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OVERVIEW: RUSSIA'S TELECOM SECTOR

Three major trends fueled Russian telecom development in 2006: (a) liberalization of the long-distance telecom market and introduction of new operator interconnection regulations, (b) broadband Internet access as the new leading market segment, and (c) the upcoming issuance of third-generation (3G) licenses amid 100 percent mobile-sector penetration and value-added services (VAS)-sector growth.



In 2007, there will be increasing competition in the long-distance market segment. Fixed-line operators will further diversify their services, particularly among broadband and convergent services. Other leading market sectors are digital subscriber line technology, Internet protocol television (IPTV) solutions, next-generation network equipment, and passive optical network technology. The mobile sector will feature increasing competition for subscriber loyalty, offering heavy VAS content (mobile television and interactive games) as operators deploy 3G networks. Cable television, broadcast-

ing, and satellite operators will enrich content and expand their offerings to subscribers.

MARKET OVERVIEW

Russia's steady macroeconomic performance (6.8 percent gross domestic product growth in 2006) increased government and corporate spending on information and communication technology (ICT) infrastructure and services, and growing regional consumer spending increased telecom-sector growth. In 2006, the Russian telecom-sector revenues reached \$29.6 billion, a 26 percent growth over 2005, as reported by iKS-Consulting. The mobile communications sector grew 34 percent and exceeded \$10.5 billion. However, broadband access showed the largest growth of more than 42 percent.

In 2006, according to the Russian Ministry of Information Technologies and Communications (MITC), the total ICT market exceeded \$40 billion. Local capital investments

totaled \$5.6 billion, a 7.1 percent growth over 2005, while foreign investments totaled \$4.1 billion, a 19.5 percent annual growth. The Russian Web user base reached 25 million, and revenues from Internet access and data transmission services reached \$2.1 billion, or 24 percent growth, compared with \$1.7 billion in 2005.

LIBERALIZATION OF THE LONG-DISTANCE MARKET

January 2006 began with a historic event. Rostelecom, the national carrier and dominant player on the long-distance telecom market, awoke to a new competitive reality—the market was liberalized. Actually, more than 20 new operators received licenses to provide long-distance and international communication services. Analysts estimated the Russian long-distance telephony market size at \$1.9 billion to \$2.1 billion in 2006.

The challenges for new players remain high. Owning a license for long-distance services is not a pana-



cea. A new operator must have a nationwide network and an agreement with regional operators for the last mile connection. Moreover, new interconnection regulations divided operators into three major levels: local, zonal, and long-distance. Long-distance operators now must connect to end-users only through regional operators (local level) and pay interconnection fees for every call.

The first contender, Multiregional TransitTelecom (MTT), began providing services in 2006 and was expected to challenge Rostelecom's position. However, with its modernized network, good pricing, and improving customer service, Rostelecom did not yield much ground to MTT in 2006, and the MTT subscriber base reached only 2 million (4 percent). Nevertheless, MTT expects to capture 15 percent of the market share by 2008. With more than 40 million subscribers, Rostelecom gained 60 percent of the market, while the smaller operators, including Internet protocol providers and grey-market operators, fought for the rest.

In January 2007, Golden Telecom (GT), one of the largest alternative telecom operators, launched services. With a strong regional network, developed corporate market segment, and significant distribution network of 30,000 points, GT plans price services at 10 percent less than Rostelecom. GT remains upbeat, expecting to grab some 20 percent of the market share by 2008 and estimating that the market will exceed \$4 billion.

FIXED-TELEPHONY SECTOR: BROADBAND ACCESS BOOM

The boom of the Russian fixed-telecom market was rather predictable. Russian regions outside the more mature St. Petersburg and Moscow markets demonstrated increasing consumer and corporate spending confidence as broadband Internet usage skyrocketed. No wonder the broadband access market has

become the leader of the information technology sector. MITC believes that the data transmission market will grow from \$1.18 billion in 2005 to \$2.8 billion in 2008.

Moreover, the emerging IPTV market is also flexing its muscles. More than 20 Russian operators joined MTU-Intel and other market leaders in providing video services. According to iKS-Consulting, there were about 150,000 IPTV subscribers in Russia in 2006, and by 2010, that number may reach 1.4 million.



Thanks to the interconnection and the "Calling Party Pays" (CPP) regulations ratified in 2006, Russian fixed operators received a significant financial boost. Long-distance and mobile operators reported that just in the third quarter of 2006 fixed operators earned some \$14 million. Finally, fixed operators shouldered alternative operators in their traditional spheres of influence, Internet access, and cable television market sectors, offering a whole range of new competitive services.

Russia's incumbent telecom operator, SvyazInvest Holding, will probably not be privatized until 2009. Security and military agencies blocked this move in 2006, citing national security reasons. Analysts believe that because of the upcoming presidential election, the decision on privatization will be postponed further. However, SvyazInvest's interregional companies showed some

good results, appeasing investors in 2006. The results were reached through an effective cut in operational costs and personnel, as well as through the installation of new enterprise resource-planning solutions to improve enterprise management. At the end of 2006, Comstar UTS, Sistema Telecom's major fixed telecom asset, purchased 25 percent of SvyazInvest shares from its owners, Leonard Blavatnik and Viktor Vekselberg, for \$1.3 billion.

In 2006, some 7,000 WiFi hotspots operated in Russia. J'son & Partners predicts that the number will exceed 9,400 in 2007, growing exponentially in the next five years. Most prominent, however, is the GoldenWiFi network launched by Golden Telecom that added 6,700 hotspots, making it the largest WiFi network in Europe.

MOBILE SECTOR SATURATES

In 2006, the Russian mobile market became the third largest in the world by number of subscribers and revenue, after China and the United States. Mobile penetration exceeded 100 percent because some 152 million subscribers (Russia's population is 145 million) used mobile services in 2006. Major mobile operators faced saturation and increased spending on marketing and development of VAS services.

The introduction of the CPP regulations helped Russia's leading mobile operators to soften the gradual fall in average revenue per user. Anticipating a drop in mobile calls, operators quickly moved to ruble-based tariffs, raising average tariffs by 5 to 10 percent. Operators also secured reimbursements of \$0.03 per minute by fixed operators, which resulted in a 5 to 10 percent net profit to major operators.

Leading mobile operators, MTS, Vimpelcom, and MegaFon held 85 percent of the Russian mobile market, while the share of regional op-



erators reached 15 percent (22 million subscribers, 3 percent growth). Tele2, SMARTS, SibirTelecom, and UralSvyazInform demonstrated the most dynamic results.

3G COMES TO RUSSIA

3G mobile telephony technology finally arrived in Russia. At the end of 2006, the Russian State Committee on Radio Frequencies approved the allocation of 3 × 15 MHz in 1935–1980 MHz and 2125–2170 MHz frequencies, and 3 × 5 MHz in 2010–2025 MHz frequencies for 3G development. This frequency capacity is sufficient to issue three nationwide licenses. The licenses will cost around \$100,000 and will be issued

for a period of 25 years. Operators are expected to “clear” the frequency and to invest millions of dollars into equipment and network construction.



In April 2007, the tender commission will announce winners according to a scoring system for each operator. The scoring system will use major criteria, such as network presence in each Russian region and the amount of potential investment in new networks. According to analysts, Russian mobile operators will first launch 3G zones in about 20 Russian regions. Although the mobile content market has resurged from its unexpected slump in 2005, the “heavy” content services have not yet emerged as mainstream. In emerging markets such as Russia, where mobile penetration is uneven and customer preferences are based on purchasing power, it is hard to predict the exact start of 3G. ■

RUSSIAN VIEWS ON THE PAST, PRESENT & FUTURE

How do Russians assess the past 16 years since the collapse of the Soviet Union and what is their outlook for the future?

Three research efforts publicised at the EBRD’s Annual Meeting show that, looking back, what Russians most appreciate about the Soviet era is the stability it afforded. Looking at life today, what they prize most are the opportunities available in the new Russia.



The Life in Transition (LiT) survey undertaken by the EBRD and the World Bank provides statistical analysis of public opinion polls conducted in Russian cities and in other transition countries in 2006. Survey respondents were asked directly about their attitudes to things that affect their lives and about their general level of satisfaction or happiness. Additional data was gleaned through the Russian Longitudinal Monitoring Survey (see slides).

In addition, this spring the EBRD

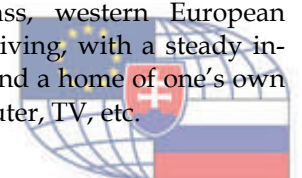
commissioned the Moscow-based Institute for Comparative Social Research to conduct 34 focus groups in nine cities, from Vladivostok to St Petersburg to Rostov-on-Don, to converse with everyday Russians about their attitudes and aspirations regarding their recent past, their present and their future. These results, published as the Russian Attitudes and Aspirations study (see summary), were inspired by data from the LiT survey in Russia.

All three came together today in an Annual Meeting panel discussion on Russian public opinion, titled The view from the ground: which way is up? Anna Andreenkova, co-director of the Moscow-based Institute for Comparative Social Research, discussed the results of the focus group sessions. Ekaterina Zhuravskaya, associate professor of economics at the New Economic School and academic director of the Centre for Economic and Financial Research, elaborated on the RLMS findings. It was

moderated by Stephen Dalziel, former BBC World Service Russian affairs analyst.

According to the focus group study, what Russians like best about their country today is the economic and political stability it currently enjoys. What worries them most: low living standards, corruption and the decline in health care and education.

The research shows that younger and better-off Russians are more positive about the present vis-à-vis the Soviet past than are older people with less promising financial prospects. But even the latter agreed that the new Russia offers greater opportunities for hard-working, talented, educated people than did Soviet Russia. Regardless of age or income, the ideal in Russia today is to achieve a middle-class, western European standard of living, with a steady income, a car and a home of one’s own with a computer, TV, etc.



All the same, many Russians "mythologise" the Soviet past, as Dr Andreenkova put it with regard to the fondness many Russians express for the certainties of the old system.

Dr Zhuravskaya concurred. "If you ask people if they trusted each other more in Soviet times, they will say 'yes', but after a while they start remembering reporting to the police, the KGB." Similarly, she said, while many people would like prices to be set by the state as they were in USSR times, they have forgotten that such centralised economic control meant shortages and lack of choice in shops.

Asked whether the Russians in her focus groups who pine for the Soviet days actually experienced those days, Dr Andreenkova mused, "They had experience with it, yes, but they know longer know the So-

viet Union. Today the Soviet Union is so far detached, it is a faraway land of the golden age...where we probably never lived." In fact, she said, what they think they had in the past is actually what they long for in the future.

All the same, the Soviet Union as a point of reference is receding, the two said. "It's no longer as important," said Dr Andreenkova. "People reflect back more to the 1990s" when assessing whether today is good or bad.

There were many seeming contradictions in the surveys. For example, there was the widespread view that state intervention in the economy is a good thing (particularly regarding ownership and exploitation of natural resources), while at the same time many respondents expressed deep

mistrust of state institutions. Added to this is the overriding concern about corruption.



"One gets the impression the people want to just hand over their lives to the government," said Dr Zhuravskaya. However, she doesn't believe this is the case. She explained that Russians want officials to assume their responsibility to manage state assets honestly and for citizens' benefit. ■

EU THE MOST POPULAR AMONG GREAT POWERS

Citizens around the globe hope for a stronger international role for the EU to make the world a better place, this year's 'Voice of the People' survey has revealed.

More than a third of respondents (35%) prefer to see the EU's power increasing while only 20 percent want it to decline. In comparison, only 26 percent of respondents believe an increase in US power would make the world more worth living in, while 37 percent think the opposite.

The poll, released October 24 by a new think-tank, the European Council on Foreign Relations (ECFR), was conducted among 57,000 students in 52 countries.

Unlike the US, the EU seems to have a good reputation worldwide and is also "highly appreciated" among its neighbours, including potential future EU members like Macedonia and Albania, the ECFR analysts, Mark Leonard and Ivan Krastev, write.

In contrast, citizens from most European nations name the US as the country they hate the most, even more than Iran, the only country with lower approval rates in the world, according to the survey.

"The European Union is unique among the big four powers (the other three being the US, China and Russia) in that no one wants to balance its rise", the think-tank commented.

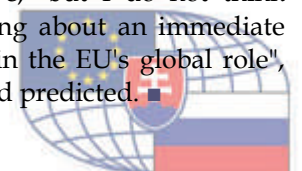
According to the authors, "it is striking that a continent with a military budget second only to the United States, and the biggest number of peace-keeping forces serving in the world seems to be perceived as a force of good".

However, this may be due to the failure of EU policymakers to achieve greater visibility for EU power, the authors suggest.

"The fact that European peacekeepers tend to operate under a NATO or a national flag rather than a European one probably helps to make the EU seem less threatening", the authors conclude.

However, citing the decline of the EU's soft power in the former Soviet republics, in Turkey and some of the Balkan countries, they warn that in the long-run, "softness" may generate sympathy, but not necessarily respect. "The EU must not make the mistake of confusing popularity with power".

The changes agreed upon in the reform treaty would make the EU more effective, "but I do not think they will bring about an immediate step-change in the EU's global role", Mark Leonard predicted. ■



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 and www.barentsnova.com





9TH EU-RUSSIA

INDUSTRIALISTS ROUND TABLE

October 25TH 2007, Lisbon

9th General Meeting of the EU-Russia Industrialists' Round Table

"Business to seize new Opportunities - Politics to secure them"

LISBOA CONGRESS CENTRE, Lisbon, Portugal - October 25, 2007

The 9th General Meeting of the EU-Russia **Industrialists' Round Table (IRT)** will take place in **Lisbon on October 25, 2007**. By tradition this special one-day event is scheduled to take place on the eve of the EU-Russia Summit.



Conference theme: This year's IRT conference will focus on successful businesses seizing the opportunities in Russia and Europe, looking at pragmatic ways of strengthening EU-Russia business relations, especially through a more intensive and regular form of cooperation - stronger cooperation designed to consolidate the EU-Russia Common Economic Space. This should be helped by expected events such as the renewal of a long-term bilateral Agreement and Russia's WTO accession.

The EU-Russia Industrialists' Round Table (IRT) is a business-driven process founded and endorsed by the EU-Russia Summit in July 1997. Each year it brings together business leaders and key decision makers from Russia and Europe to discuss a broad range of issues related to core business and industrial areas.

IRT is co-chaired by Mr. Anatoly Chubais, CEO, RAO "United Energy Systems of Russia" and Mr. Nils S. Andersen, CEO, Carlsberg.

The principal objective of IRT is to provide a permanent forum for the open-minded discussion of critical issues in bilateral relations and formulation of joint recommendations of business community to the EU and Russia's political leadership on expanding trade, investment and industrial cooperation.

The proceedings of the IRT General meeting will take place in Congress Centre of Portugal in Lisbon and consist of a number of roundtable discussions on specific sectors and issues, as well as a high profile plenary session together with influential political leaders from the EU and Russia.

This year the company Kellen Europe was appointed to organize this top-tier event.

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Please visit <http://www.irt2007.com/> for more information and registration for the event.



EU-RUSSIA RELATIONS: OPINIONS AND ANALYSES

EU, RUSSIA TO EXPLORE 'RECIPROCITY' IN ENERGY TRADE

A joint EU-Russia expert group was announced in Brussels yesterday (16 October) to discuss a 'reciprocity clause' included in the Commission's September energy liberalisation proposals. The clause, which has caused anger in Moscow, would block Gazprom and other foreign investors from acquiring energy assets in Europe if their countries do not open up their own markets in return.

The EU and Russia began an 'Energy Dialogue' in 2000 in order to formalise their energy relations: the EU is Russia's main trading partner for energy, and the Union is dependent on Russia for 25% of its oil and gas consumption.

But relations between the two sides have been marred by difficulties, with European firms complaining about restricted access to key energy resources and investments in Russia.

EU Energy Commissioner Andris Piebalgs and Russian Energy Minister Victor Krishtenko held a meeting in Brussels on 16 October to discuss the strained relations between the two blocs on energy. The meeting took place ahead of an EU-Russia summit on 23 October where energy once again looks set to dominate the agenda.

'Reciprocity clause' for energy investments

A special expert group composed of EU and Russian representatives was set up at the meeting to discuss the Commission's 'reciprocity clause' included in its 19 September proposals on energy liberalisation.

At a joint press conference in Brussels, Piebalgs characterised the

talks as "frank and successful" and Krishtenko reiterated Moscow's commitment to EU gas supply security.

Krishtenko said his government will await the outcome of discussions before taking an official position on the proposal. He added that Moscow is "very interested" in taking part in the discussions and "enriching" the talks.

Russia has already unbundled its electricity sector, but its gas firms, notably Gazprom, remain vertically integrated and closely connected with the Russian state.

In the absence of a formal position from his government, Krishtenko expressed his "personal view as an engineer", which included "some doubts" that electricity and gas network unbundling should be dealt with in the same way. Gas and electricity infrastructures function differently, he said, and are governed by different market mechanisms and investment decisions, including long-term contracts.

New 'early warning' system?

In response to questions from reporters, Krishtenko pointed to the possible creation of a two-phase early warning system between the EU and Russia.

One phase would function as a mechanism for information exchange on new legislation and long-term risks and opportunities. Moscow, for instance, did not hide its surprise when the Commission's reciprocity proposal was published.

The other would be designed for information sharing on short-term "significant issues which could give rise to difficulties", Krishtenko said. Concerns in Europe were raised particularly during the January 2006 gas dispute with Ukraine, which saw

Moscow briefly interrupt supplies to Europe.

When asked about a possible repeat of gas supply cuts in the coming winter, Krishtenko said that "no hindrances are foreseen", but added, in a likely reference to Ukraine, that there can be no "exclusion of periodical risks which can arise in terms of transit countries". ■

UKRAINE-GAZPROM CRISIS AVERTED, FOR NOW

Ukraine has agreed to settle a debt of \$2 billion owed to Gazprom, calming EU fears about a possible repeat of the January 2006 gas supply crisis caused by a payment dispute between the Ukraine and the Russian energy giant.

In addition to a cash payment of nearly \$930 million, Ukraine has also agreed to hand over \$1.2 billion in natural gas deposits to Gazprom as part of a debt clearance deal announced by Russian Prime Minister Viktor Zubkov on 8 October.

The agreement follows earlier assurances by Ukraine's energy ministry that the crisis would be resolved swiftly, a move widely interpreted as an effort to remove barriers to the election of Yulia Tymoshenko as prime minister during upcoming elections (EurActiv 01/10/07). There was speculation that Russia was using the Gazprom debt issue as a way to put political pressure on Ukraine to block the ascendancy of Tymoshenko, who represents pro-Western forces in Ukraine.

Following the announcement, EU Energy Commissioner Andris Piebalgs assured reporters during a speech in Vienna that the issue is "definitely settled". ■





REPRESENTATIVE OFFICE IN EUROPE

RUSSIAN STANDARD
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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.

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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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...

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- You will fill-in some special forms - we will need to get detailed information and replies to all our questions!
- Technical documentation can be received in written or sent by email or through Internet.
- You will send us copies of valid certificates (ISO 9000 and so on)

For more information please visit www.rosstandard-europe.com



BUSINESS NEWS TICKER

A customs union of several former Soviet countries is expected to start functioning by 2010, Russian President Vladimir Putin said at a summit of the Eurasian Economic Community, or EurAsEc. In August 2006, Russia, Belarus and Kazakhstan agreed to join the union, Putin said. He added that other members of the EurAsEc were also expected to subsequently accede to the customs union. Besides Russia, Belarus and Kazakhstan, the EurAsEc includes Kyrgyzstan, Tajikistan and Uzbekistan. The community was set up in 2001. Its stated goals include economic integration and common border security.

...

The State Corporation for Atomic Energy, or Rosatom, will be set up sometime in January-March



2008, Sergei Kiriyenko, head of the Federal Atomic Energy Agency, said. The bill introducing the corporation is expected to be signed into law by the end of this year, he said. To become law, the bill must be approved by the State Duma, the parliament's lower house, in three readings and by the Federation Council, the upper house, in one reading before being signed by the president. The State Corporation for Atomic Energy will replace the Federal Atomic Energy Agency, which is also known as Rosatom, the bill read.

...

Rosneft is likely to seek a new intermediary for the \$3.4 billion sale of a 50 percent stake in its Tomskneft unit. State-owned Vneshekonombank, which gained

Federal Anti-Monopoly Service permission last week to buy a controlling stake in Tomskneft, probably will not act as intermediary on behalf of Gazprom's oil unit, citing unidentified people close to the bank and Rosneft.

...

The Russian government is not satisfied with the current operation of the alcoholic beverage registration system known as EGAIS, Deputy Prime Minister and Finance Minister Alexei Kudrin said following the government's talks on the system. Currently the registration system puts excessive pressure on businesses, imposing numerous requirements on them, Kudrin added. The alcohol registration system is expected to help combat Russia's large counterfeiting problem in the sector, but its introduction has been fraught with delays, with the latest target for full launch now set for June 1, 2008.

Initially, it was supposed to be fully operational on July 1, 2006. The registration system envisages using new excise stamps for alcoholic beverage bottles with a barcode and barcode scanners for entering information about production and sales of alcohol into the system.

...

Hydroelectric power generator Hydro-OGK will unite 21 separate firms and around 50 power stations, including one part-owned by Gazprom, when it floats shares in 2008, the company said. Hydro-OGK board member Vasily Zubakin said the Zagorsk hydroelectric power station, of which gas monopoly Gazprom owns about 30 percent, had agreed after protracted talks to join the structure that will generate one-fifth of the country's

electricity. Hydro-OGK expects to complete the legal process to consolidate most of the generating subsidiaries, including Zagorsk, by January. Two other firms, the Irganaiskaya and Kaskad power stations, would be integrated by June, the company said in a statement. The resulting company would have total generating capacity of about 24 gigawatts, making Hydro-OGK the biggest producer of renewable energy in Europe and second in the world only to Canadian state-controlled Hydro-Quebec.

...

Deputy Prime Minister and Finance Minister Alexei Kudrin has been appointed head of the Russian government's commission in charge of the country's accession to the World Trade Organization (WTO), the government's press office reported. Meanwhile, Regional Development Minister Dmitry Kozak has been appointed head of the commission in charge of the Investment Fund, the press office said. The government uses the fund to finance infrastructure projects.



...

Consumption of agricultural products has more than doubled to almost 4 trillion rubles over the past seven years, while agricultural output has grown 20% in the

period, Kudrin said without elaborating. With consumption outstripping domestic production, Russia has turned to imports to meet its demand for agricultural products, Kudrin said, noting that imports now accounted for 20%-40% of the demand for certain food products. Kudrin attributed the soaring food prices in recent months to increased demand for agricultural products, higher prices on the world market, and a weak global harvest this year. The minister also said that the rise in prices was not limited to food products. Even if prices for food had not increased, Kudrin said consumer price inflation would still exceed the government's target of 8% in 2007 and amount at least 9% due to excess money supply, income growth that is outstripping productivity growth, and

insufficient domestic output to meet the growing demand, Kudrin said. Kudrin said earlier in October that consumer price inflation this year would amount to at least 9% and likely approach 10%. In an effort to put downward pressure on food prices, the federal government reached an agreement with food producers and retailers earlier this week to freeze some food prices until January 31, 2008. The government has also cut import duties and raised export duties on some food products and announced it would start selling its grain stocks.

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Russian President Vladimir Putin has proposed holding the next Russia-E.U. summit in the Russian city of Khanty-Mansiysk. Putin is taking part in the Russia-E.U.

summit in the Portuguese city of Mafra. The next summit is expected to take place in early June 2008, Putin said at a news conference Friday, adding that the exact date of the summit will be set later.

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Prosperity Capital said that it was seeking to raise at least \$200 million this year in a London listing for New Russian Generation, a power-focused fund that is well positioned to take advantage of the liberalization process in Russia's electricity industry. New Russian Generation, whose power industry portfolio is worth approximately \$1.6 billion, has a 27 percent stake in thermal and power generation company TGK-2, and 19 percent stakes in both TGK-4 and TGK-6. ■

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