



To the Benefit of the Country

In June 2010 the BUCE marked its first anniversary – five years since the first exchange auctions were held

Svetlana PAVLOVA, Economy of Belarus Magazine

Five years is quite a small period by economic standards, but the Belarusian Universal Commodity Exchange (BUCE) has passed it by leaps and bounds. The history of the BUCE started on 2 June 2005, when the first timber auctions took place. The auctions attracted a small number of participants and the volume of transactions was insignificant. From these humble beginnings rose a company that is now by right considered the biggest and the most influential player on Belarus' wholesale market, and practically speaking, the founder of this market. The organization is structured into four sections covering virtually all major commodity items of Belarusian export/import. The number of members nears 7,000; the volume of transactions amounts to hundreds of billion rubles. Over the five years, the BUCE has opened offices in all the oblast centers and one in Russia and become a full participant of a number of international economic projects.

Growth Indicators

The Belarusian Universal Commodity Exchange was one of the first to signal the revival of the Belarusian economy after the downturn of 2008-2009. In January-May 2010, the BUCE held 437 trading sessions, arranged 66,838 deals to the tune of Br1197.36 billion (163% as against the same period in 2009). The export transac-

tions made up Br312.45 billion, up 74% compared to the same period a year before.

As of 1 June 2010, a total of 7,076 members were registered with the BUCE (up 532 over the start of the year), including 1,449 (up 99) non-residents from 47 countries.

In January-May 2010, the total volume of additional revenue and savings of Belarusian economic entities reached Br73 billion, up

38% compared to the same period in 2009.

Over this period the section for metal products held 203 trading sessions resulting in 55,000 deals estimated at Br751.32 billion.

The number of deals in these commodities soared by 50%, their volume by 60% over the same period a year before.

The section for timber products organized 72 trading sessions and facilitated 7,905 deals to the tune of Br292.99 billion. The sales increased by almost 74%, while on the external market this figure rose 2 times.

These figures are a testimony to the considerable growth in demand for Belarusian timber products among non-residents attributed to the post-crisis recovery of the European economy.

The revival was also reported by the section for agricultural produce. The section arranged 162 trading sessions and 678 deals totaling Br149.13 billion, up 58% over a year before. Raw cowhide is traditionally very popular among foreign buyers. In January-May 2010, the BUCE sold some 6,83 tonnes of cowhide to the tune of Br34.82 billion, while in May-December 2009, 12,480 tonnes of rawhide to the amount of Br28.3 billion was sold (in January-April the trading sessions were not held). Despite



Belarusian Universal
Commodity Exchange

GEOGRAPHY OF COOPERATION



AUSTRIA	6	HUNGARY	5	IRELAND	1	KYRGYZSTAN	3	PANAMA	1	SLOVAKIA	4	FINLAND	3
AZERBAIJAN	9	VIRGIN ISLANDS	2	SPAIN	4	LATVIA	94	POLAND	78	SLOVENIA	1	FRANCE	2
ARMENIA	5	GERMANY	44	ITALY	9	LITHUANIA	142	RUSSIA	704	USA	16	CZECH REPUBLIC	13
BELIZE	1	GEORGIA	10	KAZAKHSTAN	27	MOLDOVA	21	ROMANIA	2	TAJIKISTAN	8	SWEDEN	1
BELGIUM	5	DENMARK	2	CANADA	1	NETHERLANDS	9	SERBIA	1	TURKEY	2	ESTONIA	41
BULGARIA	2	DOMINICA	1	CYPRUS	4	NEW ZEALAND	4	SINGAPORE	1	UZBEKISTAN	13		
UK	19	EGYPT	1	CHINA	4	NORWAY	1	SYRIA	4	UKRAINE	97		

the general decline in dairy sales, the export of cheeses rose to 1,880 tonnes (Br27.74 billion), up 36% and 127% respectively over the same period a year before.

Bypassing Storehouses

In May 2009, the commodities exchange introduced e-auctions to trade in a broad variety of products not included in the list of traditional commodities exchange items: from household stuff to sophisticated devices. Back then, domestic producers and the Belarusian economy in general were going through a rather difficult period. The global financial and economic crisis affected the demand for many traditional export items, slowed down sales and caused overstocking. E-auctions were meant as an additional channel to sell domestically produced industrial and consumer goods. It was more cost- and time-effective than any other types of auctions.

The advantages of e-trade became obvious very soon. They include open pricing, on-line access

to a unique database of the BUCE free of charge, participation in auctions via the Internet that helped save on customer search, gratuitous software support and training.

To take part in auctions for industrial and consumer goods, sellers have to pass accreditation

with the BUCE. As for buyers, all they need is to fill an application at the BUCE official website. Buyers do not pay any fees, while sellers are charged a duty of 0.1% of the deal.

E-auctions are not time-bound, says Chairman of the Board of the Belarusian Universal Commodity

Belarusian Universal
Commodity Exchange

STRUCTURE OF COMMODITY EXCHANGE TURNOVER

2009-2010
(BR, BILLION)

Belarusian Universal
Commodity Exchange**COMMODITY EXCHANGE TRADE**
(including brokers' clients)

Exchange Arkady Salikov. Traditional trading sessions start, for example, in the morning and end during the day. Within this time limit, a buyer has to purchase the products he is interested in. While in e-auctions, each tender is autonomous, it has no time limits and does not depend on a particular trading session, which means that a seller is free to decide when to put forward his offer. Essentially, this system is an electronic commodity distribution network that opens up great opportunities for domestic producers. Apart from posting information about commodity items, it puts forward business proposals, known as public offers.

Initially industrial and consumer goods were auctioned only on weekdays, but since August 2009, the auctions have been held 24/7.

In September 2009, the BUCE introduced a new feature enabling buyers to specify their inquiries; starting from November

applications could be submitted in English. A bit later, the BUCE offered a free electronic subscription service, which allowed sellers to receive notifications by e-mail alerting them to new offers and deals, and the validity of offers.

There is no difference between an e-offer placed by a seller and a lot put forward during traditional auctions. An e-offer contains all the information about commodity items, including photos. An offer is displayed in a special information system that is available all around the world via the Internet. A buyer who is interested in this item and accepts the terms of the purchase, can press the button and a deal is registered. If he is not happy with something, he places an offsetting order. If a seller sees that only one buyer is interested in the deal and no other applications have been submitted for a long time, he can meet this buyer halfway: change the price, payment terms, and increase or reduce the size of the consignment.

When an agreement is reached, a seller and a buyer confirm their intention to conclude a deal on new terms. Our system records the deal and supports the transaction in the same way as a traditional deal. More than that, upon the request of a buyer, the BUCE can carry out commodity examination and confirm the quality warranty and availability of the commodity. This increases the security of a deal. When the new type of auctions was introduced, the BUCE launched a campaign to explain its advantages. Representatives of the commodities exchange took part in seminars and sessions at ministries and agencies, concerns, oblast executive committees and the Minsk City Council, enterprises of various types of ownership. The central office and oblast offices of the commodities exchange regularly hold seminars and consultations to explain the terms of auctions. As of today, over 1,000 representatives of various organizations,



including small businesses, have been trained at the BUCE.

I would like to say that the number of enterprises using e-auctions to sell industrial and consumer goods is constantly growing: over 400 organizations have already been registered. In January-May 2010, the BUCE received about 4,000 sales offers and 467 purchase offers to the tune of over Br3.92 billion.

In 2010, almost 200 new commodity items were included in the list of goods accepted to the auctions in the section of industrial and consumer goods. The bulk of sales offers accounts for machines and equipment (about 18%), foodstuffs (about 12%), textile goods (about 12%), mineral non-metallic articles (about 8%).

Of course, we realize that the mere placement of an offer with our system will not immediately result in a burst of activity on the market, Arkady Salikov says. We need to work on expanding the number of participants. There will be no due effect, if we do not advertise a sales offer before placing it. This is why the mutual interests of sellers and buyers open up great opportunities for the promotion of goods on the domestic and foreign markets.

Relying on Logic

The Belarusian Universal Commodity Exchange keeps an unwavering focus on improving the trading mechanisms to fully meet the needs of traders. In 2009, the BUCE started working on the logistics of commodities, which is viewed as an additional incentive for potential buyers. The logistics will consist of warehouses, carriers and experts. Their operation mechanism has already been finalized and the documents regulating the process have been adopted.

One of these documents regulates the registration and operation terms of transportation organizations acting as carriers for the Belarusian Universal Commodity Exchange. Another document sets out rules for auctioning off lumber to foreign buyers on

DDU terms using the services of commodities exchange carriers that are residents of the Republic of Belarus.

The new mechanism of e-trade enables domestic exporters to deliver lumber to foreign customers with the help of Belarusian carriers accredited by the commodities exchange. As a result, foreign customers can see right off the real cost of an auction lot including delivery fees. Belarusian carriers, in turn, have an opportunity to get profitable orders.

At present, the Belarusian Universal Commodity Exchange cooperates with nine forwarding companies and owners of about 20 storage facilities. While choosing partners, the BUCE paid attention to a comprehensive approach to logistics and advanced sales methods. For example, one of the BUCE's partners, Belintertrans, operates 200 road trains and has plans to open two logistics centers in the Minsk and Brest oblasts. Its clientele totals about 6,000 legal entities.

The Prosper freight and forwarding company from Minsk, another BUCE's partner, has built a warehouse complex, Prosper Logistics GmbH, for 600 pallet-places. The warehouse, part of the transport and logistics center, is situated in the most logistics-friendly location for haulers: on Berlin-Moscow highway (A12,

E30), in close vicinity to Frankfurt on the Oder and Germany's border with Poland. The warehouse complex provides a full range of freight customs clearance services.

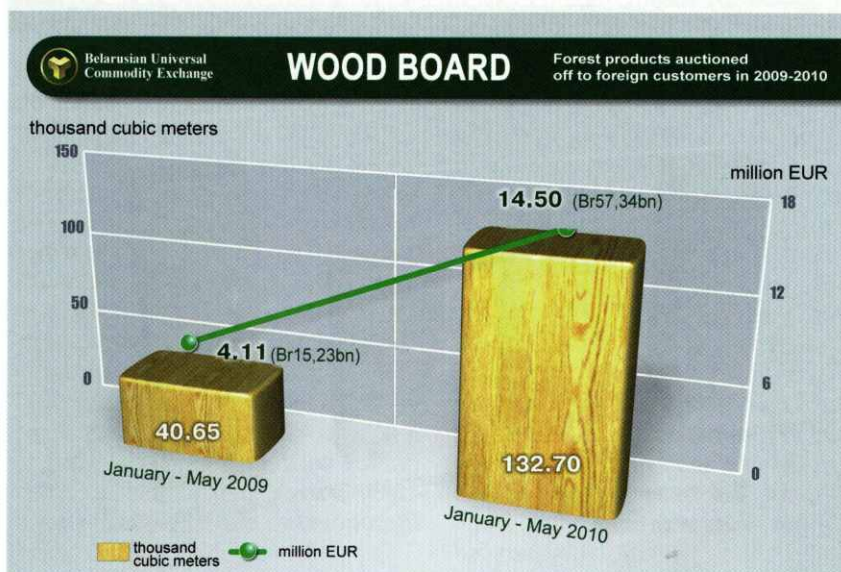
The BUCE has been working in partnership with Prosper on new forms of exchange trading, namely the DDP terms (sale of goods from warehouses outside Belarus). Thus, a buyer will be able to buy goods in Germany, from the warehouse in Frankfurt on the Oder, or in Russia, from a warehouse in Smolensk.

The partnership with this and other companies allows the BUCE to provide additional warehouse, sorting, processing and delivery services to its clients in Belarus and abroad.

Futures Market

Last year the Belarusian Universal Commodity Exchange started working on the futures market infrastructure. The concept has been designed in close cooperation with the National Academy of Sciences and the Trade Ministry and coordinated with the ministries of finance, economy, taxes and duties, National Bank of the Republic of Belarus. In May 2009 the document was approved by the government.

As prices on raw materials and commodities are highly volatile, the problem of price risk manage-





ment is getting to the forefront. The futures market allows its participants (producers and customers) to reduce these risks.

The world's biggest exchanges have been showing interest in the new futures exchange in Belarus. For example, Eurex Frankfurt Ag, part of Deutsche Börse Group, has offered a pattern of inter-exchange cooperation on the futures market. NASDAQ OMX presented its technologies, its trading and clearing system Condico in particular, during a visit to the BUCE.

Banks and securities market professionals have been involved in developing the commodity futures market segment. Some of them are willing to assist with the new project. For example, they are going to poll their customers to identify the demand for futures market instruments. The BUCE specialists have analyzed the legislation for its application to the commodity futures market and sent proposals to the Finance Ministry to bring the draft financial market development concept for 2010-2014 in line with the Law "On Commodity Exchanges" of 5 January 2009 and the commodity futures market concept.

The BUCE has been working on organizing study tours for potential participants of the commod-

ity futures market. The institute for enhancement of qualifications and retraining of economic professionals of the Belarusian State University of Economy will introduce a course on futures trading and futures and options contracts to insure market risks.

Union – Eurasia – Union

The Belarusian Universal Commodity Exchange has been building up international cooperation to expand economic contacts and enhance its prestige as an efficient economic tool and the prestige of the country in general. 2009 and early 2010 were rich for interesting events.

Thus, in May 2009 Moscow hosted a session of the task group in charge of the formation of the single exchange market of the Belarus-Russia Union State. Attending the session were senior officials of the Union State Permanent Committee, and Belarusian and Russian economists. A Russian delegation was headed by Viktor Nikolayev, director general of the St. Petersburg Exchange. Belarus was represented by Chairman of the Board of the Belarusian Universal Commodity Exchange Arkady Salikov.

The sides signed a protocol to prepare an agreement on the Union State common exchange mar-

ket. According to the document, the sides will create an electronic exchange trading system based on the trading systems of the BUCE and St. Petersburg Exchange using the principles of their compatibility.

The common trading system will sell foodstuffs, metal products, construction materials, oil products and mineral fertilizers.

The Belarusian Universal Commodity Exchange has been heavily involved in the development of the Eurasian Commodity Distribution System (ECDS). It is being created following the decision of the Council for Agricultural and Industrial Policy at the EurAsEC Integration Committee to support the participants of the agrarian market and reduce the number of mediators.

The Belarusian Universal Commodity Exchange presented its proposals on the Eurasian agriculture, commodity and food exchange in Moscow in late 2009. The exchange will be deployed at the BUCE premises. Now the sides are busy with preparatory work such as state registration, development of legislation and the principles of clearing and settlement services, other issues. The Eurasian agriculture, commodity and food exchange is expected to come on stream in 2011.

In February this year the Belarusian Universal Commodity Exchange hosted a working meeting between the chiefs of the commodity exchanges of the Customs Union member states: Belarus, Kazakhstan and Russia. The sides discussed the creation of the Eurasian agriculture, commodity and food exchange and the interests of the Customs Union accordingly.

Attending the meeting were Arkady Salikov, Chairman of the Board of the Belarusian Universal Commodity Exchange, Aleksei Ryzhikov, president of the Moscow Stock Exchange, Kairbek Saginbayev, the president of the Kazakhstan international commodity exchange and Vladimir Tarasov, director of the





EurAsEC Agrarian Center. The sides signed a protocol of intent on the Eurasian Exchange Union. This union is conceived as a public body facilitating communication between exchange platforms and harmonizing the rules and requirements of the EurAsEC member-states.

Bringing together the exchanges of the three countries will allow us to match demand with supply more efficiently, says Arkady Salikov. Deliveries will be guaranteed by the Customs Union member states, which will be a great advantage of the new exchange.

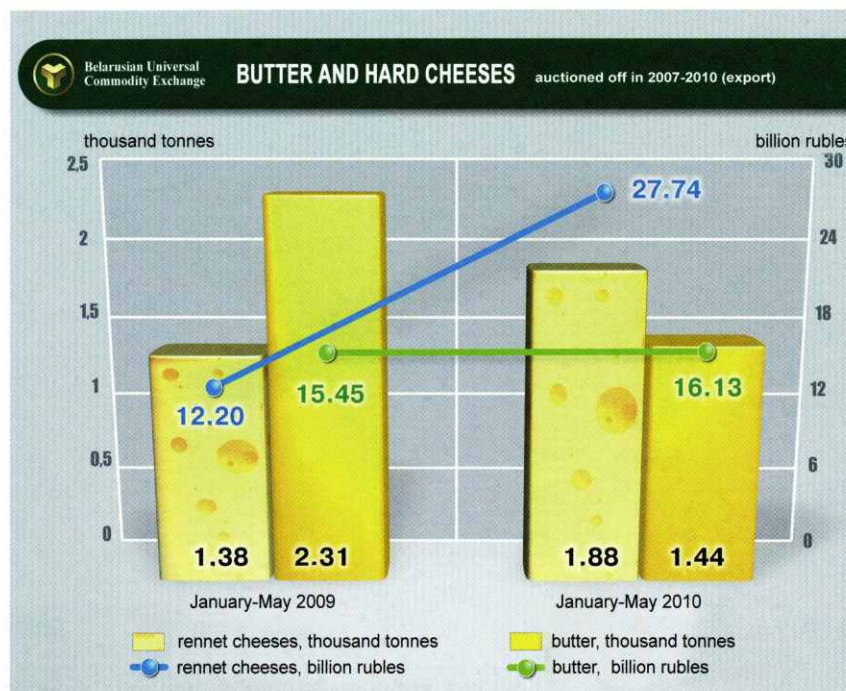
Business Contacts

Building up presence abroad is one of the BUCE priorities. The BUCE will take part in the business trading centers development program launched by the Trade Ministry of Belarus. The main goal is to develop e-commerce, advance Belarusian products abroad and expand the exchange segment of the commodity market.

In April 2010 the Belarusian Universal Commodity Exchange opened an office in Russia, which became one of the 2010 highlights. It is headquartered at the All-Russia Exhibition Center in Moscow.

The office employs six traders and one broker and has all necessary software to work online. The VPN's encrypted channel provides secure communication between the office and the central headquarters. Thus, the office has all technical capabilities to promote the interests of the BUCE and Belarusian producers in Russia.

Similar business centers will be opened in Vilnius and Kyiv. Simultaneously the BUCE has been working on smaller projects abroad, first of all, in the Russian Federation. The BUCE seeks to create electronic stock exchange platforms and get access to the trading systems of big wholesale market operators of the Russian Federation and other countries. For example, the Belarus trading house in Chelyabinsk which was inaugurated in March 2010 got



connected to the trading system of the industrial and consumer goods sections to enable Russian customers to place offers on Belarusian products.

Two big events happened in March this year. The Belarusian Universal Commodity Exchange was presented at the general assembly of the 13th annual conference of the Association of Futures Markets (AFM) in Amsterdam. The AFM membership is very prestigious and useful for any organizations as the AFM provides support to the exchanges and related organizations and holds annual conferences for establishing new contacts, sharing experience and information. The BUCE is now preparing the documents to join the AFM.

In late March the BUCE representatives took part in a range of events aimed at developing trade and economic relations between Belarus and Switzerland. Chairman of the Board of the BUCE Arkady Salikov spoke at the workshop on trade, economic and investment cooperation between the two countries at Credit Suisse and at the Global Commodities Forum (GCF) of the United Nations Conference on Trade and Development (UNCTAD).

Following the visit the Belarusian side suggested preparing a joint action plan to attract Swiss companies to take part in exchange trading in timber, agricultural produce and metal products, industrial and consumer goods hosted by the Belarusian Universal Commodity Exchange.

In June 2010 the Belarusian Universal Commodity Exchange goes into the next five-year period of its history. There are no doubts the BUCE will achieve even greater success in the matter of promoting the formal wholesale commodity market. The technical and information basis coupled with its potential will enable the BUCE to go for bold ideas and big projects.

A growing number of participants shows that national economic entities have started to understand the advantages of exchange trading. They have been making an increasing use of exchange technologies that give them an opportunity to work and make money in the context of real competition and real prices. It is not by chance that this form of wholesale trade has received global recognition. ■