



Playing the Game for the Benefit of the Country

Most commodity stock exchanges in the world are set up with strong support from the state

Belarusian Universal Commodity Exchange (BUCE) announced first timber auctions in June 2005. Half a year later, it started trading in metal and agricultural products. The impressive results of BUCE operation in the ten months of 2006 prove that it has successfully adapted to the Belarusian economic environment: as many as 275 auctions were held, almost 32,5 thousand deals at the total value of Br900 billion were concluded, 1,060 firms were accredited, including 160 nonresidents. Due to BUCE, the wholesale trade in Belarus has become more transparent, better protected against various risks. But what is more important is that it has started yielding more benefits to both sellers and buyers as they no longer have to resort to services of mediators. BUCE has grown into an efficient instrument of wholesale trade. The institution serves to promote transparent economic relations, fair competition and market price formation. What has been done and what is still to be done to raise the efficiency of the Exchange? To get the answers, *Economy of Belarus Magazine* Tatiana Vlasovets holds an interview with Chairman of the Board of Directors of *Belarusian Universal Commodity Exchange* Arkadiy Salikov .

I believe that *Belarusian Universal Commodity Exchange* has already completed a period of formation. Belarus has laid the foundation of a sound wholesale market. We have managed to redirect significant amount of purchase and sale operations to the Exchange which helps reduce the chaotic trade in timber, dry milk, industrial casein and wet-salted hides.

The Exchange, which employs cutting-edge technologies, helps to make the trade more open, speed up turnover and minimize losses of time and money.

Apart from that, the Exchange laid the groundwork for reducing the number of deals which are stricken for the benefits of a small group of people but which are detrimental to state-run manufactures. Another important advantage of BUCE is that it has slashed

the risks accompanying trade operations as it acts as a guarantor on behalf of the state. The Exchange is also an indispensable tool in ensuring the country's economic development and integration into the global market.

By the way, experience shows that most commodity exchanges are set up with the help from the state which sees this kind of institution as a powerful economic lever. For instance, the US, where all the exchanges are private, has a special stock exchange committee with the members appointed by the US President. The committee is empowered to annul the deals which negatively affect the country's economy.

The international credibility of the Belarusian Exchange has been growing proportionally to the number of deals concluded at it. To promote the auctions, such instruments as Internet, mass media, Be-



Chairman of the Board of the Belarusian Universal Commodity Exchange
Arkadiy Salikov

larusian embassies overseas have been employed. On September 12-15, 2006 BUCE took part in the *World of Metal-2006* exhibition in Minsk. Within the framework of the exhibition the Exchange organized on-line auctions in metal and trial auctions for students of Belarusian State Economic University. Meetings and seminars in Belarusian regions attended by representatives of local authorities and manufactures are of great importance too. We have been closely following the economic situation at the global market, attending international conferences and accompanying Belarusian business delegations abroad. The visit to one of the CIS



oldest exchanges *St. Petersburg* on November 14-15 resulted in a cooperation agreement between Belarus and North West region of the Russian Federation.

? Mr. Salikov, every new undertaking entails certain difficulties... What problems had to be settled when establishing the first commodity exchange in Belarus?

– There are many factors that slow down the development, though there are virtually no objective factors among them. The fact that some sellers and buyers avoid trading at the Exchange reflects their subjective approach. Grey schemes are still frequent as they satisfy private interests of traders rather than meet public needs. Some people just do not want to change the rules they have got used to and to adapt to a new mechanism whatever convenient and advanced it may be.

However the situation on the Belarusian wholesale market has been changing for the better. It is now more predictable than it used to be before the Exchange appeared. The development of exchange trading in Belarus is inevitable as it is based on economic sense, openness and transparency and excludes unfair play and misuse. In addition it is backed by the Government who wants to protect economic interests of the state, create an appropriate wholesale market based on fair competition.

The main goals of BUCE are to streamline the exchange trade, set up favourable conditions for it and help Belarusian sellers and buyers get maximum benefits.

Speaking about sections of the Exchange, the main problems in 2005-2006 were promotion of the exchange trade among sellers and buyers, boosting exchange operations and raising their efficiency, extending the list of goods subject to sale at the Exchange only. The latter remains our main challenge today.

As far as the Metal Production Section is concerned, its sells around 40 per cent of ferrous metals and articles thereof, including bar iron and sheet products. The to-

tal turnover of ferrous metals and articles thereof in January-October 2006 approximated 215 thousand tons worth of Br435 billion.

This very section sells coke to domestic customers and nonferrous and iron scrap to foreign customers. In 2006, Belarusian companies sold 28 thousand tons of coke at the sum of Br16,4 billion. Nonferrous scrap auctions were launched in September this year. More than 2,3 thousand tons of scrap worth of USD 2,7 million were sold from five auctions. Sale of certain types of nonferrous scrap generated USD 34 thousand worth of

One of the main solutions to raising efficiency of timber sales is auctioning of standing timber. Since July, the Exchange has conducted three sessions to sell standing timber of soft-wooded broadleaved trees (aspen, birch and alder). Although the timber of the kind is not in high demand, the auctions were successful with about 100 thousand cubic meters of timber sold through 134 deals. At the same time the last price of every lot was 1,5-10 times higher than the starting one.

Diversification of exports remains one of the main targets of Belarusian cattle-breeders. There-



additional revenues. In October this year first lots of scrap iron were sold for export. A total of 43,6 thousand tons were sold at the sum of EUR 4,065 million.

Over the ten months the Timber Section generated almost Br8,5 billion profits from the domestic sales and more than EUR 1 million from export sales.

Nonetheless, there are still some inhibitors to the trade in timber. Thus, a possibility to export timber bypassing the Exchange under CIF and DDU (Incoterms-2000) commercial terms, including via own commodity distribution network, loosens the control over the export of national resources and calls in question transparency of deals and reduces the number of buyers at the Exchange. I believe that the export sale of the Belarusian timber outside the Exchange is not in the country's interests.

fore the Exchange has been attracting customers from outside the CIS, though not all Belarusian companies are ready to work with new partners. Some exporters have got used to the customs free regime with Russia and show reluctance in establishing ties with foreign consumers as they will have to get adapt to new shipping conditions, get veterinary certifications, etc.

? The first BUCE auctions were conducted in a voice format. However, over a short period of time the Exchange managed to launch e-auctions and equip new trading halls. Could you, please, tell us how today's auctions are organized?

– Indeed, the first lots of round wood were sold at conventional auctions on June 2, 2005. The duration of such auctions depends on the number of lots and it usually takes a lot of time. Now, e-auctions

The Belarusian Universal Commodity Exchange in Minsk



give an opportunity to trade in all lots simultaneously. The time needed to strike a deal has notably reduced. The new system provides for certain flexibility allowing both sellers and buyers change terms of deals, make cross offers, etc. But it also minimizes the risk of unfair play since there is no direct contact between the sellers and the buyers.

The BUCE central office has three trading halls with 131 computerized trading stations. The Brest branch has 34 stations. Trading sessions are held online, i.e. simultaneously.

The Exchange has been also encouraging people to trade via Internet. The principle of operation is

– The buyers of metal products are predominantly Belarusian state-run companies of the industrial, construction, energy, transport and communal sectors. The sellers are mostly represented by private companies, both residents and nonresidents of Belarus. Iron and nonferrous scrap is sold to Russia, Poland, the Baltic states, Belgium, Finland, etc.

The main sellers in the timber section are Belarusian forestry companies and Russian timber exporters. Both sellers and buyers can hire brokers to represent their interests at the auction. As for export sales, they are conducted by duly authorized exporters to represent

phies pitched in like those from Poland, Latvia, Lithuania, Germany. A large Singapore-based company has been accredited to the Exchange and intends to purchase up to 2 thousand tons of dry nonfat milk a month.

The number of sellers and buyers of industrial casein and wet-salted hides has been growing. Now the Exchange has 31 casein sellers and 11 buyers. The wet-salted hides are supplied by 9 meat processing companies and *Belkoopvneshtorg* of the Belarusian Union of Cooperative Societies. Some 12 foreign companies buy wet-salted hides.

In mid-October, the Moscow conference “New Approaches to Cooperation in Agro-Industrial Sector of the EurAsEC” adopted a pilot project of the Eurasian commodity distribution network of agricultural raw materials and foodstuffs. BUCE has been enormously contributing to the process of preparation of that project.

The Exchange has been always carefully considering suggestions and requests of sellers and buyers on how to improve the process of auctioning. Thus, we simplified the accreditation procedure having slashed the number of documents necessary for application. We have been constantly working on speeding up the bidding process and transaction processing. The Exchange provides training on how to operate the electronic system, which is tailored to the customers’ needs and is constantly upgraded. Now we can satisfy the demands of nonresidents and grant them remote access to the auctions.

? Alongside with the development of exchange trade, experts have been improving the relevant regulatory framework. In September 2006, the President of Belarus signed Decree “On some issues on functioning of the open joint stock company Belarusian Universal Commodity Exchange” aimed to enlarge the role of the Exchange in economic processes and to streamline wholesale operations. What innovations has the document brought?

Auction of metal products



the same as in BUCE trading halls. To gain a remote access, the accredited customers need to install a special software package.

Development of wholesale e-auctions and wholesale commodity market in Belarus are among priorities of the state program “E-Belarus”.

? BUCE sellers and buyers, who are they? Do you take into consideration their suggestions on streamlining the auctioning process?

state-run and private forestry companies at export auctions. In other words, special exporters are brokers who represent exclusively interests of sellers. The buyers at export auctions are foreign companies accredited for trading to the Exchange.

Nowadays there are 37 Belarusian companies entitled to sell nonfat dry milk at the Exchange. There are about 40 buyers. At first those were mainly Russian companies but gradually clients from other geogra-

– The decree helped settle quite a number of issues and bridge the gaps in regulatory legal acts governing the exchange trade. It allows for free price formation by entitling parties to a contract to fix price upon their agreement, unless otherwise is provided by law. It relieves the sellers from the obligation to stick to the price indexes or register selling prices when trading in the domestic market.

The decree allows nonresidents to settle foreign trade transactions via a special BUCE account as well as to transfer foreign currency funds to the accounts of resident-exporters and nonresident-sellers. This raises the accountability of the parties and provides for better control over implementation of exchange commitments.

The decree envisages other important measures.

? The range of products sold by auctions has been notably extended. Do you plan to further extend it by introducing new commodities to the Exchange?

– The list of goods to be sold via the Exchange is compiled proceeding from the interests of the country. Initially, the choice was dictated by the necessity to streamline trade in timber and by the growing demand for ferrous metals and difficulties in sale of several agricultural products, particularly, nonfat dry milk and wet-salted hides. Along with that, both sellers and buyers have been showing a growing interest to the trade in metals, which has been posting an upward trend recently. That in mind, the Exchange offered to extend the list of metal products.

The BUCE offering range will be expanded and not only by the goods subject to mandatory sale via Exchange. In the future, BUCE will offer for sale building materials, particularly, pebble, gravel, road metal, lime, cement, aerated concrete bricks, tiles. The assortment range of the Agriculture Section is likely to be supplemented with fodder grain, sunflower seed meal, fodder corn, pork. We also plan to



launch export auctions of pesticides, nitrogen fertilizers, carving wood. Yet, before introducing new sales items, we should make a careful study of the relevant market segment, what, naturally, takes some time.

? The decree also stipulates the drawing up of a BUCE development program for 2007-2010. What are its priorities and when will the program be ready?

– Among the priority areas of the BUCE development program is the improvement of the price quoting process as one of the core functions of the Exchange, bettering of the settlement services and enhancing guarantees for exchange deals implementation, setting up e-commerce system in Belarus, participating in the formation and development of the electronic wholesale market. Improvement of the regulatory legal frame in the sphere will be continued as well.

Together these factors will help us meet the main target of the Exchange, i.e. attracting the maximum number of customers and raising credibility of the Exchange.

At the moment, the concerned state agencies are considering the program.

? The development program also envisages creation of a subsidiary network. What has been made in this area? Why is it necessary to open BUCE branches in other towns?

– We plan to set up affiliate companies in all oblast centers of the country. The Brest branch was inaugurated on September 21. The Gomel branch is next in line.

When opening affiliate companies in oblast centers, the Exchange, first of all, creates additional conveniences for the customers brining the trading ground closer to them.

In the future, the branches will become oblast centers of exchange trade and e-commerce. They will trade not only in metal, timber and agricultural products, but also in other commodities the regions specialize in. The technologies of e-auctions will be used as efficient instruments to sell real estate, to lend premises and land plots, etc. Anyway, it will be well-organized, transparent and safe trade. ■

An affiliate company of the Belarusian Universal Commodity Exchange in Brest