



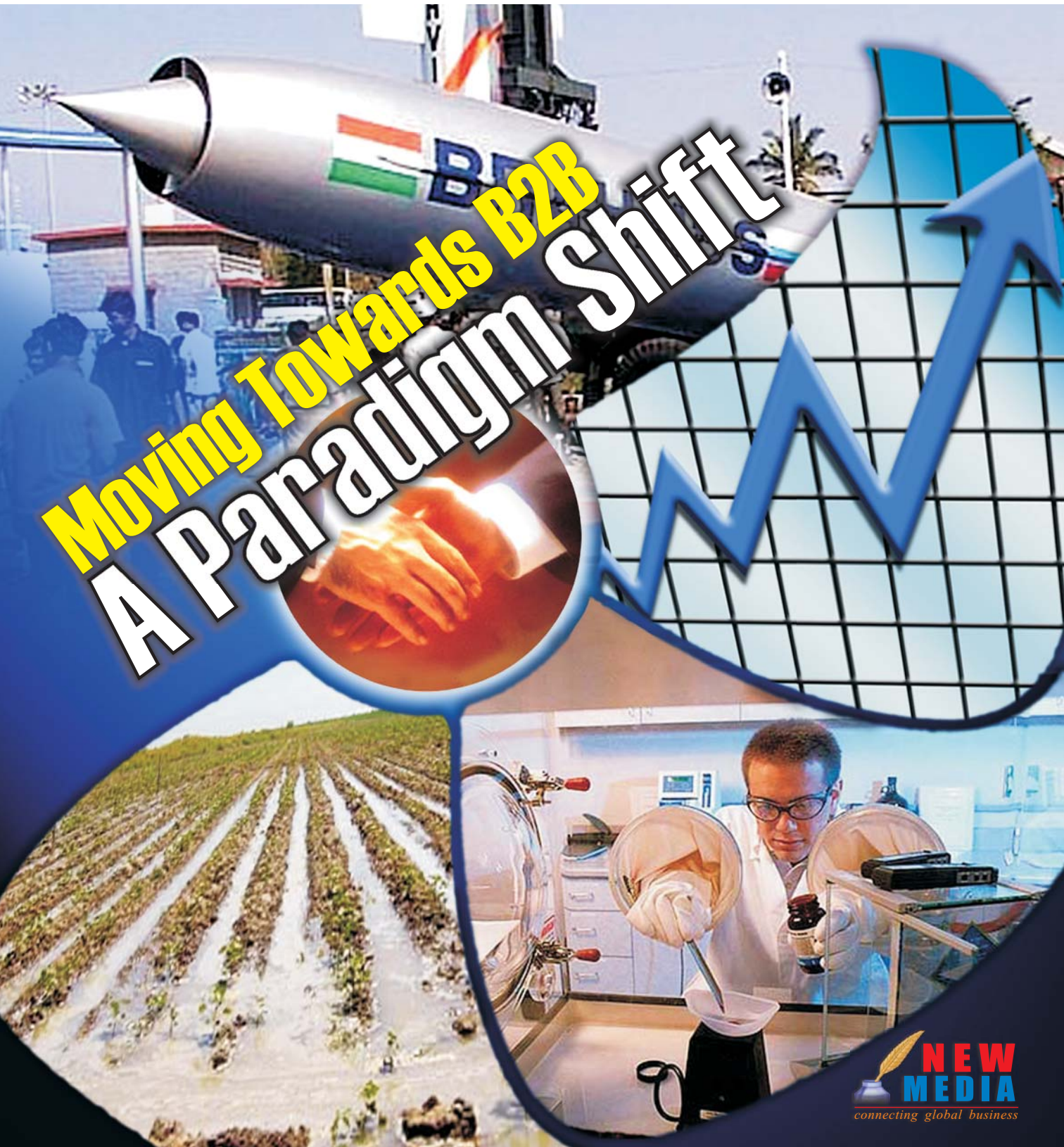
INDO-CIS

MAGAZINE FOR THE COMMONWEALTH OF INDEPENDENT STATES

BUSINESS

July-Sept 2007 Rs.100/-

Moving Towards B2B
A Paradigm Shift



Founder Chairman
Late Shri R.K. Prasad

Distributed by:

New Media Communication Pvt. Ltd.
in association with
Export-Import Bank of India

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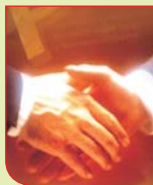
Printed & Published by

Veerendra Bhargava and printed at
M/s Young Printers, A-2/237,
Shah & Nahar Industrial Estate, Lower Parel,
Mumbai- 400 013 and published from
B -302, Twin Arcade, Military Road,
Marol, Andheri (E), Mumbai - 400 059 India

Editor: Satya Swaroop

The news items and information published herein have been collected from various sources, which are considered to be reliable. Readers are however requested to verify the facts before making business decisions using the same.

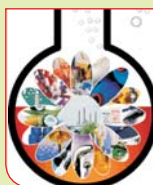
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Dear Reader,

Greetings. India's external trade is experiencing a rapid growth. The main interest of the country lies in expanding trade with the countries, among which are the leading world powers, including Russia. India shares a special relationship with Russia because, the two countries have concurring interests in both political and economic spheres. Traditionally, India held an important place in trade and economic relations with the former USSR and later on - Russia. Besides, starting from 1991 Russian-Indian trade and economic relations were characterized by a decrease in commodities trade turnover. The reasons were the changes occurring in the Russian economy, which were accompanied by the breaking of old ties, reorientation of external trade towards western markets. However, in order to reverse this trend, India and Russia have initiated a new phase in the overall relations – economic, political and cultural. This relationship is getting increasingly forged and strengthened at the level of business communities of both the countries. It is significant that a direct dialogue between Russian and Indian businesses and specific individuals working in specific spheres may seriously influence and change the pattern of trade between the countries. The cover story of the current issue of Indo-CIS Business concentrates on this aspect, namely, the B2B dialogue, which is expected to boost the business between India and Russia to \$10 billion by 2010. The focus of the issue is on the strides made by the Indian chemical industry. We carry an excellent study made by the Export Import Bank of India in this regard. Foreign Direct Investment (FDI) inflows into the CIS region have been rising continuously from an average of US\$ 4 billion during 1992-97 to reach a peak of US\$ 27.2 bn in 2005. This has been mainly due to the attractive returns on investment (ROI) in the areas of oil and natural gas, both production and downstream projects. The countries that offer these investment opportunities are Russia, Azerbaijan, Kazakhstan and Ukraine, which together account for 95 percent of the FDI inflow. The topic of FDI inflows into the CIS region forms the Perspective of the current issue. The concept of "Microfinance" has caught up with the smallest of the small entrepreneurs, who struggle to raise the much-needed capital. This item appears in the EBRD news section of the current issue. Besides the regular features, the issue, as usual, carries a Russian section.

Wish you happy reading



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A New Phase in Indo-Russian Co-operation

Moving Towards B2B Dialogue

A new phase in the overall relations – economic, political and cultural – between India and Russia has begun. The relationship that is getting increasingly forged and strengthened is between the business communities of both the countries besides the two respective governments.

India and Russia have greatly concurring interests in political and economic spheres and this predetermines the necessity of the all possible development of relations in these areas in order to strengthen their strategic position in the world.

India's external trade is experiencing a rapid growth. The main interest of the country lies in expanding trade with the countries, among which are the leading world powers, including Russia.

Traditionally, India held an important place in trade and economic relations with the former USSR and later on - Russia. Besides, starting from 1991 Russian-Indian trade and economic relations were characterized by a decrease in commodities trade turnover. The reasons

were the changes occurring in the Russian economy, which were accompanied by the breaking of old ties, reorientation of external trade towards Western markets.

At present, the volume of trade between Russia and India amounting to 8.0 percent does not completely reflect the full potential that exists in trade and cooperation between the two countries. Therefore, an increase of the mutual commodities turnover represents a major task to be handled by India and Russia. Both countries have to enhance the practice of establishing joint export-oriented enterprises and in particular in the areas of pharmaceuticals, food processing and engineering.

It is significant that a direct dialogue between Russian and Indian businesses and specific individuals working in specific spheres may seriously influence and change the pattern of trade between the countries.

If external trade relations are improved, a further expansion and deepening of economic cooperation between India and Russia will become possible.

Energy Boosts Existing Synergy

In the course of his visit to India that took place in December 2004, Russian President V. Putin mentioned that enhanced energy partnership between Russia and India was beneficial to both economies.

"Russia, being a long-time and tried partner of India, is prepared to participate in enhancing energy stability of rallying Indian economy and in development of its fuel and energy complex," he had announced. According to him, Russian companies would bring to India advanced technologies for enhancing oil well productivity, revival of old "idle" oil fields, and for development of oilfields having scavenger oil. It should be mentioned, that the leaders of major Russian companies (Vagit Alekperov (LUKOIL), Semen Veinshtock (Transneft), Alexei Miller (Gazprom) and other) were members of the Russia's delegation accompanying President Putin.

The energy sector is a highly sensitive area of the Indian economy. The country accommodating more than one billion population has less than 1.0 percent of the global oil reserves. The Indian consumption of fuel and power (resources is 345 million tonnes of oil equivalent per year (3.5 percent the global consumption). Oil accounts for 32 percent of the power balance.

According to the estimates, oil demand will increase in India by 5% per annum during the next 20 years, and demand for natural gas will increase by 3 - 4% annually. In the next 10 years oil demand will double. It will reach 3.1 million barrels per day. If the current production rates



are preserved (approximately 750 thousand barrels per day), Indian proven reserves will not last more than 11-12 years. Although Indian domestic oil production is 32-33 million tonnes per year, its estimated current needs are 120-130 million tonnes per year, i.e. India has to import approximately 2 million barrels of oil per day covering 70% of the domestic demand. Oil is predominantly imported from the Persian Gulf states.

Indian domestic production of natural gas is approximately 90 million cubic meters per day (33 billion cubic meters per year), and the current demand is 150 million cubic meters per day. Natural gas accounts for 8% of the national power balance. In 2005, demand for natural gas in India is projected to increase up to 37 billion cubic meters. It is also projected to increase up to 43 billion cubic meters in 2006, and up to 110 billion cubic meters in 2010.

Russian Presence

Russian companies GP RVO Zarubezhneft, OAO Sroytransgaz, ZAO VTK Neftegazexport, and Tyumenneftegeofizika have already acquired experience of working in India. They are prepared to facilitate development of its oil and gas fields. For example, within the framework of cooperation with ONGC state owned company, RVO Zarubezhneft has signed and is implementing a contract to perform drilling works at the oil fields in Assam state, as well as supplies spare parts for assemblies used for well workover operations. Cooperation with the Russian company will enable the Indian company to achieve significant savings



and increase annual oil production by 150 thousand tons. The current production is 1 million 850 thousand tons.

Gazprom commenced prospecting works at oil and gas bearing unit 126 in the Bay of Bengal. Only this year, those operations will cost the Russian monopoly US \$ 18 million. One of Gazprom subsidiaries, Stroytransgaz, acting in consortium with Essar Constructions and Indian Oil Corp. signed a contract in February 2003 with Gujarat State Petronet to build Baroda - Ahmadabad gas pipeline. Gazprom may also take part in the international tender for exploration and development of oil and gas fields located in the shelf zone of the Bay of Bengal, which is currently being prepared by India. In December 1998, LUKOIL and the Indian Oil Corporation (IOC) signed an agreement stipulating long-term deliveries of oil and oil products to India in the amount of 15 million tons per year.

In addition to geologic exploration and pipeline construction, Russian companies managed to occupy one more niche - oil field service. Also, OAO "United Machinery Plants" has been supplying mobile drilling rigs to ONGC since December 2003. The total value of that equipment is US \$ 13.6 million. And ONGC development program for subsequent years stipulates the costs of oil fields reorganization and upgrade of drilling rigs for the total amount of US \$ 400 million. Indian oil and gas company ONGC considers participation in development of Kovyktinskoye gas condensate field in the Eastern Siberia. The license to develop that field is held by OAO Rusia Petroleum. According to Irkutsk Region Administration, India is prepared to invest in Kovykta approximately US \$ 6.5 billion.

In the beginning of 2005, the company expressed interest in acquiring a 15-percent stake on Yuganskneftegaz. Delhi offered to Rosneft US \$ 2 billion for that stake and promised to provide another four billion dollars in form of a loan. ONGC also held negotiations with Rosneft regarding joint development of Vankorskoye field and projects at the Caspian Sea and at Sakhalin-3.

A subsidiary of the state-owned ONGC company, "ONGC Videsh Ltd", has a 20-percent stake in Sakhalin-1. The Indian corporation has already invested US \$ 1.7 billion into the project, and that will be its largest investment abroad. Sakhalin-1 will yield 307 million tons of oil and 485 billion cubic meters of natural gas. The ceremony of commencement of commercial oil production took place on 01 October 2005.

India also intends to perform investments into Sakhalin-3 project with estimated oil reserves of 4.6 billion barrels and natural gas reserves of 770 billion cubic meters. The partners intend to submit a joint bid to the auction covering four licensed blocks, i.e. Vostochno-Odoptinsky, Ayashsky, Veninsky and Yuzhno-Kirinsky.

Moreover, India would like to invest in the joint Russia - Kazakhstan project of Kurmangazy oil and gas field in the Caspian Sea. During V. Putin's visit to India in December 2004, the two countries signed the Memorandum of Understanding in respect of the joint exploration and distribution of natural gas of the Caspian region, as well as construction of underground natural gas storage reservoirs in India.

"India is prepared to pay an exorbitant price for the right to produce oil and gas in Russia. Mass media quoted the government sources stating that in the middle of February 2005 the Ministry of Oil and Gas of India sent a letter to Prime Minister Mikhail Fradkov proposing to invest US \$ 25 billion in Russia. That amount is comparable with LUKOIL or Surgutneftegaz capitalization. The amount seems slightly unrealistic; however, it is possible that the letter refers to a 15-20-year investment programme.

In September 2005, the head of the Ministry of Oil and Gas of India, Mani Shankar Aiyar, visited Moscow. He met with the management of Gazprom and Rosneft, as well as with Minister V. Khristenko and Vice-Premier A. Zhukov. During the meeting with A. Zhukov, the Indian minister confirmed that his government would like to buy at least 10 million tons of oil in Russia.

Since the European market is overstocked with Russian oil, and Russian companies have to sell it at a significant

discount, a long-term contract with India would be very promising. Russia does not supply crude oil to India directly, limiting



itself to oil products sale through intermediaries.

According to the current Urals prices, the contract to supply 10 million tons of oil proposed by Delhi to Moscow is worth approximately US \$2.7 billion.

Expanding Military-Technical Cooperation

During the previous decade, military technology cooperation between Russia and India acquired a new quality. Russia does not merely supply India arms, military equipment or state-of-the-art technologies any more. Joint development of military equipment is expanding. In future, the two countries may consider coordinated entry of the global arms market. Russia believes that military and military-technical cooperation with India is an important component of strategic partnership between two countries.

Arms produced in the former USSR and in Russia account for a significant part of Indian land forces, Navy and air force munitions. During the previous decade, cooperation between Russia and India in the area of military technologies acquired new quality. Our countries move from military equipment and technologies supply to joint development of state-of-the-art munitions and joint research and development activities.

A billion-dollar contract has been implemented since September 2002. It stipulates supply and licensed production of Su-30MKI multipurpose aircraft. In October



2003, Russia, India and Israel signed a large-scale contract to produce airborne early-warning aircraft on the

basis of the Russian 11-76 for Indian air force. That is the first case of multi-lateral military technologies cooperation in the history of Russia. Russia also supplies to India antisubmarine and transportation helicopters, as well as participates in MiG-21bis aircraft serial upgrade program. At the high level, Russia and India achieved mutual understanding of expediency of joint implementation of the future projects aimed at development and manufacturing of Il-214-based multipurpose transportation aircraft and the 5th-generation military aircraft complex. Russia intends to participate in Indian tenders for supply and licensed production LMRCA multipurpose light military aircraft (MiG-29M has better combat effectiveness than Eurofighter and Rafael aircraft), as well as offer Russian technologies for developing light (LCA) and medium (UT) military aircraft and most modern helicopters manufacturing.

BrahMos Joint Venture

The flagship of Russia - India strategic partnership, BrahMos has been operating successfully since 2001. It was established in order to produce supersonic antiship missiles Brahmos. Serial production of those missiles will be commenced in the nearest future. Multi-channel mid-range seaborne anti-aircraft missile complex Shtil-1 has been tested successfully. It is installed at three frigates built by Baltiysky Plant for the Indian Navy. Two of those vessels have already been transferred to India.

Russia always responds positively to proposals to upgrade and supply to India anti-aircraft defenses and rocket-launching artillery. Participation in establishment of the Indian integrated national anti-aircraft system using most recent Russian developments (anti-aircraft missiles systems) is of strategic importance for Russia.

The new generation submarine Sanct-Petersburg (project 677 Lada) was for the first time demonstrated at IMDS-2005. Currently the Federal State-owned Company Admiralteyskie Verfi finishes its construction for the Russian Navy. Admiralteyskie Verfi offered the export variant of that submarine (project 1650 Amur) for sale to India. However, Indian Navy preferred to buy six Scorpene from France and currently they are completing negotiations of that transaction for the total amount of US \$ 1.8 - 2 billion. Nevertheless, during that exhibition Admiralteyskie Verfi signed contracts with India and China to supply spare parts for diesel-electric submarines of 877EKM project and their newer version (project 636) that had been sold to those countries



previously. Each of these contracts is worth approximately US \$ 1 million. Indian Navy has 10 submarines of 877EKM project, and two more submarines will be supplied to India this year from the Russia's Navy inventory.

Russia establishes a maintenance center for frigates built at the Russian shipyards. Similar maintenance stations are constructed for aircraft and other types of Russian munitions. Establishment of such centers is extremely profitable and promising. They will support both India and the South-Eastern Asia countries, i.e. Malaysia and Indonesia. India is prepared to do that and the decision depends mainly upon the Russian authorities.

In 1977, five Il-38 aircraft were supplied to the Indian

Navy, and in 1987-1988 eight Tu-142ME were supplied. Il-38 is an antisubmarine aircraft of the near marine area. It is based upon passenger aircraft Il-18B. The USSR Navy passed them in operation in 1969. Currently, the Russia's Navy has 35 such aircraft. In early 1990s, Leninetz developed the project for upgrading those aircraft named Il-38N. That project included installation of the new search and aiming system Novella, as well as aircraft repair in order to extend their life up to 40 years. One aircraft repair and upgrade cost US \$ 17 million. That would enable to use Il-38N till 2010-2014. The Arms Program to be implemented till 2010 stipulated that upgrade for all Il-38s owned by the Navy. In addition, Leninetz proposed to install Novella system at the far marine area antisubmarine aircraft Tu-142M and Tu-142M3 (the Russian Federation Navy has 45 such aircraft) based upon Tu-95 bomber. The Navy is expected to make the decision to upgrade 20 Tu-142M3 aircraft in the nearest future, and the upgrade will include Novella system installation. In 2001, Rosoboronexport, Ilyishin Aircraft Complex and the Ministry of Defense of India signed the Agreement to upgrade all five Il-38s owned by India converting them into Il-38SD variant with the Sea Dragon system (the export version of Novella system) installed.

India also intends to sign a contract on upgrade of eight Tu-142MEs and the same, Sea Dragon, system installation. The estimated cost of upgrading one Tu-142 is US \$ 21 million. After those programs are completed, India will have upgraded antisubmarine aircraft of both the close and the far marine zones. That would enable Delhi to control the whole Indian Ocean aquatory, up to Antarctic continent.

Military technology cooperation was the key topic of the working part of the visit of the President of India, Abdul Kalam, to Russia that took place in Spring 2005. The head of the state of India visited Aviation Holding Company Sukhoi, where he discussed India's participation in the 5th-generation fighter and the medium-range passenger aircraft RRJ being developed by Sukhoi Holding Company. (In 2004, Sukhoi Holding Company won the government tender for development of the 5th generation fighter that should replace Su and MiG fighters operated currently). The Indian President's visit may mean major investments for Moscow. For example, Delhi is prepared to invest US \$ 100 million in the passenger aircraft project only. ■

Indian Chemical Industry Poised for Dominant Global Presence

Indian chemical industry has come a long way. Today, India has significant presence in production of basic organic and inorganic chemicals, pesticides, paints, dyestuffs and intermediates, petrochemicals, fine and specialty chemicals, cosmetic and toiletry product segments.

Thus, by virtue of its diversity, the chemical industry bears a close correlation not only with the quantum of overall economic growth but also with the contents and quality of growth. The performance and outlook of the chemical industry, particularly in the context of India's development process, depends upon and determines the trends in the overall economy, as also the linkages with the rest of the world in terms of international trade, investment flows and technology transfers.

On the domestic front, with the reduction in tariffs, Indian chemical companies with strong systems and organized operations are likely to be benefited further. Companies with competitive advantages, like having competence in the areas of high value added chemicals, conforming to international quality standards, could translate their capabilities and establish a dominant presence in both international and domestic markets.

In the years to come, various new avenues are likely to arise in the Indian chemical industry like structural shifts, strategic marketing alliances for domestic sales and exports, strategic marketing alliance with multinationals and trading companies, stricter enforcement of good manufacturing practices, opportunity for value addition using contract manufacturing or contract research.

Use of advanced technology, strong research capabilities, backward and forward linkages and development of domestic capacity to reduce dependence on imported raw materials are key success factors for Indian chemical industry. In addition, safety, health and environment protection issues are becoming important challenges for the Indian chemical industry. Indian manufacturers are addressing such challenges in an organized way.

The International Council of Chemical Associations (ICCA), an association representing 80% of the world manufacturers of chemicals has reiterated its support for a new round of multilateral trade negotiations in the World Trade Organization. ICCA's priorities include elimination of chemical tariffs by the year 2010, harmonization of anti-dumping practices, simplification of customs procedures and full implementation of TRIPs agreement. While the harmonization of

antidumping practices would benefit developing countries like India, the tariff-free world would pose stiff competition.

Exim Bank Study

The above findings form the essence of an analytical study made by the Export Import Bank of India recently. The study focuses on chemical sub-segments such as: Basic Chemicals also known as commodity chemicals, including organic and inorganic chemicals, bulk petrochemicals, other chemical intermediates, plastic resins, synthetic rubber, man-made fibers, dyes and pigments, printing inks; Specialty chemicals, also known as performance chemicals, are low-volume but high-value compounds.

These chemicals are derived from basic chemicals and are sold on the basis of their function. For example, paint, adhesives, electronic chemicals, water management chemicals, oilfield chemicals, flavors and fragrances, rubber processing additives, paper additives, industrial cleaners and fine chemicals. Sealants, coatings, catalysts also come under this category; Agricultural chemicals, especially crop protection chemicals such as pesticides.

Global Scenario

Global chemical production is growing and the growth is contributed by the chemical industry of developing countries. Growth in demand for chemicals in developing countries is high leading to substantial cross-border investment in the chemical sector. Global sales of chemicals in the year 2005 were estimated to be around US\$ 1.75 trillion. USA is the single largest country with a share of 22% (US\$ 380 billion) in world chemical sales, followed by Japan (10% - US\$ 194 billion), China (9% - US\$ 163 billion), Germany (7% - US\$ 122 billion) and France (5% - US\$ 90 billion).

In terms of regions, Asia-Pacific tops the list with a share of 35% in global sales followed by Europe (34%), NAFTA (25%) and Latin America (4%). World export of chemicals is estimated to be US\$ 832 billion in 2005. The share of chemicals in world merchandise trade and global trade of manufactures is estimated to be

11% and 15% respectively, in 2005. The growth in world chemicals trade has averaged out to around 12% during the period 2000-2005.

Leading chemical exporters are Germany (11% - US\$ 95 billion), USA (11% - US\$ 94 billion), France (6% - US\$ 51 billion), Japan (6% - US\$ 49 billion), and China (4% - US\$ 32 billion).

The joint framework agreement for tariff harmonization in the Uruguay Round (Chemical Tariff Harmonisation Agreement), has led to a substantial reduction in tariffs in the signatory countries. However, in many countries reduction in tariff has been substituted by increase in nontariff barriers. Dumping of chemicals and anti-dumping actions by countries have become part of the game plan of many firms / countries.

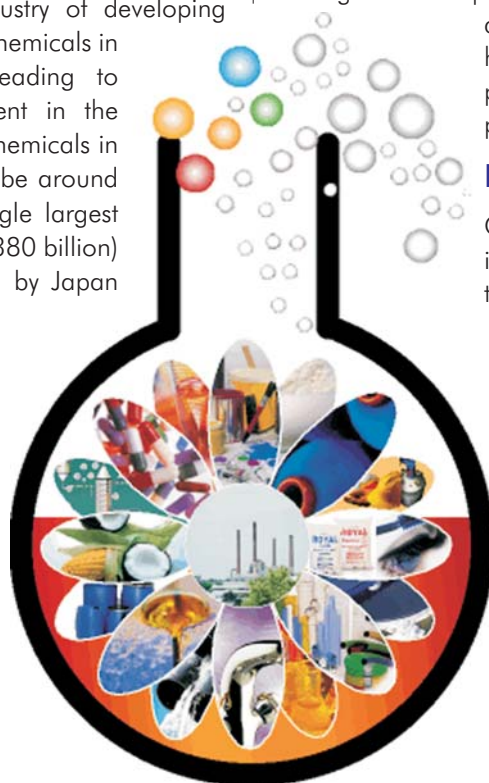
Globalisation of chemical industry has led to national markets being supplied from an increasing number of locations, while individual companies have increased the geographic scope of their operations. Chemical companies in the world are now merging their business processes, including their supply chain, to reduce risks and to create sustainable competitive advantage.

The global chemical industry is continuously working towards reduction of environmental impact of its activities. The industry is committed to contribute to the sustainable development of the society as a whole, through its 'Responsible Care Initiative', and has developed systems for improving the health, safety and environmental performance of its products and processes.

Indian Scenario

Chemical industry is one of the oldest industries in India. It is estimated that the size of Indian chemical industry is around US\$ 30 billion. Volume of production in chemical industry positions India as third largest producer in Asia (next to China and Japan), and twelfth largest in the world.

The industry, comprising both small-scale and large units (including MNCs) produces several thousands of products and bi-products, ranging from plastics and petro-chemicals to cosmetics and toiletries. A significant share (around one-



third) of production by chemical industry is consumed by itself. The chemical industry accounts for about 13% share in the manufacturing output and around 5% in total exports of the country.

The chemical industry contributes around 20% of national revenue by way of various taxes and levies. The chemical industry produced around eight million metric tonnes each of basic chemicals and basic petrochemicals, and around 10 million metric tonnes of petrochemical intermediaries in 2005-06. Gujarat is the major contributor to the basic chemical as well as petrochemical production with 54% and 59% share in all India production, respectively.

Other major states producing basic chemicals include Maharashtra (9%), Tamil Nadu and Uttar Pradesh (6% each). Other major states producing petrochemicals include Maharashtra (18%), West Bengal (12%), Uttar Pradesh (4%), and Tamil Nadu (3%).

India's export of basic chemicals amounted to over US\$ 7 billion in 2005-06. India exported US\$ 4.85 billion worth of organic chemicals, US\$ 775 million worth of inorganic chemicals, US\$ 847 million worth of tanning and colouring materials, and US\$ 649 million worth of pesticides, in the year 2005-06.

In addition, India exported petrochemicals valued nearly US\$ 4 billion. India is also an importer of basic chemicals and the import value amounted to over US\$ 8 billion in 2005-06. The composition of India's chemical imports includes organic chemicals (63%), inorganic chemicals (28%), dyes (6%) and pesticides (3%). China, USA and Saudi Arabia are the leading source countries for India's chemical imports. In addition, India imported petrochemicals valued over US\$ 2 billion.

The Indian chemical industry has been receiving significant investment intentions, including foreign direct investment (FDI). Since August 1991, and till November 2006, chemical industry has received investment proposals worth Rs.274486 crore, a share of 11.3% in total investment proposals received during this period. FDI, which is very essential for modern manufacturing of chemicals, has also been flowing into the chemical sector significantly.

During the period August 1991 to October 2006, FDI inflows into the chemicals sector amounted to US\$ 2.2

billion, a share of around 6% in total FDI inflows into the country.

An analysis has been carried out to identify highly traded chemicals, based on the import data of world chemicals at SITC classification 4-digit level. The analysis revealed that in the year 2005, major chemicals traded in the world include Cyclical hydrocarbons (SITC Code 5112), Polyethylene (5711), Polycarbonates (5743), Propylene polymers (5751), Monocarboxylic acids and derivatives (5137), Acrylic hydrocarbons (5111), Acrylic monohydric alcohol (5121), Polycarboxylic acids (5138), Albuminoidal substances (5922), and Ether and alcohol peroxide (5161).

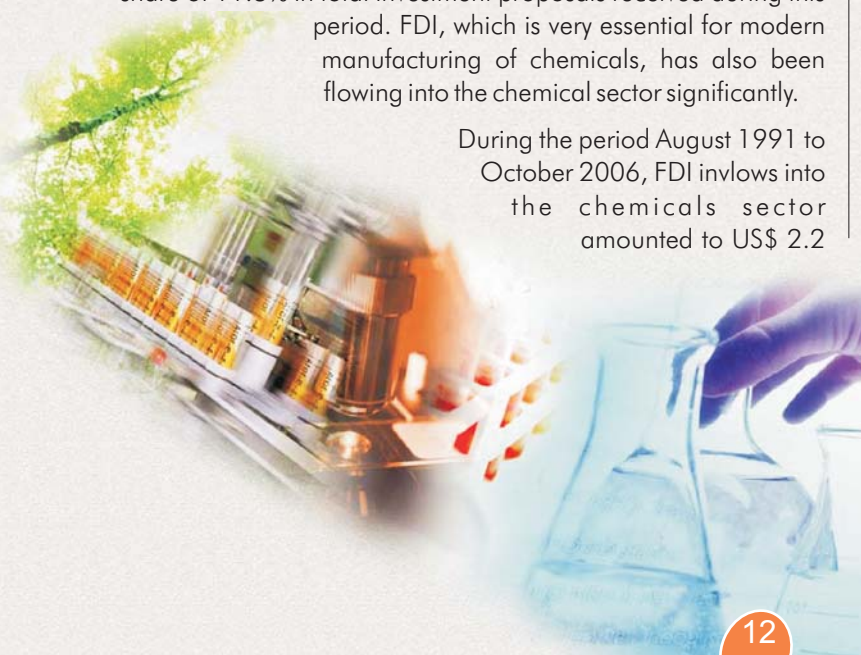
Analyses have been carried out in these product groups to know about the major importers of each product groups, their source countries for imports, as also India's exports and major export markets.

The analyses revealed that EU, USA and Japan are the leading importing regions / countries for these analysed product groups. These countries have been mostly sourcing their import requirements within the region. Since many countries in the EU are shifting their production base to other developing countries, India may endeavor to attract such manufacturing opportunities and explore possibilities of increasing its exports to European countries. The analyses further revealed that in some product groups, India has been one of the major suppliers to the world. These include insecticides (second major supplier with 13% share), hydrocarbons derivatives (ranked second with 13% share), cyclic alcohol derivatives (ranked third with 12% share), synthetic organic dyestuffs (ranked fourth with 6% share), synthetic brighteners (ranked fifth with 6% share), cyclic hydrocarbons, and fluorides (both ranked ninth with 3% and 2% share, respectively).

India may leverage the advancement in manufacturing technologies in these product groups to replicate in the production of other products, and become a global player, across the segments.

Challenges

Indian chemical sector has grown a long way



since its early days of independence. The sector has grown from a small-scale sector to multi-dimensional sector, which is taking on the challenges of globalization. Now, Indian chemical industry holds a recognized position in the global map; however, there are few factors, which hinders the growth of the industry. These include:

High prices of basic feed stock

Basic raw materials constitute major portion of cost of production (30% to 60%) in the chemical industry. Indian chemical industry either uses natural gas or crude oil as feedstock for manufacturing process. The fluctuations in oil prices therefore affect the growth projections of the firms.

SSI reservation / Fragmented nature of industry

The Indian chemical industry is having a fragmented structure with more number of units in small-scale sectors spread in various parts of the country. The installed capacities in most of the small-scale units are smaller as compared to global scales. The limitation in capacity in the SSI sector put them in disadvantageous position while tapping export opportunities with large volume.

Low R&D levels

The level of R&D investments in the Indian chemical sector is low at around 0.3% of total sales. The areas for strengthening of R&D in chemical industry include improvements in manufacturing process for reduction in cost of production, application development to diversify demand, and new product development.

Low Level of ICT Interface

The usage of information technology in Indian chemical industry is relatively lower, as most of the units are in the small-scale sector. Application of information technology in the chemical sector is required for equipment design, chemical engineering, and process



simulation that have helped in reducing product and process development time. Information technology should also be increasingly used in the area of R&D, especially in collaborative research.

Low Level of Brand Development

Indian chemical producers, excepting a few large producers, generally sell their products as generic products without brand development. There is also low level of interest amongst small-scale producers for brand development, product development as also market development.

Low Level of Common Infrastructure

In general, due to its very nature, the chemical/petrochemical industry requires certain basic infrastructure facilities, both in the process chain as also in the supply chain. At present, each unit has to create specialized facilities on its own which leads to duplication of efforts and investment. If chemical units are clustered in close proximity, the required infrastructure could be vertically integrated resulting in cost reduction.

Environmental Regulations

As with other industries, the chemical industry needs to comply with regulations such as Occupational Safety and Health and Process Safety Management regulations. Environmental safety, occupational safety and process management safety can easily be met if a firm is manufacturing large volume of single chemical. But it may not be relatively feasible for the firms who manufacture low volume and large number of chemicals in a single plant.

Dumping / Import Competition

Chemical industry is the second largest industry that has attracted large number of anti-dumping actions in the world. In India, chemicals and petrochemicals industry is the largest segment that has initiated anti-dumping investigations during the period 1992-2005. As many as 82

anti-dumping cases (out of 188 cases) initiated by India fall under the category of chemicals and petrochemicals, during this period.

Strategies Focus on Core Competence

Chemical products trade is increasingly getting specialised all over the world. Innovation is increasingly becoming an important factor to focus on core competence and to become a leading player in specialty products. In the above context, it is important for the Indian chemical manufacturers to focus on select business segments where competitive advantage exists.

Strengthening Technological Competence

Indian chemical industry should strive for continually improving its production processes and products by investing resources in technology development. Technological development may be achieved by the chemical industry at two levels. In the bulk products segment, the chemical industry should undertake process innovation with the objective of reduction in cost of production. In addition, the industry needs to invest in technological resources that would lead to specialized product development.

Improving Basic Management Capabilities

Indian chemical industry has a good record of management expertise. This could be further leveraged with techniques such as Good Manufacturing Practices, Good Laboratory Practices, Total Quality Management, Total Production Management and Risk Management.

Adhering to Environmental Norms

Since chemical substances are used in manufacture of consumer items such as paint, glue, insect spray, cosmetics and household cleaners, chemical producers have the responsibility in promoting safe management of substances – starting from design in production to end-use, and their final disposal (hazardous waste). Further, in order to garner a greater share in world chemicals market, Indian chemical industry needs to address various developmental issues such as sustainable chemistry, adherence to safety and health and risk management.

Focus on R&D

Indian chemical industry needs to focus on R&D in one or multiple areas. While R&D remains an universal imperative, its purpose and nature varies across segments. The basic chemical sector should focus on process innovation and product development and

strengthen their competitiveness through improvements based on performance and quality of products. Firms in knowledge based chemical sector should focus on R&D with the objective of achieving product leadership and process innovations. The petrochemical sector should focus on application R&D, as new applications have to be identified to increase use and application of polymers.

Collaboration

The chemical industry needs to enhance their collaborative efforts in order to improve competitiveness. Collaboration amongst players in the chemical industry could happen both at cluster level (for sharing of common infrastructure) as also at firm level (for sharing of knowledge and technology). Collaboration with firms across borders for technology and investment would also give a boost to the industry. In addition, the players should also achieve greater level of industry-institutional partnership for knowledge development and sharing.

Increasing ICT Interface

Chemical firms in India can gain a lot by making their manufacturing process IT-enabled. Information Technology (IT) can bring a good change in entire process cycle from technology, engineering and procurement to manufacturing by integrating them with business processes in all these areas. This will eventually result in higher efficiency for the industry. Increasing use of IT to transact business will also help the sector, as most of the products in the chemical sector are commodities.

Consolidation

The new trend in chemical industry is competing through consolidation. Chemical firms, through mergers and alliances are now achieving economies of scale all over the world. Consolidation helps the chemical industry in reduction of cost in their procurement and production. Such consolidation exercises also provide for reduction in overheads, marketing expenses, increased efficiencies in supply chain management and enhanced presence in various regions. It is important for Indian chemical industry to consolidate their operations and emerge as global winners.

Industry - Academia Linkages

For transforming ideas into new products, partnership between industry and academia is a must. Thus, Indian chemical industry should leverage the potential of educational and research institutions to source



intellectual as well as human capital. Such linkages may be effectively used for setting up of in-house R&D facility or for outsourcing R&D activities.

Marketing and Promotion

Indian chemical industry should increasingly focus on marketing and promotion to achieve greater share in global chemical trade. The industry may endeavour to concentrate more on issues such as brand building, export promotion and market development.

Setting up of Chemical Parks or Mega Chemical Estates

In order to address the issue of creation of common infrastructure, the chemical industry, in association with the Government may establish exclusive Chemical Parks – a concept similar to the Software /Hardware Technology Park. It is also important to consider establishment of exclusive Chemical Zones on the lines of Special Economic Zones to give a fillip to the industry. In such Parks / Zones, the industry may be encouraged to set up mega chemical plants that could contribute to increased production as well as employment generation. The Government has already initiated policies for setting up of integrated Petroleum, Chemicals and Petrochemicals Investment Regions (PCPIR).

De-reservation of Select Chemical Production

Many chemical products (eg. Potassium Permanganate, Sodium Ferrocyanide, Calcium Carbide, Citric Acid, Sodium Cyanide) are still reserved for production under small-scale sector. However, cost competitiveness as well as technological compliance cannot be achieved without operating under scale economies. Most of the firms operating at the global level are big ones and enjoy economies of scale. De-reservation of chemical products reserved for production under small-scale sector can be a good measure to support the globalisation efforts of the industry.

Creation of Modernization Fund

A modernization fund on the lines of technology upgradation fund established for the textile sector may be created to strengthen the technological competence of the industry.

Increasing Consumption Levels of Chemicals

Per capita chemical consumption in India is low as compared to world standards (estimated to be one-tenth of world average). Increasing consumption level in the domestic market would ignite the prevailing latent demand. This could be achieved through increasing applications through R&D and enhancing the knowledge of end consumers. ■

Oil & Gas offer Attractive ROI

Surge in FDI Inflows in CIS Region Since 1997

Total Foreign Direct Investment inflows into the CIS region have been rising continuously from an average of US\$ 4 billion during 1992-97 to reach a peak of US\$ 27.2 bn in 2005. Four countries, Russia, Azerbaijan, Kazakhstan and Ukraine, in that order, together accounted for 95 percent of the total FDI inflows in 2005.

While in the first three countries, FDI has been driven mainly by projects in natural resources (especially petroleum and natural gas), in Ukraine it has been more broad-based. Besides streamlining the investment climate with a view to creating an enabling environment, many of the CIS countries have set up investment and trade promotion agencies, which facilitate inflows of foreign investment and act as a one-stop-shop for investment-related activities.

Among the CIS countries, overall FDI inflows in Russia have been driven by increased foreign investment into the oil and extraction industry, as also inflows into the trade and catering industry reflecting the keen interest of foreign investors to tap the growing consumer population and rising incomes. With around 85 percent of oil production from foreign investors, the importance of FDI in Kazakhstan can be gauged from the fact that investment by foreign oil companies into the country has been the main driver of rapid economic growth in recent years. In Azerbaijan, a combination of high oil

prices and the construction of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline boosted FDI inflows.

In Ukraine, FDI inflows have been into sectors such as wholesale and trade, food and agro-processing, mechanical engineering, transport and communications, chemicals and petrochemicals, and metal and metal processing.

Multilateral Agencies Funded Projects in the CIS Region. Multilateral agencies such as the World Bank, the Asian Development Bank (ADB), and the European Bank for Reconstruction and Development (EBRD) are active in funding developmental projects in the CIS region. In Russia, the World Bank has 22 active projects, while in Ukraine there are 33 active projects in sectors such as energy and infrastructure projects, public sector projects, and social sector projects.

In Kazakhstan, there are 28 investment projects in infrastructure sector, environment and agriculture, while in Uzbekistan, the World Bank has committed a total of US\$ 639 mn during 1994 to 2006, in sectors such as industry and trade; water, sanitation and flood control; agriculture; law and public administration; finance; health and social services; transportation; and energy and mining. The World Bank's support to Belarus comprises lending, technical assistance, and aid coordination initiatives, and the Bank have extended loans in areas such as social infrastructure, forestry development, institutional building, and rehabilitation. The World Bank is also active in other CIS countries in sectors covering natural resource management, structural adjustment credit programmes, highway projects and



agricultural development, irrigation, education, technical assistance programmes, health, agricultural research, trade and transport facilitation, poverty alleviation, and rural finance.

The Asian Development Bank is also active in funding developmental projects in the Central Asian members of the CIS, viz. Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan, and the Bank has, as on end-December 2005, approved around 62 projects in these countries, involving cumulative approved loans of US\$ 2.28 bn. In the case of EBRD, as at December 31, 2005, the Bank had signed 50 investments in Russia, totalling almost US\$7.2 bn, while in Ukraine the Bank had signed around 21 projects totalling almost US\$ 2.2 bn.

In Kazakhstan, the Bank's net cumulative investment amounted to around over US\$ 1.3 bn, while EBRD's cumulative finance to Uzbekistan, as on December 31, 2005, amounted to US\$ 598.7 mn, and signed three projects for a combined US\$ 35.5 mn in 2005. In Belarus, EBRD's cumulative investment as at December 31, 2005, amounted to US\$ 198.8 mn. The EBRD is also active in funding developmental projects in the other CIS countries.

Indian Investments

The CIS region has also emerged as important destination for India's overseas investments in recent years. During the period 1996 (April) to 2006 (February), India's overseas investment approved in the CIS region amounted to US\$ 3.01 bn, accounting for a significant share

of 19.7% of total overseas investments approved (US\$ 15.3 bn) during the period. In the case of Russia, in fact, the country has emerged as the largest destination for India's overseas investment, accounting for 20% (US\$ 2.83 bn) of the total overseas investments approved during the period.

In view of the investment opportunities in the CIS region, a number of Indian companies have endeavoured to set up joint ventures (JVs) and wholly owned subsidiaries (WOS) in several sectors in these countries. Russia is the largest destination for India's overseas investment among CIS countries, with the major sector being petroleum products, while other sectors include: drugs and pharmaceuticals; software development services; gems and jewellery; tea processing and labeling; leather and leather products; trading in medicines, spices and other food products; trading in textiles and leather goods, and warehouse operations.

In Kazakhstan, Indian JVs are predominantly in drugs and pharmaceuticals, while WOS are mainly in engineering procurement and technical services, real estate development and construction, civil construction, engineering procurement and trading in tea. In Uzbekistan, major sectors of Indian investments include oil and gas, drugs and pharmaceuticals, leather and products, manufacture of cotton and blended yarn, readymade garments, and hotels and restaurants.

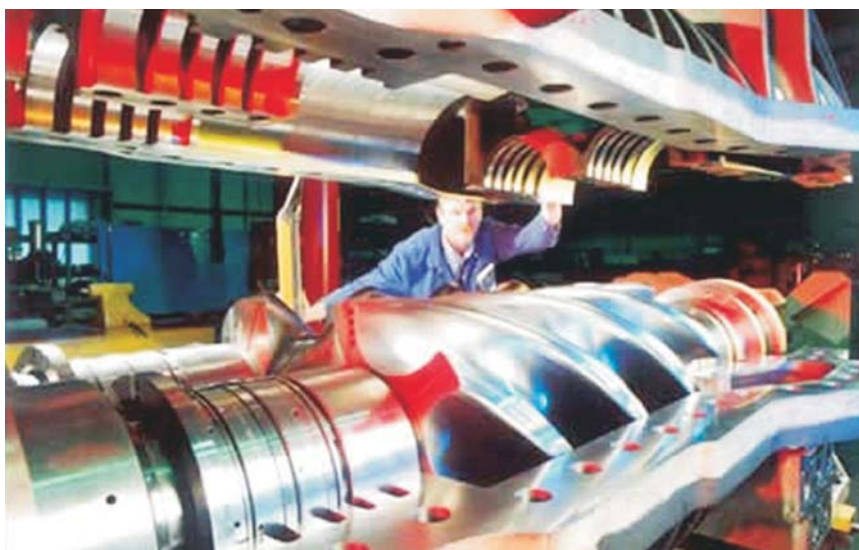
In Kyrgyz Republic, drugs and pharmaceuticals, hotels and restaurants, and petroleum products are major sectors of Indian investments, while in Moldova, Indian investments are primarily in the pharmaceuticals sector. Further, approved Indian investments in Azerbaijan and Ukraine are mainly in the pharmaceuticals sector.

In Georgia, approvals for Indian investments are mainly in industrial explosives, detonating cord, and matches.

Potential for Further Indian Investment

Based on import demand in the CIS region and India's export capability, the potential items of export to the region could include the following:

Russia - machinery (electrical and non-electrical) and transport





equipment, chemical and related products including pharmaceuticals, food and related products, articles of apparel and clothing, cotton and synthetic yarn, plastics and articles, rubber articles, paper and paperboard, iron ores and concentrates, rubber products, articles of leather and footwear, ceramic products.

Ukraine - machinery and transport equipment, chemicals and pharmaceutical products, iron and steel products, food and related products, perfumery and cosmetics, plastics and articles, cotton fabrics and manmade filaments, articles of apparel and clothing, precious and semi-precious stones, iron and aluminium ores, petroleum products, rubber articles, paper and paperboard, carpets and other floor covering, ceramic products.

Kazakhstan - machinery and transport equipment, chemicals and related products including pharmaceuticals, articles of iron and steel, food products, ores and minerals, petroleum products, paper and paperboard, plastics and rubber articles, unmanufactured tobacco, cosmetics and toiletries, paper and paperboard, ceramic products, furniture & parts.

Uzbekistan - food and food products, articles of iron and steel, plastics and articles, machinery & equipments, and parts (electrical & non-electrical), transport equipment, zinc ores and concentrates, pharmaceutical products, insecticides and herbicides, rubber pneumatic tyres, paper and paperboard, carpets and other floor coverings.

Belarus - Belarus is the fourth largest importer in the CIS region, after Russia, Ukraine and Kazakhstan. In line with Belarus' import demand, potential items of exports would include: nonelectrical and electrical machinery, transport equipment, articles of iron and steel, chemicals and pharmaceutical products, plastics and articles, food and related products, rubber pneumatic tyres, raw hides and skins, paper and paperboard, woven cotton fabrics, and synthetic filament yarn.

Other CIS Countries - As regards other CIS countries,

potential items of exports would broadly fall under the following categories: food and related products, articles of iron and steel, non-electrical and electrical machinery, transport equipments, petroleum products, plastics and rubber products, carpets and other textile floor covering, garments fabrics and made-ups, furniture and parts.

Import Potential - There is also scope to source imports from the CIS countries. Principal items that can be imported from Russia could include mineral fuels, iron and steel, fertiliser, and paper and paperboard, while organic chemicals, and paper and paperboard could be sourced from Ukraine. India could import mineral fuels, inorganic chemicals, iron and steel, electrical machinery and natural or cultured pearls from Kazakhstan. The items that hold import potential from Belarus are mineral fuels, fertiliser and plastics.

Specific Sectors for Investment

Besides trade, the CIS countries offer tremendous opportunities in terms of investment. Food processing, retailing, pharmaceuticals, information technology, textiles, infrastructure development present potential for investors.

In Russia, potential sectors for investment would include energy sector, auto vehicles, pharmaceuticals, food processing, retailing, tourism, agri-business. In Ukraine, focus could be on sectors such as agriculture and food processing, energy sector, telecommunications, healthcare, construction and retail, information technology, and financial services.

Potential sectors for investment in Kazakhstan would include oil and gas, power generation and distribution, telecommunication equipments, medical equipment and supplies, pollution control equipment, agricultural machinery, food processing and packaging, construction and engineering services, and mining. In Uzbekistan, focus could be on sectors such as energy sector, IT sector, mining sector, food processing and packaging, textile machinery and equipment, and tourism infrastructure.

In Belarus, the government is actively promoting investment in sectors such as updating of the telecommunications network, modernization of transport system as also transit transportation via Belarus, airline infrastructure facilities, road transport, food processing, packaging facilities, manufacture of equipment for soil cultivation, chemical plant protection, and biopharmaceuticals.

In Armenia, sectors offering potential for investment would include jewellery and diamond processing, electronics, information technology, and light industry (carpet, footwear, textiles and clothing). In Azerbaijan, sectors which present investment opportunities are oil and gas equipment, chemical and petrochemical industry, electric transmission lines and distribution networks, agriculture and food processing, transportation infrastructure, machine-building, tourism, textiles and light industry, ferrous metallurgy, construction and financial services.

In Georgia, the key sectors of economic activity and potential sectors for investment are energy, agriculture, trade, tourism, transport, as well as projects in the food processing and telecommunications industries. Sectors such as agribusiness (small-scale farm equipment, food and textile processing equipment, improved storage and packaging), mining equipment and technology, electricity generation and maintenance of distribution systems, tourism infrastructure, IT sector, radio-electronic industry and silicon production, small and medium scale light manufacturing equipments offer investment potential in Kyrgyz Republic.

In Moldova, the most promising sectors for investment include energy sector (modernization, gas pipelines, gas stations and distribution networks), tourism, IT sector, wine-making and food industry. In Tajikistan, investment opportunities are in mining and related equipment, medical and pharmaceutical supplies, textile machinery, telecommunications, oil and gas extraction equipment, ecotourism, agribusiness and related sectors (canning/food processing equipment, farm equipment).

In Turkmenistan, in line with the government's priority, potential areas for investment would include oil and gas industry (exploration, development services and equipment), electrical



energy (equipment and services), chemical & mining industry, transportation, communications (equipment and services), environmental technology and services, and healthcare and medical industry.

Robust Overall Economic Growth

Economic growth in the CIS region has registered robust growth in recent years, reflecting among others buoyant energy and metals prices and strong domestic demand. Real GDP growth for the region as a whole strengthened from 7.9% in 2003 to 8.4% in 2004.

Strong growth momentum in the largest economies in the region, such as Russia, Ukraine, Belarus, Kazakhstan, has supported economic activity in other member countries. During 2005, growth momentum was sustained, although at a lower level of 6.5%. During 2006, reflecting high commodity prices and strong export growth, economic activity has picked up, supported by increased domestic demand in major countries such as Russia and Kazakhstan. For the region as a whole, real GDP growth is projected to strengthen to 6.8% in 2006.

Foreign Trade & Current Account Balance

Reflecting increased earnings from oil and commodity exports, the current account surplus of the CIS Region has risen from 6.3% of GDP.

For net energy exports such as Azerbaijan, Kazakhstan, Russia, Turkmenistan and Uzbekistan, the current account surplus was as high as 8.7% of GDP in 2004, which increased further to 10.0% of GDP in 2005. Total exports of the CIS region have risen from US\$ 196 bn in 2003 to US\$ 268 bn in 2004, and further to US\$ 345 bn in 2005.

Total imports have also risen from US\$ 134 bn in 2003 to US\$ 173 bn in 2004, and during 2005 stood at US\$ 216 bn. The trade surplus of the region, which stood at US\$48.3 bn in 2002, increased to US\$ 128.3 bn in 2005. ■

India Fast Expanding in Global Pharma Market

- Exim Bank Study

The Indian pharmaceutical industry today occupies a unique and fast expanding space in the global market not only as a manufacturer of generic drugs but also of new formulations, with growing emphasis on research and development (R&D) and new drug discovery, says a study by the Export Import Bank of India.

With annual turnover of over US \$11 billion, the Indian pharmaceutical industry is globally ranked 4th, in terms of volume, with a share of 8.0 percent in the world pharmaceutical market.

The global pharmaceutical market is characterized by greater levels of R&D expenditure and extensive regulation of its products. Although the developed countries dominate the global pharmaceutical market, the share of developing countries like India, China and Mexico has been increasing in recent years.

The study, analyzing the evolution of Indian pharmaceutical industry, has observed that the transition period, provided under the TRIPS agreement of WTO, has been utilized effectively by Indian firms to undertake activities such as clinical research, new drug



development and patent filing.

New countries, such as Brazil, South Africa, Turkey and Ukraine, have emerged as important destinations for India. For many countries in Africa and South Asia, India is one of the principal source countries for pharmaceutical imports. However, India's share in pharmaceutical imports of developed country markets (such as USA, EU and Japan) is still low, though they are India's largest export destinations.

Increasing R&D activities, Filing of Drug Master Files (DMF) and Abbreviated New Drug Applications (ANDA) with US-FDA; leveraging bio-technology; specializing in contract research, contract manufacturing and co-marketing alliances; diversification of markets; and inorganic growth through mergers and acquisitions are some of the success strategies adopted by the Indian pharmaceutical industry. However, there are also challenges, which need to be addressed by the Indian pharmaceutical industry.

Given the expertise and experience, Indian pharmaceutical industry should be in a position to garner a significant share in the world market. Some of the strategies prescribed by the study include strengthening R&D activities, market penetration in Least Developed Countries (LDCs) through acquisitions, stepping up of bio-pharma convergence, addressing safety and quality issues, emphasis on patent filings, skill development and tackling of patent infringement cases.



CIS Offers Huge Market for Engineering Process Outsourcing

India's EPO Business Seen at \$30 bn by 2015

India is poised to become the hub of Engineering Process Outsourcing (EPO) with the size of the Indian EPO market expected to touch US \$30 billion annually by year 2015, from the current size of a little over US \$3 billion.

The estimated demand for engineering process outsourcing to India has grown at 30 to 35 percent since 2004. The global EPO market is poised to grow to US \$110 - 140 billion by 2015. This is indicated in the Strategy Paper on "Growth of Engineering Process Outsourcing from India" which was released by Minister for Commerce and Industry Kamal Nath at the All India Awards presentation function of the Engineering Export Promotion Council (EEPC) in New Delhi recently.

Kamal Nath congratulated EEPC for bringing out a strategy paper on EPO indicating the potential that exists in this emerging sector and assured that the recommendations of the strategy paper would be carefully looked into by his Ministry so that the EEPC could play a proactive role in promoting the EPO sector, besides export of engineering goods.

EEPC Chairman Rakesh Shah said that engineering exports from India had touched the US \$26-billion mark in 2006-07 and attributed this achievement to the outstanding performance of engineering exporters. He also highlighted several issues of concern regarding engineering exports.

Responding to some of the issues raised by Shah in his speech, Kamal Nath mentioned that the Duty Entitlement Pass Book (DEPB) had been extended till March 2008 and his Ministry was working to develop an alternative Duty Neutralisation Scheme that would replace the DEPB Scheme, which would lapse in 2008.

He pointed out that the Annual Supplement 2007 to the Foreign Trade Policy had addressed the issue of Service Tax component that gets factored into exports price. The Minister urged the engineering exporters to use the Focus Market Scheme to their utmost advantage in



promoting exports of Indian engineering products to these markets, as the potential growth for India's engineering exports in focus markets especially the CIS was huge. In this context, he mentioned that government had given export thrust to newer markets by expanding the list of Focus Market Scheme to include 16 new countries including the CIS and stressed that it was important to concentrate on developing markets in these countries.

While congratulating the engineering exporters (for the year 2005-06), Kamal Nath assured that all issues raised by the EEPC Chairman would be looked into and his Ministry would extend all possible help to resolve them.

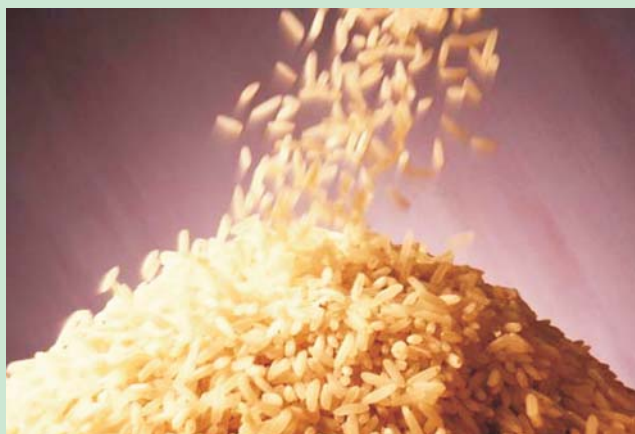
"In the last three years, our Government has consciously endeavored to carry out policies designed to make our products globally competitive. Indian exports, including, engineering exports are likely to face increased non-tariff barriers, considering that average tariffs for industrial products in all countries is headed southwards. This process has already begun for engineering products and is likely to gain greater momentum as India's share in world exports increases in the coming years. Thus, the Doha Round of Trade Negotiations under the auspices of the WTO is a good opportunity for India and other developing countries to leverage such issues", the Minister said. ■

Russia Lifts Ban on Rice Imports from India

Russia has lifted the temporary ban on rice exports from India and some other countries imposed earlier in 2007. This has been achieved through vigorous efforts by Indian Minister of Commerce and Industry Kamal Nath, who took up the issue with his Russian counterpart G.O. Gref, Minister of Economic Development and Trade.

This was further followed up by the discussions held during the visit of the Indian delegation led by G.K. Pillai, Commerce Secretary to Moscow a month later during the Joint Study Group meeting. A decision has now been taken by the Federal Service for Veterinary and Phyto-Sanitary Supervision (FSVPS) of Russia to resume issuing Quarantine Certificates for import of rice from India to the Russian Federation.

Temporary restrictions on import of rice into Russia from some countries including India were imposed by the Russian Government on the ground that the exporters of rice to Russia were violating the Russian Sanitary-Epidemiological requirements, in particular, regarding pesticide residues. Russian teams had visited



several countries including India to inspect the testing facilities to ascertain the quality of exports of rice.

A Russian team visited India in February 2007 and held talks with officials of the Department of Commerce, Department of Agriculture and Cooperation and APEDA. It had also visited the laboratory facilities for testing of export consignments, rice mills and National Accreditation Board for Testing and Calibration Laboratories (NABL). ■

India, Russia to Expand Civil Aviation Cooperation

Delegations representing the governments of India and Russia met in Moscow recently to discuss issues related to cooperation between the two countries in the field of civil aviation.

A mutually beneficial agreement was reached,



under which the designated airlines of the two countries will continue to be permitted to over-fly the territory of the other country without restrictions. Further, traffic rights were enhanced and capacity entitlements increased from 46 to 52 weekly frequencies for both sides. The increase in flights will be to the cities of Ahmedabad and Amritsar each of which will get three additional flights from Russia.

The Indian delegation was led by R.K. Singh, Joint Secretary, Ministry of Civil Aviation and the Russian delegation by G. Loschenov, Chief Negotiator, Department of State Policy in Civil Aviation.

The leaders of both delegations expressed satisfaction with the outcome of the discussions and re-affirmed the need to hold frequent consultations for further strengthening the civil aviation relationship between India and Russia. ■

Russian Economy Rides High on Investment Boom

The Russian economy has experienced robust growth in the first half of 2007, driven by an investment boom and strong domestic demand. It is expected to sustain the pace of economic growth in the second half of the year too.

Ahead of elections in December and March next year, large increases in government spending were announced in the President's 'State of the Nation' speech and the 2008-2010 three-year budget. This fiscal relaxation is expected to stimulate the economy further, which may allow yearly growth to reach or surpass 7.2 percent - the magic number by which the economy must grow to meet the President's target of doubling by 2010. But government spending and capital inflows will add to existing inflationary pressures. The three-year budget also changes the management arrangements for surplus oil and gas revenues by splitting the Stabilisation Fund.

Key Figures

Despite sluggish energy production, Russian GDP growth hit a six-year high of 7.9 percent year-on-year in the first quarter of 2007, compared to 5.0 percent in the same period last year and 7.8 percent in the last quarter of 2006 (with overall growth for 2006 at 6.7 percent). The construction sector in particular benefited from the warmest winter since Russian records began in 1879, with growth over the first four months of the year averaging 23.7 percent. Large gains were also registered in the same period for manufacturing (12.5 percent) and retail trade (13.6 percent). Agriculture was up to 2.2 percent growth for the first four months compared to 1.3 percent for the same period last year.



Key growth drivers included booming investment, with fixed-capital investment soaring to 20.8 percent year-on-year growth by the end of May; and rapid expansion of domestic demand, with improving access to consumer credit, and real wage growth of 18.5 percent in the year to April 2007.

Strong domestic demand is also reflected in further rapid growth in imports of goods and services. Imports were up 38.8 percent in the first half of 2007 over the same period last year. Exports, by contrast, rose by 8.3 percent, with energy exporters still struggling to increase production volumes. Faster import than export growth has shrunk Russia's current account from US\$30.5bn in the first quarter of 2006 to US\$21.8bn in same period of 2007.

Capital inflows have more than compensated for the weaker current account, however, pushing the balance of payments to further record highs. In the first half of 2007 the influx of private capital was US\$67.1bn, surpassing US\$42bn for the whole of 2006. The main factors contributing to the sharp increase in capital inflow in Russia were auctions for the assets of bankrupt oil company Yukos, and several large initial public offerings (IPOs). The IPOs included those of state-run retail savings bank Sberbank and government-controlled foreign trade bank Vneshtorgbank (VTB), the latter bringing in US\$8bn alone.

Inflation has remained relatively under control, coming to 5.7 percent in the first half of the year (down from 6.2 percent Jan - June 2006), with year-on-year inflation to June 2007 at 8.5 percent. Consumer prices spiked 1.0 percent in June, however, fuelled by a 12 percent price hike on fruit and vegetables after the Government's spring crackdown on foreign labour in food markets and news of a poor wheat harvest. Furthermore, the large capital inflows into Russia may make it difficult for the Central Bank to meet the Government's inflation target of 8.0 percent, as the Government's Stabilisation Fund (which minimises inflationary pressures due to oil revenues) does not absorb such inflows.

Despite increasing demand for labour and Russia's negligible growth in the working population, official unemployment levels have remained stable in the range 7.2 - 7.6% since 2005, with 7.1% recorded for first 4 months 2007. ■



Health & Safety Back on Future Agenda

The EBRD has put health and safety firmly on the Bank's future agenda, responding to the often fatal accidents that continue to blight industry in many of the countries where the EBRD is active.

Health and safety has been a feature of the EBRD's environmental mandate ever since its creation in 1991, but even more intense efforts are now planned to address the challenges of worker safety. "This must now become the norm in our activities, especially in extractive industries, but also in the transport sector," EBRD President Jean Lemierre said.

In mining in particular, accident and fatality rates remain unacceptably high in many countries of operations – but the problem also extends to heavy industry.

Ukraine has the second worst coal mine death rate in the world after China, with a total of more than 4,000 fatalities since 1991. And the dangers remain inherent across the whole of the former Soviet Union. In March 2007, over 100 Russian miners lost their lives after a blast at the Ulyanovskaya mine in Siberia, an event described as Russia's worst mining disaster for a generation.

High profile

Recent EBRD projects have already started to raise the profile of health and safety. In June 2007, a US \$100 million loan to Mittal Steel Temirtau in Kazakhstan was aimed specifically at modernising the steel company's coal mines and bringing health and safety standards in line with international best practices.

Health and safety issues are also central to a training programme for Mongolia's mining industry that was launched in May 2007 by the EBRD and the Mongolian government.

EBRD's Natural Resources Director Kevin Bortz says the Bank has a chance to make a real difference in this sphere. "We will offer loans on commercial terms. But there will be explicit conditions as far as safety is concerned."

Under consideration is a whole series of initiatives that could be supported by EBRD funding: streamlining the management of mine safety and accident prevention systems; adopting regulatory, legal, organisational and methodological requirements for mine safety; and raising the standard of training of workers. In addition, there could be measures to carry out seam degassing programmes.

Challenging mind-sets

EBRD officials say it is no longer tolerable to accept industrial accidents simply as an unpleasant but inevitable fact of life. According to Bortz, the EBRD's drive is not simply a question of the installation of state-of-the-art equipment to raise standards out of Soviet-era dilapidation.

"We will be working with regulatory authorities. In some countries legislation has to change," he says. "But it is also a question of addressing the mind-set." Alistair Clark, EBRD's Corporate Director for Environment, agrees. "There has to be a cultural change. We have to make sure that minimizing risk is a core objective of the companies we work with." This stretches across many sectors, he says: gold, copper, coal, oil and gas and refining, as well as the construction industry.

Health and safety is also highly relevant to the transport sector. EBRD projects already take into account the safety of the ultimate users of new roads or railroad systems, as well as that of workers involved in the construction phase.

Roads and railways

The EBRD's Transport Director Riccardo Puliti says it is crucial to get all the basics of transport safety right. That includes road design to avoid black spots and excessive changes in gradient and to ensure correct road alignment. Another key factor, Puliti says, is signalling in railways. "A failure of signalling is the worst possible thing that can happen on a rail or underground system."

But he wants to do more. Up to now the EBRD has concentrated mainly on what he calls the hardware: basic infrastructure and equipment. Now, he says, it is time to discuss funding software. "That's the people and the education of the people who are affected."

He points out that road safety education, especially for young people, is important. Better training for police forces to help inculcate a greater sense of the importance of road safety is also crucial.

Training to raise awareness of the dangers of drunk or dangerous driving, a particular hazard in some EBRD countries of operation, could be an additional target for EBRD funding, Puliti adds. ■

Reaching out to smallest borrowers Kyrgyz & Mangolian Experiments in Microfinance



The EBRD is providing Bai Tushum, one of the leading microfinance institutions in the Kyrgyz Republic, with a \$2 million guarantee for local currency loans from local banks. Bai Tushum will use the financing for on-lending to local micro and small enterprises, thus significantly facilitating their access to finance.

The EBRD's guarantee is the second to Bai Tushum, after a first one was issued in 2006, and it is one of the products available under the Non-bank Microfinance Institutions Framework II for Early Transition Countries (ETC). In many of these countries local currency funding is still in short supply which represents a serious impediment for the expansion of micro and small enterprises. Easing access to finance is therefore a key challenge to achieve sustainable growth.

Established in 1997, Bai Tushum has become a leading microfinance institution in the Kyrgyz Republic with a strong rural focus. The institution offers a range of agricultural loan products for crop production, livestock and food-processing. Bai Tushum currently has around 10,000 clients, with the majority of the portfolio outside the capital Bishkek.

Fernand Pillonel, Head of the EBRD's office in the Kyrgyz Republic, said the project confirmed the Bank's commitment to supporting the micro and small enterprise sector. It is expected that it will serve as an example to the sector and encourage more local banks to finance microfinance institutions. The EBRD expects to be able to offer more local currency loans in future, he added.

The EBRD's Non-bank Microfinance Institutions Framework for Early Transition Countries aims at strengthening microfinance institutions in Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Mongolia, Tajikistan and Uzbekistan. Loans are provided for on-lending to the smallest borrowers across these countries. The facility is accompanied by a technical cooperation framework funded by donor governments.

Through its micro and small enterprises programmes the EBRD has supported over one million small enterprises throughout eastern Europe, Russia, central Asia and the Caucasus

Khan Bank's Success Story

Seven years ago, international lenders called for Mongolia's Agricultural Bank (AB) to be closed because it was irreparably damaged. Created in 1991 and state-owned until 2003, AB experienced years of deficits and near-bankruptcy. Its management had little control over the bank: politicians rather than credit officers decided who received loans. AB was neither fair nor effective in meeting the credit needs of Mongolians.

The Mongolian government, however, refused to close AB. It was the only bank with branches across the 1.5 million sq. km of Mongolian territory. It was the only bank able to operate nationally, transferring money, paying pensions and salaries to citizens in far-flung reaches of the Asian nation. To close the bank would

have devastated the rural economy.

And so the international lenders made reform of the Agricultural Bank a condition of any credit programmes for Mongolia. It was time AB divorced itself from politics.

In July 2000, the Mongolian government handed the bank over to a joint American-Mongolian management team. The AB finally had full authority to say "no" whenever politicians tried to exert their influence.

The bank was privatised in 2003 and changed its name to Khan Bank. Next, it changed the common perception that only large companies with government connections could get loans.

The bank opened its door to nomadic Mongolian herders, farmers and other micro and small businesses – clients whose only means of borrowing until then had been friends or pawnshops.

This was Khan Bank's culture in 2004 when the EBRD started a two-year micro-finance project with it. The project was funded by the EBRD's Mongolia Cooperation Fund, a donor fund that allowed the EBRD to operate in Mongolia before it became a country of operations.

"Khan Bank had about 400 branches in 2004, 90 per cent of them in rural Mongolia," says CEO Pete Morrow. "We had experience in dealing with rural clients but knew little about the urban market. With many businesses moving to the cities, the challenge was to make them our customers."

Two consultants (their fees covered by the EBRD) were hired to bring in the expertise needed to build an urban clientele. One of them was Niel Isbrandtsen. "Small urban businesses wanted loans that were easy to arrange, with less paperwork and with terms longer than six months," Isbrandtsen recalls. "Previously, loans only financed the costs of importing trade goods: businesses wanted longer-term loans so they could buy equipment and start producing their own goods."

As Chikako Kuno of the EBRD's Small Business Group points out: "After more than a decade in the micro-finance sector in eastern Europe and Central Asia, the first lesson the EBRD has learned and which we teach our local partner banks is to simplify loan applications for small businesses."

Khan Bank followed that advice and in 2004 introduced express micro loans of up to US \$2,000. Loan approval time was cut to a few hours versus several days. Collateral also became less of an issue:

Khan Bank now accepts gers, the traditional Mongolian nomadic tents made of blankets, as collateral, as well as rented market stalls. Loan maturity was extended to one year.

Micro express loans in the market

Narantuul market in the Mongolian capital Ulaanbaatar buzzes with its 5,000 stalls. Khan Bank has two offices there to offer loans to the thousands of people buying and selling goods.

That's where Dalkhjav Tsendjargal received three loans totalling \$1,500. "Life has improved," says the dynamic Dalkhjav. "We used to import coats from China but now we produce them ourselves."

Morrow says it is very rare for micro and small businesses to delay their loan payments. "They can't risk the relationships with the only bank in their vicinity nor the collateral they've pledged, as those tiny stalls they rent in freezing winter markets are all they have to survive."

Demand for loans in Mongolia has grown each year. With Mongolia becoming an EBRD country of operations in 2006, the Bank has approved its second investment in the country – the Mongolian Financial Sector Framework, a facility with nearly €38 million to provide medium-term loans to businesses. Khan Bank will benefit from a €7.5 million loan as well as an €800,000 limit under the Trade Facilitation Programme. The EBRD's Early Transition Countries fund will cover costs of training the local bankers.

"We proved that a state-owned bank can be turned around and privatised," explains Mr Morrow.

Khan Bank hasn't had an easy job of it, though. Over 800 microfinance institutions compete in providing financial services to Mongolia's population of around three million. Dashdorj Badraa of the Mongolian Financial Regulatory Committee tried to put an end to unregulated credit unions that were misusing customers' money. On June 2006, a credit union owner stabbed him to death in front of his office. Shortly after the murder, some 22 credit unions went bankrupt, hitting about 10,000 Mongolians with losses of nearly \$60 million.

"Winning against informal competitors is Khan Bank's success," says Mr Morrow. "We brought the money out of the cash economy into the bank. Now small businesses have faith in a handful of reputable banks and are turning their backs on the calamitous informal lending sector." ■

ProCredit – A Friendly Neighbourhood Bank

When ProCredit Bank Georgia began offering savings accounts with a minimum deposit of just 5 lari (about €2), critics said it wouldn't be taken seriously. When it sent its bankers onto the streets to talk to people, they said the idea wouldn't work. And when ProCredit tore down the bars over their windows, "It was a revolution," says Deputy General Manager Asmus Rotne. "We had to fight with security advisors, police and our insurers to get them to understand why we wanted to open up."

But then ProCredit isn't really a typical bank. As its mission statement points out, its shareholders are "not primarily interested in short-term profit maximization".

The bank is a long-term partner of the EBRD and mainly focuses on business loans to the micro and small business sector. When it does provide consumer loans, the criteria are strict: it does not offer credit for buying DVD players or TV sets. "Consumer loans can be for housing renovation, when there is some lasting value," says Rotne, citing roof replacement or double glazing installations as viable projects.

ProCredit Bank Georgia is part of the ProCredit Holding group, which is active in 21 countries in Latin America, Africa and Eastern Europe. EBRD has helped to establish the 10 subsidiaries of the Holding Company that are active in Eastern Europe and the Caucasus, including those in Kosovo, Bosnia and Herzegovina and Bulgaria. ProCredit's national subsidiaries more or less work to the same formula: they are development-oriented banks focusing on business lending to the MSME sector.

ProCredit Bank Georgia was established in 1999 with the support of the EBRD, Germany's Kreditanstalt fuer Wiederaufbau, the Netherlands Development Finance Company and the World Bank's private lending arm, the IFC, as well as of four local banks. The EBRD also provided technical assistance funds from the US to help the initial set up of ProCredit Georgia.

The EBRD formerly held a stake in ProCredit Bank Georgia, which it sold to ProCredit Holding, and has also been a source of credit, providing two loans worth a total of US \$9 million (Taiwan's ICDF also provided US \$3 million through the EBRD). Most recently, the EBRD provided a US \$15 million loan in June 2007, of which US \$5 million was syndicated to Citibank. This



was the first time the Georgian bank had been able to access the international capital markets and marked a significant milestone in its growth.

Development is at the heart of ProCredit's business ethos. "We are more interested in the loans having an impact on the development of the company, for the economy and for the entrepreneur running that business," according to Rotne, a Danish graduate of Aarhus and Harvard universities who speaks Russian and Georgian, which he learned on an exchange programme in 1995-96.

ProCredit can have an impact with a large number of smaller loans, Rotne says. Recipients have included Eka Bezhnashvili, a doctor who gave up her profession in the economically difficult period in Georgia in the late 1990s. Her first loan came not from the bank but from a neighbour, who lent her just 7 lari to buy ingredients to make two small cakes. The sale of those two cakes developed into a bakery which ProCredit has supported for the last five years. Ms Bezhnashvili now has 30 employees and a bakery that operates 24 hours a day.

ProCredit has 35 branches in Georgia, 16 of them in the capital. About 60 percent of its total loans have been made outside Tbilisi.

Rotne says the bank places a great emphasis on being

part of the neighbourhoods in which it operates. While it does advertise, it prefers to make its presence felt by involvement in the community: its employees go out onto the streets to talk to people; it has developed local projects such as the renovation of a playground, for which it encouraged local tradesmen and construction workers to get involved; and it recently set up a blood donation programme.

This approach requires a different sort of banker, Rotne notes. People working in the team want to be part of this mission, he says. Of ProCredit's outstanding credit portfolio of 60,000 loans, 40,000 are business loans, heavily tilted towards the micro (or what ProCredit calls the development) sector. Clients in medium-sized businesses have often grown up with the bank.

ProCredit Bank Georgia faces competitive challenges, at the very small end from NGOs but also

from larger banks which are starting to move into the micro area. The bank has responded partly by introducing a more flexible pricing policy.

Rotne describes the experience of working with the EBRD as "really positive". "We know each other well," he says. The EBRD initially provided loans and took an equity stake, which it sold. It later provided ProCredit's first access to commercial funding via the June 2007 syndicated loan.

According to Rotne, ProCredit is growing more independent thanks to the build-up of funds held at the bank by customers and to the Citibank component of the June loan.

"It is important to establish a credit history with mainstream commercial banks. Our clients need a credit history and so do we," says Rotne. "If we can do it without the EBRD in the future, that will be the success story." ■

EBRD supports Unibank with \$35 mln Syndicated Loan

The European Bank of Reconstruction and Development (EBRD) is supporting the dynamic growth of Unibank, one of Azerbaijan's leading private banks, with an international syndicated loan which will promote further competition in the country's banking sector. Access to finance remains one of the key obstacles for the development and growth of private banks in Azerbaijan and this transaction is a strong positive signal, especially in light of the current market conditions.

The loan received a strong response from the market and was increased from \$30 million to \$35 million to meet demand. Structured and arranged by the EBRD under its A/B structure, the \$8.75 million A loan will have a maturity of three years, while the \$26.25 million B loan provided by participating banks will have a maturity of 18 months, with an option to extend by a further 18 months. The B Loan was priced at LIBOR + 3.00%.

Unibank was set up in 2002 as a result of the merger of Mbank and Promtechbank. In the largely state-dominated Azerbaijani banking sector Unibank has developed into the leading private commercial, independent bank focusing on business - especially micro, small and medium-sized enterprises - and

individual clients.

Varel Freeman, EBRD First Vice President, said the EBRD's role in the country remains crucial given that local banks lack access to international capital. The Bank is committed to provide support for the further growth and development of institutions like Unibank and facilitate their access to international capital markets of which the new financial package to the bank is an example.

Faig Huseynov, Chairman of the Executive Board of Unibank, said "having been the first Azeri private bank to attract a syndicated loan from an IFI in April 2005, Unibank is delighted to continue its development by signing already its third loan agreement with the EBRD. This agreement is even more significant due to larger amount and extended number of participants. This signifies the solid trust of the international bank community in Unibank."

To date the EBRD has invested more than €720 million in Azerbaijan through more than 80 projects. Through its investments in the enterprise, financial and infrastructure sectors the Bank supports structural reforms to make Azerbaijan's rapid growth sustainable. ■

Forging Partnerships with NGOs on Energy Efficiency

Partnership was high on the NGOs' wish list when they met with EBRD President Jean Lemierre at the end of the Bank's 2007 Annual Meeting, held in Kazan, the capital of Russia's Republic of Tatarstan recently. It is the fifth year that NGOs have met with the EBRD President to exchange views. NGOs engaged in a dialogue with Lemierre and other senior Bank staff on human rights, energy efficiency and the environment.

"It is difficult to keep a close watch on all the countries of operations from our headquarters in London," Lemierre said, reminding the NGOs of their importance to the Bank. "We need you. Civil society is crucial for sustainable economic progress. We must engage in a dialogue and build a partnership," added Lemierre.

A partnership to benefit human rights

NGOs participating in the meeting unanimously agreed that they should be the Bank's eyes and ears in the region.

"We want to engage in a dialogue with the Bank and provide your staff with expert analysis when they assess investment opportunities in Russia," said Andrei Yurov speaking on behalf of human rights organizations in Russia.

"However, be choosy when engaging NGOs in a dialogue with the EBRD. Russia is rich and all too often the state funds NGOs. These NGOs are entirely one-sided and will not be good partners in assessing the situation on the ground," said another NGO representative.

"Respect for human rights should be a must for EBRD investments in Russia," said Yurov.

Energy efficiency always on the agenda

The significant profit that the EBRD made in 2006 didn't escape the NGOs' attention. They suggested the EBRD use the profit to support energy efficiency initiatives in the region, particularly in district heating.

Said Lemierre: "Energy efficiency is a top priority for the Bank. It has economic and environmental impacts. It is equally important because of the social cost of energy"

when prices rise too high for poor people to heat their homes.

While energy efficiency is a top concern for NGOs, they warned Lemierre that it would be dangerous for the Bank to become involved in nuclear energy projects.

The EBRD President assured the NGOs that the Bank's interest in the nuclear energy sector is only related to the important work the Bank leads in nuclear decommissioning and nuclear safety projects.

Environment – important as ever

The Bank's review of its Environmental Policy is an opportunity for NGOs to bring forward their concerns and suggestions. The review takes place every three years and the results will be presented to the Bank's Board of Directors for approval by the end of 2007.

Sakhalin II, an oil and gas project on Russia's Sakhalin Island, was back for discussion with Dmitry Lisitsyn of Sakhalin Environment Watch presenting images of environmental damage to river crossings on the Island. "We believe that the Sakhalin II project doesn't fit with the Bank's Environmental Policy and recommend that the Bank doesn't invest in this project, should you be approached to finance it," said Lisitsyn.

Responded Lemierre: "The Bank withdrew from the project in January 2007 following a significant change in the ownership of the Sakhalin Energy Investment Company. If we were to re-consider this project, the environmental assessment will be crucial."

Other issues discussed concerned individual projects in Kazakhstan and Serbia. Health and safety, gender and minority groups' concerns were among the issues raised by the NGOs, and Lemierre assured the NGOs that these were becoming top priorities for the Bank too. "I take stock of your concerns," said the EBRD President. "These are challenging projects and it's only through an honest dialogue with you that we can bring benefit to the people of the region." Lemierre invited NGOs to continue the dialogue during the year and at next year's Annual Meeting in Kiev. ■

Mayors agree to cut energy costs, improve services

With energy efficiency now at the core of EBRD operations, the Bank's Annual Meeting brought together mayors from Belgrade in Serbia to Surgut in Russia to discuss ways in which municipalities can cut energy costs and improve related services. Countless opportunities exist to do so, particularly in modernizing district heating and public transport, the Mayors agreed. But what are the hurdles to achieving these aims?

"Financing is the single most important issue in pushing for energy savings projects," said the Mayor of Belgrade, Bojan Stanoyevich. "The municipality of Belgrade relied mainly on loans from international financial institutions to modernize its district heating system. Once services were improved, then tariffs increased. With a stronger budget, the municipality can now plan for more energy efficiency projects."

Long-term loans work better

Mayors agreed with Mikhail Slobodin of Integrated Energy Systems, Russia's largest private sector district heating provider, who argued that the energy sector requires long-term loans for modernization that will yield energy savings. "EBRD is one of the few lenders providing long-term loans," said Slobodin. "Long-term loans are the best incentive for municipalities to develop energy efficiency projects. Thus municipalities experiencing financial constraints don't have to throw the burden of paying short-term loans on to the

customers," he added.

"It's a burden for municipalities, particularly in small cities, to invest in energy saving projects. Most importantly, municipalities experience financial constraints based on restrictions to adjust tariffs," said Alexander Sidorov, Mayor of the Siberian city of Surgut.

In a pioneer programme, the EBRD has provided Surgut municipality with a 700 million rouble (€20 million) loan to finance four new residential buildings, and to knock down two old concrete panel buildings. The new buildings will be safer, warmer, and 30 per cent more energy efficient. And there is more to this project than the energy efficiency aspect. Of the 800 new apartments, up to 25 per cent will be reserved for lower-income families.

The need to improve buildings was echoed around the podium. "We also want to do more by cutting down energy lost in heating public buildings," commented Ilсур Metshin, Mayor of the city of Kazan in Russia's Republic of Tatarstan where the EBRD's 2007 Annual Meeting was held in mid-May.

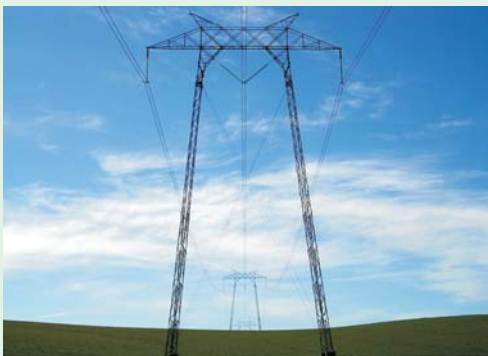
Modernise transport to save energy

Private operators and mayors also debated ways of modernising urban transport to achieve energy savings. The Deputy Mayor of Zagreb, Croatia, explained how the city had improved the bus and train system and was now moving to upgrade the underground system. David Alavidze, Deputy Mayor of Tbilisi, Georgia, has high hopes for using public private partnerships to modernise his city's transportation system. He said the city's transport system and energy efficiency had improved thanks to an EBRD loan for the bus system, making the system more attractive for private sector operation.

"Promotion of public transport is a must in any city, if energy is to be saved," said Pierre Cordier, Deputy Director of Veolia Transport. He and others also pointed to the environmental benefits of improved energy efficiency through well-conceived municipal investments.

Contrasting views about the direction of the Russian economy and its future relations with trading partners





emerged at the EBRD Business Forum on Monday 21 May in an Economics Panel discussion entitled "Russia in the world".

Russia's rapid growth owes much to oil and gas exports and in recent years the Russian state has played an increasingly important part in this sector. Although panellists agreed on the need for the economy to diversify and involve more private capital, they were at odds over the extent to which this is happening in reality.

"The oil revenue that we receive has already spilled over to other sectors," said Arkady Dvorkovich, Head of Russia's Presidential Experts Directorate. "We are open to capital flows, to economic integration. We are taking advantage of opportunities for domestic growth and investing abroad.

"Dvorkovich recognised that the role of the state in the Russian economy was "huge", but added: "Russia is going through a difficult and long transition from one society to another, one economy to another. It's hard to expect quick results ... (but) it is a country that can grow based on private initiative."

Sergei Guriev, head of the New Economic School in Moscow, agreed that sectors beyond oil and gas had enjoyed growth in Russia in parallel with the energy boom. In particular, he highlighted progress in manufacturing and services, which has been facilitated by developments in the financial sector. "Enterprises no longer see credit as a constraint and it's less of a constraint for households," he said. "This explains why growth remains high even though oil output and prices are not

growing. This would not have been predicted 10 years ago."

Economist and keen Russia watcher Lord Robert Skidelsky, however, expressed scepticism about the Russian government's commitment to reducing the country's dependence on hydrocarbons and rolling back state involvement. "Natural resource economies give elites too many incentives for short-term enrichment and power play," he said. "The last thing Russia's rulers want is well-specified property rights."

Lord Skidelsky warned that the "oil curse" increased Russia's exposure to trade shocks, harmed non-energy exports and reduced political leaders' accountability to citizens. "The clock is ticking away on Russia's oil bonanza," he said. "Russia desperately needs a new start, a new generation of public-spirited leaders who don't regard the patrimony as a source of plunder."

Lord Skidelsky also said there had been a lack of public investment in strengthening law and order, the health system and education. Guriev shared his concerns about under investment in the last two areas: "The Russian government is doing a lot, but there is much more to be done. This is an urgent issue to be considered."

Debate about Russia's trade relations centred on its bid to join the World Trade Organisation and its commercial ties with the European Union, which, as Dvorkovich acknowledged, have experienced "frictions" in recent months.

Richard Baldwin, a professor at the Graduate Institute of International Studies in Geneva, said the WTO would benefit from Russian membership. "There will be massive changes to the world trading system in the coming decades. The EU and the US are no longer the only powers in world trade," he said, noting the rising influence of China, India and Brazil. "Russia is missing from this list of emerging markets."

Turning to Europe, Klaus Regling, the European Commission's Director General for Economic and Financial Affairs, emphasised the already robust nature of trade ties between the EU and Russia and expressed a desire to see them strengthened. "Russia and the EU cooperate in many ways, some of which are unknown to the public," he told the panel. "The EU is deeply interested in promoting prosperity in our largest neighbour. Our interests are complementary." Questions from the floor saw the debate shift back to Russia's so-called "oil curse". Guriev noted that media freedom tended to decline when countries with lower levels of constitutional development discovered large oil reserves. "Media freedom has declined in Russia in recent years," he added. "Media freedom helps to reduce corruption. Hopefully media freedom will go up."

Finally, in response to a question about environmental protection, Dvorkovich pledged tough action on the part of the Russian government. "We take this very seriously and we believe we have to put substantial administrative resources into solving the problem, around the world," he said. "It's not purely a Russian problem." ■

Новая фаза в индийско-российском сотрудничестве

Продвижение к диалогу В2В

Между Индией и Россией началась новая фаза во всех сферах сотрудничества – экономической, политической и культурной. Отношение между деловыми обществами и правительствами двух стран растёт и укрепляется.

В политической и экономической сферах Индия и Россия имеют тождественные интересы и это предопределяет необходимость всевозможного развития отношений в этих областях с целью упрочения их стратегических позиций в мире.

Внешняя торговля Индии быстро растёт. Главный интерес страны - это расширение торговли со странами, в числе которых есть ведущие державы мира, включающие Россию.

Традиционно Индия придавала важное значение торговым и экономическим отношениям с бывшим Советским Союзом и позднее с Россией. Однако, начиная с 1991 года российско-индийские торговые и экономические отношения претерпели спад в торговом обороте потребительских товаров. Причиной этого были изменения в Российской экономике, сопровождавшиеся разрывом старых связей,

переориентацией внешней торговли с западными рынками.

Нынешний объём торговли Индии с Россией в 8,0% не отражает все потенциалы существующие в торговле и сотрудничестве между двумя странами. Поэтому увеличение взаимного торгового оборота представляет большую задачу для Индии и России. Обе страны должны расширить практику создания совместных предприятий, ориентированных на экспорт, в частности в фармацевтической, пищевобрабатывающей и инженерной областях.

Прямой диалог между российскими и индийскими бизнесменами работающими в специфических областях может в значительной мере повлиять и изменить характер торговли между двумя странами.

Если будут улучшены торговые отношения, то станет возможным дальнейшее расширение и углубление экономических отношений между Индией и Россией.

Энергия стимулирует существующую синергию..

В ходе своего визита в Индии, состоявшегося в

декабре 2004 года президент России Владимир Путин сказал, что расширение энергетического партнёрства между двумя странами – Индией и Россией, будет выгодным для обеих экономик.

«Россия, будучи давним и испытанным партнёром, готова участвовать в улучшении энергетической стабильности индийской экономики и развитии её топливного и энергетического комплекса», сказал Владимир Путин. Согласно ему, российские компании принесут в Индию современные технологии с целью увеличения добычи нефти, возрождения старых месторождений и развития месторождений имеющих скванджер. Здесь стоит отметить, что лидеры крупных российских компаний г-н Алекперов (Лукойл), г-н Семён Веиншток (Транснефть), Алексей Миллер (Газпром) и другие были членами российской делегации, сопровождавшие президента Владимира Путина.

Энергетический сектор Индии является очень чувствительной областью индийской экономики. Страна с более чем миллиардным населением имеет менее чем 1,0% мировых резервов нефти. Потребление топлива и нефти в Индии составляет 3,5% всемирного потребления (ресурсы – 345 миллионов тон нефти в год). Нефть составляет 32% энергетического баланса.

Согласно подсчётам, спрос на нефть в Индии возрастёт ежегодно на 5% в следующие 20 лет, ежегодный спрос на газ возрастёт на 3-4%. В следующие 10 лет спрос на нефть удвоится. Он достигнет 3,1 миллионов баррелей в день. Если сохранить нынешний темп продукции (примерно 750 тысяч баррелей в день), то запасов нефти хватит только на не более чем 11-12 лет. Хотя внутренняя добыча нефти в Индии составляет годовых



32-33 миллиона тон, но подсчитано, что страна нуждается в 120-130 миллионах тон в год, т.е. Индии нужно импортировать примерно 2 миллиона баррелей в день, охватывая 70% спроса в стране. В основном нефть импортируют из стран Персидского залива.

Производство природного газа в Индии равняется примерно 90 миллионам кубических метров в день (33 миллиарда кубических метров в год), и нынешний спрос составляет 150 миллионов кубических метров в день. Природный газ составляет 8% национального энергетического баланса. В 2005 году спрос на газ возрос на 37 миллиардов кубических метров, а в 2006 на 43 миллиарда кубических метров, и ожидается что к 2010 году он возрастет на 110 миллиардов кубических метров.

Российское присутствие

Российские компании Зарубежнефть, Стройтрансгаз, Нефтегазэкспорт и Тюменьнефтегеофизика уже имеют опыт работы с Индией. Они готовы помочь развитию нефтегазовых месторождений. К примеру, в рамках сотрудничества с предприятием государственного сектора корпорацией нефти и природного газа ONGC, Зарубежнефть подписала и осуществляет контракт на буровые работы на нефтяных месторождениях в штате

Ассам, и также на поставку запасных частей для узлов используемых на скважинах. Сотрудничество с российскими компаниями поможет индийской компании значительно сэкономить расходы и увеличить ежегодную продукцию на 150 тон. Нынешняя добыча составляет 1 миллион 850 тысяч тон.

Газпром начал разработку нефтегазового месторождения 126 в Бенгальском заливе. Эти операции будут стоить российской монополии 18 миллионов американских долларов только за этот год. Одна из дочерних



фирм Газпрома Стройтрансгаз, действующая в концорциуме со строительной компанией Эссар Констракшини и индийской нефтяной корпорацией Indian Oil Corp подписала контракт с нефтяным предприятием гуджратского штата Gujarat State Petronet в феврале 2003 года, чтобы построить газопровод на участке Барода – Ахмадабад. Газпром также вероятно примет участие в международном тендере по разведке и разработке нефтегазовых месторождений находящихся в зоне шельфа Бенгальского залива, который сейчас подготавливается Индией. В декабре 1998 года Лукоил и Индийская нефтяная корпорация Indian Oil Corporation (ИОС) подписали соглашение, предусматривающее долгосрочные поставки нефтегазовых продуктов Индии в размере 15 миллионов в год.

В дополнение к геологической разведке и строительства газопровода, российские компании смогли занять ещё одну нишу – это обслуживание нефтяных месторождений. Также ОАО «Объединённые машинные заводы» поставляли самоходные буровые агрегаты индийской компании ONGC начиная с декабря 2003 года. Общая стоимость этого оборудования составила 13.6 миллионов американских долларов. И програма развития ONGC предусматривает на следующие годы то, что стоимость реорганизации нефтяных месторождений и модернизация бурового оборудования будет равнятся 400 миллионам американских долларов. Индийская нефтегазовая компания ONGC рассматривает участие в лицензии по развитию Ковыктенского газоконденсатного месторождения в западной части Сибири. Лицензия по развитию этого месторождения находится в руках ОАО Российская нефть. Согласно иркутской региональной администрации Индия готова инвестировать в Кавыкту приблизительно 6.5 миллионов американских долларов.

В начале 2005 года компания выразила интерес в обретении 15%ной доли в Юганскнефтегазе. Дели предложил компании Роснефть 2 миллиарда американских долларов для этой доли и обещал дать ещё 4 миллиардов американских долларов в виде кредита. ONGC также провела переговоры с Роснефтью касавшихся совместного развития Ванкорского месторождения на Каспийском море и Сахалине-3.

Дочерняя фирма госкомпании ONGC - "ONGC Videsh

Ltd" имеет 20% доли капитала в Сахалине -1. Индийская корпорация уже инвестировала 1.7 миллиардов американских долларов в этот проект и это будет самой крупной инвестицией за границей. На Сахалине- 1 будут добывать 307 миллионов тон нефти и 485 миллиардов кубических метров природного газа. Церемония открытия комерческой продукции нефти состоялась 1 октября 2005 года..

Индия также намерена инвестировать в проект Сахалин-3, имеющий резервы примерно 4.6 миллиардов барелей нефти и 770 миллиардов кубических метров газа. Партнёры намериваются представить совместную заявку на аукционе охватывающем 4 лицензированных блока а именно – Восточно –Одоптинский, Яшский, Венинский и Южнокиринский.

Более того, Индия намерена инвестировать в совместный российско-казахстанский проект Курмангазовое нефтегазовое месторождение в Каспийском море. В ходе визита Владимира Путина в Индию в декабре 2004 года две страны подписали меморандум взаимопонимания по совместной разведке и распределения природного газа Каспийского региона и также строительства подземного хранилища природного газа в Индии.

«Индия готова платить черезменую цену за право на участие в производстве нефти и газа в России. СМИ цитируя правительственные источники сообщили, что к середине февраля 2005 года Министерство нефтяной и газовой промышленности Индии послало письмо премьер министру Михаилу Фрадкову, предлагающее инвестировать 25 миллиардов американских долларов в России. Эта сумма сравнима с капитализацией Лукоила и Сургутнефтегаза. Эта сумма выглядит немного не реалистичной, однако это возможно, письмо ссылается на 15-20ти летнюю инвестиционную програму..

В сентябре 2005 года глава Министерства нефтяной и газовой промышленности Индии Мани Шанкар Айяр посетил Москву. Там он провёл переговоры с главами Газпрома и Роснефти и также с министром Кристенко и заместителем премьер министра Жуковым. В ходе переговоров с г-ом Жуковым индийский министр подтвердил, что его правительство хочет купить по крайней мере 10 миллионов тон нефти у России.

Так как европейский рынок имеет излишки запасов российской нефти и российские компании продают её со значительной скидкой, то долгосрочный контракт с Индией будет очень



обещающим. Россия не поставляет сырую нефть Индии непосредственно, ограничивая себя продажей нефтепродуктов и промежуточных товаров.

Согласно нынешним уральским ценам, контракт на поставку 10 миллионов тон нефти, предложенный Дели Москве стоит примерно 2,7 миллиардов американских долларов.

Расширение военно-технического сотрудничества

За последние десятилетие военно-техническое сотрудничество между Россией и Индией приобрело новое качество. Сейчас Россия поставляет Индии не только оружие или самые современные технологии. Расширяется совместное развитие военного оборудования. Россия считает, что военное и военно-техническое сотрудничество с Индией является важным компонентом стратегического партнёрства между двумя странами.

Оружие произведённое в бывшем СССР и в России составляют значимую часть индийских вооружённых сил, ВВС, ВМС и сухопутных сил. За предыдущее десятилетие сотрудничество в области военной технологии между Россией и Индией обрело новое качество. Наши страны продвинулись от снабжения военного оборудования и технологий к совместному развитию самого современного военного оборудования и совместной научно-исследовательской деятельности.

С сентября 2002 года был осуществлён миллиардный контракт в доллоровом исчислении. Им предусматривалась поставка и лицензированное производство многоцелевого самолёта СУ-30МКИ. В октябре 2003 года Россия, Индия и Израиль подписали крупномасштабный контракт по производству



патрульного самолёта дальнего обнаружения на основе российского 11-76 для индийских ВВС. Это был первый

случай многостороннего сотрудничества в военной области в истории России. Россия также поставляла Индии подводные лодки и транспортные вертолёты. Она также участвует в программе усовершенствования самолётов серии МИГ- 21.

На высшем уровне Россия и Индия достигли взаимного понимания срочности совместного осуществления будущих проектов нацеленных на развитие и производство основанных на технологии многоцелевого транспортного воздушного перевозчика ИЛ-214 и военных самолётов пятого поколения. Россия намерена участвовать в индийских тендерах на поставку лицензированного производства легкого боевого самолёта ЛМРКА (МИГ- 29М имеет лучшую боевую эффективность чем самолёты ЕВРОФАЙТЕР и Рафаэль) и также Россия предлагает технологии развития лёгкого военного самолёта и среднего боевого самолёта и производство самого современного вертолёта.

Совместное предприятие БрахМос

Флагман российско-индийского стратегического партнёрства БрахМос оперирует с 2001 года. Это было задумано с целью производства сверхзвуковой ракеты БрахМос предназначенной для поражения кораблей. Серийное производство этих ракет начнётся в скором будущем. Прошел успешное испытание комплекс многоканальной среднего радиуса действия ракеты Штиль -1. Этот комплекс установлен на трёх фрегатах построенных на Балтийском заводе для индийских ВМС. Два корабля уже прибыли в Индию..

Россия всегда положительно отзывалась на предложения Индии по усовершенствованию воздушной обороны и ракетной артиллерии. Участие в установлении индийской интегрированной национальной системы поражающей самолёты с использованием самых новейших российских разработок (ПВО) является стратегической важностью для России.

Впервые была продемонстрирована на международной военно выставке в Санкт Петербурге в 2005 году субмарина нового поколения (проект 677 ЛАДА). Государственная компания Адмиралтийские Верфи уже завершили её строительство для российских ВМС. Адмиралтийские Верфи предложили Индии экспортный вариант этой субмирины (проект Амур1650). Однако индийские ВМС предпочли купить шесть французских Скорпене и сейчас идут переговоры по сделке в 1.8 - 2 миллиарда американских долларов. Тем не менее в ходе выставки Адмиралтийские Верфи подписали контракт с Китаем и Индией по поставке запасных частей для дизельно-электрической подводной лодке проекта 877ЕКМ и её более нового варианта проект 636, который был продан этим странам ранее. Каждый из этих



контрактов стоит примерно 1 миллион американских долларов. Индийские ВМС имеют 10 субмарин проекта 877ЕКМ и ещё две субмарины будут поставлены в этом году от российских ВМС.

Россия создала центр технического обслуживания фрегатов построенных на российских верфях. Подобные центры технического обслуживания построены для самолётов и другого вида российского военного снаряжения. Создание таких центров очень выгодно и прибыльно. Они дадут поддержку как Индии так и странам южно-восточной Азии, т.е. Малазии и Индонезии. Индия готова осуществить это, но решение зависит от российских властей.

В 1977, пять самолётов ИЛ-38 были поставлены индийским ВМС и в 1987-1988 были поставлены

восемь самолётов ТУ-142МЕ. ИЛ-38 является противолодочным самолётом. Он базируется на пассажирском воздушном перевозчике ИЛ-18В. ВМС СССР ввели их в строй 1969 году. Сейчас российские ВМС имеют 35 таких самолётов. В начале 1990, Ленинцы разработали проект по усовершенствованию этих самолетов называемых ИЛ-38Н. Этот проект охватывает установку новых систем поиска и прицела называемых Новелла и также ремонт самолётов, с целью продления их службы до 40 лет. Ремонт и усовершенствование одного самолёта стоит US \$ 17 миллионов. Это поможет нам использовать ИЛ-38Н до 2010-1014 года. Программа вооруженных сил должна быть осуществлена к 2010 году. Ей предусматривается модернизация всех имеющихся у ВМС самолётов ИЛ-38. В дополнение Ленинец предлагает установить системы Новелла для дальних морских районов противолодочных самолётов Ту-142М and Ту-142М3 (российские ВМС имеют 45 таких самолётов) основанных на бомбардировщике ТУ-95. Ожидается, что в скором будущем ВМС примут решение модернизировать 20 самрлётов ТУ-142М3. Модернизирование также охватит системы Новелла. В 2001г., Розоборонэкспорт, КБ Илюшин и министерство обороны Индии подписали контракт по модернизации всех пяти ИЛ-38 имеющихся у Индии и конвертировать их в вариант с установкой системы Sea Dragon (экспортным вариантом системы Новелла).

Индия планирует подписать контракт по модернизации ТУ-142МЕ и инсталяции системы Морской Драгон-Sea Dragon. Сметная стоимость модернизации одного ТУ-142 равняется 21 миллиону американских долларов. После завершения этих программ Индия будет иметь усовершнсованные противолодочные самолёты как для близких так дальних морских зон. Это поможет Дели контролировать всю индийско-океанскую акваторию до континента Антарктика.

Военно – техническое сотрудничество было ключевой темой рабочей части визита президента Индии Абдула Калама в Россию, который состоялся весной 2005 года. Глава государства Индии посетил авиационную холдинговую компанию Сухой, где он обсудил возможность участия Индии в создании истребителей 5ого поколения и средних магистральных пассажирских воздушных перевозчиков RRJ, которые разрабатывает холдинговая компания Сухой. (В 2004 году холдинговая компания Сухой завоевала тендер по разработке истребителей 5-ого поколения, которые заменят эксплуатируемые сейчас истребители СУ и МИГ). Визит президента Индии означает крупные инвестиции для Москвы. К примеру, Дели уже готов инвестировать 100 миллионов американских долларов в строительство пассажирских самолётов. ■

Индия быстро завоёвывает международный фармацевтический рынок

Доклад Эксим Банка

Сейчас индийская фармацевтическая промышленность занимает уникальное место в быстро расширяющемся международном рынке и не только как производитель генерических препаратов, но и также новых технологий приготовления лекарственных средств, с растущим акцентом на исследование и развитие и открытии новых лекарственных препаратов, говорится в докладе Экспортно Импортного Банка Индии..

Имея годовой товарооборот в свыше 11 миллиардов американских долларов индийская фармацевтическая промышленность занимает 4ое место в мире в терминах объёма, имея 8.0% доли мирового фармацевтического рынка.

Международный фармацевтический рынок характеризуется более высоким уровнем расходов на исследование и развитие и экстенсивное урегулирование своей продукции. Хотя развивающиеся страны доминируют международный фармацевтический рынок, доля таких стран

как Индия, Китай и Мексика тоже растёт в последние годы.

В докладе, анализирующем эволюцию индийской фармацевтической промышленности отмечается, что переходный период предоставленный ТРИПС соглашением ВТО был эффективно использован индийскими фирмами с целью проведения как клинических исследований, так и разработки новых лекарственных препаратов и патентных фондов.

Такие новые страны как Бразилия, ЮАР, Турция и Украина стали важными рынками сбыта для Индии. Для многих стран Африки, Южной Америки Индия является основным источником фармацевтического импорта. Однако доля Индии в фармацевтическом импорте в такие развитые страны как США, ЕС и Япония всё ещё низок, хотя они являются самыми крупными экспортёрами в Индию.

Всё возрастающая исследовательская деятельность, заполнение Лекарственных базовых файлов и подача заявлений о новых лекарственных препаратах Управлению по санитарному надзору за качеством пищевых продуктов и медикаментов США, инвестирование заёмных средств для био-технологии и рыночные альянсы, диверсификация рынков, и неорганический рост посредством слияния и поглощения являются некоторыми успешными стратегиями принятыми индийской фармацевтической промышленностью.

Принимая во внимание экспертизу и опыт, индийская фармацевтическая промышленность должна завоевать значимую долю на международном рынке. Некоторые стратегии, предложенные в докладе, охватывают укрепление научно - исследовательской деятельности, рыночное проникновение в менее развитые страны посредством приобретения, ускорения биофармацевтического сближения систем банковского урегулирования, решение вопросов безопасности и качества, уделение внимания патентовым фондам, повышение квалификации и решение дел касающихся патентных нарушений. ■

