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Russian Chamber of Commerce in Europe

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FOCUS

FRANCHISING IN RUSSIA

MARKET OVERVIEW

With Russia now firmly wedded to the consumer business model, a spending boom has started to drive the economy just like the oil sector has done. Spending patterns of consumers in Russia are rapidly starting to resemble those of other European cities and thus are creating demand for recognized brands and high quality services. In order to meet expectations of their clients and gain a competitive advantage, increasing numbers of Russian private enterprises and entrepreneurs are seeking partnerships with well-recognized Western companies.



During its 12-year history, the franchising sector has developed in customer oriented segments, such as fast food/restaurant/catering business, retail, education and training, fitness and health care, recreation and entertainment, travel and lodging, and automotive.

Franchising in business-oriented services is also picking up. Good examples of the B2B segments where franchise models work successfully are: cleaning services and maintenance, transportation, logistics, express mail services, management training and consulting.

Foreign companies are seeking franchise opportunities, most frequently in the following sectors:

- Automotive Products/Car Wash
- Business Services
- Children's Services/Preschool Education
- Clothing and Shoes
- Design

- Educational Services/Training
- Fast Food/Restaurant/Catering
- Health/Beauty/Fitness
- Lodging/Hotels/Motels
- Laundry/Dry Cleaning/ Commercial Cleaning Services
- Marketing/Public Relations
- Postal services
- Printing/signage
- Recreation Facilities/Equipment & Services
- Retail Stores/Specialty Stores

Franchising is most visible in the fast-food sector. Although many local and international fast-food franchise concepts successfully operate in the market, it is far from saturated. Expansion of casual dining is expected over the next few years, as emerging local and new global players enter the market. Also, we see growing demand for cafeterias, coffee-shops, and tea-rooms as the culture of patronizing such establishments is penetrating the Russian life style.

Another large segment where great franchise opportunities exist is retail trade. According to recent statistics published by Interfax Business News Agency, Russian retail trade turnover increased 11.4% year-on-year to 3.7 trillion rubles (approx. \$132 bln) in January-July 2005. If the second half of the year posts the same results, it will bring the total retail turnover for 2005 to \$260 bln. For comparison, in 2004, the retail turnover was \$185 bln. Assuming that franchising development in retail segments will have some correlation with development of the total retail market, it is possible to predict a very bright future for franchise concepts based on retail trade.

Significant opportunities for development also exist in lodging (hotels), entertainment, education, training, healthcare, fitness, real estate, business services, and other services.

MARKET TRENDS

It is difficult to assess precisely the current volume of franchising and its future growth, other than to predict that franchising is set to grow very rapidly. Analysts have not yet found any viable method of tracking market trends using statistical methods because, due to peculiarities of local legislation regulating this sector in Russia, there is no definitive source for market statistics. Franchise relationships are registered under various legal forms, such as a licensing agreement or a sales contract, so it is impossible to distinguish franchise deals from other transactions in

the records of the State Registration Chamber - the main source of statistical data on the Russian market.

Russian Franchise Association (RARF) in 2002 used indirect data to describe the market volume and reported that, in its first 10 years of activity, franchising generated over 17 thousand jobs and attracted more than \$350 million in foreign investments to Russia. In 2005, RARF gave its estimation of the market by giving the number of franchise systems operating in Russia - 150.



According to the franchise market analysis made by Newbridge Group, as of September 2005, the Russian franchise market consisted of 165 franchisors and approximately 3,000 franchisees. According to the same source, the number of franchise systems grew 19% in comparison with 2004.

Publications in the local press give various assessments of the number of franchise systems currently operating in Russia. The figures given in miscellaneous articles vary between 100 and 200. The numbers describing individual franchise units also vary upon publications and may range between 3,000 and 6,000.

The article titled "The Time of Franchising" ("Kompaniya" Business Magazine of September 19, 2005) suggested that the number of individual franchise units may soon increase up to 60,000 in a few years.

Mr. Alexander Borisov, General Director of the Moscow International Business Association and Chairman of the Consumer Market Development Committee of the Russian Chamber of Commerce & Industry, in his recent presentation at the International Franchise Forum in Moscow, estimated that currently 200 franchise systems operate in 10-15 business areas in Russia. According to Mr. Borisov, the number of newly signed franchise deals is growing at a rate of 20% per year.

Another reflection of the dynamics of franchise market development is the growth of participation of domestic and international brands in the BuyBrand-2005 International Franchise Exhibition, which has been annually held in Moscow since 2003:

Exhibitions:

BuyBrand 2003
Number of brands: 67

BuyBrand 2004
Number of brands: 85

BuyBrand 2005
Number of brands: 138

IMPORT MARKET

Franchising as a business model first came to Russia in the early 1990's, introduced by foreign franchisors. Among the franchise pioneers were such well-known American brands like Pizza-Hut, Baskin Robbins, Dunkin Donuts, KFC, Subway, Alphagraphics etc. The second wave of market entries started in the beginning of the new millennium, when the economic reforms initiated by a new governmental administration led to gradual improvement of the business environment, and Russia joined the list of the world's fastgrowing economies.

According to data released by Newbridge Group, out of 165 franchise concepts currently present in the market, 68% have been established domestically, 20% have been brought to Russia by European franchisors, and 12% are American franchise concepts.

COMPETITION

When foreign franchise concepts entered the market in the beginning of 1990's, Russia had just started its way towards a free market economy. Competition from domestic players was almost non-existent. It took some time for newly established private enterprises to understand the advantages of franchising as an effective distribution model that allows for rapid expansion. With economic growth and political stability, more and more profitable Russian enterprises realized the necessity of increasing their market share. For many of them, franchising became a practical tool requiring minimal investments and offering the possibility for rapid growth of businesses.

Domestic franchising exist in such industries, as

- beauty saloons (Alessandro Group),
- carpet stores (Topay Po Khoroshemu)
- cleaning services (Primex),
- clothing (BeFree, Glance, Gota, INCITY, Karusel, Kristy, Mary Stone, Partisan, Rikki-Tikki, Savage, Sweet Mama),
- computer supplies (Remanufacturing Cartridges OPS),
- fast food & coffee shops (EDOK, Elki-Palki, Em Sam Sushi-Robot, Susi-Café SUSHKA, Coffetoon, OLIVJE, Stardog's),
- fitness (X-Fit),
- food products manufacturing (Caviar Snak Poleznye Produkty),
- food stores & supermarkets (Kopeyka),
- furniture (Divan Divanych),
- gifts and accessories shops (Lecadeau, LeFUTUR),

- image services (Persona-Lab)
- manufacturing (Masterfibre, Fifth Ocean),
- medical services (Invitro),
- mobile phone retail/service (DIXIS),
- optics (Alex Slobozhan Optics, Campanella Fashion Optics),
- public transportation (AvtoLine),
- real estate (HIRSH),
- retail trade (Aromatny Mir, BelPostel),
- shoes (Econika, Monarch, Blokha, Finn Flare),
- sporting goods (Sportlandiya, Expedition),
- travel and tourism (Holiday Well).

The main competitive advantage of U.S. franchisors is that they can offer to their franchisees much more extensive and sophisticated support and assistance than the majority of domestic franchises who are in the process of development. For instance, many domestic franchisors do not offer training programs and home office/field assistance is often very limited.



As the majority of Russian franchises are at a very early stage of development and the number of their outlets is limited, their franchisees may not benefit from purchasing power that comes from joining large systems. Domestic franchisors have less to offer in the area of marketing, advertising, and “grand opening” programs. They have yet to learn from Western franchises how to modernize through ongoing research and development and by test marketing new products and operating systems.

Non-U.S. foreign franchisors are also actively entering the Russian market. Their major advantage is geographical proximity to Russia, which may significantly reduce expenditures for their franchisees related to travel and imports, and makes communications between franchisor and franchisee simpler. However, the dollar depreciation against the euro has reduced the influence of this factor. In order to secure reliable communications, many U.S. franchisors provide operational support from European offices.

END USERS

Russia’s large population – approximately 145

million people – is very diverse. The Slavs, who originated in Russia, Ukraine, and Belarus, constitute the largest ethnic group, and people of Turkish descent, originating from Central Asian regions constitute the second largest.

Other groups include Armenians; Georgians; Germans; people of Iranian origin; and nationalities within the Finno-Ugrian group. Russian minorities include Tatars; the Bashkir, a closely related Turkic nationality; and the Mordvins. All three inhabit the Volga valley, along with other ethnic groups such as the Udmurths, the Mari, and the Chuvash.

The income level, cultural and consumer patterns may vary significantly throughout the country. As mentioned above, younger generations and populations in large cities are gradually accepting elements of Western (mainly American) culture. As a result, franchise concepts in fast-food rapidly entered the markets in Moscow and St. Petersburg. Until the mid 1980’s, aversion towards the USA and its culture was officially propagated in the Soviet Union and even young generations remember that. However, these efforts have not had sustained results, and general public attitude toward the American culture is positive.

Although, the attitude towards foreign brands may be different in areas with a predominantly Moslem population, the unsatisfied demand for well-known brands in the regions creates great opportunities for foreign companies.

Franchisors who would enter the markets ahead of other foreign competitors.

MARKET ACCESS

Russia is the largest country in the world in terms of land area, covering 17 million square kilometres (6.5 million square miles). Stretching across the continents of Europe and Asia, Russia borders Poland, Ukraine, and the Baltic countries to the west, Finland to the north, and Georgia, Kazakhstan, Azerbaijan, and China to the south. Alaska and Japan are not far from its eastern shore.

Russian is the official language in the territory of the Russian Federation. Although, English is taught widely and is the principal foreign language of the country, a prevailing number of people outside of Moscow and St. Petersburg experience difficulty when spoken to in English. English is spoken widely by business people, and increasingly by senior officials.

Since 2000, when President Putin announced the beginning of structural reforms in the Russian economy, a number of changes that significantly improved business climate have been implemented in

Russia. The reforms led to de-bureaucratization, improved corporate governance and transparency. GOR implemented judicial reform, pension reform and tax liberalization. The legal environment governing international trade has drastically changed with the introduction of such fundamental legal documents as the new Tax Code, Land Code, Labor Code, and Customs Code.

However, objective problems and impediments that constrain new market entries remain and represent risk factors for franchise market operators. They include:

- Complicated and constantly changing legal/tax system;
- Lack of transparency, difference in financial reporting systems;
- Poor law enforcement and protection of IPR in cases;
- Lack of education about franchising.

MARKET ENTRY

The majority franchisors that enter the Russian market prefer to establish master franchise partnerships with partners based in two main cities - Moscow or St.Petersburg. The reasons are practical, however, despite the advantages of such a strategy, markets in Moscow and St.Petersburg, do not represent an easy opportunity for quick entries anymore due to high costs and increased competition.

There are a number of challenges that foreign franchisors should be aware of, such as access to good locations, increasing competition from local and international service providers, necessity of aggressive promotional campaign, and significant expenditures on marketing. Another important factor that may affect new market entries into the Moscow market is a possibility of conflict of interests with the Moscow Government. The Moscow City Government and other senior officials from local administrations may be directly or indirectly involved in commercial projects in consumer oriented sectors.

The regional cities that are commonly ignored by foreign franchisors may represent significant business opportunities. Several regional cities have populations exceeding one million people. They have educated workforces, entrepreneurs with excellent experience, good relationships with local administrations, and access to excellent locations. The demand for well-know brands and high-quality services in the regions is also very strong. ■

FINDING A DISTRIBUTOR FOR YOUR PRODUCT IN RUSSIA

Doing business in Russia remains a challenging yet rewarding experience for foreign exporters. An increasing number of foreign businesses are achieving excellent results from doing business in Russia and consider it a priority market. One of the prevalent market entry strategies for exporters to Russia is to work in cooperation with local distributors. A good partner/distributor in Russia can reduce your company's burden of time and resources, ensure efficient certification of products and customs clearance, and provide effective in-country marketing, service, and sales assistance.



Some categories of products that usually require finding a distributor as opposed to selling directly to the Russian market are:

- Machinery and equipment, such as agricultural machinery, construction equipment and heavy machinery, and medical, food-processing, wood-processing, printing, and telecom, electrical, and marine equipment, which typically require some after-sale support.
- Product categories that entail fairly complex product certification and customs clearance procedures and are usually imported in large quantities for further distribution to multiple buyers. Products that may fall under this category include pharmaceuticals and other health and beauty products, household goods, food products, and auto accessories.
- New products being introduced to the market. In this case, a distributor will be useful to market the product by educating the public and showing how the product will be valuable to Russian consumers.

Foreign companies interested in finding a Russian distributor must consider such questions as whether to grant exclusive distributorship rights; whether to choose multiple versus single distributor

arrangements; how to define sales territories/markets; what are the criteria for selecting a distributor (especially, in granting exclusive rights); and what are the best methods to find such prospective distributors and most effective formats in which to work with these Russian companies.

DECIDING ON THE TYPE OF DISTRIBUTORSHIP

There are two main possibilities for how to build a distributor/dealer network in a country with such a vast territory as Russia. The first is to grant one Russian company, usually based in Moscow or St. Petersburg, exclusive distributor status and let it build its own dealer chain in the regions. The second is to identify independent, official distributors in several Russian regions operating autonomously. Let's explore these possibilities further.

Exclusive Distributorship Rights

Granting official distributor status to one company for the entire territory of Russia is a popular market entry strategy for both large and small companies. It is often the case that a foreign company finds a distributor in Moscow that utilizes its existing client network to efficiently reach out to all regions of the country.

A few common arguments in favor of this strategy are:

- A. company has a single point of contact for all of Russia, which simplifies management and logistics for the company, requiring a smaller commitment of time and resources than dealing with several individual distributors
- Since Moscow and St. Petersburg are centers of economic activity and high capacity markets themselves, this makes them logical distribution hubs and is another argument for working with a single distributor that is based in either of these cities.
- Certification of certain goods can be cumbersome and lengthy, often making it more effective for a single company to manage this process and then sell to regional dealers.
- Experience often shows that customs clearance can be more efficient and cost-effective in Moscow or St. Petersburg. Thus, an exclusive distributor located there can be the one to deal with these issues.

However, some of the disadvantages of granting exclusive distributor status are:

- Russia is a huge territory and the number of Russian companies that can provide effective nationwide coverage is limited.
- Exclusive rights are usually granted to a Moscow or Petersburg-based company that may not have familiarity with conditions in the regions.
- The long distances between Moscow and some regions increase lead times and costs of delivery to regional buyers and consumers.

This being said, having a single, exclusive distributor responsible for all of Russia can be the most suitable market strategy under following circumstances:

1. An exclusive distributor of a foreign company will have incentives or will receive an adequate amount of support from its partner to be able to effectively reach out to other Russia territories.
2. The product/equipment (high-tech, expensive products, complex equipment, new to market equipment, etc) requires continuous centralized support or demands a nationwide promotional campaign; such a situation may be beyond the resources or expertise of regional dealers.

In either case, exclusive distribution rights should only be granted only to a thoroughly vetted partner with a successful history of developing a market for your type of product.

However, developing an effective strategy for reaching out to the regions and successfully gaining market share across Russia are major tasks for any one company. There are examples of even globally recognized companies that failed to take full advantage of the potential of Russia regions by misunderstanding regional conditions and putting too much trust in their exclusive Moscow dealers.

Multiple Authorized Distributors

The second strategy - having independent authorized distributors throughout Russia's regions operating autonomously and working with the foreign company directly - also has its pros and cons. Some factors speaking in favor of this strategy can be summarized as follows:

- A variety of transportation schemes deployed by different distributors may lead to developing the most effective logistical solutions that will make given products more competitive in the market.
- Regionally focused distributors may have a greater ability to solve regional wholesale and retail

customers' problems in a timely manner.

- Local companies in the regions have a better understanding of regional aspects of doing business and the local competitive environment, which enables them to customize a distribution and sales strategy according to regional demands and conditions.
- By the virtue of not having guaranteed exclusive status with the foreign supplier, the distributor may be more transparent and accommodating.
- Assuming that the multiple distributors will be providing wider coverage across Russia than a single exclusive distributor, this will enable efficient market expansion into rapidly developing regions of Russia where growing consumer buying power results in increasing demand for high quality products.

FINDING AND COMMUNICATING WITH A POTENTIAL RUSSIAN DISTRIBUTOR

When initiating correspondence with a potential distributor, even if you have an email address for the company, it is a good idea to send a fax as well and ask the company about the best method of communication. Although most companies have email access, it is still not always reliable or preferred. You should write to a target company in a direct and clear manner that presents your company and states your interests. At the initial stage of correspondence, effective promotional information can be a simple introductory letter with brief company and product information (including photos of the products), as well as a description of your international experience, if any, and the type of cooperation you are seeking, preferably translated into Russian.



Keep in mind that barriers to effective communication usually come from different work ethics and other cultural issues. For instance, a Russian company may not reply to your email within 24 hours, which can be caused by the fact that the company's director is on a business trip and other staff are not authorized to take an action, or other reasons. However, this and other cultural differences shouldn't constitute a serious problem if you are patient and flexible.

Visiting a Russian trade show or making an exploratory trip to Russia is a good intermediate step

before establishing representation in the country. Many foreign companies have shared that distance participation, such as simply sending catalogues, usually isn't nearly as effective as personal contact, where rapport can be made, questions and answers easily conveyed, and credibility of a product and a company established. CS Russia can assist in such a visit by providing a Gold Key Service, which includes identifying leads and scheduling appointments with potential partners, agents or distributors, counseling on doing business in Russia, and help with travel logistics, visas, and more.

If you are planning a trip to Russia, it is important to translate your promotional materials into Russian. Even if your potential Russian partners speak good English, the fact that you translated your materials shows serious intentions and respect for potential partners.

CRITERIA FOR SELECTING A DISTRIBUTOR

There are several factors to be considered in selecting a prospective distributor. Among them are:

- (1) whether the company has a Web site and - if it does - its quality, as promotion of products will greatly benefit from the effective use of Internet resources;
- (2) whether the company has international experience and/or is currently working with another foreign company(ies);
- (3) whether the company has a developed distribution network.

Another issue to consider is that Russian distributors and dealers generally prefer to work with companies that are ready to offer continuous support in promoting the product in the region, especially if the product is new to market, somewhat complex, and/or expensive. This support can include training for specialists, organizing conferences, providing marketing materials, sending product samples, visiting a dealer or bringing a dealer to the United States, extending trade credit, and other value-added services. These value-added services become critical for the long-term and successful cooperation with your Russian partner. If you are only interested in selling your product to Russia, without committing resources to effective market penetration, your cooperation with a Russian partner may not last long-term. As consumers' demands are growing and competition increasing, Russian partners will switch to working with those U.S., Asian, or European suppliers that will be flexible in their approach and strongly interested in effective cooperation.

Also, it is important to be open for cooperation even if a potential dealer starts with small orders.

Another beneficial factor here can be the ability of a foreign supplier to ship mixed containers.

When entering Russia, as in other foreign markets, it is important to develop a consistent distributorship policy that your company will adhere to. This will specifically include: writing out common terms and conditions of a distributorship agreement; identifying transparent criteria that a potential distributor will have to meet; developing a transparent pricing policy and a system of discounts; having a specialist on staff responsible for working with Russia; and understanding peculiarities about shipping to Russia and working with the Russian market in general.

Russia is a dynamically developing market, and many companies are increasingly seeking business opportunities there. However, there are many factors that need to be taken into account when developing a Russian market entry strategy. Take advantage of the information and counseling, be sure to engage professional services, such as lawyers and accountants experienced in the market. Moving forward carefully with your entry strategy and identification of partners, and with as much information as possible, will help avoid problems and pitfalls. Doing business with Russia may be challenging in the first place, but very rewarding as business ties strengthen and relationships develop. Key success factors are flexibility, willingness to take risks, and focus on long-term cooperation. ■



MARKET ANALYSES

RUSSIAN MARKET OF VEGETABLE OIL

MARKET EVALUATION

By our estimates, the capacity of the Russian vegetable market amounted to about 850 mln liters in 2004. With account of the average market price of the product recorded at the level of \$1.35 per liter in the retail trade network the market under consideration can be evaluated at \$1.1 bln in terms of money. As to the consumption growth rate in this product category, it is quite low. Compared with 2003, the last year growth was a bit more than 5%. The low rate can be accounted for by the market glut from the point of view of the consumers' number - practically all households are already consumers of vegetable oil. In this situation the category can be developed through an increased consumption frequency, which is much more complicated than

attracting new consumers. Besides, large companies have a more accessible resource to increase their sales - through ousting numerous small and medium local enterprises. Thus, although the existing consumption per capita - a little over 6 kilograms per person per year - is far behind the analogous indicator in far foreign states (EU, USA), we do not expect any tremendous upgrowth of the market in the near future.

MAJOR SEGMENTS

Russian citizens traditionally prefer sunflower oil - over 80% of sales of the category both in terms of volume and value account for this variety. This situation is conditioned by the formed tastes of domestic consumers and the democratic price of sunflower oil making this product accessible for representatives of all social strata of the population. During the last year the sunflower oil segment was demonstrating growth that was taking place through ousting cheap rape, soybean and other oils from the market.



Corn oil is more expensive - the average retail price of the products is almost 45 rubles per liter. Besides, its taste is less familiar to Russian citizens. Thus, by the results of 2004 the share of corn oil was 4.4% in terms of quantities and 5.0% in terms of value.

The facts given about corn oil are even more relevant regarding olive oil. It is still a little-known product for the absolute majority of Russian consumers: the share of olive oil accounts for only 0.5% of the overall sales volume of the category in terms of quantities. At the same time due to the very high price (over 250 rubles per liter) the segment's value share is much higher - 2.6%.

It is easy to observe that there is dependence between the oils' types and price. Rape and soybean oil refer to the cheap segment. The greater part of sunflower oil is the medium segment. The more expensive sunflower oil as well as corn oil are the high price segment. And it is natural that the "premium" segment should practically "equal" olive oil. From this point of view, the dynamics of distribution of the vegetable oil sales volumes by oil types described above can be interpreted as gradual reduction of the share of cheap products and, accordingly, as increase of the product's quality significance as a factor of choosing a particular trademark.

The specified price difference between the oil types is also reflected in the comparison of the situation by regions. In the structure of the better provided regions, such as Moscow and Moscow region as well as the Northwest region, the specific weight of corn and olive oil is noticeably higher. However, it should be

noted that the distribution of vegetable oil sales by oil types is largely formed by the supply, that is by the companies - market participants. In this respect, the situation in the Far East and the Northwest where a considerable part of sales accounts for "other" vegetable oils is quite representative.

From the point of view of the package the vegetable oil market can be called a uniform one as more than 99% of the sales volume in terms of quantities account for a plastic bottle. The only thing worth mentioning separately is the situation in the olive oil segment where about 74% of the sales in terms of volume account for the glass package and another 19% - for the metal package.

MAJOR PRODUCERS AND TRADEMARKS

By the results of the researches in the urban strata of Russia, in 2004 the leader of the vegetable oil market was "Yug Rusi (South of Russia)" agro-industrial group (Rostov-on-Don) representing "Zolotaya semechka (Golden seed)" trademark. It should be noted here that after "Bunge Ltd." Corporation bought the rights to produce and market "Ideal" trademark from the Argentine "Molinos Rio de la Plata S.A." company, it is "Bunge" that occupies the first rating line.*



The leadership of "Yug Rusi" AIG is largely provided by a better developed distribution compared to other market participants. The products of this market player are available in 70% of trade outlets. By the results of the year, the second and third places with practically the equal share of 11% are taken by the already mentioned "Bunge" company with "Oleina" trademark and "Russkaya Bakaleyа (Russian grocery", "Zlato)". Beyond all doubt they also can be referred to all-Russia players - their distribution covers about 60% of the retail.

Besides, considerable market shares - 7.5-8.0% in terms of value - are taken by "Molinos" and "Efko" CJSC APIK ("Sloboda" trademark). After selling its major "Ideal" trademark that accounted for a bit more than 7% of the market in terms of value "Molinos" certainly lost its positions. Its place in the rating is now occupied by "Valuisky combinat of vegetable oil" OJSC (Valuiki of Belgorod region). As distinguished from the other named players staking on one leading brand while other trademarks in their portfolios have no significant weight, Valuiski combinat of vegetable oil is represented by two trademarks on the market. One of them - "Milora" - is the major one marketed by the company throughout the country. The other - "Razdolje (Expanse)" - is well available in Siberia and the Urals

where its share is quite noticeable while it practically does not sell in other regions.

The aggregate market share taken by the listed five players accounted for 52.4% in terms of value, which is quite a lot. It was already noted at the beginning of the article that one of the possibilities for large players to grow is to expand into all regions of the country and oust small local producers from the market. The small significance of the indicator can confirm the supposition. Besides, during the last year many large players on the vegetable oil market were implementing projects of increasing capacities and modernizing production.

Thus, the process of market concentration in the hands of large players is not yet so evident - the aggregate share of the major companies lacks a clear positive dynamics except for the "leap" of the share of "Bunge". However, one can confidently suppose that this trend will soon become quite clear.

Considering each segment of the vegetable oil market from the point of view of the companies working on it, the situation in the sunflower oil segment, for instance, repeats the already described situation on the whole market in many respects. This is not surprising as sunflower oil takes 4/5 of the market. Looking at the rating of the leading players of the group one can easily notice that it represents the market leaders in general. There seems to be only one difference - "Efko" company is closer to the leading three taking about 9.5% of the segment in terms of value.

There is a striking difference between the situation in the corn oil segment and the previous one. Firstly, there were two obvious leaders in this group in 2004, share of each in terms of value being over 20%: "Molinos" and "Bunge". There is only "Bunge" now, its sales being about 45% of the segment.

It follows from the regional distribution of the sales volumes of vegetable oil of various types that the largest share of corn oil accounts for the South Federal district. This seems quite logical if we look at the rating: 2 companies from this region enter the five largest companies in the segment under consideration - these are "MZhK "Krasnodarsky" OJSC ("Avedov" trademark) and "Krasnodar oil-extraction plant" ("Filevskoye" trademark). They naturally have the strongest positions in the South region occupying 1/3 and 1/4 of the segment, respectively.

The olive oil segment is represented by western companies. As with corn oil, there are two major producers here - these are Spanish companies "Olive Line International, S.L." (the basic trademark is "Maestro De Oliva") and "Aceites Borges Pont, S.A." ("Borges"). By the results of 2004, the share of the first company

was a little over 20% in terms of value while the second company had 17% of the segment. The products of both companies are mostly spread in retail, which is the most significant competitive advantage in the current conditions, i.e. with the low demand for such products and lack of advertising. It should be noted here that even among the leaders the distribution level does not exceed 5%. ■



RUSSIAN NATIONAL GROUP



RNG is a fully licensed company with a right to provide visa support in both the Russian Consulates in the USA and Russian Foreign Ministry in Moscow. Russian National Group, Inc. is a business corporation that provides a full range of travel and travel related services through professional and reliable ground operators in Russia. RNG enjoys the absolute best rates from Russian hotels, carriers and bus companies.

G.M.C. S.R.L. INTERNATIONAL



G.M.C. s.r.l. International is the company of import & export. It's specialty is: beer and water dispensing equipment, sanitary goods and coffee. G.M.C. works with Russia, Ukraine, Baltic Republics and Eastern Europe.

UNIVERSITY OF PRESOV



University of Prešov is one of the major universities in Slovakia with eight faculties, solid scientific backgrounds and good international relationships.



As a next step to improve services to its members, Russian Chamber of Commerce in EU established a new representative office in Paris, France. The appointed head representative is Ms. Anna Koulinsky, contact phone number +33-6 60 56 31 57.

In accordance with the plans for co-operation the Russian Business association of small and medium size

businesses "Opora of Russia" will come to RusCham office in the beginning of December 2005 to discuss the opportunities for Russian companies to participate in investment projects in Europe.

By the request from Russian companies and in co-operation with OPORA OF RUSSIA RusCham will start to publish its Newsletter in Russian language for Russian Companies with initial number of subscribers over 7,000 from different regions of Russia. News letter will contain helpful information on trade and business regulations of European Union, trade and investments opportunities in Europe, etc. Interesting in placing advertising in Russian version of RusCham Newsletter please contact Ing. Konstantin Lipatov at lipatov@ruscham.com.



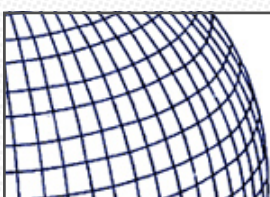
- World Bank experts said that they are forecasting an investment boom in Russia. The bank's report on Russia's economic development said the government's efforts to attract private investors and the high expectations of a further increase in oil prices had raised the attractiveness of the Russian market for investors. Investment climate had improved after setbacks in recent years, resulting in the upgrade of Russia's credit ratings by international rating agencies Fitch and Moody's. Foreign investment in Russia in the first half of 2005 had grown 30%, or \$4.5 billion year on year.
- Russia's largest state-owned savings bank Sberbank and the Dutch export agency Atradius Dutch State Business N.V. have signed a cooperation agreement. The agreement will enable Sberbank's corporate clients to have an additional instrument to finance imports from the Netherlands on advantageous terms and is a new step toward strengthening bilateral contacts between Sberbank and Dutch financial institutions. It will enable the bank to finance medium and long-term investment projects of its corporate clients.
- Russia welcomes new partners in the construction of the North European Gas Pipeline (NEG), but the decision depends on other participants in the project as well, said Russian President Vladimir Putin. The agreement on the NEG was signed by Russian natural gas monopoly Gazprom and German energy companies BASF and E.ON Ruhrgas. The 1200km pipeline, which is expected to cost 4 million euros, will link Russia and Germany via the Baltic Sea. Offshoots may then be built to link it with Russia's

- exclave in Europe, the Kaliningrad region, Finland, Sweden, Denmark and the UK. Gazprom is expected to start the construction of the land segment in fall 2005 and the completion of the pipeline is scheduled for 2010.
- The Presidents of Latvia, Lithuania and Estonia called for broader European Union involvement in a Baltic gas pipeline, which they said posed a potentially catastrophic environmental threat to their region. The three Baltic leaders, meeting in Estonia, said at a news conference that the Russia-to-Germany pipeline would be built upon a seabed that had been littered with tons of dumped chemical weapons.
 - Russia and the European Union signed an agreement on trade in certain steel products for 2005-06. According to the Ministry of Economic Development and Trade, the agreement urges Russia to supply up to 2.2 million metric tons of steel products to the EU this year and 2.5% more in 2006. Trade in steel products between Russia and the EU has been regulated and restricted for many years. This agreement is an updated version of the 2004 document. It establishes higher amounts of Russian steel exports to the EU before the end of 2006 when Russia is expected to join the World Trade Organization. The sides had also agreed to increase quotas for steel trade, if Russia canceled export duties on waste and ferrous metal scrap. The document allowed part of the quota, 7%, to be transferred to 2006 if it is not used up this year. The agreement indicated stronger ties between Russian and EU economies.
 - Russia banned poultry imports from a number of Danish and French regions after an outbreak of Newcastle disease November 1. The Agriculture Ministry has temporarily prohibited importing poultry meat, eggs and others products that had not undergone thermal processing, as well as poultry foders and used farming equipment from Denmark's Southern Jutland and France's Pas-de-Calais.
 - While foreign banks are likely to increase their presence in Russia, their share on the Russian market is unlikely to exceed 15% in the near future, said Michel Perhirin, chairman of the board at Raiffeisenbank Austria. Raiffeisenbank Austria is a subsidiary of Raiffeisen International Bank-Holding AG (Raiffeisen International). Foreign banks are increasingly active in corporate and retail banking, but represent less than 10% of total banking assets and have a limited regional presence.
 - The European Bank for Reconstruction and Development (EBRD) plans to invest more than \$500 million in Russia's financial sector in 2006. The Bank is the largest single investor in Central Europe and former Soviet republics, and had already invested about \$500 million in the sector both in 2004 and in 2005. EBRD has 23 clients within Russia's financial sector. Recently, EBRD signed an agreement to acquire 15% of the share capital in a Russian subsidiary of Hansabank Group, the largest financial services group in the Baltic states, for 13 million euros.
 - The president of railroad monopoly Russian Railways (RZD), Vladimir Yakunin, said the company intended to establish a new major railroad transportation company to attract investment. His proposal to establish a large railroad transportation company with market capitalization of 120 billion rubles (more than \$4 billion) had been supported by the government and the Ministry of Transportation but no dates had been set.
 - Russian Information Technologies Minister Leonid Reiman said that licenses would be given for third generation (3G) mobile services in 2006. "We have informed the biggest operators and we will prepare auctions for next year," he said. He also said the ministry was planning a tender for three licenses that would cover Russian territory 100%. But Reiman said there could be more licenses if the necessary frequency became free in the radio-frequency spectrum. Regional operators would not be given licenses for 3G services, which are expected to improve and expand the functions available on cell phones.
 - Russia and France have reached an agreement for the purchase of 5-7 Russian-made Be-200 amphibian aircraft. Despite the high evaluation by French experts, France has proposed improving the maneuvering capability of the aircraft, Naryshkin said. The Irkut aircraft corporation makes the Be-200 aircraft, as well as Su-30 and Su-27 fighter jets. Europe's EADS and Irkut signed an agreement in August 2005 to register a joint venture to produce Be-200 amphibian aircraft on the world market.
 - The European Commission will not import energy from Russia until security in the country's nuclear power sphere is heightened, a commission representative told an energy forum in the capital of Finland. Jean-Claude Schwartz said Russia should firstly shut down dangerous reactors. He added that Russia's share in European energy imports was 2% and was unlikely to increase by 2020. At



the same time, Schwartz noted that Russia's share in European oil imports was almost 33%, and in natural gas imports, about 50%. Unlike the EU, Finland is more dependent on Russian energy, which constitutes 14% of all power consumed in Finland.

- Russia will have approximately 21.8 million Internet users at the end of 2005. The number of computers connected to the Internet grew by 10 million in the first half of 2005. Russia's Information Technologies market is growing by 20% a year. IT market volume was 90.2 billion rubles in 2000, reached 256.5 billion rubles in 2004 and is forecast to grow to 308.3 billion rubles in 2005. Russian investments in the IT sector were \$4 billion in 2004, up by more than 30% from 2003. Total foreign and Russian investments are expected to increase to \$6.5 billion in 2005.
- Siemens is planning to double turnover in Ukraine over the next three years, where the company's interests are represented by its subsidiary Siemens Ukraine with 100% foreign capital. The positive results of the financial year from October 2004 - September 2005 are a good basis for Siemens to achieve its ambitious goals of doubling turnover in Ukraine in three years.
- Russia and Japan signed cooperation agreements on the exploration and development of oil, natural gas, and coal deposits and their transportation and processing systems. To expand such interaction, the sides are ready to start intergovernmental consultations, including on the level of ministers. The sides will consider attracting Japanese companies to participate in developing oil resources in Russia together with Russian companies. Russia and Japan intend to ensure conditions to successfully implement the Sakhalin I and Sakhalin II projects, as well as corresponding production sharing agreements. The two countries also plan to study the possibility of cooperation involving renewable energy sources, the use of new energy sources, and upgrading gas and heating power plants.
- Russia's Economic Development and Trade Minister said the country needed no more than seven Special Economic Zones next year. German Gref said that areas to be selected as Special Economic Zones next year could expect investments to start coming in as early as 2007. According to the new law on Special Economic Zones, which comes into effect January 2006, free industrial production zones and technology parks will be created in Russia in the coming years to attract foreign investment and boost development of the country's hi-tech industries.
- Accrued foreign investment in Russia after the first three quarters of 2005 stood at \$91 billion, a 37% increase year on year. Foreign investment accounted for 30% of Russia's manufacturing, 29.8% of trade industry, 17.5% of the primary sector, and 10% of transportation and communications.
- The Russian economy grew 5.9% in January-October and is projected to grow 6% this year, Economic Development and Trade Minister German Gref said. In October, Russia's seasonally adjusted gross domestic product GDP rose 0.3% on the month, Gref said. In 2004, Russia's GDP was up 7.1% on the year. The country's GDP is projected to grow 5.8% in 2006, according to target figures provided for in the draft federal budget for 2006.
- Russia's railroad monopoly Russian Railways (RZD) and Germany's Siemens signed a 5-year cooperation memorandum Friday, the RZD news service said. The memorandum outlines cooperation in a wide range of issues, including the development and operation of high-speed trains, passenger cars, communication and electric equipment, locomotives, and railroad sub-stations, the company said. The companies plan to establish a joint committee to coordinate strategy and working groups to oversee joint projects.
- The Russian Economic Development and Trade Ministry is set to submit its mid-term draft concept of corporate governance until 2008 to the government. Anna Popova, director of the ministry's corporate governance department, said at a roundtable meeting that the concept envisaged, in particular, new regulations aimed at fighting hostile takeovers that affect companies and shareholders. "The first section of the concept includes several legal measures to prevent hostile business takeovers," she said, adding that the concept had been coordinated with interested agencies and experts. Popova said



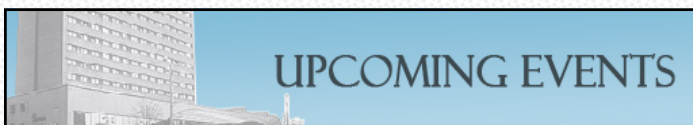
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the ministry sought changes to the legislation, including the Arbitration Code and the Tax Code.

- The World Bank could allocate more than \$2 million to help Russia implement six pilot projects in forest management, a Russian Federal Forestry Agency official said. The pilot projects are currently being implemented in six Russian regions as part of a plan to combat illegal forest harvesting and illicit timber trade.
- The First All-Russian Conference of Customs Brokers took place in Moscow. Russian brokers gathered to discuss the consequences of Russia's entry into the World Trade Organization. To compete with foreign rivals, Russian companies will have to use the most advanced technologies and automated systems. The main innovations introduced by Russia's customs service are advance notification and electronic customs declaration. Russia's Customs Brokers Register includes more than 350 companies, which activities are equally important for customs officials and business. The conference was attended by the representatives of government agencies responsible for foreign trade, members of the business community and international organizations.



For more information on the following events please visit links.

Dec 6-8: Russian Banking: Maximizing Profitability and Minimizing Risks forum in London

<http://www.russian-banking.com/>

Dec 7-8: Leasing in Russia in 2005 Conference

http://www.gbusforums.com/Leasing_in_Russia_apr2005/gbf_fset.leasing05.htm

Dec 8: EU Lobbying - A 1 Day Workshop for Polish Business

http://www.epsilonevents.com/eps_current_event.asp?id=5&type=current

Dec 8-9: Mobile Billing and Prepaid Systems conference in Moscow

<http://www.exposystems.ru/mbps/en/>

Dec 15-16: Inaugural Transport Conference for CSEE, Vienna, Austria:

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