Russian Chamber of Commerce in Europe
RUSCHAM NEWSLETTER
August 2005
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FOCUS

FOOD AND AGRICULTURAL IMPORT REGULATIONS AND STANDARDS IN RUSSIA

It is highly recommended that EU Exporters verify the full set of import requirements with their foreign customers, who are normally best equipped to research such matters with local authorities, before any goods are shipped.

I. FOOD SAFETY LAWS AND REGULATIONS

CURRENT STATUS

The quality and safety for all food products produced, imported, and sold in the Russian Federation are controlled by a set of sanitary epidemiological rules and regulations entitled "Hygienic Requirements for the Safety and Nutrition of Foodstuffs" (hereinafter referred to as "SanPiN-01"). SanPiN-01 was updated and prepared by the Russian Ministry of Health and the Nutrition Institute of the Russian Academy of Medical Sciences, and came into force on September 1, 2002.

SanPiN-01 governs the activities of all persons and legal entities involved in manufacturing, importing, and distributing foodstuffs, and also for those entities that provide retail and public food catering services. SanPiN-01 also guides the State Sanitary Epidemiological Service ("Gossanepidnadzor"), the organization engaged in food safety oversight and control. SanPiN-01 also establishes hygienic requirements for the substances and materials that come into contact with foodstuffs.

The legal status of SanPiN-01 gives the new Federal Service for Consumer Rights and Social Welfare in the Ministry of Health and Social Development the right to withdraw from trade products that do not meet official requirements.

Several other agencies have a role in food safety for domestically produced products and imports. For meat and meat products, the Federal Veterinary and Phytosanitary Service (FVPS) is involved in negotiating trade certificates for imported products with some input from the Ministry of Health and Social Services. For plant products (grains, oilseeds, and the like), the Grain Inspection Service currently negotiates and enforces agreements, though according to some reports, the responsibility for this issue may change in the near future as the Ministry of Agriculture continues its reorganization process. According to the new structure of the Ministry of Agriculture, the FVPS will have control over plant quarantine issues, too.

RECENT DEVELOPMENTS

The Russian Government has released draft food safety regulation documents and materials on a range of food safety issues onto their web site for public comment, but interlocutors have remarked that these documents are simply a restatement of previous regulations into the format of Russia's general Law on Technical Regulations issued in 2003. Development and approval of these regulations is proceeding slowly, and the completion date is not yet known. In the past, public and private institutions have provided input into developing food standards, and at least the mechanism to do so is still available. In some instances, public comments and the input of various scientific research institutes has proven valuable in developing and implementing workable standards based on international guidelines.

Although the process is proceeding slowly, regulators are also attempting to move away from strict, detailed government exposed standards to the concept of producer responsibility for food safety, similar to the HACCP concept used in the United States.

As part of the Ministry of Agriculture's recent reorganization, the Russian Veterinary Service and the Plant Protection Service have been merged into one entity. Therefore, development and enforcement of food safety regulations and trade standard negotiations for both these areas will take place under a common structure.

As part of the recent reorganization of the Russian Government, the Ministry of Health is merged with Ministries involved in social issues into a Ministry of Health and Social Development, and the functions of supervision of food product safety and health-related issues are divided between the Federal Service for Supervision in the Sphere of Consumer Rights Protection and Well-being of Population and the Federal Agency for Health and Social Development. What remains from the former SanEpidNadzor is now under the authority of the first of these two organizations.

Organic products, though not legally defined under Russian law, are gaining attention, and regulations are being developed for their production and trade.

LEGAL BASIS FOR SANPIN-01

SanPiN-01 was developed based on the following Federal Laws of the Russian Federation:

"On sanitary epidemiological well-being of the population" (Code of Laws of the Russian Federation, 1999, #14, Article 1650),"

"On quality and safety of foodstuffs" (Code of Laws of the Russian Federation, 2000, #2, Article 150),"

"On radiation safety of the population" (Code of Laws of the Russian Federation, 1996, #3, Article 141),"

"On protection of consumers' rights" (Code of Laws of the Russian Federation, 1996, #3, Article 140),

"The basic legislation of the Russian Federation on protecting citizens' health" (News from the People's Deputies Congress of the Russian Federation and the Supreme Council of the Russian Federation, 1993, #33, Article 13818),

Decree of the Russian Federation Government of July 24, 2000 #554,"

"On approval of the Regulation of the State sanitary epidemiological service of the Russian Federation and the Regulation on the State sanitary epidemiological regulating" (Code of Laws of the Russian Federation, 2000, #31, Article 3295)."

II. LABELING REQUIREMENTS

A. GENERAL REQUIREMENTS

SanPiN-01 does not prescribe labeling format (how required label information is presented to the consumer) for food products because control over label format is a function of the Ministry of Economic Development and Trade's Trade Inspection Department rather than Ministry of Health. SanPiN-01 does require the provision of information about nutrition value on food product labels. This requirement is included in SanPiN-01's "reference" attachment, which contains comparisons with international norms and data on testing methods.

Though the specific format is not regulated, the exporter must provide Russian language labeling of each product package (such as box or bag) to sell any food product into the Russian Federation. An importer can apply labels to each package after arrival in Russia. However, this approach is less desirable, as it must be done in the customs warehouse, delaying the clearance process and increasing storage costs.

There is an exception to the mandatory package labeling requirements for small packages. The law states that if these packages are not large enough to include all required text, part of the information can be printed on a list enclosed with each unit of the product. Exporters should check with their Russian importer to make sure that labeling complies with current law.

All products sold in Russia are required to contain relevant information about the product in Russian language. It is also recommended that bulk shipments also include basic information in Russian.

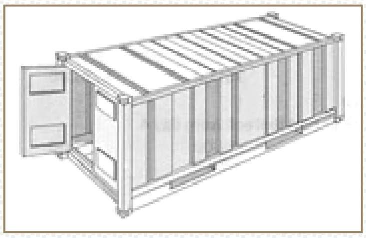
Outer containers should bear the consignee's mark and port mark and should be numbered in such a way that corresponds to the packing list unless the contents can be otherwise readily identified. The contract number must be shown on the outside of containers.

Appendix III below contains the list of the specific information that must be on the label.

B. REQUIREMENTS SPECIFIC TO NUTRITIONAL LABELING

In an attachment, SanPiN-01 lays out nutritious value requirements for 17 aggregated groups of processed meat, poultry, and dairy and fish products. Nutritional value is not determined in SanPiN-01 for grain and grain products, vegetables, fruits and products, nor for sugar and confectionary products. However very detailed criteria for the nutritional value of fruit and vegetable juices are included, in part due to the public/private sector cooperation on standard development. SanPiN-01 provides separately detailed hygiene and nutritious value requirements for baby food, food for school children, and for diet food products. Energy value parameters are excluded from labeling requirements.

III. PACKAGING AND CONTAINER REGULATIONS



Packaging and containers for shipping, storing and handling food products are required to comply with the basic food safety requirements stipulated in SanPiN-01. Currently packaging requirements for food products in Russia are regulated by 169 "GOST" (Government Standards) standards for different types of packaging. According to SanPiN-01 packaging of food products should ensure food products' quality and safety through each stage of trade. For some products, such as for grains, packaging shall also meet specific phytosanitary requirements which mandate that grain and products imported into the Russian Federation in packages shall have new and air permeable packaging, per order #681 issued by the Ministry of Agriculture on September 3, 2002.

Packaging specifications are an inseparable part of every trade contract. Before the contract for food shipment is concluded, the importer should investigate and advise the exporter what the specific requirements are for each food product. Food products can be packed according with US standards, Russian standards, or by mutual agreement between the trade partners. Consumer packaging (for example, paper and carton boxes, plastic or polymer bags, bottles and cans) that comes into direct contact with food products should be certified. Certification for containers, pallets and other packaging that are not directly in contact with food products is not required.

Some food products are sensitive to air, water, and steam. Therefore, one of the most important requirements for packaging materials is gas, steam, water, fat, and aroma permeability. For instance, when packaging chilled meat it is necessary to maintain low steam permeability (to avoid moisture loss) together with specific gas permeability so meat color will be preserved. Material for vacuum packaging should have a minimum level of gas permeability. Goods should be securely packed, taking into account the nature of the goods, means of transport and likely climatic conditions.

It is obligatory to ensure that the required level of sanitary and hygienic characteristics are maintained when choosing packaging for food products. Sanitary and hygienic requirements are confirmed with a sanitary certificate for the packaging material. The sanitary hygienic requirements for packaging materials include:

- the packaging material is not made up of highly toxic substances that have cumulative characteristics (carcinogenic, mutation, allergenic etc.)

- the packaging material does not change organoleptic and physiological characteristics of food products and also does not excrete harmful substances in a quantity exceeding allowances.

IV. FOOD ADDITIVE REGULATIONS

Basic information on food additive regulation and certification is contained in section IX of this document.

V. PESTICIDE AND OTHER CONTAMINANTS

Russia establishes its own Maximum Allowed Limits (MALs) for pesticides and contaminants that apply to both domestically, produced foodstuffs and imports, and publishes these in several official documents. In SanPiN-01, hygiene requirements and safety standards for food products are broken out by numerous parameters, including a MAL for pesticides. For each group of products there are more precise requirements.

In addition, SanPiN-01 requires that the residue level of pesticides used in primary production (for example grain or vegetable production) are monitored for each processed food product that uses those raw materials as an input. The use of officially registered pesticides and their application procedures are controlled by the Ministry of Agriculture through norms published each year in the document entitled "State Catalogue of Pesticides and Agricultural Chemicals Allowed for Use on the Territory of the Russian Federation." The Catalogue is structured by chemical, and gives norms of application, time of application, and treated pests and weeds for each chemical and brand name. Chemicals not listed in the catalogue cannot be used, and no residues in agricultural products are allowed.

VI. OTHER REGULATIONS AND REQUIREMENTS

In SanPiN-01, changes in hygiene norms for product groups are not very significant, and in many cases, tests are unified or the number of obligatory parameters is decreased.

Phytosanitary regulations for **plant and plant-based** food products cover all imports. The main regulations are outlined in the Federal Law on Plant Quarantine of July 15, 2000, and the Order of the Ministry of Agriculture of September 3, 2002 #681 "On Approving the Rules for Providing Plant Quarantine at Importing, Storing. Transporting, Processing and Utilizing Grain and Products Imported into the Russian Federation Territory for Use as Food, Feeds, or for Processing (GAIN report #RS2035). Further, several Ministry of Agriculture instructions such as the "List of Quarantine Pests, Plant Diseases and Weeds which have Quarantine Importance for the Russian Federation (1998)" and "Terms of Use of Imported and Domestic Quarantine Grain and Products, and List of Enterprises (1999)", regulate trade.

VII. OTHER SPECIFIC STANDARDS

Trade of biotechnology products remains an important issue in Russia, and some field crops are now registered. Post will provide reporting on these and other standards and regulations are they are released by the Russian authorities.

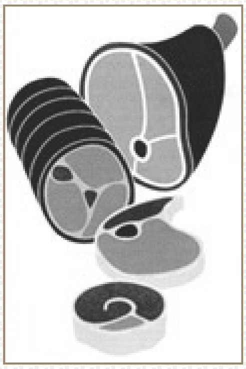
VIII. COPYRIGHT AND TRADEMARK LAWS

In December 2002, President Putin signed extensive amendments to the Russian Federation's Law on Trademarks, Service Marks and Labeling of Origin of Goods. According to statements made at that time, the amendments are designed to accelerate Russia's integration into the global economy and its admission to the WTO, The Law is said to ensure better protection of well-known trademarks, broadly defines "counterfeit" for the first time, and also provides for physical destruction of seized counterfeit goods. The law also implements mechanisms to counter bad faith registrations of Intellectual Property (IP) objects and trademark infringements.

President Putin has prepared a draft law of extensive amendments to "The Law on Copyright and Neighboring Rights" approved by the State Duma on June 2004. When passed, portions of the law relevant to food and agricultural products trade will be reported.

IX. IMPORT PROCEDURES

The process for importing meat or meat products involves two main steps: (1) Safety, Phytosanitary, and Veterinary Clearance; and (2) Customs Clearance.



(Note: Although this information is considered accurate at the time of its publication, exporters should confirm the exact import requirements for individual products prior to shipment. Also, there may be specific import requirements for certain products, which are not addressed within this report. The following documentation is **required**. An explanation on these documents will be given below. Lastly, the official language of the system is **Russian** and **all documents must be submitted in Russian**.)

To get permission to import a meat product, an importer must go through a number of steps:

First, the importer gets permission from veterinary authorities at the local, regional, and central levels. Typically, he goes to local veterinary authorities and presents a letter indicating that he wants to import meat. Local veterinarians forward his request to central veterinary authorities in Moscow who issue notification/permission to border veterinary authorities (this process takes about one week). The permission sent to border veterinary authorities indicates specific volumes and origin of meat that the importer will be allowed bring into the country. Although this process is automatic, the importer has to go through it annually, or each time he wants to increase his meat import allotment, or change the type of meat that he wants to import.

When a shipment arrives, the importer must present to customs documentation from the bank that he has deposited money for duties and taxes, according to value of the shipment. In order to get bank documentation for customs release of the meat, the importer must present business registration, a contract with the supplier, and veterinary documentation that he has permission to import meat. With each shipment, the importer must present each of the following to border veterinary authorities in order to get an internal veterinary certificate that customs authorities will then accept and allow to clear the customs point:

1. Delivery Contract, Bills of Lading, Invoice, Packing List, and Customs Declaration. These documents include the following information: a contract between buyer and supplier indicating the origin, volume, arrival date, and value of shipment; location where each shipment will be stored; location of processing plant or wholesaler to receive the shipment; packing list; cargo plan indicating how vessel is loaded (on pallets, etc.); and an export declaration that indicates to Customs the value of the cargo

2. Veterinary Certificates

3. Hygiene Certificate

4. Safety Certificate

5. Certification of Conformity

6. Certificate of Origin

7. Manufacturer's Certificate of Quality

1. **Shipping Documents.** These are the normal shipping documents that would be required of any importing country. In addition to the information necessary above, it should contain the following information:

- The country and address of the producer (The company name may be in Latin letters)
- The weight and volume of the product
- A list of the main ingredients, including food additives
- Nutritional information
- Storage conditions for products that have a limited storage life or that require special storage conditions
- The length of storage possible (This should include the date of production and the use by date)
- Method of preparation
- Recommendations for use
- Conditions for use, including avoidance dur-

ing certain types of illness

2: Veterinary Certificates: EU Food Safety and Inspection Services issues veterinary certificates for exports of EU meat and meat products. The document will state that the product meets Russian veterinary requirements. In the case of pork and poultry meat, the document will also state that the product comes from a EU facility that is authorized to export to Russia.

The importer must also go through the process mentioned above in order to obtain veterinary import permission from the Russian Veterinary Service. If the importer is importing meat products under the tariff codes 0201, 0202, or 0207, additional steps are required.

The importer must hold a special license that allows for a specific volume of imports during the calendar year. Without this license, the importer must pay an out-of-quota duty for beef and pork that is at least three times the in-quota duty. Poultry imports are not allowed without this import license.

3: The Hygiene Certificate. This document is issued by the local department of the State Committee on Sanitation and Epidemic Control (Goskomsanepidemnadzor). It usually takes 3 - 5 days and 3 - 4 kg of the product for this testing procedure. The Hygiene Certificate is the only Russian certificate that could be issued for the entire contract, rather than for each consignment of the product. A Manufacturer's Certificate of Quality is necessary to receive the Hygiene Certificate for the contract.

This is required for all food products, additives, and preservatives. Goskomsanepidemnadzor issues the certificates for children's foods, food additives, non-traditional forms of unprocessed food, as well as food products purchased under international agreements. Goskomsanepidemnadzor issues the Hygiene (Sanitary) Certificates through its Moscow certification laboratories and is also responsible for all other sanitary and hygiene regulations. This committee also works closely with the Institute of Nutrition, which operates under the supervision of the Russian Federation's Academy of Medical Science. The Hygiene Certificate can also be handled through the accredited EU testing centers. Enquiries about pre-certification can be made to Control Union Inspection, Inc. or to the EU Testing Company. These firms can also give further information relating to certification necessary to conform to import requirements and the costs of testing. The advantage of obtaining the Certificate of Hygiene abroad is that testing in Russia can take up to two months or more.

4. The Certificate of Safety. This certificate is issued by the State Standards Committee of Russia ("GOSSTANDART "). It may take 5 - 7 days and about 5 kg of samples to complete the testing. The Certificate of Safety is based on the Hygiene Certificate and tests of the samples made by the Center of Standardization.

5: Certificate of Conformity. Full certification to standards set by GOSSTANDART is mandatory for importing any product. The most important certification needed for exporting product into Russia is the Certification of Conformity (called GOST-R). The Russian Research Institute for Certification (VNIIS) and other accredited certification bodies issue the Certificate of Conformity. The testing is done by the one of accredited Testing and Certification Center, which provides a full range of quality control and inspection facilities in Russia.

However, the Certificate of Conformity can also be issued in the EU countries. Enquiries about pre-certification can be made to Russian Standard (www.rosstandard.com). This firm can also give further information relating to certification necessary to conform to import requirements and the costs of testing.

Section 6: Certificate of Origin: This certificate is used to determine tariffs. Certificates can be obtained from local issued by the local Department of the State Sanitary Epidemiological Inspection, which also issues the Hygiene Certificate.

All the Certificates are being processed at the same time so, in theory, the certification process takes 7 - 10 days.

It is important to be sure that all four certificates are issued for each consignment of the product. Officially, an amount of product is called one consignment if it satisfies the following requirements:`

- it is produced at one plant or processing facility,
- the month of processing is the same for the entire amount,
- it all came by one transportation unit (vessel, train, truck, etc.).

If there are several consignments of the product coming as one shipment (for example some part of the product was produced in April, some in May), these consignments should be separately described in the Packing List and in each of the Certificates.

RUSSIAN REGULATORY BODIES

Below is a list of the most important Russian regulatory agencies involved in food imports. Their coordinates can be found at the end of this appendix.

Federal Service for Technical Regulation and Metrology (former Gosstandart) is the national body for the certification of goods. A schedule of goods that are subject to mandatory certification is published and includes foodstuffs and beverages, whether of local or imported origin. Gosstandart has been transformed into two institutions as part of the recent administrative reform. The development of standards and technical regulations is in the authority of the Department of Technical Regulation in the Ministry of Industry and Energy, while the functions of standardization and supervision over standards are left in the Federal Service for Technical regulation and Metrology (replaced Gosstandart) of the Ministry of Industry and Energy.

The Russian Research Institute for Certification (VNIIS) issues the Certificate of Conformity.

Goskomsanepidemnadzor is the part of the Federal Service on Sanitation and Epidemic Control which is responsible for sanitary and hygiene regulations.

SPECIFIC IMPORT REGULATIONS: MEAT AND POULTRY

The Russian veterinary authorities determine which meat and poultry products may be imported into Russia and the import requirements for these products.

ELIGIBLE PRODUCTS

The following products are eligible for export from the United States to Russia: Poultry and poultry products, beef and products, pork and pork products, horsemeat, and bison meat. Processed meat products intended for export to Russia must comply with EU standards and regulations. Pork and poultry products must come from only eligible plants.

INELIGIBLE PRODUCTS

The following meat products are not eligible for export from the United States to Russia: ground red meat packaged in bulk form or in meat patties; beef and beef products; consumer size packages of ground poultry, mechanically deboned poultry meat, and giblets; poultry products originating from birds grown in selected counties in states affected by an outbreak of larygngotracheitis or Avian Influenza.

VETERINARY CERTIFICATES

All meat and poultry products shipped from the EU need Export Certificate of Wholesomeness. In addition to this certificate, the following certificates are required:

Raw pork, including bacon and pork for retail sale — Veterinary Certificate for Pork Meat Exported to the Russian Federation.

Pork casings — Veterinary Certificate for Pork Intestine Raw Material, Exported Into the Russia Federation.

Poultry — Veterinary Certificate for Poultry Meat Exported into the Russian Federation.

Raw beef — Veterinary Certificate for Beef Meat Exported into the Russian Federation.

Fully cooked meat and poultry products and heat-treated but not fully cooked meat products — Veterinary Certificate for Prepared Meat Products Exported into the Russian Federation.

All certificates accompanying product into the Russian Federation must be signed by EU veterinarian.

PROCESSING/PACKING PLANT CERTIFICATION POULTRY

All establishments which process or store raw poultry intended for export to the Russian Federation must be reviewed by an official of the Russian Ministry of Agriculture and included on the approved plant list for raw poultry prior to being eligible to export products to Russia. Establishments are inspected at their own expense.

PORK

All establishments which process or store raw pork intended for export to the Russian Federation must be reviewed by an official of the Russian Ministry of Agriculture and included on the approved plant list for raw pork prior to being eligible to export products to Russia. Plants are inspected at their own expense.

OTHER MEAT PRODUCTS

Fully cooked pork products, pork casings, beef and beef products, fully cooked poultry products, and heat-treated but not fully cooked poultry products can originate from any federally inspected facility.

RUSSIA'S GRAINS AND OILSEED IMPORT PROCEDURES

Grain Inspection issues certificates for import of grains, macaroni products and cereals. Certification process takes 3 - 5 days and requires up to 12 kg of samples for the tests. The samples are usually taken from different parts of the shipment (such as boxes or containers).

Grains and oilseeds and their products shall have an appropriate phytosanitary certificate from the exporting country, per phytosanitary regulations for imported grains and oilseeds, and their products are stipulated in the Order #681. The Russian Grain Inspection Service issues certificates for import of grain, macaroni products and cereals based on conformity of these products with Russian standards.

As a result of the government reorganization mentioned above, the future of the Grain Inspection Service has not yet been determined in the new administrative structure. Some analysts believe that it is not likely to continue as an independent agency.

CUSTOMS PAYMENTS

For customs clearance of imported food products, the following payments should be made to the customs office:

- 0.1% of the customs cost of the product in rubles
- 0.05% of the customs cost of the product in foreign currency
- Customs duty
- Value added tax (VAT): calculated based on the sum of customs cost of the product plus customs duty

Customs clearance is usually done by the customs office at destination. This procedure takes 2 - 4 days. All customs documentation should be written in Russian. Customs duties, fees, VAT are usually paid in advance in order not to delay the clearance procedure. Customs duties, fees and taxes depend on the type of the product and are calculated based on customs cost of the product, i.e.: cost of the product plus transportation expenses. The customs cost of the product could not be less than the "acceptable price" determined by the customs authorities.

POTENTIAL IMPORT PROBLEMS TO AVOID

Exporting products into Russia can be a daunting task for the inexperienced EU exporter. Even more experienced EU exporters encounter problems and delays due to changes in Russian import requirements or customs regulations. This is why it is always a good business practice to check with your Russian importer and other sources to make sure your shipment has all the necessary documentation prior to shipment. Some of the more common problems to avoid include incorrectly completed documents and forms; required documents and certificates missing or unavailable; price discrepancies when the invoice price is at odds with Russian customs officials' price determination; meat or poultry product shipped from a packing plant or facility not certified by Russian veterinary officials; and duties, tariffs and VAT not paid in advance delaying the shipment. Customs duties and VAT must be paid before the product will be cleared by Russian customs authorities unless product is shipped, under seal, to a Russian, bonded, customs-approved warehouse.

APPENDIX I. RUSSIAN GOVERNMENT REGULATORY AGENCY CONTACTS

Federal Service for Technical Regulation and Metrology (former Gosstandart)
Moscow, Leninsky prospekt, 9
tel.7 (095) 230-13-20
tel.7 (095) 237-54-68, fax 7 (095) 237-6231

Federal Service for Consumer Rights and Social Welfare
Moscow, Vadkovskiy per.18/20
tel.7 (095) 973-2748, fax.7 (095) 200-0212, 258-4497
tel. 7 (095) 973-2748, fax 7 (095) 200-0212
tel. 7 (095) 973-2666, 973-1803, 973-2674, fax 7 (095) 258-4497

All-Russian Scientific-Research Institute for Certification (VNIIS)
Moscow, Electricheskiy per.3
Boris Krutov, Head of Section
tel. 7 (095) 253-3580, fax 7 (095) 253-3360

APPENDIX II. OTHER IMPORT SPECIALIST CONTACTS

Russian Federation web sites include:

Ministry of Health:

http://www.government.ru/institutions/ministries/details.html?he_id=143

Ministry of Agriculture:

http://www.government.ru/institutions/ministries/details.html?he_id=153

Ministry of Economic Development and Trade

http://www.government.ru/institutions/ministries/details.html?he_id=157

APPENDIX III. LABELING INFORMATION

1. Name of the product
2. Type, grade or category of the product
3. Name, country, address of producer, packer, ex porter and importer of the product
4. Weight (net and gross) or volume of the product
5. Nutritional quality of the product
6. Ingredients
7. Date of processing
8. Storage conditions
9. Shelf-life of the product
10. Conformity stamp (RST) and certification code

GOST standards can be found at the Library for GOSTs or All-Russian Standardization Fund, or purchased at specialized store on GOSTs located in Moscow.

For more information and help contact Certification Center "Russian Standard", www.rosstandard.com. ■

Market Analyses

REVIEW OF THE RUSSIAN BEER MARKET

By the results of the fourth quarter of 2004 the beer production growth amounted to 11.5% compared to the same period last year. The analogous indicator by the aggregate results of 2004 amounted to about 12.5%, which somewhat exceeded the initial forecasts of the industry's analysts.

For the first time since 1999 the quite high last year rates of the beer production growth introduced positive changes in the dynamics of this indicator. Since that time the production growth rates in the branch were going down steadily and amounted to 7.8% in 2003. Most analysts agreed that the upsurge period had been over and there had started a period of stability. However, despite the unprecedented pressure upon brewers on the part of the state authorities the year of 2004 has been the most successful one over the recent 5 years.

The law sharply restricting beer advertising is known to have taken effect last September. Many experts wondered whether this factor could negatively affect the market. If it did happen, it had no effect on the general indicators of the branch. However, the low or even negative values of the production dynamics of certain brewing companies are indicative of the presence of negative factors affecting the industry. In the middle of the fourth quarter of 2004 there appeared information that some Russian regional investors were refusing from their plans of introducing new trademarks on the market. The reason for the refusal named by the companies was the adoption of the "anti-beer" law that prevented appearance of new players on the market.

The situation in Russia is being carefully watched by the largest foreign investors. By some of them, Russia is considered as one of the most attractive markets for investments along with Germany and China. Regarding the pressure exerted on the industry the companies willing to invest money need a climate of predictability. They do not like surprises and eventualities and are stability-minded. Trade barriers are one of the factors disliked by investors. However, the legislative pressure upon the brewing industry can suspend the investment plans of foreign brewers.

On the whole brewing companies responded differently to the introduction of restrictions on beer advertising and to the pressure upon the industry. These restrictions mostly made the companies focus their efforts on improvement of the distribution and management system.

Brewing companies keep developing and picking up their capacities. The most appreciable growth was observed in the cheap and licensed segments that increased their shares by 1.9 and 1.4 points, respectively, since the beginning of the year. The share of premium products characterized by a steady growth during 2003 dropped a little last year. The major reason for such a situation was strengthening of the positions of low-price kinds, their share achieving its maximum of the recent several years in the third quarter of 2004 – 13.9% of the total sales volume.

In October–November 2004 the specific weight of the "premium" segment grew up to 22.5%. The relative sales of the cheap segment products declined by 0.6 points in this period.

By the end of the year the market share of the medium-price kinds had preserved its downward trend despite the small fluctuations during the year: in October – November of 2004 it dropped to a record low mark of 57.5%, its drop amounting to 2.2 points compared to the first quarter.

Analysis of the dynamics of the price segments in terms of values shows that the highest growth over the recent two years accounted for licensed trademarks: in October – November 2004 their share amounted to 12%, which was more than twice as high as the indicator of the early 2003.

The increase of the share of low-price kinds was more moderate: its growth amounted to 1.8 points over 2 years. In our opinion, this segment is not a promising one for producers and the surge of the companies' activity in it is temporary.

As to the medium-price beer, in 2004 the trend towards decline of its popularity slowed down a little but did not stop. Over 2 years the specific weight of this segment in terms of value dropped by 10 points and by the fourth quarter of 2004 for the first time it fell below 50%. According to our forecasts, in 2005 the share of medium-price trademarks in terms of value will amount to 46–47% of the overall sales volume.

The intense interest of consumers in licensed beer is confirmed by the companies' activity in introduction of new brands on the market. This segment is quite competitive: Russia currently produces about 40 licensed kinds. However, in the analysts' opinion, certain price niches, the "premium" niche, for instance, are from being saturated yet.

In 2004 the "premium" segment was characterized both by active restyling of the existing brands and by launching of new trademarks.

As far as the package is concerned, in the recent 2 years there has been observed a steady trend towards reduction of the share of the glass bottle due to the growing popularity of the PET-container. From the beginning of 2003 to October – November 2004 the share of beer in glass containers dropped from 55.8 to 46.6% while the relative sales of the drink in PET-bottles increased from 32.7 to 39.5%. The specific weight of the products in aluminium cans grew from 11.4 to 13.9% despite some fluctuations during the period under consideration.

In summer-autumn 2004 the situation stabilized a little; however, we can suppose that in 2005 the struggle for the beer lovers' preferences regarding the package type among the producers will continue and become bitterer. It should be remembered that several years ago specialists voiced some doubts regarding the prospects of using PET in the brewing industry. However, the steady demand for beer in such a package created prerequisites for development of this segment both in Russia and other countries. The aluminium can producers, in their turn, forecast an increase of the share of this segment up to 20–25% in the medium-term perspective. At the same time there are now projects of production of a high-quality glass bottle being actively developed in our country.

During 2003–2004 the major factor influencing the preferences of beer consumers regarding the package type was the dynamics of retail prices. The prices of beer in PET increased only 7% during the period being considered, which is much less than the growth of the price of the products in another package. Thus, the prices of the products in aluminium cans and glass bottles increased 8.9 and 22.8%, respectively. The major reason for such a high growth of retail prices of beer in "glass" was the transition of large producers from the "eurostandard" bottle to the proprietary bottle. This situation with the prices largely conditioned the considerable growth of the share of the PET beer segment.

The trends observed for consumers' preferences regarding the drink's strength are quite significant for the brewing industry. Strong beer is gradually losing its market positions giving them away to light and ordinary beer. The drop of the share of strong beer in October–November 2004 down to the level of 16.3% compared with 19.5% in the first quarter of 2003 is indicative of the growth of the general trend of the population's transition from consumption of drinks with a high alcohol content to low-alcohol drinks, including beer with a low alcohol content.

As to the "colour" preferences of consumers, the most popular kind is still light beer: its market share can be called stable, with a certain growth of this segment observed throughout 2004. The situation with half-dark beer can also be called stable while dark beer keeps losing its positions. However, the popularity of unfiltered beer is still growing although the number of its lovers is yet small. ■

REVIEW OF THE RUSSIAN BOTTLED WATER MARKET

Autumn traditionally marks a fall in sales of soft drinks. However, this time is characterised by a stable consumer trend – "time to get healthy", and mineral water and vitamins are not too far down on the shopping list.

Most buyers/consumers still prefer carbonated mineral water – 90%. At the same time the share of drinking water in the market structure keeps growing. In 2004 its share amounted to 20% of the total volume of mineral and drinking water on the basis of quantity while in 2003 it was 10% and 4% in 2002. Today people are increasingly more often ready to pay for pure drinking water.

On the basis of the survey results it was concluded that consumers, regardless of age or sex, do not see any significant differences between mineral and ordinary bottled water, which the majority of respondents referred to using the general term "mineralka".

Nonetheless, it is possible to highlight a few differences by dividing the respondents into two age groups, 18–29 year-olds and 39–50 year-olds. For example, the proportion of young people preferring to drink bottled water at home is significantly greater than that of those between 30 and 50 years of age – 49% vs. 30%. The numbers of those in each age group who drink water at work, though, are the same, at 28%.

With regard to the frequency of consumption of bottled water, the overwhelming majority (61%) of respondents between 30 and 50 years of age drink it 3–4 times a week. In this category, the equivalent figure for younger residents is 44%. It should be noted that 7% of people between the ages of 18 and 29 drink "mineralka" only once a month, whereas those in the older age group drink it no less than twice a week.

The one significant difference in relation to the times at which water is consumed is that 6% of respondents between 18 and 29 years indicated that they used it late at night. Evening and night time consumption is mainly of spa and mineral water, and daytime consumption is mainly regular water.

In connection with this we can state that buyers fairly clearly differentiate between the following types of mineral water: mineral (spa), ordinary mineral and plain water. These differentiations influence the situations in which different types of water are used. The majority – 56% of 18–29 year-olds and 41% of 30 to 50 year-olds drink to relieve thirst. 22 and 37% use it for general maintenance of health, and 16 and 22% use it for medicinal purposes. Interestingly, among the younger group, 6% buy water for sports training.

People's attitudes to the water's country of origin are duplicitous. On one hand, consumers favour domestic water with natural mineralization – 86% of the younger age group and 96% of those aged between 30 and 50 years choose this kind. At the same time, the influence of mass advertising and well-planned distribution has created trust in Western brands.

Moreover, respondents accept Western brands, produced in the Russian Federation, as "domestic". However, when choosing water on impulse for relieving thirst consumers do not pay attention to the producer, instead choosing on grounds of price and product appearance.

The absolute majority of respondents consider the ideal price of regular and mineral water in a 0.5 litre plastic bottle to be 10 to 12 roubles. For mineral-spa water they prefer a glass bottle, in which case the price goes up to 18 ± 2 roubles, although in a case of necessity consumers are prepared to pay up to 30 roubles.

Respondents tend to classify bottled water as either artificial or natural (preferring the latter) and as carbonated or still. Dividing bottled water into carbonated and still varieties, they consider that regular water and artificially mineralised water are the most heavily carbonated.

Consumers have already formed certain stereotypes regarding the colour, material and size of the bottle, and the design of the label. Virtually all of those surveyed associate darker bottles and labels with carbonated water, and lighter bottles and labels with still water. These associations extend to the colour of the bottle top. It is naturally accepted that glass bottles should have a metal screw-top.

The participants of the survey perceived that the ideal volume for the bottle depends on the material. For example, for products in plastic bottles, 0.5–2 litres is considered the ideal capacity. However, if there is an opportunity to buy a 0.6 litre bottle for the price of a 0.5 litre bottle, then buyers will take that option.

When buying water in glass bottles, people prefer volumes of 0.33 and 0.5 litres. Of so-called "domestic-capacity" containers, the 5 litre plastic bottle with either side or top handles is considered the most convenient. Last year bottled drinking water in large containers (19–20 liters) was purchased by 9% of households, in 2003 this indicator was 6% and 5% in 2002. Although the share of buyers of this product is low, it is worth noting a certain growth of the indicator as compared with 2002–2003. The evaluation of the share of bottled drinking water buyers may be somewhat understated as high-income respondents rather refuse to answer at personal interviews at the place of residence while they make the target group of consumers of consumers of bottled drinking water in large containers. It should be mentioned that in additional notes, respondents remarked on the convenience of 0.3 and 0.25 litre bottles in recreational places – clubs, bars, cafes and cinemas.

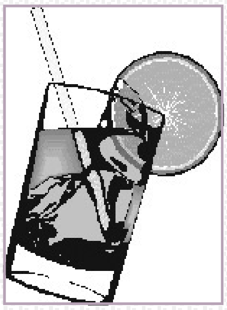
Younger respondents choose to buy water in supermarkets – 43%, while those of the older age group prefer to buy it in shops near to their homes – 54%. Also, 2% of 18–29 year olds surveyed make their purchases in brand-outlet stores, and 3% of them get their water at wholesale markets, whereas those between 30 and 50 years do not visit these places. In this, the term "supermarket" also covered some large grocery stores. Those surveyed considered that supermarkets and large grocery stores, especially "big name" chain stores, were places where imitation goods would not be found on the shelves. However, bottled water is also bought at stalls and in small shops, wherever is closest to hand.

On the whole, when respondents of both sexes and all age groups go to the shop they set out to buy a particular brand of bottled water, especially when medicinal qualities are being taken into consideration. They rarely buy a different brand if theirs is not on sale. For this reason the brand "Narzan", famous since Soviet times, is the market leader. 24% of the capital's residents buy water of this brand, 23% buy "Borjomi", and 15% buy "Essentuki". Incidentally, 95% of buyers consider "Borjomi" to be domestic produce.

Buyers are more flexible in relation to other bottled waters – they buy whatever is on sale, even unknown brands. Here it is interesting to note that when making an impulse purchase, the buyer will always read the information printed on the label of the bottle.

A large proportion of respondents consider advertising effective in creating an image and raising awareness of products. Survey participants take notice of advertising on television, on the street, and also in the metro, if it is done in a vivid and motivating manner. On the subject of finding out the worth of a particular product through advertising, Russians stress the importance of advertising in newspapers and magazines. In newspapers, articles which do not have an openly commercial nature arouse interest, while in magazines the presence of a creative component plays an important role. ■

REVIEW OF RUSSIAN MARKET OF LOW ALCOHOL BEVERAGES



Low-alcohol beverages became available in Russian shops in early 90-ies of the last century. Before 2004 our country witnessed a small but stable growth of consumption of low-alcohol cocktails – this market segment was considered by domestic producers and trading companies to be among the most promising ones. However, in 2004 there began to show a decline of the demand for these products. This situation is primarily accounted for by the activity and optimal strategy of brewing companies. Besides, quite a significant role was also played by a number of publications in mass media that undermined the consumers' trust in low-alcohol cocktails – they described the harm done to health by consumption of these beverages. By the last year results, low-alcohol cocktails were drunk by about 9% of the Russian citizens under 16 years of age. For comparison: in this period beer was consumed by about 52% of the country's residents.

But despite the criticism aimed at low-alcohol beverages and the marked trend towards decline of their consumption we can say that this product has become part of Russian everyday life.

There exists an opinion that low-alcohol cocktails are a so-called female drink like an alternative to a traditionally male drink – beer. Producers do not generally support this division although they position some brands in accordance with it. Besides, it is females that make the greater part of consumers of low-alcohol beverages – their number is 59.6 against 40.4% of males, respectively.

When choosing a drink most consumers are guided either by the alcohol basis of the cocktail or flavour additives. As to the preferences of consumers of different sexes, one can point out that females most often choose gin-based low-alcohol while males – vodka-based ones.

However, although females prefer gin-based cocktails the leading trademark is "Otvertka ("Borodino" CJSC, Moscow). The name "Otvertka (Screwdriver)" speaks for itself – this is the brand of a vodka-based cocktail. We can say that the existing differences between the taste liking of males and females have produced practically no impact on the trademark preferences: both groups choose products of the same brands. This is primarily conditioned by the wide assortment of low-alcohol cocktails offered by producers under one trademark.

As to the age structure of consumers of the products under consideration, it is dominated by young people. Thus, the aggregate share of consumers at the age of 16–19 and 20–24 is over 30%, another 27% account for people at the age of 25–34. Quite a numerous group of consumers – over 20% – is made by our middle-aged citizens: from 35 to 44 years old.

Consumers' preferences regarding alcohol bases, tastes as well as cocktail trademarks differ depending on the respondents' age. For example, while consumers under 35 enjoy vodka-based cocktails, Russian citizens over 35 give preference to gin-based ones.

The market of low-alcohol cocktails is currently divided practically among three giants – "Borodino", "Happyland" and "Bravo". Each of the producers has its own promotion strategy on the market and its advantages over the competitors: "Borodino" concern stakes on cocktails with a classical name, "Trophy" offers beverages with exotic additives, such as feijoa, pawpaw and is oriented towards consumers giving priority to flavour additives, "Bravo" concern offers beverages intended for wide layers of the population, including low-income ones.

Thus, one can say that the market of low-alcohol cocktails has now completely formed. ■

BUSINESS NEWS TICKER

- Russia produced 270.3 million tons of oil and gas condensate from January through July this year, a 2.8 percent year-to-date increase. Oil exports from Russia increased 8.3 percent in the first seven months of this year, reaching 138.3 million tons. Primary processing of oil at Russian oil refineries was up 6.3 percent, reaching 117.7 million tons. Production of oil and gas condensate climbed 8.9 percent last year, to 458.8 million tons. Russia currently produces about 470 million tons of oil a year, of which it exports 230 million tons. If production doesn't fall, the country's oil reserves will suffice for another 35 to 40 years.

- Russian Prime Minister Mikhail Fradkov has signed the privatization program for 2006 and the outline for the 2006-2008 privatization. Under the program, in 2006 the government should privatize 968 federal state unitary enterprises and sell stakes in 419 joint-stock companies. The joint-stock companies slated for privatization include automobile, agricultural, defense, fuel and energy, construction companies and others. Federal state unitary enterprises slated for privatization include aircraft, shipping, oil and gas and other enterprises. Among the largest privatization deals scheduled for 2006 are the sale of the government's 34.01% stake in Russia's largest heavy truck manufacturer Kamaz, 85.38% in the Krasnoyarsk-based Yenisei Gold (Yeniseizoloto) and a 46.49% stake in the airline Samara.

- Russian President Vladimir Putin suggested that Russia and CIS countries apply the model of "the Wisemen Group" to work out new model of CIS integration. Putin suggested establishing a Summit Group that could be formed of competent and respected people from CIS countries who are familiar with the problems of the CIS.

- Russia will raise its export oil duty to a record high of $179 per metric ton beginning October 1. The government reviews oil export duties every two months based on the average price of Russia's Urals crude on the world market in the previous two-month period. After the export duty on oil is raised to $179 on October 1, the export duty on light petroleum products will be about $133 per ton and the export duty on heavy petroleum products will stand at about $71.6 per ton.

- Russia, Belarus and Kazakhstan intend to adjust an agreement on common customs tariffs within the Common Economic Space (CES) by the end of 2006.

- Russia is planning to adopt new intercity-access and national trunk access codes before the end of 2006. The "0" and "00" codes will be adopted to try to meet international standards. The changes would affect nation-wide cellular numbers. Instead of one operator for long-distance communications (Rostelecom), there will be seven private companies.

- Russia's external trade during the first seven months of 2005 totaled $197.6 billion, going up by 34.9% if compared with the equivalent period last year. Total trade with CIS countries totaled $229.8 billion. Imports totaled $64.7 billion, up 27.8% from last year. Russia's trade surplus during the same period reached $68.2 billion.

- The seventh MAKS aerospace show has ended in Zhukovsky outside Moscow on August 21. 642 corporations from 42 states showed their output there. This year's newcomers were Jordan, Finland, Belgium, the Netherlands, Bahrain, Slovakia and Georgia. Modernization projects were presented at the show, which more than 35 countries have bought for their armed forces. Over a dozen major contracts on aircraft supplies were signed at the show. The first one was signed by Rosoboronexport, Russia's main arms exporter, and the Indian Hal corporation in the presence of Russian President Vladimir Putin. The contract provides for the organization of a licensed production of AL-55I aircraft engines. King of Jordan Abdullah II signed a contract with Rosoboronexport and the Federal Industry Agency to buy two Il-76MF military transport planes.

- Russia and Finland will hold talks on security regulations and peaceful use of nuclear energy. The Russian government accepted the proposal of the Federal Service for the Supervision of the Environment, Technology and Nuclear Management to hold talks with Finland on these issues. The proposal was coordinated with the Foreign Ministry and the Federal Agency for Nuclear Power.

- Russia's Federal Air Transport Agency and the Transport Ministry are in favor of suspending the protective duty on foreign air carriers imported into Russia. The need to suspend the duty comes from the large number of problems Russian airlines are having with a cost-effectiveness. The proposal to suspend the protective duty is currently being considered in various ministries and departments.

- The Economic Development and Trade Ministry has forecasted an increase in grain and meat imports for 2006-2008. According to the forecast, restrictions on some food products, for example, fresh and frozen meat imports, will be softened. In 2008, fresh and frozen meat imports will total about 1.2 million metric tons compared to 1,030,900 tons in 2004, and poultry meat 1.2 million tons compared to 1,114,400 tons in 2004. According to the report, grain imports will rise by 17% in 2008 compared to 2004.

- Foreign investment in Russia from January to June of this year fell 13.5% year on year to $16.5 billion, the Federal Statistics Service Rosstat reported. Cumulative foreign investment aggregated $90.8 billion, up 34.7% from the same period last year. Cyprus, Luxemburg, The Netherlands, Germany, Britain and the United States are major investors in Russia, make up 81.9% of the country's total cumulative foreign investment and 80.1% of total direct foreign investment in 2005.

- Western Europe might face a diesel deficit by 2015. Analysts have forecasted that there will be a diesel deficit of 50 million metric tons, or 20% of consumer demand in 2015. Western Europe currently consumes 200 million metric tons of diesel, and by 2015 this figure is forecasted to grow by 30% to reach 280 million tons, analysts said.

- Over a half of the foreign pharmaceutical companies that export medicines to Russia are considering the establishment of production operations in the country. According to a survey by PricewaterhouseCoopers and the Association of International Pharmaceutical Manufactures, 33% of the 23 biggest drug suppliers to Russia are currently considering setting up production operations in the country in the next two or three years and another 19% are planning on such a move within five years' time.

- Russia's alcohol imports in the first half of 2005 totaled $522.5 million more (an increase of 21.1%) than the same period last year. Wine imports totaled $241 million (251 million liters), and vermouth and cider imports totaled $32 million (8 million liters). Imports of strong drinks totaled $250 million (64 million liters), including vodka and liquors - worth $115 million (50 million liters). Ethyl alcohol was not imported. Russia imported 2.5 times more strong drinks in the first half of this year than the same period in 2004. Eighty percent of all vodka and liquor imports were Ukrainian. Wine imports grew by 18% year-on-year, mainly due to wines from Moldova, France, Georgia, Bulgaria, and Spain. Georgian wine imports grew by 50%.

- Russian Agriculture Minister Alexei Gordeyev and Norwegian Minister of Fisheries and Coastal Affairs Sven Ludvigsen have agreed to cooperate in the fishing industry within the framework of the Russian-Norwegian Fishing Commission. The ministers reached an agreement on creating a strategy for managing resources, joint inspections and establishing direct contact between specialists in the relevant departments of Russia and Norway.

- Trade between Russia and Finland remains strong: bilateral trade totaled $12 billion in 2004. In the first quarter of 2005, it jumped 31% relative to the same period last year, reaching $3.44 billion.

- European anti-missile defense system is possible and Russia will be prepared to contribute tangibly to its creation and to share technologies, Russian Defense Minister Sergei Ivanov said after a coalition exercise of the CIS anti-aircraft defense forces.

- European Union experts said there was "serious concern" an outbreak of avian flu in Russia could spread to Europe, and the EU head office urged the 25 member states to step up surveillance. The EU's executive commission promised additional funding to track any possible spread of the disease and called a special meeting in a few weeks to coordinate surveillance efforts. An outbreak in the Netherlands in 1999-2000 led to the destruction of 30 million chickens at an estimated economic cost of more than $180 million. The EU already has banned imports of Russian poultry. In Russia, the outbreak has killed about 11,000 birds and prompted officials to slaughter 127,000 others to halt the virus spread. No human cases have been registered.

From RusCham Desk

Training seminar "Exporting beer, non-alcoholic and low-alcohol beverages to Russia" took place in Kosice, Slovakia on August 9, bringing together more than dozen of Czech and Slovakian producers of beer, non-alcoholic beverages and mineral water such as HEINEKEN SLOVENSKO, a.s., KOFOLA a.s., EURO-Mineral, s.r.o., Karlovarske Mineralni Vody,a.s., Vitis Pezinok, s.r.o., Trencianske Mineralne Vody, a.s. and others.

Among the guests at the seminar were representatives of Russian beverage distributing company "Trade House "Pivo-Vody", export-import company "Rosintorg", Certification Center "Russian Standard", Russian-European transport and customs services company "SFT"

The seminar offered a look into the rules and possibilities of Russian beverages market, while revealing the opportunities of transport and certification process for it's participants. ■

Upcoming Events

(For more information on events please visit following links.)

Sep 1-4: International Banking Forum Russian Banks - XXI century

http://www.asros.ru/?pid=13&cid=86&act=1354149601 (in Russian)

Sep 6-8: First Russian-Belarusian Economic Forum in Minsk

Sep 7-9: Russia/CIS Mobile Forum in Moscow

http://www.russia-cis-mobile.com/

Sep 20-21: Biotechnology Investment Opportunities in the CEE in Budapest (Hungary)

http://www.infor-media.ru/engis/controller.jsp?view=product&product_id=20001265742

Sep 22-23: Financing Oil and Gas Sector in the CIS conference in Moscow

http://www.europetro.com/epc/

Sep 26: Competition in Russia: Dialog between State and Business conference in Moscow

http://www.infor-media.ru/engis/controller.jsp?view=product&product_id=20001267355 (in Russian)

Sep 26-27: Capacity Russia 2005 telecommunication conference in Moscow

http://www.telcap.co.uk/events/details/?eventID=41&typeID=1&venueID=25

Sep 26-27: International Construction and Realty conference in Prague (Czech Republic)

http://www.expertise.ru/documents/konference2005.shtml (in Russian)

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