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PREPARING FOR THE YEAR 2000 IN RUSSIA

by Athan Koutsiouroumbas & Trevor Gunn

As 1999 draws to a close, Y2K remediation in the former Soviet Union is an issue of major concern. U.S. companies need to pay close attention to remediation efforts by government agencies and private industry in Russia. Although the problem is being addressed on many fronts, U.S. companies should be proactive in working with Russian counterparts to prepare systems for the year 2000.

Russia and the Millennium Bug

Russian Finance Minister Mikhail Kasyanov estimates that the government will budget $187 million for Y2K remediation, although some estimates of Russia's potential remediation needs exceed that figure tenfold. The Gartner Report, prepared by well-known IT consulting firm, **The Gartner Group**, forecasts that Russia will experience severe Y2K disruptions. It predicts that utilities will operate at 40 percent of capacity for the first two months of 2000; transportation will be disrupted 80 percent of the time and telecommunications 50 percent of the time for a three-month period; hospitals will deal with nothing but emergencies for at least two months; financial markets will be disrupted for 30 trading days; and banks will be disrupted for 20 business days. However, there is reason to believe that there have been marked improvements in Russia since the publication of this report.

Most Russian businesses are aware of the Y2K problem and realize that Y2K remediation is a necessity for conducting trade. "Quite a few businesses have become aware of it because there has been quite a bit of publicity. There is also widespread skepticism, though, and a huge amount of faith that they will be able to pull off some sort of repair, if needed, when the time comes," said William McHenry, professor at the McDonough School of Business at Georgetown University. "I suspect a lot of Russian firms have tested their PCs and, finding some that have problems, have become a lot more serious."

U.S. Efforts to Assist Russian Y2K Remediation

The U.S. Agency for International Development (USAID), in conjunction with the Russian State Telecommunications Department (Goskomtelekom), has established 71 "Y2K Competency Centers" throughout Russia to provide Y2K consultation. Goskomtelekom has also compiled a contact list of 164 Russian Y2K remediators. Information on Competency Centers and Russian Y2K remediators, as well as other official Russian Government Y2K documents, can be found at *www.y2kresourcecenter.ru/Library/Lib_main.htm*.

Various U.S. companies are working in Russia to remediate the Y2K problem. **Relativity Technologies Inc**. (Cary, NC), a software developer, was awarded a multimillion dollar contract with Russian systems integrator **Lanit Holding** to remediate Y2K in Russia. Lanit Technologies also operates one of the Y2K Competency Centers. The two companies will be working together in both the private and public sectors. Their clients include the Russian Federal Government, gas monopoly Gazprom, and Aeroflot.

"Large companies like Gazprom have secured funding" to address Y2K issues, said Vivek Wadhwa, CEO of Relativity Inc. "In St. Petersburg, the phone company has tested its service and it will work fine. But, it does not possess the resources to fix the billing system. So, if you're in Russia wishing somebody a Happy New Year over the phone, you might end up receiving a multimillion ruble phone bill." However, small companies face a greater challenge due to a lack of funds. To ensure that business operates as effectively as possible, Wadhwa envisions that most noncompliant offices will be fully staffed at the time that the failure is expected to occur.

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Articles by non-U.S. Government employees express the views of the authors and should not be construed as a statement of U.S. Government policy.

A New Multilateral Bank for the Black Sea Region

by Philip H. de Leon

On June 1, 1999, the Black Sea Trade and Development Bank (BSTDB), headquartered in Thessaloniki, Greece, commenced operations. The main goal of the bank is to accelerate development and cooperation among its 11 shareholder countries—Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, and Ukraine. The bank's authorized capital is SDR 1 billion (about $1.35 billion).

The BSTDB will provide financial and technical assistance to viable projects and trade activities. Eligible projects, from both the public and private sectors of its member countries, are required to facilitate trade and investment activities, promote economic prosperity in member countries, achieve economic development in the region, and mobilize domestic and foreign capital. Priority will be given to telecommunications, manufacturing, financial services, transportation, energy and natural resources, and agribusiness.

The BSTDB will offer loans of up to 35 percent of the total project cost or will take equity participation not exceeding 33 percent of the total capital of an enterprise. In the first years of operation of the bank, trade finance that may support up to 100 percent of a transaction will be available for the short term.

The BSTDB is interested in acting as a complementary source of financing and in attracting additional sources of financing to the region.

For further information, contact the BSTDB at tel: +30 (31) 290-400; fax 221-796, 286-590; or email info@bstdb.gr, or visit its Website at www.bstdb.gr.

AGRIBUSINESS PROGRESSING IN MOLDOVA

by John Costello & Rod Beason

Moldova, strategically located between western and eastern Europe, has the potential to be a key producer of agricultural products in the NIS. Currently, agriculture is the basis of the Moldovan economy, comprising some 40 percent of GDP. Agricultural production accounts for 75 percent of the country's total exports. Important Moldovan products are apple juice, wine, sugar beets, and milk and dairy products.

Major economic, legal, and structural reforms are currently being implemented by the new government, but the transition has presented new challenges for Moldovan agriculture. As a result of massive land privatization, a new set of farmers and farmer groups are emerging debt free, but cash and equipment poor. They now own their land, which can be sold, mortgaged, leased, or passed to heirs. The distribution system that formerly served the collective farm system has all but disappeared, and a new one is still developing. Market-oriented reforms are making way for an emerging crop/livestock inputs sector. Participation in the restructuring of Moldova's agricultural and food processing systems represents a unique opportunity for U.S.-based agribusinesses.

USAID Assistance to Moldovan Agriculture

The **U.S. Agency for International Development** (USAID) has played a major role in land reform in Moldova. The USAID land project is assisting Moldova's land privatization effort by creating new landholding patterns resulting in new small-plot farmers, family farmers, farm associations, and farm cooperatives. Over half of Moldova's former state and collective farms have been privatized with the balance scheduled for privatization by the end of year 2000. Land titles alone, however, will not assure the success of these new private farmers. Farmers will need a credit system that will provide capital through land mortgages and a marketing and distribution system that can turn farmers' produce into cash in a reasonable period of time.

The **Citizens Network for Foreign Affairs** (CNFA), through the USAID Agribusiness Partnership Program, began helping Moldova rebuild its agricultural system in 1996. The program links private farmers, agribusinesses, and agroprocessors to Western sources of inputs, technology, credit, and output marketing by providing financial support (up to $500,000) to new agribusinesses or joint ventures. Through the program, CNFA has helped launch 11 new projects in Moldova, including four with U.S.-based companies. Enterprises established include two joint-venture dairy plants, a milk collection system for small-plot farmers, three farm service centers, a farm machinery dealership, a packaged fruit juice marketing association, a walnut processing plant, a model apple orchard, and a vegetable collection/marketing association for small-plot farmers.

Addressing the Problem of Credit

Lack of credit is a serious and persistent problem for the Moldovan agricultural sector. Currently, strong agribusinesses can obtain bank guarantees and, in a few cases, credit for working capital, but local banks impose tough conditions for loans to agricultural enterprises often requiring excessive collateral, complicated application documents, high interest rates, and short-term repayment schedules. Without a reliable source of credit to purchase the necessary crop inputs and modern farm machinery, Moldovan farmers are more at risk from problems that affect crop quality and quantity. For example, in 1997, the cereal grain harvest suffered because of the lack of combines and subsequent rain damage to over half of the crop. Grape production is dwindling in part because of the lack of phosphate fertilizers and other crop input products. Also, Moldovan companies do not have strong marketing skills and operate with a chronic shortage of cash, often moving goods through a complicated barter system.

Compounding these problems is the Russian financial crisis that hit in August 1998. Not only did the value of Moldova's currency drop by half since last autumn, but the traditional Russian market for Moldovan agricultural products collapsed. Cumulative inflation in 1998 was 18.3 percent, and the government forecast of 13-15 percent inflation for 1999 is considered optimistic. To help weather the economic crisis, the Government of Moldova and international donors are taking additional steps to assist Moldova's private farmers, agribusinesses, and banks.

In 1998, the **World Bank** extended a $5 million credit for a rural finance project to assist in developing credit mechanisms for private farmers and a $15.9 million credit for a project to support the institutional framework for a land market. The **European Bank for Reconstruction and Development** and USAID are also implementing banking and finance reform programs in cooperation with the Moldovan Govern-

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The Ambassadors Business Forum "Russia and the Newly Independent States for the New Millenium"

October 18, 1999
QVC Studio Park
West Chester, Pennsylvania

Coordinated by: the Pennsylvania-Russia Business Council (PRBC)

For more information,visit www.fita.org/prbc or contact Val Kogan, PRBC, at 215-963-7079.

(*Y2K*, continued from p. 1)

The U.S. Department of Commerce offers free software, called "Y2K: Managing the Challenge," which can be obtained on the Internet at *www.doc.gov/y2k*. The CD-ROM, which is available in both Russian and English, includes a program that enables users to complete an inventory of assets that may be susceptible to Y2K problems, gauge the criticality of business processes, develop contingency plans, and conduct remediation activities. It also contains a 10-minute discussion video, a software program for managing the Y2K process, a self-assessment checklist, a contingency planning template, a user guide, and hotlinks to many helpful Y2K sites. U.S. companies should recommend this software to their Russian partners.

Businesses Must Prepare

The best way for businesses operating in Russia to combat Y2K-related failure is, first, to verify their Y2K status. "We have spent considerable effort internally in ensuring our own hardware and software have been updated to comply with Y2K requirements," said Peter M. Cohn of **Exxon Ventures, CIS**. A company then must work with Russian partners to learn their plans for Y2K remediation. "We have also worked with the banking institutions we are associated with in Russia to ensure they have implemented appropriate safeguards to minimize exposure to potential Y2K-related problems. Specifically, we requested our banks to confirm to us in writing that they indeed had met certain minimum standards regarding year 2000 compliance," said Cohn.

Be direct with Russian counterparts. "The most effective thing American firms may be able to do is to forestall the situation by finding new suppliers, telling their Russian suppliers about it, and demanding information about Y2K compliance in exchange for not taking their business elsewhere," suggested Professor McHenry of Georgetown, whose report on Russia's Y2K readiness can be read at *www.msb.edu/faculty/mchenryw/personal/pubs/cais.htm*.

The Senate Special Committee on the Year 2000 Technology Problem has held numerous hearings on U.S. business community efforts to ensure Y2K remediation among overseas affiliates, suppliers, and partners. Senate testimony on Y2K can be accessed at *www.senate.gov/~y2k*.

*For a nonexhaustive listing of companies able to assist with Y2K remediation in Russia, visit **BISNIS** Online at www.bisnis.doc.gov/bisnis/isa/isa.htm#Aisa.*

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Special thanks to Richard Dickerson at the Department of Commerce's Office of Computers for contributing to this report.

1999 CIS & Eastern Europe Business Forum

The University of Arizona in Tucson is pleased to announce the sixth annual **CIS and Eastern Europe Business Forum** to be held November 12–14, 1999. The forum will provide an up-to-date analysis of political, economic, and legal aspects of business ventures in the former Soviet Union and Eastern Europe and will present case studies of successful American businesses and strategies for success.

For more information, call or fax Roza Simkhovich at (520) 298-6599, or call or fax the University of Arizona, Department of Russian and Slavic Languages, at (520) 626-4007.

(*MOLDOVA*, continued from p. 3)

ment, the National Bank, and the country's strongest private banks. With farmers' new ability to mortgage land, some Moldovan banks are becoming more willing to lend to farmers and are even taking land mortgages as collateral for crop input supplies. But, generally, banks are still reluctant and progress will be slow.

Farm Service Centers Initiative

A new USAID/CNFA initiative is aimed at organizing Farm Service Centers (FSC) in Moldova. Three centers are now operational and another 15-20 centers are planned. Small farmstores will be created in each village surrounding the FSC to augment the distribution system. The system will supply farmers and other customers with crop protection products, fertilizers, fuel, seeds, machinery, technology, and commodity credit. Usually, payment for these goods and services is made with harvested crops and requires FSC operators with the expertise to monetize agricultural commodities.

As Moldova's banking system evolves, it is envisioned that a credit system will develop between the FSCs and farmers, but current economic reality requires most transactions to be barter. The prevalence of the barter payment system is one of the primary reasons multinational input providers are reluctant to enter the Moldovan marketplace. The FSCs, which will comprise a strong Moldovan company and a Western input or machinery supplier, and will enjoy the support of the Agribusiness Partnership Program, should yield positive results. The program continues to develop new projects for Western investor consideration.

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COMBATTING CROSS-BORDER CREDIT CARD FRAUD

by Derek Nowek

For a growing number of U.S. merchants and exporters, credit card fraud is a serious concern in cross-border electronic commerce, particularly in transactions with the NIS. Anecdotal evidence suggests that, over the past four years, credit card fraud in international transactions originating in Russia and Belarus has increasingly become a problem. In 1997, for example, **America Online** had to cut direct access to its users in Russia because too many people were using stolen or counterfeit credit card data to sign on for email and Internet services. More recently, Belarus has originated a rash of attempts to defraud U.S. vendors of computer systems, peripherals, and other high-tech components. In a February 1999 incident, for example, a Florida-based computer reseller shipped $40,000 worth of computer parts to Belarus before the credit card fraud was discovered.

Knowing how to spot credit card fraud and what precautions to take can significantly reduce a merchant's exposure and potential loss in international transactions originating from the NIS region and, indeed, the entire world.

Technology's Two-Way Street

With the latest technology at their disposal, credit card crooks can counterfeit entire credit cards, along with their magnetic strips, or use sophisticated programs to generate mathematically correct credit card numbers that will register as "valid" when run through an electronic swipe terminal. They can also simply steal credit card data from unsuspecting cardholders.

Although the methods of credit card fraud in foreign sales transactions can vary widely, the recent wave of fraud attempts targeting U.S. computer companies in Northern Virginia and California have much in common. All of the U.S. merchants received an authentic-looking fax or email from a company in Belarus requesting a quote on computer parts. The company claimed to be a manufacturer or a retailer of computers and components looking for U.S. suppliers that could replace orders from financially stricken Russia. The Belarus company was interested in large purchase orders with volume discounts and fast deliveries. In further correspondence, U.S. merchants were often asked to underdeclare the invoice value of the shipment to help the company offset high import taxes. The Belarus company then provided up to 10 credit card numbers and requested the shipment be sent via UPS or a similar carrier without the company's name on the invoice and without freight insurance.

Chris Slade, account manager at **Boost Peripheral Systems** (Sacramento, CA, *www.boostsystems.com*), received such a purchase order. He became suspicious after two of the four credit cards he was given were declined and the Belarus company promptly sent a batch of new numbers. "I don't want to see any American companies getting ripped off, especially ours," said Slade, after eventually tracing the credit card information to a bank in Stockholm and discovered it was bogus.

Unfortunately, some merchants with no prior credit card fraud experience believe they are in the clear when they key in the numbers electronically and are given a transaction approval code. In fact, all the verification does is to check that the number is valid and sufficient funds are available for the purchase. However, under the rules of most credit card merchant account agreements, merchants bear the full cost of fraudulent credit card transactions that take place via mail order, the telephone, or the Internet.

How to Minimize Credit Card Fraud

U.S. companies can take a number of precautions to protect themselves from credit card fraud, especially in cross-border transactions. These precautions can range from simple, do-it-yourself steps to validate each order, to sophisticated antifraud software, to automated verification services offered by specialized providers. The method or methods used should depend on the company's experience in foreign sales in the NIS region, knowledge of the local market, and the number and size of transactions.

Antifraud experts recommend taking the following steps for each foreign sales order:

1. Examine the email address on the purchase order. If the order came through a free email service provider, such as hotmail.com, juno.com, and europe.com, consider declining the order. Experts agree that a high rate of credit card fraud occurs through these anonymous, untraceable email addresses. A convenient way to determine if an order comes from a free email service is to substitute "www" in front of the domain portion of the address and look up the provider's website. Another way to check for free email services is to browse a list maintained by **Antifraud.com** (*www.antifraud.com/redflag.htm*), an Internet-based service that helps companies protect themselves against online credit card fraud.
2. Request the name and phone number of the bank that issued the credit card, including the exact name of the cardholder and the exact billing address.
3. Get the transaction approval code from your merchant account vendor. Then, call the customer's credit card bank to verify the credit card data.
4. Call the cardholder to reconfirm the purchase order. Often, the telephone number on the otherwise authentic-looking purchase order will be bogus.
5. Pay extra attention to large orders with multiple credit card numbers and different "bill to" and "ship to" addresses.

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POST-CRISIS AUTO PROSPECTS IN RUSSIA

by Athan Koutsiouroumbas & Trevor Gunn

Russia's financial collapse in the fourth quarter of 1998 presents a unique, but fleeting, opportunity for U.S. automobile producers, suppliers, and distributors to gain a strategic foothold in the NIS automotive market. The combination of Russia's desire to promote a strong automobile industry and its auto industry's need for modernization has prompted the government to encourage foreign direct investment and partnerships with foreign firms to revitalize the sector .

The Russian Auto Market

By 2005, Russia is expected by some to become the world's largest auto market, with sales of over 15 million vehicles per year. From 1991–98, the Russian automobile market experienced 60 percent growth. Within four years, the Russian Transport Ministry expects the number of cars to increase from a current 90 per 1,000 persons to 300-400. However, these predictions were made before the financial crisis, which has significantly diminished the ranks of the middle class. Many growth predictions still hold true; the economic crash has simply shifted the time frame.

The NIS automobile industry is a window into the inefficiency of the Soviet past. Most Russian automobile manufacturers have been building the same model since their inception. For instance, **AvtoVAZ**'s Zhiguli (Lada) has scarcely developed beyond its 1969 prototype. Russia's largest automaker, AvtoVAZ, required 450 labor-hours to produce an automobile that is typically produced in western Europe in 28 labor-hours. The low level of efficiency at which Russian automakers operated forced the government to support the industry through everything from outright subsidies to joint government-plant ownership. Major portions of the Russian auto industry are 10-12 years behind other automakers. The Russian Government estimates that nearly $2 billion in investment is required to make domestic auto manufacturers competitive with foreign producers. It is this technological deficiency that opens doors to foreign investors.

Since August 1998, production has increased sharply in most Russian auto factories, including AvtoVAZ, **GAZ**, **UAZ**, and **Kamaz**. In the face of the 1998 crisis, AvtoVAZ intends to produce 657,000 cars this year, a 9 percent increase from 1998. Paradoxically, the post-August crisis has improved the financial condition of many enterprises by improving their position vis-a-vis imports and from a price perspective, making these vehicles more viable on the domestic market, as well as more "exportable."

Despite heavy competition among domestic manufacturers, Russian demand for automobiles still far exceeds supply. Only 2-3 percent of the population can afford luxury cars. Nearly all car sales focus on the mid- to low-range of prices. Most imported new cars are priced out of the market because of high duties. Russian manufacturers' only competition in the mid- to low-range market are low-end foreign imports. The price range for this market is $6,000-$10,000.

The current lack of available cash to purchase a new car impels many consumers to "upgrade" their present car. Moreover, component parts like stereos and repair parts like knobs are in high demand. A tremendous market exists for those who can organize a system of distribution that operates under a reasonable amount of delivery time (2-3 weeks). The import tariff rate for most auto parts is currently 5 percent, low by some Russian standards.

Investment and Imports in the Russian Auto Market

U.S. automotive industry exports to Russia are down drastically as a result of the August crisis. During the first quarter (Q1) of 1999, U.S. motor vehicle exports to Russia totaled some $16 million, down from $45 million in Q1 1998 and $66.8 million in 1997. The bright spot in this category is truck exports, which rose to $9.1 million in Q1 1999 from $6.7 million during Q1 1998, but were still well below the $15 million worth of exports in the same period of 1997. Exports of auto parts during Q1 1999 were only $1.69 million, down from $5.4 million in Q1 1998 and $9.86 million in Q1 1997. For example, U.S. exports of gear boxes, road wheels, and bumpers have fallen by about 50 percent.

The list of companies capitalizing on Russian automotive market opportunities is extensive and includes:

- **FIAT**, which has formed a joint venture with GAZ, will produce automobiles by February 2000 with an $850 million financing package from the EBRD.
- **Lear Corp.** (Southfield, MI), which has formed a joint venture with FIAT, will produce seats for automobiles as a result of the FIAT-GAZ joint venture.
- **BMW** and **Land Rover**, which have joined with **Avtotor** (Kaliningrad), will build BMW cars and Land Rover sport utility vehicles. Full production will begin in September. The plant intends to reach annual production of 10,000 cars by 2002.
- **Renault,** which has partnered with **Avtoframos** for car production in the NIS. Renault is expected to invest over $300 million in the project.
- **Ford**, which has reached an agreement with the Russian Government to develop a vehicle manufacturing facility. The first phase requires an investment of $150 million with initial output of 25,000 vehicles and potential capacity of 100,000 vehicles. The plant is expected to be come fully operational during the first half of 2001.
- **GM**, which signed an agreement with AvtoVAZ, will produce cars beginning in 2002. The $200-million assembly line will have initial annual capacity of 35,000 cars.

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EMERGING OPPORTUNITIES IN SLAVUTYCH

By Michael B. Congdon & Michele S. Dash

The Ukrainian Government's plans to close the Chornobyl nuclear power plant (ChNPP) next year will provide several commercial opportunities for U.S. firms to work in the region surrounding the plant. The city of Slavutych and the ChNPP, about 35 miles to the east of the city, occupy a special niche in Ukraine, and the links between them are strong. Slavutych was built immediately after the accident to house the displaced work force of the ChNPP, and the plant continues to be its main source of employment. Slavutych has about 28,000 residents that have a wide range of engineering, construction, and scientific skills. It is also located about an hour's drive from Chernihiv, a city of over 300,000.

Opportunities for U.S. firms will come from grant funds administered by the European Bank for Reconstruction and Development (EBRD) for work at Chornobyl and from Ukrainian Government incentives.

The EBRD is administering G-7, other country, and private donor-financed technical work related to the closure of Chornobyl. The contractors for this work are being selected through a competitive process. In addition, the Ukrainian Government, recognizing the need to attract greater foreign investment into the region to offset losses from the closure of Chornobyl, has designated Slavutych a special economic zone and, along with the city administration, has targeted several projects for foreign investment.

EBRD-Administered Projects

After the 1986 accident, Chornobyl workers hastily constructed a "shelter" to enclose the radioactive debris and fuel from the destroyed Unit 4 reactor. The shelter structure has been deteriorating, and in 1996, an international team of experts prepared a Shelter Implementation Program (SIP) to place the shelter and its contents in an environmentally safe condition. The G-7 nations selected the EBRD to administer the estimated $760 million, 7.5 year project, and the Chornobyl Shelter Fund was established to collect and manage funds for the project. To date, the international community has pledged nearly $400 million to the project.

The contracts for the Chornobyl Shelter Fund and for decommissioning work are open to U.S., European, Japanese, and other companies. Currently, several Western companies are working on the shelter, and a three-party consortium that includes the U.S. firms **Bechtel** and **Battelle Memorial Institute** was awarded the SIP Project Management Unit (PMU) contract. **Morrison Knudsen** has been awarded a contract to define structural stabilization alternatives for the deteriorating shelter and **General Atomics** (San Diego, CA) is the contractor performing fuel characterization and studying technologies for removal. Contract commitments for shelter activities are expected to grow to over $160 million by mid-2000. Additional pledges are being sought to support the estimated project completion by 2007.

The Ukrainian national nuclear energy generating company **Energoatom** intends to use the proceeds of the Chornobyl Shelter Fund to purchase goods and work contracts during the next 12 months. These procurements are directed at completing shelter roof stabilization work; completing early biddable projects, including conceptual design studies, waste management studies, and upgrades to safety and infrastructure; and launching the next phase of the SIP. These specific procurements have been the subject of recent information meetings hosted by the EBRD in Kyiv and London. More information on the procurements will be posted on the EBRD website at *www.ebrd.com*. The SIP Project Management Unit will conduct the tendering process.

Investment Opportunities in Slavutych

The Ukrainian Government has designated the city of Slavutych as a special economic zone through January 2010. The zone, to be administered by the Ministry of Energy, provides for exemptions on payment of taxes and other fees on imports, raw materials, tools, equipment, profits, and land use. Exemptions are subject to certain criteria, including total number of employees, percentage of employees who are former Chornobyl workers, and business volume. The administrators of the Slavutych special economic zone also

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Selected investment projects in Slavutych.

Project Description	Project Cost (US$ millions)	No. of jobs created (est.)	Project Applicant
International freight hauling	42.5 (incl. credit of $9.3 mln)	700	Auto. Transport Assoc. Slavutych (ATASS)
Athletic shoes manufacturing	14.00	1,200	Impulse, LLP
Food processing	1.43	80	CJSC Slavtex
Production of polymer-based abrasive tools & metal fixtures	1.00	100	CJSC Kopo
Laser microprocessing technologies development	0.25	8	CJSC Abris
Laser luminescent microscope manufacturing	0.17	17	CJSC Abris
Ceramic tiles manufacturing	10.60	250	PCE Eco-Sintez
Creation of a regional radio and telecommunications system	0.40	16	U.M. Communications

(*FRAUD*, continued from p. 5)

6. Insure the shipment with a freight forwarder or an independent insurance company and do not underdeclare the invoice or shipment value.
7. Stay informed. A number of Internet-based resources are available to help merchants spot credit card fraud.

"There is usually very little that law enforcement agencies can do for you in international fraud cases," according to Dr. Audri Lanford, an authority on Internet fraud and a co-editor of **Internet ScamBusters** (*www.scambusters.org*), a web-based newsletter and compendium of tips and resources on Internet fraud issues. "The best way to reduce the risk of credit card fraud is to implement sound verification procedures and stay up-to-date on the current scams," she said.

In the end, if you suspect credit card fraud, insist on a wire transfer payment before processing and shipping the order. This is the only safe way to ensure you receive payment for your exported merchandise.

*Derek Nowek covers customs for **BISNIS** in Washington, D.C.*

(*RUSSIAN AUTO MARKET*, continued from p. 6)

In most deals, the federal and local governments play a weighty role in negotiations. For instance, initial production plans for the GAZ-FIAT partnership are tentative to their submission to and approval by the Economics Ministry. The government attempts to entice investment through various types of duty exemptions with mixed success as companies are unsure of how these may be utilized on a practical level.

Additionally, rent, labor, and other costs are below pre-crisis levels, making investment with Russian manufacturers or foreign companies with ventures in Russia now even more appealing. Many U.S. automotive components suppliers have neglected original equipment manufacturer (OEM)-level dialogues with emerging Russian manufacturers—instead concentrating on major foreign manufacturers—thus bypassing an important export and partnership opportunity. The next year will afford a unique but time-sensitive (defined by tight production timetables) window during which U.S. companies can start or accelerate dialogues with Russian and foreign manufacturers in Russia.

*For further information on the Russian autom markets, visit **BISNIS** Online at www.bisnis.doc.gov/bisnis/isa/isa.htm#Hisa or contact Michael Nikoulichev, Foreign Commercial Service, Moscow, email: Michael.Nikoulichev@mail.doc.gov.*

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(*SLAVUTYCH*, continued from p. 7)

will assist in organizing training and retraining programs and in acquiring licenses and registrations.

Companies interested in taking advantage of special zone status can choose from a variety of investment opportunities identified by Slavutych entrepreneurs and administrators. In addition, there is a multinational effort in Slavutych to develop science-based industry. Two specialized labs have been created that provide U.S. firms with information management, scientific research and user facilities, and technology development services. English language training has been provided to many potential workers and continues aggressively.

Slavutych is eager to attract foreign investment and may offer U.S. firms interesting opportunities in laser technology, high-technology ventures, construction, and transportation. The EBRD-administered Chornobyl projects will bring millions of dollars into the region.

*Michael B. Congdon is a program manager with **Pacific Northwest National Laboratory (PNNL)**, which is operated by Battelle for the U.S. Department of Energy.*

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IT'S A GOOD TIME TO LOOK AT ARMENIA

by Sonia Medzadourian Crow

Armenia's transition to a market economy remains a work in progress, but this is a good time for the U.S. business community to look at Armenia. Armenia has built an exceptional track record on reform, which has brought considerable macroeconomic gains and helped establish a suitable framework for a private-sector friendly environment.

Positive developments in Armenia include:

- *Macroeconomic Stability***.** Cumulative inflation by the end of 1996 was 5.7 percent, the lowest in the NIS; for the first seven months of 1999, it was 0.9 percent. After years of collapse, GDP grew by 5.4 percent in 1994 and has continued in the positive range of 5-7 percent for subsequent years. The fiscal deficit declined to 8.4 percent of GDP by 1996, down from 48 percent in 1993.
- *Advanced Legal Framework***.** With the passage of the new Civil Code in 1998 that includes fundamental commercial legislation and with other laws on contracts, bankruptcy, and real property, Armenia has "one of the very best legal frameworks in the region," according to the World Bank.
- *Privatization***.** Almost 100 percent of arable land is privately owned, as is 80 percent of the housing stock. Nearly 5,000 small businesses and over 1,100 medium and large enterprises have been privatized to date.
- *Banking***.** Modern laws (covering the Central Bank, banking, and bank insolvency) have been adopted. Loan-loss provisioning has been introduced and enforced strongly. Movement of funds is unrestricted.

The core of the government's reform program has been the stimulation of the private sector (75 percent of GDP growth for 1998 came from the private sector) and the removal of barriers to foreign investment. Armenian President Robert Kocharian stated recently that "today capital knows no borders. At this important moment in Armenia's history, the role of foreign investment cannot be overestimated."

Armenia offers attractive investment opportunities in such areas as computer software engineering (the country has an inexpensive, highly skilled labor pool); high-tech electronics, engineering, and assembly; chemical/biochemical production (40 percent of the entire Soviet Union's chemical and electrical engineering output came from Armenia); consumer goods and light manufacturing (textiles, shoes, household goods); pharmaceuticals production; and agribusiness.

Today, Armenia continues to serve its historic function as a crossroad linking Europe, Asia, and the Middle East, which offers investors entry into regional markets well beyond the size of this small republic. A notable example of Armenia's attractions: In July 1999, **General Motors** announced plans to build an assembly plant in Armenia.

The USABIA

The United States–Armenia Business and Investment Association (USABIA), a nonprofit trade organization established in 1998, works to promote business, trade, and investment ties between the United States and Armenia. With offices in Washington, D.C., and Yerevan, USABIA facilitates economic development, networking, matchmaking, information exchange, trade missions, and cooperation between U.S. and Armenian businesses and governmental entities—including advocacy in Washington and Yerevan on issues of importance to U.S. businesses.

USABIA has a formal agreement of cooperation with the Armenian Government through the Armenian Development Agency (ADA), which was established in 1998 to promote an investment climate that attracts foreign capital and supports the Armenian Government's open door trade and investment policy.

In June 1999, USABIA launched a website that features information designed to facilitate commercial relations between the United States and Armenian business and investment communities by providing "guides" on doing business in Armenia, investment opportunities, economic data and analysis, travel tips, and links to pertinent resources.

In July 1999, USABIA and the Armenian Engineers and Scientists of America, Inc. (AESA) announced the signing of a memorandum of understanding to work together cooperatively with the aim of promoting critically needed economic development in Armenia. The formal agreement outlines a range of activities for mutual cooperation, including trade missions, business forums, investment seminars, and the provision of technical assistance for purposes such as sector analyses, trade links, and matchmaking between Armenian and U.S. entrepreneurs.

For more information about the activities and services of USABIA, call (202) 342-2582, email info@usabia.org, or visit www.usabia.org.

Sonia Medzadourian Crow is Executive Director of the ***U.S.–Armenia Business and Investment Association*** *(USABIA).*

NOTICE

BISNIS Online has a new address: **www.bisnis.doc.gov**

TRICKS OF THE TRADE

Tips for Opening an Office in Moscow

by Yevgeny Schukin

Although U.S. and other foreign companies have increasingly pursued business activities in Russia's regions, Moscow continues to attract the lion's share of foreign interest. Moscow has a relative abundance of business services and resources, extensive transport links with other regions and countries, and a relatively strong consumer base among Russian markets. After the August 1998 ruble crisis, however, many U.S. companies are uncertain as to the availability, quality, and cost of resources for opening an office in Moscow.

Finding Office Space

Office space is available at many business centers throughout Moscow. Many major hotels also rent offices within their buildings. In general, the more Westernized a site, the more publicized, and the closer to the city center—the higher the price. If budgets are limited, companies that do not want or need a central, street-level location should consider an office outside the city center.

According to **Stiles & Riabokobylko,** a real estate agency operating in Moscow, office rents in Moscow have fallen by 30 percent since August 1998. Average prices for Western-standard office space are as low as $500-$750 per square meter per year. Occupancy is also down, making this a tenant's market. To cope with the downturn, many Moscow landlords are offering aggressive terms for renewals or new rental leases.

Moscow Labor Market

Russian unemployment is at an all-time peak, measuring an official 14.2 percent this past June. Many companies have halved their staff to survive, and local employment agencies predict additional layoffs in the future. Meanwhile, wages remain depressed in Moscow following the financial turmoil of the past year. Benefits—training, office cars, cell phones—have also been reduced. **Ancor**, a recruiting agency operating throughout Russia, reports the following as current monthly, pre-tax salary rates in Moscow for a Western company seeking employees:

♦ Sales Manager (Key Account Manager):	$1,600
♦ Executive/Personal Assistant:	$500-$1,000
♦ Secretary/Receptionist:	$300-$500
♦ Accountant:	$900
♦ Systems Engineer:	$1,000

A number of recruiting agencies, foreign and domestic, are operating in the Moscow area that can help a company find qualified staff. Many recruiting companies also provide employment and consulting services on the labor market, while some can even help out with payroll services.

Telephones, Cell Phones, and the Internet

Most foreign companies in Moscow contract with private digital overlay providers rather than with Russian cable providers, such as Moscow City Telephone Network. A regular service package includes the installation fee, a monthly payment, and a per-minute traffic fee. Installation fees vary among companies, currently ranging from $450-850 per line. An average monthly payment is $20-25 per line. European Russia can be reached at an average rate of $0.25-0.50 per minute, while long distance calls to the United States and Western Europe cost about $1.60 per minute.

There are three major cellular phone operators in Moscow: **BeeLine, Mobile Telephone Systems,** and **Moscow Cellular Phone**. These three companies offer a wide range of service plans and fees, with minimum costs as much as $20-25 a month. Operators give substantial preferences to corporate clients, who may obtain a certain number of cell phones and who pay no traffic fees within the same network.

Moscow now boasts some 25-30 Internet service providers. Most of them will provide the connection for free and charge approximately $10-20 per month for a base tariff allowing up to 10 hours of on-line Internet connection, with fees of $0.50-2 per each additional hour. Selected operators offer unlimited access to the Internet for $40-50 a month. Digital overlay phone providers offer Internet access for $500-700 a month for corporate clients with 50 users or more.

Finding Banking Services

There were some 1,372 banks in Moscow in 1998, of which 36 were banks with full or partial foreign ownership. The financial crisis paralyzed Russia's banking system, prompting foreign companies to transfer their accounts to banks with the highest credibility. U.S. banks in Moscow include **Chase Manhattan**, **Citibank**, **Bank of America**, **Bank of New York**, and **American Express Bank Ltd.**

Worldwide **VISA**, **MasterCard**, and **EuroCard** credit and debit cards are accepted by a limited number of Russian banks. Following the crisis, the most reliable among Russian banks accepting cards are state-owned **Sberbank** and **Vneshtorgbank,** as well as **Gazprombank** and **Moscow International Bank**, and **Bank of Moscow** (authorized bank of the Moscow city administration).

*For more information on opening an office in Moscow, visit **BISNIS** Online at www.bisnis.doc.gov/bisnis/country/990716mos.htm.*

*Yevgeny Schukin is a **BISNIS** Representative in Moscow.*

REGIONAL CORNER: Sumgait, Azerbaijan

by Judith Robinson

Azerbaijan's city of Sumgait was developed between 1948 and 1950 as a showcase Soviet industrial city. Located 35 km. north of the Azerbaijan capital of Baku, Sumgait's 83,000 sq. km. were devoted to the metallurgy, chemical, petrochemical, and textile industries. The population stands at about 250,000, with over half below the age of 30 and with a very high level of education. Available statistics, which show employment at about 72,000, fail to reflect the significant number of employees on involuntary furlough due to low levels of capacity utilization in the city's enterprises.

Today, this City of Tomorrow, as Sumgait was termed, has become seriously polluted from its aluminum and steel plants, its chemical processing facilities, and unstemmed, untreated agricultural and municipal runoff. These significant environmental problems are barriers to the area's human and economic development. At the same time, the problems have generated opportunities; environmental improvement in the region requires investment of resources and must be coupled with industrial rehabilitation. The Azerbaijani Government, in cooperation with international financial support and foreign investment entities, is working to improve environmental conditions and ensure that development of Azerbaijan's oil and gas reserves will generate revenue and support for other local industries, including those in Sumgait.

Investment opportunities in Sumgait are most promising in industries that serve Azerbaijan's growing oil/gas industry: (1) in the metallurgy sector, several companies that manufacture seamless steel pipes and ferrous and nonferrous engineering components (such as Azerbaijan Tube and Pipe Works, sister to Ukraine's Seversky Pipe plant, which acts through a holding company, Metallurgiya); and (2) in the petrochemicals/chemicals industry, eight of the country's 15 plants are located in Sumgait and manufacture polyethylene, synthetic rubber, chemicals, and detergents. Additional opportunities exist in textiles and food processing.

Sumgait enjoys local availability of raw inputs: oil, minerals, fibers for textiles, and food crops for food processing. Its location on the Caspian Sea is advantageous for regional exports. There is also a growing domestic market for oil-related production and a domestic consumer goods and food market that will grow as oil revenues create spending power. Weaknesses include low levels of capacity utilization, legal inadequacies and tax and regulatory constraints, a shortage of management skills, a small domestic consumer goods market, outdated technology and a lack of funds for new technologies and equipment, plus a high level of pollution.

As first steps toward addressing the environmental situation, Azerbaijan's federal government and the Sumgait local government have shut down Sumgait's worst offending facilities, pending the installation of more efficient processes. Plans are in place for upgrading and expanding the city's municipal wastewater treatment facilities. Sumgait has benefited from international assistance, some of it aimed at environmental management and coordinated economic rehabilitation. The World Bank, United Nations, the European Bank for Reconstruction and Development, and the Islamic Development Bank have all been active in the area, as has the EU's TACIS program. An Azerbaijani Federal Committee for Ecology is in place to develop and carry out a coherent environmental policy countrywide, but is currently handicapped by inadequate environmental laws and enforcement.

*For more information on Azerbaijan, visit **BISNIS** Online at www.bisnis.doc.gov/bisnis/country/caucasus.htm#Azerbaijan.*

*Judith Robinson covers Azerbaijan for **BISNIS** in Washington.*

AGENCY SPOTLIGHT

Multilateral Investment Guarantee Agency (MIGA)—IPAnet/PrivatizationLink, an Internet-based information service operated by **MIGA,** an arm of the **World Bank,** has helped develop three more websites for NIS privatization agencies. New sites aimed at promoting foreign investment and offering new business opportunities in NIS countries include:

- *Belarus—www.president.gov.by/gosim/english/index.htm*
- *Kyrgyzstan—http://kyrgyzinvest.org*
- *Tajikistan—http://privatization.Tajikistan.com*

Also, a list of Armenia enterprises up for privatization during 1998–2000, can be accessed by searching PrivatizationLink's DATABANK under "Armenia" at *www.privatizationlink.com*.

United States–Kazakhstan Business Association—A new U.S.–Kazakhstan Business Association has been formed and is headquartered in Washington, DC. Its main goal is to promote the involvement of the U.S. private sector in trade and investment in Kazakhstan. The association will work to foster a business and investment climate in which U.S. and Kazakh companies operating in Kazakhstan can flourish.

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