



# BISNIS BULLETIN



Published by the Business Information Service for the Newly Independent States  
U.S. Department of Commerce • International Trade Administration

December 2000/  
January 2001

## UZBEKISTAN'S SILK ROAD ATTRACTIONS BECKON

by Kelly Raftery

The Silk Road was the predominant trade route between China and Europe from as early as 1,000 B.C. until the early 16th century A.D. A steady stream of travelers and traders traversed the route through what is modern day Central Asia, including Uzbekistan, until ocean-going ships made the road obsolete. However, the cities that cropped up along the route still have an undeniable appeal to the modern traveler seeking an exotic destination. Uzbekistan is home to a number of ancient Silk Road cities, including Khiva, Samarkand, and Bukhara, which retain much of their historical atmosphere, and where it is only a short flight of imagination to picture oneself walking in Tamerlane's shadow. In addition to historical and cultural sites, Uzbekistan also offers tourists the modern capital of Tashkent, as well as a variety of natural beauty to interest the adventure traveler.

The government of Uzbekistan has made tourism one of its priority sectors for development over the next 5 years. Planned projects range from the construction of world standard hotels to restoring historic sites to improving internal transport links. The government welcomes investment and participation on the part of foreign firms in the tourism sector, particularly in the construction/refurbishment of

large hotels in Tashkent, and has developed a long-term plan through 2005.

Currently, a handful of U.S. companies offer tourism services to Uzbekistan, although others are



Photo by Kelly Raftery

Tourists in front of an ancient madrasah in Bukhara.

beginning to explore the potential in the market. Arranging trips to Uzbekistan is not a simple task. Difficulties include its remoteness from the United States, a lack of affordable options for accommodations and decent restaurants, a poor tourist infrastructure, and many bureaucratic roadblocks, especially from the state-run tourism agency Uzbektourism.

### Tourism Development in Uzbekistan

The state tourism company Uzbektourism ([WWW.UZBEKTOURISM.UZ](http://WWW.UZBEKTOURISM.UZ)) is the main player in the sector

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BISNIS is an information resource for U.S. companies doing business in the Newly Independent States of the former Soviet Union. Operated by the **Market Access and Compliance** unit of the **International Trade Administration**, BISNIS disseminates information in print form, electronically, and through consultations by its staff of trade specialists. For more information, please contact:

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*Articles by non-U.S. government employees express the views  
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U.S. government policy.*

## UPDATES

The U.S. Chamber of Commerce announced in November 2000 that the **American Chamber of Commerce in Kazakhstan** has become a new accredited member of the Chamber.

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In November 2000, President Clinton signed legislation granting **permanent normal trade relations (PNTR)** with the former Soviet republic of **Georgia**. The only other NIS country that has been granted PNTR is Kyrgyzstan. Both NIS countries are members of the World Trade Organization (WTO).

## NEW RESOURCES

### ***Caucasian Business Circle***

A monthly email bulletin of finance and economics from VIVA-Press of Tbilisi, Georgia. The publisher also offers three publications about finance and economics in Georgia. *For information, contact Vladimir Miroshnichenko at email miro@geointer.net or visit [WWW.GEO.NET.GE/GEORGIANBUSINESS](http://WWW.GEO.NET.GE/GEORGIANBUSINESS).*

### ***Private Wealth-National Vision: The Memoirs of a New Russian Entrepreneur***

by Alexander Panikin, trans. E.W. Clowes  
Published by Slavic Cultural Center Press. *For more information, contact E.W. Clowes, Univ. of Kansas, tel: (785) 864-2359, or email: eclowes@ukans.edu.*

### ***EurasiaNet.org***

This website offers a weekly bulletin and lots of information on the Caucasus and Central Asia. *To subscribe, visit [WWW.EURASIANET.ORG](http://WWW.EURASIANET.ORG).*

## SABIT FY 2001 Program Calendar

The U.S. Department of Commerce's **Special American Business Internship Training (SABIT)** program announces several specialized training programs for fiscal year 2001. The programs provide industry-specific training to groups of primarily non-English speaking managers and technical experts from the NIS. It brings 15-20 interns to the United States for 4-6 weeks of training and networking with U.S. companies.

### **Business Management for Women - Apparel**

Program Dates: February 3-March 3, 2001

### **Standards - Telecommunications**

Program Dates: February 24-March 24, 2001

### **Russian Regional Development - Tomsk Energy Efficiency**

Program Dates: March 3-31, 2001

### **Environmental Technologies for Offshore Oil Spill Clean-up**

Program Dates: March 10-April 7, 2001

### **Business Management for Women - Tourism**

Program Dates: April 28-May 26, 2001

### **NIS Services - Hotel Management**

Program Dates: May 12-June 9, 2001

### **Standards - Medical Equipment**

Program Dates: June 2-June 30, 2001

### **Russian Regional Development - Tomsk Timber**

Program Dates: July 7-August 4, 2001

In addition, SABIT provides funding to U.S. companies and organizations to conduct stateside management training for business executives and scientists from the NIS. SABIT identifies a pool of potential trainees in specified fields and awards grants to U.S. companies to help pay to host and train an English-speaking NIS colleague.

For information, contact **SABIT** at (202) 482-0073, or visit [WWW.MACDOC.GOV/SABIT/SABIT.HTML](http://WWW.MACDOC.GOV/SABIT/SABIT.HTML).

## Russian Import Tariff Reform To Take Effect in 2001

by Derek Nowek

On January 1, 2001, new import duty rates on thousands of commodities will take effect in Russia, based on government resolution no. 886 signed on December 1. The new import tariff structure standardizes and unifies Russian customs tariffs into four base rates of 5 percent, 10 percent, 15 percent, and 20 percent. It also lowers the maximum tariff rate ceiling by 10 percent, from 30 percent to 20 percent. Notable exceptions to the new rules include duties on foreign-made cars and poultry items, which will be set at 25 percent, down from the current rate of 30 percent. Certain other commodities will continue to be regulated through seasonal duties and quotas. Initially, the new tariff rates are being introduced for a period of 9 months.

Russian customs officials estimate that the leveling out of rates will lower the average customs payment to 12 percent. They hope that by cutting rates a little on some goods and raising them a little on others, they will eliminate the common practice by traders of mislabeling imports in order to pay cheaper rates. The two best-known examples of improper labeling involve substituting turkey for chicken (taxed at 15 percent and 30 percent, respectively), and greenery (5 percent) for cut flowers (25 percent). As of January 2001, both categories are taxed alike at 25 percent and 15 percent. Customs officials anticipate that similar harmonized tariffs on other goods will also lead to an overall increase of customs revenues for the state.

U.S. companies doing business in Russia may find the new tariff provisions and fewer base rates can generally simplify business activities there. In a country where clearing goods through customs is still more art than science, the new import structures are seen as taking Russia a step closer on the road to reduced barriers to foreign trade, conformity to world trade practices, and membership in the WTO. And if Russia's new customs policy is followed by similar tariff rate changes by the other four members of the CIS Customs Union—Kazakhstan, Kyrgyzstan, Belarus, and Tajikistan—the trade advantages to U.S. companies will continue to grow.

For more information on dealing with Russian customs, visit the **Russian State Customs Committee** online at [WWW.GTK.RU](http://WWW.GTK.RU) or **BISNIS Online's "Customs Corner"** at [WWW.BISNIS.DOC.GOV/BISNIS/CUSTOMS.HTM](http://WWW.BISNIS.DOC.GOV/BISNIS/CUSTOMS.HTM).

Derek Nowek covers customs and transportation at **BISNIS** in Washington, D.C.

*(SILK ROAD, continued from p. 1)*

—it acts as the state-owned travel bureau, making tour, hotel, and travel arrangements for travelers. It is also charged with developing Uzbekistan's tourism infrastructure. Uzbektourism not only holds ownership in many of the newly built or remodeled hotels, but also owns the majority of the larger, Soviet-era hotel properties. Uzbektourism recently announced an ambitious plan for a number of new hotel development projects. Although Uzbektourism has a wide range of existing and proposed properties, it unfortunately has not made the leap to a standard of service that is higher than the Soviet norm. Some Western observers have criticized Uzbektourism's monopoly position in the market and it is generally believed that the agency is preventing the tourism industry from reaching its full potential.

Although Uzbektourism is the primary government body dealing with all aspects of the tourist trade in Uzbekistan, some interesting initiatives have emerged from private sector tourism companies. For example, a number of small bed and breakfast (B&B) facilities have opened in recent years in Uzbekistan's major cities. These businesses not only offer decent accommodations, but also can organize tours, traditional feasts, and other activities. Another strong selling point for these facilities is their local ambiance. One outstanding example of this sort is a B&B in Bukhara that re-creates a Silk Road-era guesthouse. Many independent and business travelers prefer these establishments, primarily due to the higher level of personal service that they offer. Other bed and breakfast owners are developing to suit the needs of a wide variety of travelers. Accommodations can range from an ultra modern, Western-standard room to entire homes converted into corporate retreats. Although there is informal cooperation between bed and breakfast facilities in the country, no formal mechanism exists to organize needed centralized services, such as booking accommodations in multiple cities.

### U.S. Company Interests

Most U.S. tourism company activity in Uzbekistan has been focused on offering services, such as tour packages (which often also include neighboring countries with Silk Road sites) and itineraries for individual travelers. Among those companies are **MIR Corporation** (Seattle, Wash.) and **Tour Designs** (Washington, D.C.). U.S. companies also manage two of Tashkent's premier hotels—**Sheraton** operates a facility owned by the mayor of Tashkent's office and the **Intercontinental** manages a facility owned by the Ministry of Foreign Economic Affairs. The government of Uzbekistan has recently sought new partners to build and manage hotels in the major Silk Road cities.

While it seems clear that Uzbekistan's tourism sector has a great deal of promise, it is equally clear that there are some major barriers to being able to work effectively on the local market, not the least of which is the ongoing problem of currency conversion. For American companies operating in

## PARTICIPATE IN AN AGRIBUSINESS TRADE MISSION TO RUSSIA!

Rostov - Samara - Lipetsk  
April 20–30, 2001

The U.S. Department of Agriculture (USDA) and U.S. Agency for International Development (USAID) Program to Revitalize Russian Agriculture through Regional Investment (PRARI) has been working for about 3 years, helping to pave the way for investment and trade in selected Russian regions.

The trade mission offers participating U.S. firms:

- introductions to pre-screened strategic or financial partners;
- briefings by top U.S. embassy and trade officials;
- meetings with local government and private sector representatives;
- useful advice from other U.S. businesses that have invested there;
- interpreters, translators, internal ground transportation, and some meals.

Company costs are limited to international travel and Moscow hotel expenses and some meals.

For more information, contact:

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Uzbekistan, the restrictive regulations—requirements to be registered to convert soums to dollars, to convert at government-set rates, and the 50 percent surrender rate—are a major obstacle to running a profitable enterprise. However, for a company interested in taking a long-term perspective on the market, tourism in Uzbekistan offers opportunities for an early entry into a promising sector of the economy.

*For more information on Uzbektourism, contact Bakhtiyor Khusanbaev, chairman, or Alisher Shamsiev, International Relations Department, at tel: +998 (71) 133-02-17, 133-84-31, fax: +998 (71) 136-79-48, email: [UZTUR@online.ru](mailto:UZTUR@online.ru).*

*For more information on hotel development in Uzbekistan, visit **BISNIS Online** at [www.BISNIS.DOC.GOV/BISNIS/COUNTRY/000705UZHOTEL.HTM](http://www.BISNIS.DOC.GOV/BISNIS/COUNTRY/000705UZHOTEL.HTM).*

*Kelly Raftery covers Uzbekistan for **BISNIS** in Wash., D.C.*

# NIS DO-IT-YOURSELFERS CREATE DYNAMIC MARKET

by Jeffrey Kamins

The market for do-it-yourself (DIY) products—construction materials and hardware used in home improvement projects—has become increasingly dynamic in the NIS since the breakup of the USSR. During Soviet times, there was a lack of a developed service market to do maintenance, installation, and repairs of homes and household items, and DIYers consisted mainly of a loose network of individuals who did for themselves, or for neighbors and friends, often using borrowed or shared tools. For the most part, the inability to own one's house or apartment meant that only basic or necessary repairs and improvements were made. With the transition to market economies, privatization of property, and increased construction in the NIS, the DIY market has expanded substantially; new owners are eager to redecorate, update, and improve long-neglected residences, or outfit new ones.

Currently, 70 percent of construction materials consumers are individuals and the other 30 percent are contractors, usually small companies doing work for individual homeowners or commercial entities that own or manage property. U.S. companies that have yet to consider the NIS, particularly the larger markets of Russia, Ukraine, and Kazakhstan, might want to look into exporting or joint venture opportunities.

## Recent Development of the DIY Market

In the early and mid-1990s, the privatization of apartments and dachas (country cottages), along with the commercial construction boom in the larger NIS cities, made the region a promising market for DIY products. However, the Asian and Russian financial crises of the mid- to late 1990s led to a decline in construction projects, and many retailers and investors left the market. In turn, as a result of the devaluation of the Russian ruble and the subsequent drop in imports, domestic producers became more competitive with foreign manufacturers, and the domestic DIY and construction materials industry had an opportunity to capture lost market share. However, most of Russia's DIY producers remain uncompetitive as they use obsolete equipment and produce substandard goods. Consequently, as the Russian economy has slowly begun to recover, there are new opportunities for U.S. companies to fill the DIY market void by targeting contractors and the emerging, property-owning middle class.

## Most Promising NIS Markets

New housing construction bolsters DIY product purchases; new housing construction in Russia is estimated to have increased 32 percent in 2000, while accompanying DIY sales should be stimulated by expected retail growth and personal consumption. Currently, it is estimated that over 50 percent of Russian residences are already privately owned, with privatization rates varying from 30 to 95 percent in different cities. Moreover, new opportunities for the Russian

middle class (an estimated 8 to 22 percent of the population) to mortgage a home (particularly in Moscow, St. Petersburg, and Sakhalin) should help boost DIY sales.

Ukraine, with 50 million people, is the second largest market in the NIS for DIY products. However, many leading U.S. DIY products exported to Ukraine lag behind Russian imports because of import substitution and a decline in disposable income.

Other markets to consider are Azerbaijan, Georgia, and the larger cities of Kazakhstan. In Azerbaijan and Georgia, new investments in the Caspian energy projects are expected to bring significant GDP growth in 2001, as well as revived retail sales and demand for prefabricated housing for oil project personnel. Kazakhstan's elite and middle class in the financial capital Almaty and official capital Astana are the best prospects for DIY product sales in that country.

## End-Users and Competition in the Market

Currently, the DIY concept is well ingrained in today's Russia for reasons of economy, rather than due to the lack of a service sector as was the case in the USSR. A service sector has developed to serve the new elite, which accounts for 5-10 percent of the urban population. This market segment is likely to hire contractors to complete their home repair and improvement projects. However, much of the NIS population own their own residences and are accustomed to saving money by doing home improvement projects themselves, pooling tools, equipment, and skills among friends, and only contracting a "master" to work on highly specialized projects. The target market is the middle class in major cities (such as Moscow, Yuzhno-Sakhalinsk, Samara, St. Petersburg, Kiev, and Nizhny Novgorod), which is the best prospect for long-term, sustainable sales growth.

European DIY companies currently have 30-35 percent of total market share, and rival American products on quality, variety, and post-sale service. The middle class and contractors prefer these products. Eastern European, Chinese, Iranian, and Korean products are the most price-competitive, but lowest quality, foreign products on the market, and are usually retailed through unorganized markets or bazaars. It is estimated that this group of competitors has a 45 percent market share. Local producers claim 15-30 percent of the market. American products are perceived as good quality, but claim only 2-5 percent of the market.

European products are outperforming U.S. products due to several factors: lower transportation costs and lead time; more aggressive partnering with local companies, training on product knowledge, and marketing; better cultural understanding; and more patience.

*(continued on p. 9)*

# AN OVERVIEW OF NCI PROGRAM OPPORTUNITIES

by **Melissa Walters**

Created in 1998 by an intergovernmental agreement, the Nuclear Cities Initiative (NCI) is a cooperative program between the U.S. Department of Energy (DOE) and Russia's Ministry of Atomic Energy (MinAtom) designed to downsize Russia's nuclear weapons complex within 10 formerly "closed" nuclear cities by promoting economic development, investment, and job creation in commercial, civilian enterprises. NCI is currently working in 3 of the 10 cities: Sarov, Snezhinsk, and Zheleznogorsk. NCI activities occur in the municipal areas of the closed cities, and not within MinAtom's secured facilities. NCI follows a five-step strategic plan in Russia's nuclear cities:

1. develop joint strategic plans for accelerated complex downsizing,
2. develop infrastructure to support economic diversification and job creation,
3. facilitate the transition from weapons-related research to commercially funded business and research,
4. conduct targeted training and other activities as part of a community resource development program, and
5. leverage funding and encourage investment.

This U.S.-Russian collaboration on defense conversion projects offers investment opportunities for U.S. companies interested in employing former Soviet weapons scientists.

## Advantages of Investment in the Nuclear Cities

The Russian government provides tax and other incentives to U.S. investments in NCI projects. The legal framework provided by the NCI Government-to-Government Agreement, coupled with the close cooperation between MinAtom and the DOE, provides a substantial legal framework and measure of assurance and stability to U.S. industry in the closed cities. Moreover, NCI conducts export control reviews and ensures that due diligence is carried out on all proposals. In addition, the nature of these formerly "closed" cities offers an investment climate with low criminal activity and insignificant levels of organized crime and corruption coupled with a complete citywide security infrastructure already in place. The quality of both existing technology and standards of production is first-rate within these cities, and the labor force is highly skilled and relatively inexpensive.

However, significant challenges to doing business in these cities exist as well, including continued tight security and stringent requirements for access into the cities. Moreover, U.S. industry participation in NCI projects has developed predominantly out of pre-existing, close-knit ties among the national laboratories and several U.S. firms. NCI is currently exploring ways to involve private industry without such a relationship in these projects.

## Program Results To Date

NCI has already achieved marked success in the pilot

cities of Sarov, Snezhinsk and Zheleznogorsk. NCI projects within these nuclear cities have sparked interest among such U.S. firms as **Motorola**, **General Electric**, and **General Atomics**. Sarov currently has in place an Analytical Center for Nonproliferation, the Sarov Open Computing Center (SOCC), and a contract for Avangard Medical Technologies (kidney dialysis). The Avangard Medical Technologies project will be carried out, along with other projects, in an NCI-created Technopark, which carved 500,000 square feet out of the Avangard Electrochemical Plant, opening this area for commercial industrial investment. The SOCC has a variety of projects underway: algorithm development for clusters, reservoir modeling for the oil and gas industry, biomolecular modeling, and target and shielding calculations for high-energy physics. In 2001, NCI intends to create additional business opportunities, such as an Open Research Center, production of switch equipment for the electric power utility, and production of instrumentation for the oil and gas industry.

Likewise, Snezhinsk has become host to pharmaceutical production, an Open Computing Center, International Development Center, oil well perforators manufacture, multi-mode optical fibers, water jet technologies, and bar code identification technology. Zheleznogorsk is host to the first International Development Center, and served as a model for development of the Snezhinsk center. Contracts currently in place or being negotiated include production of aluminum industry equipment, Atomlink Internet service business, medical supply materials and plant growth stimulant production. Plans are underway to convert a former plutonium processing facility into a rare earth metals production facility, permanently removing those facilities from defense production and creating over 1,000 commercial jobs for former weapons workers. In addition, the Zheleznogorsk city administration has plans to construct an industrial technopark as a prototype for the development of new commercial manufacturing businesses. For more information on activities within these three cities, visit [www.bisnis.doc.gov/bisnis/isa/isa-misc.htm](http://www.bisnis.doc.gov/bisnis/isa/isa-misc.htm).

## Initiatives for Proliferation Prevention (IPP)

U.S. companies can also invest in NCI cities through DOE's Initiatives for Proliferation Prevention (IPP) program, which fosters collaborations between NIS scientific institutes, private companies, and DOE national laboratories for projects with an ultimate commercial potential. IPP projects, which are often carried out within NCI cities, are based on a required cost-sharing basis, whereby U.S. private industry matches U.S. government funding for research and aids the Russian entity in prototype development. The final phase of the cooperative partnership is commercialization of the end product.

IPP works with the Inter-Laboratory Board (ILAB) and the **United States Industry Coalition, Inc.** (USIC). ILAB

consists of 10 members of the DOE national laboratories, plus the Kansas City Plant. ILAB contacts NIS institutes to conduct capability evaluations and technology assessments for IPP. USIC is a nonprofit association of U.S. companies and universities committed to the nonproliferation of weapons of mass destruction through the commercialization of technologies. USIC evaluates the commercial potential of proposed IPP projects, favoring projects that are potentially cost-effective, attractive to investors, and commercially viable.

#### Community Development Resources in NCI Cities

To further support commercial activities in these three cities, NCI has also promoted several community development initiatives to assist these cities in filling the gap in municipal and social services as Russian government subsidies dry up. Activities include community-based programs and partnerships, such as health training and youth exchanges, municipal governance activities, microenterprise and institutional development, and information network building. These activities are carried out in conjunction with other U.S. government programs and co-sponsorship with nongovernmental organizations (NGO), such as the Sister Cities program. Building on existing relationships between the U.S. national laboratories and Russian closed city counterparts, the Sister Cities program has linked Sarov, Snezhinsk, and Zheleznogorsk to Los Alamos, N.M.; Livermore, Calif.; and Maryville/Alcoa, Tenn., respectively. [Note: Sarov and Los Alamos have been sister cities for years, well before the NCI program came along.] The intent is to provide a forum through which to share experiences and know-how in such areas as defense downsizing, economic diversification, and accelerated conversion. All cities have participated in exchanges of students, teachers, and municipal leaders.

NCI's International Development Centers (IDCs) have been formed thanks to the cooperative efforts of **Pacific Northwest National Laboratory** (PNNL) and the Foundation for Russian American Economic Cooperation (FRAEC, [www.fraec.org](http://www.fraec.org)). Among other things, IDCs provide business development support, such as Internet access, libraries, meeting rooms, and presentation equipment.

NCI, along with various government agencies and NGOs, conducts a number of training programs in the Russian nuclear cities. These programs focus on infrastructure development and economic stability, while aiming to refine the skills of the city residents in order to prepare them for international business opportunities.

#### Plans for Expansion?

NCI plans to continue its development of the nuclear cities in the same fashion that has been successful at Sarov, Snezhinsk, and Zheleznogorsk. To begin, NCI would establish international business development centers, identify "alternative commercial job creation projects," and create a plan for accelerated conversion. Given MinAtom's expressed de-

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sire to cease nuclear weapons assembly and disassembly at Zarechny, this city is likely to be selected next for expansion, although numerous other closed cities have indicated an interest in participating.

*For additional information on DOE's programs, contact:*

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*Melissa Walters covers defense conversion for **BISNIS** in Washington, D.C.*

# DEVELOPMENTS IN ELECTRONIC COMMERCE IN RUSSIA

by Inna Nazarova and Irina Lakaeva

Russia's continued growth of Internet users, recent improvements in the country's telecommunications infrastructure, and its supply of engineers and IT specialists with excellent technical skills offer strong potential for the growth of e-commerce. The number of Russian companies that use the Internet for business purposes has increased exponentially over the past 2 years. The total number of web servers in Russia was recently estimated at over 200,000, and is increasing steadily. A good website is now considered a must for a serious company, although many are not updated on a regular basis. Moreover, some Russian companies are moving beyond web marketing and investing in online commerce.

To capitalize on the potential benefits of e-commerce, major industrial groups are investing millions of dollars in e-commerce projects. Business-to-business prospects appear better at this point than business-to-consumer services, which are hindered by several challenges. Development of e-commerce infrastructure presents investment opportunities for U.S. firms, but existing regulations and business practices suggest that the willingness to take a risk in a nascent sector, a lot of imagination, and a reliable Russian partner are musts.

## B2C Projects and Prospects

The number of Internet users in Russia is still relatively low, with estimates ranging from 2 to nearly 6 million, and the largest group of users reside in Moscow. Moreover, poor telephone penetration and connections are problematic (only 29 percent of city networks were digital as of 1999), and many users complain about frequent disruptions, busy signals, and slow connection speeds.

In 1999, e-commerce retail sales estimates range from \$1 to \$3 million. Russia's 146 million people may eventually be quite receptive to using online services, but weak consumer purchasing power, low computer penetration rate, insufficient telecommunications infrastructure, a Byzantine banking system, and inadequate postal delivery systems significantly limit the B2C e-commerce potential. Russians have ambivalent attitudes about new technologies and most have no confidence in virtual transactions, something Western consumers have been accustomed to through catalog purchases. Moreover, Russians lack non-cash payment options; debit and credit cards are rarely used outside Moscow and St. Petersburg. Furthermore, the population is wary of the banking system (especially since the 1998 financial crisis).

Nevertheless, some B2C projects are expanding. As of summer 2000, Russia had about 500 online stores. Major B2C projects include Ozon.ru, a copycat of Amazon.com, XXL.ru, an online supermarket, Dostavka.ru (computers), and Torg.ru, an online shopping mall. Most retailers require on-delivery cash or credit card payment. These projects are very aggres-

sive in marketing and brand development. Most industry experts believe that B2C e-commerce will become economically viable only when Internet reaches about 10 percent of the population, or 15 million users, which may happen in 2003.

## B2B and Virtual Marketplaces

Given the difficulties of B2C development, Russian companies are actively exploring web opportunities in B2B marketing. Various estimates put B2B sales in 1999 between \$30 and \$90 million, and sales are expected to grow exponentially over the next few years. Willing to capitalize on the potential benefits of e-commerce, businesses have poured about \$50 million into acquisition of pioneering start-up companies, the leader being U.S.-owned and managed **Golden Telecom**. Also, major industrial groups are going online and are launching e-commerce projects.

Contrary to experience in the West, where small business drove e-commerce, it is big Russian companies that are establishing large-scale ventures to open new markets (using the Internet as a marketing vehicle) and/or to increase operational efficiency. Metallurgical plants are making the most impressive investments, followed by oil companies. Some companies try to fully integrate business processes; many have invested in the development of the virtual marketplace to trade commodities. For example, Surgutneftegas oil company is planning to build a site for corporate purchases. Oil pipeline monopoly Transneft, the Railways Ministry, and Transtelecom plan to form the Energy Trading System, a \$100-million project to establish an electronic commodity exchange for oil, petroleum products, electricity, and natural gas.

The number of Internet trading systems has grown dramatically from one online brokerage in November 1999 to over 40 in June 2000. Most offer Internet interfaces to trade commodities. Major projects include already operational Zerno Online (grain), Oil Online, and Grin.ru (universal exchange). Scheduled for launch in 2001 are Global Steel Exchange, Europe-Steel.com, Emetex (metals), and Business.ru (universal). Privacy concerns and an existing lack of pricing transparency that some companies find beneficial may impede the growth of online trading.

## Financial Services

Online financial services are just emerging in Russia, which is still recovering from the collapse of the banking system in 1998. People lack confidence in domestic financial institutions and typically convert savings to U.S. dollars; it is estimated that \$40-60 billion are kept "under mattresses." Nevertheless, several banks are pioneering new approaches. Avtobank launched an Internet service bank, which clients may use to pay utility bills and transfer money from one's bank account to a debit/credit card, and is planning to offer a

full-line service in the future. Platina Bank developed Cyberplat, an online processing infrastructure primarily for B2B commerce, where market participants from different industries trade in the virtual marketplace and use one bank for all transactions. Gutabank launched a \$40 million project to establish a portal for online shopping and banking, primarily for individual customers and their savings. Alfa Bank and Golden Telecom signed a letter of intent to consider issuing a Visa card to allow more Russians to use e-commerce.

Online financial brokerages are also developing rapidly. Industry experts believe the number will reach 100 by December 2000. The challenges in this market segment remain the lack of investment culture of the population and the poor development of the Russian stock market.

### Internet Service Providers (ISPs)

There are over 350 ISPs in Russia. The original local phone companies, which have been partially privatized under the umbrella of the state holding company, Svyazinvest, typically become the largest ISPs in their regions, and leverage their vast customer base from the Soviet era. They charge for Internet access based on time billing, using the well-developed long-distance call payment infrastructure. Some offer monthly Internet access packages and prepaid Internet cards as well. Alternative operators, mostly joint ventures led by international phone companies, target corporate customers by offering higher-speed access at a higher price. They often move into content services, web hosting, and e-commerce.

Golden Telecom is seeking to become the leading independent ISP in Russia. Traded on the NASDAQ, the company has raised funds in the United States through an equity issue and is pursuing a rigorous acquisition program to create the basis for a dominant portal in Russia.

The ISP market in major metropolitan areas is quite mature; over 100 companies provide dial-up Internet access services in Moscow alone. The competition has forced access fees to go down and the trend toward price decreases and plan expansion is expected to continue. The majority of Internet users access the web through a dial-up modem connection; however, other technologies, including ISDN, ADSL, and WAP are available in the market. The fact that there are people waiting for basic service in new districts of Moscow may spur the demand for wireless, cable TV, and satellite Internet access. Some small ISPs may suffer as Russia transitions to a metered use system for charging for local calls, but the potential impact is still difficult to estimate.

*For more information on e-commerce in Russia and the NIS, including a longer version of this report, visit **BISNIS Online** at [WWW.BISNIS.DOC.GOV/BISNIS/ISA/ISA-COMP.HTM](http://WWW.BISNIS.DOC.GOV/BISNIS/ISA/ISA-COMP.HTM).*

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### U.S. Presence in the DIY Market

Best U.S. exports to Russia in 2000, estimated in terms of growth in sales, include wall and floor coverings (\$1.8 million), hand machines/interchangeable tools (\$2.2 million), mineral mixers (\$6 million), paints and varnishes (\$3.5 million), wood handles for tools (\$1 million). For Ukraine, the major exports are hand machines/interchangeable tools (\$250,000) and floor and wall coverings (\$130,000).

Some American brands currently represented (or that have formerly reported sales) include **ACE Hardware, TruServ (TrueValue), Stanley, Armstrong, General Electric, Black & Decker, Closetmaid, Chamberlain Group, B & T International, Inc.,** and **M.K. Morse Co.**

### Breaking into the Market

Experienced exporters of DIY goods and materials recommend working with a local partner that has “seven-digit working capital,” broad distribution reach, and proven success. ACE Hardware’s cooperative retail program is one such global success, with over 150 dealers represented in 60 countries. ACE is considered to be a great foreign partner by many of its cooperatives because the company invests in product knowledge training, development of multilingual labeling, and arrangement of special credit terms. ACE has two retail stores in Moscow—Camelot Sales Corp. and Gulf Stream Trading House—both of which weathered the financial crisis.

Other U.S. company representatives associated with the Worldwide Do-It-Yourself Council ([www.wdiyc.org](http://www.wdiyc.org)), an organization of some 150 manufacturers that sell DIY products globally, have noted using a nonexclusive exporter to deal with the local market, as well as working with a local partners on a gradual “trial-by-pallet” basis. To hedge first-time buyer risk, it is still recommended to require 100 percent prepayment, and later transition to flexible credit terms. Moreover, two other options should be considered: (1) using a European company as a distribution bridge into the market to gain the benefits of payment assurance and experience, or (2) finding a local partner for a joint venture or distributor relationship for cost effectiveness and country know-how.

All factors considered, the current DIY market presents potential for U.S. companies for direct export, distribution, and joint venture. Present growth in housing construction, disposable income, mortgage and insurance systems, and retail sales are driving the market demand. However, in order to compete, U.S. companies must do more to inform consumers and retailers of their products and services by partaking in trade shows, direct marketing to prospective partners, and interacting with trade organizations.

*For more info. on the DIY market in the NIS, visit **BISNIS Online** at [www.bisnis.doc.gov/bisnis/isa/diymarket.htm](http://www.bisnis.doc.gov/bisnis/isa/diymarket.htm).*

*Jeffrey Kamins covers construction for **BISNIS** in Wash., D.C.*

**TRICKS OF THE TRADE****LOCATING NIS TAX CODES ON THE INTERNET**

by Judith Robinson

Tax laws are subject to frequent changes in the countries of the former Soviet Union. This inconsistency, the onerous tax burdens imposed, and the severity of penalties for even involuntary noncompliance pose major impediments for U.S. companies eyeing the NIS market. Acutely aware that their tax situations are slowing foreign investment, most NIS governments are working on federal tax codes. Among the goals: rationalizing tax regimes, eliminating conflicts among multiple tax laws, and redistributing the tax burden—thereby encouraging payment and easing enforcement.

Tax codes are single sources of a country's federal tax legislation, gathering into one document a host of laws on corporate and individual income taxes, value added taxes, employment taxes, and others. Making tax code news in 2000 were Azerbaijan, which passed its first tax code, and Russia, which drastically amended Part II of its tax code. The new measures of both countries enter into force January 1, 2001. Kazakhstan this year revised its 1995 tax code, but the new provisions may not become operational before 2002. These tax codes will have an impact on foreign businesses operating in each of these countries.

Analysis and interpretation of tax legislation is best left to competent legal and accounting professionals, and to the tax authorities of the country in question. They, and some U.S. companies with specific interests, have access to full compilations of NIS laws and to legal data bases available by subscription only. However, U.S. business people who wish to take a look at tax code texts or written commentaries on them prior to approaching the professionals, can find some of this material on the Internet at no charge. It is important to be mindful, if the document is in English, of possible translation errors.

**The Russian Tax Code**

Part II of Russia's tax code contains major revisions in federal tax laws that will have a considerable effect on commercial endeavors in that country. The English-language text of Part II is available on the **Ernst & Young** Russia website, an NIS tax guru's heaven, at [www.ey.com/russia](http://www.ey.com/russia). Part I of the Code is available in unofficial translation on the BISNIS website at [www.bisnis.doc.gov](http://www.bisnis.doc.gov). The tax code provisions are incorporated into **Arthur Andersen's** *Doing Business in Russia* at [www.arthurandersen.ru](http://www.arthurandersen.ru), which also offers analyses of the code in its tax bulletins, newsletters, and other resources.

**The Kazakhstan Tax Code**

The Kazecon site, administered by Golden Eagle Ser-

vices and developed with funding from the U.S. Agency for International Development (USAID), offers both English and Russian-language versions of the 1995 tax code (with updates to December 1999) at [www.kazecon.kz](http://www.kazecon.kz) under the "Legal Information and Analysis" section.

The **International Tax and Investment Center** (ITIC), which assisted with the development of the amended Kazakhstani tax code, offers a good assessment of the code by State Revenues Minister Kakimjanov ([www.iticnet.org](http://www.iticnet.org)), but only ITIC sponsors have access to the tax code itself. The Ernst & Young website noted above has a detailed comparison of Kazakhstan's old tax laws and its amended tax code and its *Corporate Tax Guide* has a summary of tax laws applicable to foreign businesses. Arthur Andersen's site ([www.arthurandersen.com](http://www.arthurandersen.com)) offers a wonderful *Kazakhstan Oil and Gas Tax Guide* that discusses the minerals-related sections of the tax code.

**The Azerbaijan Tax Code**

The University of Bremen is adding Azerbaijan's new Tax Code, and that of Kazakhstan, to its fine Russian-language legal database, Lexinfosys ([HTTP://LEX.GTZ.DE/LEXINFOSYS](http://lex.gtz.de/lexinfosys)). The code is not yet available in English on the Azerbaijani government foreign investment website ([www.azinvestpromotion.com](http://www.azinvestpromotion.com)), which offers other key legal texts in English. Meanwhile, Ernst & Young's *Azerbaijan News Brief* and Arthur Andersen's *Business Guide to Azerbaijan, 2001* (at the websites referenced above) contain useful analyses of how the new Azerbaijan tax code may affect Western businesses operating there.

More changes and amendments to the tax codes of Russia, Azerbaijan, Kazakhstan, and the other NIS countries can be expected. Ukraine's new tax code, now in draft, is planned for 2002 with interim changes in existing tax laws. Georgia, Moldova, Kyrgyzstan, Uzbekistan, and Tajikistan all have existing tax codes, while Turkmenistan and Armenia do not.

*Besides maintaining Internet sites, the big five accounting firms and many U.S. law firms all issue high quality newsletters and briefs on the NIS countries where they offer services. For a list of U.S. law firms with offices in the NIS, visit **BISNIS Online** at [www.bisnis.doc.gov/bisnis/country/000926leglist.htm](http://www.bisnis.doc.gov/bisnis/country/000926leglist.htm). See also the **BISNIS Online** country sections for contacts of legal and accounting firms.*

*Judith Robinson covers legal issues for **BISNIS** in Washington, D.C.*

## REGIONAL CORNER: Ryazan Oblast, Russia

by Olga Ananina

Ryazan oblast, located 150 miles south of Moscow (population 1.5 million), is a central Russian region that is only now being discovered by foreign investors. Due to its high concentration of defense enterprises, the region was closed to virtually any international contacts during the Soviet era. This fact has negatively affected Ryazan's regional development and its infrastructure. However, the situation is now rapidly changing. Numerous foreign delegations have visited Ryazan, and oblast enterprises regularly participate in Moscow and international trade shows. The local administration and the Chamber of Trade and Commerce are open to potential foreign partners and provide advice on office space and other business logistics questions. Recently, the economic situation in the region has improved and relatively nice, inexpensive restaurants, cafes, and mini-markets are finding clientele in the region. A modern express electric train has been launched for service between Moscow and Ryazan.

### Leading Enterprises in the Oblast

The energy, oil refining, machine-building, construction, and food-processing sectors are the strongest sectors for the regional economy. Three main enterprises represent the oil refining and energy sector in the region, the largest of which is the Ryazan Oil Refinery, one of the biggest refineries in Russia and a part of the Tyumen Oil Company. Currently, the plant is being reconstructed to increase refining depth, a project partly financed by the U.S. Export-Import Bank.

State Ryazansky Instrument Plant, a former defense plant, currently produces armament control systems for military and civil aircraft, fine mechanics, telemetry, computer facilities and medical equipment, including a popular indicator of inner-eye pressure for ophthalmic use. The Ryazansky Machine-Tool Building Plant and Kombine specialize in agricultural machinery. Ryazansky Radio Plant produces communications equipment, and laser and medical devices.

Major construction materials companies are Ryazansky Cardboard and Roofing Plant, producing soft roofing materials and heat- and hydro-insulators; Kasimovsky Brick Plant, which utilizes German equipment to produce tiles; and Teplopribor, which designs level, consumption, and pressure instruments with pneumatic and electrical output signals.

Ryazan oblast is also one of the leading central Russian producers of cereals, potatoes, meat, and milk. After a significant drop of agricultural output during 1990–97, local enterprises are again starting to re-establish themselves.

### Best Prospects for Investment

According to the regional Foreign Trade Department, the best prospects for U.S. companies include the wood-processing and food-processing industries. Despite abundant forest resources, no wood is being exported currently due to the lack of kiln-dryers and other equipment to treat the wood. Investments in the food-processing sector are badly needed. For example, potatoes are a popular crop in the oblast; however, there is no equipment that would allow production of frozen french fries for potential sale to the Moscow market.

According to the regional administration, over 150 companies with foreign capital are registered in the oblast. Some of the most successful joint ventures include **Kortex** (U.S.; cloth production); Ryazanvest (Germany; modern technologies for production of leather shoes); Bosch-Ryazan (Germany; manufacture of lighting equipment for cars); and Sovfinnaft (Finland; petrochemical and lubricant production).

*For a longer report on Ryazan oblast, visit **BISNIS Online** at [WWW.BISNIS.DOC.GOV/BISNIS/COUNTRY/CENTRAL.HTM](http://WWW.BISNIS.DOC.GOV/BISNIS/COUNTRY/CENTRAL.HTM).*

*Olga Ananina, a former **BISNIS** representative in Moscow, currently works for the U.S. Commercial Service in Moscow.*

## AGENCY SPOTLIGHT

**Multilateral Investment Guarantee Agency (MIGA)**—MIGA, an arm of the World Bank, reports that the government of Armenia has approved the divestiture of 15 strategic enterprises ([WWW.PRIVATIZATION.AM](http://WWW.PRIVATIZATION.AM)) and has appointed a commission to lead preparatory work for the privatization of companies in the mining (gold and precious stones), manufacturing (textiles, knitting, glass products), construction materials (cement), and tourism (hotels) sectors. Also, the government is inviting expressions of interest from potential investors for the sale of 80 percent of the Yerevan Jewelry Plant, a large jewelry and decorative objects production facility in central Yerevan. Further information about the Yerevan

Jewelry Plant share sale can be obtained from IBTCI at email: [ibtci@arminco.com](mailto:ibtci@arminco.com).

**Overseas Private Investment Corporation (OPIC)**—OPIC has launched two new websites to better serve its clients: (1) a site especially aimed at small businesses ([WWW.OPIC.GOV](http://WWW.OPIC.GOV)) that gives information on eligibility and offers interactive training for small businesses on OPIC finance and insurance programs; and (2) a special housing-related site ([WWW.OPIC.GOV/HOUSING/DEFAULT.HTM](http://WWW.OPIC.GOV/HOUSING/DEFAULT.HTM)), which provides information on OPIC efforts to involve U.S. companies in emerging markets developing their housing sectors.

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<b>ProdExpo 2001</b>	<b>March 13–16, 2001</b>	<b>Samara</b>
Organized by:	Expo-Volga	
Telephone:	+7 (8462) 993-744, 993-733	
Facsimile:	+7 (8462) 993-744	
Email:	exvolga@transit.samara.ru	
Sectors:	Foodstuffs, beverages, and additives equipment and raw materials.	
<b>Medicine Kyrgyzstan</b>	<b>March 27–30, 2001</b>	<b>Bishkek</b>
Organized by:	Fairex International	
Telephone:	+423 233-3403	
Facsimile:	+423 232-8668	
Email:	fairex@int.rol.ch	
Website:	WWW.ROL.CH/INT/FAIREX	
Sectors:	Health care, pharmaceuticals, medical engineering, dental and optical devices	
<b>MinTek 2001</b>	<b>March 28–31, 2001</b>	<b>Moscow</b>
Organized by:	ITE Exhibitions	
Telephone:	+44 (207) 596-5123	
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Email:	info@ite-exhibitions.com	
Website:	WWW.ITE-EXHIBITIONS.COM	
Sectors:	Mining, exploration and mining equipment	
<b>Hardware Moscow 2001</b>	<b>April 10–13, 2001</b>	<b>Moscow</b>
Organized by:	ITE Exhibitions	
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