



## FOCUS

### **EXPORTING TO RUSSIA: IMPORTANT FACTS**

#### **TRADE BARRIERS**

Foreign companies face a number of tariff and non-tariff trade barriers when exporting to Russia. The most common complaint voiced by companies is Russia's complex system of standardization. Russia's standards regime remains extremely complex due to its lack of clarity and overall redundancy. While the system has improved somewhat, companies are encouraged to obtain appropriate legal advice or assistance from experienced distributors or consultants.

With regard to tariffs, on January 1, 2004, Russia adopted a new Customs Code which complies with WTO requirements. The new code introduces significant changes in customs clearance and control procedures. Perhaps most notable is the limiting of the maximum time for the customs clearance process from 10 days to 3 days. In practice however, delays beyond 3 days continue to be the norm. Therefore, even with the adoption of the new code clearing goods through Russian Customs can still be a cumbersome ordeal and act as a barrier to foreign trade.



#### **IMPORT REQUIREMENTS AND DOCUMENTATION**

Importers are required to complete a Russian customs freight declaration for every item imported. A declaration must be supported by the following documents: contracts, commercial documents such as commercial invoices and packing lists, transport documents, import licenses if applicable, certificates of conformity and/or safety certificates of origin if applicable, payment documents confirming that the duties were paid to the customs account in advance, and documents confirming legitimacy of declarants/brokers/importers.

Exporters are required to complete an export declaration and, if necessary, present the appropriate export license at customs.

In addition, currency control regulations require issuance of a "passport" for both exports and imports to ensure that hard currency earnings are repatriated to Russia. The regulations also ensure that transfers of hard currency payments for imports are for goods actually received and properly valued.

#### **FREE TRADE ZONES/WAREHOUSES**

There are no actual free trade zones in Russia. However, there are a few free economic zones, free customs zones, and free warehouses designed to encourage investment in specific areas. Free customs zones and free warehouses are located in customs areas (airports, seaports, railway and truck terminals) and selected automobile factories. The Kaliningrad Special Economic Zone (SEZ) provides advantages to foreign exporters and investors. Almost all goods imported into the SEZ are exempt from import customs duties. Further, when imported goods are processed there with value added of at least 30% and then shipped to other parts of Russia they are exempt from import duties and quotas.

#### **TEMPORARY ENTRY**

Temporary entry of goods is allowed with full or partial relief from customs duties for a period of up to two years. The Customs Authority issues authorization for temporary entry of goods based on a written application submitted by an importer. The list of goods for temporary entry with full or partial relief from customs duties and taxes as well as terms of such relief is determined by the Russian Government.

Full conditional relief from customs duties is allowed when it does not affect the Russian economy in such cases as:

- temporary imports of containers, pallets, other types of containers and packages for repeated use;
- temporary imports of goods for the purposes of the development of international relations in the scientific, cultural, sports, cinematography and tourism fields;
- if the purpose of temporary imports is international assistance.
- commercial samples, not for sale, used at trade shows and exhibitions.

In practice, many foreign companies bringing in commercial samples have had problems with Russian Customs. Sometimes Customs demands that the importer pay a bond to cover any applicable imports duties if the goods are sold in Russia.

Other categories of goods are subject to partial relief from customs duties. When partial relief from customs duties is applied, three% of the amount of customs duties and taxes should be paid on a monthly basis for the period when goods are located in the customs territory of the Russia Federation.

Also in regard to commercial samples, Russian Customs accepts the use of ATA Carnets, which are widely and effectively used.

### **LABELING AND MARKING REQUIREMENTS**

Labels on food items must feature the following information in the Russian language: type and name of the product; legal address of the producer (which may be given in Latin letters); weight or volume of the product (if a food item is preserved in liquid – weight without the liquid mass); food contents (name of basic ingredients and additives listed by weight in decreasing order); nutritional value (calories, vitamins if their content is significant or if the product is intended for children or for medical or dietary use); conditions of storage; expiration date (or production date and period of storage); directions of preparation of semi-finished goods or children foodstuffs; warning information on any restrictions and side effects; and terms and conditions of use.

Labels on nonfood items must include the name of the product, the country of origin and the name of the manufacturer (which may be given in Latin letters), usage instructions, the main characteristics, rules and conditions for effective and safe use of the product, and other information determined by the state regulation body.

### **PROHIBITED AND RESTRICTED IMPORTS**

Import/Export of goods in Russia is carried out in accordance with the Federal Law on “Government Regulation of International Trade Activities” of 2003, which stipulates application of quotas, licenses and other temporary restrictions on export/import operations.

Import licenses are issued by the Russian Ministry for Economic Development and Trade or its regional branches, and controlled by the State Customs Committee.

Licenses for sporting weapons and self-defense articles are issued by the Interior Ministry. Licenses are required for many items:

- Alloys
- Carpets
- Color televisions (14, 21, and 25-inch)
- Combat and sporting weapons

- Ethyl alcohol
- Explosives
- Medicine
- Military and ciphering equipment
- Precious metals
- Radioactive materials and waste
- Self-defense articles
- Stones
- Strong poisons and narcotics
- Tobacco products
- Stones
- Vodka

To learn whether an import license is needed for a particular product, contact Certification Center “Rosstandard” at [mail@rosstandard.com](mailto:mail@rosstandard.com)

### **CUSTOMS REGULATIONS**

The new version of the Customs Code, which complies with WTO requirements, was approved by the State Duma on April 25, 2003, signed by President Putin on May 24 of that year, and took effect on January 1, 2004. The new Customs Code introduces significant changes in customs clearance and customs control procedures. According to its authors, the Code is a significant improvement over the old one. It reduces the role of the state and does not allow the Russian Government or its agencies (including the Customs Service) to create contradicting regulations and instructions. One intended improvement in the new Code is to reduce the length of time required for customs clearance from 10 days to 3 days. It also offers the possibility of advance declaration of cargo before its arrival at customs.

The important changes introduced by the new Code include:

- Restricting the Russian Federation State Customs Committee from issuing contradictory additional regulatory acts.
- Making possible the settlement of disputes with Customs authorities directly in a court of law.
- Establishing a definitive and comprehensive list of documents that must be submitted for Customs clearance.
- Limiting the maximum time for the Customs clearance process to 3 days compared to the previous allowed maximum of 10 days.
- Prohibiting the Customs authorities from refusing to accept a declaration that contains inaccurate information, if this information has no impact on the defrayal of Customs payments, or does not restrictions in foreign trade.
- Allowing clearance of goods through any Customs office.
- Providing urgent Customs clearance for perishable goods, express cargoes, or time-sensitive materials for the mass media.

Changes in the Commodity Schedule were implemented in accordance with the international obligations of the Russian Government to comply with HS codes and Russia's intention to enter WTO. The new customs tariff schedule changed tariff rates for 140 categories of commodities lowering the tariff ceiling for 90% of the categories.

Notable changes included the lowering of import tariffs for audio- and video- equipment and components from 20% to 15%, for fruits and vegetables from 10% to 5% and for sewing machines from 25% to 20%. Certain commodities are still regulated through seasonal duties and quotas.

Foreign companies doing business in Russia may find that the new tariff provisions and fewer base rates generally simplify business activities. In a country where clearing goods through customs can still be more art than science, and significant delays are still common, the new import structures are seen as taking Russia a step further along the road to reduced barriers to foreign trade, conformity to world trade practices, and membership in the WTO.

In addition to tariffs, there are two types of charges applied to imports, the ubiquitous Value Added Tax (VAT) and selective excise taxes. The universal VAT rate was reduced from 20% to 18% effective January 1, 2004, with the exception of foodstuffs, pharmaceuticals and medical supplies for which VAT is 10% and is applied to the import price plus tariff plus excise tax. There are some exemptions to applying VAT. For example, resolution no.19 of January 17, 2001 provides a list of vitally essential medical equipment to which VAT is not applied. The excise tax applies to a number of luxury goods, alcohol and cigarettes and varies from 20% to 570%. The import duty on new passenger vehicles (1-3 years old) is 25%, to which is added an excise tax calculated based on horsepower.

In 2002 the former State Customs Committee legalized the so-called "white lists" of reputable importers with good records (State Customs Committee resolution #237 of May 8, 2002). Importers included on these "white lists" enjoy simplified procedures for the clearance of goods, thus saving time and money. Initially, there was no formal procedure for placement on the list and "white lists" existed without any legal basis.

Importers in good standing were added to the list through the recommendation of a trade association. According to current regulations, an importer must now submit an application and necessary documentation to the regional customs office. In August 2004, the Federal Customs Service introduced more strict regulations for inclusion on the White List (Federal Customs Service decree #727) and all importers on the list must

now participate in a new registration procedure.

## CUSTOMS VALUATION

The customs value is generally considered to be the CIF (cost-insurance-freight) price of the goods imported. A customs processing fee is also levied. As of January 1, 2005, new customs processing fees were introduced in accordance with Chapter 33 of the new Customs Code. Customs duties are payable in hard currency or rubles at the current exchange rate. If customs officials do not agree with the customs value of goods declared they are authorized to request additional documents that support the declared customs value. It is often normal practice for customs officials to request the Shippers Export Declaration (SED), which they consider to be a sufficient proof of the customs value. However, presenting SED is not mandatory and the importer can present other available documents.

## STANDARDS

Despite positive changes in the last several years, the standards regime in Russia still lacks transparency. Russia continues to rely on product testing as a key element of the product approval process. Other types of product safety assurance, such as plant auditing, quality systems, and post market vigilance, are underdeveloped. Russia continues to adhere to redundant practices of further testing of internationally accepted certified products which can delay entry of a variety of products into the country.

In addition, the former federal authority on standardization, Gosstandart, was restructured twice as part of a larger government reorganization begun in March 2004, which led to some uncertainty as to exactly who in the agency did what, further adding to delays in discharging its functions. The current authority for standardization, metrology and certification matters is the Federal Agency for Technical Regulations and Metrology under the jurisdiction of the Ministry of Industry and Energy. However, the old name for this agency, Gosstandart, remains in use. Affiliated with this new agency are 462 Technical Committees, comprised of research institutes which develop standards.



Russia has a three year plan for standards development is published on the Federal Agency for Technical Regulations' website, [www.gost.ru](http://www.gost.ru)

## STANDARDS ORGANIZATIONS

Russia's complicated, cumbersome and often changing system of certification as well as cultural and language barriers create a challenge to foreign compa-

nies attempting to certify products without appropriate legal advice or assistance from experienced distributors or consultants.

Foreign companies are recommended to work with reliable partners and consulting companies on registration and certification issues.

#### Standards Organizations In Russia:

##### **The Federal Agency for Technical Regulations and Metrology**

Grigory Iosifovich Elkin, Head  
9, Leninsky Prospect  
Moscow 119991 Russia  
Phone: 7-095-236-0300  
Fax: 7-095-236-62-31  
E-mail: [info@gost.ru](mailto:info@gost.ru), [www.gost.ru](http://www.gost.ru)

##### **VNIKI (Russian Institute for Comprehensive Information on Certification and Quality)**

4, Granatny Pereulok  
Moscow 103001 Russia  
Phone: 7-095-290-5569  
Fax: 7-095-203-2598, 203-9517  
E-mail: [kpl@vniiki.ru](mailto:kpl@vniiki.ru), [www.viiki.ru](http://www.viiki.ru)

##### **VNIIS (Research Institute for Certification)**

3/10, Elektrichesky Pereulok  
Moscow 123557 Russia  
Phone: 7-095-253-7006, 253-0078  
Fax: 7-095-253-3360  
E-mail: [vniis@vniis.ru](mailto:vniis@vniis.ru), [www.vniis.ru](http://www.vniis.ru)

##### **Russian Standard (Certification Center for Europe and USA)**

Štefánikova 42,  
040 01 Košice, Slovakia  
Phone: (55) 728-9267, 728-9268  
Fax: (55) 728-9269  
E-mail: [mail@rosstandard.com](mailto:mail@rosstandard.com), [www.rosstandard.com](http://www.rosstandard.com)

For Telecommunications Equipment:

##### **Ministry of Informatization and Communications of the RF**

Ms. Lyudmila Yurasova  
Deputy Head of Federal Agency  
7 Tverskaya Street  
Moscow, Russia  
Tel: 7-095-771-8573  
Fax: 7-095-771-8734  
E-mail: [sertifik@ptti.gov.ru](mailto:sertifik@ptti.gov.ru), [www.english.minsvyaz.ru](http://www.english.minsvyaz.ru)

For Pharmaceuticals and Medical Equipment:

##### **Federal Service for Surveillance in the Sphere of Healthcare and Social Development (Roszdravnadzor)**

1 Birzhevaya Street  
Moscow 109012  
Tel.: 7-095-298-1470

Fax: 7-095-298-5049

<http://www.roszdravnadzor.ru>

## CONFORMITY ASSESSMENT

In recent years there has been a substantial movement toward the adoption of common international language on product standards and certification procedures and some improvements have been made. In 1998 the Russian Government established a public information service for regulations covered by the Technical Barriers to Trade (TBT) Agreement in the World Trade Organization (WTO); however, technical difficulties have plagued this service and it has not been an easily accessible or reliable source of information. On July 31, 1998, new amendments to Russia's Law on Certification of Products and Services went into effect, which Russia claims generally meet requirements of the TBT Agreement. The law allows a manufacturer to submit a declaration of conformity in the certification procedure for a limited number of products.

The government has established a list of 200 products eligible for this procedure.

Approximately 35% of 25,000 Russian standards now conform to international norms, and many deficiencies in the standards and certification process have been removed. The law was intended to change the existing cumbersome standardization and certification systems and to harmonize the Russian legislation with international standards. In addition, the intent was to establish a transparent system for adoption of standards and to reduce significantly the number of requirements and steps in the certification process for imported goods. The Government has established a 7-year transition period for technical regulations reform to be completed. Over this period, all mandatory standards requirements must be transformed into technical regulations, and remaining standards will become voluntary. This monumental task will require the development and enactment of several thousand laws and regulations. Current technical regulations will remain in effect until new ones have been developed and approved by the government, or until the end of the 7-year transition period.

## PRODUCT CERTIFICATION

Many products imported for sale into the Russian Federation are required to have a certificate of conformity issued by The Federal Agency for Technical Regulations. The Agency currently tests and certifies products according to Russian Government standards rather than other widely-accepted international standards (e.g., the ISO-9000 system). The Federal Agency for Technical Regulations and its authorized agents are chief sources for certification in Russia. However, other agencies are involved in certification of certain prod-

ucts, including the Ministry of Agriculture (food products) the Ministry of Health (medical devices and pharmaceuticals), the State Communications Committee (telecommunications equipment and services), the State Mining and Industrial Inspectorate GOSGORTECHNADZOR (equipment for mining, oil and gas industries) and others.

Russia participates in the following international certification systems:

- System of the International Electrotechnical Commission (IEC) for tests of electrical equipment on conformity to safety standards
- System of certification of passenger cars, trucks, buses and other transport vehicles (UN EEC)
- System of certification of handguns and ammunition
- System of certification of electronic articles (IEC)
- International system of certification of metrology equipment and instruments
- Agreement on mutual recognition of tests of imported aircraft and certification of elements of air-planes
- UN International Navigation Organization (Navigation Safety Convention).

As of January 1, 2005 the Federal Register of Gosstandart of Russia listed 31 systems of mandatory certification (national) and 65 systems of voluntary certification.

The list of accredited certification authorities and test laboratories is published on The website of The Federal Agency for Technical Regulations and Metrology [www.gost.ru](http://www.gost.ru) (in Russian language).

### ACCREDITATION

Presently in Russia, various federal executive authorities carry out accreditation in accordance with the relevant legislation. Bureaucratic incongruities, overlapping fields of activity and the application of different procedures and criteria in the accreditation process are common occurrences. Often, the accreditation and certification activities of several federal executive authorities are superimposed. Certification authorities and test laboratories, both Russian and foreign, are accredited in accordance with ISO/IEC Guideline 5 and ISO/IEC Standard 17025.

Currently, each individual Ministry, Gosstandart of Russia and The Research Institute for Certification (VNIIS) can accredit laboratories in their relevant industry sectors. GOSSTANDART of Russia runs the state register of all accredited organizations.

The Department of Technical Regulations and Metrology is currently developing legislation on ac-

creditation of organizations that assess compliance with technical regulations. It is still undecided as to whether the system of a single accreditation body or a number of such bodies will be most efficient in Russia.

### PUBLICATION OF TECHNICAL REGULATIONS

Proposed technical regulations are published (in Russian) on the Federal Agency for Technical Regulations and Metrology's website [www.gost.ru](http://www.gost.ru) for two months. Any Russian or foreign entity may comment in Russian to the contact listed on the website.

Draft and final documents are published in the monthly "Vestnik of Gosstandart of Russia" journal. This journal is an official publication of the Federal Agency for Technical Regulations and Metrology. The journal publishes official documents of the Agency: instructions, rules, decrees, etc. "Vestnik of Gosstandart of Russia" is the country's effort to ensure transparency in the development of national standards required for WTO compliance. WTO membership assumes that all changes in the standardization system will be transparent, thereby avoiding hidden obstacles (non-tariff barriers) in trading relations with WTO partners.

### TRADE AGREEMENTS

Russia currently participates in a free trade agreement with the Commonwealth of Independent States (CIS), which comprises most of the countries of the former Soviet Union. A customs union with Belarus, Kazakhstan, Kyrgyzstan and Tajikistan has been formed, but is not operational. Russia has an association agreement with the European Union (effective December 1997), proposes to join the World Trade Organization, and has historically received MFN and GSP status from the United States. As of mid-June 2002, the U.S. Department of Commerce designated Russia a market economy. This has had a positive impact on investment and trade between the two countries. ■



### EURO-MINERÁL, s.r.o.



**EURO – MINERÁL, s.r.o** is a slovakian producer of mineral water "Korytnica". Korytnica is a unique brand with a specific content and is well-known since 1853. It's quality was appreciated on expositions in Vienna, Trieste, Budapest and Saint Louis at the end of 19th century, in 1998 Korytnica was presented at the world-class fair EXPO in Lisbon.

## SIA SFT



**SIA SFT** was founded in 2001. Within the past few years company has occupied a stable position in the field of freight traffic in Latvia, and, nowadays, it can offer full set of services in logistics and cargo transportation from any point of the world to the Baltic countries, Russian Federation and CIS countries.



## MARKET ANALYSES

## RUSSIAN MARKET OF FRUITS

## CHARACTERISTICS OF IMPORT

The largest volumes in the structure of Russian import of fruit accounted for three kinds of products: bananas, apples and oranges, which corresponds to consumer preferences and habits of urban residents of Russia. The high demand for apples is partially satisfied by local producers while bananas are exclusively an imported product. This fact as well as the popularity of bananas with Russian citizens – this fruit comes the second after apples by the preference and consumption frequency – condition its priority in the import structure. According to the data of the State customs committee of the Russian Federation, in the first 11 months of 2004 their share amounted to 27% of the volume of imported products in terms of quantities against 22% for apples and 14% for oranges. Petersburg “JFC International” limited liability company has been the leading supplier for several years: in the first half-year of 2004 it imported 34% of the total physical volume of “banana import”. In the period under consideration the three leading banana importers also included “Elstar” limited liability company and “Omega” limited liability company – their share amounts to 11 and 9% of import, respectively.



## TRADEMARKS AWARENESS

The level of awareness of Russian consumers about the trademarks of their favourite fruit is quite low. For example, 81% of the interviewed buyers of bananas failed to remember a single name given on the label of the product they bought. The best-known brand on the banana market is “Bonanza” (the country of origin is Ecuador, the brand holder is “JFC International” LLC): it was the first to be mentioned by 5% of the respondents while in general without any prompt it was

named by 8% of the interviewed. The second place according to the “top-of-mind” criterion is occupied by two American trademarks “Chiquita” and “Dole”: either of them was the first to be remembered by 4% of the buyers participating in the poll. The third place is taken by “Favorita” trademark (Ecuador) – it was noted by 2% of the respondents.

## CULTURE OF FRUIT CONSUMPTION

Fruit occupies a significant place in the consumer food products basket of the urban population of Russia at the age from 18 to 65. They take the second place among the products consumed at home – 89% of the interviewed – and the first place among the products consumed outside home – 49% of Russian citizens. However, in the mass conscience this product category is not perceived as a component of the basic meal “in usual conditions”, that is at breakfast, dinner or supper: at home fruit is most often consumed when one needs to have a bite between basic meals (68% of the respondents) or outside home – in trips (32%).

According to the research results, fruit consumption is the indisputable leader among the ways to have a bite in home environment – for example, between breakfast and dinner or in the evening after supper. This product has the first place outrunning chocolate, yoghurt/kefir/curds and even traditional sandwiches, pies and hot-dogs. It is the least common to eat fruit for breakfast: only 19% of the respondents confessed that they often ate it in this situation. For comparison, sandwiches are eaten for breakfast by 69% of Russian citizens. Out of the three major meals supper is the most real situation for fruit consumption apart from the situation when one just needs a bite – this was the reply of 36% of the respondents.

A sandwich is also the closest competitor of fruit in the situation of a meal during a trip. However, it is this situation that appears to be the most favourable one for fruit consumption outside home as distinguished from satisfying one’s hunger in the street where snacks – nuts, rusks, chips – are considered to be more appropriate. One part of the respondents – 23% – consume fruit at work during dinner. In particular, this variant is used if it is not possible to have dinner in a canteen or a cafe as fruit does not require any special cooking and it is easy to carry.

More than half of the interviewed consume fruit at least once a day – 69 and 55% in the summer and winter periods, respectively.

The maximum volumes of the portions consumed at one time are characteristic of water-melons, melons and berries. Lemons are consumed in minimum quantities. One-time portions of bananas, oranges and tangerines usually amount to 1–2 fruits. The weekly volume

of fruit consumption for most interviewed does not exceed 2 kg: in the context of the summer period these replies were given by 58% of the interviewed and 81% in the context of the winter period.

The seasonal character of this product category shows up in the fact that the share of those consuming fruit once a week and less grows considerably in the winter period (from November to April) – from 9% in summer to 16% in winter. On the other hand, the share of those respondents eating fruit several times a day grows in the summer period (from May to October) – from 22% in winter to 37% in summer. Thus, the relative financial accessibility and wide assortment of the products as well as the harvest from their own vegetable gardens typical of the summer months favourably influence the frequency of fruit consumption by Russian citizens.

According to the research data, the average annual fruit consumption per capita is 45.6 kg in the period from May to October and 27.7 kg from November to April. It should be taken into account that these indicators are applicable only to the population of the cities with over 100 thousand residents at the age of 18–65.

### SPECIFIC FEATURES OF CONSUMPTION BY KINDS OF FRUIT

The leading positions in the structure of the Russian consumer “fruit basket” are taken by the following kinds of fruit: apples (during the recent half-year\* they were eaten by 96% of the interviewed and were the most frequently consumed fruit for 51% of the respondents); bananas (92 and 23% of Russian citizens, respectively); oranges (91 and 11%); lemons (82 and 6%); tangerines (70 and 2%) and pears (61 and 4%). Over the recent 6 months from one-fourth to one half of the interviewed also ate grapes, kiwi, pomegranates, grape-fruits and pineapples.

The highest consumption frequency is characteristic of apples: in summer they are eaten at least once a week by 89% of the interviewed and in winter – by 80% of the respondents. However, only 25% of consumers consider apples their favourite fruit.



The fruits often consumed in summer also include fresh berries and lemons – they are eaten by 71 and 65% of Russian citizens, respectively. Such fruits as bananas, watermelons and melons are chosen by 58% of consumers each. Pears are in demand only with 54% of the interviewed.

The fruits most popular in winter are lemons and bananas – they are preferred by 75 and 69% of the poll participants, respectively. Oranges are consumed

by 59% of the respondents and tangerines – by 37%.

A considerable part of grapes lovers only partially satisfy their liking for this kind of fruit for financial, seasonal, nutritional and other reasons.

Comparing the data about volumes of consumption of various fruit kinds in European countries and Russia one can draw the conclusion that the Russian market is closest to the Czech market where apples are also in great favour. It is noteworthy that bananas appear to be the favourite fruit of northern people – Norway, Finland, Sweden, while in Southern Europe – Italy, Spain, France – the most popular fruits are citrus fruits and pears.

### RETAIL CHANNELS

According to the results of interviews with the dealers, on the average about 70% of fruit sales in Russia account for wholesale depots and markets. The significance of open-air markets is also confirmed by interviews with consumers, 81% of them choosing this very retail channel for fruit purchases. On the one hand, this is related to the fact that fruit is generally cheaper at markets than in food shops and supermarkets. On the other hand, buyers are attracted by the quality of “market” fruits: there is a widely spread opinion that they are fresher than the products available in “shop trade” outlets due to the shorter logistics chain. Besides, certain consumers note the availability of a wider fruit assortment at collective farms’ markets.

Purchasing fruit outside the territory of an open-air market – from a stall/truck – as well as in kiosks and stands is also quite popular in Russian cities with the population of over 100 thousand residents: 32 and 20% of the respondents, respectively, regularly or occasionally use these sales channels. The major advantages of these channels are convenient location – proximity to consumers’ routes – and efficiency – “a person was passing by – saw – bought”.

However, experts note the potential of shop trade, in particular, such modern formats as supermarkets and hypermarkets. In the process of the present research it was identified where the respondents usually bought fruit. 31% of city residents buy fruit in traditional shops where they are served over the counter and only 14% – in supermarkets/hypermarkets although the poll participants were given an opportunity to choose several variants of the answer. At the same time due to the growing role of modern retail channels in the Russian consumer space in general the share of supermarkets in retail turnover of fresh fruit is growing, though slowly. Regular visitors of supermarkets and hypermarkets tend to combine the purchase of fruits with purchases of other goods to save time and avoid the discomfort connected with “market” shopping

– dealing with obtrusive sellers, fear of being cheated, unsatisfactory sanitary conditions. The changes in the structure of fruit retail sales largely depend on how fast retail operators in cooperation with suppliers will succeed in winning the consumers' trust providing an adequate alternative to open-air markets.

### TRENDS OF THE FRUIT MARKET DEVELOPMENT

Over the recent 3–5 years the share of fruit in the consumer food products basket of Russian citizens has grown considerably: the fruit consumption growth index is +0.37. This index is calculated as the correlation of the respondents increasing and reducing the product consumption volume with account of those whose consumption level has remained unchanged. The index values range between -1 and +1, the positive index values corresponding to the product consumption growth.

A stronger trend of consumption development is observed only in the category of "Dairy products" where the index growth value is +0.46. However, it should be taken into account that the specific weight of this category in the consumer food products basket of Russian citizens is less than that of fruit: in home conditions dairy products are consumed by only 60% of Russian residents at the age from 18 to 65 living in cities with the population of over 100 thousand residents against 89% for the category of fruit.

It is noteworthy that raw vegetables show an analogous positive trend – the index value is +0.24. City residents at the age of 18–65 raise the volumes of their consumption along with dairy products and fruit. At the same time consumers say that they have started eating less canned products, butter, chocolate, sausage, pasta and bakery products. Thus, one can state higher attention of Russian citizens to their health and orientation towards health food.

It should be noted here that the index values show only the general trends of consumption as they are calculated on the basis of subjective perception by the respondents of the changes that have taken place in the food intake. It is impossible to evaluate quantitative indicators of the growth rates and the absolute change of the volumes of consumption of the products categories on the basis of this index.

On the whole, as distinguished from most countries of Western Europe that have lately shown a decline of fruit consumption the fruit market in Russia is at its growth stage and it is early to speak about the market saturation. The dynamics of the fruit consumption growth is positive in most Russian regions.

In the opinion of the interviewed dealers, the solvency of the population and the price level refer to

the group of the most significant factors influencing the volume of fruit sales in Russia: they were noted by more than two thirds of the market experts. In other words, one can forecast a growing volume of fruit sales even in case of decline of the products' prices and/or a higher purchasing capacity of Russian citizens.

The second position by the degree of influence upon the market dynamics appeared to be the fruit quality and seasonal character. The significance of both factors is much below the aforesaid financial conditions; however, they must be taken into account when making a forecast of the market volumes. For example, the consumer is wary of imported fruit in the winter period – grapes, apples, pears and some others – often refusing from buying them due to their flat taste and lack of flavour. Apart from these two key characteristics of the fruit quality of relative significance is the product's exterior appearance, size and keeping. ■

## MOLDAVIAN CANNED FOOD EXPORTS

Moldavia is a typical farm-and-industry country, in 2004 share of agriculture output in gross national product was almost 20%. About 50% of population is engaged in agrobusiness; and the forecast is that in the nearest future industrial sector of national economy will be focused mainly on agro-processing. Agriculture and food processing constitute



65-70% of all exports. Moreover, according to country development plan for the period of 2004-2010 this index should exceed 80%. In other words, idea of shoring up branches of agro-business still dominates in national economy even despite recent fast development of the services.

Food industry constitutes about 30% in republic's food processing industry, share of canned foods industry reaches 17%. Around 50% of all canned foods represent canned fruit and juice, 30% - tomatoes, and 20% - vegetable and meat.

Product range of Moldavian canneries includes over 200 kinds, 30% of which is infant foods. Type of food a cannery processes depends on geographical position of the plant: northern facilities deal as a rule with vegetable and berry; those producing canned fruit are traditionally situated in the south.

All this statistical computation is the evidence of Moldavia's substantial potential and real abilities to improve and develop canned food branch of food proc-

essing industry. Besides canned foods export is an important factor of foreign trade relations and a steady source of hard currency flow into the country. And it's logical that about 80% of all Moldavian canned foods is exported.

After the trying times of '90s canned foods industry of the country restored its steady work only by 2000, by that time export volume established in the range of 75-90 tons annually which in value constituted \$35 - 40 ml.

In the recent four years export structure in means of product groups has significantly changed, the most considerable changes happened in the period of 2001 to 2002.

Major share in total export volume still belongs to juice though its position has weakened somehow in the period in focus - juice share dropped from 71.3 to 48.9% in volume. Extremely unstable was the situation in canned vegetable segment: in 2002 and 2004 we find here noticeable export growth - 34.7 and 33.4% respectively, but indices of 2001 and 2003 are fairly low - 24.4 and 27.4% in volume.

The greatest development in total exports in 2001-2003 was noted in sweet canned foods segment (jams, confitures, etc.) - its share raised from 0.4 to 13.2% in volume. Still in 2004 export volume in this category dropped to 8.7%.

Anyway last year's indices of Moldavian canned foods exports in value terms turned out to be the best in all the period in survey: the cost of exported product was almost \$42 ml.

Of course, there are certain reasons and explanations of the existing situation. First of all, environmental determinant or to be more exact weather and climate effects that have the greatest influence upon the activities of agro-business members and as a result - export indices. Drought, a frequent visitor in Moldavia, makes its own crop regulation which means that raw material supply is subject to annual fluctuations.

Second reason is that disbursing prices of Moldavian manufacturers are growing, depending upon energy cost increase among other factors. It is common knowledge that canned foods industry is one of energy-intensive; and, of course, increase of self-cost influences export prices.

And, finally, due to circumstances rooted in 1990s, Moldavian exporters though keeping loyalty to the market of CIS still are eagerly looking for the way to the markets of Westerns and Eastern Europe. And they have success in the their efforts: for example share of European importers of Moldavian canned foods in

total Moldavian export value went up from 22.7% in 2001 to 32.5% in 2004; and share of CIS countries dropped from 75.5 to 66.8% correspondingly. Having come to European markets with high-quality product Moldavian exporters easily blended into high price segments. The key European importers of Moldavian canned products - mainly of condensed fruit juice - are Germany and Austria; shares of these countries in total Moldavian export in 2004 represented respectively 14 and 10.8%. Besides this, Baltic countries, Bulgaria, Belgium, Canada, Poland, Romania are interested in Moldavian canned products.

Despite evident recent success of Moldavian exporters in certain segments of European market still the major importers of Moldavian preserves are CIS countries, especially Russia. Both statistics and current market analysis speak in favor of this statement. First of all, CIS consumer preferences for "made in Moldova" products root in soviet times and have not drastically changed since then. Actually, Moldavian manufacturers have to review and change a lot for this; and what is more important - to position their product as high-quality, natural and safe (ecologically clean). CIS consumer evaluated this - in every sense of the word, considering pricing policy of Moldavian exporters as quite allowable. Initially Moldavian companies positioned their products for medium- and low-income consumers. It was clear that it's impossible to be an equal compete to such international export giants like French "Bonduelle Group" (trademark "Bonduelle") and "CECAB Group" (TM "D'aucy"), "General Mills, Inc." (USA, TM "Green Giant"), "Gold Pheasant" (Hungary); Ukrainian - "Chumak" CJSC (town of Kahovka), TM "Zlatodar" (Kiev), TM "Veres"; Russian - "Baltimor Holding" LLC (Saint-Petersburg) and "PomidorProm - Konservnij Holding (Tomato Industry - Cannery Holding)" LLC (Moscow).

Of course, it is more reasonable in this situation to fill "unshared" niches and get secured in there with development prospects. And the prospects are quite optimistic because even if we take only Russian market, for example, for vegetable preserves there is 1/3 increase every year. Moreover, unlike Moldavian wine brands which export geography is very versatile - some unique brands are sold even in Japan, USA and China - it illogical to position preserves as "unique" at foreign markets. Therefore in the perspective in sight Moldavian canned products are "deemed" to find main consumer on the territory of CIS, the places with consumption traditions deeply rooted in the past. But even to keep these loyal consumers Moldavian exporters should work hard. No competitor at CIS markets would politely quarter. It has been told already about the powerful competing exporters of Europe and Ukraine, but one shouldn't forget about large Russian distributors - "Russkoe Pole Trading (Russian Field Trading)" LLC (Moscow region, TM "Djadja Vanja (Uncle Vanja)"),

"Desan" TC (Moscow), "ErialTrade" (Moscow, TM "Vitaland") - these companies though not preserves manufacturers still play an important role at Russian preserves market. As for the manufacturers those in Russia, Ukraine, Byelorussia, Uzbekistan keep an alert eye on the growing demand for sound and relatively inexpensive fruit and vegetable juice and preserves; and they are ready to hustle foreign competitors aside.

Currently in Moldavia there are dozens of facilities specialized in fruit and vegetable processing and preserving. For example, 8 large and 15 small plants are producing juice and condensed fruit juice. Not every preserves processor and manufacturer is export-oriented, some work for domestic market. It's understandable - to enter foreign markets small and medium manufacturers need a lot of resources (capital, equipment, personnel, etc.) which would be exhausting for them.

Besides, even though in Moldavia almost every family has its own "preserving facility" at home, domestic market is open for small manufacturers, their product find demand. As for the large formations Moldavian market is obviously small for them, to develop they need other scale of geography and market. This is the reason that for major preservers export is the main trading policy. Among such companies we should mention "Alfa Nistru" JSC (town of Soroka), industrial and commercial firm "Fortuna - Plus" LLC (Kriuljani), "Natur Bravo" JSC (Kishinjev), "Orhei-Vit" JSC (Orhei), "Koshnitskij Konservnui Zavod (Cannery of Koshnitsi)" JSC (Koshnitsa).

Perhaps the most well-known Moldavian manufacturer and exporter of fruit and vegetable juice and preserves is "Orhei-Vit". Facilities built in 1945 were privatized in 1994 - one of the first among the large plants of Moldavia. Company's activities are focused at B2C ready foods market and B2B market of post-processed condensed fruit juice and other semi finished products. Product range is wide: natural juice (clear and pulp), nectars, jams, confitures, fruit paste; tomato paste and tomatoes preserved in tomato juice; infant foods - juice, nectars and vegetable, berry and fruit purees; canned vegetables and many other.



Such a diversity of high-quality and eco-clean products became possible due to at least two reasons. First is high-technology machinery supplied by leading European manufacturers; thank to this equipment "Orhei-Vit" produces natural juice and nectars in 200, 750 and 1000 ml packaging: in Tetra-Pack - up 30 ml. units annually, in glass bottles - up 15 ml. units annually.

Second reason is that even before improvement of machinery and equipment the company took the ef-

forts to build up its own raw material base. In practice this means 420 hectare of plough land in full ownership, where they grow fruit and vegetable for processing using intensive technologies. Alongside with this, the plant has service center for farmers who grow fruit and vegetable in the location of "Orhei-Vit". This center allows to "attach" private farms to manufacture and, if necessary, to supply a plant with needed raw materials to mutual advantage.

As all large Moldavian juice, vegetable and fruit preserves' manufacturers "Orhei-Vit" is orientated towards export - almost 70% of goods produced by the company is sold abroad. It doesn't mean at all that company's products lack for demand at Moldavian market: wide range of "Orhei-Vit's" preserves are represented in every supermarket in Kishinev and other cities of the country.

Nevertheless 72% of exported products in value terms falls on CIS countries. Russia is only the third among the largest exporters of "Orhei-Vit's" preserves and the first place is occupied by Kazakhstan. It was because of marketing strategy of the enterprise in the previous years that the third part of export was delivered to this big CIS country, whose market was still not as capacious as Russia's one.

Now the export strategy of "Orhei-Vit" is adjusted in order to enter the new segments of growing Russian market, especially in the provinces. To do this Moldavian exporters need well-organized multi-branched distributors' and dealers' chains. Recently the company "Orhei-Vit" has opened its official trade representation in Moscow - "Vitaproduct" LLC; it is empowered to widely represent the company's interests at the vast territory of the Russian Federation and at the same time is to become the intellectual and organizational center developing promotion channels of company's export production.

"Orhei-Vit" is the oldest Moldavian cannery company and "Natur Bravo" is the youngest one - it was launched in December 2003. For fairness' sake we should explain the term "youngest". The point is that "Natur Bravo" was created by merging of four Moldavian companies, well-known after 20 years of active market life: the canneries of joint venture "Incon" (Kishinev), "Natur Vit" JSC (town of Kupchin), "Rozmiar" JSC (town of Ungen), and "Floreshtskij Konservnui Zavod (Cannery of Floreshti)" JSC (town of Floreshti).

Marketing and trade vectors of the company "Natur Bravo" are targeted exclusively at export, which means almost 90% of ready-to-serve and semi finished products been exported. Geography of the company's export is quite balanced: about 55% of export in value terms falls on CIS markets and 45% is occupied by

countries of Western Europe, USA, and Canada.

About 70% of company's export falls on Russia and 30% - on Byelorussia. Wide range of "Nature Bravo's" products is exported to these countries' markets: canned vegetables and pickles, green peas, juices and nectars, fruit-salads, jams, confitures, piquant tomato-sauces, tomato pastes and other goods.

In CIS the company is orientated towards the segment of customers with middle income that's why disbursing prices there fluctuate from 40 to 50 cents for a 720 gram jar under DAF terms. "Natur Bravo" creates customers' loyalty in CIS not only by moderate prices but also by stably high product quality, proven ecologically cleanliness, nice package design. Besides that, taking into consideration demand in CIS the company develops and launches new products in addition to already existing and approved product range: canned sweet corn, beans, tomato paste in small package - 70-140 grams.

Concerning the export to Europe and North America the product range is mainly represented by fruit juice concentrates. For a long time the main purchasers of this semi finished product are Germany and Austria.

Summing up the results of analysis of the situation at Moldavian foreign trade market of preserves we can note that today's conditions allow Moldavian exporters not only secure but even improve their position in CIS after they solve three main problems.

First they need to expand export products' range as usual focusing on quality and ecological cleanliness of goods. Thanks to new equipment and modern technologies Moldavian canneries can produce quite competitive goods for CIS markets: both traditional and new, which are in the especially fast growing demand - preserved corn, green peas, champignons, new kinds of vegetable salads and other products.

Besides that, it is necessary to organize distributors' chain in the regions of CIS. Today Moldavian preserves' exporters in 80% of cases deal with the system of direct sales to CIS' wholesalers. This winning system allows the exporter to keep moderate price policy for the consumer and make its export goods more competitive. But on the other hand, direct sales system without well-organized local distributor's chain is not a way of expanding deep into the regions of Russia, Kazakhstan and other CIS countries.

And third it is necessary to provide stable supply of raw materials to be more independent of uncertain weather than now. Obviously weather cannot be completely expelled from the list of risk factors, but it is quite in powers to reduce wastes. ■



- Modern transport infrastructure in the east of Russia would make the region a reliable and profitable link between Europe and Asia, the Russian Transportation Minister Igor Levitin said. A total of 155,400 twenty-foot containers were delivered along the Asia-Europe-Asia route in 2004, which was ten times as many as in 1999. Levitin said a federal program on modernizing the transport system targeted the Far East's transportation infrastructure, including through the construction and reconstruction of facilities in seaports, and road building.
- About ten leading world automakers will start manufacturing cars in Russia in 2006-07, the Economic Development and Trade Ministry said. According to the Ministry, South Korean, German, American, and Japanese automakers were considering various ways of manufacturing cars in Russia. Some foreign carmakers planned to build plants in Russia, while others planned to partner with Russian companies. Major Japanese, European, and American corporations were considering opening plants in Russia to manufacture car parts. Under the government resolution on industrial foreign car assembly in Russia, import duties on car components have been reduced from 12%-15% to 3%-5%, and even eliminated on such components as the car body, engine, and gearbox. Import duties are imposed on components made in Russia.
- The government intends to abolish import tariffs on manufacturing equipment by the end of the year. According to Russia's Economic Development and Trade Minister German Gref, the move is aimed at increasing the competitiveness of domestic industry ahead of Russia's membership in the World Trade Organization (WTO).
- Estonia, Lithuania and Slovenia could adopt the euro as early as January 2007, the international credit ratings agency Fitch said in a forecast. The next three European Union member countries to adopt the single currency will be Latvia, Cyprus, and Malta; these countries will likely do so in 2008, Fitch predicted. Slovakia and Poland will be ready to adopt the euro in 2009, the Czech Republic in 2010 and Hungary in 2011.
- Russia's foreign trade surplus rose 43% on the year to U.S. \$78.9 billion in January-July, the Federal

Statistics Service reported. Exports were up 37.1% on the year to \$130.3 billion in the period, while imports rose 29% on the year to \$51.4 billion. Exports to countries outside the Commonwealth of Independent States, or CIS, rose 41.4% on the year to \$113 billion in the period, while exports to CIS countries increased 17.3% on the year to \$17.3 billion.

- Russia's gas giant Gazprom, German chemicals manufacturer BASF and E.ON Ruhrgas have signed a deal to build a gas pipeline connecting Russia and Germany under the Baltic Sea, BASF said in a statement. Under the agreement, the companies will form a joint-venture called North European Gas Pipeline Company, where Gazprom will hold 51 percent and BASF and E.On will have 24.5 percent each. The pipeline will stretch more than 1,200 kilometers, from the city of Vyborg in the north-west of Russia, to Germany's northeastern city of Greifswald. The new gas pipeline is expected to go on-stream in 2010, with an annual capacity of 27.5 billion cubic meters. A second planned pipeline could double capacity to around 55 billion cubic meters a year. Overall costs for two pipelines would be above EUR 4 billion, the companies said. Construction of the first pipeline will commence this autumn. The construction was indirectly supported by the European Commission.
- Numerous violations of intellectual property rights in Russia are a serious obstacle in talks on Russia's accession to the World Trade Organization, Russian Minister of Economic Development and Trade German Gref said. According to Gref, Russia was on the U.S.-compiled list of observed countries in which mass violations of proprietary rights had been registered. Sanctions against such countries could reach \$1 billion.
- Russia introduced a ban on the import of third-country livestock products that have been reloaded in Lithuania, the head of the Russian agricultural inspectorate said.
- Domodedovo International Airport, Moscow's most modern airport, is gearing up to become a major hub for trans-Atlantic flights. U.S. carrier Continental Airlines will begin daily service to Moscow next spring, and domestic carriers Transaero and Domodedovo Airlines are also looking to start operations to the United States. Investment in the development of Domodedovo will increase by 25% to \$150 million in 2006 against 2005. The project was designed to increase cargo traffic by 50% by 2008 and turn Domodedovo into an international cargo terminal.
- The European Union has agreed to ease its bird flu ban on parts of Russia that are unaffected by recent outbreaks of the deadly bird flu disease.
- Russia's Ministry of Economic Development and Trade has announced a tender for special economic zones. According to Minister German Gref, interested parties can start submitting bids on technical-innovation and industrial zones to the ministry. The submission deadline is November 1. Gref added that the ministry was planning to include recreation and tourism zones in the law on special economic zones, which was adopted in the summer to attract investment into Siberian and some other economically depressed regions.
- Two leading Western business magazines, BusinessWeek and The Economist, are set to launch Russian-language versions due to the West's increasing interest in the local market. A number of leading Western publications already have their Russian-language editions, from Newsweek to Cosmopolitan and Vogue.
- Armenia has become the 64th member of the Asian Development Bank, a multilateral development finance institution. The Asian Development Bank, established in 1996 and headquartered in the Philippine capital of Manila, is dedicated to reducing poverty in the Asia and Pacific region through sustainable economic growth, social development, and good governance. In 2004, the bank approved loans and technical assistance totaling \$5.3 billion and \$196.6 million, respectively.
- The number of Russian private companies with annual sales over \$1 billion rose by more than 50 percent in the past year, from 14 to 23, the Russian edition of Forbes says in its October issue. In its second annual ranking of the country's top 200 private companies by sales, the magazine again puts oil major TNK-BP in the No. 1 spot, with sales of \$14 billion in 2004. Trading companies make up the majority of the list, with 65 of them represented. The total turnover of the top 200 companies in private hands was \$120 billion last year, a 33 percent jump from \$90 billion in 2003.



## FROM RUSCHAM DESK

In August 2005 RusCham established a new representative office in Moscow, Russia. Office is located in Business Center of TPP RF.

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RusCham President Dr. Shuklin and First Vice President Mgr. Kolmogorov have met Executive Director and

Vice President of Russian Union of Jurists Mr. Grib. Fast growing need from European businesses in Russian professional legal services and assistance created a ground for cooperation between organizations. During meeting both parties shared their views on ways of cooperation in areas of legal support, arbitration, training and education.

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On September 22, 2005 President of RusCham Dr. Sergey Shuklin had a meeting with newly assigned Trade Representative of Russian Federation in Austria Dr. Stetsenko. Both organizations shared their views on Austria - Russia trade relations, existing problems and ways of cooperation in areas of trade, investments, technology and related services.

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On September 22, 2005 First Vice President of RusCham Mr. Kolmogorov had a meeting with administration of "Opora of Russia", Moscow to discuss a draft plan for joint activities of both organizations for the year of 2006.

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Russian Chamber of Commerce in EU established its representative office in Austria, which is one more step of RusCham in covering countries of European Union to provide better services and support to its members. Mr. Peter K. Erlach will lead RusCham office and initiatives in Austria.



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

**Oct 3: 7th General Meeting of the EU-Russia Industrialists' Round Table**

[http://www.eventica.co.uk/events/eu\\_russia/](http://www.eventica.co.uk/events/eu_russia/)

**Oct 12: Russia: Going Global trade and investment Conference**

[http://www.ftconferences.com/mini\\_site/russia\\_2005\\_mini/summary.html](http://www.ftconferences.com/mini_site/russia_2005_mini/summary.html)

**Oct 13-14: Evolution and Management Conference**

<http://www.conf2005.pmi.ru/eng/?secID=&parID>

**Oct 14: Ukraine: Open for Business Conference in Moscow**

[http://www.tmtbb.ru/events/more?conf\\_event=301](http://www.tmtbb.ru/events/more?conf_event=301)

**Oct 17-18: Syndicated Loans: Russia and CIS Conference in Moscow**

[http://www.infor-media.ru/engis/controller.jsp?view=product&product\\_id=20001247125&product\\_language\\_id=20000001134](http://www.infor-media.ru/engis/controller.jsp?view=product&product_id=20001247125&product_language_id=20000001134)

**Oct 20-21: 3rd Annual Central and Eastern European Pharmaceuticals Congress**

<http://www.eyeforpharma.com/cee2005/>

**Oct 23-26: Sulfur 2005 Conference in Moscow**

<http://www.britishsulphur.com/conferencesSul.htm/>

**Oct 26: Russian Council of Shopping Centers 2005 Awards in Moscow**

<http://www.resc.ru/rating/>

**Oct 31: The U.S.—Ukrainian Investment Symposium**

<http://russia.iealliance.org/page/66078/index.v3page;jsessionid=1r2msi2p9535g>

**Oct 31 – Nov 1: 2nd Russia and CIS Broadband Summit 2005 in Moscow**

<http://www.broadband-conference.com/en/2005>

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