

# Services Economy Healthy

REUTERS

MOSCOW — The services economy growth saw a marginal slowdown in February but its health remained robust due to rising activity and firms hired more staff to meet fresh demand, Moscow Narodny Bank (MNB) said Wednesday.

The bank's Services Purchasing Managers' Index, which provides a single-figure snapshot of the Russian services economy, fell to a seasonally adjusted 59.2 in February from January's downwardly revised reading of 61.9.

Previously the bank said that January's index stood at 62.2, above the 50 mark, which divides growth from contraction in the sector compared to the previous month.

"New orders growth has boosted employment and, despite some easing, activity and new business remained strong," said Paul Forrest, a group economist at MNB.

The bank said that continued levels of new order growth encouraged companies to hire additional hands in February. That also reflected expectations of future demand growth and anticipated general development of business.

Business morale in the services sector remained high with more than half firms surveyed expecting their activity levels to increase over the coming 12 months.

The bank said that higher utility prices, rising rental costs and increase in energy prices had driven input prices higher last month but firms were able to pass a significant proportion of higher operating costs to their clients.

## Railway Seeks Private Players To Run Trains

THE ST. PETERSBURG TIMES

Russian Railways is considering proposals made by potential private rail carriers, Interfax reported Saturday.

October Railways, the St. Petersburg-based subsidiary of Russian Railways, announced Friday that it had reviewed business proposals from private carriers at a meeting of its economic and technical working group Friday. Proposals concern trains providing service between Moscow and St. Petersburg.

Specifically, October Railways evaluated a proposal from the Okdail company, a local company founded in 1991. Okdail submitted two investment projects for long-term lease of the Avrora and Nikolayevsky Express trains from October Railways. Okdail would upgrade the trains at its own cost.

The Nikolayevsky Express train would be upgraded by August 2004, to be followed by the Baltiyskiy Express train, to be completed by summer 2005.

Okdail says Russian Railways stands to make 130 million rubles per year from the trains.

The company provides catering and food sales on other Moscow-St. Petersburg trains.

# EU High-Tech Companies Go East

By Mike Dolan  
REUTERS

LONDON — As breakneck globalization sees many Western companies search for low-wage but high-skilled workers half way around the world, many European firms are finding solutions in their own back yard.

High-tech and white-collar work, from Germany in particular, is moving as much to eastern Europe as to east Asia but, despite the rhetoric flying in the U.S. election campaign, European leaders have moved quickly to nix any protectionist reaction.

Cost-cutting and cheaper production is a major motivation for firms, not least because of rigidly high labor costs in the EU and intense competition on the global marketplace.

But new studies show skills shortages in the West have been a major reason behind the job shift and the bloc's eastern hinterland — not just countries about to join the European Union but countries like Russia, the Ukraine and Bulgaria — is rich in that commodity.

The move east is providing a skills safety valve of sorts, something governments would be wary of questioning.

As German technology giant Siemens shocked the nation in December with plans to move up to a third of its IT research and development, about 10,000 jobs, to low-wage countries, the government cautioned against a knee-jerk response.

Politicians in Germany have been at pains to highlight the greater overall benefits from globalization and free trade, stressing that boosting education and skills and raising research and development were the appropriate responses.

German Chancellor Gerhard Schroeder, speaking during a trip to the United States two weeks ago, said protectionism was no answer to a trend rooted in free trade and corporate flexibility. "We have to convince people that the global economy and free trade offer the best chances for development to us all," he said.

The EU's "Lisbon agenda" targets, aimed at making the region the world's most dynamic and competitive economy by 2010, also contains much on this issue.

Analysts say this moderate response is partly naked realism but also reflects the fact that many European firms have been tapping the relatively cheap labor



ALEXANDER BELENKY/SPT

Computer programmers at the St. Petersburg office of software firm Novavox exchange valuable skills for prestigious employment.

pools of Eastern Europe for a decade and many need the skills that are increasingly scarce at home.

Although, like U.S. counterparts, they have also been tempted to booming China and hi-tech havens like Bangalore in India, there is also a tradition in countries like Germany and Austria of moving closer to home.

The process of the European Union's eastward enlargement and relative proximity, geographically and culturally, has helped.

A study of German and Austrian firms engaged in outsourcing and offshoring in Eastern Europe, to be published in full later this year, shows a key motivation for the shift east in software services and back office banking has been a skill search.

Dalia Marin, Professor of Economics at the University of Munich, said her study showed that although total numbers of jobs offshore were small — less than 1.0 per cent of German or Austrian workforces — they were increasingly concentrated in the most skills-intensive activities and not manufacturing.

"One reason is that many firms simply cannot find the skills at home and have had very good experiences of extremely well-educated and skilled workers in countries like Russia, Bulgaria and Czech Republic," Marin said.

She stressed that the supply of high-skilled labor in Germany fell by two-thirds during the 1990s, just as the Silicon Valley revolution was taking off in the United States.

"We found that high skilled jobs transferred to Eastern Europe account for 10 per cent of Germany's and 48 per cent of Austria's supply of university graduates in the 1990s," she said. "Outsourcing of skill intensive activity to eastern Europe has helped to ease the human capital crisis in both countries."

What is more, the savings firms made in the EU accession countries are pretty limited now, she argued, and cannot be the sole driver. Her statistics show that while wages in the Czech Republic, for example, were 23 per cent of German wages — productivity was only 23 per cent of German counterparts too.

## Many European firms have been tapping relatively cheap labor pools of Eastern Europe for a decade.

## Shareholders File Suit Over Surgutneftegaz

By Valeria Korchagina  
STAFF WRITER

MOSCOW — Minority shareholders in Surgutneftegaz have staged a revolt with a legal suit that could wrest control of the oil major from its current management and result in 62 percent of the company's stock being canceled.

The lawsuit, filed at Khanty-Mansiisk autonomous district arbitration court on Thursday, is based on the law on joint stock companies, which requires companies to cancel any treasury stock that hasn't been sold within a year, said William Browder, CEO of Hermitage Capital Management.

Hermitage is leading the consortium of Surgut's minority investors that joined forces against the current management.

The group also includes Firebird Management LLC, Prosperity Capital Management and the Russian Investor Protection Association.

"Management owns less than 0.5 percent of the company but uses shares held by the company to reappoint themselves to their positions each year. In the meantime, they pay one of the lowest dividends of any oil company and manage the company in

a number of ways which we view as being shareholder unfriendly," Browder said.

In the official complaint, the plaintiffs demand that a 62 percent stake in the company be canceled.

"By canceling the treasury shares that the management use to reappoint themselves, the investor group hopes that either a new acquirer will show up, or that the current management team change their approach towards maximizing the value of the company," Browder said.

The minority investors also charge that management is failing to effectively manage its cash and securities, believed to be worth some \$5.5 billion.

According to Surgut's own financial statements from 2002 to 2004, Browder said, interest earned on the company's average cash balance remained at 1.4 percent, while Yukos oil major earnings were 9 percent and 8.1 percent.



Bill Browder  
BLOOMBERG

The minority shareholders also complain about inefficiency in exploration.

Browder conceded that no quick results can be expected in the suit.

"Given the likely appeals from either side, I think we can expect this to drag on for more than a year," he said.

Analysts welcomed the minority investors' move.

"If not pushed, Surgut will do very little ... But whether the case is going to be won, I don't know. I hope so," said James Fenkner, head of Research at Troika Dialog investment bank.

Fenkner noted that the suit could become a telling episode on whether the country is heading in the right direction regarding transparency.

Paul Collison, oil and gas analyst with Brunswick UBS, was skeptical over the prospects of minority shareholders succeeding in their quest.

"People have tried to force [Surgut CEO Vladimir] Bagdanov to change practices before. And I don't see the change in the environment to alter the probability of success," he said.

Officials at Surgutneftegaz headquarters in Surgut said the company was not commenting on the suit.



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