

Iranian Stone Export to Ukraine: Problems and Barriers

Farhad Parand

National Technical University of Ukraine “Kyiv Polytechnic Institute”, International Economy
Department, room 244-1, building 37, Prospect Peremohy, Kyiv, 03056, Ukraine
e-mail: stv@kpi.ua

Abstract

Iranian stone industry is facing a fast decline in stone market in Ukraine during the recent decade. This problem is arising from many different factors related to exploitation, processing, marketing issues as well as the country official barriers such as tariffs, inflation and policies. This paper reveals these problems based on the analytical model.

Key words: *stone, export, Iran, Ukraine, trade barriers*

JEL Classification: *F190*

Introduction

Minerals form the principal natural resources of any country and export is considered as the most dynamic component of economic progress leading to true improvement in social and economic wellbeing. Most of Asian developing countries are based on the oil revenue ignoring or neglecting other products such as mineral or agricultural power. Iran is trying to achieve the industrial development and axiomatically the mineral development will play an important role in industrialization of this country. Mineral export may contribute a great deal in obtaining foreign exchange currency, which is essential in carrying out various development projects.

This paper examines the performance of the Iranian stone industry during the last two decades and describes the main problems of stone export to Ukraine. In this way, we compared the Iranian experience with the general features of modern economic growth at the world and at the regional level and discussed common and uncommon features along the same general framework mentioned above. This paper will organize the discussion, evaluation and comparison of the empirics of economic growth in stone industry in Iran and Ukraine.

The first section of the study is a brief of general awareness of non tariff barriers (NTB) which developing countries themselves maintain and which interfere with their ability to trade with each other. The second section deals with mineral industry in Ukraine and Iran as well as presenting some fact sheets regarding the Iranian stone industry and examines the issues of growth pattern and growth volatility in this field. In the end, we examine both the usual policy and state variables in the empirical growth literature and also variables relevant for both countries. The final section presents a summary and some policy options.

Research Results

1. The world economic situation regarding tariff and non-tariff barriers

Integration into global markets, for developing countries (DCs), offers the potential of more rapid growth and poverty reduction. Developing countries are clearly striving to diversify their export activity, which can be seen from the shift in the export pattern from low value-added manufactured goods towards higher value-added goods such as electrical and electronic products, industrial equipment and machinery and especially nonmetal mineral products.

In this reason, the share of manufactured products in terms of the export structure has steadily grown over the past two decades, whereas the share of primary commodities has declined. There are some critical problems in this field making it difficult for them to take full advantage of their exported products. Problems such as tariff and non-tariff barriers are hampering key developing country exports.

Technical barriers to trade (TBTs)

According to Wilson (2000), in developed countries, technical regulations, standards and conformity assessment procedures may effectively serve as border-protection instruments (Wilson, 2000)¹ and it is evident that technical measures can be important obstacles to exports to these countries.

Despite their adverse effects, Nixon² (2004) argues that these measures can also have a positive effect for developing countries by spurring new competitive advantages and investment in technological capability, should enterprises in DCs act offensively. This scenario is less likely to materialize in LDCs, given the significant technological and financial constraints they face. For trade among developing countries, technical barriers are less prominently reported.

Customs and administrative procedures

The technical barriers are less frequently reported for trade among developing countries. However, customs and administrative procedures also rank very high among reported concerns in the four components of analysis. Issues identified under this category of measures include difficulties relating to import licensing procedures and rules of origin and generally appear to be more pervasive in trade with other developing countries than with developed countries.

2. Ukraine construction materials sector

The Ukrainian construction materials sector has been showing sustainable growth since 2000. According to Ukraine's State Statistics Committee, there are nearly 9,000 companies making construction materials in Ukraine. The majority of them are concentrated in the Kyiv, Lviv, Kharkiv, Donetsk, Sumy and Zhytomyr regions. However, the range and quality of domestic products do not always satisfy the needs of modern civil engineering. A significant development lag is the result of the sub-par technological level of production facilities, and requires innovation and investment³.

The nonmetal construction product industry's output amounted to 14.8 billion UAH in 2004 (based on State Statistics Committee data), including: 12.7 billion UAH for mineral products, 0.8 billion UAH for paints and varnishes, 0.8 billion UAH for rubber and plastic building products, and 0.5 billion UAH for woodworking and wood products.

¹ Wilson, J., *Technical Barriers to Trade and Standards, Challenges and Opportunities for Developing Countries*. Presented by the World Bank. Paper submitted to the Technical Barriers to Trade Committee Meeting World Trade Organization, 2000, Geneva, Switzerland.

² Nixon Roy, "Transparency obligations in international investment agreements", *Economic Roundup*, Winter 2004, pp. 8-1

³ *Ukraine mineral sector analysis*. WTO. Year book report, 2005. Geneva: WTO Press.

The construction materials sector is quite active both in export and import. Thus, import in the industry amounted to 1,155.2 million USD at the end of 2005, and export to 1,160.2 million USD. According to Ukraine's State Statistics Committee, import was growing at an average 20% annually (both in terms of money and physical volume) during 2000-2004.

According to the Statistics Committee data, the industry's key export⁴ items include wood products and mineral materials and products (including sheet glass, ceramic products, granite, and raw materials used for production of construction materials). CIS and European countries are the key markets for industry exporters.

The construction materials imported are goods made by means of technologically complex processing and manufacturing processes. Domestic manufacturers' equipment keeps them from fully satisfying internal market demand. Plastics, flooring materials, stairs, and ceilings, as well as heat-insulating and waterproofing materials, account for the largest percentage share of imports.

The construction materials sector's attraction of investors is based on Ukraine's improved economic climate, the availability of a raw materials base, the development of the construction materials trade sector, and the growing volume of capital construction. The largest numbers of investors come from Russia, Germany, Italy, France, the USA, and island nations. Foreign investment is still not considerable. It is hampered by a deficiency of manufacturing facilities, a lack of political stability, high taxes, the lack of an investment insurance system, and insufficient state support for investment policy¹.

Investors prefer establishing new manufacturing enterprises, and opening branches and affiliate companies, to modernizing and modifying existing facilities. This is primarily due to the existing facilities' lack of compliance with modern manufacturing standards. Foreign investors, however, also invest in existing enterprises, launch production lines, invest in development of retail chains, create and promote trademarks, and modernize enterprises. The most attractive segments for foreign investors include plastic products, glass, kaolin, cement, dry building mixtures, ceramic tiles, and plaster stone products.

3. The relationship between production and export

The industry is energetically modernizing itself. According to the survey, the majority of companies in the industry (62,5%) were buying equipment, mostly by the individual unit, in 2005. This is especially the case for large companies. Foreign equipment was mostly imported from Germany, Italy, Poland, and Russia⁵.

Raw Materials and Resources

Ukraine has plentiful natural sources of raw materials for making construction materials: deposits of kaolin, clay, lime, gypsum, granite, quartz sand, basalt, chalk and perlite. Construction materials producers have no problem in terms of raw materials availability. However, to manufacture certain products, smaller amounts of raw materials and stock are imported, mainly from Western European and CIS countries. To produce dry building mixtures, for example, significant amounts of admixtures are required, which are imported from EU countries.

Energy accounts for about 16.3% (this share varied from 5% to 40% by segment) of the cost structure of construction materials. To reduce energy consumption, each industry's segment is using its own methods. For example, glass manufacturers are improving their raw material

⁴ *Statistical YB of Ukraine for a 2005 year*. Ed. O.G. Osaulenko. State Statistics Committee of Ukraine. Kiev: Consultant, 2006, p. 361.

⁵ *Russia in figures. 2005. A brief statistical handbook*. Ed. V.L. Sokolin. Russia State Statistics Committee. Moscow: Goskomstat, 2005, p. 423.

processing techniques and the design of their glass furnaces. Roofing manufacturers are improving the structure of materials and new production techniques. One of the key methods of reducing fuel consumption in the production of cement, meanwhile, is to reduce the slime humidity, etc. Another issue is modifying the facilities to take advantage of the energy-carriers that prevail in Ukraine, as well as non-traditional energy sources (solar, wind, and industrial waste)⁶.

Sales channels for construction materials manufacturers

The primary sales channels for construction materials manufacturers include building organizations, wholesale distributors, and specialized stores or construction material supermarkets. Markets and bazaars are still active in this sector, selling products to retail customers. Large enterprises also create their own sales chains and sell their produce through their own representative offices. Some construction materials distributors operate directly from manufacturers' warehouses, which sell construction materials in large batches.

According to the survey, (2005) direct sales to end users from the warehouse and custom orders were the most common sales channel in 2005. They were used by nearly two thirds of companies. Half the surveyed companies indicate that their products are distributed through wholesale agents. About a third of companies used such channels as retail agents and direct sales through their own retail chains⁷.

Competition in construction materials sector

The construction materials sector consists of numerous product categories subdivided into segments. There is a real fight in the roofing felt market for market shares and to boost production outputs. The key players here include Slavuta Ruberoid Plant, Technonikol, and Akvaizol, based in Kharkiv.

4. Iran economic situation

Iran has a mixed economy that is heavily dependent on export earnings from the country's extensive petroleum reserves. Iran's economy is 44 percent free, according to our 2008 assessment, which makes it the world's 151st free economy. Its overall score is 0,1 percentage point lower than last year, mainly reflecting a worsened score in freedom from corruption. Iran is ranked 16th out of 17 countries in the Middle East/North Africa region, and its overall score is extremely low almost one-third below the regional average⁸.

Oil exports account for nearly 80 percent of foreign exchange earnings. The constitution mandates that all large-scale industries, including petroleum, minerals, banking, foreign exchange, insurance, power generation, communications, aviation, and road and rail transport, be owned publicly and administered by the state³.

The recovery of oil prices during 1999-2000 significantly strengthened Iran's external and financial position. The GDP of the country was about 110 billion US dollar in year 2001. The trend of GDP's growth during last 8 years shows a decline in 1997-1999. Usually the growth rate of the added value in the manufacturing and mine sector is higher than the country's GDP growth rate (Figure 1); this rate was 7,73 and 9,97 in 2000 and 2001, respectively⁹.

⁶ *Ecological audit in Ukraine*. Kiev: Ministry for Environmental Protection of Ukraine, 2006.

⁷ *Economy of Ukraine: tendencies, evaluation, forecasts*. Ed. by V.Vavryshchuk. No 1. Kiev: CASE, 2007, p. 43.

⁸ Amineh, P. M. *Iran*. In *Worldmark Encyclopedia of National Economies*. Ed. Keith Bauman. Farmington Hills: Gale, 2002, pp. 187-202.

⁹ *Iran Industrial and Mining Industry. 2004*. Official Economic report. Tehran: Ministry of Commerce of IRI, 2004, p. 23.

Although annual GDP growth remained weak at 2.4 percent and the inflation rate remained almost unchanged at 20 percent, the government incurred a large budget surplus of about US\$4.7 billion and hurried to pay external debt, reducing outstanding debt to about 10 percent of the GDP. The Third 5 Year Development Plan aims at accelerating growth to an average annual rate of 6 percent in order to create sufficient employment opportunities for the rapidly growing labor force, which currently increases by an estimated 5 percent every year¹⁰.

Iran's weighted average tariff rate was 13,8 percent in 2004. Import bans and restrictions, high tariffs and import taxes, export licensing requirements, restrictive sanitary and phytosanitary regulations, burdensome customs procedures, government control of imports, tariff and tax schedules that change frequently, and weak enforcement of intellectual property rights add to the cost of trade. An additional 15 percentage points is deducted from Iran's trade freedom score to account for non-tariff barriers¹¹.

Iran has a high income tax rate and a moderate corporate tax rate. The top income tax rate is 35 percent, and the top corporate tax rate is 25 percent. Other taxes include a tax on check transactions and a tax of property transfers. In the most recent year, overall tax revenue as a percentage of GDP was 6 percent¹².

Foreign investment is restricted in banking, telecommunications, transport, and border control and banned in defense, oil, and gas. The government allows the sale of 65 percent of the shares of state-owned enterprises, except for defense and security-related industries and the National Iranian Oil Company¹³.

Restrictive employment regulations hinder employment opportunities and productivity growth. The non-salary cost of employing a worker is high, and firing a worker requires approval of the Islamic Labor Council or the Labor Discretionary Board. The difficulty of laying off a worker creates a risk aversion for companies that would otherwise hire more people and grow.

In the fourth year of the third development plan materialized figures shows that in many fields Iran experienced the following achievements:

- Average annual growth of GDP has been predicted 6% during the plan and according to the figures it seems that it is already accessible (Table 1).
- Average annual growth of investment has been predicted 7,1% in the plan, while in the first two years of the plan we witnessed 9,4 and 12,1% growth in this regard, respectively³.
- From March 2002 new tax code has been in force. The new code is encouraging investment and other economical activities. Corporate income tax and dividend withholding tax together represent only 25% and a 4-10 year tax holiday on different activities based on deprivation of the area has been launched.
- The Foreign Investment Promotion and Protection Act (FIPPA) has already been approved and according to the new code foreign investors are allowed to repatriate their capital and capital gain in foreign exchange and their capitals are guaranteed by government against non-commercial risk such as nationalization and business disruption pursuant to new laws or regulations.
- Since March 2002, all non-tariff and non-technical barriers have been removed in foreign trade and this was a big step toward freeing foreign trade.

¹⁰ Amineh, P. M. *Iran*. In *Worldmark Encyclopedia of National Economies*. Ed. Keith Bauman. Farmington Hills: Gale, 2002, pp. 187-202.

¹¹ Iran export and import system, barriers and solutions. Geneva: World Trade Organization, 2006, p. 22.

¹² *Iran export and import administration*. Yearly report. Tehran: Ministry of Commerce of IRI, 2005, p. 12.

¹³ *Iranian Ministry of commerce. Annual report*. Tehran: Ministry of Commerce of IRI, 2006, p. 21.

- Unification of foreign exchange rate has been carried out.
- For facilitating the state owned company's privatization, a special organization has been formed and governmental companies have to be transferred to that organization and the organization has to sell the companies through stock market or announcing tenders.
- For increasing private sector's share on economical activities, private banking and insurance have already been allowed.
- For reforming government administrative structure, amalgamation of 4 ministries has already been down.

Current situation of industries and mines in Iran

Mineral industries of Iran include industries such as steel, non-ferrous metals, ferroalloy, refractories, cement, glass, ceramic, and construction material. Of Iran's 2,700 mines, most were privately owned and 2,000 were active, producing 42 minerals; some 65% of the mines produced building and construction materials and 20% were stone quarries. The mining sector accounted for 24% of Iran's industrial output of \$15.4 billion, and mineral and metal exports amounted to \$645 million. Mineral exports included chromites, refined sulfur, lead, zinc, copper, and decorative stone. Over 40 themes in mineral industries are active in Iran. Mineral industries supplies base material for mother industries besides exporting some goods to other countries as well; they are considered as the basic needs for country's development and recognized as major indicators of national economic development. 120 million tones of different mineral commodities have been exploited from Iranian mines in 2001¹⁴.

Iran enjoys a marked advantage when it comes to abundance in supply of stone quarries. Iran also enjoys numerous historical architectural works such as the brilliant stonework at Persepolis. In addition, rich mineral decorative stones have accorded our country a unique status in the world. An endless supply of various types of decorative stones in Iran makes it easy for different consumers in the international market to make their choices. Exploration and exploitation of hundreds of stone mines in recent years have unearthed new stone quarries mostly of granite, marble, travertine and other exquisite and multicolored rare stones. The Ministry of Mines and Metals has already initiated a major effort to modernize mines and methods of stone extraction (replacing the obsolete and destructive method of explosion) to guarantee the supply of quality stones to the international markets¹⁵.

Imports of raw stones in Iran

At present, the import of raw or wrought stones into the country is unauthorised. Imports of raw or wrought stones, being very rare, carry a 25 percent tariff. By joining the GATT, the country will be forced to lift non tariff barriers. Hence, it becomes important to weigh the effects on competition when imported stones enter the country to compete with its domestic production. A comparison of imported raw stones with locally produced stones is worthwhile. At present, the average actual expense for extracting a ton of stone in the country is Rls. 50,000, i.e., approximately 20 USD. By adding another 20 USD for the miner's profit, total extraction operation will come up to 40 USD. On the other hand, the average price for Indian imported raw stones - our product's closest rival - is 40 USD. With increased costs of transportation and a 25 percent tariff during the early years of membership in the GATT, no favorable incentive would be found for importing ordinary and medium quality stones to the country. Moreover, with an average annual stone production of 5 million tons, second only to Italy, Iran still holds a considerable edge in this product. The comparison, of course, does not apply to special and

¹⁴ *Iran Industrial and Mining Industry. 2004.* Official Economic report. Tehran: Ministry of Commerce of IRI, 2004, p. 23.

¹⁵ *Iran Mineral and Metals Ministration.* Official Economic report. Tehran: Ministry of Mines and Metals of IRI, p. 12.

exceptional imported stones. Despite a lift of the ban on such imports, the possibility for their imports will still exist. A good example is the blue stone of Brazil. In our opinion, its import not only would pose no real threat to our local stone industry, but also could be transformed into an important advantage due to the following reasons:

- first, we must try, considering the unused capacities of our factories, to provide and to ground for the import of raw stones for processing and export, alone or in co-operation with other countries, and to upgrade economic strength and management efficiency of our factories through value added;
- second, the import of the exceptional stones, which presently constitutes not more than 20% of the domestic stone consumption, would provide a healthy and constructive trade of Italy, Spain and China, as reliable importers and exporters, and proves the practicability of these producers.

Imports of processed stones in Iran

The import of raw stones is not a serious rival to domestic stone production. Likewise, the import of processed stones, in view of the domestic availability of modern stone processing workshops and cheap energy and work force, should not pose a serious threat.

In order to avoid undue optimism, it would be worthwhile to point out that our rich stone reserves, the investments, and the infrastructural measures alone could not guarantee our successful entrance into the GATT. Many intra-sectoral and extra-sectoral possibilities and co-ordination in the stone industry must be combined in order to guarantee our competitiveness in coping with the vigilant, active, and experienced rivals in the arena of international market. At the end, some of the fundamental preparations essential for solid stone export strategy are mentioned:

1. sketching a plan for stone exports by concerned organizations and individuals;
2. upgrading the management practices at stone quarries and stone processing factories and laying the foundation of new standard management systems such as ISO 9000;
3. absorption of capital (with stress on foreign capital) in stone mines and factories to materialize the existing and potential capacities;
4. constant transfer of state of the art international technology in different mining and industrial sections of stone to enable the output to compete in international and domestic markets;
5. mass production of machinery, mining equipment, and stone-processing factories in the country, by using Iran's existing industrial potentials and favorable use of foreign participation. Modernizing all or some of the 4,000 stone cutting factories is also quite possible;
6. increase of the stone production in mines and factories and optimized use of the potential capacities for decreasing fixed expenses and overheads, and eventually making them economical and competitive permanently.

Table 1. Export volume of decorative rock (M.T.R) during the 1998-2007 (Tariff No 6802091 and 6802021)

| Year | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|--------------------------|---------|---------|----------|----------|----------|----------|----------|-------|----------|---------|
| Tariff. No 680221 M.T.E. | 7644 | 462929 | 1347152 | 2431898 | 157923 | 18225 | 27517 | 51576 | 97381,24 | 43007 |
| T.G.E | 5782146 | 6842663 | 10074403 | 35274350 | 27077549 | 45324447 | 35591204 | - | - | - |
| Tariff. No 680291 M.T.E | 4968 | 177883 | 654502 | 7029 | 19173 | 9332 | 7003 | - | 8971 | 4689,96 |
| T.E.U | 1341352 | 2052918 | 2933169 | 1348482 | 1364680 | 2476764 | 4459435 | - | - | - |

Note: M.T.E – Marble, Travertine Export to Ukraine; T.G.E – Total Global Exports; T.E.U – Total Export to Ukraine

Source: Iranian official Statistical Yearbook

The following table presents the export volume of decorative rock (M.T.R) during the 2002-2005. It is also clear that there was no export to Ukraine.

Table 2. Export volume of decorative rock (M.T.R) during the 2002-2005 (Tariff No 6802091 and 6802021)

| Year | 2002 | 2003 | 2004 | 2005 |
|----------------------------|-------|--------|--------|--------|
| T.E.U Tariff. No 680221 | 224 | 24 | 16 | 59 |
| T.G.E | 26,04 | 39,554 | 40,347 | 87,736 |
| T.E.U Tariff. No 680291 | 7 | 21 | 7 | 0 |
| T.G.E | 1,326 | 2,315 | 4,536 | 1,672 |

Source: Iranian official Statistical Yearbook

5. Methodology and theoretical framework

Methodology

In this study, according to recent evaluation performed, some types of stone called even marble, travertine and alabaster with increased potential of export to Ukraine were selected based on the following reasons.

1. Revealed competitive advantage of Iran for monumental building stone such as marble, travertine and alabaster. Among 443 types of exported product, the RCA of this product is Ranked 24.

2. Inefficient market of this good in Iran. According to the difference of numerous mines and potential in the country, Iran is ranked 10 for its stone reservoirs in the world, but its share for export is very low (Bloorian, 2002). Such limited market for Iran may be improved by increasing the work shifts in factories leading to decrease of total price and increase of competition power among other competitors and higher RCA of the product.

3. Export increase to Ukraine. Export increase will not only increase the foreign currency but also decreases unemployment rate in different level and systems.

4. Demand increase in Ukraine. According to the economic development of Ukraine and improvement of people economic condition, there has been much tendency for rebuilding and reconstruction and repair of public buildings, Metro, passages undergrounds etc.

Based on the results published by WTO, the import of these types of stones has been increased from 1,284 thousand USD in 2003 to 2,763 thousand USD in 2005.

Also in this date, the volume of global export of such products (marble, travertine, alabaster) has been increased from 657 million USD to 910 million USD. This is why, a serious effort

should be provided for increasing the export of monumental / building stones and for increasing Iran's share in Ukraine market

5. Iran is witnessing the displacement of its position by other weaker competitors such problem may be solved by finding weak points and their elimination according to the statistic figures from the Ukraine foreign trade statistic yearbook and governmental committee of Ukraine.

6. Because of low salary in Ukraine, travertine is demanded more than marble and alabaster in this country.

7. Added value. Another result for selecting travertine by Ukraine population is its added value.

Analytical framework for this study and its analysis consist in three following steps:

First Step. Evaluation of the control factor of export of this product from Iran to Ukraine: including price, product, encouraging and motivational systems, Data system, and market research.

Step two. Evaluation of uncontrollable factors divided in two section (the first is Iranian uncontrollable factors for exporting the related good to Ukraine, the second is Ukrainian uncontrollable external factors for importing the related good to Ukraine: such as political, legal, socio-cultural, economic, technological and competition.

Step Three. The adaptation of variables effectiveness of export increase of Iranian travertine stones by Iranian organization.

The adaptation variables are:

1. decreasing the central governmental control and providing an open market system for this product;
2. tariff decrease;
3. presentation in international and regional organizations;
4. supervising, supporting, encouraging the exporters;
5. supporting the sale network and Iranian commercial offices in Ukraine;
6. absorbing the foreign investment for modern, high quality production, to export to Ukraine and other near neighbors;
7. improving the commerce and business private sectors;
8. market research by public organization for this product;
9. including a currency deposit for purchasing and control through a basic international price;
10. preventing illogical increase of interest rate.

The main goal here is to review the uncontrollable factors mainly the macro marketing environment of Ukraine (the uncontrollable factors of Ukraine for the related imported product in this study) and also internal uncontrollable factors and controllable factors related to finished Travertine stones exported to Ukraine by Iranian organizations in relation with the effect of adaptation factors on the export level of this product from Iran to Ukraine.

According to the above detailed factors, a model is proposed for a clear analysis in this study presented in Figure 1.

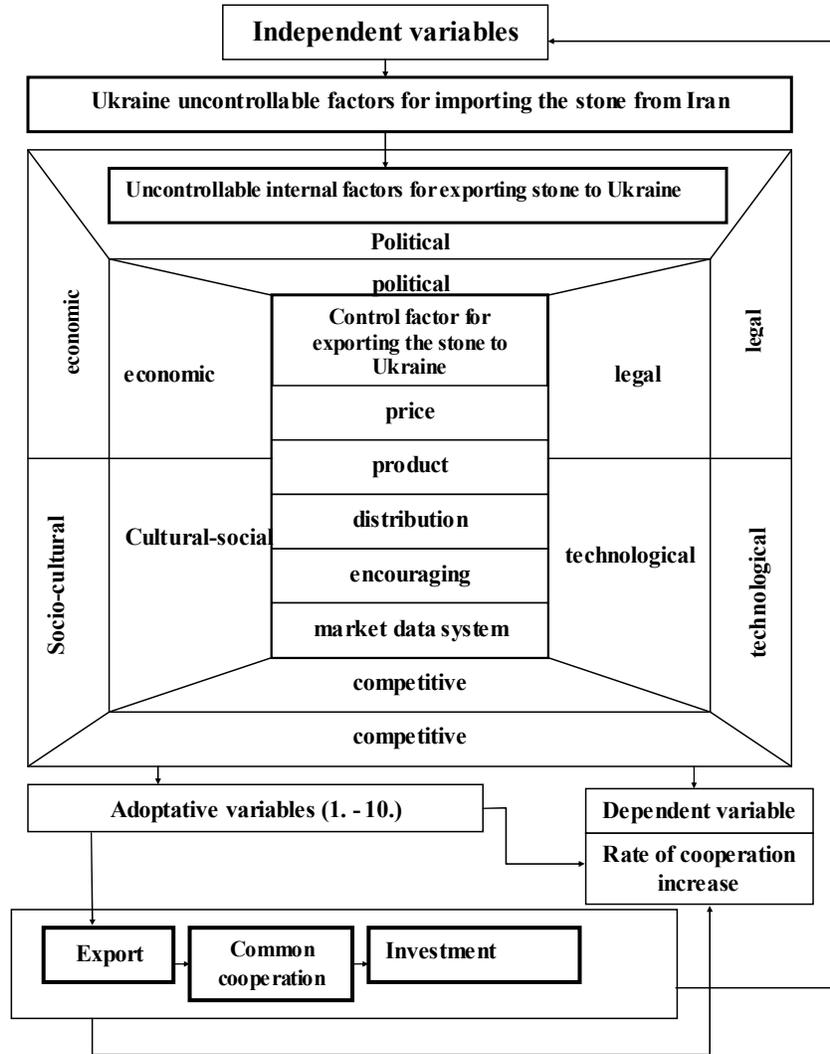


Fig. 1. Analytical model for studying variables (factors) which determine (impact) the Iranian stone export to Ukraine

Due to the vision of importance of this industry in the region author has attempted the prognostication of its future. The studies mainly rely on regression equation based on the past performances of stone industry.

There is a significant bilateral business potential between Iran and Ukraine. We will calculate the potential of the export of decorative rocks through the evaluation of revealed comparative advantage.

| | |
|---|-----|
| $RCA_a^i = \frac{\left(\frac{X_a^i}{X_T^i}\right)}{\left(\frac{X_a^w}{X_T^w}\right)}$ | (1) |
|---|-----|

where RCA – revealed comparative advantage, A – expected good, B – expected country, T – total export by country, W – total export in the world.

Table 3. List of supplying markets for a product exported by Iran (in USD thousand)

| Year | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|-------------|-------------|-------------|-------------|--------------|
| The export value of related products from Iran to the world (thousand USD) | 26 040 | 39 554 | 40 347 | 87 736 | 7,921 |
| Total exported value of Iranian nonoil products (thousand USD) | 89670 | 7664 | 10339 | 11726 | 13536,92 |
| The global exported value of the specified products (thousand USD) | 655,453 | 744,664 | 761,937 | 908,669 | 906,433 |
| Total global exported value of nonoil products (thousand USD) | 6071911,951 | 7072522,654 | 8549228,259 | 9551060,420 | 10906029,897 |
| RCA | 158,2690 | 25,49017 | 53,43786 | 49,78645 | 7,040299 |

Source: Iranian official Statistical Yearbook

Table 4. List of supplying markets for a product exported by Iran and imported by Ukraine (in USD thousand). Product: 680221 Monumental/building stone, cut/sawn flat/even, marble/travertine/alabaster

| Year | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|-------------|------------|-------------|-------------|--------------|
| Import value in Ukraine (thousand USD) | 1284 | 2660 | 2159 | 2763 | 1606 |
| Global Import value in Ukraine (USD) | 16975,853 | 23020,153 | 28996,784 | 36121,997 | 45021,621 |
| Global Import value for the related products (USD) | 427,839 | 470 | 570 | 796,624 | 721,086 |
| Global Import value for nonoil products (thousand USD) | 6164764,752 | 7184417,46 | 8718312,579 | 9751196,276 | 10946971,262 |
| Export value of the related products from Iran to Ukraine (thousand USD) | 224 | 24 | 16 | 59 | 28 |

Source: Iranian official Statistical Yearbook

6. Discussion

Iran is ranking the second in the world after Italy for its stone production. But due the lack of any planning for strategic export development Iran has a very low level for exporting stone (maximum 2%).

Until the recent decade, Europe was the center of global business, production and processing center for monumental building stones. However, today, such discipline is no more continued, and distribution of stone industry is considered all over the world.

The country reserve for stones such as marble, travertine and lime stones is estimated as 40 million tons¹⁶. Generally, Iran is listed among the ten countries owing the perfect stone mines in the world. The exact stone reserve in Iran includes travertine (32,9 Mt), marble (14,2 Mt), marmarit (1371 Mt), granite (1220,9 Mt).

Mazandaran is a respectively among Iranian provinces which in the first grade for its 56% stone – mine reserve in the country. The second one is Isfahan province with 13,2 % reserve in Iran. According to a study regarding 34 countries, in 1980, it was confirmed that there has been considered a great relationship between export development, and GDP growth¹⁷.

Referring to H.S. System, and referring to Tariffs 6802, the major percentage of cut sawn stones for building in Iran, consists the 95% of whole exported stones. But the price of each ton cut sown stone is progressively decreasing from 2,5 USD in 1989 – to 0,03 USD in 1994 finally

¹⁶ Mines and metal organizations. Winter, No 45, 1992, p. 47.

¹⁷ Business research study institute. Monthly. No 84. 1997, p. 74.

reaching 166,3 USD in 1994. Among these years, the greatest export unit was sent to luams (4 USD in 1989). Turkey (936 USD in 1993) and Norway (1489,01 USD).

Gradually Iran tried to export to 17 nearer countries such as Dubai, Turkey, Oman, Qatar and Kuwait in 1989. In 1993, Iran exported to 22 countries in Arab region. In 1994 and 1995 about 50 different countries in north and south of Iran imported Iranian sawn stones, During 1993 to 1995 countries such as Azerbaijan, Singapore, Saudi Arabia, South Korea, China, Germany, Armenia, Italy, Bahrain, UAE, Turkmenistan, Kuwait and Malaysia imported 93,7% of 50000 tons stones exported by Iran. The UAE and Kuwait imported 32,5% and 28,4% (totally 60,9%) of Iranian stones among these countries. Azerbaijan, Qatar, Singapore, Italy and Malaysia imported 5,4%, 10,1%, 3,2%, 3,0%, 2,8% of Iranian stones. Also 14,6% of the rest has been exported to 43 countries. Nowadays a significant reduction is being considered for different tariffs across the borders and different countries are trying to follow international trade based on WTO. These countries are closely engaged in severe competition for bringing their production, services and idea in the world market.

According to the Iranian custom documents, Iranian export to Ukraine has decreased from 142 million USD (2001) to 44 millions USD (2005), although import volume from Ukraine to Iran has increased from 110 million USD (2001) to 482 million USD (2005). Such increasing process in the recent two years has been accompanied by significant change and the overall business volume between two countries has decreased from 526 million USD (2005) to 201 million USD (2006). Another report from Iranian Custom organization shows that the export level of Iranian goods to Ukraine in 2006 was 67 million USD as well as the 134 million USD import from Ukraine to Iran.

The above numbers show that Iran's export to Ukraine has decreased three fold from 2001 to 2005 although Iran's import from Ukraine has increased about four times. It is evident that, diagnosing and exploring the most important improving and decreasing factors of export to Ukraine along with providing the suitable solution and strategies may help to increase the export rate to Ukraine. This means that Iran's share in 47 million people of Ukraine will increase and new opportunities and capacitance will be achieved in this country as well.

According to table 2 it is evident that the rate of export of decorative rock during 2002-2005 has been critically decreasing from 224 in 2002 to 59 in 2005. In another tariff (No 680291) in this table we see that this volume is even smaller, from 7 in 2002 to zero in 2005. It shows that based on tariff No 680291 there was no export of decorative rocks (travertine), marble to Ukraine in 2005.

On the other hand, we observe that there was a reasonable export rate to Ukraine during 1998-2001 based on table 1. This result is confirmed in table 3, which shows the RCA of decorative rocks exported from 2002 to 2006. According to table 3 the RCA has critically declined from 158,2690 in 2002 to 7,040299 in 2006 although the global exported value of decorative rocks has-been increased from 6071911,951 (th USD) in 2002 to 109060298,97 (th USD) in 2006.

On the other hand, we observe that the global import value of decorative rock in Ukraine is increased from 427839 (th USD) in 2002 to 721086 (th USD) in 2006 but on the contrary the import value of this product from Iran to Ukraine is increased from 1284 (th USD) to 1,606 (th USD) in 2006 (table 3).

This is a very little increase in relation with the global import value and this shows that Iran have a very little increase of decorative stone in Ukraine. On the other hand, Iran is ranked in the lowest rate in the decorative rock market in Ukraine (table 4). All of the above results show that Iran is losing its market in this field in Ukraine and other countries such as Turkey and Italy (table 4) are the best competitors in decorative rocks in Ukraine.

Stone industry is one of the highest capital consuming industry involving up to date and expensive equipment purchase and employing high salary technicians and workers. Iranian

stone industry is also involved with the above problems as well as a close competition with high standard countries such as Italy and Turkey in this field. On the other hand, the increasing inflation rate is another existing problem for Iran. From 1989 to 1995, Iranian stone export business averagely increased up to 33%, but the total value of exported stone in USD increased up to 28,3%, although this increase in Iranian Rials was 121%.

According to reports from Italian foreign business institutes, Italian stone market in UAE decreased up to 70% in 1990 because of Iran's active involvement in this market¹⁸.

Here, one of the threatening factors for macroeconomic sector in Iran is rising inflation rate increase and transport cost elevation. In spite of the fact that two joint venture companies with Italy have also started their marketing in stone business, the above economic problems hamper Iranian companies' success in their access to international markets.

Iran can not rely on raw stone export because of their low added value in comparison with finished manufactured stone products. An assessment performed by Iranian stone research centers showed that finished stones added value is four times more than raw stones.

For a successful involvement in foreign stone market, Iranian authorities should pay attention to the following factors: 1) gathering the latest data from international markets related to competitors in stone industry; 2) enhancing current technology up to international standards; 3) continuous monitoring of competitors in international markets; 4) taking part in international exhibitions; 5) eliminating any troublesome barriers and tariffs; 6) Iran also tried to make some new facilities for Iranian stone export sector.

The current strategy suggested by Iranian authorities provided a 15% discount in tariffs for this sector and increased up to 100% and this policy results in a 207% increase in finished stone export value in comparison with 1989.

Conclusion

Iran with 3270 million tons absolute reserve of stone mines is able to produce 5 million tons stone annually, and export them to international markets.

At present, there is not any logical relationship between different infrastructures in Iranian stone industry from exploitation to processing and export.

Providing the needed fuel and water, suitable roads and transportation system, modern equipments and suitable credits and financial support along with elimination unwanted tariffs and legal and custom barriers are among the Critical solution for Iranian stone producers. Exporters will also benefit from these critical reforms.

Stone export business closely depends on Iranian economic situation and foreign trade strategy. Because of high stone weight, access to near markets will be very beneficial for Iranian stone exporters. This is the reason why countries such as Saudi Arabia, UAE, Azerbaijan republic, and also Ukraine may be the best market for Iran. Turkish stone export pattern will be a suitable strategy for Iranian authorities in stone industry.

Iran industry is suffering from its traditional manufacturing system and most of Iranian products have been in out of standard level. This complaint was made by Ukrainian companies.

Another problem with Iranian exporters is related to their weak marketing activities. Many Ukrainian companies reported that in spite of Iranian stone high quality. Iranian exporters could not prepare a suitable marketing package for their products. For a suitable marketing policy, Iran needs to be actively present in global markets making close connections with the major elements of this market. Employing experienced and acknowledged consultants in stone export

¹⁸ Stone Quarterly. Yearbook 1. No 4./1991, p. 32.

is another alternative. Iran also needs to clearly define the stone international market by the aid of standard statistics. Experienced managers are another critical solution as well as a well-structured export plan.

Increasing stone quality depends on standard exploitation by modern equipments and modern procedures for Iranian stone industry, ASTM Standards compliance are very important. Current data regarding Iran stone industry suggests that there are 3500 workshop and manufacturers in Iran working with traditional systems and equipment. Currently 22 factories have got their licenses with providing modern machines in their processing line. According to this data, among 3500 centers, only 851 centers have official license and 2650 other do not have any official eligibility in this field. According to official reports, these centers lack any standard situation for standard processing.

According to this study and regarding the model presented above, the entrance strategy of Iranian companies into international markets should be shifted from exporting to joint venture and foreign investment procedure. In addition to the above detailed facts in this study there are many other political and cultural problems in this industry which will be presented in future articles.

References

1. Amineh, P. M., *Iran*. In Worldmark Encyclopedia of National Economies. Ed. Keith Bauman. Farmington Hills: Gale, 2002, pp. 187-202.
2. Business Research Study Institute, Monthly. No 84. 1997, p. 74.
3. *Ecological audit in Ukraine*. Kiev: Ministry for Environmental Protection of Ukraine, 2006.
4. *Economy of Ukraine: tendencies, evaluation, forecasts*. Ed. by V.Vavryschuk. No 1. Kiev: CASE, 2007, p. 43.
5. *Iran export and import administration*. Yearly report. Tehran: Ministry of Commerce of IRI, 2005, p. 12.
6. *Iran export and import system, barriers and solutions*. Geneva: World Trade Organization, 2006, p. 22.
7. *Iran Industrial and Mining Industry. 2004*. Official Economic report. Tehran: Ministry of Commerce of IRI, 2004, p. 23.
8. *Iran Mineral and Metals Ministration*. Official Economic report. Tehran: Ministry of Mines and Metals of IRI, p. 12.
9. *Iranian Ministry of commerce. Annual report*. Tehran: Ministry of Commerce of IRI, 2006, p. 21.
10. Mines and metal organizations. Winter, No 45, 1992, p. 47.
11. *Russia in figures. 2005. A brief statistical handbook*. Ed. V.L. Sokolin. Russia State Statistics Committee. Moscow: Goskomstat, 2005, p. 423.
12. *Statistical YB of Ukraine for a 2005 year*. Ed. O.G. Osaulenko. State Statistics Committee of Ukraine. Kiev: Consultant, 2006, p. 361.
13. Stone Quarterly. Yearbook 1. No 4./1991, p. 32.
14. *Ukraine mineral sector analysis*. WTO. Year book report, 2005. Geneva: WTO Press.
15. Wilson, J., *Technical Barriers to Trade and Standards, Challenges and Opportunities for Developing Countries*. Presented by the World Bank. Paper submitted to the Technical Barriers to Trade Committee Meeting World Trade Organization, 2000, Geneva, Switzerland.

Exportul de piatră din Iran în Ucraina

Rezumat

Industria iraniană a pietrei se confruntă cu un declin rapid pe piața din Ucraina în ultima decadă. Această problemă apare datorită unui ansamblu de factori privind exploatarea, procesarea și marketingul, precum și barierele oficiale ale țării precum tarifele, inflația și politicile. Acest articol evidențiază aceste probleme în baza modelului analitic.