



Commodity Exchange Gains Credibility

In Q1 2007 the Belarusian Universal Commodity Exchange held 109 auctions to sell Br466.28 billion worth of goods, 2.1 times more than in Q1 last year.

Svetlana PAVLOVA, Economy of Belarus Magazine



Steps of Growth

Since its founding the Belarusian Universal Commodity Exchange has pursued the goal to create a market mechanism of trade and price formation, to ensure transparency of trading operations in strategically important goods, to promote the meeting of top priorities of the national economy: to raise the production efficiency, competitiveness of Belarusian goods both domestically and internationally and to strengthen the country's economic security.

The year of 2006 marked a formation period of the Belarusian Universal Commodity Exchange as the main institution of market infrastructure of Belarus. BUCE focused on auctioning of

The strategic goal set by the Government before the country's major producers and consumers is to abandon the practice of using mediators in importing and exporting goods in order to minimize expenses. The Belarusian Universal Commodity Exchange (BUCE), the key player in the wholesale market of strategically important products, aims to help Belarusian companies to meet this goal.

It goes without saying that establishment of a stock-exchange institution is a prerequisite for ensuring proper functioning of market mechanisms. As the market develops, the role and significance of this regulator of movement of commodities and services also grows. Over the two years since its inception (the first auctions were held in June 2005), the Belarusian Universal Commodity Exchange has not only turned into the wholesale trading ground number one but also become an important leverage on the domestic market.

Thus, in 2006 the number of BUCE traders went up in more than seven times, that of non-resident traders representing 26 countries – 3.5 times. Some 375 trade sessions were conducted, 44,000 deals to the tune of Br1,154 billion were concluded. Exports reached 37% of the total deals with exports of some items exceeding 50%. Due to BUCE, Belarusian exporters received more than EURO 5 million worth of additional revenues and Belarusian buyers saved Br18 billion from reduced prices for imported metal.

timber, metal and agricultural products; improving legal base and extending the list of goods subject for auctioning via BUCE; developing e-commerce system.

BUCE met all the targets of 2006. The Exchange settled all auction technicalities and drew up a list of traders. The number of traders and deals concluded at BUCE was growing throughout the year. The system of legal acts regulating exchange trade was improved; the mechanism

of ensuring observation of obligations under deals was developed; the list of goods sold by the Exchange was extended; the Exchange fees were reduced. Since March 1, 2007 BUCE accreditation has been provided free of charge.

The e-commerce system was created to connect the BUCE central trading facility in Minsk with its branches in other towns. It is also possible to take part in auctions via the Internet. There are four trading halls in the BUCE



central office. A BUCE branch in Brest was opened in September last year. The Gomel branch of the Exchange will be opened soon. Premises for Mogilev and Vitebsk branches have been found. BUCE in partnership with oblast executive committees regularly organizes seminars to explain the advantages of Exchange auctions. Basic training of beginners in operating the e-auction system is provided free of charge.

From Metal to Rape Seed Oil

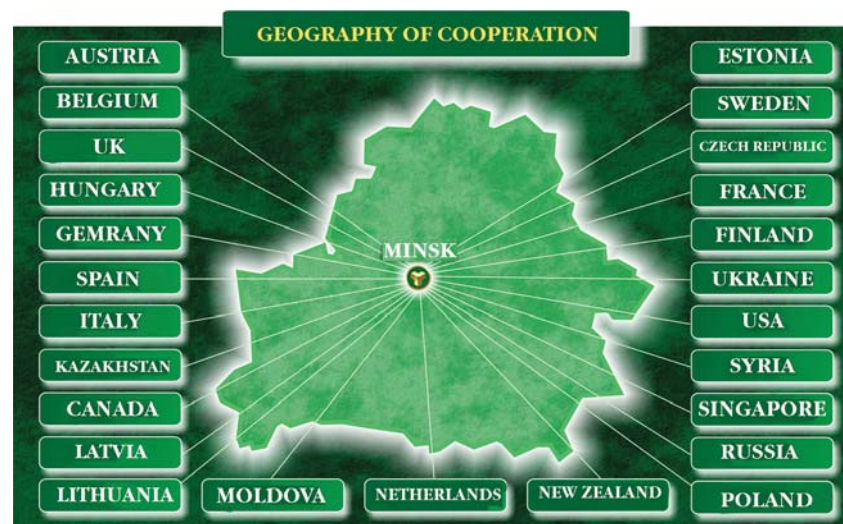
In Q1 2007 the commodity exchange market was posting upward trends. BUCE turnover more than doubled. The offering range of the agricultural, metal and timber sections of the Exchange was significantly extended. All in all, there are more than 100 types of products in the BUCE offering range.

In Q1 2007 the metal section was selling ferrous and non-ferrous metals, scrap iron and wastes of non-ferrous metals, coke and coal. Some 33 trade sessions were held; 16,003 deals were concluded on sale/purchase of 103,300 tons of products to the tune of Br206.5 billion (an increase of 39.6% in natural units and 92.3% in value terms). On average, 3,262 tons of metal products at the sum of Br8.2 billion were bought

at each auction as compared to 2,851 tons worth of 5.2 billion in 2006.

The share of ferrous metals and products thereof imported

working on a draft resolution on extending the list of goods subject for mandatory sale via exchange auctions which will include aluminum and copper



from Russia and Ukraine to be sold at BUCE is still quite high. Domestic producers mainly offer ferro-concrete reinforcement and pipes. BUCE also trades in metal products from Brazil, Germany, Poland, France, Spain, Norway and some other countries. The supply of metal products still overtops the demand. Over 700,000 tons of metal products are auctioned at each trade session.

The Council of Ministers of the Republic of Belarus is

(90% of the non-ferrous metals market). BUCE has already gained some experience in selling these products: the first auctions for aluminum and copper were held in late March. Experts believe that this is quite a promising area. Now the exchange auctions for non-ferrous metals are held every week, those for ferrous metals – twice a week on Tuesdays and Fridays.

In Q1 2007 over 2,700 deals on timber were stricken at BUCE. Some 29 sessions were conducted to sell 1,301 cubic meters of timber to the tune of Br157.35 billion. The sales went up 1.5 times as against same period last year. The additional revenues of the Belarusian forestry companies derived from the auctions approximated Br11.3 billion and €2.9 million from export sales.

However there are still some serious problems in auctioning timber. Thus, special exporters still enjoy the right to sell timber bypassing BUCE. Some of them delay fulfillment of their obligations under the deals, others supply poor-quality timber to the general discontent of the customers which undermines



Prime Minister of Belarus Sergei Sidorskiy gets familiar with the work of the Belarusian Universal Commodity Exchange



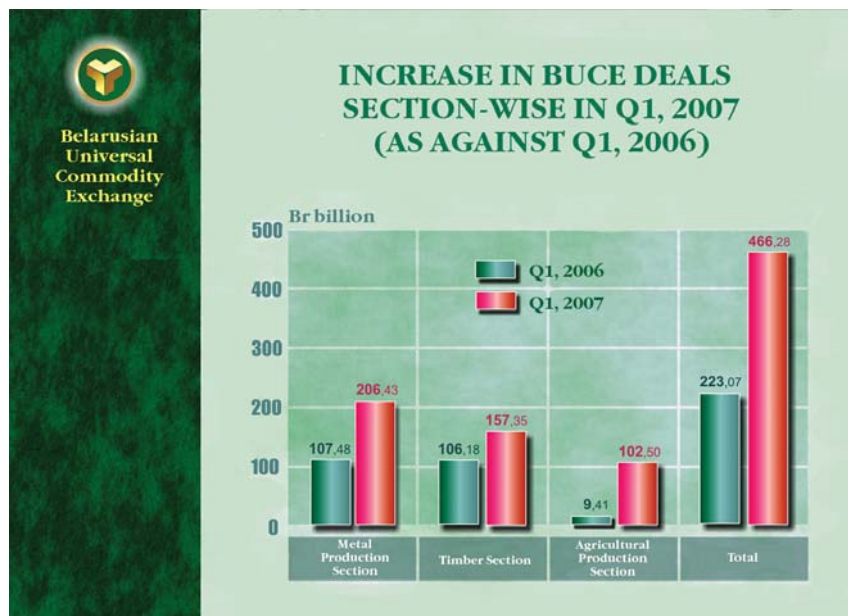
the credibility of the whole country.

The practice of auctioning timber with indication of such

non-fat dried milk is attributable to attraction of companies from Singapore, Germany, the Netherlands, Finland, Poland,

was considered at the session of the Presidium of the Council of Ministers of the Republic of Belarus. On the eve of the session Prime Minister of Belarus Sergei Sidorskiy visited BUCE. He got familiar with the BUCE operation, with the way the deals are done and met with BUCE personnel.

As it was noted during the session, in 2006 the Exchange formation period was over: all the technicalities had been settled, the auctioning methods had been developed, the list of buyers and sellers had been extended, an e-auction system had been created.



In 2006, BUCE conducted 375 trade sessions to conclude 44,000 deals to the tune of Br1,154 billion

defects as sap stains, dots and rough edges is still in place. These and other 'specifications' reduce the number of bidders and undermine the efficiency of exchange auctions.

These problems should be solved bearing in mind state interests. BUCE has prepared proposals on improvement of timber auctioning, among which there are quarterly price adjustments on long-term contracts, equal distribution of resources within a year, auctioning of rough and split logs at BUCE.

As for the agricultural production section, in Q1 2007 a total of 326 deals were concluded to sell Br65.15 billion worth of goods, including Br15.8 billion worth of casein, Br2.7 billion worth of wet-salted hides and Br18.8 billion worth of grain. The sales of the above-mentioned goods grew 9, 5,7 and 2,2 times respectively as against Q1 2006.

By the way, of 11,100 tons of non-fat dried milk exported, only 10.6% went to Russia, with the rest having been sold to countries outside the CIS. The increase in trade and hence in prices for the

Lithuania, Latvia and Syria to BUCE auctions. Sales of casein industrial also grew: today BUCE sells 82% of the total casein produced in Belarus.

BUCE plans to extend the list of goods auctioned in this section too. Among the new products suggested for sale via the Exchange are butter, fodder grain and corn, rape seed oil, crop protecting agents, tannage. BUCE has already started accepting applications for sale and purchase of butter, grain and corn.

Short- and Mid-Term Perspectives

In early April this year the performance of the Belarusian Universal Commodity Exchange

The constantly growing number of BUCE customers and deals testify to the fact that the Exchange can be considered as a national institution which effectively regulates the wholesale market of strategically important goods in accordance with the market economy laws.

– BUCE is, first of all, an indicator of real prices determined by the market rather than by some impressionistic factors, Chairman of the BUCE Board of Directors Arkadiy Salikov stressed. – Everyone, even our opponents, agree with that. Due to the Exchange the choice and competition are growing, the price depends on supply and demand.

INVESTMENT PROJECT

Equipment Upgrade

Total cost: \$1 million.

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MADE IN BELARUS

BIODEGRADABLE PACKAGING

A technology to produce biodegradable packaging has been developed by the Republican Center of Transfer of Technology. Its manufacture can be launched at companies producing engineering thermoplastic with no new equipment to be purchased.

According to preliminary data, the prime cost of the biodegradable film produced in Belarus will make up \$2-3,5 per 1 kg what is much cheaper than similar films manufactured abroad like those produced in Europe under the trademarks Mylar, Gralix which cost EURO 3,5 per 1kg.

FIREPROOF

The Research Institute of Physicochemical Issues of Belarus State University came up with an import-substituting fire-retarding composition for cable insulation Penoterm-K.

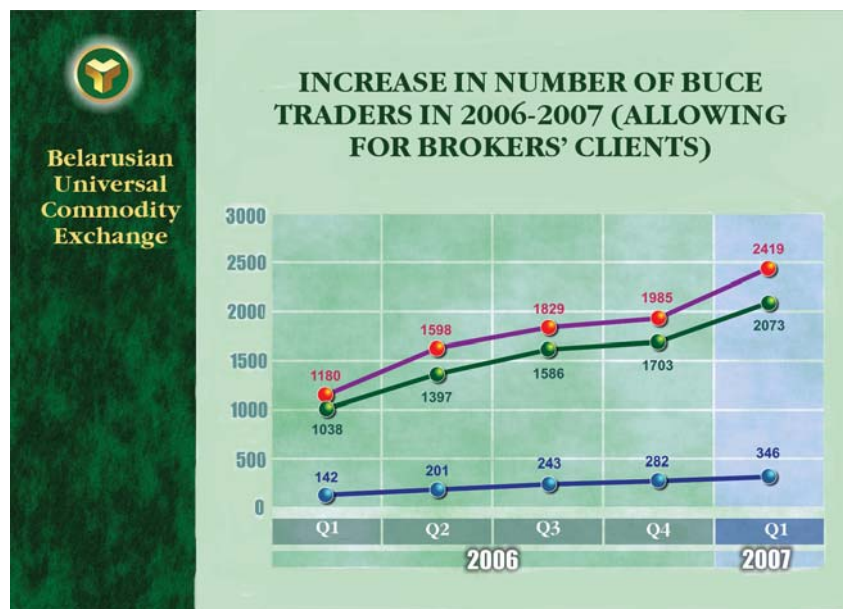
The new covering becomes active when heated: under high temperature it forms a thick insulating layer. The service life is no less than 12 years in unheated facilities with the temperature running from -30C to +50C.

Experimental models have been tested to make sure they duly comply with the domestic fire safety standards. According to the results, the quality meets the analogous product made in Germany while being 2 or 3 times cheaper.

So far such material has not been produced in Belarus. Setting up the production of the material is estimated to pay back in two years.

Today the role of this institution in the country's economy multiplies: the Government has attached an official status of the main trader in strategically important goods to the Exchange. When commenting on the deci-

Exchange, improvement of the settlement and guarantee system, development of the international cooperation, raising the role of banking services in the commodity exchange market.



on, Prime Minister of Belarus Sergei Sidorskiy said: "We pay lump sums from the budget to foreign suppliers. Therefore the country is interested in minimizing expenses of maximally lucrative deals".

The Government urges domestic producers of strategically important exports to more widely use the Exchange for fixing real market prices on their products. Thus, in Q3 and Q4, Belarusian Steel Works will sell part of its products via BUCE.

Today the Belarusian Universal Commodity Exchange relies on its development programme for 2007-2010 adopted by the Council of Ministers. An action plan for 2007 has also been elaborated. In the short- and mid-term perspectives the main areas of BUCE activities will be improvement of the legal framework of deals, development of the subsidiary network, price quotation, extension of the list of goods sold via the

BUCE has been also taking an active part in the implementation of the state programme E-Belarus. In accordance with the programme, the Exchange has to become a foundation for the e-commerce centre and universal internet portal providing access to various instruments of e-commerce both domestically and internationally.

About 17% of BUCE customers have remote access to BUCE auctions

– On the whole, our task is to provide as broader set of services to our customers as possible rather than to be just a wholesale facility, Arkadiy Salikov says. – The main goals remain the same: to give the Belarusian companies an opportunity to buy and sell their products at maximally lucrative prices and to promote transition to formal wholesale market of the strategically important products. ■

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