EXCLUSIVE INTERVIEW

Election chief Alexander Veshnyakov talks to The Russia Journal

REPACKAGING RUSSIA

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The EBRD will increase its dealings with Russian businesses as recognition of economic progress.

NETWORKING
Why the brains of Russia’s software development industry are being drawn away from the fold.

BIRTHDAY INVITATION
St. Petersburg invites British businesses to look north — just in time for their 300th anniversary.

FERTILE SOIL
A new program is drawing British farmers to Russia’s affordable agricultural land.

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• Dirty tricks hardly a Russian invention

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• EBRD to take on greater risk

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Regional net of ROSNO:

cern Allianz AG

cial corporation "Sistema", German con−

GENERAL DIRECTOR:


("Russian insurance national society")

Chairman, Central Electoral Commission

Alexander Veshnyakov

Chairman, Central Electoral Commission

"Vehicle produced by the Kaliningrad Marine Transport Institute, the Admiral Makarov Levinger Marine Engineering Institute and the Foreign Ministry's diplomatic academy. He worked in the northern sea−

spending and now there's, was secretary of the Angarkaya City Communist Party committee and from 1986−94, he was deputy chairman of the

President Vladimir Putin has been sending mixed

Russia cannot go forward by building a nation on lies

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1997, she has twice

Association of Leasing

Chairman, Central Electoral Commission

Keep the lid on Russia's noise

President Vladimir Putin has been sending mixed

Russia cannot go forward by building a nation on lies

OFF THE RAILS

The growing economy means more goods that have

Russia repackaged in post−communist era

The 2000 presidential elections in the United States

Russia for bringing Chechen terrorism on itself is pretty funny, given that post−9/11 rivalry to understand that some Islamic alliances against the West might actually turn real, says Matt Blunt.

When wheeling through Moscow's metro system

The English−language press' quickness in blaming

The real and the fake in

The Western press plays

Green light for Bush's foreign policy, writes Peter Lavelle — and the

The real and the fake in

Columnists this week

YELENA SHYRNAK

Chairman of the Russian Association of Leasing Companies, General Director of Rosleasing.

Born to a mining engineer's family in Chelyabinsk Oblast, Shyrynaka graduated from Chelyabinsk Medical Institute, specializing in cardiology, and from the government's National Economics Academy. She has worked as a doctor, done internships in France and Germany, and managed medical supplies. Head of the Russian Association of Leasing Companies, General Director of Rosleasing. Since 1997, she has twice been named "Person of the Year" by the Russian Biographical Institute for her contribution to the development and modernization of technologies in Russia.

Lev Khais

Chairman of the board of directors of TMJ trading house, chairman of the board of directors of Penkoynik trading house.

Khais has been with the Russian Academy of Sciences, specializing in accounting, and operates the governmental's Financial Academy. He works in the Russian state company that supplies the bank. From 1984−85, he was an advisor to presi−

dent of the bank. From 1984−85, he was an advisor to the manager of the associated company and then became chairman of the corpora−

tion's board of directors. He became president of Export in 1998. Khais has been chairman of the TMJ board of directors since

1992. The company is involved in the field of information and telecommunications.

The landmark store has a new part−owner but the

Here comes the U.S.,

Polls consistently show that Americans have nothing

The investment barometer: Bankers call for fair play

The greatest Russian industry database online.
EBRD moves to take on greater risk

The European Bank of Reconstruction and Development has made a new move — to increase its exposure to risk in Russia in the next year. Should this be viewed as a sign of greater confidence in Russia’s economy? Many country experts say yes.

By LUCAS ROMRIEFF
The Russia Journal

The European Bank of Reconstruction and Development (EBRD) has decided to increase its risk-exposure in Russia over the coming year. Officials say the willingness to invest in higher-risk areas shows greater confidence in the Russian economy.

“We have traditionally worked with perceived high-risk regions, and we have always done well,” said the Bank’s Russia director, Dragica Pilipovic-Chaffey. This year, the Bank’s commitment in Russia is expected to reach 1 billion euros, up from 822 million euros in 2003. Officials say the increase represents their faith in the country’s economic development. They plan to invest an additional $1 billion over the 2003 to 2004 period.

“This is a significant change from two years ago,” said the Bank’s business director for Russia and Central Asia, Hubert Pandza. “The $1 billion commitment reflects serious changes in the business environment.”

However, in spite of the Bank’s confidence in the future development of the Russian economy, officials are careful to point out that they remain the only long-term creditor in Russia.

According to Pilipovic-Chaffey, the Bank’s 2003-2004 strategy will focus on developing infrastructure, strengthening its commitments to small- and medium-business lending and developing corporate, legal and democratic reforms.

“We are currently the biggest investor, but our objective is not to keep this position,” said Hubert Pandza, the Bank’s business group director. The result of the EBRD’s role as Russia’s largest lender has meant several large foreign firms like General Motors have turned to the bank as a source of long-term finances.

According to Pilipovic-Chaffey, the Bank’s 2003-2004 strategy will focus on developing infrastructure, strengthening its commitments to small- and medium-business lending and developing corporate, legal and democratic reforms.

Since 1991, the bank has invested 4.5 billion euros in the Russian economy with projects ranging from Ketchup factories and small farms to major industries like the joint venture GM-AvtoVaz project in Togliatti.

Pilipovic-Chaffey also noted that major multinational companies have limits on the level of exposure they can place in emerging markets, making the bank a key player in attracting those investments.

She pointed out that in spite of the high profile of the Bank’s foreign borrowers — like a $100 million loan to the Swedish IKEA Group — the Bank had, overall, invested more money in Russian companies than foreign ones. According to the Bank’s strategy report, it supports 20 foreign businesses and 52 Russian companies.

Key to the EBRD’s new strategy is attempting to wean the country off its reliance on natural resource extraction, however, 26 percent ($37 million euros) is invested in the natural resources sector. “The [gas and energy] sector dominates GDP, and it is terribly important,” she said.

Part of the loans to the power sector come in a light of a 10-year plan by the Russian government approved in July 2001 that estimated $15 billion-$10 billion over the next 10 years will be needed to overhaul the industry.

The Bank said it would continue to work in the rail-heavy energy sector, provided the investment projects agree with their principles of sound banking.

The EBRD also plans to increase investments in transportation and infrastructure and recently approved a $250 million loan to help the Transportation Ministry finance upgrades of the St. Petersburg Eastern Bypass and the Chita-Khabarovsk road.

The bank is currently active in 27 developing economies and its shareholders consist of 60 countries, the European Community, and the European Investment Bank.

Regional plans for this coming year will focus on Kaliningrad, Sakhalin, St.

Hubert Pandza, business group director of the EBRD.

Petersburg and Moscow.

The Bank also plans to continue expanding its Russian Small Business Fund (RSBF) loaning program, which enjoys a 1 percent default rate, unheard-of in most commercial lending programs.

Business Director Pandza said that the RSBF program was one of his favorites in promoting regional growth, but he pointed out that bureaucracy is still a big problem for small businesses.

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OFF THE RAILS

A rail line to Seoul

A t the end of last week, Russian Railways Minister Gen- nady Fadeyev attended an international conference in Lausanne, Switzerland, dedi- cated to the development of the Trans-Siberian railway as a freight route.

At the conference, Fadeyev outlined his hopes for the trans- portation of freight along the Trans-Siberian. He said that the goal of a 25 percent increase in the volume of goods moved along the railway by 2003 is “entirely realistic.”

According to the Railways Ministry, 15 billion rubles will be invested in the moderniza- tion of the Trans-Siberian’s 9,000-kilometer network over the next three years, which is 1.5 billion rubles more than the 1999-2002 program.

However, Fadeyev also admitted that some problems remain, such as the lack of sufficient trains for the Trans-Siberian. He said that the journey from Moscow to Vladivostok is currently served by 2,000 rubles.

It is expected that ticket prices range from 500 to 2,000 rubles. It is expected that freight transport on this line will reach 1 billion euros, up from 822 million euros in 2003. Officials say the increase represents their faith in the country’s economic development. They plan to invest an additional $1 billion over the 2003 to 2004 period.

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Analysts say Russia has great potential as a superpower in the software industry. But its new generation's computer skills are more often put to use for foreign companies than towards developing a competitive IT sector at home.

**IT more than 'brains for hire'**

By MARTIN RITCHIE
The Russia Journal

Russia's programmers are highly rated by the global IT industry as a resource for offshore development, but the country lacks money, infrastructure and marketing know-how to create competitive products of its own, experts say.

"Development of our own product base is obviously the best way forward," said Valentin Makarov, president of the software developers' association Russoft. "We would utilize our own high knowledge base and our own expertise for the benefit of our own companies. But it is very complicated."

Russoft and Intel are joint organizers of an upcoming Russia-U.S. IT round table in the United States. The conference — which brings together leaders in the industry from both countries — was born of high-level talks on the industry during U.S. President George Bush's trip to Moscow in May 2002.

Makarov says the focus of the conference, scheduled to start in San Jose on Nov. 21, will be offshore development, which he thinks will continue to be the central focus of the Russian software industry.

"There is not a lack of money in general, but there is the lack of initial cash flow to invest in your own products," he said. "We need more venture capital if industries like ours are to develop.

"Secondly, we just don't have the marketing skills to match products to customers, and, thirdly, we don't have the distribution channels."

Russia is already an increasingly attractive offshore base for software development, with as many as 8,000 programmers working on outsourcing, according to the American Chamber of Commerce.

Many companies would like to move beyond being "brains for hire" to a more independent position, though not necessarily to manufacturing their own products.

Vera Kurochkina, marketing manager at Luxoft who will also be a participant in the round table in San Jose, said: "We think it's a logical step in the development of the company. For us, outsourcing is a logical place to start, then you can provide consulting and solutions."

Luxoft has already created two Russia Dedicated Centers working on projects with IBM and Dell. These, like Intel's base in Nivny Novgorod, provide a relationship that the industry likes to refer to as "outsourcing plus" or "partnership," in which the Russian side has more control over the management and direction of the project.

The next step — product development — is more difficult, said Kurochkina. "Before you start developing products independently, you have to know the market. We've got the research and development skills, but marketing the products is very expensive."

One Russian company that has made a name for itself on the world IT market is Nauka-Diaglog, authors of the Doctor Web anti-virus utility. It is an offshore company founded with U.S. capital, but stress that, currently, they have no foreign shareholders.

"It's very interesting and attractive for Russians to reach for the world stage, but Russian firms also have to cope with immense competition," said spokesperson Sergei Antimonov.

"We operate on a market with companies like McAfee and Norton — it's very difficult for us to compete with foreign companies with big money. Luckily, we have found a niche in America with online anti-virus products, and we work with some excellent partners there."

Other companies say they are happy developing their existing business rather than worrying about changing their business profile.

Alexis Sukharev is president of Auriga, a Russian consulting company with 30 U.S.-based employees.

"Everyone is talking about the potential for independent products, but promoting one model is not the right thing to do. Even getting into outsourcing is not easy — you need the right workforce and the right management structure, but it is very profitable," he said.

"We're not really interested in marketing our own products as yet. It's not just a matter of developing your business along a different path, it's a whole new story."
The controversial U.S. presidential elections of 2000 had international observers working in a country more known for teaching democracy lessons to the rest of the world.

By YURY SIGOV
The Russian Journal

The U.S. presidential elections of 2000 caused so much controversy that, for the first time, U.S. officials invited a group of foreign observers from the OSCE to monitor recent elections to the Congress in a bid to demonstrate that the electoral system was back on track. One of the foreign observers was Alexander Veshnyakov, the chairman of the Russian Electoral Commission. He spoke to Yury Sigov about what is useful in the American electoral system and what can be done to improve the Russian system.

The Russian Journal: You followed the 2000 presidential elections in the United States. What was better this time, and what were the problems?

Alexander Veshnyakov: I think that the U.S. federal authorities did all they could during these elections to avoid a repeat of the problems they encountered two years ago. They did away with the perforated voting cards that were used in Florida and installed electronic sensing devices everywhere. This isn’t cheap — one such device costs $4,800, and you need 10-12 of them at each polling center. You also need to train people to work them.

The Americans were so eager to make these elections free of problems that, in Florida, they even went so far as to use for the first time the emergency-situation centers that usually only help people during hurricanes or earthquakes.

All this electronic equipment made the voting process simpler. The voting papers contained 35 questions, and, if printed out, this would have been 11 pages. But people essentially voted by computer. Even so, each voter still spent at least 30 minutes on voting. I liked the fact that they already knew the results of voting just three to four hours after the polling center closed. They were making an enormous effort in very quickly, and this made it easy to see who was ahead.

RF: Could Russia use similar technology in its elections?

AV: In theory, yes, but I don’t know that we need to copy the American experience.

For a start, I don’t think the Americans were really counting the cost of these elections — the expenses of the process itself, the new equipment, the electronic devices and so on. They were concentrating more on restoring their reputations after the 2000 presidential elections. I don’t think Russia could afford to do this.

The Americans couldn’t give any clear answer as to how to control the results given by the machine when counting the votes. After all, a voter might vote for a particular candidate on the screen, but if the machine is loaded with a different program, it would produce an entirely different result. Our system in Russia is clearer — each voter gets a sort of receipt of their vote, and this makes it clear how the person voted and what result the machine gave.

RF: There’s a lot of talk here about the authorities using the so-called “administrative resource.” Are voting papers used in Russia. Did you encounter the same thing in the United States?

AV: Well, to be frank, if our president visited the same region 12 times during the year and openly called for people to vote for the incumbent governor, who also happened to be his relative, I wonder what our voters would make of that. But the United States is not Russia.

American laws make this sort of thing possible, and the voters have no problem with it. In general, people have a different attitude toward the authorities here, and there are different political traditions. I’m not trying to say that they’re better or worse than in Russia. They’re just different, that’s all, and I don’t think we can come to the conclusion that we have to copy the U.S. system.

RF: In many states, during these elections only a few thousand votes separated the winner and the loser, but no one challenged the results or made accusations against each other. We, meanwhile, had problems in Krasnoyarsk, Kalmykia and other regions. What can we do to avoid such problems in the future?

AV: There were problems with the voting equipment in Krasnoyarsk, Kalmykia and other regions. But there are plenty of other regions that have held all sorts of elections without any problems.

Well, to be frank, if our president visited the same region 12 times during the year and openly called for people to vote for the incumbent governor, who also happened to be his relative, I wonder what our voters would make of that. But the United States is not Russia.

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Russia repackaged in post-communist era

By CHRISTOPHER KENNETH
The Russia Journal

D uring the Soviet era, convenience goods and other goods were mostly sold without packaging, forcing shoppers to wash and reuse the few polyethylene bags they could get their hands on. Materials were in such short supply that more than 30 percent of annual production in the agricultural sector alone was spoiled because of poor packaging.

Today, the packaging sector is one of the most rapidly developing areas of the Russian economy, accounting for about 1 percent of Russia’s GDP, or $13 billion in 2001, according to the Moscow-based Interactive Research Group (IRG).

This rapid growth is fuelled by constantly increasing demand for modern packaging materials such as paper, cardboard, wrapping films and foil. The rate of growth in the plastics segment — the backbone of the packaging industry, accounting for 70 percent of all plastics used — is about 8 percent per year.

There are about 4,500 Russian companies in the sector, producing approximately 600,000 tons of plastics, valued at $1 billion, per year, while the yearly volume of imported plastics stands at 350,000 tons.

The Soviet legacy

Positive trends notwithstanding, the packaging sector bears the scars of more than 70 years of communist economy and a troubled decade of rising to the new economic requirements brought by the introduction of a capitalist economy in the 1990s.

One Soviet hangover is the perception that the packaging industry is not a separate sector — as it is in other countries — but part of the oil, metallurgy and food industries.

IRG reports that residents of major Russian cities spend an average of $60-$70 per person per year on packaging — an index that lags significantly behind corresponding indices of $450 in Japan and $300 in the United States, where packaging has long been a distinct industry.

Experts say growth in the sector has been limited by a near-collapse of the Soviet-era industrial base. More than half of Russia’s production facilities are between 18 and 30 years old, while over 25 percent are even older.

Output of packaging materials plunged from about 30 kilograms per person per year in the early ’90s to 15 kilograms in the mid-’90s. Market reports attributed this decrease to depreciation of means of production, lack of capital for overhauling them, and an increased volume of imports.

The situation began to change in the late ’90s, when large Russian companies started investing in new technologies to boost production in the packaging sector. The food industry — especially dairy companies — pioneered investment and now uses up to 50-70 percent of all consumer-packaging materials in Russia.

The industrial packaging sector also suffered as a result of the the breakup. “Prior to 1991, this sector produced about 2-3 million [containment] drums per year, and the main users then included the Defense Ministry and a host of other state organizations,” says Alexei Gitin, a manager at Van Leer Packing, a Russian subsidiary of U.S.-based Greif Brothers Corp., one of the world’s leading producers of drums.

The corporation — which has invested over $10 million in two factories in Vologda and Sverdlovsk Oblast and plans to build two or three more factories in Russia — has over 200 factories in 44 countries.

“After the collapse of the Soviet Union and up to 1995, the demand for these drums fell to 1 million per year, as the demise of the Union also destroyed the market for them,” Gitin told The Russia Journal.

However, industrial packaging started to revive in 1996 and has since been growing steadily at 5-9 percent per year, he said.

“About 2 million drums were produced in 2001, and experts’ projected figures stand at 5 million per year by 2010,” Gitin said.

Global trends locally

Local experts contend that the domestic industry today is developing in harmony with international trends on global packaging markets. Paper, cardboard and polymers are the most commonly produced packaging materials in Russia, as in the rest of the world. These materials account for roughly 40 percent of all the packaging materials in the sector, according to IRG.

The ongoing gradual integration of the Russian economy into global markets has given a boost to the growth of the domestic packaging market, while positive macroeconomic changes and promising interindustrial trends in the domestic economy have only helped to consolidate the sector, experts say.

“These factors have positively impacted on the industrial packaging industry, especially in the sphere of production of drums with a capacity of 2165 liters, which are mainly needed in the oil, chemical, painting and metallurgical industries,” Gitin said.

Andrei Smychliayev, general director of Arsenal Industry, a packaging-machinery-producing company, also noted the fast-growing rate of the Russian industry reflects general positive trends in the packaging industry worldwide.

Arsenal Industry was founded in 1996. Today it has over 200 employees, capable of handling all aspects of machinery production from design, manufacturing, marketing and logistics to on-site installation, he said.

“Globally, the industry has posted a 10 percent growth rate per year — a very stable and impressive rate in comparison with other industries — for the past 40 years,” Smychliayev said.

Though the overall growth rate has been slowing down on U.S. and Western European markets since the mid-’90s, the industry is still growing fast in Asian and Eastern European countries, and these changes are adequately reflected in Russia’s
Local production of packaging materials like these is becoming more important.

Andrei Smychliayev, general director of Arsenal Industry, a company that produces packaging machinery.

“fantastic” annual growth rate of about 10-15 percent in the machinery segment, he added.

Experts, however, said the packaging-machinery sector is dominated by Western countries, specifically Germany and Italy.

Generally, German and Italian machines are of very high quality, they said. In some instances, these are the only countries capable of producing some of the unique packaging machinery vital to the industry. The only problem with these countries is the high price tags on their products, they added.

“The uniqueness of some of these countries’ machinery can partly explain the high costs of their products,” Smychliayev noted.

But, in all other cases, it is difficult to explain why they are so expensive when Asian or Russian machines with similar technical specifications and capability cost five times less on the market, he said.

In my opinion, buying such equipment shows a company management’s poor financial planning and poor understanding of returns on capital,” he added.

On the other hand, packaging machines manufactured in South Korea, India, China, Taiwan or Russia are lower in quality and technically less advanced in terms of providing the best technological solutions to day-to-day changes in the industry. But Smychliayev noted that the lower quality is adequately compensated for by significantly lower prices.

“This is very important because, in a capital-starved country like Russia, lower prices on goods and machinery often become a decisive factor in tilting the scales in favor of cheaper machines,” he said.

Kompan’s Zakharchenko said she agrees, noting that her company has been selling mostly Russian and Chinese packaging machinery since it was established in 1993. “These countries’ products are of good quality but are a lot cheaper than those from Western countries, which makes them easier to sell to clients,” she said.

The crisis paradox

Defying the apocalyptic prognoses of many experts, the financial crisis of 1998 significantly improved the Russian economy in general and the position of its packaging industry in particular.

The crisis had a profound effect on the Russian economy by making it more competitive on the global level, Van Leer’s Grin noted.

Smychliayev agreed, saying, “The devaluation of the ruble — one of the main negative fallout of the crisis — boosted Arsenal Industry’s status in the post-crisis era as labor, costs of operation and other means of production fell by one-third of their pre-crisis values.”

The Russian packaging industry posted one of the highest growth rates in Russia in the aftermath of the crisis, as consumption of polyethylene, the main raw material in the packaging industry, grew by over 36 percent compared with the pre-crisis period, Smychliayev said.

“This was the time we diversified into producing of packaging machines, where we now control about 38 percent of the market. The size of the market can be calculated either by the number of machines or their value. In the first case, we control up to 30 percent, while in terms of capital (value) we control about 15 percent,” he added.

In addition, an increase in the activities of other Russian industries in the post-crisis period also meant an increase in the demand for packaging machines. Companies that once used only imported packaging materials turned to buying domestically produced ones to cut costs, as imports became prohibitively expensive.

Packaging producers need to be creative in their industry to survive and thrive.

For the same reasons, a large number of multinationals established factories in Russia and also started buying Russian-made packaging materials, according to IBG’s reports.

These changes prompted more investment in production facilities and modern technologies, which have transformed the packaging sector from its Soviet-era form to a well-established industry today, experts said.

Sector operators say they are optimistic about the future of the industry, citing increasing production levels in all sectors of the economy as grounds.

“‘One other factor to boost the sector’s activities in the near future is Russia’s bid to enter the World Trade Organization, especially now that environmentalists are becoming more demanding in their drive for protecting the environment,’” said Gitin. “Packaging materials, especially those used in heavy- and toxic-waste generating sectors, will be the only real way of preventing irreparable environmental damage.”

Invites for the 14th international exhibition

MEBEL’2002

October 18 – 22

1600 companies from 45 countries will be presenting modern furniture for home, office, bars, restaurants, concert halls, sports centers as well as elements of interior design.

Exhibition will occupy a total of 44000 square meters of floor space. Organized by ZAO Expocenter with support from the Russian Ministry of Industry and Technologies and with the assistance and participation of the All–Russia Association of the furniture industry and trade workers “Furniture-Manufacturer Union of Russian Timber Producers and Exporters.”

Dias and hours:

Daily, from 10 a.m. to 6 p.m.

from 12 a.m. to 6 p.m. on November 18;

from 10 a.m. to 4 p.m. on November 22.

Getting there

Metro station Ulitsa 1905 Goda, bus No 12 (Express) or minibus No 100 to station “Exhibition Complex”.

Invites for the 14th international exhibition

MEBEL’2002

Invites for the 14th international exhibition

MEBEL’2002

November 15 - 21, 2002. PAGE 7

BUSINESS | Spotlight


Invites for the 14th international exhibition

MEBEL’2002

November 15 - 21, 2002. PAGE 7

BUSINESS | Spotlight

Leasing may be a new phenomenon in this country, but, if organizers and participants in last week’s Leasing-2002 Exhibition are right, the sector is about to experience major growth — and none too soon.

**By CHRISTOPHER KENNETH**

**The Russia Journal**

A fter a much-troubled start, leasing has finally taken root in the Russian economy, providing financial alternatives to cash-starved individuals and companies to overhaul their highly depreciated production facilities, leasing experts said at the opening ceremony of the Leasing-2002 Exhibition, which took place from Nov. 10-13 in the VDNKh Exhibition Center in Moscow.

“It will not be possible to attain the high rate of economic growth projected in the next year’s federal budget without totally overhauling the means of production in almost every sector of the national economy. And one effective way of achieving this goal is through leasing,” said Yelena Skrynnik, chairwoman of the Russian Association of Leasing Companies (Rosleasing), one of the organizers of the exhibition.

Rosleasing, which now has over 90 members, was formed in 1994 as a public organization with the aim of protecting the interests of leasing companies and enlightening the public about the advantages and usefulness of leasing as well as consolidating corporate ties among the association members.

Over the past year, the exhibition, which was attended by over 180 leasing companies, automobile manufacturers such as KAMAZ and Skoda and the Nezavisimost auto dealer and insurance heavyweights such as ROSNO, Industrial Insurance Co., included the State Duma, federal government, Moscow city government and European Federation of National Leasing Associations.

The impact of leasing on the Russian economy is already palpable, Skrynnik said, as the size of investment deals in Russia climbed from $1.7 billion in 2001 to $8 billion, and this was about 46-48 percent higher than the corresponding figures for 2000.

“And, Rosleasing members have executed deals amounting to over $520 million in the past three years. Besides, experts’ прогноз is seeing leasing playing a more dominant role in the economy in the future,” she added.

Valery Udalov, assistant to the general director of VNDKh, EXPO, which provided space for the exhibition, corroborated this view, noting that the structural changes in contemporary Russian economy are forcing more and more people to turn to leasing as an alternative source of capital to replace depreciated means of production, especially as bank loans are either not forthcoming or come at exorbitant interest rates.

“In this context, leasing as a special form of acquiring production facilities and long-term investments is really handy. This is especially important in Russia, the industrial base of which needs fundamental modernization of production facilities,” he added.

Udalov also said that practically every sector of the local economy could benefit from leasing, and specifically singled out agriculture, transportation, construction and telecommunications as segments in which companies would stand to gain a lot from the financial opportunities provided by leasing options on the market built.

“This exhibition will partly solve this problem. It will not only give a clear picture of leasing as an investment tool in the country, but it will also demonstrate the perspectives for development and finding solutions to the problems inflicting the economy as well as help to develop business ties among the participants,” he added.

Dmitry Shultsev, head of Rosleasing’s statistics department, said leasing in Russia, which is only eight years old, has already gained the attention of foreign and Russian leasing experts as a new investment mechanism in Russian economy.

“Over this period, the leasing industry has acquired a wealth of experience in the spheres of practical applications of leasing mechanisms as well as formulating traditions of civilized corporate behavior in the industry,” he said. He added that Rosleasing has been pivotal in the achievements made so far in the sector, as it has helped to enact a law on leasing, and it is currently lobbying seriously to amend the Tax Code to allow for faster amortization of leased properties.

Shultsev said, however, that leasing still has much of a role to play in the Russian economy. “The degree of leasing activity generally reflects the overall investment climate of a given country. This is obvious in countries with developed economies, where leasing accounts for large portions of capital spent on acquisition of equipment or machinery, while this value reaches about 12-15 percent in Russia,” he said. This is too small for a country whose production facilities have, at best, depreciated by over 60 percent or, at worst, are completely broken.

Dmitry Ivanov, a sales manager at Auto Hansa, a Volkswagen dealer in the St. Petersburg market, said he saw the exhibitions as a way to approach potential lessees and exchange views with key players. “This is our second time at the exhibition, and our goal is to get new contacts and show our products on the market,” Ivanov said near his stand showcasing Volkswagen and Auto Hansa cars for leasing options.

We gained tremendously from last year’s exhibition, as visitors who visited our stand later came over to our show houses either to buy cars on lease or pay cash directly, and leasing, as a payment mechanism, is also a way to pay bank credits and pure cash in the sales report for 2001,” he said. “So, I would say that we expect the same positive result this year,” he added.

**By MARTIN RITCHIE**

**The Russia Journal**

S t. Petersburg’s 300th birthday celebrations next year will give President Vladimir Putin’s hometown a prime chance to change the future of foreign investment in its region.

Vladimir Cherkesov, the president’s representative for the North-West Region of Russia, told representatives of British commerce at a conference in London that the 2003 anniversary year would be an ideal time to “strengthen your financial foothold in every sector.”

He appalled Britain’s historic co-operation and current government’s agreement with the region, but appealed for a new focus on investment.

“With north-western Russia really needs is investment in its high-tech industries,” he said. “The district has retained its pool of research and engineering professionals, commercially viable research products and manufacturing facilities.”

“With sufficient investment most of these industries will be able to enter the international market with products of competitive quality and price.”

The London conference, “300 Years of St. Petersburg: Russia, A Nation Open to the World,” was billed as the biggest Russian exhibition event in 15 years, a measure of the importance being given to next year’s jubilee.

Putin often trumpets his St. Petersburg roots, and money from federal, regional, and private coffers is being lavished on the city in the run-up to the official birthday on May 27, 2003.

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Richard Wallace, director of Russian operations for the Russo-British Chamber of Commerce, said that the emphasis on high technology was the right focus.

“There is really great potential for information technology and IT,” he said. “The number of people involved in computers is immense. They have the expertise and, more importantly, the enthusiasm to make this a big growth area.”

He also said it was very important that companies saw the amount of money being spent on improving St. Petersburg’s infrastructure as a clear picture of the city’s 300th birthday.

Paul O’Connor, consul for commerce at St. Peterburg’s British Consulate, said that companies had previously been very reticent about investing in the city.

“We have to work harder to prove there is a market here,” he said.

He added that this is getting easier thanks to the infrastructure needed to a steady diet of negative news about Russia, realize that the country is enjoying a period of relative stability.

“Part of the problem is overcoming the fear that comes with the anniversary,” he said. “This is an enormous opportunity to put the city on the map both for tourists and foreign firms.”

Putin. “Russia can act as an important driving force in the local economy. People want to see it in a modern, well-appointed city.”

The Russian delegation to the London conference included St. Petersburg Gov. Vladimir Yakovlev, also travelled to Paris for one day to drum up French interest in the St. Petersburg jubilee.
Russia lures British farmers away from home

In a pioneering agricultural initiative, U.K. farmers will soon be arriving in Russia to cultivate the rich soil of Penza Oblast. Backers of the Heartland Farms project say it makes good business sense — and should help the region at the same time.

By ALEX KWIATKOWSKI

The Russia Journal

More than 30 British farmers have signed up for leases to work 100,000 hectares of idle idle land in the fertile black-earth region of Penza about 600 km south of Moscow. On this land, they will establish farms of the scale that interests him: "More U.K. farmers have visited Penza region this autumn and, along with early investors, are preparing to begin their operations in early April 2003," he said. Heartland Farms currently own production rights to 82,000 hectares of land in the region, all of which will be cultivated by spring 2003. British farmers will pay $35 per hectare to sub-let this land from Heartland Farms.

"To establish a 5,000 hectare farm, the initial investment required to equip the land, purchase seeds and fertilizers, etc., is around $120 per hectare," said Hinchley. "On conservative budgets, this will still give the investor an initial return of 20 percent, rising to over 78 percent after five years," he said. It is not only the poor state of British agriculture that is luring farmers to Russia. For Richard Wastling, a farmer from East Yorkshire who has been to Penza to see the project, it is the potential production size that interests him: "It’s the scale that really appeals. To invest half a million pounds and be able to farm more than 10,000 hectares is very attractive," he said. Furthermore, production and input costs in Russia, particularly for labor, are considerably lower than in the United Kingdom. For example, the cost of wheat seed is $30 per hectare in Russia, compared to more than $60 in the United Kingdom.

The project is also supported by the local administration, with which Heartland Farms has an "extremely good relationship," according to Hinchley. The Russian investment minister for the Penza region, told The Russia Journal that he would wait to see concrete results before he says anything conclusive, but, in principle, he was positive about the project. He expressed his desire to see the development and modernization of agricultural technologies in the Penza region that the project is expected to bring. If the Heartland project is successful, he said, more foreign investment will follow.

"If the project improves investing in Penza within the legislation, then we support it fully," said Artusion. The British investment represents a welcome input of superior capital, technology and knowledge into the Penza farming industry, said Alexander Blinshkhvator, director of a Penza agricultural academy. "We have been waiting for a long time for foreign investors with clear heads and new management skills," he said. Heartland Farms also says it intends that the only employment of foreigners will be of technical specialists and farm-investment managers. Moreover, it says, the project will encourage the development of local support services such as transport, fuel, machinery repairs and other input suppliers.

"The main benefits to the local community is job creation. 1,200 jobs will be created over the next five years," said Hinchley. "The only stumbling block seems to be foreign misconceptions about Russia and Russian misconceptions about foreigners. "In agricultural parts of Russia, people don't understand change. They are living in the past, they don't know the word 'investors'," said Artusion. But this is just a misunderstanding, he says. And it is a misunderstanding of Russia that has discouraged British farmers from investing in Russia, said Hinchley. "But everybody we have brought to Russia during recent years has been totally surprised by what they have seen," he said.
A meeting with NATO Secretary General Lord Robertson on Nov. 11, President Vladimir Putin said he hoped Russia and NATO would continue to expand eastward and take in three former Soviet republics — Latvia, Lithuania and Estonia — without “undermining the existing system of military security and stability in the Euro-Atlantic region and not harming Russia’s interests.”

Robertson assured Putin that NATO’s space no longer faces a threat from Russia and that its decisions were taken in the interests of all of Russia. Putin said he believed that Russian military specialists would examine the potential threat arising from new members joining NATO, but Robertson’s words would seem fair assurance to Russia that expansion is nothing to worry about.

Not all Coalition analysts are ready to agree so easily, however. “The diplomatic and political steps our authorities are making don’t mean that the issue of the Baltic states’ military potential is off the agenda,” said Gen. Col. Leonid Ivashev, the vice president of the Academy of Geopolitical Studies and former head of the General Staff’s department for international military cooperation.

“It’s known that the Baltic states have not signed the Treaty on Conventional Forces in Europe, and this means they could potentially have as many arms on their territories as they please, and we wouldn’t be able to control them,” Ivashev said.

Those countries joining NATO will bring the powerful NATO military machine right up to our borders and to those of our allies. Thus will be the so-called ‘gray zone’ of NATO’s policy, but we do have to know what kind of military potential surrounds us now and could surround us in the future.”

Ivashev, who worked on the Russia-NATO agreement and on amendments to the Treaty on Conventional Forces in Europe, was dubbed the “Kremlin’s hand” during his time at the General Staff for his constant criticism of US and NATO military policy.

Now, it seems that Ivashev is no longer in critical.

Of late, Defense Minister Sergei Ivanov, the vice president of the Duma Committees on International Affairs, Defense and Security, revealed on a meeting of the joint consultative group on the Treaty on Conventional Forces in Europe in Vienna, “Time is short for ensuring that the new members of NATO would sign the treaty and take on new commitments before officially joining NATO.”

“The flanking limitations Russia observes and some political commitments within the framework of the Treaty on Conventional Forces in Europe would lose all sense if the new members of NATO do not sign the treaty and take on additional commitments before officially joining NATO.”

Ivanov said.

The flanking limitations Russia observes and some political commitments within the framework of the Treaty on Conventional Forces in Europe would lose all sense if the new members of NATO do not sign the treaty and take on additional commitments before officially joining NATO.

By VLADIMIR MUKHIN

The Russia Journal

On Nov. 11, the NATO countries have left their post, which paid millions of dollars to tender next year.

For gathering TV ratings out of the show’s style and the realities proposed more hardline steps.

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The Moscow landmark may have a new part-owner — but details are hard to come by. Media sources say supermarket-company Perekryostok is the new possessor of a sizable number of stocks.

By CHRISTOPHER KENNETH
The Russia Journal

A

chunk of shares belonging to GUM, the Soviet-era department store that looms over Moscow's Red Square, has been sold. Or, at least, that is what Perekryostok, the owner of 43 supermarkets in Moscow which claimed to be the buyer, said last week in an attempt to raise capital.

According to business daily Vedomosti, Perekryostok has bought a chunk of GUM’s shares, something the paper quoted the owner as saying was a strategic investment in the company’s expansion drive on the city’s retail market. However, all parties involved in the sale transaction completely refused to provide more elaborate information on Vedomosti and other popular daily newspapers carried the reports of the sale last week, but they failed to highlight the details of the transaction.

Leo Belaya, a Perekryostok spokesman, acknowledged the deal, but refused to give any details on the stock acquisition. A writing last week, he said by telephone last week, but

But Lev Hasiq, chairman of Perekryostok’s board of directors, vaguely confirmed the stock-acquisition deal to Vedomosti, saying the shares were bought on the international markets, where GUM’s American Depository Receipts (ADRs) are being sold, and named NCH Advisors, an investment bank, to be the sellers. He declined to disclose the size of the stock, its monetary equivalent and his company’s status at GUM following the acquisition.

In the meantime, Russian media outlets have filled in the information vacuum on the deal by citing analysts’ speculations that peg the size of the stake at 10 percent of GUM’s floated stock, adding that Perekryostok might have to buy up to 90 percent of the stock to have any influence on GUM, as only companies with 25-30 percent of company stakes are considered sizeable enough to influence management decisions at joint-stock companies in Russia.

Perekryostok, a subsidiary of Alfa Group, a Perekryostok company in the mid-’90s and

GUM provides retail space to top-of-the-market Western and Russian stores.

M

ore projects than there is money and a lack of trained personnel are the greatest problems facing the restaurant business in Russia.

That’s what Rostislav Ordevsky-Tanevsky Blanco, the CEO of Rosinter, one of Russia’s largest restaurant operators and panelist at a recent press conference announcing the company’s new Honored Guest program.

“The Russian market is still empty, but Moscow is slowly filling up,” he told reporters.

Ordevsky-Tanevsky Blanco has aggressive plans for the restaurant business in Russia and hopes to open 25 to 30 by the end of the year, giving his company around 80 franchises. However, he confessed that there was more potential in the Russian market than there is cash to spend on expansion. He also confided to reporters that, while opportunities abound, “net profits are modest.”

In an attempt to combat the lack of trained personnel, his company runs a school to train restaurant managers. Rosinter employs 4,000 people in Moscow, and additional employees throughout its operations in Russia, Central and Eastern Europe, the Baltic States and Kazakhstan.

This year, the company has invested $18 million in the Russian market, up from $10 million last year. Tanevsky-Blanco said that he plans to prioritize his firm’s flagship operations, fast-food chain Rostik’s and family restaurant Pizza Pizza. He also plans to expand the company’s new franchise of coffeehouses, Moka Loka, which is currently limited to one Moscow location.

We understand that we came into the market a little late in the coffee-shop market, but that’s just how it is,” he said. However, he did note that his company runs a chain to train restaurant managers. Rosinter introduced a new debt card system for its clients, together with Visa International and Guta Bank, as part of the restaurant chain’s Honored Guest program.

The Honored Guest program was introduced in 1998 in an effort to build a stronger customer base. Rosinter has further consolidated its position in Russia and Europe through the purchase of the operating license for T.G.I. Friday restaurant, which it used to expand into Western Europe.

The Moscow landmark may have a new part-owner — but details are hard to come by. Media sources say supermarket-company Perekryostok is the new possessor of a sizable number of stocks.

By CHRISTOPHER KENNETH
The Russia Journal

A chunk of shares belonging to GUM, the Soviet-era department store that looms over Moscow’s Red Square, has been sold. Or, at least, that is what Perekryostok, the owner of 43 supermarkets in Moscow which claimed to be the buyer, said last week in an attempt to raise capital.

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Moscow has a problem, one that is age-old. Russia and Russians do not face up to the truth. The society is unable to reconcile with its past, face up to its dark past and thus, remains unable to present its past to face up to ugly realities.

The worst thing is that all these statements could be true, and, though thousands of rebels have been killed, their numbers never diminish. Fighting guerrillas means fighting the local people, and, with their harsh methods, the federal forces are essentially to get new recruits for their opponents. Russia understands well the nature of guerrilla war from its own victorious experience during World War II and from its defeat in the war against guerrillas in Afghanistan.

But neither the lessons of its own experience nor the experience of others has sunk in. Certainly, feelings of revenge and frustration play their part in this. Yet one should not forget the fact that the war has given rise to a whole group of people who use the war to further their careers and line their pockets.

This happens in any war, but not in every conflict. It is much more likely that Moscow is trying to cut off the road to negotiations. It’s obvious that some military hope that a long war will give them new opportunities to further their careers and make more money. Others, their minds already clouded by the blood that has been spilled, think they can crush resistance by killing all Chechens of fighting age. There’s a reason the court case against one of the war criminals, Colonel Bareev, against whom there is evidence that he killed a civilian Chechen girl, never seems to come here. The only thing that’s not clear is how Putin can possibly benefit from all this, and why he lets the generals make the decisions instead of making them himself?

While Moscow TV channels were broadcasting the news about the Kremilin meeting, a two-day international conference on peace in Chechnya was coming to a close in a Moscow hotel. The conference was organized by human-rights organizations and two liberal parties. Prominent politicians put forward their peace plans for Chechnya. Maskhadov’s plan and the Brumovski-Haq plan were also presented. Numerous people attended the conference, and there was so much activity that far from everyone got the chance to speak. This and other shows that the anti-Chechen hysteria whipped up by Maskhadov several months ago through his authorized representa- tives and others has not worked.

THE RUSSIA JOURNAL November 15 - 21, 2002.  PAGE 12
Keeping the lid on Russia’s noise

What do you do about levels of noise in your —

Herman Sahay, Bhopal, India

We have a law forbidding making noise from 11 p.m. to 6 a.m. By this we mean loud noise such as firecrackers or dogs barking. This applies to outdoor activities, to your yard or garden, but to your home as well.

To open a theater, restaurant, hotel, etc. in a building where people live, you have to take the required sensors into account, which are used for playing musical instruments in your home — and most of us in apartment buildings will have a small area of five to 10 minimum monthly wages for individuals. Organizatia pays 200-300 monthly wages. You can also be fined for false car-alarm signals or for noise made when loading or unloading goods — or even for cats meowing during their matings.

We have a plan to cut down noise by four to five decibels, and in homes by 10-20 decibels, by the year 2020. The areas around hospitals, clinics, homes for the aged — and even the Moscow Zoo will especially be protected.

Do any Russians who’ve emigrated to the West return home? — Volodya Korolev, Taunton, WA, USA

A lot of people from Russia have emigrated to Israel, and they can probably be found hawking the United States. I know of very few who have returned to Russia. I could name them. You have asked me to name a famous actor of Russia?

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The oligarchs' view of freedom of speech

The oligarchs and businessmen who own the TVS television channel are now locked in a conflict that may drive the channel into a dead end unless some major changes are made in the ownership, staff, and funding of the network.

TVS began when the oligarchs realized that, by pooling their resources, they could save Yegor Chubais and his team of journalists and defend freedom of speech in Russia. In the meantime, the channel, which was originally called TS, has been renamed TVS.

At that time, the oligarchs didn't even agree on a candidate to fill the gap. The plan was to invite a few oligarchs or opponents among the shareholders, and persuade him to come to a shareholders' meeting by promising that only various working questions and not policies of the general director would be discussed, that the general director would be elected by the shareholders. Chubais made up the number needed for a quorum, and Kiselyov was immediately put forward and voted in as general director.

Now a small oligarch is calling for a change at the top, Abramovich, Mamut, Oleg Deripaska and other oligarchs say Chubais is turning the channel into a mouthpiece for the Union of Right Forces (SPS) and not taking the interests of the other shareholders into account.

In October, Chubais agreed to look for a new candidate, and in response to the suggestion of Ruslan Terekhov, pro-posed Alfred Kolk. This is a provocative proposal, because it was Kolk who played such a controversial part in changing Yevgeny Kiselyov's position as director of VVS from invasion by the Soviet Union, the Soviet Union was never a member... Given the organization's most influential member, not much has happened yet.

By a great majority, ordinary Americans say they would have nothing against their former adversary becoming a member of the alliance. Yet, despite this support by the people of the organization's most influential member, not much has happened yet.

**The American people want Russia included in NATO**

Ira Straus

As NATO gears up for its Prague Summit on Nov. 21-22, Russians might well feel left out in the cold. Several small Eastern European countries are to be invited into NATO, but Russia is not even under consideration.

Lead, or not, Russia is going to have to begin to consider letting it in. The public can be convinced to postpone the time for Russia's entry, if enough extra argumentation is supplied for NATO. By PIPA that "because NATO and 29 percent disagreement.

No new arrangements for external Russia-NATO cooperation could compensate for this. Step by step, it would be bound to lead to a re-alignment of Russia and unstable for us yet to admit to NATO" 56 percent agreed with postponement of Russian membership on these grounds, while 37 percent were still in favor of admitting Russia straight away, without conditions.

And this was 1996, when the Communists had emerged triumphant from the fall of the Soviet Union as the main force in the Russian Parliament and for a time seemed poised to capture the presidency. If the same kind of question were asked now, it's possible that Russia has stabilized around Putin and proven itself the most useful of all America's allies in the war against the Taliban, a majority of Americans might insist on immediate admission.

So why hasn't Russia been brought into NATO? That is a question for another article. Suffice it to say here that the people are not the elite. And that the people are not the elite. So what kind of campaign for joining that is needed to convince the elite?

Each of the smaller post-communist countries has had to mount a campaign for the idea of its membership before NATO would lower the barriers and begin to consider letting it in. Russia will have to find a way to do the same thing.

But it is not deemed to suffer a serious foreign-policy defeat: the admission of all its and Russian accession without any reservations, delays or qualifications, a robust majority was in favor. When asked by Gallup in 1994 whether "Russia should or should not be allowed to join NATO," 54 percent said "Yes," 37 percent said "No." When, in the 1998 PIPA poll, the question "Would you support admitting Russia into NATO?" was asked, 51 percent answered "Yes," 41 percent "No.

This was not quite as good as, say, Lithuania, which came out even better (51 percent "Yes," 41 percent "No"). But it was good enough. It suggests that there would have been ample public support for admitting Russia at the same time as Lithuania. And, considering how many problems it would solve, it is strange that there has not been any serious talk of such a solution.

To be sure, the public can be convinced to postpone the time for Russia's entry, if enough extra argumentation is supplied for NATO. By PIPA that "because NATO is going to have to begin to consider letting it in, the public can be convinced to postpone the time for Russia's entry...

**Russia will be serious**

The upcoming auction of 15 percent of the shares in the state-owned Russian-Belarussian company Slavneft will see a new clash between two much talked about political groups — the "Family" and the "Petersburg group.

The Petersberg group already lost one battle for Slavneft when Yury Sukhanov, a government-backed figure from Silninet, was maneuvered into place as the head of the company last summer.

Sergei Pugachyov and Yury Sukhanov and the "Petersburg group." between two much talked about political groups — the "Family"...

This union would certainly carry weight, but some analysts say it is a highly cynical move. When two state companies get together to back a third state company, it raises the possibility that state and budget interests are not foremost in their minds. But there's no guarantee this union would have any success, because the auction's fate is to be decided in the government, and the Petersburgers' positions are not as strong there as in the Kremlin.

By a great majority, ordinary Americans say they would have nothing against their former adversary becoming a member of the alliance. Yet, despite this support by the people of the organization's most influential member, not much has happened yet.
Wheeling through Moscow’s metro system

Municipal and public services, including the metro system, are unprepared to meet the needs of the handicapped or ill.

Never before had I come across a man wheeling himself towards a Moscow metro escalator. I paused for a moment, and suddenly it dawned on me that I had never seen any handicap facilities in the Moscow public-transportation system.

The trolley buses, the trams, the metro escalators, the metro wagons — none have platforms, lifts or even rails for disabled people.

Like many other problems, handicapped people are something Russian society brushes under the carpet and, on most public occasions and gatherings, there are few if any to be seen — although there are thousands of revered WWII veterans who lost limbs in the long war that claimed more than 25 million lives in the Soviet Union.

As the man wheeled his way toward the escalator, a gap formed in the milling crowd. No one wanted to be too close to the person, who seemed extremely confident with the next operation.

With no brakes or hinges, he rolled himself onto the escalator, held onto the rail with one hand, rode along and wheeled himself off again with ease.

His presence had a visibly disturbing influence on everyone. He was something out of the ordinary — a handicapped man who was not begging nor hobbling along on crutches.

He was dressed in expensive clothes and was seemingly on his way to the office, with a laptop-computer case on his lap. He was a confident young man who sought no pity.

But this man’s sense of self-possession should not diminish our own sense of shame that the country and his capital have almost no accessible services for people with disabilities.

While we complain incessantly about poor traffic conditions and low-quality buses and trains, we never think of what people with disabilities must have to go through.

What would it cost to equip one wagon on every train with a wheelchair-friendly door? How much would installing some kind of brake on escalators cost? What kind of help is there for the blind? Where can a disabled person wheel his chair in Moscow when all the sidewalks are blocked by parked cars?

As far as I can recall, handicapped panhandlers first appeared on Moscow streets a few years ago.

The Afghan war, in which the use of heavy weapons, mortars and anti-personnel mines was common, claimed thousands of Russian limbs — and many more Afghan ones. The first Chechen war, in which fighting often took place in dense urban environments, maimed thousands more.

Statistics say there are more than 1 million handicapped people in Russia, a noticeable percentage of the population.

They receive only a pittance of state support.

Municipal and public services in general are woefully unprepared for serving the needs of ill, incapacitated and handicapped. In fact, the conditions in Russia seem just as bad as those in some poor African and Asian countries.

Is this not something all Moscow businesses should get together and try to do something about? We live and make our money here — why can’t we do something to make our home a better place?

Especially once it’s considered how many businesses have saved millions in the past by getting tax breaks for having these very people registered as workers on their books.

A motorist gives some money to a Russian officer who is wearing a sign that reads, ‘People, help this Afghan veteran buy a prosthetic leg.’

**Never before had I come across a man wheeling himself towards a Moscow metro escalator. I paused for a moment, and suddenly it dawned on me that I had never seen any handicap facilities in Moscow public transport for handicapped people.**
The American public and media were quick to blame Putin’s policy on Chechnya after the theater hostage-taking. So why didn’t they do that same analysis of Islamic militancy after the fall of the U.S.’s twin towers?

The double standards in explaining hatred

Matt Taibbi

Press Review

Seldom has a national double standard been laid so completely bare as it was in the coverage of the Moscow hostage crisis a couple of weeks back. While Western officials — and journalists — rushed to condemn Chechen terrorism, they almost all also made criticizing Russia for bringing this mess upon itself an immediate priority.

In the view of most of the major Western dailies, as well as the television networks, the Moscow hostage crisis was borne of a deeply ambiguous political situation, one in which both sides shared blame. Terrorism of the sort practiced by the Chechens was almost universally described as having an understandable, if not supportable, cause: It was said to have been a response to Russian brutality in what was often called the “occupied territory” of Chechnya.

This is a far cry from the response to the 9/11 attacks, when Osama bin Laden and his followers, with very rare exceptions, were described as murderous zealots blindly “bent on destruction” who simply “hated our freedom,” for some mysterious and probably adolescent reason never clearly articulated.

Not once in our media — though I have seen it in the Russian press — have I seen the obvious parallels between anti-American terrorism and Chechen anti-Russian terrorism drawn anywhere. Most of the 9/11 hijackers were from Saudi Arabia, where a hugely unpopular U.S. military presence is forced upon a population by an idiotic authoritarian regime propped up by the United States. Other anti-American terrorists act with their motive, acting as proxies for the United States and Israel itself; in what Russian diplomats have described as a campaign to spread a brandishing American weapons and fuel for terrorist recruitment in the Middle East for many years. Islamic terrorists are not blushing up McDonald’s franchises or David Hasselhoff concert venues (although maybe they should); they’re attacking embassies, warships, the Pentagon, and, finally, the center of U.S. financial power in lower Manhattan.

Not to say that this is right or commendable; it’s just a fact. Anti-American terrorism in its response to something, just as Chechen terrorism can certainly be said to be in response to something. But you’d never know that by reading our newspapers. The New York Times, in its Oct. 8 editorial “The Slaughter in Moscow,” made this explicitly clear when it went out of its way to insist that there are no parallels between the two brands of terrorism.

“The international war against terrorism, and strong evidence that some Chechen rebels have received training and support from al-Qaida, has emboldened Mr. Putin to equate his struggle against terrorism with his campaign against Osama bin Laden and his followers. While there are common elements, the Chechens have legitimate grievances about a long history of harsh Russian rule. Mr. Putin should recognize that he cannot end their insurrection through force alone. If the United States wants to be part of the solution, it must work cooperatively to be helpful, it should not give Mr. Putin a stick on the back of his war on terror to use on the Chechens to turn the war on terror into a war on the indigenous population.”

Then there is the response by the British paper of record, the Times of London. An Oct. 29 editorial by Libby Purves, “Putin Is Forced into Human-Rights Limelight,” goes as far as to make the primary response to the hostage crisis an examination of Putin’s human-rights record in Chechnya.

“Every cause embracing vio-

lence will always have these people among them. But that does not excuse us from looking at the cause of their rage, and the histo-

ry which led men and women to strap explosives to themselves in a crowded theatre, and shoot at fleeing children. Mr. Putin may have committed crimes last week against Moscouite theatregoers; but long before that his federal troops were committing far worse crimes in the villages and towns of Chechnya.”

Purves certainly has a point, and there’s certainly nothing objectively incorrect about anything she wrote. But what is amazing is how quickly these quite sane voices rose to the sur-

face when the West was looking at terrorist acts against Russia. It took far longer than that in the United States after 9/11, and even those few that did speak out were quickly marginalized.

The typical, actually the penultimate, explanation of “Why They Hate Us” back then was a massive Oct. 15, 2001, feature in Newsweek, a full 11 chapters long, whose first segment was titled, ridiculously, “The Politics of Rage: Why Do They Hate Us?”

It’s worth noting that even this question contains the answer to the question of why Americans thought they’d be attacked. I doubt the North Vietnamese asked why we “hated” them; the Russians certainly didn’t ask why the Germans “hated” them in 1941. Hate is an emotion, wars have reasons. Right from the start, Americans crushed up an incredible series of psychological justifications for the 9/11 attacks and scarcely ever mentioned our military presence abroad, our lust for control over the world’s oil, our meddling in the internal politics of Middle Eastern puppet states over the years. A typical explanation for why the Americans were “afraid” of the modernization of the Arab world, as explained in Chapter Three of the Newsweek spread:

“The communists with the West is at the heart of the Arab problem. It makes economic progress impossible and political progress fraught with difficulty. Modernization is now taken to mean, inevitably, uncontrollably, Westernization and, even worse, Americanization. This fear that the Arabs might become like us fed into Arab anti-American sentiment. In some ways the Arab world seems less ready to con-

fession in the age of globalization than even Africa, despite the devastation that continent has suffered from AIDS and econo-

mic and political dysfunction. At least the Africans want to adapt to the new global economy. The Arab world has not yet taken that first step.”

Later on, the article goes on to quote a Muslim who sneers at Asian progress because cities like Singapore are pathetic “copies” of places like Houston. In other words, the murder of American embassies, warships, and even McDonald’s franchises in the days after the hostage attacks:

“I doubt the North Vietnamese asked why we “hated” them; the Russians certainly didn’t ask why the Germans “hated” them in 1941.”

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The fact and fiction of Russian insurance

Planning for the future is not an easy thing to do in Russia, even after the relative stabilization of the past few years. Insurance companies, looked upon to hold up the financial side of things, aren’t much help.

It is rare for a local investment bank to expose an entire commercial market as a compound of tax-avoidance schemes, phony revenue statements, paper transfers and intentionally misleading valuations. But that is what the United Financial Group (UFG) manages to do for the Russian insurance market with a new report titled “Russia’s Insurance Industry: Enter the Man from Ru.”

Starting with an initial estimate of $93 billion in insurance premiums officially reported as paid in Russia in 2001, roughly half — $47 billion — should be disregarded as insurance at all, UFG concludes, because it represents one- to five-year policies paid out as tax-free annuities that really exist, being no more than sums of premiums “paid” do not exist at all, because “large volumes of pre-munia recorded as paid between companies that are directly related to one another by shareholding and other ties. These insurers are known as “captive,” which the author of the UFG report, Ilan Rubin, describes as “pocket insurance companies of major Russian corporations” of property with yourself is not insurance. Rather, it is a means of writing off expenses in order to avoid taxes.

Most major Russian corporations operate such insurance units. Some, like Sogaz of Gazprom, claim to be moving beyond their chains. Others, like Ingosstrakh, after its acquisition by a group of shareholders linked to Russian Aluminum and SibNef, have been moving in the opposite direction. Because it’s next to impossible to quantify how much insurance coverage paid for by Russian corpora-
tions to their captive insurers would have to be bought in the marketplace, if that existed, Rubin deduces just $100 million from last year’s official non-life premium total of $4.7 billion. Thus, somewhere between a minimum of $220 billion and a maximum of $28 billion is what the genuine insurance market is worth at the moment. By international standards that is somewhere between nothing and almost nothing — what it may be worth in the future is more problematic, but not in the way the insurers themselves like to claim. For example, the UFG report argues against the widespread conviction among Russian insurers that the terms set by the WTO represent a major threat to the domestic insurance industry. In recent weeks, it has become clear that WTO members are demanding the dismantling of barriers to entry for foreign insurance companies. But according to Rubin, whether the industry resists or accepts is irrelevant.

“We do not consider WTO entry in 2006-7 to be a major problem for [Russian] insurance. First, by the time WTO entry actually happens, the vast majority of unrivalled companies will already have disappeared. Secondly, the appearance of foreign insurers in the life insurance sector will not threaten domestic companies, as the life insurance sector does not currently exist, and will never be serviced by domestic companies anyway, due to the unwillingness of the population to trust Russian private financial institutions,” he said.

While the report accepts that some Russian insurers have developed sound reputations and brand names with which to compete in the compulsory insurance sector, Rubin also predicts that the 20 to 30 Russian companies he expects to survive will be able to do so only by finding Western capital and Western expertise.

Life insurance, the report forecasts, will come to be dominated by foreign insurers, and after the disappearance of “the vast majority of insurance companies,” those with the best chances of survival are the ones that will seek foreign partners.

The report is especially sanguine about American International Group (AIG) in the Russian market. After describing the rise in the Polish insurance market of AIG, Rubin claims that AIG “would be one of the best-positioned companies to milk the real insurance sector in Russia, once it grows.”

One reason for that, argues Rubin, is that the Russian government has already dismantled the potential competition that a state-owned insurer could provide the state, comparable to Poland’s PZU, thereby allowing foreign companies like AIG to capture most of the profit for themselves. You will search in vain through the accumulated statements of the All-Russia Insurance Association, the industry lobby group, and never find a statement as blunt as that.

Through its U.S. government contacts, as well as directly and through a number of well-known Russian insurance figures, AIG has been one of the most active lobbyists in Moscow for deregulating the insurance-sector rules that limit foreign ownership, as well as the right of foreign insurers to write long-term life-insurance policies. On the surface, you might judge this effort to have been relatively unavailing.

However, as calculations in the UFG report reveal for the first time, the price for foreign entry into the Russian insurance market has been exceptionally cheap — so cheap that it is tempting to infer that the Finance Ministry, which regulates the industry, a handful of Russian investors, and the major foreign insurers have quietly rigged it. By projecting the premium data and sales margins of 10 major Russian insurers, applying a 28 percent discount, together with a conservative share-price-to-sales ratio, Rubin estimates a value of $110 million for ROBSNO.

Accordingly, he reports that the $30 million price paid by Allianz of Germany to acquire a 45 percent stake in the company two years ago was “very low” — less than half the $72 million valuation estimated by UFG. The report also suggests that Rosgosstrakh, the big state insurer that is in process of privatization, was undervalued before a consortium of still undisclosed buyers led by Troika Dialog of Moscow acquired a 49 percent stake for $40 million. UFG values the stake at $83 million.

The government-ordered valuation of Rosgosstrakh was done a year ago by the Moscow office of KPMG, which recommended a price of $72 million. Early this year, Reuben Vardenyov, the Troika Dialog executive who has since become chief executive of Rosgosstrakh, claimed that too was too high. While the new shareholders of Rosgosstrakh paid $40 million for 49 percent of shares of the company, and the official valuation was $78 million, the real value of the company is lower than that,” Vardenyov said.

According to UFG’s calculation, the capital value of the entire non-life Russian insurance market as a whole is just $2.3 billion. Projecting what Russians will spend on non-life insurance on the growth of GDP, it is predicted that non-life premium will jump in 10 years to $2.3 billion. Life-insurance spending will rise to $14.2 billion, the report suggests, and the development of private pension funds. These figures promise a huge profit for the handful of foreign insurers who can afford to wait for the takeoff — and on the few Russian insurers, or their shareholders, who see the opportunity in capturing assets cheap and selling dear.

Capturing opportunity is risky business, because government statistics are worthless, and corporate accounts amount to nothing. According to Rubin, published balance-sheet data for Russian insurers identify only about 63 percent of their assets. The remainder, he claims, “may not be invested in stable, low-risk assets that insurance companies require in order to ensure that they can protect their customers from default.” He believes that Russian insurers are either placing their funds in high-risk investments that could trigger defaults, or else the missing money does not exist at all, because “large sums of premiums ‘paid’ have not really exist, being no more than paper figures used in salary and captive schemes.”

Gazprom, like most major Russian corporations, has its own insurance unit.

Through its U.S. government contacts, as well as directly and through a number of well-known Russian insurance figures, AIG has been one of the most active lobbyists in Moscow for deregulating the insurance-sector rules that limit foreign ownership, as well as the right of foreign insurers to write long-term life-insurance policies.
In a surprise move this week, Iraq formally accepted a U.N. resolution to send weapons inspectors back into its territory. But the conflict is far from over.

Iraq’s acceptance was ‘goodwill’

Reuters

BAGHDAD — The newspaper of President Saddam Hussein’s eldest son said Thursday the conflict between Iraq and the United States was not over despite Baghdad’s acceptance of a new U.N. resolution on disarmament.

“Our allies and brothers should realize that the problem with the American administration and its ally Britain is not over. Perhaps it is resuming again,” said Babel, Iraq’s most influential newspaper, owned by Uday. It said the U.S. government’s “arrogant and cowboy-like” policy was unwarranted. Iraq accepted Wednesday a tough new U.N. resolution that gave Baghdad a last chance to disarm and pave the way for weapons inspectors to return after a four-year gap.

Babel said Iraq’s compliance with the resolution reflected Baghdad’s goodwill, denying that it had weapons of mass destruction as U.S. President George W. Bush’s administration insisted.

It said now that it had accepted the U.N. terms, Iraq should be rewarded by the U.N. Security Council through lifting the 12-year sanctions, imposed after Iraq’s 1990-91 war on Kuwait.

Faced with a Friday deadline, Iraq was given another two days early.

The nine-page letter castigated the United States and Britain as liars and denied Iraq had any weapons of mass destruction. It also accused other members of the U.N. Security Council, who approved the resolution in a 15-0 vote last Friday, of succumbing to American pressure.

Babel quoted Kuna, France and China to mount pressure on the Security Council to lift the U.N. sanctions imposed on Iraq.

However, Saudi Arabia and its Gulf Arab allies have brushed aside Kuna’s criticism of the resolution. The pro-Western Gulf monarchy, which lined up behind a U.S-led military coalition that drove Iraqi occupation troops from Kuwait in 1991, has publicly opposed any military campaign to disarm Iraq.

Saudi Arabia said it would not let the United States launch attacks on Iraq from its territory.

“We thank God Iraq has accepted. We hope Iraq will cooperate with the United Nations’ envoy,” said a Foreign Ministry spokesman.

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United States prepares St. Pete celebration

By VERENA DOBNIK
The Associated Press

NEW YORK — The 380th anniversary of Russia’s grandest city, St. Petersburg, will be celebrated in the United States with hundreds of art, music, dance and lecture events.

“St. Petersburg is a young city — only 300 years old — and in that way, it has a lot in common with the United States,” said Mikhail Piotrovsky, director of the Hermitage Museum in St. Petersburg, who spoke at a luncheon Tuesday to announce the plans.

Exhibits and performances related to St. Petersburg’s heritage are planned in 2003 throughout the United States, including New York City, Baltimore, Washington, D.C., Atlanta, Ann Arbor, Michigan, and New Haven, Connecticut.

In New York, events include a spring exhibit at the Metropolitan Museum of Art, and a July visit by the Kirov Opera and its music director, Valery Gergiev, to the Metropolitan Opera, where Gergiev is principal guest conductor. A conference at Columbia University is also scheduled.

The New York Public Library for the Performing Arts is preparing an exhibit on Vaslav Nijinsky, and the main branch of the library on Fifth Avenue will stage a fall show, “Russia Engages the World,” 143-144.

In Washington, conductor Mistral Rostropovich will appear with the National Symphony Orchestra at the Kennedy Center, where Gergiev will conduct the Kirov earlier in the month. A 50th anniversary of St. Petersburg, and the University of Michigan at Ann Arbor will hold a lecture series, an art show and performances by the Kirov ballet and orchestra.

A scene from ‘Sleeping Beauty’ in the Saks Fifth Avenue store in New York. The display marked the launch of America’s celebration of the 300th anniversary of St. Petersburg.

In the United Arab Emirates (UAE), a Foreign Ministry spokesman said that by cooperating with the inspectors, Iraq would rob the United States of any pretext to use force to disarm it.

“A new war will have dangerous repercussions for the security and stability of the region and the whole world,” the unnamed spokesman told the state-run news agency. “We hope that prepare the path to resolve the crisis peacefully... and lead to lifting of the (U.N.) sanctions.”

Qatar, which analysts say was a likely launchpad of any U.S. strike on Iraq, said U.N. inspectors must avoid any provocative act and complete their work quickly in preparation for lifting the sanctions, imposed for Iraq’s invasion of Kuwait in 1990.

Two Iraqi men read a daily newspaper in front of a poster of Saddam Hussein.

let U.S. troops use its territory against Iraq, cautiously welcomed Baghdad’s decision.

“It is the first positive step in the right direction, but is not the end,” Information Minister Sheikh Ahmad al-Falih al-Sabah said in comments carried by the official KUNA news agency. “We feel relieved... and hope other positive steps would follow.”

But Minister of State for Foreign Affairs Sheikh Mohammad al-Saleh appeared more cautious.

“Let us wait and see. Iraq in the past accepted resolution 687 and then kicked the international inspectors out,” the agency quoted him as saying late on Wednesday.

In the United Arab Emirates (UAE), a Foreign Ministry spokesman said that by cooperating with the inspectors, Iraq would rob the United States of any pretext to use force to disarm it.
Muscovites' interest in fashion is growing along with spending power — question is, can the industry keep up?

**By KARINE JONES**

From fashion to furniture, style is of paramount importance to many Muscovites, and their spending power grows, so does the importance of the design sector.

In the coming weeks, I'll be using this column to look at the fashion world of design in Russia — focusing on the people and companies that make it tick.

Several fashion houses always show their collections two seasons in advance, so spring fashion seems like springing over from Greece and Ireland.

The past few weeks have seen several Russian fashion weeks in the capital, all showing Spring-Summer collections for next year and all well-done, according to our Russian Fashion Week (Oct. 30 – Nov. 3) and Russian Fashion House — a-Porter Week (Nov. 2 – 6).

But Fedor Pavlov, president of Foes Fashion, the PR agency that organized Albo Modo — the Seventh Parade of the Avant-Garde (Oct. 16 – 18), said some-what provocatively that “there are too many Russian fashion weeks, when there's not even enough Russian design for one week.” It goes without saying, then, that he only let foreign designers on his catwalk this year.

The fashion industry is growing in Russia, but there aren’t enough shops that are interested in domestics design, because their customers still don’t want to buy Russian labels, said Pavlov.

The Crocus City Mall, which was opened last week on Voloskolemsky Shosee on the outskirts of Moscow, is a case in point. Some 40 names in clothes and shoes are gradually popping up at the giant mall — but they are almost all exclusively foreign brands. Some of the well-known names you’ll find there are Ecco, CK Jeans, Marc Jacobs and Roberto Cavalli.

Another sales point for luxury goods, this time on a much smaller scale, opened on Nov. 12. The boutique is called Solo, though surely they had New York, rather than London’s Red Light district, in mind when they christened it.

The store will offer a wide choice of exclusive labels, including Donna Karan, Buffalo, Hermes Lang and Matthew Williamson, and the designer items will range from evening wear to sportswear. Solo owner Ansel Guerezova.

Foreign designers are, at least for now, outdoing their Russian counterparts in the hearts of many Muscovites.

**ANALYSIS: A Stylish Diary.**

Landay says — rather charitably — that the store is trying to help people avoid traveling abroad to shop, and that it will also give customers the opportunity to combine different labels, styles and materials in just one boutique.

A couple of other events worth noting, though they were a while back, were the opening of an Yves Saint Laurent — River Gauche store on Oct. 23 in Tverkhovsky Proyezd and new Mexx store on Tverskaia Ul. that opened Oct. 27.

Though it’s a Dutch company, Mexx now has 10 shops in Moscow — more than in any other city in the world — and that must say something about the clothes retail market here. A spokesperson for Mexx referred to it as simply, “less competition than elsewhere.”

But observers point out that the competition in the clothing retail sector is growing as Moscow gains ground with respect to other European capitals. Next week, I’ll look at how the Russian furniture industry is striving to make the grade.

**Coke looks to double East Europe returns**

Bynight

This will be followed by a working visit to Brussels, where

**Russia threatens to cut meat imports from EU**

**BUSINESS**

**Russia looks to double East Europe returns**

Bloomburg

Russia may adopt adequate retaliation measures, in particular, against meat supplied to the Russian market from countries of the European Union.

“Russia may adopt adequate retaliation measures, in particular, against meat supplied to the Russian market from countries of the European Union,” Interfax news agency quoted Agriculture Minister Alexei Gordeyev as saying.

But a senior ministry official told Reuters Russian negotiators in Brussels were trying to persuade the European Union to issue a special annual import quota for Russian grain.

“We would like to have [a quota] of up to five million [metric] tons, including no less than three to four million tons for wheat,” Pavel Vinitovkin, acting head of the Food Market Regulation Department at the ministry told Reuters.

The European Union said on Thursday to retaliate against EU plans to curb grain exports by cutting meat imports from the EU, pressing the 15-nation bloc to admit at least five more Russian design on catwalks — not street
Oil beating expectations

By DMITRY ZHADANIKOV

MOSCOW — Russian oil output this year is set to beat the most optimistic forecasts with growth-hungry producers adding a million barrels per day (bpd), taking flows to more than eight million bpd, Russia's top oil strategist said Tuesday.

And analysts think Russia, the world's second-largest oil exporter, could add another million bpd to its current output of over 12 million bpd in the next few years and overhaul Saudi Arabia as top dog.

This year's astonishing monthly production data makes grim reading for rival OPEC producers who late last year confronted Russia and forced it, briefly, to cooperate with export cutsback to support oil prices.

Two years ago, a Nobel-prize rewarded Russian oil output could grow so fast. Today, even the most fantastic planners are talking of 10 million bpd by 2005 from this year's expected 9 million bpd, the USA's Energy Information Administration said Tuesday.

"In two years' time, a number of oil producing countries will have to face the fact that Russia's crude is no longer cheap," said Eugene Khartukov, Russia's leading oil analyst, and a member of the Paris-based International Energy Agency's oil market committee.

But those reservoirs are much more this year's crude production is unlikely ever to hit 15 million bpd. In the second half of this decade much will depend on how quickly Russian producers are able to attract direct foreign investment," he said.

Oleg Khan, executive director of Russia's fourth-largest oil firm, TNK, said this week Russian output would shortly reach nine million bpd but then stagnate and decline if the state failed to attract funds from foreign investors.

Analysts say new export routes are vital to support growth because substantial volumes of oil and products are leaving Russia by expensive alternative routes, such as rail, which will become uneconomical as refining capacity increases.

"Whether the growth will mainly depend on Russia's new export routes and modernization of refineries as well as on the role major global players will play in the future," said Khartukov.

"In the current market situation Russia oil companies have almost doubled, touching 6 million bpd in September," the head of the Soviet Union in 1991, Russian oil output stagnated around 6 million bpd from 1994- 1998. Growth resumed in 1999 with ambitious target set by aggressive government firms.

"The engine of the current drive is the personal interests of the oil field owners. With (Vladimir) Putin succeeding (Boris) Yeltsin as president in 2000, oil firms now trust the state budget and service its personal interests more," said Khartukov.

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Rusal riddle for auditors

If Russian Aluminium (Rusal), Russia’s leading aluminium producer, insists that it is producing more aluminium this year, then either the company isn’t fully disclosing where the additional sales are being made; or else it is hiding undisclosed metal in warehouses somewhere down the production chain. The mystery came out into the open recently when, according to a wire-service report, Rusal’s newly appointed Beijing representative, Mikhail Bulankin, acknowledged that, “we were the greatest exporter to China about one-and-a-half years ago. Now, it is impossible.”

Bulankin, a veteran international-sales representative who has been with the company longer than any of its current shareholders, was only admitting what Chinese industry sources have been reporting all year. The decline of Chinese imports, which had been paralleled by substantial growth of Chinese production, as well as Chinese exports through tolling schemes. This trend has caught the Russians by surprise, and, according to Bulankin, there have been negotiations with Chinese aluminium companies, including the China Aluminium Co. (Chalco), to cooperate in joint ventures to produce bauxite and alumina as well as new primary aluminium.

Privately, Rusal sources say they are embarrassed by the disclosure of the falloff in their China trade, since the company’s spokesmen have been insisting for months that all metal produced at the company smelters will be sold. “We definitely have no stock,” a Rusal spokesman announced several weeks ago. Rusal is also embarrassed by Bulankin’s reference to cooperation with Chalco, which has been the subject of press releases and public statements by Rusal spokesmen over several months.

So, what to make of the publicly issued statement of Rusal’s results for the first half of the year? According to Rusal, the figures have been prepared according to U.S. Generally Accepted Accounting Principles, but remain unaudited. According to the company, it produced slightly more primary metal, as well as more processed aluminium products, compared to last year. At the same time, statistics from the State Customs Committee indicate that, in the same period, exports were falling. According to customs data, in the first half of the year, non-processed aluminium exports declined to 1,445,293 metric tons from 1,551,428 tons in 2001. Additionally, an industry source told IA, exports of aluminium products registered an overall decrease of almost 5 percent; no figures were provided.

If the trend continues, by the end of December as much as 200,000 tons of primary aluminium from Rusal’s smelters will be in need of domestic buyers. Moscow Metals analysts say they do not believe domestic demand can absorb this increased volume, and that they believe the metal is being stocked. Let’s see what Rusal’s auditors say.

Russian insurance stymies WTO

Talk of a Russian agreement with the WTO to dismantle Russian barriers to foreign insurers has evaporated amid signs of growing pressure from Brusselss.

“The Russians thought they were being flexible,” an industry source told IA in Moscow. “But they now see this won’t be enough. The sides are filling into their trenches for tough negotiations.”

“Negotiations on Russia’s accession to the WTO have come to the point where the Russian government must decide how to move further,” Alexander Koval, president of the All-Russian Insurance Association (ARIA), told IA.

A few weeks ago, Koval went to Brussels and London to discuss Russia’s terms with European Commission officials and insurance executives. It is believed he obtained assurance that some international companies would be permitted to write life insurance, as well as some compulsory coverages. But he did not accept the demand from foreign insurers to abolish the exclusion of foreign-owned companies from entering the life and compulsory sectors.

“Negotiations have now slowed down,” Koval said. “We are told explicitly that the reason for the slowdown is that the decision on access to the insurance market is not yet adopted [by the Russian side]. WTO representatives say that, for them, the issue of access to the insurance market is the most important, and all other issues, such as tariffs, aerospace industry, etc., come second.”

One result, Koval said, has been to galvanize the Russian government to consider and adopt a detailed white paper on the insurance sector. The document, according to ARIA, is believed to state that “the main aim of liberalization of the insurance market is to find an optimal balance between integration of the Russian insurance system into the world insurance system, and mechanisms that prevent national capital outflow.”

According to Denis Bryzgalov, spokesman for ARIA, international insurers are demanding barriers to the entry of foreign companies into the Russian life-insurance sector to be dismantled. WTO members are also demanding access to some types of compulsory insurance. “Some insurers demand more than just that,” he added. “They say that cross-border trade in insurance policies should be allowed. The recently adopted Russian position on these issues says the insurance sector has strategic importance for Russia, and, given the need to protect the interests of the national insurance community, only gradual liberalization of the market in Russia is possible.”

“I have told IA that ARIA couldn’t predict what the precise terms of this phased-liberalization program will be. “The bureaucrats in Brussels have an all-or-nothing approach,” said one Moscow insurer, “and that threatens the entire industry. If all restrictions are lifted, then Russia will see a huge outflow of capital through reinsurance scars.”

Got a whistle to blow? Communicate as anonymously as you wish by e-mail to internalAudit@russiajournal.com at or by marked ‘Internal Audit’ at (95) 959 2408.

How much do you trust the security services?

Are you satisfied with their work?

by Yelena Busovikova

KAREN KARAKANYAN, STUDENT

I think it’s not right to check everybody’s passport on the street. It’s not effective for catching terrorists. I am sure terrorists would have Russian passports with Moscow registrations, and that’s why they cannot be found anywhere. They have their own ways of protecting themselves. People checking everybody isn’t right. I think the system violates individual rights, and this practice doesn’t exist anywhere in the world except in Russia. I just don’t like to be picked out of a crowd.

ALEXANDER BOGACHTEV, LAWYER

The security services work very effectively here. They are much better than in Ukraine, for example. I fully trust all the security structures and am pleased with their work. Even the situation in the streets is a much more peaceful here than in Kiev. I can walk along the street at 2 a.m. without any problem.

YEVGENY SHUMILEV, ENTREPRENEUR

I can’t say that our security structures work very well, and I don’t trust them at all. The war in Chechnya has continued. At the same time, I would say that the FSB works acceptably, and even well. I can’t say that about the Army and the Interior Ministry. The situation could be improved by financing those structures better, providing them with professional training and establishing thorough selection processes. Look, who is passports the Army? Children of poor parents, I would say that I am barely satisfied with their work.

MIKHAIL POPOV, FORMER POLICE EMPLOYEE

As a former employee of the Interior Ministry, I would like the Russian security services to work better. I think the Special Forces should work better, and the work of the local police should be based on an adequate level of property received from the special services.

ALEXEI GUSEV, STUDENT

Actually, I like what our security services do in general, even though I feel only 60 percent protected by them. It is very sad that we are not protected in our own country. I am sure a stricter police process for the police should be implemented, because there are many people in the police who don’t know anything about professional ethics and principles.

The ROMIR public opinion center surveyed 2,000 Russians on their attitude to the security services.