

## Country fact sheet – Russia

Official name	Russian Federation	
Geographical location	Across European continent and Northern Asia (60 00 N, 100 00 E)	
Area	17,098,242 km <sup>2</sup> (Crimea not included)	
Population	142.9 million	
Capital	Moscow	
Principal cities	St Petersburg, Novosibirsk, Nizhny Novgorod, Yekaterinburg	
Neighbouring countries	Azerbaijan, Belarus, China, Estonia, Finland, Georgia, Kazakhstan, North Korea, Latvia, Lithuania, Mongolia, Norway, Poland, Ukraine	
Ethnic groups	Russian, Tatar, Ukrainian, Bashkir, Chuvash	
Climate	Weather conditions vary with distance and season. Continental Russia may have its first frost and snow as early as October, which can last until the middle of April. Days are quite short in winter while the situation is the opposite in the summer. The average temperature is 20°C during May and July (summer) and -20°C during December and February (winter).	
Official language	Russian	
Major religions	Orthodox Christianity, Muslim and Protestantism	
Time zone	GMT + 3* (behind Hong Kong by 5 hours) GMT + 4* (behind Hong Kong by 4 hours in summer) (*Moscow and St Petersburg)	
International dialling code	+7	
Currency	Russian ruble (RUB); US\$1= app. RUB 70.42 (30 Jan 2015)	
Visa requirement	Visa-free access for HKSAR passport holders	
Business hours	Private and government offices	9:00 am to 6:00 pm, Monday to Friday
	Banks	9:00 am to 6:00 pm, Monday to Friday
	Shops	10:00 am to 8:00 pm, Monday to Saturday

# 1. An overview of the Russian economy

## Major macroeconomic indicators

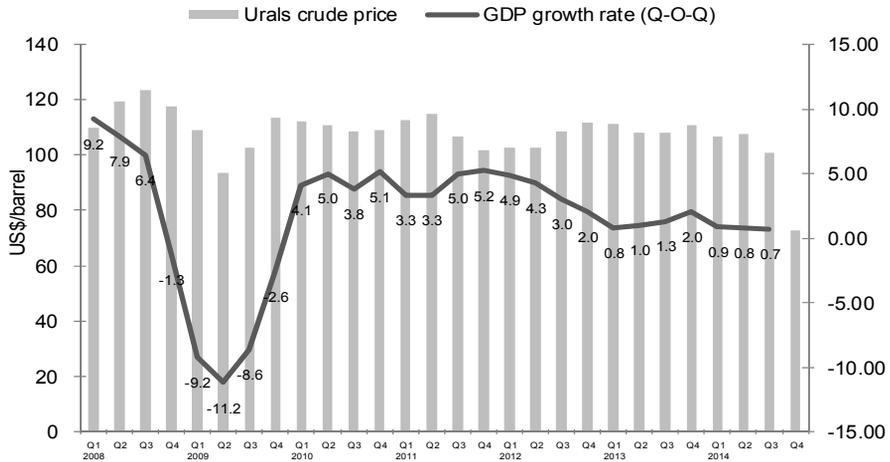
	2011	2012	2013	2014*
Population (millions of inhabitants)	142.9	143.0	142.9	143.7
Gross domestic product (US\$ billion)	1,894	2,004	2,118	1,906
Real GDP growth (%)	4.3	3.4	1.3	0.6
Consumer prices (year-on-year % change)	8.4	5.1	6.8	7.8
Exports of goods (US\$ billion)	515	527	523	497
Imports of goods (US\$ billion)	319	336	341	308
Average exchange rate (Russian ruble per US dollar)	32.2	30.4	32.7	38.6

\* estimates

Oil-rich Russia is not immune to the global economic crisis and European sovereign debt, as well as their aftershocks. The worldwide recession and the resultant decline in economic activities have suppressed demand for energy and commodities, which account for some 70% of Russia's total exports. Also noteworthy is the spillover of the crises into the overall economy. By and large, falling asset prices together with higher unemployment have battered consumer confidence and constrained spending in Russia.

The Russian economy, dragged by the over-reliance on commodity exports, low investment and lagging competitiveness, has slowed after a brisk recovery from 2010 to 2012. Weak domestic consumption and sliding investment aggravated by the completion of large public infrastructure projects added to the setback, causing economic growth to fall back from 4.3% in 2011 to a mere 1.3% in 2013.

## Oil price and GDP growth



Source: The Central Bank of the Russian Federation

The intensification of sanctions and countersanctions following the Kremlin’s standoff with the West over Ukraine has not only impaired Russia’s trade flows, but has also led to a further tightening of credit and retreat of foreign capital. These factors have curbed credit-financed consumption and loan-fuelled business investment, reducing demand for non-necessities such as consumer electronics, high-end fashion and jewellery, and long-term investment such as construction and retail expansion.

While the Russian economy barely grew in 2014, the Russian Ministry of Economic Development, seeing a rapid decrease in oil and commodity prices, has considerably revised downwards its forecast for economic development parameters for 2015-17. The lower expectation in overseas demand for oil and metals, the country’s primary export revenue earners, is set to reduce Russia’s foreign-exchange earnings, while the retreat of foreign investment, international sanctions and countersanctions has caused a sharp depreciation of the ruble since the second half of 2014, curbing the nation’s import demand.

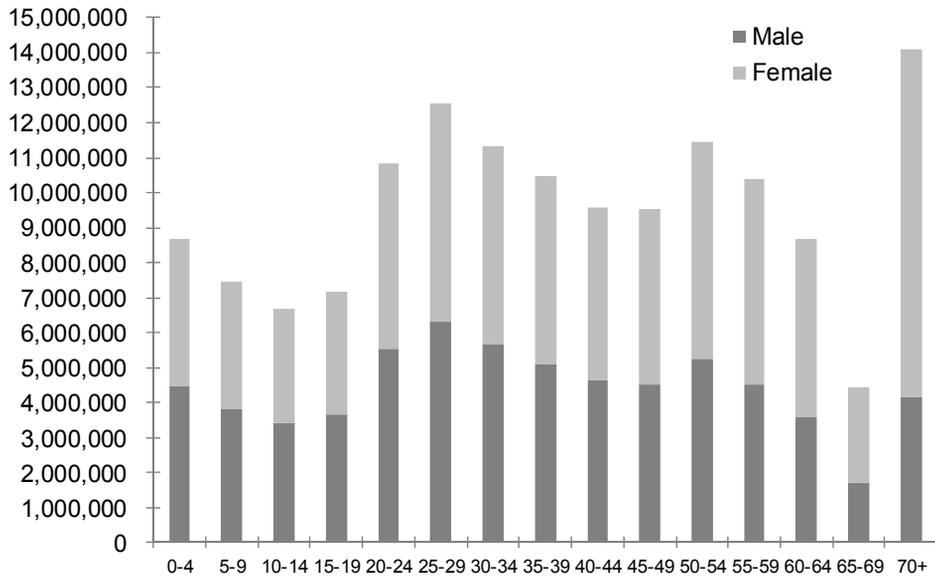
Nevertheless, Russia's low dependence on foreign borrowings and small exposure to housing mortgages are believed to provide a shield from the prolonged economic slowdown. More importantly, thanks to the high oil prices and exports of the past few years, Russia, which has been running both capital- and current-account surpluses for years, is one of the world's largest reserve holders and owes a relatively low level of public external debts.

Envisaging no significant changes in the structure of the economy or sharp reduction of its dependence on raw materials in the near future, Russia is expected to see years of slow growth in line with its weakening currency and falling commodity prices as the US adopts a tougher monetary policy. On the other hand, the destabilising factor with respect to the situation in Ukraine will continue to make it hard to predict possible further mutual sanctions imposed by Russia and the West.

With evidence that an economic setback is taking hold, the Russian economy and its consumer market are likely to lose steam in the near term, not to mention the uncertainty arising from capital flight and rising unemployment. Against this backdrop, Russian economic planners have been looking for ways to turn a negative into a positive. It is believed that while the economic turmoil will continue to hit the Russian economy hard, it will also necessitate and hasten economic reform and transformation in the country, with potential long-term benefits for the Russian economy.

## 2. The Russian consumer profile

Russia's population distribution, 2013

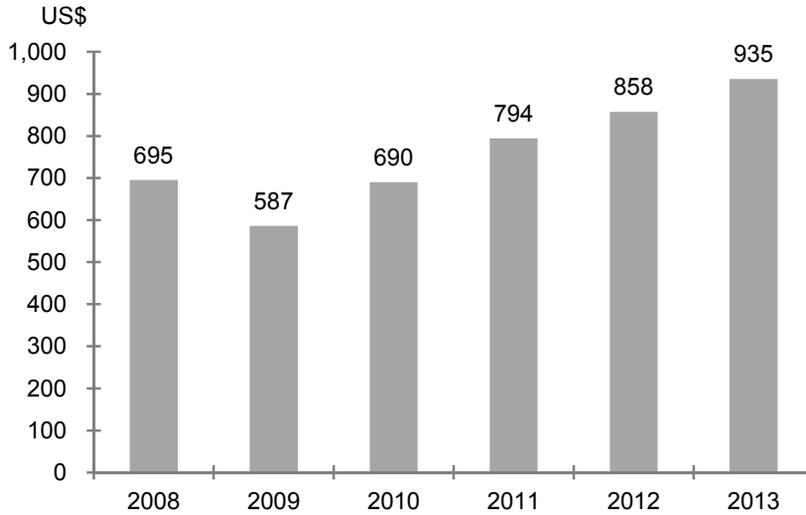


Source: Federal State Statistics Service

As one of the world's hot-spots for migration, Russia has received many migrants from Central Asia, Ukraine, Belarus, Moldova and China. On the one hand, these migrants have taken up mostly labour-intensive jobs, while on the other hand helping to move local Russians up the social ladder and into the middle-income class. Riding on significant budget incentives and subventions, doctors, teachers and government employees are now also part of the middle class.

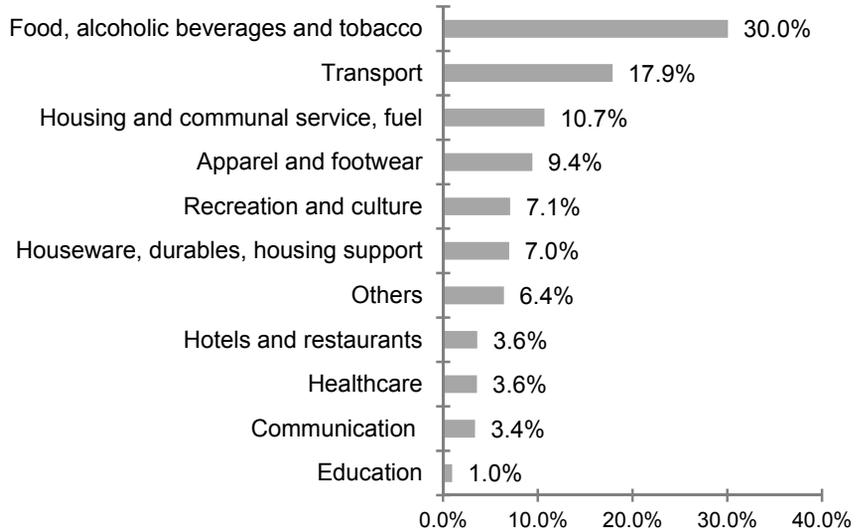
In fact, Russia has seen very strong growth in purchasing power since the turn of the millennium, with average per-capita monthly incomes surging from 2,300 rubles (about US\$80) in 2000 to nearly 30,000 rubles (about US\$935) by the end of 2013. Moreover, according to a recent World Bank report, Russia's poverty rate fell from 35% to 10% during the 2001-2010 decade of fast growth, while the size of the middle class doubled to reach 60% of the total population.

## Average monthly income in Russia



Source: Federal State Statistics Service

## Structure of household consumption expenditure, 2013



Source: Federal State Statistics Service

In tandem with the improved standard of living and ever-rising consumerism, Russia's per-capita consumption increased from 26,000 rubles (about US\$900) in 2000 to 282,000 rubles (about US\$8,800) in 2013. Since property prices in major Russian cities such as Moscow and St Petersburg have remained high and mortgages are still expensive and not easy to obtain, a lot of middle-class people have spent their money on consumption goods such as branded garments and footwear. Such a consumption spree, however, is expected to slacken in face of the recent geopolitical uncertainty and the subsequent economic setback. As a corollary, Russian consumers' passion, especially for branded items, is considered so deeply rooted that it is considered highly likely to resume once the economy rebounds.

Taken together, the robust growth of the Russian market in recent years has created a strong demand for Hong Kong-type products. Hong Kong's total exports to Russia more than doubled between 2008 and 2013, despite a staggering decline of 34% to US\$724 million in the recession year 2009. Against this backdrop, Russia has become Hong Kong's largest export market in Central and Eastern Europe (CEE), surpassing Hungary since 2010.

## 3. Distribution and import channels

### General patterns

In tapping the Russian market, distribution in the country's vast territory is one of the biggest challenges for traders. In particular, the transport infrastructure in many parts of Russia is relatively less developed. As a result, the majority of domestic cargoes rely on railways for delivery, although the railway system on the whole is not very modern. Moreover, cargoes destined for smaller cities and rural areas still need to be delivered by light trucks, given the lack of hard-surface roads that can accommodate larger vehicles.

To complicate matters, the majority of the population is sparsely spread out in more than 1,000 cities and towns. While Moscow and St Petersburg have 12 million and 5 million people, respectively, there are only 13 cities with a population exceeding 1 million.

To effectively distribute their products in the market, Hong Kong traders can note the major distribution hubs such as Moscow and St Petersburg. While Moscow, the capital, is the largest political and cultural centre in Russia, it also engages in a variety of industrial activities, such as manufacturing automobiles and trucks, machine-tools, electrical gadgets and instruments, chemicals, textiles and foodstuffs, making it a distribution hub for most consumer and industrial goods.

St Petersburg, Russia's second-largest city, is another important business and cultural centre. Thanks to its geographic proximity to other West European countries, St Petersburg plays an important role in Russia's international business. It is also Russia's most important port on the Baltic Sea coast.

Novosibirsk, commonly known as the "Capital of Siberia", is the third-largest city in Russia with a population of 1.5 million. Yekaterinburg, with a population of 1.4 million, is a major centre for heavy transport, chemical-engineering industries and non-ferrous metal works, while Nizhny Novgorod is the

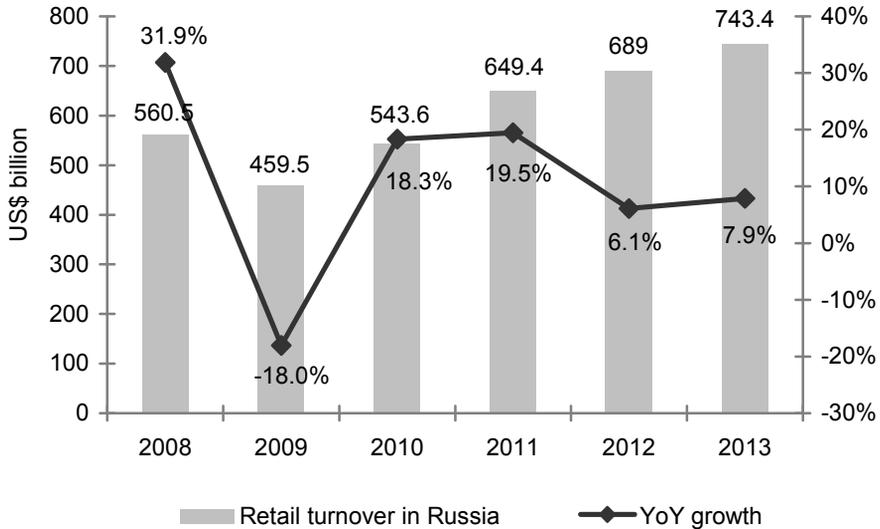
country's biggest automobile-manufacturing centre, with a population of 1.3 million. As these cities are also the centres of their respective regions, they have naturally become their distribution hubs.

The Far Eastern Federal District, consisting of nine federal subjects with a total of about 7 million inhabitants, is a strategic, well-connected gateway for Asian suppliers of light goods to European Russia, and even former Soviet states. More than half the population in the Far Eastern Federal District resides in the two federal subjects in the southern part of the region, namely, Primorsky Krai, whose capital is Vladivostok, the host city for the 2012 APEC Summit, and Khabarovsk Krai, whose capital Khabarovsk is the administrative centre for the Far Eastern Federal District and a major industrial centre for machine building, metal working, timber processing and helicopter manufacturing.

## **A burgeoning and underserved retail market**

Following years of privatisation and an unprecedented influx of Western retailers, the Russian retail market, although not left unscathed by the European sovereign debt crisis and recent geopolitical tensions, is not only considered one of the most dynamically developing and attractive worldwide, but also one of the most promising sectors of the Russian economy. Despite a significant slowdown in pace, Russia's retail market, except for the recession year 2009, managed to post growth in recent years, thanks largely to the sustained domestic demand underpinned by the country's sizable population of spending consumers. Retail sales in Russia increased 7.9% year-on-year in 2013, giving rise to an aggregate market size of more than US\$740 billion. While not all lines of retail business enjoy the same degree of success, fashion retailers always stand out in the sales battle, thanks largely to the nation's passion for fashion. It is reported that, despite the economic fallout and recent geopolitical uncertainty, Russia's fashion retailers are still performing well, especially those in the mid and value markets, with quite a number of them suggesting that sales per store in Russia are still among their best in Europe.

## Retail turnover in Russia



Source: Federal State Statistics Service

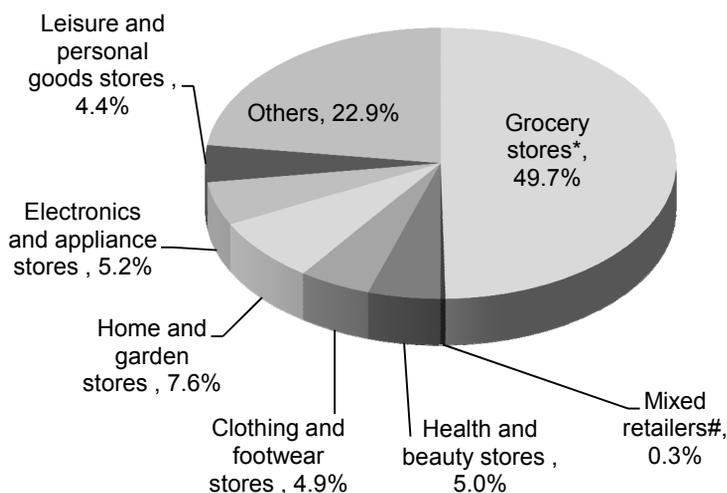
In tandem with the dynamic sales growth, the retail landscape in Russia has undergone enormous transformation, with bazaars and markets upgrading to modern shopping complexes with enhanced shopping environments and elements like movie theatres, coffee shops, bowling alleys, fine boutiques and restaurants. However, the Russian retail market is still behind Western standards.

On the other hand, in the wake of the opening up of the retail sector to foreign investment, the Russian retail sector is not immune to the changes in favour of consolidation and influx of established foreign players, despite significant slackening in the pace of foreign investment in the immediate aftermath of the geopolitical tensions following the country's military intervention in Ukraine.

However, the retail market in Russia – a vast country spanning 11 time zones (more than any other country in the world) from Eastern Europe to Northern Asia – is still highly fragmented, with the top 10 retailers accounting for less than 14% of the market jointly in 2013. This fragmentation not only poses great challenges to potential entrants who want to penetrate the market and

obtain a leading position by buying existing retail operators in the country, but also creates difficulties for overseas suppliers who want to make their debut in the thriving retail market in Russia.

### Retail sales in Russia, 2013



\* Grocery stores segment includes hypermarkets, supermarkets, discounters, convenience stores, independent small grocery shops, food/drink/tobacco stores, etc.

# Mixed retailers segment includes department stores, warehouse clubs, etc.

Remark: Percentages shown above are calculated according to retail sales.

Source: Euromonitor

### Average retail prices of selected consumer goods, 2013\*

Specification	Price (in RUB)
Men's suit, two pieces, of wool, semi-wool or mixed fabrics	6,319.67
Women's overcoat (for spring and fall)	7,250.33
Women's skirt of semi-wool or mixed fabrics	1738.30
Men's jumper	1,630.21
Men's socks of cotton or mixed fabrics, for pair	60.92
Women's tights, elastic, 15-20 DEN	124.03

Specification	Price (in RUB)
Men's leather shoes, for pair	2,643.30
Women's leather boots with a warm lining, for pair	4,922.32

*\* end of year*

*Source: Federal State Statistics Service*

While the overall drive for retail consolidation and modernisation continues amid the European sovereign debt crisis, it is somewhat affected by the worsening economic conditions following the recent geopolitical uncertainty. This has been favourable to some grocery retailers and to the development of certain retail formats such as discounters, as consumers are getting back to basics. Some retailers have begun to adjust their operations and/or revise their expansion strategies to prioritise the concept of simple retailing and to stimulate sales through price discounting and media advertising campaigns. And it is not only major retailing companies such as X5, Magnit and Auchan which are offering regular price discounts on a wide range of products; many small retail chains and independent retailers have followed suit.

With a still low degree of participation of foreign operators (nine of the top 10 retailers are operated by Russian companies), the Russian retail market is believed to have much room for expansion, especially in second-tier cities such as Chelyabinsk, Kazan, Nizhny Novgorod, Novosibirsk, Perm, Samara, Voronezh and Yekaterinburg. For example, Russia's X5 Retail Group has signed a Cooperation Agreement with the Government of the Sverdlovsk Region (with Yekaterinburg being its administrative centre) to open 100 new Pyaterochka stores in the region (including franchise stores) and refurbish another 100 stores all in accordance with the "New Pyaterochka" concept from 2014 to 2016 to seize the vast untapped market potential there. In spite of such a positive portrayal, not all foreign retailers have succeeded in gaining a foothold in the Russian retail market, including international giants like Walmart and Carrefour (the French retail giant decided in October 2009 to withdraw from Russia just four months after opening its first store in the country).

## Top 10 retailers by sales (2013) in Russia

	Retailer	Country of origin	Chains	Website
1.	Magnit	Russia	Magnit	<a href="http://www.magnit-info.ru">www.magnit-info.ru</a>
2.	X5	Russia	Pyaterochka, Perekriostok, Karusel	<a href="http://www.x5.ru">www.x5.ru</a>
3.	Auchan	France	Auchan	<a href="http://www.auchan.ru">www.auchan.ru</a>
4.	Lenta	Russia	Lenta	<a href="http://lenta.com">http://lenta.com</a>
5.	M. Video	Russia	M. Video	<a href="http://www.mvideo.ru">www.mvideo.ru</a>
6.	Dixy	Russia	Dixy, Megamart, Minimart, V-Mart	<a href="http://www.dixy.ru">www.dixy.ru</a>
7.	O'Key	Russia	O'Key, O'Key Express	<a href="http://www.okmarket.ru">www.okmarket.ru</a>
8.	Eldorado	Russia	Eldorado, SSE	<a href="http://www.eldorado.ru">www.eldorado.ru</a>
9.	Svyaznoy	Russia	Svyaznoy	<a href="http://www.svyaznoy.ru">www.svyaznoy.ru</a>
10.	Sportmaster	Russia	Sportmaster	<a href="http://www.sportmaster.ru">www.sportmaster.ru</a>

Source: Euromonitor

Despite market saturation, big cities like Moscow and St Petersburg still account for the lion's share of retail spending and sales growth in Russia. Following the economic slowdown and substantial rental decline of retail spaces, these big cities are expected to maintain their pep and continue their lead in retail spending, with shops featuring strong lifestyles and fashionable offers in the mid-market seeing the greatest potential. Another positive development came in December 2009 when a new high-speed train, Sapsan, connecting Moscow and St Petersburg came into operation, cutting the journey time to 3 hours and 45 minutes at a top speed of 250 kilometres per hour.

## Major shopping centres in Russia

Name	Website
<b>Moscow</b>	
Atrium Mall	<a href="http://www.atrium.ru">www.atrium.ru</a>
Evropeiski Shopping Mall	<a href="http://www.evropeysky.ru">www.evropeysky.ru</a>
GUM	<a href="http://www.gum.ru">www.gum.ru</a>

Name	Website
MEGA Mall	<a href="http://megamall.ru">http://megamall.ru</a>
Okhotny Ryad	<a href="http://ox-r.ru">http://ox-r.ru</a>
Petrovsky Passage	<a href="http://www.petrovpassage.ru">www.petrovpassage.ru</a>
TsUM	<a href="http://www.tsum.ru">www.tsum.ru</a>
<b>St Petersburg</b>	
Apraksin Dvor	<a href="http://www.apraksin.ru">www.apraksin.ru</a>
Gostiny Dvor	<a href="http://www.bgd.ru">www.bgd.ru</a>

Another retail market trend worth noting is the emergence of internet stores and e-commerce in Russia. As the country's forerunners in private ownership, private brands and trademarks, nationwide consumer electronics and household electrical appliance chains have started bringing their sales into the virtual world and are introducing the format of pick-up stores or collection points (similar to that of the US) for online orders. Major retailers are launching online stores as a supplement to their existing retail businesses. Similar solutions have been implemented by major networks such as Media Markt, M. Video and Eldorado.

For instance, the largest national consumer electronics chain, Eldorado, has merged its internet store services with the pick-up store format offering services all over Russia. In so doing, online shoppers, after placing their orders on the store's website, can choose to pay for and pick up the merchandise in any of the chain's stores across the country. Among others, Technosila (also known as Technopower) is another Russian nationwide electronics chain seriously considering the option of expanding the scale of internet selling, while Domo, Vasko, Podberi and Ozon are the most popular internet stores selling consumer electronics and household electrical appliances in Russia. This growing trend of pick-up stores in far-flung cities or towns by nationwide chains can yield new opportunities for Hong Kong suppliers as it helps new-to-the-market companies extend their reach to markets beyond already very competitive and saturated big Russian cities like Moscow and St Petersburg.

## **The continued emergence of national or regional importers/distributors**

Another notable development of the distribution system in Russia is the continued emergence of national and regional importers/distributors, especially in major cities such as Moscow and St Petersburg. Such national importers/distributors usually have a dealership and agency network in more than one federal district<sup>1</sup>, although it is still difficult for a single importer/distributor to serve the whole market across Russia. While selling to giant wholesalers and retail groups in major cities, they can also reach out to clients in remote cities and towns. In many cases, these distributors have set up or rented warehousing facilities in major distribution hubs, from which they supply their dealers and agents in local markets across Russia. Nevertheless, there are still a large number of small importers operating and selling mainly to wholesalers and retailers in major cities. Some large retailers (sometimes they are importers themselves), in order to minimise costs and better suit their design and branding needs, have set up their own import departments for direct sourcing from local and overseas manufacturers.

Along with changes in the distribution and retail sectors, import channels for consumer goods have also evolved in Russia. Russian importers, which are largely small companies, still play an important role in importing consumer goods. Yet the scenario has started to change with the emergence of national and regional distributors, which source goods directly from local, as well as overseas, suppliers.

---

<sup>1</sup> There are a total of eight federal districts in Russia, namely, the Central Federal District (with an administrative centre in Moscow), the Northwestern Federal District (St Petersburg), the Southern Federal District (Rostov-on-Don), the North Caucasus Federal District (Pyatigorsk), the Privolzhsky (Volga) Federal District (Nizhny Novgorod), the Urals Federal District (Yekaterinburg), the Siberian Federal District (Novosibirsk) and the Far Eastern Federal District (Khabarovsk).

**Selected examples of national importers/distributors  
and retailers in Russia**

<b>Consumer electronics</b>	White Wind DIGITAL	<a href="http://www.digital.ru">www.digital.ru</a>
	Eldorado	<a href="http://www.eldorado.ru">www.eldorado.ru</a>
	Euroset	<a href="http://euroset.ru">http://euroset.ru</a>
	Expert	<a href="http://www.expertonline.ru">www.expertonline.ru</a>
	M. Video	<a href="http://www.mvideo.ru">www.mvideo.ru</a>
	Mir	<a href="http://www.mirinfo.ru">www.mirinfo.ru</a>
	Technosila	<a href="http://www.technosila.ru">www.technosila.ru</a>
<b>Fashion (i.e., clothing and footwear)</b>	Carlo Pazolini	<a href="http://www.carlopazolini.ru">www.carlopazolini.ru</a>
	Econika	<a href="http://www.econika.ru">www.econika.ru</a>
	Gloria Jeans	<a href="http://www.gloriajeans.biz">www.gloriajeans.biz</a>
	OODJI	<a href="http://www.oodji.biz">www.oodji.biz</a>
	O'Stin	<a href="http://www.o-stin.ru">www.o-stin.ru</a>
	Monarch	<a href="http://www.monarch.ru">www.monarch.ru</a>
	Sela	<a href="http://www.sela.biz">www.sela.biz</a>
<b>Jewellery and timepieces</b>	Yashma Zoloto	<a href="http://www.yashmazoloto.com">www.yashmazoloto.com</a>
	Moskovskoye Vremya	<a href="http://www.watches.ru">www.watches.ru</a>
	Northern Watch Company	<a href="http://www.watchbusiness.ru">www.watchbusiness.ru</a>
<b>Toys and games</b>	DETI	<a href="http://www.detishop.ru">www.detishop.ru</a>
	Detsky	<a href="http://detmir.ru">http://detmir.ru</a>
	Korablik	<a href="http://www.korablik.ru">www.korablik.ru</a>
	Simba Dickie Group	<a href="http://simba-dickie.ru">http://simba-dickie.ru</a>
<b>Furs &amp; leather</b>	Russian Furs	<a href="http://www.rusmeh.ru">www.rusmeh.ru</a>
	Snow Queen	<a href="http://www.snowqueen.ru">www.snowqueen.ru</a>
<b>Gifts and premiums</b>	Bagatelle	<a href="http://www.bagatelle.ru">www.bagatelle.ru</a>
	LeFutur	<a href="http://www.lefutur.ru">www.lefutur.ru</a>
<b>Home furnishings and building materials</b>	Maxidom	<a href="http://www.maxidom.ru">www.maxidom.ru</a>
	Laverna	<a href="http://www.laverna.ru">www.laverna.ru</a>

## **4. Trade regulations**

### **Overview**

As a member of the World Customs Organization, the International Convention on Harmonized System of Goods' Description and Coding, and the Convention on Temporary Import, the trade regime in Russia has been liberalised considerably since its accession to the World Trade Organization (WTO) on 22 August 2012. In particular, Russia follows the Kyoto convention on simplification and harmonisation of customs procedures, while the Russian Customs Code includes provisions that are similar to those of the EU Customs Code. Nowadays, all enterprises and individuals are allowed to trade with special registration, with import licensing and other controls applying only to a few items such as pharmaceuticals, meat and other strategic products of limited relevance to Hong Kong companies. In order to import goods into Russia and clear them through customs, the importer has to make all relevant customs payments and comply with other requirements such as certification, conformity and sanitation.

### **Import taxes**

#### **Customs tariffs**

The Russian customs nomenclature is based on the Harmonised Commodity Description and Coding System (usually referred to as the Harmonised System, or HS). All goods carried across the country's customs border have to be declared to customs authorities. A customs declaration should be submitted within 15 days after the goods are presented to customs authorities. Customs duties, if any, should be paid to the authorities when the goods cross the Russian border.

In line with GATT/WTO principles, import and export duties are calculated as a percentage of the customs value of the goods (ad valorem) or in euros per unit of measurement of the goods (volume, weight or quality), and/or as a combination of these two rates. In most cases, however, ad valorem customs

duties are levied as a percentage of the customs value of the goods, with customs duty rates varying between 5% and 25% for most imports upon the establishment of the Customs Union between Russia, Belarus and Kazakhstan on 1 January 2010. Apart from certain machinery and equipment that enjoy zero duty, Hong Kong-type consumer products such as consumer electronics, garments, toys and games, and jewellery are subject to tariff rates standing of 5%-20%. On the other hand, export duties are set for a few commodities like oil products, copper, nickel and goods made of these materials.

### General import tariffs of Russia

HS Code	Description	CET* (%) as of 2015
01	Live animals	0,5
02	Meat and edible meat offal	0-65
03	Fish and crustaceans, molluscs and other aquatic invertebrates	0-20
04	Dairy produce; birds eggs; natural honey; edible products of animal origin, not elsewhere specified or included	0-25
05	Products of animal origin, not elsewhere specified or included	5,10
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	0-15
07	Edible vegetables and certain roots and tubers	5,15
08	Edible fruit and nuts; peel of citrus fruit or melons	0-10
09	Coffee, tea, mate and spices	0,5
10	Cereals	0,5
11	Products of the milling industry; malt; starches; inulin; wheat gluten	10
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruits; industrial or medicinal plants; straw and fodder	0,5
13	Lac; gums, resins and other vegetable saps and extracts	5
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	5,15
15	Animal or vegetable fats and oils and their cleavage products prepared edible fats; animal or vegetable waxes	0-15
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	0,15

<b>HS Code</b>	<b>Description</b>	<b>CET* (%) as of 2015</b>
17	Sugars and sugar confectionery	5,10
18	Cocoa and cocoa preparations	0-10
19	Preparations of cereals, flour, starch or milk; bakers' wares	5,15
20	Preparations of vegetables, fruit, nuts or other parts of plants	0-15
21	Miscellaneous edible preparations	0-23
22	Beverages, spirits and vinegar	5-20
23	Residues and waste from the food industries; prepared animal feed	0,5
24	Tobacco and manufactured tobacco substitutes	5-20
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	0-13
26	Ores, slag and ash	0,5
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	0,5
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare earth metals, of radioactive elements or of isotopes	0-15
29	Organic chemicals	0-10
30	Pharmaceutical products	0-15
31	Fertilisers	0,10
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks	0-15
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	0-15
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, "dental waxes" and dental preparations with a basis of plaster	0-15
35	Albuminoidal substances; modified starches; glues; enzymes	5
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	5,20
37	Photographic or cinematographic goods	0-15
38	Miscellaneous chemical products	0-15
39	Plastics and articles thereof	0-20

<b>HS Code</b>	<b>Description</b>	<b>CET* (%) as of 2015</b>
40	Rubber and articles thereof	0-20
41	Raw hides and skins (other than furskins) and leather	0,5
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut)	0-20
43	Furskins and artificial fur; manufactures thereof	5-20
44	Wood and articles of wood; wood charcoal	0-20
45	Cork and articles of cork	5
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	15
47	Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard	5-10
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	0-20
49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans	0,15
50	Silk	0,5
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	5,15
52	Cotton	0-15
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	5-15
54	Man-made filaments; strip and the like of man-made textile materials	0-20
55	Man-made staple fibres	5,10
56	Wadding, felt and nonwovens; special yarns, twine, cordage, ropes and cables and articles thereof	5,15
57	Carpets and other textile floor coverings	20
58	Special woven fabrics; tufted textile fabrics; lace, tapestries; trimmings; embroidery	3,15
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	5,15
60	Knitted or crocheted fabrics	3,10
61	Articles of apparel and clothing accessories, knitted or crocheted	5-20
62	Articles of apparel and clothing accessories, not knitted or crocheted	10
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	5-20

<b>HS Code</b>	<b>Description</b>	<b>CET* (%) as of 2015</b>
64	Footwear, gaiters and the like; parts of such articles	0,5
65	Headgear and parts thereof	10
66	Umbrellas, sun umbrellas, walking sticks, seatsticks, whips, riding-crops and parts thereof	15
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair	10
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	0-20
69	Ceramic products	0-20
70	Glass and glassware	0-15
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin	0-20
72	Iron and steel	0,5
73	Articles of iron or steel	0-15
74	Copper and articles thereof	0-5
75	Nickel and articles thereof	0-15
76	Aluminium and articles thereof	0-20
78	Lead and articles thereof	3,5
79	Zinc and articles thereof	3,5
80	Tin and articles thereof	3,5
81	Other base metals; cements; articles thereof	0-15
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	0-15
83	Miscellaneous articles of base metal	0-20
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	0-20
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	0-20
86	Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds	0-15
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	0-25

HS Code	Description	CET* (%) as of 2015
88	Aircraft, spacecraft, and parts thereof	0-20
89	Ships, boats and floating structures	0-20
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	0-20
91	Clocks and watches and parts thereof	0-20
92	Instruments; parts and accessories of such articles	5,15
93	Arms and ammunition; parts and accessories thereof	20
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated sign illuminated nameplates and the like; prefabricated buildings	0-20
95	Toys, games and sports requisites; parts and accessories thereof	5-20
96	Miscellaneous manufactured articles	0-20
97	Works of art, collectors' pieces and antiques	0

\* CET stands for common external tariff

Source: Eurasian Economic Commission (EEC)

### **Excise taxes and customs processing fees**

Certain goods are subject to excise tax in Russia with specific rates based on the volume, weight or other product characteristics. According to the Tax Code in Russia, excise tax is levied on the domestic sales of excisable goods and sales of the pledged assets and transfer of excisable goods on commission or novelty, with different rates set out in the Article 193. In Russia, excise payers include enterprises and individuals operating with excisable goods and individuals engaged in the transfer of goods via Russia's customs borders as defined by the Customs Code. Besides, a customs processing fee, varying from €15 to €3,000 per customs declaration, is levied according to the customs value of the imported products.

## Excisable goods in Russia

- Beer
- Cars and bikes with engine power in excess of 112.5 kWt (150 hp)
- Cigarettes
- Diesel fuel, engine oils for diesel and/or injectors engines
- Ethyl alcohol produced from all types of raw materials
- Oil products: car gasoline
- Spirits (drinkable alcohol, vodka, liqueurs, brandy, wine and other products with volume share of ethyl alcohol in excess of 1.5% excluding wine materials)
- Spirits with share of ethyl alcohol in excess of 9%
- Virgin gasoline

*Source: Invest in Russia*

### Value-added taxes (VAT)

Most imported products, as well as services, are subject to a value-added tax (VAT) which is equivalent to 18% of the customs value of the goods, inclusive of customs and excise duties, while a reduced rate of 10% is applied, for example, to food products listed in Article 164 of the Tax Code, children's goods listed in the Tax Code, educational and scientific publications, and medical goods of domestic and foreign manufacturing. Meanwhile, exported goods, work and services directly related to the production and manufacturing of exported goods, work and services directly related to the transportation of goods in transit and services for the transportation of passengers and luggage, provided that a place of departure or place of destination is located outside of Russia, are exempt from VAT.

### Trade remedies

#### Anti-dumping measures

Russia is not a frequent user of anti-dumping (AD) proceedings. Currently only imports of four China-origin products are subject to AD measures in

Russia. Although the AD measure on China covers imports of cold-rolled flat steel products with polymer coating from Hong Kong, there is no apparent trade implication for Hong Kong as no domestic exports or re-exports of the subject merchandise to Russia have been recorded since 2008.

### Russia's anti-dumping measures against Chinese products

Product	HS Code	Anti-dumping duty	Imposition date	Expiry date
Rolling-element bearings (excl. needle roller bearings)	8482 10 100 1 8482 10 100 2 8482 10 100 9 8482 10 900 1 8482 10 900 2 8482 10 900 3 8482 10 900 8 8482 20 000 1 8482 20 000 2 8482 20 000 9 8482 30 000 1 8482 30 000 9 8482 50 000 1 8482 50 000 2 8482 50 000 9 8482 80 000 1 8482 80 000 2 8482 80 000 9 8482 91 100 0 8482 91 900 0 8482 99 000 0	31.3%-41.5%	16.10.2011	20.01.2018
Cold-rolled flat steel products with polymer coating	7210 7212 7225	8.1%-22.6%	01.07.2012	30.06.2017
Cold-worked seamless pipes and tubes of stainless steel	7304 41 000 9	19.15%	15.05.2013	14.05.2018
Enamelled baths of cast iron	7324 21 000 0	51.87%	26.05.2013	25.01.2018

Source: Department for Internal Market Defence (DIMD), EEC

## Safeguard measures

So far, Russia has not used anti-subsidy or countervailing investigations in its trade policy. However, Russia remains a rather frequent user of safeguard investigation (or “special” investigations as determined under the Russian legislation). These investigations target imports of the product concerned originating in all countries and they are normally concluded by imposition of an additional (special) duty or a quantitative restriction which is applied to imports of the product concerned (on top of the normal import duty) irrespective of the origin of the product concerned. Currently, safeguard measures are applied against imports of combine harvesters and porcelain kitchen and tableware.

### Safeguard measures in Russia

Product	HS Code	Rate	Imposition date	Expiry date
Combine harvesters	8433 51 000 1 8433 51 000 9 8433 90 000 0	In the form of import quota: 774 units (2014) 798 units (2015) 526 units (up to 21 August)	01.01.2014	21.08.2016
Porcelain kitchen and tableware	6911 10 000 0	US\$1,479/ton (29.9.2013-28.9.2014) US\$1,035,3/ ton (29.9.2014-28.9.2015) US\$591.6/ton (29.9.2015-28.9.2016)	29.09.2013	28.09.2016

Source: DIMD, EEC

## Preferential treatment

Russia grants preferential tariff status to a number of developing countries and territories. Eligible products are subject to customs duties of 75% of the MFN rates (or the base customs duty rates). As the Chinese mainland and Hong Kong are deemed developing countries and territories as listed in Russian customs legislation, the rate of customs duties applied to products

that benefit from the preferential tariff status when imported into Russia amounts to 75% of the MFN rates. But many goods originating from the Chinese mainland and Hong Kong, such as assembled consumer electronics, telephones, integrated electronic chips, clothing items made of synthetic fibres, footwear, jewellery with precious stones, imitation jewellery, toys and games, as well as watches and clocks, are excluded from the preferential tariff treatment.

## Product standards/certification requirements

Most imports, including consumer goods, are required to comply with appropriate Russian standards. The most common certificate required at the customs border is the GOST Russia Certificate of Conformity (GOST R CoC) issued by the Gosstandart (GOST) of the Russian Federation or its authorised agencies. Upon issuance, the CoC will be valid for a period of three years. However, it should be noted that many products imported into Russia require additional supporting certification from other organisations before the CoC can be issued by the GOST. For instance, as stipulated by Russian law, there is a list of electronic products that require certificates issued by ISEP (a non-profit certification body accredited by the GOST) before they can be sold in the market. Usually, the Russian importers are responsible for submitting the products for testing, while some Russian exporters also test their exports on a voluntary basis as some European countries recognise the ISEP Certificates.

### Supporting certification for Certificate of Conformity (CoC)

Certification body	Products for certification
<b>Sanepidemnadzor (SAN)</b>	Food, cosmetics, toys, clothing, textiles, furniture and certain industrial/mechanical equipment
<b>Ministry of Public Health Services and Social Development</b>	Medical equipment, medical devices including diagnostic products and drugs
<b>Ministry of Internal Affairs</b>	Fire safety certification of certain products
<b>Ministry of Communications</b>	Telecommunications equipment
<b>Ministry of Environment</b>	Large signs or external shop fittings and ozone friendliness certification
<b>ISEP</b>	Electronic equipment

When applying to the GOST, the applicants should enclose with the applications (i) a hygiene certificate on the products; (ii) list of products for certification with HS codes; (iii) copies of certificate of origin for the products; (iv) a copy of a quality certificate; (v) a copy of a contract on the delivery of products; (v) an invoice; and (vi) samples of products applying for certification.

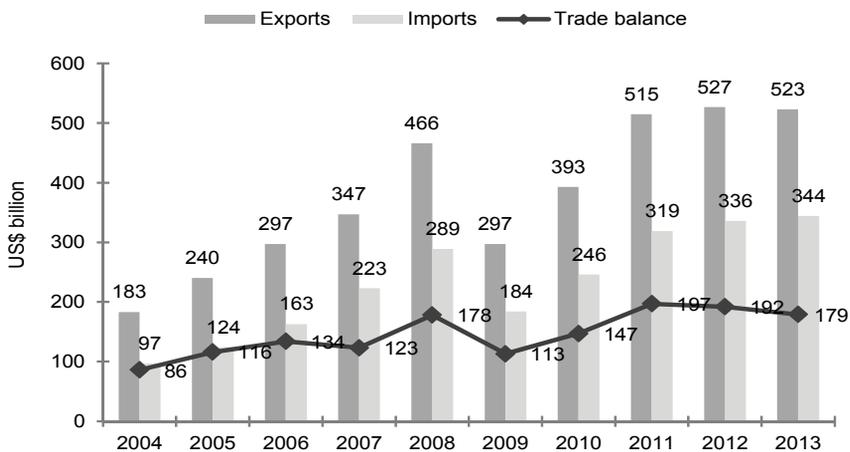
In view of the complicated procedures for certification, Hong Kong companies may request their Russian counterparts to undertake such formalities. Alternatively, they can also hire agents authorised by the GOST to do so on their behalf. For instance, Intertek and SGS Hong Kong Limited, both international inspection and testing companies, are authorised agencies of the GOST in Hong Kong.

# 5. Potential trade opportunities

## Overview

After 19 years of negotiation, Russia finally joined the WTO on 22 August 2012. The ensuing liberalisation of its trade and business regime has played no small part in the country’s fast-growing external trade. As a resource-rich country with Europe’s largest population of more than 140 million, Russia recorded a compound annual growth in trade of more than 13% between 2004 and 2013. This not only shows Russia’s heavy weight as a player in global trade, but also briefly indicates the potential benefits that the country can bring to other WTO members upon accession.

### Merchandise trade and trade balance



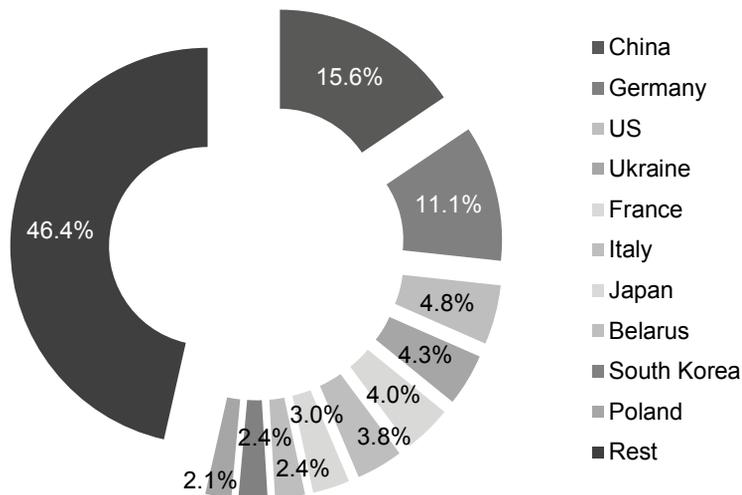
Source: The Central Bank of the Russian Federation

Given their location and historic ties, EU (e.g., Germany, Italy and the Netherlands) and CIS (e.g., Ukraine, Belarus and Kazakhstan) countries have always been major trading partners of Russia. While it is unlikely that Asian suppliers can challenge the lion’s share of European and CIS countries in Russia’s external trade in the near term, the growing interest of Russian

importers in sourcing from Asia has already made China its largest import source since 2008, overtaking the all-time champion Germany.

Without doubt, minerals, metals and related derivatives dominate the commodity structure of exports of resource-rich Russia, accounting for more than 80% of the country's total exports in 2013. Meanwhile, machinery, equipment and transport means, chemicals and rubber, foodstuffs and agricultural raw materials are the major product categories that the country is sourcing abroad. Despite vibrant Sino-Russian border trade, Russian importers of consumer goods, limited by their small order size (due to a fragmented market structure), used to turn to European distributors, especially German ones, for imports from Asia. However, the strong economic growth in the past decade and increasing globalisation have greatly enhanced Russia's import absorption capabilities, prompting Russian buyers to look for more competitive sources of imports and consider more competitive sourcing models, such as direct sourcing.

### Russian imports by country, 2013 (Total: US\$341 billion)

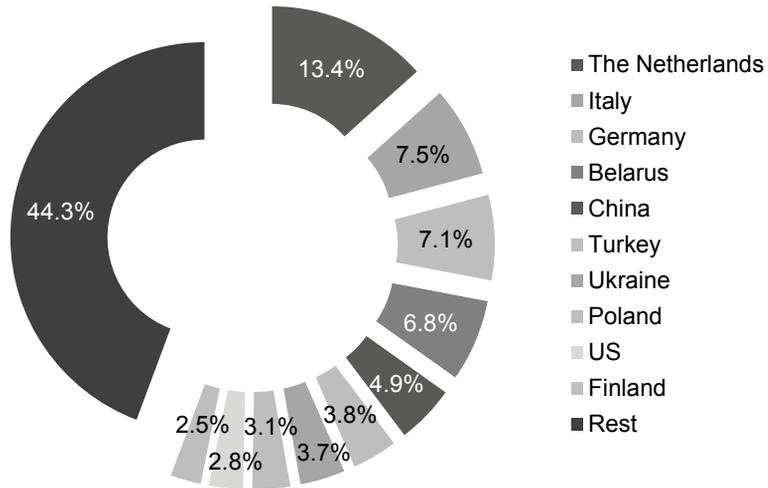


### Total imports by selected countries in 2013

		US\$ million	% Growth 12/13	% Share in 2013
1.	China	53,212	2.6	15.6
2.	Germany	37,916	-1.0	11.1
3.	US	16,537	8.0	4.8
4.	Italy	14,554	8.4	4.3
5.	Japan	13,563	-13.5	4.0
6.	France	13,012	-5.5	3.8
7.	South Korea	10,315	-6.1	3.0
8.	Poland	8,334	11.5	2.4
9.	UK	8,106	-1.0	2.4
10.	Turkey	7,256	6.1	2.1

Source: Federal Customs Service

### Russian exports by country, 2013 (Total: US\$523 billion)



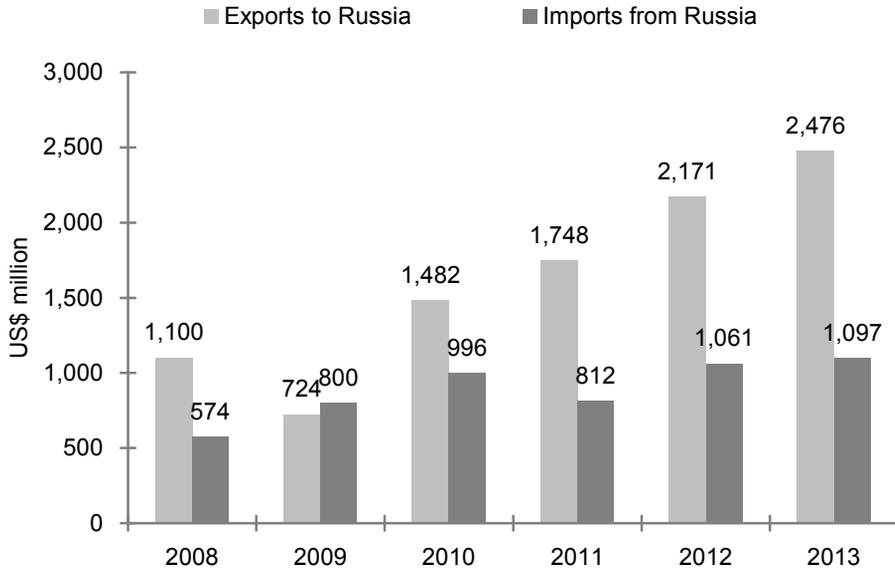
### Total exports by selected countries in 2013

		US\$ million	% Growth 12/13	% Share in 2013
1.	The Netherlands	70,126	-8.7	13.4
2.	Italy	39,315	21.2	7.5
3.	Germany	37,028	4.0	7.1
4.	China	35,631	-0.3	6.8
5.	Turkey	25,500	-7.1	4.9
6.	Japan	19,649	26.0	3.8
7.	Poland	19,582	-1.5	3.7
8.	UK	16,449	9.5	3.1
9.	South Korea	14,868	7.1	2.8
10.	Finland	13,308	10.8	2.5

Source: Federal Customs Service

With the biggest population in Europe, impressive economic growth averaging more than 4% during 2004-2013, and dazzling spending patterns among the new rich in the past decade, Russia has transformed into a sizable and lucrative emerging market for Hong Kong companies. The Russian economy cannot be decoupled from the economic storm battering the whole world since the second half of 2008, and it is still suffering from the European sovereign debt crisis, but its sizable domestic market helped Russia overcome its biggest annual GDP contraction in 15 years of 7.9% in 2009. The robust growth of the Russian market in recent years has created a strong demand for Hong Kong-type products. Hong Kong's total exports to Russia more than doubled between 2008 and 2013, despite seeing a staggering decline of 34% to US\$724 million in the recession year 2009.

## Hong Kong's trade with Russia



Source: Census & Statistics Department, HKSAR Government

While Russia is advanced in terms of technology and weaponry, it lacks a large domestic manufacturing base for general consumer goods. This, together with high production costs (compared to that of Asia), has led to the subsequent heavy reliance on imports, offering steadfast export opportunities for Hong Kong companies that are in the business of supplying quality consumer products.

Against this backdrop, Russia has surpassed Hungary and become the largest export market for Hong Kong in the CEE since 2010. Given a market size of more than 140 million consumers, consumer products such as consumer electronics, fashion items, gifts and premiums, jewellery, and toys and games offer good opportunities for Hong Kong companies. Meanwhile, the country's aspirations to localise consumer-goods production would provide new opportunities for Hong Kong companies, especially parts and components suppliers of electronics, footwear and apparel.

That said, the recent geopolitical tensions due to the country's military intervention in Ukraine have cast a cloud over Hong Kong's exports in the near term as the economy has lost growth momentum following sanctions and capital flight, while a renewed recession is in the offing.

### Hong Kong's total exports of selected products to Russia

(US\$ million)	2010		2011		2012		2013	
	Value	%Growth	Value	%Growth	Value	%Growth	Value	%Growth
<b>Total exports</b>	<b>1,482</b>	<b>+104.7</b>	<b>1,748</b>	<b>+18.0</b>	<b>2,171</b>	<b>+24.2</b>	<b>2,476</b>	<b>+14.0</b>
Electronics <sup>^</sup>	884	+129.1	989	+11.8	1,355	+37.1	1,595	+17.7
<i>Telecom equipment</i>	481	+256.8	559	+16.0	894	+60.0	969	+8.5
<i>IT equipment</i>	124	+30.9	158	+27.4	163	+3.1	252	+54.8
<i>AV equipment</i>	131	+52.6	124	-5.5	139	+12.6	127	-8.7
Fashion products	174	+42.8	254	+46.1	218	-14.0	198	-9.2
<i>Clothing</i>	120	+48.3	182	+51.9	170	-6.7	147	-13.4
<i>Footwear</i>	37	+21.8	35	-4.0	23	-34.5	23	-2.3
<i>Travel goods and handbags</i>	17	+60.4	36	+112.9	25	-30.9	28	+12.7
Gifts and premiums*	250	+106.2	321	+28.6	327	+1.6	424	+29.7
Jewellery	118	+127.3	175	+47.9	188	+7.8	253	+34.6
Toys and games	93	+97.0	88	-5.7	92	+5.3	121	+31.6
Household electrical appliances	35	+543.7	44	+24.1	52	+19.2	44	-15.1

<sup>^</sup> Including finished electronic products and parts and components of electronic products

\* Including items covered in other categories

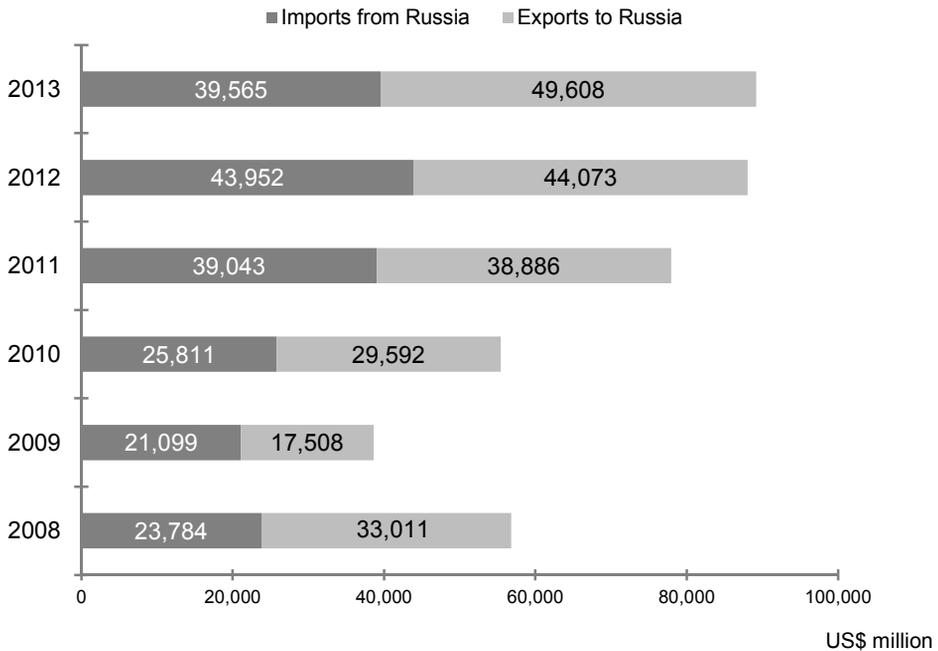
Source: Census & Statistics Department, HKSAR Government

## Hong Kong as a platform for Sino-Russia trade

Bordering each other and sharing similar historic backgrounds, Russia and China have long been close trading and economic partners even during Soviet times. Riding on these cultural and economic ties, bilateral trade between the two leading emerging markets has been growing at a brisk pace in recent years, despite a temporary slackening due to the global crisis. Following the growing demand for raw materials including fuel, minerals, metals and wood, China's imports from Russia increased by a compound

annual growth rate (CAGR) of 11% between 2008 and 2013, when the country's exports to Russia grew at a CAGR of 8%, with electronics and electrical appliances, footwear, apparel, leather goods, furniture and bedding topping the export list.

### Bilateral trade between Russia and China



Source: China Customs

While there is a growing economic tie between Russian and China, most Russian traders, especially those that are small or medium in size, still find it difficult to do business and make payments directly with mainland enterprises. Hong Kong, as a trading platform for overseas companies interested in the burgeoning Asian market, can assist or even partner with Russian companies to explore the opportunities in Asia, especially the Chinese mainland. Meanwhile, Russian traders can use Hong Kong as a regional headquarters or office to oversee their expanding businesses in Asia, while utilising professional services such as legal, banking and finance that are easily available in Hong Kong.

In particular, as “moving up the value chain” has become increasingly central to the survival of mainland enterprises while Russians have become more selective and brand-oriented, Hong Kong companies can assist mainland brand names to better their products and offerings by enhancing design and branding. Indeed, Hong Kong brands, despite their low and sometimes unknown profile, have been a soar-away success in the Russian market, thanks to their outstanding quality, creative designs and competitive prices. Some successful Hong Kong brands in Russia include V-Tech (educational toys), which enjoys a good image of value-for-money, and Binatone (household electrical appliances), which has extensive distribution in Russia and nearby markets. While these brands are generally recognised in Russia as European brands rather than Hong Kong ones, their success properly reflects the branding and design capacity of Hong Kong companies. Hong Kong’s competitive edge in quality, design and branding could therefore be of vital importance to mainland companies that would like to make their debut in the Russian market, as well as Russian buyers who are looking for products with good quality and decent branding.

Apart from sourcing consumer products, Russia, which lacks component production, will continue to import more manufacturing inputs from China, moving it along the road to economic diversification. Given the lack of reliable and detailed market information on the Chinese mainland (especially at provincial and city levels) and in other Asian countries, Russian buyers could leverage Hong Kong companies’ knowledge and network in the Asian region to source quality parts and components.

To play a role in the ever-increasing Sino-Russian business and investment, Hong Kong can act as a springboard for Russian commodities such as metals (e.g., aluminium, gold and steel), energy (e.g., oil and gas) and agricultural products (e.g., timber) to further explore the Chinese mainland market. As a bridge between China and international commodities markets, for example, Hong Kong, given its robust financial infrastructure and time-zone advantage, complements New York and London to form a global network in commodities exchange transactions.

## **6. Business practices**

### **Business hours**

The normal working days of government departments, public agencies and banks are Monday to Friday. They are usually closed during the weekend and public holidays. Their business hours are from 9am to 6pm, with a one-hour break for lunch.

With regard to shops, supermarkets and department stores, they usually open Monday to Saturday, 10am to 8pm. On Sundays, however, most of the shops in small cities and suburban areas of major cities will be closed. But some shops in shopping districts of many cities, as well as food and beverages outlets, might still open on Sundays.

Some grocery shops might have longer opening hours. Many restaurants and pubs are also open till late evening. However, it is still not yet popular for shops to open 24 hours a day. It is, therefore, still difficult to find convenience shops in Russia.

### **Religion and holidays**

Orthodox Christianity is the dominant religion in Russia, but there are also minority religions, such as Protestant and Muslim. As a result, many follow the Orthodox tradition to celebrate during different religious festivals.

Notably, the Russian Christmas follows the calendar of the Orthodox Church, i.e., 7 January instead of 25 December. Therefore, the Christmas season normally starts from the end of December, i.e., New Year's Eve till 7 January. The New Year and Christmas are usually celebrated among friends and youngsters. The New Year is celebrated on 1 January of the Western calendar. In addition, however, many may also celebrate again on 14 January, which corresponds to 1 January in the Julian calendar that was used in Russia before 1918.

On the other hand, Defender of the Fatherland Day in February and Women's Day in March, which are not religious in nature, are important events for family gatherings. Presents will be given to fathers/men on Defender of the Fatherland Day, and to mothers/women on Women's Day. Unlike Western Europe, Valentine's Day, Father's Day and Mother's Day are not popular in Russia, although they are increasingly celebrated by youngsters.

The first day of May, the previous International Workers' Solidarity Day, is now known as Spring and Labour Day. In some years, it occurs on or close to Russian Orthodox Easter, so some people celebrate in church while some attend a customary march.

Russia also has a number of other official holidays. It celebrates Victory Day on May 9 to commemorate the millions who lost their lives during the Second World War. Russia's Independence Day is 12 June, and commemorates the adoption of the Declaration of Sovereignty of the Russian Federation in 1991, while the Day of the National Unity is the newest Russian holiday.

### Public holidays in Russia

Date for 2015	Date for 2016	Event
1-6 January	1-6 January	New Year's Holidays
7 January	7 January	Orthodox Christmas Day
8 January	-	New Year's Holiday
9 January	-	Bridge Holiday
23 February	23 February	Defender of the Fatherland Day
9 March	8 March	International Women's Day
1 May	1 May	Labour Day
4 May	-	Labour Day Holiday
9 May	9 May	Victory Day
10 May	-	Victory Day Holiday
12 June	12 June	National Day

Date for 2015	Date for 2016	Event
4 November	4 November	National Unity Day

*Note: In Russia, if the date of observance of a holiday falls on a Saturday or Sunday, the following Monday will be a day off in lieu of the holiday. On the other hand, bridge public holidays are declared as one-off holidays to rationalise the non-working days near fixed-date annual public holidays falling on a Tuesday or Thursday*

## Meetings and greetings

For business meetings, Russians usually expect a formal request or invitation. This should be made in writing, either by e-mail or fax, followed up by a courtesy phone call. Meetings are usually long, and the Russian side may also bring quite a number of related staff to attend the meeting. Despite this, it should be noted that decision-making is usually highly centralised in the hands of a few management staff. There is no surprise that personnel with the highest ranking will lead the discussion in a meeting. Hong Kong companies should therefore identify the right persons capable of making decisions when negotiating with Russian companies.

Russian people prefer correspondence and meetings to be conducted in Russian. Although many Russian executives in major cities can speak very good English, they still like their visitors to speak Russian. Therefore, the appointment of a Russian interpreter can create a conducive environment for business. Russian personnel always welcome receiving business cards from their counterparts, but not every Russian has their own cards to exchange with visitors.

## **7. Challenges facing exporters**

### **Trade financing problems**

With limited foreign participation, trade finance has long been quite difficult and expensive to secure from banks in Russia as ordinary importers lack a sound financial track record due to their short history. The problem of trade financing has worsened following the Kremlin's standoff with the West over Ukraine, posing a major hurdle to trade with Russia. Banks are becoming increasingly cautious about the credit standing of Russian importers due to the strained credit access after the sharp depreciation of ruble and international sanctions. Exacerbated by the high premium charged by banks, letters of credit (L/C) are rarely used by small- and medium-sized Russian traders. On top of high bank charges, some companies, especially small importers, are often required to have a 100% deposit back-up for their L/C application, practically discouraging them from issuing L/Cs to overseas suppliers.

Moreover, following the recent political tensions between the Kremlin and the West, L/Cs issued by Russian banks are less welcome by international banks when it comes to confirmation and negotiation, further limiting the application and use of L/Cs in Russia. Against this background, smaller Russian buyers generally accept upfront deposit payment terms for purchases from Asia, while in the extreme this could be 100% payment upon order confirmation. It is also not uncommon for Russian buyers to ask for open credit, but many Asian suppliers refuse to make this available before a long-term relationship is established.

### **Fragmented distribution landscape**

The fragmented distribution landscape in Russia not only results in small orders, but also makes it difficult for Hong Kong exporters or brand owners to effectively penetrate the market on their own. Unlike many years ago when importers sourced goods overseas only once or twice a year, most importers in Russia today place orders with their overseas suppliers according to the

demands of different sales seasons. The changing business environment, coupled with the demand for greater assortment, complicates further the problem of small orders, hampering the competitiveness of Hong Kong exports under intensified price competition from indigenous Chinese mainland suppliers.

## **Low awareness of Hong Kong products**

Given Russians' high brand-consciousness and preference for European brands, it is difficult for foreign brands that are not internationally known to penetrate the Russian market. Meanwhile, given the price competition from indigenous Chinese mainland suppliers, it is increasingly difficult for Hong Kong exports to win the fight for customers who prefer value-for-money products. While product design and branding can definitely be an advantage for Hong Kong products in this context, many Hong Kong companies prefer to accept OEM orders, instead of making efforts to find domestic Russian partners (e.g., chain retailers) to cultivate their own branded products for long-term success. The resultant low awareness has resulted in a low level of penetration of Hong Kong products in the vast Russian market, in turn limiting their opportunities to move up the value chain from traditional OEM business.

## **Bureaucracy and corruption**

Although the scale and gravity of the problem of bureaucracy and corruption have consistently improved in Russia, especially after the WTO accession, it remains a headache for both the Russian government and businesspeople trading with the country. The cumbersome and bureaucratic Russian customs procedures not only result in clearance delays, but also in additional demurrage and storage charges. In some extreme cases, importers may have to spend months preparing and re-submitting customs documents in line with the instructions on import and export customs clearance issued by the Russian customs.

## **8. Practical recommendations**

### **Partner with local retailers with extensive distribution networks**

Given the fact that it would be almost impossible for Hong Kong companies to fully appreciate the nuances of appetites and tastes exhibited in the 140-million-strong consumer base across Russia, it would be practical and advisable for them to look for reliable local partners when making a debut in the market. In this context, nationwide retailers can be prospective and potential partners for Hong Kong exporters.

Thanks to the fragmented market structure, Hong Kong companies can have a reasonably high chance of securing good deals, while taking advantage of their Russian counterparts' extensive distribution network with outlets throughout the country. Another advantage of this kind of partnership stems from the fact that these nationwide retailers usually have their own freight forwarders, customs agents and brokers for customs clearance, which is of vital importance to the survival and success of new-to-market Hong Kong suppliers in Russia where bureaucracy and corruption can be an overwhelming burden.

### **Win business by increasing flexibility and providing value-added services**

Hong Kong exporters should be more flexible in accommodating the needs of Russian importers and traders. For example, Hong Kong exporters should be more accommodating to small orders with short lead times from small- and medium-sized Russian traders and e-tailers. This has been proven to be particularly important when approaching potential ODM and OBM buyers who might want to test the market and product quality before placing large orders. Meanwhile, Hong Kong traders may also consider extending credit or giving longer credit terms to their Russian buyers who have a favourable track record and sound credit background. Moreover, since import tariffs for finished goods are much higher than parts and components, Hong Kong companies may consider exporting on an SKD or CKD basis rather than

finished goods to Russia in order to tap into the trends of manufacturing localisation.

## **Differentiate your products with decent branding**

Given Russians' low awareness of Hong Kong products and inability to differentiate Hong Kong products from indigenous Chinese mainland supplies, non-branded Hong Kong products are no longer saleable in the market in the absence of big discounts or price concessions. To avoid fierce competition and to differentiate themselves from low-price suppliers, Hong Kong companies should leverage on their design and branding capabilities to penetrate the Russian market by associating the "made by Hong Kong" label with branded products with favourable price-quality ratios. By cultivating brands, Hong Kong companies can also be decoupled from the less advantageous image of the "made in China" label as consumers are generally less concerned about the country of origin when buying from a reputable brand. Apart from design and quality, Hong Kong exporters may also differentiate their products by packaging, quality guarantees and product warranties.

## **Make it face-to-face**

In view of the challenging business environment in Russia and high travelling costs, Hong Kong companies can make contact with Russian buyers at trade fairs and exhibitions in Hong Kong. In fact, there are growing numbers of Russian buyers coming to Hong Kong trade fairs and exhibitions for sourcing and networking. Hong Kong companies should adopt a more proactive approach to meeting Russian distributors and traders here in Hong Kong. This is particularly important as many Russian distributors and traders are still at the early stages of trading with Hong Kong companies, and therefore prefer dealing directly with company owners to avoid hassles. To build a better buyer-seller relationship, it may also be necessary for Hong Kong companies to visit their clients in Russia regularly. In this regard, it is advisable to hire a professional interpreter to avoid misunderstandings and confusions during business negotiations, although most Russian businesspeople speak fluent English.

# Appendix 1

## Map of Russia



## Appendix 2

### Population of major cities in Russia

City	Federal District	Population
Moscow	Central	11,980,000
St Petersburg	Northwestern	5,028,000
Novosibirsk	Siberian	1,524,000
Yekaterinburg	Urals	1,396,000
Nizhny Novgorod	Privolzhsky (Volga)	1,260,000
Kazan	Privolzhsky (Volga)	1,176,000
Samara	Privolzhsky (Volga)	1,172,000
Omsk	Siberian	1,161,000
Chelyabinsk	Urals	1,156,000
Rostov-on-Don	Southern	1,104,000

*Source: Federal State Statistics Services of Russia, 2014*

# Appendix 3

## Useful contacts and resources

### Hong Kong

#### **Consulate General of the Russian Federation**

Room 2106-2123, Sun Hung Kai Centre  
30 Harbour Road, Wan Chai, Hong Kong  
Tel: +852 2877 7188  
Fax: +852 2877 7166  
E-mail: [rusco@hknet.com](mailto:rusco@hknet.com)  
Website: [www.russia.com.hk](http://www.russia.com.hk)

### Russia

#### **Hong Kong Trade Development Council, Moscow Office**

6 Energeticheskaya Street, 111116, Moscow  
Tel: +7 (495) 918 15 50, +7 (495) 918 17 70  
Fax: +7 (495) 956 05 52  
E-mail: [moscow.consultant@tdc.org.hk](mailto:moscow.consultant@tdc.org.hk)

#### **Embassy of the People's Republic of China in the Russian Federation**

6, UL. Druzhby, 117330, Moscow  
Tel: +7 (095) 956 11 68  
Fax: +7 (095) 956 11 69  
E-mail: [chinaemb\\_ru@mfa.gov.cn](mailto:chinaemb_ru@mfa.gov.cn)  
Website: <http://ru.china-embassy.org>

#### **(Economic and Commercial Counsellor's Office)**

Tel: +7 (495) 938 21 11  
Fax: +7 (495) 938 20 05  
E-mail: [ru@mofcom.gov.cn](mailto:ru@mofcom.gov.cn)  
Website: <http://ru2.mofcom.gov.cn>

## **Selected government departments and agencies**

### **Bank of Russia (The Central Bank of the Russian Federation)**

12 Neglinnaya Street, 107016, Moscow

Tel: +7 (495) 771 91 00

Fax: +7 (495) 621 64 65

E-mail: [webmaster@www.cbr.ru](mailto:webmaster@www.cbr.ru)

Website: [www.cbr.ru](http://www.cbr.ru)

### **Federal Agency on Technical Regulating and Metrology**

9 Leninsky Prospekt, V-49, GSP-1, 119991, Moscow

Tel: +7 (495) 236 03 00

Fax: +7 (495) 236 62 31

E-mail: [info@gost.ru](mailto:info@gost.ru)

Website: [www.gost.ru](http://www.gost.ru)

### **Federal Customs Service**

11/5 St. Novozavodskaya., 121087, Moscow

Tel: +7 (495) 449 72 35

Fax: +7 (495) 449 73 00

E-mail: [ots-geg@mtu.customs.ru](mailto:ots-geg@mtu.customs.ru)

Website: [www.customs.ru](http://www.customs.ru)

### **Federal State Statistics Service**

39, Miasnitskaya Street, 107450, Moscow

Tel: +7 (495) 607 49 02

Fax: +7 (495) 607 40 87

E-mail: [stat@gks.ru](mailto:stat@gks.ru)

Website: [www.gks.ru](http://www.gks.ru)

## **Federal Service for Environmental, Technological, and Nuclear Supervision**

4/8 Ulitsa A. Lukyanova, 105066, Moscow

Tel: +7 (495) 263 97 75

Fax: +7 (495) 411 60 38

E-mail: [rostehnadzor@gosnadzor.ru](mailto:rostehnadzor@gosnadzor.ru)

Website: [www.gosnadzor.ru](http://www.gosnadzor.ru)

## **Federal Taxation Service**

23 Neglinnaya Street, 127381, Moscow

Tel: +7 (495) 913 00 70

Fax: +7 (495) 913 00 05

E-mail: [mns@nalog.ru](mailto:mns@nalog.ru)

Website: [www.nalog.ru](http://www.nalog.ru)

## **Ministry of Communications and Mass Media**

7 Tverskaya Ulitsa, 125375, Moscow

Tel: +7 (495) 771 81 00

Fax: +7 (495) 771 87 10

E-mail: [office@minsvyaz.ru](mailto:office@minsvyaz.ru)

Website: [www.minsvyaz.ru](http://www.minsvyaz.ru)

## **Ministry of Economic Development**

1, 3 Pervaya Tverskaya-Yamskaya Street, A-47, GSP-3, 125993, Moscow

Tel: +7 (495) 694 03 53

Fax: +7 (495) 251 69 65

E-mail: [mineconom@economy.gov.ru](mailto:mineconom@economy.gov.ru)

Website: [www.economy.gov.ru/](http://www.economy.gov.ru/)

## **Ministry of Finance**

9 Ilinka Street, 109097, Moscow

Tel: +7 (495) 987 91 01

Website: [www.minfin.ru](http://www.minfin.ru)

**Ministry of Foreign Affairs**

32/34 Smolenskaya-Sennaya pl., G-200, 119200, Moscow

Tel: +7 (495) 244 41 19

Fax: +7 (495) 244 41 12

E-mail: [ministry@mid.ru](mailto:ministry@mid.ru)

Website: [www.mid.ru](http://www.mid.ru)

**Ministry of Healthcare and Social Development**

3 Rakhmanovsky Pereulok, 127994, Moscow

Tel: +7 (495) 628 4453

Website: [www.minzdravsoc.ru](http://www.minzdravsoc.ru)

**Ministry of Natural Resources**

4/6 B.Gruzinskaya Street, 123995, Moscow

Tel: +7 (495) 254 48 00

Fax: +7 (495) 254 43 10

E-mail: [admin@cbi-mpr.ru](mailto:admin@cbi-mpr.ru)

Website: [www.mnr.gov.ru](http://www.mnr.gov.ru)

**Other useful contacts in Russia****Association of International Haulers**

64 Leningradsky Prospekt, 125319, Moscow

Tel: +7 (495) 232 66 27

Fax: +7 (495) 232 66 28

E-mail: [asmap@asmap.ru](mailto:asmap@asmap.ru)

Website: [www.asmap.ru](http://www.asmap.ru)

**Association of Russian Banks**

20 Skaterny Pereulok, 121069, Moscow

Tel: +7 (495) 690 05 80

Fax: +7 (495) 691 66 66

E-mail: [arb@arb.ru](mailto:arb@arb.ru)

Website: [www.arb.ru](http://www.arb.ru)

### **Administration of St Petersburg – Asia and Pacific Collaboration Centre**

18 Kazanskaya Street, 190000, St Petersburg

Tel: +7 (812) 576 34 17

Fax: +7 (812) 315 46 89

E-mail: [apcc@mail.ru](mailto:apcc@mail.ru)

Website: [www.apcc.spb.ru](http://www.apcc.spb.ru)

### **Association of Trading Companies and Manufacturers of Consumer Electronic and Computer Equipment (RATEK)**

7 Bagrationovsky Passage, 20 B, 121087, Moscow

Tel: +7 (495) 9265 577

E-mail: [central@ratek.org](mailto:central@ratek.org)

Website: [www.ratek.org](http://www.ratek.org)

### **Chamber of Commerce and Industry of the Russian Federation (RCCI)**

6 Ilyinka Street, 109012, Moscow

Tel: +7 (495) 620 00 09

Fax: +7 (495) 620 03 60

E-mail: [tpprf@tpprf.ru](mailto:tpprf@tpprf.ru)

Website: [www.tpprf.ru](http://www.tpprf.ru)

### **Moscow Chamber of Commerce and Industry**

38/1, Sharikopodshipnikovskaya Street, 115088, Moscow

Tel: +7 (495) 661 07 76

Fax: +7 (499) 132 00 29

E-mail: [mtp@mtpp.org](mailto:mtp@mtpp.org)

Website: [www.mostpp.ru](http://www.mostpp.ru)

### **Moscow International Business Association**

Zelenograd, Building 1140, 124460, Moscow

Tel: +7 (499) 710 9442 / 2228 / 7973

Fax: +7 (499) 710 9442

E-mail: [info@miba.ru](mailto:info@miba.ru)

Website: [www.miba.ru](http://www.miba.ru)

### **Perfumery and Cosmetics Association of Russia**

5/1 L'va Tolstogo Street, Office B-506, 119991, Moscow

Tel: +7 (495) 9808 240 / 241 / 242

Fax: +7 (495) 9808 240 / 241 / 242

E-mail: [info@pcar.ru](mailto:info@pcar.ru)

Website: [www.pcar.ru](http://www.pcar.ru)

### **Russian Association of Automobile Dealers (ROAD)**

Office 12-29, 42/1 Leninsky Prosp., 119119, Moscow

Tel: +7 (499) 930 65 31

Fax: +7 (499) 930 65 36

E-mail: [asroad@asroad.org](mailto:asroad@asroad.org)

Website: [www.asroad.org](http://www.asroad.org)

### **Russian Association of Small and Medium Enterprises (RARMP)**

3/12 Bolotnaya ul., 115035, Moscow

(Postal Address) 8 Tverskaya ul., Moscow

Tel: +7 (495) 620 20 89

Fax: +7 (495) 620 20 91

E-mail: [rasme@binec.ru](mailto:rasme@binec.ru)

Website: [www.rasme.ru](http://www.rasme.ru)

### **Russian Jewellery Network**

26 Bogolyubova Street, Dubna, 141981, Moscow Region

Tel.: +7 (495) 740 77 56

E-mail: [rus@jnet.ru](mailto:rus@jnet.ru)

Website: [www.jnet.ru](http://www.jnet.ru)

### **Russian Marketing Association**

2, B. Trekhsvyatitelsky per., 109028, Moscow

Tel: +7 (495) 231 70 77

Fax: +7 (495) 231 70 66

E-mail: [info@ram.ru](mailto:info@ram.ru)

Website: [www.ram.ru](http://www.ram.ru)

**St Petersburg Chamber of Commerce and Industry**

46-48 Chaikovskogo ul., 191123, St Petersburg

Tel: +7 (812) 719 66 44

Fax: +7 (812) 272 86 12

E-mail: [spbcci@spbcci.ru](mailto:spbcci@spbcci.ru)

Website: [www.spbcci.ru](http://www.spbcci.ru)