BISNIS Bulletin

Facilitating Commercial Success in Eurasia

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U.S. Department of Commerce
International Trade Administration

Russian Government Develops a New IT Concept

by Irina Lakaeva

The Russian information technology (IT) market is considered to be one of the most dynamic in the world, with more than 20 percent growth annually. This sector plays an important role in Russian-U.S. services trade because most high-tech equipment used in Russia is imported. Growth is expected to continue due to a favorable economic situation and high demand in the corporate and government sectors.

At the end of September 2004, the Russian government approved "The Concept of the Use of Information Technologies in the Activity of Government Agencies until the Year 2010," which may become an important demand driver for IT products in the government sector.

The concept document was prepared by the Russian Ministry of IT and Communications and approved by Prime Minister Mikhail Fradkov on September 27, 2004. For the next six years, it will become a key document for regulating IT development processes in federal government bodies. The document describes the main priorities of government policy in the sphere of IT use by government entities. The main goals of the concept are to:

- improve the efficiency of government management with the help of IT tools;
- establish a single IT infrastructure and combine federal information systems and resources of different federal agencies; and
- improve electronic document exchange between federal agencies and the general population.

According to the Ministry, the main engine and source of financing to realize this project will be the Federal Program "Electronic Russia 2002–2010," adopted in 2001. According to the head of the Federal IT Agency, Vladimir Matyukhin, in the fourth quarter of 2004 the Ministry will prepare an updated version of "Electronic Russia" in order to adjust its needs to the fulfillment of the new concept.

IT Minister Leonid Reiman has suggested that the Electronic Russia budget for next year will be increased to $80 million. However, the money for IT modification within the Russian government will be taken not only from the federal budget, but also from the budgets of various federal agencies. Overall, according to the IT Ministry, the federal agencies currently spend about $0.8-1.5 billion on IT.

Although federal expenditures for IT will not be centralized, the government is planning to develop a procedure of centralized procurement of IT products for federal agencies. According to Minister Reiman, it is more efficient for the state to purchase products in

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2005 GRANT PROGRAM

Through the support of technical assistance training, the SABIT Grant Program provides a unique opportunity for American companies and organizations to establish or expand cooperation with individuals and businesses in Eurasia. SABIT Grants facilitate commercial relationships between grantees and trainees in the form of joint ventures, distributorships, licensing products and technologies, or other contractual agreements.

Funding Available: January 2005

www.mac.doc.gov/sabit

For more information, contact Patrick Brennan (202) 482-2077 or *patrick_brennan@ita.doc.gov.*

Upcoming Conferences

The CIS Metals Summit
February 15–17, 2005
Moscow, Russia

The Ukrainian Investment Summit
March 15–16, 2005
London, England

The Russian Automotive Sector
March 15–18, 2005
Moscow, Russia

Organizer: Adam Smith Conferences
Web site: *www.asi-conferences.com*

BISNIS

Facilitating Commercial Success in Eurasia

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Russian Dental Equipment and Supplies Market Booming

by Desi Jordanoff

Dentistry as a branch of Russian health care is becoming one of the most advanced and promising areas of Russian medicine. Western materials, equipment, and techniques are now widely employed in private clinics, narrowing the gap between the services available in Russia and other European countries. Currently, the value of all dental equipment and supplies sold in Russia is estimated at $350 million. The rapid growth in this sector of the early and mid-1990s, interrupted by the August 1998 ruble crisis, has recovered and is estimated to continue by 10 percent during the next 2-3 years.

The growth has pushed the market to generate a significant demand for imported dental supplies and equipment. Private clinics, the primary purchasers of imported dental equipment and supplies, continue to provide a significant amount of all dental services. Domestic products are generally of lower quality than imported products and meet only about 20 percent of demand. Currently, substantial opportunities exist for U.S. manufacturers of dental equipment and supplies seeking to enter the Russian market or expand their reach there.

Potential for U.S. Companies

Imported products account for approximately 80 percent of the Russian dental market. U.S. manufacturers are among the leading sellers in Russia, along with those from Germany, France, Switzerland, Japan, Spain, and Finland. Dental products from Brazil, Argentina, Korea, and Turkey provide competition in the lower-price range. The demand for dental products in the mid-price range is steady, and both state-run and private clinics are continually upgrading their facilities and services. Thus, the market is receptive to dental equipment and materials that use the most advanced technologies and have a high quality/price ratio.

U.S. products are valued for their quality, reliability, and price. European products are competitive in certain categories of equipment, and geographic proximity plays a significant role in their companies' ability to favorably position products on the market.

A positive factor for U.S. manufacturers is the nature of the industry as highly privatized. This means that it relies mainly on private financing and out-of-pocket payments, and does not suffer from the significant funding constraints that can hamper other medical purchases in Russia.

Currently, the Russian market is very receptive to imported goods in the following areas:

- Dental chairs, cabinetry, and delivery systems; equipment for dental laboratories; endodontal devices and supplies; polymerizing lamps; and micromotors. There are no Russian producers of high-quality equivalents for these products. Private clinics consider that imported furniture, particularly dental chairs, is necessary for shaping their image and attracting clients. Clinics are open to making significant investments in such equipment. Moreover, clinics that initially purchased simple, imported workhorses are upgrading to models in the $15,000-30,000 range.
- X-ray equipment and supplies, interoral x-rays, radiographs, modern ultrasound equipment, and dental lasers.
- Anesthetics (local and topical) and syringes. Anesthetics are widely used in Russian dentistry and demand far exceeds domestic production capabilities. Moreover, Russian brands are widely considered to be low quality, so clinics prefer imported products.
- Aesthetic dentistry, bleaching, and restoration are relatively new to the Russian market, but are gaining popularity. There is a growing demand for hygiene and scaling instruments, instruments and materials for modern aesthetic dentistry and tooth hygiene, teeth whitening and bleaching products. As the industry modernizes, the popularity of routine hygiene services is growing, creating demand for the materials and equipment necessary for all aspects of hygiene. Similarly, pediatric sealants, previously unknown in the Russian market, are coming into wider use.
- The demand for endodontic materials and the need for removable and permanent prostheses, such as dentures and bridges, are currently strong and expected to grow.
- The present market for implants is weak because of the procedure's high price, as well as a lack of familiarity with the procedure among patients and doctors. As with prostheses, though, the generally poor level of dental health drives the potential growth in the field of implantology.
- Orthodontia. There are currently few firms in Russia importing or distributing orthodontic products, but both pediatric and adult orthodontics offer promising opportunities.
- Used equipment. There is a substantial demand for used dental equipment, particularly ultrasound equipment, dental complexes, panoramic tomography devices, and other equipment and instruments for dental office. Mid and high-end clinics prefer to purchase new equipment as it is an integral part of the clinic's image. Therefore, the best potential end-users for refurbished equipment are state clinics.

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Resource Spotlight: Foreign Agricultural Service and Export-Import Bank of the United States

USDA to Promote Exports at Food Show in Russia

The U.S. Department of Agriculture's **Foreign Agricultural Service** invites companies to exhibit U.S. food products at the American Café at PRODEXPO, the 12th International Exhibition in Moscow for the restaurant, food service, supermarket and food processing sectors. The event will take place February 14–18, 2005, in Moscow's Krasnaya Presnya Exhibition Center.

The largest trade exhibition of its kind in Russia, PRODEXPO offers an opportunity to present products to key food importers, distributors, retailers and processors in one of the fastest growing economies in the world. With a population of 144 million, Russia has several large metropolitan centers and a growing economy. U.S. exports of consumer-oriented products to Russia totaled more than $500 million in 2003, with growing demand for a wide range of new items. Retail food sales there have nearly doubled over the past four years, with a rapid expansion of western-style supermarkets.

Products with the best prospects include fresh fruit, dried fruit and nuts, exotic juices, wines, wild rice, canned and packaged foods, microwaveable products (including popcorn), confectionery, poultry, beef, pork, and fish and other seafood products. There is also demand for ingredients used in food processing, including soy products, dried potatoes, and vegetable oils.

For more information on exhibiting at PRODEXPO or for information on other USDA-endorsed shows, contact Tobitha Jones in the FAS Trade Show Office at (202) 690-1182, or email: tobitha.jones@usda.gov.

USDA Attaché Reports

Reports from the USDA's Foreign Agricultural Service in Russia and Ukraine provide valuable information for U.S. exporters of food and agricultural commodities. Recent reports include "Russian Federation—Exporter Guide Update—$11.3 Billion Food and Agriculture Import Market, 2004," and "Russia—World's Fastest Growing Food Retailer, 2004."

To view these reports, visit *www.fas.usda.gov* and click on Attaché Reports.

Ex-Im Bank Launches Bilingual Web Page Portal for Russia

The **Export-Import Bank of the United States** (Ex-Im Bank) announced on November 1 that U.S. companies interested in exporting goods and services to Russia, and Russian companies seeking financing to purchase U.S. goods and services, can now access information on the financial products offered by the Ex-Im Bank (*www.exim.gov*) directly from a new portal that has been added to the agency's Web site at *www.exim.gov/russia/index.html* (in English) or *www.exim.gov/russia/index-ru.html* (in Russian). The Ex-Im Bank Web Portal for Russia describes Ex-Im Bank programs that can help U.S. and Russian businesses find financing to export or import U.S. goods and services to Russia.

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volume in order to negotiate the lowest possible price. The procedure of centralized government procurement of IT products will be developed soon.

The Ministry expects that, in the medium-term, the concept will help to:

- combine the federal agencies' information systems and resources;
- make these resources accessible at the intergovernmental level; and
- improve the legislative basis of the IT sector in Russia.

The U.S. Commercial Service believes that the interest in IT in Russia runs very high, and there is little doubt of the huge potential demand for PCs, Internet access, and b2c e-commerce should the government support high-tech development and incomes rise from current levels.

Irina Lakaeva is a commercial specialist for the ***U.S. Commercial Service*** *in Moscow.*

U.S. Commercial Service offices in Russia offer U.S. exporters a number of services aimed at generating export sales, including identifying distributors and arranging meetings with prospective buyers during business visits to Russia. For more information, contact Irina at tel: 7 (095) 737-5022 or email: irina.lakaeva@mail.doc.gov, *or visit* www.buyusa.gov/russia/en.

Event: Renewable Energy in Central Asia and Azerbaijan

by Chris Christov

On October 27–28, 2004, the office of BISNIS, U.S. Department of Commerce, together with EcoLinks, an initiative of the U.S. Agency for International Development (USAID), the Department of Energy's Office of Policy and International Affairs, and Central Asian Embassies in Washington, DC, organized and hosted a first of its kind seminar dedicated to exploring the opportunities in the renewable energy market in Central Asia and Azerbaijan.

Participants and presentations came from U.S. Government agencies, The World Bank, the European Bank in Reconstruction and Development (EBRD), private sector U.S. companies, nonprofit organizations, market specialists and policy experts in the field of renewables, as well as Central Asian experts from the Climate Change Coordination Center of Kazakhstan, the Technology Transfer Agency of Uzbekistan, the Renewable Energy Center of Kyrgyzstan, and representatives of the Embassies of Tajikistan and Azerbaijan.

The objectives of the workshop were to discuss the technological and commercial viability of introducing renewable energy into Central Asia and Azerbaijan, to examine the market conditions for attracting U.S. investors and operators in the sector, and to establish avenues for technology transfer and R&D collaboration between the United States and the countries of the region. To this end, the workshop included in-depth analysis of the potential for renewable energy systems in the region and focused the discussions on identifying optimal ways to achieve the desired levels of market penetration and utilization. Presentations were also given by U.S. renewable energy technology providers, such as Uni-Solar, Solar Power Ltd., Daystar Technologies, Capital Technology International, Solar Integrated Technologies, North Carolina State University's Renewable Energy Program and others. Site visits were made to BP Solar in Frederick, Md., and Skybuilt Power in Arlington, Va.

Understanding that exploring and utilizing renewable energy resources is vital to the sustainable economic development of their nations and requires close regional cooperation, the Eurasian delegates charted a joint "roadmap" calling for the establishment of a Regional Working Party to oversee and implement renewable energy programs. All records on the seminar as well as upcoming activities and updates on the Working Party will be posted on the EcoLinks Web site at *www.ecolinks.org.* Inquiries can be directed to John McGill, international program manager for EcoLinks, at email: *mcgill@tcgillc.com.*

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*Chris Christov covers the environmental technologies sector for **BISNIS** in Washington, DC. For more information on this sector in Eurasia, visit* http://bisnis.doc.gov/bisnis/isa/isa-envir.cfm.

USAID and Kazkommertsbank Promote Energy Efficiency Projects in Kazakhstan

The United States Agency for International Development (USAID) and Kazkommertsbank JSC (KKB) on September 29 signed a guarantee agreement to support lending to energy efficiency projects in Kazakhstan, according to a Kazkommertsbank press release. The guarantee agreement was signed as part of USAID's Development Credit Authority (DCA) program. The main goal of the DCA program is to provide needed credit in underserved sectors. The programs mobilize local private capital by establishing risk-sharing relationships with private financial institutions throughout the world. Under the terms of agreement with Kazkommertsbank, USAID will provide a 50 percent guarantee to a loan portfolio totaling $15 million over a seven-year period, reducing risk to KKB, to promote energy efficiency projects.

Loans will be made to qualifying borrowers who will use the proceeds to pay for such projects as heat efficiency upgrades, electric distribution system upgrades, and gas conversion projects in municipal and privately owned buildings. Previous USAID projects have resulted in energy savings of up to 25 percent.

KKB Managing Director Magzhan Auezov said: "Energy efficiency projects in Kazakhstan are still ranked as high-risk projects by commercial banks. However, by signing this agreement with USAID, KKB will expand its lending in this sector, particularly in SME businesses."

KKB (*www.kkb.kz*) is the largest private bank in Kazakhstan. Created in 1990, KKB currently has branches throughout Kazakhstan. The EBRD is among KKB's shareholders, with 15 percent of its stock.

*For more information on Kazakhstan, visit **BISNIS** online at* www.bisnis.doc.gov/kazakstan.

Russian Dental Equipment Market continued from page 3

Marketing Strategy and Promotion

U.S. manufacturers and suppliers can increase their presence in the market by marketing their products to the professional dental industry associations, which play a significant role in the dental equipment and supplies market in Russia. The Russian Dental Association is the largest organization, with 69 regional divisions throughout the country. The other association, ROSI, is also very influential among its members, which include dental clinics, doctors, and other stomatological professionals. Both organizations play an important role in the introduction of new technologies and overall developments in the industry.

The most effective ways to reach dentists is by holding educational seminars featuring the manufacturer's product because many firms have already established clienteles. In fields with complex procedures, such as implantology, orthodontics, and use of articulators, dentists have considerable interest in new materials and techniques, but lack the training necessary to incorporate these products into their practices. Venues for introductory seminars are major trade shows and dental symposia.

Distribution Channels

The distribution structure of dental equipment and supplies in Russia is rather unique. There are about 500 regional and independent distributors in the country, with the major ones located in Moscow, St. Petersburg, and several other big cities, that provide complete customs and logistical support. The distribution network structure is driven by the specifics of importation and customs clearance and the registration and certification procedures necessary to release dental equipment and supplies to circulation. The complicated and time-consuming registration and certification process enhances the need for a distributor in big cities. However, there are large clinics that purchase dental equipment and products for their internal needs and also act as distributors. The large clinics are a good prospect for marketing U.S. products and for long-term partnerships. U.S. companies are strongly encouraged to work with reliable and experienced Russian distributors or agents on registration, certification, and importation of dental equipment.

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*Desi Jordanoff covers the medical and dental sectors for **BISNIS** in Washington, DC.*

Useful Resources for U.S. Exporters

Professional Associations

Association of Private Dental Clinics	*www.stomass.ru*
Russian Dental Association	*www.stomatolog.ru*
Russian Dental Industry	*www.rosi-as.ru*

Trade Shows and Conferences

Dental Salon–April 2005
Dental-Expo–September 2005

Biannual. The 2003 shows attracted 20,000 people and featured over 280 exhibitors.
Organizers: JSC Dental-Expo and Russian Dental Association
Web site: *www.dental-expo.ru*

The **U.S. Commercial Service** in Moscow will offer Gold Key Matching Service for U.S. companies in conjunction with the Dental Salon event in April 2005. For more information, contact Ludmila Maksimova, Commercial Specialist, at tel: 7 (095) 737-5037 or email: *ludmila.maksimova@mail.doc.gov.*

8th International Dental Conference and Exhibition Stomatology–May 2005

The largest conference and exhibition for dental professionals. More than 6,000 exhibitors from all regions in Russia, CIS, and foreign countries.
Web site: *www.primexpo.ru/dental*

Printed media

Stomatologia Segodnya (Dentistry Today)

Circulation 7,000–11,000. Distribution via mail and at trade shows. Content: world news in the dental industry, new companies and clinics, advertisements.
Web site: *www.dentoday.ru*

Dental Market News (formerly published as Dent-Inform)

Monthly commercial bulletin featuring information about domestic and imported equipment. Circulation: 5,000 copies.
Web site: *www.rusdent.com*

Clinical Dentistry

Quarterly official journal of the Russian Dental Association.
Circulation: 5,000.
Web site: *www.stoma.ru*

Dentist (Dantist)

Monthly informational bulletin. Circulation: 8,000.
Web site: *http://stom.ru/dentist*

Pediatric Dentistry and Prophylaxis
Quarterly journal for pediatric dentists and orthodontists.
Circulation: 3,000.
Web site: *www.detstom.ru*

OPIC Insurance: Reducing Investor Risk in Eurasia

by Timothy Harwood

Russia and the former Soviet states might seem risky markets that U.S. investors would steer clear from, but recent experiences suggest that doing business there can be rewarding.

Consider a New York-based small business that has grown its optical components factory in St. Petersburg over the past five years. It produces lenses, domes, prisms, polarizers and wave plates for sale in the United States and worldwide, while at the same time ensuring that its senior management receive MBA coursework and that its opticians receive professional training in America.

Or another small business, from Pittsburgh, that is involved in a joint venture that will manufacture suspension systems for railroad freight cars in Ukraine. The project will provide substantial benefits to the Ukrainian economy, which relies on both its rail system and heavy industry.

Or a third small business, from Washington State, that is upgrading a three-star hotel in Uzbekistan and completing construction of another, helping the country draw new tourists to its Silk Road attractions.

Or, finally, a consortium of banks that is helping to fund a pipeline that will provide the infrastructure necessary to transport oil produced in the Caspian Sea safely and efficiently to the Mediterranean Sea, enabling Azerbaijan, Georgia, and Turkey to realize a vital economic priority.

As with any successful investment, these examples reflect the meticulous preparation, determination, and perseverance of American investors who identified a potentially lucrative new market for their products and services. Another common factor in these stories—the investor in all of these projects benefited from political risk insurance from the Overseas Private Investment Corporation (OPIC).

How OPIC Insurance Can Help

OPIC insurance facilitates the entry of U.S. investors into markets such as Russia and the Eurasia countries. It protects American companies against political violence, including terrorism, as well as expropriation and currency inconvertibility. Over its 33-year history, OPIC has provided roughly $2.5 billion in insurance for 90 projects in Russia alone, with similar levels of support in the other Eurasian countries.

Those projects run the gamut of sectors and regions in Russia, from oil and gas to telecommunications, manufacturing, mining and financial services, from Moscow and St. Petersburg to Yekaterinburg, Nizhny Novgorod, and Khabarovsk. OPIC clients in the Eurasia region have included Cargill, Ingersoll Rand, Citibank, Newmont Gold, Hyatt International, McDonald's, and Pepsi Cola General Bottlers, as well as more than 30 small businesses.

The projects mentioned above, in particular, represent the smaller and medium-sized U.S. companies increasingly looking to OPIC insurance to underwrite their investments so as to benefit from U.S. government support in an uncertain investment climate.

And under the tenure of President Dr. Peter Watson, OPIC has streamlined its insurance products, steering them away from competition with the private sector and toward U.S. small businesses and their unique ability to energize new markets.

In the last year alone, OPIC insurance has introduced stand-alone terrorism coverage, which is of particular interest for companies with highly visible assets or high profile projects, and an insurance "wrap" for small business projects receiving financing through OPIC's Small Business Center. These new products reflect the agency's determination to provide flexible and efficient service in an ever-changing international investment climate.

OPIC is indeed aware of the challenges facing potential investors in Russia and the NIS states. Their governments remain highly bureaucratic, implementation of economic reforms has been inconsistent, and governmental checks and balances are still lacking.

Yet the region continues to entice U.S. investors, and for good reason. They are attracted by the region's growing market potential, its low-cost, skilled workforce and, of course, its natural resources. Vladimir Putin's recent reelection as Russian president and the continued presence of reform-minded figures in his government give investors additional cause for optimism.

On balance—keeping in mind investor fears following the 1998 financial crisis and the ongoing conflict in Chechnya—OPIC has begun to see signs of the investment cycle in Russia and the Eurasian countries returning to the upswing. The agency is actively considering several projects in the region in various sectors, including manufacturing, food processing and storage facilities, agribusiness, financial services, health care, housing, and oil field development.

Confidence, as ever, is the key for encouraging U.S. investment in emerging markets, such as Russia and Eurasia. OPIC political risk insurance has delivered to U.S. companies that additional level of security they need in order to enter new and risky markets. OPIC's experience has shown that, once there, even greater opportunities await them.

Tim Harwood is a public affairs specialist at OPIC.

For more information, contact Rashmi Nehra, senior investment insurance officer, at (202) 336-8602, or visit www.opic.gov.

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March 9–11, 2005
Moscow, Russia

"Linking Eastern & Western Power/ Power Service Companies"

Organizer: **PennWell Corp.**

Web site: *http://rp05.events.pennnet.com*

U.S. companies interested in exhibiting at this show should contact:
Denne Johnson, PennWell Corporation,
tel: (918) 832-9264 or
email: *dennej@pennwell.com.*

Trade Events Calendar

Kiev Build	**February 15–18, 2005**	**Kiev**
Organizer:	ITE Exhibitions	
Web site:	*www.buildingshows.com*	
World Wine Russia	**February 16–18, 2005**	**Moscow**
Organizer:	ITE Exhibitions	
Web site:	*www.worldwine-russia.com*	
BuildExpo Azerbaijan	**February 22–24, 2005**	**Baku**
Organizer:	TNT Productions, Inc.	
Web site:	*www.tntexpo.com*	
NORWECOM	**February 24–28, 2005**	**St. Petersburg**
Organizer:	Restec	
Web site:	*www.restec.ru*	
Sector:	Communication and telecommunications systems	
Georgian International Healthcare Exhibition	**March 10–12, 2004**	**Tbilisi**
Organizer:	ITE Exhibitions	
Web site:	*www.caspianworld.com*	

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