



Doing Business in Russia: A 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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- In 2007, the Russian economy continued its sustained steady growth. GDP grew by an estimated 8.1% to \$ 1.344 trillion. Russia now ranks as one of the top ten economies in the world.
- As in previous years, higher world prices for oil and natural gas continue to be the engine behind much of the growth. The Russian economy still remains dependent on oil & gas and other extractive sectors, such as timber, precious metals, non-ferrous metals and steel, despite the government's renewed efforts to build more of a manufacturing base, especially in the automotive, aviation and ICT sectors. Extractive industries taken together still account for the majority of Russia's overall exports and provide a significant part of federal budget revenues.
- The Russian federal budget also shows a healthy surplus. Expenditures in 2007 are estimated at \$271 billion with an estimated surplus \$72.7 billion or 5.9% of Russia's GDP.
- Due to high-energy prices, Russia's financial situation continues to strengthen, with a decline in its total external debt to \$47.8 billion as of June 2007 and an increase in its sovereign credit ratings to investment grade. During the past year the ruble has appreciated against the dollar, trading at a rate of about 24.5 rubles to the U.S. dollar as of February 2007.
- Russia's overall balance of trade continues to register healthy surpluses. In 2007, Russian trade statistics show total exports during the first 11 months were \$314 billion and imports were \$177 billion. These same statistics show U.S exports to Russia for the first 11 months of 2007 totaled \$8.3 billion -- an increase of 55% compared to 2006. U.S. statistics, while lower in absolute terms due to products being sent first to warehouses in Europe and then on to Russia, still record a 58% increase in 2007 compared to 2006. In fact according to Russian statistics, the U.S. became the 5th largest exporter to Russia, only behind Germany, China, Ukraine and Japan, respectively. Both Russian and U.S. data demonstrate a strong surge in U.S. exports to Russia, providing some excellent market opportunities for American companies.
- Adding to overall economic development, the year 2007 continued a steady multi-year trend of strong consumer spending and a construction boom. This dramatic growth has spread well beyond Moscow and St. Petersburg to the regions and to cities of one million inhabitants or more. Per capita GDP is estimated to have reached \$9,050 in 2007 as compared to \$7,170 in 2006, leaving Russian consumers with disposable income for foreign products.
- Leading European companies, especially those from Germany, France, Scandinavia and Turkey, are well established in both consumer and industrial markets in Moscow and St. Petersburg and are branching out to the smaller regional cities. Many well-known U.S. consumer brands are successful and many Asian companies from Japan, South Korea and China are also doing well.

- In 2007 the American Chamber of Commerce surveyed U.S companies currently operating in Russia and came up with these major findings: 50% report sales increases of 200% from 2001 to 2005; profitability during 2001 – 2005 was on or above target; 67% expect sales growth of more than 50% through 2008.
- This past year the Russian government continued to deepen and broaden state control, both direct and indirect, over the economy, going beyond the strategic sectors such as energy, aluminum, steel, automotive, machine tools and aerospace to a broad range of sectors, including agriculture, transportation and construction. In 2007 Russia won the bid to hold the 2014 Winter Olympic Games at the resort town of Sochi and there will be opportunities for international companies in this area related to construction, transportation and safety & security.
- 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. 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 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 can be done on-line and can be done in advance of travel.
- Most major corporations have concluded that the country's potential demands a presence in Russia, with its vast natural resources, impressive human capital and 140 million consumers. A significant number are finding that presence very profitable, and the majority express optimism for continuing profitable business opportunities now and in the future.

Market Challenges

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- Major barriers to the Russian market remain its different business practices and its uneven transition from a socialist, centrally planned economy to a market-oriented one.
- European and Asian companies remain tough competitors for U.S. firms, due to their proximity to Russian markets and their long-standing relations with Russian organizations and companies.
- Government bureaucracy, poorly established rule of law and corruption affect such areas as establishing a business, tax collection, dispute settlement, property rights, product certification and standards, as well as Russian Customs clearance.
- Finding qualified local partners and Russian employees has become more difficult and salaries for local employees have risen significantly, especially in Moscow and St. Petersburg. The pool of managers who understand Western accounting and business practices remains limited, as do those qualified, experienced Russians proficient in English. As a result, this group circulates among major companies, bidding up salaries. Recently, Russian authorities have taken steps to encourage international companies to rely more on local talent by tightening visa regulations for foreign workers.
- Adequate financial resources for Russian small and medium-sized companies still remain a problem, but it is not as acute as it was in years past. More foreign banks are operating in Russia and more cash is circulating within the economy due to the Russian oil and gas boom.
- The Russian Government continues to use its oil and gas resources to increase state ownership in strategic industries and companies. Foreign companies can find it unclear as to which sectors are open to investment without Russian majority partners. Legislation defining strategic sectors remains under discussion in the Duma, the Russian parliament.

Market Opportunities

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- There are strong growth possibilities in a range of consumer goods and services, fueled by increases in disposable income in Moscow, St. Petersburg and the growing regional centers:
 - telecommunications equipment and services, especially wireless
 - autos and parts
 - computer hardware and software
 - safety and security equipment
 - cosmetics and toiletries
 - building products
 - franchising.
- There is strong growth in the energy, transportation, machinery and healthcare sectors:
 - oil & gas equipment and services
 - aircraft parts
 - medical equipment
 - pharmaceuticals
 - agricultural machinery
 - construction equipment.

Market Entry Strategy

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- Perform detailed market research to identify specific sector opportunities.
- Establish a local presence or select a local partner for effective marketing and sales distribution in Russia. Due diligence is a must.
- Maintain a long-term timeframe to implement plans and achieve positive results.
- Use the experience of other, successful U.S. companies in the market. The local American Chamber of Commerce has over 850 members and is a valuable resource.
- Be prepared to offer financing to Russian buyers. Both the U.S. Export-Import Bank (Eximbank) and Overseas Private Insurance Corporation (OPIC) have programs to address these needs.
- Be prepared also to establish a well thought out budget plan and include in the entry strategy advertising, market promotion and regular visits to the major cities in Russia.

Russia continues to be a major, fast-moving and growing economy offering opportunity and challenge in equal measure. While the economy is producing increasingly positive results, the country remains a complex place to do business. The best opportunities for experienced U.S. companies lie in developing exports in the sectors noted above. Most major corporations have concluded that the country's potential demands a presence in Russia, with its vast natural resources, impressive human capital and 140 million consumers. A significant number are finding that presence very profitable, and the majority express optimism for continuing profitable business opportunities now and in the future.

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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 11 time zones, Russia is the largest country in the world by landmass. Many businesses therefore tend to approach the Russian market on a regional basis. Moscow and St. Petersburg, the major population and business centers, are traditional starting points. However, some companies have successfully entered the Russian market by starting distribution in other key regions first and then expanding into these larger markets. Well-organized distribution channels are established in Western Russia, especially in Moscow and St. Petersburg, and are developing 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 partners carefully. In general, Russian consumers seek bargains and are price sensitive, but they are willing to pay for quality, especially for recognized U.S. brands.

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) Branch / Representative 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, such offices cannot be directly involved in commercial activity, as they are not allowed to operate commercial accounts under Russian law. 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.

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 U.S. or done jointly with a Russian partner.

The U.S. Commercial Service provides assistance to U.S. companies in finding local partners through the International Partner Search, International Company Profile,

Flexible Market Research and the Gold and Platinum Key Services. Contact information can be found in Chapter 10.

The Foreign Agricultural Service (part of the U.S. Department of Agriculture) provides similar assistance to U.S. exporters of agricultural and food products. Complete contact information can be found in Chapter 9.

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 1999 Civil Code
- The August 8, 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 stakes are restricted to 25% in defense related enterprises.

Branch Offices

In Russian terminology, branches are not considered independent legal entities, though they may negotiate, market or provide other business support on behalf of firms based outside Russia. However, they may not technically generate a profit on their operations

in Russia and are not allowed to conduct commercial activities in the country. 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.

U.S. firms should not use the term “branch” with registration authorities if the purpose is to register as a company. Branches of foreign firms must register with the State Registration Chamber, which is part of the Ministry of Justice of the Russian Federation. Registration details are available on the State Registration Chamber website at www.palata.ru. As part of the registration, the State Registration Chamber will include the newly registered branch in the State Register of Branches of Foreign Legal Entities Accredited in Russia.

Accredited Representative Offices

Like branches, accredited representative offices are not independent legal entities; they may not earn a profit in Russia or 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 (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. Branches can be accredited for a five-year term.

Accredited representative offices also must register with the State Registration Chamber in order to be included in State Register of Branches of Foreign Legal Entities Accredited in Russia. They are advised to also register with appropriate state organizations, depending on their industry. Such agencies include the Central Bank, Ministry of Economic Development and Trade, Ministry of Finance, Ministry of Transportation, Ministry of Industry and Energy, and others. According to the law, accreditation of a representative office or branch should take 21 days. Accreditation fees are as follows: representative offices - \$1000 for one year, \$2000 for two years and \$3000 for three years; branches – 60,000 rubles plus \$500 for the first year with an increase of an additional \$500/year up to five years. An additional \$500 may be paid for an expedited accreditation within seven days.

Further information is available on the State Registration Chamber website at www.palata.ru

Companies

Beginning July 1, 2002, companies are required to be registered with the local Tax Inspectorates. 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 Tulskaaya Street, Moscow) is currently providing 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: www.mosnalog.ru

Taxation

Major revisions of Russia's tax code took place from 1999 to 2002. 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 by 2003.

Implementing the 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 2002, the profit tax rate was reduced from 35% to 24%, a list of deductible expenses was drawn up, and the provisions on depreciation were changed. Thus, the tax rate has been 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.

The new provisions on profit taxation enable foreign companies operating in Russia to benefit from the exemptions in 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).

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 under certain conditions.

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 January 1, 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 on the basis of monthly gross pay.

In accordance with the current Tax Code, the employer is obliged to pay UST for foreign individuals. There is an annual descending scale for this tax – 26% on the first R280,000, 10% on earnings from R280,001 to R600,000, and 2% on all earnings over R600,000.

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

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 and interest are taxed at a rate of 15%, 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 other cities and rural areas.

The personal income tax rate is now a flat 13%, following recent tax reform legislation, which sharply reduced the former graduated rate. 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, 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.

By all means, 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 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 arrival of Starbucks onto 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 increased 14.7% year-on-year to R6.57 trillion (approx. \$268 billion) for the January-August 2007 period. For comparison, in 2006, the retail turnover was near \$250 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 the franchise concepts based on retail trade.

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

Direct Marketing

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Due to the relatively underdeveloped state of 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. By contrast, person-to-person direct marketing 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. By some estimates, from 1.1 to 1.5 million people may be employed in direct marketing in Russia, although the informal nature of the activity makes precise figures difficult to obtain.

Other direct marketing channels (catalogs, e-commerce and regular mail) are still in their infancy. Major, well-known U.S. direct marketers such as Amway, Avon, Mary Kay and Tupperware are active in Russia and doing well. The Direct Marketing Association estimates that direct sales accounted for 22% to 23% of the total cosmetics and toiletries market last year. Russian law, however, forbids using direct sales of several different types of products like 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 marketing industry in Russia, visit the Russian Direct Marketing Association website at: <http://www.rdsa.ru>.

U.S. companies often 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. Recent 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. 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 who 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.

One JV scenario often leads to commercial failure and, in some cases, bitter legal disputes: A U.S. company forms a JV with a Russian partner after a short history of cooperation. The firm then returns to the U.S. as an "absentee" partner. The company has the expectation that the Russian partner will manage daily operations, implement a business plan, and wire profits on schedule. 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 (especially in the software industry) 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.

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. Although Russia's current fiscal situation has improved recently due to implementation of numerous centralized, federally funded investment programs, as well four key national priority projects in such areas as education, health, housing and agriculture, funding for procurement is always a challenge. 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 are beginning 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 stable long-term prices. 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.

By utilizing these increasingly professional domestic distributor 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. Utilizing these channels is often a key to success for a U.S. company operating in the Russian market. 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 needs to be expanded. Major Western freight forwarders and express couriers are active in Russia.

Selling Factors/Techniques

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To succeed in Russia it is important to choose sales targets and partners carefully. In general, Russian consumers seek bargains and are price sensitive, but they are willing to pay for quality, especially for a recognized brand.

Electronic Commerce

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E-commerce in Russia grew 38% in 2005, reaching \$4.4 billion in sales. The business-to-business e-commerce segment tripled in 2005 to \$1.3 billion. The number of Internet users has increased dramatically over the past five years, reaching 20% 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 2,000-4,000, selling \$1 billion worth of goods in 2005. Home appliances and electronics accounted for 39% of sales, while the fastest growing sub sectors 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 and use their websites as a front end for the buyer to select the goods and place an order 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. Although credit card use is growing, the number of consumers with credit cards and 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 financial crisis of late 1998, and the subsequent devaluation of the ruble, foreign multinational consumer products companies had 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, the 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

There is a local tax levied on all enterprises involved in advertising. In Moscow and St. Petersburg the advertisement tax rate is 5%, levied on the cost of advertising goods and services, excluding VAT. Advertising expenses became tax deductible in January 2002, when Chapter 25 of the Russian Tax Code came into force.

There are abundant opportunities to reach customers through Russia's vigorous print media. The country has a large number of specialized publications catering to most interests, and Russian-language trade journals are good marketing vehicles. Russia also has a large number of popular general interest newspapers and magazines, several of which have national circulation. In Moscow and St. Petersburg, there are high-quality English and German language daily or weekly newspapers that reach the high-income foreign business and government communities. For contact and price information on local newspapers and magazines, please contact the U.S. Commercial Service in Moscow at: Vladimir.Goryachev@mail.doc.gov.

Participation in a well-organized trade show is one of the best ways for a company to enter the Russian market, facilitating contact with potential buyers and distributors. U.S. firms are advised to exhibit at Russian trade shows, as they remain powerful marketing tools and reassure Russian buyers that the company is committed to maintaining a presence in the Russian market. Companies occasionally make substantial sales at Russian exhibitions. Representatives of regional governments and state enterprises from remote areas often visit exhibitions in major cities to purchase goods. The U.S. Commercial Service in Russia organizes U.S. Product Literature Centers (catalog shows) at many of Russia's major trade shows. These events provide U.S. firms with an opportunity to explore the market and test their products without actually visiting the country. A list of major trade exhibitions may be found in Chapter 9.

Rapid development of retail networks in Russia (owning a large number of stores) was followed by a drastic increase in shelf entry prices for a wide variety of consumer goods, including processed foods and beverages, household appliances and cosmetic products. These costs, according to several estimates, amount to 35% of the retail product price and should be taken into account by U.S. manufacturers of such goods. U.S. companies are recommended to conduct negotiations with Russian distributors and retailers on the shelf entry costs, as well as price structure and discounts for their products, to ensure their local partner properly uses funds for promotional and advertising activities.

The U.S. Commercial Service can help U.S. companies gain exposure in the Russian market through its website and the FUSE (Featured U.S. Exporter) service. Please see: www.buyusa.gov/russia

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 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. 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.

Sales Service/Customer Support

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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.

Protecting Your Intellectual Property

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Introduction

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 U.S. Third, rights must be registered and enforced in Russia under local laws. Companies may wish to seek advice from local attorneys or IP consultants.

It is vital that companies understand that intellectual property is primarily a private right and that the US government generally cannot enforce rights for private individuals in Russia. It is the responsibility of the rights holders to register, protect, and enforce their rights where relevant, retaining their own counsel and advisors. 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. Moreover, in many countries, rights holders who delay enforcing their rights on a mistaken belief that the USG can provide a political resolution to a legal problem may find that their rights have been eroded or abrogated due to doctrines such as statutes of limitations, laches, estoppel, or unreasonable delay in prosecuting a law suit. In no instance should USG advice be seen as a substitute for the obligation of a rights holder to promptly pursue its case.

It is always advisable to conduct due diligence on partners. Negotiate from the position of a partner and give the partner clear incentives to honor the contract. A good partner is an important ally in protecting IP rights. Keep an eye on cost structure and reduce the margins (and the incentive) of would-be bad offenders. Projects and sales in Russia

require constant attention. Work with legal counsel familiar with Russian laws to create a solid contract that includes non-compete clauses, and confidentiality/non-disclosure provisions.

It is also recommended that small and medium-size companies understand the importance of working together with trade associations and organizations to support efforts to protect IPR and stop counterfeiting. There are a number of these organizations, both Russia- and U.S.-based. These include, but are not limited to:

- The U.S. Chamber and local American Chambers of Commerce
- National Association of Manufacturers (NAM)
- International Intellectual Property Alliance (IIPA)
- International Trademark Association (INTA)
- The 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 (with offices in the U.S. and Moscow)
- Russian Anti-Piracy Organization (RAPO)
- Business Software Alliance (represented by Baltic Law Offices in Russia)
- Russian Anti-Software Piracy Association
- Association of Branded Goods Manufacturers in Russia (RusBrand)

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 US Patent and Trademark Office (USPTO) at: **1-800-786-9199**.
- For more information about registering for copyright protection in the US, contact the US Copyright Office at: **1-202-707-5959**.
- For US small and medium-size companies, the Department of Commerce offers a "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 provides registration for Webinars on protecting IPR.
- The U.S. Commerce Department has positioned IP attachés in key markets around the world. Contact information for the IP attaché who covers Russia:

Tracy T. Perrelli
U.S. Patent and Trademark Office American Embassy
US Commercial Service
23/38 Bolshaya Molchanovka, Building 2
Moscow 121069
+7 495-737-5014
tracy.perrelli@mail.doc.gov

IPR Climate in Russia

The lack of adequate protection and enforcement of IPR in Russia hinders the development and market growth of industries that rely on heavy investment in creativity and innovation such as music, films, science, medicine and high technology. In the domestic consumer market, fake goods make up 30-40% of all consumer goods. In some consumer products, this level reaches even higher. Copyright violations (films, videos, sound recordings, books and computer software) are rampant. However, legitimate DVD sales are on the rise, due in part to lower prices and shorter release times, law enforcement action, and a growing middle class with a preference for high quality products. Russian law enforcement has gradually taken a more aggressive approach toward pirate optical disc producers in the last few years. While the law enforcement situation is improving, many problems remain, especially during the prosecution stage. Judges and prosecutors frequently lack expertise in IPR cases or do not always regard them as serious. Corruption continues to be a problem. In addition, judges often impose unreasonable proof requirements that are burdensome on rights holders. The Russian Federal Customs Service has recently improved its focus on IPR and border enforcement issues. In general, U.S. firms should proactively take steps to protect their intellectual property in Russia, including registering their trademarks with Rospatent and the Russian Federal Customs Service. As part of its WTO accession process, the Russian government is working to ensure that its IPR laws are consistent with the requirements of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Russia enacted new IP legislation that went in to effect on January 1, 2008, but problems still exist in compliance with international IP norms. It has also made commitments to join the Internet conventions of the World Intellectual Property Rights Organization (WIPO). Russia appears to be committing more resources toward battling counterfeiters and pirates, but many changes need to occur before IP enforcement will change for the better.

Most IP office contact information can be found at:

<http://www.wipo.int/directory/en/urls.jsp>.

For Russia contact:

Federal Service for Intellectual Property
Patents and Trademarks (Rospatent)
30-1, Berezhkovskaya nab.
123995 Moscow
+7 (495) 956-8109
International Cooperation Department: rospatent@rupto.ru

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 that fact that the Russian economy is still in 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 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, it is perilous to avoid this expense. 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: www.buyusa.gov/russia

The U.S. Department of Agriculture: www.fas.usda.gov

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

U.S. Embassy in Russia's IPR Toolkit:

http://www.usembassy.ru/bilateral/bilateral.php?record_id=ipr

State Registration Chamber: www.palata.ru

Company Registration: www.mosnalog.ru

Russian Direct Marketing 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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Agriculture Sector

Telecommunications Equipment & Services

Overview

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\$ millions	2005	2006	2007 Estimate
Total Size	23,900	30,700	36,000
Services Market Size	19,900	26,594	31,073
Equipment Market Size	4,000	4,106	4,927
Local Production (Equipment Only)	330	486	583
Exports (Equipment Only)	420	540	648
Imports (Equipment Only)	4,090	4,160	4,992
Imports from the U.S.	54	55	66

Note: All figures in nominal USD millions. Figures are based on Russian Customs statistics and may underestimate imports from the U.S. 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 continues to demonstrate strong growth, in part driven 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 2006, the Russian telecommunications market reached \$30.7 billion in sales. In 2007, the market is forecast to grow 17% and total \$36 billion. The sector's average annual growth for 2004-2007 was 25%, but market dynamics are now somewhat influenced by the weak dollar and strong ruble.

The cellular segment accounts for more than 45% of the telecommunications market, and is very concentrated with 90% of total revenue earned by three major national cellular operators: MobileTeleSystems (MTS), VimpelCom and MegaFon. By December 2007, the total number of registered SIM-cards in Russia reached 169 million, a 17% increase over 2006. According to market experts, the number of active mobile subscribers is only half the number of SIM-cards, leaving good potential for cellular market growth. According to J'son & Partners, mobile operators' revenues amounted to \$14.7 billion in the first nine months of 2007 and are expected to reach \$20 billion by the end of that year. The current average revenue per user (ARPU) by the end of 2007 is only \$8, which is motivating mobile operators to look for new technology and/or value added services, as well as expanding into Russia's regions and CIS countries, to increase revenues.

In 2006, sales of telecommunication equipment reached \$4.1 billion. The market for mobile network equipment is one of the largest sub-sectors of the telecommunications equipment market in Russia. Three generations (1st, 2nd and 2.5) of mobile networks are currently represented here. GSM, the standard, covers more than 90% of the cellular market. 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, 2010-2025 MHz 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 is planned for 2008. 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.

In 2006, the number of Internet subscribers increased by 18% reaching 22 million, placing Russia in eleventh place among the countries with high Internet penetration. The Internet market was worth \$1.8 billion. In 2008, it is expected to rise 50% to \$2.7 billion, mainly due to the growth of broadband access, which, at 90%, showed the fastest growth in 2006. Though the broadband market size is still not large, the potential is huge; there are currently 2.6 million users, which are expected to increase 130% to six million by 2008.

Total 2006 revenue for fixed-line connection services increased 33% to \$13.6 billion, up from \$10.2 billion in 2005. The process of market liberalization, which was formalized in 2005 and 2006, resulted in 22 long-distance licenses being issued in two-year period. In 2006 most of mergers and acquisitions in telecom occurred in the fixed-line segment witnessing an active privatization of federal operators. This privatization will dramatically change the balance of forces in the market. However, currently only two operators, MTT and Rostelecom, can be considered active market players.

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 Products/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 \$380 million market in 2006 and was expected to grow to \$500 million in 2007, a 32% increase. 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.

Paid TV is another locomotive of the Russian telecom 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.

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

3rd Generation Telecommunication Networks Operators Association (3G Assoc.)
<http://www.a3g.ru>

MegaFon
<http://eng.megafon.ru/>

MTS
<http://www1.mtsgsm.com/>

VimpelCom (Beeline)
<http://www.vimpelcom.ru>

Trade Events

Cable & Satellite TV, Teleradiobroadcasting and Broadband (CSTB) Exhibition
Moscow
February 5-8, 2008
<http://www.cstb.ru/>

Svyaz ExpoComm
Moscow
May 12-16, 2008
<http://www.svyazexpo.ru/eng>, <http://www.expocomm.com/moscow/>

InfoCom
Moscow
October 22-25, 2008
<http://www.infocomtech.ru/eng/>

Mobile & Wireless
Moscow
October 25-27, 2008
<http://www.inconex.ru/mw/eng/>

Publications

CNews
<http://eng.cnews.ru/>

Broadband Conference
<http://www.broadband-conference.com/en>

Commercial Service Contact

Elizaveta Minyaeva, Commercial Specialist
elizaveta.minyaeva@mail.doc.gov
Tel: +7-495-737-5035 (direct); +7-495-737-5030

Construction Equipment/Building Materials

Overview

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\$ millions	2005	2006	2007 Estimate
Total Market Size	10,000	11,500	13,000
Total Local Production	6,500	7,500	5,500
Total Exports	-	-	-
Total Imports	3,500	4,000	7,500
Imports from the U.S.	600	700	800

Note: All U.S. figures are in nominal USD millions and are estimates based on interviews with industry experts.

The Russian construction market continues to grow at an average rate of 10 to 15% annually, thus creating sizable opportunities for U.S. manufacturers and suppliers. Sector growth is being driven by the Sochi Olympics, residential and commercial construction, and infrastructure projects.

Regarding the Olympics, the 2014 Games in Sochi will be a huge event that requires significant investment in the construction of sports facilities, hotels, and transportation systems. Due to the government's National Priority Project, "Affordable and Comfortable Housing for Russian Citizens," we expect strong growth in a residential construction. By 2010 the volume of residential construction will increase to 80 million square meters per year. Construction of commercial property will grow as a result of continued high demand for offices, shops and warehouses. Transport infrastructure will also be important. In order to improve traffic flow in large cities such as Moscow and Saint Petersburg, it is increasingly necessary to construct and re-construct roads and interchanges. Finally, new construction activity continues to spread to Russia's regions as demonstrated by the number of large-scale projects such as gas pipelines, shopping malls and factory outlets. This booming construction market drives strong demand for construction equipment and building materials.

As seen in the above table, equipment and materials imports in 2007 are expected to more than double the 2005 figure, while local production declines. Simply stated, more Russian companies are choosing imported products over domestic varieties. Imports from the U.S. are growing 15% per year, but there is severe competition from Asian producers, particularly Chinese and Korean, which offer much cheaper products and establish service centers.

The construction equipment market is characterized by a shortage of stocks 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 resulting lack of modern technologies, poor management and the absence of government support. Consequently they are not in position to meet the

growing demand for a wide range of construction equipment. As a result, the import of construction machinery continues to grow and about 50% of the equipment used by construction companies is foreign, either new or used. The main players on Russian market are Caterpillar (U.S.A.), Volvo (Sweden), JCB (U.K.) and Hitachi (Japan). Asian producers, especially Chinese, are also aggressively entering the market, thus intensifying competition for all suppliers.

The environment for building and interior design materials also favors further development. About 90 – 95% of apartments and homes in Russia are sold without interior decoration. To meet market demand, local production of materials is growing; however, according to various estimates, the market share for imported construction materials is about 60%. The “Do it Yourself” (DIY) segment continues to expand as demonstrated by growing consumer purchases at such stores as OBI, Castorama and IKEA.

Best Products/Services

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

Building materials: Floor and wall coverings, insulation materials, plumbing and electrical products, doors and windows, adhesives and panels.

Opportunities

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Today more and more Russian companies prefer to purchase expensive but quality equipment and materials versus cheaper ones. They have started to realize that paying a higher initial price can save costs in the long run.

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. There are no known trade barriers affecting imports of U.S. construction equipment especially since import duties on finished equipment were cancelled in 2006.

Component supplies to Russian OEMs may be a favorable segment as well. Aftermarket sales of replacement parts are dynamic, with high customer receptivity to U.S. products. Opportunities also exist for licensing and transferring modern U.S. technology to Russian equipment and component manufacturers.

U.S. building products are competitive against European suppliers due to the continuing weak dollar. As a result, Russian distributors are increasingly switching from existing European to U.S. sources. Since foreign DIY chains have become much more active in the Russian market, American companies can also be competitive in retail sales of DIY products.

However, one should keep in mind that developing business in Russia is not an easy task. All foreign suppliers have to invest a considerable amount of time and money to enter the Russian market. This includes product promotion and advertising, certification,

(most Russian companies will not buy equipment that has not been certified in Russia), service training and setting up a warehouse. U.S. manufacturers can share these costs and avoid problems with official organizations by partnering with qualified Russian distributors and offering them exclusive sales rights.

Resources

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Organizations

The Federal Construction and Housing Agency
Moscow, Russia
www.gosstroy.gov.ru:

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

Construction World: The Associate board of architecture, construction, development and reconstruction of Moscow
Moscow, Russia
www.stroi.ru

Trade Events

International Construction Week
Moscow
February 17-21, 2008
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 capital and landscape
www.iset-expo.ru - Professional and household tools of all types

International South Construction Forum
Krasnodar
February 28–March 2, 2008
www.krasnodarexpo.ru/expo/story

Rusbuild
Moscow
March 11-14, 2008
www.rusbuild.com

Mosbuild
Moscow
April 1-4, 2008
www.mosbuild.com

CTT/Construction Equipment and Technologies
Moscow
June 17-21, 2008
http://www.mediaglobe.ru/eng/about_ectt/

Balticbuild
Saint Petersburg
September 10-13, 2008
www.balticbuild.ru

Conexpo Russia
Moscow
September 15-18, 2008
www.conexporussia.su

City Build
Moscow
November 10-13, 2008
www.city-build.ru

Publications

All-Russian Magazine about the Construction Industry
Moscow
<http://ianc.ru>

Spec-technika
Ekaterinburg
www.spec-technika.ru

Stroy Smi
Moscow
www.stroysmi.ru

Commercial Service Contact

Valeria Khalina, Commercial Specialist
valeria.khalina@mail.doc.gov
Tel: +7-495-737-5015 (direct); +7-495-737-5030

Drugs & Pharmaceuticals

Overview

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\$ millions	2006	2007	2008 Estimate
Total Market Size	8,580*	9,150*	10,000
Total Local Production	2,500	3,000	3,500
Total Exports	250	350	450
Total Imports	6,330*	6,500*	6,950
Imports from the U.S.	400*	500	600

* Estimates

Russia continues to offer a growing pharmaceutical market with most major Western drug manufacturers already represented in the country. In the last ten years, the total volume of the market has grown by 9-fold. Annual growth in this sector is expected to continue at around 10% per year for the next five years, driven by rising incomes, consumer spending, increased efficiency in domestic distribution and increased government funding for drugs due to implementation of the Additional Drug Supply Program (DLO). DLO is a new Federal Drug Reimbursement Program that is available to certain categories of the population. Primary recipients include the disabled and the total number of recipients is estimated at 14 million people. The government launched the DLO on January 2005, allocating \$1.8 billion for its implementation.

The Russian pharmaceutical market consists of two large segments: the commercial (60%) and state (40%). The commercial segment includes retail sales of pharmaceuticals and related cosmetic and health products, but excludes purchases of drugs under the DLO Program. The state market includes the sales of drugs to hospitals and the DLO component. The commercial market features both generics and high-end brand drugs, which play a dominant role. The state market traditionally included mainly relatively inexpensive generic drugs supplied to hospitals. Starting in January 2005, the state market was supplemented by brand drugs procured under the DLO Program.

According to the law, purchases for public hospitals and under the DLO program are to be done through open tenders. However, the tenders are often non-transparent with only the larger national-level and a few top regional-level distributors able to participate successfully in them.

According to DSM Group, one of the leading pharmaceutical market research companies, the total volume of the commercial pharmaceutical market in wholesale prices (without VAT and retail mark-ups) in January-October 2007 was \$4.5 billion.

The Russian pharmaceutical market is dominated by generics. Out of 13,000 pharmaceuticals, which are currently registered in Russia, 78% are generics. The majority of the population can still only afford inexpensive low-efficiency generic drugs. As a result, the Russian population's consumption of drugs is 9-12 times lower than in Western countries. Average personal spending on drug consumption remains at a

remarkably low \$44 per person/year with the average price of drugs in Russia being 7-10 times less than comparable medications in the West. According to DSM Group, the average price of a drug in Russia in October 2007 was \$1.65.

According to the industry sources, about 60% of total domestic output is controlled by 10 large manufacturers, including Microgen FGUP NPO, ZAO Otechestvennyye Lekarstva ZAO, Pharmstadart OOO, Nizhpharm OAO, Pharm-Centr ZAO, Veropharm OAO, Materia Medica Holding OOO NPF, Akrikhin OAO, Moskhimpharmpreparaty FGUP, Bryntsalov-A ZAO. Besides the production of generics, domestic pharmaceutical producers specialize in the tableting and packaging of drugs made from imported substances. From 85% to 90% of all the substances used in pharmaceutical production are imported from Western Europe, China and India.

The Russian pharmaceutical market is dominated by imported pharmaceuticals, which cover about 75% of the total volume. According to DSM Group's report, in January-September 2007, total imports, compared to the same period of 2006, increased by 2.7% to \$4.6 billion. According to Pharmatsevticheskiy Vestnik, a leading periodical devoted to the pharmaceutical market, in mid 2006 the composition of the leading exporters of pharmaceuticals to Russia was as follows:

- 68.7% Western Europe
- 14.8% from Eastern Europe
- 5.6% from the United States
- 4.5% from India
- 1.1% from the Baltic countries
- Remainder from Asian countries and the former Soviet Union

According to estimates, there are 4,000 registered distributors of pharmaceuticals in Russia but estimates are that 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. The share of the three largest distributors is 40% of the total market, which is very similar to the level of concentration in Spain and Belgium, higher than in Greece, but still lower than in England and France. The top 10 distributors control 78% of total imports: Protek, CIA International, ROSTA, Biotek, Apteka-Holding, Dominanta-Service, Shreya Corporation, Katren, Moron and Genezys.

Distributors operate vast networks of contacts and work to control retail distribution channels. Drug manufacturers prefer not to work with retail pharmacy networks and pharmacies directly, relying instead on distributors in promoting their products to retail outlets. In recent years, increasing portions 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 in 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 been growing rapidly. The overall number of pharmacies and kiosks is 59,000. Leading pharmaceutical networks include Apteka 36.6 (Moscow), Rigla (Moscow), O3 (Moscow), Doctor Stoletov (Moscow), Staryi Lekar (Moscow), Biotek (Moscow), Natur Product (St. Petersburg), Farmakor (St. Petersburg), Pervaya Pomosch (St. Petersburg) and Implozia (Samara).

Best Products/Services

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The three major diseases, which are leading causes of death in Russia, are cardiovascular disease, cancer and trauma. Best prospects for U.S. exports include those related to cardiovascular disease, cancer, trauma, asthma, neurological and hormonal problems, anti-AIDS drugs, insulin, antibiotics, analgesics, vitamins, vaccines, and psychotropic medicines. Aside from painkillers, antibiotics and vitamins, the top drugs by sales in Russia include medicines for heart and blood conditions, diabetes and liver problems.

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 main driving forces of the market in 2005 and 2006 were implementation of the DLO Program and introduction as of January 2006, of the Health National Priority Project which is followed by significant investment into primary care, maternity care, training of doctors and paramedics, re-equipping of existing clinics and hospitals and building brand new medical centers as well as developing high technology medical assistance. However, according to RMBC, one of the leading pharmaceutical market research companies, the DLO Program funding decreased by 37% to \$1.33 billion in 2007.

The major challenges in this sector are a lack of transparency in the registration and certification systems as well as inadequate IPR protection and a large percentage of counterfeit medicines. According to different analysts, counterfeit drugs currently represent from 7% to 12% of the market.

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http://www.mzsrrf.ru/fed_a_zdrav/: Official web site of the Russian Ministry of Health and Social Development

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

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

www.remedium.ru: Magazine for the Russian pharmaceutical market

www.rmbc.ru: pharmaceutical market research company

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

www.pharminform.ru: Consulting firm, Pharminform, specializing in assistance with registration and certification of medical equipment and pharmaceuticals. The site has an English version

Automotive Parts and Aftermarket

Overview

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(All figures in USD millions)

	2005	2006	2007
Total Market Size	6,500	7,800	9,500
Total Local Production	4,400	5,000	5,500
Total Exports	200	250	300
Total Imports	2,300	3,050	4,300
Imports from the U.S.	800	850	1,000

(\$1 = R 24.50)

In the last few years, the Russian automotive market has grown at an annual rate of 20-25%. This has been and will most probably continue to be the fastest growing automotive market in Europe. According to industry analysts if growth rates will stay as high as they are now, the Russian automotive market will become the largest in Europe by 2015. In 2007, many imported car dealers again reported record results by increasing sales of new cars from 1,000,000 vehicles in 2006 to over 1,650,000 in 2007. The import of used cars and trucks is also growing. These trends will continue to dominate in the next few years.

The market for car components and aftermarket replacement parts is likely to become stronger as car ownership steadily increases and customers demand higher performance from domestically produced cars. Russia represents a large potential market for the U.S. automotive industry. Currently, the rate of car ownership in Russia is only 25% of the U.S. rate. The total Russian motor vehicle fleet is estimated at 36 million units, including 26 million cars.

The Russian auto industry represents a major force in the domestic economy because of highly competitive pricing, but quality must improve if the industry is to maintain its position. Russian vehicle assembly and component manufacturing factories remain plagued by outdated equipment, a lack of modern technologies and inadequate management. Nonetheless, the automotive sector of Russia's economy is in better shape than many other industries. The major local automotive market players include: GAZ Group, a subsidiary of Basic Element, the largest Russian aluminum manufacturer; and Severstalauto, a former subsidiary of the leading Russian steel producer Severstal, and AutoVAZ currently controlled by the state owned Rosvooruzhenie. Those companies are successfully restructuring their automotive assets and investing in the modernization of these outdated facilities. Majority of component manufacturing assets are owned by the SOK Group.

There are several projects underway to assemble foreign cars in Russia. Ford's new plant began operation in July 2002 in a suburb of St. Petersburg, and the demand for Russian-manufactured Focuses exceeded even the best expectations. This high demand for the new Focus model made Ford one of the sales leaders in 2007 with over 100,000 vehicles sold. The GM-AvtoVAZ joint venture, which manufactures the Chevrolet-Niva SUV since September 2002, is also selling successfully. In 2005, Renault started manufacturing a low-cost Logan vehicle at a Moscow-based facility. The Russian company SOK started assembly of KIA Spectra in Izhevsk with planned annual output of 40,000 vehicles. The Russian company SeverstalAuto set up assembly of Ssang Yong SUVs and Fiat low-cost sedans in Yelabuga. In December 2007, Toyota launched into operation an assembly facility in St. Petersburg which is going to manufacture 50 Camry vehicles annually. General Motors, Nissan, Suzuki and Hyundai plants are under construction in St. Petersburg while Volkswagen and Peugeot-Citroen facilities are being built in Kaluga.

Other smaller foreign CKD car assembly projects in Russia include BMW, Kia, Hyundai and Chinese Great Wall, and bus projects by Scania and Volvo. The major obstacle to successful development of foreign assembly projects in Russia is the lack of local component suppliers.

Best Prospects/Services

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Engine and engine components, steering components, brake system components, powertrain components, seats, tires, interior components, new car dealerships.

Opportunities

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The best opportunities for U.S. firms are in the establishment of local manufacturing facilities or the formation of joint ventures with Russian firms and the supply of components to foreign vehicle assembly projects in Russia. Those projects' operators are so interested in developing component supplier bases that they are ready to financially support interesting projects. International financing institutions, such as EBRD (European Bank for Reconstruction and Development), are also inclined to provide financing for automotive projects in Russia.

Another good prospect is to supply upgraded equipment and technology to Russian manufacturers. Opportunities also exist in the licensing and transferring 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 sold 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%.

In 2005, the Russian government took the decision (166 Decree) to drastically decrease import taxes for automotive components imported by OEMs under the condition to gradually achieve 30% localization within seven years of operation. The government decision envisages that import taxes will be either abolished (engines, power trains, exhaust systems, and body parts) or cut to as low as three percent (starters and spark plugs) for components supplied to assembly projects. In 2006, the Russian government modified the decree (566 decree) to allow tier-1 component manufacturers to import tax-free components under the condition to achieve 30% localization within 40 months.

Resources

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<http://www.motorshows-ite.com>

<http://automechanika.messefrankfurt.com/petersburg/en/>

<http://www.interauto-expo.ru>

<http://www.ifc.org>

Computer Hardware and Software

Overview

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\$ millions	2005	2006	2007 Estimate
Total Market (computers & peripherals)	5,106	9,520	11,590
Total Local Production	3,811	7,640	8,700
Total Exports	57	80	130
Total Imports	1,352	1,960	3,020
U.S. Imports	75	110	170

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 \$13.6 billion in 2006 with real growth of 17% from 2005. In 2007, the IT market was expected to reach \$17.3 billion, rising 24% in real terms over 2006. These significant increases are due to the favorable economic situation in general, the strong ruble, and high demand for IT market services in both the government and corporate sectors. The latter include the oil and gas, metallurgy, financial services, telecommunications and retail industries. 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 2006, the number of computers in Russia exceeded 23 million (with the number of regular Internet users totaling 25 million) and total units are forecast to reach 35-40 million in the next five years, an average annual growth of 10%.

Core IT market segments include hardware (67%), software (11%), and services (22%). As in previous years, the hardware segment is key to the market's structure. In terms of growth laptops have the best prospects in the hardware segment (71% share in the first quarter of 2007). The leading manufacturers on the Russian PC market in 2006 included Acer, HP, DEPO Computers, Asus, and Kraftway. Although the hardware segment dominates, it is expected that services will become the fastest growing segment of the IT market following a 23.2% increase in 2006.

Accurate figures for software are difficult to determine due to the high level of pirated products available on the market. Currently, industry sources estimate that up to 84% of all software is pirated. However, Russian law enforcement has become more engaged in stopping copyright infringement. According to the Russian Ministry of Interior 6,432 criminal piracy cases were initiated in the first 10 months of 2006 (with 3,082 individuals sentenced), twice the number for the whole of 2005. However, the impact of these efforts on the availability of pirated computer software has been minimal. Included in the recent U.S. – Russia Bilateral Market Access Agreement are requests for actions 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 much 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 2006, the market for IT services was the fastest growing segment, including IT consulting (50% growth), development and customization (29%), education and training (25%), outsourcing (24%), deployment and support (23%), and integration (21%).

Software in conjunction with services is also showing positive dynamics. According to 2005-2006 sales results, the best prospects in the software segment are specialized productivity products (60% growth), ERP (54%), 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 84% in 2005, and sold a record of 1.2 million units. According to industry specialists, the notebook computer market accounted for 19% of the IT hardware market in 2005. In the first part of 2006 notebook computers accounted for 23% of the personal computer market.

The best opportunities for sales of U.S. manufactured hardware are: 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.

Opportunities

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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. Growth is expected to continue due to a favorable economic situation and high demand in the corporate and government sectors.

Resources

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Organizations

Ministry of Information Technologies and Communications of the Russian Federation
<http://english.minsvyaz.ru/enter.shtml>

The Federal Agency for Technical Regulations and Metrology
<http://www.gost.ru/>

Russian Center for Tests and Certification (Rostest)
<http://www.rostest.ru>

Russian Standard, general representative of ROSTEST for North America
<http://www.rosstandard.com>

Trade Events

Svyaz ExpoComm
Moscow
May 12-16, 2008
<http://www.svyazexpo.ru/eng>, <http://www.expocomm.com/moscow/>

Interop
Moscow
April 23-24, 2008
<http://interop.ru/?page=index&language=eng>

Cardex & IT Security
Moscow
September 24-26, 2008
<http://www.cardexpo.ru/eng/>

Infosecurity Russia

Moscow
October 7-9, 2008
<http://www.infosecuritymoscow.com/index.en.html>

Storage Expo
Moscow
October 7-9, 2008
<http://www.storage-expo.ru/index.en.html>

Documation
Moscow
October 7-9, 2008
<http://www.documation.ru/index.en.html>

InfoCom
Moscow
October 22-25, 2008
<http://www.infocomtech.ru/eng/>

Commercial Service Contact

Elizaveta Minyaeva, Commercial Specialist
elizaveta.minyaeva@mail.doc.gov
Tel: +7-495-737-5035 (direct); +7-495-737-5030

Oil & Gasfield Equipment and Services

Overview

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\$ millions	2005	2006	2007 Estimate
Total Market Size	\$10,500	\$12,500	\$15,300
Total Local Production	\$7,200	\$8,400	\$10,000
Total Exports	\$1,200	\$1,500	\$1,700
Total Imports	\$4,500	\$5,600	\$7,000
Imports from the U.S.	\$800	\$1,000	\$1,200

Source: Department of Commerce unofficial estimates.

Russia's oil and gas industry continues to prosper from sustained high prices and increasing exports. The latest mergers and acquisitions by top industry giants Gazprom, Rosneft and Lukoil have shown that the industry is consolidating and maturing, and is emerging as a leading driver of growth within the energy sector in terms of operation, service, equipment and technological development.

Industry experts anticipate that major oil and gas development projects in the Yamal Peninsula, multiple Sakhalin projects the Timan-Pechora areas in Western Siberia, and the Arctic shelf will catalyze technological upgrades as well as construction, infrastructure and other services for oil and gasfield development. In the LNG segment, Gazprom in 2007 announced French Total and Norwegian StatoilHydro as its partners to development the \$20 billion Shtokman gasfield.

The oilfield services market experienced a major boost during 2006, growing to \$12 billion. Growing demand has been reported for work-over, rehabilitation/reconditioning equipment/services as well as drilling and well tools and products. The largest oilfield services companies operating in Russia include: Integra, Baker Hughes, Bentec GmbH Drilling and Oilfield Systems, Parker Drilling, PetroAlliance, Schlumberger Oilfield Services, Halliburton, M-I Swaco, BJ Services, Weatherford, and Pride International.

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Oil and gasfield machinery, oil recovery, exploration and field management services are expected to retain its position as the primary U.S. export to Russia. The best prospects for U.S. equipment and services are oil recovery, well optimization, horizontal drilling, hydro-fracturing equipment and services, offshore development technologies and equipment, work-over, rehabilitation/reconditioning equipment/services as well as drilling and well tools and products, and idle well re-commissioning services.

Opportunities

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Major Russian oil companies are steadily increasing their capital expenditures on upstream development, infrastructure and rehabilitation equipment and services. The market of oil and gas field services and equipment was estimated at \$15 billion in 2007 with approximately equal shares of services and equipment.

U.S. equipment, technological solutions and products for the industry are recognized for their excellent quality and 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 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.

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Organizations

Ministry of Industry and Energy of the Russian Federation:
<http://www.minprom.gov.ru>

Ministry of Natural Resources of the Russian Federation:
<http://www.mnr.gov.ru/>

Association of Oil and Gas Equipment producers:
<http://www.eng.derrick.ru/>

Trade Events

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

Neftegaz Expo, June 23-28, 2008, Moscow ExpoCenter:
<http://www.neftegaz-expo.ru/en/>

Moscow International Oil & Gas Expo, June 23-26, 2009:
<http://www.mioge.ru/>

Commercial Service Contact

Commercial Specialist
moscow.office.box@mail.doc.gov
Tel: +7-495-737-5030

Agricultural Machinery

Overview

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\$ millions	2005	2006	2007 Estimate
Total Market Size	2,230	2,745	3,975
Total Local Production	1,477	1,135	1,000
Total Exports	277	223	250
Total Imports	1,030	1,833	3,225
Imports from the U.S.	182	275	438

Note: Unofficial estimates from Russian Customs and the Russian Statistics Committee.

Due to the continued growth of the Russian economy (averaging 6-8% per annum over the past several years in real terms), its agribusiness industry has witnessed many positive developments, as well as growing financial resources. The shortage of agricultural machinery, however, remains a major issue in the Russian market. This situation creates substantial opportunities for U.S. exporters, a potential also demonstrated by the recent rapid growth in Russia's total agricultural equipment imports, as well as those from the United States, as shown in the above table.

A general boom in consumer spending has translated into increased demand for a range of food and beverage products. This in turn has put supply pressure on the agricultural sector, which is in dire need of reform and modernization to meet the increased demand. This situation has created the need for a variety of agricultural machinery. Recent Russian Government actions to increase financial resources targeted to the agricultural sector have not boosted local machinery production (in fact it has declined as the above table shows), so very strong demand for imported equipment continues.

Russia's need for agricultural machinery is extremely large. It is estimated that the sector needs thousands of basic units. By 2007 overall demand for all types of agricultural machinery and equipment was satisfied by only 35% – 60%. In addition to the equipment shortage, the average level of wear for the majority of machinery currently operating is fairly high. Particularly strong is the need for tractors, combines, planting and tilling equipment. According to industry analysts, the annual market demand for new agricultural machines and equipment grew 45% in 2007 to almost \$4.0 billion. The quantity of imported agricultural machinery is playing an increasingly important role in the Russian agricultural sector.

According to Soyuzagromash, the Association of Agricultural Machinery Producers, the share of domestic agricultural machinery dropped from 66% in 2005 to 41% in 2006, while the share of imported machinery increased from 46% to 67% respectively. According to the same source, in 2007 Russian imports of agricultural machinery totaled \$3.2 billion, a 76% increase over 2006. In 2007 the major foreign suppliers of agricultural machinery were Germany (37%) and the U.S. (14%). In dollar value these leaders' shares were \$1.2 billion and \$438 million respectively.

In the mid 1990s, the bottom dropped out of the domestic production of agricultural machinery – falling ten-fold. Since then, there has been considerable consolidation within the industry, which at present includes four large domestic firms: “Traktornye Zavody” (Tractor Plants – unites Lipetsk, Vladimir, Onezhsky Tractor Plants, Promtractor, and Kurganmashzavod), Industrial Union “Novoye Sodruzhestvo” (New Alliance – unites Rostselmash, Morozovskselmash), Agromashholding (Krasnoyarsk Combine Plant, Volgograd Tractor Plant), and Kirovsky Zavod (St. Petersburg Tractor Plant, Kirovets-LandTechnik). These major players control nearly 65% of the domestic tractor market and approximately 90% of the combine market. Seeking to survive in competition with imports, local producers overhauled the technical parameters of their products and started to sell modernized machinery at prices more affordable to individual and cooperative farmers than imported equipment. However, the existing manufacturing industrial base and the lack of easily accessible financial resources limits the industry’s development.

Since 2003 the Russian agricultural machinery market has been growing steadily, and in 2006 rose a strong 23%. This increase was driven by favorable conditions for the production of agricultural goods, in particular plant growing.

In January 2006, in an effort to protect domestic manufacturers of agricultural machinery, the Russian Government established temporary customs duty rates for imported combine and forage harvesters based on an engine capacity of no less than €100 per KW. This temporary tariff was terminated in July 2007. Currently Russia applies a duty of 5%, which can change after the country becomes a WTO member.

In 2006, the Russian Government approved an agricultural sector development plan with wide-ranging measures that target improved competitiveness of domestic agriculture, stimulation of innovative investment activities in the industry, and development of agricultural machinery markets. A notable part of the plan is its goal to increase production of tractors by 18%, forage harvesters by 15%, and grain harvesters by 33% over the next two years.

The Russian government in 2007 approved a second federal program for agricultural sector development covering 2008-2012. The program envisages financial allocations from the federal budget totaling \$21.3 billion during this five-year period. To build the program’s consolidated budget, Russian regions are expected to provide an additional \$21.1 billion.

In 2007, the Russian state-controlled agricultural bank, Rosselkhozbank, signed loan agreements totalling \$2.9 billion as part of the National Agriculture Development Project. Since the project was launched on January 2006, the bank has made about 287,000 loan agreements worth \$5.8 billion. Overall, it has 2,400 agreements worth \$3.2 billion for construction, reconstruction and modernization of animal breeding farms, including the purchase of pedigree stock. Rosselkhozbank was set up in 2000 to service agricultural producers and is 100% owned by the Government.

In general, the receptivity of U.S. agricultural machinery is extremely positive. Though twice as expensive as its Russian counterparts, U.S. brand agricultural machinery enjoys a strong reputation for quality and reliability, comfort, labor saving features, and

high productivity. Currently, there is no significant interest in importing used and/or refurbished agricultural machinery.

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- Combines and other harvesting equipment; a traditionally strong import item for Russia
- Cultivators and other soil preparation equipment, including plows, harrows, cultivators, seeders, and fertilizer spreaders
- Agricultural tractors
- Equipment for dairy livestock breeding, swine and poultry production
- Food processing machinery 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.

Opportunities

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Though agricultural financing has improved, demand for domestic or imported farm machinery is still hampered by the lack of easily accessible financing. Sales in the coming year should continue to grow as more agricultural enterprises become solvent and farms managed on a business model emerge.

Large sales, however, 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: <http://www.exim.gov/russia/index.cfm>

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 company is committed to establishing and maintaining its presence in the Russian market. Substantial sales are often made at these events.

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Organizations

Russian Ministry of Agriculture

Moscow, Russia
www.mcx.ru

Soyuzagromash, the Association of Agricultural Machinery Producers
Moscow, Russia
<http://www.soyuzagromash.ru>

Trade Events

Golden Autumn, Russian Agricultural Week Trade Show
Moscow, Russia
October 10-14, 2008
www.apkvvc.ru/engaut.htm

Agroprod mash
Moscow, Russia
October 13-17, 2008
<http://www.ifw-expo.com/>

YugAgro
Krasnodar, Russia
November 22-25, 2008
<http://www.ifw-expo.com>

Commercial Service Contact

Luba Savchenko, Commercial Specialist
luba.savchenko@mail.doc.gov
Tel: +7-495-737-5028 (direct); +7-495-737-5030

Medical Equipment

Overview

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\$ millions	2006	2007	2008 Estimate
Total Market Size	2,000	2,500*	3,200
Total Local Production	870	1,000*	1,300
Total Exports	70	100*	100
Total Imports	1,200	1,600*	2,000
Imports from the U.S.	290	350*	350

* Estimates

Russia has instituted a comprehensive reform of its healthcare reform system and healthcare is priority one of the Governments 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. Despite this, Russia's healthcare network is enormous and includes 9,663 inpatient hospitals, 16,615 outpatient polyclinics, and 3,252 emergency stations. Further, Russia has 608,588 doctors and 1,388,349 paramedics. The majority of hospitals and polyclinics are public and belong to federal, regional or local governments. There is also a significant number of so-called agency healthcare establishments to serve specific large governmental entities such as the Ministry of Transportation, Ministry of Economic Development and Trade, Ministry of Defense, etc.

Though the promise of free healthcare for all citizens is stipulated in Article 41 of Russia's Constitution, the country is only now seeking ways to make the goal of insured adequate medical care feasible. In fact, very few medical procedures and operations as well as drugs are provided free of charge. The country still lacks clear-cut standards for medical assistance to its citizens, despite the Constitutional guarantees. It is expected that the reform of medical insurance, which is being currently discussed at the governmental and public levels will address the aforementioned problems.

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 the 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.

One of the key proposals concerning the reform of health insurance is that the government, together with the doctors' community and the public, will develop a basic package of medical services guaranteed by the state for every citizen. The cost of the basic package will be the same for everyone. This basic package will be financed

through healthcare social tax on income of the working population. For low-income citizens and pensioners the basic health package will be financed out of the state funds. All collections are channeled to one insurance fund and from there transferred to public and private insurance companies. Under such a system, the insurance companies become the real driving force of the healthcare system. They control the transfer of funds within the system and are responsible for selecting the specialized clinics and hospitals authorized to provide a wide range of services to patients. As a result, a patient has a right to choose from among those authorized medical service providers at his/her discretion.

The new system is supposed to encourage competition among insurance companies in order to attract the maximum number of patients. It further encourages the insurance companies to work closely with those clinics and hospitals that provide the best service. One result is that insurance companies will play an active role in selecting treatments and will invest their own funds to improve the clinics and hospitals with which they work. Insurance companies will also be able to provide additional services to patients at a fee, which the patients will bear themselves or with support of their employers. As a result, voluntary insurance costs can be significantly reduced.

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 dental, ophthalmology, cosmetology, urology, gynecology, and physiotherapy. Private clinics have opened not only in major cities like Moscow and St. Petersburg, they are spread all over key Russian regions, including the Volga Region, Urals, Siberia and the Far East. However, such fields as cardiology, oncology, orthopedics, nephrology and transplantology 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 Lithotripsy 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 Russia is estimated at \$2 billion, with an average annual growth of 15% to 16%. Imports of medical equipment have recently played a significant role, accounting for approximately 65% to 70% of the total market. The top five foreign suppliers to the Russian healthcare market are Germany (29%), United States (20%), Japan (15%), Italy (6%), and Switzerland (4%).

A significant portion 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 of such equipment. However, despite the ongoing healthcare reforms and significant increases in federal and regional budgets allocations for healthcare, financing remains insufficient to address the needs of the industry. Total healthcare spending in Russia at all levels comprises, according to different estimates, only about 4% of GDP in comparison to 9%

to 11% in developed countries. 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.

However, Russian medical equipment manufacturers are making 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 2006-2007.

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Despite recent breakthroughs and the fact that locally made medical equipment is 2-4 times cheaper than imported equipment, Russian production still lags the majority of developed countries. Thus, Russia is still dependent on imports in a significant number of medical equipment industry sub-sectors, especially those requiring significant investments in R&D, innovative technologies, and automation. The best prospects for medical equipment include:

- modern computerized diagnostic equipment
- computer and X-Ray tomographs, angiography systems
- resuscitation and functional diagnostic equipment
- implants and prostheses
- surgical and endoscopic equipment, headlights for surgeons
- robotics clinical laboratory systems for express microanalysis
- telemedicine complexes
- hospital equipment and supplies
- operational room equipment
- artificial kidney complex components (oxigenators and dialyzers)
- 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

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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. The Health Care National Priority Project 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 in the long term. Key laws and regulations include a law on state guarantees for medical assistance, a law on mandatory health insurance, a law on standards of medical assistance, and others. The total federal budget allocated under the Health Priority Project is estimated at \$14 billion for 2007-2009. Three areas of the Project which directly impact the medical equipment and supplies market, are as follows:

- re-equipping federal clinics and hospitals with new diagnostic equipment and ambulances
- building new 15 large medical centers
- significantly improving and enhancing high technology medical assistance in areas such as open heart operations, organ transplants, neuro-surgical operations and other complex surgeries, severe forms of endocrinology diseases and others

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. At the same time, there are widespread cases of improper spending of the additional federal funds by government bureaucracy. In the many recent raids of government offices by special investigative units, the Russian authorities are now regularly demonstrating their dedication to resolving cases of malfeasance and misuse of federal healthcare funds.

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http://www.mzsrrf.ru/fed_a_zdrav/: Official web site of the Russian Ministry of Health and Social Development

www.roszdravnadzor.ru: Federal Service for Control Over Healthcare and Social Development

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

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

www.rmbc.ru: Research, Marketing, Business, Consulting, a consulting and market research company specializing in the pharmaceutical market

www.pharminform.ru: Consulting firm, Pharminform, specializing in assistance with registration and certification of medical equipment and pharmaceuticals. The site has an English version.

Franchising

Overview

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\$ millions	2005	2006	2007 Estimate
Total Market Size	\$ 940	\$1,200	\$1,600
Total Local Production	\$ 440	\$ 550	\$ 700
Total Imports	\$ 500	\$ 650	\$ 850
Imports from the U.S.	\$ 180	\$ 250	\$ 350

In the past several years, spending patterns in Russia have begun to resemble those of the United States and Western Europe, creating a demand for name brands and quality products. The Russian business community has developed a better understanding of franchising as a way to do business and has a growing interest in franchising. Such progress has been the 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 discovered that working with established brands requires adherence to best modern business practices and technologies giving them more efficiency and, therefore, definitive advantage over their competitors. And finally, in the environment where the rule of law is not always guaranteed 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, as 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 240, with some sources estimating as many as 450. There are over 140 domestic franchising businesses in Russia, with a total of 2800 franchisees. The combined revenue of all franchises operating in the Russian Federation at the end of 2006 was estimated to be in the range of \$3 to \$4.6 billion. 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 Bouquette, 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. The U.S. Commercial Service in Russia is working with a number of prospective

franchisers that are either finalizing agreements with local partners or in the midst of constructing their first stores in Russia. Fast food/restaurant is one of the areas 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 franchisers 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. Many local storefronts are larger than similar locations abroad and many are owned and managed by the same company that owns the master license. However, there is also a steady growth in the next tier of consumer markets - cities such Yekaterinburg, Nizhny Novgorod, Krasnodar, Kazan and more.

Some factors limit the growth rate of franchising in Russia. The same factors that impede development of Russian franchises also 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 jeopardise 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 by generating new franchising concepts and creating other elements necessary for its further development. Among the latter, there is the Russian Franchising Association, which has been active since 1997 and currently has 41 members. Its main goal is to popularise franchising in Russia, provide information and support to prospective franchisees as well as Russian and foreign companies. The Association also provides information about franchising through a network of specialized websites and through developing ties with other national franchising associations and government entities. In recent years, several business consulting companies and investment funds have begun to provide services associated with franchising, which will contribute to further market growth. Some banks began to provide specialized loans for small- and medium-sized businesses, creating conditions for sustained growth in the franchising sector.

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 an annual event in Moscow since 2003:

BuyBrand 2003 - 67
BuyBrand 2004 - 85
BuyBrand 2005 -138
BuyBrand 2006 -150

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During its more than 10-year history, the Russian franchising sector has developed mainly in customer oriented segments, such as fast food/restaurant, 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 is being partially met by the arrival of Starbucks onto the Russian market in 2007, along with 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 (http://www.gks.ru/bgd/free/b07_00/IssWWW.exe/Stg/d110/03-1.htm), Russian retail trade turnover increased 15.0% year-on-year to R9.52 trillion (approx. \$389 billion) for the January-November 2007 period. For comparison, in 2006, the retail turnover was near \$355 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 the franchise concepts based on retail trade.

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Significant opportunities for development 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

There is also a demand for education and training in the area of franchise development. The U.S. Commercial Service has frequently fielded requests from local authorities and business associations seeking information about franchise legislation and regulations in the U.S. In 2006, SABIT (U.S. Department of Commerce Special American Business Internship Training Program) organized a Russian delegation to travel to the U.S. that consisted of governmental officials, members of franchise associations, and private sector companies. The purpose of the trip was to study the legal environment for franchising in the U.S. and learn how business associations service the needs of the industry. In 2007, the U.S. Department of Commerce sponsored the program called "Franchising in the Restaurant Business" intended for industry specialists from Russia, Ukraine and Kazakhstan. Its aim was to educate participants about all aspects of franchising in the restaurant business.

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Organizations

<http://www.franchisinguniverse.ru/> - Russian Franchise Association's matchmaking website

<http://ko.ru/> - Kompaniya (Russian business weekly)

<http://www.deloshop.ru> - Internet franchise shop

<http://www.beboss.ru> - Internet franchise shop and information source

<http://www.franch.ru> - Franchising business consulting

Russian Franchise Association

Mr. Valeri Anatolievich Perkov, Manager

Phone: 7 (495) 780 5150 Fax: 7 (495) 780 5150

Email: pvaraf@mail.ru

56 Shosse Entuziastov, bldg. 32, office 482

Moscow, 111123

<http://www.rarf.ru/eng/>

Trade Events

BuyBrand

Ms. Ekaterina Soyak, General Director

Phone: 7 (495) 647 0268

Email: esoyak@buybrand.ru
4 Olkhovskaya, office 2
Moscow, 105066
Web Site: <http://www.buybrand.ru/eng>

Commercial Service Contact

Vladimir Goryachev, Commercial Specialist
vladimir.goryachev@mail.doc.gov
Tel: +7-495-737-5034 (direct); +7-495-737-5030

Safety & Security Systems

Overview

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\$ millions	2005	2006	2007 Estimate
Total Market	5,000	5,600	6,800
Services	3,835	4,200	5,100
Equipment	1,165	1,400	1,700
Total HTS 8531	330	399	479
Total 8531Local Production	286	353	424
Total 8531Exports	23	24	29
Total 8531Imports	67	70	84
8531 U.S. Imports	17	13	16

Note: Market structure and product offerings do not lend themselves to precise statistics since HTS codes for many security-related goods include items from other industries. 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 are reported by Russian Customs as imports from those countries.

The Russian market for safety and security systems is developing rapidly, offering great potential for U.S. companies. In 2006, the total value of the safety and security services and equipment market was \$5.6 billion. Russia's demand for safety and security systems is expected to grow 21% and reach \$6.8 billion in 2007, with services totaling \$5.1 billion, or 75% of the market, and safety and security equipment amounting to \$1.7 billion. 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 between the Volga, Far East and Southern Regions.

Annual market growth in the equipment segment is 12% to 30% depending on the product category. In 2006, the Russian CCTV and video surveillance segment totaled \$420 million, or 30% of the equipment market, with 30% annual growth. It is considered the most developed and competitive segment. The size of the security and fire alarm segment was around \$320 million (23% of the equipment market), increasing 12-15% annually. The intruder alarm and perimeter protection segment was also worth \$320 million, growing 12-15% per year as well. Access control systems reached \$225 million, a 16% share of this market, with current annual growth of 15-16%. Other more minor product categories account for the remaining \$115 million of the 2006 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 U.S., 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 100% growth in 2006. 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 2008 Security and Safety Technologies (SST) trade show has been officially recognized by the U.S. Department of Commerce and accredited for the first time as a Department "Certified Trade Fair." The event, which will be held in Moscow from February 5-8, 2008, is the leading security exhibition and congress in Russia, CIS and Eastern Europe.

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Organizations

Russian Security Industry Association
Moscow, Russia
http://www.rasi.ru/index_eng.php

Groteck Co., Ltd.
Moscow, Russia
<http://groteck.net/security>

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

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

Trade Events

SST (International Forum & Exhibition "Security and Safety Technologies")

Moscow

February 5-8, 2008

<http://www.tbforum.ru/eng>

MIPS (Moscow International Protection, Security & Fire Safety Exhibition)

Moscow

April 14-17, 2008

<http://www.mips.ru/eng/>

Interpolitex. International Exhibition of Police and Defense Technologies

Moscow

October 28-31, 2008

<http://www.interpolitex.ru/en/>

Publications

GMT Plus; Russian Security Media & Exhibitions Brand Awareness 2006 Report

Moscow, Russia

<http://www.gmtplus.com/publications.php?id=9>

CCTV Focus Magazine

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

Sec.ru

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

Commercial Service Contact

Elizaveta Minyaeva, Commercial Specialist

elizaveta.minyaeva@mail.doc.gov

Tel: +7-495-737-5035 (direct); +7-495-737-5030

Aircraft Parts and MRO Services

<u>No. Western aircraft in Russian fleet</u>	<u>2005</u>	<u>2006</u>	<u>2007 (Estimate)</u>
<u>Total Market Size</u>	<u>67</u>	<u>173</u>	<u>274</u>
<u>Total Local Production</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>Total Exports</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>Imports from U.S.</u>	<u>Not available</u>	<u>Not available</u>	<u>Not available</u>

Note: Data refer to 27 Russian airlines currently in operation and are based on CS Moscow unofficial estimates.

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The relevant market for Western aircraft parts and MRO services (maintenance, repair and overhaul) is largely dependent on the number of Western aircraft in Russia's fleets. Since it correlates directly to the their on-going expansion and the entry of new foreign carriers, this market continues its rapid growth: 102% per year from 2005 to 2007. In turn, all these factors are driven by the growth in air passenger traffic to and within Russia.

Russian airlines are adding new Western aircraft to their fleets in order to address the needs of the growing domestic passenger market. According to the Russian Transport Clearing Chamber, 2007 passenger traffic increased by 6.5 million travelers and by 15.7 million passenger miles from January to November compared to the same period in 2006. Industry experts anticipate that the market will continue to grow in a range from 7.5-9.5% per year over the next several years due largely to the improved economy and greater disposable incomes.

The Russian aviation manufacturing industry is not able to supply enough new planes to meet the needs of this growing market. Most Russian airlines rely on aging fleets inherited from the Soviet era and look to modernize with new aircraft that offer lower operating costs and better fuel efficiency.

To facilitate procurement of Western aircraft, the Russian government is taking measures to reduce import duties. For the last several years, a 20% duty plus an 18% value-added tax were levied on imported aircraft. In the fall of 2007, the Russian government reduced duties on business aircraft (small planes of up to 19 seats) from 20% to 10%. This reduction is expected to boost business aviation in Russia. Further, in December of 2007, Prime Minister Viktor Zubkov signed a decree calling for the

temporary suspension of the 20% import duty charged on foreign passenger aircraft of 300 seats or more. It takes effect for 9 months beginning February 11th, 2008. The decree applies to mainstream aircraft such as the Boeing 777, 747, 767-400, Airbus 300-600, A330-200, A340, A350, and A380.

In addition, the Russian government is considering lower import duties on foreign aircraft with less than 50 seats and between 119-150 seats. Industry experts anticipate that about 200 foreign aircraft in the latter category, the largest market segment in Russia, could be purchased over the next few years.

The increasing number of Western aircraft creates opportunities for U.S. and other parts suppliers. For example, U.K. firm AJ Walter has been in Russia since 1997, capitalizing on the growing aircraft parts market and offering a full range of support that includes over 300,000 items in stock for sale, exchange, loan or lease. Aircraft served include the A310, A320, B737, B757, B767 and executive aircraft.

In addition to stand-alone aircraft parts suppliers, MRO operations are being established to provide domestic and international airlines the entire range of products and services, including material and parts supply, integrated information systems, and infrastructure. According to consulting firm Frost & Sullivan, the Eastern European MRO market was worth \$1.1 billion in 2005 and will reach \$1.6 billion in 2012, a growth of 5.5% per year. The Russian and CIS commercial aircraft and engine MRO segments are expected to grow at around 8% a year, and feature considerable Western MRO presence including significant foreign investment and joint R&D projects.

Good prospects for U.S. aircraft MRO service providers are driven in part by the entry of new Western carriers into Russia. For example, in 2007 American Airlines announced plans to initiate flights between Moscow and Chicago starting in June, 2008. American will be the second U.S. airline, after Delta, to offer nonstop service between Russia and the United States. In addition, other international carriers with decades of experience in Russia, such as Lufthansa, British Airways, Air France, Austrian Airlines, Finnair, and KLM, continue to generate service opportunities.

Partnering with a Russian MRO service provider can be an opportunity for U.S. firms to reduce costs and increase their competitive advantage in this market. Foreign competitors are pursuing such business models. For example, in 2007, East Line Technique, a member of the East Line Group that operates Moscow's Domodedovo Airport, Russia's largest and fastest growing air transportation hub, announced the addition of wheel and brake services for Western-made aircraft to its roster of on-site ground tech support. Its service center is authorized to work on the Boeing 747 and 757, and is partners with Aircraft Wheels and Brakes Goodrich Corporation (UK), SAS (Denmark), and APPH Basingstoke MRO (UK).

It is important to note that partnering in Russia is often a two-way street. Russian MRO service providers often seek access to Western capital to develop their existing

technology and knowledge base, and to maintain competitive advantage through productivity improvements and maximizing asset utilization.

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Industry sources indicate that almost all types of aircraft parts are supplied to the Russian market. It is difficult to say, however, which parts are in most demand because no precise statistical data is available. Competition in this segment is based upon quality, ability to provide a broad range of products and services, speed of delivery and price.

In the MRO area, increasingly sophisticated customer demands require that Russian firms seek cooperative agreements with Western MRO companies. Alliances can provide opportunities for MROs to gain economies of scale through joint investment, amortizing fixed costs and rationalizing assets across the value chain in operations and inbound and outbound logistics. Further, the established MROs will help Russian partners achieve a level of perceived quality and credibility in this market.

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Participating in trade events remains a critical element in a successful business development strategy for Russia. U.S. firms are encouraged to attend in order to gain market exposure, competitive intelligence and new contacts.

The “Aircraft Maintenance Russia Conference” is a central industry event that brings together key industry representatives to review MRO market trends and discuss the most viable strategies for industry development. The conference features an exhibition of MRO service providers, spare parts suppliers, aircraft and equipment manufacturers, leasing and insurance companies, and professional service providers. The conference is attended both by Russian and international participants, including a limited number of U.S. firms.

Aircraft Maintenance Russia 2008 runs from March 3-5. Key content themes include:

- Russian MRO market: A need for engineers and financiers
- Western-built aircraft MRO: Launching facilities in Russia
- Improving the spare parts supply chain
- Enhancing aircraft residual value
- New MRO challenges in Russia: Airline technical directors’ viewpoints

Organizations

Transport Clearing Chamber (Транспортная Клиринговая Палата)

<http://www.tch.ru/eng/>

Publications

Frost & Sullivan

<http://www.aerospace.frost.com>

Concise Aerospace

<http://www.conciseb2b.com>

Airspace Technologies Review

<http://www.airfleet.ru>

Trade Events

Aircraft Maintenance Russia: The Emerging Market

Moscow

March 3-5, 2008

<http://www.events.ato.ru/eng/events/mro/>

HeliRussia 2008, International Helicopter Exhibition

Moscow

May 15-17, 2008

<http://helirussia.ru/eng/news/2007/1212.shtml>

Commercial Service Contact:

Vladislav Borodulin, Commercial Specialist

vladislav.borodulin@mail.doc.gov

Tel.: +7-495-737-5036 (direct); +7-495-737-5033

Russian agricultural imports as of September 2007 were up approximately 30% over year-previous levels and on track to hit \$28 billion by year's end. The Russian Federation is among the top export destinations for 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					
	2002	2003	2004	2005	2006
Agricultural Imports (billion dollars ¹)	10.1	11.6	13.3	16.9	21.1
Growth Year-on-Year (%)		14.5	15.1	26.4	24.9
5-Year Average Annual Growth (%)					15.8

¹ Total agricultural imports include HS codes 01-24 plus natural fibers, hides, skins, natural rubber, and forest products. 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 2006 and January–September 2007 include poultry and red meats, fresh fruit, fish and seafood, and tree nuts. U.S. poultry exports are the largest contributor to the total value of agricultural exports to Russia. On average, poultry meat accounted for over 60% of the total value of U.S. agricultural exports from 2002-2006. Russians are consuming more tree nuts and fresh fruit from America, particularly the larger sizes of apples and pears.

Other top U.S. export products include: wine and spirits, processed fruits and vegetables, snack foods (excluding nuts), food ingredients, and hides and skins. Cheese exports are a new opportunity, and Russia plans to increase cheese imports as part of an overall strategy to reduce food price inflation of staple products. Russian government support for improving livestock through the import of genetics could create opportunities for U.S. genetics.

Russia's retail sector is growing 20% annually and represents one of the fastest growing sectors of the Russian economy. Retail food sales contributed over 40% to total retail sales in 2006 with a total value exceeding \$350 billion. Because retailers demand consistent quality and adherence to contract specifications, and penalize suppliers for failure to meet requirements, foreign suppliers are competitive as they are more used to such demands than are Russian agricultural producers.

The emergence of larger retailers with annual turnover exceeding \$1 billion is influencing the development of the retail sector in Russia. Retail chains currently occupy about 15% of the retail food market, and that share is growing over time, causing the Russian government to propose stiffer regulation, including anti-monopoly legislation, of these chains.

Supermarkets and older Soviet-style stores, including wet markets, are losing market share to newer retail formats such as hypermarkets and discounters, the fastest growing food retail formats, which control 1% and 58%, respectively. Hypermarkets are generally located in suburban areas outside larger cities. They attract consumers through lower prices and a large selection of products. Convenience stores are growing in popularity in residential areas because of their accessibility and large selection of products compared to traditional small Russian outlets.

Inflation in 2007 hit 12 percent, far exceeding the Russian government target of 8 percent. Growth in food prices is a primary contributor to higher-than-expected inflation and is popularly perceived as having greatly exceeded 12 percent, especially for staples. The Russian government took a number of measures to combat food price inflation in late 2007 including the introduction of export tariffs on wheat and barley, lower import duties on dairy products, and a freeze on prices on staple food products until January 31, 2008. Market analysts believe that the price freeze may be extended through the end of March 2008. Some officials have proposed a law permanently to fix prices for food staples and other products classified as “social products”. The proposed law is in an early stage of development, but may cap profit margins on target products and thus force retailers to renegotiate contracts with suppliers. This proposed legislation would also seek to force retailers to include more domestic content in their product lines. The net impact of this measure would likely be to cut the growth rate of the retail sector.

The investment climate has improved markedly in recent years as profitability in grains (mainly wheat and barley) and oilseeds (sunflower and rapeseed) has stimulated reinvestment of profits and attracted outside investment in production agriculture. Food processing continues to expand at about 15% per year.

Agricultural finance improved from 2005 through 2007 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. Nonetheless capital remains in short supply relative to demand and has been hampered by the global liquidity crisis in 2007. Only 30% of land is even theoretically usable as mortgage collateral and only 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 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 takes 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.

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Poultry

In 2006 poultry meat was a \$921.5 million market from all origins, including \$545.5 million (60%) from the United States. In June 2005 the U.S. and Russia signed a meat agreement establishing a tariff rate quota (TRQ) for meat and meat products, including poultry. This agreement will remain in effect through 2009. In 2008 the volume of imports eligible for reduced tariffs (25% *ad valorem*, but no less than 0.20 Euro per kg) under the TRQ is 1.2116 million metric tons from all origins, including up to 901,400 metric tons from the United States. Out-of-quota poultry meat is subject to a 50% *ad valorem*, but no less than 0.40 Euro per kg, tariff. Poultry meat and meat byproducts may only be shipped from approved plants that have undergone special inspections to ensure conformity with Russian inspection criteria.

Beef

In 2006 Russian imported nearly \$1.6 billion worth of beef and beef byproducts 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 U.S. and Russia negotiated a new veterinary health certificate for beef based on standards of the International Organization for Animal Health. Beef and beef byproducts 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 18 establishments as eligible to export to Russia following a round of plant inspections. Since that veterinary certificate was adopted, 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 byproducts are subject to TRQs; in 2008, a total of 28,900 metric tons of fresh or chilled beef and 445,000 metric tons 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 18,300 tons of frozen beef or beef byproducts. Prior to the 2003 import ban, beef liver was a major part of this trade, as raw material for the Russian sausage industry. 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 \$1.4 billion market (all origins) in 2006, of which the U.S. share was \$148 million (10%). In 2007 the U.S. 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 and pork byproducts may only be shipped from approved plants that have undergone special inspections to ensure conformity with Russian inspection criteria. Pork is subject to a TRQ, in 2008 of 493,500 metric tons from all origins, including 49,800 from the United States. The in-

quota tariff is 15% *ad valorem* but no less than 0.25 Euro per kg, and out-of-quota tariff is 50% but no less than 0.83 Euro per kg. 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. 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 U.S. and Russia are currently negotiating veterinary health certificates for live cattle, live swine, and bovine embryos, which should open the door for imports of these items in 2008. Bovine semen imports from all origins totaled \$828,000 in 2006, and are on track to exceed one million dollars in 2007, including over \$200,000 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 recent 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

Tree nut imports more than tripled between 2005 and 2006, to \$145.6 million from all origins. The U.S. is the second largest supplier of nuts to the Russian market (after Iran), having shipped \$31.5 million (20%) worth in 2006. Based on January-September data, Russian imports of nuts should roughly double in 2007, with the U.S. share projected at over \$60 million. This figure is probably understated due to transshipments of U.S.-origin almonds through Europe. Pistachios, almonds and hazelnuts are the hottest items in the category, though "exotic" American pecans also enjoy demand. Nuts are consumed directly in consumer packs but also are used heavily in the confectionary and baking industries.

Fish and Seafood

Russian imports of fish and seafood exceeded \$1.2 billion in 2006, including \$44 million (4%) from the U.S., and are expected to reach about \$1.5 billion in 2007, based on third-quarter data. In June 2007 Russia's veterinary service began to impose an inspection requirement for fish processing establishments, similar to requirements imposed on the beef, pork and poultry industries, and to delist plants that failed to meet inspection criteria. Since the Russian domestic fisheries industry continues to contract (down by an

estimated 3% in 2007), delisting of foreign suppliers will spur continued growth of fish and seafood prices, creating more demand from those suppliers eligible to export. Trade sources speculate that the retail price of imported fish may increase 10 to 20 percent under a tightened inspection regime. The structure of retail fish sales in Russia is broken into three categories: 30 percent of fish products sales fall within markets and kiosks, 45 percent within small convenience stores, and 25 percent in supermarket chains. Wholesale companies supply Russian retailers primarily with high-demand fresh and frozen fish, such as herring (27 percent), pollock (26 percent), seafood (20 percent), mackerel (20 percent), salmon and trout (10 percent).

Fresh Fruit (Apples, Pears, Grapes, Citrus)

Fresh fruits continue to boom. In 2006 Russia imported over \$350 million of apples, and as of September, imports in 2007 were up by 60% over previous-year levels. United State exports of apples in 2006 fell, squeezed out by European Union competitors, but rebounded in 2007 and as of September were on track to double, to \$6 million. Russian pear imports in 2006 exceeded \$200 million, including \$2.9 million (1%) from the United States, and as of September 2007 were up 67% over year-earlier levels. Table grapes and citrus from the United States appeared on the Russian market in 2007. Exotic fruits are gaining popularity in Russia. About one third of Russians have tried an exotic fruit, such as pineapple, avocado, litchis, carambola, papaya, or rambutan. Tariff rates on apples vary depending on the season to protect domestic producers. From January 1 to July 31 the tariff rate is 100 Euro per metric ton. From August 1 to December 31 it is Euro 200 per metric ton. For other fruits, the tariff rate is *ad valorem*. For pears and grapes the tariff rate is 5%; for grapefruit the tariff rate is also 5%, but no less than 20 Euro per metric ton. Major issues facing fresh fruit imports are counterfeit product from China and port congestion in St. Petersburg, a chokepoint for trade in perishables.

Wine and Spirits

In 2006 Russian wine imports dipped slightly, to \$540 million, due to import bans on Moldova and Georgia, but rebounded in 2007. As of September 2007 wine imports were up 60% over year-previous levels, but the U.S. remained underrepresented, with only \$1.8 million (0.3%) of sales in 2006 and sales up by about 19% in 2007. The major competitors are EU countries, especially France and Bulgaria, which enjoy geographic advantage and historic trade ties in this market. Aggressive marketing of U.S. wines, including promotional events at the U.S. Ambassador's residence, has yielded results. Spirits trade continues to expand, with Russian imports of hard liquor reaching \$644 million in 2006 and up by over 70% as of September 2007. U.S. spirits exports to Russia hit \$9.9 million (2%) in 2006 and were up by 165% over year-earlier levels as of September 2007, to \$14.5 million in the first three quarters alone (over \$12 million of that is Bourbon whiskey). American whiskeys have begun to penetrate urban markets, and to compete with the market dominant Scotch whiskeys 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	2002	2003	2004	2005	2006
0207	Poultry Meat	416.7	405.0	396.3	487.6	545.5
0203	Pork	19.0	3.7	23.4	43.5	148.1
0303	Fish, Frozen, not Fillets	2.4	4.6	14.0	29.7	34.8
0802	Nuts, Fresh Or Dried	6.0	4.2	4.9	10.4	31.5
0206	Edible Offal	47.9	47.1	5.4	12.7	17.0
1206	Sunflower Seeds	0.9	1.7	4.4	13.0	15.7
1202	Peanuts, Raw	0.7	1.1	2.2	1.6	12.1
	Preparations Used In Animal					
2309	Feeding	1.5	4.6	4.9	8.5	10.0
2208	Spirits	3.3	3.9	5.6	7.5	9.9
0304	Fish Fillets	0.9	2.5	7.7	11.3	7.8
2009	Fruit Juices	0.9	2.5	3.0	2.3	6.5
0808	Apples, Pears And Quinces, Fresh	3.2	1.6	2.6	6.6	6.0
2008	Fruit, Nuts, Prepared Or Preserved	1.0	0.6	0.6	0.6	2.8

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 and for wine and spirits.

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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" rubric. 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 2008, Moscow, foodstuffs) or the Golden Autumn trade show (October 2008, 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

Allan Mustard, Minister Counselor for Agricultural Affairs (ETD August 2008)
 Scott Reynolds, Minister Counselor for Agricultural Affairs (ETA August 2008)
 8, Bolshoy Devyatinskiy Pereulok, Moscow 121099
 Tel: (495) 728-5222, Fax: (495) 728-5133
 E-mail: agmoscow@fas.usda.gov, atomoscow@fas.usda.gov

Washington-based U.S. Government contacts for Russia

U.S. Department of Agriculture, Foreign Agricultural Service
Office of Country and Regional Affairs, Europe Division
Karisha Kuypers, Country Desk Officer, karisha.kuypers@fas.usda.gov
1400 Independence Avenue, S.W.
Washington, DC 20250-1000
Tel: (202) 720-1330

U.S. Department of Agriculture, Foreign Agricultural Service
Office of Trade Programs
Jeff Hesse, Assistant Deputy Administrator, jeffrey.hesse@fas.usda.gov
1400 Independence Avenue, S.W.
Washington, DC 20250-1000
Tel: (202) 720-2705

Foreign Agricultural Service, USDA
<http://www.fas.usda.gov>

Agricultural Attaché Reports
<http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp>

USDA office at the American Embassy, Moscow, Russia
<http://eng.usda.ru>

Ministry of Agriculture of the Russian Federation official website
<http://www.mcx.ru>

Ministry of Economic Development and Trade of the Russian Federation
<http://www.economy.gov.ru>

Trade Events

World Food Trade Show
<http://www.world-food.ru/eng/>

Golden Autumn Trade Show
<http://en.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
- Tractors	15
- Passenger cars new	25
- Used (depends on age and engine displacement and varies from €0.85 to €3 for cubic cm)	
- Buses over seven years (€3 for cubic cm of engine displacement)	

HS: 8708 Auto parts	5
HS: 90 Optic, Photo, Medical and Surgical Instruments and devices	5-15
-medical equipment	5

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 the lowering of 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 are still 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%.

There are ongoing discussions within the Russian Government to lower the VAT further to 15% or 16%. However, any reduction will not be likely to occur in 2008 because the VAT at current rates is a key source of government revenue.

Russian import tariffs on automobiles, aircraft and aircraft parts present particular hindrances to U.S. exports to Russia. Previously, tariffs, the VAT, and customs handling fees made the effective tax on aircraft 40%, making it virtually impossible for Russian airlines to purchase foreign planes. The newly signed bilateral WTO agreement between the U.S. and Russia will, upon Russia's accession to the organization and U.S. Congress' granting of PNTR status to Russia, significantly reduce tariffs on imported aircraft and civil aircraft parts and provide greater market access opportunities for the U.S. civil aircraft industry (see the Aircraft Parts, Chapter 4). Russia has already started to put together proposal for the reduction of import tariffs on certain types of imported aircraft.

In the case of automobiles, the import duty on new passenger vehicles (1-3 years old) is 25%, to which is added an excise tax calculated based on horsepower. Thus, combined tariffs, VAT and engine displacement-weighted excise duties can increase import prices by 70% for larger U.S.-made passenger cars and sport utility vehicles. In addition, in 2003, the Russian Government passed a law that increased customs duties to 25% of the customs value for used cars between three and seven years old. On the other hand, however, the Russian Government over the past few years has been successful in attracting foreign automobile manufacturers into Russia by reducing taxes on capital investment and slashing import duties on car parts.

In general, U.S. companies face a number of tariff and non-tariff trade barriers when exporting to Russia. The most common complaint 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.

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.

While foreign banking capital in Russia now accounts for between 12% and 15% of aggregate banking capital, Russia retains the prerogative to limit foreign banking investments to 50% of the total. 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 January 2004, a law came into effect that, based on a 1994 Russia-EU treaty, effectively exempts EU-based insurance companies from the 49% cap. This exemption also applies to insurance companies based in the EU that have since been purchased by non-EU foreign companies. While the Government of Russia has agreed to a significant level of market access and national treatment for foreign insurance companies upon its accession to the WTO, until then, 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. The 2004 law retains the requirement 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.

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. Current Russian legislation restricts foreign investment in the aerospace industry to less than 25% of an enterprise.

Foreign investment in the electrical power giant, Unified Energy Systems, is limited to 25%. In practice, these limits have been exceeded, and there is discussion of whether to eliminate or raise the limits. The sale of UES daughter companies has begun with the first Wholesale Generating Company, WGC-5, selling 14.4% of its shares in November 2006. UES officials say that foreign companies are welcome to participate in the tenders as more power generation assets are put on the market in 2007.

The government has restarted its effort to pass a law on foreign investment in so-called strategic sectors, which could help clarify the rules. The government submitted the law to the Duma in September, 2007, but disagreement between the economic ministries and the Federal Security Service (FSB), as well as the recent elections, have caused further delay.

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 1500 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 will 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%.

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% Chita region, 34% 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, 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.

Free Customs Zones/Warehouses/Special Economic Zones

There are a limited number of free customs zones and warehouses designed to encourage investment in specific areas. They are located in airports, seaports, railway and truck terminals, and selected automobile factories. The Kaliningrad Special Economic Zone (SEZ) provides advantages to foreign exporters and investors. Almost all goods imported into the SEZ are exempt from import customs duties. Further, when imported goods are processed there with value added of at least 30% and then shipped to other parts of Russia they are exempt from import duties and quotas.

In November 2005, the Russian Government announced that they awarded six regions the right to establish Special Economic Zones (SEZ). The winners for establishing technological innovation zones were Zelenograd (a residential neighborhood of Moscow; microelectronics), Dubna, located in the Moscow Region (nuclear physics), St. Petersburg (information technologies and instrument making) and Tomsk (new materials). Industrial SEZs will also be established in the Lipetsk Region (household equipment and possibly furniture) and in Yelabuga, located in the Republic of Tatarstan (aircraft components and chemical goods). The Russian Government had indicated that it would allocate roughly eight billion rubles from the federal budget to develop these zones, with additional funds being allocated, as appropriate, from regional budgets.

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 most commercial items. 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 use may be subject to the EAR. 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 defense 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 of goods is allowed with full or partial relief from customs duties 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 in such cases 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: www.customs.ru, or 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 and Trade 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

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

Customs Regulations and Contact Information

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A new Customs Code, intended to bring Russia's customs regime into compliance with WTO requirements, came into force on January 1, 2004. The new Customs Code introduced significant changes in customs clearance and customs control procedures. It has simplified customs processes and established specific procedures for the application and payment of tariffs. While there have been some improvements, abuses still abound, although numerous large U.S. importers report a trend towards normalization. One intended improvement in the new Code is to reduce from ten days to three the time required for customs clearance. It also offers the possibility of advance declaration of cargo before its arrival at customs.

The important changes introduced by the new Code include:

- 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 restrict 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

It appears as though after two 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.

A survey in 2005 showed many examples of arbitrary practices of local customs officials, encouraged by ambiguities in the customs legislation. A majority of complaints received were in connection with the general delays in the clearance of goods and arbitrary valuation of goods. Small and medium-sized enterprises remain most vulnerable to these arbitrary practices.

While Russian Customs still has many obstacles to overcome, there are examples of improvement under the New Code. For example, the New Code called for the implementation of a risk management system that was intended to expedite customs procedures. In the past year, local customs officials report considerable expedition of procedures and improvements in control, especially at border crossings. In seaports, risk management provided for an increase in the number of customs inspections of cargo and resulted in a rise of the identification of grey market operations and contraband shipments seized.

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.

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. Customs duties are payable in hard currency or rubles at the current exchange rate. 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.

For further information, please refer to the Russian State Customs Committee Website: www.customs.ru, or www.tks.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 March 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 under the jurisdiction of the Ministry of Industry and Energy.

However, the old name for this agency, Gosstandart, remains in use. Affiliated with this new agency are 462 Technical Committees, comprised of research institutes, which develop standards. Russia has a three year plan for standards development that is published on the Federal Agency for Technical Regulations' website (www.gost.ru) which is currently behind schedule.

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. U.S. companies are recommended to 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 Russia
Phone: 7-495-236-0300
Fax: 7-495-236-62-31
E-mail: info@gost.ru, Secr_Elkin@gost.ru
www.gost.ru

Rostest Moscow

Russian Center for Tests and Certification
31 Nakhimovsky Prospect,
Moscow 117418 Russia
Phone: 7-495-129-1911, 332-6777, 129-5936.
Fax: 7-495-124-9996.
E-mail: info@rostest.ru, 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
www.rostestusa.com

VNIIS (Research Institute for Certification)

3/10, Elektrichesky Pereulok
Moscow 123557 Russia
Phone: 7-495-253-7006, 253-0078
Fax: 7-495-253-3360
E-mail: vniis@vniis.ru, www.vniis.ru

Russian Standard (general representative of ROSTEST for North America)

115 Mendham Ave., Suite 1A
Hastings-on Hudson, NY 10706, USA
Phone: (914) 478-7557
Fax: (309) 276-0783
E-mail: mail@rosstandard.com, www.rosstandard.com

For Telecommunications Equipment

Ministry of Information Technologies and Communications of the RF

Deputy Head of Federal Agency
7 Tverskaya Street
Moscow, Russia

Tel: 7-495-771-8573
Fax: 7-495-771-8734
E-mail: sertifik@ptti.gov.ru, www.english.minsvyaz.ru

For Pharmaceuticals and Medical Equipment

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

1 Birzhevaya Street
Moscow, 109012, Russia
Tel.: 7-495-298-1470
Fax: 7-495-298-5049
<http://www.roszdravnadzor.ru>

Registratura OOO

21 Kashirskoye Shosse, Office 423
Moscow, 115446, Russia
Phone/Fax: 7-495-742-8222
Mobile: 7-903-514-7511
Email: oksanak@regmedpro.ru

Pharminform

3/5 Sushevsky Val
Entrance 1, Floor 6
Moscow, Russia
Tel.: 7-495-797-4963
Fax: 7-495-797-4963
E-mail: info@post.pharminform.ru, www.pharminform.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-mal: snip01@mail.ru, snip_buh@mail.ru, www.snip.ru, www.gosstrov.gov.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 access to international markets. Register online at Internet URL: <http://www.nist.gov/notifyus/>

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 Russia claims 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 will require 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

www.velosi-usa.com

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

Information Handling Services Inc. (IHS)

www.ihs.com

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

Nemko USA, Inc.

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

www.rosstandard.com, www.rosintorg.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.

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

www.us.tuv.com/certify/russia.html

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)

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 (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 (in the Russian language).

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

23/38 B. Molchanovka, Bldg. 2
Moscow 121069 Russia
Tel: 7-495-737-5028
Fax: 7-495-737-5033
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, 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 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. This has had a positive impact on investment and trade between the two countries.

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 State Customs Committee: www.customs.ru or www.tks.ru

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

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Chapter 6: Investment Climate

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Russia's economy continued to expand in 2007. It posted a 7.8% growth rate for the first nine months of 2007. The full year's growth rate is expected to be 7.6%, as compared to 6.7% in 2006. Fixed capital investment increased by 21.2% January-September, as compared to an 11.8% increase during the same period in 2006. Most of the capital investment in the first nine months of 2007 went to energy, manufacturing, real estate and transportation.

According to the Central Bank of Russia, foreign direct investment (FDI) inflows exceeded \$40 billion in the first 9 months of 2007, as compared to \$27 billion during the same period in 2006. End of year estimates place FDI at \$47 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' continued heavy investments in Russia's energy sector.

Steady ruble appreciation, in combination with the capital account liberalization that took effect on July 1, 2006, has helped increase capital inflows to Russia. According to the Central Bank of Russia, net capital inflows through September 2007 reached \$57 billion. End of year estimates place net capital inflows to the private sector at \$82 billion, a significant increase from the more than \$40 billion in 2006, but not as dramatic as the sharp increase from \$300 million in 2005.

Although the Russian investment climate has strengthened in recent years, many structural improvements remain necessary. These include: judicial reform to establish a truly 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 controlling insider trading; and further improvements in corporate governance. In addition, reducing government bureaucracy and corruption has long been high on the agenda of businesses large and small, Russian and foreign, operating in this country. While the government has also endorsed this cause, it has made only limited progress to date.

Openness to Foreign Investment

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Russia's economic growth and rising incomes have attracted increasing interest from foreign investors. Russian Federal State Statistics Service estimates that real disposable incomes grew 12% in 2007, outpacing real GDP growth of 7.8%. This upward trend is fueling the growth of the retail and consumer sectors. Many U.S. firms report that return on investments in Russia is among the highest in their international operations.

The Russian government has repeatedly emphasized foreign investment's critical role in Russia's economic development. 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 or direct cash injections, especially in Russia's "strategic sectors." At times, it has been reluctant to permit investment strategies that keep project control in foreign hands. This has been most obvious in the energy sector, in which the GOR has tightened its grip in the last few years and has shown little inclination to allow foreign companies anything more than minority stakes (and often only 20 to 25%) in larger projects. Nevertheless, because of the absolute size of these projects, even small stakes add up to hundreds of millions, if not billions, of dollars. In the area of consumer products, however, international companies have been able to set up and expand their operations with relatively few, or no, 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, including their own plans to establish techno-parks near universities and export zones near ports and borders. Although tax reforms at the federal level aim to create a level playing field for all investors and limit the scope of incentives regions can offer, in practice large foreign investors continue to receive incentives from local authorities. However, many local administrations still 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 have picked up substantially since 2004, the slow pace of structural reforms and the increasing role of the state in some sectors of the economy continue to restrain foreign investment. 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 all 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 and the International Business Leaders Forum, as well as Russian business associations such as OPORA, 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.

The GOR submitted a re-drafted "Strategic Sectors" law to the State Duma in September 2007, but continued inter-ministerial disagreements on the draft language have pushed back further consideration until after the March 2008 presidential elections. Foreign investment in the electric power giant Unified Energy Systems (UES) has accelerated over the past year as electricity monopoly RAO UES prepares dismantling the holding company by July 2008. The GOR eliminated foreign ownership restrictions in the natural gas monopoly Gazprom as of January 1, 2006. This action followed the GOR's assumption of a direct majority stake in the company.

Despite years of debate, the Russian government has yet to enact a new Law on Subsoil Use. It now appears likely that the government will amend the existing law. In a recent announcement, the Ministry of Economic Development and Trade included the Subsoil amendment on the schedule of proposed legislation to be considered in 2008.

Currently, prior approval by the relevant government authority (e.g., State Property Committee, Ministry of Industry and Energy, Ministry of Natural Resources) is required for foreign investment in new enterprises using assets of existing Russian enterprises, defense industries (which may be prohibited in some cases), and the exploitation of natural resources. Approval is also required for all investments over 50 million rubles (about \$2 million), investment ventures in which the foreign share exceeds 50%, or investment to take over incomplete housing and construction projects.

Additional registration requirements exist for investments exceeding 100 million rubles (\$4 million). Projects involving large-scale construction or modernization may also be subject to expert examination for environmental considerations. In sectors that require licensing (e.g. banking, mining, oil and gas extraction, and telecommunications), procedures often can be lengthy and non-transparent.

With the world's largest natural gas reserves and some of the world's largest crude oil reserves, Russia's oil and gas sector holds tremendous potential for foreign and

domestic investment. Whether this potential is realized depends on the receptivity to such investment by the Russian government, which has increased its role in the sector over the last several years. The industry no longer exerts extensive influence on the government but, on the contrary, it is the government that appears to have regained control over oil and gas firms. Foreign investors who want to do business in Russian energy now would do best to work with the state companies Rosneft (oil) and Gazprom (gas).

Production Sharing Agreement (PSA) legislation was adopted in 1999, but PSA amendments to the tax code passed in mid-2003 sent a very mixed message. The amendments provided a firmer foundation for three already operating projects and a few new projects supported by domestic companies, but greatly restricted the possibility of future PSA projects. PSAs are not likely to re-emerge as a tool for attracting investment, as the current Russian government views the existing agreements unfavorably. Only two major PSA projects, Kharyaga and Sakhalin 1, with majority foreign ownership remain in Russia. Under pressure, one PSA, Sakhalin 2, sold majority participation to Gazprom. Sakhalin 1 has recently come under some pressure as well to sell its gas production to Gazprom.

Elsewhere in the energy sector, shareholders in the Caspian Pipeline Consortium (CPC) have still not agreed, despite some recent advances, on the final terms of a deal that would allow an expansion of the consortium's pipeline. An agreement in September 2007 temporarily improves the pipeline's financial future, but without a permanent agreement, the long-term profitability of the pipeline is in jeopardy.

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.

According to some automobile companies' estimates, Russia will become Europe's largest car market by 2009. Current Russian legislation offers reduced customs tariff rates on automotive parts imported by companies assembling vehicles in Russia. Many foreign auto manufacturers have taken advantage of the tariff reductions and set up assembly operations in Russia, including GM, Ford, Toyota, Peugeot, Isuzu, Kia, Nissan, Volkswagen and Renault. The latter recently signed a purchase agreement to buy a significant share of Russian automaker, Avtovaz. In all, about a dozen foreign car manufacturers have signed agreements to assemble vehicles on Russian soil. This is helping to meet the growing demand for foreign-brand cars in Russia. Avtovaz has also been successful in obtaining the tariff benefits for its operations.

Roughly three-quarters of the Russian economy has been privatized, although the state continues to hold significant blocks of shares in many privatized enterprises. The privatization of remaining state holdings is scheduled to continue. Foreign investors participating in Russian privatization sales often 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 agricultural and agribusiness investment climate has been positively affected on the crops side due to higher world commodity prices, and on the livestock side due to active government intervention. However, recent GOR restrictions on grain and potentially oilseed exports, designed to curb inflation, are likely to have a dampening effect on the investment climate for crops. Over-investment in swine production will likely lead to a series of bankruptcies in the next few years. Demand for food continues to grow faster than growth in production, however. This is a consequence of rapidly rising consumer incomes, which in turn is spurring continued expansion of food processing, logistics, and food retail capacity. Retailing, in particular, is growing at 20% per year and will continue at this rate for at least another five years.

Production agriculture has received infusions of short- and medium-term capital thanks to government programs to buy down interest on commercial loans, but demand for long-term credit far outstrips supply. Farm mortgages are nearly nonexistent due to continued land-ownership confusion that limits the ability to use land as collateral, as well as shortages of professional appraisers and assessors. In addition, commercial banks are still reluctant to invest in production agriculture. The only two banks with extensive rural branch networks are government-owned Rosselkhozbank and Sberbank; the former's market penetration extends into virtually every part of Russia. Continued limited participation by commercial credit institutions will likely perpetuate ongoing Russian government programs to finance agriculture for the foreseeable future.

On December 31, 2007, the National Priority Project for Agriculture came to an end, succeeded by a five-year program of development through 2012. This program focuses on rural development, competitiveness, and natural resource conservation, specifically targeting the creation of a Russian beef sector.

Russian law allows foreign ownership of non-agricultural land that is not located near international borders. Direct sales of agricultural land to foreigners are prohibited, but leases of up to 49 years are possible under the Agricultural Land Code. The Prime Minister must approve sales of federal land (such as land belonging to a state farm) to any entity. 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 due to entrenched interests in keeping competition at bay through exploitation of legal ambiguities about land purchase and control. There have also been blatant, though ultimately unsuccessful, attempts to raid foreign enterprises and to take over their processing facilities through illegal means.

The GOR requires visas and residence permits for investors. Work and residence permits must be renewed periodically, which can sometimes be a cumbersome process. Investors in some sectors also may face restrictions requiring that a certain percentage of staff be Russian citizens.

While the ruble is the only legal tender in Russia, in general companies and individuals 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.

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 "passport of deal" 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 "passport of deal" 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 passport of deal, 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 are to be paid with prompt, adequate and effective compensation.

At the sub-federal level, expropriation has occasionally been a problem, as has local government interference or 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 also widespread and

takes many forms, including bribes to judges and prosecutors and 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 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, the enforcement of international arbitral awards still ultimately requires action from Russian courts and follow-up by bailiffs, which has yet to become a consistently effective enforcer of court judgments.

As for legal avenues available in Russia through Russian arbitration, one choice is the Arbitration Court of the Russian Federation. It has special procedures for seizure of property before trial so that property 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. However, as approval for investments in Russia frequently depends on relationships with government officials and on a firm's demonstration of commitment to the Russian market, in practice this may result in offsets.

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. Moreover, mortgage lending is in its initial stages, but growing, up from an estimated USD 2 billion in 2006 to USD 20 billion in 2007. 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. Copyright violations (films, videos, sound recordings, and computer software) remain particularly rampant. Legitimate DVD sales are on the rise, however, thanks in part to reduced pricing of legitimate products, a growing consumer class's 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.

As part of a November 2006 bilateral agreement on IPR, the Russian government made the commitment to take criminal actions against commercial scale piracy. In March 2007, the GOR amended its Criminal Code elevating certain IPR crimes from "crimes of medium seriousness" to "serious crimes," which has helped prosecute IP offenders. Russia also made commitments to enact legislative amendments to provide broader authority to order the seizure and destruction of machinery and materials used in the production of infringing goods. Such amendments are still pending. In 2007, Moscow prosecutors brought Denis Kvasov, the former director of the pirate music website, www.allofmp3.com, to trial for piracy, but did not succeed in convicting him. In acquitting Kvasov, the presiding judge found that the prosecution had failed to present sufficient evidence of his personal involvement in the operation of the site. The verdict was upheld on appeal by the Moscow City Court. Law enforcement officials stated that they are continuing to investigate others associated with the operation of www.allofmp3.com.

Russian law enforcement has gradually taken a more aggressive approach toward pirate optical disk producers in the last few years. Seizure of production lines and equipment used for IP infringing activities, though still rare, is on the rise. The number of police, prosecutors, and judges with relevant expertise is small but expanding. While in the vast majority of cases, alleged infringers receive miniscule fines or suspended prison sentences, the trend is starting to change.

While the law enforcement situation is improving, many problems remain, especially during the prosecution stage. Judges and prosecutors frequently lack expertise in IPR cases or do not always regard them as serious crimes. Corruption continues to be a problem. In addition, judges often impose unreasonable proof requirements, such as asking prosecutors to prove the exact sum of damages and that every item (as opposed to a representative sample) in a seized shipment of counterfeit goods is illegal, even if the shipment contains thousands of items.

Rights holders have been moderately successful in countering trademark and patent infringements through the Russian court system or with the Russian Federal Service for

Intellectual Property, Patents and Trademarks (Rospatent). The Federal Customs Service (FCS) has also recently improved its focus on IPR issues. Several Western companies reported in 2007 that they had a good working relationship with the FCS, with Customs making more timely notifications to rights holders of seizures of goods suspected to be counterfeits. In general, U.S. firms should proactively take steps to protect their intellectual property in Russia, including registering their trademarks with Rospatent and FCS.

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). It has also made commitments to join the Internet conventions of the World Intellectual Property Rights Organization (WIPO).

Transparency of Regulatory System

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The legal system in Russia is still in a state of flux, with various parts of the government continuing to create new laws on a broad array of topics. In this environment, negotiations and contracts for commercial transactions are 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 burdensome process.

Corruption is widespread in Russia (see separate section below). Officials may demand bribes in exchange for regular governmental services such as registration of businesses, utility hookups, development permits for real estate, etc. However, more and more small and medium businesses in recent years have reported fewer difficulties in this regard, especially in the Moscow region. Russian officials at both the federal and local levels appear to raise environmental concerns more frequently now as considerations in the approval process for investments. In some instances, it is difficult to say whether such concerns are genuine.

The Russian Tax Code underwent a major revision in 2001, which reduced the overall tax burden. Six taxes were abolished entirely: the 1.5% social and housing turnover tax;

the Employment Fund tax; the state border clearance fee; vehicle tax; vehicle acquisition tax; and oil and lubricant product sales tax. The revision also moved Russia to a flat individual income tax rate of only 13% for residents and 30% 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. Since 2005, the Unified Social Tax, which is paid by employers and covers pensions, healthcare and social security, has been set at a top rate of 26% on salaries up to R280,000 (about \$10,000) per year.

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.

Given the tax structure at the beginning of 2006, the marginal tax rate on a barrel of exported oil was 90% for every dollar over \$25/bbl. Following complaints from Russian oil companies, the Russian government in 2006 made some revisions to the MET to take into account the level of depletion at fields and the quality of the crude. These changes will lower the tax burden -- and increase output -- at some of Russia's older fields.

The Corporate Profits Tax, as amended in 2001, sets corporate profit taxes at 24%. Regions are allowed, at their discretion, to grant a 4% tax reduction, effectively lowering the tax rate to 20%. Many regions have made use of this provision. For dividends/interest earned by non-residents, the profit tax rate is 15%.

Since the Yukos affair, 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 small and medium entrepreneurs' number one complaint is the complexity of the tax code. Well-intentioned SMEs often go out of their way to follow the law but are then penalized for making mistakes in documentation. They complain the tax police make no distinction between hard-core tax-evaders and inexperienced small business people who don't 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 a company's bank accounts can be frozen relatively quickly.

In early 2005, President Putin acknowledged the negative impact of the tax environment on the business climate when he called for an end to "tax terrorism." In response to the President's order, the GOR submitted a substantial package of amendments to the Duma designed to increase transparency and consistency in the tax environment. Russian legislators are currently still reviewing these amendments, many of which will take effect in 2007. For instance, tax authorities will have the right to freeze only amounts equal to disputed underpaid taxes, fines and penalties. Tax audit rules have been codified with more details, thus limiting inspectors' discretion. Moreover, the amendments prohibit what had been called "perpetual audits." The changes introduce

formal time limits for audits and specify the terms and conditions for their extension. Nevertheless, audits may still last as long as six months.

Efficient Capital Markets and Portfolio Investment

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The Russian banking system remains relatively small, with RUB 561 billion (\$21.3 billion) in aggregate charter capital as of December 1, 2006. In April 2005, the GOR and the Central Bank of Russia adopted the Banking Sector Development Strategy through 2008. According to official sources, the strategy seeks to enhance the stability and efficiency of the banking sector by: increasing the protection offered to depositors and creditors; enhancing the banking sector's role as a primary intermediary for household and commercial credit operations; improving the Russian banking sector's competitiveness; protecting the financial sector from illicit activity such as money laundering and the financing of terrorism; improving transparency in the sector; and building up investor, creditor, and depositor confidence in the banking sector. In September 2005, the CBR completed its review of all banks that sought admission to the recently established Deposit Insurance System (DIS). To gain admission to the DIS, a bank has to demonstrate verifiably to the CBR that it complies with Russian identification and transparency requirements. Currently, 927 of Russia's estimated 1200 banks have been admitted to the DIS, effectively weeding out over 200 banks from the banking system.

The successful implementation of the Deposit Insurance System has proved a critical psychological boon to the banking sector, evidenced by growth in overall deposits. However, the sector 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 their personal savings "under the mattress" rather than trust their savings to banks.

Although Sberbank remains the largest bank in Russia by a large margin, the sector has made some progress toward diversification. Sberbank faces increasing competition from the second largest state bank, Vneshtorgbank, as well as from several other significant contenders such as Gazprombank, Alfa Bank, and MDM Bank. Recent data indicates that only 51 of Russia's 1,203 banks are wholly foreign-owned.

Twelve stock exchanges currently operate in Russia. The dominant exchanges are in Moscow, and include the Russia Trading System (RTS) and the equity trading floor on the MICEX (Moscow Interbank Currency Exchange). RTS grew 60% during 2006, with market capitalization reaching \$1 trillion before the end of the year. The average daily trading volume for the year was \$58.22 million, compared with \$44 million per day in 2005.

Although the RTS is more diversified, average trade volumes on the MICEX stock exchange are much higher than on the RTS. In 2006, the average daily trading volume through November was \$2.87 billion, up from \$556 million in 2005. Gazprom, Lukoil, Rosneft, and Surgutneftegaz dominated MICEX trading during the year.

The level of trading activity at the Moscow Stock Exchange historically has been low, with Gazprom shares accounting up to 95% of trades from 1997 to 2003. The exchange

began a restructuring process in 2005, and the new managers have been attempting to diversify the trading activity. Several Russian regional centers have their own stock exchanges, but trade volumes outside Moscow tend to be low. Regional exchanges are still dependent on Moscow-based participants.

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 specified information during the placement process as well as in quarterly reports. In addition, the law defines the responsibilities of financial consultants helping companies with their stock offerings, and holds them liable for 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. 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 OFZ/GKO market, the absence of speculative opportunities on the currency market, and a large and increasing volume of rubles from oil export earnings. 2006 set another record for bond issuances with RUB 542.7 billion raised, compared to RUB 270 billion in 2005.

However, while the corporate bond market is rapidly developing, it suffers several problems. The market is still quite narrow. It is thus 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 preparations, including development of each issue's parameters, prospectus registration, underwriting services, etc. A 0.8% 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 the volume of a bond issue not to exceed a company's authorized (charter) capital.

Political Violence

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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 purely for 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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Corruption remains a serious problem in Russia, with the country ranking 121th on Transparency International's (TI's) 2006 Index. Russia's score of 2.4 remained statistically flat from 2005 to 2006, indicating that the perception of corruption level in Russia stayed the same over the past year. U.S. firms have identified corruption as a pervasive problem, both in number of instances and in the size of bribes sought.

Under Articles 290 and 291 of the Russian Criminal Code, giving and receiving bribes are criminal acts punishable by up to 12 years of incarceration depending on circumstances. Article 291 further provides that a person who pays a bribe is relieved of criminal liability if the bribe was extorted from him or if he voluntarily informs law enforcement about it. Russia is a signatory to the UN Convention against Corruption. It has not criminalized bribery of foreign officials, and the Organization for Economic Cooperation and Development's (OECD) Anti-Bribery Convention has been on President Putin's desk awaiting signature for over a year.

The Government of Russia has repeatedly designated the fight against corruption and the enforcement of law as priorities. However, initiatives to address the problem, either through regulation, administrative reform or government-sponsored voluntary codes of conduct, have made little headway in countering endemic corruption. While there are prosecutions related to bribery, the lack of enforcement in general remains a problem. There have been few dismissals and prosecutions of high-level corrupt officials that would send a clear deterrent message. In addition, bribery and other corruption issues are investigated by the Ministry of Internal Affairs and the Federal Security Service, both of which are themselves widely perceived as corrupt.

Corruption in commercial and bureaucratic transactions and problems with the consistent implementation of laws and regulations greatly inhibit investment in Russia. The investment climate would benefit from improved dispute resolution mechanisms, the systematic protection of minority stockholders rights, consistent enforcement of regulations, a more transparent judicial system, fuller conversion to international accounting standards, and the adoption and adherence to business codes of conduct by companies. More transparent implementation of customs, taxation, licensing and other administrative regulations would also help.

During the last year, Russian government officials have discussed the problem of corruption openly. President Putin met with the Cabinet of Ministers in April 2006 to address the issue. In May, in his annual address to the Federal Assembly, Putin called corruption a major obstacle to Russia's economic development. In August, Prosecutor General Chayka called on prosecutors to combat the practice of commissioned prosecutions, that is, filing criminal charges because the prosecutors have been bribed to do so. He also asked for a re-evaluation of cases that appeared to have no legal foundation. In November, President Putin met with the heads of all law enforcement agencies and called for new initiatives to combat corruption, including more public disclosure of assets and property by law enforcement officials. In December, First Deputy Prosecutor General Alexander Buksman estimated that corruption costs the country \$240 billion annually and disclosed that prosecutors had uncovered 28,000 cases of corruption among state officials in the first eight months of 2006.

Bilateral Investment Agreements

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Russia inherited from the Soviet Union 13 bilateral investment treaties (BITs) with Austria, Belgium, Luxembourg, Great Britain, Germany, Italy, Canada, China, Korea, the Netherlands, Finland, France, and Switzerland. They were ratified in 1989-90 and came into force in 1991. Russia has since negotiated over 35 new agreements, of which 29 have been ratified - with Greece, Cuba, Romania, Denmark, Slovakia, Czech Republic, Vietnam, Kuwait, India, Hungary, Albania, Norway, Yugoslavia, Lebanon, Macedonia,

the Philippines, Egypt, South Africa, Moldova, Argentina, Turkey, Sweden, Armenia, Yemen, Bulgaria, Lithuania, Laos, North Korea and Mongolia. However, in 2002 Russia requested that all treaty partners re-negotiate BITs, expressing concerns that existing language may not be compatible with future WTO obligations. The United States and Russia currently do not have a bilateral investment treaty.

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 \$200 million in each case - it can commit to an individual project (for a total of \$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. In FY 2006, OPIC approved \$202.8 million in new loans, guarantees, and insurance for 11 projects in Russia, compared to \$156.9 million for 14 projects in FY 2005.

Labor

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The Russian labor market remains fragmented, characterized by limited labor mobility across regions and consequent wage and employment differentials. Although statistics are often unreliable and many forms of unemployment are not counted, unemployment, using International Labor Organization (ILO) standards, was 6.7% of the workforce at the end of 2006.

In parts of the north Caucasus, unemployment estimates run as high as 40%. In Moscow, however, unemployment is less than 1.0%, and average monthly incomes are more than two times the national average of approximately \$430 per month.

Labor mobility continues to be restricted by an under- developed housing and mortgage market and the continued existence of residency permits and registration. The availability of subsidized housing and cultural ties in certain regions often make workers reluctant to move, and a lack of information about employment or housing opportunities in other regions exacerbates the situation. Limited labor mobility across regions negatively affects wage rates and employment. Nonetheless, labor mobility across professions and within regions is improving, as workers attempt to adapt to the needs of a market economy. The mortgage lending system is also improving and has slowly begun to put home ownership in the reach of many middle-class Russians. The labor force is generally well educated, though skilled labor has been in increasingly short supply.

Strikes in the private sector are now less frequent than they were in the mid-1990s. Workers have increasingly pursued their demands through the court system or used

methods such as rallies and days of action to call attention to their plight. The number of workers who went on strike decreased from 84,600 in 2005 to 2,800 in 2006. Enterprises that pay wages in full and on time generally have smooth labor-management relations.

Approximately 65% of Russia's workforce is unionized. The trade union movement is still largely dominated by the Federation of Independent Trade Unions of Russia (FNPR), an inter-professional umbrella organization which consists of formerly governmental unions and now represents 93% of total trade union membership. Despite the trend of declining unionization (FNPR alone has lost 10 million members in the past five years), a number of relatively new trade unions outside this confederation have begun to make strides in defending their members' interests. The Russian Confederation of Labor (KTR) and the All-Russian Confederation of Labor (VKI), formed in 1995, are two such organizations. The KTR, VKI, and the FNPR are all members of the International Confederation of Free Trade Unions (ICFTU).

The Russian government generally adheres on paper to International Labor Organization (ILO) conventions protecting worker rights, though enforcement is often lacking. The 2002 Labor Code governs labor standards in Russia. When it was adopted, it was meant to diminish the role of government in setting and enforcing labor standards, with trade unions and a more flexible labor market playing a balancing role in representing workers' interests. However, there are significant gaps in the Code, including no clear enforcement mechanisms for an employer's failure to engage in good faith collective bargaining. The enforcement of worker safety rules has been a major issue as well, as enterprises are often unable or unwilling to invest in safer equipment or to enforce safety. In June 2006 the Labor Code was revised to include a new requirement that businesses employing more than 50 workers must establish a work safety division and create a position of "work safety specialist." The previous requirement only applied to employers with more than 100 workers. Amendments were also added to improve the procedure for investigating industrial accidents.

In the spring of 2005, President Putin announced plans for four National Priority Projects in health, education, housing and agriculture. These projects are meant to spread to ordinary Russians the benefits of the recent energy-fueled economic boom and to tackle some of Russia's most pressing social and economic needs. While there so far have been few evident improvements arising from the projects, experts say it is still too early to expect tangible results. The National Projects provide potential investment opportunities, especially in medical equipment manufacturing, agricultural equipment sales, and housing construction. The 2007 budget for the projects is \$9.4 billion.

Foreign-Trade Zones/Free Ports

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In 2005, the Russian government passed the Law on Special Economic Zones (SEZs), which proposed the establishment of industrial-production zones and R&D focused progressive-technical zones for twenty-year periods. Management of the zones is shared by the Russian Federal Special Economic Zones Management Agency and its territorial bodies, a real estate management company and a supervisory board with assistance from representatives of SEZ residents. In November 2005, the government announced the results of a tender and the establishment of six SEZs: in Zelenograd and Dubna in the Moscow region (focused on microelectronics and nuclear technology, respectively), St. Petersburg (information technology), Tomsk (new materials), Lipetsk

(appliances and electronics), and Yelabuga (auto components and petrochemicals). Enterprises operating in industrial-production zones (20 square kilometers) will pay lower unified social taxes, with the highest rate reduced from 26% to 24%, and those within progressive-technical zones (2 square kilometers) are allowed to write-off all R&D expenses. Both types of zones will benefit from reduced land and property taxes and a waiver of customs duties on imports and finished exports. The tender process will continue in 2007, with more SEZs to be designated. In addition, the Federal Agency for Administering Special Economic Zones in 2006 announced plans to create technology parks in Novosibirsk, Tyumen, Kazan, Sarov (Nizhny Novgorod Oblast) and Obninsk (Kaluga Oblast). In December 2006, a tender committee approved creating seven special tourist economic zones in the Krasnodar, Stavropol, Altai, Kaliningrad and Irkutsk regions, as well as in the constituent republics of Altai and Buryatia.

The SEZ in Kaliningrad, which allows goods to be imported duty-free as long as they are not re-exported to the rest of Russia, has been able to attract some moderate investments. An SEZ in Magadan has attracted minor amounts of investment and the SEZ in Nakhodka has reportedly never been implemented.

Foreign Direct Investment Statistics

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Table 1 shows flows of foreign investment by country for the first nine months of 2006, compared to the same period in 2005. Consistent with the trend of recent years (except for 2005), the first nine months of 2006 showed a healthy increase in foreign investment over the same period in 2005. Note that Russian statistical practice counts total investment as including direct investment, 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.

Table 1: Top Ten Investors - By Year (in USD million)

	Jan-Sept. 2005	Jan-Sept. 2006
UK	5,003	5,479
Netherlands	4,055	5,196
Cyprus	3,255	5,186
France	540	2,533
Germany	1,388	1,982
Luxembourg	3,630	1,570
Switzerland	1,546	1,558
USA	1,167	1,220
Virgin Islands (UK)	833	832
Japan	N/A	514
Bahamas	559	N/A
All Others	4,853	9,253
Total	26,829	35,323

Note: As of 2001, the Federal Service for State Statistics stopped providing breakdowns of direct and portfolio investment in its yearly statistics, and started instead providing this for accumulated investment (Table 2).

The numbers in Table 2 can only be taken as a general indication of the stock of investment activity identified with a given country. This does not represent an accumulated stock of direct investment because these figures include portfolio and "other" investment and do not reflect any withdrawal of funds or decreases in value of assets. Although the U.S. fell behind the Netherlands and Cyprus in terms of direct investment in 2005 and 2006, this is largely due to Royal Dutch/Shell's \$11 billion investment in Sakhalin and returning Russian capital from Cyprus. Note that although Germany and the UK continue to show a larger stock of total investment than the U.S., a large proportion of their investment consists of "other" investment, primarily trade credits.

Table 2: Top Investors - Accumulated Basis (Amounts in USD Million)

	Jan-Sep 2005		Jan-Sep 2006	
	Total	FCI	Total	FDI
Cyprus	17,576	12,682	28,096	21,238
Netherlands	15,586	12,085	22,488	17,894
Luxembourg	16,101	399	19,532	547
UK	9,642	1,802	11,428	2,830
Germany	9,321	2,587	10,319	3,036
USA	7,157	4,361	7,641	4,795
France	3,483	424	3,320	987
Virgin Islands (UK)	2,151	1,382	3,199	1,639
Switzerland	2,179	1,015	2,615	1,272
Japan	N/A	N/A	2,566	213
The Bahamas	1,801	639	N/A	N/A
All Others	11,477	5,954	18,794	9,684
Total	96,474	43,330	129,998	64,135

Source: Federal Service for State Statistics (FSSS)

Table 3 shows foreign investment by region over the first nine months of 2006, compared to the same period in 2005. Moscow continues to attract the largest volume of investments, mainly due to concentration of companies' headquarters that guarantees attraction of investments and the largest concentration of consumers with high purchasing power.

Table 3: Foreign Investment – Top Regions (Amounts in USD Millions)

	Jan-Sep 2005			Jan-Sep 2006		
	Amount	%	Rank	Amount	%	Rank
Moscow (City)	11,438	42.6%	1	13,410	38.0%	1
Sakhalin	3,743	14.0%	2	5,127	14.5%	2
Moscow Region	1,772	6.6%	3	3,208	9.1%	3
St. Petersburg	899	3.4%	6	2,724	7.7%	4
Khanty-Mansiisk Okrug - Ugra	N/A	N/A	-	1,215	3.4%	5
Sverdlovsk Region	967	3.6%	5	1,105	3.1%	6
Chelyabinsk Region	647	2.4%	7	961	2.7%	7
Samara Region	483	1.8%	9	750	2.1%	8
Republic of Sakha (Yakutiya)	596	2.2%	8	639	1.8%	9

Krasnodar Region	N/A	N/A	-	567	1.6%	10
Omsk Region	1,620	6.0%	4	N/A	N/A	-
Arkhangelsk Region	577	1/8%	10	N/A	N/A	-
Others	3,354	12.5%		5,617	15.9%	
Total	26,829	100%		35,323	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 2006, compared to the same period in 2005. Total investment in trade decreased in 2006 compared to the same period of 2005, however trade continued to lead all sectors as of September 2006. The fuel industry came in a close second, while consuming a larger percentage of total investment in 2006 over the same period in 2005.

Table 4: Foreign Investment: Top Sectors (Amounts in USD Millions)

	Jan-Sep 2005		Jan-Sep 2006	
	%	Amount	%	Amount
Trade	32.2%	8,634	20.9%	7,381
Extraction of Fuel	14.4%	3,856	20.2%	7,121
Communications	7.1%	1,892	11.0%	3,875
Real Estate & Related Services	6.8%	1,823	8.9%	3,151
Metallurgy	9.2%	2,471	6.6%	2,315
Finance	5.1%	1,376	5.8%	2,060
Production of Coke & Oil Products	N/A	N/A	5.1%	1,795
Chemical Industry	3.0%	804	3.0%	1,045
Food Industry	3.0%	801	2.7%	946
Lumber Industry	1.9%	517	2.6%	909
All Other	16.7%	4,482	13.4%	4,725
Total	100.0%	26,829	100.0%	35,323

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Chapter 7: Trade and Project Financing

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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 fourth 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%, as liquidity has developed in the Russian economy. 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 agreed to 100% foreign ownership of banks upon their full accession to WTO. 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 and AIG are also entering Russia's 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 will stand at about \$110 billion, car credits at \$20 billion and credit cards at \$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 establishing a system of deposit insurance to include privately owned banks able to meet selection criteria. A Deposit Insurance System 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 R3.8 trillion (\$146 billion) at the end of 2007, up from \$83 billion in mid-2005, suggesting that depositors' confidence in the banking system has grown. According to forecasts made by Renaissance Capital Bank, retail deposits will grow to \$229 billion by 2008. The state-controlled Sberbank still holds the largest share of retail deposits. 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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The Government of Russia has implemented a wide range of major economic reforms. Gradual removal of currency control restrictions will positively affect the development of Russia's business environment for U.S. exporters. The latest Currency Law (Federal Law No. 173-FZ, "On Currency Regulation and Currency Control" introduced on December 10, 2003) has led to a "softening" of currency control regulations in Russia. The law introduced a liberalized regime that substantially limits the authority of the Central Bank of Russia (CBR) to restrict currency operations in Russia and divided currency regulation functions between the CBR and the Government of Russia (GOR).

The CBR is now responsible for currency operations related to loans and financing, securities transactions and banking operations. The GOR regulates currency operations relating to foreign trade, such as the export and import of goods, works and services, intellectual property and participation of residents in the charter capital of foreign companies other than joint-stock companies. Residents' investments in foreign companies, partnerships and other property (including in joint activity agreements - simple partnerships) are the only real "split jurisdiction" area, regulated by the Government in coordination with the CBR.

Among the most important new principles introduced by the law are the following:

First, the law provides for an exhaustive list of currency operations subject to administrative regulation and establishes a "free hands" regime with respect to other currency operations between residents and non-residents by introducing the presumption that such currency operations should be free of restriction.

Further, it limits the list of regulators to the CBR and the GOR and clearly states that the above bodies may not introduce new requirements to the currency regime established by the Currency Law, except as provided by the law itself. Finally, the Currency Law explicitly abandons the traditional CBR licensing requirement that obliged businesses to obtain individual permits for particular types of currency transactions.

The prior regime of mandatory individual CBR licensing requirements (which was used to encompass the entire broad spectrum of so-called "capital currency operations") has been replaced by a combination of new, more permissive instruments of control - mandatory reserving of currency, advance registration and special accounts. Therefore, this fundamental change is seen as a major move to ease many types of currency operations.

The following three main permitted measures of currency regulation introduced by the Law may be imposed (only in the specific currency operations context and to the extent expressly contemplated in the Law):

Mandatory Reserving: Refers to a certain ruble amount that the CBR or the Government (as the case may be) may require a Russian resident or non-resident to block for a certain period of time in a separate non-interest-bearing account at a Russian authorized bank (with corresponding reservation of the equivalent sum by the authorized bank at the CBR). This is to be the most broadly applied measure of control, for many types of operations described throughout the Law. The general purpose of this requirement seems to be CBR currency reserve and ruble exchange-rate protection, as well as maintenance of some level of discouragement of capital flight through sham transactions as the individual licensing regime is lifted. The CBR already has some experience with this sort of mandatory reserving: under previous law. For example, previously Russian importers were required to deposit a 20% ruble reserve with their authorized bank, in connection with the purchase of rubles for an advance payment under an unsecured import contract.

Preliminary Registration: Currency operations must be registered with the Russian tax or customs authorities (with the tax authorities, for a Russian resident entity's or individual's opening an account with a foreign bank located in a foreign jurisdiction; or with Customs Service for export and import of Russian rubles or securities denominated in Russian rubles). This new registration requirement is intended for technical/monitoring purposes only.

Special Account: The CBR may require a Russian resident or non-resident to open and maintain a Special Account with a Russian authorized bank (or depositary, if the settlement involves securities) for settlements associated with certain operations as specified in the Law.

Most of the above mentioned measures (including all of the currency reserve and most of the special accounts requirements) will be in effect only until January 1, 2007.

The regime for banking and finance transactions, including loan facilities, security arrangements, bonds and other securities placement and trading, direct and portfolio investments, has also been substantially relaxed.

For more information, see Conversion and Transfer Policies in the Investment Climate Statement.

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 Capital and AIG are also entering Russia's retail banking sector, and Morgan Stanley will be providing Investment Banking services through its new subsidiary bank.

State Owned Banks

Two state-controlled banks, Sberbank and Vneshtorgbank, continue to dominate the corporate and retail banking sectors in Russia. The state also controls a number of smaller banks. The Russian Government is urging Russia's state-controlled banks to modernize in order to play a more active role in the economy. At a recent banking conference in Siberia, President Vladimir Putin stressed that a significant number of banks created with state participation are weak and are not able to service large-scale projects such as National Projects in housing, education and health care.

These National Projects -- intended to transfer the flow of cash from oil and gas exports into improved living conditions for Russians -- have been characterized as the focus of President Putin's second presidential term, which ends in 2008. The Kremlin, which increasingly advocates strong government involvement in the economy, sees strong and effective state banks as a condition for the success of the projects. Making state-owned banks more effective is also part of the Kremlin's plan to consolidate the banking sector.

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 equity as of October 2007 are:

- Sberbank (Savings Bank)
- Bank VTB
- Gazprombank
- Alfa-Bank
- Bank of Moscow
- VTB 24
- InternationalMoscow Bank
- RaiffeisenbankÖsterreich
- RussianAgricultural Bank
- URALSIB
- MDMBank
- RussianStandard Bank
- Rosbank
- Bank VTBNorth-West
- AK BARSBank
- Promsvyazbank
- International Industrial Bank
- URSABank
- Petrocommerce
- NOMOS-BANK
- NationalReserve Bank
- BankZENIT
- KITFinance Investment Bank
- Vozrozhdenie
- Citibank

The Russian banking sector has largely recovered from the August 1998 financial crisis. 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.

U.S. Export-Import Bank (Ex-Im Bank)

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 \$4.5 billion (total exposure in Russia is currently around a half a billion). Over the past several years, authorizations for Russia have averaged approximately \$110 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 2007 (from October 2006 to September 2007), Ex-Im Bank authorized approximately \$133 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 73 years of its existence, the Bank has provided financing for an estimated \$500 billion in U.S. exports. In FY 2007 alone, Ex-Im Bank supported over \$16 billion in U.S. exports of which \$3.3 billion went to directly supporting small business transactions, up from \$3.1 billion in 2006.

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

Brian Sant Angelo
International Business Development - Europe & Eurasia
Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, DC 20571
Phone: (202) 565 – 3484 Fax: (202) 565-3677
brian.santangelo@exim.gov

The Overseas Private Investment Corporation (OPIC)

In an agreement ratified in June 1992, OPIC was authorized to provide long-term loans, loan guarantees and political risk insurance against political violence, currency inconvertibility, and expropriation. 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 \$200 million in each case - it can commit to an individual project (a total of \$400 million). OPIC also makes equity capital available for investments in Russia by guaranteeing long-term loans to private equity investment funds.

Since 1992, when OPIC issued its first political risk insurance contract in Russia, covering an investment in a saw mill and wood chipping plant, and provided its first loan

in 1993, to support an oil and gas project, OPIC has actively encouraged US investment in Russia. Through the end of our 2006 fiscal year, OPIC has supported over \$4.1 billion in loans and political risk insurance to roughly 140 projects.

OPIC-supported projects have covered a full range of business sectors. The most significant OPIC supported sectors have been:

- Manufacturing, which has received nearly \$1.1 billion.
- Communication (cellular telephone, internet services, cable TV, etc.), which has received nearly \$885 million in support
- Oil and gas, which has received nearly \$885 in support
- Financial services (banking, leasing companies, etc), which has received more than \$770 million in support.

At the beginning of fiscal year 2005, OPIC opened a new office, co-located with the U.S. Commercial Service, in Moscow, Russia to respond to increasing interest in the region for political risk insurance and long-term project finance. (See Chapter 9 for contact information.) During the first year of the office's operation (Fiscal Year 2005) OPIC approved \$156.9 million in new loans, guarantees, and insurance for 14 projects in FY 2005. In fiscal year 2006, OPIC approved \$202.8 million in new loans, guarantees, and insurance for 11 projects.

Web Resources

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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>

European Bank for Reconstruction and Development: www.ebrd.org

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Chapter 8: Business Travel

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Business Customs

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At first meeting, Russian business people can come across as indifferent and cool to Americans. Russians are known for not smiling and once they get to know someone will indicate that they save their smiles for home and family.

Scheduling meetings can be difficult, but this is also the norm. It can sometimes take weeks to get a response to an email, fax or a telephone message 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. 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 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).

Translation services are an important tool for creating interest for a company's products in the Russian market. It is very important that the services be 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. Currently 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:

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.

The North Caucasus region is of special concern. Due to 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, Karachayev-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. Due to the 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.

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's web site](#), where the current [Worldwide Caution Travel Alert](#), [Travel Warnings and other Travel Alerts](#) 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 U.S. 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).

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 Sakhalsk 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, and hotel, bottled water served with no ice is recommended. The price of the water depends on whether it's local or imported. Imported can cost \$6.00 a bottle. Soft drinks of almost every recognized brand are available, however diet soft drinks are not commonly found.

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 dollar 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 some modern businesses in Moscow and St. Petersburg, and at some hotels and restaurants in larger regional cities, but at very few 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 U.S. and Russia:

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

Personal Security

Crime: While the violent crime rate in Moscow and St. Petersburg is still below that of many major U.S. cities, there has been an increase in reports of unprovoked harassment against racial and ethnic minorities. 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 their chests
- Walk away from the curb and carry purses away from the street

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.

To reduce the risk of personal crime, U.S. businesspeople should be alert to their surroundings and guard belongings in hotels, restaurants and other high-density tourist areas. Do not assume that you can blend in on the street. Do not leave valuables in

hotel rooms - keep your passport and visa with you at all times, and retain copies in a separate location in case of loss or theft of the originals. Be alert to the potential for robbery in metro stations or trains where gangs of adults and children sometimes seize handbags or pick pockets. Also be alert to scams on the street or in stations involving money changing or lost or found money. Consider using a neck purse or belt wallet to protect your passport, visa and credit cards from pickpockets. On inter-city overnight trains, secure the door to your compartment with some sort of jamming device (many people simply use a wire coat hanger). While many residents of Moscow and St. Petersburg flag private "gypsy cabs" for rides, this is a riskier form of transport that is better avoided by the inexperienced. Travelers are advised to use only marked taxis or radio taxis, and to discuss the fare in advance.

American business people who utilize local banking, security and medical treatment should provide only the minimum information required for service. Reports have been received indicating that confidential credit, financial, banking and medical information has been supplied to organized crime gangs. In turn, these gangs use the information to extort foreigners.

Drug Penalties: U.S. citizens are subject to the laws of the country in which they are traveling. Penalties for possession, use, or trafficking in illegal drugs are strict and convicted offenders can expect jail sentences and fines.

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). Americans should be particularly aware of potential risks involved in any commercial activity with the Russian military-industrial complex, including research institutes, design bureaus, and 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.

U.S. Embassy/Consulate Locations and Services

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

William J. Burns, Ambassador
8, Bolshoy Devyatinsky Pereulok, Moscow 121099

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

U.S. Consulate General - St. Petersburg

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

U.S. Consulate General - Vladivostok

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

U.S. Consulate General – Yekaterinburg

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

Visa Requirements[Return to top](#)

The Russian government maintains a restrictive and complicated visa regime for foreign travelers who visit, transit, or reside in the Russian Federation. The Russian system includes requirements of sponsorship, visas for entry and exit, migration cards, and registration. American citizens who also carry Russian passports face additional complicated regulations. Dual citizen minors who travel on their Russian passports also face special problems.

Russian immigration and visa laws change regularly. The implementation of immigration laws has not always been transparent or predictable. In addition, Russian immigration officials at times implement laws and regulations governing entry and exit inconsistently, especially in remote areas.

The Russian government does not recognize the standing of U.S. consular officers to intervene in visa cases. The U.S. diplomatic mission in Russia is not able to act as sponsor, submit visa applications, register private travelers, or request that visas or migration cards be corrected, replaced, or extended (Please see the paragraphs below regarding Sponsorship).

Entry Visas

Before traveling to Russia, U.S. citizens should verify the latest requirements with the nearest Russian Embassy or Consulate (for contact information for the Russian Embassy and Consulates in the United States, please refer to the last paragraph of this section).

U.S. citizens must always possess a valid U.S. passport and appropriate visas for travel to or transit through Russia, whether by train, car, ship, or airplane. It is impossible to obtain a Russian entry visa upon arrival. Travelers must obtain visas well in advance of

travel from a Russian Embassy or Consulate in the United States or in a third country. Travelers who arrive without an entry visa are not permitted to enter Russia and face immediate expulsion by route of entry, at the traveler's expense. Foreigners must apply for Russian visas in their country of citizenship, unless they have permission to stay for more than 90 days in the country where they are making the visa application.

U.S. citizens transiting Russia en route to any other country are strongly advised to have transit visas. It is theoretically possible to transit Russia without a visa but in several instances, travelers experienced delays and hardships because they did not have a transit visa. Similarly, Russia-bound U.S. citizens attempting to transit Belarus or the Central Asian republics without visas have encountered difficulties. U.S. citizens are strongly advised to check the visa requirements for all countries on their itinerary.

A Russia 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.

Russian tourist visas are often granted only for the specific dates mentioned in the invitation letter provided by the sponsor. U.S. citizens often 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.

Visas are valid for specific purposes and dates. Travelers should ensure that they apply for and receive the correct visa that reflects their intended action in Russia (i.e., student visa, religious worker visa, commercial visa). Foreigners can be expelled for engaging in activities inconsistent with their visas.

All travelers must list on the visa application all areas to be visited and subsequently register with authorities upon arrival at each destination (see details below). This is normally done through the traveler's hotel or local sponsor. There are several closed cities throughout Russia. Travelers who attempt to enter these cities without prior authorization are subject to fines, court hearings and/or deportation. Travelers should check with their sponsor, hotel, or the nearest Russian visa and passport office before traveling to unfamiliar cities and towns.

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. Failure to comply with this rule could result in arrest, deportation, and a five-year ban from entering Russia.

Sponsorship

Under Russian law, every foreign traveler must have a Russian-based sponsor (a hotel, tour company, relative, employer, etc). The official sponsor is listed on the visa. Generally speaking, visas sponsored by Russian individuals are “guest” visas, and visas sponsored by tour agencies or hotels are “tourist” visas. Note that travelers who enter Russia on “tourist” visas, but who then reside with Russian individuals, may have difficulty registering their visas and migration cards and may be required by Russian authorities to depart Russia sooner than they had planned.

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. It is important for travelers to know who their legal sponsor is and how to contact that 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 obtain the contact information of the visa sponsor from their tour company or hotel, in advance. To resolve any visa difficulties (lost visa, expired visa), the traveler’s sponsor must contact the nearest Russian visa and passport office (OVIR/UVIR) for assistance. Resolving the visa problem usually requires the payment of a fee and a wait of up to twenty calendar days.

Exit Visa

A valid visa is necessary to depart Russia. Generally, the visa issued by a Russian Embassy or Consulate is valid for entry and exit. It is helpful to make a photocopy of your visa in the event of loss, but note that a copy of your visa will not be sufficient for leaving the country, as Russian immigration officials always ask for the original.

Visitors who lose or have their U.S. passport and Russian visa stolen must replace their passport at the U.S. Embassy or one of the Consulates General, and then obtain a new visa to depart with the assistance of their sponsor (see above). Without a valid visa in their new U.S. passports, U.S. citizens cannot leave Russia. As noted above, the U.S. Embassy and Consulates General are not able to intercede in cases in which visas must be replaced, corrected, or extended.

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 (see above). United States citizens without valid visas face significant delays - up to 20 days - in leaving Russia, and may have trouble finding adequate accommodation. A foreigner in Russia without a valid visa may also be subject to arrest and detention. Travelers with an expired visa may have difficulty checking into a hotel, guesthouse, hostel, or other lodging establishment in Russia. 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.

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.

Migration Card

All foreigners entering Russia must fill out a migration card, depositing one part with immigration authorities at the port of entry and holding on to the other part for the duration of their stay. Upon exit, the migration card, which serves as a record of entry, exit, and registration, must be submitted to immigration authorities. The card is also necessary 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. From time to time, various ports of entry – even the major international airport in Moscow – run out of these cards. There is no mechanism to obtain such cards once a traveler has entered into Russia. The Russian government has not indicated what a traveler should do in such a case.

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 reenter 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, and obtain a new migration card upon entering each country.

Transit Through Russia

Travelers transiting through Russia en route to a third country should be aware that a Russian transit visa is normally required. 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.

Visa Registration

Travelers who spend more than three days in the country must register their visa and migration card through their sponsor. However, travelers spending less than three days are advised to register their visas as well, since they may encounter problems finding lodging without proper registration. Travelers staying in a hotel must register their visa and migration card with their hotel within one day. The Embassy is aware of incidents in which U.S. citizens have been arrested and detained for not having properly registered visas.

Police have the authority to stop people and request their documents at any time without cause. Due to the possibility of random document checks by police, U.S. citizens should carry their original passports, registered migration cards, and visas with them at all times. Failure to provide proper documentation can result in detention and/or heavy fines. It is not necessary for travelers to have either entry or itinerary points in the Russian Federation printed on their visas.

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, DC

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 18% of the Russian population uses the Internet on regular basis; 70% use dial-up connection services. The number of ADSL and broadband users are increasing rapidly. The largest players in Russian language e-mail service and search engines are Mail.ru, Rambler and Yandex.

Wi-Fi is in the initial stage of development in Russia. However, it is already available in select locations. Currently, there are about 500 hot spots active in Russia that are primarily located in Moscow and St. Petersburg. The Marriott Hotel chain was the first Wi-Fi zone in Moscow and in Russia, launched in spring 2003. Vimpelcom (cellular

carrier) has also entered this market by organizing a WLAN zone in Sheremetyevo airport and in the Iris Congress Hotel.

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

Long distance telephone calls can usually be made from a hotel. AT&T, MCI and other telecommunications companies can provide calling card service with local access numbers. 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.

It is also possible to make calls from the local Telephone and Telegraph office as well as from the Central Russian Telephone Office located at 5 Tverskaya Ulitsa in Moscow. This is the cheapest way to call, but also necessitates standing in line and putting in a request to make an international call.

A rudimentary knowledge of the local language is extremely helpful for those placing a call through the Telephone and Telegraph office. Moscow is eight hours ahead of Washington, D.C. To reach Moscow from the U.S. you need to dial Russia Country Code +7, Moscow City Code 495 followed by the phone number.

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. Travel time to the connecting airport can be as much as an hour and a half from Sheremetyevo-2, 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).

A good way to travel in Russia is by train. From St. Petersburg to Moscow, travelers can generally 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. Russia changes relative to daylight savings time are made on the last Sundays of March and October, at 2am.

Most companies and offices have the same 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.

Russian Holidays: The holidays listed below are not an exclusive list. Occasionally days off will be declared by the government to create a long weekend, particularly at Christmas. 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 2008

January 1	Tuesday	US/R	New Year's Day
January 2-5	Wednesday-Saturday	R	New Year Days
January 8 (7)	Tuesday	R	Orthodox Christmas
January 21	Monday	US	Martin Luther King Day
February 18	Monday	US	Presidents' Day
February 25 (23)	Monday	R	Defenders' Day
March 10 (8)	Monday	R	International Women's Day
May 1	Thursday	R	International Labor Day
May 9	Friday	R	Victory Day
May 26	Monday	US	Memorial Day
June 12	Thursday	R	Russian Independence Day
July 4	Friday	US	U.S. Independence Day
September 1	Monday	US	Labor Day
October 13	Monday	US	Columbus Day
November 4	Tuesday	R	Day of Consent & Reconciliation
November 11	Tuesday	US	Veterans' Day
November 27	Thursday	US	Thanksgiving Day
December 25	Thursday	US	Christmas Day

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.

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 and Trade

Ms. Elvira Nabiullina, Minister

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

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

www.economy.gov.ru

Ministry of Finance

Mr. Aleksey Leonidovich Kudrin, Minister

Ulitsa Ilyinka 9, Entrance 1, Moscow

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

www.minfin.ru

Ministry of Industry and Energy

Mr. Viktor Khristenko, Minister

7, Kitaigorodskiy Proyezd, Moscow 103074

Tel: (495) 710-5500; Fax: (495) 710-5150 (International Dept.)

www.minprom.gov.ru

Ministry of Communications & Information Technology

Mr. Leonid Reiman, Minister

7, Tverskaya Ul., Moscow 103375

Tel: (495) 771-8011; Fax:(495) 771-8734

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

Ministry of Transport

Mr. Igor Levitin, Minister

Rozhdestevenka street 1, Moscow, 103759

Tel: (495) 926-1527, Fax: (495)926-9128

www.mintrans.ru

Ministry of Health and Social Development

Ms. Tatyana Golikova, Minister

3 Rakhmanovsky Per., GSP-4, Moscow 101461, Russia

Tel.: (495) 925-1140, Fax: (495) 200-0212
<http://www.mednet.ru/main/>

Ministry of Agriculture

Mr. Aleksey Vassilievich Gordeyev, Minister
Orlikov Pereulok, 1/11, Moscow, 107139
Tel: (495) 207-8362, Fax: (495) 207-8000
www.mcx.ru

Russian Agency for Patents and Trademarks (Rospatent)

Dr. B.P. Siminov, Director General
30-1 Berezhevskaya Nab., Moscow 121858, Russia
Tel. (495) 240-6138, 240-6015; Fax: (495) 243-3337
<http://www.rupto.ru>

Central Bank of Russia

Mr. Sergey Ignatyev, Chairman
Sergey Vladimirovich Tatarinov, Head of External and Public Relations
12 Neglinnaya Street, Moscow, 103016
Tel: (495) 771-9100; Fax: (495) 921-6465
<http://www.cbr.ru>

SELECTED REGIONAL GOVERNMENTS

Moscow City Administration

Iosif Nikolaevich Ordzhonikidze
Deputy Mayor of the Government of Moscow
13 Tverskaya Ulitsa, 103032, Moscow
Tel: (495) 229-6360; Fax: (495) 230-2856
www.mos.ru

St. Petersburg City Administration

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

Chukotsky Autonomous Okrug Government

Aramais Dallakyan, Vice Governor
20 Bering St., #49, 689000 Anadyr, Russia
Tel: (42722) 29 049/50,29 031, Fax: (42722) 290 49, 290 65
E-mail: gubernator@chukotka.sibneft.ru

Natalia Slugina, Head of International Dept.
Tel: (47222) 29049, Fax (42722) 290 49
E-mail: NataliaSIChu74@yandex.ru; admin87chao@mail.ru,
<http://www.chukotka.org>

Kamchatka Oblast, Foreign Economic Relations and Tourism Division

Natalia Ermolenko, First Vice Governor
Tel: (41522) 412 068, Fax: (41522) 420 822

Tamara Tutushkina, Head of Foreign Economic Relations and Tourism Division
1 Lenin Square, 683040, Petropavlovsk Kamchatsky, Russia
Tel/fax: (41522) 412 355; 420 822;
E-mail: kra@mail.kamchatka.ru
Website: www.ako.kamchatka.ru

Khabarovsk Territorial Administration

Aleksandr Borisovich Levintal, Deputy Chairman of the Krai Government
Minister of Economic Development & Foreign Relations of the Khabarovskiy Krai
19 Muravjogo-Amurskogo ul. 680000 Khabarovsk, Russia
Tel: (4212) 329 739, 325 544; Fax: (4212) 322-253
E-mail: econ@adm.khv.ru

Leningrad Oblast

Zhanna V. Aleksandrova, Chairman
Committee for International and Regional Relations
Suvorovsky Prospect, 67, 193311, St. Petersburg
Tel: (812) 274-4742; Fax: (812) 274-5986
<http://www.lenobl.ru/>

Primorskiy Territorial Administration

Victor Vasilyevich Gorchakov, Vice Governor
Committee on Foreign Economic Relations, Investment and Transport
22 Svetlanskaya Ul., 4 floor, 690110, Vladivostok, Russia
Tel: (4232) 208 358; Fax: (4232) 209 173
E-mail: gorchakov@primorsky.ru
Website: <http://www.primorsky.ru>

Sakhalin Regional Administration

Vadim Rokotov, Acting Chairman
Committee of International, Foreign Economic and Inter-Regional Relations
32 Kommunisticheskij Prospect, "Sakhincenter", office 236
693000, Yuzhno-Sakhalinsk, Russia
Tel: (4242) 727-494 Fax: (4242) 727-493
E-mail: up_forecon@adm.sakhalin.ru
<http://www.adm.sakhalin.ru>

Sverdlovsk Oblast Administration

Igor Ivanovich Arzyakov, Dir., Foreign Relations Department
1, Oktyabrskaya Ploshchad, Yekaterinburg 620031
Tel: (3432) 51-54-97, 58-96-56; Fax: (3432) 51-98-70

Yekaterinburg City Administration

Vladimir I. Lomovtzev, Director, Foreign Relations Department
1, Oktyabrskaya Ploshchad, Yekaterinburg 620031

Tel: (3432) 51-13-07, 51-43-83; Fax: (3432) 51-90-05

AMERICAN CHAMBER OF COMMERCE IN RUSSIA

American Chamber of Commerce in Russia

Andrew B. Somers, President
7-9 Dolgorukovskaya Ulitsa, Moscow 103006
Tel: (495) 961-2141; Fax: (495) 961-2142
E-mail: amcham@amcham.ru

American Chamber of Commerce in St. Petersburg

Maria Chernobrovkina, Executive Director
25 Nevsky Prospect, St. Petersburg, Russia, 191186
Tel: (812) 326-2590; Fax: (812) 326-2591
E-mail: st.pete@amcham.ru
Website: <http://www.amcham.ru/stpete>

RUSSIA-FOCUSED CHAMBERS OF COMMERCE AND INDUSTRY AND TRADE ASSOCIATIONS IN THE U.S.

U.S.-Russia Business Council

Eugene Lawson, President
1701 Pennsylvania Ave., NW, Suite 650, Washington, D.C. 20006
Tel: 202-739-9180, Fax: 202-659-5920
www.usrbc.org

American-Russian Chamber of Commerce and Industry

Helen Teplitskaya, President
200 World Trade Center Chicago,
2400 Merchandise Mart, Chicago, IL 60654 USA
Tel: (312) 494-6562; Fax: (312) 494-9840
Website: <http://www.arcci.org/>

Foundation for Russian-American Economic Cooperation

Carol Vipperman, President
2601 Fourth Avenue, Suite 310, Seattle, WA 98121 USA
Tel: (206) 443-1935; Fax: (206) 443-0954
E-mail: fraec@fraec.org
Websites: <http://www.fraec.org> or www.ahwg.org

Mid-Atlantic Russia Business Council

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

Northern Forum

Priscilla Wohl, Executive Director
4101 University Drive
Alaska Pacific University Cargottstein Center, Suite 221
Anchorage, AK 99508-4625 USA
Tel: 907 561-3280; Fax: 907 561-6645
E-mail: secretariat@northernforum.org
Website: <http://www.northernforum.org>

Russian-American Chamber of Commerce

Deborah Anne Palmieri, Ph.D., President & CEO
The Marketplace – Tower II
3025 South Parker Road, Suite 735
Aurora, CO 80014 USA
Tel: (303) 745-0757; Fax: (303) 745-0776
E-mail: dapalmieri@russainamericanchamber.org or
Generalinfo@russianamericanchamber.org
Website: <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 Shevchenko, Moscow 121248
Tel: (495) 243-5514, -5470; Fax: (495) 258-8380

Veronika Krasheninnikova, President
445 Park Avenue, 10th Floor
New York, NY 10022, USA
Tel: 1 212 829 5724; Fax: 1 917 322 2105
Email: info-usa@ctec.ru

Moscow Chamber of Commerce and Industry

Yury Ivanovich Kotov, President
22 Pilyugina Street, Moscow 117393
Tel: (495) 132-7396, 132-7255; Fax: (495) 132-0047
E-mail: mtp@glasnet.ru

Russian Chamber of Commerce and Industry

Yevgeniy Maksimovich Primakov, President
Yuriy Nikolayevich Denissenkov, Head, Protocol Department
6, Ilyinka Ul., Moscow 103684
Tel: (495) 929-0003; Fax: (495) 929-0375

Russian Union of Industrialists and Entrepreneurs (RSPP)

Arkady Ivanovich Volsky, President
10/4 Staraya Ploshad, Moscow 103070
Tel: (495) 748-4173; Fax: (495) 206-5492
E-mail: _volsky@mksnet.ru

St. Petersburg Chamber of Commerce and Industry

Alexander Tchistoserdov, President
Ul. Chaikovskovo 46-48, St. Petersburg 191123
Tel: (812) 279-0383; Fax (812) 272-6406
E-Mail: irc@spbcci.ru
Website: <http://www.spbcci.ru>

Vladivostok International Business Association (VIBA)

Mr. Sunil Gandhi, President
1b Ul. Muravjogo Amurskogo, Vladivostok 690000
Tel: (4232) 209898; Fax: (4232) 209-676
E-mail: primdiamond@mailru.com

Russian-American Business Council (RABC)

Yuly Mikhailovich Vorontsov, President
6 Krasnopresnenskaya Nab., Moscow 123100
Tel: (495) 258-3650, 970-1389; Fax: (495) 936-8011
E-mail: rabc@epam.net

National Association for Automotive Manufacturers (NAPAK)

Mikhail Blohin, Executive Director
5 Sushchevsky Val St., Building 2, Moscow 127018
Tel: (495) 974-8772, 974-8773; Fax: (495) 974-8774
Website: <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>

Moscow

U.S. Embassy, US Commercial Service
23/38 Bolshaya Molchanovka, Building 2, Moscow, 121069
Phone: 7-495-737-5030, Fax: 7-495-737-5033
Email: Moscow.Office.Box@mail.doc.gov

St. Petersburg

U.S. Consulate General, U.S. Commercial Service
25 Nevsky Prospect, St. Petersburg, 191186, Russia
Phone: 7-812-326-2560, Fax: 7-812-326-2561
Email: StPetersburg.Office.Box@mail.doc.gov

Vladivostok

U.S. Consulate General, U.S. Commercial Service
32 Pushkinskaya Street, Vladivostok, Russia 690001

Phone: 011-7-4232-499-381, Fax: 011-7- 4232-30-00-92

Email: Vladivostok.office.box@mail.doc.gov

U.S. EMBASSY AND CONSULATE CONTACTS**U.S. Embassy**

8, Bolshoy Devyatinsky Pereulok, Moscow 121099

Tel: (495) 728-5000; Fax: (495) 728-5159

After-hours (emergencies):

Tel: (495) 728-5025

<http://moscow.usembassy.gov>

U.S. Commercial Service

Bldg. 2, 23/38 Bolshaya Molchanovka, Moscow 121069

Tel: (495) 737-5030; Fax: (495) 737-5033

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

www.BuyUSA.gov/russia/eng

U.S. Consulate-General - St. Petersburg

15 Ulitsa Furshtadkskaya

Tel: (812) 331-2600; Fax: (812) 331-2852

After-hours emergencies:

Tel: (812) 331-2888

Website: <http://www.usconsulate.spb.ru>

U.S. Commercial Service

25 Nevsky Prospect, St. Petersburg 191186

Tel: (812) 326-2560; Fax: (812) 326-2561

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

Website: <http://www.buyusa.gov/russia/en>

U.S. Consulate General - Vladivostok

32 Pushkin Street, Vladivostok 690001

Tel: (4232) 300-070, Fax: (4232) 300-091 or 499-371

US Commercial Service in Vladivostok

Tel: (4232) 499-381; Fax: (4232) 300-092

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

U.S. Consulate-General – Yekaterinburg

15 Ulitsa Gogolya, 4th Floor

Tel: (3432) 564-619, 564-691, 629-888; Fax: (3432) 564-515

CONTACTS FOR COMPANY REGISTRATION

State Registration Chamber with the Ministry of Justice of the Russian Federation

(Branch and Rep office accreditation)

Vitaly P. Seryogin, Chairman

3/5, Smolensky Bulvar, Moscow 119835, Russian Federation

Tel: (495) 246-8649; Fax: (495) 247-3644

Tel/Fax: (495) 246-7200 Information Service

E-mail: info@palata.ru

Website: <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 103684

Tel: (495) 929-0260; Fax: (495) 929-0170

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)

Alice Davenport, U.S. Department of Commerce Liaison

Office of the U.S. Executive Director, EBRD

One Exchange Square, London EC2A 2EH, United Kingdom

Tel: 011-44-20-73387490; Fax: 011-44-20-7588-4026

E-mail: harrisg@ebrd.com

Website: <http://www.ebrd.com>

International Finance Corporation (IFC)

IFC's headquarters in Washington DC

International Finance Corporation

2121 Pennsylvania Avenue, NW

Washington, DC 20433 USA

For directory service, call the IFC switchboard at Tel: (202) 473-1000

Mr. Kutlay Ebiri, Economist of the Central and Eastern Europe Department

2121 Pennsylvania Avenue, NW, Washington, DC 20433

Tel: (202) 458-2334; Fax: (202) 676-1513

International Finance Corporation (IFC) Resident Representative in Russia

Mr. Edward Nassim, Director

Central & Eastern Europe Department

36, Bldg. 1, Bolshaya Molchanovka; 3rd Floor, 121069 Moscow

Telephone: (7495) 411-7555, Fax: (7495) 411-7556

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

WASHINGTON-BASED U.S. GOVERNMENT CONTACTS FOR RUSSIA

Business Information Service for the New Independent States (BISNIS)

Philip De Leon, Director
U.S. Department of Commerce, International Trade Administration
Washington, DC 20230
Tel: (202) 482-4655; Fax: (202) 482-2293
E-mail: bisnis@ita.doc.gov

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

Special American Business Internship Training Program (SABIT)

Tracy Rollins, Director
U.S. Department of Commerce/SABIT
Franklin Court Building, Suite 4100W
1401 Constitution Avenue NW, Washington, DC 20230
Tel.: (202) 482-0073, Fax: (202) 482-2443
Web site: <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

U.S. Bureau of Export Administration (Re: export controls)

Export Counseling Division
U.S. Department of Commerce, Rm.3898, Washington, DC 20230
Tel: (202) 482-4811; Fax: (202) 482-3911

U.S. Department of Agriculture

Russian Area Officer
14th St. and Independence Avenue SW, Washington, DC 20250
Tel: (202) 720-3080

**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

U.S. Department of Commerce, Rm.3318, Washington, DC 20230

Tel: (202) 482-3952; Fax: (202) 482-3042

U.S. Department of State, Office of Russian Affairs

Mary Warlick, Director

2201 C Street NW, Washington, DC 20520

Tel (202) 647-6747; Fax (202) 736-4710

U.S. Export-Import Bank

Margaret Kostic, Director Russia & NIS States

811 Vermont Avenue, NW, Washington, DC 20571-0999

Tel: (202) 565-3413; Fax: (202) 565-3628

U.S. Trade and Development Agency

1621 North Kent St. Suite 200, Arlington, VA 22209-2131

Tel: (703) 875-4357; Fax: (703) 875-4009

Market Research

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To view market research reports produced by the U.S. Commercial Service please go to the following website: www.export.gov/mrktresearch/index.asp 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>

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.