

Exhibit A

Federal News Service

REMARKS BY LABOR AND SOCIAL DEVELOPMENT MINISTER ALEXANDER POCHINOK AT A BREAKFAST OF THE AMERICAN CHAMBER OF COMMERCE IN RUSSIA

[MARRIOTT GRAND HOTEL, 8:35, JANUARY 23, 2002]

Somers: May I have your attention, please. We are about to start our proceedings. I am Andrew Somers, president of the American Chamber of Commerce in Russia. The Chamber is honored to launch its distinguished series program, distinguished speakers program for the new year with a member of the government as prominent and as respected as Alexander Pochinok. He has been Minister of Labor and Social Development since May of 2000 and brought to this most important post and infused his leadership there with deep understanding of the financial factor in the workings of government, having been previously Minister of Taxation for the Russian Federation and also deputy Finance Minister of the Russian Federation.

And he also brought to leadership of this post an appreciation of the role of the legislative process having been elected Duma representative from Chelyabinsk where he was born and educated at the Chelyabinsk Polytechnical Institute prior to completing his studies at the Academy of Sciences where he served as senior researcher.

Mr. Pochinok also has demonstrated great moral leadership. He took an active role and participating in the resistance against the coup attempt in August of 1991, putting his life on the line, building barricades outside the White House and working with the resisters successfully to prevent the coup. As you know, the Labor Code which will govern employment relationship between employer and employees will take effect February 1, 2002. It was signed into law on December 30 by President Putin and Mr. Pochinok, of course, played a key role in both framing the language of the legislation and securing its passage through the Duma and up to the signature of the President.

We are delighted the Mr. Pochinok will address us this morning on key issues reflected in the new Labor Code. Mr. Pochinok, I ask you to come to the podium.

Pochinok: Thank you very much. After such an introduction it is rather difficult to speak. But let us get down to business.

So, ladies and gentlemen, today I will dwell on what the new Labor Code has brought to all of us and on where we will move after it and what good and perhaps not so good things we can expect in the current year.

So, the Labor Code. It was first written three years ago. About a year ago nobody believed it would be passed soon. But we made the only correct decision at the time, we set up a working commission at the Duma. It was the first time in the practice of the State Duma that an ad hoc commission was created for the purpose of drafting a single law. The commission included deputies of all the factions in the Duma. And we found that any deputy -- be he a democrat of a communist or a centrist -- once he becomes immersed in the problems of labor legislation he comes to realize that the solutions should be more or less similar to what all the self-respecting countries have.

Thus, through continuous negotiations which lasted a whole year, we managed to produce this document. We presented it to the International Labor Organization and we got a fairly favorable reaction from it and confirmation that it corresponds to the conventions of the International Labor Organization. The Code has been approved by the labor unions and the

employers. It has been approved by the Russian tripartite commission. It has been signed by the President and it will come into force as of February 1.

Let me note that the articles that have appeared and that claim that the Code has been introduced for a period of one year are absolutely groundless. There are no time limits on the validity of this Code. It is an ordinary legislative act of indefinite duration. As of February 1, the apparatus of the Code, all its rules and nuances take effect.

We will, of course, publish a commentary on the Code, the official commentary of the Labor Ministry and that will not be a new piece of legislation, we will just be explaining individual provisions in it. Once again I draw your attention to the fact that the government ministries are not allowed to publish commentary to laws that modify these laws. So, if we make a mistake in our comments, you will be able to challenge them in court and with other agencies. But we will try to not make any mistakes. We will stick to the text of the Code, but I warn you that the commentary will be huge in size. The Code has grown by almost two times and we expect the commentary to run to several volumes because the sphere covered by the Code is so vast.

What are the new provisions in the Code? Let us take them one by one. First of all, it contains procedures of negotiations between employees and employers, something that was not in the Labor Code before. What are the additional obligations of the employer and what are the additional rights that the Code confers on him?

First of all, neither side can refuse to take part in the negotiations. If the employer wants to negotiate with the workers, they have no right to refuse. If the workers have decided to negotiate with the employer, the employer, naturally, has no right to refuse. The employees should determine their representative. The Code details how this is done. While previously a representative of the labor union was to take part, this is no longer required. The Code describes every conceivable case: when there is a labor union at the enterprise, when there are several labor organizations, when more than half of the employees are members, when less than half of the work force are members, when there are no labor unions at all.

So, right off, an answer to a question: if there is no labor organization, creating it is optional, it is up to the work collective itself. In any case you will find an answer in the Labor Code about what to do and how to pursue negotiations whatever the situation at your firm or enterprise is. Yes, if you have a labor union of which more than half of the work force are members, you have no option. The employees have already made their decision known. They have a powerful labor union and it conducts negotiations. If a minority of the employees are members, the Code proceeds from just one premise: the representative of the employees should represent the opinion of the whole work collective, or at least of a larger part of it.

So, meetings will have to be held to elect representatives, or, if more than half the work force are members of the union, they should get together and determine how they will proceed together. It is impossible to imagine a situation -- and this caused some criticism from small labor unions -- when, for example, they have seven labor organizations at the Volga Automobile Plant and you have to sign a collective employment contract with each of them. It would be absurd. We would hate to have a situation like they had at Sheremetyevo airport when the traffic controllers dictated their terms to other groups of workers at that enterprise.

If the law retained such provisions, it would have been very useful to set up labor unions at the gateway to the enterprise. They would then dictate their will to everyone. This is just not possible at present. In the course of negotiations the opinion of the majority should be represented. By the way, the same is true of strikes. The procedure of calling a strike has been facilitated, it is

now possible to organize a strike at shorter notice, but, yes, we have included a very harsh condition. It is necessary to have the consent of the majority of the work collective.

Why? The reason is simple. Imagine an assembly line at a major enterprise and a group of assembly line workers decide to go on strike. Twenty people go on strike and 50,000 suffer. Yes, a strike is allowed, yes, it is the most potent means of struggle for the right of workers, but the work collective should not suffer. If the majority support a strike, a strike can go ahead. If there are no documents proving that the majority support the strike, the strike is not legitimate. One can collect signatures, one can hold a general meeting or a conference, but in any case the work collective should be legitimately represented.

A collective employment agreement must be signed. This is a novel feature of legislation, we will demand that a collective agreement be signed. This is necessary because we must be satisfied that the rights of workers are protected. We say nothing about the substance of the agreement, this is the subject of negotiations at a specific enterprise. The only thing is that the constitutional rights of citizens should not be violated, the laws should not be violated. All the rest is negotiable. You can write in additional holidays, sporting events, additional terms of pay, work schedules, the main features of work, even the color of the blinds and the number of light bulbs in the building. You are entitled to that. But this is an internal matter for the company and the firm.

Our task is to make sure that the negotiations have been held, the collective agreement has been signed and that the workers know what their rights are. If these conditions are complied with, everything is okay. Moreover, we are aware that in some cases negotiations can be fairly complicated, you may come to an agreement on 90 points but 5 points may be the subject of prolonged and arduous negotiations.

In this case the part of the collective agreement that has been finalized comes into effect. This is normal: what you have agreed on comes into force and talks continue on the remaining points.

About work time and schedule. No great changes have taken place. Russia still has a 40-hour working week. This is the optimum version. It cannot be increased and if it is shortened, this may lead to serious economic problems as the experience of France attests. So, we have kept the 40-hour week. We limit the amount of overtime per week, per month and per year only on medical grounds. You cannot force a worker to work more than a certain amount of time. That is why the Code says that overtime is possible and necessary. If it has been introduced, the employer must make all the necessary provisions for the employees. Extra pay should be introduced if the working day is extended. But only so much overtime can be introduced. But let me stress that this does not apply to cases when the work day has no fixed schedule.

This is the arrangement under which a significant body of employees work. It is the subject of the internal labor arrangements at the enterprise, the subject of the collective agreement at the enterprise and an individual agreement between employer and employee. It would be strange to require that the director general of a major enterprise put in an eight-hour working day and demand overtime pay. He is responsible for the overall result, his work schedule during the day is not fixed, he gets higher pay that is different from the wage scale adopted in the country. So, he has no overtime.

In other words, the category of unregulated work day is preserved. But it must be envisaged in the collective agreement and individual employment contracts. It depends on you, on how employers are hired at the enterprise. But we must be satisfied that those who work and are paid in accordance with the work time should be entitled to overtime pay.

Next. At last a clear distinction has been drawn between overtime work and part-time work. In real situations an employee may combine several jobs. And in some cases economic logic prompts additional pay, while in other cases it does not. It may happen that the nature of the job and the individual contract envisage that the employee performs several functions in several specialties. If he has little work during the day in one area, when you hire him you sign an agreement with him whereby he fulfills several functions. In that case no overtime, no extra pay is in order. This is a condition of employment. You have employed a person to perform several jobs from the start.

On the other hand, if he is engaged in performing his job full time and you additionally assign him a job that is not stipulated in the contract and he spends extra time over and above his 8 hours, overtime undoubtedly arises. So, you have just to look and determine the amount of work a person does.

A similar situation arises when the needs of production change. For example, the enterprise is in a difficult economic position. And you may offer your employee to do some extra work or else you will have to tell him that he is fired because there is no work in his specialty, or you tell him that the enterprise has some work in principle, but in a slightly different line and perhaps for a different pay, but it is still a ready job.

Under the former legislation, a person was threatened with dismissal, or else there was nothing you could do about such a person, he continued to occupy his job and you continued to pay him his wage. Both options were bad. Under the new Code a worker can, if he agrees to, be switched to another job with a smaller pay, but he would still keep his job. This is a normal situation and this situation is described in detail in the Code.

An employee may agree to have his functions expanded. This does not give rise to overtime pay because otherwise an odd situation would arise. For instance, you have a turner whom you pay by the number of parts he produces. He tells you that he will operate not one but five machine tools, this is technologically possible. And he tells you that he will not eight but ten hours. In addition to paying piecemeal for the number of parts are you supposed to pay overtime? No. Because the terms of payment envisage that you pay by the number of parts he produces. He has expanded the number of machines he caters to. He has assumed additional work, right? And you pay according to the pay system agreed upon.

So, I urge you to take a close look at the sections connected with remuneration. They are extremely flexible and the main message is that the enterprise should determine the system of payment that suits the employer and the employees. It is an internal matter for the enterprise.

Yes, there is a single wage scale in the country, but in fact it is part of a guarantee for public sector employees, but no more than that. And by the way, it will soon become a thing of the past, we are planning to reform it. It is not mandatory. It is mandatory in the sense that you cannot pay less than envisaged by the national wage scale, by federal rules and regional standards.

Moscow this year, for example, plans to raise the minimum wage twice. While at present it is 300 rubles, it will be 450 from January 1 in the country at large, in Moscow it will go up, with luck, to 1,370 rubles, Moscow has the right to do it. But this is the minimum wage introduced in the city. Everything that is over and above that sum can be introduced by the enterprise itself. Provided, of course, it is stipulated under the individual contract or collective agreement. An employee may not know what pay others get, but if these common rules are observed, everything is okay.

The terms of hiring and firing workers. Changes there do not seem to be great, but they are important. All the cases when an employee can be fired have been brought into a system. The terms of hiring a worker have been changed a little. Unfortunately the mandatory period of probation for those in their first employment and for young workers have been canceled. The Duma said this is to protect the young. I think the reverse is the case. I think you will be suspicious of hiring a college graduate because under the law you cannot establish a probation period.

I agree that this is a gap in the legislation and that it has to be filled in the future. I think that, in connection with this, it will be more difficult for the graduates to get a job. The entrepreneur will be somewhat unsure but he cannot enroll a graduate conditionally for a test period. Nevertheless, this is perhaps the only gap that exist in this part.

Regarding the pensioners, they can be first employed under a fix term contract. I believe this is in the interests of the pensioner. When a pensioner worked on a contract with unspecified duration, his dismissal became almost inevitable as soon as he reached the pensionable age. Because how would you conclude a sine die contract with a pensioner when he cannot work and cannot meet the qualification requirements? Now a pensioner can be recruited for a fixed term of one or two or three or ten or even a hundred years -- and everything will depend on his health, on your conditions, this will be an individual decision. Help yourselves!

Yes, the possibilities for dismissal have also become broader. This is so although the number of reasons has been clearly given. Indeed, under different paras, there are 14 grounds to fire a man. These grounds are simple and clear. And they sort of streamlined the relations between the employee and the employer. A man may be dismissed if he is ruining the enterprise, if he has done damage to the enterprise, if his actions caused an accident and mortalities -- in short, if he committed one gross violation of labor discipline.

We used to have a remarkable code which protected the rights of the working people, but under that code a man could not be dismissed even if he appeared at work drunk every day. Now I draw your attention to this: if one crude violation of labor discipline has been committed, it must be registered and "certified," everything should be put down formally, because this will provide grounds for a court of law. Thus, a single crude violation and an appropriate reprimand and the man gets dismissed -- it is a normal and understandable procedure.

Then comes the situation when a man does not meet the requirements of the job he holds. You carry out the "attestation". If the man is not attested, of course he can be dismissed because he does not meet the requirements of his job. Yes, you can dismiss a person on grounds of professional incompetence. But I would draw your attention to the fact -- and this is true of all the aspects of the code -- that all contradictions are resolved through a court of law, because the incompetence must also be appropriately registered, because most likely the person will of course sue the employer and naturally, the court will be interested to know why the person is not fit for the job in question.

That is why it is most likely either the attestation or the absence of an appropriate professional diploma or some other objective grounds to say why the man is not good for the job in question. But I would repeat that it is indeed now much easier to fire a person on these grounds. Paradoxical though it may seem but in my opinion this will rather widen the possibilities for employment.

We are also being reproached for sharply expanding the opportunities for fixed term contracts and that this would lead to more dismissals, but I rather believe that in the event of a

temporary expansion of production and a temporary improvement in the economic situation this will make it possible to employ more people. You now have greater opportunities to conclude precisely fix term contracts and our labor inspectorates will be instructed accordingly and will follow the implementation of the code. We understand that the more such contracts we have the better.

Indeed, if a person is employed under a contract with no term indicator and if he performs acceptably, he cannot, if he is below the pensionable age, be transferred to a fix term arrangement without his agreement or his desire, and it is almost impossible to dismiss him, indeed this is a normal scope of guarantees for an employee who is coping with his work.

We have laid down in quite an important detail the cases related to jobs in the North, related to seasonable employments and in all these cases we strove to arrive at just, normal, ordinary and generally accepted solutions to these problems.

Now about relations with the trade unions. What is important to be done? We emphasize the very important role of the trade unions. At the state level there is the tripartite commission, 30 trade union officials, 30 officials from the employers and 30 officials from the government. No law is submitted to the government without being discussed by that commission.

And to tell you honestly this tripartite commission has very seriously changed the nature of its work over the past year. Previously I saw no difference between the position of the trade unions and that of the employers, because the employers were usually represented by leaders and high officials from former USSR ministries -- it just so happened. And so, it was a little surprising when the representative of the employer would bend over backwards to defend the rights of the working people adding it was time to sort it out with these hated capitalists. Yes, one could hear such words. Now Russia's employers have drastically improved their organization and the coordinating employer council is performing quite vigorously.

What is the principle according to which the officials are selected? One official is from the sector which has a nation-wide body of employers, which is to say that among the 30 employers there are representatives from light industry and food industry and steel industry and on and on.

I would draw your attention to the fact that there is no distinction made between foreign or Russian companies -- it is the general principle of legislation. That is why if you wish to actively participate in the adoption and discussion of laws, you must work more actively within the sectoral associations of employers, you should see to it that your representatives be very active because the tripartite commission deals with very important issues and in this way we will improve the situation.

Same is true of trade unions. The trade unions are represented in accordance with a very simple principle -- one representative from each sector. That is why again here there is the need for vigorous actions by your trade unions, if they exist, so that they be represented.

What is important here? It is that last year the tripartite commission approved all the legislative initiatives of the government by a consensus. The trade unions supported the pension reform, they supported the budget changes, they supported changes in the tax laws and they supported the Labor Code. Eventually, they realized that they would benefit from it in the final analysis.

Why can one hear statements by individual trade unions saying they are against? Indeed, and we do not hide this, some of the trade unions lose. Who is the loser? It is those who cannot

bargain, those whose main task was to organize strikes, those whose chief task was to achieve trade unions' economic participation in the activities of the enterprise. Neither the first nor the second nor the third is acceptable now because the new code implies serious bargaining to safeguard the interests of the working people. The task of the trade unions is to provide protection of the interests of the working people.

Yes, indeed, the trade unions have been completely placed outside the economic sphere. Why so? It is because otherwise we would be violating the legislation on joint stock companies. We would be violating the rights of shareholders. In what way can the trade union have the right to participate in the distribution of the profit of the enterprise? In what way can it be empowered to request the financial information and influence the managerial decisions, when the trade union is not an owner? It means the enterprise is damaging the owner of the enterprise whoever he may be.

The trade union performs its own duties -- it is defending the rights of the working people. Indeed, a trade union has been granted huge opportunities to safeguard the workers' rights. If a trade union leader is protecting the rights of the working people he cannot be dismissed, categorically so. He cannot be punished in this connection, categorically so. All this is correct. But the union leader cannot make decisions concerning the profit of the enterprise. Yes, if the collective management body or the of shareholders have a meeting, the representative of the labor unions has the right to attend if he represents the interests of the employees. He has the right to speak and to present the opinion of the work collective. But he has not right to vote because he is not a shareholder. That is, he has the right to vote if he is a shareholder. If not, he has no right to vote. But he must be given a hearing.

Please, make a note that this is a new procedure, taking into account the opinion of the labor unions. It is not just a word, it is a totally new procedure. Formerly, there were many things that could only be done with the consent of the labor unions. It was reminiscent of a famous Soviet film in which one character tells the other: "I will shout and you will answer".

In other words, the trade unions could make decisions, but they were not liable in any way economically. Now the procedure is called "taking the opinion into account". The labor unions must be apprised of the decision. They may express their opinion, they may write down that they disagree with the dismissal of an employee or with the changes in the schedule of the enterprise work. They may go on record as disagreeing. They can express that opinion within a certain fixed period.

But the employer may choose to take that opinion into account or to ignore it. He may say, in spite of the opinion of the labor union, this is my decision. Beyond that the labor unions have the right to initiate a procedure of a collective labor dispute, and we will expand labor courts with this in mind. The labor unions have the right to call a strike, a very powerful weapon, and make sure that all their rights are respected.

So, the employer should carefully weigh the situation. If he knows that as a result of his decision the majority of employees will be against and this threatens a strike and the situation will seriously deteriorate, he will refrain from making such a decision.

On the other hand, such a procedure will rule out in the future conflicts like the one that occurred at McDonalds when we punished the management of McDonalds and some executives were fired and others were punished. It was in line with the labor legislation that we had in the country. I understand that the labor conditions there are normal, the social programs are interesting and they take care of their employees. But the management of the company made a terrific strategic

blunder at the time. It had attacked the labor union that did not have the support of the majority of employees.

We took opinion polls at the enterprise and found that the labor union was not popular. But under the law of the time it had to pander to even the smallest labor union and meet its requirements. Now in a similar condition the labor union should present proof that it has the support of the majority of the work force. If it has the support of the majority of the work force, then, okay, it is right. But it is not the case, then the labor union does not represent the work collective.

Consequently, the management of the company has the right to take a corresponding decision because otherwise a ridiculous situation may arise. You may find it funny, but at least one enterprise has formed a union of violators of labor discipline and it still exists and that is how all the members of the union are registered in its charter. Its goal under the charter is to violate labor discipline. All the members of that union are members of the labor union committee of the enterprise. So, under the law of the time they could neither be fired nor punished. They are all labor leaders fighting for their right to violate labor discipline.

Under the new Code this is only possible if they have the support of the majority of the work force. I very much doubt that the majority of employees will support such a historic labor union. You understand why minority labor unions have become so worried. They are deprived of the opportunity to terrorize the rest of the employees -- that's all.

Next. The section on labor protection and safety rules has been strengthened. This was necessary. We have too many accidents with a lethal outcome, group accidents. And, yes, in Russia there are still a lot of slackers and sloppy workers. That is why we introduce harsh punishment for violation of safety rules and we will continue to tighten labor safety regulations. We still demand strict compliance with the standards of dust content in the air, illumination, and the use of protective gear. We admit that we have not paid enough attention to it in recent years. But you would agree that these are absolutely necessary things.

We do not impose any limits on the development of the social sphere and social protection of employees at enterprises. You even see that there is greater possibility under the new Code to write off the incomes of natural persons if they are used for purposes of education, health care or charity. The possibilities of organizations of including in the costs and excluding from the profits the monies used for good social purposes have been broadened. Because if you look at the law on profit tax you will see, that profit becomes profit and normal expenditures becomes expenditure as it should be.

You are given greater opportunities. But your actions must be fixed. Let me explain. Let us take a practical example, the single social tax. If the collective employment contract envisages some benefits to the employee, where do they come from? They come from the manufacturer's cost. If they are not envisaged, this type of benefit comes from the profit. You must sit down and calculate what is better for you.

We would be happier if it were more beneficial for you to include it in the production cost. I foresee a question. A certain confusion in the text of the law adopted in connection with the pension reform regarding the single social tax. It was adopted on the last day of December and there is one vague place. It will be spelled out by a special instruction of the Ministry for Taxes and Charges. Obviously, there will be no increase of the tax by 14 percent, as some paper have suggested. You have the right to write off the assets contributed to the Pension Fund from that tax and in future the assets contributed to private pension funds as well. You are entitled to do that.

And I would recommend you to analyze the composition of benefits paid to the employee and determine the optimal variant and the optimal strategy.

I will speak now a little bit about other laws that will follow the Labor Code because we are trying to continue to optimize the tax system. Let us speak about what will come afterwards. The pension legislation has in the main been adopted, the Labor Code has been adopted. And there is a possibility to work with parliament and to pass some other important laws.

What lies ahead is the reform of medical and social insurance and a series of laws on the pension reform. What lies further down the road? Occupational pension insurance. That law is in the finishing stretch. Some complicated points remain but I am sure the law will be adopted. The main thrust of the law is simple. People working in harmful conditions can retire on a pension earlier by five or ten years but there should be a source of funds for the pensions to accumulate. While previously Russia's Pension Fund was a big bag where all the money was put and then pensions would be taken from there, now every component is strictly "personified". Each of you working in Russia will have your own number and after the first year will get the report of the Pension Fund about how much money your employer transferred to you so that you could exercise your pension-related rights.

This means that there will be no source to take the money from to pay somebody else. That is why we say, in the first place, dear company, please specify how many employees you have working in the harmful production conditions. Previously, when the state would pay all this anyway, every company, paradoxical though it may seem, was interested in as many employees as possible working in the harmful conditions. But this is absurd! That is why we are trying to establish order with regard to lists one and two because quite a number of professions and trades have already ceased to be hazardous to health over the period. Secondly, the company must decide how many people it has really working in the hazardous conditions and try to organize it the way that there be less people working there because it will have to pay extra money.

Next. Where does one pay the money? The employee and the employer must come to agreement about what is to be done. They can agree that the funds be remitted to Russia's Pension Fund and then the employees will be receiving an extra pension by 5 or 10 years earlier from the Pension Fund of Russia. But if the company believes or the employee believes that this is overly expensive -- and it involves indeed big money -- then a scheme may be chosen, related to the use of a non-state pension fund -- help yourself -- if you really believe, if you have seen that that scheme is more profitable and so the money will go there. Or it is possible to agree with the employees of the enterprise that they lose the right to that pension to be drawn several years earlier, but then there will be an appropriate addition to the wage under this arrangement.

Yes, without a doubt, there are limitations and there are types of work on which we cannot permit an employee to work longer than the specified term and that is why still for some of the trades there remains an earlier pension because this is due to the health requirements. In this case only this thing is decided: where is money to be remitted? What pension protection would be adopted -- into a non-state pension fund or into the state pension fund? Again, this is a voluntary choice.

I anticipate in this connection that there will be a serious increase in the workload for the pension funds and insurance companies, especially considering that the legislation on cumulative pensions is clearly coming to a close. You have noticed that of late there have been several quite critical articles, both ways, about the fate of this legislation. One thing is clear, however, namely, that the law will be discussed by the Duma in February. In the most extreme case all the amendments from the government will get there a week after. The law is becoming even more

revolutionary than it was. The scope is expanding for the enterprise to decide what it is to do and where it is to transfer the accumulated part of a worker's pension.

There will be a big discussion about the deadlines within which it can be assumed that this may take effect. You know that according to the official position of the government it is from January 1, 2004. But I assume that the deputies will quite likely vote for an even earlier deadline. At any rate a deadline in 2003, and the extreme option is 2004 and a man would have the right to decide where he would like to direct the accumulated part of his pension. Either it will be into one of the portfolios of Russia's Pension Fund or into a non-state Pension Fund. This will be decided by the man himself. He himself chooses the type of old age insurance. So, it must be a very informed decision.

If the decision is not taken, then without a doubt the money stays in the Russian Pension Fund and is invested in the least risky assets -- it's an ordinary normal decision.

Same will be the case in the reform of medical and social insurance. These funds will most likely be merged into one a year from now, the tariff will undoubtedly be reduced, meaning that part of the tax that goes to the medical and social insurance. The principal difference is very simple: the employee will decide about the insurance company into which they will eventually transfer the funds which go to the insurance in the form of the single social tax. It is because now the quality of our health care is regrettably bad. Nevertheless, the firms pay very, very big money.

I heard numerous complaints when enterprises would say: "How come we are transferring huge money, we are spending colossal amounts on insurance of our employees and we are not getting anything from the health system. In this particular case, however, they introduce the man's control over the money. He decides about the insurance company which should meet certain requirements. He can see the bills filled out by the doctor and the bills filled out by the medical institution. So, eventually the man selects a health establishment for himself -- which is quite a normal thing. If big money is paid then it is necessary at least to make sure about the quality of its utilization.

That is why a normal, simple and logical system of medical and social insurance will be introduced. In the process, the insurance business will win and again money will appear for investment, same as in the case of pensions and money will be available for long-term investment. The pension funds are expanding and increasing. I think this will improve the investment climate and so these are our next actions.

Yes, a package will be submitted concerning the social benefits. Why and what for and how? We are not beasts, we are not planning an abolition of the existing benefits for the population. People are poor and they need protection. Nevertheless, a significant part of the preferences are either economically impracticable or bad economically. It is because when a benefit is provided, for instance, in housing and utility services, one must realize that they are made available at the expense of other citizens of the same town.

And there is no other source. It is precisely for this reason that we are introducing an elementary order in all this. If you go down into the metro in Moscow you will see that half of the people go through the turnstiles and half go past the controller and show some booklets -- there are 160-odd types of passes that can get you into the underground free. And I can tell you a story. We were shown a special album about how those controllers are taught to work in the metro. They are shown the album and the photos of all the identity cards which give you a free passage. Some, however, just say they are secret, so we don't provide a photo but then how can you go into the metro free of charge with such a pass. Indeed, how?

Naturally, we are eradicating these unacceptable practices. That is why we are introducing magnetic chip cards and that is why we are deciding who has the right to travel in the underground free with a pass and over a longer term we will come to a simple thing, namely, that all departments whose officials must travel free of charge *ex officio*, should buy the travel tickets and distribute them among their employees and these travel with their magnetic cards quite freely passing through the turnstile. And I think that the poor Duma deputies will somehow survive the abolition of their right of free of charge travel in the underground. I think it will be quite a normal thing to do.

So, we shall be submitting such appropriate laws. Why does Russia have bad passenger transport? Part of the reason is that in some cities more than half of the population have the right to use it free of charge. So, it is starved of resources. Every free ride has to be paid for by somebody. So, we will review the subsidies for free fares and we will see how these privileges are canceled.

The same goes for the reform of the housing and utilities sector. A person will have broader access to subsidies if he lives in an apartment that meets the social standards and if his incomes are so low that rent exceeds a certain percentage of the income. In that case he will get a subsidy. All the other privileges will gradually be shed in the course of the housing reform. And you should watch out for changes in the House Code.

By the way, it will be an important part of the activities of companies. Land relations were totally unregulated in Russia. That is why the adoption of the Land Code on the one hand and of the future Housing Code on the other (which will happen this year) will require you to take some serious actions. You will have to read these documents carefully and see how the property rights are formalized. Why? Because major opportunities are opening up for the creation of condominiums, property complexes: the building, the land and the acquisition of normal property rights. In many cases the creation of condominiums is extremely beneficial for enterprises and organizations.

Yes, Russia hardly had such practices in the past. In Moscow, although the number of partnerships of owners is fairly large, there are less than 90 real condominiums that function normally. So, there is a lot of work to be done.

In many cases to protect the firm, and to protect your employees it will make much more sense for you to create condominiums and the creation of bodies of property increases the value of the enterprise assets, protects the firm and its employees. But this could form the subject of a separate and serious meeting after the new Housing Code is adopted. It will be a revolutionary code.

Next. We will complete work on tax legislation. Next in line is the tax on added value. Also, further down the road, there is the improvement of the profit tax and further reduction of the single social tax. Please, pay attention to the dramatically improved possibility of regression on the single social tax. At present the possibility of regression has appeared if an enterprise pays a wage of over 2,500 rubles. And we will continue to diminish the rate. I think all these measures will make business and more transparent.

I could go on talking to you about plans, but I have been speaking for about an hour and I have probably bored you and you want to ask me questions. I am ready.

Somers: Thank you for that most enlightening summary of the practical implications of the Labor Code and related legislation on employers. Questions. We have the mike. You are invited to introduce yourself if you would like to.

Q: Mr. Minister, I have the honor in the autumn to hear your speech at a lunch at the American Chamber and you said that a collective agreement need not necessarily be signed. Has the law changed that? And I have two more questions, if I may. The law writes, in Article 134, that indexation of wages is mandatory. That sounds a little odd. And thirdly, the unregulated work day. That's Article 100. It says that employees could be given additional jobs from time to time and this should be compensated either by additional leave or as overtime. This seems to contradict --

Pochinok: I understand. First. Yes, a collective agreement is mandatory. Let me stress once again that we do not interfere into the content of the agreement. But if interests arise on any of the sides -- the employer and the employee in conducting negotiations, the process is launched and a document should emerge as a result.

If neither side initiates negotiations, then, naturally, there won't be a collective agreement. That is, if neither the employer, nor the employees want to engage in negotiations and they have expressed their opinion and everybody is happy, that's a wonderful situation and we can't do anything about it. But if at least one side wants to negotiate, then the result will be a collective agreement.

Second. Regarding the indexation of wages. These are requirements for the government. We have written down a very simple thing: the wage must ultimately be higher than the living minimum. Wages in Russia are extremely low, they need to be raised, the G-8 countries have made that very clear. It is necessary to see to it that the 1.2 billion people in the world who earn less than a dollar a day should earn at least a dollar and a half a day. That's why we are raising the minimum wage quite rapidly. We started from a base of 83 rubles and have gone up to 450 and we will try to raise it further.

There are, of course, economic limits for wage raises. We will in the following year raise it by about 5 percent, that is, the minimum wage will amount to respectively 35 and 40 percent of the living minimum. If your enterprise has achieved that target, no additional requirements will be made. I repeat that the system of remuneration is an internal affair of the enterprise.

You should provide minimum guarantees for the employee. You should seek to eventually raise his wages. But if you meet the standards set in the country as a whole and in a given territory - - because as I have said, it will be substantially higher in Moscow, then you are okay. This is for the government, not the employer.

Yes, your employees may demand higher wages, this is the normal right of working people. But this is the subject of your internal bargaining and not a requirement of automatic indexation. There exists the requirement that the minimum wage in the country should be increased at least to keep up with inflation. And then there is the requirement that the state should raise pay to public sector employees at least as much as the inflation goes up. This is natural, wages must go faster than inflation. On the other hand, the government has promised to take very tough measures to combat inflation.

We are worried about inflation and you see that we are looking for ways to stop it. As for Article 100, pay attention to the nuances. If an employee is not on unregulated work day and is not on the list of such occupations, you pay him for the work time spent at work. If he spends additional work time, he is entitled to overtime. If you don't want it, your task is that the individual employment contract should stipulate an extended range of duties: he should assume an obligation to do additional work. Then you won't have to pay overtime.

But if your employment contract says that you have hired a person for a 8-hour day and you offer him to work ten hours -- I stress, you offer, not he offers, because in the latter case no obligations arise -- you are forcing him to work longer hours. And that leads to overtime pay. So, it is a very flexible system and you can find a variant that suits you best at your enterprise.

Q: American Express. Several short questions, if the audience permits me. First. Many workers see the increase of the vacation period as an important gain of the new Labor Code. But attending several seminars recently, including meetings with you, I didn't hear that vacations really become longer.

Pochinok: I get your question. We have just replaced work days with calendar days. The leave is 28 normal calendar days. In 90 percent of the cases there is no real differences.

Q: And in the remaining 10 percent?

Pochinok: Well, there are some situations, some occupations where the difference between calendar and working days leads to an additional day of leave. But this is an exception, not the rule. A person has the right to rest for 28 normal calendar days. We have not lengthened the vacation, that is economically impossible, but neither have we shortened them.

The only thing that we will certainly do is to shift days off in Russia in a different way than we have done up until now. This, thank God, has been made the responsibility of the government and we are stating the first experiment this year. We have borrowed the day off from the week that preceded the May Day holidays. You will have noticed that May 1 is a holiday and May 5 is Easter. So, we have shifted the Saturday from the previous week. There will be an additional working day in April, but there will be days off from May 1 through May 5 in a row.

Practice shows that given this combination of holidays in the country nobody worked anyway (laughter). So, we just want to put this in order. And if we see that it works out well and that people have a normal mini-vacation in May we will expand the experiment and see if the same thing can be done with regard to Christmas so that people will have more time to rest without reducing the actual work time. This is the only change.

Q: A clarification then. If a worker takes two weeks vacation we are obliged to allow him two weeks, and the rest he can take one day at a time, if he likes to. And it adds up to 14 plus another 14 calendar days.

Pochinok: You are limited to this time period. But I would recommend that the collective agreement clearly stipulates what is more convenient considering the regime of your enterprise. We just give the total number of days, but we do not specify. We will toughen our stand, we will demand in the future that the employee should take a vacation for the simple reason that it is good for his health. But while there is still a chance, I advise you to take advantage of it and write down in the collective agreement the special features that are peculiar to your organization, the way it is more convenient to you.

Q: And a follow-up to this topic. There are some organizations, including some government organizations which can afford to have their employees 28-day vacations at one stretch. My question is as follows. The other day I attended a meeting with Mr. Panin. And we were told that an employee will be entitled to compensation only after the employee logs up 56 vacation days that he has not used. Where did that figure come from? And how legitimate is it from your point of view? What is the outlook for the solution of this problem?

Pochinok: This is still a matter of debate. It is Mr. Panin's point of view. The law is vague on that issue, I understand. There are two schools of thought. Some think categorically that an employee should be obliged to take a vacation to preserve his health, while others say that if he finds it economically beneficial, he may settle for a compensation instead. So, while there is this difference of opinions, the issue has not been finally resolved. We will comment on it separately.

Q: Can I ask you a couple more questions? The duty of the employer to pay wages twice a month. This was the rule before and nothing has changed. Nevertheless, in practice this rule was often violated, but the enterprises have been given greater leeway on the issue. To put it crudely, a decision may be made "in response to the expressed wish of the employees to get their wages once a month". Will that be qualified as a violation?

Pochinok: It will not be qualified as a violation because we have offered the employee some guarantees. We have given him the right to get pay twice a month, we have given him the right, if there is a delay of wages by more than 15 days to stop work and initiate a collective labor dispute procedure. If the workers of the enterprise think it is more convenient in a different way, and if it is fixed in a corresponding document, naturally, no violation of rights occurs. It should be the will of the employees themselves.

Q: Mr. Minister. I have a question which goes a little beyond the topic that you spoke on. But you have touched upon the single social tax. The latest changes introduced in Chapter 24 of the Tax Code in December regarding the application of Article 241 deals with the regressive tax scale. The second clause is so formulated that I have heard many private comments from your former colleagues that regressive rates cannot be used until the end of the tax period regardless of the fact that the conditions you spoke about will be preserved.

Pochinok: I see. It is a firm condition: if the wages in the tax period in the calendar month exceed 2,500 rubles, the provision applies. I think the Ministry for Taxes and Charges will issue clarifications. The trouble is, the instructions have not yet come out. We are telling them to hurry up.

Q: Ernst & Young. Mr. Pochinok, I would like you to comment on Article 131 of the Labor Code which envisages two forms in which wages can be paid: in cash and in kind. The cash form means that wages are to be paid only in the currency of the Russian Federation. Article 11 says that the Labor Code now applies also to foreign organizations and foreign nationals.

Does it mean that the law maker has limited the right of foreign organizations to pay its employees in the currency of another state in a form allowed by the currency legislation?

Pochinok: We are a sovereign state, so, sorry, we demand that settlements on the territory of the Russian Federation should be in the currency of the Russian Federation. If you remit money to your employee to his account, especially outside Russia, we have no questions. If you do it in the Russian Federation and if it is convenient to the employee, you can remit money in dollars, but in all the documents we would appreciate it if you state the pay in rubles and stress that it is being paid in rubles and so on. Over a longer term we shall also be making the currency legislation more strict. In this sense so far, you will excuse me, was too humane. The ruble must function in the territory of Russia over a longer term, the trend will be as follows. We understand the life situation. We are aware that now in many cases it is objectively more convenient for the companies to operate in dollars but you would agree that, to strengthen the national currency we will consistently be pushing the dollar outside the circulation in the country -- it is a normal trend.

In this case the Labor Code is not a direct action law. But over a long haul of the evolution of the currency regulation, the changes I hope will be in this direction.

Q: Mr. Minister, I would like to ask a question that can be topical with this audience. The fact is that the norms of the new Labor Code do not cover the conflicts of law in accordance with the international labor law. Nevertheless, there are cases, albeit rare, when Russian citizens get employed in foreign countries based on a labor contract drawn on the basis of a foreign labor legislation. In this respect there is a certain gap in the Russian legislation which does not permit or does not resolve a particular labor related conflict. Would it not be proper to add to the Labor Code an appropriate part of chapter dealing precisely with the conflict of laws?

Pochinok: There was a question about why we decided against doing it. The Russian legislation in its approach differs, for instance, from the US legislation, where there are cases when the law of a State sharply differs even from the US international commitments. We recognize the practically absolute primacy of international law.

The general agreement between the government and the trade unions and the employers provides for submitting 15 ILO conventions for ratification. We are consistently ratifying them. In all cases when we have recognized the ILO conventions, when we recognized international regulation -- and we have already done almost everything and with the adoption of these 15 conventions we have practically in all parts of the labor law accepted the norms of international law which apply. Practically any of our courts of law will confirm this. There are several special restrictions but against they are common knowledge: the international law applies. Here we can simply confirm this, the more so that if Russia ratifies the document concerning the selfsame sailors, it will comply with it even domestically. There are no problems -- the international law applies.

Q: Yevgeny Reizman, Baker and MacKenzie. Two questions. The first. The new code provides for quite many formal requirements to be met by employers, including during employment, and it takes effect from February 1 and was signed on December 30. The difference is one month of which two weeks were New Year celebrations. Will the tax authorities give the employers some time to prepare? This question is not very funny if one thinks about this in practical terms, with account for the powers of the labor inspectorates. This is the first question.

And the second: Confirming the membership and confirming the support of trade unions. Membership in trade unions creates additional duties for the employer. At the present time the trade unions are not obligated to register. In principle, their internal documents are not regulated in any way. The trade unions can issue membership cards and they may do without any cards. This is to avoid any repetition of what happened to McDonalds, when a man comes and says: "We represent half or more of the personnel." How will this get confirmed. Thank you.

Pochinok: Everything is quite simple. The trade union legislation does not require -- and I will begin by answering the second question -- does not require the existence of membership cards, this is not quite a good thing, but it is a fact. Nevertheless, as long as trade unions exist in your enterprises and as long as they ask for nothing, no collisions occur. The trade union can say its membership is 100 million -- it is its right.

But if procedures are set in motion, related to the new Labor Code, there are indeed quite strict requirements of confirmation. You have the right to say: would you prove that? If the majority of your labor collective so wishes, you must agree to this. But you must ask for proof. It means there must be a legitimate confirmation which recognizes that the trade union membership is half of the total workforce.

I would repeat that we have to understand that the bulk of the contradictions will then be resolved in the court of law. So, try to get yourselves into the judge's shoes. What confirmations will the judge finally accept: a membership card, appropriate powers from the enterprise employees and so on. All this will have to be assembled and proved without a doubt.

I am expressing my unofficial opinion but it seems to me that Russia's trade unions officially cover 17 percent of the working people, I am strongly inclined to think that the percentage is less than 10 in reality. So, we will now be urging the trade unions to confirm their real membership, the one they have.

Q: And the first question concerning the deadlines for introduction.

Pochinok: A tax inspectorate is not authorized to verify compliance with procedures spelled out in the Labor Code. It is expected to do so only with tax legislation.

Same with labor inspectorate. We understand that there must be a transition period. We may now issue a huge quantity of normative regulations related to putting the Labor Code into effect. We already have a work plan with over 60 items. We will explain everything. We perfectly understand the situation.

Why was it necessary to put the code into effect from February 1 -- it was for the code procedure to begin to operate. But until you have adopted a particular document until you have carried out certain actions, old norms will continue in effect. You yourselves wish the start of the application of the norms of the new code so as later to adjust everything in line with it. So, as long as the old norms are still in effect, it is in your interest to act swiftly.

I understand that the transition period will take quite a long time. It is simply a colossal amount of work.

Q: Tatyana Belozerova, the company Gillette. Mr. Pochinok, I would like to know your unofficial opinion on the following question. Operation in a market economy and investing quite big amounts in the development and training personnel, we would like to find out whether it is generally legitimate to provide in an individual labor agreement some limitations on an employee's rights to become employed by a competing company for a certain period of time.

Pochinok: And why not? Under the code you undertake not to limit an employee in his professional improvement. If he wants to obtain a set of professional knowledge -- meaning that if your company has a man who sweeps the streets and he wishes to get a vocational training in some area, or graduate from an institute, become post-graduate or a doctor of sciences, he has the right to. And he may not wish to perfect his know-how in sweeping the street but in any speciality that your company can use. He utilizes the right of extra vacation and the right to a changed daily work schedule -- all that is related to the legislation.

And we also ask for this. And you are expected to provide that. The rest is the problem for your internal agreements. If you have an individual agreement with a man and you provide in it that he cannot go to work at your competitors, if the man has voluntarily signed it, he thus has voluntarily committed himself. You don't have the right to demand this from him but you simply tell him. We are providing you with additional preferences, we are helping you to get an education, we wish to prevent your knowledge getting to the competitors. So, it is the man's individual choice.

It is the same with a man who joins the civil service and there he signs under a certain set of restrictions. These are voluntarily self-imposed, you realize that? You are not forcing him, he voluntarily assumes the commitment. So, if this is formalized in this manner, it is quite legitimate. It is a usual form of competitive struggle.

Q: Tatyana Golubinskaya, Intercomtechnologies. I have a practical question. Should amendments be made in the employment contracts that were signed prior to the introduction of the new Labor Code?

Pochinok: The employment contracts signed remain in force. I recommend that you do it because new opportunities are opening up for the employees and the employers. But it is not obligatory. All that has been signed remains in force, as before.

Q: Can you tell me if the new Code has anything to say about the possibility of forming several labor unions if the enterprise is a diversified one?

Pochinok: Nobody imposes any limits on the number of labor unions. You can have any number. But we set the requirement of a single collective agreement. If there are several unions at the enterprise, they should decide before signing a collective agreement which of the labor unions represents the interests of the work force, or they should form a collective body to represent these interests so that each of the labor unions should not harass you individually. But this is up to the enterprise. There may be no labor unions, or there may be a hundred. That's no problem. But for you there is a single collective agreement and a single representative of the interests of all the employees.

It is important for us that this should be focused so that you don't have each of them coming to you and saying: "I represent the work force". And then another one coming to you and saying: "It's I who represent the work force". This is ridiculous. They should sort it out among themselves who is the representative.

Q: Bobrova Olga. Danone-Bolshevik. Could we go back to the question of Labor Inspectorates because their functions are greatly broadened and they even include compensation for moral damages, which actually comes under the jurisdiction of the law court.

Pochinok: Labor Inspectorates do not charge moral damages. It won't happen. God forbid. If the rights of workers have been violated, the issue of moral damages arises, but according to our law, if you agree with this, you pay yourselves. If not, the matter is taken to court. The inspector merely makes a record of this. He does not come to you with a gun and does not carry away a bagful of money. He just goes on record that a violation has occurred. If you agree, you pay the worker, not the inspector because you have inflicted moral damage on the worker. If you disagree, then you go through the normal court procedure and obey the court ruling. We are not changing the law there.

I stress that the tax inspection does not collect moral damages either. Note that you pay voluntarily. And note also that the number of cases that we lose in the law court is growing. And I am none the worse for it. It just shows that the court system is performing better and that it can rule both ways. So, one needn't fear court procedures. The main thing is to set down the positions.

Q: I work with a company that provides software for telecommunications. Could you speak about labor regulations regarding high-tech companies.

Pochinok: No special features are envisaged in the Code. We singled out only those sectors which are very, very special. So, you will have to think a little harder on the form of collective individual agreements.

I think we would look like a bull in a china shop if we tried to introduce such stipulations in the law. We would just stand in the way of company development.

Q: Lyudmila Kuptsova, BMW. We are a Russian company with 100 percent foreign capital. We depend entirely on financing by the parent company. Can lack of funding provide grounds for hiring workers under a limited-term labor agreement of indefinite duration until funding runs out?

Pochinok: If you open the Code, you will see that for economic reasons you may hire workers for a term. If you are not sure of the stability of the market, if your expansion is temporary, funding from your parent company means only one thing, a change of the market situation. So, you do sign term agreements with your employees. You can even quote a corresponding passage from the Labor Code to be on the safe side. The market is indeed unstable. This is something that any court would recognize.

And make a note of the issue of law courts. The Moscow Labor Court has opened. This is a voluntary decision of Moscow employers and employees. It considers collective labor disputes. And if the experiment is successful, we will change the laws to create special labor courts. It would be better that way.

Its procedures at present are very close to the German procedures. We have carefully copied German experience.

Q: A clarification, if I may. If a company has no labor union and the employees have failed to organize themselves and have not demanded that a collective labor agreement be signed --

Pochinok: It means that it suits them.

Q: So, in that situation no collective agreement is concluded?

Pochinok: No agreement if everybody is happy about it. But if they get together and decide that it is necessary, then there will be a labor agreement.

Somers: If I might just pay tribute to our sponsor, Norman DL Associates who sponsored this very important event for the Chamber and they kindly offered to provide a summary of the Labor Code that's available at the table to the left of the podium. I'd like to thank Minister Pochinok for two reasons. First of all, for accepting my invitation to speak here today, but also to travel to Petersburg in about a week to speak to our chapter of about a hundred firms in St. Petersburg. So, we are delighted that he has agreed to give us such quick information and feedback on the Code.

And finally again I'd like to thank you for a most insightful and practical insight into the Labor Code and in particular the Code's relationship to other legislation such as the pension code. Thank you very much.

Pochinok: Thank you.