



Doing Business in Russia: 2009 Country

Commercial Guide for U.S. Companies

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Chapter 1: Doing Business In Russia

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Market Overview

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- Until the current global economic crisis, Russia had a nine-year run of continuous rapid economic expansion (approximately 7% annually). With over 140 million consumers, a growing middle class and almost unlimited infrastructure needs, Russia is one of the most promising U.S. export markets. Prior to the economic slowdown, U.S. firms consistently reported that their Russian operations outperformed those in most other countries where they conduct business. They continue to view Russia's long-term prospects as positive.
- Russia is the U.S.'s 28th largest export market and is the 17th largest exporter to the U.S. 2008 U.S. exports to Russia were \$9.3 billion, a 27% increase over 2007. 2008 Russian exports to the U.S. were \$26.8 billion, up 38% over 2007. By the end of 2007, according to the latest available U.S. data, U.S. foreign direct investment in Russia was estimated at approximately \$13 billion; according to Russian data, the U.S. is Russia's seventh largest foreign investor.
- As a consequence of the global economic downturn and falling commodity prices, early 2009 forecasts were for little or no GDP growth. The Russian government anticipates a budget deficit of at least 5% of GDP for 2009, reversing a trend of surpluses. Inflation was 13.3% in 2008 and is expected to rise in 2009 as a result of the depreciation of the ruble, which lost one-third of its value in late 2008 and early 2009.
- According to Russian statistics, leading exporter countries to Russia include, in descending order: China, Germany, Japan, Ukraine, U.S., Italy, Belarus, South Korea and France. The U.S. has an approximate 5% share of Russian imports.

Market Challenges

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- Russia is a geographically vast market, stretching over 11 time zones and encompassing over 17 million square miles.
- Seriously undeveloped infrastructure causes logistical challenges.
- Incomplete transition from central planning has led to an insufficiently integrated economy and discrepancies in wealth distribution (geographically and demographically).
- Conduct of business may be impeded by: inadequate IPR protection, pervasive corruption (147 of 180 on Transparency International's Corruption Perceptions Index), inadequate corporate governance, developing legal system, lack of transparency.
- Global economic crisis inhibits access to credit for Russian companies of all sizes.

- English is not widely spoken.

Market Opportunities

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- Telecommunications Equipment/Telecommunications Services
- Construction Equipment/Building Products
- Drugs & Pharmaceuticals
- Autos, Light Trucks & Vans/Automotive Parts & Service Equipment
- Computers & Peripherals/Computer Software
- Oil & Gas Field Machinery/Oil, Gas & Mineral Production & Exploration Services
- Agricultural Machinery & Equipment
- Medical Equipment
- Franchising
- Security & Safety Equipment
- Machine Tools & Metalworking Equipment
- Industrial Chemicals/Chemical Production Machinery
- Consumer Electronics

Market Entry Strategy

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- Conduct market research to identify opportunities and potential Russian business partners.
- Choose carefully after conducting due diligence on prospective Russian partners.
- Travel to Russia is strongly recommended to establish and maintain relationships with business partners and to understand market conditions.
- Investors are encouraged to develop relationships with national, regional and/or local governments at appropriate levels.
- Maintain a long-term timeframe to implement plans and achieve positive results.
- Abide by all Russian laws and regulations (taxes, customs, labor, etc.).
- Conduct business in accordance with applicable U.S. laws, as well as standard business practices, including: good corporate governance, corporate social responsibility and accounting practices.
- Business strategy should include: advertising, market promotion and regular visits.
- Utilize letters of credit or other secure financing vehicles; avoid sales on open account.
- Identify possible sources of financing from the U.S. government, such as Export-Import Bank (Ex-Im Bank) and Overseas Private Investment Corporation (OPIC), as well as multilateral development banks, such as the European Bank for Reconstruction and Development (EBRD).
- Exploit local talent, particularly in government relations and professional services.
- Consult with U.S. companies already in market, as well as American Chamber of Commerce, U.S.-Russia Business Council and U.S. Commercial Service.
- Communicate regularly with Russian business partners to ensure common understanding of expectations.

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Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

<http://www.state.gov/r/pa/ei/bgn/3183.htm>

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Using an Agent or Distributor

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Encompassing eleven time zones, Russia is the largest country in the world by landmass. Therefore, many businesses tend to approach the Russian market on a regional basis. Most new entrants start in Moscow and then move into the regions either through an existing distributor or by seeking new distributors in those locales. As both Moscow and St. Petersburg are major population and business centers, many Western firms have representatives there. Some companies have successfully entered the Russian market by starting distribution in other key regions first because of market features and industry sector concentrations (e.g. woodworking in northwest Russia, energy projects in Sakhalin and western Siberia) and then expanding elsewhere. Well-organized distribution channels are established in western Russia, especially in Moscow and St. Petersburg, and continue to develop rapidly in southern Russia, the Volga region, Urals, Siberia and Russian Far East. To succeed in Russia it is important to choose sales targets and distributors carefully.

U.S. companies have four basic options when choosing a distribution channel:

1) Agents

It is not a common practice in Russia for foreign companies to rely solely upon the services of an agent. Distributors and representative offices, however, often employ agents in the Russian regions in order to promote their products.

2) Distributors

The most common market entry strategy is to select a good distributor or several distributors (depending on the product). U.S. companies can consider a variety of national, regional and local distribution alternatives. In some product categories (e.g.,

apparel, cosmetics, packaged foods, alcoholic beverages, consumer electronics, and household appliances), foreign suppliers can choose from a growing number of established distributors. A good distributor will typically sell and deliver foreign suppliers' products to end-users and/or the retail market and provides a wide range of logistical support, i.e., customs clearance, warehousing, inventory management, etc. However, handling promotion and advertising campaigns exclusively through independent distributors can often result in disappointing results. Russian distributors normally handle products from multiple suppliers and are not typically dedicated to promoting a specific company's product unless the supplier provides substantial support for promotion and advertising.

3) Representative/Branch Offices

Some foreign manufacturers, in addition to using distributors, have established their own representative offices. The major advantage of opening a representative office is that foreign companies have more direct contact with their end-users and control over the promotion and distribution of their products. However, under the Russian Civil Code such offices cannot be directly involved in commercial activity. Instead, they typically oversee a network of distributors and/or agents that perform commercial functions. This approach affords greater control by the foreign supplier over the distribution process and helps to reduce risks. Representative offices are accredited for three years and must be registered with the State Registration Chamber, tax authorities and other state organizations.

As Representative Offices may not take part in commercial activities, Branch Offices have become increasingly more popular. According to a 1999 foreign investment law, foreign companies may engage in commercial activities through their legally established branches. Branches are accredited for five years and must be registered with tax authorities and other state organizations.

Both Representative and Branch Offices can be attractive to foreign businesses wishing to operate in the Russian market because there are fewer tax and other administrative burdens and currency control restrictions may not apply.

4) Foreign Subsidiaries

Some foreign manufacturers, particularly in the cosmetics, pharmaceuticals, consumer appliances, durables and industrial products sectors, have registered their wholly owned subsidiaries in Russia. They then sell directly to their own companies registered in Russia who import for their own account. This approach affords full control of the supplier over distribution and helps to further reduce possible risks from false invoicing and other irregularities sometimes committed by independent importers and distributors. For more information on registering a company in Russia, please refer to the "Establishing an Office" section below.

U.S. exporters are advised to cultivate personal relationships with their Russian representatives and clients, to proceed gradually, and to ensure they have a contingency plan should problems arise. Since it is often difficult to find information on Russian companies, it is strongly recommended that U.S. firms consider using the International Company Profile Service to validate potential partners. The U.S. Commercial Service strongly advises against the risky practice of a company representative simply visiting Russia once or twice, selecting a representative, granting exclusive representation, and then moving quickly to consignment or credit sales without first establishing a payment

and performance history. In addition, exporters are cautioned to take primary responsibility for registering their brand names in Russia and not to rely on a partner to do this. Finally, it is important to provide a Russian partner with Russian language product information and marketing materials. These can be prepared in the United States or done jointly with a Russian partner.

The U.S. Commercial Service provides assistance to U.S. companies in finding local partners through the Gold Key Service, International Partner Search, International Company Profile, Customized Market Research, Platinum Key and other products and services. Information about these services can be found at http://www.buyusa.gov/russia/en/products_services.html.

Establishing an Office

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The U.S. Commercial Service can provide basic counseling on registration requirements and procedures. However, it is strongly recommended that interested U.S. companies seek legal advice on business registration. U.S. Commercial staff can provide contact information for U.S. and Russian consulting firms that offer professional legal advice in this area.

Registration Options

The following basic laws and government resolutions regulate business registration in Russia:

- The 1999 Federal Law “On Foreign Investment in the Russian Federation”
- The 1994 Part I of the Civil Code
- The 2001 Federal Law “On State Registration of Legal Entities”
- Russian Government Resolution No. 319 “On Authorized Federal Entity of the Executive Power, Providing State Registration of Legal Entities” of May 17, 2002, and a number of legal acts.

Conducting business without registration is illegal. Although the federal law governing the process is uniform throughout Russia, it is often subject to local interpretation.

Russian law offers several commonly used structures to conduct business:

- Representative or branch office of a foreign company
- Registration as an individual private entrepreneur
- Companies:
 - Limited Liability Company (OOO)
 - Privately held, closed joint stock company (ZAO)
 - Publicly held, open joint stock company (OAO)

Branch offices and accredited representative offices are both legally distinct from Russian corporations, which may be established by foreign firms either as joint stock companies with partial Russian ownership, or as wholly owned subsidiaries of a foreign firm. Foreign ownership can be as high as 100%, with some exceptions. For example,

foreign investment is limited in industries defined by the “Strategic Sectors Law” (discussed later).

Branch Offices

Branches are not considered independent legal entities, though they may negotiate, market or provide other business support on behalf of firms based outside Russia. Setting up a branch may be worthwhile if a foreign company is starting to pursue business in Russia and is exploring opportunities. Many large U.S. firms began their Russian operations as locally established branches.

Branches of foreign firms must register with the State Registration Chamber, which is part of the Ministry of Justice of the Russian Federation. Branches will incur the following fees for accreditation: RR 60,000 (State duty) plus RR 15,000 for one year; RR 30,000 for two years; RR45,000 for three years; and RR 60,000 for five years.

Accredited Representative Offices

Like branches, accredited representative offices are not independent legal entities; they may not be involved in commercial activities. After accreditation is obtained, the office should register with the local or regional registration chambers, located in many Russian cities. Advantages of an accredited office include annual/quarter (rather than monthly) reporting requirements for some activities (including some tax payments), and the ability to issue invitations for U.S. partners to visit Russia on business visas. Up to five foreign employees may work with an accredited office of a foreign company. Offices are usually accredited for one to three year terms.

Accredited representative offices also must register with the State Registration Chamber in order to be included in the State Register of Accredited Representative Offices of Foreign Legal Entities in the Russian Federation. They are also advised to register with appropriate state organizations, depending on their industry. Such agencies include the Central Bank, Ministry of Economic Development Ministry of Finance, Ministry of Transportation, Ministry of Industry and Trade, Ministry of Energy and others. According to internal procedures accreditation of a representative office or branch should take 21 business days starting from the day the full set of required documents are provided.

Representative offices will incur the following fees for accreditation: RR 30,000 for one year, RR 60,000 for two years and RR 75,000 for three years. An additional fee of RR 15,000 may be paid for expedited accreditation within seven days.

Further information is available on the State Registration Chamber website at <http://www.palata.ru/>.

Companies and Taxation

Companies are required to register with the local Tax Inspectorate. Documents for state registration should be prepared and submitted to the local Tax Inspectorate in accordance with Chapter 12 of the August 8, 2001 Federal Law “On State Registration of Legal Entities.” An authorized legal entity, the Moscow Department of the Ministry of

Finance of the Russian Federation (15, Tul'skaya Street, Moscow) provides counseling to business people on registration procedures and registration documents.

Further information on company registration, including the list of documents to be submitted, as well as contact information for local tax authorities can be obtained from the following website: <http://www.nalog.ru/>.

Tax Code

Major revisions of Russia's tax code took place from 1999 to 2003. The resulting tax legislation more closely matches the needs of a growing market economy, and many of the provisions of previous legislation that distorted the business environment and kept many businesses in the shadow economy have been removed.

The most fundamental changes were reflected in the new chapters of the Tax Code Part II and affected Value Added Tax, Excise Taxes, Individual Income Tax, Unified Social Tax and Profits Tax. Also affected was the Federal Law "On the Introduction of Amendments and Additions to Part II of the Russian Federation Tax Code and to Separate Russian Federation Legislative Acts." These changes aimed at improvement of Part II of the RF Tax Code were passed by the Duma and enacted into law in 2003. The ongoing tax reform has further improved procedural rules and reduced the overall tax burden in the country.

Implementing numerous changes in the Russian tax code inevitably results in varying levels of confusion. A general overview of Russian taxes follows, but companies operating in Russia should consult with a professional tax advisor to confirm details and stay abreast of developments.

Profits Tax

The profits tax is levied on gross profits. Effective January 2009, the profit tax rate was reduced from 24% to 20% (18% of this amount is allocated to Regional authorities and 2% to Federal) to address the economic downturn. The regional authorities may, at their discretion, reduce their regional profits tax rate to as low as 13.5%. Thus, the overall tax rate can vary from 15.5% to 20%. Depreciation provisions were improved with the introduction of a 30% initial lump sum depreciation deduction and revision of non-linear depreciation rules. The tax rate was reduced in tandem with the introduction of more realistic interpretations of deductible expenses, the combined effect of which is to significantly reduce the profit tax burden and support Russian economy throughout the downturn period.

The provisions on profit taxation enable foreign companies operating in Russia to benefit from the reduced withholding tax rates and exemptions under Russia's dual taxation treaties (the U.S. and Russia have had a dual taxation treaty in place since 1992), which in certain cases could result in advantages to U.S. companies. For example, representative offices are permitted to deduct expenses incurred on their behalf by a parent company located abroad.

Value Added Tax (VAT) and Import Duties

VAT is designed as a tax to be borne ultimately by consumers, but is collected on a basis similar to the European Union model. VAT is calculated on the sales value and is

applied at a uniform rate of 18%, except for certain foodstuffs, pharmaceuticals and children's clothes, which are taxed at 10%, and some products that are entirely exempt from VAT (certain financial services and medical equipment). As an attempt to increase R&D and investment in technology, as of January 1, 2008, non-tangible items such as inventions, software, industrial designs and production secrets are exempt from the VAT.

Imports are also subject to VAT, calculated based on the customs value of the item plus customs duties and fees. In addition, import duties are assessed at specified rates, ranging from 5% to 30%. They are assessed according to classification and are applied to the customs value of the imported goods, including shipping charges and insurance. Goods imported as in-kind contributions by foreign partners to the charter capital of a new enterprise may be exempt from import duties during a period specified in the charter documents and import VAT under certain conditions (e.g., the goods qualify as technological equipment which has no analogues manufactured in Russia).

In general, goods manufactured or assembled in Russia, whether by a Russian or foreign company, and then exported, are not subject to VAT. If these goods are exported before payment is received, then no VAT should be collected. On the other hand, if payment is received before shipment, the exporter must pay the applicable VAT and then request a refund from the tax authorities.

Social Welfare Taxes

Effective since 2001, one Unified Social Tax (UST) replaced employers' contributions to three separate social benefit funds (the Pension Fund, the Social Security Fund and Mandatory Medical Insurance Fund). A business is liable for the entire tax due and no amount is withheld from employees. The total liability for each employee is calculated based on monthly gross pay.

In accordance with the current Tax Code, all employers are obliged to pay UST on behalf of their employees. There is an annual descending scale for this tax – 26% on the first RR 280,000, RR 72,800 plus 10% of the amount in excess of RR 280,000 on earnings from RR 280,001 to RR 600,000, and 2% on all earnings over RR 600,001.

Reduced UST rates apply to the following business categories: agricultural producers (20%), private entrepreneurs and farms (10%), and attorneys (8%).

Workplace accident insurance is paid by the employer in addition to the UST. Rates vary from 0.2% to 8.5% depending on the established class of professional risk.

Withholding on Dividends, Interest and Royalties

Foreign legal entities without a business presence in Russia are subject to a withholding tax of 6% on freight services rendered in Russia. Dividends are taxed at a rate of 15%, interest and royalties at a rate of 20%. These rates are often applied according to the relevant double taxation treaty. Lease payments and other income are subject to a 20% withholding rate.

Land, Property and Personal Income Taxes

Local authorities may levy a tax on land according to its type and location. The rate is higher in Moscow and St. Petersburg than in some other cities and rural areas.

The personal income tax rate for Russian tax residents is a flat 13%, following tax reform over the last few years, which sharply reduced the former graduated rate (non-residents are taxed at 30% on the Russian-source income). When applied to expatriates, however, there may be some withholding requirements.

Franchising

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During the past 10 years, the franchising sector has developed in Russia mainly in consumer oriented segments such as fast food, retail, real estate services, education and training, fitness and health care, recreation and entertainment, travel and lodging, and automotive. Franchising in business-oriented services is also increasing. Examples of the business-to-business segments where franchise models are successfully used are: cleaning services and maintenance, transportation, logistics, express mail services, management training and consulting.

Franchising seems most visible in the fast food sector. Many local and international fast food franchise concepts successfully operate on the market, although it is far from saturated. Expansion of casual dining is expected over the next few years, as emerging local and new global players enter the market. Also, there is growing demand for cafes (coffee shops, tea rooms) as the culture of drinking coffee and tea in cafes is penetrating the Russian lifestyle. That demand is being partially met by the arrival of Starbucks into the Russian market in 2007, the emergence of smaller franchising concepts (Travelers Coffee) and augmenting traditional fast food services with additional services catering to coffee drinkers (McDonalds' Café Mac).

Another large segment where franchise opportunities exist is retail trade. According to recent statistics published by Rosstat, Russian retail trade turnover for January - September 2008 amounted to RR 9.886 billion. During the same period in 2007, retail turnover was RR 7.598 billion. Industry experts agree that franchising development in such retail segments will continue to grow.

Currently, the share of the retail sector in franchising operations in Russia is 46%, and the fast food sector represents 22%.

Direct Marketing

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Given the relatively underdeveloped state of some distribution channels in Russia, direct marketing has become a very effective and profitable alternative for customers, especially outside of Moscow and St. Petersburg. Telemarketing and fax marketing to business customers is common in Russian cities but not particularly effective. Other direct marketing channels (catalogs and e-commerce) are still in early stages of development.

By contrast, direct selling works exceedingly well and is cost effective for the distributor (e.g., health and beauty products) since it also develops an effective distribution network. For a large number of under-employed workers and pensioners in Russia, the option of supplementing their wages and pensions through working in direct sales is

quite attractive. World Direct Selling Association statistics released in 2008 reveal that Direct Sales in Russia the previous year were worth US \$ \$2.78 billion and that almost 3.4 million salespeople engaged in direct selling. Major, well known direct selling companies such as Amway, Avon, Mary Kay and Tupperware are active in Russia. The Russian Direct Selling Association estimates that direct sales accounted for approximately 25% of the total cosmetics and toiletries in 2008. According to Russian law, companies may not use direct sales for such products as biologically active food additives and vitamins. At present, these products can only be sold through pharmacies, kiosks, and health stores. For more information on the direct selling industry in Russia, visit the Russian Direct Selling Association website at: <http://www.rdsa.ru/eng.html>.

Joint Ventures/Licensing

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Though not as common as in the past, U.S. companies may become strategic partners with Russian firms by taking an equity position in Russian joint stock companies and thus establishing joint ventures (JV). Establishing a JV in Russia demands meticulous planning and sustained commitment. In most cases, other forms of alliance, in which the U.S. partner retains managerial control, are preferable. JVs in which foreign partners hold minority stakes are dependent on the good intentions of their Russian majority owners. Experience shows that foreign minority shareholders face serious difficulty in protecting their interests in Russian courts.

One advantage of a JV is that it helps a U.S. firm gain a measure of Russian identity, which can be useful in a culture where many still view foreigners with suspicion. The May 2008 Strategic Sectors Law identified 42 industry sectors requiring the Russian government's pre-approval of a foreign firm's purchase of controlling interest. Additionally political pressure is mounting in Russia for domestic content mandates in key sectors or for large-scale procurements. For example, some foreign investments in the oil industry may be required to source 70% of their goods and services from Russian providers. Firms that creatively help oil producers meet these requirements will have an advantage in this industry.

Russian and U.S. partners often view JVs differently. U.S. companies, especially smaller ones, often view JVs as a means of securing a local partner with experience in the Russian market. On the other hand, many Russian managers view a foreign partner chiefly as a source of working capital and these managers may place a low priority on local market development. While there are many examples of successful JVs, a U.S. investor invites trouble when it cedes oversight of any aspect of a JV to a Russian partner which does not share the same objectives. Before making financial or legal commitments, U.S. firms should thoroughly explore whether a potential partner shares their priorities and expectations. Any firm that forms a JV in Russia should be ready to invest the constant personal attention of U.S. managerial staff to keep the business on course, both before and after the venture has achieved commercial success.

U.S. technology is sometimes licensed for Russian production outside the context of a joint venture. Major hurdles that must be overcome include quality levels attainable by Russian facilities in the absence of significant retooling, uncertain intellectual property protection and difficulty in receiving regular and prompt payments. In the opposite direction, Russian companies generally are eager to license their technologies to foreign companies in exchange for the cash infusion.

Selling to the Government

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A law on federal procurement, adopted in May 1999, allows foreign firms to participate in public tenders if the product or service is not available from domestic producers, or if Russian production is not considered economical. Regional or local authorities are potential customers for U.S. suppliers. For example, the Federal Ministry of Health and Social Development and some of the regional administrations often buy supplies for distribution to hospitals and clinics. While local governments receive sharply reduced federal subsidies, they have the flexibility to make purchase decisions based on local factors and contacts. It should also be noted that there is pressure on many levels of government to purchase Russian goods and services. Since many federal and regional tenders are only available to local companies, U.S. manufacturers are advised to establish good working relations with local tender operators and seek appropriate local partners or distributors who will represent their products at the tenders.

Distribution and Sales Channels

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Well-organized distribution channels have developed significantly over the last few years, particularly in the major population centers, such as Moscow and St. Petersburg, and have begun to expand to the regions. In the consumer sector, some large-scale retail stores have recently emerged in Moscow that are able to buy in bulk and negotiate relatively long-term commitments. Large shopping malls have opened up on the Ring Road circling the capital and are giving the Moscow retail environment more of the characteristics of other European cities. Shopping malls and big box stores are becoming common sights in St. Petersburg, Moscow and many other Russian cities.

By utilizing these increasingly professional domestic distribution organizations, the task of bringing goods to market in Russia has been greatly eased. However, their geographic coverage can be limited, and accessing markets in some of the regions can still be problematic. In these regions, U.S. firms may encounter erratic distribution, unpredictable (but tough) competition, and word-of-mouth marketing. Although Russia boasts increasing numbers of western-style stores in major cities, much distribution and retailing still takes place through such informal channels as kiosks and open markets. Those who succeed do so through a combination of improvisation and innovation, combined with a substantial investment of time and a tolerance for early mistakes. U.S. companies with a long-term market development strategy may find regional markets well worth exploring.

St. Petersburg remains the main port of entry for a variety of consumer and industrial products for European Russia (Russia west of the Urals). Vladivostok is the main port of entry for the Russian Far East. In general, the transportation infrastructure in this vast country is still underdeveloped and in need of major upgrades. The majority of cargo moves by rail and the road network need to be expanded. Major Western freight forwarders and express couriers are active in Russia.

Selling Factors/Techniques

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As with any country, successfully marketing and selling goods and services in Russia requires adaptation to its commercial climate and business practices. Market research is required to identify opportunities and potential Russian business partners. The choice of a partner is key and should be done only after conducting sufficient due diligence to determine their reputation and reliability. The U.S. Commercial Service has services to assist with market research, identifying partners and conducting due diligence (http://www.buyusa.gov/russia/en/products_services.html).

Both before and after launching operations, travel to Russia is strongly recommended to establish and maintain relationships with business partners and to understand market attributes. Marketing in Russia requires patience: exporters should maintain a long-term perspective and not expect immediate results. It can be helpful to network with companies already on the market, as well as business organizations, such as the American Chamber of Commerce in Russia and the U.S.-Russia Business Council.

Business planning should include advertising, market promotion and regular visits to Russia. When recruiting personnel or identifying business partners, local talent should be utilized, especially for government relations, which can be of critical importance, and professional services of all kinds, whether law, accounting or engineering, etc. Absentee management should be avoided; it is important to communicate regularly with Russian business partners to ensure common understanding of expectations. Partners can assist with required testing and certification, after-sales service, customs clearance, warehousing and preparation of Russian-language marketing and instruction materials.

Business should always be conducted in compliance with all Russian laws and regulations (taxes, customs, labor, etc.), as well as applicable U.S. laws and standard business practices, including corporate governance and accounting practices. Companies that undertake corporate social responsibility programs in the U.S. should consider developing a similar approach for the Russian market.

Exporters should avoid selling on open account until they have developed a well-established track record with buyers; letters of credit and other secure financing vehicles are available. Another option may be U.S. government or multilateral development bank financing, such as U.S. Export-Import Bank (Ex-Im Bank), U.S. Overseas Private Investment Corporation (OPIC) or the European Bank for Reconstruction and Development (EBRD). Exporters should be prepared to adjust prices according to currency fluctuations.

Russian purchasers are generally sophisticated and highly-educated. They are likely to be internet users and receptive to imported goods. Russian purchasers may be price sensitive, but are frequently willing to pay for quality, especially for recognized and reliable imported brands – another reason to invest in advertising.

Electronic Commerce

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E-commerce in Russia grew 30% in 2007, reaching \$7.9 billion in sales. The business to-business e-commerce segment tripled in 2007 to \$2.3 billion. The number of Internet users has increased dramatically over the past five years, reaching 40 million people or 28% of the population nationwide.

Over 30% of these users, however, are in Moscow and St. Petersburg. Future growth in Internet usage is expected to be significant, but e-commerce in general, business-to-consumer in particular, is constrained by the lack of online payment mechanisms. The number of online shops in the Russian market has reached 9,000, selling \$1.7 billion worth of goods in 2007. Home appliances and electronics accounted for 39% of sales, while the fastest growing subsectors were cosmetics (at 1000%) and household goods (at 150%).

Although the number of consumers with credit and debit cards is increasing rapidly, many Internet businesses in Russia still do not accept online payments but rather use their websites as a front end for the buyer to select the goods and place an order to be delivered COD. Businesses offering goods or services that can be accessed immediately (electronic downloads, and service account top-ups, for instance) offer credit card payment options most frequently. E-currency payments are also an option. Additionally, the number of consumers with credit cards who are willing to use them online is very low and remains a key constraint to the growth of catalog orders and e-commerce. Many customers are reluctant to use credit cards online because of the risk of fraud. Nevertheless, sales through these channels are expected to grow rapidly in the coming years. The Russian government's "E-Russia" program is intended to stimulate the growth of e-commerce throughout the country using federal and local E-government initiatives as a catalyst.

Trade Promotion and Advertising

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Television, radio, print, and billboard media are ubiquitous in the Russian market. Most international advertising agencies are active in Russia, along with domestic agencies, and the quality of their services is world class.

Until the economic crisis of late 1998, and the subsequent devaluation of the ruble, foreign multinational consumer products companies provided most of the revenues for Russia's budding advertising industry. These revenues collapsed after the crisis, as imported goods became prohibitively expensive for most Russians. However, strong economic growth since 2002, and increasing incomes have resulted in a resurgence of the advertising industry. Today, their clients include successful Russian manufacturers of consumer goods, particularly of processed foods and beverages. Federal Law #9 allows Russian regional authorities to require all companies distributing outdoor advertising to pay a 15% unified tax on imputed income.

Because of the economic crisis that began in Russia in October 2008, many companies have pruned their advertising budgets. Other firms, however, consider the reduction in the amount of advertising to be a perfect opportunity to increase their company's recognition. In this context, most advertising agencies are reconsidering their approach to the communication mix and are increasing their share of non-standard communication methods such as "below the line" (BTL), trade programs, ambient media, and flashmobs (publicity stunts).

The following is a list of media outlets and print publications listed from highest to lowest penetration in Moscow:

TV Channels

ORT <http://www.1tv.ru/>
NTV <http://www.ntv.ru/>
RTR <http://www.rutv.ru/?d=0>
STS <http://www.ctc-tv.ru/>

Radio stations

Radio of Russia <http://www.radiorus.ru/>
Echo of Moscow <http://www.echo.msk.ru/>
Russian Radio <http://www.rusradio.ru/>
Europa Plus <http://www.europaplus.ru/>
Shanson <http://www.chanson.ru/>

Press

Daily newspapers

Komsomolskaya pravda <http://www.kp.ru/>
Moskovsky komsomolec <http://www.mk.ru/>
Kommersant <http://www.kommersant.ru/daily.aspx>

Weekly newspapers

Arguments and facts <http://www.aif.ru/>
Komsomolskaya pravda Tolstushka (weekly thick version of KP) <http://www.kp.ru/>
Antenna <http://www.antenna-telesem.ru/>

Weekly magazines

7 Days http://www.7days.ru/www.nsf/All/_Index.html
MK Bulvar <http://www.mk.ru/blogs/idmk/Bulvar/>
TV Park <http://www.tv-park.ru/>

Monthly magazines

Interior + design http://www.mediaguide.ru/?p=media_kit&id=6539
Cosmopolitan <http://www.cosmo.ru/>
Caravan of stories <http://www.karavan.ru/Karavan.nsf/Karavan/Karavan.html>

The U.S. Commercial Service in Russia can assist U.S. companies with their promotion needs through its Business Service Provider Listing. Please see http://www.buyusa.gov/russia/en/bsp_offer.html for additional information.

Pricing

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Russian consumers are attracted to bargains, but are increasingly willing to pay for quality merchandise. U.S. companies exporting to Russia should be prepared to offer competitive prices for their goods, knowing that in many areas they face inexpensive Russian and strong European and other third-country competition. With a few exceptions, all goods and services sold in Russia are subject to a value-added tax of 18%. As noted above, imports into Russia are subject to VAT, which is assessed on the CIF value of an imported shipment plus applicable duty. In addition, in many sectors with strong local and third-country competition, it will be necessary to spend money on advertising and brand promotion. All these costs should be figured into the U.S. exporter's pricing structure and become part of a long-term marketing and sales program.

Good after-sales service, training and customer support can be a major competitive advantage for U.S. firms entering the Russian market. Russian manufacturers are known for inadequate post-sale service and as a consequence, for low cost items, Russian buyers are accustomed to purchasing several units in order to have a supply of spare parts. Similarly, buyers of sophisticated equipment of all types - from computers and process controls to medical and mining equipment - are keenly interested in training, as their employees may never have used particular products or brands. U.S. firms able and willing to offer training and support for products, particularly in remote sites, can gain a significant advantage over competitors. Conversely, companies unwilling to make this commitment may find themselves at a distinct disadvantage to the European or Asian companies, whose proximity facilitates training and service. After-sales service is also often an important component to accessing leasing in Russia, and will play a larger role in the decision process as leasing continues to develop. Leasing in Russia is covered in Chapter 7.

IPR Climate in Russia

Several general principles are important for effective management of intellectual property rights in Russia. First, it is important to have an overall strategy to protect IPR. Second, IPR is protected differently in Russia than in the United States. Third, rights must be registered and enforced in Russia, under local laws.

U.S. firms should proactively take steps to protect their intellectual property in Russia, including registering their trademarks with the Federal Service for Intellectual Property, Patents and Trademarks (Rospatent) and the Russian Federal Customs Service. It is vital that companies understand that intellectual property is primarily a private right and that the U.S. government generally cannot enforce rights for private individuals in Russia. While the U.S. government is willing to assist, there is little it can do if the rights holders have not taken these fundamental steps necessary to securing and enforcing their IPR in a timely fashion. The U.S. Commercial Service can provide a list of law firms based in Russia, which can provide advice on registering intellectual property and enforcing rights.

A good business partner is an important ally in protecting intellectual property rights. Legal counsel familiar with Russian laws can assist to reinforce the partners' IPR obligations by drafting a contract that includes non-compete clauses and confidentiality/non-disclosure provisions.

It is also recommended that small and medium-size companies work with trade associations and organizations to support efforts to protect IPR and stop counterfeiting. There are a number of these organizations, both Russia or U.S.-based. These include:

- American Chamber of Commerce in Russia
- National Association of Manufacturers (NAM)
- International Intellectual Property Alliance (IIPA)
- International Trademark Association (INTA)

- Coalition Against Counterfeiting and Piracy
- International Anti-Counterfeiting Coalition (IACC)
- Pharmaceutical Research and Manufacturers of America (PhRMA)
- Biotechnology Industry Organization (BIO)
- Coalition for Intellectual Property Rights (offices in the United States and Moscow)
- Russian Anti-Piracy Organization (RAPO)
- Business Software Alliance (represented by Baltic Law Offices in Russia)
- Association of Branded Goods Manufacturers in Russia (RusBrand)
- Federal Service for Intellectual Property, Patents and Trademarks (Rospatent)
- Federal Customs Service
- Ministry of the Interior, Economic Security Department

More detailed information on IPR issues in Russia is provided in Chapter 6 (Investment Climate). Contact information is provided in Chapter 9.

IPR Resources

A wealth of information on protecting IPR is freely available to U.S. rights holders. Some excellent resources for companies regarding intellectual property include the following:

- For information about patent, trademark, or copyright issues -- including enforcement issues in the US and other countries -- call the STOP! Hotline: **1-866-999-HALT** or register at **www.StopFakes.gov**.
- For more information about registering trademarks and patents (both in the U.S. as well as in foreign countries), contact the U.S. Patent and Trademark Office (USPTO) at: **1-800-786-9199**; www.uspto.gov
- For more information about registering for copyright protection in the United States, contact the U.S. Copyright Office at: **1-202-707-5959**.
- For U.S. small and medium-size companies, the Department of Commerce offers an "International SME IPR Advisory Program" available through the American Bar Association that provides one hour of free IPR legal advice for companies with concerns in Brazil, China, Egypt, India, Russia, and Thailand. For details and to register, visit: http://www.abanet.org/intlaw/intlproj/iprprogram_consultation.html
- For information on obtaining and enforcing intellectual property rights and market-specific IP Toolkits visit: **www.StopFakes.gov** This site is linked to the USPTO website for registering trademarks and patents (both in the U.S. as well as in foreign countries), the U.S. Customs & Border Protection website to record registered trademarks and copyrighted works (to assist customs in blocking imports of IPR-infringing products) and allows you to register for Webinars on protecting IPR.
 - o For an in-depth examination of IPR requirements in specific markets, toolkits are currently available in the following countries/territories: Brazil, Brunei, China, Egypt, European Union, India, Italy, Malaysia, Mexico, Paraguay, Peru, Russia, Taiwan, Thailand, and Vietnam.
 - o For assistance in developing a strategy for evaluating, protecting, and enforcing IPR, use the free **Online IPR Training Module on**

www.stopfakes.gov.

- The U.S. Commerce Department has positioned IP Attachés in key markets around the world. You can get contact information for the IP Attaché who covers Russia at: <http://www.buyusa.gov/russia/en/pto.html> or by emailing usptorussia@mail.doc.gov.

Due Diligence

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As previously noted, Russia can be a challenging market fraught with obstacles for the U.S. company that does not take the time to learn about the business environment and choose local partners wisely. Taking shortcuts in evaluating business opportunities and selecting local partners is not advisable. Complicating these efforts is the fact that the Russian economy continues to transition from a closed, socialist economy to a more open, market economy. This means that basic business information about regulations, company ownership and credit worthiness are not always easy to find. The U.S. Commercial Service offers the International Company Profile service as a way to evaluate potential partners. For more information on this and other services, visit <https://www.buyusa.gov/russia>. Noted below are additional resources that provide information about the Russian market and how to be successful.

Local Professional Services

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While professional services in Russia are expensive, attempts to avoid such expenditures could be perilous. In Russia's unsettled commercial environment, early advice on tax and legal issues will ultimately save both aggravation and money. Russian commercial regulations are contained in thousands of presidential, governmental and ministerial decrees. Often, these decrees and laws overlap or conflict. Determining tax obligations is a tedious task. Furthermore, Russian accounting practices differ markedly from Western standards. Although the Russian government has officially stated that conversion to international accounting standards is a priority, the process is still far from complete.

In Moscow and St. Petersburg there are many offices of major western accounting, legal and consulting firms blending the skills of Russian and foreign professionals. Competent smaller firms also operate under Russian or Western management. U.S. firms should avail themselves of locally based specialists familiar with issues confronting western firms in Russia. The U.S. Commercial Service offices throughout Russia maintain lists of local attorneys and accounting firms. The American Chamber of Commerce in Russia is also a good source.

Web Resources

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The U.S. Commercial Service in Russia: <http://www.buyusa.gov/russia/en/>

The U.S. Department of Agriculture: <http://www.fas.usda.gov>; <http://eng.usda.ru/>

The U.S. Embassy in Russia: <http://moscow.usembassy.gov/>

U.S. Embassy Russia IPR Toolkit: <http://moscow.usembassy.gov/ipr-overview.html>

State Registration Chamber: <http://www.palata.ru/>

Company Registration: <http://www.nalog.ru/>

Russian Direct Selling Association: <http://www.rdsa.ru/>

American Chamber of Commerce in Russia: <http://www.amcham.ru/>

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Chapter 4: Leading Sectors for U.S. Export and Investment

Commercial Sectors

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- [Computers & Peripherals/Computer Software](#)
- [Oil & Gas Field Machinery / Oil, Gas & Mineral Production & Exploration Services](#)
- [Agricultural Machinery and Equipment](#)
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Agricultural Sector

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Commercial Sectors

Telecommunications Equipment/Telecommunications Services

Overview

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\$ millions	2006	2007	2008 Estimate
Total Market Size	30,700	38,500	44,261
Services Market Size	26,594	33,152	37,400
Equipment Market Size	4,106	5,348	6,810
Local Production (Equipment Only)	486	1,004	1,167
Exports (Equipment Only)	540	648	777
Imports (Equipment Only)	4,160	4,992	6,471
Imports from the U.S.	55	66	76

Note: Figures are based on Russian Customs statistics and may underestimate imports from the United States due to the fact that some U.S. equipment manufacturers ship product from their European warehouses. As a result, Russian Customs often attributes such shipments to Europe despite the U.S. origin of the product.

The Russian telecommunications market continued to demonstrate moderate growth until October 2008 when the global economic crisis hit Russia. Growth was driven in part by Russia's steady economic performance, the need to upgrade the telecommunications infrastructure throughout the country, and the continued interest of investors in the telecommunications market. In 2007, the Russian telecommunications market reached \$38.5 billion in sales. In 2008, the market was forecast to grow 14% and total \$44 billion. The sector's average annual growth for 2004-2008 was 20%, but market dynamics are now influenced by the economic crisis and strong US dollar.

The cellular segment accounts for more than 50% of the telecommunications market, and remains very concentrated with 90% of total revenue earned by three major national cellular operators: MobileTeleSystems (MTS), VimpelCom and MegaFon. By December 2008, the total number of registered SIM-cards in Russia reached 178 million, a 5% increase over 2007. According to market experts, the number of active mobile subscribers in the first quarter of 2008 was 56% of total SIM card holders, leaving good potential for cellular market growth. According to the Institute of Modern Development, mobile operators' revenues amounted to \$21 billion in 2008. The average revenue per user (ARPU) by the end of 2008 had increased almost 40% to \$11, thus motivating mobile operators to look for new technology and/or value-added services, as well as expand into Russia's regions and CIS countries, to increase revenues. Operators are launching sales of iPhones and offering WIMAX and GPS navigation services.

The market for mobile network equipment is one of the largest sub-sectors of the telecommunications equipment market in Russia. Three generations (1G, 2G and 2.5G) of mobile networks are currently represented here. GSM, the standard, covers more than 90% of the cellular market. The remaining 10% is operated in CDMA and DAMPS standards. The Ministry of Information Technologies and Communications reported that the State Radio Frequencies Commission announced on October 23, 2006 its decision to "allocate radio frequency bands 1935-1980MHz, 2010-2025MHz and 2125-2170MHz

for the development of mobile IMT-2000/UMTS standard networks in Russia.” Three 3G licenses were allocated through tender offerings in accordance with the Commission's decision. As expected, licenses were awarded to Beeline, MTS and MegaFon. The launch of commercial 3G projects in Russia started in late 2007. The potential 3G subscribers' pool for the first half of 2007 is estimated to range from 400,000 to 600,000 and 3G operators expect profits of \$50-70 million by the end of the first year. Further development will depend on the cost of voice services and what consumers are willing to pay. The main problem for successful 3G development is the lack of radio frequencies that can be used for this standard. Due to the friction between the Ministry of Defense and cellular operators, 3G projects have not yet been launched in Moscow.

In 2008, the number of internet subscribers increased by 15% reaching 40 million, putting Russia in 11th place among the countries with high internet penetration. The internet market was worth \$2.5 billion mainly due to the growth of broadband access, which, at 90%, showed the fastest growth in 2006. Although the broadband market is still not large, the potential is huge; there are currently 2.6 million users, and that number was expected to increase 130% to six million by 2008. The promotion of WIMAX access will increase the number of internet subscribers in the future.

Total 2007 revenue for fixed-line connection services increased 29% to \$17.6 billion, up from \$13.6 billion in 2006. The process of market liberalization, which was formalized in 2005 and 2006, resulted in 22 long distance licenses being issued in this two-year period. Most recent mergers and acquisitions in telecommunications occurred in the fixed-line segment due to the privatization of federal operators. This privatization has dramatically changed the balance of forces in the market. However, currently only two operators, MTT and Rostelecom, can be considered active market players. MTT is a private company, owned by Systema Holding, while Rostelekom is a state-owned company.

The high growth rate of Russia's telecommunications market has created increased demand for imported products and solutions. Russia currently spends more than \$4 billion annually on telecommunications equipment, most of which is imported. The sector remains one of the most rewarding for foreign investors and manufacturers.

Best Prospects/Services

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The highest market growth is expected in the broadband access sub-sector. Residential broadband (using Ethernet, ADSL, etc.), now booming in Russia, was a \$480 million market in 2007 and a further growth of 30% is expected in 2008. Growth in the regions is lagging Moscow, whose market value is \$200 million, but is expected to increase rapidly in the near future. The most promising locations for broadband development are Moscow and the Moscow region, St. Petersburg and other cities in the Northwest Federal District, Yekaterinburg, Novosibirsk, Samara and other cities in the Volga Federal District. The new WIMAX technology has already been launched in Moscow and St. Petersburg, which will contribute to further internet penetration.

Paid TV is another locomotive of the Russian telecommunications industry, represented by cable, DHT, and IPTV. This category includes broadband access via DOCSIS and HFC (Hybrid Fiber-Coaxial) technologies. Cable TV networks are being actively

developed and are showing steady increases. Cable TV services are mostly implemented by internet providers.

Continued growth in the Russian telecommunications services market will yield business opportunities for U.S. telecommunications equipment suppliers. The best sales prospects are high-speed, broadband technologies, multi-service and multimedia solutions and digital equipment. Companies entering the market should be prepared to compete with major European and Asian equipment manufacturers and deal with a complex regulatory environment.

Opportunities

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According to the Federal Special Program of the Education Development for 2006-2010, provisions for IT coverage and internet access in Russian educational institutions, including distance learning, are part of the Federal Program. This initiative may also present opportunities for U.S. companies.

Resources

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Organizations

Ministry of Information Technologies and Communications of the Russian Federation
www.minsvyaz.ru

3rd Generation Telecommunication Networks Operators' Association (3G Assoc.)
www.a3g.ru

Trade Events

Svyaz ExpoComm
Moscow
May 13-16, 2009
www.svyazexpo.ru

InfoCom
Moscow
October 20-23, 2009
www.infocomtech.ru

Mobile & Wireless
Moscow
November 11-13, 2009
www.inconex.ru/mw

Publications

CNews
www.cnews.ru

Broadband Conference
www.broadband-conference.com

Commercial Service Contact

Timur Uddin, Commercial Specialist
Timur.Uddin@mail.doc.gov
Tel: 7 (495) 728 5526 (direct); 7 (495) 728 5580

Construction Equipment/Building Products

Overview

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\$ millions	2006	2007	2008 Estimate
Total Market Size	11,500	13,000	15,000
Total Local Production	7,500	5,500	6,000
Total Exports	-	-	-
Total Imports	4,000	7,500	9,000
Imports from the U.S.	700	800	1,000

Note: U.S. figures are estimates based on interviews with industry experts.

The Russian construction market continued its growth at an average rate of 10% to 15% throughout most of 2008, offering opportunities to U.S. manufacturers and distributors. Sector growth was driven by extensive residential and commercial construction across Russia, infrastructure projects and, to some extent, planning for the Sochi Olympics. For example, about 61 million square meters of new residential construction were commissioned in 2007 and about 60-65 million square meters were expected to be completed in 2008 along with the 40 million square meters of commercial and industrial space. Until the effect of the economic slowdown became evident in late 2008, experts were forecasting the boom in the construction industry to continue throughout 2009 and 2010.

The slowdown has impacted many sectors of the economy, including construction, as it is highly dependent on the banking sector and financing. Many developers continue to finish what they started in 2008. However, a number of new projects have been postponed. Overall, construction activity in most Russian cities (St. Petersburg, Krasnodar, Nizny Novgorod, Kazan, Samara, Rostov, etc.) is decreasing. According to research reports, residential construction has been particularly impacted. Growth slowed from 30% in January-October 2007 to just 5% in January-October 2008. It is expected the housing output will fall 15% in 2009.¹ Some experts predict that the most significant impact on this market will be felt in spring-summer 2009, and that there will be no significant improvement until the end of 2009. Recovery in this segment is expected to begin in early 2010.²

¹ PMR Research

² Market Research Company Kopernik Labs

Despite the slowdown, many developers remain optimistic and continue to look at this market as a tremendous opportunity. For example, Barkly is planning to build 93,505 square meter apartment complex. Don Story (a large Russian company) is planning to complete the construction of residential complexes with a loan from a Russian bank (VTB) in the amount of \$500 million. The Russian government has plans to invest in the construction of new social housing in the Moscow suburbs. Various projects for the construction of hotels, business centers, ports, resort complexes, and sporting facilities are expected to be completed in 2009-2010. According to research reports, the demand for cement will grow 6.6% to 76.7 million tons in 2009 and 11.1% to 85.2 million tons in 2010. This is mainly attributable to the development of infrastructure needed for the Sochi Olympics.

The construction of sports facilities, hotels, and transportation systems has already begun in Sochi and the Krasnodar region and will continue for the next five years, creating opportunities for suppliers. Finally, there is expected growth in individual housing construction. Therefore, Russian companies will continue to demand construction equipment and building materials. Given the reliability of foreign-manufactured equipment and building materials, Russian companies tend to prefer to purchase from Western manufacturers.

The construction equipment market is characterized by a shortage of inventory and a high degree of equipment wear and tear. Depending on type, the share of worn out equipment varies from 45% to 75%. Local manufacturers suffer from insufficient investment in R&D; the result is a lack of modern technology, poor management and the absence of government support. As a result, the import of construction machinery continues to grow; about 50% of the equipment used by construction companies is foreign, either new or used. The main players in the Russian market are Caterpillar (United States), Volvo (Sweden), JCB (U.K.), Komatsu (Japan) and Hitachi (Japan). Asian producers, especially Chinese, are also aggressively entering the market, thus intensifying competition for all suppliers.

Price is an important factor. More companies will opt for cheaper products. Therefore, U.S. producers might face severe competition from Chinese manufacturers.

About 90% to 95% of apartments and homes in Russia are sold without interior decoration; therefore, demand for such products will continue to grow. The market share for imported construction materials will also increase. Although 80% of building materials is sold in open markets, the "Do it Yourself" (DIY) segment continues to expand as demonstrated by growing consumer purchases at such stores as OBI, Castorama and IKEA.

Russia's economy utilizes three times more energy than European OECD countries and Japan. Part of this is explained by colder temperatures throughout Russia and a higher level of demand and consumption. However, the lack of energy efficiency in building construction and materials, and outdated equipment and factories, accounts for a large percentage of this waste. The energy savings potential is estimated at over 45% of Russia's current energy consumption.

In 1994, the City of Moscow adopted new construction standards to improve the energy efficiency of buildings. Over half of Russia's regional governments subsequently

followed the same course of action. In 2003, the Russian government approved an energy strategy and considers improvement of energy efficiency of importance. The policy called for a 50% reduction in energy consumption by 2020 as compared with 2000. New building codes have transformed technologies and resulted in major manufacturing changes within wall panel, insulation and window factories.

Best Prospects/Services

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Construction equipment: Tractors, bulldozers, mobile cranes, concrete pumps and mixers, excavators, compaction rollers, front loaders and crushers.

Building materials: Roofing materials, wall building materials, gypsum boards, cement, bricks, blocks, and energy efficient materials.

Opportunities

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U.S. construction equipment is well known in Russia for its excellent quality and reliability. U.S. manufacturers can further improve their market share by offering state-of-the-art technology and products, and by employing reputable agents and/or distributors. Price, reliability, availability of sales financing and after-sale service continue to be the main competitive criteria for equipment exports to Russia. Given the current value of the ruble, used construction equipment from the United States may become popular among Russian companies that want to minimize their costs.

Opportunities also exist for licensing and transfer of modern U.S. technology to Russian equipment and component manufacturers.

Provided the right price is established, U.S. building products can compete against those from European suppliers. Because DIY chains have become much more active in the Russian market, U.S. companies can also be competitive in retail sales of DIY products in these chains.

Resources

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Organizations

Federal Construction and Housing Agency
www.gosstroy.gov.ru

Builders Association of Russia
www.a-s-r.ru

Construction World: The Associate Board of Architecture, Construction, Development and Reconstruction of Moscow
www.stroi.ru

Trade Events

International Construction Week
Moscow

February 17-20, 2009

www.stroytekh.ru - Building equipment, road machinery and building technologies

www.roofexpo.ru - Roofing, heat- and waterproof materials
www.betonexpo.ru - Cement, concrete and prefabricated concrete items for construction and landscaping
www.iset-expo.ru - Professional and household tools of all types

International South Construction Forum
Krasnodar
February 26 - March 1, 2009
www.krasnodarexpo.ru/ru/exhibitions/stroy/2009

Rusbuild
Moscow
March 10-13, 2009
www.rusbuild.com

Mosbuild
Moscow
March 31 – April 3, 2009
www.mosbuild.com

CTT/Construction Equipment and Technologies
Moscow
June 2-6, 2009
www.mediaglobe.ru/eng/about_ectt

Balticbuild
St. Petersburg
September 9-12, 2009
www.balticbuild.ru

City Build
Moscow
October 19-22, 2009
www.city-build.ru

Conexpo Russia
Moscow
May 19-22, 2010
www.conexporussia.ru

Publications

Construction
www.ianc.ru

Spec-Technika
www.spec-technika.ru

Stroy Smi
www.stroysmi.ru

Zhilaya Sreda

2/17/2009

www.finestreet.ru/magazine/home

Beautiful Houses
www.houses.ru

Tepliy Dom
www.teplydom.com

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Drugs & Pharmaceuticals

Overview

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\$ millions	2006	2007	2008 Estimate
Total Market Size	7,750	8,900	9,900
Total Local Production	2,500	2,600	2,800
Total Exports	250	300	600
Total Imports	5,500	6,600	7,700
Imports from the U.S.	400	500	600

Sources: Federal Customs Service, Federal State Statistics Committee, DSM Group, Remedium

Over the past several years, the Russian pharmaceutical market has experienced the fastest growth in the world mainly due to the improved living standards of its population. According to the DSM group, the leading Russian pharmaceutical marketing agency, the total market size in 2008 amounted to \$18.5 billion at the retail level. Growth in 2008 was 11% versus 15% in 2007.

The Russian pharmaceutical market can be divided into two segments, namely commercial and government. The former includes all retail sales of drugs, health and beauty products, and non-medical products ("para-pharmaceuticals"). The latter comprises sales under the Federal Reimbursement program (FRP), also known as Additional Drug Supply Program (DLO), as well as sales through prevention and treatment facilities and clinics.

Despite the economic crisis that hit Russia beginning October 2008, the commercial segment grew steadily last year. It should, however, be noted that the sector was not as active as it was in 2007. Pharmacy chains did not invest in new outlets, but rather worked to increase sales at existing locations. No significant mergers were noted among manufacturing companies.

DSM's research highlights that the commercial market segment accounted for \$9.5 billion (at retail prices) in 2008, or 51% of the market. The 28% increase over 2007 can be explained by an increase in drug consumption (12%) and price increases. The

average price of drugs was approximately \$2, and the increase from 2007 was more than 10%. It is also estimated that the average Russian spent around \$67 on drugs in 2008.

According to *Remedium* magazine about 60% of total domestic output is led by 10 large manufacturers, including Pharmstandart, Microgen, Valenta, Velopharm, Nizhpharm, PharmFirma Soteks, Pharm-Centr Otechestvennye Lekarstva, Materia Medica Holding NPF, BiosynteZ, and Akrikhin. Besides the production of generics, domestic pharmaceutical producers specialize in the tableting and packaging of drugs made from imported active ingredients. From 85% to 90% of all the substances used in pharmaceutical production are imported from Western Europe, China and India.

The DSM report notes that total imports in the first 10 months of 2008, compared to the same period in 2007, increased 42% to 196 billion rubles or \$7 billion. Distributors and foreign companies' subsidiaries contributed 88% of total imports. From January-October 2008 subsidiaries accounted for 45% of sales, versus distributors at only 40%; this situation was quite the opposite in 2007. Servier, Sanofi-Aventis, and Schering are the leading subsidiaries in terms of sales.

Approximately 4,000 registered distributors of pharmaceuticals exist in Russia but only 700 distributors are major players in the market. This concentration of the distribution sector has been growing and is now approaching that of developed countries. According to industry experts, the top 10 distributors in the first 10 months of 2008 were Protek, CIA International, ROSTA, P-Pharm, Katren, Apteka-Holding, Genezys, Biotek, Moron, and Transatlantic. The share of those ten distributors accounted for 80% of the total market.

Distributors operate vast networks of contacts and work to direct retail distribution channels. Drug manufacturers prefer not to work with retail pharmacy networks or pharmacies directly, relying instead on distributors in promoting their products to retail outlets. In recent years, increasing amounts of health and cosmetic goods are also being sold through pharmacies. The assortment of products sold through pharmacies has increased from 2,000 to 8,000 items over the past few years. Large cosmetic manufacturers use the same strategy in marketing their goods as drug manufacturers; they seldom work with retail outlets directly and rely almost exclusively on distributors.

The number of pharmacy networks and member-pharmacies has grown rapidly. The overall number of pharmacies and kiosks now exceeds 50,000. Leading pharmaceutical networks include, in Moscow: Apteka 36.6, Rigla, Stolichnye Apteki, Doctor Stoletov, Staryi Lekar, Vita, and Biotek; in St. Petersburg: Farmakor, Pervaya Pomosch, and Natur Products; and Implozia in Samara.

Best Prospects/Services

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The three leading causes of death in Russia are cardio-vascular disease, cancer and injury. Best prospects for U.S. exports include products related to these three, as well as asthma, neurological and hormonal problems, HIV drugs, insulin, antibiotics, analgesics, vitamins, vaccines, and psychotropic medicines. In 2008 DSM noted the leading drugs by sales volume were those used for treatment of the following medical

conditions: problems with the digestive system and metabolism, nervous system disorders, cardiovascular diseases, and respiratory disorders.

Opportunities

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The Russian pharmaceutical market presents good opportunities for Western drug manufacturers especially in the high-end quality product segment. The driving forces in the market in the last three years were the implementation of the DLO Program and the introduction, in January 2006, of the Health National Project "Zdorovie". The latter involves a significant investment into primary care and maternity care, the training of doctors and paramedics, re-equipping existing clinics and hospitals, building brand new medical centers, and developing high technology medical assistance.

In 2008 the DLO program was divided into two major parts, the first of which is financed by the Federal Center and includes expensive drugs for treatment of these major diseases: hemophilia, cystic fibrosis, diabetes, onco-hematological diseases, Gaucher's disease, multiple sclerosis; and for tissue or organ transplantation. The second component is financed by regions and includes a list of regular drugs. Pharmacies obtained 54.1 billion rubles or \$1.9 billion worth of drugs in 112,000 packages. Ninety-one percent of the drug sales belong to foreign companies, although their share of the volume was only 49%. In the first nine months under the DLO program most sales occurred in the following areas: cancer (41%), blood-related diseases (18%), digestive disorders and metabolic disorders (14%).

The major challenges in this sector are a lack of transparency in the registration and certification systems, the amount of time required to register a product as well as inadequate IPR protection and a large percentage of counterfeit medicines. According to several analysts, counterfeit drugs currently make up 7% to 12% of the market.

Resources

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Organizations

Ministry of Health and Social Development
www.mindravsoc.ru

DSM Group - Russian pharmaceutical marketing agency
www.dsm.ru

RMBC - Russian pharmaceutical market research company
www.rmbc.ru

Association of International Pharmaceutical Manufacturers (AIPM)
www.aipm.org

Publications

Remedium
www.remedium.ru

Pharmaceutical Herald
www.pharmvestnik.ru

Trade events

Zdravookhranenie, International Exhibition of Medical Equipment and Drugs
Moscow
December 7-11, 2009
www.zdravo-expo.ru

Apteka
Moscow
November 10-13, 2009
www.aptekaexpo.ru

Pharmtech, Technologies of Pharmaceutical Industry
Moscow
November 24-27, 2009
www.pharmtech-expo.ru

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Autos, Light Trucks & Vans/Automotive Parts and Service Equipment

Overview

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\$ millions	2006	2007	2008 Estimate
Total Market Size	7,800	9,500	10,500
Total Local Production	5,000	5,500	5,500
Total Exports	250	300	300
Total Imports	3,050	4,300	5,300
Imports from the U.S.	850	1,000	1,100

Note: All figures are estimates by industry experts.

Russia represents a large potential market for new cars as well as automotive and aftermarket parts, equipment, supplies and services. The current rate of car ownership in Russia is 180 per 1000, only 25% of the U.S. rate. The total Russian motor vehicle fleet is estimated at 38 million units, including 28 million cars.

For the past few years, Russia has been Europe's fastest growing automotive market and one of the fastest in the world growing at an annual rate of 20% to 25%. In 2008, ahead of automotive analysts' projections, Russia surpassed Germany to become the largest market in Europe. By 2012, analysts project that Russia's car market will be the third largest in the world, after the United States and China. New car sales increased

from 1.7 million in 2007 to 2.1 million in 2008. The import market for used cars and trucks is also growing.

At the end of 2008, the pace of new car sales began to slow as a consequence of uncertainty related to the global economic crisis. Even if the market slows in 2009, the market for car components and aftermarket replacement parts will remain favorable as domestic manufacturers cannot produce the quality parts required by modern cars. In January 2009, the Russian government introduced increased import tariffs on used cars in order to support the domestic automotive industry and foreign assembly projects in Russia. It is expected that sales of used cars will decrease considerably in 2009; however, the higher tariff is due to expire after nine months.

The Russian auto industry represents a major force in the domestic economy. Russian vehicle assembly and component manufacturing factories remain plagued by outdated equipment, lack of modern technology and inadequate management. The major local automotive market players include: GAZ Group; Sollers, a former subsidiary of the leading Russian steel producer Severstal; and AutoVAZ, currently controlled by the state-owned Rosvooruzhenie and Renault (25% equity). The majority of component manufacturing assets are owned by SOK Group.

There are several projects underway to assemble foreign cars in Russia; these involve Ford, GM, Toyota, VW and Renault. Ford's plant commenced operations in July 2002 in a suburb of St. Petersburg. High demand for the new Ford Focus made Ford one of the sales leaders in 2008 with almost 100,000 vehicles sold. The GM-AvtoVAZ joint venture manufactures the Chevrolet-Niva SUV in Togliatti. In November 2008, GM opened a \$300 million assembly plant in St. Petersburg which is projected to make 70,000 Chevrolet and Opel crossovers annually. In 2005, Renault started manufacturing 70,000 Logan vehicles at a Moscow-based facility. In December 2007, Toyota launched an assembly facility in St. Petersburg to manufacture 50,000 Camry vehicles annually. Volkswagen/PSA opened a plant in Kaluga in 2008. There are also several other less well-known projects: the Russian company SOK assembles 40,000 KIA Spectra in Izhevsk; Sollers set up assembly of Ssang Yong SUVs and Fiat low-cost sedans in Yelabuga; Hyundai has a joint venture to assemble several models with TagAZ. Several other international projects are under construction, including Nissan, Suzuki and Hyundai plants in St. Petersburg.

There are also truck and bus assembly projects in Russia developed by Scania and Volvo. International Truck and Engine Corporation assembles trucks in St. Petersburg. The major obstacle to successful development of foreign assembly projects in Russia is the lack of local component suppliers.

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Components for engines, steering, brake systems, power trains, and interiors; engines themselves, seats, tires, specialty equipment for cars, aftermarket parts, supplies, services, and tuning.

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Local manufacturers of automobiles and trucks often seek qualified local vehicle part suppliers as several government decrees have mandated an increase in foreign investors' local content within a set time period. This presents opportunities for lower tier U.S. automotive component manufacturers able to supply upper tier manufacturers with the parts required by international firms with high quality control standards. Local automobile manufacturers will still need to source much of their parts and equipment from outside Russia due to a lack of local production or insufficient quality of locally made products. This too may present opportunities for U.S. exporters, keeping in mind that there is significant competition from European and Asian suppliers.

Another good prospect is to supply upgraded equipment and technology to Russian manufacturers. Opportunities also exist in the licensing and transfer of modern technology to Russian component manufacturers.

Aftermarket sales of replacement parts and accessories are dynamic, with high customer receptivity to U.S. products. Many U.S. brand names are very well known and have strong sales in Russia. Some of the "Made in the USA" products, which Russian motorists seem to favor, are lubricants, automotive chemicals and off-road accessories. There are no known trade barriers affecting imports of U.S. automotive products; tariffs for many imported spare parts are a relatively low 5%. The most important factor affecting the sales growth of U.S. aftermarket products in Russia is the need for U.S. exporters to share brand-building risks with local distributors. Small and mid-size suppliers of specialty equipment for cars will be competitive if they are aggressive in their market entry and brand-building actions. The [U.S. Commercial Service](#) assists U.S. companies with market entry and accompanies Russian buyers to U.S. trade shows including the [SEMA Show](#) and [The Automotive Aftermarket Products Expo](#) to meet with U.S. exporters.

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Organizations

National Association of Automotive Component Manufacturers (NAPAK)
www.napak.ru

Association of Automotive Manufacturers of Russia (OAR)
www.oar-info.ru

St. Petersburg Association of Automotive Component Manufacturers (SPbAPAK)
www.spbapac.ru

Association of European Business
www.aebrus.ru

U.S. Commercial Service - Europe Automotive Team:
www.buyusa.gov/europe/automotive.html

Trade Events

AutoRussia Conference 2009
St. Petersburg

June 16-17, 2009
www.autorussia.eu

Motor Show 2009
Moscow
www.motorshows-ite.com
August 26-August 30, 2009

InterAuto 2009
Moscow
August 26-30, 2009
<http://eng.interauto-expo.ru>

Auto + Automechanika St. Petersburg
St. Petersburg
October 28 – November 1, 2009
www.automechanika.messefrankfurt.com/petersburg

Publications

ASM-Holding
www.asm-holding.ru

Autobusiness
www.abiz.ru

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Computers & Peripherals/Computer Software

Overview

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\$ millions	2006	2007	2008 Estimate
Total Market (computers & peripherals)	9,520	11,590	14,000
Total Local Production	7,640	8,700	10,600
Total Exports	80	130	160
Total Imports	1,960	3,020	3,560
U.S. Imports	110	170	207

Source: Russian Customs and U.S. Department of Commerce.

Russia represents a growing and dynamic market for IT industry suppliers. The Ministry of Information Technology and Telecommunications estimated that the overall Russian

IT market was worth \$17 billion in 2007 with real growth of 9% over 2006. In 2008, the total IT market was expected to reach \$20 billion, rising 18% in real terms over 2007. This growth rate is considered more moderate, however, as market forecasts have been revised downward due to the recent economic crisis. The previous significant increases were due to the favorable economic situation in general, the strong ruble, and high demand for IT services in both the government and corporate sectors. The latter include the oil and gas, metallurgy, financial services, telecommunications and retail industries. Given the current economic situation, growth may slow, but the numbers will remain positive. Many major U.S. companies are already present in the market and their products are available either directly or through representative offices or distributors.

At the end of 2008, the number of computers in Russia exceeded 27 million (with the number of regular internet users totaling 40 million) and total units are forecast to reach 60 million in the next five years, an average annual growth of 17%.

Core IT market segments include hardware (64%), software (11%), and services (25%). As in previous years, the hardware segment is key to the structure of the market. In terms of growth, laptops have the best prospect in the hardware segment (71% share in the first quarter of 2007). The leading manufacturers on the Russian PC market in 2008 included Acer, HP, Asus, and Kraftway. Although the hardware segment dominates, services have become the fastest growing segment of the IT market following a 30% increase in 2007.

Although intellectual property protection concerns remain, the situation for software piracy is improving. In 2008, the Business Software Alliance (BSA) reported in its fifth annual study of 108 countries that the estimated software piracy rate in Russia dropped the most of any country, declining from 80% in 2006 to 73% in 2007. The BSA attributed the decrease to software legalization programs, Russian government engagement, user education and increased law enforcement efforts.

In the IPR Side Letter, part of the U.S. – Russia bilateral agreement on WTO accession, Russia committed to address piracy and counterfeiting, and improve protection and enforcement of intellectual property rights before Russia completes its accession to the WTO. This binding Agreement also requests that Russia establish a more transparent system for the import of electronic goods with encryption, a major U.S. export. For additional information on the Agreement and IPR in particular see the side letter at: http://www.ustr.gov/assets/World_Regions/Europe_Middle_East/Russia_the_NIS/asset_upload_file148_10011.pdf

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In 2008, the market for services was the fastest growing IT segment, including consulting (60% growth), development and customization (29%), education and training (30%), outsourcing (24%), deployment and support (23%), and integration (34%).

Software in conjunction with services is also showing positive dynamics. According to 2007-2008 sales results, the best prospects in the software segment are specialized productivity products (60% growth), enterprise resource planning (51%), business intelligence (45%), and security (40%).

Continuing growth in the number and purchasing power of small and medium-sized private enterprises is driving demand for legally imported operating systems, software application packages and enterprise management software. The notebook computer market grew by 71% in 2007, and sold a record two million units. According to industry specialists, the notebook computer market accounted for 31% of the IT hardware market in 2008. Although desktops are the market's driving force, due to increased sales to home and government consumers, they no longer dominate the market and have given way to increasing laptop sales.

The best opportunities for sales of U.S. manufactured hardware are: laptops, data storage systems, data center solutions, servers, networking equipment, communicators/PDAs and internet mobile technology.

The growth of operating systems and software applications has been stimulated by growing public awareness of IPR issues and by producers' efforts to provide product support to legal users only.

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Computer hardware, peripherals, software and IT services are growing steadily and play an important role in the Russian-U.S. services trade because most high-tech equipment is imported. While at much lower rates, most experts believe that growth will continue because the current economic crisis will impact IT projects and sales less than other sectors.

Resources

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Organizations

Ministry of Information Technologies and Communication
www.minsvyaz.ru

Federal Agency for Technical Regulations and Metrology
www.gost.ru

Russian Center for Tests and Certification (Rostest)
www.rostest.ru

Russian Standard, general representative of ROSTEST for North America
www.rosstandard.com

Trade Events

Svyaz ExpoComm
Moscow
May 12-15, 2009
www.svyazexpo.ru

Cardex & IT Security
Moscow

April 13-16, 2009
www.cardexpo.ru

Infosecurity Russia
Moscow
September 29- October 1, 2009
www.infosecuritymoscow.com

Storage Expo
Moscow
September 29- October 1, 2009
www.storage-expo.ru

Documation
Moscow
September 29-October 1, 2009
www.documation.ru

InfoCom
Moscow
October 28-31, 2009
www.infocomtech.ru

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Oil & Gas Field Machinery / Oil, Gas and Mineral Production and Exploration Services

Overview

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\$ millions	2006	2007	2008 Estimate
Total Market Size	12,500	15,300	18,000
Total Local Production	8,400	10,000	12,000
Total Exports	1,500	1,700	2,500
Total Imports	5,600	7,000	8,500
Imports from the U.S.	1,000	1,200	1,800

Source: Department of Commerce unofficial estimates.

The Russian oil and gas industry, which was booming until recently, is now starting to suffer from the impact of the deepening economic crisis. This is primarily due to the steep decline in global oil prices and the decrease in purchasing capacity of the companies that traditionally have been the main consumers of oil and gas products. Nevertheless, the oil and gas industry still retains its status as a leading sector of the

Russian economy. Moreover, as the Russian oil and gas market has matured, as illustrated by the giant companies Gazprom, Rosneft, Lukoil, TNK-BP and Surgutneftegaz acquiring smaller competitors, a market for independent companies offering field services and equipment has emerged. While the oil majors must now concentrate on core competencies – exploring, refining, and transporting their subsoil resources - and have therefore spun off their in-house field service operations, they still remain a leading driver of growth within the energy sector in terms of operation, service, equipment and technological development.

Over the past few years, the largest Russian oil companies have continuously increased their expenditure on infrastructure development, equipment purchase/repair and services. Last year's market for services and equipment for the oil and gas sector is estimated at about \$18 billion, with approximately equal market shares for services and equipment. However, due to the economic crisis, experts predict a 20% to 25% decline in this sector of the Russian market; thus the volume of services and equipment for the oil and gas industry in 2009 could return to the 2006/2007 level.

Even during the economic crisis, major oil and gas development projects already underway in the Yamal Peninsula, Sakhalin, the Timan-Pechora areas in Western Siberia and the Arctic shelf should result in technological upgrades as well as construction, infrastructure and other services for oil and gas field development. In the LNG segment, Gazprom chose France's Total and Norway's StatoilHydro as its partners to develop the \$20 billion Shtokman gas field, and TNK-BP to develop the Kovykta gas field.

A distinguishing feature of the Russian market for services and equipment for the oil and gas sector at its current stage of development is the increased competition from both domestic and foreign companies. The number of Russian oil and gas equipment manufacturers has grown significantly and currently exceeds 15,000 companies. Though Russia's technology is often old and its manufacturing facilities outdated, Russian products enjoy a price advantage, particularly in the transportation and pipeline segments.

Competition among importers has intensified as well, as evidenced by an increase in the number of tenders. Chinese companies, traditionally perceived as low-quality, low-cost suppliers, are working to improve their reputation as reliable suppliers of satisfactory quality products at competitive prices. Chinese government subsidies support equipment exports to Russia and help strengthen the position of China's manufacturers in the market. There are concerns that the current economic crisis may provide an opportunity for Chinese companies to dominate the Russian market for oil and gas equipment.

Many Western manufacturers that ventured into Russia years or decades ago, successfully managed the market's uncertainty and instability, and saw their products accepted by the local industry, are now reaping the benefits of a strong reputation and a well-established market position. They offer quality, modern equipment and are intense competitors.

The largest servicing and manufacturing companies currently operating in the Russian market include: Integra, BK Eurasia, Siberian Servicing Company, Cameroon, Baker

Hughes, Bentec GmbH Drilling and Oilfield Systems, Parker Drilling, Schlumberger Oilfield Services, Halliburton, Weatherford and Bechtel.

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Oil and gas field machinery as well as oil recovery, exploration and field management services are expected to retain their positions as the primary U.S. exports to Russia. Over the past two years, there has been a growing demand for well optimization, horizontal drilling, hydro-fracturing equipment and services, offshore development technologies and equipment, work-over, drilling and well tools and products, and idle well re-commissioning services. Some experts, however, predict that, due to the economic crisis, the Russian market for equipment and services for the oil and gas industry may contract significantly to accommodate a smaller number of companies that provide effective low-cost solutions for the rehabilitation/reconditioning of existing equipment and infrastructure.

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U.S. products and technologies are recognized for their excellent quality as is U.S. after-sales service. U.S. manufacturers can further improve their market share by offering state-of-the-art technology and products and by employing reputable agents and/or distributors. Price continues to be the main competitive factor limiting equipment exports to Russia. To reduce manufacturing, transportation and other costs, and to comply with the Russian government's policies on protecting local manufacturers' rights, U.S. producers may wish to consider bringing their technologies to Russia and partnering with local manufacturers to make their products and equipment more competitive.

Resources

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Organizations

Ministry of Energy
www.minprom.gov.ru

Ministry of Natural Resources
www.mnr.gov.ru

Association of Oil and Gas Equipment Producers
www.eng.derrick.ru

Trade Events

Moscow International Oil & Gas and Neftegaz Expositions are the primary trade events for the industry, and are held in alternating years.

Moscow International Oil & Gas Expo
Moscow
June 23-26, 2009
www.mioge.ru

Neftegaz Expo
Moscow
June 23-27, 2010
www.neftegaz-expo.ru

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Agricultural Machinery and Equipment

Overview

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\$ millions	2006	2007	2008 Estimate
Total Market Size	2,590	3,913	5,864
Total Local Production	1,344	1,600	2,000
Total Exports	240	303	322
Total Imports	1,486	2,616	4,186
Imports from the U.S.	275	487	793

Sources: Estimates from Russian Association of Agricultural Machinery Producers and Russian Ministry of Industry and Commerce.

According to estimates from Soyuzagromash, the Russian Association of Agricultural Machinery Producers, and the Russian Ministry of Industry and Commerce, the total market for agricultural equipment in Russia in 2008 increased 50% and reached nearly \$6 billion. Total local production showed a 25% increase while imports increased 60%. The leading foreign suppliers of agricultural machinery remained Germany (28%) and the United States (21%).

It is important to note that 2008 should be viewed in two parts: The first half of the year, when the market was growing fast, and the second half of the year, when the economic crisis impacted the sector greatly. According to Soyuzagromash, Russia's agricultural machinery market increased 68% in the first half of 2008. This rate of expansion was the highest in the last 10 years. Russian production grew 60%, while Russian imports of agricultural machinery in the first six months totaled \$2 billion, a 55% increase over 2007. Market growth was driven by rising world food prices and implementation of the "Program of Engineering Modification" established by the Russian Ministry of Agriculture in 2006. According to this program the Russian government is to help local agricultural companies and farmers replace 40% of their tractors and 55% of their combines.

In the second half of 2008, due to the global economic crisis, the situation in the Russian market changed dramatically. By the end of the year, production of the main types of

agricultural machinery fell significantly. For example, grain and fodder harvesting combine production in November 2008 was half that of November 2007, tractor production dropped by a factor of 4.4, and harrow manufacture fell by a factor of 9. Other types of machinery faced similar difficulties.

There is currently much idle machinery on the Russian market. According to Soyuzagromash, accumulated unsold inventory makes up approximately 40% of all the machinery produced in Russia in 2008. An analysis of December and January data by the manufacturers suggests that the industry recession in 2009 will exceed 50%. Given that agricultural machinery imports have greatly outpaced local production for the last few years, at the end of 2008 Russian Prime Minister Vladimir Putin held a conference focused on the situation of the sector. The following decisions were announced during the conference:

- The government will contribute an additional 25 billion rubles (\$750 million - \$1 billion) to the authorized capital of JSC “Rosagroleasing”, a state company that finances machinery purchases by Russian farmers and agricultural enterprises. Information about deadlines, volumes, the range of machinery, and the plants that will participate in the leasing program has not yet been announced.
- State banks “Sberbank” and “Rosselkhozbank” will no longer provide credits for purchases of foreign agricultural machinery. “Rosselkhozbank” has already established instructions that place a moratorium on any further financing of foreign agricultural equipment. “Sberbank” is expected to do the same shortly.
- Instructions were issued that forbid using federal and regional budget funds for the purchase of foreign agricultural machinery.

As of February 14, new increased duties will go into effect for combine harvesters, raising the current duty rate of 5% *ad valorem* to a new rate of 15% but not less than 120 Euros per kilowatt of engine capacity. In addition, the Ministry of Industry and Trade is currently conducting a safeguard investigation of imported harvesters, scheduled to be completed soon. It is not yet clear whether the ministry will recommend that the Russian government impose any additional measures on imported harvesters, such as a further duty increase or a quota on imports.

As one might expect, the above events have created a somewhat negative perception of the sector as we enter 2009.

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Despite this cloudy outlook, there could be some niche opportunities for U.S. exporters in the following areas:

- Agricultural tractors
- Cultivators and other soil preparation equipment including plows, harrows, cultivators, seeders and fertilizer spreaders
- Equipment for dairy livestock breeding, swine and poultry production

- Combines and other harvesting equipment, a traditionally strong import item for Russia. Due to the newly established government resolution, however, imported grain and silage-harvesting combines now face higher duty tariffs - 15% of the customs price, but not less than 120 Euro for 1 kW of engine power.
- Food processing machinery companies

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Given the crisis in the agricultural sector and strict government regulations, large sales will probably be possible only for sellers that go substantially beyond simple direct sales and are able to provide financing as well as a support system for purchases. Some major U.S. companies have proposed comprehensive equipment, financing and service projects, which could significantly increase associated farm machinery imports to Russia by making use of export credit guarantees available from the Export-Import Bank of the United States. For additional information about the Ex-Im Bank in Russia, to go: www.exim.gov/russia.

For U.S. firms interested in the Russian agricultural machinery market, exhibiting at one of the two key Russian agricultural trade shows is advised. These trade shows are a powerful marketing tool and reassure Russian buyers that the U.S. company is committed to establishing and maintaining its presence in the Russian market. Substantial sales are often made at these events. U.S. companies may also have opportunities where financially healthy Russian companies are trying to expand in order to satisfy growing demand for domestically produced food. For example, increased sales of meat, fruit and vegetable processing equipment may be possible.

Resources

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Organizations

Ministry of Agriculture

www.mcx.ru

Soyuzagromash, the Association of Agricultural Machinery Producers

www.soyuzagromash.ru

Ministry of Industry and Trade

www.minprom.gov.ru

Trade Events

Golden Autumn, Russian Agricultural Week Trade Show

Moscow, Russia

October 9-13, 2009

www.zolotaya-osen.mvdv.ru/exhibition/92/ex_r.htm

Agroprod mash
Moscow, Russia
October 12-16, 2009
www.agroprod mash-expo.ru

Yug Agro
Krasnodar, Russia
November 17-20, 2009
www.ifw-expo.com

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Medical Equipment

Overview

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\$ millions	2006	2007	2008 Estimate
Total Market Size	2,000	2,300	2,800
Total Local Production	870	800	700
Total Exports	70	100	100
Total Imports	1,200	1,600	2,200
Imports from the U.S.	290	350	400

Source: Federal Customs Service, Federal State Statistics Committee, Remedium

Russia has instituted a comprehensive reform of its healthcare system and healthcare is "Priority #1" in the government's new national priority projects. Russia's healthcare system is evolving rapidly and this is creating many promising areas for U.S. medical equipment exports. It is currently estimated that only one-fifth of the Russian population of 143 million has access to quality healthcare. The majority of hospitals and polyclinics are public and belong to federal, regional or local governments.

At the moment, the two major sources of public healthcare funding - mandatory insurance funds (30%) and spending supported by federal and regional budgets (70%) - do not cover all healthcare expenses. As a result, a significant portion of overall (public and private) health care spending (about 20%) is covered out of patients' pockets. Voluntary healthcare insurance programs account for approximately one-third of the total private healthcare expenditures. According to long-term reform plans, mandatory insurance funds will serve as the main source of healthcare funding, providing transparency and control over cash flow within the system.

Strong demand for private healthcare services has, since the early 1990s, led to a significant growth in the number and size of private clinics as well as the volume of paid

medical services. The most dynamic and transparent segment of the paid medical services market is services covered by voluntary insurance policies. The total volume of paid medical services is currently estimated at \$6.5 billion, which accounts for one-fifth of the overall financial resources spent on healthcare in Russia.

The paid medical services market is growing by 20% to 30% annually. Most private clinics are specialized in such areas as dentistry, ophthalmology, cosmetology, urology, gynecology, and physiotherapy. Private clinics have opened not only in major cities like Moscow and St. Petersburg, but also all over key Russian regions, including the Volga Region, Urals, Siberia and the Far East. However, such fields as cardiology, oncology, orthopedics, nephrology and organ transplant are represented by public clinics that would not survive without significant state subsidies and funding. There are only a few multi-profile private clinics, mostly located in Moscow (AO Meditsina, Center for Endosurgery and Shock Wave Therapy, the European Medical Center, the American Medical Center and Family Doctor clinics).

The Russian medical equipment market is one of the fastest growing sectors of the economy. Currently, the total volume of medical equipment in Russia is estimated at about \$3 billion. Imports of medical equipment have recently played a significant role, accounting for approximately 60% to 70% of the total market. This share could reach 80% in 2008. The top five foreign suppliers to the Russian healthcare market are Germany (29%), the United States (20%), Japan (15%), Italy (6%), and Switzerland (4%).

Almost two-thirds of the medical equipment and devices used in public clinics and hospitals is obsolete and needs replacement. Russia does not produce many types of high-end medical equipment and must rely almost exclusively on imports. However, despite the ongoing healthcare reforms and significant increases in federal and regional budget allocations for healthcare, financing remains insufficient to address the needs of the industry. In developed countries, the healthcare system becomes a priority due to new demands of the population (the increasing number of old people, the appearance of new diseases, and others). Total healthcare spending in Russia at all levels comprises, according to different estimates, only about 3.5% of GDP (including funds in National Health Project "Zdorovie") in comparison to 6% to 8% in Western European countries. The countries of Central Europe, including Hungary, Poland, Slovakia, Slovenia, the Czech Republic, and Croatia are very close to these numbers. The average Russian citizen's out-of-pocket expenses for pharmaceuticals, medical devices and services are equally low.

Some 90% of Russia's domestic production of medical equipment and devices is manufactured at 660 enterprises having federal licenses for the production of medical equipment and devices, including 220 plants which are primarily dedicated to the defense industry. The Ministry of Health has approved over 20,000 medical products and devices for use in treatment but only 12,000 of those are represented among the list of locally made products.

Russian medical equipment manufacturers are making some progress in several traditional and developing segments of medical equipment manufacturing, such as electrocardiographs, patient monitors, X-ray and fluorography devices, anesthesia, sterilization and pulmonary equipment, ultrasound scanners, devices and instruments for endoscopy and laparoscopy, and electrosurgical instruments. Stronger domestic

positions were also achieved in emergency vehicles, operating lighting systems, surgical instruments, home healthcare products, orthopedic devices, ophthalmic products, test kits, polymeric and glass medical products, disposable syringes, IV solutions and sets and other disposables in 2008.

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Despite recent breakthroughs and the fact that locally made medical equipment is two to four times cheaper than imported equipment, Russian production still lags behind the majority of developed countries. Thus, Russia is still dependent on imports for a significant number of medical equipment industry sub-sectors, especially those requiring large investments in R&D, innovative technologies, and automation. The best prospects for medical equipment include:

- Modern computerized diagnostic equipment
- Computer and X-ray tomography, angiography systems
- Resuscitation and functional diagnostic equipment
- Implants and prostheses
- Surgical and endoscopic equipment, surgical headlights
- Robotics clinical laboratory systems for express microanalysis
- Telemedicine complexes
- Hospital equipment and supplies
- Operating room equipment
- Artificial kidney complex components (oxygenators and dialysis machines)
- Oxygen concentrators for hospitals
- Hospital beds
- Advanced home healthcare equipment and supplies
- Significant amounts of medical supplies and disposables, including polymeric packaging for IV solutions

Opportunities

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Recent reforms in healthcare have created opportunities for U.S. medical equipment suppliers. In September 2005, President Putin announced that healthcare is one of the four key national projects, along with education, housing and agriculture. Dmitry Medvedev, first Deputy Minister at that time, was in charge of those projects. The total federal budget allocated under the National Health Project "Zdorovie" in 2006 was \$4 billion (excluding loans, and state guarantees), in 2007 - \$5 billion, and in 2008 - \$5 billion. At the end of December 2008, President Medvedev during the meeting of National Priority Projects and Demography Council, said that all national projects would be fully implemented.

The Ministry of Health Care and Social Development has developed a document called "Concepts of Health Care until 2020". According to Minister Golikova, this document will be incorporated into a long-term strategy of social and economic development until 2020. It will also guarantee the population and various aspects connected with the system mandatory health insurance.

In 2009 the National Health Project “Zdorovie” will be financed at \$4.8 billion. Despite the impact of the current economic crisis on the government’s budget, Russia continues to fund this project aggressively: the increase in financial resources for 2009 will be 13% in ruble terms.

Project “Zdorovie” was designed to significantly improve the Russian healthcare sector giving impetus to both pharmaceutical and medical equipment markets. The implementation of the project is supported by laws and regulations, which modify the healthcare system structure over the long term. Key laws and regulations include a law on state guarantees for medical assistance, a law on mandatory health insurance and a law on standards of medical assistance.

In 2009-2012, National Health Project “Zdorovie” will focus on developing the following main areas:

- Healthy life style
- Medical aid and preventive medicine
- High-technology medicine including treatment of heart, blood, and vascular diseases (\$100 million for both new equipment and other supplies for federal clinics); also, high emphasis will be put on blood donation centers
- Maternal care that will include construction of 24 delivery centers

Currently, only 15% to 25% of the total need for high technology medical assistance is satisfied. Despite increases in spending for medical equipment and services funded by federal funds, they remain insufficient to meet the growing needs of the healthcare system.

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Organizations

Ministry of Health and Social Development
www.minzdravsoc.ru

Federal Service on Surveillance in Healthcare and Social Development of Russian Federation
www.roszdravnadzor.ru

Federal State Enterprise Scientific Center for Testing Medical Products
www.regmed.ru

Center for Sanitary and Epidemiological Norm-setting, Hygienic Certification and Expertise of the Ministry of Health and Social Development
www.crc.ru

Trade Events

Zdravookhranenie, International Exhibition of Medical Equipment and Drugs
Moscow
December 7-11, 2009
www.zdravo-expo.ru

Commercial Service Contact

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Franchising

Overview

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\$ millions	2006	2007	2008 Estimate
Total Market Size	1,200	1,550	2,000
Total Local Production	550	700	900
Total Imports	650	850	1100
Imports from the U.S.	250	350	500

Source: Russian Franchise Association

The Russian business community has developed a better understanding of franchising as a way to do business and has a growing interest in it, as well. This has come about as a result of three main factors. First, both the business community and consumers are better educated about established brands, resulting in brand value and recognition. Second, many Russian entrepreneurs have discovered that working with established brands requires the utilization of modern business practices and technology, giving them more efficiency and, therefore, an advantage over their competitors. Finally, being associated with an established brand may offset certain risks characteristic of the Russian economy. In order to take advantage of these favorable factors, many entrepreneurs have turned their attention to franchising, and more and more private Russian enterprises and entrepreneurs seek partnerships with recognized Western companies.

Statistics on franchising in Russia are somewhat unreliable and figures vary widely, but in general they tend to support several observations. Since 2000, the number of franchising systems in Russia has grown from 54 to approximately 300, with some sources estimating as many as 600. There are over 160 domestic franchising businesses in Russia, with a total of 2,900 franchisees. On average, each franchisor has six franchisees in Russia. The fast food and retail sectors represent the largest shares, 22% and 46% respectively. Development of the service sector is slower, but growing. About 43% of all franchisors are in the Moscow region (Central Federal District), 15% in St. Petersburg and northwest Russia (North-Western Federal District), and about 12% in the Urals (Urals Federal District).

Several well-known U.S. franchises have successfully entered the Russian market. Among the most visible brands are: AlphaGraphics, Baskin Robbins, Candy Bouquet, Carl's Jr., ChemDry, Chips Away, Crestcom, Domino's Pizza, Fastrackids, Gold's Gym, Jani King, KFC, LMI Consulting, Mail Boxes Etc., Kwik Kopy, Century 21, Office 1 Superstore, Papa John's, Pizza Hut, Pizza di Roma, Sbarro, Subway and Starbucks. Restaurants, including fast food, are in great demand for U.S. franchise models. U.S. market presence is also highly visible in business education and training services,

business services, children's services/preschools, cleaning services, and automotive services. The majority of non-U.S. foreign franchises in Russia are from western Europe, mainly the U.K., France and Germany.

Many franchises operating in Russia share certain distinctive characteristics. Most franchisors select Moscow and/or St. Petersburg as their entry point for Russia, where consumer markets are strongest. Fast food franchisors, in particular, have multiple storefronts in Moscow. However, there is also a steady growth in the next tier of consumer markets - cities such as Yekaterinburg, Nizhny Novgorod, Krasnodar, Kazan, etc. Many local storefronts are larger than similar locations abroad and many are owned and managed by the same company that owns the master license.

Some factors limit the growth rate of franchising in Russia. The same factors that impede development of Russian franchises may also operate to prevent foreign brands from entering the Russian market. Cumbersome licensing regulations often stand in the way of expansion through the sale of sublicenses. Lack of knowledge and information about existing business opportunities in franchising also prevent potential investors from becoming franchisees, especially in the regions. Lack of transparency, still plaguing the Russian business environment, often seriously complicates the process of choosing the right business partner and compromises royalty payments, further contributing to many companies' preference to manage their own stores. Loose contractual discipline and weak legal enforcement often jeopardize observation of contractual obligations between partners. And finally, franchises face excessive bureaucracy and corruption, still prevalent in the Russian economy.

Despite these negative factors slowing the development of franchising in Russia, the market continues to show signs of sustained growth. The Russian Franchising Association has been active since 1997 and currently has 40 members. Its main goal is to popularize franchising in Russia by providing information and support to franchisors and franchisees. Another reflection of the dynamic growth of the franchise market is the steady growth of participation by both domestic and international brands in the BuyBrand International Franchise Exhibition, which has been held annually in Moscow since 2003.

Best Prospects/Services

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During its more than ten-year history, the Russian franchising sector has developed mainly in customer-oriented segments, such as restaurants, retail, education and training, fitness and health care, recreation and entertainment, travel and lodging, and automotive. Franchising in business-oriented services is also picking up. Successful examples of the business-to-business segments where franchise models are already used include: cleaning services and maintenance, transportation, logistics, express mail services, management training and consulting.

Franchising is most visible in the fast food sector. Many local and international fast food franchise concepts successfully operate on the market, although it is far from saturated. Expansion of casual dining is expected over the next few years, as emerging local and global players enter the market. Also, there is growing demand for cafes (coffee shops, tea rooms) as the culture of drinking coffee and tea in cafes penetrates the Russian lifestyle. That demand was partially met by the arrival of Starbucks in the Russian market in 2007, along with the emergence of smaller franchising concepts (Travelers

Coffee), and add-ons to traditional fast food services to cater to coffee drinkers (McDonalds' Café Mac).

Another large segment where franchise opportunities exist is retail trade. According to recent statistics, Russian retail trade turnover in 2008 grew by 13% to approximately \$543 billion. Assuming that franchising development in retail segments will have some correlation with the development of the total retail market, it is possible to predict a very bright future for retail franchises.

Opportunities

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Currently, franchising, along with other sectors of the Russian economy, is starting to feel the negative effect of the global economic crisis, but significant opportunities for development still exist in hotels, entertainment, education, training, healthcare, fitness, real estate, business services, and other services. The U.S. Commercial Service receives numerous inquiries from local entrepreneurs, investors and companies seeking franchise opportunities with U.S. businesses in various sectors. The most frequently requested include the following:

- Automotive Products/Car Wash
- Business Services
- Children's Services/Preschool Education
- Clothing and Shoes
- Educational Services/Training
- Fast Food/Restaurant/Catering
- Health/Beauty/Fitness
- Lodging/Hotels/Motels
- Laundry/Dry Cleaning/ Commercial Cleaning Services
- Marketing/Public Relations
- Postal Services
- Printing/Signage
- Recreation Facilities/Equipment & Services
- Retail Stores/Specialty Stores

Resources

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Organizations

Russian Franchise Association
www.rarf.ru

Publications

Kompaniya - Russian business weekly
www.ko.ru

beboss.ru - Internet franchise shop and information source
www.beboss.ru -

Trade Events

BuyBrand 2009
Moscow
September 22-24, 2009
www.buybrand.ru

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Security & Safety Equipment

Overview

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\$ millions	2006	2007	2008 Estimate
Total Market	5,600	6,800	8,160
Services	4,200	5,100	6,120
Equipment	1,400	1,700	2,040
Total HTS 8531	399	479	575
Total 8531 Local Production	353	424	509
Total 8531 Exports	24	29	35
Total 8531 Imports	70	84	101
8531 Imports from the U.S.	13	16	19

Note: Market structure and product offerings do not lend themselves to precise statistics as HTS codes for many security-related goods are basket categories. Therefore, U.S. imports are provided only for HTS code 8531: bells, sirens, indicator panels, burglar or fire alarms, etc. Other U.S. imports may be underestimated as some U.S. manufacturers ship product from European warehouses and these are reported by Russian Customs as imports from those countries.

The Russian market for safety and security systems has been developing rapidly, offering great potential for U.S. companies. In 2007, the total value of the safety and security services and equipment market was \$6.8 billion. Russia's demand for safety and security systems was expected to grow 20% and reach \$8.2 billion in 2008, with services totaling \$6.1 billion, or 75% of the market, and safety and security equipment amounting to \$2.0 billion. Annual growth in 2008 is estimated at 20% because the majority of sales were performed against contracts signed before the onset of the current economic crisis. Russia's crisis began in October 2008 and will no doubt affect growth in 2009. In fact, the consensus view at Moscow's February security and safety technologies forum and trade show was that the total market would decline 25% in 2009, thus dropping 10% below the 2007 levels noted in the table above.

Regarding regional segments, 60% of the market is concentrated in Moscow and St. Petersburg, 23% in the Urals Federal District, 11% in the Siberian Federal District, and 6% in the Northwest Federal District. The rest of the market is divided among the Volga, Far East and Southern Regions.

Annual market growth in the equipment segment is 12% to 30% depending on the product category. In 2007, the Russian CCTV and video surveillance segment totaled \$491 million, or 30% of the equipment market, with 17% annual growth, down from 30% in 2006. It is considered the most developed and competitive segment. The size of the security and fire alarm segment was approximately \$368 million (23% of the equipment market), increasing 12% to 15% annually. The intruder alarm and perimeter protection segment was also worth \$368 million, also growing 12% to 15% per year. Access control systems reached \$259 million, a 16% share of this market, with current annual growth of 15% to 16%. Other more minor product categories account for the remaining \$132 million of the 2007 equipment segment.

Depending on the segment, the share of imported products ranges from 50% to 80%. Experts estimate that up to 80% of access control, about 50% of intruder and fire alarms, and more than 80% of CCTV systems are imported. Even locally manufactured equipment contains 60% to 80% imported components. Low cost solutions come from China, Taiwan, and Korea and are popular in Russian regions, *i.e.*, outside Moscow and St. Petersburg. Premium systems are imported from the United States, Europe (Great Britain, Germany, France, Italy, Poland), Japan, and Israel. Both government organizations and private entities (mainly in real estate, banking, retail, and oil and gas) are the major end users of a wide variety of security equipment. Currently, there are over 300 distribution companies working in the Russian security market.

Finding a local partner knowledgeable in the industry and experienced in procurement tenders would be the shortest path to successfully entering the Russian market.

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Industry specialists note that one recent trend is the convergence of information and safety and security technologies, which creates more opportunities for high quality U.S. technology exports. The IP-based CCTV segment was expected to exceed 50% growth in 2007. Color CCTV cameras will outnumber monochrome units. The best opportunities for sales of U.S. manufactured hardware are: IP-based solutions in various equipment segments, access control systems, fire/intruder alarm systems, integrated control systems, biometric equipment, identifiers and readers, antiterrorist equipment, and anti-theft systems.

Opportunities

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The strength of the safety and security systems market is in its constant innovation and price competitiveness. New concepts and products may open new opportunities. Participation in industry events is very important in this Russian market and it also facilitates successful market entry. For example, the 2009 Security and Safety Technologies (SST) trade show was officially recognized by the U.S. Department of Commerce and accredited for the second time as a Department "Certified Trade Fair." The event, which was held in Moscow from February 3-6, 2009, is the leading security exhibition and congress in Russia, CIS and Eastern Europe.

Organizations

Russian Security Industry Association
Moscow, Russia
www.rasi.ru

VNIPO, All-Russian Scientific-Research Institute for Fire Prevention (Fire security equipment certification body)
Moscow, Russia
www.vniipo.ru

Trade Events

SST (International Forum & Exhibition "Security and Safety Technologies")
Moscow
February 3-6, 2009
www.tbforum.ru

MIPS (Moscow International Protection, Security & Fire Safety Exhibition)
Moscow
April 13-16, 2009
www.mips.ru

Interpolitex. International Exhibition of Police and Defense Technologies
Moscow
October 27-30, 2009
www.interpolitex.ru

Publications

GMT Plus; Russian Security Media & Exhibitions Brand Awareness 2006 Report
Moscow, Russia
www.gmtplus.com/publications.php?id=9

CCTV Focus Magazine
www.cctvfocus.ru

Sec.ru
www.sec.ru

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Machine Tools and Metalworking

Overview

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\$ millions	2006	2007	2008
Total Market Size	600.9*	1,044.3*	N/A
Total Local Production	178.9**	202.2	N/A
Total Exports	117.4	142.4	N/A
Total Imports	539.4	984.5	N/A
Imports from the U.S.	N/A	N/A	N/A

Source: Russian Association of Machine Tools Enterprises (STANKOINSTRUMENT). Figures are based upon ROSSTAT (Russian Federal Statistics Service) data. Figures for 2008 are not yet available.

* U.S. Department of Commerce estimates

** U.S. Department of Commerce estimates based upon number of machine tools produced and average cost per unit.

Russia's market for machine tools and metalworking equipment continues to demonstrate strong growth and offers good prospects for U.S. exporters. The potential for growth is attributed to the Russian government's plans for modernization of key domestic industries, such as the energy, auto, defense and aerospace, as well as the availability of the huge stock of outdated machine tools that need replacement.

The current inventory of machine tools is two million units and 65% to 70% of this equipment has been in use for 15 to 20 years. Since the average useful life of this equipment is 26 years, it is expected that by 2013-2014, the majority of Russian machine tool equipment will "turn into scrap." According to Russian government estimates, the growing demand will require procurement of 700,000 new machine units by 2015.

Following the breakup of the Soviet Union and the subsequent economic crisis of 1998, the domestic industry has not been able to sufficiently supply the market and ensure adequate quality of machine tool equipment. In 1990, Russia produced a total of only 101,500 such machines and had a total inventory of 2.5 million units. Year-over-year, this inventory declined by an average of 3%. By mid-2007, Russia had only 1.5 million machines, which is 1 million less than in 1990.

In addition to an insufficient supply of machine tools, the domestic industry tends to manufacture a universal type of equipment, whereas ongoing industrial modernization calls for the introduction of advanced machine tools equipped with Computer Numerical Controls (CNC). The Russian government plans to make investments in the modernization of the metalworking industry to narrow the technology gap. The state program "National Technology Base for 2007-2011" allocated \$6.4 million to support R&D projects in order to develop state-of-the-art machine tool technologies.

In the meantime, foreign imports continue to play a major role in meeting domestic demand, despite import duties ranging from 0% to 15%, depending upon the specific type of machinery. According to Russian media, the average import duty for the 180 types of machine tools surveyed is 6.25%. In addition, imports are subject to the 18%

Value Added Tax (VAT) and customs fees ranging from 0.15% to 0.33% of the total machine tool value.

Foreign producers supply both cheaper universal types of equipment (China and Turkey) and advanced Western machinery. Selling machine tools in Russia is done through the four most common business models: direct sales to the end user from offices outside of Russia, sales via a representative office in Russia, sales via engineering companies and sales via local trading companies.

To a great extent, the choice of the business model depends on the size of the machine tool producer, the breadth of the product range, and expected sales volumes. Smaller producers seeking to enter the Russian market should try to cooperate with local partners. Engineering companies can be especially useful given the fact that they provide strong service along with commercial support.

Large automotive companies such as AvtoVAZ, Kamaz and GAZ have their own subsidiaries/departments with established purchasing and logistics procedures and, therefore, prefer to purchase machine tools directly from producers (either from local offices or from offices outside of Russia). Aerospace companies purchase a significant amount of equipment via local trading or engineering firms, as some of the plants are located in the eastern part of Russia.

As competition grows, the nature of the machine tool demand in Russia is changing toward a more "push"-oriented model with the foreign machine tool producers increasing their local and, sometimes, even regional presence and thus playing a more active role in developing contacts. Many of the major European competitors (especially German firms) have set up their own representative offices in Russia to increase brand recognition, facilitate working with local partners and maintain client relationships with key accounts.

Financing is the most challenging factor for importing machine tool equipment into Russia given the late 2008 economic slowdown and the systemic problems of the Russian banking sector. U.S. exporters are advised to have a differentiated strategy: develop long-standing relationships with and provide flexible financing options for larger clients, but maintain a conservative approach when dealing with small end users.

For large modernization projects, U.S. exporters could use more proactive credit arrangements provided by a foreign bank to a Russian bank or leasing company under the auspices of ExIm Bank, or insurance via OPIC.

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At present, all types of machine tools are in demand in Russia. For years, the domestic industry has specialized primarily in a broad application type of machine tool, such as turning, milling, and horizontal boring machines. The advanced types of machine tools, such as precision and gear processing and all types of grinding machines, are underdeveloped in Russia, thus offering the best prospects for sales, especially given the country's great need for modernization.

Given the popularity of trade shows with Russian end users, such events are traditionally seen as the most appropriate tool to present machine tools and to gain brand recognition among customers. They have an “educational effect” for the end-users’ technical experts, who prefer to see and test the tools themselves before they come to rely on a specific type of equipment manufactured by any one producer.

There are two major machine tool-related trade shows held in Moscow: “Metal Forming” and “Machine Building.” These trade shows attract end user technical experts and are popular with foreign machine tool producers as well. There are also several important regional trade shows, such as “Machine Building, Machine Tools, Instruments” and “Ural Expo Tool” that are organized in the main regional capitals of Russia.

Presence in the regions helps foreign producers develop long-standing relationships with key customers and helps ensure repeat business and sufficient service volume in the future.

Organizations

Stankoinstrument

www.stankoinstrument.ru

Leading Russian association of metalworking enterprises.

Trade Events

Metal Build

Moscow

March 10-13, 2009

www.metal-build.ru

Ural Expo Metal

Yekaterinburg

April 21-23, 2009

www.uralexpotool.ru

Mashex (Machine Building)

Moscow

May 18-22, 2009

www.mashex.ru

Metalloobrabotka (Metal Forming)

Moscow

May 25-29, 2009

www.metobr-expo.ru

Machine-Building, Machine Tools, Instrument

Nizhniy-Novgorod

June 23-26, 2009
www.yarmarka.ru/exhibitions/index.phtml?3050

Mechanical Engineering, Metalworking
Kazan
December 8-11, 2009
www.expomach.ru

Publications

Magazine "Expert Equipment"
www.obo.ru

Magazine "Instrument, Technology, Equipment"
www.ito-news.ru

These magazines publish information on the latest technology trends in metal forming and metal cutting and include ads by machine tool producers.

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Industrial Chemicals/Chemical Production Machinery

Overview

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\$ millions	2006	2007	2008 Estimate
Total Market Size	36,000	45,420	41,385
Total Local Production	38,200	46,700	44,365
Total Exports	13,200	15,450	21,630
Total Imports	11,000	14,170	18,650
Imports from the U.S.	N/A	337	N/A

Source: "On Strategy for the development of the chemical and petrochemical industry through 2015," Minister of Industry and Energy Viktor Khristenko (2008).

Chemicals: The Russian chemical industry represents about 1.7% of Russia's GDP and produces around 1% of the world's chemical products. This sector includes mineral fertilizers, synthetic plastics and resins, tires, rubber products, synthetic fibers, paints and coatings, synthetic detergents and other chemical products. The Russian chemical industry is fully privatized and, along with small and medium-sized companies, is represented by a number of dominant large concerns. These include SIBUR, Nizhnekamskneftekhim, Lukoil-Neftekhim, Eurokhim and many others.

In 2006-2007, 62% of domestic production was represented by basic chemicals, such as fertilizers, synthetic plastics and resins. During the same period, exports and imports shared about 50% of the total market; however, the product structure of exports and

imports was different. While the bulk of exports are primary chemicals, such as styrene, methanol, and synthetic rubbers, the range of imported product categories is wide and is represented by highly advanced and finished products such as tires, polystyrene, paints and coatings and chemical fibers.

U.S. chemicals make up approximately 2.3% to 3% of Russia's total chemical imports. In 2007, imports from the United States totaled USD \$337.3 million.

As a consequence of the global economic crisis currently impacting Russia, there has been a drop in demand for and local production of all chemicals. At the same time, due to the devaluation of the local currency, the value of imports in 2008 decreased considerably.

The Russian government's Strategic Development Plan for the chemical industry forecasts growth to \$153.2 billion by 2015. The strategy calls for a 12% decrease in imports and the development of domestic production to replace imports of more complicated, secondary chemicals.

Machinery: Although market statistics for chemical machinery are not readily available, this sector is heavily skewed toward imports. Nearly 100% of molding and extrusion equipment used by Russian chemical companies is imported. Leading exporters of equipment include Germany, Italy, Austria, China, Taiwan, South Korea, Hong Kong, Switzerland, Luxembourg, France, Sweden and Spain.

In 2006, approximately 70 domestic molding equipment manufacturers were represented in the Russian market. Imports grew in 2006, compared to previous years, primarily due to an increasing share of new equipment and a decreasing amount of used machinery. European suppliers continued to sell both new and used molding machines. For example, the German company Demag, one of the leading exporters to Russia, realized 54% of its sales to Russia by supplying new equipment, while 46% was used equipment. Asian molding equipment manufacturers supplied only used equipment to Russia in 2006.

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Chemical and plastic processing equipment, special coatings, and complex specialty chemicals. The Russian government's plan to expand the chemical sector should lead to increased purchases of imported production equipment.

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The competitive situation in this market will force local chemical companies to upgrade their technologies to be able to meet demand for new materials and products. In the next five years, the best opportunities for U.S. exporters will be machinery and equipment that can enable local manufacturers to increase market share in quality secondary chemical products.

Organizations

Plastinfo – Plastics Industry Directory
www.Plastinfo.ru

Trade Events

Chemistry Expo
 Moscow
 September 28-October 2, 2009
www.chemistry-expo.ru

Publications

The Chemical Journal
www.tcj.ru

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Consumer Electronics**Overview**

\$ millions	2006	2007	2008 Estimate
Total Market Size	12,000	15,000	17,500
Total Local Production	2,000	3,000	4,000
Total Exports*	2,000	2,000	2,500
Total Imports	12,000	14,000	16,000
Imports from the U.S.	N/A	N/A	N/A

Source: all data are estimates by industry experts.

* IT products

The Russian consumer electronics market includes [personal computers](#), [telephones](#), [MP3 players](#), [audio equipment](#), [televisions](#), [calculators](#), [automotive audio/video and navigation systems](#), home security and automation products, products for playback and recording of video and audio media, and other products for entertainment and communications.

The consumer electronics market is the most developed and most competitive retail market in Russia. In recent years the market has grown 10% to 25% annually, depending on the product. According to Deutsche Bank's expert evaluation, Russia's household product market, including home appliances and consumer electronics, ranked the seventh largest in the world with over \$25 billion in annual sales. The major portion of the consumer electronics market is occupied by products imported from Asia, Europe,

and the United States. All major global brands are represented in Russia and have wide recognition. Local production is low and mostly represented by IT manufacturers and ODMs (Original Design Manufacturers) providing EMS (Electronics Manufacturing Services) for contract manufacturing of CRT, PDP, and LCD TVs, as well as DVD players under Sony, Panasonic, Akai and other well-known brands.

About 50% of consumer electronics sold in Russia is sold by the four largest retail chains which have hypermarkets and stores located in Moscow, St. Petersburg and other large cities. Another 25% is sold by regional trading chains, while the rest is sold by small retail companies and through the internet.

Accurate figures for the consumer electronics market in Russia are difficult to determine due to a large number of so-called "grey market" imported products on the market. However, with the growth of the largest retail chains, their market share will increase, with a corresponding decrease in "grey market" goods. According to the Russian Association of Trading Companies and Manufacturers of Consumer Electronics (RATEK), 100% of mobile phones, about 50% of notebook computers, nearly 80% of LCD and PDP TVs, and over 20% of photo and digital video cameras are legally imported into Russia, and their share is increasing. The U.S. consumer electronics share of the Russian market is mostly represented by IT products, high-end audio products, automotive audio and navigation products, home security and automation products, and mobile phones.

Best Prospects/Services

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Audio/video equipment, automotive audio and navigation products, home security and automation products, multi-media, wireless and networking products.

Opportunities

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Prior to the effect of the global economic crisis on the Russian market in late 2008, the Russian consumer electronics market was recognized as the fastest growing consumer electronics market in Europe. It will continue to be a significant international market for U.S. consumer electronics; however, analysts project a 15% to 30% drop in sales in 2009 over the previous year. A steep devaluation of the Russian ruble in late 2008 and early 2009 will also have a negative impact on Russia's import-oriented consumer electronics market. Nevertheless, as most consumer electronics are imported and there continues to be a high demand for the latest and most technologically advanced products, there will still be opportunities for U.S. companies, particularly in high quality electronics gear and modern digital electronic products. High-end mobile phones, particularly the latest smart phones, are highly sought-after status symbols by Russian consumers. Automotive navigation products are increasing in use, particularly on Moscow's spread-out and congested roadways. Quality, functionality and uniqueness are competitive advantages.

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Organizations

Russian Association of Trading Companies and Manufacturers of Consumer Electronics (RATEK)

www.ratek.org

Trade Events

HDI Show 2009

Moscow

April 9-12, 2009

www.hdi.ru/en/hdishow

Integrated Systems Russia 2009

Moscow

December 8-10, 2009

www.isrussia.ru

HI-TECH BUILDING & House 2009

Moscow

December 8-10, 2009

www.hthb.ru

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Agricultural Sector

Agriculture

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Russian agricultural imports from all countries as of September 2008 were up approximately 26% over the previous year, and were on track to hit \$28 billion by year's end. Russia is among the top export destinations for many U.S. agricultural products.

Year-on-year and average annual growth in Russian agricultural imports can be seen in the following table:

Russia: Growth in Agricultural Imports

	2003	2004	2005	2006	2007
Agricultural Imports (billion dollars ¹)	11.6	13.3	16.9	21.1	26.5
Growth Year-on-Year (%)		15	27	25	26
5-Year Average Annual Growth (%)					23

¹ Total agricultural imports include HTS codes 01-24 plus natural fibers, hides, skins, and natural rubber. Data exclude roughly half a billion dollars of imports from Belarus, which has a common customs union with Russia.

Source: World Trade Atlas

Top performing U.S. exports to Russia in 2008 include poultry, pork, food preparations, beef offals, tobacco and tree nuts. U.S. poultry exports are the largest contributor to the total value of agricultural exports to Russia, accounting for over 60% of the total value of U.S. agricultural exports in 2008. Impressive growth in U.S. fruit and nuts continues.

Other top U.S. export products include: fish, peanuts, snack foods (excluding nuts), wine, and hides and skins. Butter exports were a new opportunity in 2008, benefitting from the use of the GSM-102 program. The Russian Government's financial support to the domestic livestock sector through the import of genetics increased opportunities for U.S. exports and this trend is expected to continue.

Russia's retail sector has grown at a pace of 20% to 30% annually and has been one of the fastest growing sectors of the Russian economy. Starting at \$35 billion in 2000, the volume of the food and beverage retail market has risen five-fold. According to the data from the Federal State Statistics Service (Rosstat), the value of the food and beverage market in Russia reached \$191 billion in 2007 and contributed more than 44% to total retail sales. In the first 10 months of 2008, sales of food increased 9%. Because retailers demand consistent quality and adherence to contract specifications, and penalize suppliers for failure to meet requirements, foreign suppliers continue to be competitive in the Russian market as they are more accustomed to meeting such demands than are Russian agricultural producers. Despite worsening economic conditions that emerged in Russia in the last half of 2008, major retailers such as Victoria and Magnit report that they are maintaining the level of imported products on their shelves, an average of 20% to 25%.

In addition to the increase in size of the Russian food retail market as mentioned above, the structure of the market is changing as well. The structural evolution has been led by large retailers with annual turnover exceeding \$1 billion. The expansion has been focused mainly on developing modern retail formats in large urban areas such as Moscow and the surrounding areas (50%) and St. Petersburg (30%); however, some retailers have made considerable efforts to expand into Russia's regions. The Russian food retail market is highly fragmented due to a large number of companies operating in the market. The top 10 food retail chains currently occupy about 13% of the retail food market and constitute no more than 40% of the modern retail formats according to "Discovery Research Group." Market fragmentation, the liquidity crisis, devaluation of the ruble, and the overall poor economic forecast could accelerate consolidation of the modern retail market in Russia which may translate into a market entry opportunity for foreign retailers.

Open-air markets and older Soviet-style stores, including wet markets, have been declining in popularity and losing market share to modern retail formats such as hypermarkets, supermarkets, and discounters. The older formats still occupy 67% of the total market but some forecasts predict this share will shrink to 45% by 2010. Of the modern retail formats, hypermarkets, and discounters are the fastest growing food retail formats, which control 27% and 43%, respectively. Hypermarkets are generally located in suburban areas outside larger cities. They attract consumers through lower prices and a large selection of products. St. Petersburg is the leader in these modern formats with sales at these establishments accounting for 22% of all sales citywide. Convenience stores have also grown in popularity in residential areas because of their accessibility and large selection of products compared with traditional small Russian outlets.

When evidence that the worldwide economic crisis had spread to Russia in the last quarter of 2008, retailers changed their strategy from expansion to market maintenance and survival. Many large retailers have frozen development projects in order to cut overhead to free up cash for operating expenses. For example, leading Russian retailer X5 Retail Group had invested \$1 billion for capital expenditures in 2008, but has cut that figure in half for 2009 according to market research conducted by “Rosbusiness Consulting”. Interviews with retailers indicate that they have reduced their workforce by 10% to 30%, mostly administrative personnel and those working in the development departments.

According to Rosstat, inflation in 2008 reached 13.3%, far exceeding the Russian government’s forecast of 7% (which was adjusted upward several times throughout the year). Growth in food prices is a primary contributor to higher-than-expected inflation and is popularly perceived as having greatly exceeded Rosstat’s estimated 2008 food price inflation, 17.7%, especially for staples.

Agricultural finance improved from 2005 through 2008 due to infusions of government money into the charter capital of the Russian Agricultural Bank (Rosselkhozbank, www.rshb.ru) and expansion of its branch network into all provinces of Russia in 2007-2008. Nonetheless, capital remains in short supply relative to demand and has been hampered by the global liquidity crisis at the end of 2008. Only 30% of agricultural land is even theoretically usable as mortgage collateral and less than 11% has been properly registered to permit it to be mortgaged, which constrains investment in agriculture. Vertical integration remains a major tool of producers and processors due to under investment in services, marketing infrastructure, and input supply chains.

The 2005-2007 National Priority Project for agriculture has been succeeded by a five-year program of agricultural development and market regulation, set to run from 2008 through 2012. Modeled after European Union and U.S. farm legislation, this program of support is intended to revive the Russian livestock sector and to provide basic forms of farm support.

Official statistics underreport agricultural trade due to heavy transshipments to Russia through Europe, particularly for fresh fruits and vegetables and for live horses.

The Russian Customs Service published a new list of points of entry authorized to handle customs declarations of meat and meat products that took effect February 14, 2008. Many customs declaration points in the Russian Far East Customs Directorate and the North West Customs Directorate, which together handle more than 85 percent of Russian meat imports, are currently missing from the list of approved entry points and are seeking inclusion in the list. Meat importers and processors expect the list of declaration points to be expanded, as the current order would cause considerable disruption to imports.

Best Prospects/Services

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Lists

As of January 1, 2009, the Russian Federal Veterinary and Phytosanitary Surveillance Service (VPSS) has stopped issuing certificates for U.S. pet food, animal feed and animal feed additives. VPSS officials have advised that trade can resume only after

USDA's Animal and Plant Health Inspection Service (APHIS) provides lists of U.S. manufacturers that currently export to Russia. A similar list has been requested for milk and dairy before March 1, 2009. While list have been a long standing requirement for pork, poultry and beef, VPSS has requested that USDA review and provide a new list of facilities by April 1, 2009. The rigid control also extends to fish and seafood entering Russia. According to the Russian regulation starting January 1, 2009, all imported fish and seafood have to be shipped from foreign facilities approved by VPSS inspectors. However, the requirement will not apply to shipments of U.S. fish and seafood until July 1, 2009.

VPSS has request that the United States certify that facilities included on the lists for all commodities meet all Russian import requirements.

Poultry

In 2007 poultry meat was a \$1.1 billion market from all origins, including \$635 million (60%) from the United States. In June 2005 the United States and Russia signed a meat agreement establishing a tariff rate quota (TRQ) for meat and meat products until 2010, including poultry. However, in late 2008, Russia requested consultations with its trading partners to discuss modifying the agreement for 2009. After long discussions, an agreement was reached between Russia and the United States cutting the U.S. poultry TRQ in 2009 to 750,000 MT and increasing out-of-quota tariffs to 95%. Under the deal Russia cut its 2009 quota for poultry imports from all countries from 1.25 million to 952,000 MT. In 2009 the volume of poultry imports eligible for reduced tariffs (25% *ad valorem*, but no less than 0.20 Euro per kg) under the TRQ is 952,000 MT from all origins, including up to 750,000 MT from the United States. Out-of-quota poultry meat is subject to a 95% *ad valorem*, but no less than 0.80 Euro per kg, tariff. Poultry meat and meat by-products may only be shipped from approved plants that have undergone special inspections to ensure conformity with Russian inspection criteria.

Beef

In 2007, Russia imported nearly \$1.8 billion worth of beef and beef by-products from all origins. U.S. beef exports to Russia were halted December 24, 2003 due to the outbreak of bovine spongiform encephalopathy (BSE, or "mad-cow disease") in the United States, but in 2007 the United States and Russia negotiated a new veterinary health certificate for beef based on standards of the International Organization for Animal Health. Beef and beef by-products may only be shipped from approved plants that have undergone special inspections to ensure conformity with Russian inspection criteria. To date Russia's veterinary service has listed 29 establishments as eligible to export to Russia following a round of plant inspections. Since the adoption of the beef veterinary certificate, the BSE status of the United States has been upgraded, and efforts are underway to negotiate a less restrictive veterinary health certificate reflecting that improved animal health status. Beef and beef by-products are subject to TRQs; in 2009, a total of 29,500 MT of fresh or chilled beef and 450,000 MT of frozen beef is eligible for the reduced tariffs (15% *ad valorem*, but no less than 0.20 Euro per kg for fresh/chilled and 0.15 Euro per kg for frozen). The U.S. country allocation in 2008 is 18,500 MT of frozen beef or beef by-products. High-quality ("Hilton") beef is not subject to the TRQ, but rather to a 3.00 Euro per kg *ad valorem* tariff.

Pork

Pork imports were a \$1.7 billion market (all origins) in 2007, of which the U.S. share was \$185 million (12%). In June 2005 the United States and Russia signed a meat agreement establishing a TRQ for meat and meat products until 2010, including pork. However, in late 2008 Russia requested consultations with the United States to discuss modifying the agreement for 2009. After long discussions, an agreement was reached between Russia and the United States increasing the U.S. pork TRQ in 2009 to 100,000 MT and increasing out-of-quota tariffs to 75%. Under the deal Russia increased its 2009 quota for pork imports from all countries from 502,200 to 531,900 MT. In 2009 the volume of pork imports eligible for reduced tariffs (15% *ad valorem*, but no less than 0.25 Euro per kg) under the TRQ is 531,900 MT from all origins, including up to 100,000 MT from the United States. Out-of-quota pork meat is subject to a 75% *ad valorem*, but no less than 1.5 Euro per kg, tariff.

In 2007, the United States and Russia negotiated a new veterinary health certificate that allows frozen pork to be sold at retail and abolishes a previous requirement that all pork for retail sale undergo trichinosis. Pork meat and meat by-products may only be shipped from approved plants that have undergone special inspections to ensure conformity with Russian inspection criteria.

Major competitors include Brazil, Canada, and Denmark, as well as rising domestic production spurred by the 2005-2007 National Priority Project for Accelerated Development of the Agroindustrial Complex and its successor the Government Program for Agriculture and for Market Regulation 2008-2012. Best prospects in the near term include frozen retail cuts as well as unprocessed pork as raw material for the sausage and food processing industries.

Livestock and Poultry Genetics

Following completion of the 2005-2007 National Priority Project for Accelerated Development of the Agroindustrial Complex, the Russian government adopted a five-year agricultural development program intended to create a new beef sector as well as to stimulate continued development of the poultry and pork sectors. The United States and Russia have successfully negotiated veterinary health certificates for live cattle, live swine, live horses and bovine embryos, which opened the door for imports of these items in 2008. Bovine semen imports from all origins totaled \$1.2 million in 2007, and are on track to exceed \$2.0 million in 2008, including \$700,000 worth from the United States. Live horses for breeding and racing are a major item estimated at \$60 million (precise data are unavailable due to transshipments via Europe).

Food Ingredients/Food Processing

Quality is becoming increasingly important to Russian consumers, meaning U.S. suppliers remain competitive for provision of inputs to the rapidly expanding food processing industry in Russia. Specialized ingredients for the meat processing, confectionary, juice and dairy processing sectors are in strong demand. Anti-biotechnology sentiment continues to rise, however, and actions by the Moscow City Council to require GMO labeling on packaged foods may induce importers to demand information on GMO content of ingredients.

Edible Tree Nuts

Since 2005, nut consumption in Russia has increased, driven largely by rising incomes, the increased awareness of the health benefits of nuts, and a trend toward maintaining a health-conscious diet. Tree nut imports tripled between 2006 and 2007 and outpaced projected sales for the year by reaching \$240 million from all origins. The United States is the second largest supplier of nuts to the Russian market (after Iran), having shipped \$67.8 million (28%) in 2007. Almond imports from the United States reached \$60 million in 2007, double the 2006 record. U.S. pistachios entered the Russian market in 2007 and according to 2008 third quarter data, Russia has imported \$27.3 million worth, 24% of total pistachio imports to Russia. Based on data for the first nine months of 2008, Russian imports of nuts are on track to far exceed 2007 sales, with nine-month sales of pistachios and almonds alone at \$77.3 million. Almonds, hazelnuts, and pistachios are the most popular nuts with consumers. The majority of imported nuts are packaged in Russia into consumer-ready packs or used in the confectionary and baking industries.

The financial crisis is expected to impact the industry. Nut traders began reporting a decrease in orders for almonds at the end of 2008 and are predicting the industry will shift away from expensive nut varieties in order to keep input costs low so the final product will remain affordable for consumers.

Fish and Seafood

Russian imports of fish and seafood exceeded \$1.7 billion in 2007, an increase of 43% over 2006. Imports from the United States are estimated at \$51.7 million up 17% versus 2006. Total Russian imports of fish and seafood are expected to reach about \$1.8 billion in 2008, based on third-quarter data. According to Rosstat, retail prices for fish and seafood in Russia increased 12% in 2008. For 2009 we expect higher demand for fish in lower-priced segments such as herring, hake and perch, compared with more expensive fish and value-added products. Most companies have attributed this change to the current economic slowdown and decreasing purchasing power of the middle class. Fish consumption patterns depend heavily on household income and preferences within the population. According to Rosstat, consumption patterns indicate a 27% preference for herring, 26 % for pollock; 18% for mackerel, 10% for salmon and trout, and 19% for other species. Frozen fish is also traditionally popular with the Russian population.

Fresh Fruit (Apples, Pears, Grapes, Citrus)

Russia is a net importer of fruit. While Russia is expected to continue investing in domestic production of apples on a commercial scale, the market remains highly dependent on fruit imports. In 2008, total fruit imports in Russia reached 3.5 million MT valued at more than \$2.6 million, a 17.2% increase over 2007. Russia is the world's largest importer of apples (731,000 MT) and pears (298,000 MT) and is one of the top five importers of grapes and stone fruit.

Russia imports fruit from all over the world. Apples and pears are traditionally imported from European countries. Grapes are imported from the Middle East, and pears, grapes, and exotic fruits are imported from the Southern Hemisphere. CIS countries such as Uzbekistan, Tajikistan, Ukraine, and Kazakhstan have also increased sales of fresh fruit to Russia. Last year, China became the main supplier of apples to Russia. U.S. fruit exports exceeded \$10 million and reached 20,000 tons in volume. Sales of

U.S. apples rose 40%, reaching 14,000 MT or \$7.1 million. Sales of U.S. pears in 2007 grew to 5,868 MT, a 25% increase over 2006.

Test shipments of nectarines, peaches, and plums are coming to the Russian Far East. The trade and production record indicates that per capita fruit consumption in Russia rose to 42 kg. Healthier lifestyles are becoming more popular in Russia as diets are changing, and consumers are choosing more fresh and dried fruit as a substitute for other snacks. Fruit-based deserts are increasingly available in foodservice, and people are drinking more freshly squeezed juices.

In addition to the economic uncertainty affecting all food import sectors, major issues facing fresh fruit imports are counterfeit product from other third countries and port congestion in St. Petersburg, a chokepoint for trade in perishables.

Wine and Spirits

Russian wine imports rebounded in 2007 with a 44% increase over the previous year and sales reaching \$777 million. A portion of the gains can be attributed to the reopening of the market to Moldovan and Georgian wines which were banned in April 2006. Wine imports from Moldova resumed in November 2007 and imports from Georgia resumed in January 2008. As of September 2008 wine imports were up 27% over than the previous year, but the United States remained underrepresented, with only \$3.7 million (0.5%) of sales in 2007. U.S. wine sales for the first nine months of 2008 were up by about 71%. The major competitors are EU countries, especially France, Italy, Spain and Bulgaria, which enjoy geographic advantages and historic trade ties in this market. In 2008, Italy overtook Spain for second place in wine sales, and Moldova, which had been the market leader before the import ban, is still trying to regain market share and currently stands in sixth place behind Bulgaria. Aggressive marketing of U.S. wines has yielded results. The spirits trade continues to expand, with Russian imports of hard liquor exceeding \$1 billion in 2007, an increase of more than 58% over 2006 figures. U.S. spirits exports to Russia hit \$24.6 million in 2007 and were up 149% over the previous year. Hard liquor imports in the first three quarters of 2008 were \$15.5 million alone (primarily Tennessee Whiskey and Kentucky Bourbon). American whiskies have begun to penetrate urban markets, competing with the market-dominant Scotch whiskies and European brandies and vodkas.

Other Products

Snack foods, hides and skins for tanning, dried fruits, wild rice, popcorn, and microwaveable foods offer additional good opportunities for sales in Russia.

Russia: Imports of Selected Agricultural Products from the United States (Million U.S. dollars)

Position	Commodity Description	2003	2004	2005	2006	2007
		405.	396.	487.	545.	634.
0207	Poultry Meat	0	3	6	5	9
					148.	180.
0203	Pork	3.7	23.4	43.5	1	4
2401	Tobacco, Unmanufactured	57.6	105.	89.2	63.6	73.3

0802	Nuts, Fresh Or Dried	4.2	4.9	10.4	31.5	69.1
2106	Food Preparations Nesoi	20.6	38.8	44.7	51.7	64.1
0303	Fish, Frozen, not Fillets	4.6	14.0	29.7	34.8	33.0
0206	Edible Offal	47.1	5.4	12.7	17.0	28.9
2208	Spirits	3.9	5.6	7.5	9.9	24.6
2303	Manufacturing Residues	5.1	4.2	5.7	6.6	23.1
1202	Peanuts, Raw	1.1	2.2	1.6	12.1	18.3
0304	Fish Fillets	2.5	7.7	11.3	7.8	16.2
1206	Sunflower Seeds	1.7	4.4	13.0	15.7	15.5
2309	Preparations Used In Animal Feeding	4.6	4.9	8.5	10.0	14.9
1302	Pectates	1.1	3.4	6.4	7.7	13.7
2304	Soybean Residues	11.9	14.7	3.3	8.1	13.4
0808	Apples, Pears And Quinces, Fresh	1.6	2.6	6.6	6.0	10.2
2009	Fruit Juices	2.5	3.0	2.3	6.5	6.6
2008	Fruit, Nuts, Prepared Or Preserved	0.6	0.6	0.6	2.8	4.8
0405	Butter, Oils From Milk	0	0	0	0.6	2.9

Source: World Trade Atlas, from Russian Customs Service data

Note: Official statistics underreport trade due to heavy transshipments to Russian via Europe, particularly for fresh fruits, wine, and spirits.

Resources

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Organizations

U.S. exporters should consult reports from USDA's office in Moscow, which are posted on the website of the Foreign Agricultural Service under the "Attaché Reports" heading. Of particular interest should be the annual *Exporter Guide* as well as periodic reporting on changes in tariffs, market opportunities, and Russian commodity trends. Exporters should consider exhibiting their products in the U.S. pavilions at the World Food trade show (September 2009, Moscow, foodstuffs) or the Golden Autumn trade show (October 2009, Moscow, genetics and production agriculture inputs). For further information on these shows, please contact the Moscow Agricultural Trade Office at: atomoscow@fas.usda.gov

U.S. Embassy

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U.S. Department of Agriculture, Foreign Agricultural Service
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Tel: (202) 720-2705

Foreign Agricultural Service, USDA
www.fas.usda.gov

Agricultural Attaché Reports
www.fas.usda.gov/scripts/AttacheRep/default.asp

USDA office at the American Embassy, Moscow, Russia
www.eng.usda.ru

Ministry of Agriculture
www.mcx.ru

Ministry of Economic Development
www.economy.gov.ru

Trade Events

World Food Trade Show
Moscow
September 15-19, 2009
www.world-food.ru

Golden Autumn Trade Show
Moscow
October 9-13, 2009
www.goldenautumn.ru

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Chapter 5: Trade Regulations and Standards

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Import Tariffs

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Russia continues to maintain a number of barriers with respect to imports, including tariffs and tariff-rate quotas, discriminatory and prohibitive charges and fees, and discriminatory licensing, registration and certification regimes. For more detailed information concerning tariffs, please refer to the “Customs Regulations and Contact Information” section below. The following is a selection of tariff ranges for popular U.S. goods entering Russia.

<u>Commodity</u>	<u>Rate (%)</u>
HS 02: Meat and edible meat products	
(within quota)	15
(beyond quota, but not less than .30 Euro/kilo)	30
HS 0207 (within quota, but not less than .2 Euro/kilo)	25
(beyond quota, but not less than .48 Euro/kilo)	60
HS 24: Tobacco and manufactured tobacco/Unmanufactured tobacco	5
- Cigars and Cigarettes	30
HS 28: Inorganic Chemicals	5
HS 38: Miscellaneous chemical products	5
HS 39: Plastics and Articles thereof	10
- Finished products	20
HS 73: Articles of iron and steel	15
HS 84: Nuclear reactors, boilers, machinery	5-20
HS 85: Electric Machinery	5-20
HS 87: Vehicles except railway and tramway	5-25
HS: 8708 Auto parts	5
HS: 90 Optic, Photo, Medical and Surgical Instruments and devices	5-15
-medical equipment	5

Current information on tariffs can be found at: <http://www.russian-customs-tariff.com/>

Changes in the Commodity Schedule were implemented in 2004 in accordance with the international obligations of the Russian government to comply with HS codes and Russia's intention to enter the WTO. The new customs tariff schedule changed rates for 140 categories of commodities, lowering the tariff ceiling for 90% of the categories. Notable changes included lowering import tariffs for audio- and video- equipment and components from 20% to 15%, for fruits and vegetables from 10% to 5% and for sewing machines from 25% to 20%. Certain commodities continue to be regulated through seasonal duties and quotas.

In addition to tariffs, there are two other charges applied to imports: The ubiquitous Value Added Tax (VAT) and selective excise taxes. The universal VAT rate was reduced from 20% to 18% effective January 1, 2004 (with the exception of foodstuffs, pharmaceuticals and medical supplies for which VAT is 10%) and is applied to the import price, tariff, and excise tax combined. There are some exemptions from VAT. For example, resolution No.19 of January 17, 2001 provides a list of vitally essential medical equipment to which no VAT is applied. The excise tax applies to a number of luxury goods, alcohol and cigarettes, and varies from 20% to 570%.

From December 2008 through February 2009, the Russian government announced a series of significant duty increases on cars, harvesters, certain steel products (including pipes, tube and rebar), and certain agricultural products (including butter, milk and soy meal). These duty increases, which will be in effect for a temporary period of nine months, will likely be a hindrance to U.S. exports to Russia. After the initial nine-month period, the Russian government will make a determination whether to maintain the duty increases or to let them expire.

The duties on imported vehicles increased by as much as 20% for new cars, and increased to a prohibitive level for used cars older than four years. U.S. automobile makers already manufacturing in Russia will be less affected because the duty increases will only impact their imported vehicles and will not apply to their cars produced or assembled at Russian plants.

The duty rates for harvesters were increased dramatically by at least 200%. The duty increases will likely contribute to sales declines in Russia for the major U.S. and EU producers of agriculture equipment, as will other factors, including the strengthening of the dollar and Euro against the ruble and the current difficulties in securing financing within Russia for the purchase of foreign agricultural equipment. The duty increases for butter and milk were also substantial, while the duty increase for soy meal (used as a protein supplement in animal feed) was more modest.

It appears that the Russian government imposed these measures mainly to protect domestic producers from competing imports during the global economic crisis. The duty increases for soy meal were also likely intended as a revenue collection measure. As Russian companies continue to struggle with the crisis, it is possible that the Russian government will impose additional duty increases on other imported goods.

In addition to duty increases, the Russian Ministry of Industry and Trade is currently conducting global safeguards investigations of harvesters and of certain steel products. Those trade investigations, which will likely conclude in February and March 2009, could result in the imposition of additional duties or import quotas on those products.

In general, U.S. companies face a number of tariff and non-tariff trade barriers when exporting to Russia. A complaint frequently voiced by U.S. companies is Russia's complex system of standardization. As explained in detail in the "Standards" section below, Russia's regime remains extremely complex due to its lack of clarity and transparency, and overall redundancy. While the system has improved somewhat, U.S. companies are encouraged to obtain appropriate legal advice or assistance from experienced distributors or consultants, as well as the U.S. Commercial Service.

Discrimination against foreign providers of non-financial services is, in most cases, not the result of federal law, but stems from abuse of power, sub-national regulations and practices that may violate Russian law. For example, a few foreign service providers have noted that they are forced to pay a range of fees to obtain licenses from local authorities, fees that domestic companies allegedly bypass via bribes.

The 1996 federal law "On Banks and Banking Activity" permits foreign banks to establish subsidiaries in Russia. However, Russia does not allow foreign banks to establish branches in Russia. In November 2006, Russia and the U.S. signed their WTO (World Trade Organization) Bilateral Agreement, a major step in Russia's accession to the WTO. As part of this Agreement, Russia pledged to allow foreign ownership to account for as much as 70% of the country's total banking sector equity. Previously, Russia had the prerogative to legislate the limit on foreign capital to 50% of total equity. However, at the time the bilateral agreement was signed, foreign equity accounted for 20% of the total. Russia's pledge essentially "grandfathered" in that 20% and provided new foreign equity the potential to absorb/account for an additional 50% of total banking sector equity.

The Central Bank has required new foreign bank subsidiaries to have a minimum of €5 million in capital (the same requirement is applied to domestic banks) and that at least 75% of the bank's employees and 50% of the bank's management board be of Russian nationality if the chairman is not a Russian citizen. Heads of foreign banks' Russian offices are required to be proficient in the Russian language.

In the insurance sector, foreign insurance firms are subject to a 49% equity restriction. Foreign firms that were active in Russia when this requirement came into effect, however, were grandfathered and are not subject to the foreign equity limit. Russia also has more generous operating provisions for insurance companies from the European Union, and has been permitting multinational companies to benefit from this more generous treatment provided they conduct their Russian investments via their EU-based offices. Once Russia becomes a WTO member and the United States grants permanent normal trade relations status, U.S. insurance companies will be allowed to operate through subsidiaries, including 100% foreign-owned non-life insurance companies, and will be able to open direct branches at the end of a nine-year transition period. However, as in the banking sector, Russia maintains the discretion to limit foreign sourced charter capital in the insurance sector and if the ratio of foreign sourced to total charter capital in the insurance sector ever exceeds the 50% cap, Russia's regulators will have the discretion to take certain actions specified in Russia's WTO commitments.

Until Russia's accession, EU firms will continue to enjoy an advantage over their counterparts from the United States and elsewhere, since they can offer life and mandatory forms of insurance in Russia directly, without the requirement to work through a majority Russian-owned partner. Russian law currently requires that chief executives and chief accountants of foreign insurers operating in Russia be Russian citizens.

In the telecommunications sector, the 2004 Law on Communications was amended in July 2006 by the law "on Information, Information Technologies and Information Protection." The latter law's impact on competitive alternative telecommunications operators, many of which enjoy large foreign investment, has been substantial, since these companies now fall under tight government regulation. In particular, regulations on interconnection--the process by which alternative operators connect their networks to the Russian public telephone network--place interconnection contracts and fees under the regulatory authority of the Ministry for Information Technologies and Communications. Alternative operators fear that these fees will be raised to subsidize network upgrades of government-owned and ministry-controlled local and long distance operators.

There are significant barriers in the provision of satellite telecommunications services in Russia. In particular, satellite regulation is not transparent. The legal requirements and administrative responsibilities associated with the provision of these services appear to be discriminatory, with the Russian government demonstrating a preference for Russian satellite communications systems, which puts competing satellite systems at a disadvantage. Current Russian legislation restricts foreign investment in the aerospace industry to less than 25% of an enterprise.

The Land Code that was passed in 2001 allows equal treatment of domestic and foreign entities to buy land and buildings, although purchase of agricultural land by foreigners is still prohibited. Discussion on specific land policy continues, including legislation on transfer of use, but a conclusion has not yet been reached. Foreign entities are restricted from buying land close to federal borders and in areas that the President determines critical to national security.

The government enacted the Strategic Sectors Law (SSL) in May 2008. The SSL introduces a list of 42 "strategic" sectors in which purchases of "controlling interests" by foreign investors must be pre-approved by the Russian government. The list of restricted sectors includes: enterprises in the nuclear industry or involved in handling radioactive materials; enterprises involved in work on infectious diseases; arms, munitions, and military equipment production, maintenance, or repair; the aviation and space industries; certain data-transmission (radio, television, telecommunications) infrastructure; production and distribution of encryption technologies and equipment; production and sales of goods and providing services under conditions of a "natural monopoly" (e.g., activities such as operating certain gas networks); newspapers with a circulation of more than one million; and natural resource extraction. Many observers, while welcoming more precision about the rules of the game, have criticized the SSL for being overly broad in the number of sectors it covers, and raised concerns that the approval process will prove to be non-transparent and burdensome.

The SSL approval process involves two steps. Initially, the foreign investment must be vetted by the Federal Anti-Monopoly Service (FAS). The FAS must determine whether the proposed investment is subject to the SSL and then recommend to the Government

Commission on Control of Foreign Investment in the Russian Federation (“Commission”) whether the investment should be approved. The head of the FAS is appointed by the Prime Minister. The Commission is headed by the Prime Minister and is comprised of Cabinet Ministers with jurisdiction over most of the restricted sectors, as well as the Director of the Federal Security Service (FSB).

To date, only two foreign companies have received approval under the SSL: DeBeers (diamond mining) and Alenia Aeronautica (development of Sukhoi Superjet 100). These approvals provide little guidance regarding implementation of the SSL. Both investments were pre-approved by Prime Minister Putin when he was still President and no information about the process was publicized by government authorities.

In conjunction with the SSL, amendments to the sub-soil legislation were also passed requiring governmental approval for foreign investment in excess of 10% in companies operating a “strategic” deposit, which includes major oil, gas, and other mineral deposits. Foreign oil and gas companies are concerned about the potential application of these provisions, including how and when the government may declare a given field strategic and what compensation a field licensee may be given under such declarations. The Russian government continues its policy of not entering into any further Production Sharing Agreements (PSAs - designed for energy projects that require high capital expenditures and a long period before profits or significant tax revenues are generated).

In July 2008, RAO UES, the electricity holding company that controlled all of Russia’s power assets, with the exception of those connected to nuclear energy, completed its corporate reorganization and ceased to exist. It has been succeeded by 24 companies: six wholesale private generation companies (“OGK’s”) and 14 “territorial” generation companies (“TGK’s”), the hydroelectric giant RusHydro; a Federal Grid; and a number of distribution operators. Although the unbundling and privatization of RAO UES was initially hailed as a huge success, concerns are growing.

As a condition to the generating companies’ spinoffs, investors in the OGK’s and TGK’s agreed to implement plans to modernize and expand their respective electricity infrastructure. These plans were premised on the assumptions of robust economic growth and demand, and access to affordable credit. In light of slowing Russian economic growth and tight financial conditions, these investment obligations have become very expensive. Consequently, a number of investors are backing out of acquisition deals or seeking to renegotiate the terms of their acquisitions with the Russian government. It seems unlikely that modernization and expansion of the sector’s infrastructure – a major purpose of the reorganization – will occur in the near future. Because the restructuring was only completed in July 2008, it is still unclear to what degree the electricity generation market will ultimately be deregulated, and whether it will operate in a transparent and non-discriminatory manner.

In aviation, many of the Russian-flagged carriers have aging fleets and use outmoded avionics and engines, but several are seriously considering significant purchases or wet-leases of foreign aircraft in an attempt to be more competitive with Western airlines. Domestic aircraft manufacturers only produce ten planes per year on average and therefore cannot keep up with Russian airlines’ projected demand for 1,500 additional planes in the next twenty years. The airlines hope that Russia’s commitment to reduce aircraft tariffs as part of its WTO accession will help them purchase the modern, fuel-efficient aircraft they need to remain competitive with foreign airlines. Current Russian

law stipulates preferential treatment (tax holidays, guarantees on investment) for Russian and foreign investors in aviation-related research and manufacturing ventures. However, it limits the share of foreign capital in aviation enterprises to less than 25% and requires that board members and senior management staff be Russian citizens. There is speculation that the 25% limit could be raised or eliminated to make way for further investment. Some observers, however, doubt that recent proposals to raise the limit to 49% would be sufficient to attract foreign capital for Russia's aircraft industry.

The signed bilateral agreement on Russia's accession to the WTO and the corresponding side letter on leased aircraft could yield significant market access opportunities. The side letter on leased aircraft has been in force since November 19, 2006, with narrow body leased aircraft enjoying immediate tariff reductions. Tariffs on wide body aircraft will be reduced from 20% to 7.5% over four years following accession. Tariffs on civil aircraft parts, including engines, will be reduced to an average of 5%. As long as the lease is signed before January 1, 2011, aircraft with less than 50 seats will be charged only 8% and those with 115-160 seats will be charged 10%.

The Russian government eliminated the import tariff on small aircraft with up to 19 seats for a period of nine months as of July 16, 2008. According to the Ministry of Transportation, the measure will be extended after nine months. In September 2008, the government announced that the import tariff for aircraft with up to 50 seats would be cancelled as of January 1, 2009, and that import tariffs for aircraft with 115-160 seating capacity would also be temporarily canceled, so long as the aircraft were not more than ten 10 years old and were imported into Russia prior to 2011 under leasing contracts for no longer than five years. Neither of the decrees finalizing these proposals has yet been issued.

The import tariff on foreign aircraft with over 300 seats was eliminated for a period of nine months beginning in February 2008. In September 2008, the Russian government recommended permanent cancellation of import duties on aircraft seating more than 300 passengers, but no date has been set yet for this permanent tariff reduction measure to come into effect.

U.S. industry reports that illegal logging accounts for as much as 20% to 30% of Russia's timber harvest. Illegal wood supplies have begun to appear in China, hurting U.S. exports to that market. Illegal logging continues to increase, particularly in the Far East due to its proximity to China. According to World Wildlife Fund data, the share of unregistered wood to total volume of timber consumption is 53% in the Chita region, 34% in Primorskiy Kray, 33% in Khabarovsk Kray, 17% in Vologda region, and 10% in Krasnoyarsk Kray.

Import Requirements and Documentation

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Importers are required to complete a Russian customs freight declaration for every item imported. A declaration must be supported by the following documents: contracts, commercial documents such as commercial invoices and packing lists, transport documents, import licenses (if applicable), certificates of conformity and/or safety (see "Product Standards" below) certificates of origin (if applicable), sanitary certificate (if applicable) and documents confirming legitimacy of declarants/brokers/importers.

As for all exports, exporting firms are required to complete a Shipper's Export Declaration (SED) but this document does not need to be presented to Russian Customs, although they may ask for it. Exporters must present the appropriate export license (see next section), if one had to be obtained, at customs. Customs officials may seek other documentation to substantiate the declared value of any shipment

In addition, currency control regulations require issuance of a "passport" for both exports and imports to ensure that hard currency earnings are repatriated to Russia. The regulations also ensure that transfers of hard currency payments for imports are for goods actually received and properly valued.

U.S. Export Controls

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The U.S. Department of Commerce's Bureau of Industry and Security (BIS) is responsible for implementing and enforcing the Export Administration Regulations (EAR), which regulate the export and re-export of some commercial items, including "production" and "development" technology. The items that BIS regulates are often referred to as "dual use" since they have both commercial and military applications. Please note that even commercial items without an obvious military application may be subject to the EAR and may even require an export license. Items with an Export Control Classification Number (ECCN) that are regulated for Chemical and Biological Weapons (CB), National Security (NS), Missile Technology (MT), Regional Stability (RS) or Crime Control (Column 1 or 2) purposes require a license from BIS for export to Russia.

Further information on export controls is available at:
<http://www.bis.doc.gov/licensing/exportingbasics.htm>

BIS has developed a list of "red flags", or warning signs, intended to discover possible violations of the EAR. These are posted at:
<http://www.bis.doc.gov/enforcement/redflags.htm>

Also, BIS has "Know Your Customer" guidance at:
<http://www.bis.doc.gov/Enforcement/knowcust.htm>

If there is reason to believe a violation is taking place or has occurred, report it to the Department of Commerce by calling the 24-hour hotline at 1(800) 424-2980, or via the confidential lead page at: <https://www.bis.doc.gov/forms/eeleadsntips.html>

The EAR does not control all goods, services, and technologies. Other U.S. government agencies regulate more specialized exports. For example, the U.S. Department of State has authority over defense articles and services. A list of other agencies involved in export control can be found on the BIS web site or in Supplement No. 3 to Part 730 of the EAR, which is available on the Government Printing Office Web site at:
http://www.access.gpo.gov/bis/ear/ear_data.html.

For further details about the Bureau of Industry and Security and its programs, please visit the BIS website at: <http://www.bis.doc.gov>

Temporary Entry

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Temporary entry of goods is allowed with full or partial relief from customs duties and import VAT for a period of up to two years. The Customs Authority issues authorization for temporary entry of goods based on a written application submitted by an importer. The list of goods for temporary entry with full relief from customs duties and taxes as well as terms of such relief is regulated by the Russian government.

Full conditional relief from customs duties is allowed when it does not affect the Russian economy, such as the temporary import of:

- Containers, pallets, and other types of containers and packages for repeated use;
- Goods for the purposes of the development of international relations in the scientific, cultural, sports, cinematography and tourism fields;
- Products for international assistance;
- Commercial samples, not for sale, used at trade shows and exhibitions.

All goods falling outside of this list are subject to partial relief only, as established by the Customs Code. Article 213 of the Customs Code provides for temporary import with a partial exemption from customs duties for 34 months when goods are classified as main production assets on the condition that such goods are not owned by the Russian entities using them in the territory of the Russian Federation. When partial relief from customs duties is applied, 3% of the amount of customs duties and taxes should be paid on a monthly basis for the period when goods are located in the customs territory of the Russia Federation.

In practice, however, many U.S. companies bringing in commercial samples have had problems with Russian Customs. Sometimes officials demand that the importer pay a bond to cover any applicable import duties if the goods are sold in Russia.

Also in regard to commercial samples, Russian Customs accepts the use of ATA Carnets, which are widely and effectively used.

For further information, please refer to the Russian State Customs Committee Website: <http://www.customs.ru>, or <http://www.tks.ru>.

Labeling and Marking Requirements

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Labels on food items must feature the following information in the Russian language: type and name of the product; legal address of the producer (which may be given in Latin letters); weight or volume of the product (if a food item is preserved in liquid – weight without the liquid mass); food contents (name of basic ingredients and additives listed by weight in decreasing order); nutritional value (calories, vitamins if their content is significant or if the product is intended for children or for medical or dietary use); conditions of storage; expiration date (or production date and period of storage); directions of preparation of semi-finished goods or children foodstuffs; warning information on any restrictions and side effects; and terms and conditions of use.

Labels on nonfood items must include the name of the product, the country of origin and the name of the manufacturer (which may be given in Latin letters), usage instructions, the main characteristics, rules and conditions for effective and safe use of the product, and other information determined by the state regulation body.

Prohibited and Restricted Imports

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The import and export of goods in Russia is carried out in accordance with the Federal Law on "Government Regulation of International Trade Activities" of 2003, which stipulates the application of quotas, licenses and other temporary restrictions on such operations.

Import licenses are issued by the Russian Ministry for Economic Development or its regional branches, and controlled by the State Customs Committee. Licenses for sporting weapons and self-defense articles are issued by the Interior Ministry. Licenses are required for many items including:

- Alloys
- Carpets
- Color televisions (14, 21, and 25-inch)
- Combat and sporting weapons
- Ethyl alcohol
- Explosives
- Medicine
- Military and ciphering equipment
- Precious metals
- Radioactive materials and waste
- Self-defense articles
- Stones
- Strong poisons and narcotics
- Tobacco products
- Stones
- Vodka and many other types of alcoholic beverages

To learn whether an import license is needed for a particular product, contact the Russian Ministry for Economic Development licensing department.
(www.economy.gov.ru)

Customs Regulations and Contact Information

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As a member of the World Customs Organization, the Convention of Temporary Imports and the International Convention on Harmonized Commodity Description and Coding System, Russia is obligated to adhere to internationally accepted customs regulations and practices. In January 2004, Russia implemented a new Customs Code as part of its efforts to WTO accession. The new code reduced the time for customs clearance from ten to three days. It also offered the advance declaration of cargo before its arrival at customs. Other important changes introduced by the new Code included:

- Restricting the Russian Federation State Customs Committee from issuing contradictory additional regulatory acts
- Making possible the settlement of disputes with Customs authorities directly in a court of law
- Establishing a definitive and comprehensive list of documents that must be submitted for Customs clearance
- Limiting the maximum time for the Customs clearance process to three days compared to the previous ten
- Prohibiting the Customs authorities from refusing to accept a declaration that contains inaccurate information, if this information has no impact on the defrayal of Customs payments, or does not place restrictions in foreign trade
- Allowing clearance of goods through any Customs office
- Providing urgent Customs clearance for perishable goods, express cargoes, or time-sensitive materials for the mass media

After several years of working under the Russian Federation's new Customs Code, the government and business community have acknowledged that amendments are now needed. While well-received by all parties concerned as a first step in 2003, most liberal and progressive provisions of the Customs Code proved to be difficult to apply. Additionally, customs practitioners have found that the Code, designed to meet WTO requirements, still leaves much to the discretion of customs authorities. In fact, on the official customs website, authorities acknowledge that personnel may not be adequately trained, international standards in trade logistics are not fully utilized, salaries for senior customs officers do not reflect the economic significance of their decisions and "the level of corruption of customs authorities of the Russian Federation is still high."

Over recent years, the priorities for customs modernization included improvement of customs regulations, implementation of IT systems and enhanced dialogue with market participants. There is also a clearer understanding of the continued need for customs to take effective action against significant levels of grey market practices and to implement effective control coordinated on a global scale. However, many examples of arbitrary practices by local customs officials still exist and are encouraged by ambiguities in the customs legislation. Small and medium-sized enterprises remain most vulnerable to these arbitrary practices.

In a country where clearing goods through customs can still be more art than science, and significant delays remain common, the new import structures are seen as taking Russia a step further along the road to reduced barriers to foreign trade, conformity to world trade practices, and membership in the WTO.

Customs Valuation

The customs value is generally considered to be the CIF (cost-insurance-freight) price of the goods imported. A customs-processing fee is also levied. If customs officials do not agree with the customs value of goods declared they are authorized to request additional documents that support the declared customs value. It is often normal practice for customs officials to request the Shippers Export Declaration (SED), which they consider to be a sufficient proof of the customs value. However, presenting SED is not mandatory and the importer can present other available documents, including an official company letter that attests to the shipment's correct value.

For further information, please refer to the Russian State Customs Committee Website:
<http://www.customs.ru/>.

Standards

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Overview

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Despite positive changes in the last several years, the standards regime in Russia still lacks transparency. Russia continues to rely on product testing as a key element of the product approval process. Other types of product safety assurance, such as plant auditing, quality systems, and post market vigilance, are underdeveloped. Russia continues to adhere to redundant practices of further testing of internationally accepted certified products, which can delay entry of a variety of products into the country.

In addition, the former federal authority on standardization, Gosstandart, was restructured twice as part of a larger government reorganization begun in May 2004, which led to some uncertainty as to exactly who in the agency did what, further adding to delays in discharging its functions. The current authority for standardization, metrology and certification matters is the Federal Agency for Technical Regulations and Metrology (www.gost.ru) under the jurisdiction of the Ministry of Industry and Trade.

However, the old name for this agency, Gosstandart, remains in use. Affiliated with this new agency are 478 technical committees, comprised of research institutes, which develop standards.

Standards Organizations

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Russia's complicated, cumbersome and often changing system of certification as well as cultural and language barriers create a challenge to foreign companies attempting to certify products without appropriate legal advice or assistance from experienced distributors or consultants.

The Department of Technical Regulations and Metrology estimates that Russia must develop approximately 2,000 technical regulations by 2010. It is recommended that U.S. companies work with reliable partners and consulting companies on registration and certification issues.

Standards Organizations In Russia

The Federal Agency for Technical Regulations and Metrology

9, Leninsky Prospect
Moscow 119991

Tel: 7 (495) 236-0300
Fax: 7 (495) 236-62-31
E-mail: info@gost.ru
<http://www.gost.ru/>

Rostest Moscow

Russian Center for Tests and Certification
31 Nakhimovsky Prospect,
Moscow 117418 Russia
Phone: 7 (495) 129-1911
Fax: 7 (499) 124-9996
E-mail: info@rostest.ru
<http://www.rostest.ru/>

Rostest USA

244 Fifth Avenue, Suite F-221
New York, NY 10001
Phone: (646) 266-6603
Fax: (646) 266-6604
E-mail: info@rostestusa.com
<http://www.rostestusa.com/>

VNIIS (Research Institute for Certification)

3/10, Elektrichesky Pereulok, Building 1
Moscow 123557 Russia
Phone: 7 (495) 253-7006
Fax: 7 (495) 253-3360
E-mail: vniis@vniis.ru
<http://www.vniis.ru>

Russian Standard (general representative of ROSTEST for North America)

115 Mendham Ave., Suite 1A
Hastings-on Hudson, NY 10706
Phone: (914) 478-7557
Fax: (914) 309-1042
E-mail: info@rosstandard.com
<http://www.rosstandard.com>

For Telecommunications Equipment

Ministry of Information and Mass Communications

Mr. Igor Shegolev, Minister
7 Tverskaya Street, Moscow 125375
Tel: (495) 771-8100; Fax:(495) 771-8718
<http://english.minsvyaz.ru/enter.shtml>

For Pharmaceuticals and Medical Equipment

Federal Service for Control over Healthcare and Social Development (Roszdravnadzor)

Slavyanskaya sq. 4, building 1
Moscow, 109074
Tel.: 7 (495) 698-4628
Fax: 7 (495) 698-4611
<http://www.roszdravnadzor.ru>
info@roszdravnadzor.ru

Consult Business Group (Medinform Ltd. Pharminform Ltd.)

Ul. Bolshaya Novodmitrovskaya 14, building 2, 3 floor
127015 Moscow
Tel.: 7 (495) 797-4963
Fax: 7 (495) 730-2482
E-mail: info@c-b-g.ru
<http://www.c-b-g.ru>

For Building and Construction Materials

Stroikonsultant

24, Nakhimovsky prospect, Pavilion 6, 4
Moscow, 125057, Russia
Tel: 7 (495) 755-1501
Fax: 7 (495) 779-1296
E-mail: snip01@mail.ru, snip_buh@mail.ru
<http://www.snip.ru>

NIST Notify U.S. Service

Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL:
<http://www.nist.gov/notifyus/>

Conformity Assessment

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In recent years there has been a substantial movement toward the adoption of common international language on product standards and certification procedures and some improvements have been made. In 1998, the Russian government established a public information service for regulations covered by the Technical Barriers to Trade (TBT) Agreement in the World Trade Organization (WTO); however, technical difficulties have plagued this service and it has not been an easily accessible or reliable source of information. On July 31, 1998, new amendments to Russia's Law on Certification of Products and Services went into effect, which generally meet requirements of the TBT

Agreement. The law allows a manufacturer to submit a declaration of conformity in the certification procedure for a limited number of products. The government has established a list of 200 products eligible for this procedure, which periodically changes. Russian standards and certifications bodies worked closely with the U.S.-Russian Business Council, the American Chamber of Commerce in Russia, and several U.S. government agencies in order to become acquainted with international practice in this area and the concerns of international companies. As a result, approximately 35% of the 25,000 Russian standards now conform to international norms, and many deficiencies in the standards and certification process have been removed. The Russian government is looking to harmonize 87% of its existing standards to international standards.

Russian officials claim that with adoption of the federal law "On Technical Regulations" which came into force on July 1, 2003, the certification situation has improved. The law was intended to change the existing cumbersome standardization and certification systems and to harmonize the Russian legislation with international standards. In addition, the intent was to establish a transparent system for adoption of standards and to reduce significantly the number of requirements and steps in the certification process for imported goods. The government has established a 7-year transition period for technical regulations reform to be completed. Over this period, all mandatory standards requirements must be transformed into technical regulations, and remaining standards will become voluntary. This monumental task requires the development and enactment of several thousand laws and regulations. Current technical regulations will remain in effect until new ones have been developed and approved by the government, or until the end of the seven year transition period.

CERTIFICATION SERVICE PROVIDERS AND ACCREDITED LABORATORIES IN THE UNITED STATES:

Accreditation Velosi America, LLC

<http://www.velosi-usa.com>

Industry Specializations: Oil & gas, petrochemical and refining industries.

Information Handling Services Inc. (IHS)

<http://www.ihs.com>

Industry Specializations: Developing and implementing engineering, technical, and regulatory information solutions.

Nemko USA, Inc.

<http://www.nemko.com>

Industry Specializations: GOSTANDART certification, safety, electromagnetic compatibility and hygiene. NEMKO is the only lab in the U.S. authorized to conduct Russian hygienic testing. NEMKO also provides the Russian fire safety certificate.

Russian Standard, Russian Certification Center

<http://www.rosstandard.com>

Industry Specializations: Russian Standard represents Russian GOST-R certification authorities and the Certification Center of the Russian Ministry of Public Health.

TUV America Inc.

<http://www.TUVamerica.com>

Industry Specializations: Information technology, including telecommunications, computers, printers and other equipment. TUV can also offer manufacturers access to safety approvals, EMC testing and certification, and quality audits and certification to ISO 9001 and 14000.

TUV Rheinland

<http://www.us.tuv.com>

Industry Specializations: Information technology equipment, industrial machinery, household appliances and medical/scientific equipment. TUV Rheinland can also assist clients in obtaining Russian telecommunications certification, and in obtaining Gosgortekhnadzor (GGTN), hygienic and other licenses/permits.

Underwriters Laboratories (UL)

<http://www.ul.com>

Industry Specializations: Information technology equipment (ITE), electrical-electronic apparatus, laboratory and measurement equipment, household/commercial appliances and hazardous location equipment. In addition to safety and EMC, UL can provide assistance in obtaining a Hygienic Certificate, "Fire Safety" Certificate, etc. through its Intermediate Applicant Service.

Product Certification

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Many products imported for sale into the Russian Federation are required to have a certificate of conformity issued by The Federal Agency for Technical Regulations. The Agency currently tests and certifies products according to Russian government standards rather than other widely-accepted international standards (e.g., the ISO-9000 system). The Federal Agency for Technical Regulations and its authorized agents are chief sources for certification in Russia. However, other agencies are involved in certification of certain products, including the Ministry of Agriculture (food products) the Ministry of Health (medical devices and pharmaceuticals), the State Communications Committee (telecommunications equipment and services), the State Mining and Industrial Inspectorate GOSGORTECHNADZOR (equipment for mining, oil and gas industries), the Federal Security Service (encryption devices and security equipment and systems), and others.

Russia participates in the following international certification systems:

- System of the International Electrotechnical Commission (IEC) for tests of electrical equipment on conformity to safety standards
- System of certification of passenger cars, trucks, buses and other transport vehicles (UN EEC)
- System of certification of handguns and ammunition
- System of certification of electronic articles (IEC)
- International system of certification of metrology equipment and instruments
- Agreement on mutual recognition of tests of imported aircraft and certification of elements of airplanes
- UN International Navigation Organization (Navigation Safety Convention).

The list of accredited certification authorities and test laboratories is published on the website of The Federal Agency for Technical Regulations and Metrology www.gost.ru .

Accreditation

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Presently in Russia, various federal executive authorities carry out accreditation in accordance with the relevant legislation. Bureaucratic incongruities, overlapping fields of activity and the application of different procedures and criteria in the accreditation process are common occurrences. Often, the accreditation and certification activities of several federal executive authorities are superimposed.

Certification authorities and test laboratories, both Russian and foreign, are accredited in accordance with ISO/IEC Guideline 5 and ISO/IEC Standard 17025.

Currently, each individual Ministry, Gosstandart of Russia and the Research Institute for Certification (VNIIS) can accredit laboratories in their relevant industry sectors. GOSSTANDART of Russia runs the state register of all accredited organizations.

The Department of Technical Regulations and Metrology is currently developing legislation on accreditation of organizations that assess compliance with technical regulations. It is still undecided as to whether the system of a single accreditation body or a number of such bodies will be most efficient in Russia.

Publication of Technical Regulations

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Proposed technical regulations are published (in Russian) on the Federal Agency for Technical Regulations and Metrology's website www.gost.ru for two months. Any Russian or foreign entity may comment in Russian to the contact listed on the website. Draft and final documents are published in the monthly "Vestnik of Gosstandart of Russia" journal. This journal is an official publication of the Federal Agency for Technical Regulations and Metrology. The journal publishes official documents of the Agency: instructions, rules, decrees, etc. "Vestnik of Gosstandart of Russia" is the country's effort to ensure transparency in the development of national standards required for WTO compliance. WTO membership assumes that all changes in the standardization system will be transparent, thereby avoiding hidden obstacles (non-tariff barriers) in trading relations with WTO partners.

Labeling and Marking

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Please see the "Labeling and Marking" section above. For additional information regarding labeling and marking requirements, please contact:

U.S. Commercial Service - Moscow

8, Bolshoy Deviatinsky Pereulok

Moscow 121099, Russia

Tel: 7 (495)728-5580

Fax: 7 (495) 728-5585

E-mail: moscow.office.box@mail.doc.gov

ROSTEST-MOSCOW

Russian Center for Tests and Certification, GOSSTANDART

31 Nakhimovsky Prospect,

Moscow 117418 Russia

Phone: 7(495) 129-1911, 332-6777, 129-5936

Fax: 7 (495) 124-9996

E-mail: admtest@rostest-m.msk.ru

<http://www.rostest.ru>

Trade Agreements

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Russia currently participates in a free trade agreement with the Commonwealth of Independent States (CIS), which comprises most of the countries of the former Soviet Union. A customs union with Belarus, Kazakhstan, Kyrgyzstan and Tajikistan has been formed. Russia has an association agreement with the European Union (effective December 1997), a bilateral agreement protocol for WTO accession, the Russia-U.S. Bilateral Meat Agreement of 2005, and has historically received MFN and GSP status from the United States. As of mid-June 2002, the U.S. Department of Commerce designated Russia a market economy.

Web Resources

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Bureau of Industry & Security, U.S. Department of Commerce

Main site: www.bis.doc.gov

Export Controls: www.bis.doc.gov/licensing/exportingbasics.htm

Possible Violations: www.bis.doc.gov/enforcement/redflags.htm

Forms: www.bis.doc.gov/forms/eeleadsntips.html

Russian Federal Customs Service: www.customs.ru

Russian Ministry for Economic Development: www.economy.gov.ru

Russian Ministry of Industry and Trade: www.minprom.gov.ru/eng

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Chapter 6: Investment Climate

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Russia presents many promising investment opportunities with the potential for dynamic growth in sales and profits. However, investors face several significant challenges, including a complex regulatory and legal system that requires professional help to navigate, widespread corruption, a lack of respect for the rule of law, and immature banking and financial markets. In addition, state-owned entities have a major presence in many economic sectors, and hence may be potential competitors of new investors.

Russia's economy is still developing, not diversified, and is largely focused on natural resource extraction. GDP sharply contracted in the last two months of 2008. Although it posted a 7.3 percent growth rate for the first nine months of 2008, the final figure for 2008 is expected to be 6.8 to 7.0 percent, as compared to 8.1 percent in 2007. The numbers for 2009 are expected to be even lower, ranging from 0 percent growth to 2.5 percent. Fixed capital investment saw an increase of 13.1 percent January-September, which was lower than the 21.3 percent increase during the same period in 2007. Most of the capital investment in the first nine months of 2008 went to energy, manufacturing, real estate, and transportation.

According to the Central Bank of Russia, foreign direct investment (FDI) inflows exceeded \$50 billion in the first 9 months of 2008, as compared to \$38 billion during the same period in 2007. End of year estimates place FDI at \$55 billion. At 4% of GDP, this level of FDI inflow is on par with other emerging markets. The United Kingdom and the

Netherlands continued to be the top source countries for investment inflows during the year, reflecting these two countries' heavy investments in Russia's energy sector.

Capital account liberalization, which took effect on July 1, 2006, helped increase net inflows to Russia in 2006 (\$40 billion) and 2007 (\$82 billion). The general economic slowdown stemming from the economic crisis and shocks to investor confidence, however, have produced a marked shift for 2008, increasing capital outflow and putting additional pressure on the ruble. As of October 1, 2008 (latest available data at this writing), capital outflows were equal to capital inflows. BNP Paribas has estimated that investors withdrew about \$140 billion from August – October 2008. According to the Central Bank of Russia, net private capital outflow reached \$50 billion in October 2008 alone.

A sense that the Russian investment climate had generally strengthened in recent years has been undermined by recent Russian government actions, such as the apparently politically-motivated investigations into businesses (e.g., the TNK-BP oil and gas joint venture and the Mechel coal company) and the military conflict with Georgia. The global economic downturn also exposed Russia's weaknesses. Many structural improvements remain necessary, such as: judicial reform to establish an independent and effective judicial system; banking reform to improve the capacity of the financial sector; accounting reform to promote greater transparency and integration with the international business community; a legal and regulatory framework for preventing insider trading; and improvements in corporate governance.

Reducing government bureaucracy and corruption has long been high on the agenda of businesses large and small, Russian and foreign, operating in Russia. While President Medvedev has committed his government to fighting corruption, his only progress to date has been the enactment of new anti-corruption legislation.

Openness to Foreign Investment

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The global economic slump during the latter part of 2008 dampened foreign investor enthusiasm, which had been stoked by Russia's economic growth and rising incomes in recent years. The Russian Federal State Statistics Service estimates that since 2000, the economy has demonstrated real growth of 72%, where real disposable incomes have grown 209% in the same period. Recent real income growth deceleration, however, combined with citizens' fears about the future of the Russian economy, raise concerns about future growth, particularly in the retail and consumer sectors. While many U.S. firms reported that their return on investments in Russia was among the highest in their international operations, the global economic crisis and recent Russian government actions may retard their Russian investment plans.

The Russian government has repeatedly emphasized foreign investment's critical role in Russia's economic development, but has been reluctant to allow unfettered access in practice. The 1991 Investment Code guarantees foreign investors rights equal to those of Russian investors (although some industries have limits on foreign ownership – see below). The 1999 Law on Foreign Investment also affirms this principle of national treatment.

In practice, the Government of Russia (GOR) tends to favor joint ventures with local entities, especially state-owned entities, or direct cash injections, particularly in Russia's "strategic sectors." This has been most obvious in the energy sector, in which the GOR continues to tighten its grip and typically limits foreign companies to minority stakes (often 20 to 25 percent) in larger projects. In the area of consumer products, however, international companies have been able to set up and expand their operations with relatively few restrictions.

At the federal level, Russia is establishing special economic zones, high-technology parks, and special tourist regions to encourage foreign investment. At the regional level, many local governments have developed laws and programs to attract FDI, which include techno-parks near universities and export zones near ports and borders. Although federal tax reform aimed to create a level playing field for all investors and limit the scope of incentives regions can offer, large foreign investors continue to receive incentives from local authorities in practice. In addition, many local administrations view foreign investors as sources of cash for support of municipal services, which can range from topping up teachers' salaries or provision of carpentry and plumbing services to maintenance of a municipal park or supply of heat to a village from a processing plant's boiler.

While FDI inflows had picked up substantially since 2004, the slow pace of structural reforms and the ever increasing role of the state in some sectors of the economy continue to restrain foreign investment. In response to the global economic crisis, the GOR is preparing to support various sectors of the economy in return for control of assets and revenue flow, and the role of government and quasi-government entities could become even more opaque. The lack of clarity in Russian tax law and administration, inconsistent government regulation and enforcement, unreliability of the legal system, underinvestment in infrastructure, difficulty in conducting due diligence, and high levels of corruption can dissuade investors.

Rule of law, corporate governance, transparency, and respect for property rights, including intellectual property rights, although improved over the years, remain key concerns for foreign investors. As a result, while there is increased interest, many U.S. companies remain cautious about investing in Russia. Concerns about possible liabilities associated with existing operations (especially environmental cleanup) and inadequate bankruptcy procedures are also factors.

In recognition of widespread corporate governance problems, the Federal Service for Financial Markets has had a corporate governance code in place since 2002 and has endorsed an OECD White Paper on ways to improve practices in Russia. Some large Russian companies have developed their own policies, although implementation is not always robust. International business associations such as the American Chamber of Commerce in Russia, the Association of European Businesses in Russia, and the International Business Leaders Forum, as well as Russian business associations such as OPORTA, the Russian Managers Association, the National Council on Corporate Governance, and the Russian Directors' Institute stress corporate governance as an important priority for their members and for Russian businesses overall.

Roughly three-quarters of the Russian economy has been privatized, although the GOR continues to hold significant blocks of shares in many privatized enterprises. The privatization of remaining state holdings is scheduled to continue, but could be delayed

as a result of the current economic slowdown. Furthermore, the GOR may ultimately acquire/re-acquire additional shareholdings in Russian companies if GOR-financed loans, collateralized by shares, are not repaid.

Often foreign investors participating in Russian privatization sales are confined to limited positions and face problems with minority shareholder rights and corporate governance. Moreover, the treatment of foreign investment in new privatizations is likely to remain inconsistent. Potential foreign investors are advised to work directly and closely with appropriate local, regional, and federal ministries and agencies that exercise ownership and other authority over companies whose shares they may want to acquire.

The GOR approved a new "Strategic Sectors" law in May 2008. The law restricts new foreign investment in 42 sectors deemed "strategic." Investors wishing to exceed set ownership limits must seek approval from a special commission, chaired by the prime minister. There are concerns that the approval process may prove to be non-transparent and burdensome. Concurrent amendments to legislation governing subsoil resources restrict foreign investment to 10 percent in entities controlling large oil and gas deposits, which are defined as "strategic." Potential investors in such entities must seek the approval of the special commission.

The government has reasserted control over the oil and gas sector in recent years. Foreign investors who want to do business in the Russian oil and gas sector should keep in mind the key roles played by the state companies Rosneft (oil) and Gazprom (gas).

Particularly in oil and gas investments, Russian officials at both the federal and local levels frequently raise environmental concerns as considerations in the approval process for investments. In some instances, it is difficult to say whether such concerns are genuine.

Production Sharing Agreement (PSAs), which were used to attract foreign investors into oil and gas production are out of favor with the Russian government, and are not likely to re-emerge as a tool for attracting investment. Only two major PSA projects, Kharyaga and Sakhalin 1, with majority foreign ownership remain in Russia. Under pressure, one PSA, Sakhalin 2, sold its majority stake to Gazprom. Sakhalin 1 has recently come under some pressure as well to sell its gas production to Gazprom. In 2007-8, BP and its Russian partners in oil major TNK-BP were engaged in a public battle for management control of the company. Following a string of official actions by Russian state bodies affecting TNK-BP operations and expatriate personnel, the two sides reached an agreement in late 2008 that many observers saw as resulting in a dilution of BP's influence over its investment. The dispute dealt a major blow to investor confidence in Russia, and raised questions about the GOR's respect for the rule of the law and the independence of state administrative bodies.

In 2003, Russia enacted several amendments to the insurance law that effectively liberalized the market, allowing majority-owned Russian subsidiaries of insurers from the European Union to sell life and mandatory forms of insurance in Russia. Although the law only permits those companies with offices in the European Union to open subsidiaries in Russia, the regulator has interpreted the legislation as allowing any foreign insurer to set up life insurance operations in Russia as long as the company has an office in the EU via which the investment is made. As a result of bilateral WTO negotiations with the United States, Russia agreed to allow foreign insurance companies

to operate through subsidiaries, including 100% foreign-owned non-life insurance companies, and branching after a transition period.

In July 2008, RAO UES, the electricity holding company that controlled all of Russia's power assets with the exception of those connected to nuclear energy, completed its corporate reorganization and ceased to exist. Although the unbundling and privatization of RAO UES was initially hailed as a huge success, concerns are growing as investors' plans to modernize and expand electricity infrastructure make less economic sense under current market conditions.

The Russian automotive industry has been booming and has been the fastest growing automotive market in Europe. Foreign brands account for over 75% of car sales. In 2005-2007, Russian legislation offered reduced customs tariff rates on automotive parts imported by companies assembling vehicles in Russia. Many foreign auto manufacturers took advantage of the reductions and set up assembly operations in Russia, including GM, Ford, Toyota, Peugeot, Isuzu, Kia, Nissan, Volkswagen, and Renault. The GOR is now offering similar investment incentives to foreign producers of car parts and components who agree to set up domestic production operations in Russia.

In December 2008, PM Putin signed a GOR Resolution that increased the duty on most imported automobiles from the current 25% to a new rate of 30% (and raise the minimum Euro-specific duty that is based on the engine volume by a corresponding amount), and imposed a prohibitive duty on cars older than five years (current law applies a prohibitive duty to cars older than seven years). The move is seen as a measure to help local auto manufacturers, such as Avtovaz, weather the global economic crisis. The new duties became effective on January 12, 2009 for a period of nine months.

Thanks to active government intervention, the agricultural and agribusiness investment climate has improved in recent years. However, future growth is likely to be tempered by a reduction of financing in the agricultural sector brought on by the global economic crisis, lingering uncertainty regarding land tenure in Russia, and restrictions on foreign ownership of agricultural land.

Despite supportive statements by GOR officials regarding investment in agricultural processing facilities located on land previously designated for production agriculture, some projects have been thwarted through exploitation of legal ambiguities about land purchase and control, due to entrenched interests which want to reduce competition. There have also been blatant, though ultimately unsuccessful, attempts to raid foreign enterprises and to take over their processing facilities through illegal means.

Visas for Businessmen and Investors

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The GOR requires visas and residence permits for businessmen and investors. Work and residence permits must be renewed periodically -- a cumbersome process. Russia's visa system for residence and work permits is very complicated, and potential investors would be well-advised to consult the State Department and U.S. Embassy websites for the latest information on Russian visas (www.moscow.usembassy.gov/russian-visas.html and travel.state.gov/travel/cis_pa_tw/cis/cis_1006.html#entry_requirements). In some sectors, requirements

that a certain percentage of staff be Russian citizens may have a negative impact on foreign investors.

Conversion and Transfer Policies

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While the ruble is the only legal tender in Russia, companies and individuals generally face no significant difficulty in obtaining foreign exchange. Finding a bank licensed to conduct foreign currency transactions is relatively easy. While the following discussion represents a "snapshot" of current requirements, investors would be well advised to seek expert advice on the controls in effect at the time of an investment.

Currency controls exist on all transactions that require customs clearance, which in Russia applies to both import and export transactions. The procedures involved have been greatly simplified in recent years. The importer or exporter presents the "deal passport" documents to a bank licensed to provide foreign currency transaction services. The bank bears the responsibility of ensuring that the flow of funds related to the import or export complies with CBR regulations.

A "deal passport" is a set of documents that importers and exporters provide to banks authorized to review whether the transaction meets currency control regulations. Once an authorized bank signs the deal passport, it monitors the entire transaction for compliance with currency regulations, and the importer/exporter must use that bank for all parts of the transaction. The importer/exporter then presents the signed passport to clear shipments through customs. The Federal Customs Service notifies the bank once the shipment has been cleared. The authorized bank then monitors compliance with payment regulations.

Only authorized banks may carry out the sale or purchase of foreign currency transactions. According to currency control laws, the Central Bank retains the right to impose restrictions on the purchase of foreign currency, including the requirement that the transaction be completed through a special account. The Central Bank has eliminated security deposit requirements on foreign exchange purchases.

Expropriation and Compensation

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The 1991 Investment Code prohibits the nationalization of foreign investments, except following legislative action and where deemed to be in the national interest. Such nationalizations may be appealed to the courts of the Russian Federation, and the investor must be adequately and promptly compensated.

At the sub-federal level, expropriation has occasionally been a problem, as has local government interference and a lack of enforcement of court rulings protecting investors. The embassy is tracking a small number of cases in which U.S. companies are seeking compensation for the loss of their investment or property due to regional government action or inaction.

Dispute Settlement

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Russia has a body of conflicting, overlapping and rapidly changing laws, decrees and regulations, which has resulted in an ad hoc and unpredictable approach to doing

business. Independent dispute resolution in Russia can be difficult to obtain since the judicial system is still developing. Courts are sometimes subject to political pressure. According to numerous reports, corruption in the judicial system is widespread and takes many forms, ranging from bribes of judges and prosecutors to fabrication of evidence. In addition, court decisions are at times not executed. The bailiffs, who are charged with enforcing court judgments, report to the Ministry of Justice rather than the courts. They sometimes fail to enforce those judgments due inter alia to legal restrictions and limited trained personnel.

Many attorneys refer their Western clients who have investment or trade disputes in Russia to international arbitration in Stockholm or to courts abroad. A 1997 Russian law allows foreign arbitration awards to be enforced in Russia, even if there is no reciprocal treaty between Russia and the country where the order was issued. Russia is a member of the International Center for the Settlement of Investment Disputes and accepts binding international arbitration. Russia is also a signatory to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, enforcement of international arbitral awards still requires action from Russian courts and follow-up by bailiffs, which have yet to become consistently effective enforcers of court judgments.

Commercial disputes between business entities are heard in the Arbitrage Court system. That court system has special procedures for the seizure of property before trial so that it cannot be disposed of before the court has heard the claim, as well as for the enforcement of financial awards through the banks. Additionally, the International Commercial Arbitration Court at the Russian Chamber of Commerce and Industry will hear claims if both parties agree to refer disputes there. A similar arbitration court has been established in St. Petersburg. As with international arbitral procedures, the weakness in the Russian arbitration system lies in the enforcement of decisions.

Performance Requirements and Incentives

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Performance requirements are not generally imposed by Russian law and are not widely included as part of private contracts in Russia. However, they have appeared in the agreements of large multinational companies investing in natural resources and in production sharing legislation. There are no formal requirements for offsets in foreign investments. Since approval for investments in Russia frequently depends on relationships with government officials and on a firm's demonstration of its commitment to the Russian market, this may result in offsets in practice.

Right to Private Ownership and Establishment

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Both foreign and domestic legal entities may establish, purchase, and dispose of businesses in Russia. As mentioned in other sections of this report, investment in some sectors that are regarded as affecting national security, such as natural resources, energy, power, communication, transportation, and defense-related industries, may be limited.

Protection of Property Rights

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The Constitution and a 1993 presidential decree give Russian citizens general rights to own, inherit, lease, mortgage, and sell real property. The rights of Russian citizens to own and sell residential, recreational, and garden plots are clearly established, with over 40 million properties of this type under private ownership. Mortgage legislation enacted in 2004 facilitates the process for lenders to evict homeowners who do not stay current in their mortgage payments, which in theory should make mortgage lending (and the housing market) more attractive to lenders and developers. However, foreclosures and evictions by lenders are rarely tested within Russia's legal system. Complicating this picture further is a GOR plan, not formally codified at this writing, to provide relief in the form of an extended grace period to homeowners affected by the economic crisis. Mortgage lending is in its initial stages, but its growth, up from an estimated US \$ 5.5 billion of the total amount of outstanding mortgage loans in 2006 to US \$ 27 billion as of October 1, 2008, has been stymied by the domestic credit freeze. Land ownership rights and limitations for foreign investors are discussed in other sections of this report. While Russia has made significant advances in improving its intellectual property rights (IPR) protection regime, many challenges remain, including the need for reform of Russia's IPR legal and regulatory framework, a court system with greater expertise in IPR cases, and greater enforcement and investigative efforts from law enforcement and prosecutorial agencies.

Copyright violations (films, videos, sound recordings, and computer software) remain rampant. Legitimate DVD sales are on the rise, however, thanks in part to cheaper legitimate products, a growing consumer preference for high quality goods, and increased law enforcement action against pirates. The local business and entertainment software industries have also reported declining levels of piracy. Russia's IPR regime lacks an explicit protection for pharmaceutical test data. An amendment to address this concern is pending Russian government interagency approval.

Russia has acceded to the Universal Copyright Convention, the Paris Convention, the Berne Convention, the Patent Cooperation Treaty, the Geneva Phonogram Convention, and the Madrid Agreement. Russian law on topology of integrated microcircuits protects computer programs and semiconductor topologies for 10 years from the date of registration. As part of its WTO accession process, the Russian government is working to ensure that Part IV of the Civil Code, its new comprehensive IPR legislation that went into effect on January 1, 2008, is consistent with the requirements of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). In 2008, Russia applied to join the World Intellectual Property Rights Organization (WIPO) Copyright Treaty and the Performance and Phonograms Treaty.

Transparency of Regulatory System

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The legal system in Russia remains in a state of flux, with various parts of the government continuing to create new laws and regulations on a broad array of topics. In this environment, negotiations and contracts for commercial transactions, as well as due diligence processes, are often complex and protracted. Investors must do careful research to ensure that each contract fully conforms to Russian law and embodies the basic provisions of the new and, where still valid, old codes. Contracts must likewise seek to protect the foreign partner against contingencies that often arise. Keeping up with legislative changes, presidential decrees, and government resolutions is a challenging task. Uneven implementation of laws creates further complications; various officials, branches of government, and jurisdictions interpret and apply regulations with

little consistency and the decisions of one may be overruled or contested by another. As a consequence, reaching final agreement with local political and economic authorities can be quite a long and burdensome process. Companies should be prepared to spend a good bit of money on local legal counsel to set up their commercial operations in Russia.

Tax Considerations

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Russia has a flat individual income tax rate of 13 percent for residents and 30 percent for non-residents, one of the lowest rates in the world. Deductions are allowed for, inter alia, home purchase or construction and exclusion of earnings on the sale of real property held for more than five years. The Unified Social Tax (UST), which is paid by employers and covers pensions, healthcare, and social security, is currently set at a top rate of 26 percent on salaries up to 280,000 rubles (about \$10,000) per year. The GOR has discussed introducing legislation on raising the rate to 34 percent, a change that could enter into force in 2010.

Excise duties are levied only on alcoholic beverages, tobacco products, cars, motor fuel, and oil. Oil production is subject to two main taxes -- the Mineral Extraction Tax (MET) and an export duty, which are tied to the level of Urals export prices.

The approximate marginal tax rate on a barrel of exported oil is 90 percent when the oil price is above \$25/bbl. Despite some recent modest improvements to the oil tax regime, the onerous tax structure is still considered to be a major hindrance to the major, multi-billion dollar investments needed to develop new production areas.

The corporate profits tax is set at 24 percent. Regions are allowed, at their discretion, to lower the tax rate to 20 percent. Prime Minister Putin has recently announced, however, that the profit tax rate will drop from 24 to 20 percent. Regional governments will retain the latitude to adjust rates at the local level, a provision that many regions have made use of in the past. For dividends/interest earned by non-residents, the profit tax rate is 15 percent.

Since the Yukos affair, many companies have become more reluctant to engage in aggressive tax optimization schemes. In addition, market forces are driving businesses toward more transparent accounting practices, prompting firms to review their accounting procedures and improve their tax behavior. For example, firms with clean books have an easier time accessing local credit and foreign capital than their shadier competitors. As a result, tax compliance levels are gradually increasing.

Nonetheless, problems in the tax environment remain. Surveys have shown that many entrepreneurs complain about the complexity of the tax code and requirements of other regulatory and inspection bodies. Well-intentioned SMEs often go out of their way to follow the law but are then penalized for making mistakes in documentation. They complain that the tax police make no distinction between hard-core tax-evaders and inexperienced small-business people who do not fully understand the bookkeeping requirements. Companies often have little recourse other than the courts during tax disputes. While firms have successfully appealed to the courts, tax authorities are often slow to implement judicial decisions. Penalties for non-compliance include confiscation of property and freezing a company's bank accounts.

The Russian banking system remains relatively small, with RR 3.2 trillion (\$112 billion) in aggregate capital as of October 1, 2008. While the successful implementation of the Deposit Insurance System in 2004 has proved a critical psychological boon to the banking sector, evidenced by growth in overall deposits, it remains one of the weakest parts of the Russian reform program. Despite measured progress, the Russian banking system is not yet efficiently performing its basic role of financial intermediary (i.e., taking deposits and lending to business and individuals). Approximately one third of the population still prefers to keep personal savings "under the mattress" rather than in the banks. In the wake of the economic crisis, Russia's banking sector is under stress and may change dramatically in the near to medium term.

Russia's two main stock exchanges are in Moscow: (1) the Russia Trading System (RTS), and (2) the equity trading floor on the Moscow Interbank Currency Exchange (MICEX). The benchmark RTS index and the MICEX index each declined approximately 70 percent in 2008. The average daily trading volume for 2008 was \$52.8 million on RTS (compared to \$76.4 million in 2007) and \$1.47 billion on MICEX (compared to \$2.35 billion in 2007). Trading volume is largely dominated by large oil and gas companies such as Gazprom, Rosneft, and Lukoil. Trading activity at Russia's other exchanges, such as the Moscow Stock Exchange and several regional centers, is low. The Law on the Securities Market, as amended in 2003, includes definitions of corporate bonds, mutual funds, options, futures, and forwards. Companies offering public shares are required to disclose specific information during the placement process, as well as quarterly. In addition, the law defines the responsibilities of financial consultants who assist companies with stock offerings and holds them liable for the accuracy of the data presented to shareholders.

The corporate bond market is currently the most rapidly and dynamically developing sector in Russia's capital markets, but conditions may change rapidly in light of the global economic crisis. High and increasing demand from enterprises for funds in the absence of an effective bank lending system is the main driver of growth. It is also boosted by weaknesses in other sectors of the capital market: the absence of more attractive ruble-denominated alternative asset classes, low and even negative real interest rates on the secondary government securities market, the absence of speculative opportunities on the currency market, and a significant volume of rubles from oil export earnings. Subprime-related concerns at the beginning of the year served as a brake on issuances, but new issuances rose to RR 660 billion (face value) in 2008 compared to RR 452 billion during 2007.

Steady development notwithstanding, the corporate bond market suffers several problems. It is still quite narrow, which makes it difficult to provide the necessary level of liquidity for relatively small issues, even if the issuer is a blue-chip company. Another problem is the expense of preparation, including development of each issue's parameters, prospectus registration, underwriting services, etc. A 0.8 percent issuance tax adds to that expense. Another barrier to the growth of the market is a provision of the federal law "On Joint Stock Companies", which requires that the volume of a bond issue not exceed a company's authorized (charter) capital.

Although the use of strong-arm tactics is not unknown in Russian commercial disputes, post is not aware of cases where foreign investments have been attacked or damaged for purely political reasons. Russia continues to struggle with an ongoing insurgency in Chechnya, and the Chechen Republic and neighboring regions in the northern Caucasus have a high risk of violence and kidnapping.

Corruption

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Perception of corruption in Russia slightly worsened in the last year. According to Transparency International (TI), Russia has scored 2.1 out of 10 this year, down from 2.3 in 2007 -- the lowest standing in the last eight years. Out of the 180 countries surveyed in the 2008 Corruption Perception Index (CPI), Russia was in 147th place (deteriorating from 143rd place in 2007) and is on the same level as Bangladesh, Kenya, and Syria. Denmark, New Zealand, and Sweden scored the highest (9.3), while Somalia came in last with a score of 1.

Russia's standing was not a surprise. The high level of corruption and its pervasiveness is acknowledged both by Russia's top officials and society at large. Russia's INDEM foundation estimates that millions of corruption offences are committed every year in Russia at a cost of approximately \$300 billion, almost equal to Russia's federal budget. There have been few prosecutions and/or dismissals of high-level corrupt officials that would send a clear deterrent message.

The Government of Russia has repeatedly designated the fight against corruption and the enforcement of law as priorities. Russia is a signatory to the UN Convention against Corruption and to the Council of Europe's Criminal Law Convention on Corruption. In May 2008, in one of his first major steps as president, Dmitry Medvedev announced that he would head a newly-established Council for the Fight Against Corruption. On December 25, 2008 President Medvedev signed new anti-corruption legislation into law. The legislation requires government employees and their families to declare their income and assets and, absent permission from their bosses, would prevent, for a period of two years, government employees from working with businesses connected with their previous government duties. These latest measures are part of a series of anti-corruption legislation adopted earlier in the year.

In July 2008, the Prosecutor-General's Office created a new website for citizens to report corrupt practices by public officials. The special anti-corruption department promises to study all complaints. According to the Interior Ministry, in January – October 2008, the total number of corruption investigations reached 11,492 (up 7.6% y-o-y), out of which 8,890 cases were sent to court for further prosecution. In total, 5,285 officials received criminal convictions for corruption offences, up 6.4% compared to the same period of 2007.

Bilateral Investment Agreements

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Russia has bilateral investment treaties (BITs) with over 40 countries, though it is in the process of re-negotiating some of the agreements due to concerns existing language may not be compatible with Russia's future WTO obligations. The United States and

Russia currently do not have a bilateral investment treaty, but both sides have expressed a desire to conclude one.

OPIC and Other Investment Insurance Programs

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In an agreement ratified in 1992, the U.S. Overseas Private Investment Corporation (OPIC) was authorized to provide loans, loan guarantees, and investment insurance against political risks to U.S. companies investing in Russia. OPIC generally insures against three political risks: expropriation; political violence; and currency inconvertibility. In 1994, to meet the demands of larger projects in Russia and worldwide, OPIC doubled the amount of insurance and quadrupled the amount of finance support - to US \$200 million in each case - it can commit to an individual project (for a total of US \$400 million). In the event OPIC would need to pay a currency inconvertibility claim, it would use the exchange rate in effect on the date the claim is submitted. OPIC also makes equity capital available for investments in Russia by guaranteeing long-term loans to private equity investment funds.

Labor

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The Russian labor market remains fragmented, characterized by limited labor mobility across regions and consequent wage and employment differentials. The unemployment rate, using International Labor Organization (ILO) standards, fell slightly in the first half of 2008 but rose sharply in the wake of the economic crisis.

Labor mobility continues to be restricted by a lack of affordable housing, an under-developed mortgage market, and the continued existence of overly-bureaucratic procedures governing residency permits and registration. Most sectors of the economy had been suffering from a shortage of skilled labor force, but diminishing economic activity, caused by financial strains, is likely to balance the situation.

Despite a number of labor conflicts (mostly over higher wages), the general situation remained calm. From January to September 2008, official statistics registered only four enterprises where strikes took place. Experts, however, believe that these statistics underestimate the level of labor conflict.

Approximately 45% of Russia's workforce is unionized, down from 65% three years ago. The GOR generally adheres to International Labor Organization (ILO) conventions protecting worker rights, though enforcement is often lacking. The 2002 Labor Code governs labor standards in Russia. When adopted, it was meant to diminish the role of the government in setting and enforcing labor standards, with trade unions and a more flexible labor market playing a role in representing workers' interests. However, there are no clear enforcement mechanisms for an employer's failure to engage in good faith collective bargaining. Revisions to the Labor Code since 2002 have included new procedures for investigating industrial accidents and the requirement that businesses employing more than 50 workers must establish a work safety division and create a position for a "work safety specialist." The enforcement of worker safety rules continues to be a major issue, as enterprises are often unable or unwilling to invest in safer equipment or to enforce safety standards.

National Priority Projects

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In the spring of 2005, President Putin announced plans for four National Priority Projects in health, education, housing, and agriculture. These projects were meant to share the benefits of the recent energy-fueled economic boom with ordinary Russians and to tackle some of Russia's most pressing social and economic needs. While the projects have made progress in improving health and education, there have been few evident improvements arising from the housing and agriculture projects.

The National Projects provide investment opportunities, especially in medical equipment manufacturing, agricultural equipment sales, and housing construction. The 2008 budget for the projects was RR 330 billion (US \$ 12.5 billion), slightly more than the 2007 budget of US \$11.4 billion. In September 2007, the GOR decided to transform the National Priority Projects in health, education, and housing into mid-term (2009-2012) state programs as of 2009. The state programs will keep the priorities of the national projects, supplemented by new directions of development. In 2008 the National Priority Project on Agriculture was made part of a five year National Program for Development of Agriculture and for Market Regulation for the period from 2008 to 2012.

Foreign-Trade Zones/Free Ports

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To date, six Special Economic Zones have been established pursuant to legislation passed in 2005: in Zelenograd and Dubna in the Moscow region (focused on micro-electronics and nuclear technology, respectively); St. Petersburg (information technology); Tomsk (new materials); Lipetsk (appliances and electronics); and Yelabuga (auto components and petrochemicals).

The Russian Federal Special Economic Zones Management Agency and its regional offices, a real estate management company, and a supervisory board, which includes representatives of SEZ residents, manage the zones. Enterprises operating in industrial-production zones (20 square kilometers) pay lower unified social taxes, and those within progressive-technical zones (2 square kilometers) are allowed to write-off all R&D expenses. Both types of zones benefit from reduced land and property taxes and a waiver of customs duties on imports and finished exports.

In 2007, seven special tourist economic zones were established in the Krasnodar, Stavropol, Altai, Kaliningrad and Irkutsk regions, as well as in the constituent republics of Altai and Buryatia. In June 2008, a tender committee approved creating three port special economic zones to stimulate infrastructure development. The locations included the airports of Krasnoyarsk in East Siberia and Ulyanovsk in the Volga area, and the Sovetskaya Gavan port in the Khabarovsk Territory, in the Far East.

The SEZs are developing gradually, led by the Moscow region and St. Petersburg, but poor infrastructure is hampering their growth. Transportation and logistical challenges make SEZs in more remote regions less attractive. The special tourist economic zone in Krasnodar, site of the 2014 Sochi Winter Olympics, was expected to attract significant foreign investment, but that prospect has become more uncertain in the current economic climate. The SEZ in Kaliningrad, previously established in 1996, has been able to attract some moderate investments, but those in the Russian Far East have had less success.

Table 1 shows flows of foreign investment by country for the first nine months of 2008, compared to the same period in 2007. Total foreign investment declined by 13.8% in the first nine months of 2008, compared to the same period in 2007. According to Russian statistical practice, total foreign investment numbers include direct investment (FDI), portfolio investment, and "other" investment (largely trade credits). Cyprus consistently figures high as an investor because most investment coming from Cyprus is actually returning Russian capital. (Note: The data in the Tables below is from the Russian State Statistical Service and may differ from data maintained by the Central Bank of Russia and the U.S. Department of Commerce.)

Table 1: Top Ten Investors - By Year (in US \$ million)

Country	Jan-Sept. 2008		Jan-Sept. 2007	
	Total	FDI	Total	FDI
Cyprus	15,304	4,320	11,881	2,560
UK	12,550	870	20,729	299
Netherlands	8,911	4,942	17,270	12,638
Germany	6,528	1,847	3,447	530
Luxembourg	6,267	N/A	8,123	N/A
France	5,079	671	4,405	248
Virgin Islands (UK)	2,643	1,595	1,383	352
Switzerland	2,337	207	4,487	102
USA	2,098	216	1,989	207
Ireland	999	N/A	4,412	N/A
All Others	13,076	4,533	9,810	2,708
Total	75,792	19,201	87,936	19,644

The numbers in Table 2 represent an accumulated stock of total foreign investment, which include FDI, portfolio, and "other" investment.

Table 2: Top Investors - Accumulated Basis (in US \$ million)

Country	Jan.-Sept. 2008		Jan.-Sept. 2007	
	Total	FDI	Total	FDI
Cyprus	54,528	38,561	39,122	27,362
Netherlands	45,152	38,773	35,977	32,230
Luxembourg	34,210	1,221	30,282	735
UK	31,356	4,460	24,178	3,192
Germany	14,881	5,512	11,455	3,830
France	8,515	1,950	7,407	1,307
USA	8,503	3,161	8,041	3,643
Ireland	8,017	465	6,404	589

Virginia Islands (UK)	7,470	5,111	4,109	2,383
Switzerland	3,790	1,636	6,200	1,521
All Others	34,857	17,033	24,621	11,009
Total	251,279	117,883	197,796	87,801

Source: Federal Service for State Statistics (FSSS)

Table 3 shows foreign investment by region over the first nine months of 2008, compared to the same period in 2007. Moscow continues to attract the largest volume of investments, mainly due to the concentration of companies' headquarters and the largest concentration of consumers with high purchasing power.

Table 3 – Foreign Investment – Top Regions (in US \$ million)

	Jan-Sep 2008			Jan-Sep 2007		
	Amount	%	Rank	Amount	%	Rank
Moscow (city)	28,339	37.4%	1	54,582	62.1%	1
Moscow Region	5,157	6.8%	2	3,252	3.7%	5
St. Petersburg	4,806	6.3%	3	4,614	5.2%	3
Sakhalin	3,609	4.8%	4	3,414	3.9%	4
Krasnoyarsk	3,159	4.2	5	9,818	11.2%	2
Vologda Region	2,918	3.9%	6	115	0.1%	33
Chelyabinsk Region	2,836	3.7%	7	668	0.8%	10
Belgorod Region	2,376	3.1%	8	524	0.6%	13
Samara Region	2,051	2.7%	9	1,441	1.6%	6
Lipetsk Region	1,770	2.3%	10	123	0.1%	32
Others	18,772	24.8%		9,386	10.7%	
Total	75,792	100.0%		87,936	100%	

Source: Federal Service for State Statistics (FSSS) (Note: Includes direct, portfolio, and other investment.)

Table 4 shows investment by sector over the first nine months of 2008, compared to the same period in 2007. Total investment in such sectors as trade, extraction of fuel, and transport and communications fell by over 50%, while other real estate, production and distribution of power, gas and water, finance, food, and construction became higher investment growth sectors in 9M08, compared to the same period in 2007.

Table 4: Foreign Investment: Top Sectors (in US \$ million)

	Jan-Sep 2008		Jan-Sep 2007	
	%	Amount	%	Amount
Trade	23.6%	17,917	42.3%	37,207
Metallurgy	15.2%	11,519	12.8%	11,212

Real Estate and Related Services	14.2%	10,767	4.8%	4,236
Extraction of Fuel	8.3%	6,328	16.0%	14,077
Production and distribution of power, gas and water	4.5%	3,383	0.3%	236
Finance	4.3%	3,249	2.4%	2,152
Food Industry	3.8%	2,858	2.1%	1,854
Production of coke and oil products	3.4%	2,559	3.8%	3,320
Construction	3.3%	2,499	1.2%	1,094
Transport and Communications	3.0%	2,237	3.2%	2,842
All Others	16.5%	12,476	7.8%	6,823
Total	100.0%	75,792	100.0%	87,936

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How Do I Get Paid (Methods of Payment)

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As in other markets, payment methods and terms vary depending upon the U.S. Company's business model and relationship with Russian trading partners. For new to market companies, requesting advance payment for goods and services from a Russian customer may be a prudent course to follow until both parties establish a positive record of payment. Currently, there are a limited number of U.S. banks that accept Russian letters of credit from some of the largest Russian banks, specifically those that have been approved by the U.S. Export Import Bank. Once a U.S. firm has established a strong relationship with a Russian trading partner, it may consider extending short, and eventually longer-term credit as a way to bolster sales volume. This should be done with caution and only after careful evaluation and establishment of successful payments. The U.S. exporter might also consider insuring such credits with one of the larger Russian insurance companies that offer export credit insurance to foreign firms. Such insurance can be reinsured through a large international insurance company.

For some large transactions, advance payment from a Russian buyer may be impractical. In such cases, financing may be provided by a bank, export credit agency or venture fund. Exporters risk can be minimized with a bank or insurance guarantee from a Russian bank that would be acceptable to a U.S. bank. In leasing deals, exporters should insist on an upfront payment of three to four months upon delivery as a way to mitigate some of the risk.

Many Russian banks now offer factoring services. However, the volume and value of transactions using this technique have yet to achieve levels that are either profitable or self-sustaining.

Leasing has become increasingly attractive to both lessees and lessors because of its economic effectiveness, flexibility and accessibility in comparison to bank finance. Most large Russian banks have leasing programs that they offer their clients in such cases, and there is a growing list of foreign leasing companies operating in Russia that can offer Russian clients leasing terms for imported equipment. Aviation, energy, mining, construction, transportation, pharmaceutical, forestry and fishing industries equipment, which may be too expensive for Russian customers to purchase, are often leased.

The use of barter, estimated to account for 70-80% of foreign transactions in the USSR, has declined to 1%-2%, because liquidity has generally improved in the banking sector as the economy has grown. Despite the decline in barter, financial intermediation in the

banking sector remains generally weak. While barter transactions can be more complex than cash transactions, U.S. firms should not dismiss them, for they can be profitable and help a company win market share. As in cash transactions, companies are advised to stay engaged in all aspects of the deal, demand that commitments be met on schedule, and ensure contracts are in accordance with Russian law to avoid tax and other problems

How Does the Banking System Operate

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Macroeconomic stability and economic growth have contributed to the rapid development of the banking sector in the last several years. The rehabilitation of bank payment settlement systems, an increase in income and savings, and the growth of demand for investment resources are driving improvements in the financial services sector. In the last several years, the Central Bank of Russia has achieved visible results in banking sector reform, which is being carried out in order to increase sustainability, functionality, transparency and reliability of the banking system.

In November 2006, Russia and the U.S. signed their WTO (World Trade Organization) Bilateral Agreement, a major step in Russia's accession to the WTO. As part of this Agreement, Russia pledged to allow foreign ownership to account for as much as 70% of the country's total banking sector equity. Previously, Russia had the prerogative to legislate the limit on foreign capital to 50% of total equity. However, at the time the bilateral agreement was signed, foreign equity accounted for 20% of the total. Russia's pledge essentially "grandfathered" in that 20% and provided new foreign equity the potential to absorb/account for an additional 50% of total banking sector equity.

It is expected that as U.S. banks increase their presence in the country, they will bring more of their services to the Russian market.

Under the current legislation, foreign banks, e.g., Citibank and Raiffeisenbank, can operate in Russia only as subsidiaries. They are subject to all Central Bank regulations - - for instance, on capital and lending -- that apply to the banking sector. Branch banking by foreign banks is limited to their Russian subsidiaries.

U.S. banks have increased their share of the Russian banking market. Citibank has been present in the Russian market for many years, but has recently increased its presence via aggressive expansion into retail banking. GE Capital has also entered the retail banking sector. Morgan Stanley (which has been involved in investment counseling via a representative office) has a subsidiary bank involved in investment banking.

Russian banks are also playing a more effective and normal role in the economy by collecting savings from an increasing number of depositors and distributing them through loans and other types of financing to more productive uses. While the self-serving "pocket banks" of major financial and industrial groups that in the past served their respective major clients are still common, the financial system is becoming more populated with normally functioning, financially stable banks.

Evidence of the growing capacity of Russian banks is the boom in consumer credit. While only 51% of Russian citizens are estimated to have bank accounts, the market for consumer and car credits, as well as the number of credit cards, was estimated to have

grown between 56% and 70% in 2006, by 50% again 2007, and 40% in 2008. In absolute terms the consumer credit market stood at about US \$110 billion, car credits at US \$20 billion and credit cards at US \$10 billion in 2008.

Despite these recent improvements, the Russian banking system is still evolving in terms of being able to meet the capital and credit needs of a rapidly growing and dynamic market economy. However, a company doing business in Russia can easily access an expanding range of basic banking services offered by the larger commercial banks. A functioning banking sector is slowly emerging in Russia.

During the early 1990s a large number of small, poorly regulated and poorly managed banks appeared in Russia, and by 1995 the country had over 2,600 banks. Near the end of 2007, there were approximately 1,250 banks in Russia, down from 1,300 at the end of 2006. Approximately 60 banks are 100% foreign-owned. The number of small banks is gradually decreasing due to insolvency and consolidation.

The Central Bank of Russia's priorities include the strengthening of bank supervision, adopting International Accounting Standards, and expanding the scope of the deposit insurance system. The Deposit Insurance Agency similar to the U.S. Federal Deposit Insurance Corporation was introduced starting in the first half of 2004. All Russian banks, which hold private deposits, are required to apply for certification in order to participate in this system. Most applicants are expected to gain entry into the system eventually. While the level of insurance is still small per depositor, this is an important step towards increasing public confidence in the system.

Private deposits held in banks in Russia reached RR 5.5 trillion (\$207 billion) at the end of October 2008 (latest data available at this writing) compared to RR 5.2 trillion (\$211 billion) at the end of 2007. High-profile defaults on the interbank market in September 2008 generated widespread uncertainty across the banking sector. Until that point, however, deposits had been growing approximately RR100 billion per month, reflecting confidence in the banking sector and in what had been a strengthening ruble. The onset of the economic crisis has, again, underscored the dominance of state banks in the sector. State-owned Sberbank remains the country's largest bank by assets, while state-owned VTB and Gazprombank are the second- and third-largest, respectively. Commercial lending dominates, but loans to households are beginning to grow.

Limited choices and tradeoffs confront companies choosing a bank in Russia. There are three main types of bank: a foreign-owned subsidiary, a state-owned Russian bank, or an array of Russian private commercial banks.

Foreign-Exchange Controls

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On July 1, 2006, the Government of the Russian Federation liberalized its capital account, thereby lifting the remaining restrictions on capital inflows and outflows. The move capped a period of gradual steps toward allowing the free flow of capital into and out of the country. Mandatory reserves, preliminary registration, and special accounts are no longer required. The Central Bank, however, maintains certain procedural requirements that resident and non-resident parties to a transaction must observe. Federal Law No. 173-FZ, "On Currency Regulation and Currency Control" introduced on December 10, 2003 (<http://www.consultant.ru/popular/currency/#info>) provides details.

For more information, see Conversion and Transfer Policies in the Investment Climate Statement (Chapter 6).

U.S. Banks and Local Correspondent Banks

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Most foreign businesses prefer to deal with foreign-owned banks, as they are more stable, more experienced and generally offer higher levels of service. Until recently, these banks concentrated their activity in highly profitable financial markets and were not interested in commercial banking. However, strong demand has drawn them into diversifying their services to include foreign trade transactions and commercial banking. Many foreign banks now provide regular commercial services including accounts, transfers, currency exchange, credit, documentary operations, letters of credit, and trade financing. Some of these banks will establish individual accounts for non-residents and employees of their institutional clientele.

Unfortunately, the lack of nationwide branches makes these services largely unavailable to customers operating outside the major metropolitan centers of Moscow and St. Petersburg. U.S. banks have increased their share of the Russian banking market. As mentioned earlier, Citibank has been present in the Russian market for many years, but has recently increased its presence via aggressive expansion into retail banking. GE Money Bank has also made inroads in the sector.

State Owned Banks

Two state-controlled banks, Sberbank and Vneshtorgbank (VTB), continue to dominate the corporate and retail banking sectors in Russia. The state also controls a number of smaller banks. The Russian government has repeatedly urged Russia's state-controlled banks to modernize in order to play a more active role in the economy. These public criticisms aside, state banks have been the primary beneficiaries of the government's efforts to supply short- and long-term liquidity to the economy to mitigate the economic crisis.

Russian Private Commercial Banks

Other viable Russian banks include emerging service-oriented banks and large banks owned by financial-industrial groups. The 1998 crisis severely impacted the major Russian banks, closing about 15 of the largest and leaving others in a weakened state and needing reorganization.

The most aggressive component of the Russian banking system is a group of new banks that grew larger following the 1998 crisis. They are competitive and likely to remain customer oriented and to find creative solutions to Russia's business complexities. A potential weakness is their limited capacity to provide services comparable to those of large international banks. Furthermore, they lack nationwide coverage.

The top Russian banks, ranked by net assets as of early 2009 are:

- Sberbank
- Gazprombank
- Russian Agricultural Bank

- Bank of Moscow
- Alfa-Bank
- Raiffeisenbank
- UniCredit Bank
- VTB
- Rosbank
- Uralsib
- Promsvyazbank
- MDM Bank
- NOMOS-BANK
- Citibank
- Petrocommerce

Project Financing

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The Russian banking sector has largely recovered from the August 1998 economic crisis, although the situation in 2008 has uncovered some weaknesses, such as liquidity management and poor asset quality, which the Central Bank and Deposit Insurance Agency are striving to remedy. A mini-banking crisis during the first half of 2004 was handled fairly quickly. The rate of increase in the volume of loans provided by banks exceeds GDP growth. A number of western investment banks and venture funds have steadily increased the size of their project finance portfolios. Additionally, a number of bilateral and multilateral financial institutions continue to facilitate trade and investment in both the public infrastructure and private sectors. However, the use of long-term, limited recourse project financing remains hampered by several difficulties. These factors include the immaturity of commercial legislation, poor contract enforcement, a lack of transparency in beneficial ownership, the inefficient process and high cost of collateralizing project assets, limited rights of debt and equity holders, and weak contractor performance requirements.

Since the U.S. Export-Import Bank (Ex-Im Bank) began lending to support U.S. exports to Russia in 1991, total authorizations have been US \$4.8 billion (total exposure in Russia is currently over \$750 million). Over the past several years, authorizations for Russia have averaged approximately US \$240 million per year. Today, Ex-Im Bank's outstanding portfolio is in such sectors as oil & gas, mining, agriculture, and financial services.

In fiscal year 2008 (from October 2007 to September 2008), Ex-Im Bank authorized approximately \$374 million worth of exports to Russia. Ex-Im Bank's business in Russia during this time remained concentrated in supporting sales of agricultural and manufacturing equipment.

Over the 75 years of its existence, the Bank has provided financing for an estimated US \$500 billion in U.S. exports. In FY 2008 alone, Ex-Im Bank supported over US \$14.4 billion in U.S. exports of which US \$3.2 billion went to directly supporting small business transactions.

For additional information on the U.S. Ex-Im Bank's financing options and its projects in Russia, please contact the Bank directly.

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Export-Import Bank of the United States: <http://www.exim.gov/>

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

OPIC: <http://www.opic.gov/>

Trade and Development Agency: <http://www.tda.gov/>

SBA's Office of International Trade: <http://www.sba.gov/oit/>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/cc/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov/>

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Business Customs

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The Russian market is extremely competitive. Salesmanship is a key factor and U.S. firms should be prepared to describe their products/technologies competitive advantages and factors that distinguish them in the marketplace.

Establishing a personal relationship with business partners is a critical factor in the successful negotiation of major projects, government procurement or in developing long-term business relationship

Scheduling meetings with potential Russian business partners can sometimes be challenging. It may take weeks to get a response to an email, fax or a telephone request for a meeting. Once contact has been established, patience is still required to confirm a date and time to meet. And, it is not uncommon for meetings to be cancelled with no explanation. Russians will typically accept invitations but may frequently not show. Since traffic is a problem in Moscow and St. Petersburg, Russian company representatives appreciate meeting at locations convenient to the metro, and are not averse to meeting in their offices or accepting an invitation for a lunch meeting.

Russian language ability is a must and an interpreter should be hired if necessary. An increasing number of Russian businesspeople speak a courtesy level of English; however, many prefer to conduct business discussions in Russian. The Commercial Service can arrange for the services of qualified interpreters upon request.

Business cards are important and are exchanged freely. Cards should have regular contact information and an email address and website if available. Most foreign businesspeople in Russia carry bilingual English/Russian business cards (one side English, the other Russian).

Promotional materials in Russian are an important tool for creating interest for a company's products in the Russian market. It is very important that the translation be

accurate and of high quality. Many companies interested in the Russian market have used on-line translation services for translation of their promotional material, only to learn that the translation was inferior and did not serve the intended purpose. For the best results, it is highly recommended that professional translation services be used. The Commercial Service can recommend fully qualified translators upon request.

Refreshments are usually served at business meetings - coffee, tea and water are the norms. Small gifts are acceptable but not expected.

Travel Advisory

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Travel Warnings are issued when the State Department recommends that Americans avoid a certain country, and issues travel advisories when warranted by local conditions. As of this writing, there are no travel warnings or advisories for travel to Russia.

The Department of State's Consular Information Sheet for Russia contains the following information on Safety and Security for U.S. citizens in the Russian Federation:

Given continued civil and political unrest throughout much of the Caucasus region, the Department of State continues to warn U.S. citizens against travel to Chechnya and all areas that border it: North Ossetia, Ingushetia, Dagestan, Stavropol, Karachayevo-Cherkessiya, and Kabardino-Balkariya. The U.S. government's ability to assist Americans who travel to the northern Caucasus is extremely limited. Throughout the region, local criminal gangs have kidnapped foreigners, including Americans, for ransom. U.S. citizens have disappeared in Chechnya and remain missing. Close contacts with the local population do not guarantee safety. There have been several kidnappings of foreigners and Russians working for media and non-governmental organizations in the region. Because of ongoing security concerns, U.S. government travel to the area is very limited. American citizens residing in these areas should depart immediately as the safety of Americans and other foreigners cannot be effectively guaranteed.

Acts of terrorism, including bombings and hostage taking, have occurred in Russia over the last several years. Bombings have occurred at Russian government buildings, hotels, tourist sites, markets, entertainment venues, schools, residential complexes, and on public transportation including subways, buses, trains, and scheduled commercial flights. Hostage-taking incidents have included a raid on a school that resulted in horrific losses of life of children, teachers, and parents.

There is no current indication that American institutions or citizens are targets, but there is a general risk of American citizens being victims of indiscriminate terrorist attacks. American citizens in Russia should be aware of their personal surroundings and follow good security practices. Americans are urged to remain vigilant and exercise good judgment and discretion when using any form of public transportation. When traveling, Americans may wish to provide a friend, family member, or coworker a copy of their itinerary. Americans should avoid large crowds and public gatherings that lack enhanced security measures. Travelers should also exercise a high degree of caution and remain alert when patronizing restaurants, casinos, nightclubs, bars, theaters, etc., especially during peak hours of business.

American citizens living in Russia or traveling there for even a few days are strongly urged to register with the U.S. Embassy or nearest Consulate General. Registration will allow the embassy to provide direct information on the security situation as necessary. Registration can be done on-line and can be done in advance of travel.

For the latest security information, Americans traveling abroad should regularly monitor the Department of State, Bureau of Consular Affairs' website at <http://travel.state.gov>, where the current Travel Warnings and Travel Alerts, as well as the Worldwide Caution, can be found.

Up-to-date information on safety and security can also be obtained by calling 1-888-407-4747 toll free in the U.S. and Canada, or for callers outside the United States and Canada, a regular toll-line at 1-202-501-4444. These numbers are available from 8:00 a.m. to 8:00 p.m. Eastern Time, Monday through Friday (except U.S. federal holidays).

The Department of State urges American citizens to take responsibility for their own personal security while traveling overseas. For general information about appropriate measures travelers can take to protect themselves in an overseas environment, see the Department of State's pamphlet A Safe Trip Abroad.

Travel Tips

Hotels: While world-class tourist and business facilities exist in Moscow and St. Petersburg, they are under-developed in most of Russia, and many goods and services taken for granted in other countries are not yet available. Moscow, St. Petersburg, Novgorod, Nizhniy Novgorod, Nizhnevartovsk, Perm, Samara, Yekaterinburg, Perm, Sochi, Yuzhno Sakhalinsk and Vladivostok, among other cities, have Western-style hotels, though often priced at a premium compared with other major cities of the world. Outside major cities, traditional Russian hotels offer modest accommodations at modest rates. Some regional hotels raise rates for foreign guests. It is possible to find well-appointed hotels in some small towns; it is equally possible to be temporarily without water or electricity when visiting other regions of Russia.

Clothing: Russian businessmen and women predominately wear business suits. For women, dresses, skirts or pants are acceptable. While winters can be extremely cold in Russia with occasional temperatures in the minus-20 Fahrenheit range in northern and Siberian cities, Moscow and St. Petersburg's climate can be less severe than some northern U.S. cities. Winter clothes may be needed as early as October or as late as April. During the winter months people dress for warmth. Hats, coats, gloves and boots are a must. Men usually wear a heavy topcoat and women a mid-calf length coat. Wool, fur and down coats are the most common. Russian men usually wear thick-soled water-resistant shoes. Women on the other hand wear both tall and short boots with high heels. In winter one must be prepared for either slush and/or icy sidewalks. Summers, while brief, can be surprisingly hot, and air conditioning is still rare outside big-city hotels.

Food: A meal in a hotel or top restaurant in Moscow and St. Petersburg can be very expensive by U.S. standards. Nevertheless, in these cities there is an increasing variety of less expensive restaurants, including pizza, and fast food establishments. Russian food can be bland to American tastes, while many visitors find Caucasian, Georgian, and Uzbek cuisines to be interesting contrasts. In smaller communities, visitors often must

accept the food available at hotels or traditional Russian restaurants. Regardless of the city or hotel, bottled water served with no ice is recommended. The price of the water depends on whether it is local or imported.

Money: Russia is a predominately cash economy with the Russian ruble as the only legal tender for local transactions. It is illegal to pay for goods and services in U.S. dollars or other foreign currency. Old, worn, or marked bills are often not accepted at banks and exchanges. In Moscow and St. Petersburg, currency exchange offices are available in most shopping areas and provide reliable service. Credit cards are now accepted at many modern businesses in Moscow and St. Petersburg, and at some hotels and restaurants in larger regional cities, but only in major stores. Traveler checks are not widely accepted in Russia. Travelers to regional cities or towns are advised to carry enough cash to cover foreseeable expenses. Major hotels and the American Express offices in Moscow and St. Petersburg may be able to suggest locations for cashing travelers checks or obtaining cash advances on credit cards. Rubles (and dollars, if needed) may be obtained from bank ATMs that are connected to the PLUS and CIRRUS systems using U.S. debit/credit cards. It is not recommended to use credit/debit cards for small purchases or in standalone ATMs (those not physically located at a bank). ATMs are becoming more common in downtown Moscow, although there have been some instances of theft from card numbers used in these systems. Western Union has many agents in Moscow, and other cities in Russia, which disburse money wired from the United States.

Mail Services: The following companies, with offices in Moscow, offer priority mail services between the United States and Russia:

- DHL
- Federal Express
- Pony Express
- TNT
- UPS

Personal Security

Crime: The U.S. Embassy and Consulates General continue to receive reports of unprovoked, violent harassment against racial and ethnic minorities, including well-publicized cases in which members of minorities have been beaten and in several instances, murdered. Travelers are urged to exercise caution in areas frequented by “skinhead” groups and wherever large crowds have gathered. Americans most at risk are those of African, South Asian, or East Asian descent, or those who, because of their complexion, are perceived to be from the Caucasus region or the Middle East. These Americans are also at risk for harassment by police authorities.

Visitors to Russia need to be alert to their surroundings. In large cities, they need to take the same precautions against assault, robbery, or pickpockets that they would take in any large U.S. city:

- keep billfolds in inner front pockets,
- carry purses tucked securely under arms,
- wear the shoulder strap of cameras or bags across the chest,
- walk away from the curb and carry purses away from the street.

The most vulnerable areas include underground walkways and the subway, overnight trains, train stations, airports, markets, tourist attractions, and restaurants.

Groups of children and adolescents have been aggressive in some cities, swarming victims, or assaulting and knocking them down. They frequently target persons who are perceived as vulnerable, especially elderly tourists or persons traveling alone. Some victims report that the attackers use knives. Persons carrying valuables in backpacks, in back pockets of pants and in coat pockets are especially vulnerable to pickpockets.

Foreigners who have been drinking alcohol are especially vulnerable to assault and robbery in or around nightclubs or bars, or on their way home. Some travelers have been drugged at bars, while others have taken strangers back to their lodgings, where they were drugged, robbed and/or assaulted.

In many cases involving stolen credit cards, thieves use them immediately. Victims of credit card or ATM card theft should report the theft to the credit card company or bank without delay.

Travelers are advised to be vigilant in bus and train stations and on public transport. Always watch for pickpockets in these areas. Bogus trolley inspectors, who aim to extort a bribe from individuals while checking for trolley tickets are also a threat. Travelers have generally found it safer to travel in groups organized by reputable tour agencies. Robberies may occur in taxis shared with strangers. Travelers should be aware that there are few registered taxi services in Russia and should be aware of the safety risks inherent in flagging down informal or "gypsy" cabs.

A common street scam in Russia is the "turkey drop" in which an individual "accidentally" drops the money on the ground in front of an intended victim, while an accomplice either waits for the money to be picked up, or picks up the money himself and offers to split it with the pedestrian. The individual who dropped the currency returns, aggressively accusing both of stealing the money. This confrontation generally results in the pedestrian's money being stolen. Avoidance is the best defense. Do not get trapped into picking up the money, and walk quickly away from the scene.

To avoid highway crime, travelers should try not to drive at night, especially when alone, or sleep in vehicles along the road. Travelers should not, under any circumstances, pick up hitchhikers: they not only pose a threat to physical safety, but also put the driver in danger of being arrested for unwittingly transporting narcotics.

Extortion and corruption are common in the business environment. Threats of violence and acts of violence are commonly resorted to in business disputes. Organized criminal groups and sometimes local police target foreign businesses in many cities and have been known to demand protection money. Many Western firms hire security services that have improved their overall security, although this is no guarantee. Small businesses are particularly vulnerable. U.S. citizens are encouraged to report all extortion attempts to the Russian authorities and to inform consular officials at the U.S. Embassy or nearest Consulate General.

Travelers should be aware that certain activities that would be normal business activities in the United States and other countries are either illegal under the Russian legal code or are considered suspect by the FSB (Federal Security Service). U.S. citizens should be particularly aware of potential risks involved in any commercial activity with the Russian military-industrial complex, including research institutes, design bureaus,

production facilities or other high technology, government-related institutions. Any misunderstanding or dispute in such transactions can attract the involvement of the security services and lead to investigation or prosecution for espionage. Rules governing the treatment of information remain poorly defined.

It is not uncommon for foreigners in general to become victims of harassment, mistreatment and extortion by law enforcement and other officials. Police do not need to show probable cause in order to stop, question or detain individuals. If stopped, travelers should try to obtain, if safe to do so, the officer's name, badge number, and patrol car number, and note where the stop happened, as this information assists local officials in identifying the perpetrators. Authorities are concerned about these incidents and have cooperated in investigating such cases. Travelers should report crimes to the U.S. Embassy or the nearest Consulate General.

Consular Services: All Americans who reside in Russia for three months or longer are encouraged to register at the U.S. Embassy or at one of the U.S. Consulates. Those staying for shorter periods may also register and inquire about updated travel and security information. Registration facilitates replacement of a lost or stolen passport as well as contact in case of emergency. Americans can obtain visas from the Consular Section of the Russian Embassy or from one of three other Russian Consulates in the United States:

U.S. Embassy - Moscow

John Beyrle, Ambassador
8 Bolshoy Deviatinsky Pereulok, Moscow 121099

American Citizen Services, Consular Section
21 Novinskiy Blvd, Moscow 123242
Tel: 7 (495) 728-5577, Fax: 7 (495) 728-5084
After-hours (emergencies): Tel: 7 (495) 728-5025/728-5000

U.S. Consulate General - St. Petersburg

Consul General Sheila S. Gwaltney
15 Furshtadskaya Street, St.Petersburg 191028
Tel: 7 (812) 331-2600, Fax: 7 (812) 331-2852
After-hours emergencies: Tel: 7 (812) 271-6455 or 939-5794

U.S. Consulate General - Vladivostok

Consul General Thomas H. Armbruster
32 Pushkinskaya Street, Vladivostok 690001
Tel: 7 (4232) 300-070, Fax: 7 (4232) 499-371/2
(4232) 300-091 (visa section)
After-hours emergencies: Tel: 7 (4232) 710-067

U.S. Consulate General – Yekaterinburg

Consul General Timothy Sandusky
15A Gogolya Street, 4th Floor, Yekaterinburg 620151
Tel: 7 (343) 379-3001/379-4619/91, Fax: 7 (343) 379-4515

Visa Requirements

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ENTRY/EXIT REQUIREMENTS: The Russian government maintains a restrictive and complicated visa regime for foreigners who visit, transit, or reside in the Russian Federation. A U.S. citizen who does not comply with Russian visa laws can be subject to arrest, fines, and/or deportation. Russian authorities will not allow a U.S. citizen traveler with an expired visa to depart the country, effectively stranding the person for up to 20 days, until local authorities grant an exit visa.

The Government of Russia does not recognize the standing of the U.S. diplomatic mission to intervene in visa matters, including situations in which an American is stranded because of an expired visa. U.S. citizens should also be aware that Russian immigration and visa laws change regularly, and the implementation of new regulations has not always been transparent or predictable.

The Russian visa system includes a number of provisions that may be unfamiliar to Americans, including:

- [Sponsorship](#)
- [Entry Visas](#)
- [Limitations on Length of Stay](#)
- [Exit Visas](#)
- [Migration Cards](#)
- [Visa Registration](#)
- [Transit Visas](#)
- [Restricted Areas](#)

[Dual citizens](#) who also carry Russian passports face additional complicated regulations.

Sponsorship: Under Russian law, every foreign traveler must have a Russian-based sponsor, which could be a hotel, tour company, relative, employer, university, etc. Even if a visa was obtained through a travel agency in the United States, there is always a Russian legal entity whose name is indicated on the visa and who is considered to be the legal sponsor. Russian law requires that the sponsor must apply on the traveler's behalf for replacement, extension, or changes to a Russian visa. U.S. citizens are strongly advised to ensure that they have contact information for the visa sponsor prior to arrival in Russia, as the sponsor's assistance will be essential to resolve any visa problems.

Entry Visas: To enter Russia for any purpose, a U.S. citizen must possess a valid U.S. passport and a bona fide visa issued by a Russian Embassy or Consulate. It is impossible to obtain an entry visa upon arrival, so travelers must apply for their visas well in advance. U.S. citizens who apply for Russian visas in third countries where they do not have permission to stay more than 90 days may face considerable delays in visa processing. Travelers who arrive in Russia without an entry visa will not be permitted to enter the country, and face immediate return to the point of embarkation at their own expense.

A Russian entry/exit visa has two dates written in the European style (day/month/year) as opposed to the American style (month/day/year). The first date indicates the earliest day a traveler may enter Russia; the second date indicates the date by which a traveler must leave Russia. A Russian visa is only valid for those exact dates and cannot be

extended after the traveler has arrived in the country, except in the case of a medical emergency.

Russian tourist visas are often granted only for the specific dates mentioned in the invitation letter provided by the sponsor. U.S. citizens sometimes receive visas valid for periods as short as four days. Even if the visa is misdated through error of a Russian Embassy or Consulate, the traveler will still not be allowed into Russia before the visa start date or be allowed to leave after the visa expiration date. Any mistakes in visa dates must be corrected before the traveler enters Russia. It is helpful to have someone who reads Russian check the visa before departing the United States. Travelers should ensure that their visas reflect intended activities in Russia (e.g., tourism, study, business, etc.).

U.S. citizens who are denied visas may seek a clarification from the Ministry of Foreign Affairs, 32/34 Smolenskaya-Sennaya Pl., Moscow, Russia, 119200, e-mail ministry@mid.ru. The U.S. Embassy and the Consulates General, however, cannot advocate on behalf of private U.S. citizens who have been refused visas or denied entry into Russia.

Limitations on Length of Stay: In October 2007, the Russian government made significant changes to its rules regarding the length of stay permitted to most foreign visitors. For any visa issued on or after October 18, 2007, unless that visa specifically authorizes employment or study, a foreigner may stay in Russia only 90 days in any 180-day period. This applies to business, tourist, humanitarian and cultural visas, among other categories.

Exit Visas: A valid visa is necessary to depart Russia. Travelers who overstay their visa's validity, even for one day, will be prevented from leaving until their sponsor intervenes and requests a visa extension on their behalf. Russian authorities may take up to 20 calendar days to authorize an exit visa, during which time the traveler will be stranded in Russia at his or her own expense. The ability of the Embassy or Consulates General to intervene in these situations is extremely limited.

Travelers with expired visas should also be aware that they may have difficulty checking into a hotel, hostel, or other lodging establishment. There are no adequate public shelters or safe havens in Russia and neither the U.S. Embassy nor the Consulates General have means to accommodate such stranded travelers.

Visitors who lose their U.S. passports and Russian visas to accident or theft must immediately replace their passports at the U.S. Embassy or one of the Consulates General. The traveler must then enlist the visa sponsor to obtain a new visa in order to depart the country. As noted above, the U.S. Embassy and Consulates General are not able to intercede in cases in which visas must be replaced. It is helpful to make a photocopy of your visa in the event of loss, but a copy is not sufficient to permit departure.

Travelers who are departing Russia by train should be aware that if they board a train on the last day of a visa's validity, Russian immigration officials may consider the visa to have expired if the train crosses the international border after midnight on the day of expiry. The Embassy and Consulates General are aware of cases in which travelers

have been detained at border crossings, unable to leave Russia, because their visas were expired by a matter of hours or minutes.

Visas for students and English teachers sometimes allow only one entry. In these cases, the sponsoring school is responsible for registering the visa and migration card and obtaining an exit visa. Obtaining an exit visa can take up to twenty days so students and teachers need to plan accordingly. Please see the section below regarding Teaching in Russia.

Migration Cards: All foreigners entering Russia must fill out a two-part migration card upon arrival. The traveler deposits one part of the card with immigration authorities at the port of entry, and keeps the other part for the duration of his or her stay. Upon departure, the traveler must submit his or her card to immigration authorities. Foreign visitors to Russia are normally required to present their migration cards in order to register at hotels.

Migration cards, in theory, are available at all ports of entry from Russian immigration officials (Border Guards). The cards are generally distributed to passengers on incoming flights and left in literature racks at arrival points. Officials at borders and airports usually do not point out these cards to travelers; it is up to the individual travelers to find them and fill them out.

Replacing a lost or stolen migration card is extremely difficult. While authorities will not prevent foreigners from leaving the country if they cannot present their migration cards, travelers could experience problems when trying to re-enter Russia at a future date.

Although Russia and Belarus use the same migration card, travelers should be aware that each country maintains its own visa regime. U.S. citizens wishing to travel to both nations must apply for two separate visas. A traveler entering Russia directly from Belarus is not required to obtain a new migration card, but at his or her option may do so if blank ones are available at the time of entry.

Visa Registration: Travelers who spend more than three days in Russia must register their visa and migration card through their sponsor. Travelers staying in a hotel must register their visa and migration card with their hotel within one day. Even travelers who spend less than three days in one place are encouraged to register their visas. If a traveler chooses not to register a stay of less than three days, he or she is advised to keep copies of tickets, hotel bills, or itineraries in order to prove compliance with the law.

U.S. citizens should be aware that Russian police officers have the authority to stop people and request their identity and travel documents at any time, and without cause. Due to the possibility of random document checks by police, travelers should carry their original passports, migration cards, and visas with them at all times.

Transit Visas: Travelers intending to transit through Russia en route to a third country must have a Russian transit visa. Even travelers who are simply changing planes in Moscow or another international airport in Russia for an onward destination will be asked to present a transit visa issued by a Russian Embassy or Consulate. Russian authorities may refuse to allow a U.S. citizen who does not have a transit visa to continue with his or her travel, obliging the person to immediately return to the point of embarkation at the traveler's own expense.

Restricted Areas: U.S. citizens should be aware that there are several closed cities and regions in Russia. Travelers who attempt to enter these areas without prior authorization are subject to arrest, fines, and/or deportation. A traveler must list on the visa application all areas to be visited and subsequently register with authorities upon arrival at each destination. Travelers should check with their sponsor, hotel, or the nearest office of the Russian Federal Migration Service before traveling to unfamiliar cities and towns.

American Citizens Also Holding Russian Passports: Dual U.S./Russian nationals who enter Russia on Russian passports face several possible difficulties. Russian authorities will not permit departure from Russia if the person's Russian passport has expired or has been lost, whether or not the traveler also has a valid U.S. passport. In these cases the traveler will be required to obtain a new Russian passport, a process that can take several months. In order to apply for a Russian visa in a U.S. passport, however, Russian consular officials normally require a person to renounce his or her Russian citizenship.

Russian external passports extended by Russian Consulates or Embassies overseas are not considered valid for departure from Russia no matter how long the extension. Bearers of such passports will have to apply for a new passport inside the country. Males of conscript age (18 - 27 years old) who are deemed to be Russian citizens may experience problems if they have not satisfied their military service requirement.

For further information, please see the Department of State's webpage on [dual nationality](#) .

U.S. Companies that require travel of foreign businesspersons to the United States should be advised that security options are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: <http://travel.state.gov/visa/index.html>

United States Visas.gov: <http://www.unitedstatesvisas.gov/>

For visitors to Russia, it is mandatory to carry your passport and visa with you at all times. Random document checks by police on foreigners are frequent. Failure to present proper documentation can lead to detention and/or fines.

Below is contact information for the Russian Embassy and Consulates in the U.S.

Russian Embassy and Consulate in Washington, D.C.

Tel: (202) 939-8902/07/13/18

Fax: (202) 483-7579

Russian Consulate in New York City

Tel: (212) 348-0926/55

Fax: (212) 831-9162

Russian Consulate in San Francisco

Tel: (415) 928-6878, 202-9800/01

(415) 929-0862 (visas)

Fax: (415) 929-0306

Russian Consulate in Seattle

Tel: (216) 728-1910

Fax: (216) 728-1871

Russian Consulate in Houston

Tel: (713) 337-3300

Fax: (713) 337-3305

U.S. Companies that require travel of foreign businesspersons to the United States should be advised that security options are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: <http://travel.state.gov/visa/index.html>

United States Visas: <http://www.unitedstatesvisas.gov/>

U.S. Embassy Moscow website: <http://www.usembassy.ru/>

Telecommunications

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Internet Accessibility: The level of penetration and Internet awareness is increasing in Russia. Recent figures show that about 28% of the Russian population uses the Internet on a regular basis; 70% use ADSL or Broadband connection services. The largest players in Russian language e-mail services and search engines are Mail.ru, Rambler and Yandex. Internet is widely available in the major cities.

Wi-Fi is in the final stage of development in Russia. Currently, there are about 3,500 hot spots active in Russia that are primarily located in Moscow, St. Petersburg and other large cities. The Marriott Hotel chain was the first Wi-Fi zone in Moscow and in Russia, launched in spring 2003. Launching WIMAX services combined with Wi-Fi will be the driver for further proliferation of wireless Internet access.

Mobile Technology: Mobile services are provided in the GSM, CDMA-450, AMPS and DAMPS standards. GSM dominates the market, with 3G gaining some share. The major cellular operators in the market are Mobile TeleSystems (MTS), Vimpelcom and Megafon.

Long distance telephone calls can usually be made from any place in the city using IP phone cards or SKYPE, if you have an available Internet connection. Check with your provider to make sure coverage is available. With a pre-paid, locally purchased phone card you can also make calls from phone kiosks located near metro and train stations, tourist attractions and in downtown areas.

A rudimentary knowledge of Russian is extremely helpful for those placing a call through local telephone and telegraph offices. Moscow is eight hours ahead of Washington, D.C. To reach Moscow by phone from the United States you need to access an

international line, and then dial Russia Country Code "7," Moscow City Code "495" followed by the phone number. Some new numbers use "499" for Moscow, and calling cell phones in Russia often require a different dialing string.

Transportation

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The U.S. Federal Aviation Administration (FAA) has assessed the Government of Russia as being in compliance with the ICAO international aviation safety standards for oversight of Russia air carriers operations. See http://www.faa.gov/safety/programs_initiatives/oversight/iasa/ for more information.

Travelers should be aware some local airlines do not have advance reservation systems but sell tickets for cash at the airport. Flights often are canceled if more than 30% of the seats remain unsold. Travelers should have their passport with them at all times. Air travel within western Russia is occasionally erratic but generally stays on schedule; the quality of service continues to improve. Flights within the Russian Far East are often delayed or cancelled in winter months due to snow or fog. International Russian carriers such as Aeroflot and Transaero usually use western equipment and meet higher standards than domestic carriers.

Moscow has four major airports. Most international flights enter Moscow through Sheremetyevo-2 and Domodedovo. Travelers may continue to other Russian cities from Sheremetyevo-1, Vnukovo or Domodedovo airports. However, travel time between airports or to the city center can take as much as three hours, and ample time must be allowed for passport control, customs clearance and baggage retrieval. St. Petersburg's airport has two terminals: Pulkovo-1 (domestic flights) and Pulkovo-2 (international flights).

Passengers arriving by air in Russia should be aware that Russian authorities are now beginning to enforce a 2003 Customs regulation that prohibits airlines from delivering lost luggage. Passengers must either return to the airport to retrieve it or provide a power of attorney to another person or legal entity to act on their behalf.

Train travel in Russia is generally reliable and convenient as stations are located in the city center. From St. Petersburg to Moscow, travelers often ride overnight trains, although unaccompanied passengers are reminded to keep an eye on their valuables and lock their doors at night (if in a sleeping compartment), as some incidents of pick-pocketing have been reported. Inclement weather, erratic maintenance and a culture of aggressive driving make road conditions throughout Russia highly variable. Drivers and pedestrians should exercise extreme caution to avoid accidents. Traffic police sometimes stop motorists to levy cash "fines," and criminals occasionally prey on travelers, especially in isolated areas.

In Moscow and St. Petersburg, the metro (subway) can be an efficient and inexpensive means of transportation. However, for non-Russian speakers, it can be difficult unless prepared in advance. Be sure to carry a metro map with you and learning Cyrillic alphabet is helpful. Marked taxis are increasingly present in Moscow and St. Petersburg. Short-term business travelers may wish to consider renting a car and driver for extensive excursions, or hire taxis through their hotels for shorter jaunts. Car rentals are another option that has opened up in the last couple of years, although driving in Russia can be difficult for the uninitiated.

Language

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Though many better-educated Russians in major cities speak English, you should be prepared to conduct business in Russian. Many first-time visitors are surprised by how difficult it can be to find anyone who speaks English. U.S. businesses should hire a reputable interpreter when conducting important negotiations. Not having product literature in Russian will put your company at a big disadvantage relative to your European and Asian competitors, not to mention local firms.

Health

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As in many countries of the world, travelers should drink only boiled or bottled water. Medical care is usually far below western standards, with occasional shortages of basic medical supplies. In Moscow and St. Petersburg there are now a number of Western managed medical and dental clinics that provide adequate ambulatory care. Such facilities usually require cash payment at Western rates upon admission. For serious medical conditions, it may be necessary to travel to the West, and this can be very expensive if undertaken under emergency conditions. The cost of a medical evacuation (in an air ambulance) from some Russian regions exceeds \$100,000. The Embassy strongly urges all travelers who visit Russia to purchase traveler's medical insurance, which includes coverage for a medical evacuation. Elderly travelers and those with pre-existing health problems may be at particular risk. Further information on health matters can be obtained from the Centers for Disease Control and Prevention's international traveler's hotline at 1-877-394-8747, or via the CDC home page at <http://www.cdc.gov>. The U.S. Embassy and Consulates maintain lists of such facilities and of English speaking doctors (<http://www.moscow.usembassy.gov/consular/acs>).

Local Time, Business Hours, and Holidays

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There are eleven time zones across Russia. Moscow is eight hours ahead of Eastern Standard Time. Russian changes relative to daylight savings time are made on the last Sundays of March and October, at 2am.

Most companies and offices maintain business hours of 9:00 a.m. - 6:00 p.m. Many of the shopping centers and supermarkets are open from 10:00 a.m. - 8:00 p.m. Increasingly, many major supermarket chains are also open 24 hours, 7 days per week.

Russian Holidays: The holidays listed on the U.S. Embassy's website are not an exclusive list. Occasionally days off will be declared by the government to create a long weekend, particularly at Christmas (When holidays fall on weekends, Russian authorities generally announce during the week prior to the holiday whether it will be celebrated on the previous Friday or the following Monday). Travelers should be advised that little business is done from mid-December through mid-January. The country basically shuts down for business from New Years to Russian Orthodox Christmas (January 7). Government offices, most businesses and even much of the press close during this period. The period from May 1 through May 9 is similar.

U.S. Embassy Official Holidays for 2009:

<http://moscow.usembassy.gov/holidays.html>

Temporary Entry of Materials and Personal Belongings

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Russian customs procedures include entry and exit declaration forms. Foreigners are allowed to export up to \$3,000 without providing a customs declaration or proof of how the money was obtained. Foreigners may also export up to \$10,000 by simply filling out a customs declaration upon exit. More than \$10,000 can be exported upon proof that it was imported into Russia legally (a stamped customs declaration or proof of a legal bank or wire transfer must be presented to export currency). Failure to follow these procedures can and does result in delays, detentions, confiscation of the currency, and even imprisonment. Lost or stolen customs forms should be reported to the Russian police, and a police report (spravka) should be obtained to present to customs officials upon departure. Often, however, the traveler will find that the lost customs declaration cannot be replaced.

Generally speaking, you should obtain a receipt for all items of value – including caviar – purchased in Russia. Furthermore, old artifacts and antiques must have a certificate indicating that they have no historical value. For further information call Russian Customs at 7 (495) 265-6628 or 208-2808.

Currently, personal items not exceeding rubles 65,000 in value and a weight of 50 kilos may be exported free of charge. A 30% duty may be required to export any personal items valued at over rubles 650,000 and weighing no more than 200 kilos, although additional charges may be required depending on the type of item to be exported. Export duties may be imposed on any items that are determined by customs officials at the point of departure to be of commercial use. Items which may appear to have historical or cultural value -- icons, rugs, art, antiques, etc. -- may be taken out of Russia only with prior written approval of the Ministry of Culture and payment of a 100% duty. Occasionally, dealers of quality items may be able to arrange this approval at considerably less cost. Certain items, such as caviar, medications, jewelry, precious/semi-precious stones or metals, and fuel may be exported duty-free in limited amounts only.

Computers, electronic notebooks and related hardware must be presented to customs officials at the airport for scanning at least two hours prior to departure. The Embassy understands that customs officials may require "information storage devices" to be submitted 24 hours before departure. The law is often neglected but can be enforced on a-case-by-case basis. Failure to follow the customs regulations may result in penalties ranging from confiscation of the property in question and/or imposition of fines or arrest.

To prevent possible difficulties in taking currency and valuables back out of Russia, travelers are highly advised to ensure that their passenger declaration form is completed and is stamped by customs officials at the point of entry. This customs declaration should be kept and made available when exiting Russia.

Web Resources

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U.S. Department of State Website: <http://www.travel.state.gov>

Centers for Disease Control and Prevention: <http://www.cdc.gov>

U.S. Embassy Moscow Website: <http://www.usembassy.ru>
http://moscow.usembassy.gov/consular/acs.php?record_id=acs

U.S. Federal Aviation Administration (FAA)
http://www.faa.gov/safety/programs_initiatives/oversight/iasa/

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Chapter 9: Contacts, Market Research, and Trade Events

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Contacts

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RUSSIAN GOVERNMENT OFFICES

Ministry of Economic Development

Ms. Elvira Nabiullina, Minister

1/3, 1st Tverskaya-Yamskaya Street, Moscow 125993

Tel: 7 (495) 200-0353; 950-9263 (The Americas Dept.), Fax: 7 (495) 251-6965

<http://www.economy.gov.ru>

Ministry of Finance

Mr. Aleksey Leonidovich Kudrin, Minister

9 Ilyinka Street, Entrance 1, Moscow 103097

Tel: 7 (495) 298-9101/-9130/-9140/-9868; Fax: 7(495) 925-0889

<http://www.minfin.ru>

Ministry of Industry and Trade

Mr. Viktor Khristenko, Minister

7 Kitaigorodskiy Proyezd, Moscow 109074

Tel: 7 (495) 710-4888; Fax: 7 (495) 710-5150 (International Dept.)

<http://www.minprom.gov.ru>

Ministry of Energy

Mr. Sergey Ivanovich Shmatko, Minister

42 Shchepkina Street, GSP-6, Moscow 107996

Tel: 7 (495) 631-98-58; Fax: 7 (495) 631-8364

<http://minenergo.com>

Ministry of Information and Mass Communications

Mr. Igor Shegolev, Minister

7 Tverskaya Street, Moscow 125375

Tel: 7 (495) 771-8100; Fax: 7 (495) 771-8718

<http://english.minsvyaz.ru/enter.shtml>

Ministry of Transport

Mr. Igor Levitin, Minister

1/1 Rozhdestevenka Street, Moscow 109012

Tel: 7 (495) 626-1000, Fax: 7 (495) 626-9128, 626-9038

<http://www.mintrans.ru>

Ministry of Health and Social Development

Ms. Tatyana Golikova, Minister
3 Rakhmanovsky Per., GSP-4, Moscow 127994
Tel.: 7 (495) 628-4453, Fax: 7 (495) 627-2944
<http://www.minzdravsoc.ru>

Ministry of Agriculture

1/11 Orlikov Pereulok, Moscow 107139
Tel: 7 (495) 607-8000; Fax: 7 (495) 607-8362
<http://www.mcx.ru>

Ministry of the Interior

Economic Security Department
16, Zhitnaya St.
Moscow 119049
Tel: 7 (495) 667 6867
<http://eng.mvdrf.ru/>

Federal Customs Service

11/5, Novozavodskaya St.
121087 Moscow
Tel: 7 (495) 499 7771
<http://www.customs.ru/en/>

Federal State Statistics Service (Goskomstat)

39 Myasnitskaya St.
Moscow 107450
Tel: 7 (495) 207 4902
Fax: 7 (495) 207 4087
<http://www.gks.ru/wps/portal/english>

Russian Agency for Patents and Trademarks (Rospatent)

Dr. Boris Petrovich Siminov, Director General
30-1 Berezhkovskaya Nab., G-59, GSP-5, Moscow 123995
Tel. 7 (495) 240-6138, 240-6015; Fax: 7 (495) 243-3337
<http://www.fips.ru/rospatent/index.htm>

Central Bank of Russia

Mr. Sergey Mikhailovich Ignatyev, Chairman
Sergey Vladimirovich Tatarinov, Head of External and Public Relations
12 Neglinnaya Street, Moscow 107016
Tel: 7 (495) 771-9100; Fax: 7(495) 621-6465
<http://www.cbr.ru/>

SELECTED REGIONAL GOVERNMENTS**Moscow City Administration**

Vladimir Nikolaevich Silkin
Deputy Mayor of the Government of Moscow

13 Tverskaya Street, Moscow 125032
Tel/Fax: 7 (495) 692-1637;
<http://www.mos.ru/>

St. Petersburg City Administration

Aleksander Vladimirovich Prokhorenko, Chairman
Committee for External Relations and Tourism
Smolny, St. Petersburg 191060
Tel: 7 (812) 576-7113; Fax: 7(812) 576-7633
<http://eng.gov.spb.ru/gov>

Chukotsky Autonomous Okrug Government

Roman V. Kopin, Governor
20 Bering Street, Anadyr 689000
Tel: 7 (42722) 290 86, Fax: 7 (42722) 290 87
<http://www.chukotka.org/en/main/>

Kamchatka Oblast Territorial Administration

Aleksey Kuzmitskiy, Governor
1 Lenin Square, Petropavlovsk Kamchatsky 683040
Tel: 7 (4152) 412 096; Fax: 7 (4152) 423 503
E-mail: press@kamchatka.gov.ru

Natalia Labkovskaya, Director
Department of Foreign Economic Relations and Protocol
Tel/Fax: 7 (4152) 42 53 06
E-mail: orgotdel@kamchatka.gov.ru
<http://www.kamchatka.gov.ru/>

Khabarovsk Territorial Government

Aleksandr Levintal, Vice-Chairman, Minister
Ministry of Economic Development & Foreign Relations
19 Muravjeva-Amurskogo Street, Khabarovsk 680002
Tel: 7 (4212) 329 739; Fax: 7 (4212) 324-153
E-mail: econ@adm.khv.ru
<http://www.adm.khv.ru/>

Leningrad Oblast

Vladimir Kolesnikov, Chairman
Committee for International and Regional Relations
67 Suvorovsky Prospect, St. Petersburg 193311
Tel: 7 (812) 274-4742; Fax: 7 (812) 274-5986
E-mail: kvs@lenreg.ru
<http://www.lenobl.ru/>

Primorskiy Territorial Administration

Oleg Shcheka, Director
Department of International Relations and Tourism
22 Svetlanskaya Street, Vladivostok 690110
Tel: 7 (4232) 208 340; Fax: 7 (4232) 209 259
E-mail: intnlcmt@primorsky.ru

<http://www.primorsky.ru>

Sakhalin Regional Administration

Vadim Rokotov, Chairman

Committee for International, Foreign Economic and Regional Relations

32 Kommunisticheskiiy Prospekt, Yuzhno-Sakhalinsk 693000

Tel: 7 (4242) 727 494; Fax: 7 (4242) 727 493

E-mail: kom_mvms@adm.sakhalin.ru

<http://www.ciferas.ru/>

Sverdlovsk Oblast Administration

Ministry for International and Foreign Economic Relations

Alexandr Vladimirovich Kharlov

1 Oktyabrskaya Ploshchad, Yekaterinburg 620031

Tel: 7 (343) 217-86-72/73; Fax: 7 (343) 217-89-07/11

Yekaterinburg City Administration

Svetlana Anatolyevna Garipova, Chairman

Foreign Relations Department

24a Lenina Prospekt, Yekaterinburg 620014

Tel: 7 (343) 377-55-67, 51-43-83; Fax: 7 (3432) 51-90-05

Email: garipova@adm-ekburg.ru

AMERICAN CHAMBER OF COMMERCE IN RUSSIA

American Chamber of Commerce in Russia

Andrew B. Somers, President

Tatiana Raguzina, Sr. VP for Policy and Membership

7 Dolgorukovskaya Street, Moscow 127006

Tel: 7 (495) 961-2141; Fax: 7 (495) 961-2142

E-mail: amcham@amcham.ru

<http://www.amcham.ru>

American Chamber of Commerce in St. Petersburg

Ms. Maria Chernobrovkina, Executive Director

“Na Novo-Isaakievskoy” Business Center

Ulitsa Yakubovicha 24, left wing, 3rd floor

St. Petersburg 190000

Tel: 7 (812) 448 1646; Fax: 7 (812) 448 1645

E-mail: all@spb.amcham.ru

<http://www.amcham.ru/spb/>

RUSSIA-FOCUSED CHAMBERS OF COMMERCE AND INDUSTRY AND TRADE ASSOCIATIONS IN THE UNITED STATES

U.S.-Russia Business Council

Edward S. Verona, President and CEO

1110 Vermont Avenue, NW, Suite 350, Washington, DC 20005

Tel: (202) 739-9180, Fax: (202) 659-5920

<http://www.usrbc.org>

American-Russian Chamber of Commerce and Industry

Helen Teplitskaya, President
Aon Center, 200 E Randolph St., Suite 2200
Chicago, IL 60601
Tel: (312) 494-6562; Fax: (312) 494-9840
E-mail: info@arcci.org
<http://www.arcci.org/>

Foundation for Russian-American Economic Cooperation

Carol Vipperman, President
2601 Fourth Avenue, Suite 600, Seattle, WA 98121
Tel: (206) 443-1935; Fax: (206) 443-0954
E-mail: fraec@fraec.org
<http://www.fraec.org>

Mid-Atlantic Russia Business Council

Val Kogan, President and CEO
1760 Market Street, Suite 1100, Philadelphia, PA 19103
Tel: (215) 708-2628; Fax: (215) 963-9104
E-mail: info@ma-rbc.org
<http://www.ma-rbc.org>

Northern Forum

Priscilla P. Wohl, Executive Director
716 W 4th Avenue, Suite 100
Anchorage, AK 99501-4625
Tel: (907) 561-3280; Fax: (907) 561-6645
E-mail: secretariat@northernforum.org
<http://www.northernforum.org>

Russian-American Chamber of Commerce

Deborah Anne Palmieri, Ph.D., President and CEO
1552 Pennsylvania St. Denver CO 80203
Tel/Fax: (303) 831-9181
E-mail: Info@DebPalmieriRussia.com
<http://www.russianamericanchamber.org>

RUSSIAN CHAMBERS OF COMMERCE AND INDUSTRY AND TRADE ASSOCIATIONS

Council for Trade and Economic Cooperation (Russia-USA)

Boris Petrovich Alekseyev, President
3 Naberezhnaya Tarasa Shevchenko, Moscow 121248
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<http://info@ctec.ru>

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New York, NY 10022
Tel: (212) 829 5724; Fax: (917) 322 2105

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Moscow Chamber of Commerce and Industry

Leonid Vladimirovich Govorov, President
38/1, Sharikopodshipnikovskaya Street
Moscow, 115088 Russia
Tel.: 7 (499) 132-0001
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E-mail: mtp@mtpp.org
<http://www.mostpp.ru/>

Chamber of Commerce and Industry of the Russian Federation

Yevgeniy Maksimovich Primakov, President
6 Ilyinka Street, Moscow 109012
Tel: 7 (495) 620-0009
Fax: 7 (495) 620-0360
E-mail: tpprf@tpprf.ru
<http://eng.tpprf.ru/>

Russian Union of Industrialists and Entrepreneurs (RSPP)

Alexander N. Shokhin, President
10/4 Staraya Ploshad, Moscow 103070
Tel: 7 (495) 748-41-11
Fax: 7 (495) 606-11-29
E-mail: rspp@rspp.ru
<http://www.rspp.ru>

St. Petersburg Chamber of Commerce and Industry

Vladimir Ivanovich Katenev, President
Ms. Tatyana M. Radion, Director of External Relations Department
46-48 Chaikovskogo Street, St. Petersburg 191123
Tel: 7 (812) 719-6644; Fax: 7 (812) 272-8612
E-Mail: spbcci@spbcci.ru
<http://www.spbcci.ru>

Vladivostok International Business Association (VIBA)

Natalia Prisekina, President
3A Sukhanova Street, Vladivostok 690091
Tel: 7 (4232) 432-505; Fax: 7 (4232) 432-465
E-mail: info@viba.vl.ru
<http://russin@vladivostok.ru>

Russian-American Business Council (RABC)

Ednan T. Agaiev, Vice President
18/4 B. Ovchinnikovsky Pereulok Office 207, Moscow 115184
Tel: 7 (495) 970-13-89
Fax: 7 (495) 970-13-88
E-mail: rabc@rabc.ru
<http://www.rabc.ru>

National Association for Automotive Manufacturers (NAPAK)

Mikhail Blohin, Executive Director

5 Sushchevsky Val, Building 2, Moscow 127018

Tel: 7 (495) 974-8772, 974-8773; Fax: 7 (495) 974-8774

<http://www.napak.ru>

U.S. COMMERCIAL SERVICE CONTACTS IN RUSSIA

CS Russia has offices in Moscow, St. Petersburg, and Vladivostok. For a complete list of services, upcoming events and industry specific contacts, please visit:

<http://www.buyusa.gov/russia/en>

Moscow

U.S. Embassy, U.S. Commercial Service

8, Bolshoy Deviatinsky Pereulok

Moscow 121099, Russia

Phone: 7 (495) 728-5580, Fax: 7 (495) 728-5585

Email: Moscow.Office.Box@mail.doc.gov

<http://moscow.usembassy.gov>

St. Petersburg

U.S. Consulate General, U.S. Commercial Service

15 Ulitsa Furshtatskaya

St. Petersburg 191028

Tel: 7 (812) 331-2600, Fax: 7 (812) 331-2852

Email: StPetersburg.Office.Box@mail.doc.gov

Vladivostok

U.S. Consulate General, U.S. Commercial Service

32 Pushkinskaya Street, Vladivostok, 690001

Phone: 7 (4232) 499-381, Fax: 7 (4232) 30-00-92

Email: vladivostok.office.box@mail.doc.gov

U.S. EMBASSY AND CONSULATE CONTACTS

U.S. Embassy

8 Bolshoy Deviatinsky Pereulok

Moscow 121099, Russia

Tel: 7 (495) 728-5000; Fax: (495) 728-5159

After-hours (emergencies):

Tel: 7 (495) 728-5025

<http://moscow.usembassy.gov>

U.S. Consulate-General - St. Petersburg

15 Ulitsa Furshtatskaya, St. Petersburg

Tel: 7 (812) 331-2600; Fax: (812) 331-2674

After-hours emergencies:

Tel: 7 (812) 331-2600

<http://www.usconsulate.spb.ru>

U.S. Consulate General - Vladivostok

32 Pushkinskaya Street, Vladivostok 690001
Tel: 7 (4232) 30-00-70, Fax: 7 (4232) 49-93-72

U.S. Consulate-General – Yekaterinburg

15 Gogolya Street, 4th Floor, Yekaterinburg
Tel: (343) 379-30-01, 379-46-19, 379-46-91, 379-45-51
Fax: (343) 379-45-15

CONTACTS FOR COMPANY REGISTRATION**State Registration Chamber with the Ministry of Justice of the Russian Federation**

(Branch and Rep Office Accreditation)
Robert A, Adelhanyan, Chairman
3/5 Smolensky Bulvar, Moscow 119121
Tel: 7 (499) 246-0012, -4724; Fax: (499) 246-0411
Tel/Fax: 7 (499) 246-7200 (Information Service)
E-mail: info@palata.ru
<http://www.palata.ru/>

Chamber of Commerce and Industry of the Russian Federation

Department of Rep Office Accreditation
Sergey Borisovich Kulyba, Chief Expert
6 Ilyinka Street, Office 104, Moscow 109012
Tel/Fax: 7 (495) 620-0260; Fax: (495) 620-0360
<http://eng.tpprf.ru/ru/main/organization/departments/fcadept/>

Company Registration

Local Tax Authorities contact info and application forms available on:
Web site: <http://www.nalog.ru>
In Moscow: <http://www.mosnalog.ru>
In St. Petersburg: <http://www.nalog.spb.ru>

INTERNATIONAL BANKING ORGANIZATIONS**European Bank for Reconstruction and Development (EBRD)**

Sanford (Sandy) Owens, U.S. Department of Commerce Liaison
Office of the U.S. Executive Director, EBRD
One Exchange Square, London EC2A 2EH, United Kingdom
Tel: + 44-20-73387490; Fax: + 44-20-7588-4026
<http://www.ebrd.com>

International Finance Corporation (IFC) – Headquarters

Mr. Kutlay Ebiri, Economist of the Central and Eastern Europe Department
2121 Pennsylvania Avenue, NW
Washington, D.C. 20433
Tel: (202) 458-2334; Fax: (202) 676-1513
For directory service, call the IFC switchboard at Tel: (202) 473-1000
<http://www.ifc.org/>

International Finance Corporation (IFC) Resident Representative in Russia

Snezana Stoilkovic, Director
Central & Eastern Europe Department
36, Bldg. 1, Bolshaya Molchanovka; 3rd Floor, Moscow 121069
Tel: 7 (495) 411-7555, Fax: 7(495) 411-7556
http://www.ifc.org/ifcext/eca.nsf/Content/Russia_Home

The World Bank and International Bank for Reconstruction and Development

U.S. Department of Commerce Liaison
Office of the U.S. Executive Director
1818 H Street N.W., Washington D.C. 20433
Tel: (202) 458-0120/-0118/-1954, Fax: (202) 477-2967
<http://www.worldbank.org/>

WASHINGTON-BASED U.S. GOVERNMENT CONTACTS FOR RUSSIA

Overseas Private Investment Corporation (OPIC)

1100 New York Avenue, N.W., Washington, D.C. 20527
Tel: (202) 336-8618, -8629, -8741; Fax: (202) 408-5145
<http://www.opic.gov>

Special American Business Internship Training Program (SABIT)

Tracy Rollins, Director
U.S. Department of Commerce/SABIT
1401 Constitution Avenue NW, Washington, DC 20230
Tel.: (202) 482-0073, Fax: (202) 482-2443
<http://www.mac.doc.gov/sabit>

TPCC Trade Information Center in Washington

Tel.: 1-800-USA-TRADE

U.S. Agency for International Development (USAID)

Office of Privatization and Economic Restructuring
Washington, D.C. 20523
Tel: (202) 736-4410
<http://www.usaid.gov/>

U.S. Bureau of Industry and Security (BIS) (Re: export controls)

Office of Exporter Services
14th St. & Pennsylvania Ave., NW
U.S. Department of Commerce
Washington, D.C. 20230
Tel: (202) 482-4811, Fax: (202) 482-2927
<http://bis.doc.gov>

U.S. Department of Agriculture

Russian Area Officer
14th St. and Independence Avenue SW, Washington, DC 20250
Tel: (202) 720-3080
<http://www.usda.gov/>

**U.S. Department of Agriculture, Foreign Agricultural Service,
Trade Assistance and Promotion Office**
Tel: (202) 720-7420

**U.S. Department of Commerce - Market Access and Compliance
Russia and Independent States Division**
Jack Brougher, Director
Matthew Edwards, Russia Desk Officer
U.S. Department of Commerce, Rm.3318, Washington, DC 20230
Tel: (202) 482-3952; Fax: (202) 482-3042
<http://www.trade.gov/mac/index.asp>

U.S. Department of State, Office of Russian Affairs
2201 C Street NW, Washington, DC 20520
Tel (202) 647-6747; Fax (202) 736-4710
<http://www.state.gov/>

U.S. Export-Import Bank
Brian Sant Angelo
International Business Development
811 Vermont Avenue, NW, Washington, DC 20571-0999
Tel: (202) 565-3413; Fax: (202) 565-3628
<http://www.exim.gov/>

U.S. Trade and Development Agency
Daniel Stein, Regional Director for Europe and Eurasia
1000 Wilson Blvd., Suite 1600, Arlington, VA 22209-3901
Tel: (703) 875-4357; Fax: (703) 875-4009
Email: dstein@ustda.gov

U.S. Trade Representative
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600 17th Street, N.W.
Washington, DC 20508
Tel: (202) 395-9124
Email: Elizabeth_Hafner@ustr.eop.gov

Market Research

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To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/marketresearch.html> and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

Trade Events

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Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents.html>

For information for trade events in Russia, click on the link below.

http://www.buyusa.gov/russia/en/trade_events_russia.html

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Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

http://www.buyusa.gov/russia/en/products_services.html

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.