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**RESTRUCTURING AND REVITALIZING THE KALININGRAD REGION*
(PHASE I-A)**

TF/RUS/94/001 and US/RUS/93/134

RUSSIAN FEDERATION

Technical report: Study on light industries**

Prepared for the Kaliningrad Administration
by the United Nations Industrial Development Organization

*Based on the work of J. L. Fabre,
consultant in light industries, and
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TABLE OF CONTENTS

	PAGE
<u>Executive summary</u>	3
1- Background	4
2- Present situation	5
3- Strengths, weaknesses, opportunities, threats	6
4- Development strategy	8
5- Project proposal	10
6- Tentative Budget	13
<u>Appendix</u>	
1- Figures of present situation (analysis of the national consultant)	15
2- Visits	44

EXECUTIVE SUMMARY

In Kaliningrad oblast (region), industries manufacturing non-food consumers' goods are, up to now, in a wretched condition.

The small or medium-scale units produce textile items (garment and hosiery), shoes, tanned hides, furniture and amber jewelry. Larger ones make mink furs and amber stones. Amber extraction unit is deeply desorganized by mis-management and contraband.

They are all affected by acute shortage of money and often of various inputs, due to inflation. Sales have greatly declined and many workers have been dismissed. However, skills exist, often at high level, and machinery is old but not outaged.

It is the same situation in large industrial complexes with parks of idle machines which could be used for production of non-food consumers' goods.

Only few companies are earning some money as re-exporting industries for gartments and shoes.

Fluctuating legislation and tax uncertainties have contributed to embarrass companies trying to survive and to export.

So, the major recommendation is to find short-term credit for pre-financing outward-oriented activities.

We jointly recommend to set-up an export marketing bureau to assist companies to export present but quality-improved products. Then to incite foreign investors to come and set-up joint ventures, when Kaliningrad has a steady tax legislation.

We also recommend to participate to any training programme organized for companies' managers and staff.

Funding requirements for management and technical assistance of the export-marketing bureau, as defined in this report, should be in the region of \$500,000 for a three-year period.

Chapter 1BACKGROUND

According to the job description attached, this study has to contribute to prepare a regional development programme for the improvement of competitiveness of industry in Kaliningrad.

Among 10 sectors to be considered, the scope of this study is the LIGHT INDUSTRY sub-sector, defined as production of NON-FOOD CONSUMERS' GOODS.

Some of these industries are existing in textile (knitted ware and garment), tannery, furs, shoes, furniture and amber.

Some others could be set-up or expanded, mainly thanks to the "Yantar" Free Economic Zone.

This job has been performed from July 4 to August 3, 1995 as follows :

- in Kaliningrad city and region from July 4 to 22 with the active co-operation and thanks to Angelina Dolgaya, the national consultant for this project,
- from Paris with contacts in 3 countries of western Europe, from July 24 to August 3.
- on August 3, report has been sent to the team leader, Sven Mauleon, to the national consultant, Angelina Dalgoya, and UNIDO in Vienna.

Companies and institutions interviewed during field work and contacted from Paris are listed in this report.

Chapter 2

PRESENT SITUATION

The share of light industries in the total volume of production of Kaliningrad region has declined for several years.

Situation is going worse and worse

When visiting a market place, the newcomer discovers a large range of products at very cheap selling prices, with a quality level similar to the same goods in most of east european countries.

This is mainly due to very hard competition between local manufacturers which generally work in extremely bad conditions.

As a matter of fact, production of most of factories is far from their capacity.

There is an excess of labour force and unemployment is gradually increasing.

All the factors' costs have impressively climbed.

Only wages and salaries are still very low.

This situation, close to a disaster, as probably in other sectors of the economy, comes from many disorders following break-up of former centralized economy, from inflation, from shortage and prohibitive cost of credit and from weakness of export opportunities.

The various branches of this sub-sector are trying to survive .

The textile industry - hosiery and ready-made clothes - is badly deceased, with a huge drop in sales of 60 to 90 per cent compared with 1990/91.

The tannery is also greatly affected, as well as fur processing and shoe making activities.

Not so bad but very weak is the position of furniture manufactures.

The most afflicting situation is, by far, in the amber industry. The major extraction company's turnover is about 8 or 10 times less than it should be.

Workers are regularly dismissed.

Craft-specialists leave the company to work by themselves, on their own account.

All of that because of a widespread and "integrated" robbery of amber pebbles, from the mine pit, after extraction.

This aggravated theft supplies non-licensed craftsmen and smugglers, often with bigger and most expensive pieces of amber.

Only several dozen of amber craftsmen earn some money, mainly from tourists.

Several attempts are encouraging

However, few recent developments ought to be promising.

Several factories, in textile and shoe making, have been in joint venture with western european companies.

They work as sub-contractors, under strict guidance of foreign associates.

They receive every raw material and input from abroad.

They only invoice the cost of manpower and overheads.

Profit making, up to now, the situation may become not so easy if local factors' costs increase.

Troubles appear, last month, because of changes in tax legislation.

In spite of such improvements, several local companies remain sub-contractors. Only one, among these we visited, is partner with the foreign company.

In any way, exporting labour cost could remain a temporary and profitable solution.

This sub-sector still holds some winning cards

We have not been surprised to meet very skilled people in any type of factory visited.

Long-gained experience in hosiery, gartment, furs, tannery and furniture, using very usual and not sophisticated machinery, will be surely most useful to easily manage new orders for local or export markets.

Cleverness of technical supervisors and workers could be compared with most experienced ones abroad, in spite and because of old machinery.

Very often, this machinery has been working for long. However, it is rarely obsolete, only old but in rather good working conditions. Properly maintained, by using parts from idle machines when there is no cash to buy new spares, many machines may be also promptly used for new jobs.

If end-products appear old-fashioned to western european newcomers, they could be easily modified by skilled designers with new materials.

Special attention must be paid to amber industry.

Winning cards are the same as for other industries, but nothing could be done before an in-depth study and a restructuring program to be implemented soon.

Generally speaking, the sub-sector could be awaked rather easily if required conditions exist, without no huge investment.

Up to now, domestic or export opportunities are prevented by - first- tax uncertainties.

So, we totally agree when the official papers say "Kaliningrad, a crossroad of east-west trade routes".

But so far, the door is not half-open yet...at least for light industry sub-sector.

Chapter 3 STRENGTHS/WEAKNESSES - OPPORTUNITIES/ THREATS (SWOT)

This SWOT is splitted in 5 paragraphs.

There are 4 positions of Light Industries (LI) : exporting and not exporting ones, amber plants and LI-to-be, (not existing yet but having a chance to be successful as re-exporting units if and when tax shelters and FEZ privileges are confirmed).

Every type has a common SWOT shown para 1.

1- GENERALS

- S_ human resources and skills
 - very low investment/personnel ratio
 - manpower intensive activities
 - geographical location of K.
- W- long mail despatch
 - long transit and customs clearance at mainland border
 - tax uncertainties
 - lack of marketing, mainly for export
 - too small K oblast market
 - old machinery (but, mostly, not obsolete)
 - idle machines
 - design not fitted to export
 - very few computers
- O- so far, competitive factors' costs
- T- risk of escalation in labor cost
 - machinery shall not be more competitive when labor cost grows

2- EXPORTING LI (textile, leather, shoes, furs and furniture)

- S- optimum location to export to mainland and to western Europe
 - constant sales
- W- shortage of R&D
 - competition with nearby countries
- O- availability of inputs (local or imported) through JV and/or sub-contracts
- T- erratic deliveries due to border procedures
 - no more job if contract terminates

3- NOT EXPORTING LI (same sub-sector)

S- still alive!
 skilfulness and cleverness of personnel
 some of products could be exported if aggressive marketing

W- poor inputs from mainland

O- export opportunities

T- expected bankruptcy if no change in macro-economic situation
 unemployment problems

4- AMBER INDUSTRIES

S- amber stock existing. By far, the biggest source in the world
 profitability
 dynamic small scale craftsmen

W- poor innovation

O- R&D for related chemical and medical products
 aggressive marketing positioning

T- strong competitors in processing (Far-East, Poland)
 amber extraction plant squandered, need restructuring and
 protection

4- LIGHT INDUSTRIES TO-BE

S- existing and idle machinery
 using technology transfer from abroad, export possibilities to
 Russia mainland

W- lack of know-how
 not familiar with international quality standards
 competitors from far-east countries
 poor R&D

O- booming export demand for innovative consumer goods
 foreign Cys eager for JV in stable free zones with low
 factors' costs

T- strong world competition

A development concept of light industries has to be closely inserted in a comprehensive development strategy including every sector of the economy of Kaliningrad.

So, we only suggest, in the following lines, three aspects of what a development strategy of this sub-sector should be, by giving :

- 1- a detailed guideline of the minimum requirements for a sustainable improvement in the present economic context,
- 2- some assumptions on future of existing factories when there is no more legal uncertainties,
- 3- a scheme of outward-oriented industries to be favourably undertaken, in Kaliningrad oblast, if and when macro-economic environment has improved.

1- "Emergency" sequence

As indicated before, industries are now complaining about lack of clear and steady tax and customs procedures. This is to be added to major management difficulties, lack of cash, prohibitive cost of credit, deficient organization and shortage of export opportunities.

We advise :

- training courses for management
- set-up of export marketing service to improve sales of locally-made products, either to Russia mainland or to western countries
- set-up credit facility scheme to allow commercial bank in assisting the company having got new confirmed orders
- for amber part, at first, study and implementation of restructuring extraction unit

2- "Half-open door" sequence

When tax regulations are definitely settled, existing industries are in a position to expand their sales to mainland and abroad. This sequence will be mainly focussed on processing local materials, such as leather, furs, wood furniture, shoes and amber.

We advise :

- keeping and developing previous measures : training, export services, credit facilities and amber revitalization
- extending export marketing services to a R&D bureau in order to assist factories for design, quality improvement and new and innovative end-products

- research of sub-contracting opportunities and joint ventures with foreign companies in view of exporting local inputs.
- for amber, participating to major world shows, "Hong-kong Jewelry & watch Show" specially.

3- "open door" sequence

 After giving an impetus to export local products, the Government could be ready to welcome outward-oriented and re-exporting industries to and from Russia mainland, to and from neighbouring countries as well. So, the "Yantar" free economic zone shall play its role.

We advise :

- keeping and developing previous measures
- establish contact with the major Chambers of Industries in the world, attending international shows and greatly expanding exhibitions in Kaliningrad
- for amber, attending major world exhibitions such as "Hong-Kong Jewelry & Watch Show".

These above-mentioned suggestions could be included in a development policy of industrial sector of Kaliningrad.

Development of light industries could be faster than others due to their own characteristics :

- there never need high investment, compared with heavy ones,
- there are manpower intensive and, so, their expansion greatly contributes to reduce expected-to-increase unemployment, and expatriation of russian workers to more favoured nearby countries.

To sustain a development strategy, as above-described in chapter 4, we submit three proposals which are linked together and have to be undertaken gradually and jointly.

1- Management training

Crossing from centralized economy to open market is not easy without preparation and special training for managers.

As far as we know, the TACIS program of the European Commission is planning a lot of training courses in this direction. It includes many theoretical and practical lessons on market economy and the ways to deal with, oriented to management staff of enterprises.

EC funding, if so, will avoid to plan funding from other sources, or a minor funding only.

Final TACIS documents would be issued in a very near future, probably before completing final report of this UNIDO project which will take these proposals into account.

2- Short-term credit facilities

Most of the enterprises are asphyxiated by lack of cash and prohibitive interest rates.

The first necessity to keep them alive is granting credit with lower rate, at least to finance firm orders, mainly from foreign customers.

In such a case, payment should be done in foreign currency. Credit would be used to pre-finance the corresponding orders and to buy spare parts for machinery maintenance.

Interest rate could be equivalent to corresponding foreign currency rates.

This is the minimum to be done. Is it possible?
If not, any other incentive shall count for nothing.

According to what we discover during our visits, money requirements should be at least in the region of \$1 million. That would be to pre-finance first orders for export and to reshuffle these companies.

Amber extraction, which is considered as a strategic position, requires much more.

Only a in-depth evaluation, feasibility study, with a marketing survey, would be almost \$100.000.

3- Export-marketing services

To develop industry in a so small oblast, with limited resources, separated from its mainland and close to rich european markets, Kaliningrad needs more than a formal Government Investment Office and a Chamber of Commerce and Industry.

As IFC did in other east european countries, we contemplate an autonomous Body for export-marketing services. We say "autonomous" because it must be a discretion-based activity. In many cases, such services have failed due to early publicity on emerging businesses.

This body will require only a light team with an aggressive commercial attitude. A sort of group of - let us say - "muskeleers" or... "samurai"!

At least a "catalyser" of business relationship during exhibitions and follow-up.

3-1 Work programme

based on the same method, fitted to each step of development

3-1-1 "emergency" sequence (see chapter 3)

- selecting the most promissive companies
- establishing marketing documents and catalogs, selecting samples
- starting commercial R/D, analysing international specialized magazines, perfecting most promissive items
- participating in few selected exhibitions in Russia and abroad
- ensuring follow-up of prospect customers up to contrats

3-1-2 "half-open door" sequence

- opening activity to every company
- approaching several large companies (such as Kvartz and Gas Automatika (visited during this mission) for co-operation
- same steps as before with resource-based products

3-1-3 "open door" sequence

- same steps extended to several non-resource products and proposals for re-exporting industries
- getting in contact with promissive "lobbies" in several countries
- approaching foreign Bodies such as Chambers of Industries with proposals for JV with foreign companies
- proposing technical and business co-operation during several exhibitions, specially european ones for sub-contracting and partnership. In France, MIDEST show, similar one in Germany and Italy.
- ensuring follow-up until contracts

Types of foreign manufacturers possibly attracted by favourable conditions of Kaliningrad :

- fabrics, yarns, haberdashery items, garments and hosiery,
- jewelry,

- components of glasses and watches,
- leather products,
- various small electronical items such as calculators
- radio sets
- bicycles and motor-bicycles
- huge varieties of toys
- lighters
- small fire-extinguishers for cars
- umbrellas
- electric irons

This tentative list comes from findings on starting period of several free zones in the world.

3-2 Team structure

A core staff of the Body will include :

- One local manager, and later on, one then two assistants, economists and engineers, having a good knowledge of light industry environment, fluent in english and, if possible, a second foreign language
- One then two or three foreign advisors, with similar background and long-experienced in industrial marketing and free zones, part-time working on request of the local manager.
- A mid-term review will be planned after 18 months and carried out by an other foreign expert associated with a national consultant.

3-3 Location

This Body would gain to be based at the Kaliningrad Chamber of Commerce and Industry, also closely linked with the "Yantar" Development Committee.

3-4 Financing

Financing shall be requested to international donors. Expertise should be provided by the Body, under strict control of a donor experienced in such countries, to avoid severe problems which could appear when disbursing funds.

This Body will be allowed to charge fees to local companies. Taking into account the wretched situation of enterprises in Kaliningrad, fees shall be payed partly when short-term credit (see para 2) is available, partly at the completion of the contract provided thanks to the Body.

Fees could be in the region of 5% of contract value.

Chapter 6

TENTATIVE BUDGET

We assume one year for every sequence, (figures in thousand US\$)

	year 1	year 2	year 3
	-----	-----	-----
1-Staff costs			
local experts	20	40	60
local support staff	5	5	5
2- Office costs			
rent and utilities	10	10	10
travels	20	30	40
equipment and supplies	5	2	2
3- Fees of short-term experts	60	90	120
Accomadation and travels	30	45	60
4- Overseas expenses	20	35	50
5- Contengencies	30	43	53
Total costs	200	300	400
	---	---	---
6- Fee Income			
(expected turnover)	(1000)	(2000)	(5000)
fees	50	100	250
7- Funding requirements	150	200	150
	---	---	---

Nota : this draft approach to be inserted in global funding requirements.

APPENDIX 1

FACTS AND FIGURES ON LIGHT INDUSTRY SUB-SECTOR

Study carried out by the national consultant.

Share of light industry in total volume of production has been lowered from 2.3% in 1993 to 0.9% in 1994. The reasons are low competitiveness of light industry goods, absence or shortage of raw materials, as well as flood in the market with Chinese and Turkish goods.

As one may see on the graphs, volume of light industry production went on growing from 1970 till 1991. Since 1991 when recession began till 1993 the volume reaches 88% of 1990. Number of personnel occupied in light industry lowered from 4345 in 1992 to 3098 in 1994. Though productivity of labour continued to grow.

Production volume in terms of value grew in 1994 comparing with the previous years due to price rise (inflation) while if we consider the volume in kind we may observe permanent recession of light industry production. For example, in 1994 the volume of stocking-and-sock goods production was only 33% of 1993 and production of coats for this period totally stopped. Only production of dresses had a rise in 1994: it was 115% of 1993 being though only 36% of 1992.

Dealing with prices for light industry goods, we may see some slowing down of price rise in 1994. In December of 1994 prices grew by 332.8% comparing with December of 1993, while it had grown by 684.5% in December of 1993 comparing with December of 1992.

At the end of 1994 we may see trends to rise in stocking-and-sock production: it increased by 527% in IV quarter of 1994 in comparison with III quarter of the same year.

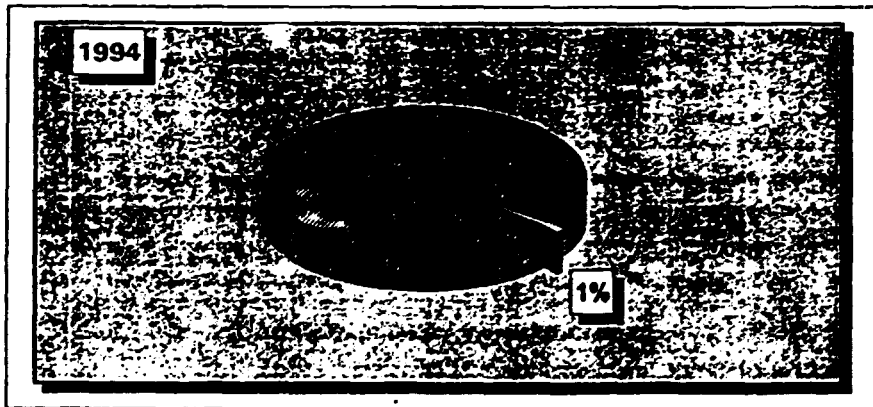
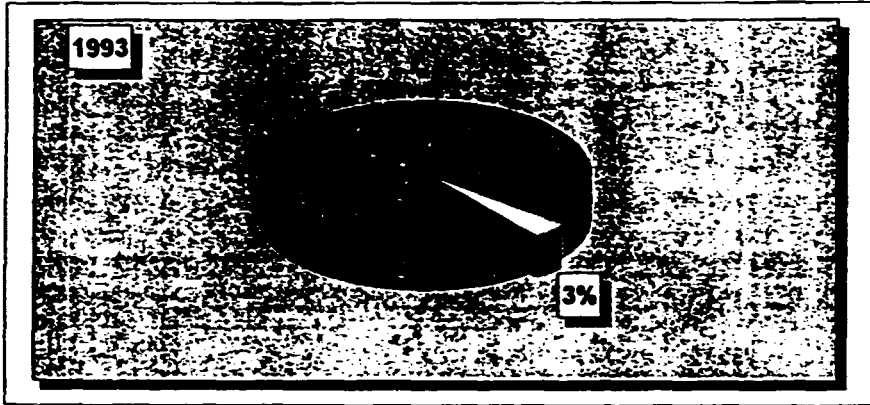
As for knitwear and footwear, their production reduced by the end of the year: in December 1994 it was 37% and 90% of November respectively.

In 1994 recession of production of the most important kinds of furniture did not stop. So production of tables in 1994 was only 18% of 1993 while in 1993 it was 79% of 1992. A little rise in armchair production was observed (in 1994 it was 106% of 1993) though recession was the most severe in 1993 (25% of 1992). So it is possible to make a conclusion that the more sufficient recession was in 1992 the less it was in 1994 and visa versa.

Furniture production was 31% of 1993. However we may see some trends to production rise by the end of 1994. So in IV quarter of 1994 the production was 151% of III quarter and in December of 1994 it was 115% of November of 1994.

Production recession in furniture industry is explained by absence or shortage of raw materials, breaking ties with the industries in the former Soviet Union, competition of the Western manufacturers (so import of furniture in 1994 2.7 times grew comparing with 1993).

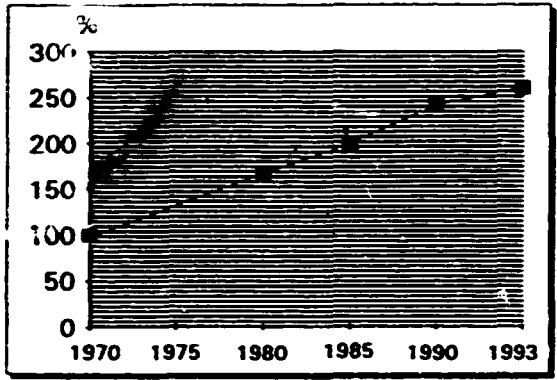
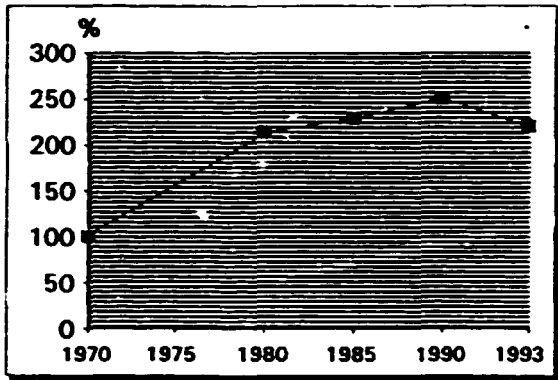
Share of light industry in the structure of industrial production



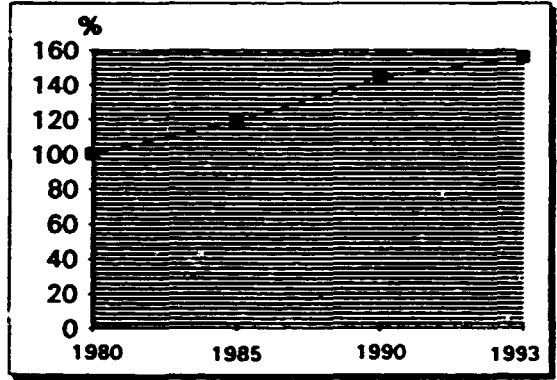
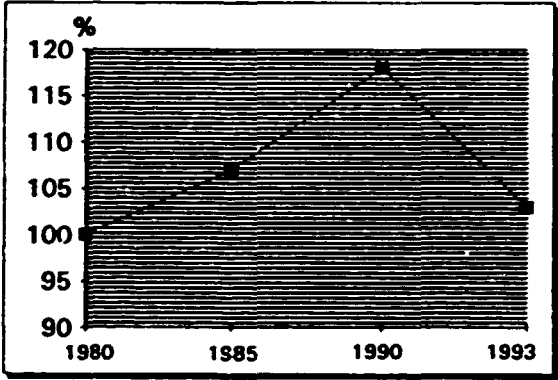
Growth rate of total volume of production productivity of labour

Volume of production Productivity of labour

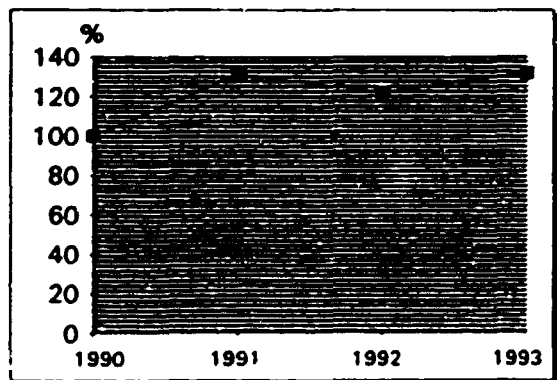
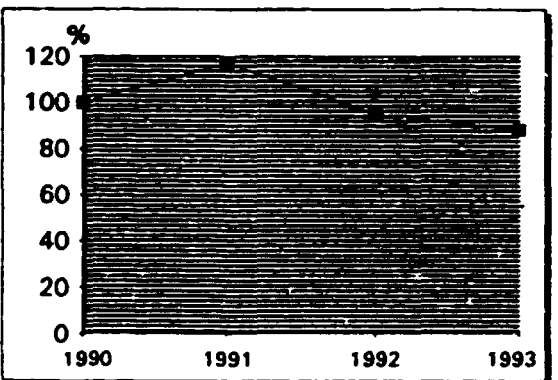
1970 = 100%



1980 = 100%



1990 = 100%



Light Industry
Volume of Industrial Production

Table 1

	In prices of 1994, billion rbl.	% of 1993 physical volume		Share of production (% to prices of 1992)	
		1994	Dec. 94	1993	1994
Total volume in the Kaliningrad region including:	945.3	67.9	88.0	100	100
Light industry	15.3	29.4	33.7	2.3	0.9

In the circumstances of low competitiveness of light industry, its share in the total volume of industrial production is being sufficiently reduced. Now it is 0.9% against 2.3% in 1993.

The following data characterize changing in number of personnel participating in industrial production:

Table 2

	Number of personnel, people		Per cent to:	
	1994	Increase (+) reduction (-) to 1993	1993	1993 to 1992
Total volume in the Kaliningrad region including:	66197	-11587	85.1	87.1
Light industry	3098	-621	83.3	85.6

In 1994 fall of production volume of the main products of light industry did not stopped. It is explained by shortage of raw materials as well as by flood in the Russian market with Chinese and Turkish goods. Import from other foreign countries has also increased.

Productivity Growth Rate (per worker)

Table 3

	1980 = 100%			1990 = 100%			per cent 1993 to 1992
	1985	1990	1993	1991	1992	1993	
All industries, including	121	147	138	101	95	89	94
Light industry	119	144	156	131	122	132	108

Total Production Volume Growth Rate

Table 4

	1980 = 100%			1990 = 100%			per cent 1993 to 1992
	1985	1990	1993	1991	1992	1993	
All industries, including	120	134	90	96	80	66	83
Light industry	107	118	103	117	95	88	93

Dynamics of Import of Specific Kinds of Goods
in Terms of Value
(million rouble in in-Russian prices)

Table 5

	1991	1992	1993
Rubber and rubberware	0.4	6	29
Leather goods	-	58	473
Textile	9	410	1623
Knitwear	0.7	77	1962
Clothing	48	80	835
Footwear	1.8	237	2220
Furniture	-	110	1599

**Production Volume in Effective Prices,
Its Growth Rate for January-June 1994
(in thousands of roubles)**

Table 1

	Actually produced:		Production volume growth rate (per cent)
	Jan-Jun 1994	Jan-Jun 1993	
Total industry in the region, including:	379185261	124263435	305.1
Regional Association of Light Industry Gvardeisk Stocking Factory	6314097	2480925	254.5
Kaliningrad Knitted Goods Factory	126874	89599	141.6
CHAIKA, Gusev DRUZHBA Stocking Factory	1206326	426385	282.9
Production and Trade Clothing Association SEAMSTRESS	469958	411370	114.2
Association Tannery	836615	198150	422.2
"Haberdashery and Leather Goods" Association	941082	502066	278.6
Footwear Factory Zelenogradsk Clothing Factory	208971	75005	278.6
	61723	82250	75.0
	1282056	410152	312.6
	113022	31403	359.9

**Production (Work, Service) Volume
and Its Growth Rate for January-June 1994
(in thousands of roubles)**

Table 2

	Production volume in effective prices	Volume growth rate per cent	Index of physical volume of industrial production per cent
Total industry of the Kaliningrad region	379185261	305.1	65.0
Light industry	6598655	249.8	35.0

**Number of the Industry Personnel and
Its Growth Rate for January-June 1994
(people)**

Table 3

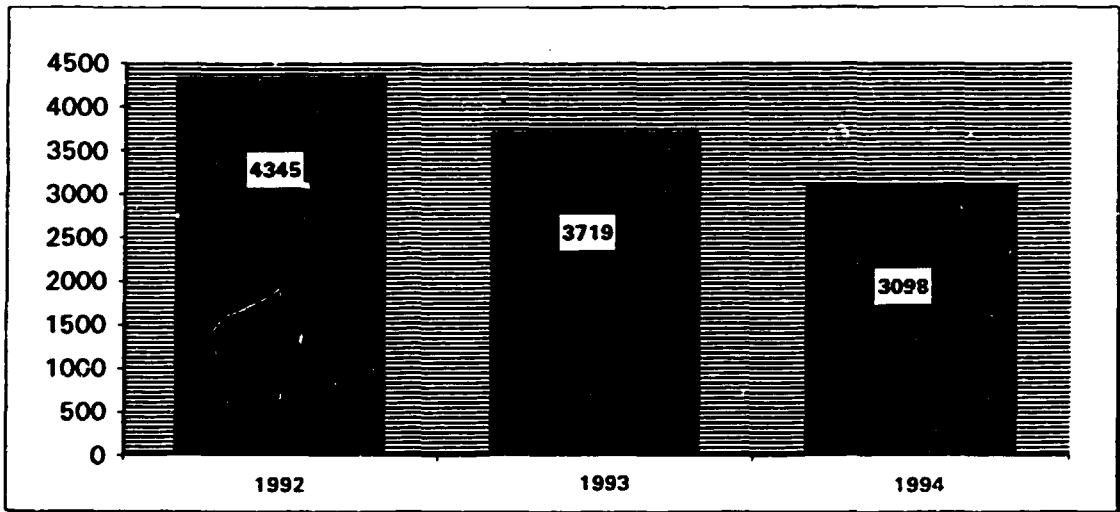
	Actually for:		per cent Jan-Jun 1994 to Jan-Jun 93
	Jan-Jun 94	Jan-Jun 93	
Totally in the Kaliningrad region, including	69572	81112	83.5
Light industries, including	3050	3654	85.0
Gvardeisk Stocking Factory	108	127	81.5
Kaliningrad Knitted Goods Factory	391	480	81.5
CHAIKA, Gusev	339	478	70.9
DRUZHBA Stocking Factory	344	371	92.7
Production and Trade Clothing Association	597	605	98.4
SEAMSTRESS Association	569	731	77.8
Tannery	78	89	87.6
"Haberdashery and Leather Goods" Association	93	128	72.7
Footwear Factory	432	478	90.4
Zelenogradsk Clothing Factory	99	165	85.8

**Production Volume and Productivity Growth Rate
for January-June 1994**

Table 4

	Per cent of growth rate		Productivity growth rate: Jan-Jun 1994 to Jan-Jun 93
	Production	Personnel	
Total industry of the Kaliningrad region	65.0	85.8	76.8
Light industry	35.0	83.6	41.9

Number of personnel occupied in industry



**Production of Most Important Products
in Kind for January-June 1994**

Table 5

	Actually produced:		Per cent Jan-Jun 94 to Jan-Jun 93
	Jan-Jun 94	Jan-Jun 93	
Stocking-and-sock goods, thousands of pairs	1519	4394	43
Knitwear, thousands of units, including	1267	1962	65
Kaliningrad Knitted Goods Factory	1170	1521	77
CHAIKA, Gusev	97	441	22
Footwear, thousands of pairs	738	1154	64
Furniture in retail, thousand rouble, including:	519034	2952480	18*
BALTMEBEL	304968	1369116	22*
CHERNIAKHOVSKMEBEL	116094	1150078	10*

* - Data for a month.

**Production Volume in Effective Prices,
Its Growth Rate for January-June 1994
(thousand rouble)**

Table 6

	Actually produced:		Per cent Jan-Jun 94 to Jan-Jun 93
	Jan-Jun 94	Jan-Jun 93	
Russky Yantar Production Company	7008582	3705422	189.1
BALTMEBEL	1780647	876372	203.2
CHERNIAKHOVSKMEBEL	1242740	969439	128.2

**Number of Personnel and
Its Growth Rate for January-June 1994
(people)**

Table 7

	Actually for:		per cent Jan-Jun 1994 to Jan-Jun 93
	Jan-Jun 94	Jan-Jun 93	
Russky Yantar Production Company	1965	1894	103.7
BALTMEBEL	482	550	87.6
CHERNIAKHOVSKMEBEL	570	873	65.3

**Production of Consumer Goods at Furniture-making
and Light Industries and Amber Factory
(thousand rouble)**

Table 8

	Actually produced:		Per cent June 1994 to June 1993
	June 1994	June 19 93	
CHERNIAKHOVSKMEBEL	117752	1182151	10.0
BALTMEBEL	313954	1388052	22.6
Rusky Yantar Production Company	1448225	4793367	30.2
Light industries, including Gvardeisk Stocking Factory	1100999	1902789	57.9
Kaliningrad Knitted Goods Factory	14538	58800	24.7
CHAIKA, Gusev	194285	308744	62.9
DRUZHBA Stocking Factory	204613	485000	42.2
Production and Trade Clothing Association	133217	234240	56.9
SEAMSTRESS Association	55833	140778	39.7
Tannery	271413	112358	240
Footwear Factory	650	-	-
Zelenogradsk Clothing Factory	187520	539193	34.8
	38930	23676	164.4

**Production of Most Important Light Industry Products
in Kind**

Table 1

	1970	1980	1985	1990	1991	1992	1993
Clothing, mln.rbl, including:	25.6	65.6	73.1	143.9	143.0	510.6	1966
Coats, thous. units	158	622	643	495	323	16	25
Dresses, thous. of units	631	772	702	703	480	76	27
Trousers, thous. units	348	531	489	514	266	93	16
Skirts, thous. units	37	61	53	71	42	19	15
Stocking-and- sock goods, thous. pairs, including:	3946	6156	10178	13279	10642	6653	6812
socks thous. pairs,	1274	3399	6809	9027	8198	5867	5792
tights, thous. pairs,	1015	2472	2861	3020	2154	671	858
Knitted underwear, thous. units	2513	7156	7549	7436	7372	4142	2860
Light knitwear, thous. units	4533	2492	2536	3752	3114	1966	1035
Footwear, thous. pairs,	983	2787	3312	4091	4219	2614	2211
Furniture, mln.rbl in wholesale prices	16.6	24.7	30.7	65.1	79.7	854.7	6957.4

**Production of Consumer Goods
(million roubles)**

Table 2

	1985	1990	1991	1992	1993
Light industry goods	74	173	341	1512	8357

Table 3

	Produced in		Per cent to 1993		1 9 9 4 per cent	
	1994	Dec. 94	1994	Dec. 94	IV quart. to III quart.	Dec. to Nov.
Stocking-and-sock goods, thous. of pairs	2216	234	33	60	527	150
Knitwear, thous. of units	1625	52	42	14	114	37
Footwear, thous. of pairs	1088	46	49	24	79	90

Production of most important kinds of non-food consumer goods of light industry in 1994

Table 4

	Actual production	Per cent to 1993	Per cent of 1993 to 1992
Stocking-and-sock goods, thous. of pairs, incl. children's	2216 365	33 44	100.4 130
Knitwear, thous. of units incl. children's	1625 786	42 53	63 67
Footwear, thous. of pairs	1088	49	85
Coats and semi-coats, thous. of units	2	8	156
Macintoshes, thous. of units	0	0	51
Jackets, thous. of units	5	14	47
Dresses, thous. of units	31	115	47
Skirts, thous. of units	6	40	79
Trousers, thous. of units	9	56	17
Shirts, thous. of units	73	70	29

**Summary price indices in the light industry
of the Kaliningrad region (per cent)**

Table 5

	Dec. 1993 to Dec. 1992	Dec. 1994 to Dec. 1993
Total studied industries of the Kaliningrad region including:		
Light industry	974.1	330.2
	684.5	332.8

**Summary price indices in the light industry
for January-November 1994 to December 1993 (per cent)**

Table 6

	Kaliningrad region	Russian Federation
Total studied industries including:		
Light industry	292	295
	270	301

**Dynamics of import of special goods
in kind and in terms of value (1993-1994)**

Table 7

	1 9 9 3	
	Quantity	Value in thous.of \$
Fir cloths, ton	2	123
Textile, thous.of meters	849	2154
Knitted cloths	-	371
Textile cloths	-	749
Footwear, thous.of pairs	64.4	675
Furniture	-	1530

Table 8

	1 9 9 4		Growth rate (per cent) 1994 to 1993	
	Number	Value in thous.of \$	In kind	In terms of value
Fir cloths, ton	14	1957	by 7 times	by 15.7 times
Textile, thous.of meters	783	2147	92.2	99.7
Knitted cloths	-	724	-	by 2 times
Textile cloths	-	2198	-	by 2 times
Footwear, thous.of pairs	94.4	2971	146.6	by 3 times
Furniture	-	4167	-	by 2.7 times

Production of Furniture

Table 9

	Produced in:		% to 1993		1 9 9 4	
	1994	Dec.94	1994	Dec.94	% of IV to III	% of Dec. to Nov.
Furniture in retail prices, million rbl	7618	821	31	31	151	115

Production of Most Important Kinds of Furniture

Table 10

	Actually produced in 1994	Per cent to 1993	Per cent of 1993 to 1992
Sofas, units	1592	24	88
Wardrobes, units	6263	41	82
Armchairs, units	769	106	25
Tables, units	8935	18	79

Production of Consumer Goods in Light Industry in 1994

Table 11

	Actually produced in 1994 (bln.rbl)	Per cent to 1993 year		Per cent in total structure	
		1994	Dec.94	1993	1994
Consumer goods, including light industry goods	581.4	66.0	74.6	100.0	100.0
	16.2	47.1	32.8	3.9	2.8

Production of Some Kinds of Light Industry Goods
for One Day in the Kaliningrad Region

Table 12

	1993	1994
	in average per day	
Stocking-and-Sock goods, thousands of pairs	18.7	6.0
Knitwear, thousands of units	10.7	4.4

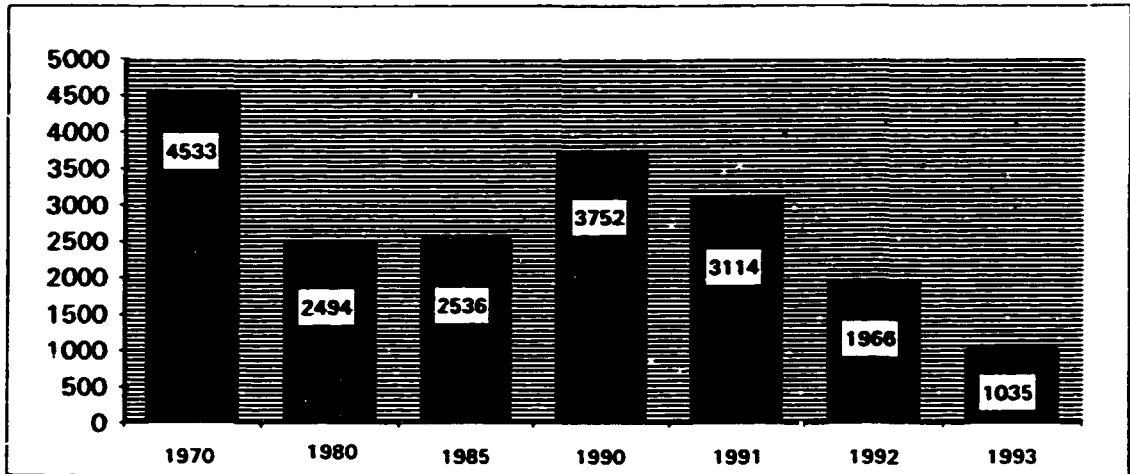
Production Volume in 1994 (in Effective Prices)

Table 13

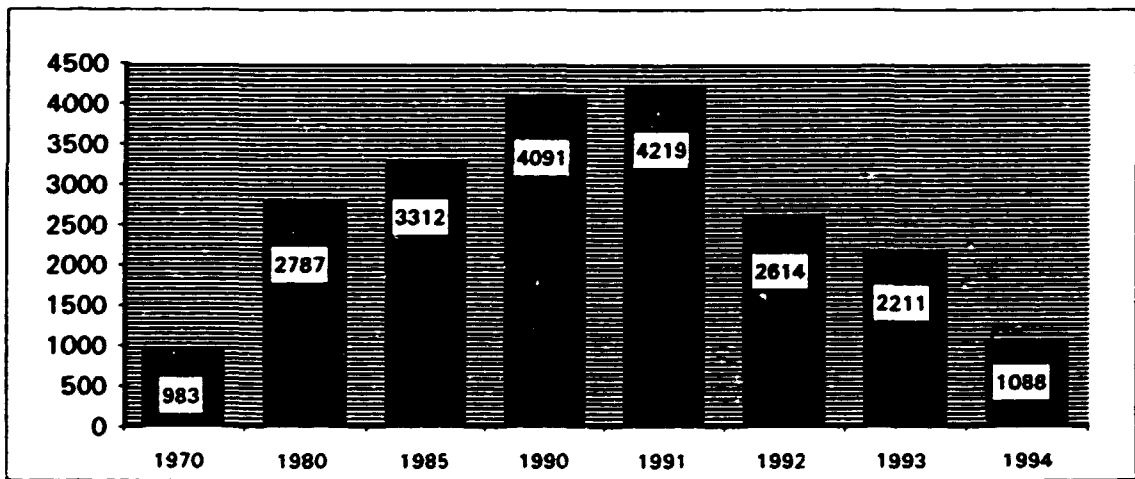
	Production volume, mln.rbl	as respect to 1993	
		times	index of physical volume
All industries, including	942009	2.5	67.9
Light industry	15267	1.8	29.4

PRODUCTION OF MOST IMPORTANT PRODUCTS IN KIND

Over-knitwear thousand of units



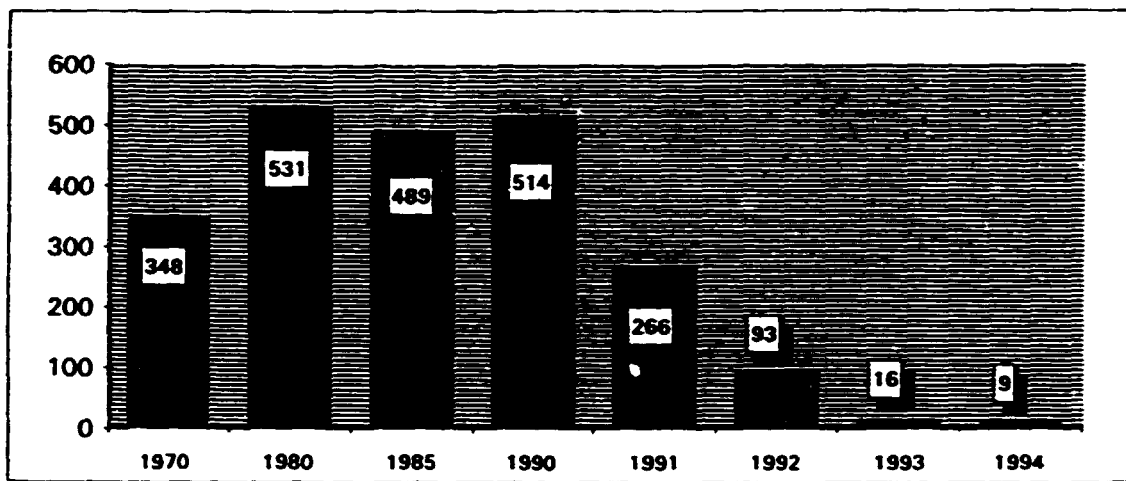
Footwear thousand of pairs



PRODUCTION OF MOST IMPORTANT PRODUCTS IN KIND

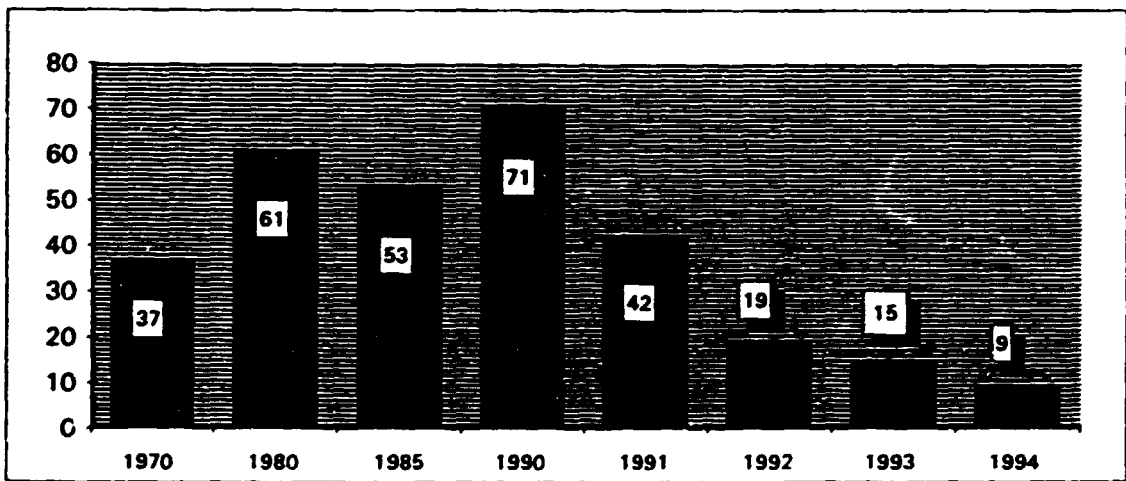
Trousers

thousand of units



Slirts

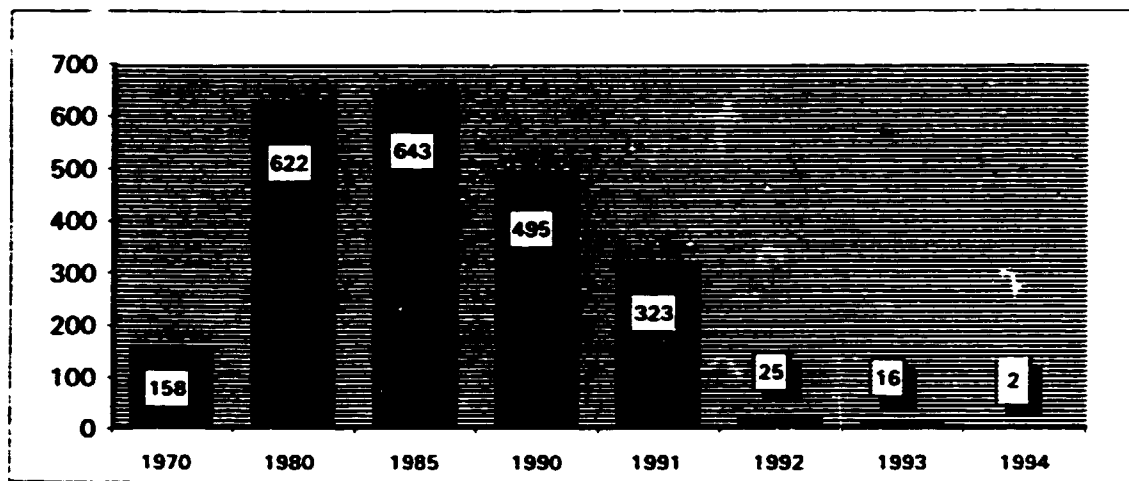
thousand of units



PRODUCTION OF MOST IMPORTANT PRODUCTS IN KIND

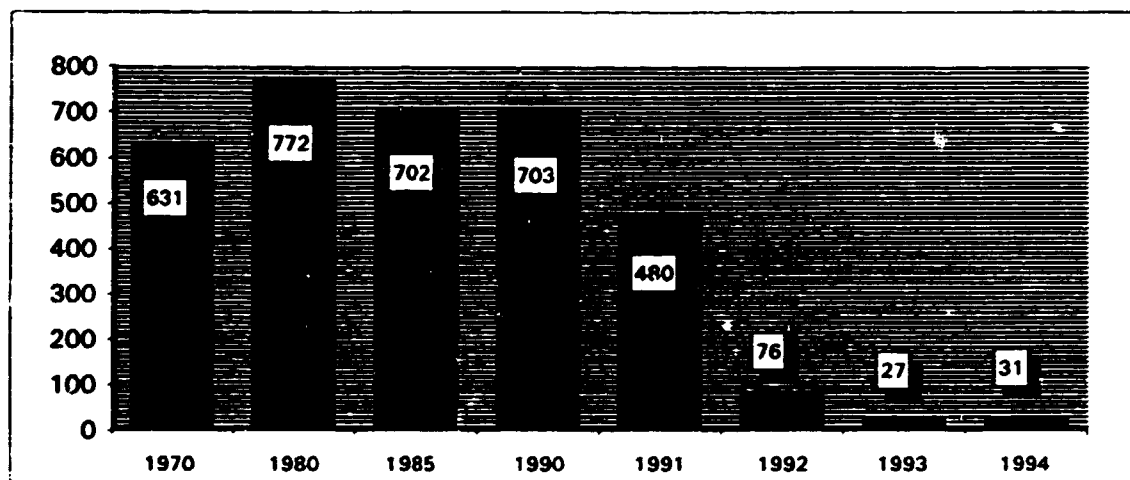
Coats

thousand units



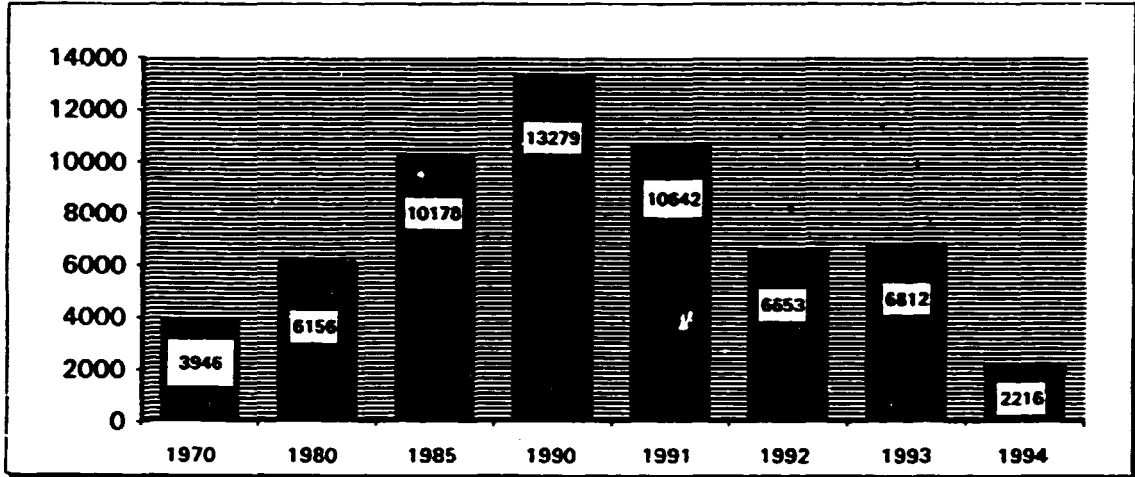
Dresses

thousand units

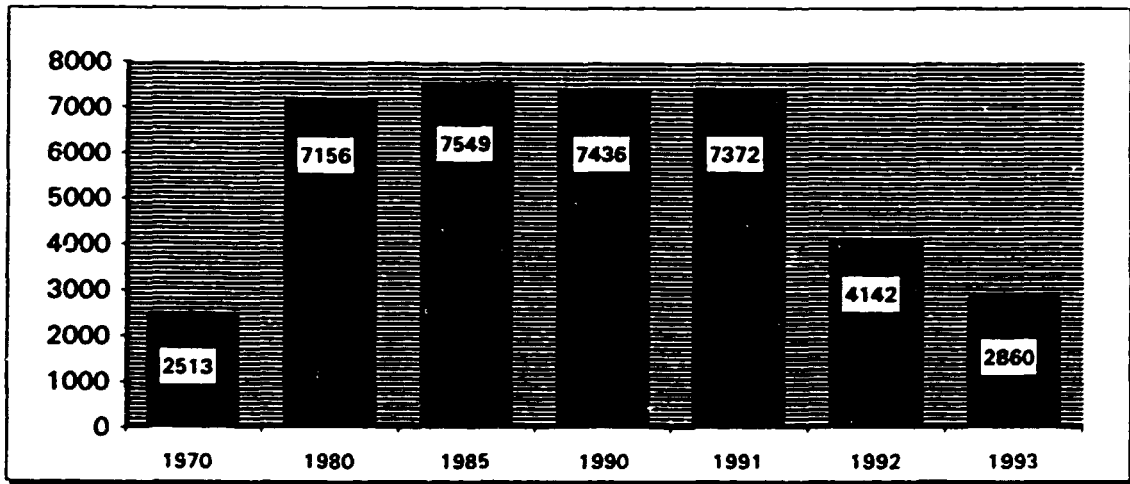


PRODUCTION OF MOST IMPORTANT PRODUCTS IN KIND

Stolings and socks thousand of pairs



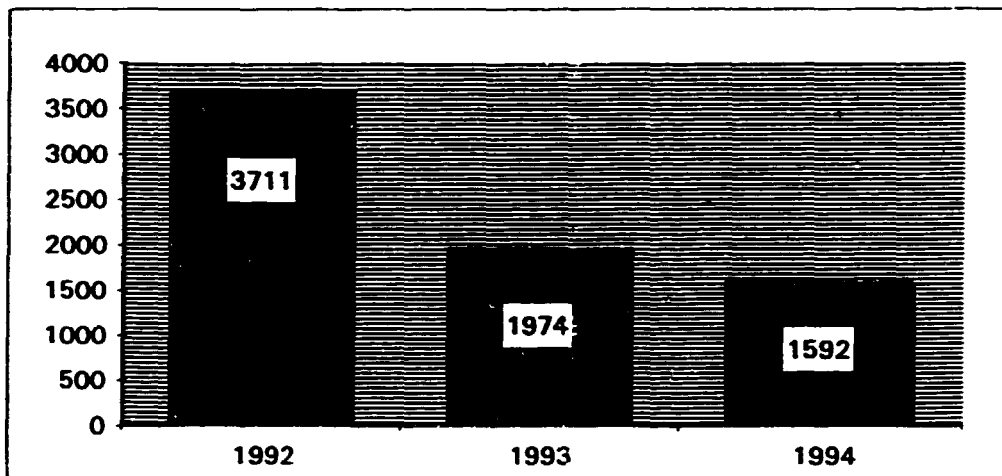
Knitted underwear thousand of units



PRODUCTION OF MOST IMPORTANT PRODUCTS IN KIND**FURNITURE**

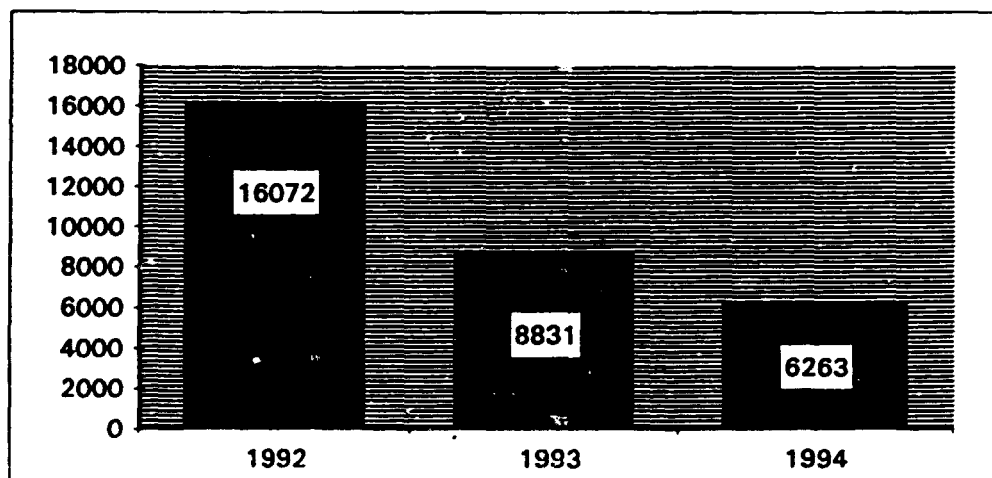
Sofas

units



Wardrobes

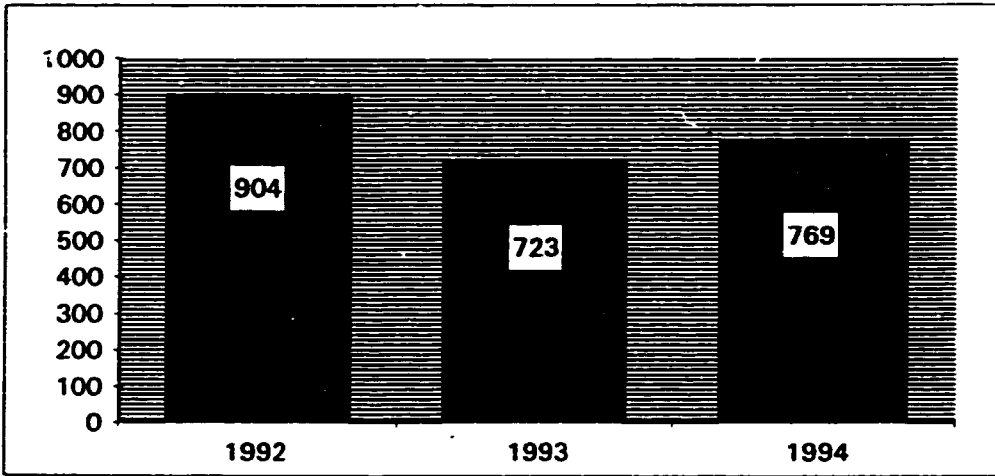
units



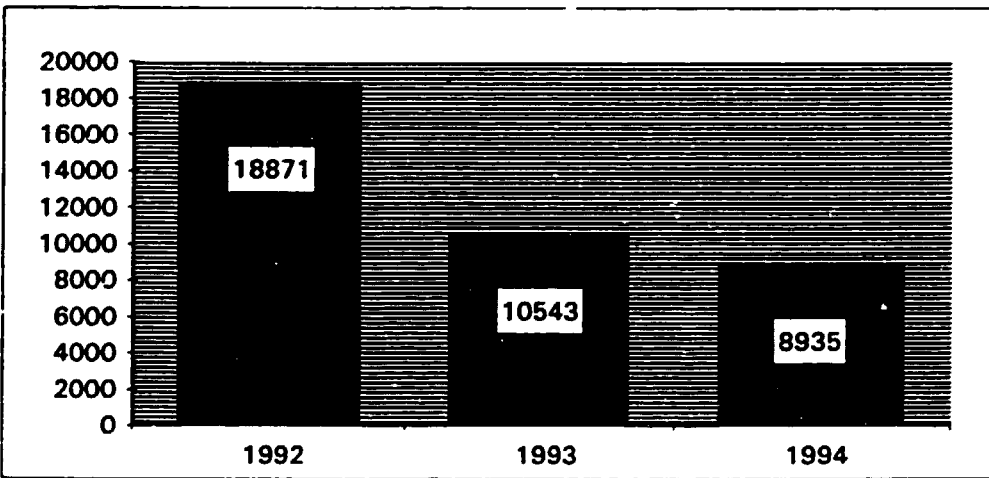
PRODUCTION OF MOST IMPORTANT PRODUCTS IN KIND

FURNITURE

Armchairs units



Tables units



The period of transition to the market is inevitably leading to structural rebuilding of industry: first of all to enhancement of consumer goods production.

Small enterprises manufacturing furniture are oriented directly to consumer goods. The assortment of the products consists of wardrobes, sofas, beds, tables, desks, armchairs, upholstered furniture sets.

Footwear factories manufacture domestic footwear.

Knitted good factories produce light knitwear and underwear.

The main suppliers of sock articles are: the Gusev CHAIKA Factory - in the "Trikotazh" (Knitwear) store; the Gvardeisk Stoking-and Sock Factory - in the "Silhouette" and the "Mayak" department stores. Only men socks are in large variety. The prices of the socks of cotton and elastics are from 2100 to 3800 rouble. They are quickly sold as the cheaper ones (under my own experience I can say that some lots of the Gvardeisk factory's socks are very feeble to be torn). A negative feature - poor colours (white-and-grey, white-and-brown). A customer wants more vivid colours and patterns. The same can be said about the rest knitwear in the stores.

Alongside with these goods there are import goods bought in small volumes from private persons and firms. Mostly it is 100% synthetics and more expensive than the local goods. Prices are from 4500 to 8400 rouble though they are in demand as better designed, colourful and varied.

Table 1

Main Suppliers	Prices	Demand	Quality
<u>"Trikotazh":</u> the Gusev CHAIKA Factory, import goods	men socks 3000	mostly for import products as the better designed and packed	30% of elastics
<u>"Silhouette":</u> the Gvardeisk factory, import goods	men's socks: 2100-2900 knee-breeches: 7500, 8400, 4500		cotton+ elastics elastics cotton
<u>"Mayak"</u>	men's socks 2200-3800		cotton+ elastics

The Mayak, the Silhouette, the Trikotazh and the Trikotazh-Market stores get the knitwear (vests, football-shirts, shorts, trunks) from the Kaliningrad Knitted Goods Factory. Besides, the Trikotazh gets it also from the Gusev CHAIKA Factory. The quality of the goods is good, they use 100% cotton as raw material. The articles are neatly and strongly made and of rather low prices. The goods are mainly intended for people with middle and low income.

Drawbacks: poor variety and colours (as for underwear, it is mostly white).

The rest suppliers are private persons who sell small lots of import goods which mainly lose quality but won variety and colours.

The goods are well bought though not very quickly due to customers' money shortage. The opinions of customers from other cities are also positive.

Table 2

Knitwear			
Main Suppliers	Price	Demand	Quality
"Trikotazh":			
the Gusev CHAIKA Factory:			
men's trunks	7300	-	cotton+elastics
children trunks	3600	-	cotton+elastics
shorts	6750	-	wool+synthetics
shorts	3650	+	cotton
T-shirts	30000-3200		
sport suits	86000-90000	+	cotton
trousers	35000	+	cotton
skirts	50000	+	cotton
the Kaliningrad Knitted Goods Factory:			
trunks	6400	+	cotton
	7000	+	cotton
	7500	+	cotton
women's panties	1100	+	cotton
men's vests	5400-9000 (dep. on size)	+	cotton
babies' panty hoses	7500		cotton
babies' suits	11100		cotton
"Trikotazh-Market"			
the Kaliningrad Knitted Goods Factory:			
men's vests	6300	+	cotton
women's vests	9000	+	cotton
children's T-shirts	5400	+	cotton
women's T-shirts	1000	+	cotton
men's T-shirts	1000	+	cotton
women's panties	3100-3500	+	cotton
men's trunks	3500	+	cotton
"Silhouette":			
the Kaliningrad Knitted Goods Factory:			
women's vests	9700		cotton
women's panties	1100		cotton
trunks	6600		cotton
men's T-shirts	11000	+	cotton
women's T-shirts	13300-14000	+	cotton
the Smolensk Knitted Goods Factory:			
men's shorts	4800		cotton
women's panties	2500		cotton

Table 2 (Cont.)

Knitwear			
Main Suppliers	Price	Demand	Quality
shorts+vests	10400		cotton
vests	7000		cotton
"Mayak":			
the Kaliningrad			
Knitted Goods Factory:			
women's trunks	4000-4300	+	cotton
women's panties	3500	+	cotton
children panties	1800	+	cotton
men's trunks	4000-4200	+	cotton
men's vests	7100-6600	+	cotton
men's underwear set	9300	+	cotton
women's vests	9000	+	cotton
men's T-shirts	7100	+	cotton
women's T-shirts	8300	+	cotton

Table 3

Cloths			
Main Suppliers	Price	Demand	Quality
"Trikotazh":			
Small Enterprise of			
Clothing Industry:			
warm dressing-gowns	30000-32000	+	cotton
"Mayak":			
small lots from			
private firms			
summer dressing-gowns	2200-26000	+	cotton

Table 4

Footwear			
Main Suppliers	Price	Demand	Quality
"Mayak":			
the Kaliningrad			
Footwear Factory:			
	5400	+	
	9100	+	
Chinese footwear	9100-13000	+	
Italian footwear	80000-130000		
"Obuv" (Footwear):			
the Kaliningrad			
Footwear Factory:			
slippers	7000		
	8500		
	9500		
	10000		

The "Uyut" (Comfort) store

The Byelorussian upholstered furniture sets are relatively cheap (1,800,000) and of good design. One can select pleasant and qualitative upholstery, so they are of good demand. On the background of the Byelorussian sets, the Lithuanian ones look non-attractive as regard on their design and quality (dull upholstery and poor design of sofas and arm chairs) though they are respectively cheap (1,600,000-1,650,000).

The Polish upholstered furniture sets are much more expensive (2,600,000-3,400,000) with low quality of materials and work.

The ORTEX store

The ORTEX store works mainly under the orders with partial payment under contract. Their main suppliers are joint ventures: German-Polish, English-Polish, Dutch-Polish and Polish. The assortment is being constantly updated. The well-marketed goods do not lie long in the store. The furniture is of high quality but expensive (the higher the quality, the higher the price), it is intended for people with high income.

Prices:	upholstered furniture set	from \$759 to \$877
	bedroom furniture set	from \$2089 to \$4629
	modular furniture set	from \$1359 to 2159
	children's room furniture set	from \$669

All articles are made of natural wood. The design is original and varied.

In the nearest time the store is going to give up selling the Polish upholstered furniture sets because of severe competition. There are possibilities to import other goods.

Modular office furniture is of Italian production. The store is dealing with one set of 6 colours. The modules can be assembled according to a customer's wish.

The store is going to organize a furniture production on the basis of the Italian know-how and of Italian materials. Now they assemble part of the furniture in the store.

Tables - about \$100, wardrobes - from \$163 to \$399, chairs - from \$40 to \$186.

The "Mayak" department store

They have the CARINA upholstered furniture sets of 2,520,000 roubles, locally produced. The sets attract no interest of customers and are lying for two months already as their upholstery and work leave much to be desired as well as unreasonably high prices.

Retail prices

Розничные цены

на итальянские кресла и стулья

ИИЧП "Футура"

for Italian armchairs and chairs

by FUTURA private company

25.04.1995г.

<i>Armchairs</i>	<i>Price in \$</i>	<i>Chairs</i>	<i>Price in \$</i>
Кресла	Цена в \$	Стулья	Цена в \$
Cosma/P с.А I кат.	399	Marte	84
Cosma/D	375	Brenda	82
Cosma/V	325	Brenda/P	97
Mara/P Lux.	315	Brenda/V	62
Mara/P с.А	280	Newstar	78
Bibione/P с.А	239	Newstar/P	92
Bibione/D с.А	219	Tokio	69
Bibione/V с.А	199	Tokio/P	84
Olimpia/P с.А	215	Mantova	52
Olimpia/D	200	Mantova/P	65
Olimpia/V	185	Pila	52
Florida/P с.В	139	Iso	40
Florida/P мат.	135	Iso/P	52
Dino/P	119	Iso/2P	115
Dino	105	Iso 2P/P	135
Torino/P	99	Iso/3P	149
Torino	85	Iso 3P/P	186
Marte/P	99	Iso/BT	62
		Delta	40

Цены, приведенные выше, пересчитываются в рублях по курсу ММВБ на день получения счета + 2% конвертации. Оплата производится не позже 3х дней.

The above prices are converted into roubles at the rate of the Moscow Interbank Exchange by the day of issuing an invoice + 2% of converting. Payment within 3 days.

The "Furniture-Market" store

The main suppliers: the "Baltic Furniture" Joint Stock Venture, Kaliningrad, the Cherniakhovsk Furniture Factory, the "Progress", Gomel, furniture factories from Lithuania, Latvia, Poland. At the present moment there are no products of the Kaliningrad and Cherniakhovsk factories on sale. Almost all the rest furniture available are well-sold (mainly by separate articles: armchairs, tables, sofas) in spite of competition of private sellers who sell the same types of furniture near the store (they sell the Polish upholstered furniture sets of \$480-\$700). Also agents of the Cherniakhovsk Furniture Factory offer their goods (upholstered furniture sets of 1,400,000 rouble, modular furniture sets of 2,400,000-2,800,000, with photoes of samples) there.

Table 4

Upholstered Furniture Sets

Main Suppliers	Price	Demand	Quality
"Uyut"			
(A sofa+2 armchairs)			
Byelorussia	1,800,000	+	+
Lithuania	1,600,000	-	-
"	2,260,000	-	+-
"	1,650,000	-	-
Poland (corner)	3,400,000	-	-
"	2,600,000	-	-
"Mayak"			
CARINA	2,520,000	-	-
MAXIK	\$700	-	-
"Furniture-Market"			
Lithuania	2,400,000	-	-
Poland	3,220,000	-	-
CARINA	2,520,000	-	-

Table 5

Modular Furniture Sets

Main Suppliers	Price	Demand	Quality
"Uyut"			
Byelorussia	3,000,000	+	+
Lithuania	1,950,000	-	-
"	2,400,000	-	-
"Furniture-Market"			
Poland	10,810,000		
"	2,616,000		
Lithuania	3,780,000		

Table 6

Antechamber Room Furniture

Main Suppliers	Price	Demand	Quality
"Uyut"			
Byelorussia	3,500,000		+
Lithuania	1,580,000		+ -

Table 7

Bedroom Furniture

Main Suppliers	Price	Demand	Quality
"Uyut"			
Germany-Poland	6,600,000		
"Furniture-Market"			
Latvia			
LAURA-1(white)	3,800,000		
LAURA-2 (dark)	3,450,000		
Russia			
Dubna (white)	3,600,000		

APPENDIX 2

VISITS

In Kaliningrad city and Oblast

- Alexey Y. Ignat'ev, Chief of department, "Yantar" Free Economic Zone
- T. Paletskaya vice president, E. Kotylevskaya, Chamber of Commerce and Industry
- M. Zolotkova, GM, Yanta Inc.
- M. Soloviev, chief engineer, Shvei Inc.
- A. Dudchenko and A. Pavlovitch GM, Zelenogradsk Garment Inc.
- M. Galina, Technical Director, Gvardeiskaya Stocking Factory
- T. Okataya, GM Druzba Knitting Factory Inc.
- V. Ruban, Technical Director, Kaliningrad Knitted Goods Factory
- N. Konstantinova, director, Tchaika knitting industry, Gusev
- O. Smirnova, director, Tcherniakovsk Tannery Inc.
- A. Semotchkin, GM, Baltic Furniture Cy Inc.
- M. Ibragomov, GM, Maxic Furniture Cy
- A. Khan, GM, and N. Petrushko, deputy, Russky Jantar Inc.
- V. Terentiev, GM, Voyter furniture Cy
- O. Maklyjin, GM, and S. Rebrigof, technical manager, Victor shoe making factory in Svetly
- I. Evsjutkin, GM, Profra, (mink processing)
- G. Zafren-Harif, GM, Prozorovskya (mink farm)
- A. Kucha, amber craftman
- V. Voroviev, chief engineer, Kvartz Inc.
- M. Karapysh, factory manager, Gas Automatica Inc.
- The GM of Kaliningrad Shoe Factory has refused to be interviewed by the national consultant
- Mr M. Wojceichowski, Gen.Dir. "Westbalt Telecom"
- Mr F. Helm, EC consultant in mission

In and from Paris

- Chamber of Commerce and Industrie of Paris
- Centre for Foreign Trade in Paris
- (by phone) The European Commission, TACIS program in Brussels
- (by phone) Chamber of Commerce of Amsterdam (J. Bevaart)
- (by phone and fax) Deutscher Industrie-und Handelstag Bonn, (Dr B. Kitterer)
- Commercial Attache, Embassy of Malaysia
- Huron Cy, CNC machinery manufacturer, Graffenstaden

Note on visits of factories

Interviews have been performed by the two consultants or by one them only.

Then, informations have been commented by both of them together.

A set of questions has been prepared as follows :

- 1- Identity of the company
- 2- Manpower
- 3- Production
- 4- Inputs
- 5- Cost prices/selling prices, gross value added/ gross profit
- 6- Marketing/customers/R&D/catalogs
- 7- Sales (domestic/export)
- 8- Energy
- 9- Waste
- 10- Major management problems ?

Every visit report includes our assessment about:

-
- organisation of the company
 - equipment and machinery
 - end-products
 - inputs
 - need of rehabilitation ?
 - extension ?
 - investment required ?

Visit to : YANTA Inc.

- 1- YANTA Inc. 236000 Kaliningrad
fax 27 27 22
privatized 1993
- 2- 500 employees, permanent, 95% women, good skills
the number of clerks and managers to be reduced soon
- 3- production of ladies' clothes (skirts, suits, dresses)
360,000 units/year since 1992
- 4- all inputs provided by german contractor
- 5- selling prices, \$5 to \$6 per unit, include labour cost, overheads
and 15% gross profit
- 6- have been working as sub-contractors of "Blossom Neumann", german
Cy, for 3 years
90% of total production to contractor, 10% to other customers
- 7- about \$2,160,000 annually
- 10- major management concerns are growing factors' costs (energy,
telephone, etc)

Our assessment

- very dependent of the foreign contractor
- presently, hard price negotiations
- good quality of end products
- good machinery, mostly of Japanese origin
- need extension; using other customers

Visit to : SHVEI Inc.

- 1- SHVEI Inc. 238700 Sovietsk
fax 8 01161 7 62 54
privatized in 1990,
under long term contract with Dutch Co
- 2- 600 employees, permanent, 1 or 2 shifts, 85% women
- 3- Production : ladies' garments

	1992	1993	1994	1995
(1000)	250	250	200	200

2 month stop in 1992/3
- 4- Inputs all imported, under control of contractor
- 5- Cost prices/selling prices : invoice only job cost 15 DM/piece
estimated gross value added 35%
- 6- Marketing through Dutch contractor, R&D in Holland, no catalogs
- 7- Sales : could be 200.000 pieces at 15 DM say 3 million DM/year
- 8- Energy : installed power 700 KWA, consumption may be about 1
million KWH
- 9- Waste : none
- 10- Major management problems : only to be strict on delivery times

Our assessment

- organisation properly done, Dutch technicians at site
- R&D designs from Holland
- ISO quality standards from Holland
- company totally dependent to 1 client
- should look for other openings
- equipment and machinery pretty new and well maintained
- end-products : international quality due to ISO thanks to client
- inputs : same remarks as above
- rehabilitation ? none
- extension if considered, room available
- investment required mainly for marketing for its own openings, say
about \$ 200.000 over 3 years

Visit to : ZELENOGRASK GARTMENT Cy

- 1- ZELENOGRADSK GARMENT Cy Ltd Zelenogradsk
 fax: 8 01150 2 66 41
 privatization in progress (still 20% state owned)
 established 1992
 previously subsidiary of Yanka
- 2- Manpower in 1993 200, now 90 most part-time
- 3- Production : garments, now less than 10% capacity
- 4- Inputs : bought from local market
- 5- Cost prices/selling prices break-even estimated 14000 trousers/
 month
 now less than 4000/month
- 6- Marketing/customers : on demand in Kaliningrad market
- 7- Sales : small and not regular, depending on demand
- 10- Major management problems
 lack of working capital,
 decline in demand,
 excessive cost of short term credit
 they have lost a 2 year sub-contract with german firm

Our assessment

- organisation : iddle factory suffering from inflation desaster
- equipment and machinery : not new but in good condition
- end-products : impossible to appreciate due to small stock
- inputs : purchasing small quantities on local market does greatly affect cost prices
- rehabilitation possible if permanent orders from new customers
- extension n t contemplated
- investment required if rehabilitation : say \$100.000 in one year

Visit to : TCHAIKA TEXTILE FACTORY

- 1- TCHAIKA (knitting mills) 239030 Gussev
fax/tel 011 43 3 26 12
privatized 1992(6% State, 20% suppliers, 70% employees)
- 2- Manpower in 1993 : 600, in 1995 : 290 (1 shift, 4 hours/day) 90% women
- 3- Production : in 1995 : 70 tons (max)
1994 86 tons
1993 540 tons
garmments for women and children
- 4- Inputs : all from Russia
if full capacity 360 tons cotton yarn
180 tons semi-wool
50 tons synthetics
- 5- Cost prices/selling prices
1993 gross profit 72% (before interest and taxes)
1995 10 to 13%
break-even around 300 tons
- 6- Marketing/customers/R&D/catalogs
orders placed by department stores organization in Moscow
design according to customers, 3 designers are at site
no catalog
- 7- Sales : no export yet
cash from privilege credit from Ministry of Finance, rate 25%/y.
previous centralized distribution system still in use
- 10- Major management problems
 - maintenance of old equipment (7 to 50 years old)
 - every consequence of inflation

Our assessment

- organisational outdated system, same as starting to work (50 years)
- great part of equipment could be repaired in spite of age
- computerization should decrease number of clarks
- end-products must be modernized
- now, not fitted for export
- inputs : need of greater varieties
- rehabilitation to be undertaken if and when receiving firm orders
- extension : after rehabilitation
- investment required probably in the region of \$500.000

Visit to : GVARDEISKAYA STOCKING FACTORY

- 1- GVARDEISKAYA STOCKING FACTORY
established 1960
privatization in progress (28% State, 29% lithuanian knitting Co,
51% employees)
- 2- 97 permanent, 75% women,
out of which 22 clerks and managers
personnel reduction expected soon
satisfactory skills
- 3- Socks for men, women and children, gloves for fishermen
made of cotton, acrylics and semi-wool
production in 1000 pairs (1993) 2263, (1994) 376
- 4- Inputs from Russia mainland, Belarus and Lithuania
full capacity needs 3 to 4 tons/day
- 5- Selling prices average \$.8 to \$1
1/6 transport cost is in transit charges
- 6- Customers in Kaliningrad retail shops and in mainland
Steady demand
No R&D, no catalogs
- 10- Management problems :
 - tax pressure
 - customs and transit fees with Russia mainland
 - lack of "two-cylinder" knitting machines (?) and dyeing equipment

Our assessment

- big drop in production
- very competitive prices
- bad packaging and product promotion
- lack of modern equipment to up-grade quality
- investment in glove making machines, since demand is existing for large quantities
- required investment : about \$60.000

Visit to : DRUZBA Inc.

- 1- DRUZBA Inc. 238700 Sovietsk
fax 8 01161 7 57 58
privatized in 1994
- 2- Manpower in 1989 530 workers (incl 40 clerks and management)
in 1995 200
all permanent, 80% women
cost 20 to 25% of total cost price
in 1994, 5 months stop in production
- 3- Production

	1992	1993	1994	1995 (6 months)
(1000 pairs)	3691	4352	1781	596

 of socks, stockings and tights
- 4- Inputs cotton yarns, chemicals, packaging, from Russia
synthetic yarns from Ukraine
- 5- Cost prices/selling prices : they say net profit 10% ?
- 6- Marketing/customers/R&D/catalogs
sales in Russia,
1 agent in Arkangelsk
R&D by local technicians according to retailers' requirements
modest catalog
- 7- Sales on domestic market only
average prices men socks from \$.81 to \$1.1
children tight \$1.09 to \$1.5
women tights \$2.73 to \$2.75
- 8- Energy

	1992	1993	1994	1995 (expected)
(1000 KWH)	894	910	501	536
- 9- Waste from dyeing, lack of purification devices,
pay penalties
- 10- Major management problems
 - shortage of working capital due to inflation
 - domestic demand declined since early 1994 due to increase in selling prices

Our assessment

- heavy drop in sales
- organisation : traditional but non rational
- the building is an old hospital
- equipment and machinery : old but properly maintained
- still suitable for export production
- end-products : convenient for local use, not for export
- rehabilitation : not to be undertaken before having new markets either in mainland or abroad
- extension if and after rehabilitation
- investment required for modernization and marketing promotion, in the region of \$1.5 million

Visit to : TCHERNIAKOVSK TANNERY

1- TCHERNIAKOVSK TANNERY 238100 Tcherniakovsk
tel 3 24 36
privatized (employees 44%, suppliers 20%)
the only tannery in Kaliningrad oblast

2- Manpower 1995 1994 1993 1984
 80 80 100 136
1 to 3 shifts, permanent workers, 80% women

3- Production 1995 1994 1993 1985
 tons 100 102 278 400?
major decline in 1990
include all types of end-products (hides mainly from cattle)
for last two years, small shop for leather jackets, production 360
pieces/year

4- Inputs : previously, crude and semi-processed hides from Russia,
chemicals as well
now, only crude hides from K. oblast (estimated at 80.000 heads/y
before 1990, now only 50% due to deceases and lack of feed)

5- Cost prices/selling prices
before 1991, 40 to 60% gross profitability (without interest and
taxes)
now, with local crude hides, only 20%

6- Marketing/customers/R&D/catalogs
supplies two shoe making factories in Moscow, through centralized
organization

7- Sales : no export yet, contacts with italian firms
competitors in neighbouring countries (Poland, Lituania, 3
tanneries)

9- Waste : no downstream water purification, pay penalties

10- Major management problems
- lack of working capital
- supply of crude hides from K. oblast

Our assessment

- organisation : old factory, competent management able to comply with
new situation provided suitable financing and orders exist
- equipment and machinery 10/15 year old but can last longer if
maintained
- end-products : rather good tanned products
- jackets fitted for cold countries, must be modified for export
- inputs : present local cattle production generates 800 to 1000 tons
of hides/year that is not enough to reach capacity of factory
- cattle breeding must be encouraged to recover 1991 figures, say
80.000 cattle heads
- rehabilitation partly necessary, but can work without, at the very
beginning
- extension under study with Moscow administration since 1992
- investment required probably more than \$500.000

Visit to : VICTOR SHOE FARTORY

- 1- VICTOR Inc. 238340 Svelty
fax 01152 2 17 84
established 1993,
JV with american firm (49% russian side)
total investment \$900.000
- 2- Manpower 115 (1 shift), 70% women
wages/person average 500.000R/month
- 3- Production started 2 months ago
now 1200 pairs of women leather shoes per hour
expected capacity 2500/hour
up to now, one type of shoes with colours
- 4- Inputs all imported from far east countries
- 5- Cost prices/selling prices
selling price/pair \$6
cost price

manpower	\$1.2
imported inputs	3.5
misc with taxes	1.3
- 6- Marketing/customers/R&D/catalogs
They expect to sell in Russia, Poland, Livania, Belarus and Czech Republic, no catalog, R&D from foreign partner
trade mark "VICTOR USA"
- 7- Sales : expected 1.000.000 pairs/year, mainly export
- 10- Major management problems
 - training personnel
 - recover tax exemptions from local administration

Our assessment

- up-to-date organisation
- equipment and machinery : new, from Hong-Kong
cost \$320.000
- end-products : quality correct for export
- selling price (6\$) seems attractive
- inputs : part of them could be found locally in the future
- extension : stores in progress
no other major machinery expected
- investment required : to be clearer after few months

Visit to : BALTIC FURNITURE Co

- 1- BALTIC FURNITURE Co Kaliningrad
 fax 27 25 07
 almost privatized, 80% privates, 15% State
 two plants operating in Kaliningrad and Sovetsk, a third one under construction in Sovetsk
- 2- 420 workers, number dropped during last two years
- 3- Production of furniture for appartments and offices
 Rather good quality, finishing to be improved
- 4- Inputs : chipboards were bought in the mainland until transit fees increase. Now, imported from Lituania and Belarus
 mirrors from Latvia, other components from Lituania and Germany, but may come back to domestic suppliers if change in legislation
- 6- Market : 80% Kaliningrad oblast, 20% other parts of Russia
- 7- Sales : 1995 \$3 million probably
 1994 \$2.2 million
- 10- Major management problems :
 - shortage of cash
 - fluctuating turnover

Our assessment

- present difficulties due mainly to tax uncertainties and lack of credit do not prevent growth in sales
- internal organisation seems very well managed
- competitive marketing skills
- rather new machinery
- need of an assembly press
- must develop designing and quality
- despite lack of computer so far, this factory should gain to have a C-A-Design equipment
- ready to export knock-down furniture in kits
- investment to come in a near future about \$100.000

Visit to : MAXIC Cy

- 1- MAXIC Cy, Kaliningrad
 fax 43 35 44
 private enterprise established 1990
- 2- 30 employees with 2 managers, permanent, 10% women
 very qualified, high level
- 3- Production : soft furniture (sofas, armchairs and sets) and repairs

	1993	1994	1995
sets (sofa+ 2 armchairs)	630	700	720
- 4- Inputs from USA, Holland, Poland and Belgium
 wood from Russia
 represent 70% of cost prices
- 5- Cost and selling prices :
 selling price now \$700 per set
 price was lower before march 1995,
 the new tax system generates a \$100 surplus
 net profit 10 to 15 %
- 6- Marketing : only domestic market
 starting advertising program in TV, radio and newspapers
 catalogs and videoclips available
 no agent, but only direct sales from warehouse to retailers
 R&D managed by GM himself
- 7- Sales in the region of \$500.000
- 10- Management problems :
 - complication of new tax refund procedure since march 1995
 - look for capital to enhance marketing program

Our assessment

- no drop in sales
- necessary to modify marketing strategy
- need to decrease input costs by looking for other suppliers
- very good quality of end-products
- good german equipment
- restructuring and new marketing program would require, say, \$100.000

Visit to : PROFRA Inc.

- 1- PROFRA 238533 Kostovo
fax 8 252 2 72 3
JV (1991) with Italian Co (70/30) for mink fur processing
Profra is subsidiary of Narodnaja Agrofirma Prozorovskaja, old-established mink-breeding farm
- 2- Manpower : 115 persons, 85% women
no fluctuation
- 3- Production capacity 150.000 pieces/year
in 1994/95 70.000 only
investment \$600.000 in 1991
plus cost of process \$250.000, together from Italy
- 4- Inputs : animals from their own farm and from Russia
animal feed from Russia
- 5- Cost prices/selling prices
Finished products (cloaks) \$2000 to \$3000/piece
(1 cloak requires about 50 to 60 skins)
Job considered as one of the most profitable ones in the country
- 6- Marketing/customers/R&D/catalogs
direct sales through centralized organization in Russia
10 to 15% to Italian partner
- 7- Sales (domestic/export)
Turnover \$1.5 million
production and sales were declining due to outbreak of animal
decease in the farm
- 9- Waste : equipped with purification devices
- 10- Major management problems :
 - no cash for farm rehabilitation and purchase of breeders
 - fluctuation of demand all along the year
 - increase in prices of feed products (fish and vitamins)

Our assessment

- organisation : seems correct; since long, profit-making activity
- facing inflation and changes in business structure
- in Kaliningrad oblast, there are 6 other smaller units
- oblast production around 500.000 pieces, so Profra capacity is 30%
- equipment and machinery not visited
probably good due to young age and origin
- end-products : not perfectly stitched, as Italian partner said
- inputs : they have to solve problem of breeding
looking for new species of animals with different colored skins
- rehabilitation on inputs : see above
- extension on short term, they say \$200.000
- investment required on long term : they plan \$1 million

Visit to : RUSSKY JANTAR Inc.

1- RUSSKY JANTAR Inc. Jantarny

fax 45 04 58

founded 1946 on basis of former amber plant
privatized 1994, Balvtneshtorgbank and State are the major
shareholders

2- Manpower : in July 1995, 1800 employees, after dismissing 300 in
June

new dismissing plan in progress

lot of high-qualified craftsmen have left the company to set up
their own firms

the factory is the sole job-supplier in Jantarny city

3- Production has dropped 6 times since 1993

(amber layer should be over 100.000 tons)

extraction volume about 750 tons/year, out of which 20% for
jewellery produced partly in the plant

Production of several by-products such as amber acid and oil,
melted amber (using linseed oil) and floor painting components

4- Inputs :

- crude amber from mines (one in Primorsk opened 1955, one in
Palminiken 1992). Three types are sorted after extraction : big (above
800gr, the most expensive), medium and small ones

- components such as silver, gold (100kgs/month) from Russia

5- Cost and selling prices : no clear figures on detailed cost prices

6- Marketing : partly through centralized organisation in Russia,
partly through craftsmen, officially licensed or unofficially (robbery)

Export to Canada, Japan, Germany (Dresden, Hamburg)

7- Sales : expected officially 1995, \$6.5 million

10- Major management problems

- acute cash shortage

- excess stock of small pieces of crude amber

- hard competition for jewellery products from local craftsmen and
nearby countries using stolen amber

- no more control since 1991, facing huge problem of thefts

Our assessment

- need very strong internal re-organisation
- stealing amber from the mine is a killing situation, strict control at site is to be set up, like in gold or diamant mines in South Africa.
- estimated cost of a security system \$800.000.
- preliminary estimation shows a potential amount of sales of 40 to 50 million dollars instead of 6.5 announced for 1995
- Kaliningrad amber industries, the almost sole producers in the world are not positioned in the world market, specially Jewellery. Major exhibitions are set out of Kaliningrad, in Hong-Kong and other foreign cities.
- Study is in urgent need for restructuring the company and establishing a world marketing program
- If no major and drastic change in present situation, bankruptcy to be expected soon.

Visit to : ALEXANDER KUCHA, AMBER JEWELLERY CRAFTMAN

1- A. KUCHA, Yefremova street 8, apt 41, 236029 Kaliningrad
private individual enterprise

2- Manpower : 8 permanent very skilled workers

3- Production : amber jewels, 500 kgs (or less) per year

4- Inputs : amber pebbles and components from local origin

5- Cost and selling prices :

- Purchase of lots of amber at different prices,
- more than 800 grs \$1000/kg (in roubles)
 - medium sized \$400
 - small sized (40 to 50grs) \$250

Last deal in 1995 for 1 ton.

Consumer (mainly tourists) prices, 100.000 roubles a 10 to 20 grs
carved item.

Even with 50% waste, the profit margin appears to be very comfortable

6- Marketing only through small shops in Kaliningrad
No middlemen between purchase of amber and retailer!

7- Sales : undiscovered

10- up to now, no major problem for such activity, only protection of
products

Our assessment

- very simple organisation in small premises
- impressive skills of every worker
- simple equipment and artful improvement of small ovens
- there are said to be around 150 smaller or similar craftsmen in
Kaliningrad outskirts

Visit to : "KVARTZ" Inc. and GAS AUTOMATIKA Inc.

"KVARTZ" and GAS AUTOMATIKA are among the major industrial groups in Kaliningrad.

Their productions are very diversified.

"Kvartz" is capable of manufacturing and/or assembling:

- metallic pieces and structures
- usual technical items
- domestic washing machines
- printed circuits
- microcircuit and electronical sets
- computer assembly
- telecom systems and satellite aeriials.

Gas Automatika makes various electric devices such as meters, switches, manometers, gas equipment, control devices and also...small sewing machines and electric coffee grinders.

The objective of these two visits was to discover and to understand whether these firms could be involved in production of non food consumers goods, using technology transfer or joint venture with foreign companies.

Our assessment :

- Their selling prices are very low, compared with similar products made in western Europe and, even, in far east countries.
 - As far as we could appreciate along visits of production premises, work productivity is very low and many machines stand idle, and often since long.
 - We could not have communication of any document on technical specifications, even for major products. That seems to mean the customers have to accept the product as it is., without any chance to compare the technical data with other products.
 - They don't have quality certifications similar to ISO standards.
 - We asked to know some hour/machine costs, at least for major equipment. We don't receive any satisfactory reply to compare with such costs in other countries.
- We only learned that the depreciation rate is 7% per year!

- We gave a tentative list of non food products which could be made locally, for export.

As an exemple, we asked for an estimate of their selling prices and delivery time for 200.000 small calculators and we submitted a model. We recover the model but no reply.

Perhaps, a question from an independant consultant is not considered as serious as the same coming from a foreign company...

So, pretty good machinery and skills exist, together running slowly. However, training management to commercial behaviour and marketing methods appears to be, by far, very urgent.