



Belarusian Universal Commodity Exchange: Healthy Competition and Affordable Prices

Goods worth of Br430 billion were sold at the Belarusian Universal Commodity Exchange in 10 months of its existence

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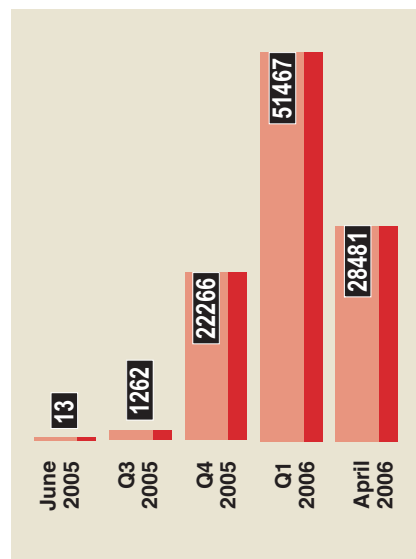
On June 2, 2006 it will be one year since the Belarusian Universal Commodity Exchange (BUCE) launched its first trading session. At first, many were skeptical about the outlook for the new player on the Belarusian wholesale scene calling it an economic experiment which would fail to stand the test of time. However, it did. Today the public company Belarusian Universal Commodity Exchange is an effective leverage in building up a strong wholesale market in Belarus which boasts multibillion turnovers. Over 17 thousand transactions worth of Br430 billion have been executed through BUCE to date. Residents of Belarus sold over 2,7 million cubic meters of round timber and lumber and purchased about 104 thousand tons of metalware. The number of listed companies is nearing 1,500. The auctions are becoming increasingly effective, the transactions – bigger.

Belarusian timber sellers have had hard times tuning up to intractable market trends this year. Swedish and Finish pulp and paper mills slashed imports of pulpwood because of last year's storm "Lotor" which engulfed the Scandinavian market with 75 million cubic meters of wood. That triggered a sharp decline in prices for pulpwood throughout Europe. The remaining buyers of Belarusian wood took advantage of the situation and pushed for downsizing the prices.

Nevertheless, since the beginning of 2006 BUCE has held 32 auctions in the section "Timber" with 14 featuring foreign and 18 – domestic buyers. It is noteworthy, that on January 17, 2006 the price quoted for spruce pulpwood at BUCE was higher than that in the Russian market – EUR 23-23,8 per cubic meter instead of USD 23 per cubic meter. Equally important is that BUCE spares its clients from extra expenditures on checking financial soundness of their partners, saves their time and, which is essential, gives an opportunity to derive additional revenues. Just one session on March 9 brought revenues to Mogilev and Chausy forestries worth of Br246 million and Br127 million respectively. In a trading session on March 30 Bykhov forest-



Sales pattern in the section
“Metal Products” at BUCE, tons



ry additionally earned Br212 million. In general, increasing the selling price, the Belarusian timber firms generated Br3,2 billion worth of revenues in Q1 2006.

It is noteworthy that the trading in timber at the exchange was held not only in Minsk but also in Brest (an on-site auction on February 28, 128 thousand cubic meters of timber sold), in Gomel (March 28, 28,15 thousand cubic meters) and in Mogilev (April 25, 17,40 thousand cubic meters). An on-site auction is expected in Vitebsk soon.

More Metal, Prices Go Down

The selling of metal products at BUCE in January-April 2006 retained its upward trend from the previous year. The exchange reported 10,649 transactions in 26 auctions worth of Br13,3 billion. There was an attempt to auction coke (in the future the auctioning of coke will be held on a quarterly basis).

However, due to an increasing number of sellers at the exchange, the prices for many metal products have been slipping and will continue falling, the BUCE specialists say. Indeed, the number of the listed companies (those subordinate to the nation-wide bodies of authority, oblast executive committees and Minsk City Council) increased 2,2 times to 127 in the four months this

year. Today there are 269 companies licensed to take part in auctions in the section “Metal Products” at BUCE, i.e. twice as many as a year before.

The trends look positive for the buyers of rolled metal products with supply outstripping demand. As for prices, their major influences are the Russian and Ukrainian markets which are the main suppliers of metal sold in Belarus. Chang-

es in prices in these markets immediately rebound on the Belarusian market. So, it is mostly streamlining wholesale trade and fueling competition among metal-traders that are the factors which deflate the prices.

Prices aside, BUCE provides other vital advantages. Every auction features about a hundred of sellers simultaneously making offers and coming up with over 200

Quoting of prices for metal products (selectively) in April 2006

Item, Type and Size	Terms of Delivery	Terms of Payment	Number of transactions	Price for 1ton, Br, VAT included			Change in weighed average price against the previous month, %
				Min.	Max.	Weighted average price	
Armature A1	EW	PO	14	1 290 000	1 394 000	1 343 127	-0,83
	CF	PO	10	1 280 000	1 466 740	1 384 805	3,00
Armature A3	EW	PO	20	1 240 000	1 490 000	1 355 664	-1,41
	CF	PO	9	1 170 000	1 450 000	1 319 748	-6,02
Girder, 8,0 - 16,0	EW	PO	2	1 500 000	1 570 000	1 534 103	
Disk, 10,0 - 32,0	EW	PO	13	1 349 006	1 446 090	1 371 652	2,15
	CF	PO	10	1 280 000	1 600 000	1 350 756	-2,50
Disk, 33,0 - 99,0	EW	PO	44	1 280 300	1 480 000	1 356 857	1,07
Disk, 100,0 & more	EW	PO	12	1 280 300	1 368 800	1 329 045	-0,10
Hot-rolled sheet, 1,00 - 3,00	EW	PO	36	1 340 000	1 570 580	1 421 084	-0,93
	CF	PO	14	1 283 899	1 660 000	1 385 817	-2,51
Hot-rolled sheet, 4,00 - 6,00	EW	PO	67	1 330 000	1 652 000	1 444 166	1,27
	CF	PO	18	1 350 000	1 652 000	1 412 852	-0,90
Hot-rolled sheet, 8,00 - 10,00	EW	PO	41	1 339 300	1 550 000	1 454 177	-0,28
	CF	PO	17	1 416 000	1 610 700	1 477 582	2,02
Hot-rolled sheet, 12,00 & more	EW	PO	86	1 349 920	1 650 000	1 503 147	-0,55
Galvanized sheet, 0,50 - 0,60	EW	PO	4	2 242 000	2 588 212	2 302 598	-0,61
Galvanized sheet, 0,70 - 1,50	EW	PO	10	2 165 000	2 537 000	2 288 019	-1,22
Cold-rolled sheet, 0,80 - 3,00	EW	PO	24	1 490 000	1 649 640	1 581 391	-1,25
Seamless pipe r/d, 57,0 - 89,0	EW	PO	1	2 242 000	2 242 000	2 242 000	1,82
Seamless pipe r/d, 102,0 - 168,0	EW	PO	7	2 009 000	2 430 800	2 157 821	2,63
Water-gas pipe, 15,0 - 25,0	EW	PO	5	1 593 000	1 674 000	1 626 982	-0,22
	CF	PO	14	1 534 000	1 674 000	1 615 544	-0,80
Water-gas pipe, 32,0 - 50,0	EW	PO	3	1 579 194	1 657 900	1 619 066	-1,38
Electric-welded pipe, until 57,0	EW	PO	2	1 549 000	1 649 994	1 615 443	-4,80
Electric-welded pipe, 57,0 - 89,0	EW	PO	3	1 540 000	1 649 994	1 594 092	-5,11
	CF	PO	13	1 563 500	1 699 200	1 643 094	0,18
Electric-welded pipe, 102,0 - 159,0	EW	PO	6	1 540 000	1 955 260	1 797 979	0,70
Electric-welded pipe, 219,0 - 380,0	EW	PO	6	1 653 534	2 242 000	1 761 010	-13,61
		PR	1	2 132 000	2 132 000	2 132 000	
Corner, 25 - 45	EW	PO	5	1 170 000	1 300 000	1 244 534	-0,44
	CF	PO	7	1 260 000	1 374 700	1 305 578	-0,15
Corner, 50 - 100	EW	PO	9	1 180 000	1 288 000	1 232 770	-1,57
Channel, 0 - 16	EW	PO	2	1 197 700	1 345 000	1 200 632	-11,59
Channel, 18 - 100	EW	PO	4	1 254 340	1 425 000	1 311 162	-17,25

Terms of Delivery: EW – ex warehouse, CF – carriage-free. **Terms of Payment:** PO – postponement, PR – prepayment.



thousand tons of metal products. Certainly, it is impossible to encourage so many sellers to partake in a tender, and the latter takes much more time. State-of-the-art software used at BUCE enables a buyer to spend only 1-2 hours sifting through some 8-9 thousand offers to find the best one.

Besides, BUCE supports marketing, supply and other corporate departments in carrying out every transaction. The exchange checks credibility of legal entities and individual entrepreneurs before allowing them to partake in auctions; it verifies the authority of officials and sees to it that the goods traded off at the auctions conform to the appropriate standards and other legal acts. BUCE analyzes the financial situation of the auction participants, oversees the abidance by the agreements and takes measures to prevent deliberate price manipulation. Besides, price quotation is performed at BUCE to meet the interests of the wholesale traders.

The exchange will continue influencing the wholesale market of metal excluding any unwarranted



mediation. By the way, the auction participants – consumers of the metal – would like the exchange to sell the entire range of ferrous metal products (yet only 40 per cent of the imported metal is sold at BUCE).

Leather is in Great Demand, Dried Milk and Casein Sales are Plodding Along

Launched in January 2006, the section “Agricultural Products” is the youngest at BUCE. The sales pattern here is patchy.

The selling of leather goods is going on smoothly: as a rule, most part of the goods at the auctions is not simply sold but is sold at the prices which are higher than those initially quoted.

The situation with dried non-fat milk and casein is not that sunny. Only some 9.1 per cent and 7 per cent of these products respectively were sold in Q1. The drawbacks are several: downturn in prices abroad, the effect of the regulations adopted in Belarus which stipulate maximum prices for goods (the changes in such prices are not always in sync with the dynamics of prices in the market) and lack of a flexible and quick response from the appropriate ministry, oblast executive committees and sellers themselves

to the complex phenomena occurring in this market sector.

To revitalize the trading, BUCE is heavily bombarding potential buyers through the Internet, mass media and the embassies of the Republic of Belarus abroad with the information about Belarusian manufacturers of these goods.

In particular, a round table was held in the embassy of the Republic of Belarus in Russia with the assistance from the Ministry of Foreign Affairs of Belarus featuring 18 Russian companies who were willing to partake in the BUCE auctions. Besides, the exchange fee in this section was reduced from 0.4 per cent to 0.2 per cent of the sum of the transaction and in case with dried milk – to 0.01 per cent (i.e. one dollar from a USD 10,000-worth transaction). The membership has also become cheaper. Since April 10 to July 1 it amounts to Br60 thousand per month (EUR 35, USD 40, RUR 1,200 correspondingly) instead of the former Br355 thousand.

Commonplace Challenges of a Growing Business

It is the price formed at the exchange which is considered the real one throughout the world be-

Casein produced at Lyakhovich dairy factory is exported to the USA, Finland and other geographies





cause it is a product of consensus between the buyer and the seller rather than a whim of a market tycoon. The Belarusian Universal Commodity Exchange is no exception here. It is BUCE which functions as an indicator of prices which the market players can reliably navigate by. If they want it at all, that is.

It was everything but easy for BUCE to occupy its due place in the Belarusian market in one year. At first, both buyers and sellers were up in arms against it – they had enjoyed the privilege of their own niches while the exchange posed a threat to their interests. Others were simply reluctant to change their routine way of business management and learn a new trading mechanism.

Today, as the exchange is an aggressive market participant, it faces a different kind of problems. In the section “Timber”, for example, the sellers fail to provide information in due time or their products



The tension at the auction is getting higher: the buyer is choosing the best offer

do not always meet the quality they claim. The inconsistency between the minimum prices allowed by the Ministry of Economy and the prices shaped at BUCE auctions is also a splinter. Another obstacle is that notwithstanding the growing number of members in the “Metal Products” section, many companies still stand aside from the exchange. Moreover, violations are frequent of the program on the cen-

Quoting of prices for timber in the domestic market (selectively)

Trading session May 11, 2006

Item	Wood	Diameter, cm	Sort	Terms of Delivery	Price Br , VAT included				Change in price as against the previous auction, %
					Min.	Max.	Weighted average price	Weighted average price at the previous auction	
Coniferous roundwood	Spruce	14-24	1	FOR	83 778	83 778	83 778	93 047	- 10
Coniferous roundwood	Spruce	14-24	1	L.EXW	99 750	99 750	99 750	90 129	+ 11
Coniferous roundwood	Spruce	10-13	2	FOR	72 222	72 222	72 222	77 539	- 7
Coniferous roundwood	Spruce	14-24	2	L.EXW	84 000	84 000	84 000	75 108	+ 12
Coniferous roundwood	Spruce	14-24	3	L.EXW	68 250	68 250	68 250	60 086	+ 14
Coniferous roundwood	Pine	14-24	1	FOR	87 500	96 000	90 622	74 220	+ 22
Coniferous roundwood	Pine	14-24	1	L.EXW	78 000	99 750	81 932	81 600	+ 0,5
Coniferous roundwood	Pine	14-24	1	FFB	42 480	100 000	69 887	67 553	+ 3
Coniferous roundwood	Pine	14-24	2	FOR	84 800	95 000	87 626	61 850	+ 42
Coniferous roundwood	Pine	14-24	2	L.EXW	65 000	84 000	69 635	68 000	+ 2
Coniferous roundwood	Pine	14-24	2	FFB	35 400	102 000	65 627	64 795	+ 1
Coniferous roundwood	Pine	14-24	3	L.EXW	52 000	80 240	64 223	54 400	+ 18
Coniferous roundwood	Pine	14-24	3	FFB	28 320	92 000	57 018	50 565	+ 13
Coniferous roundwood	Pine	26 & more	1	FOR	121 202	125 000	124 568	129 689	- 4
Coniferous roundwood	Pine	26 & more	1	L.EXW	120 000	120 000	120 000	94 250	+ 27
Coniferous roundwood	Pine	26 & more	1	H.EXW	105 000	110 000	106 923	100 711	+ 6
Coniferous roundwood	Pine	26 & more	2	L.EXW	100 000	100 000	100 000	104 228	- 4
Coniferous roundwood	Pine	26 & more	2	FFB	110 000	118 000	115 162	94 778	+ 22
Coniferous roundwood	Pine	26 & more	3	L.EXW	80 000	80 000	80 000	84 165	- 5
Coniferous roundwood	Pine	26 & more	3	FFB	106 200	106 200	106 200	76 149	+ 39
Soft-leaved roundwood	Birch	14-24	1	FFB	65 000	65 000	65 000	44 486	+ 46
Soft-leaved roundwood	Birch	14-24	3	FFB	45 000	45 000	45 000	29 618	+ 52
Soft-leaved roundwood	Birch	26 & more	1	FFB	73 000	73 000	73 000	55 342	+ 32
Soft-leaved roundwood	Birch	26 & more	2	FFB	63 000	63 000	63 000	46 138	+ 37
Soft-leaved roundwood	Birch	26 & more	3	FFB	48 000	48 000	48 000	36 934	+ 30
Soft-leaved roundwood	Aspen	14-24	1	FFB	38 000	38 000	38 000	32 098	+ 18
Soft-leaved roundwood	Aspen	14-24	2	FFB	31 670	45 000	34 087	27 072	+ 26
Soft-leaved roundwood	Aspen	14-24	3	FFB	25 340	35 000	27 569	21 004	+ 31
Soft-leaved roundwood	Aspen	26 & more	1	FFB	55 000	55 000	55 000	40 467	+ 36
Soft-leaved roundwood	Aspen	26 & more	2	FOR	51 200	51 200	51 200	55 000	- 7
Soft-leaved roundwood	Aspen	26 & more	2	FFB	40 000	50 000	42 202	34 202	+ 23
Soft-leaved roundwood	Alder	14-24	3	FFB	42 000	42 000	42 000	31 000	+ 35
Hardwood roundwood	Oak	26 & more	2	FOR	200 000	200 000	200 000	300 000	- 33
Hardwood roundwood	Oak	26 & more	3	FOR	187 000	187 000	187 000	200 000	- 6
Plywood for peeling	Birch	16 & more	1	FOR	105 000	105 000	105 000	109 882	-4

Terms of Delivery: H.EXW- high ex warehouse, L.EXW – low ex warehouse.



tralized purchasing and selling of metal products for the needs of the economy of the Republic of Belarus.

In particular, fulfilling the Government's decision, BUCE buckled down to organizing the auctions to meet annual needs of leading Belarusian companies in metal products. However, analyzing the demand, the terms of supply and payment, BUCE revealed that many companies still purchase them from mediators.

In the section "Agricultural Products" effective trading is hampered by not always beneficial market trends and firmly set maximum and minimum prices. In case with some ministries and agencies it is sometimes difficult to work out an appropriate approach to trading through the exchange. That obstacle does not allow for quick and effective responding to market challenges. Besides, many officials still consider BUCE a mediator.

By the way, foreign experts have found that the agricultural producers who sell their goods at the exchange, derive 15-20 per cent more revenues than those who sell them to organizations of commerce. On the other hand, a state-run company can pay 15-20 per cent less for the same goods purchasing them at the exchange than from mediators. Nonetheless, the instruction of the Government of January 1, 2006 to trade in casein, dried milk and cattle hides at the exchange was given a hostile reception by most dairy companies of the Belarusian agricultural sector as if these goods are produced by the heads of the companies themselves rather than by state-run organizations.



The auction participants stick to their computers: sellers offer, buyers choose

However, the afore-mentioned might be ascribed to problems of a growing structure. BUCE is gathering momentum: the volumes are getting bigger as does the number of transactions and members; BUCE employees gain experience; the list of goods auctioned at the exchange is also growing. Affiliate branches of BUCE are due to open in Brest and Gomel soon. Today all members of the "Metal Products" section are given an opportunity to carry out transactions from distant trading terminals if their working places are duly equipped. In the near future, as e-commerce will be launched, members of the

sections "Timber" and "Agricultural Products" will get this opportunity too.

To expand the list of goods traded at BUCE, specialists analyzed the situation in the market of construction materials focusing, first of all, on the exports of cement and road metal. The results prove it is highly lucrative for the country to export these goods by auctioning them off at the exchange. At the same time, given the present-day trends, it is more advisable to expand the list with the goods which fall into the categories already traded at BUCE.

Time will, certainly, put everything right, including the affairs in the wholesale market. Gradually, the wholesale market in Belarus is becoming more transparent largely due to the Belarusian Universal Commodity Exchange. This process cannot be stopped because in its essence it reveals a firm position of the country's leadership – to ensure economic interests of the state and cultivate wholesome environment for wholesale trade. ■

INVESTMENT PROJECT

CONSTRUCTION OF PETROCHEMICAL PRODUCTION FACILITY AT OAO POLYMR

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