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## IN THIS ISSUE:

REINVENTING THE RUSSIAN RAILROAD \* RUSSIAN HOUSING PROGRAM  
\* PRESS RELEASE OF THE 20TH EU-RUSSIA SUMMIT, MAFRA 26 OCTOBER  
2007 \* SIVATECH AS \* RUSSIAN STANDARD \* EU-RUSSIA RELATIONS:  
OPINIONS AND ANALYSES \* BUSINESS NEWS AND UPCOMING EVENTS

## REINVENTING THE RUSSIAN RAILROAD



Российские  
железные дороги

With fashionable wrap-around sunglasses obscuring half her face, it's impossible to guess where the girl on the billboard is looking. More likely than not, though, she's looking into the future. Next to her, in meter-high lettering, is the slogan "Let's Go by Train!" Beyond that is the new streamlined logo of the state rail monopoly, Russian Railways.

The intended message is clear. Russian Railways, or RZD, often criticized for ponderous journeys, bad service and outmoded trains, is reinventing itself.

Its rebranding campaign, splashed across billboards in major Russian cities, is the most visible part of a major development plan for the railways, company president Vladimir Yakunin explained in a recent interview.



The program would open up the railroads to foreign investment and could eventually see the company partially privatized.

Elsewhere, improvements from single-sex train cars to better food, DVD rentals and Internet access should make traveling by train more comfortable.

Last month, Yakunin presented his vision for modernization to President Vladimir Putin.

The immensely ambitious plan envisions sinking 13.7 trillion rubles (\$500 billion) into a radical overhaul of the country's rail network through 2030.

To raise the money, the company is asking the state to contribute 20 percent and regional administrations another 5 percent of the cost.

The rest would come from the company's own funds and private investment.

"It is not just that we are asking with a stretched-out hand, 'Just give us money,'" Yakunin said.

"Take 20 percent out of 13 trillion. It is peanuts compared to the budget of Russia," he said.

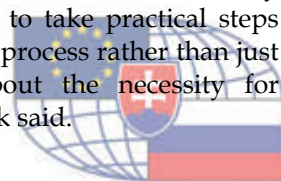
Foreign investment into the company is not restricted by new regulations on strategic industries, so billions of dollars of private investment could come from abroad, he said.

"For me the nationality of the money doesn't matter. We never divided whether this is Russian private investment or international private investment," he said.

Although the plan is likely to evolve significantly over time, it does offer an overarching vision for the company, former Transportation Minister Sergei Frank said.

Moreover, he said, the company has been making much-needed changes under Yakunin, who served as deputy transportation minister under Frank.

"Since Yakunin has arrived, they really started to take practical steps in the reform process rather than just preaching about the necessity for reform," Frank said.



To raise the necessary funds for its reform, the company intends to privatize some of its transportation holdings while keeping the company itself 100 percent state owned.

The company is creating a series of subsidiaries that will eventually be partially privatized, leaving the parent company intact and in control.

First up to be privatized will be part of Russian Railways' immense rolling stock assets, bundled together into the recently formed Pervaya Gruzovaya Kompaniya, or the First Freight Co., and the container company Transcontainer.

Some time in the next year, at least 10 percent of First Freight will be privatized, Yakunin said, with plans for a further sell-off being drawn up after that.

Transcontainer will be privatized in several stages, with 10 to 15 percent of the company sold off by the end of the year and 25 to 30 percent offered on Moscow stock exchanges in 2008.

After that, the company will look to sell off many of its locomotive and car repair units, Yakunin said, without giving a time frame. The company is also considering creating a series of joint ventures to develop the infrastructure for a high-speed train network, he said.

Yakunin said he was open to the idea of reducing the state's stake in the RZD parent company from 100 percent, as it aims to become commercially viable in the long term.

"We are considering the possibility, or theoretical possibility, of being public, that means selling shares on the market. Why not?" Yakunin said.

The law, however, prohibits the company from selling part of its infrastructure or mortgaging the infrastructure.

Even before the advertising campaign began, the company had been trying to remake its image.

A big change has been the introduction of a new management culture and new personnel, said Anna Belova, who co-authored the government's rail reform program through 2010.

Belova said recent company reforms were in line with the original plan.

As to where the \$500 billion in investment would go, the company wants to build around 20,000 kilometers of track -- more than what was built during the 70 years of the Soviet Union. Once laid, lines would finally stretch all the way to Magadan, in the far northeast.

The company also is looking abroad, with long-mooted plans to extend the rail link to North Korea, South Korea and even Japan.



Yakunin was upbeat about the prospects of these projects, saying there was "very serious" interest in expansion both to the west and east of Russia. "Cooperation between railway systems is less controversial than any other sort of integration between Russia and Europe," he said.

In addition to new tracks, Yakunin's plans call for the creation and then expansion of the high-speed network. At least 15 routes have been earmarked for high-speed trains, Yakunin said. By 2012, the time it takes to travel from Moscow to St. Petersburg will be more than halved to 2 1/2 hours. Eventually the journey from Moscow to Berlin will

take eight to 10 hours, rather than a day and a half.

But high-speed trains on long-distance domestic routes are not in the cards. Yakunin said the 1,600 kilometers between Moscow and Sochi, site of the 2014 Winter Olympics, was too far. "Can you give me an example of such high-speed trains anywhere? No," he said.

Trains on such routes would increase their speed but not necessarily become high-speed routes, he said.

Despite the reforms and increases in ticket prices in recent years, little seems to have actually improved for the average passenger.

Yakunin, however, was bullish about the quality of service and comfort on trains, comparing it favorably to the service provided in Western Europe and particularly Britain.

"From the point of view of modern rolling stock or wagons, then we have setbacks.

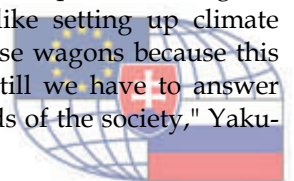
But speaking about the environment, speaking about the comfort, speaking about the meal, then everything is better," he said.

Other improvements touted by the railroad include the phased introduction of single-sex cars on all routes over the course of this year.

Services such as DVD rentals, playrooms for children, Internet access, libraries of classic Russian literature and free mobile phone charging facilities are also being offered on some trains.

Even passengers travelling on the cheapest tickets are breathing easier, with the installation of climate control systems in the platskart cars.

"I don't like platskart wagons, and I don't like setting up climate control in these wagons because this is silly. But still we have to answer some demands of the society," Yakunin said. ■



## RUSSIAN HOUSING PROGRAM

In September 2006, the President of the Russian Federation, Vladimir Putin, identified housing as one of the top priority investment areas for the 2006-2008 budget.



The main objectives of the resultant "Affordable and Comfortable Housing" federal program have been stated as follows:

- Doubling the volume of housing construction to 80 million square meters per year to maintain current availability level, or over 200 million square meters to reach Western per capita housing availability levels
- Increasing the yearly volume of issued mortgage credits by roughly twenty times, to \$14.8 billion from the current \$740 million
- Reducing the average amount of waiting time for attaining municipal/social housing from 15 - 20 years to five - seven years
- Tripling the share of families able to receive affordable housing, including the use of credit, from nine to 30 percent

The stated priority areas for the Russian government will be financed through federal, municipal and private funding sources. In terms of federal funding, post-Soviet Russia has never been in a better financial

shape to carry out its plans than it has been in the past several years. The economic expansion is fueled by oil exports, which amounted to \$170 billion in 2006. The 2006 federal tax revenue collections exceeded \$240 billion, up from about \$20 billion in 2000 when Putin became Russia's president.

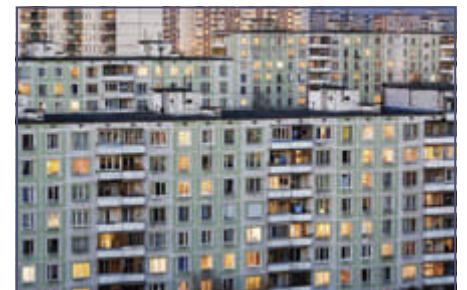
In addition to growing investment in the Russian economy by the federal government, Russia is becoming a magnet for private investment, specifically foreign direct investment (FDI). According to The PBN Company's 2006 survey, "Foreign investors say Russia is becoming more competitive than before with China, India, Brazil and other emerging markets as a magnet for Foreign Direct Investment (FDI). The survey found that most current investors in Russia experienced significant year-on-year growth in both sales and profits. More than 90 percent [of surveyed investors] said they plan on increasing both their business operations and investments in the next three years. Both current and potential foreign investors said that they are most attracted to Russia because of the size of the market (90%), the country's sustained economic growth (82%), the high quality and low cost of human resources (57%), and overall political (48%) and macroeconomic (46%) stability."

The rapid economic growth, increase in consumer purchasing power and rapidly depreciating Soviet-era housing stock contributed to sustained growth in the construction sector averaging 12 percent in the past three years and exceeding 15.7 percent in 2006. It is estimated that 61 percent of Russian families live in

unsatisfactory housing conditions. In order just to meet the current need, without even accounting for growth in demand, the size of available residential premises needs to increase by 46 percent from current levels.

The aforementioned Affordable Housing program is intended to address this housing need, revitalize Russia's construction industry, revamp the country's communal infrastructure and develop an advanced mortgage system. Russia, being the largest country in area of the world, is comprised of many diverse regions. Therefore, the Affordable Housing program can be considered successful for Russia as a whole only if it is successfully implemented in the country's regions.

Another important factor that will determine whether the Affordable Housing program will be implemented successfully is the state of the resource base in Russia's construction industry, which includes construction materials, equipment, technologies, know-how and a qualified labor force.



The construction materials manufacturing sector is not keeping up with rapidly growing demand. The Soviet legacy manufacturing facilities have endured physical and technological depreciation and are in

need of modernization and re-equipment. The construction equipment stock is, for the most part, deficient, and needs to be augmented with imported equipment and machinery. The labor force is still one of the most valuable assets left from the Soviet-era system of education; it is well educated and highly skilled.

Many Russian construction companies are looking to their Western counterparts, including U.S. companies, to acquire new construction technologies and expertise. They expect the new technologies to positively affect the rate of new construction, its quality and process efficiency. Specifically, the American experience with low-rise housing is gaining popularity among Russian builders outside of urban areas, which constitutes the vast majority of Russian territory.

Vladimir Yakovlev, Russian Federation Minister for Regional Development, commented on whether low-rise construction and single-family housing specifically could meaningfully contribute to the implementation of the Affordable Housing program in a June 2006 interview with *Rossiyskaya Gazeta*. He stated, "They can in principle. The

American and Canadian experience demonstrates this. Regional centers, villages, townships: these are the places where we must build only individual housing units."



Martin Shakkum, Chairman of State Duma Committee on Industry, Construction and High Technologies also noted, "For sure we need to develop low-rise construction. People are reaching out for land. This fact has been demonstrated by the fact that the volume of low-rise construction quadrupled since the beginning of the 1990s. Yet there are a number of extremely serious factors restraining this development. First, there is the myth that low-rise construction is cheaper. Unfortunately, this is not true; it is today more expensive than prefabricated high-rise construction. The reason for this is that low-rise

construction in Russia is rather low-tech. It is quite developed in the United States in Canada. There, they assemble buildings out of pre-made sections: highly finished pieces of the building are shipped directly to the construction site."

Many private Russian construction companies, land developers and regional governments are greatly interested in acquiring U.S. technology, manufacturing equipment and expertise in order to establish production of factory-built housing in Russia. BSNIS has received several such inquiries and expects that the number of interested companies and organizations will continue to grow.

Russian entrepreneurs are not always clear on exactly what they are looking for from a U.S. counterpart, as they lack a complete understanding of the actual process for factory built construction. What the Russian companies and regional administrations are clear on is that the U.S.-style manufactured housing technology will address the need for fast and cost-effective construction, and provide for consistent quality, energy efficiency and a high degree of design customization. ■

## EUROSTAT REPORTS:

- Russia is the EU27's third most important trading partner, after the USA and China, accounting for 6.2% of EU27 exports and 10.4% of EU27 imports in 2006, compared to 2.7% and 6.4% respectively in 2000. The EU27 deficit in trade with Russia increased from 41 billion euro in 2000 to 69 bn in 2006. This increased deficit was due to imports of energy, which rose from 36 bn in 2000 to 94 bn in 2006, while exports of machinery and vehicles increased from 8 bn in 2000 to 34 bn in 2006.
- Among the EU27 Member States, Germany was by far the largest exporter to Russia in 2006, with 23 bn euro, or 32% of the total, followed by Italy (8 bn or 11%) and Finland (6 bn or 9%). Germany (29 bn or 21%) was also the largest importer, followed by the Netherlands (17 bn or 12%) and Italy (14 bn or 10%).
- In 2005, Russia supplied more than 40% of EU27 natural gas imports and more than 30% of crude oil imports, compared to 50% and 22% respectively in 2000.
- In 2006, the EU27 exported 13 bn euro of services to Russia, while imports of services from Russia amounted to 10 bn, resulting in a EU27 surplus of 3 bn in trade in services with Russia.



## PRESS RELEASE OF THE 20TH EU-RUSSIA SUMMIT, MAFRA 26 OCTOBER 2007

The twentieth EU-Russia Summit took place today in Mafra. It was a friendly and open meeting during which the leaders welcomed the ongoing work on the practical implementation of the Road Maps for the Four Common Spaces and discussed future perspectives for our relations.

Notwithstanding all the progress achieved in EU-Russia relations in the last ten years (the current Partnership and Cooperation Agreement has been in force since 1997) it is clear for both Parties that further deepening of our strategic partnership would be mutually beneficial.

The EU noted that this was the first Summit taking place after agreement on the Reform Treaty was reached in the Intergovernmental Conference that recently took place in Lisbon.

In the Common Economic Space, the EU and Russia noted the wide range of areas where progress has been made and the areas where greater efforts are needed. In particular, they stressed the importance of the investment dialogue and of the energy early warning mechanism for strengthening mutual cooperation and increasing understanding between both Parties.

The EU encouraged Russia to undertake the necessary steps to solve the remaining obstacles to WTO accession.

The EU stressed the importance of climate change and the need to give continuity to cooperation in this area.

In the Common Space of Freedom, Security and Justice, the leaders welcomed the entry into force of the visa facilitation and readmission agreements and underlined the importance of their full implementation. In this regard, they also welcomed the recent start of the visa dialogue. The Permanent Partnership Council on Justice and Home

Affairs, in November, will be an occasion for further discussion of the issues covered by this Common Space.

The EU also noted the results of the sixth round of EU-Russia Human Rights consultations, held in Brussels on 3 October, and looked forward to further regular rounds of consultations in the future.

In the Common Space on External Security, the leaders stressed the cooperation in the common neighbourhood. They reiterated the importance both the EU and the Russian Federation attach to effective multilateralism.



The leaders took note of progress in the Common Space on Research, Education and Culture, and welcomed in particular the holding of the first Permanent Partnership Council on Culture on the eve the Summit.

They also discussed a wide range of international issues of strategic importance: the situation in Burma, Kosovo, Iran, Afghanistan and the Middle East Peace Process.

The leaders witnessed the signing of the Memorandum of Understanding between the European Monitor-

ing Centre of Drugs and Drugs Addiction and Russia as well as the signing of an Agreement on Trade in certain Steel Products.

The leaders noted the outcome of the Industrialists' Round Table held on the eve of the summit.

The EU was represented by Mr. José SÓCRATES, Prime Minister of Portugal, in his capacity as President of the European Council, and the President of the European Commission, Mr. José Manuel BARROSO. The President of the European Council was assisted by the Secretary-General/High Representative, Dr. Javier SOLANA, and accompanied by the Minister of State and Foreign Affairs of Portugal, Mr. Luís AMADO, and the Secretary of State for European Affairs, Mr. Manuel LOBO ANTUNES. The President of the European Commission was accompanied by Mrs. Benita FERRERO-WALDNER, Commissioner for External Relations, and Mr. Peter MANDELSON, Commissioner for Trade.

The Russian Federation was represented by Mr. Vladimir PUTIN, President of the Russian Federation, accompanied by Mr. Sergey LAVROV, Foreign Minister, Mrs. Elvira NABIULLINA, Minister for Economic Development and Trade and Mr. Sergey YASTRZHEMSKIY, Special Representative for development of relations with the European Union. ■



SIVATECH - A company in SIVA group.



**SIVATECH AS** is international subsidiary company of SIVA SF Industrial Corporation of Norway. SIVATECH is 100 % owned by SIVA which is owned by Norwegian Ministry of Trade and Industry. SIVATECH has projects and activities in several countries from North of Russia to South Africa. SIVA establishes concepts of innovation such as Incubators, Research and Science parks, Techno parks, Industrial parks, Business centers, Centers of expertise and Industry Incubators, while SIVATECH carries out these concepts around the globe.

**SIVATECH's** working methods have internationally made over 700 new working places with great spreading consequences on local environments that deliver products and services to various establishments. SIVATECH's aim is general job creation, revitalization of local economic activity, clustering in order to improve local industry's competitiveness.

**SIVATECH's** international team consists of co-workers in Norway, Russia, Latvia and Lithuania. The headquarters are in Trondheim in Norway. SIVATECH has 15 years of international broad experience with focus on Eastern and Central Europe.

**SIVATECH's** first international involvement was in Murmansk in Northwest Russia since the beginning of 1990s. Its first establishment called SIVA Center in Murmansk officially opened in spring 1999. Since its establishment SIVA Center in Murmansk has provided around 50 Norwegian companies with opportunities for industrial activity in Northwest Russian market.

The involvement in Northwest Russia is on behalf of Norwegian government and is defined in Norwegian Parliament's "High North strategy" white paper. SIVA's Center in Murmansk has achieved status of Innovation Center in January 2006. Today, Innovation Center Polar Star has 22 companies as tenants. Activities in the Center range from purchase and sale of fish to Engineering for oil and gas industry. Polar Star Innovation centre has also a business incubator for new businesses and founders.

**SIVATECH** has opened a new business centre in Murmansk for Norwegian SMEs named Technopark. This facilitates the internationalization of Norwegian SMEs and strengthens Russian-Norwegian cooperation.

**SIVATECH** has also established 3 Industrial Parks in the Baltic States during 2000s. The first two were in Panevezys in Lithuania called SIVA Spilka and SIVA Scan. The third one was in Ogre in Latvia called Ogre Industrial Park.

On Balkans **SIVATECH** is engaged in Bosnia and Herzegovina where it established BIT Centre in Tuzla. SIVATECH has also a project in Banja Luka in Bosnia and Herzegovina where it established Innovation centre on campus with Business Incubator for new founders. SIVATECH has project in Croatia in Sibenik where it establishes an Incubator in Business innovation marine center. In Pristina in Kosovo SIVATECH has a pilot project on the establishment of an Incubator.

In Romania in Galati **SIVATECH** works on the establishment of Maritime innovation centre by using its concept for Science park.

**SIVATECH** has participated in economical development project in Mbombela municipality, South Africa. Now it has a new project in Kenya where it aims to establish Industrial park and Incubator.

For more information please visit [www.sivatech.org](http://www.sivatech.org) and [www.barentsnova.com](http://www.barentsnova.com)





**RUSSIAN STANDARD**  
CERTIFICATION AND STATE PRODUCT REGISTRATION CENTER



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**Russian Standard** is an authorized Comprehensive Certification Center based in the USA and Europe and specializing in all types of mandatory and voluntary Russian certification and state product registration, ranging from nutritional supplements and foods to medical and oil equipment.

We are here to help you with all your needs, and we do it in conformity to the US / EU legislation and business practices. We always scramble to decreasing the costs and process time to minimum.

## RUSSIAN / CIS CERTIFICATION & LICENSING

According to Russian Law, more than 60% of all products to be sold and/or used in the country require mandatory certification/licensing, i.e. they should be approved by relevant Russian authorities in terms of compliance to national standards. This concerns both locally produced and imported goods. Moreover, prior to construction of an industrial or civil site in the Russian territory, a number of approvals are required to undertake engineering, construction and other technical activities.

Below you will find the list of product and activity categories subject to mandatory Russian approval:

- Products, services and tools assuring safety for life and health of consumers (e.g. foodstuff, drugs, textiles, electrical appliances, related equipment etc);
- Alcoholic products and equipment for their production;
- Production sites;
- Technical installations at dangerous production sites (e.g. pressure vessels, lifting and hoisting machines, pumps, equipment for mining, petrochemical, oil & gas, metallurgical and other industries);
- Fire-related products;
- Livestock;
- Products assuring safety for life and health of animals (feed, vaccines etc);
- Pesticides and agrochemicals;
- Products and services containing results of genetic engineering activity;
- Energy-consuming products and energy resources;
- Telecommunication equipment, tools and services;
- Information systems, databases and tools to protect them;
- Transportation units, products and services;
- Aerospace machinery;
- Geodesic, cartographical and topographical products;
- Forestry raw materials;
- Gas and coal;
- Nuclear industry products and technologies;
- Arms.



**Russian Standard** will help you to obtain on of the following certificates:

- **Sanitary-Epidemiological Conclusion Certificate** (formerly known as Hygienic Certificate) for products in contact with human body;
- **GOST R Declaration of Conformity** for some consumer goods and industrial instrumentation;
- **Certificate of State Product Registration** for new foodstuff and some other goods presenting a potential danger for human beings;



- **GOST R Pattern Approval Certificate** for measuring instruments;
- **GOST R Ex-Proof Certificate** for explosion-proof equipment and materials;
- **Fire Safety Certificate** for flammable or fire extinguishing products;
- **Design Registration at Rostekhnadzor** for hazardous industrial sites
- **VNIIS Exemption Letter** for products that are not subject to mandatory GOST R certification. **Telecom Type Approval Certificate** for telecommunications equipment.

## Registration and Certification of medical equipment, devices and materials

As in most countries, in Russia a medical product can be admitted to the domestic market only when and if it has been found in conformity with technical and medical safety regulations pertaining to this particular product.

Assessment of conformity of medical equipment and products to existing safety standards is carried out by the Russian Health Ministry and Federal State Scientific Certification Center for Medical Products. If found in conformity, the product gets entered in the Federal Registry, and the applicant receives the "Registration" license.

Russian Standard Ltd. handles all interaction with the Russian authorities on behalf of the exporter/manufacturer of medical products, makes sure that the submitted dossiers are complete, and the processing is done without delays.

For medical devices and materials, along with the registration, Russian regulations require both GOST-R and Hygienic certification.

We also will help you with NUTRACEUTICALS, when in accordance with the Russian legislation, all food (nutritional, dietary) supplements, also known as biologically active supplements, are subject to mandatory State Registration by the Russian Ministry of Health.

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## CERTIFICATION F.A.Q.:

### What is the Hygienic Certificate (Hygienic Conclusion)?



Hygienic Certificate confirms the conformity of production and product to Russian sanitary requirements; this applies to the manufacturing, storage, transportation and sales.

Some products may not be be subject to mandatory hygienic certification.

The term of validity of a Hygienic Certificate may be 1, 3 or 5 years. In the certain cases, (manufacturing of experimental sets of new kinds of production, implementation of essentially new technologies, using non-conventional raw material or components), the validity of Hygienic Certificate may be reduced at the experts' discretion.

For more information please visit [www.rosstandard.com](http://www.rosstandard.com)



## EU-RUSSIA RELATIONS: OPINIONS AND ANALYSES

### EU-RUSSIA GAS BATTLES 'ONLY BEGINNING', SAYS REPORT

With Gazprom actively seeking stakes in the European and particularly the German energy market, a new report warns about a 'clash of agendas' between the EU and Russia that will increasingly undermine the security of Europe's energy supply.

"While the EU is challenged by issues related to gas supply, Russia is fighting the challenges related to access to the market. This clash of agendas is threatening Europe's security of supply", says the European Energy Markets Observatory 2007, published by the consultancy Capgemini.

The report points to increased efforts by Gazprom, Russia's state-owned energy giant, to gain "control of the whole value chain" of the EU's energy supply, citing a number of new gas infrastructure projects and important pipeline ventures agreed jointly with Germany's E.ON and Italy's ENI.

Alexander Medvedev, Deputy Chairman of Gazprom's Management Committee, seemed to confirm the trend. In an interview with the Frankfurter Allgemeine Zeitung (FAZ), Medvedev said that his firm is planning several new important projects in Germany, including a large gas-fired power plant in the north of the country, to be built as a joint venture with E.ON.

But a recent Commission proposal to introduce a 'reciprocity clause' that prevents vertically-integrated foreign energy firms, and notably Gazprom, from gaining a controlling share in EU energy distribution networks sets the stage for a future clash between the EU and Russia, according to the Capgemini report.

"With divergent strategies, one can easily predict that the EU/Russia battle for gas supply and value chain control is only starting", it says.

The EU's dependency on Russian gas is increasing steadily, and is ex-

pected to go from 25% (the current level of dependency) to 50% by 2030, according to the Commission.

Colette Lewiner, one of the authors of the report, told Reuters that the planned construction in Europe of numerous new fossil fuel power plants, most of which rely on imports of oil, coal or gas (notably from Russia), is incoherent with respect to the EU's objective of increasing supply security while decreasing CO2 emissions.

In his opening speech to the Congress, EU Commission President José Manuel Barroso said that a "genuine single European energy market will continue to be open to our partners around the world, as long as they play by the same rules as our companies. In other words, we will protect competition in our newly-liberalised market".



### MANDELSON URGES EU-RUSSIA RAPPROCHEMENT

EU Trade Commissioner Peter Mandelson has pleaded for the EU and Russia to stop acting "like two cities joined only by a narrow road and a gas pipeline" and focus on building a long-term, mutually beneficial economic and trade relationship rather than getting caught up in short-term political tactics.

Speaking at the EU-Russia Centre on 17 October, the EU trade chief stressed the need for Europe and Russia to better integrate their economies, in order to counteract "inevitable political pressures threatening to pull them apart".

"For two such large and economically complementary neighbours, there is a striking lack of economic integration. If you remove energy from the

mix, Russia's exports to the EU are about the same as those of Morocco or Argentina," he said.

He urged Moscow to capitalise on its proximity to the European market and work on building a more stable business and political climate, with fewer import barriers, in order to attract EU investors.

The first essential "confidence builder" will be Russia's accession to the WTO, said Mandelson, urging President Vladimir Putin to rapidly resolve the remaining pending issues that are preventing his country from getting EU approval to join the global trade body.

He added that important and strategic questions such as this one should not share the same stage with quarrels over export taxes and bans: "Issues like this should not be allowed to dominate our relationship," he pleaded, ahead of a key bilateral summit in Portugal on 26 October, where the two sides are expected to discuss future perspectives for EU-Russia relations and a number of international and regional issues, including the future status of Kosovo, the Middle East peace process and Iran's nuclear programme.

Yet, earlier this week, Poland again threatened to block Russia's entrance to the WTO if Moscow refused to cancel a near two year-long embargo on exports of Polish meat and dairy products.

The dispute, along with another spat over Putin's unilateral imposition of export duties on raw timber last March, which angered Finland and Sweden (whose pulp and paper industries depend on Russian wood) has also been holding up the negotiation of a new bilateral trade and cooperation treaty between Russia and the EU. ■



## BUSINESS NEWS TICKER



Moldovan wine made its way back into Russian shops after a 20-month import ban that dealt a heavy economic blow to Europe's poorest country. Russia banned wine imports from both Moldova and Georgia in 2005, saying much of it was dangerous to consumers. Moldova called the ban punishment for attempts to move closer to Europe. The ban was lifted after Moldovan President Vladimir Voronin gradually took steps to mend ties with Russia and measures were taken to improve the quality of the wine.

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Local businesses in 22 regions are likely to take a beating if and when Russia joins the World Trade Organization, according to a report commissioned by the Economic Development and Trade Ministry. Regions such as Moscow and St. Petersburg could be hardest hit because they rely heavily on imported goods, while other regions would be vulnerable due to their undeveloped or unprotected manufacturing enterprises, said the report, which is being considered by the ministry. The 1,000-page report, prepared by economists from the Higher School of Economics, said the regions listed could hardly afford to compete with imported goods from WTO countries. Tougher competition once Russia joined the WTO could hurt regional producers' business and lessen revenues into the federal budget, the report said. It noted, however,

that there would be new opportunities for local producers to build export business. Light industries, especially state- and city-owned firms, are expected to find it tough competing with imports, while domestic carmakers will suffer from a reduction in import duties, as would tractor production plants and distributors of car tires, coffee and tea, the report said.

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Russian food-safety officials plan to begin inspections of food producers in Poland as the countries seek to end a two-year dispute over meat quality that has stalled Russia's talks on a key accord with the European Union. Russia will send 10 officials for two weeks of inspections. The schedule and the plants to be inspected will be determined after the inspectors arrive in Warsaw. More than 60 meat plants in Poland are interested in selling their products in Russia and have agreed to inspections, he said.

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Gazprom Marketing & Trading, the London-based trading unit of the world's biggest gas company, plans to start trading oil and coal. The company will soon start trading gas at the BEB hub in Germany and will also begin trading power in the Netherlands next year

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Rosneft plans to boost its oil output to 160 million tons in 2015 with growth powered by assets acquired from bankrupt company Yukos.

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Hyundai Motor said that it planned to build a factory in Russia, though key details including the location of

the plant and size of the investment remain undecided. Hyundai Motor chairman Chung Mong-koo disclosed the plan in a meeting with government officials in Moscow. Chung said the factory would have an annual capacity of 100,000 vehicles. Hyundai currently has factories in China, India, Turkey and the United States, with another under construction in the Czech Republic.

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The Russian government plans to set up a holding that will produce aircraft engines. The holding will include a number of Samara-based aircraft engine makers, including the Kuznetsov Samara Research and Technological Center, or Kuznetsov SNTK, and Motorostroitel. These companies produce engines for civil aircraft.

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Russia's Economic Development and Trade Ministry has revised up its consumer price inflation forecast for 2007 to 11%-11.5%, the ministry said in a report on the country's social and economic development. The ministry's last inflation forecast adjustment was in late October, when it was revised up to 10.5%-11% from 8%. Russia's consumer price inflation amounted to 9.7% from January 1 to November 15.



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The Russian government had sought to keep inflation within an 8% range this year, but high inflation in recent months has already pushed the figure well over that target. In 2006, Russia's consumer price inflation amounted to 9% - right on the government's

target for that year.

...

Poland is ready to remove its veto on talks over a new EU - Russia partnership agreement, the new Polish Prime Minister Donald Tusk said at a news conference. Tusk criticized the position of the previous Polish government, which vetoed talks on a new EU - Russia partnership agreement after Russia imposed a ban on the import of meat from Poland in 2005.

...

A special economic zone is expected to be created at the Vostochny port in Russia's Primorsky Region. Earlier this month, Russian authorities passed a law introducing special economic zones

at seaports and airports. Special economic zones in Russia enjoy lower tax rates and other benefits

...



Ukraine told Russia that it could charge more for Russian gas transit to Europe if Moscow imposed steep gas price increases, raising the prospect of another gas dispute between the two countries. Gazprom has agreed to increase its current \$100 rate per 1,000 cubic

meters of gas from Turkmenistan by 30 to 50 percent from next year. Analysts say that could increase prices by 40 percent for Ukraine, a major consumer of Turkmen gas, to a level experts say the Ukrainian economy would have difficulty sustaining. Gazprom and Ukraine are holding difficult talks on next year's gas prices, which Gazprom has said can only be determined after it reaches a supply deal with Turkmenistan. The gas market and analysts closely follow pricing talks between Moscow and Kiev because previous disputes have led to disruptions in Russian gas supplies to Europe, as Ukraine accounts for 80 percent of Russian gas transit. Gazprom, the world's biggest gas producer, provides Europe with one-quarter of its needs. ■

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itects, project managers, consultants and legal advisers) on how to manage development risks, as well as presenting a lively, interactive discussion on risk management, which is undoubtedly a thorny issue for all those involved in property developments in Ukraine

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