



VLADIMIR OVCHAROV

Born in 1953 in Moscow

EDUCATION

Mendeleev Moscow Institute of Chemical Engineering

WORKING EXPERIENCE

1977-1986 - Scientific Research and Design Institute of Assembling Technology - Atomstroy, 1986-2005 - R&D Institutes within Gosstandart system, since 2005 - SGS Vostok Limited (the SGS Group)

PUBLIC ACTIVITY

Chairman of the Products Conformity Assessment Committee at the Association of European Businesses in Russia (the AEB)
Member of the Expert Council for Technical Regulation at the Committee for Industry of the Russian State Duma
Member of the Public Council for Technical Regulation at the Russian Ministry of Industry and Trade

INVESTMENTS IN RUSSIA OBSERVING RULES IS ECONOMICALLY ADVANTAGEOUS

INTERVIEW

One of the key directions of SGS's activities is assessment of conformity of products, services and processes to mandatory requirements established at state or economic community level (for instance, the European Community). In Russia, SGS has been rendering the given type of services since 1993 when Gosstandart accredited the Swiss company with the right to execute products certification within GOST R system. It resulted in SGS becoming the first international certification body admitted to works on conformity assessment under Russian national standards. For the last 20 years, SGS's accreditation has expanded considerably. Certification services have been complemented with industrial safety and metrological verification services.

SGS helping investors to comply with regulatory requirements of the Russian Federation has been in focus of our interview with Vladimir Ovcharov, Head of Product Certification and Verification at SGS Vostok Limited, the Russian subsidiary of the SGS Group.

THE STORY OF THE DEPARTMENT THAT YOU HAVE BEEN MANAGING SINCE 2005 STARTS FROM CERTIFICATION OF CONSUMER GOODS IMPORTED INTO RUSSIA. NOWADAYS YOUR TEAM SUPPORTS MAINLY THE INDUSTRIAL SECTOR. WHAT IS THE REASON FOR SUCH CHANGES?

The market environment has changed. If in 1990s the main flow of imported products consisted of consumer goods (food, cosmetics, toys, apparel, household appliances), a decade later the structure of exports to Russia somewhat differed. Investments in manufacturing facilities led to increased demand for

machinery and equipment used in production of the mentioned consumer goods. Our market does not possess a great number of domestic brands, but that does not mean that the products are not locally produced. In oil refining, chemistry, coal processing industries production sites are under reconstruction due to the transition to products with higher added value. Though slowly, the economy is being modernized, and new plants are being built. At that, no serious investment project is completed without the use of foreign technologies and equipment supplied from abroad, causing a lot of problems related to permitting documentation and ensuring compliance with Russian legislation requirements. This is exactly the situation where SGS's experience and competence can be used to maximum benefit for the client.

WHAT ARE THE PROBLEMS YOU ARE TALKING OF?

The root of the problem is that in the majority of cases project design is executed by a foreign contractor in accordance with international standards, without taking into consideration Russian regulatory requirements. However, construction and further launch of an installation or a plant in Russia require obtaining of a number of permits. And often the requirements, which the designer was focused on, do not fit with the Russian requirements. What are the ways out of this situation?

One way is to justify divergences from the Russian standards and to get non-compliant project technical characteristics approved by relevant authorities (e.g. deviations from fire regulations — in the Ministry of Emergency Situations, from industrial safety rules— in Rostekhnadzor, etc.). But at that the cost of developing justifications and getting relevant approvals is sometimes comparable with the cost of the installation itself.

Another option would be to get a local design institute execute design localization to harmonize the project with Russian standards. But the final documentation to be approved at Glavgosekspertiza body will have little in common with the original engineering solution, on which the investment project had been based. And there comes the dilemma of how to build: either in accordance with unapproved original drawings, or according to the localized design but not meeting customer expectations in terms of technical parameters? As a result, something in-between would be implemented. In this case, there is the risk of technical difficulties arising during commissioning and operation phases. Besides, during regular inspection visits local inspectors would sooner or later require to correct the non-compliances. For us, it is obvious that these problems can and should be avoided at the design stage in order to bring localization just to translation into Russian language, and no more.



WHAT IS SGS'S ROLE? BY THE NATURE OF ACTIVITY SGS HAS NO RIGHT TO MANUFACTURE OR DESIGN.

The essence of our service is to monitor all stages of the project, from the pre-phase (organization of a tender for the selection of the designer) up to commissioning phase. It is very important for the contractor to develop correct and reasonable terms of reference for his subcontractors: designer, suppliers of equipment and builders. The terms of reference should contain requirements to ensure documents, products and services are in compliance with Russian laws and, at the same time, these requirements should not be excessive since financial and time constraints will indeed impact on the customer. In addition, consideration should be given to such parameter as compliance with state-of-the-art technical level. The investor is not guaranteed that the designer would not integrate outdated engineering and technical solutions into the project. It is during the pre-design stage that one has to make sure the proposed solution complies with state-of-the-art level in terms of

technological efficiency. Unfortunately, this aspect is not always considered in time. Not so long ago we executed design review of a coal power plant, which has already passed verification by state authorities. From the point of view of compliance with legal requirements the project was correct, but in terms of embodied technical solutions our experts found a number of shortcomings, particularly in ash handling system. As a result, the investor returned the design to the engineering company for improvement.

DO YOU INVOLVE FOREIGN EXPERTS FOR SUCH ASSESSMENTS?

For each project, we carefully build the project team from both full-time and part-time highly qualified professionals, whom we regularly cooperate with. Besides, we attract professionals from abroad, if necessary. We can find any expert of any profile out of the 70,000 SGS's employees.

In Russia, we have formed a strong team of tech-savvy professionals and managers having extensive experience in multinational projects, in other

words, understanding both the Russian legislation and foreign regulations. This allows finding compromise solutions without affecting quality or safety. Besides, in all major countries supplying technologies and equipment to Russia there are SGS office with competent personnel undergoing regular trainings for Russian conformity assessment procedures. This is the «front line» of our services, since that it is where the equipment is designed and manufactured to be subsequently imported, assembled and put into operation on the territory of the Russian Federation. As a rule, our foreign colleagues working in this area speak Russian.

ARE INDEPENDENT VERIFICATION AND ADVISORY SERVICES AT EARLY STAGES OF INVESTMENT PROJECTS IMPLEMENTATION THE KNOW-HOW OF THE RUSSIAN SUBSIDIARY OF SGS OR SIMILAR SERVICES HAVE ALREADY BEEN PERFORMED IN OTHER COUNTRIES?

Design verification / design review is one of the traditional areas of SGS Industrial Services. In many countries, we verify designs for factories, power stations and infrastructure. One of the sound projects dates of 2007 when the German subsidiary of SGS was selected to act as an expert organization within the Nord Stream project and review the design for construction of the Vyborg- Greifswald pipeline.

But we should admit that Russian service package has a specific character. The fact is that it is in Russia that availability of certificates or other permitting documents is strongly significant and impacts on investment projects implementation due to our technical legislation peculiarities and lack of mutual recognition of test results with the majority of developed countries. In Russia, unfortunately, all conformity assessment procedures are to be repeated.

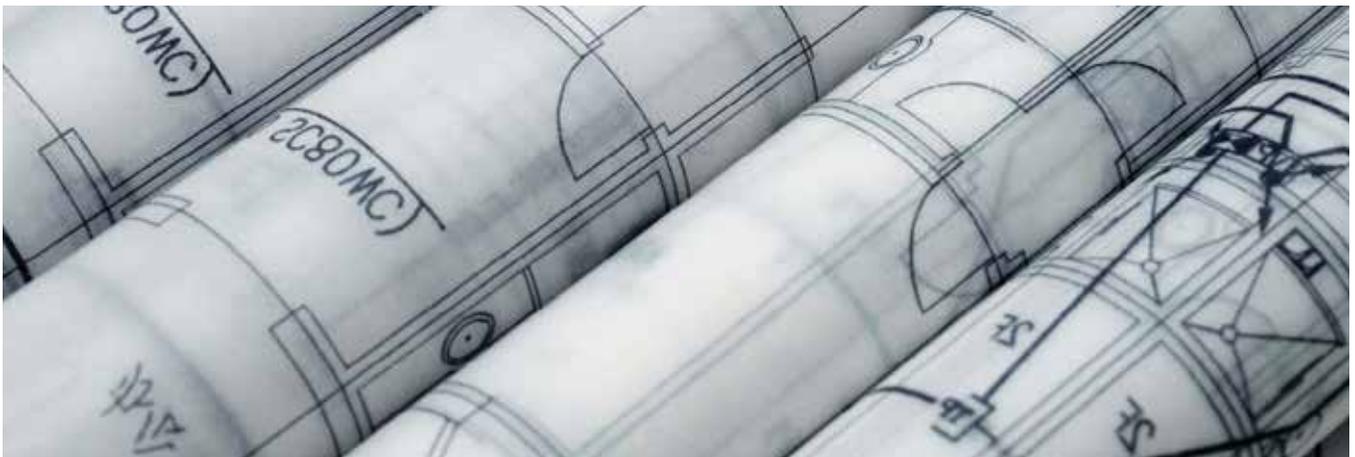
According to the recent World Bank report on doing business around the world Russia lies in 178th place in the category «construction permits» out of 183. In order to build a warehouse in Europe and Central Asia, an average of 20 interactions with external parties is required, and all approval procedures take 238 days. In Russia, the average number of interactions is 51, and approval term is 423 days. These figures are average, but they show the enormous difference between the conditions for investors in our country and abroad.

WHEN WAS THIS ACTIVITY LAUNCHED BY SGS IN RUSSIA?

In Russia, we started design review and advisory services at early stages of investment projects some years ago, when demand for them became obvious. And we came to this conclusion while participating in several large investment

projects related to construction of power plants. Our task within those projects was to optimize the process for obtaining certificates and permits for equipment supplied from Europe, Asia and America in order to reduce financial and time expenditures of EPC-contractors and their clients. Unfortunately, we were involved to the project at delivery stage, when our influential power was already quite limited due to the fact that the supplier management had been chaotic from the very beginning. No one tried to systematize processes and correctly formulate the minimum requirements that are really necessary for the project as a whole. As a result foreign equipment suppliers were obliged to receive a lot of redundant permits. Taking into account the cost of each document, the total amount of spending suffered in vain both by individual providers and the EPC and in the end by project owners, was significant. Besides, you should keep in mind the time spent by project stakeholders on obtaining these documents. And this is just the top of the iceberg: more serious problems arise during project design and its localization in accordance with Russian specifics.

That is, the earlier we think of the issues of regulatory compliance and permitting documents, the lower are the losses suffered by project stakeholders and the higher is the probability of fitting the regulatory requirements. Pre-design and design are the phases when our services enable to prevent a lot of problems in the future.



WHO IS FOREMOST INTERESTED IN SIMILAR SERVICES: FOREIGN DESIGNERS, CONTRACTORS OR INVESTORS?

First of all, we talk of foreign EPC contractors who are usually responsible for project implementation from design to commissioning. Besides we acknowledge that Russian companies investing either in their assets reconstruction and modernization or in construction of new facilities on the territory of Russia (and beyond) are also interested in the given service since they want to minimize their risks. Rare projects are funded without the assistance of financial institutions demanding on-time, on-budget and high quality project implementation. That is why they are interested in our services as well. Moreover, independent project verification and monitoring services are increasingly carried out not only on the initiative of international financial institutions, but also for Russian banks. Speaking about the sectoral focus, it is associated with the development of relevant industries in our country. As we know, construction and reconstruction processes are particularly active within energy sector, oil refining and petrochemicals, iron and steel industries. Still, our services will be useful also for civil construction projects, for instance, during a hypermarket launch, since coordination and obtaining of permitting documents are required here as well.

WHAT ARE THE COMPETITIVE ADVANTAGES OF SGS ON THE MARKET OF INDEPENDENT VERIFICATION SERVICES FOR THE INDUSTRIAL SECTOR?

I would like to quote here Georges Pompidou: «There are three ways to ruin: women, race and trust in experts. The first one is the most enjoyable, the second one is the fastest, but the third one is the most reliable». Unfortunately, in Russia, this joke is applicable in many cases. Using the services of incompetent experts does not facilitate implementation of the project, but even may give a negative result. Our main



advantage is indeed our people, our experience, our skills and the ability to search and find solutions to unusual situations in the international context. We have no time to be bored: due to the Russian technical regulation system being reformed new decrees, statutory acts and regulations get published regularly resulting in new problems and requiring market players to find new approaches. We are actively working on these new approaches and put them in practice in cooperation with our clients. With regard to services complexity SGS is actually unrivaled. The market is highly-charged with the companies carrying out design review (any design institute), certification bodies and expert organizations, companies rendering inspection services. But it's hard to find a company which is able to perform the full range of expert services supporting the project — including design review, budget verification, construction monitoring, quality control, supply chain services, assessment of compliance with Equator Principles, control over expenditures during construction, equipment certification, compilation of technical passports, etc. Our role actually corresponds to the function of a Project Technical Advisor ensuring project's compliance with regulatory

requirements, terms of references, budget and schedule. Unfortunately, when we talk of Project Technical Advisor functions in Russia, we often mean a person with a suitcase running up the chain and greasing palms.

IS IT POSSIBLE IN GENERAL TO AVOID CORRUPTION OF THE PERMITTING PROCESS IN RUSSIA?

You may do any business in Russia without paying a bribe. But it is necessary to fulfill two basic conditions: thoroughly know the local market laws and be law-abiding. Observing traffic regulations you avoid fines and bribes, and often get quick access to destination place, not wasting time on proceedings in case of an accident. The same occurs with investment projects. Observing the rules is more economically advantageous than violating them. Our new service is based precisely on this principle: the objective is to ensure compliance with regulatory requirements and, thus, to optimize financial and time expenditures within the framework of the project. Manage your permitting activity, and you shall win.

More information about these services can be found at: www.sgs.com/gost