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EMERGING MARKETS

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Rising in the east – Russia's remanufacturing market

In modern times, the Russian economy may appear to many to be less significant on a global level than its old rival, the United States. However, the country's economic status is fast improving and, along with the other BRIC nations, it is on course to grow to become a significant player on the world stage in the next few years.

It could be said that the Russian economy has been ignored by many in recent years, despite the rise in oil oligarchs like Roman Abramovich. However, in the 21 years since the country moved beyond its Communist past, Russia has improved its financial standing to such a point that it is expected to be a key member of the BRIC nations on the world stage.

Remanufacturing in the country has played second fiddle to an influx of new-builds from China and has developed an unsavoury reputation for corruption and counterfeiting. According to Nikita Kharchenko, Head Manager at Chernil, a remanufacturing franchise based in Russia, those trying to understand the Russian market must first take a look at how it differs from the European market.

Understanding the differences

"The situation in Russia and in Europe is very different, and is divided in two parts; laser and inkjet. To understand the market it is obligatory to understand the way it is different," stated Kharchenko. "The remanufacturing market in Russia is perhaps not as big compared to compatibles."

He added that the patent situation in Russia allows for new builds to flood in and become the dominant product. "In Russia there is no sole legislation about patents, and there are a lot of new laser cartridges from China which are copies of the OEM. There are also a lot of new-build fake Epson ink cartridges and CISS (Continuous Ink Supply System) units."

"It has been easy for people to sell their cartridges to decision makers and get their money."



Nikita Kharchenko,
Head Manager at Chernil

Population: 142,905,200

GDP: US\$2.219 trillion

Capital city: Moscow

The Russian patent system has in recent times been revised, with provisions made for the definition of what patentable inventions are and how patents can be applied.

A patent is considered a "technical solution" that is related to either a product or process, and must be applicable to an area of industry or science as well as a mechanism in itself that operates without outside involvement.

The key area of the patent law in Russia is that any invention that is based on the regular functioning of an already existing

Rising in the east – Russia's remanufacturing market continued

product cannot be patented. The product must be a product (or process) in and of itself. Also, a patent can be challenged after three years of development if the company that originally patented it in Russia has not used it.

Helped and hindered

Kharchenko elaborated further on the issues that have both helped and hindered remanufacturing in Russia over the last few years.

"In Russia, remanufactured laser has grown with great speed over the past two years, as the Russian government now prohibits placing orders for compatibles," he explained. "The government and its companies now only want original cartridges, and have in turn been forced to look for alternatives to save money.

"Honestly, for six years I worked in the biggest Russian remanufacturer, and one of the problems with it was that it was involved in producing fake cartridges which were not its own brand. It was not so legal but was more profitable.

"There has been much corruption in Russia, and with government-owned companies only buying original cartridges, it has been easy for people to sell their cartridges to decision makers and get their money."

Moving forward legally

Recent government drives to improve Russia's economic standing in world trade have also influenced the growth for remanufacturing. These include the Stabilisation Fund of the Russian Federation, which was established in January 2004 to balance the federal budget and help the country when oil prices fall below a cut-off limit.

The country's attempts to join the World Trade Organisation have also provoked the government into action, as it remains the world's biggest economy not already part of the organization. Certain elements of the Cold War are the biggest hurdles for the country to overcome, but its movement towards membership should solidify its position as one of the world's leading new economies.

"Now, in the last three to five years there are trends in the market because of the changes in the economy," said Kharchenko. "The government is trying to get into the WTO (World Trade Organisation), and maybe because of this the government is now only using originals.

"It is not just legislation; there are positives if you stop producing fake



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"It is not just legislation; there are positives if you stop producing fake products."

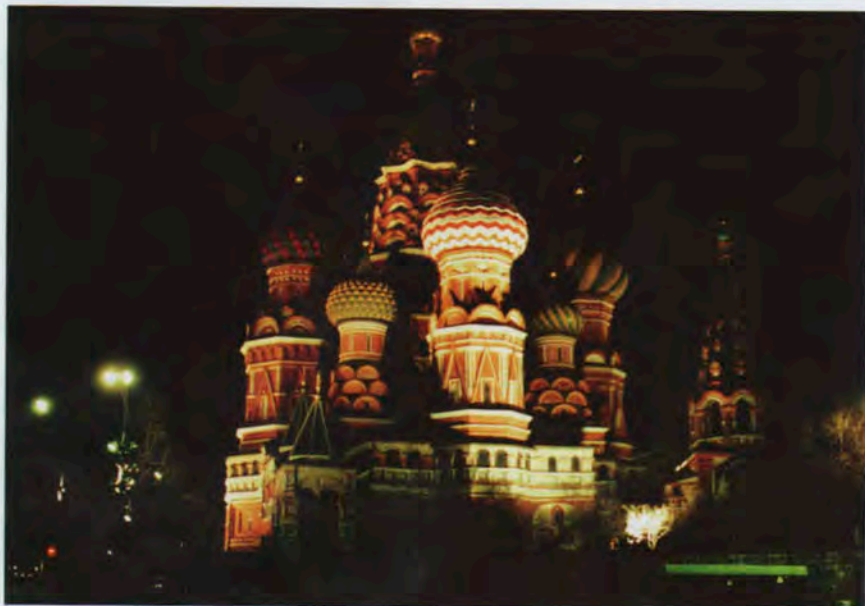
products. The fake manufacturers are leaving the market, and remanufacturing is growing as fakes are being pushed out; they are becoming legal here."

In terms of franchises, Kharchenko states that it is difficult for such businesses to work in Russia. Certain companies such as Filer work as retail outlets, but with the current dominance of compatibles that are cheaper and easier for consumers to purchase, there does not yet appear to be a viable market for refill franchises.

He elaborated on his own company's mixed successes with franchising in both Russia and China: "Several companies like [Cartridge World] tried to start in Russia, but have only been successful in the US, and this is similar to China, as we launched our stores in China but only have around three or five left."

Growth in Eastern Europe

In terms of other emerging markets across the world, Kharchenko believes that a number of areas share the same future prospects as Russia. Companies such as Lomond are investing in the Russian market; in Lomond's case to launch Memjet's printer technology.



Rising in the east – Russia's remanufacturing market continued

Lomond's CEO Alexander Bulaev commented that the company's mission is "to bring consumers cutting-edge technology ... at reasonable prices" in Russia. OEMs such as OKI have opened sales offices in the country.

"There are markets with a similar potential to Russia. We don't sell worldwide but my opinion is that the South American markets like Brazil are growing," Kharchenko stated.

"The CIS countries, including Kazakhstan, Ukraine and Belarus are growing markets that we work in, and this is because of special government programmes in the region that help the growth of the economies. Kazakhstan is a growing market for compatibles."

Other markets beyond the BRIC nations are also prospects for growth, according to Kharchenko. The rapid growth and expansion of



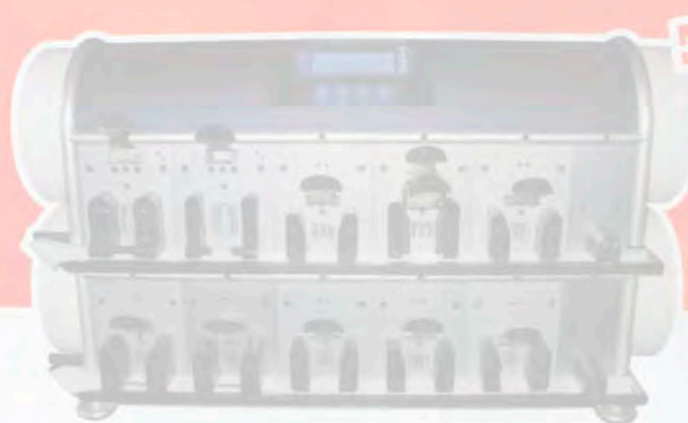
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remanufacturing in the Central and Eastern European (CEE) nations, including Poland and the Ukraine, has been positive for the industry.

Industry analyst InfoTrends also recently released a report entitled *Market Pulse: Central & Eastern Europe* that outlined the growth in the CEE region, stating that the outlook for the region this year is expected to be "more than fairly positive".



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