arab Emirates	0.0	0.0	-	-	0.0	0.0
Estonia	0.2	0.3	-	-	0.1	0.1
Egypt	0.0	0.0	-	-	0.0	0.0
Israel	0.7	0.7	-	-	0.8	0.9
India	-	-	-	-	0.0	0.0
Indonesia	0.0	0.0	-	-	-	-
Iraq	0.0	0.0	-	-	-	-
Ireland	**13.0**	**16.0**	-	-	**13.0**	**15.9**
Spain	0.1	0.4	-	-	0.1	0.1
Italy	2.7	1.5	-	-	0.7	0.7
Kazakhstan	3.0	3.9	-	-	2.6	3.8
Canada	0.2	0.1	-	-	0.2	0.2
Kyrgyzstan	0.4	0.3	-	-	0.2	0.2
China	0.4	0.5	-	-	-	-
Cyprus	0.1	0.1	0.2	0.1	0.0	0.0
South Korea	0.0	0.0	-	-	0.0	0.0
Latvia	1.9	2.2	3.6	0.9	0.4	0.4
Lithuania	2.2	2.5	-	-	2.9	2.1
Liechtenstein	0.1	0.1	-	-	0.0	0.1
Liberia	0.0	0.0	-	-	0.0	0.0
F.Y.R. of Macedonia	0.0	0.0	-	-	-	-
Malta	0.2	0.2	-	-	0.1	0.1
Moldova	1.6	1.9	27	12	1.2	1.1
Netherlands	0.4	0.7	-	-	1.2	1.6
Germany	0.8	1.2	0.9	0.7	2.3	2.1

New Zealand	-	-	-	-	0.0	0.0
Norway	0.0	0.0	-	-	0.0	0.0
Panama	0.0	0.0	-	-	0.0	0.0
Poland	1.1	11.6	-	-	2.6	2.9
Portugal			-	-	0	0.2
Russia	**41.7**	**40.7**	1.7	0.7	**42.6**	**35.9**
Romania	0.0	0.0	-	-	0.0	0.0
Syria	-	-	-	-	0.0	0.0
Slovakia	0.1	0.2	-	-	0.1	0.0
Slovenia	0.0	0.0	-	-	0.1	0.1
U.S.	17.0	1.9	66.6	85.6	2.3	1.9
Tajikistan	0.0	0.0	-	-	0.1	0.1
Turkey	0.0	0.0	-	-	0.0	0.0
Turkmenistan	0.1	0.0	-	-	0.0	0.1
Hungary	1.2	1.3	-	-	0.2	0.2
Uzbekistan	1.2	1.4	-	-	0.8	0.7
Finland	0.0	0.0	-	-	-	-
France	0.1	0.1	-	-	0.9	1.8
Czech Republic	0.8	0.6	-	-	0.4	0.5
Switzerland	2.7	3.5	-	-	0.8	0.9
Sweden	0.2	0.2	-	-	**19.7**	**20.6**
Total	*100*	*100*	*100*	*100*	*100*	*100*

Source: State Statistics Committee of Ukraine.
* Percentages may be less or more than 100% because the numbers were rounded up.

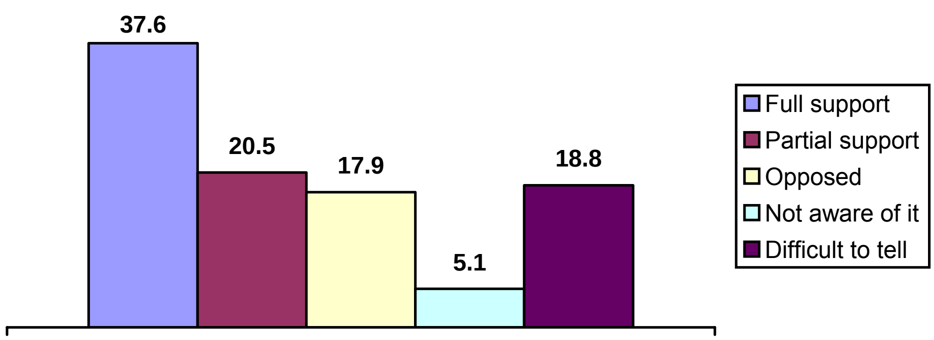
7.2. SUPPORT FOR AND ASSESSMENTS OF POTENTIAL CONSEQUENCES OF ACCESSION TO THE WORLD TRADE ORGANIZATION, EUROPEAN UNION, AND COMMON ECONOMIC SPACE

Attitudes of Ukrainian furniture producers toward Ukraine's entry into various economic and political unions were generally positive.

Around 40.0 percent of the surveyed enterprises supported Ukraine's entry into all of the following organizations: the World Trade Organization, European Union, and Common Economic Space.

About one-fifth of enterprises did not support joining any of these organizations. In particular, 58.1 percent of entrepreneurs fully or somewhat supported Ukraine entering the WTO (37.6 percent supported it, and 20.5 percent were somewhat supportive), while only 17.9 percent did not support it at all.

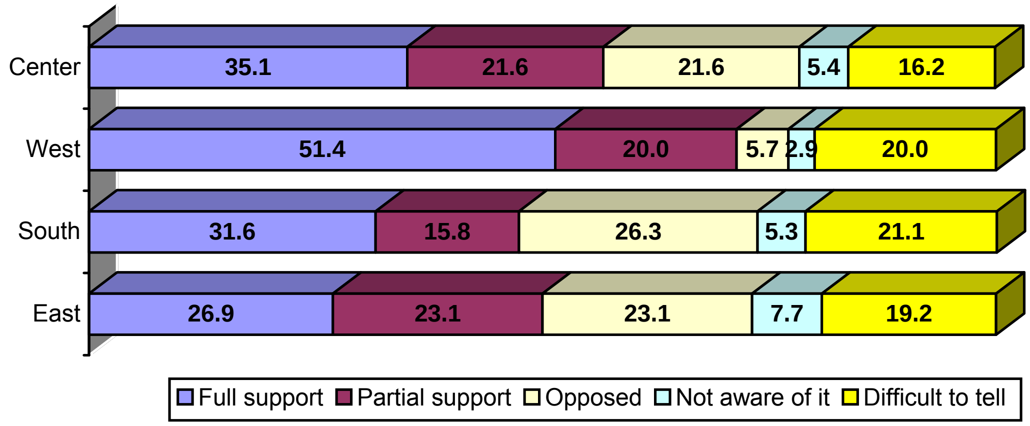
CHART 7.5. SUPPORT FOR UKRAINE'S ACCESSION TO THE WTO (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

The largest share of those who supported Ukraine's entry into the World Trade Organization (51.4 percent) belonged to enterprises in Western Ukraine (when combined with those who partially supported WTO entry, this share rose to 71.4 percent). The smallest share of those who supported entering the WTO was found among enterprises in Eastern Ukraine, with 26.9 percent (among enterprises in Southern and Central Ukraine, those in favor of WTO entry were 31.6 percent and 35.1 percent, respectively).

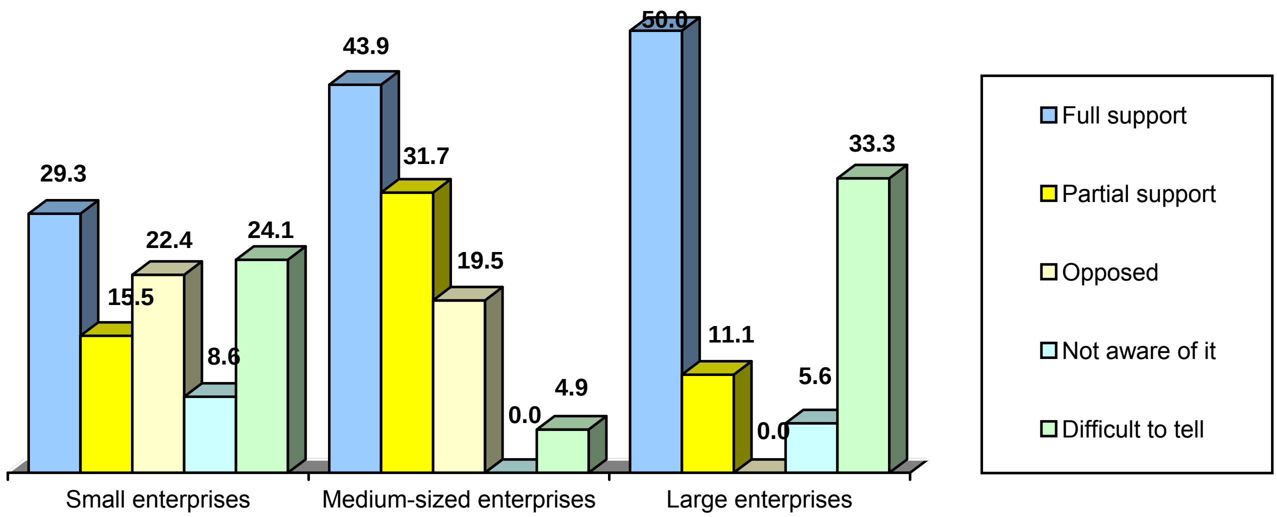
CHART 7.6. SUPPORT FOR UKRAINE'S ACCESSION TO THE WTO BY ENTERPRISES IN DIFFERENT REGIONS (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

Large enterprises had the most positive views toward Ukraine's potential entry into the WTO; none of the surveyed large enterprises expressed negative attitudes toward Ukraine joining the WTO, but 22.4 percent of the small enterprises and 19.5 percent of medium-sized enterprises cited negative attitudes toward WTO accession. Those who were fully supportive of entering this organization comprised 50.0 percent of large enterprises and 43.9 percent of medium-sized enterprises, but only 29.3 percent of small enterprises.

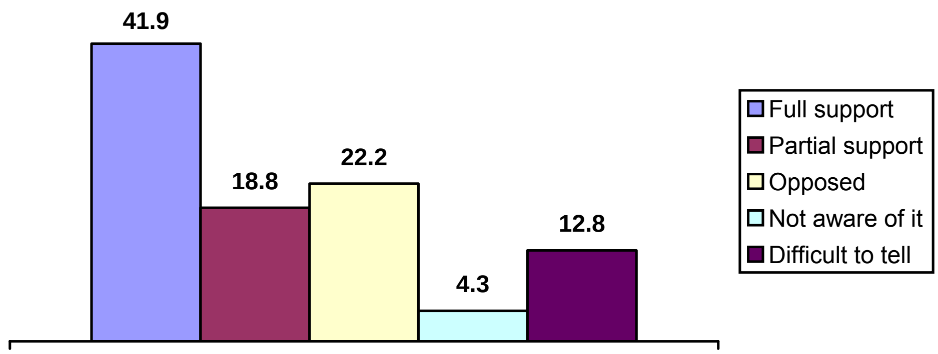
CHART 7.7. SUPPORT FOR UKRAINE'S ACCESSION TO THE WTO AMONG ENTERPRISES OF VARIOUS SIZES (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

The breakdown of opinions regarding the idea of Ukraine entering the European Union was nearly same as that concerning the WTO: 60.7 percent of enterprises either supported or partially supported Ukraine entering this organization (41.9 percent supported it and 18.8 percent were somewhat supportive), and 22.2 percent did not support it.

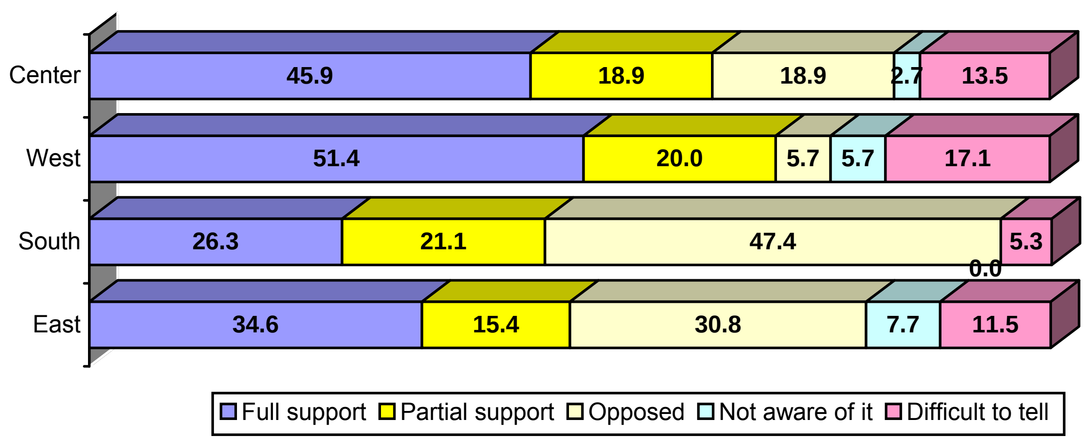
CHART 7.8. SUPPORT FOR UKRAINE'S ACCESSION TO THE EU (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

Just as with the breakdown of enterprises that supported joining the WTO, the share of those supporting entry into the European Union was larger among enterprises in Western Ukraine (51.4 percent of enterprises in this region supported entering the EU) and Central Ukraine (where those in favor comprised 45.9 percent), while the smallest share was in Eastern and Western Ukraine (in these regions, only 34.6 percent and 26.3 percent of entrepreneurs supported joining the EU, respectively).

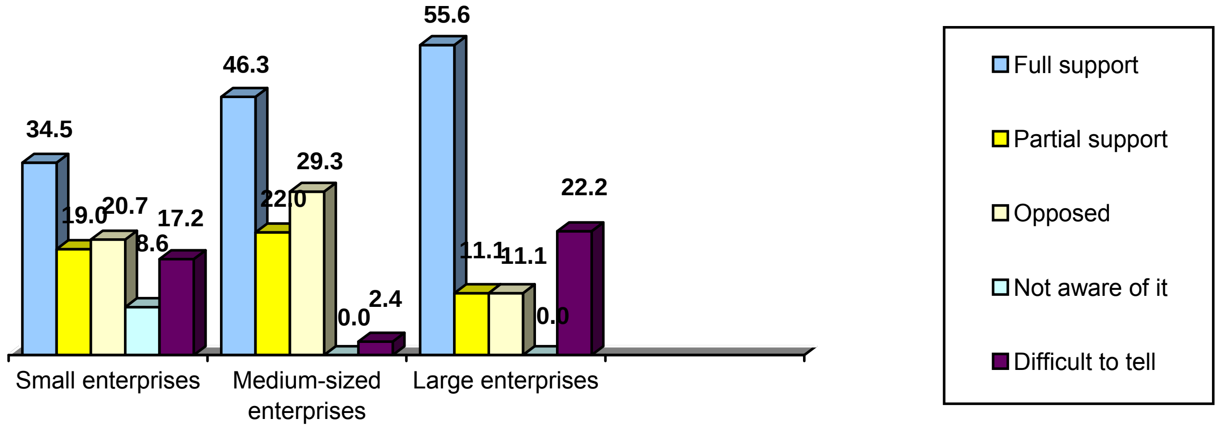
CHART 7.9. SUPPORT FOR UKRAINE'S ACCESSION TO THE EU AMONG ENTERPRISES IN DIFFERENT REGIONS (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

Representatives of large enterprises were much more positive about entering the EU: 55.6 percent of these enterprises supported the idea of accession, while among medium-sized enterprises and small enterprises, these shares were only 46.3 percent and 34.5 percent, respectively.

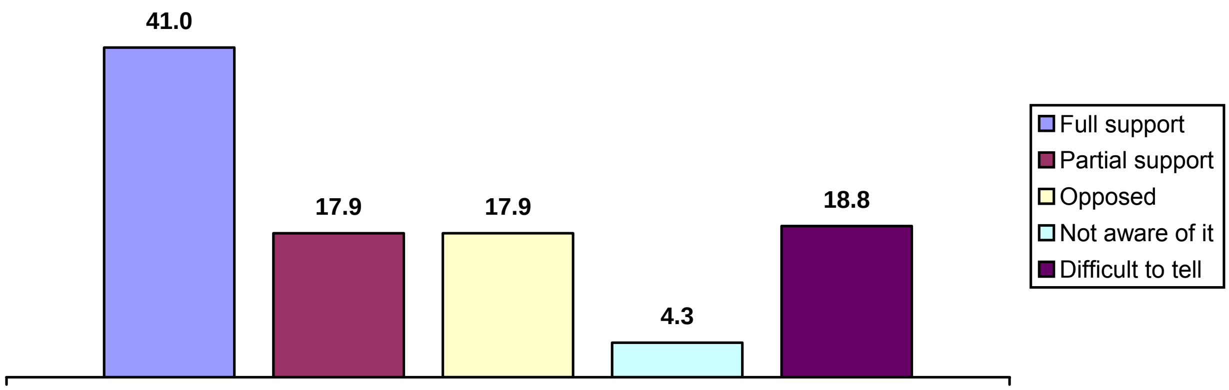
CHART 7.10. SUPPORT FOR UKRAINE'S ACCESSION TO THE EU AMONG ENTERPRISES OF VARIOUS SIZES (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

The vast majority of the surveyed entrepreneurs (58.9 percent) supported joining the Common Economic Space (41.0 percent were in full support, and 17.9 percent supported it somewhat). Another 17.9 percent of entrepreneurs did not support Ukraine's participation in this organization.

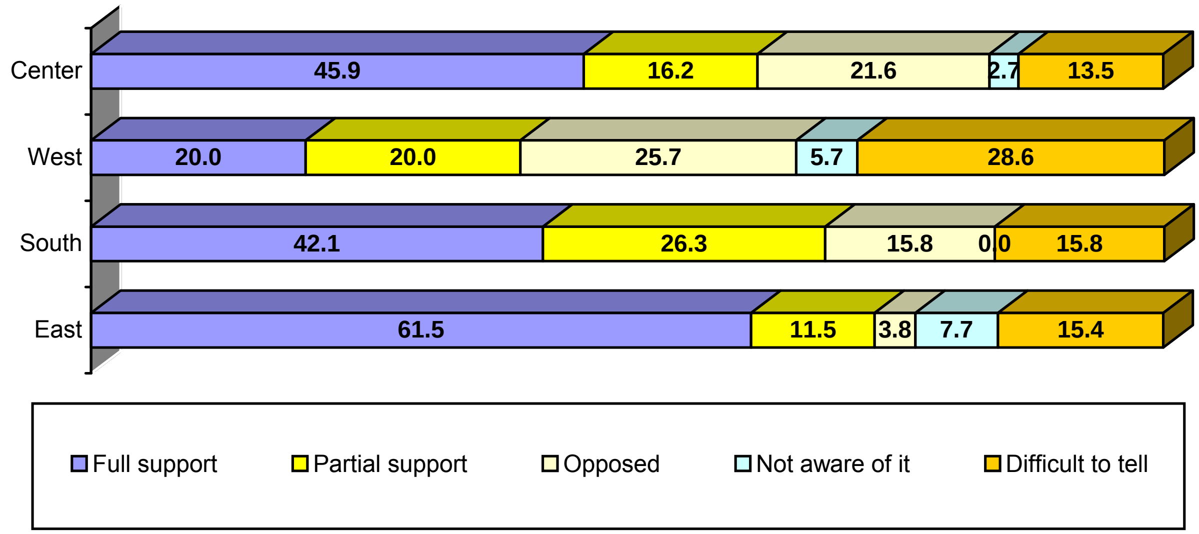
CHART 7.11. SUPPORT FOR UKRAINE'S ACCESSION TO THE CES (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

In terms of entering into the Common Economic Space, the answers differed from those regarding the EU and WTO in that entrepreneurs from Eastern Ukraine were more supportive (61.5 percent of them supported the idea of Ukraine's accession to this organization), and entrepreneurs from Western Ukraine had the most negative responses (only 20.0 percent of entrepreneurs from this part of the country supported joining the CES, while 25.7 percent opposed it).

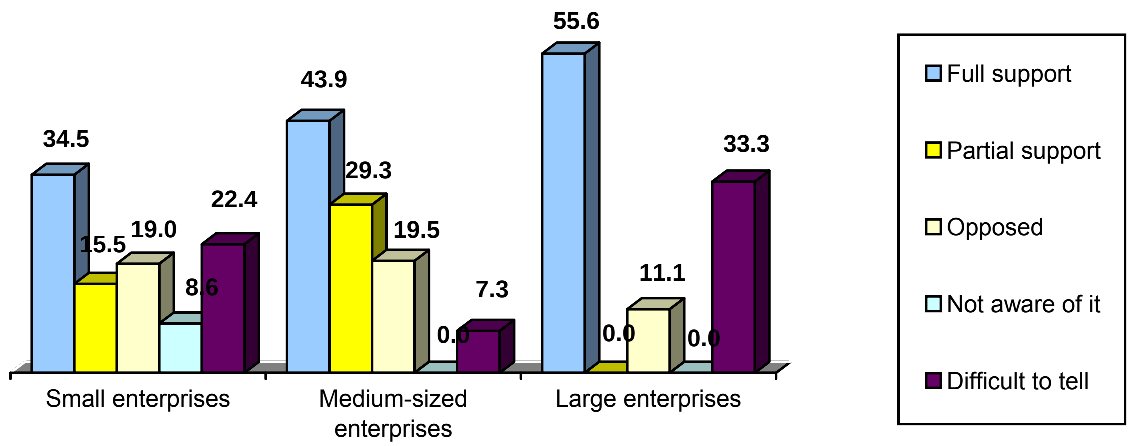
CHART 7.12. SUPPORT FOR UKRAINE'S ACCESSION TO THE CES BY ENTERPRISES IN DIFFERENT REGIONS (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

As with the responses regarding entry into the WTO and EU, levels of support for entering the Common Economic Space differed among enterprises of different sizes. Large enterprises supported joining this organization most of all. The share of large enterprises that supported joining was 55.6 percent, while the shares that supported it among medium-sized and small enterprises were 43.9 percent and 34.5 percent, respectively.

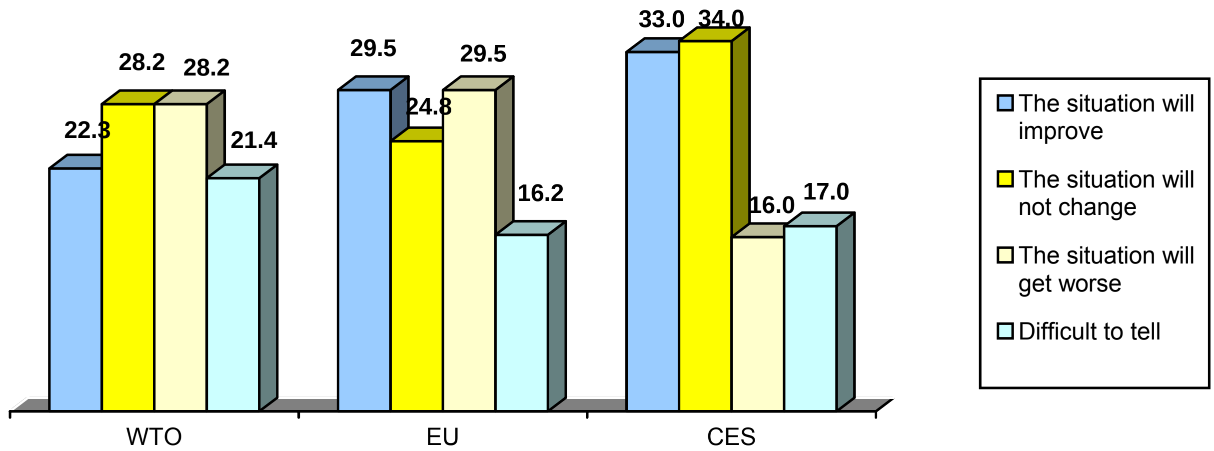
CHART 7.13. SUPPORT FOR UKRAINE'S ACCESSION TO THE CES AMONG ENTERPRISES OF VARIOUS SIZES (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

Under these circumstances, only 22.3 percent of entrepreneurs expected improvement in the furniture sector after entering the WTO, 29.5 percent anticipated that the sector would improve after joining the EU, and 33.0 percent believed that the sector would improve after acceding to the CES. On the other hand, 28.2 percent of the enterprise CEOs anticipated that the situation in the furniture sector would worsen after joining the WTO, 28.2 percent expected negative results from EU membership, and 16.0 percent predicted that entering the CES would have a negative impact. Thus, the surveyed entrepreneurs considered accession to the Common Economic Space to be the least risky for the furniture sector, while joining the EU and the WTO was considered to be the most risky.

CHART 7.14. ASSESSMENT OF THE POSSIBLE CONSEQUENCES OF ENTERING VARIOUS INTERNATIONAL ORGANIZATIONS (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

The regional specifics of the enterprise CEOs' opinions regarding entry into these organizations (preference for Western or international organizations in Western and Central Ukraine, and orientation toward the former Soviet states in Eastern and Southern Ukraine) echo those of the population at large.

Based on these statistics, it is possible to conclude that assessments of potential accession to all three organizations (the WTO, EU, and CES) were based on ideological rather than economic principles. However, their economic motives cannot be disregarded; for example, enterprises in Eastern Ukraine have traditionally had close economic relations with Russia.

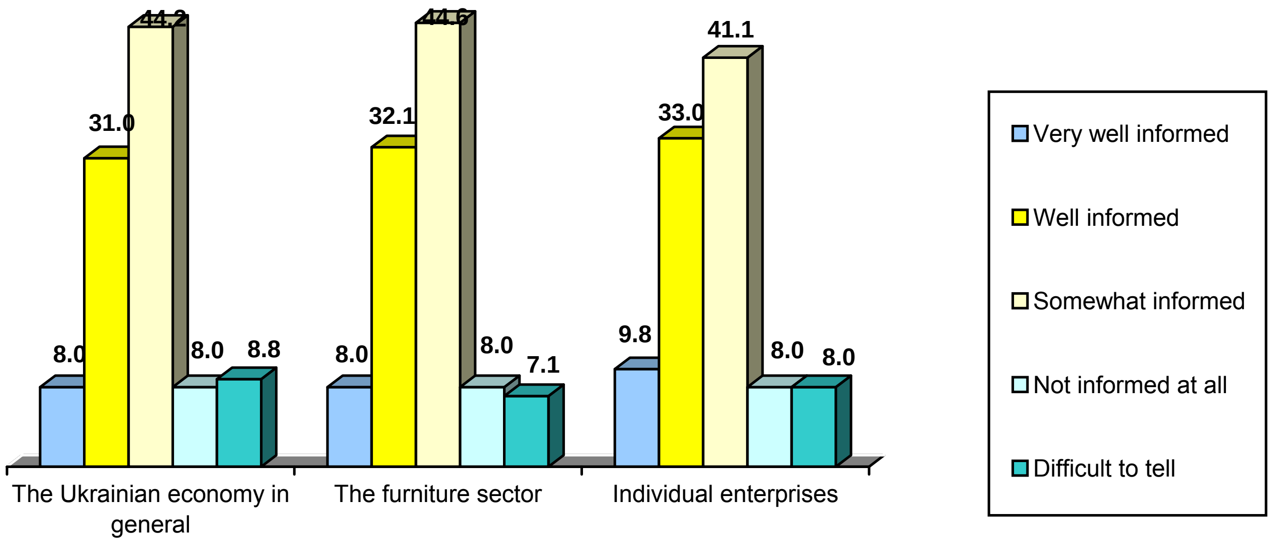
This explains why these enterprises envisioned their future in terms of maintaining and consolidating these relationships rather than searching for business partners in other countries.

It is probable that the existence of ideological prejudices against Ukraine entering the WTO in particular can be proven by the fact that the evaluation was performed without providing the respondents with adequate information regarding this organization and its functions.

The majority of entrepreneurs claimed that their level of awareness regarding the possible consequences of joining the WTO for the overall sector and their own enterprises in particular was insufficient.

According to the survey results, 52.2 percent of entrepreneurs claimed to be completely uninformed or only somewhat informed about the possible consequences of WTO accession for the Ukrainian economy at large; 52.6 percent stated that they were uninformed or only somewhat informed regarding the possible effects of Ukraine joining the WTO on the furniture sector, and 49.1 percent stated that they were uninformed or somewhat informed about the possible consequences of WTO accession for their own enterprises.

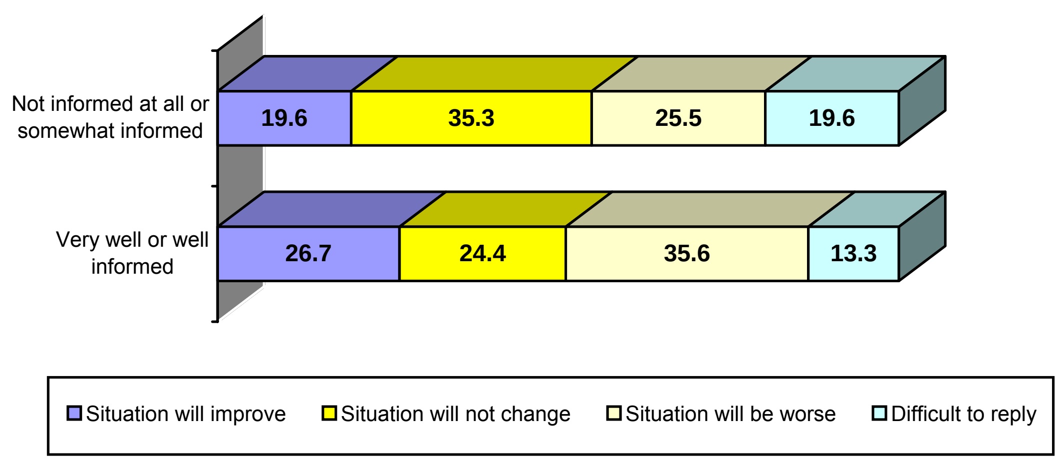
CHART 7.15. LEVEL OF AWARENESS AMONG ENTERPRISES REGARDING THE POSSIBLE EFFECTS OF UKRAINE'S ACCESSION TO THE WTO ON THE UKRAINIAN ECONOMY, THE FURNITURE SECTOR, AND THEIR OWN ENTERPRISES (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

Even among those who were completely uninformed or insufficiently informed about the consequences of entering the WTO for their own enterprises, 25.5 percent believed that WTO entry would have a negative effect on their own enterprises. However, those entrepreneurs who considered themselves to be very well or well informed regarding this issue, the share of those who expected that the situation for their own enterprises would worsen (35.6 percent) was larger than that among those who were insufficiently informed or not informed at all (25.5 percent).

CHART 7.16. ASSESSMENT OF THE CONSEQUENCES OF ACCESSION TO THE WTO FOR INDIVIDUAL FURNITURE ENTERPRISES AMONG RESPONDENTS WITH VARYING LEVELS OF AWARENESS (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

The majority of enterprises that exported furniture did not expect negative changes in export volumes as a result of Ukraine entering the World Trade Organization, European Union, or Common Economic Space. Among these enterprises, only 11.5 percent expected a potential decrease of export volumes in the case of accession to the WTO, 7.7 percent anticipated negative changes if Ukraine joined the EU and 7.7 percent expected a drop in export volumes as a consequence of CES membership. The share of exporting enterprises that did not expect any changes in export volumes from joining the WTO was 34.6 percent. Regarding entry into the EU, this figure was 50.0 percent. In terms of CES membership, it was 38.5 percent. The most positive expectations among the surveyed exporters concerned joining the CES (34.6 percent of enterprises anticipated an increase in export volumes), while less than one-third of enterprises expected an increase in export volumes following entry into the WTO and EU (26.9 percent for each).

TABLE 7.10. ASSESSMENT OF THE POTENTIAL EFFECTS OF ACCESSION TO THE WTO, EU, AND CES ON FURNITURE EXPORT VOLUMES (% OF ENTERPRISES ENGAGED IN EXPORT ACTIVITIES)

	Export volumes will increase	Export volumes will not change	Export volumes will decrease	Difficult to tell
Consequences of entering the WTO	26.9	34.6	11.5	26.9
Consequences of entering the EU	26.9	50.0	7.7	15.4
Consequences of entering the CES	34.6	38.5	7.7	19.2

Source: Survey of 117 furniture enterprise CEOs.

Industry experts discussed the possible consequences of Ukraine entering the WTO the most. Assessments of the possible consequences of WTO accession varied widely. Managers of a number of furniture enterprises listed the following positive and negative consequences of entering the WTO for furniture sector enterprises as part of an interview with *Furniture Technologies* magazine.

TABLE 7.11. ASSESSMENT OF THE POSITIVE AND NEGATIVE CONSEQUENCES OF UKRAINE'S ENTRY INTO THE WTO BY MANAGERS OF FURNITURE ENTERPRISES

Positive consequences	*Negative consequences*
A decrease in low quality furniture imports. An increase (though not significant) of export capacities among some enterprises.	Bankruptcy of a small number of furniture enterprises due to increased competition, particularly because of an increase in imports of economy-class furniture from China, Malaysia, and Indonesia. A decrease in profitability of furniture enterprises.

In general, the opinion that there would be no serious problems for the Ukrainian economy upon joining the WTO prevailed.

Industry experts also predicted that entry into the WTO would be followed by expansion of large German and Italian producers into Ukraine with the aim of establishing furniture enterprises here. New foreign-owned factories will open near established DSP chipboard production plants (the number of which will also increase due to establishment of new DSP plants by foreign-owned companies).

Expansion of foreign producers was predicted for the expensive/exclusive furniture segment; thus, most domestic companies would not be seriously affected by this trend since they mostly work in the medium-priced and economy-class segments. On the other hand, joining the WTO may create problems for companies engaged in import activities.

According to estimates by the Ministry of Economy and the European Integration of Ukraine (Source: http://me.kmu.gov.ua/file/link/48466/file/prognoz1.doc), Ukraine's entry into the WTO would initially slow production in the furniture and woodworking industry and lead to a contraction of their niche in the domestic market due to their initial inability to function under new conditions, particularly because of a decrease in volumes of raw materials (due to exports of these goods at higher prices than those offered by the Ukrainian market). In order to avoid this, industry experts stated that a number of measures must be implemented simultaneously in order to protect the interests of domestic producers, including compliance with and enforcement of quality certification requirements for foreign goods entering Ukrainian territory.

8. DEVELOPMENT

8.1. DEVELOPMENT TRENDS IN THE FURNITURE SECTOR

Regarding development of the furniture sector, the industry experts pointed out the existence of a number of tendencies:

1. *Organization of production*

1.1. Increasing use of high quality imported equipment

1.2. Improvement of product quality

1.3. Decreased time required for production

1.4. Development of production specializations

1.5. Growth of production of custom-made furniture and reduced mass-production activities

1.6. Application of components and materials not manufactured within the territory of Ukraine (cabinet accessories, MDF wood fiberboards of average density, mechanisms, gaslifts, and rollers for office chairs)

1.7. In the office furniture segment, a transition from use of standard and customary materials (DSP chipboard, MDF, and plywood) to utilization of metal elements, perforation materials, and rollettes

1.8. Development of veneer sheet furniture production

1.9. Development of soft furniture production

2. *Sales organization*

2.1. An increase in the number of small shops, and an insignificant increase in the number of furniture supermarkets

2.2. Locating sales sites a short distance away from production facilities

2.3. Increases of furniture export sales

2.4. Franchise development

3. *Organization of marketing, branding, and promotion*

3.1. An increase in company expenditures aimed at promotional activities

3.2. A decrease in TV advertisements

3.3. Organization of various promotional events featuring discounts, contests, and special presentations

3.4. Establishing customer loyalty programs

3.5. Re-branding, sub-branding

3.6. Paying more attention to merchandising

4. *Materials used*

4.1. Focusing on natural wood (including application of natural veneer)

4.2. Including exotic types of wood in production

4.3. Increasing popularity of dark wood

4.4. Use of non-traditional materials for various types of furniture

4.5. Combinations of various types of materials (for instance, metal and glass)

4.6. Use of new materials (rattan, plastics, various combinations of materials)

4.7. A transition to use of domestic DSP chipboard

5. *Product assortment*

5.1. Moving toward use of ergonomic furniture

5.2. Planning product assortments in accordance with changes in demand (a change from mass production to an approach that emphasizes customer preferences)

5.3. Increasing demand for modernist furniture styles

5.4. Development of high-tech styles of furniture

5.5. Introduction of new series of personal office furniture

5.6. General enlargement of product assortments

5.7. Increasing the number of multipurpose furniture products

Home furniture

Regarding development of household furniture, industry experts forecast an increase in production, a decrease of the share of imports, and enlargement of product assortments. No significant changes were anticipated in this segment. Market operators stated that customer preferences will remain unchanged, and mass consumers will continue to purchase inexpensive furniture. The soft furniture segment is expected to grow more rapidly. In the event of increased competition and entry into foreign markets, producers will pay more attention to company style and trademarks. For instance, a company will design furniture with assistance of its own design center for four different age groups; in turn, this will lead to demand for launching new product lines.

Innovation is also a relevant factor: companies will offer new product developments and models. For example, the Progress factory issued 15 new models of soft furniture in 2004, which increased sales volumes by 25.0 percent.

On the other hand, a decrease of the number of small companies is also expected to take place. These enterprises will either disappear or be absorbed by larger firms. The number of so-called “garage producers” will be reduced to the point of disappearing, and shadow sales will decrease as well.

Expansion of the market will take place, particularly in terms of an increase of the share of sales in medium-sized towns. In larger cities consumers will continue to prefer furniture in the medium-priced, expensive, and exclusive price segments.

The industry experts also forecast that in the years to come, consumers will gradually refuse to purchase bulky monolithic wardrobe cabinets that occupy considerable amounts of space. Instead, they will buy either furniture components from which any size of wall suite may be constructed, or built-in closets. However, a switch from large wardrobe cabinets will be tempered by the high cost of newer furniture models (Source: http://eizvestia.com/?a=article_review&id=243).

There will be an increase of products in the Ukrainian furniture market from East Asian producers (primarily Chinese furniture, but also including furniture from Malaysia and Indonesia).

Kitchen furniture

Over the last several years, sales volumes of kitchen furniture have increased by 10-15 percent annually. In 2005, the market grew by 20 percent. The industry experts stated that the annual increase of the kitchen furniture market could be even higher.

According to furniture market entrepreneurs, only 20 percent of domestic consumers purchase new kitchen furniture to replace old pieces and 80 percent purchase new kitchen furniture for new residential buildings However, some industry experts forecast that this correlation will change to 50/50 within the next 2 years. According to research by furniture producers several years ago, Ukrainians purchased kitchen sets once every 15-20 years on average. A survey of the population in 2005 showed that Ukrainians wanted to update their furniture in general every 10-15 years. According to information obtained by furniture producers in 2005, Ukrainians had already started replacing old furniture with new models more often than before. Considering the steady growth of purchases among those moving into new residences and increased demand among consumers replacing old furniture, the kitchen furniture sector as a whole should grow.

Office furniture

According to industry experts, sales volumes in the Ukrainian office furniture market will increase by 10-15 percent annually over the next several years. Ukrainian producers will also increase exports of their products.

Large foreign producers also plan to enter the Ukrainian market.

An increase was observed in the number of dealers in the office furniture market, but the number of producers was not growing as rapidly. The competition level will increase, which will result in increased demand for high quality products and increased expenses related to advertising and promoting goods. Some companies prefer to not produce an entire potential assortment of office furniture products, but specialize in certain types of goods instead. However, not many companies can afford to risk such a narrow concentration of activity.

Large companies are currently decreasing production of economy-class furniture. This segment is gradually disappearing from the product assortments of known producers, who are paying more attention to the medium-priced segment. In Kyiv and other large Ukrainian cities, demand is growing for prestigious, ergonomic, and expensive brands of office furniture; therefore, companies are trying to establish themselves in these particular segments. For example, the Amati company noted an increase of demand for expensive and exclusive furniture this year that allowed them to increase their sales volumes by 20 percent. Representatives of the Neopol Company noted high demand for personal office systems made of expensive materials with original accessories. The level of general consumer expertise regarding issues of office furniture ergonomics and design is gradually increasing. Private firms in Ukraine are increasingly turning to designers, architects, and companies offering a wide range of services when it comes to selecting and installing furniture. A rise in demand for custom-made designer furniture according to individual customer orders has been observed recently.

Companies are starting to emphasize complex design solutions, creation of retail networks that provide a variety of services, and uniform techniques of personnel training.

According to industry experts, companies selling office furniture will soon be competing in terms of the range of services provided, complex approaches to design, quality of furniture and materials, assortment and range of colors offered, warranties, functionality, additional function options, and wider ranges of price segments. Price is ceasing to play a decisive role in competition. Advantages of supplier companies will be determined by the list of services that they can provide, for example: delivery and mounting, complex maintenance (which includes arrangements and general design of office furniture), project management, etc. (Source: *Commercial Property No. 17*, January 2005, p. 26-29).

Furniture for stores and supermarkets and public places

Increases in production will take place, small enterprises will undergo rotations, production levels will remain low, industrial equipment will be modernized, and production will be consolidated. The shares of direct sales and sales via the Internet will increase as well. Furniture for stores and supermarkets will be produced using application of artificial stone. Furniture for public places will increasingly include components made of MDF, aluminum elements, and metal decorations. Assortment of products will increase, and furniture sets will be developed. Product design will improve, and the share of goods produced according to individual orders will increase. Prices for this kind of furniture will increase, but not substantially.

8.2. QUALITY STANDARDS AND CERTIFICATES (DOMESTIC AND INTERNATIONAL)

Products manufactured by more than half of furniture enterprises in this sector were not subject to mandatory certification or standardization in Ukraine. Only 32.5 percent of enterprises reported that all of their products were subject to mandatory standardization, while 12.8 percent reported that some of their products were subject to mandatory standardization. The remaining 51.3 percent of enterprises reported that none of their products were subject to mandatory standardization.

A similar situation was observed with mandatory certification in Ukraine: 23.9 percent of furniture enterprises reported that all of their products were subject to mandatory certification, and 14.5 percent of enterprises reported that some of their products were subject to mandatory certification. Fifty-nine percent of Ukrainian enterprises reported that none of their products were subject to mandatory certification.

TABLE 8.1. MANDATORY PRODUCT STANDARDIZATION AMONG FURNITURE ENTERPRISES IN UKRAINE (% OF ENTERPRISES)

Degree of standardization	% of enterprises
All products subject to mandatory standardization	32.5
Some products subject to mandatory standardization	12.8
No products subject to mandatory standardization	**51.3**
Difficult to tell	3.4

Source: Survey of 117 furniture enterprise CEOs.

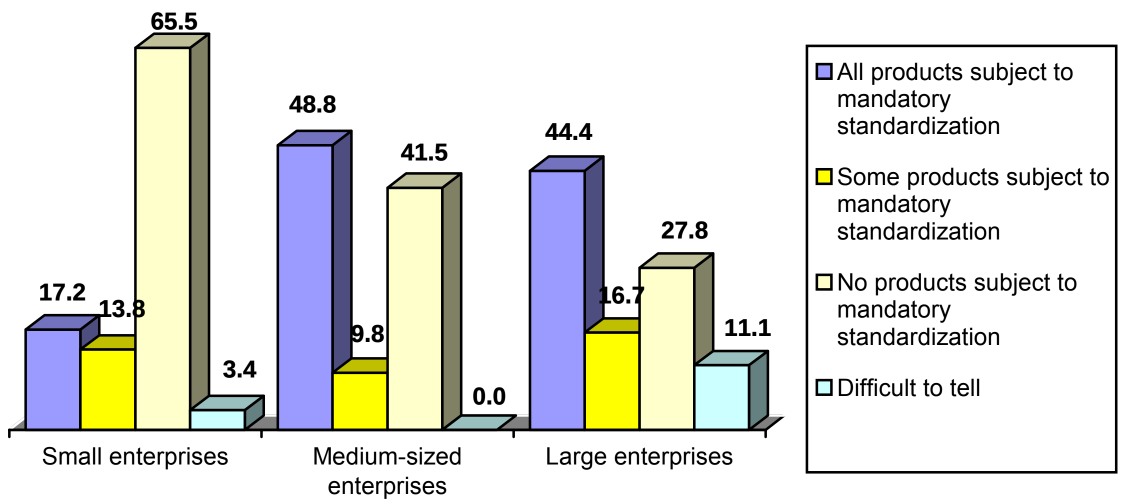
TABLE 8.2. MANDATORY PRODUCT CERTIFICATION AMONG FURNITURE ENTERPRISES IN UKRAINE (% OF ENTERPRISES)

Degree of certification	% of enterprises
All products subject to mandatory certification	23.9
Some products subject to mandatory certification	14.5
No products subject to mandatory certification	**59.0**
Difficult to tell	**2.6**

Source: Survey of 117 furniture enterprise CEOs.

The level of mandatory standardization and certification in Ukraine depended significantly on the size of an enterprise. The lowest level of mandatory standardization was found among small enterprises, 65.5 percent of which were not subject to mandatory standardization. Around half of the medium-sized and large enterprises (48.8 percent and 44.4 percent, respectively) standardized all of their products.

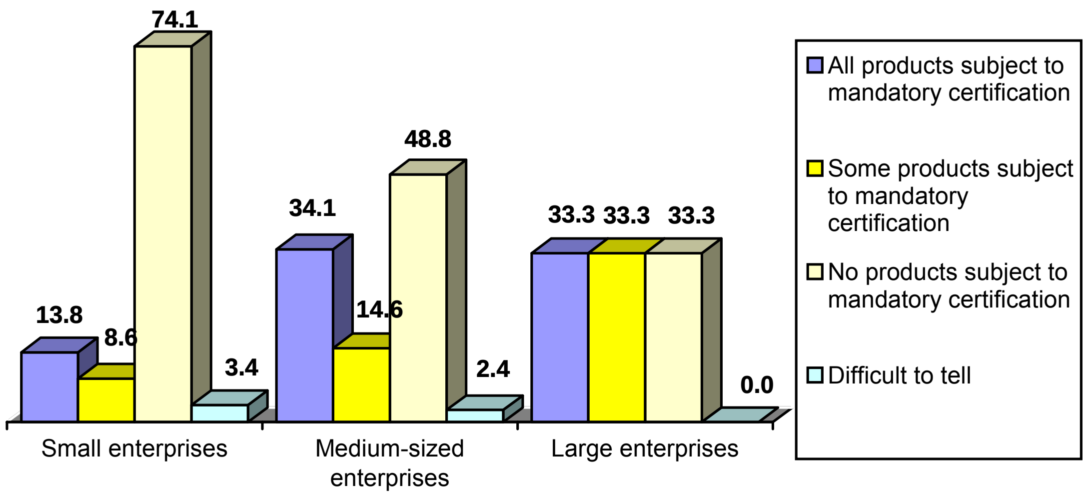
CHART 8.1. MANDATORY PRODUCT STANDARDIZATION BY ENTERPRISE SIZE (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

The same correlation was found in terms of mandatory certification: 33.3 percent of large enterprises, 34.1 percent of medium-sized enterprises, and 13.8 percent of small enterprises reported that all of their products were subject to mandatory certification.

CHART 8.2. MANDATORY PRODUCT CERTIFICATION BY ENTERPRISE SIZE (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

This situation was caused by the following factors: first, large enterprises cared more about their images; second, more large enterprises were involved in exports than companies of other sizes (and it should be noted that without standardization and certification, exporting products is not only more difficult, but demand is lower); and third, they operated using better equipment, manufactured products of higher quality, and were thus more likely to earn relevant certificates.

The level of the international certification among Ukrainian enterprises was very low. Only 12.0 percent of enterprises had international certificates for their products, and only 8.0 percent had these certificates for their quality control systems. The majority – 86.0 percent – of enterprises did not have international certificates for either their products or quality control systems.

TABLE 8.3. RATES OF INTERNATIONAL CERTIFICATION AMONG FURNITURE SECTOR ENTERPRISES (% OF ENTERPRISES)*

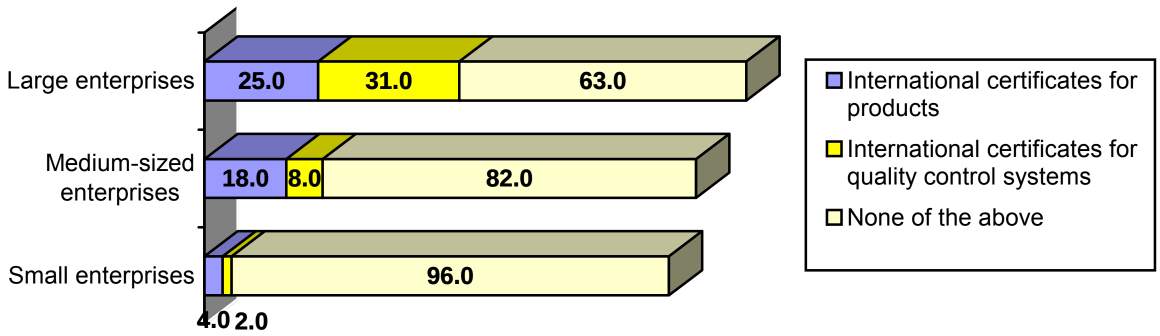
Rate of international certification	% of enterprises
International certificates for their products	12.0
International certificates for their quality control systems	8.0
None of the above	86.0

Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

The worst situation with international certification was found among small enterprises, 96.0 percent of which did not have certificates either for their products or for their quality control systems. Among medium-sized enterprises this share was 82.0 percent, and for large enterprises it was 63.0 percent. Large enterprises were the most active in terms of introducing international certification systems: 25.0 percent had international certificates for their products, and 31.0 percent had international certificates for their quality control systems.

International certification was most relevant in terms of export activities by various enterprises. Enterprises working only in the domestic market generally did not require international certification, and their products were sold without it. As for export-oriented large enterprises, they had to certify their products in accordance with international standards in order to sell them in foreign markets. For some large enterprises, this was also a matter of prestige: obtaining international quality certificates enabled companies to present their products as high quality goods.

CHART 8.3. INTERNATIONAL CERTIFICATION AMONG FURNITURE SECTOR ENTERPRISES OF VARIOUS SIZES (% OF ENTERPRISES)*

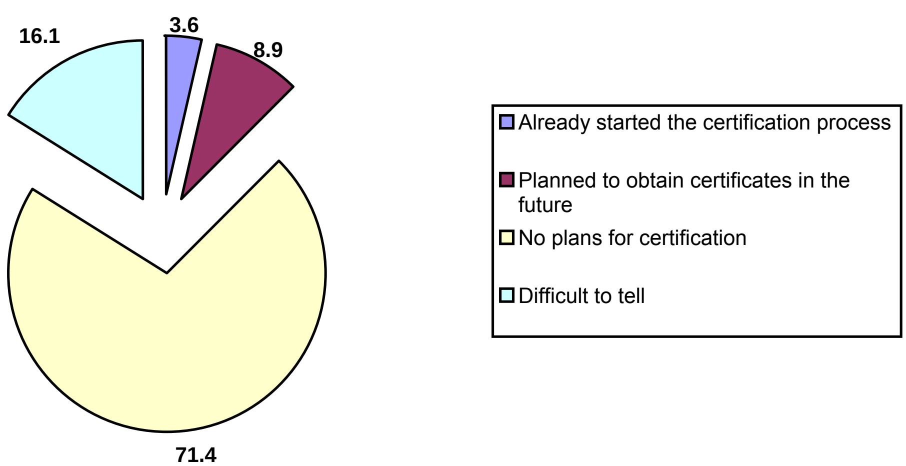


Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

Of those enterprises that had international certificates for quality control systems, 66.7 percent had ISO certificates and 33.3 percent had other types of certificates.

An insignificant share of enterprises planned to certify their quality control systems according to ISO criteria in the future. In particular, 3.6 percent of enterprises had already launched the ISO certification process for their quality control systems. Another 8.9 percent planned to certify their quality control systems according to ISO standards in the future. However, 71.4 percent of enterprises in the furniture sector did not plan to introduce this type of certification at all. Another 16.1 percent of enterprises had not come to any conclusions regarding this issue.

CHART 8.4. PLANS TO OBTAIN ISO CERTIFICATES (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

8.3. LEVELS, STRUCTURES, AND ORIGINS OF INVESTMENT IN DEVELOPMENT OF FURNITURE SECTOR ENTERPRISES

At present, the furniture sector in Ukraine is not attractive to investors. According to the results of a random survey of 117 furniture enterprise CEOs, 41.4 percent did not attract any investment in 2005.

Only 2.6 percent of enterprises attracted investment of Ukrainian origin, 0.9 percent of enterprises attracted investment from other countries of the CIS, and 1.7 percent attracted investment from other (non-CIS) countries. In general, the vast majority (94.0 percent) of those enterprises who received funds for production development used their own funds but no foreign investment.

Thus a very restricted number of enterprises utilized external investment (either domestic or foreign).

TABLE 8.4. ORIGINS OF INVESTMENT IN 2005 (% OF ENTERPRISES)*

Origin of investment	% of enterprises
Own funds	55.2
Received funds from the parent enterprise, other enterprises in the same association/holding company, or the company's founders	1.7
Received funds from Ukrainian investors	2.6
Received funds from CIS investors	0.9
Received funds from investors in other countries (non-CIS)	1.7
Did not receive any investment	41.4

Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

The shares of enterprises that did not receive any investment were nearly the same among small and large enterprises: 44.8 percent and 44.4 percent, respectively.

This share was smaller among medium-sized enterprises (35.0 percent). Only large and medium-sized enterprises received any foreign investment. Of the large enterprises that received foreign investment, 5.6 percent received investment from CIS countries and 5.6 percent received investment from other countries.

Another 5.6 percent of large enterprises attracted investment from sources within Ukraine. Among medium-sized enterprises, 5.0 percent attracted investors from Ukraine and 2.5 percent attracted investors from other countries (except those of the CIS).

The highest rate of investment of own funds was observed among medium-sized enterprises (60.0 percent of these enterprises made such investments), while 55.2 percent of small enterprises and 44.4 percent of large enterprises did so.

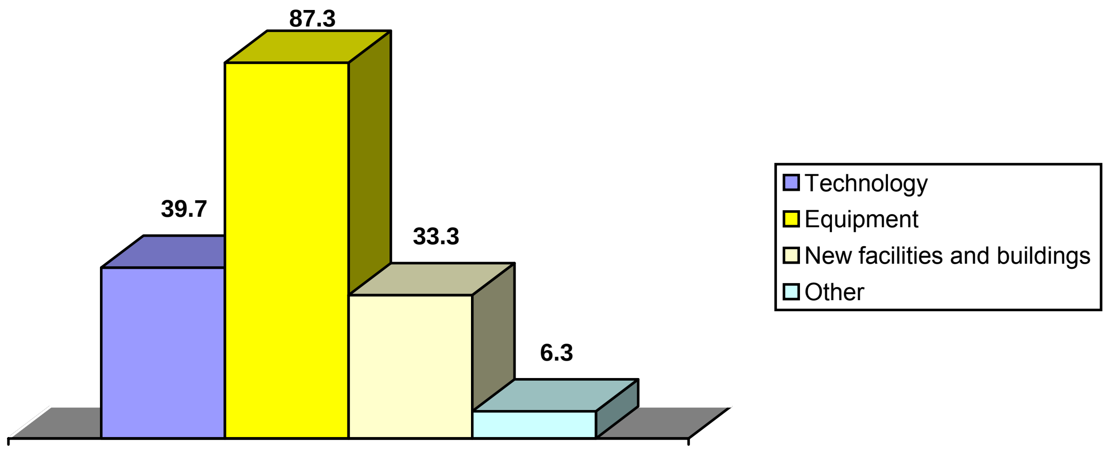
TABLE 8.5. INVESTMENT IN 2005 AMONG ENTERPRISES OF VARIOUS SIZES (% OF ENTERPRISES)*

Origin of investment	*Small enterprises*	*Medium-sized enterprises*	*Large enterprises*
Own funds	55.2	60.0	44.4
Received funds from the parent enterprise, other enterprises in the same association/holding company, or the company's founders	0.0	2.5	5.6
Received funds from Ukrainian investors	0.0	5.0	5.6
Received funds from CIS investors	0.0	0.0	5.6
Received funds from investors in other countries (non-CIS)	0.0	2.5	5.6
Did not receive any investment	44.8	35.0	44.4

Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

The majority of enterprises (87.3 percent) reported spending invested funds on equipment costs, 39.7 directed these funds toward technology, and 33.3 percent spent these funds on purchasing new facilities and buildings.

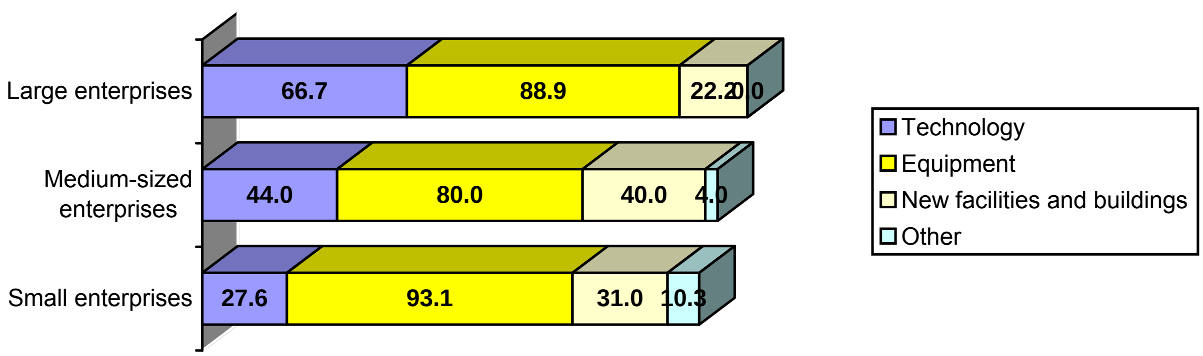
CHART 8.5. AREAS OF INVESTMENT (% OF ENTERPRISES)*



Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

At the same time, there were significant differences between directions of investment spending between enterprises of different sizes. A significantly higher share of large enterprises made investments in technology (66.7 percent of large enterprises), while 44.0 percent of medium-sized enterprises and only 27.6 percent of small enterprises invested funds in this area. A greater share of small and large enterprises made investments in equipment (93.1 percent and 88.9 percent of these companies invested funds in equipment, respectively). Among medium-sized enterprises, this share was lower (80.0 percent). The share of enterprises that made investments in new facilities and buildings was the smallest among large enterprises (only 22.2 percent), compared to 40.0 percent among medium-sized enterprises and 31.0 percent among small enterprises.

CHART 8.6. AREAS OF INVESTMENT BY ENTERPRISES OF VARIOUS SIZES (% OF ENTERPRISES)*



Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

Among those companies that did not receive external investments, the largest share reported that they had sufficient own funds for development and thus did not require external investment (38.7 of those that did not receive external funds cited this reason).

Another 34.2 percent of enterprises stated that they had difficulties finding external investors. Around one-fifth of enterprises (21.6 percent) refused potential external investments because they disagreed with the conditions proposed.

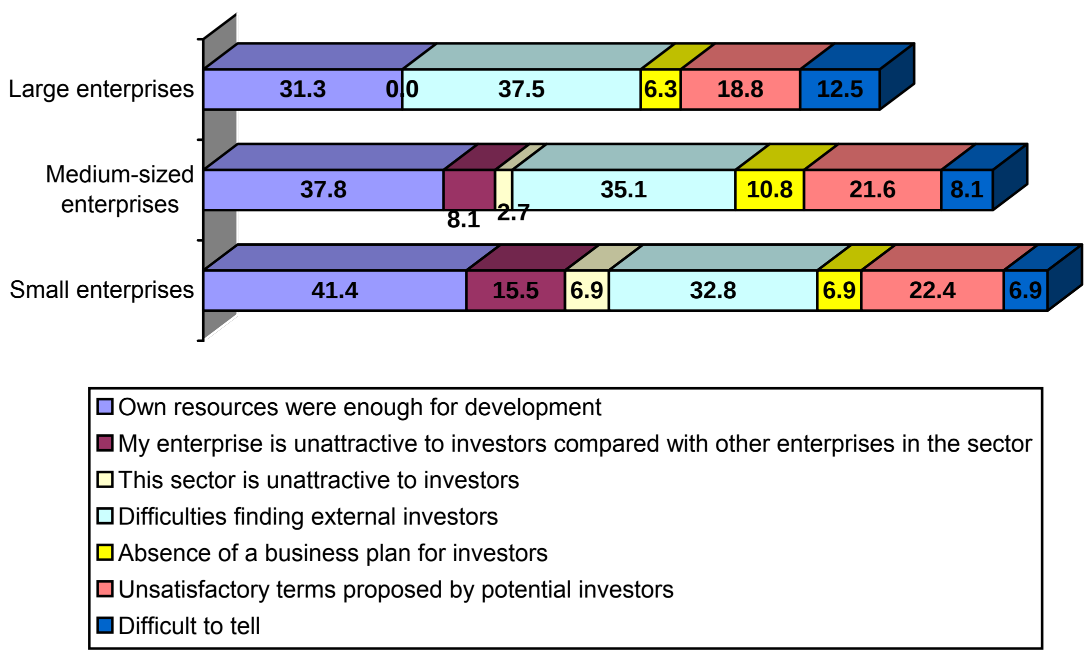
TABLE 8.6. REASONS FOR NOT RECEIVING EXTERNAL INVESTMENT IN 2005 (% OF ENTERPRISES)*

Reasons	*% of enterprises*
Own resources were enough for development	38.7
Difficulties finding external investors	34.2
Unsatisfactory terms proposed by potential investors	21.6
My enterprise is unattractive to investors compared with other enterprises in the sector	10.8
Absence of a business plan for investors	8.1
This sector is unattractive to investors	4.5
Other	4.5
Difficult to tell	8.1

Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

The largest share of those enterprises that had enough of their own resources to invest in development was found among small enterprises (41.4 percent), while the smallest share was observed among large enterprises (31.3 percent). Small enterprises also had the largest share (15.5 percent) of those who considered their businesses to be unattractive to investors as compared to companies of other sizes. Among large enterprises, the most significant share was occupied by those who had difficulties finding external investors (37.5 percent). The shares of those who were dissatisfied with the terms proposed by external investors were roughly the same among enterprises of various sizes.

CHART 8.7. REASONS FOR NOT RECEIVING EXTERNAL INVESTMENT AMONG ENTERPRISES OF VARIOUS SIZES, 2005 (% OF ENTERPRISES)*



Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

9. THE REGULATORY ENVIRONMENT

9.1. ADMINISTRATIVE BARRIERS TO ECONOMIC ACTIVITY IN THE FURNITURE SECTOR

Enterprises in the furniture sector often had to complete various administrative procedures. For example, in 2005, 85.6 percent of enterprises were subject to inspections by government authorities, 52.3 percent of enterprises had to obtain various permits, and 48.6 percent of enterprises completed registration or re-registration procedures.

TABLE 9.1. THE MOST COMMON ADMINISTRATIVE PROCEDURES IN THE FURNITURE SECTOR, 2005 (% OF ENTERPRISES)*

Procedure	*% of enterprises*
Inspections by government authorities	85.6
Obtaining permits	52.3
Registration and re-registration	48.6
Certification and standardization	33.3
Export-related procedures	20.7
Import-related procedures	19.8
Licensing	17.1

Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

The share of medium-sized and large enterprises that were subject to inspections by government authorities was somewhat more significant than the share among small enterprises: in 2005, state authorities inspected 95.0 percent of medium-sized enterprises, 88.2 percent of large businesses, and 79.2 percent of small enterprises. The share of small enterprises that completed procedures for registration, re-registration, and receiving various permits was more significant than among enterprises of other sizes. For example, 56.6 percent of small enterprises had to complete registration/re-registration procedures, while those who completed these procedures comprised 42.5 percent and 41.2 percent of medium-sized and large enterprises, respectively. In terms of receiving administrative permits, 60.4 percent of small enterprises, 45.0 percent of medium-sized enterprises, and 47.1 percent of large enterprises had to complete this procedure. However, a larger share of large enterprises had to complete certification and standardization procedures: 47.1 percent of them had to complete these procedures, while 35.0 percent of medium-sized enterprises and 28.3 percent of small enterprises had to do so. Export- and import-related procedures were much more common for larger enterprises than for enterprises of other sizes.

TABLE 9.2. ADMINISTRATIVE PROCEDURES COMPLETED BY FURNITURE SECTOR ENTERPRISES OF VARIOUS SIZES IN 2005 (% OF ENTERPRISES)*

	Procedures						
	Registration /re-registration	*Obtaining permits*	*Licensing*	*Certification and standardization*	*Export-related procedures*	*Import-related procedures*	*Inspections by government authorities*
Small enterprises	**56.6**	**60.4**	11.3	28.3	5.7	7.5	79.2
Medium-sized enterprises	42.5	45.0	25.0	35.0	27.5	20.0	**95.0**
Large enterprises	41.2	47.1	17.6	**47.1**	**52.9**	**58.8**	88.2

Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

Completing administrative procedures was generally not very problematic for the surveyed enterprises. On a five-point scale wherein 1 = "minor problems" and 5 = "major problems," the average difficulty ratings for completing administrative procedures did not exceed 3.3 points. In other words, these problems had average difficulty rates. The most difficult procedures to complete were related to import activities (an average rating of 3.3 points), export-related procedures (3.2 points), and licensing procedures (3.2 points). The simplest procedures were for registration and re-registration of enterprises.

TABLE 9.3. ASSESSMENT OF THE AVERAGE DIFFICULTY OF ADMINISTRATIVE PROCEDURES

(1 = MINOR PROBLEMS, AND 5 = MAJOR PROBLEMS)

Import-related procedures	3.3
Export-related procedures	3.2
Licensing	3.2
Inspections by government authorities	3.1
Obtaining permits	2.9
Certification and standardization	2.9
Registration and re-registration	2.4

Source: Survey of 117 furniture enterprise CEOs.

For large enterprises, licensing (with an average rating of 5.0 points) and certification and standardization (3.4 points) were the most difficult procedures, while export-related procedures were the simplest. For medium-sized enterprises, export-related procedures and inspections by government authorities were the most difficult (each procedure averaged 3.0 points) and registration and re-registration procedures were the simplest. For small enterprises, export- and import-related procedures were the most difficult (averaging 4.7 and 4.3 points, respectively) and the simplest procedures were registration and re-registration.

TABLE 9.4. ASSESSMENT OF THE AVERAGE DIFFICULTY OF ADMINISTRATIVE PROCEDURES (1 = MINOR PROBLEMS, 5 = MAJOR PROBLEMS)

	Small enterprises	*Medium-sized enterprises*	*Large enterprises*
Registration and re-registration	2.4	2.1	3.0
Obtaining permits	3.0	2.5	3.0
Licensing	3.0	2.7	**5.0**
Certification and standardization	3.0	2.6	3.4
Export-related procedures	**4.7**	3.0	2.9
Import-related procedures	**4.3**	2.9	3.2
Inspections by government authorities	3.1	3.0	3.1

Source: Survey of 117 furniture enterprise CEOs.

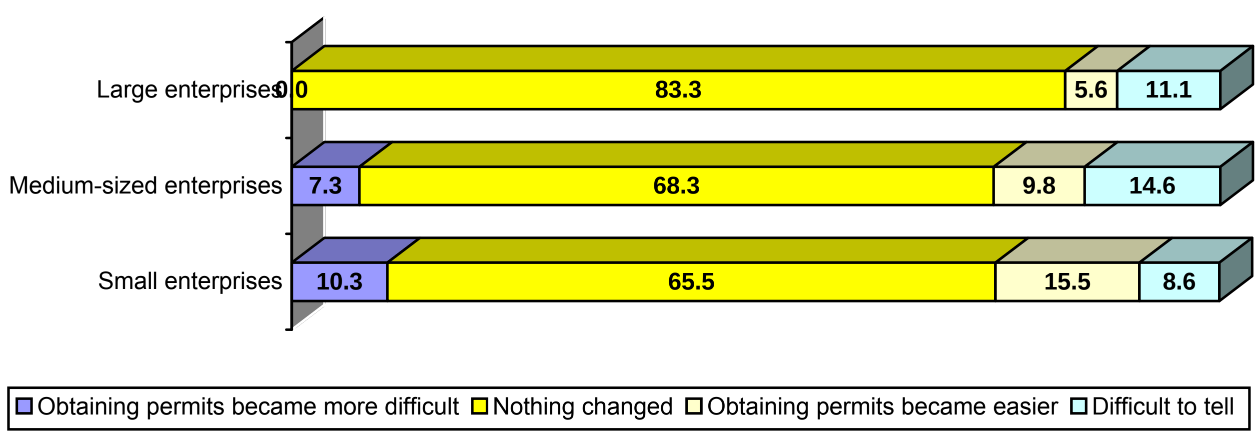
As for the precise nature of problems related to completing the aforementioned administrative procedures, entrepreneurs complained about the time required for completion and the overall bureaucratic nature of these processes most of all. In terms of inspections by government authorities, entrepreneurs noted that the frequency of these procedures made it difficult for their businesses to function efficiently.

As for the assessment of changes in procedures for obtaining various permits in comparison with previous years (before 2005), most entrepreneurs did not report any notable changes. Only 12.0 percent of the surveyed entrepreneurs reported that the procedures were easier to complete, while 7.7 percent mentioned that obtaining permits had become even more difficult than before and 69.2 percent did not notice any changes.

In terms of the shares of entrepreneurs that reported simplification of procedures among enterprises of different sizes, the highest share was found among small enterprises (15.5 percent). Among medium-sized and large enterprises, the shares that reported simplification were 9.8 percent and 5.6 percent, respectively.

However, a comparatively larger share of small enterprises also reported that procedures for obtaining permits had become more complicated than before. The overwhelming majority of large enterprises did not experience any changes.

CHART 9.1. DIFFICULTY OF OBTAINING PERMITS IN 2005 COMPARED TO PREVIOUS YEARS, AS REPORTED BY ENTERPRISES OF VARIOUS SIZES (% OF ENTERPRISES)

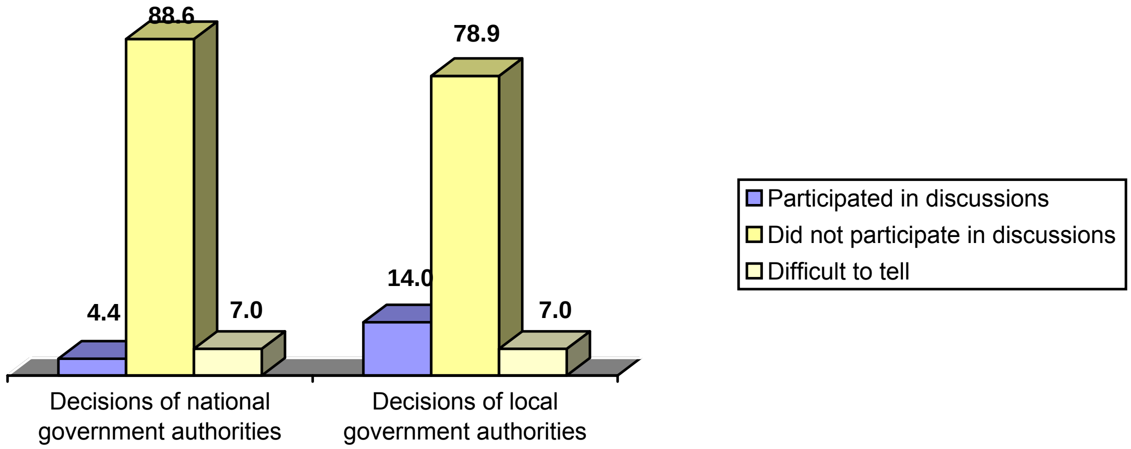


Source: Survey of 117 furniture enterprise CEOs.

9.2. INFLUENCE ON DECISION-MAKING IN THE REGULATORY SPHERE

According to entrepreneurs' assessments, their abilities to influence the regulatory environment in the furniture sector through legal means were insignificant. In 2005, only 4.4 percent of enterprises took part in discussions of draft resolutions affecting business activities. As for participation in discussions of regulatory decisions with local government authorities, the level of participation by enterprises was somewhat higher but still insignificant at 14.0 percent, and the frequency of such participations (when they did take place) was an average of one time in the year 2005.

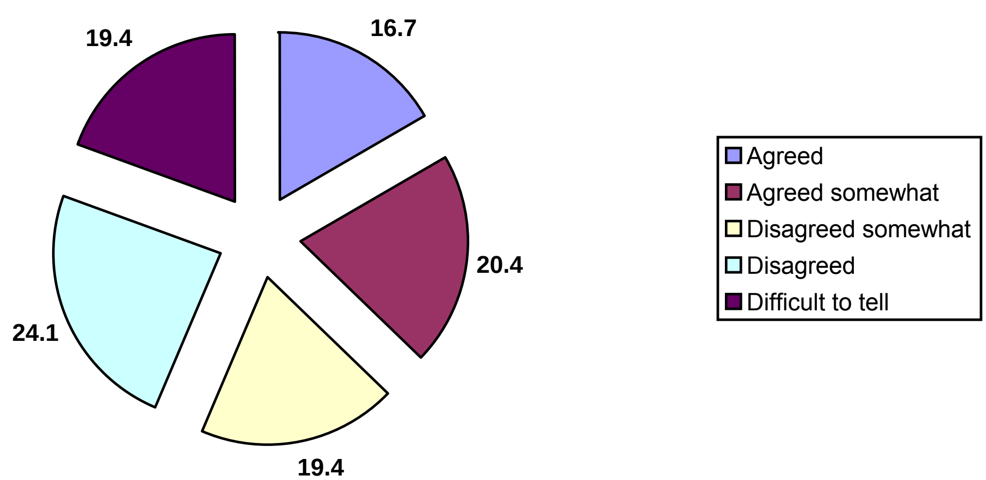
CHART 9.2. PARTICIPATION OF FURNITURE ENTERPRISES IN DISCUSSIONS OF DRAFT REGULATIONS AFFECTING BUSINESS ACTIVITIES IN THE SECTOR (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

According to the data obtained, unofficial payments to government officials were a widespread practice: 16.7 percent of all the surveyed enterprises agreed with the statement that such payments were common, and another 20.4 percent agreed somewhat.

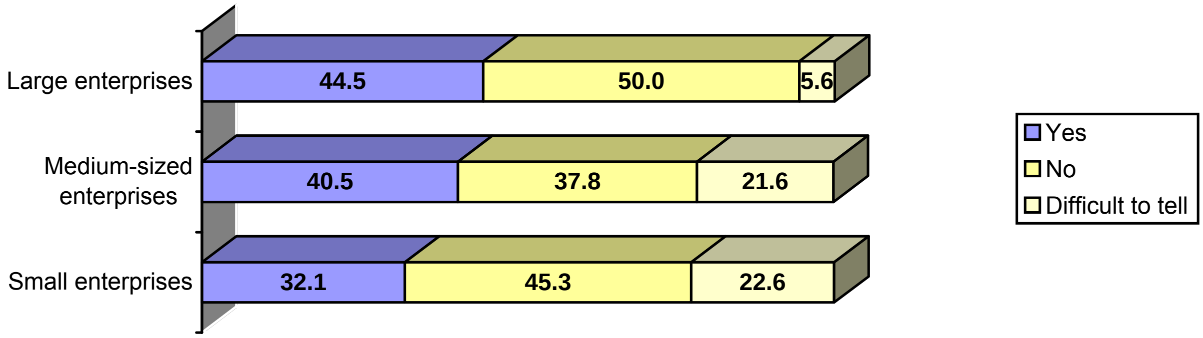
CHART 9.3. ARE UNOFFICIAL PAYMENTS TO GOVERNMENT AUTHORITIES COMMON? (% OF ENTREPRENEUR RESPONSES)



Source: Survey of 117 furniture enterprise CEOs.

Medium-sized and large enterprises put greater emphasis on the problem of unofficial payments than small enterprises did. Among managers of small enterprises, 32.1 percent agreed that it was a problem, while the shares of medium-sized and large enterprises that stated that it was a problem were 40.5 percent and 44.5 percent, respectively.

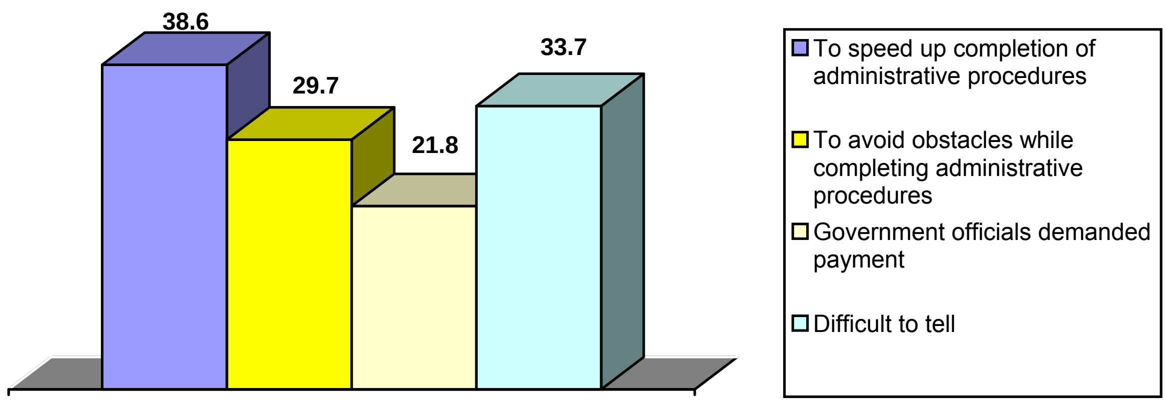
CHART 9.4. DO UNOFFICIAL PAYMENTS TO GOVERNMENT AUTHORITIES CAUSE PROBLEMS FOR YOUR ENTERPRISE? (% OF ENTREPRENEUR RESPONSES)



Source: Survey of 117 furniture enterprise CEOs.

Of the reasons why entrepreneurs resorted to making unofficial payments to government authorities, speeding up administrative procedures was identified the most often by entrepreneurs: 38.6 percent indicated this reason. Another 29.7 percent blamed the necessity of making unofficial payments on a need to avoid obstacles while completing administrative procedures. Another 21.8 percent of enterprises stated that government officials had demanded payment.

CHART 9.5. REASONS FOR MAKING UNOFFICIAL PAYMENTS TO GOVERNMENT AUTHORITIES (% OF ENTERPRISES)*



Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

The surveyed entrepreneurs stated that the share of these payments out of company profits was not too large; it amounted to 2.8 percent on average. This value also substantially differed depending upon the size of the enterprise.

While representatives of small enterprises evaluated this share as 4.1 percent on average, representatives of medium-sized enterprises stated that it was 1.8 percent, and representatives of large enterprises estimated it as 0.4 percent.

As to the possible forms of such payments, monetary payments prevailed (35.2 percent of entrepreneurs mentioned this type). Payments in the form of non-monetary gifts were second (21.6 percent of entrepreneurs referred to these), followed by various voluntary payments with 15.9 percent.

TABLE 9.5. FORMS OF UNOFFICIAL PAYMENTS TO GOVERNMENT OFFICIALS (% OF ENTERPRISES)*

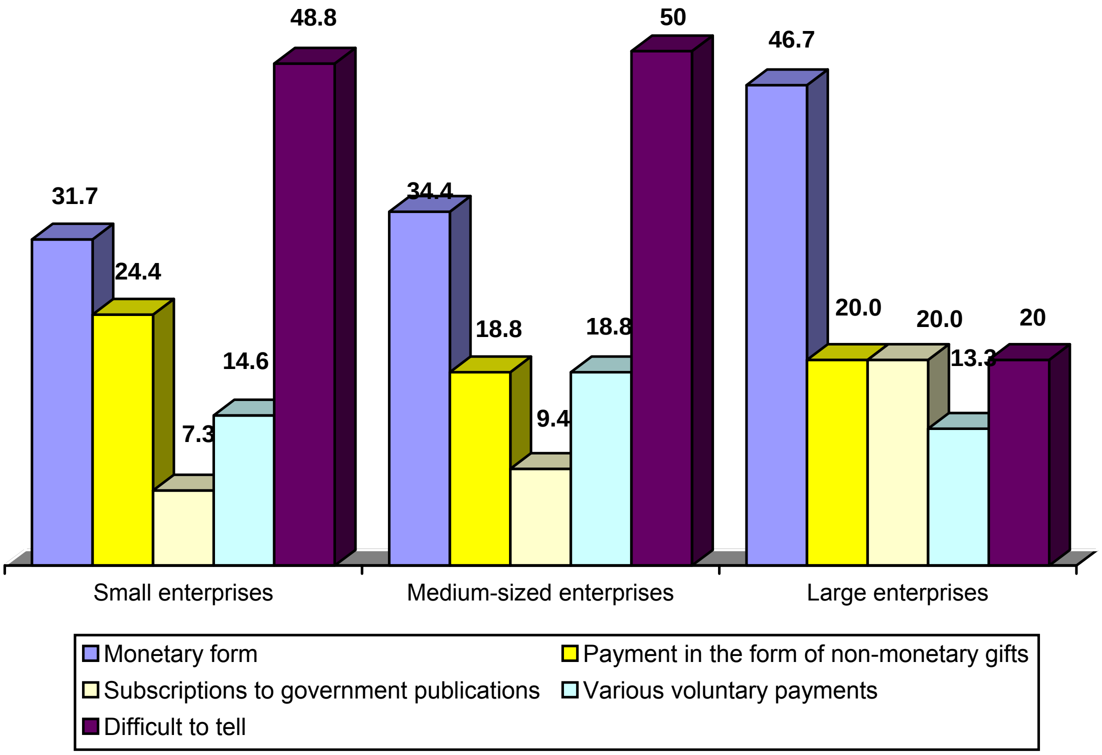
Forms of payments	*% of enterprises*
Monetary form	35.2
Payment in the form of non-monetary gifts	21.6
Various voluntary payments	15.9
Subscriptions to government publications	10.2
Difficult to tell	44.3

Source: Survey of 117 furniture enterprise CEOs.
* The sum total of percentages may exceed 100%, as several answer options could be chosen.

Unofficial payments in the form of non-monetary gifts increased in proportion to decreases in the size of an enterprise.

While 20.0 percent of CEOs of large enterprises mentioned this type of payment, this share was 18.8 percent among representatives of medium-sized enterprises and 24.4 percent among representatives of small enterprises. CEOs of large enterprises mentioned voluntary payments least of all (only 13.8 percent), while this rate was 14.6 percent among representatives of small enterprises and 18.8 percent among representatives of medium-sized enterprises.

CHART 9.6. FORMS OF UNOFFICIAL PAYMENTS TO GOVERNMENT OFFICIALS AMONG ENTERPRISES OF VARIOUS SIZES (% OF ENTREPRENEURS)*

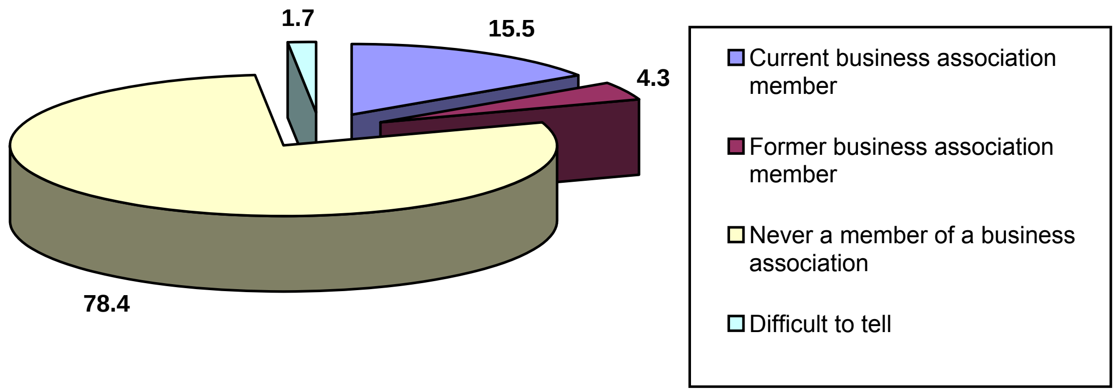


Source: Survey of 117 furniture enterprise CEOs.
*The sum total of percentages may exceed 100%, as several answer options could be chosen.

10. BUSINESS ASSOCIATIONS

Membership in business associations among sector enterprises was rather low. According to a random survey of 117 furniture enterprise CEOs, only about 16 percent were members of business associations, while nearly 80 percent had never participated in business associations.

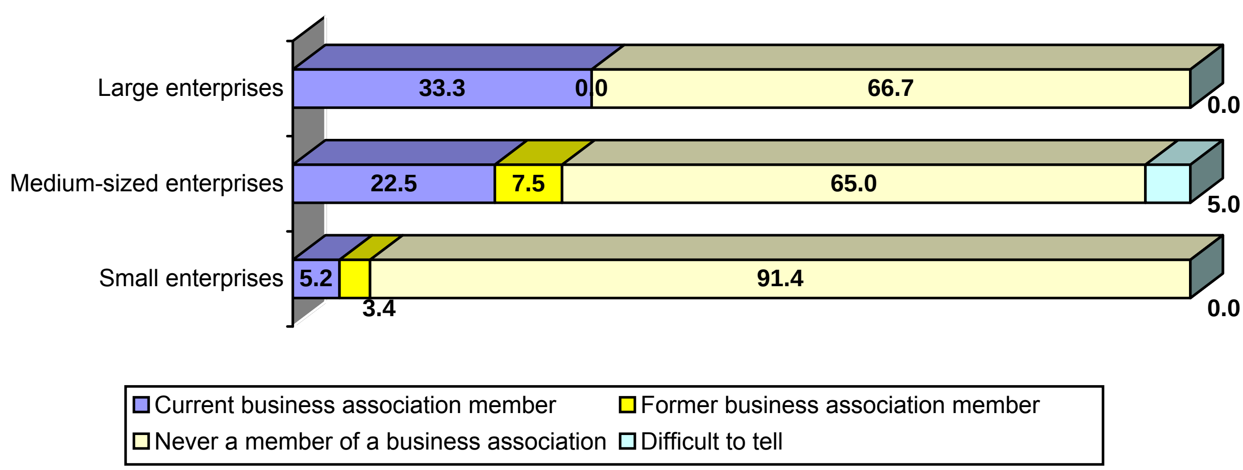
CHART 10.1. PARTICIPATION IN BUSINESS ASSOCIATIONS (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

Large enterprises participated in business associations more actively than small and medium-sized enterprises. At the time of the survey, one-third of large enterprises (33.3 percent) were participating in a business association, while only 5.2 percent of small enterprises participated in these organizations.

CHART 10.2. PARTICIPATION IN BUSINESS ASSOCIATIONS BY ENTERPRISES OF VARIOUS SIZES (% OF ENTERPRISES)



Source: Survey of 117 furniture enterprise CEOs.

Of those enterprises that reported being members of one or more business associations, 66.7 percent reported being members of industry-specific associations. Another 38.9 percent of enterprises taking part in business associations reported that they were members of multi-sector associations.

TABLE 10.1. MEMBERSHIP OF FURNITURE ENTERPRISES IN VARIOUS TYPES OF BUSINESS ASSOCIATIONS (% OF THOSE INVOLVED IN BUSINESS ASSOCIATIONS)*

Type of association	*% of enterprises*
Industry-specific business association	66.7%
Multi-sector business association	38.9%

Source: Survey of 117 furniture enterprise CEOs.
*The sum total of percentages exceeds 100%, as respondents could choose more than one option.

More than half (55.6 percent) of enterprises that were members of business associations participated in national-level business associations, 27.8 percent belonged to oblast-level business associations, 16.7 percent took part in business associations at the local level, and only 5.6 percent participated in international business associations. All enterprises involved in international business associations were large enterprises.

TABLE 10.2. FURNITURE ENTERPRISE MEMBERSHIP IN BUSINESS ASSOCIATIONS AT VARIOUS LEVELS (IN %)*

Level of association	*% of enterprises*
International business association	5.6
National business association	55.6
Oblast business association	27.8
Local business association	16.7

Source: Survey of 117 furniture enterprise CEOs.
*The sum total of percentages exceeds 100%, as respondents could choose more than one option.

LIST OF ACRONYMS

CB – Chipboard.

CC – Closed corporation. A commercial organization created by individuals and/or legal entities for the purpose of obtaining profits. Establishment of a statutory fund is obligatory for the creation of a closed corporation. The minimum size of the statutory fund is no less than 1,250 minimal monthly salaries. At its inception, the founders have to pay no less than 50 percent of their shares. Company shares are distributed only among the founders and/or other predetermined persons. The founders (shareholders) do not bear any responsibility for the corporation's liabilities, and the corporation bears no responsibility for liabilities of the founders (shareholders). Such corporations have no right to conduct open sales of shares or in any other way offer shares to outsiders. Shareholders have first priority for buying shares sold by other shareholders of the corporation.

CIS – Commonwealth of Independent States. Political union of the former Soviet republics (except the Baltic States: Lithuania, Latvia, and Estonia).

CJSC – Closed joint-stock company. Same as a closed corporation.

DSP – Resin-bonded chipboard.

DSTU (SSU) – State Standard of Ukraine. List of standards for production and characteristics of certain types of products made within Ukrainian territory.

DVP – Fiberboard.

EU – European Union. Political and economic union of European states.

GOST – State Standard. A list of standards for production and characteristics of certain types of products. Relevant GOST standards were developed by various organizations specializing in particular spheres of production activity. Originally, GOST standards were registered by the State Standard Authority of the Soviet Union; now they are registered by the State Standard Authority of Ukraine. GOST standards are mandatory for all state authorities and business entities.

HDF – Fibrous high-density wood boards.

ISO – International Organization for Standardization. List of criteria for certification.

JSC – Joint-stock company. A company where the statutory fund is divided into a set number of shares. Founders of a joint-stock company (shareholders) bear no responsibility for its liabilities and bear a risk of loss related to their activities up to or equal to the amount of shares they own. Joint-stock companies may be open (OJSC) or closed (CJSC).

JV – Joint venture. An enterprise partially owned by foreign entrepreneurs.

LLC – Limited Liability Company. An enterprise which may be founded by individuals and/or legal entities. A mandatory condition for establishing an LLC is creation of a statutory fund. The minimal size of the statutory fund should be no less than 100 minimum monthly salaries. At its inception, the founders must pay no less than 50 percent of their shares. It is possible to establish the statutory fund in the form of property. Forced exclusion of a founder (or founders) is possible. Founders of an LLC do not bear responsibility for liabilities of the company and the company is not responsible for liabilities of the founders.

MDF – Fibrous wood boards of average density.

PC – Public corporation. Commercial organization with a statutory fund divided into a set number of shares. The shareholders do not bear responsibility for the liabilities of the corporation and bear the risk-related to their activity in the form of share value. Shareholders have the right to sell their shares without consent of other shareholders or the corporation. A public corporation can conduct an open subscription for shares which it issues and administer their sale. The number of shareholders is not limited.

PE – Private enterprise. An enterprise established by physical persons or legal entities (there may be several founders). Absence of the necessity to establish a statutory fund (SF) is a significant feature of a private enterprise that distinguishes it from other forms of ownership.

RST (RS) of the Ukrainian SSR – Republican Standard of the Ukrainian Soviet Socialist Republic. A list of standards for production and characteristics of certain types of products created during the Soviet era.

SKP – Statistical classification of products maintained by the State Statistics Committee of Ukraine.

CES – Common Economic Space. A union of Russia, Belarus, and Kazakhstan aimed at furthering economic cooperation and free trade (Ukraine has launched accession activities, but membership has not yet been finalized).

SOE – State-owned enterprise. An enterprise of which 50 percent or more is owned by the state.

UKTZED – State classification of goods crossing the border of Ukraine. This classification is regulated by the State Customs Service of Ukraine.

WTO – World Trade Organization. Economic union aimed at liberalization of international trade through elimination of tariffs, opening new markets, and decreasing non-tariff forms of protectionism (tax discrimination and other restrictions on foreign suppliers).