Doing Business in Russia: 2014 Country Commercial Guide for U.S. Companies

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Chapter 1: Doing Business in Russia

Market Overview

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Current Political Situation

- The recent events in Ukraine and Crimea have changed the landscape of the bilateral trade and investment relationship between the United States and Russia.

- Russia's provocative actions through the purported annexation of Crimea and destabilizing Southeastern Ukraine have forced the United States and others in the international community to impose sanctions on Russian individuals, companies and financial institutions that are actively supporting Russia's actions in Ukraine and Crimea. For specific information related to these sanctions, please visit the U.S. Department Treasury's Office of Foreign Assets Control (OFAC) website (http://www.treasury.gov/resource-center/sanctions/Programs/Pages/ukraine.aspx). For information on current export licensing restrictions , please visit the U.S. Department of Commerce's Bureau of Industry and Security (http://www.bis.doc.gov/) and the U.S. Department of State's Directorate of Defense Trade Control (http://www.pmddtc.state.gov/).

- The United States has suspended Government to Government economic cooperation with Russia on many fronts, including our bilateral trade and investment working group that sought to expand economic and commercial ties.

- Within these parameters, U.S. companies can still export their goods and services to Russia and continue working with their Russian partners to sustain and increase their sales in this market. However, companies should continuously monitor any developments concerning the United States' political and economic relationship with Russia.

- For more information on the political and economic relationship between the United States and Russia, please click on the links in Chapter Two to view the U.S. Department of State's notes on these topics.

Market Opportunities

- With a vast landmass, extensive natural resources, more than 142 million consumers, a growing middle class, and acute infrastructure needs, Russia remains a promising market for U.S. exporters.

- Russia is the world's 8th largest economy by nominal gross domestic product (GDP) and the 6th largest by purchasing power parity (PPP). It has the highest per capita GDP ($14,000) of the BRICS countries (Brazil, Russia, India, China, and South Africa). Russia is a high income country, with a highly educated and trained workforce and sophisticated, discerning consumers.

- Although Russia has recovered from the 7.9 percent contraction in GDP it experienced in 2009 as a result of the global financial crisis, economic growth has slowed substantially and GDP growth is projected to be flat in 2014.

- In terms of trade in goods, Russia was the United States' 28th largest export market and the 18th largest exporter to the United States in 2013. Russia was the United States' 25th largest trading-partner overall. U.S. exports to Russia in 2013 were $11.2 billion, a new record and an increase of almost 4% from 2012. Russian exports to the United States in 2013 were $27.0 billion, a decrease of 4% from 2012. Russia's leading individual trading partners are China, the Netherlands, Germany, Italy, Ukraine, Belarus, Turkey, Japan, and Poland.

- Stocks of U.S. investment in Russia through 2012 were approximately $14 billion. The United States is Russia's 10th largest foreign investor.

- Russia joined the World Trade Organization (WTO) in August 2012. This brought the world's largest economy then outside the WTO into the organization and bound it to a set of rules governing trade. Congress also enacted legislation to extend permanent normal trade relations to Russia in the same year.

- Russia's membership in the WTO has the potential to reduce trade barriers with the rest of the world, which may create opportunities for U.S. exports and investments. For industrial and consumer goods, Russia's average bound tariff rate declined from almost 10% to under 8%.

- U.S. manufacturers and exporters should have more certain and predictable access to the Russian market, because of Russia's commitment not to raise tariffs on any products above the negotiated rates. For American businesses, Russia's accession to the WTO should also bring the following:

- More liberal treatment for service exports and service providers
- Stronger commitments for protection and enforcement of IPR
- Rules-based treatment of agricultural exports
- Market access under country-specific tariff-rate quotas
- Improved transparency in trade-related rule-making
- More effective WTO dispute resolution mechanisms

Market Challenges Return to top

- Russia is the largest country in the world, spanning nine time zones and encompassing over 17 million square miles.

- Seriously underdeveloped infrastructure poses logistical challenges, especially in accessing markets outside of major cities.

- Conducting business might be impeded by: burdensome regulatory regimes; inadequate intellectual property rights (IPR) protection and enforcement; widespread corruption and inadequate rule of law; inconsistent application of laws and regulations; lack of transparency; and a non-level playing field for competition due to the continued presence of large state-owned, or state-controlled, enterprises dominating strategic sectors of the economy.

- Investments in the wide-ranging and ever-changing list of "strategic sectors" of the Russian economy are subject to Russian Government control.

- Recent reforms make it easier for companies to hire expatriate employees, but the Russian immigration and visa system requires time and patience for business travelers to obtain necessary permissions to do business in Russia. New rules for secondment of employees should be scrutinized for an individual company's situation.

- English is not widely spoken although knowledge of the language is expanding especially in the major cities.

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In alphabetical order:

- Agricultural Equipment
- Automotive Parts/Accessories
- Broadcast Equipment
- Construction
- Cosmetics
- Electrical Power Generation and Transmission Equipment
- Forestry and Woodworking Equipment
- Machine Tools and Metal Working Equipment
- Medical Equipment
- Rail Equipment
- Refinery Equipment
- Safety and Security Equipment
- Travel and Tourism Services

Market Entry Strategy Return to top

- Expect to commit significant time, personnel, and capital, as developing business in Russia is resource-intensive, for those companies that believe opportunities in Russia outweigh risks.

- Conduct market research, such as with the U.S. Commercial Service's Gold Key or International Partner Search services, to identify opportunities and potential Russian business partners.

- Conduct significant due diligence, such as with the U.S. Commercial Service's International Company Profile service, to ascertain the reliability of business partners.

- Consult with U.S. companies already in the market, as well as with the U.S. Commercial Service and business organizations such as the American Chamber of Commerce in Russia and the U.S.-Russia Business Council.

- Communicate regularly with Russian business partners to ensure common understanding of expectations.

- Frequent travel to Russia is strongly recommended in order to establish and maintain relationships with partners and to understand changing market conditions.

- Maintain a long-term timeframe to implement plans and achieve positive results

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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/index.htm

Information on Russia can be found at the following link:

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

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Chapter 3: Selling U.S. Products and Services

Using an Agent or Distributor

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Russia is the largest country in the world by landmass, and it covers nine time zones. Therefore, many businesses tend to approach the Russian market on a regional basis. Most new entrants start in Moscow and then move into the regions either through an existing distributor or by seeking new distributors in those locales. Since Moscow and St. Petersburg are major population and business centers, many western firms have representatives in these two cities.

The Northwest Federal District consists of the northern part of European (western) Russia and includes eight federal subjects (equivalent to U.S. states), including Russia's second largest city, St. Petersburg. St. Petersburg and the surrounding Leningrad Region are home to Russia's largest port facilities, and the area has significant natural resources, especially in forest products and oil and gas. The region's population of over 13 million provides a stable and highly educated workforce. In addition, the region shares a long border with Finland, and nearly 40% of European Union-Russia trade takes place along this border. American companies have made significant investments in northwest Russia including: Caterpillar, Ford, GM, International Paper, Kraft Foods, Wrigley and ConocoPhillips.

Some companies have successfully entered the Russian market by first establishing distribution networks in key regions due to market features and industry sector concentrations (e.g., woodworking in northwest Russia and energy projects in Sakhalin and western Siberia) and then expanding to other regions. Most companies take advantage of the well-organized distribution channels in western Russia, especially in Moscow and St. Petersburg, and then develop distribution in southern Russia, the Volga region, Urals, Siberia, and Russian Far East.

With a high concentration of mineral resources (e.g., diamonds, gold, silver, tin, tungsten, lead and zinc), fishing, and timber resources, the Russian Far East also represents business opportunities for U.S. exporters. The Russian government is promoting a shift in the region to deep processing of natural resources and fostering local production of high value-added products, while preserving a focus on resource extraction. Deep processing is focused on the timber, fishing, and agricultural (meat and milk production) industries and will spur demand for equipment to support growth in these industries. Local and international environmental groups support this strategy, which is aimed at more sustainable economic development in the region.

The Russian government has supported mega-projects in the fuel and energy sectors, including continued development of the major Sakhalin oil and gas project at a cost of over 1.8 trillion rubles (US$54.2 billion). Chemical production facilities using natural gas will likely be built along the pipeline routes. Large-scale petrochemical and natural gas production are expected to be developed in the Russian Far East along the main pipeline routes to include methanol, ammonia, and fertilizer products, and the manufacturing of polymeric plastics. These new projects will require procurement of equipment and machinery to support their production. The mining sector is also expected to expand, including continued development of gold deposits in the Amur and Magadan regions and the Chukotka Autonomous Region. New projects in the mining sector will spur demand for expanded fleets of road construction machinery and other equipment by local companies.

The development of regional aviation as a means to connect population centers in the Russian Far East is another government priority. A new federal program, adopted in April 2013, includes an allocation 101 billion rubles (US$3.05 billion) to support regional aviation, including the upgrade of local airports' infrastructure. As a result, more business opportunities for suppliers of regional aircraft and equipment and service providers specializing in airport modernization should come to fruition. It is recommended that U.S. companies interested in doing business in the Russian Far East engage Russian partner and move gradually into the market. Success will depend on carefully choosing a distributor and setting sales targets.

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

1) Agents
In Russia, distributors and representative offices often employ agents in Russian regions that order to promote their products. Therefore, it is not common for foreign companies to solely rely upon an agent.

2) Distributors
The most common market entry strategy is to select a relevant and well-established distributor or several distributors, depending on the product. U.S. companies may 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 provide a wide range of logistical support, including customs clearance, warehousing, and inventory management. Although handling promotion and advertising campaigns exclusively through independent distributors could produce 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. Russia's retail law also limits some types of promotional activities.

3) Representative/Branch Offices
Some foreign manufacturers have established their own representative offices in addition to using distributors. The major advantage of opening a representative office is more direct contact with end-users and control over the promotion and distribution of products. However, under the Russian Civil Code, such offices cannot be directly involved in commercial activity. Instead, the representative office typically oversees 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.

Since representative offices cannot take part in commercial activities, branch offices have become increasingly popular. According to a 1999 foreign investment law, foreign companies may engage in commercial activities through their legally established branches. Branches are accredited for five years and must be registered with the tax authorities and other state organizations.

Both representative and branch offices could be attractive to foreign businesses wishing to operate in the Russian market, because there are fewer tax and other administrative burdens and currency control restrictions may not apply.

4) Foreign Subsidiaries
Some foreign manufacturers, particularly in the cosmetics, pharmaceuticals, consumer appliances, durables, and industrial products sectors, have registered their wholly-owned subsidiaries in Russia. They then sell directly to their own companies registered in Russia that 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 that they have a contingency plan should problems arise. Since it is often difficult to find information on Russian companies, it is recommended that U.S. firms consider using the U.S. Commercial Service's International Company Profile service to validate potential partners. The U.S. Commercial Service 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 for this step. Finally, it is important to provide a Russian partner with Russian language product information and marketing materials. These can be prepared in the United States or done jointly with a Russian partner.

The U.S. Commercial Service provides assistance to U.S. companies in finding local partners through the Gold Key Service, Preliminary Market Assessment, International Partner Search, International Company Profile, Customized Market Research, Platinum Key and other products and services. Information about these services can be found at http://export.gov/russia/servicesforu.s.companies/index.asp.

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The U.S. Commercial Service provides 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 Service staff can provide contact information on U.S. and Russian firms that offer professional legal advice in this area.

Registration Options

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

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

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

Russian law offers several commonly used structures to conduct business:

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

Branch offices and accredited representative offices are both legally distinct from Russian corporations, which may be established by foreign firms either as joint stock companies with partial Russian ownership or as wholly-owned subsidiaries of a foreign firm. Foreign ownership can be as high as 100%, with some exceptions. For example, foreign investment is limited in industries defined by the "Strategic Sectors Law" (discussed in this chapter under "Joint Ventures/Licensing").

Branch Offices

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

Branches of foreign firms must register with the State Registration Chamber, which is part of the Ministry of Justice of the Russian Federation. Branches will incur the following fees for accreditation: 120,000R (US$3,618) (State duty) plus 15,000R (US$452) for one year; 20,000R (US$603) for two years; 35,000R (US$1055) for three years; and 75,000R (US$2,261) for five years.

Accredited Representative Offices

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

Accredited representative offices must register with the State Registration Chamber or the Russian Chamber of Commerce and Industry in order to be included in the State Register of Accredited Representative Offices of Foreign Legal Entities in the Russian Federation. Certain businesses must register with appropriate state organizations, depending on their industry. Such agencies include the Central Bank, Ministry of Economic Development, Ministry of Finance, Ministry of Transportation, Ministry of

Industry and Trade, Ministry of Energy and others. According to internal procedures, accreditation of a representative office or branch should take 21 business days when registering with the State Registration Chamber, starting from the day the full set of required documents are submitted.

Representative offices will incur the following fees for accreditation: (1) $1,500 for one year, $2,500 for two years, and $3,500 for three years for the accreditation with the Russian Chamber of Commerce and Industry plus 3,000R (US$90) payment or (2) 35,000 rubles (US$1055) for one year, 65,000R (US$1960) for two years, and 85,000R (US$2563) for three years for the accreditation with the State Registration Chamber. An additional fee of 15,000R (US$452) may be paid for expedited accreditation within seven days.

Further information is available on the State Registration Chamber Web site at http://www.palata.ru/en/.

Companies and Taxation

Companies are required to register with the local Tax Inspectorate, which will also include registration with the Russian Social Security Funds. 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, Tulskaya Street, Moscow), provides counseling to business people on registration procedures and registration documents.

Further information on company registration, including the list of documents to be submitted and contact information for local tax authorities may be obtained from the following Web site: http://eng.nalog.ru/.

Tax Code

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

The most fundamental changes were reflected in the new chapters of the Tax Code Part II and affected the value added tax, excise taxes, individual income 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 improving Part II of the Russian Tax Code were passed by the Duma and enacted into law in 2003. The ongoing tax reform has further improved procedural rules and reduced the overall tax burden in the country.

Implementing numerous changes in the Russian Tax Code has resulted in some confusion. A general overview of Russian taxes follows, but companies operating in Russia should consult with a professional tax advisor to learn about the latest developments.

Profits Tax

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

The provisions on profit taxation enable foreign companies operating in Russia to benefit from the reduced withholding tax rates and exemptions under Russia's double taxation treaties (the United States and Russia launched a double taxation treaty in 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 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%. Some products, such as some financial services and medical equipment, are entirely exempt from VAT. As of January 1, 2008, in an attempt to bolster research and development (R&D) and investment in technology, intangibles such as inventions, software, industrial designs, and production know-how are exempt from the VAT.

Imports are also subject to VAT, calculated based on the customs value of the item plus customs duties and fees. In addition, import duties are assessed at specified rates, ranging from 5% to 30%. Moreover, as of January 1, 2010, import duty rates for some goods increased with the introduction of the Customs Union that includes Russia, Belarus and Kazakhstan. They are assessed according to classification and are applied to the customs value of the imported goods, including shipping charges and insurance. Goods imported by foreign partners as in-kind contributions to the charter capital of a new enterprise may be exempt from import duties during a period specified in the charter documents and import VAT under certain conditions (e.g., the goods qualify as technological equipment which has no analogues manufactured in Russia).

In general, goods manufactured or assembled in Russia, whether by a Russian or foreign company, and then exported out of Russia, 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. Changes in the method of VAT collection for certain entities such as diplomatic missions, effective January 1, 2010, have resulted in some confusion as businesses and government offices make the needed adjustments to conform to the revised system.

Social Welfare Taxes

As of January 1, 2010, the Unified Social Tax was replaced by social security (payroll) contributions to the State Pension Fund, Social Security Fund, Federal Medical Insurance Fund and Territorial Medical Insurance Fund. A business is liable for the entire amount of social security contributions and no amount is withheld from employees. The recent implementation of the change in social welfare taxes has resulted in some confusion, as businesses and government offices are implementing the required adjustments to the new system.

The social security contributions apply at the aggregate rate of 34% on an employee's annual salary of up to 415,000R (US$15,513), and the threshold may be adjusted in the future by the Russian government. The portion of an employee's annual salary in excess of this threshold is exempt from the social security contributions. Social security contributions are payable as follows: 26% to the State Pension Fund, 2.9% to the Social Security Fund, 2.1% to the Federal Medical Insurance Fund, and 3% to the Territorial Medical Insurance Fund. The social security contributions apply to all payments to individuals, including individuals applying a simplified system of taxation, even if made from net income. Salary or other payments to foreign citizens temporarily present in Russia (i.e., not having a permanent resident permit) are not subject to social security contributions as well. Social security contributions are paid on a monthly basis and the calculations of the social security contributions are filed with the State Pension Fund and the Social Security Fund on a quarterly basis.

Reduced social security contribution rates apply to certain business categories, including agricultural producers (20.2% in 2011-2012 and 27.1% in 2013-2014), software and high-tech companies (14% in 2011-2017), certain mass media companies (26% in 2011 and 27% in 2012) and companies engaged in special innovation projects (14%).

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

Withholding on Dividends, Interest, and Royalties

Foreign legal entities without a business presence in Russia are subject to a withholding tax of 10% on freight services provided in Russia. Dividends are taxed at a rate of 15%, interest and royalties at a rate of 20%. These rates are often reduced pursuant to an applicable relevant double taxation treaty. For example, the United States-Russia tax treaty potentially may reduce the dividends rate to as low as 5%, depending on whether ownership and investment criteria are met. In addition, the tax on interest and royalties could drop to 0%. Lease payments and other income are subject to a 20% withholding rate.

Land, Property and Personal Income Taxes

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

The personal income tax rate for Russian tax residents is a flat 13% imposed on worldwide income while non-residents are taxed at 30% on Russian-sourced income.

Franchising

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Franchising as a business model only came to Russia once formal franchise legislation was adopted in 1994. Since then, the number of franchise operations has steadily grown. Since 2000, the number of franchising systems in Russia have risen from 54 to approximately 300, with some sources estimating as many as 600. There are over 160 domestic franchising businesses in Russia, with a total of 2900 franchisees. On average, each franchisor has six franchisees in Russia. Retail trade constitutes 46% of all active franchisers, followed by services at 32%, and food and beverage at 22%, According to data from the Russian Franchising Association, 60% of all franchise concepts are established domestically, 28% are brought to Russia by European franchisors, and 12% are American franchise concepts.

One of the impediments to the development of franchising in Russia has been the legal framework, and in particular, the provisions of the Civil Code of the Russian Federation that regulates franchising. Until 2011, franchising legislation strongly favored the franchisee. On July 18, 2011, the Federal Law No. 216-FZ on *Amendments to Part II of the Civil Code of the Russian Federation* was signed into law, which provides a better balance of the rights and obligations for the parties of a franchise agreement. Specifically, the Law on Amendments (1) expands the list of permissible restrictions under the franchise agreements, such as use of intellectual property and pricing provisions, (2) amends provisions on the franchisee's preemptive right to conclude a franchise agreement for a new term, and (3) establishes certain new terms for unilateral early termination of a franchise agreement. Although enactment of this legislation is considered a significant development, Russian franchising legislation remains cumbersome, and it is highly recommended that franchisors seek professional guidance regarding legal, real estate and tax issues.

For a franchising agreement to be valid, it has to be executed in written form and registered with the Federal Service for Intellectual Property, Patents and Trademarks (Rospatent). Prior to the execution of a franchise agreement, any trademarks to be licensed must already be registered with the Rospatent or WIPO, with Russia designated as the registrant country.

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Leading direct sales companies such as Amway, Avon, Mary Kay, Oriflame, Herbalife and Tupperware are active in Russia. World Federation of Direct Selling Associations statistics revealed that direct sales in Russia in 2012 amounted to $4.26 billion (up from $3.59 billion in 2011) and that around 4.3 million salespeople Russia-wide were engaged in direct selling. Personal direct selling has been most successful in cosmetics and personal care products (67%), wellness (11%) and clothing and accessories (8%). [Source: http://www.wfdsa.org/files/pdf/global-stats/2012_Fact_Sheets.pdf]

In 2013, Russia witnessed a double-digit increase in direct selling revenues. New tax regulations for sole entrepreneurs was expected to negatively impact the industry, but more growth was expected from the rural areas, especially small villages, where the penetration of retail channels is not high. Direct sales became more attractive to Russian customers in 2012 as direct sales increased 15% in small cities and villages. The main reasons for positive perceptions of direct sales based on consumer feedback were lower prices of a product compared to the product on the shelves, wide range and more information about direct sales from reliable sources (TV, ad campaigns with celebrities, positive reviews on specialized forums, etc.) according to research by the Russian Association of Direct Sales (http://www.rdsa.ru). However, consumers still reported problems including the over-insistence of the salesperson and ineffective products.

Two leading companies, Avon and Oriflame, achieved a combined 43% share of all direct sales in 2012 at 23% and 19% respectively. However, their market shares declined slightly. In 2011 the two main leaders held 45% of the market value, while in 2010 it was 49%. Although they represent well-known brands and have offered stable production over the last decade, Avon and Oriflame started to lose shares to modern and innovative brands, as well as pharmacy cosmetics. Both companies were also faced with a decreased number of distributors, agents who sell its production, due to an increase in traditional “brick-and-mortar” retail locations throughout the country and increased salaries in retail stores. To attract a motivated agent with high loyalty to the product is getting more difficult in the beauty direct sales segment compared to previous years.

Since2012, the Russian direct selling market has become more similar to the European market. In rural territories the penetration of a distributive network and presence of large retailers is poorer compared to large cities. High credibility of direct selling representatives (salespersons) as all village people are neighbors and know each other will help to promote direct sales in this area.

Joint Ventures/Licensing

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U.S. companies may become strategic partners with Russian firms by taking equity positions in Russian joint stock companies and establishing joint ventures (JV). The launching of a JV in Russia demands meticulous planning and sustained commitment. In most cases, it is advisable for the U.S. partner to retain managerial and voting control. JVs in which foreign partners hold minority stakes are dependent on the good intentions of their Russian majority owners. Experience demonstrates that foreign minority shareholders could face serious difficulty in protecting their interests in Russian courts.

A principal benefit of a JV is the possibility of brand recognition for the U.S. company's products in the Russian market, particularly in the face of the inherent complex challenges that all foreign companies encounter here. The May 2008 *Strategic Sectors Law* identified 42 industry sectors requiring the Russian government's pre-approval of a foreign firm's purchase of controlling interest. Additionally, political pressure is mounting in Russia for domestic content mandates in key sectors or for large-scale procurements. For example, some foreign investments in the oil industry may be required to source 70% of their goods and services from Russian providers. Firms that creatively help oil producers meet these requirements will have an advantage in this industry.

Russian and U.S. partners often take a different view of JVs. U.S. companies, especially SMEs, often consider 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. company should be careful not to cede oversight of any aspect of a JV to a Russian partner that does not share the same objectives. Before making financial or legal commitments, U.S. firms should thoroughly explore whether a potential partner shares their priorities and expectations. Any firm that forms a JV in Russia should be ready to invest the necessary resources, including the personal attention of its managerial staff, to keep the business on course both before and after the venture has achieved commercial success.

U.S. technology is can be licensed for Russian production in the absence of a JV. On the one hand, major hurdles that must be overcome include quality levels attainable by Russian facilities without significant retooling, uncertain intellectual property protection, and difficulty in receiving regular and prompt payments. , On the other hand, Russian companies are usually eager to license their technologies to foreign companies in exchange for the cash infusion.

Selling to the Government

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Government procurement has always been a powerful incentive for the development of the small- and medium-sized enterprise (SME) sector in Russia. Given the amount of post-Soviet government property, the market for state procurement is quite impressive in value. Government procurement includes all state agencies, ministries, state non-budget funds, state-owned plants and factories, high schools, hospitals, and companies operating infrastructural facilities such as Mosvodokanal (operating the water and sewage system of Moscow) and GorMost (operating all Moscow bridges, parks and lawns). These entities buy a large range of products that encompasses stationary to complex road building or construction equipment, foods, pharmaceuticals, and medical equipment.

The Ministry of Economic Development (MED) and the Ministry of Finance are responsible for developing Russian procurement policy. All the legal initiatives are developed by MED and sometimes jointly with the Ministry of Industry and Trade, but MED is always the lead in any joint projects.

It has always been a challenge for SMEs to apply and start supplying government agencies or affiliated structures. Until 2005, there was no proper legislation regulating procurement operations, which led to some corrupt practices. Companies close to the management of the state-owned public organizations have often pre-negotiated the results of the tenders, leaving no place for fair market competition.

Many companies have encountered this problem even when their products were clearly superior and offered at the best price. It is possible that the authorities reviewing bids will find a minor fault in the tender application or its specifications and thus reject the bid and give preference to another bidder.

Russian Federal Law N94-ФЗ of July 21, 2005, requires all federal, regional and municipal government customers to publish all information about government tenders, auctions and other purchase procedures on the Internet. Other laws that regulate government procurement in Russia are: Federal Law 218-ФЗ, 53-ФЗ, 142-ФЗ, 207-ФЗ, 229-P (about the e-commerce platform, http://www.zakupki.gov.ru), and 94-ФЗ (anti-corruption act for government procurement). The business community and many public organizations admit that the law in its existing form opens the possibility for corruption. Therefore, Russia’s President ordered MED to revise the law and apply anti-corruption amendments, and, on November 11, 2010, the new wording of the law was approved by the State Duma. The laws detail new government procurement policies that are intended to foster transparent business practices with equal rules and opportunities for all participants. In November 2011, the law underwent another revision to strengthen the procurement policies and procedures.

In 2012, the government initiated a reexamination of the 94 Federal Law on procurement and concluded that the law in its current form did not protect the customer (state or municipality) from inappropriate execution of the contract and was not able to evaluate the efficiency of the work performed by the contract. Russia's President initiated the changes to the law and proposed a new concept called the Federal Contractual System (Федеральная Контрактная Система). The new law provides more precise terms and definitions of the procurement process. For example, the new law introduces three stages in the process: (1) planning; (2) conduct of procurement; and (3) evaluation and performance control. The new law went into force on January 1, 2014.

The following link provides access to the Russian language version of the new law: http://www.gov-zakupki.ru/files/FKS.doc

If a U.S. company considers entering the Russian market and becoming a government supplier it must consider whether its equipment or products compete with any similar goods produced in Russia. Russian law states that the preference should be granted to the local manufacturer. The law also states that in the event when foreign goods outbid local goods, an additional discount of 10-15% is to be granted by the seller.

The potential for the success of U.S. producers to sell to a Russian government entity often depends on the U.S. company's ability to find the right partner in this market. The direct sales model (B2G) does not fit the Russian market, because (1) The government needs the goods that are tendered to be available for a spot deal, and this is only possible when the company runs its own operations or has a partner, and (2) The bidder must be a Russia-based legal entity. Another key to success is to spot the unique opportunities in which Russian companies have no competitive edge or offer solutions that can outbid the local supplier, using either logistical or financial advantages.

The government decree dated December 5, 2008 (№427), states that Russian manufactured goods will enjoy a 15% preference if any foreign manufactured goods are offered for the tender and that, if a company offering foreign goods wins the tender, the contract is to be signed with a 15% discount. This decree is not valid if the procured products or services have no competing analogs in Russia. For these reasons, it is advisable to enter the Russian government procurement market either with a unique portfolio of products or to start operations aimed at launching manufacturing units within Russia.

Federal law 94-ФЗ on government procurement is not valid for natural monopolists such as Gazprom, Russian Railways or Rosneft. However, work is under way to reconsider the current status of procurement policies at these state-owned companies and to make them dependent on federal law to enhance the structure of spending and to cut excessive costs. Such a change in procurement policies at state-owned corporations will be a step forward toward the elimination of corruption in these companies. The main regulators that consider complaints about companies and agencies infringing on the procurement law are the Federal Antimonopoly Service, MED, and the Ministry of the Interior, when there is a criminal case.

To see the list of public tenders, one can enter the Russian government Web site, http://www.zakupki.gov.ru, which is only in Russian. State-owned companies such as Russian Railways or Gazprom have English versions of their web sites, where they post information on their tenders.

Distribution and Sales Channels Return to top

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

By employing the domestic distribution organizations, the task of bringing goods to market in Russia has been greatly eased. However, the geographic coverage of the distribution companies may be limited and accessing markets in some of the regions still problematic. In these regions, U.S. firms may encounter erratic distribution, unpredictable and tough competition, and word-of-mouth marketing. Although Russia boasts increasing numbers of Western-style stores in major cities, much distribution and retailing still takes place through such informal channels as kiosks and open markets. Those who succeed to successfully distribute their products rely on a combination of improvisation and innovation, combined with a substantial investment of time and patience in the face of obstacles and challenges. 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 is in need of expansion. Major western freight forwarders and express couriers are active in Russia.

Selling Factors/Techniques Return to top

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

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

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

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

Exporters should avoid selling on open account until they have developed a well-established track record with buyers. Letters of credit and other secure financing vehicles are possible. Another option may be U.S. Government or multilateral development bank financing, such as the U.S. Export-Import Bank (Ex-Im Bank), the U.S. Overseas Private Investment Corporation (OPIC), or the European Bank for Reconstruction and Development (EBRD). Please refer to Chapters 6 and 7 for more information on these financing mechanisms   Exporters should be prepared to adjust prices according to currency fluctuations.

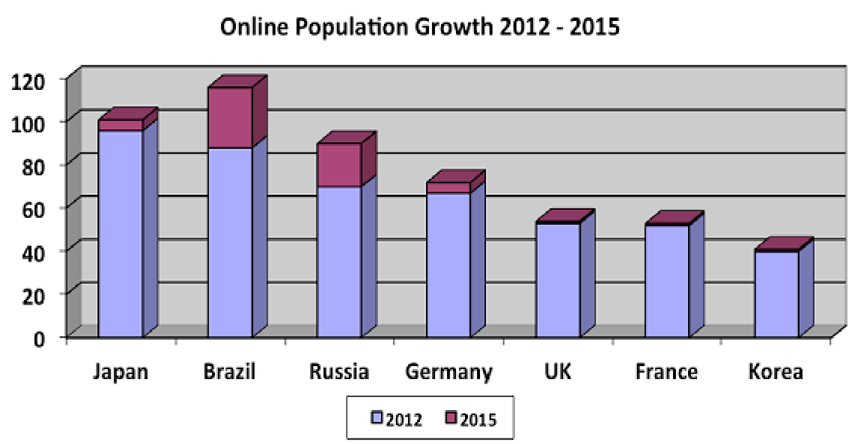
Russian purchasers are generally sophisticated and highly educated. They are likely to be Internet users and receptive to imported goods. Russian purchasers may be price sensitive, but are frequently willing to pay for quality, especially for recognized and reliable imported brands – another reason to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

Electronic Commerce Return to top

E-commerce is a large and a fast growing market segment in Russia. According to Markswebb Rank & Report, an e-commerce analysis firm, e-commerce has reached 1% of GDP. Russian legislators pay increasing attention to the regulation of online purchases, thus proving its important role in the country's economy.

According to the Russian Association of Electronic Commerce *(AKIT)*, the Russian e-commerce market grew by 35% in 2013 to 544 billion Rubles ($15.5 billion). With 52 million Internet users, Russia's e-commerce market is both the fastest growing, and the largest market in Europe.

A recent study from Comscore Digital Analytics notes that Russia is currently Europe's largest Internet market, with an online audience of 70 million users, almost half of the total Russian population. By the end of 2014, the number of users is projected to reach 80 million, 56% of the Russian population.



In 2013, 69% of orders from Russian users were paid for with cash-on-delivery (COD). 14% of orders were paid by credit card, and 5% paid through electronic payment systems. Credit card use is growing quickly, but cards are still not widely used for retail purchases including online purchases. In the Russian e-commerce realm, cash-on-delivery accounts for up to 80% of sales of physical products such as clothes, shoes, and electronics. This is primarily due to a lack of trust in the integrity and reliability of online retailers and in the safety of credit card issuers and banks. Russians have little faith that their banks would absolve them of liability in the case of online fraud. It is common for e-commerce retailers to employ a team of cash couriers, which presents an opportunity for the company to engage in personal interaction with potential customers that could be considered as a major benefit for e-commerce companies. According to Maëlle Gavet, CEO of Russian e-commerce giant Ozon, Russia still remains overwhelmingly a cash economy – a glaring anomaly in the Internet age – which is why 80% of Ozon's sales are COD. E-commerce companies have yet to overcome this cash-centric mindset, while simultaneously developing the online payments ecosystem.

The most popular delivery method is courier delivery with 46% of all orders, followed by *Pochta Rossii* (Russian Post) with 33% of orders, and 11% were delivered to local consolidation points. While Moscow and St. Petersburg are the economic centers of Russia, e-commerce activity is following a different trend. About 70% of online orders come from smaller cities where economic growth is occurring but consumers are still evolving in their online shopping expertise. In these regions, one of the sales drivers is lack of similar products on the local retail market.

E-tailer market share from Russian users in 2013 included eBay – 3.5%, Aliexpress.com – 11%, Alibaba.com – 4.5% and Amazon – 1%, according to Alexa, an Amazon.com subsidiary that collects statistics.

According to *AKIT*, the market of trans-border Internet trade doubled in 2013, occupying 20% of the total e-commerce market. The average purchase size in this segment was in the $45-$100 range. *Pochta Rossii* statistics show that the number of pouches delivered to Russia from other countries exceeded 37 million in 2013. Due to recent legislative changes, several large courier companies including DHL and FedEx have stopped delivering orders in Russia.

Among the most important trends of Russian e-commerce in 2014 will be regional expansion of all major players including their consolidation, investment growth, and further development of logistical channels. The major problems remain the same including parallel imports, counterfeit goods, fraud, and low penetration of debit or credit card payments.

E-commerce research agency Data Insight notes that 74% of products sold online are physical goods and 26% are tickets or digital products. Russian Internet users shop online for household appliances, books, mobile phones and computers, but online deals for clothes and footwear, video and audio products, tickets, goods for children, perfumes, online travel and entertainment bookings are registering the fastest growth. By sector, household and consumer electronics are the most frequently purchased online, with 55% of online shoppers making a purchase in that category in 2011. Computers and computer-related equipment, and clothing sales were the second and third most popular categories of purchases respectively.

Internet newspaper Gazeta.ru states that Amazon.com will add the majority of its 200,000 “global eligible” items to the list of products that can be delivered to Russia in 2014. Previously, Amazon shipped only clothing and footwear purchases to Russian consumers. Although Amazon ships through UPS courier service and not the Russian postal service, some analysts note that logistical problems in Russia remain one of the biggest challenges for internet retailers.

Another trend is product diversification and investments in brand awareness. Internet retail platforms are tired of struggling for traffic in search engines. The stronger ones place their bets on the brand and create a supermarket where one can buy anything.

Another important point is that Russians, in many ways, remain inwardly focused. Less than 10% of Russians speak a foreign language. Most foreign brands must undertake full localization of their operations in order to create the possibility for success in Russia.

The current wave of U.S.-based Internet companies is looking to go global earlier. Companies have learned from that ignoring the Russian market is a recipe for enabling local and foreign competition to gain a foothold. Companies, such as Facebook and Twitter lag far behind their competitors in building social networks in Russia.

According to Morgan Stanley, online retailer Ozon.ru is the leader of the country's online business. Its revenue jumped 91% in the first half of 2012 to $232 million and was expected to reach $1 billion in 2014. The report also named Avito (online classified ads), KupiVIP and Lamoda (clothes, shoes and accessories), Biglion (collective shopping), Game Insight (mobile games), Wikimart (online retailer), and AnywayAnyday (flight booking) among the major players in the Russian e-market.

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, and domestic agencies are present in the market as well. Strong economic growth and increasing incomes have resulted in growth in the advertising industry, although enforcement of some advertising laws has been inconsistent, leading to situations where already purchased advertising is then disallowed by local government officials. Major advertisers in Russia include successful Russian and foreign manufacturers of consumer goods, particularly of processed foods and beverages.

A recent study found that the Russian advertising market continues to expand but at a more reserved pace than in previous years... The market as a whole grew by 10.1 percent, generating total revenues of 328 billion rubles ($9.2 billion) in 2013, after growth of 13% in 2012 and 18% in 2011, according to the Association of Communication Agencies of Russia. In comparison, the global media market increased by only 4% in 2013.

Furthermore, research predicts that by 2015, Russia will be the fifth-largest TV advertising market in the world, behind only the U.S., Japan, China, and Brazil. This same report indicates that growth rates for offline advertising in Russia are double worldwide rates.

Television was the leading advertising platform in 2013 with more than 50% of the market and total revenues of over 156 billion rubles ($4.3 billion), and it is likely to keep its position.

Change in expenditures for advertising in Russia %

	2013	**2014**	**2015 (projected)**

TV	48	49	48
Internet	22	25	30
Outdoor	12	11	10
Print	12	9	6
Radio	5	5	5
Other	2	2	2

Source: VI

http://www.vedomosti.ru/companies/news/25282961/reklama-menyaet-ekran-na-monitor#ixzz2zgyBOjhJ

The advertising market continues to recover after the economic downturn of 2008-2009 and companies are now actively increasing their media and marketing budgets. Experts from the Russian Association of Communication Agencies summarized the results of advertising market development in 2013.

Segments	**2013 (Rubles, billions)**	**Percent Change Over 2012**	**2012 (Rubles, billions)**	**Percent Change Over 2011**	**2011 (Rubles, billions)**
TV	156	9	143.2	9	131.0
Incl. terrestrial television	*152.2*	*9*	*139.9*	*9*	*128.9*
cable	*4*	*20*	*3.31*	*27*	*2.16*
Internet	71.7	27	56.3	35	41.8
Incl. media advertising	*20.1*	*12*	*17.9*	*17*	*15.3*
contextual advertising	*51.6*	*34*	*38.4*	*45*	*26.5*
Press	37	-10	41.2	2	40.4
Incl. newspapers	*8.7*	*-9*	*9.5*	*8*	*8.8*
magazines	*18.5*	*-8*	*20.1*	*1*	*19.8*
advertising periodicals	*9.9*	*-15*	*11.6*	*-1*	*11.8*
Outdoor advertising	40.7	8	37.7	10	34.3
Radio	16.5	13	14.6	23	11.8
Other	5.7	16	4.9	14	4.1

Total	**327.8**	**10**	**297.8**	**13**	**263.4**

Source: Association of Communication Agencies in Russia www.akarussia.ru

Traditional forms of advertising are still prominent in Russia. However, as a response to the financial crisis, advertising agencies reconsidered their approach to the communication mix and increased their share of non-standard communication methods, including "below the line" (BTL), trade programs, ambient media, and flash mobs (publicity stunts). Advertising on the Internet continues to be a growth industry.

Social Networking

Russia is Europe's largest Internet market by number of users. In the past decade, the number of monthly active Internet users has risen from just 3.2 million in 2003, to over 66 million in the fall of 2013.

Both Russian and western social networking sites are growing in popularity with huge consumer penetration, especially among younger demographic groups. The two most popular social networks are Russian-based VKontakte (http://www.vkontakte.ru/; www.vk.com), a similar platform to Facebook, and Odnoklassniki (*www.odnoklassniki.ru/), a platform for connecting old friends and classmates.* Social networking sites are popular in Russia receiving 56 million visitors, accounting for 85% of the online population in Russia.

Vkontakte (VK) is the second biggest social platform in Europe, with 49 million Russian users and over 239 million accounts. According to Alexa, VK is the second most popular website in Russia and 25th worldwide. In the last year, VK has increased the number of visits by over 22%, while Facebook has dropped by 18%.

Odnoklassniki is Russia's second most popular social platform, with more than 37 million unique monthly visitors who spent on average 368.4 minutes on the site. On average, Russians spend over 6 hours a month on the site, which is considerably higher than any other social network. According to Alexa traffic, Odnoklassniki is ranked 7th in Russia and 71st worldwide.

Social networking is also closely related to many aspects of ecommerce. Two blogs posted in 2013 provide a good overview of the size of the ecommerce and social networking space in Russia. The first blog discusses the size of the market and the second blog notes some specific action steps to take with different ecommerce advertising partners.

The following is a list of media outlets and print publications listed from highest to lowest penetration in Moscow[1]:

[1] Source:TNS statistics

TV Channels
ORT: http://www.1tv.ru
NTV: http://www.ntv.ru
Russia 1: http://www.rutv.ru
STS: http://www.ctc-tv.ru
TNT: http://tnt-online.ru

Radio Stations
Russian Radio: http://www.rusradio.ru
Avtoradio: http://www.avtoradio.ru
Europa Plus: http://www.europaplus.ru
Retro FM: http://www.retrofm.ru
Echo Moskvy: http://www.echo.msk.ru

Press
Daily Newspapers

Metro: http://www.metronews.ru/msk
Moskovsky komsomolets: http://www.mk.ru
Rossiskaya Gazeta ("Russian newspaper"): http://www.rg.ru
Sport-express: http://www.sport-express.ru
Sovetskiy Sport: http://www.sovsport.ru
Iz ruk v ruki: http://www.irr.ru

Weekly Newspapers

Arguments and facts: http://www.aif.ru
Teleprogramma: http://www.kp.ru/daily/tv
Komsomolskaya Pravda Tolstushka: http://kp.ru/daily/friday
Moskovsk ovskiy Komsomolets: http://www.mk.ru
Extra M: http://www.extra-m.ru

Weekly Magazines

7 Days: http://www.7days.ru
Antenna – Telesem: http://www.antenna-telesem.ru
Teleweek: http://teleweek.ru
Teshin Yazik: http://trisemerki.ru/izdaniya/jurnaly/Teschin-Yazyk/index.htm
Liza: http://burda.ru/Magazine/Liza.aspx

Monthly Magazines

Caravan of stories: www.karavan.ru
Za rulem: http://www.zr.ru
Cosmopolitan: http://www.cosmo.ru
Lyubimaya Dacha: http://ldacha.ru

Most Popular Web sites
www.yandex.ruwww.mail.ru
www.vk.com

www.odnoklassniki.ru
www.goole.com / www.google.ru
www.youtube.com
www.rambler.ru

Pricing Return to top

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

Sales Service/Customer Support Return to top

Good after-sales service, training, and customer support can be a major competitive advantage for U.S. firms entering the Russian market, as Russian manufacturers are known for inadequate post-sale service. 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, could gain a significant advantage over competitors. Conversely, companies unwilling to make this commitment may find themselves at a distinct disadvantage to European or Asian companies, whose proximity facilitates training and service. After-sales service is also often an important component in leasing arrangements 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 Return to top

IPR Climate in Russia

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

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

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

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

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

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

IP Resources

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

- For information about patent, trademark, or copyright issues -- including enforcement issues in the United States 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 United States as well as in foreign countries), contact the U.S. Patent and Trademark Office (USPTO) at: **1-800-786-9199**.

- For more information about registering for copyright protection in the United States, contact the U.S. Copyright Office at: **1-202-707-5959;** www.copyright.gov.

- For U.S. small and medium-size companies, the U.S. Department of Commerce offers an "International SME IPR Advisory Program" available through the American Bar Association that provides one hour of free IPR legal advice for companies with concerns in Brazil, China, Egypt, India, Russia, and Thailand. For details and to register, visit: http://www.abanet.org/intlaw/intlproj/iprprogram_consultation.html.

- For information on obtaining and enforcing intellectual property rights and market-specific IP Toolkits visit: www.StopFakes.gov. This site is linked to the USPTO Web site for registering trademarks and patents (both in the United States as well as in foreign countries), the U.S. Customs & Border Protection Web site to record registered trademarks and copyrighted works (to assist customs in blocking imports of IPR-infringing products) and allows you to register for Webinars on protecting IPR.

> For an in-depth examination of IPR requirements in specific markets, toolkits are currently available in the following countries/territories: Brazil, Brunei, China, Egypt, European Union, India, Italy, Malaysia, Mexico, Paraguay, Peru, Russia, Taiwan, Thailand, and Vietnam.
> For assistance in developing a strategy for evaluating, protecting, and enforcing IPR, use the free **Online IPR Training Module on** www.stopfakes.gov.

The U.S. Commerce Department has positioned IP Attachés in key markets around the world. Contact information for the IP Attaché who covers Russia is available at: http://export.gov/russia/contactus/index.asp or by emailing RussiaUSPTO@trade.gov.

Due Diligence

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As previously noted, Russia can be a challenging market fraught with obstacles for the U.S. company that does not take the time to learn about the business environment and choose local partners wisely. Taking shortcuts in evaluating business opportunities and in selecting local partners is not advisable. Complicating these efforts is the fact that the Russian economy continues the transition from a closed, centrally planned 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, and the regulatory framework continues to evolve requiring companies to stay up-to-date with changes. 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 http://export.gov/russia/index.asp. Additional resources are noted below.

Local Professional Services

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While professional services in Russia are expensive, attempts to avoid such expenditures could be perilous. In Russia's unsettled commercial environment, early and ongoing 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 and determining tax obligations is a complex task. Moreover, Russian accounting practices differ 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 in 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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U.S. Commercial Service in Russia: http://export.gov/russia/index.asp

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

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

State Registration Chamber: http://www.palata.ru/en

Company Registration: http://eng.nalog.ru

Russian Direct Selling Association: http://eng.rdsa.ru

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

U.S.-Russia Business Council: https://www.usrbc.org

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

Commercial Sectors

Agricultural Sectors

Agricultural Equipment

$ Thousands

	2010	2011	2012	2013
Total Market Size	1,700,000	4,066,000	4,675,900	4,366,600
Total Local Production	833,000	1,339,000	1,236,000	
Total Exports	176,620	130,170	96,000	180,000
Total Imports	1,044,000	2,857,000	3,514,100	2,576,000

Sources: Estimates from Russian Association of Agricultural Machinery Producers.

According to Association of Agricultural Equipment Producers “Rosagromash,” the Russian agricultural equipment market shrank by almost 10% in 2013. There were a number of reasons for this contraction, including a poor harvest, a general deterioration in economic conditions that dampened demand for large capital purchases, and general uncertainty in the marketplace. However, for the reasons stated below, it appears that the long-term outlook for agricultural equipment remains strong.

The increased need for modernized agricultural machinery in Russia is clear. Inadequate agricultural machinery and equipment still remains the weakness of

Russian agricultural production. Farmers' finances have slowly recovered from the 2010 drought and the low crop prices in the beginning of 2011, but their indebtedness continues to limit their ability to purchase new tractors and harvesters. In the last 10 years, the fleet of tractors decreased 40%, with similar large reductions in the number of plows (55%), seeders (52%), grain harvesters (50%), and forage harvesters (49%). The age of most harvesters owned Russian farmers exceeds the service age (10-12 years) by up to 2.5 times. Market players and experts have consistently expressed that a large replacement of old agricultural equipment must take place in the next few years.

Prospects for foreign manufacturers in the Russian market are difficult to determine. During the 2008 banking crisis, credit available to farmers was greatly reduced, which negatively impacted sales of agricultural equipment. As conditions improved, the Government of Russia implemented a policy where Russian farmers could receive a subsidy equal to 50% of the interest rate they paid for loans on agricultural equipment through RosAgroLeasing. This subsidy is only available to products that are made in Russia or have a minimum content of Russian manufactured goods. Unfortunately the minimum content level is unknown; therefore, it is possible that the interest rate subsidy is being unevenly applied. The introduction of this subsidy has created uncertainty among foreign manufactures with respect to their plans for future manufacturing in Russia. Moreover, in 2013, a government program was developed that reimburses Russian agricultural equipment producers for the 15% discount that they offer to Russian buyers. It is unlikely the government will extend any financial support to foreign manufacturers.

The government is considering other policies that could impact the price of foreign machinery, such as a recently proposed recycling fee to be applied to agricultural machinery sold in Russia. The outcome of this potential regulation is still to be determined, but it is adding to uncertainty among foreign manufactures. Some of these measures may counteract any advantages gained by lower tariffs for agricultural equipment as result of Russia's accession to the WTO.

Before Russia joined WTO in August 2012, the import tariff for agricultural machinery was 15%, and following WTO accession, the tariff dropped to 5%. However, the Eurasian Economic Commission recently imposed a temporary import duty of 27.5% on harvesters and some of the specific components, such as (1) threshing and separating components of combine harvesters regardless of whether they include threshing cylinders and (2) cleaning systems and engines of tracked or wheeled harvesters. Specific Customs Union HS Codes that will be affected are:

1. Used harvesters (older than 3 years) - CU HS Code 8433 51 000 1
2. Other harvesters - CU HS Code 8433 51 000 9
   ---Basically, the measure will be applied to both new and used harvesters, regardless of when they were produced.
3. Spare parts - CU HS Code 8433 90 000 0

In 2013 the Eurasian Economic Commission prolonged this protective measure until March 14, 2016. In accordance with this decision, the tariff rate for the products mentioned will be 26.2% until March 14, 2015 and 25.7% from March 15, 2015 until March 14, 2016.

In 2014, the Ministry of Industry and Trade set the import quotas at 424 for combine harvesters. John Deere and CNH received 42 each, Same Deutz-Fahr,14, and Claas, three. Also 30 Russian importers received quotas for combine harvesters; ten of these companies will each import 21 machines.

Leading Russian producers of agricultural equipment are:

- Rostselmash
- Group of Companies “Traktornie zavody”
- St. Petersburg Tractor Plant

Leading producers of agricultural equipment from CIS are:

- Minsk Tractor Plant (Belarus)
- Gomselmash (Belarus)
- Kharkov Tractor Plant (Ukraine)

Other foreign producers of agricultural equipment (with varying levels of local content):

- John Deere (USA)
- CNH (USA)
- Claas (Germany)
- Agco (USA)

The Russian government has made it a priority to ensure food security for the nation by increasing the amount of agricultural goods produced in Russia. Therefore, there is a demand for agricultural equipment that allows increasing yield and labor capacity as well as guaranteeing ecological safety and a safe work environment.

Although there is strong growth potential in Russia for agricultural equipment, there are several challenges confronting the agricultural sector:

- High interest rates for purchasing agricultural equipment (current minimal interest rates are 12%).
- Reduction in government subsidies for agricultural producers coupled with rapid price growth for raw materials and energy.
- Low growth in foreign investments in the sector.
- Unstable demand for agricultural equipment, due to financial instability of Russian farming enterprises.

The Russian Ministry of Industry and Commerce has developed the *Strategy for Development of Agricultural Machinery Production in Russia up to 2020*. According to this plan, the total size of the agricultural machinery market in Russia in 2020 will reach $10 billion. The program, with the support of the government, assumes the purchase of 127,000 tractors and 53,000 combines including 12,600 new models of tractors, 5,300 grain harvesters and 1,300 forage harvesters within the next eight years. Experts estimate that Russian agricultural producers will require at least 300,000 tractors, 95,000 combines, 120,000 tillage equipment, 120,000 seeding machines and many other types of self-propelled, pull-type implements.

The Russian Ministry of Industry and Commerce recommended a number of measures to be implemented within the next few years. These measures include modernization of machinery production, increasing competitiveness of local machinery, new rules for estimating the level of localization, and increasing subsidy assistance for interest rates on credits for purchasing agricultural equipment. While these measures are being considered by the Russian government, some experts believe they may be difficult to implement.

Overall, Russia's membership in the WTO should create significant commercial opportunities for agricultural equipment exporters:

- U.S. manufacturers and exporters should enjoy more certain and predictable market access as a result of Russia's commitment not to raise tariffs on any products above the WTO negotiated rates and to apply non-tariff measures in a uniform and transparent manner.
- Russia agreed to bind all of its tariffs on agricultural equipment. Following full implementation of its WTO commitments, Russia's average tariff on agricultural equipment will drop to 5.2%.
- However, despite the actions taken as a requirement of WTO accession, the government has implemented protectionist measures which have offset these actions.

Sub-Sector Best Prospects Return to top

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

Opportunities Return to top

The agricultural sector experienced a downturn due to the financial crisis and recent weather conditions in Russia, but the sector is now recovering. Russia's accession to the WTO should bring many opportunities for U.S. exporters in the agricultural sector due to tariff rates being bound at lower levels, which would allow U.S. equipment to compete with the locally produced, lower-cost equipment. Moreover, most government programs that support procuring locally produced equipment through subsidizing interest rates could be cancelled if they contradict WTO rules.

U.S. firms interested in the Russian agricultural machinery market should consider exhibiting at one of the key Russian agricultural trade shows. These trade shows are a powerful marketing tool and reassure Russian buyers that the American supplier is committed to establishing and maintaining its presence in the Russian market. Substantial sales are often made at these trade events. U.S. companies may also find opportunities when financially healthy Russian companies are seeking to expand in order to satisfy a growing demand for domestically produced food. For example, there may be opportunities to sell meat, fruit, and vegetable processing equipment due to increased sales in these segments.

Web Resources Return to top

Organizations
Ministry of Agriculture: http://www.mcx.ru

Soyuzagromash, the Association of Agricultural Machinery Producers:
http://www.rosagromash.ru/

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

Trade Events
Agrosalon
October 7-10, 2014
Moscow
http://www.agrosalon.com/Visitor/VisitorsInfo/

Golden Autumn Russian Agricultural Week Trade Show
October 8-11, 2014
Moscow
http://www.goldenautumn.ru/en/

Argotic Russia (In conjunction with Golden Autumn above)
October 8-11, 2014Moscow
http://www.agrotechrussia.ru/

YugAgro
November 25-28, 2014
Krasnodar, Russia
http://yugagro.org/?lang=en-GB

Agro Farm Russia

February 3-5, 2015
Moscow
http://www.agrofarm.org

VIV Russia – From Feed to Meat
May 19 -21, 2015
Moscow
http://www.vivrussia.nl/en

YugAgro Field Days
June 2015
Krasnodar, Russia
http://www.fd-yugagro.org/

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Automotive Parts/Accessories

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USD thousand	2012	2013	2014
Total Market Size	48,000,000	52,000,000	50,000,000
Total Local Production	20,000,000	21,000,000	20,000,000
Total Exports	na	na	Na
Total Imports	28,000,000	31,000,000	30,000,000
Imports from the U.S.	1,000,000	1,000,000	1,000,000

Source: U.S. Commercial Service estimates for OEM supplies and aftermarket

Russia represents a large potential market for the U.S. automotive industry. Currently, the rate of car ownership in Russia is only 30% of the U.S. rate. The total Russian motor vehicle fleet is estimated at over 41 million units, including almost 38 million cars.

Russia is one of the largest automobile markets in Europe. From 2001 to 2008, the automotive market recorded significant growth rates of 20 to 25% per year, including robust sales of imported used cars and trucks. The 2008 world financial crisis put a damper on the Russian car market, but growth resumed in 2010 and continued through 2013. Used vehicle sales almost ceased in 2008 as a result of the financial crisis coupled with new and higher import duties. In 2012, when Russia joined WTO, the import duties dropped; however, a recycling fee was introduced that clearly favored domestic suppliers. Although the recycling fee is imposed on all vehicle manufacturers and importers, domestic manufactures are compensated by the government.

In 2013, Russia's car and LCV market started to slow down, demonstrating significant declines by the end of the year. Annual sales in 2013 were 2.9 million vehicles, 7% lower than 2012. Automotive remained sluggish into early 2014, recording further declines. Market analysts predict that the automotive sales will register flat growth until the government develops a workable plan to stimulate the industry.

As a part of the automotive industry, the supply chain and market for components including aftermarket replacement parts and accessories depend on the vehicle market. However, with respect to the imported parts market, the decline is less significant than that in the vehicle market, since it was less affected by the decline in automotive sales.

The Russian auto industry is one of the major sectors of the domestic economy. Although the Russian government has been taking measures to stimulate the development of the industry, component manufacturing factories remain crippled by outdated equipment, lack of modern technologies, and inadequate management. The major local automotive market players include: AvtoVAZ, currently controlled by Renault-Nissan group; Sollers which partners with Ford; and GAZ Group and Avtotor, which provides assembly for several international OEMs. The majority of component manufacturing assets are owned by a number of independent manufacturers, although the vertical integration with OEMs in component manufacturing is still fairly high.

There are several projects underway to assemble foreign cars in Russia:

- Ford's plant began operation in July 2002 in a suburb of St. Petersburg. Currently, production capacity of the Ford plant is 125,000 vehicles per year.
- GM has several ventures in Russia that includes the GM-AvtoVAZ joint venture, launched in September 2002, which manufactures the Chevrolet-Niva SUV, an assembly plant in St. Petersburg that makes over 100,000 Chevrolet and Opel vehicles annually, and contract assembly projects with GAZ and Avtotor.
- In 2005, Renault started manufacturing its low-cost Logan vehicle at a Moscow-based facility. The factory's current annual turnover is about 70,000 vehicles. Renault is planning to replace the low-cost Logan in Moscow with higher-end models and move Logan manufacturing to AvtoVAZ facilities in the near future. Another Renault-Nissan project in Russia is the plant in St. Petersburg that was launched in 2009 to produce 50,000 Nissan Teana and X-Trail vehicles annually.

- In December 2007, Toyota launched an assembly facility in St. Petersburg to manufacture 50,000 Camry vehicles annually.
- Volkswagen and PSA opened their plants in Kaluga, 100 miles from Moscow, in 2008-2009.
- Hyundai began operating a plant in St. Petersburg in 2010 and manufactures 150,000 low-cost sedan vehicles each year that included the Hyundai Solaris, which was developed specifically for the Russian market.
- There are also several other projects, such Sollers' Ssang Yong SUV assembly and Fiat low-cost sedans in Yelabuga and another Ssang Yong assembly facility in the far-east region of Russia.

There are also LCV, truck and bus assembly projects in Russia being developed by MB, Ford, Hyunday, Man, Volvo and Scania. The major obstacle to the successful development of foreign assembly projects in Russia is the lack of local component suppliers.

Best Prospects/Services Return to top

Engine and engine components, steering components, brake system components, powertrain components, seat components, tires, interior components, specialty equipment for cars, new car dealerships, automotive aftermarket service and maintenance.

Opportunities Return to top

The best opportunities for U.S. firms are in the establishment of local manufacturing facilities either independently or in cooperation with Russian partners and the supply of components to foreign vehicle assembly projects in Russia. Although car sales in early 2013 slowed down, industry analysts believe that the growth in the OEM supplies and aftermarket will continue in the mid-to-near future, since the demand is still considerable.

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 well known and sell strongly in Russia. Some of the *Made in the USA* products that 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 and tariffs for many imported spare parts are a relatively low 5%. The most important factor impacting sales growth of U.S. aftermarket products in Russia is the U.S. exporters' lack of interest in sharing brand building risks with local distributors. In Russia, the small and mid-size suppliers of specialty equipment for cars will be competitive if they are aggressive in their market entry, brand-building and promotion actions.

Finally, Russia lacks a well-developed network, even in the largest cities, of high quality aftermarket maintenance and service centers. Many of the first foreign car brands introduced to Russia are now coming to the end of their manufacturers' warranty period, creating opportunities for U.S. companies to partner with Russian automotive businesses to meet increasing demand for quality, independent aftermarket maintenance and repair services.

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Organizations

National Association of Automotive Component Manufacturers
5 Sushchevsky Val, bldg 2
Moscow 127018 Russia
Tel: +7-495-974-8772, 73, 74
napak@napak.ru

St. Petersburg Association of Automotive Component Manufacturers
16 Bolshaya Monetnaya Str.
St. Petersburg 197101 Russia
Tel. +7-812-313-8254
apac@spbapac.ru

Trade Events

Automechanika - Moscow International Motor Show
Moscow – Expocenter
Aug 25-28, 2014
http://www.mims.ru

Interauto
Moscow – Crocus Expo
Aug 28-31, 2014
http://eng.interauto-expo.ru

Publications and market research

Autobusiness Market Research Agency and Magazine
http://www.abiz.ru/en
Autostat Market Research Agency
http://www.autostat.ru/Default_Eng.asp

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Broadcast Equipment

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Television (TV) is the most popular medium in Russia, with 74% of the population routinely watching national television channels and 59% regional channels. The total number of households with television is 53 million while it is estimated that there are 100 million television sets in use. According to the Committee on Communication, Information Policy and Freedom of the Press, there are approximately 350 television channels.

Traditionally, TV stations are classified as either terrestrial or non-terrestrial TV channels. Terrestrial stations use radio frequencies and repeater stations installed on TV towers for signal transmission. MMDS (Multichannel Multipoint Distribution Service), a method of terrestrial distribution often assimilated to cable distribution, and IPTV (television by means of DSL networks) are utilized. Unlike many European countries and the USA, Russian television has been dominated by terrestrial distribution instead of cable distribution.

Due to the federal system of broadcasting being set up and operated by the government, the most significant channels can broadcast across Russia. However, this distribution cannot be simply called terrestrial TV due to signal distortions in which the inhabitants of cities, as a rule, may obtain federal channels by means of cable, whereas inhabitants of small towns are increasingly embracing the use of the reception dish.

The system of organization of the TV networks broadcasting in Russia is similar to the USA. Television networks include a limited amount of their own stations and a large number of affiliated stations that provide airtime for TV programs for a specified fee and revenue from regional advertising. However, unlike the U.S., in Russia there are no legal restrictions as to the amount of stations a TV network can own.

There are a total of 22 federal TV channels in Russia with nationwide coverage. The distribution of the terrestrial channels is the task of the Unitary Enterprise Russian Satellite Communications Company, which has 11 satellites, and the Federal Unitary Enterprise Russian TV and Radio Broadcasting Network serving 14,478 television transmitters in Russia (90.9% of the total number) and 3,697 radio transmitters (89.6% of the total number). TV and radio channels are broadcast through the terrestrial satellite communications complexes owned by the Russian Satellite Communications Company, which ensures the transmission of channels to all time zones in Russia via the space vehicles of RTRN.

Almost 50% of the federal channels belong to the must-carry broadcasting stations. This means that all television operators should include these channels into the basic must-carry package and broadcast them for free to consumers.

The Russian terrestrial TV market is characterized by its concentration with 17 of 22 federal channels owned by large media holdings. Federal Unitary Enterprise (FGUP) *All-Russia State Television & Radio Company* (VGTRK) acts as the main state media holding. It is entirely controlled by the government. According to its own evaluation, VGTRK is the largest European company in terms of volume of TV content production. Other media holdings are quasi-state Gazprom-Media Holding, the private company National Media Group, CTC Media, Prof-Media, UTV Russia Holding, Moscow Media, RBC, Bridge Media Group and others. Some international TV groups are also operating in Russia, which include Modern Times Group, Discovery Networks EMEA, Voxell Baltic, TF1 Group, NBC Universal International, and Turner Broadcasting System.

The government still plays a significant part in the formation and development of the TV industry in Russia. It supports the TV industry by providing subsidies for the development of activities of television companies and for single projects such as TV films, TV series or TV programs. The Russian Federal Press and Mass Communications Agency acts as the main institution which distributes public resources for the development of the TV industry. However, other departments or institutions such as the Russian Ministry of Culture, the Ministry of Defense, and the Ministry of Emergency Situations often provide financial support for the activities of TV companies. Government departments support both state and private TV companies.

The Federal Target Program (FTP) details the development of broadcasting in Russia from 2009-2015 in Russia, which defines the goals and objectives for the transition to digital technology and dates and stages of its implementation to include the amount and sources of its funding. The Ministry of Communications and Mass Media in charge of the FTP decided to focus solely on terrestrial broadcasting as the object of digital TV implementation. The current stage of the FTP includes modernization and expansion of the existing TV broadcasting infrastructure to include upgrading, retooling of antenna mast structures and engineering utilities, replacement of emergency facilities, and structures; construction of digital terrestrial broadcasting networks for delivery of “must-carry” TV channels and other free access channels; construction and launch of communications and broadcasting satellites; and creation of an archival digitalization system. Over $500 million was allocated for the FTP implementation.

Russian TV and Radio Broadcasting Network (RTRN) is the main transmission company for analogue TV and the only provider of digital TV in Russia. RTRN possesses 4956 stations of the digital network of the first multiplex. The network of the second multiplex utilizes the network of the first one, namely its terrestrial lots, technologic buildings, antennas, mast structures, power delivery systems and monitoring control systems.

Published in 2009, Russia's digital transition plan has changed several times. The broadcasting standard, which initially was planned to be DVB-T, was changed in the beginning of 2011 to DBT-T2. The Regions in which DVB-T was launched had to upgrade to T2. The Russian government originally planned to cease analogue TV broadcasting in the border regions on June 17, 2015, with the rest of the country by July 1, 2018. In February 2014, the Russian governmental commission for TV and radio development approved a proposal from the Ministry of Communications and Mass Media to continue transmitting regional analogue TV channels after 2018, citing its laws that require 95% of a region to be covered by digital TV prior to switching off analogue TV.

Pay TV Market

Currently, apart from RTRN, terrestrial federal channels are distributed by operators of Pay TV, including cable, satellite and IPTV operators. Over half (55%) of all Russian homes now receive some form of pay TV service. In 2013, the Russian pay TV market grew 16% to reach US$1.5 billion, in terms of subscriber base it increased by 11% to reach 34.6 million households. Over 70% of the market was occupied by five players, which were National Satellite Company (NSC brand Tricolor TV, 29% of the market - only paying users), Rostelecom (20%), MTS (7.4%), Air-Telecom (7.4%) and Orion Express (5.7%). NSC, which offers a basic package of terrestrial channels free of charge, began to promote the paid package in May 2007 and has since introduced other additional paid-for services, namely HD channels. The subscriber base of NSC reached 14.1 million households by the end of 2013. According to this indicator, the operator ranked No.1 in Europe.

TV Content Production

There are several types of TV content production companies in Russia. First of all, these are big companies or groups of companies which possess all the necessary technical and creative components and are able to render all services. These companies hold long-term relationships with channels and perform their production in various genres for different TV channels.

Another type of company is production centers which do not have their own technical base but rely on their creative and organizational components. These companies establish good relations with TV channels and manage the period of pre-production, and outsource the production itself to technical or service companies. Many production centers are interested in setting up their copyright library and actively seek to purchase foreign formats.

The third player is independent producers whose business is grounded on one-off projects.

Some technical and service companies, which have all the necessary production equipment and sometimes even studios, occupy a significant part of the market. TV channels often turn to them to produce certain projects according to developed scripts. Moreover, these companies are involved in production for production centers and independent producers.

About 30% of TV production companies can be referred to as TV channel companies or as partners of TV channels, which means that they produce one or several projects exclusively for one TV channel over time. Approximately 6% of production companies are producing content for the six leading TV channels that belong to media holdings, companies owned by non-professional investors, or production centers owned by major foreign studios. Analysts estimate that 77% of all content broadcast by Russia's leading television channels is of national origin.

From 2005, some of the world's largest international production companies began to actively penetrate the Russian national content market. Therefore, in recent years, five purchase deals were accomplished as international players acquired Russian production companies.

Radio

Russia has an extensive network of radio broadcasting which covers the entire country. With 800 stations competing for audiences, the radio market in Russia is one of the most competitive in the world.   Moscow alone has more than 50 traditional stations. The other big cities all boast between 15 and 40 stations, and the number keeps growing. Broadcasting on a national level is growing fast. More than 20 stations have now built extensive networks throughout Russia.

The majority of the radio stations in Russia are part of major media holdings reinforcing their dominant market position. Currently, the country's five largest media holdings – Gazprom-Media, Russian Media Group, VGTRK, Prof-Media, EMG - own 25 radio stations. In Moscow, their share of the market tops 60%. The market share of all radio stations belonging to media holdings now stands at 80%.

Digital radio broadcasting is not well established in Russia, despite previous experiments to test the market. In October 2013, the Ministry of Communications and Mass Media announced its decision to abandon the idea of introducing digital radio broadcasting in Russia in the near future, specifically citing that there is not an established format for digital radio broadcasting. The ministry’s decision was also reinforced by economic realities in that the size of the radio advertising market in Russia could not handle the digitization and sustainment of the growing number of radio stations. However, some market players and industry specialists believe that digital broadcasting could be introduced in the near future.

Opportunities

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Since the FTP for transition to digital TV has been extended to 2018, broadcast and production companies will need to upgrade their equipment in the face of new demands. The largest state media holding, VGTRK, recently released two tenders for the delivery of components and installation of broadcast equipment sets and automated production systems for its branches. The initial costs of the tenders were $11 million and $30 million respectively, financed from the federal budget. According to VGTRK, their plan is to unify the technological processes throughout the company's branches in 2014-2015, and to reach that goal they will be taking steps to procure new equipment to enable them to produce using the digital format.

The Russian TV market is diverse in terms of the resources available to the market players. For example, federal and regional channels may differ in terms of their funding sources and financial capabilities, which affect their technical potential. The market is open the full spectrum of equipment, ranging from simplistic to state-of-the art technologies and solutions.

According to some industry experts, about 5% of the 3000 broadcast companies in Russia can boast having the technical base that fully meets the standards of the day. The rest are still to follow. Local manufacturing of broadcast equipment and R&D, although developing, are limited and do not meet the demand of the local TV market. Therefore, Russian TV companies are looking to foreign suppliers to meet their equipment needs. For example, industry analysts estimate that about 98% of equipment used by broadcast studios is foreign-manufactured, and expectations are for the status-quo, which is why the Russian broadcast market holds many opportunities for U.S. manufacturers.

HD services are becoming increasingly popular in Russia and can be received on up to 90% of TV sets sold in the country. However, only 50 out of more than 350 channels currently broadcast in HD format, which are primarily channels available to pay TV customers. In February 2014, the Government Commission on Broadcast Development approved the proposal by the Ministry of Mass Communications to transition the digital terrestrial TV into the HD standard, and set the task to define the frequencies required for all of the channels of the first multiplex. This transition will entail a further upgrade to the whole arsenal of their broadcast equipment.

In 2013, the Russian Ministry of Culture proposed a five-year development plan in which it pledged to increase the share of Russian films in cinemas from the current 17.5% to 22.5% by 2018. The number of movies produced by Russian filmmakers each year is set grow by 50%, from 60 in 2013 to 90 in 2018. The Ministry also plans to increase the number of movie screens in Russia by 45% in five years, from 3,100 in 2013 to 4,500 in 2018. To reach these goals, the government will continue its support of the domestic film industry, which reached over $211 million in 2013. Currently there is only one film production studio in Russia which claims to be fully consistent with international standards and provide a full film production cycle ("Mosfilm"). The others will seek to modernize their production capacities.

Russia will host two major sports events, the 2016 World Ice Hockey Championship and the 2018 FIFA World Cup. In this regard, there is increasing demand for the most innovative technologies to broadcast live sporting events.

When trying to enter the Russian broadcast market, it is recommended that American companies go through a well-established distributor or systems integrator experienced in importing broadcasting equipment into Russia. It is also important that the Russian company possess the necessary market intelligence and the technical support capabilities to provide full or at least first line support for the products.

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Organizations

Ministry of Communications and Mass Media http://minsvyaz.ru/ru/
Federal Communication Agency (Rossvyaz): http://eng.rossvyaz.ru/
Russian National Association of Broadcasters (NAT): http://www.nat.ru/
Russian Academy of Radio: http://www.radioacademy.ru/
Russian association of HD and Digital TV: http://www.hdunion.ru/
Russian Association of Cable TV: http://www.aktr.ru/

Trade Events

NATEXPO 2014
November 19-21, 2014
Moscow
http://www.natexpo.ru/eng/
http://www.natexpo.ru/eng/project/

CSTB 2015
January 27-29, 2015
Moscow
http://www.cstb.ru/en/cstb/

MCA Expo 2015
February 18-20, 2015
Moscow

http://mcaexpo.com/eng/

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Construction

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$ Thousands

Value of Housing Units	2012	2013	2014	2015 (forecast)
Total Market Size	18,590,000	19,519,500	17,136,000	18,000,000
Total Local Production	11,110,000	11,665,500	10,416,000	12,000,000
Total Exports	-	-	-	-
Total Imports	7,638,400	8,020,320	8,710,553	8,500,000
Imports from the US	1,108,800	1,164,240	1,264,435	1,300,000

Data Sources: (1) Rosstat publications; (2) Interviews with industry experts.

Despite the pessimistic forecasts and analysis of industry experts, the Russian construction industry continued to experience steady growth through 2013. This growth was primarily due to significant private and public investment in commercial, industrial, infrastructural, and residential construction projects. Additionally, renovation and construction projects related to the FIFA World Cup in 2018 and other major construction activities in different regions had a positive impact. The success of the 2014 Sochi Winter Olympic Games demonstrate the Russian government's confidence to renovate regional infrastructure, with the goal of showcasing new internationally recognized construction standards in cities across Russia.

- In the next five years, the federal government, regional governments, and private investors will spend at least RUB 664 billion ($21 billion) in preparation for the 2018 FIFA World Cup which includes major construction projects. Initially, officials of host cities submitted projects to be developed in preparation for the tournament with a total value of about RUB 1.39 billion ($43 billion). Half of the $43 billion is to be provided by the Russian government, one third by local governments, and the remainder by private investors. This value does not include investment in the construction of stadiums in Kazan, Sochi and Spartak Stadium (Otkritie Arena) in Moscow, and only includes a minor share of additional transport infrastructure construction projects such as roads and airports that are to be implemented in host cities by mid-2018.

- The Russian retail construction market ranks №1 in Europe in terms of building retail space, but still has a lower ratio of shopping malls to people.

- The 2013 floods in the Russian Far East resulted in heavy devastation of residential property and infrastructure worth about $800 million.

- Residential and commercial construction in the Moscow area is quite active and different projects are being implemented in both the middle and luxury segments, which creates opportunities for manufacturers of windows, doors and other finishing materials.

- Green building materials and energy saving technologies are experiencing increasing demand due to increasing utility tariffs.

The Russian construction industry experienced 8% growth in 2013, due to government support and continued demand for infrastructure in connection with international sporting events and business activities including trade shows and major industry conferences. However, the construction sector has been negatively impacted by the economic slowdown in the first quarter of 2014 and recent negative revisions to Russia's economic growth projections.

Active introduction of new construction technologies such as aerocrete, left-in-place forms, and wood frame housing contributed to the significant growth in residential construction.

Many developers remain optimistic and continue to look at this market as an opportunity. Industry experts have observed that buyers' preferences are changing in light of property prices in Russia's metropolitan areas becoming unaffordable for the majority of the population. Therefore, people are now acquiring apartments and townhouses in the vicinity of metropolitan areas, at a distance of 15-40 miles. The cost of construction in these areas is much lower than in the city centers. For example, it costs about $300,000 to acquire a two bedroom apartment in the downtown area of Moscow, while it is possible to buy a land plot with a ready three- or four-bedroom house only 20-25 miles away from the city center for about the same price. Another issue that prevents consumers from buying apartments in Moscow and other metropolitan areas is excessively high mortgage rates of 14%-16% per year.

Additional market growth has been fueled by warehouse construction. This market is controlled by European companies, primarily from Germany, Sweden, and Finland.

Recently, U.S. companies have been showing greater interest and attempts to enter this segment.

FIFA World Cup 2018 has also created additional market space, especially in the stadium construction segment of the market. However, tenders and construction contracts are awarded in an environment that lacks modern safeguards against corruption. At the same time, Russian expertise and experience is lacking when it comes to the construction of stadiums with a capacity over 50,000. Stadiums that are currently being built are primarily subcontracted to foreign companies.

The construction equipment market is characterized by strong competition. The main competitors to U.S. companies are Chinese, German, Italian, and Korean companies. At present, Chinese and Korean companies are prominent in the eastern region of Russia, monopolizing the market. One of the explanations for this dominance is geographical location and the improved quality of their products.

The construction market has grown at a double-digit rate since Russia's accession to the World Trade Organization (WTO) in 2012. The previous average import tariff was about 25%, and after the transition period the average tariff dropped to 5%. However, the real impact of these tariff actions was probably overestimated as no one rushed to offer discounts to buyers, while large companies such as Caterpillar, Volvo, JCB, Case, and Komatsu were already in the domestic market, operating local assembly and production facilities and enjoying preferences. Rental companies have made substantial contributions to the growth of this market. These companies import a high volume of equipment by leveraging U.S. Export-Import Bank (EXIM) financing. Average deals vary from $2 million to $25 million.

Local manufacturers suffer from insufficient investment as well as a lack of quality, a low level of technology, insufficient research and development, and an inability to maintain customer loyalty. They also lobby their interests occasionally through the Russian State Duma. Prior to Russian accession to WTO, there had been many attempts to create technical and tariff barriers to foreign producers and to force state-owned companies to buy locally-produced equipment.

Price is an important factor especially for small construction companies or minor subcontractors. At present, large companies employing more than 1,000 people prefer leasing or renting equipment rather than buying it. Rental companies are becoming the main buyers of such equipment. In 2012, almost 50% of construction equipment, except for road construction equipment, was acquired by rental companies.

Up to 95% of apartments and homes in Russia are sold without interior finishes; therefore, demand for such products continues to grow. In 2012, almost 40% of building materials were sold in "do-it-yourself" (DIY) chains at such stores as OBI, Leroy Merlin, and IKEA.

Basic products used for primary finishing such as cement, concrete mixes, plasterboards, drywalls and plastic windows are manufactured locally using mostly German technologies. Technology leaders such as Knauf (Germany) have numerous plants in Russia. Korean companies such as Samsung and LG Chem have also entered this market, establishing representative offices involved in selling residential windows systems and artificial stone used in house decoration. Renovation and finishing budgets vary starting from $5000 up to $300,000 for apartments. The average construction cost for country houses starts at $15,000 and $50,000 for brick/stone houses.

Web Resources

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

Builders Association of Russia
http://www.a-s-r.ru/tabid/331/Default.aspx

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

Ecostandard
Ecological services and expertise - 1st organization certified by U.S. Green Building Council
http://www.ecostandard.ru/en

Green Building Council Russia
http://www.rugbc.org/en

National Union of the Construction Companies
http://www.nostroy.ru/

Trade Events

Conexpo Russia at CTT
June 3-7 2014
Moscow, Crocus Expo
http://www.conexporussia.com

CTT (Construction Equipment and Technologies) Russia
June 3-7, 2014
Moscow, Crocus Expo

http://ctt-expo.ru/en/

Mosbuild
April 6-9, 2015
Moscow
http://www.mosbuild.com

Publications
Spec-Technika
http://www.spec-technika.ru

Commercial Service Contact (Construction and Building Materials)
Timur Uddin, Commercial Specialist
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Cosmetics

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$ in USD millions	2012	2013	2014 est.
Total Market Size	13,900,000	13,900,000	14,500,000
Total Local Production	6,900,000	6,950,000	7,260,000
Total Exports	200,000	200,000	210,000
Total Imports	7,200,000	7,150,000	7,450,000
Imports from the U.S.	230,000	250,000	260,000

The Russian cosmetics and toiletries market has been experiencing strong and steady growth and has been one of the fastest growing industry sectors in Russia during the last decade. However, in recent years, market growth has slowed. In 2011, the cosmetics market grew by 20% to record $13.5 billion in sales. In 2012 and 2013, the market was stagnant, registering sales of $14 billion in 2012 and $13.8 billion in 2013. According to industry experts, growth should resume in 2014 and 2015.

Domestic manufacturers hold a 30% share of the market. Major Russian manufacturers include Kalina, Nevskaya Kosmetika, Svoboda, Vesna, Arnest, Alfa Kosmeca, Faberlic, Mezoplast, and Unikosmetik. Avon and L'Oreal are the only two foreign manufacturers that have established manufacturing facilities in Russia. The competition between foreign and local manufacturers in the mass-market and middle-market segments is deep. Generally, foreign producers outpace local producers in the use of new technologies with respect to the manufacturing process and have larger marketing and advertising budgets.

Contract manufacturing is growing popularity in Russia because companies are trying to significantly reduce their costs. These companies include wholesalers, specialized retail chains, pharmacies, and larger manufacturers such as Kalina and Nevskaya Kosmetica. There are two types of contract manufacturers, research laboratories and cosmetics companies with their own brands (e.g., Fratti company http://www.frattinv.ru).

Regulatory requirements to sell cosmetics in Russia are included in the Technical Regulations *Perfume-Cosmetics Products*. According to the regulations a registration certificate is required for 12 product categories. For other cosmetics, if the product is not included in the 12 product categories then a declaration of conformity is required. These documents are valid for all three countries that are members of the Customs Union (CU), Russia, Belarus and Kazakhstan.

The cosmetics market recently experienced significant changes to the distribution network with retailers becoming the key players in the market replacing distributors. According to RBK Research Agency, cosmetics and toiletries distribution channels include:

- Cosmetic retail chains (33.5%)
- Other (supermarkets, internet) (32.1%)
- Direct sales (21.9%)
- Outdoor markets (7.2%)
- Pharmacies (5.3%)

Distributors are shifting their business from developing wholesale trade to expanding retail chains. Specialized retail chains such as L'Etoile, Ile de Beaute and Ives Rocher, with outlets in all major Russian cities, are achieving the fastest growth rates.

The assortment of products offered in retail chains has also changed with middle-market and mass-market brands complementing exclusive in-house products. The share of mass-market products in retail chains has grown to 30% in the last few years. An additional channel for mass-market and middle-market brands, as well as for curative cosmetics, is the pharmacy channel and especially the pharmacy chains. Russian consumers perceive cosmetics sold through pharmacies to be more reputable, safer, and more effective.

A new and recent trend in the development of the market is a shift in the overall market share growth from Moscow to the Russian regions. This movement has brought the current ratio between large cities and regional cities to 50/50, which indicates a positive growth pattern for the regions. This is especially true in cities with a population of over one million and where there are a substantial number of people with high purchasing power.

The last several years have been characterized by rapidly growing demand for high quality and customized cosmetic products. Both foreign and local manufacturers have succeeded in creating awareness and educating consumers about the different types of skin and hair products including the advantages of using these products.

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The best sales prospects for U.S. exporters include make-up, skin and hair care products, and medical devices used in professional beauty salons.

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Perfumes, skin care, hair care, and decorative cosmetics are most the prominent product categories in the Russian cosmetics market. The highest demand is in the professional market segment. Distributors seek unique, state of the art technologies that could be offered to doctors and professional estheticians.

Russian consumers traditionally trust foreign brands more than local ones due to their consistency of quality and product reputation. According to industry specialists, the future of the Russian cosmetics and toiletries market is in niche marketing and narrow customization. Given the intense competition between foreign and local manufacturers, especially in the mass-market and middle-market segments, the cost of entering and developing the market is much higher than in previous years.

In the near future, success will largely be dependent on significant investments in advertising, marketing and promotion, and participation and promotion at specialized trade shows. U.S. manufacturers can improve their market visibility by offering exclusive cosmetic products and by employing qualified agents/distributors in the market. Pricing continues to be the most competitive factor which could limit export opportunities. U.S. producers could consider opening a representative office to initiate and/or strengthen agreements with retailers and other potential importers.

Web Resources

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Organizations

Association of Manufacturers of Perfumery, Cosmetics, Household
and Hygiene goods
http://www.apcohm.org

Russian Association of Perfumery and Cosmetics
http://www.pcar.ru

Perfume Cosmetics Portal
http://www.intercharm.net

Magazine Kosmeticheskiy Rynok Segodnya
http://www.krs-forum.ru

Trade Events

Intercharm Professional, St. Petersburg
June 05-07, 2014
http://www.intercharmspb.ru/

Intercharm, Moscow
October 22-25, 2014
http://www.intercharm.ru/ru/autumn/

Kosmetik Expo Moscow
February 2014 TBC
http://www.ki-expo.ru

Intercharm Professional, Moscow
April 16-18, 2015
http://www.intercharm.ru/professional/

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Electric Power Generation and Transmission

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(GWh)	2011	2012	2013	2014 (estimate)
Electricity Generation	1,077,896	1,097,400	1,087,142	1,107,346
- Thermal (fossil fuel)	744,026	758,403	735,726	734,108

- Hydroelectric	171,236	172,047	184,208	185,059
- Nuclear	162,018	166,293	166,463	187,346
- Geothermal	507	512	558	623
- Biogas / Biomass	98	132	150	173
- Solar (PV and thermal)	4	5	28	29
- Wind	7	7	8	9
Electricity Consumption	1,021.0	1,038.0	1,031.0	1,030.0

Source: Alternative Energy e-track database, and Interfax

Russia holds the world's largest natural gas reserves, second largest coal reserves, and eighth largest oil reserves. It is the fourth largest generator and consumer of electricity in the world; creating and estimated 5-6% of global supply. The grid links over two million miles of power lines, 73,000 miles of which are high voltage cables over 220 kV. Electricity generation is based largely on thermal (oil & gas - 46%, coal - 21%), hydroelectric (17%), and nuclear (15%) power. Despite considerable biofuel, biomass, geothermal, solar, wind and wave resources, renewable energy production accounts for less than 1%.

During the past decade, Russia has been struggling with shifting its power market from Soviet-styled planning to a more western market-based model. Policymakers continuously battle to find the right balance between channeling crucial investment and maintaining reasonable end-user power costs. As part of market reform, most of Russia's fossil-fueled power generation has been privatized, while hydropower and nuclear remain under state control. The reform also divided the electricity sector into wholesale companies that participate in a new wholesale market. The Ministry of Energy regulates the country's power sector, with the exception of nuclear energy, which is administered by the State Atomic Energy Corporation (Rosatom).

According to industry analysts, the break-up of Russia's power monopoly helped several large Russian industrialists and western players buy into the market. Then the creation of a capacity-based market prompted a second wave of investment. However, the overall investment climate has been dampened by state consolidations, incoherent policies, price fixing, and market interference. Current investment focus has shifted toward auto-generation, energy efficiency and renewable sources, where opportunity still lies for equipment and engineering services.

As a condition of many projects and procurements, the Russian government requires high local content and strongly encourages foreign companies to create joint partnerships or locate production facilities in Russia. The Russian company Power Machines (Siloviye Mashiny) is the market leader with a share of over 50%. It unites production, supply, construction, maintenance and modernization of equipment for thermal, nuclear, hydraulic and gas turbine power plants. The following big international energy equipment holdings are well established and have joint ventures or their own production facilities in Russia: General Electric, Siemens, Alstom, ABB, Skoda Power, Mitsubishi Heavy Industries, Ansaldo Energia, and Areva.

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According to the International Energy Agency, the Russian power sector will require a $440 billion investment by 2030 to avoid regional blackouts and meet future demand. This will include installing new generating capacity and significantly modernizing what is currently installed across all sectors. The development of the renewable energy sector has also led to an increasing demand for highly innovative technology and equipment that is both efficient and environmentally friendly.

Nuclear Sector

Russia's Federal Target Program envisions a 25-30% nuclear power share of total generation by 2030, 45-50% by 2050, and 70-80% by 2100. In order to achieve the goals, Russia's rapidly aging fleet of nuclear reactors will need to be replaced, as over half of Russia's current nuclear reactors are over 30 years old (the typical working life of a reactor). As of September 2013, 10 new nuclear reactors were under construction (with total capacity of 8,382 MWe), including a floating nuclear plant expected to commence operations in 2019. In addition, another 25 units are planned (with combined capacity of 27,809 MWe) and expected to be completed between 2017 and 2025. Industry analysts estimate that the amount of needed for the nuclear sector to be $22 billion in the short-term (2013-2019), and $100-139 billion in the long-term (by 2030).

Renewables Sector

In May 2013, the Russian Government adopted Decree No. 449 on the Mechanism for the Promotion of Renewable Energy on the Wholesale Electricity and Capacity Market. The cornerstone of this capacity-based mechanism is the "Capacity Supply Agreement", which will allow renewable energy investors and utilities to benefit from regulated capacity prices for a period of 15 years. By 2020, the government plans to build 6 GW of renewable generation, out of which 61% will be dedicated to wind generation, 26% to solar power, and 13% to small-scale hydro generation. Industry analysts estimate that the amount of investment needed for the wind energy to be $180 billion in the short-term (2013-2019), and bring on additional capacity of 6,060 MW by 2030. While not specifically covered in the aforementioned decree, industry analysts also note opportunities for upcoming projects for geothermal and tidal energy.

Grids

The country's transmission and distribution grids are mostly controlled by Rosseti (aka "Russian Grids"), which is majority state-owned. The national grid is comprised of over 2 million miles of power lines, connecting the seven Integrated Power Systems across Russia's Unified Energy System. Existing transformers at the substations and high-voltage lines are suffering from considerable wear and tear (estimated at 60-80%). Analysts predict that Russia will be spending about $48 billion to upgrade the grid infrastructure in the short term (2013-2019).

As part of their construction and rehabilitation planning, Russian Grids anticipates incorporating innovative equipment and technologies. The Russian government has shown interest in Smart Grid technologies, and is even advancing "smart city" pilot projects in Belogorod and Kaluga. However, it remains to be seen how far forward technology will jump during the large-scale modernization effort necessary in the short-term. For a number of reasons, power generating companies have shown a general reluctance toward adoption of smart grid technologies.

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In 2009, the Russian government approved a resolution establishing the Energy Strategy of Russia for the period up to 2030. The energy policy seeks to make the best possible use of all energy sources, finding the best ratio overall to develop the economy, modernize the sector, and meet future energy demands. Under the strategy, Russia's total need for new generating capacity is estimated at around 173 GW, of which an estimated 112 GW of new thermal capacity is anticipated, along with 43 GW of nuclear capacity, 12 GW of hydropower capacity, and 6 GW of renewable capacity (wind, solar and small-hydro).

According to the Energy Strategy of Russia for the period up to 2030, some of the specific priorities for the electric energy industry include:

- developing gas turbines with a capacity of 300-350 MW and highly efficient condensation combined cycle gas turbine units with a capacity of 500-1000 MW and a performance index exceeding 60%;
- designing standard modular combined cycle co-generation units with a capacity of 100 and 170 MW and a performance index amounting to 53-55% for heat and power plants;
- developing environmentally friendly coal condensation units on ultra supercritical steam conditions with a capacity of 660-800 MW, as well as combined cycle units on solid fuel gasification (200-600MW) and coal synthesis gas;
- introducing technological energy complexes working on gas and solid fuel for combined production of electricity and synthetic liquid fuel;
- developing highly integrated intelligent transmission and distribution networks (Smart Grid) in Russia's Unified Energy System;
- developing power electronics, especially various types of network control devices (flexible alternating current transmission systems), automated electricity demand control systems; and hydroelectric equipment for tidal power plants.

Current information about new tenders, analytical materials, regulatory documents, application procedures and other participation requirements may be found at http://tenderenergo.ru. The website is in Russian and intended for local representatives of foreign companies and Russian power supply firms.

Tenders for power generation equipment can also be found online at www.b2b-energo.ru. Most of the wholesale power generation companies (OGKs) and territorial generation companies (TGKs) also have their own marketplaces on their websites. A foreign vendor needs to keep in mind that paper documentation for tenders is generally required in the Russian language. The power stations officially publish tenders for some renovation tasks. For major projects, they work with specialized engineering, procurement and construction companies (EPCs).

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Russian Ministry of Energy:	www.minenergo.gov.ru
Rosatom - Federal Agency for Nuclear Energy:	www.rosatom.ru/en
System Operator:	www.so-cdu.ru
Rosseti (Russian Grids):	www.rosseti.ru/eng
Federal Grid Company:	www.fsk-ees.ru/eng/
Inter RAO UES:	www.interrao.ru/en
RusHydro:	www.eng.rushydro.ru

Trade Events

AtomExpo
June 9-11, 2014
Moscow
http://2014.atomexpo.ru/en

Energetika & Electrotechnika / Russian International Energy Forum
June 17-20, 2014
St. Petersburg
http://energetika.lenexpo.ru/en

Power Electronics
November 25-27, 2014
Moscow
http://power.primexpo.ru/en

Russia Power / HydroVision Russia

March 3-5, 2015
Moscow
www.powergen-russia.com
www.hydrovision-russia.com

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Forestry and Woodworking

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The forestry and woodworking industry is an important sector for the Russian economy. Over 60,000 private companies, employing about 1 million people, specialize in forestry harvesting and production of value-added products. Russia is one of the best potential markets for forestry and woodworking machinery manufactures. The country has 82 billion cubic meters of forest, which represents 25% of the world's stock of timber. However, roughly 10% of this stock is accessible for harvesting due to undeveloped infrastructure. In 2013, the woodworking industry's growth rate decreased to 1.4%, reflecting stagnation in the nation's forestry and woodworking industry. Production volumes of the majority of forestry and woodworking enterprises decreased compared to 2012 levels. As a result, the share of the industry in Russian GGP decreased by 0.03% to 1.16%.

According to expert evaluations and market research provided by Lesprom Network company (http://www.lesprom.com/), in 2013 timber harvesting amounted to 114.3 million c. m. (3.4% decrease compared to 2012), sawn timber production amounted to 20.9 million c. m. (0.6% decrease), wooden houses to 182.8 thousand sq. m. (a 9.2% decrease), fiberboard to 419 million sq. m. (9.7% decrease), MDF to 218.8 million sq. m. (2.1% decrease), particle board to 6.7 million c. m. (1.8% decrease), firewood to 14.1 million c. m. (10.5% decrease), pulp to 7.2 million tons (6% decrease), paper to 4.7 million tons (1.5% decrease), newsprint to 1.6 million tons (13% decrease), and cardboard to 3 million tons (0.6% decrease). Despite this weak showing, re-tooling of existing operations and the launching of new mills has led to growth in other areas. Veneer production amounted to 6.2 million c. m. (15.2% increase) and plywood production amounted to 3.3 million c. m. (3.9% increase).

In 2013, the share of raw timber exported from Russia increased by 13% to 28 million cubic meters and the export of sawn timber increased by 6.8% to 25.6 million c. m. The major importers of Russian timber were China (48%), Finland (38%), South Korea (6%), and Sweden (4%). The export of pulp and paper products remained at the 2012 level. The export of plywood increased by 7.8% to about 1.8 million c. m., including exports to the U.S.A., which increased by 22% to 152 thousand sq. m.

Domestic production

Domestic manufacturers of forestry machinery are losing market share to foreign manufacturers. Skidding machinery is the timber harvesting technology used in most of Russia. According to industry specialists, Russia produced 758 forestry machines in 2008 and only 70 in 2012. However, current demand for skidding machinery is 1,000-1,500 machines per year. The lack of reliable and modern domestic machinery is the main reason why many forestry companies are forced to switch from skidding to cut-to-length operations and purchase imported harvesters and forwarders. However, as industry experts report, the economic benefit of this technology has not yet been realized in many regions in Russia. Currently, the largest domestic manufacturer of forestry machinery is Machinery & Industrial Group N.V (Traktornye Zavody Group of Companies).

In order to be competitive, the industry also needs modern woodworking equipment. A large number of domestic companies produce woodworking equipment. Most Russian producers of woodworking equipment manufacture machines designed for sawing plants, such as barking bars, horizontal band saw mills, round saw mills, gang saws, and planers. Such equipment is used to produce medium-quality, standardized saw timber which is widely used in construction. Domestic equipment is relatively inexpensive, and practically all end-users have several types of woodworking equipment. However, this equipment is not used to produce high-quality items, and it is not an integral part of high-output modern production lines.

In 2012, according to expert estimates, band saw mills occupied 35% of the woodworking equipment market, industry specific equipment (32%), round saw mills (12%), planning equipment (7%), tenoners and moulders (6%), and other types of equipment (8%).

Imports

Forestry machinery manufacturers continue to increase their share in the Russian forestry machinery market. The major share of the market is occupied by wheeled and tracked machinery for cut-to-length operations (harvesters and forwarders). John Deere is one of the major industry players in Russia. Other recognizable brands are Ponsse, Valmet, Caterpillar and Tigerkat.

Despite the lower cost and wide availability of domestically produced woodworking equipment, Russian end users prefer imported equipment. This trend is due to the higher manufacturing quality and better compliance with specific manufacturing methods that foreign equipment provides. German, Italian, and Finish equipment used to dominate the Russian market, but the major share of the market is now occupied by Chinese firms. These firms offer inexpensive lower-end equipment, thereby meeting the needs of small enterprises with limited budgets for capital expenditures. German manufacturers moved into second place and Italy is now third. U.S. woodworking companies occupy a small share of the market. The industry is represented by USNR, Timber Harvester, High Point Tool, Baker Products, Auburn Machinery, The Tailor, Unique Machine & Tool Co., Simonds, Lenox, and others. Experts convey that Wood-Mizer mobile band saw mills enjoy customer recognition as an effective and reliable machine.

Distribution

The majority of foreign manufacturers have representative offices in Moscow and St. Petersburg. Imports of woodworking equipment include direct supplies to end-users and supplies to wholesale trading firms and distributors. Cooperation with project development companies is also a good way to introduce new equipment in Russia. To be successful in the market, U.S. companies are encouraged to establish a representative office and a local warehouse with spare parts. After-sales service including short-term delivery of spare parts is critical for success. Training on the use of equipment is also important. U.S. firms should invest time and resources in establishing strong relationships with potential clients and regional administrations. The first sale can be difficult and time consuming, but it is a critical step towards gaining recognition and future sales.

Participation in local trade shows and conferences and international events focused on Russia and the NIS market is important for the promotion of new products and establishing contacts with key industry people.

End users

The major end-users of forestry and woodworking equipment are large holding companies comprised of timber-cutting and wood-working enterprises, pulp and paper plants, and furniture factories. Only large companies can finance large-scale projects, such as the construction of new production facilities or the refurbishment of existing ones. Industry analysts estimate that holding companies control over 85% of the forestry industry and operate in all major forestry regions.

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Domestic furniture industry is one of the major end users of woodworking equipment. In spite the fact that it decreased production volumes in 2013, it is still experiencing high investment and development activity due to strong demand in local markets. Because many high quality furniture components can be produced only on imported machinery, the demand for such imports is high. Strong opportunities exist for U.S. manufacturers of laminating machinery, edge-banding machines, furniture production machinery, furniture front machinery, parquetry machines, and machinery for production of OSB, MDF, and fiberboard. Forestry machinery for skidding operations, cut-to-length logging, wood chippers and shredders, and firewood processors are also in a great demand in the Russian market.

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In 2013, the volume of investment in Russia's forestry and woodworking industry decreased by 40.7% to about $2.8 billion. Such a drastic decrease was mostly due to a four time decrease of investment in forestry to about $600 million. Capital investments in the pulp and paper industry also decreased by 6.2% to about $1.3 billion. Capital investments in woodworking industry decreased by 1.6%, to about $950 million. As a result, forestry received 20% of total investments, pulp and paper 46%, and woodworking 34%.

The volume of funds invested into the purchase of imported equipment and machinery decreased by 5.82% to about $620 million. The share of the woodworking industry is 35%, pulp and paper 23%, and forestry 42%.

Companies in the woodworking sector continue to modernize existing and construct new facilities. Last year, DOK Kalevala started the large-scale production of OSB in the Republic of Karelia. This is the first OSB mill in Russia. Annual capacity of the mill is 250-300 thousand
c. m. of OSB. Around $270 million was invested for the first stage of the project. The second stage, which is planned to be completed in 2014, will increase annual capacity of the mill to 550 thousand c. m. of OSB. Production equipment was supplied by German Siempelkamp.

The project of OSB mill has the status of priority investment project. The list of priority investment projects was developed by the Russian government. Currently, the list includes 117 projects with expected total investment of $12 billion and capacity to process over 81 million tons of raw material. In order to be included into the list, the project should have total capital investment of not less than $8.5 million.

The Russian forestry holding company Ilim Group (50/50 joint venture with International Paper) is the largest investor in forestry industry in Russia. Up to date, the company invested over $1.5 billion. Last year, within the timeframes of "Ilim 2014" program and "Bolshoy Bratsk" project, Ilim Group constructed and put into operation new modern mill for production of pulp with annual capacity of 720 thousand tons. In the timeframes of "Bolshaya Koryazhma" project, new paper making machine was put into operation.
In the beginning of 2013, 27 priority investment projects with total investment of $2.6 billion were placed into operation. As expected, the Government of Russia will invest about $11 billion into the development of 118 priority projects in forestry and

woodworking. The list of priority investment projects compiled by Lesprominform magazine can be found on http://lesprominform.ru/proekty_lpk.html (in Russian).

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1. http://www.lesprom.com/
2. http://www.lesprominform.ru/
3. http://www.lesonline.ru/
4. http://eng.amedoro.com/
5. http://www.drevesina.com
6. http://www.wood.ru
7. http://www.lesexpert.org/
8. http://www.bumprom.ru/

Trade Events

XVI International Forestry Forum
September 30-October 1, 2014
Restec Exhibition Company
Тел./факс: (812) 303-88-66, 320-63-63 (7265)
http://spiff.ru/
E-mail: woodsales@restec.ru
Contact: Ольга Кузнецова, foreign sales

Lesdrevmash 2014
October 22-23, 2014
Expocenter
Krasnopresnenskaya nab. 14
Moscow, Russia 123100
Tel: +7 (499) 795-2724
Fax: +7 (495) 609-4168, +7 (499) 795-2751
http://lesdrevmash-expo.ru/en/
e-mail: koroleva@expocentr.ru
Contact: Marina Korolyova

LIGNA
May 11-15, 2014
Deutsche Messe
Messegelände
30521 Hannover, Germany
Tel: 0511 89-0
Fax: 0511 89-32626

http://www.ligna.de/home

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Machine Tools and Metal Working Equipment

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Million USD	2012	2013	2014 (estimated)
Total Market Size	1,872	2,056	2,158
Total Local Production	211	263	276
Total Exports	70	45	48
Total Imports	1,687	1,838	1,930
Imports from the U.S.	96	113	119

Data Sources:

Total Local Production: Gardner Business Media, Inc. (2014)
Total Imports, Imports from the U.S. and Total Exports: Global Trade Atlas (HTS Codes 8456-8461 for metal-cutting machines and 8462-8463 for metal forming machines)
Estimates for 2014: based upon Post's anticipated growth of 5%

According to Euromonitor International, rhe Russian machine tools industry is largely dependent upon imports, which accounts for 79% of its total size. Although the import share of machine tools from China has increased fourfold since 2005, major European countries and the United States still account for a considerable share of the Russian import market.
In 2012, the main supplier nations were Germany (25%), China (24%), Italy (11%), and the United States (7%). In 2012, order bookings from Russia for German machine tools rose by 30% in the first three quarters, according to the German Machine Tool Builders Association.
With a volume of approximately $2 billion, Russia's machine tool market is already among the world's Top Ten. Machine tool consumption was originally forecasted to increase by 9.5% in 2013 and over 10% in 2014. However, the recent slowdown of the Russian economy and other global events may lead to slower growth of imports in 2014. Experts anticipate moderate growth of 5% in 2014, which is lower than the 8.21% growth rate registered in 2013.

The continuous demand for machine tools is driven by the government's strategy to modernize Russian industries across the key sectors –power generation, transport, defense, automotive, aerospace, shipping and agricultural. Foreign imports play a key role in fulfilling the needs of the Russian economy for up-to-date manufacturing equipment and technology. Major European and Asian suppliers have been active in this market for many years. Foreign machine tool manufacturers supply both cheaper, universal types of equipment (China and Turkey) and the advanced, state-of-the-art machinery (European countries).

Selling machine tools in Russia is accomplished through the four most common business models: direct sales to the end user from the offices outside of Russia, sales via own representative office in Russia, sales via engineering companies, and sales via local trading companies.

At the same time, the Russian government is pursuing strategies to decrease the country's reliance on imported machine tools, especially as it relates to the defense sector. In February 2011, the government passed resolution #56 which bans the importation of foreign made machine tools acquired via state funds for the needs of the Russian defense industry, if similar types of machine tools are available from local manufacturers.

The Russian government's strategy is to also stimulate development of locally manufactured high tech machine tools through special state programs, which aim to decrease reliance on foreign imports as well. The National Technical Base program will fund the research and development of advanced Russian made machine tools totaling about 50 billion Rubles (approximately $1.4 billion) over the next 20 years. Approximately 50% of the funds will be provided from the federal budget, while the other half will be sought from private investments. The federal special purpose program *Development of Russian machine tool production for 2011-2016* will allocate approximately 26.5 billion Rubles (approximately $75 million) to support R&D and capital investment in the domestic machine tool infrastructure.

The Russian federal and regional governments strongly promote localization and guarantee their support and benefits to localization of international OEMs in all sectors. The transfer of western technology is accorded a high priority in these projects.

As competition grows, the nature of machine tool demand in Russia is changing towards a more "push" oriented model with the foreign machine tool manufacturers increasing their local and sometimes regional presence and therefore playing a more active role in developing contacts. Many of the major European competitors, specifically German companies, have established their own representative offices in Russia to increase brand recognition, to facilitate working with local partners, and to maintain client relationships with key accounts. U.S. exporters exploring opportunities in the Russian market should consider advanced technology of the given product, well-thought out service and repair support, flexible and affordable financing, and their commitment to the Russian market in the long-term.

Best Products/Services

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At present, all types of machine tools are in demand in Russia. For years, the domestic industry has specialized primarily in broad application type of machine tools, such as turning, milling, and horizontal boring machines. The advanced types of machine tools, such as precision processing, all types of grinding machines, and gear processing were underdeveloped in Russia, and these advanced machine tools now comprise the best prospects for sales, especially given the need for modernization.

Other types of machines that are supplied to Russia from abroad include machining centers, lathes, drilling and milling machines, grinding, honing, lapping and polishing machines, laser processing machines, gear-cutting machines, presses, bending, beveling and straightening machines.

Opportunities

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Key Russian regions for the manufacturing technologies are Moscow, St. Petersburg, Yekaterinburg, Novosibirsk, Chelyabinsk, Bashkortostan (Ufa), Tatarstan (Kazan), Krasnodar, Rostov-on-Don, and Perm.

The Russian Ministry of Industry and Trade recommends the four main regions for localization of metal processing equipment manufacturing: Tatarstan, the Rostov region, the Sverdlovsk region (Yekaterinburg), and the Ulyanovsk region. These regions, according to the Ministry, have considerable potential to become Russia's leading machine tool clusters.

During the International Metal-Processing Investment Forum in March 2013, the administration leaders from Tatarstan, the Rostov region and the Sverdlovsk region signed preliminary agreements on possible cooperation with the following foreign machine tool manufacturers, accordingly: Coskunoz Metalform (Turkey), MTE and Kovosvit (the Czech Republic), and TOS Varnsdorf (the Czech Republic). The Ulyanovsk region currently has a project with Gildermeister AG (Germany) to construct a plant which will have the capacity to manufacture 1,000 machine tools annually.

Resources

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Key Trade Events

METALLO OBRABOTKA 2014, Moscow
15th International Exhibition for Equipment, Instruments and Tools for the Metalworking Industry
June 16-20, 2014
http://www.metobr-expo.ru/en/

URAL METAL EXPO 2014, Yekaterinburg
11th International Exhibition of metal processing equipment, materials, components, and services
September 24-26, 2014
http://www.uralmetalexpo.ru/en/

STANKOSTROENIE 2014, Moscow
International Machine Tool Exhibition
October 14-17, 2014
http://www.stankoexpo.com/eng/

MASHEX 2014, Moscow
17th International exhibition of equipment and technologies for processing metals and composite materials
October 28-31, 2014
http://www.mashex.ru/en-GB

MECHANICAL ENGINEERING.METALWORKING.KAZAN
14th International Specialized Exhibition, Kazan
December 3-5, 2014
http://www.expomach.ru/eng

Internet Resources/Organizations

STANKOPROM
It is a systems integrator of the Russian machine tool industry enterprises. The company is managed by Russian Technologies Holding Corporation (Rostec).
http://en.stankoprom.ru/

STANKOINSTRUMENT
It is the Russian Association of Machine Tool Products Manufacturers
http://www.stankoinstrument.ru/ (only in Russian)

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Medical Equipment

USD in millions	2012	2013	2014 est.
Total Market Size	3,800,000	4,060,000	4,200,000
Total Local Production	620,000	700,000	800,000
Total Exports	140,000	170,000	220,000
Total Imports	3,320,000	3,530,000	3,620,000
Imports from the U.S.	200,000	300,000	400,000

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Russia instituted a comprehensive reform of its healthcare system, and healthcare is "Priority #1" among the government's national priority projects. Russia's healthcare system is rapidly evolving, which is creating many promising areas for U.S. medical equipment exports. It is currently estimated that only 20% of the Russian population of 142 million has access to quality healthcare. The majority of hospitals and polyclinics are public and belong to federal, regional, or local governments.

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

The Russian medical equipment and supply market is one of the fastest growing sectors of the economy. There are two factors that explain this strong potential. First, there is an unsatisfied deferred demand for medical equipment in the Russian market. Second, the Russian government pays close attention to this field and is attempting to make it more transparent and efficient. These two factors are closely connected, as the Russian government decides which medical equipment to buy which is in effect shaping the demand for medical products in the market. In order to support the healthcare sector, a number of government programs have been implemented to include reforming the Mandatory Healthcare System and the public program *Development of Healthcare*.

Almost two-thirds of medical equipment and devices used in public clinics and hospitals are obsolete and are in need of replacement. A major problem that the Russian healthcare system faces concerns the poor condition of Russian healthcare facilities. According to data from the Russian Federal Statistic Service, approximately 2% of medical facilities are in hazardous condition, 8.5% do not have cold and hot water, 32.5% do not have hot water, more than 10% do not have central heating, 11.2% do not have a sewage system, and 6.7% do not have reliable telephone services. In order to solve these critical problems, the budget earmarked for the regions will be allocated and used for modernization purposes. Another significant issue is that new medical equipment will be necessary for renovated medical facilities, which will in turn drive the demand for purchasing new medical equipment.

According to various sources, imported medical devices constitute 60% of Russian medical market sales. Statistical data shows that 40-45% of imports come from Germany, 20-25% from the United States, 10% from Japan, and 5% each from Italy and France. For the last three years, a growing number of cheaper analogs from China and Pakistan have entered the Russian market in large volumes.

Russian medical equipment manufacturers are making some progress in several traditional and developing segments. For that purpose, the Ministry of Industry and Trade of Russia drafted the program *Development of the pharmaceutical and medical equipment industry in the Russian Federation until 2020 and further perspective*, which was adopted on February 17, 2011. This program is divided into two stages for the years 2011-2015 and 2016-2020. By the end of the program the percentage of medical equipment that is manufactured by Russian producers is targeted to increase from 18-20% to 40%. This goal of the Russian government is to grow the domestic industry through the localization of production by foreign companies. There are many benefits to localization of production, including: the construction of new and modern manufacturing facilities; the creation of new jobs in Russia; and the introduction and evolution of new technologies in the market place and healthcare sector.

The program stipulates that manufacturers operating in the Russian market are better suited to understand the needs of consumers and patients which means they are more likely to produce products that meet the specific demands of the Russian market. Moreover, equipment manufactured in Russia will be customer-friendly, which is especially true for monitoring equipment that will have a Russian interface. All of these actions will help local production facilitates to create a more transparent market where pricing becomes clearer and who acts as a seller or buyer should become more evident. Therefore, localization may solve problems with respect to the procurement of medical equipment.

About 1,200 Russian enterprises, 90% of them privately-held, manufacture an array of medical devices including apparatuses and appliances (45%), medical instruments (10%), medical equipment (9%), glass and polymer medical products (10%), and other various medical products (26%).

A particular focus of Russian manufacturers is on producing surgical tables, lighting systems, sterilization equipment, disinfection, beds, and medical furniture. The Russian manufacturer KB Vzlet developed the “Kosmea” apparatus which is used for cardiac artery bypass surgery that works without an artificial blood-circulation apparatus. The company Trekpor Technology Holdings developed an industrial magnetic-resonance accelerator for the production of membranes.

Russian government organizations account for about 80% of all medical equipment purchases. Private hospitals and patients represent the other 20%. Due to the uneven distribution of sales in the market, government procurement programs are important.

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Despite recent breakthroughs and the fact that locally produced medical equipment is two to four times cheaper than imported equipment, Russian production still lags behind the majority of developed countries. Russia is still heavily dependent on imports for a significant number of the medical equipment industry sub-sectors, especially those requiring large investments in research and development (R&D), innovative technologies, and automation. The most promising market segments include diagnostics and visualization, cardiovascular, ophthalmology, orthopedics, laboratory diagnostics, and urology equipment and technology.

Opportunities Return to top

For a number of years, the Russian government has continued to launch numerous programs focusing on financing the healthcare sector. The first program, designed to significantly improve Russian healthcare, was the National Health Project in 2005. From 2011-2013, $15.4 billion was allocated from both the federal budget and the Mandatory Healthcare Insurance Fund to support this program. This significant funding reflected the current need for new and modern technologies for diagnostics and treatment. Russian patients are becoming increasingly aware of modern medical technologies around the world and are now expecting the same type of treatment in Russia. For medical equipment, *the Program of High-Tech Medical Assistance 2011-2013* was established and financed with $4 billion.

According to the Ministry of Healthcare, the *Development of Healthcare* program includes a $740 billion budget. There are 11 articles that focus on the various needs for healthcare in the ministry. One of them is the provision of specialized care, including high-technology and emergency ones that will be financed at $25 billion from 2013-2020.

Overall, the medical equipment market should show the best results by 2016 and reach $15 billion by 2020.

The accession of Russia into the WTO should also prove to be beneficial for foreign exports to Russia. After the full implementation of WTO accession commitments comes to fruition, the tariffs for medical equipment should drop to from 15% to a low range of 0% up to 7%, therefore increasing the competiveness of doing business in Russia for American companies.

Web Resources

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Organizations

Ministry of Healthcare: http://www.rosminzdrav.ru/

Russian Federal Service on Surveillance in Healthcare and Social Development: http://www.roszdravnadzor.ru

Trade Events

Zdravookhranenie, International Exhibition of Medical Equipment and Drugs
December 8-12, 2014
Moscow
http://www.zdravo-expo.ru/en

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Rail Equipment

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Million USD	2012	2013	2014 (estimated)
Total Market Size	12,216	11,223	10,662
Total Local Production	9,440	8,893	8,448
Total Exports	661	466	443
Total Imports	3,437	2,797	2,657
Imports from the U.S.	28	30	28

Data Sources:

Total Local Production: Data from OPZHT (Russian Union of Railway Equipment Manufacturers) re-calculated in USD (1 USD = 35 Rubles)
Total Imports: HTS Code 86 from the Global Trade Atlas
Total Exports: HTS Code 86 from the Global Trade Atlas
Imports from USA: HTS Code 86 from the Global Trade Atlas

(HTS Code 86 – “Railway or tramway locomotives, rolling stock, track fixtures and fittings, and parts thereof; mechanical etc. traffic signal equipment of all kinds”)

Industry sources state that the aggregate productions of railway equipment, including freight and passenger cars, maneuver and mainline locomotives, decreased in 2013 by 5.8% in comparison to 2012. The decrease in production was preceded by three straight years of growth, which has resulted in oversupply of freight cars. The oversupply reached 240 units in early 2013 and increased to 300 units at the end of 2013, according to RZD sources. At the same time, more cars ran empty, the average speed of freight trains decreased, and more bottlenecks were observed on railroads.

The sector was also negatively affected by the reduction of freight car traffic, which started in early 2013. The Russian Statistics Agency (ROSSTAT) reported a 2.8% reduction in 2013, compared to 2012. These factors have led to decreased production of railway equipment in all Russian railcar manufacturing plants. *Uralwagonzavod*, one of the major Russian manufacturers, has reportedly decreased production by almost 30%.

Besides freight cars, the number of passenger cars also decreased from 70,000 units in 2012 to 60,000 units in 2013. *Tverskoy railcar building plant*, one of the major manufacturers in this industry segment, announced a complete suspension of production for four months in 2014. The suspension is attributed to a sharp decrease in orders from the *Federal Passenger Company*. Therefore, the production of passenger cars in 2014 may decrease by approximately 20%. In addition, most railcar operators do not plan to acquire new freight cars this year. Industry experts believe that this situation could improve, if local manufacturers receive support from Russian state programs, either through the used railcar utilization program or state subsidies to acquire innovative railcars. However, it is not clear whether these programs will take effect in 2014. Experts from RIA Rating agency believe that the negative dynamics for production of freight cars will continue in 2014 with an anticipated decrease rate of approximately 5%.

Unlike production of railroad cars, the production of locomotives grew in 2013. The production of mainline electric locomotives increased by 16.5%, compared to 2012, and the production of diesel locomotives grew 1.5%. Both categories of locomotives registered record growth from 2008 to 2013. The growth is attributed to continuous procurement of locomotives by RZD. In 2013, RZD purchased 860 units, compared to 532 in 2012. Experts from RIA Rating agency believe that production of locomotives in 2014 will decrease. RZD has already announced that it plans to purchase 629 units, which is 27% less than in 2013. One of the reasons for this reduction is linked to the freezing of tariffs on services of natural monopolies. The reduction of locomotive purchases by RZD may be compensated by an increasing number of procurements from independent operators. However, the Russian government has not yet made a decision on the liberalization of the country's locomotive fleet, which continues to be under the exclusive ownership of RZD.

At the same time, the Russian Federal Customs Authority has reported that imports from non-CIS countries fell by 5% in January-February 2014, compared to the same period in 2013. The decline in imports of locomotive parts for February 2014 reached 47.7%, according to the

Customs Authority. Industry experts anticipate about a 5% decline in imports for the remainder of 2014.

Opportunities Return to top

Despite the abundance of smaller private rail companies and independent industrial shippers, RZD (Russian Railways) continues to be the major rail operator in the Russian market with country-wide coverage. The operation of RZD extends over a huge territory of nine time zones and covers 85,200 km of tracks, representing the second largest rail network in the world after the United States. The RZD's rolling stock includes 20,277 freight and passenger locomotives, and 1,026,800 freight railcars. A major contributor for the Russian economy, RZD accounts for 42.3% of Russia's total freight traffic and more than 32.7% of passenger traffic.

The ambitious modernization program, which was adopted by RZD in 2008, envisions the construction of up to 20,000 km of new routes, the upgrade of 13,800 km of freight lines for heavy axle loads, and the acquisition of 23,000 modern locomotives, 29,500 passenger cars and nearly a million of freight cars through 2030. According to RZD estimates, at least 11 trillion Rubles (approximately $353 billion) will need to be invested in the Russian rail sector in order to make the 2030 goals achievable. In November 2013, the Russian government approved the RZD's investment program for 2014-2016 valued at 1.2 trillion Rubles ($37.78 billion). One third of this amount (approximately $11.94 billion) will be spent primarily on such capital projects as enhancements to the Trans-Siberian Railway and Baikal-Amur Mainline (BAM), and improvements to railway infrastructure in and around Moscow. Another 29% of the investment funds (approximately $11.14 billion 390 Rubles) will support improvements for the transit capacity of railroads. More than $8 billion will be spent on the procurement of rolling stock. Approximately $3.71 billion will be spent to support transport safety. According to industry sources, upgrades will be undertaken for 9,300 km of track lines, 660 km of overhead catenary systems, and 245 km of automatic block signaling systems. During this period, 1,529 new locomotives will be purchased, including 629 locomotives in 2014, and 450 locomotives in 2015.

The Strategy-2030 includes a core network of terminal-logistical centers that will be set up in the largest transport hubs and industrial zones of Russia, primarily for the benefit of users of international corridors. This network will help to develop multimodal transportation and to improve the level of transport services for existing RZD customers.

Even with the backing of the Russian federal and regional budgets, the investment program will still require leveraging from domestic and international private partners. Russia is currently reaching out to European partners for investment and joint projects. Since the start-up of the rail industry reform in 2001, the European Bank for Reconstruction and Development (EBRD) has invested more than $1.6 billion in 13 Russian rail projects. Industry sources say that the EBRD could acquire up to 5% of

RZD's assets to cement its strategy with RZD and to tap into the future potential of the Russian market.

Given a wide range of possible projects and significant amount of future investment in this sector, there is a high degree of competition both from domestic and international players. Major European and U.S. rail companies have already established their presence. The new market players will have to take this competition into consideration and should take a longer-term oriented approach to this market. Cultivating relationships with key Russian players will take time and with an understanding market access a complex process. Russia has stringent technical standards and foreign rail products have to become compliant with Russia's technical and regulatory requirements.

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The Russian rail industry has a strong preference for innovative technology and products as a way to modernize its existing capabilities. In June 2011, RZD's Board of Directors approved *Innovative Development Strategy for the period up to 2015*. This strategy highlights the following innovative development priorities that can be considered as guidance for U.S. companies interested in selling their products to Russia:

- Development of existing technology platforms, development and introduction of new technology platforms;
- Improvement of energy efficiency and introduction of resource-saving technologies;
- Creation of modern transport and logistics systems, including high speed and express ones;
- Development of intelligent traffic control systems based on modern digital telecommunication and satellite technologies and specialized management information systems;
- Radical renewal of rolling stock and infrastructure, bringing them in line with international standards

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Trade events

1520 STRATEGIC PARTNERSHIP
(9th International Rail Business Forum)
June 18-20, 2014 http://forum1520.com/2014/en/
Sochi, Russia

INNOTRANS 2014 (significant Russian presence)
(International Trade Show for Transport Technology – Innovative Components, Vehicles, Systems)
September 23-26, 2014 http://www.innotrans.de/en

Berlin, Germany

EXPORAIL 2014
(7th International Exhibition of Modern Products, New Technologies and Rail Transport Services)
October 28-30, 2014 http://www.exporail.ru/en/
Moscow, Russia

EXPO 1520
(5th International Rail Salon)
August 26-29, 2015 http://expo1520.ru/2015/
Moscow, Russia

Internet Resources

RZD website http://eng.rzd.ru/
RZD Strategy-2030 http://eng.rzd.ru/statice/public/en?STRUCTURE_ID=7
Russian Rail Industry news:
http://russianrailconsulting.com/news/
http://pokrovka-finance.com/
http://eng.rzd.ru/newse/public/en?STRUCTURE_ID=15

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Refinery Equipment

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Unit: USD thousands

	2012	2013	2014	2015
Total Market Size	5,000,000	8,000,000	9,000,000	8,000,000
Total Local Production	2,000,000	4,000,000	4,800,000	4,000,000
Total Imports	3,000,000	4,000,000	4,200,000	4,000,000
Imports from the U.S.	800,000	1,200,000	1,200,000	1,200,000

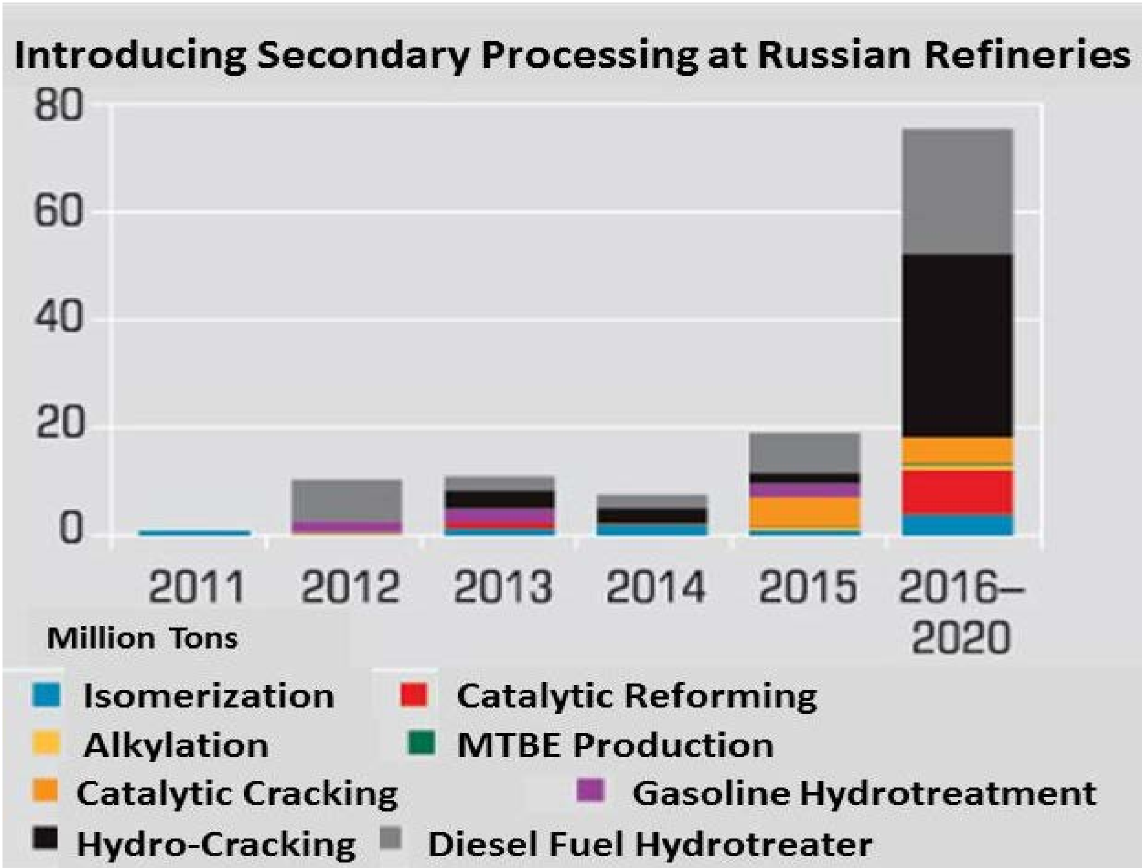
Source: CS Russia estimates.

The oil and gas industry to Russia is one of the most important sectors. Russia is one of the top three crude oil producers and the number two producer of natural gas with the largest natural gas reserves in the world. Proceeds from the oil and gas industry account for over a half of Russian federal budget revenues, most of it coming from exports of crude oil and natural gas. Recently, a strong emphasis has been placed on the necessity to develop the Russian oil and gas refining and petrochemical industry, which should reduce Russia's dependence on global crude oil and gas prices. The plan involved fully employing existing domestic refining capacities and to gradually upgrade existing refineries and build new ones. This strategy should lead Russian companies to focus on the export of processed petroleum products rather than crude oil and gas, while meeting the increasing domestic need for high quality petroleum and petrochemical products.

One of the major incentives for the rapid technological upgrade of Russian refineries is the official ban on the production of low-quality fuels. The ban on production of Euro-2 fuel, originally scheduled for December 31, 2010, has been postponed twice, because most Russian refineries failed to upgrade their facilities to the level necessary for the production of Euro-3 fuel. At the request of Russian refining companies, the government postponed the introduction of Euro-3 fuel emission standards to January 2013, to be followed by the introduction of Euro-4 in 2015 and Euro-5 in 2016. This decision was tied to the obligation imposed on all major refining companies to upgrade their facilities in order to comply with new requirements. This requirement along with the aforementioned desire of Russian petroleum producers to export more refined products to the international marketplace requires intensive modernization and capacity increases of existing refining facilities.

Therefore, Russia remains one of the few regions that continues to look at major investment programs in the downstream sector. A reason for this trend is the relatively small investments undertaken in the sector over the past decades. According to varying assessments, a total technical upgrade of the Russian refining industry requires $30 to 50 billion. Despite ambitious plans adopted in 2008, when the Government of Russia initiated a large scale campaign on technological upgrade of the country's refining capacity, actual expenditures by major Russian oil companies for this purpose did not exceed $6 billion from 2008-2010, according to estimates from Russia's Ministry of Energy (MoE).

As illustrated by the chart below, the MoE planned a sharp increase in modernization activity in refineries for 2011-2015, followed by further modernization projects in 2016-2020.



Source: Ministry of Energy of Russian Federation

The modernization process commenced in 2012, and according to a recently delivered statement by the Minster of Energy, in 2013, the refining sector registered an almost 50% year-on-year increase in investment. In particular, capital expenditures in refining rose from $5.7bn to $8.7bn, and 13 new units for deep oil refining were installed.

Sub-Sector Best Prospects Return to top

The following general areas represent the most promising prospects:

- Emphasis on secondary refining upgrades to increase the depth of refining, from current levels of 70% up to 80% and above, including development and installation of new visbreakers and introduction of delayed coking processes;
- Upgrade of primary (top) refining units with the objective of increasing light-end product bleeding and reducing electricity consumption;
- Optimization of commercial motor gasoline production, and upgrade of catalytic reformers to produce high-octane components of motor gasoline;
- Introduction and/or upgrade of low-sulfur diesel fuel production units;

- Upgrade of catalytic cracking units to increase the yield and RONC of gasoline and improve energy-efficiency in this process;
- Transfer of certain types of fuel hydrogenation units to light hydro cracking technology, in order to increase diesel fuel output;
- Transfer of decommissioned catalytic reformers to isomerization processes of C5-C6 hydrocarbons to produce high-octane components of motor gasoline;
- Adaptation of atmospheric distillation and thermal cracking units to visbreakers;
- Optimization of internal refinery energy systems, including installation of energy-efficient, stand-alone gas-turbine and diesel power plants where appropriate to lower refineries' power consumption costs;
- Upgrade of storage and intermediate reservoirs;
- Cogeneration of refinery heavy bottoms into steam and electricity, or other relevant utilization technologies; and
- Introduction of modern integrated process control and accounting systems, including Distributed Control Systems (DCS).

Smaller oil producing companies are looking for opportunities to process crude oil right at the production site, which would allow them to increase the value of their product and reduce transportation expenses. Therefore, there are opportunities for U.S. manufacturers of equipment for mini refineries, and companies providing turn-key solutions have the best prospects.

Opportunities Return to top

At present, Russia has 32 major and over 80 mini oil refineries with a total processing capacity of 5.6 million b/d. In 2012, the Russian refining industry produced 38.2 million tons of gasoline, 69.7 million tons of diesel fuel, and 74.5 million tons of fuel oil.

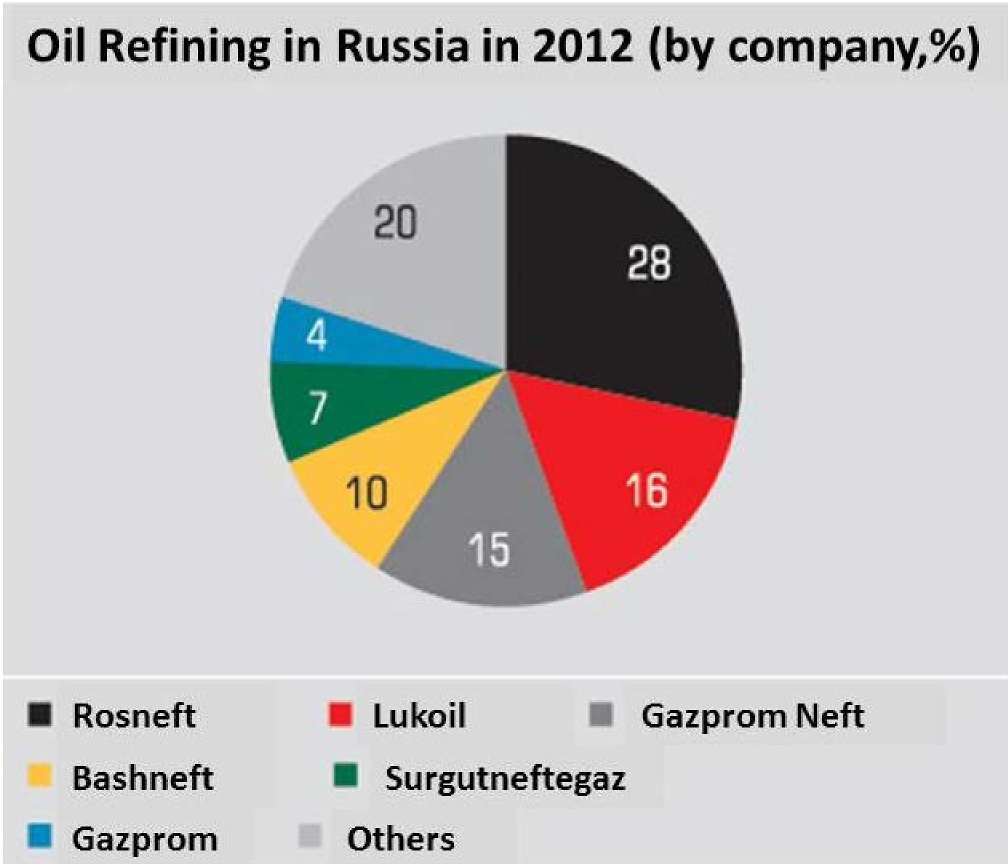
Most of the Russian oil refineries were built in the two postwar decades: 16 plants, half of those currently active, were commissioned between 1945 and 1965. Only two refineries, with the total capacity of about 70,000 b/d, were launched in Russia shortly after the collapse of the Soviet Union. Therefore, until recently, plants built during the Soviet time were recycling about 98% of oil, and only a few had gone through significant technological upgrades. It is not surprising that experts unanimously admitted a high level of depreciation (60-75%) and use of old technologies in the Russian refining industry. Despite certain positive changes that have taken place recently, the quality of the product still leaves much to be desired and the depth of oil refining is still extremely low. In fact, the average depth of oil processing in Russia does not exceed 72%. In addition, the hydro skimming capacity of the Russian refining industry exceeds its capacity to produce refined petroleum products, which is explained by the fact that the

Soviet oil refining industry was focused on the production of diesel fuel and fuel oil, while demand for gasoline was relatively low.

Economic reforms in the1990s did not bring any positive changes to the Russian oil refining and petrochemical industries. In fact, due to the sharp decrease in domestic oil consumption, there was a significant decline in the actual volume of processed materials. In 2000, Russian refineries processed 168.7 million tons of crude material only producing at about 50% of their total capacity (296 million tons per year). In 2011, the *60-66-90* tax regime was launched to spur crude production, but the desired growth was not achieved.

The 60-66-90 tax regime introduced a lower tax duty for exports of crude oil from 65% to 60% and one for “dark” petroleum products - 66% of the tax duty paid on crude oil. The duty on “light” petroleum products was set at 90% of the tax duty paid on crude oil, which was later increased to 100%. This system was introduced with the goal to ease the tax burden on oil producing companies, which enabled them to invest in technological upgrades of their refineries. The lower tax on the exports of processed products was supposed to stimulate companies in their efforts to increase their processing capabilities. However, companies reacted in an unanticipated manner. For example, when the tax duty on dark petroleum was reduced, companies responded by producing higher amounts of low quality petroleum and exporting a semi-finished product at a discounted price.

The Russian refining sector has and will continue to be principally influenced by the vertically integrated character of the sector. According to varying assessments, technical upgrades in the industry require $30 to $50 billion in investments. Most of this burden falls on the ten major vertically integrated oil and gas companies that control 90% of oil refining capacities. Moreover, as illustrated by the chart below, almost 70% of Russia’s refining capacity is undertaken by four companies: Rosneft, Lukoil, Gazpromneft and Bashneft.



When the pay-back period for investments in technological upgrades of refining facilities was five to seven years and crude oil production and transport paid back at a quicker rate, companies were accustomed to taking on refining projects based on what remained in their budgets. However, recent efforts of the Russian government pushed Russian oil majors to change those policies and start allocating substantial resources to oil refining. According to the *Four-Side Agreement* concluded between three Russian federal agencies (Federal Anti-Monopoly Service; Federal Service for Environmental, Technological, and Nuclear Supervision; and Federal Agency on Technical Regulating and Metrology) on the one hand, and each of the 12 major Russian oil producing companies on the other, the companies are obliged to complete the upgrade of their refining facilities by 2015. The result of this policy change is the start of broad-scale reconstruction of existing Russian refineries and construction of new ones.

According to a Ministry of Energy official, in 2012 and 2013, Russia recorded historic levels of oil refining having processed 270 and 278 million tons of oil respectively, and showing annual growth in the output of the refined product of 4.6% and 3% respectively. The average depth of refining has grown from 70.6% in 2011 to 71.2% in 2012 to 71.5% in 2013. The data demonstrates that the upgrade of the refining industry has started but much still needs to be accomplished, and new opportunities for U.S. technologies and equipment suppliers will continue to be strong.

U.S. engineering services and equipment suppliers enjoy a relatively sound position in the Russian import market and can look forward to opportunities to increase their share further if new projects become sustainable and if their market development efforts are commensurate with the market's potential.

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Trade Events

Oil. Gas. Petrochemistry. 19th International Specialized Exhibition
September 3-5, 2014
Kazan, Russia
http://www.oilexpo.ru/eng

Moscow Refining, Gas & Petrochemicals Week 2014
September 8-11, 2014
Moscow, Russia
http://www.europetro.com/en/moscow_week_2014

Modernization of Oil and Gas Refining Facilities (NEFTEGAZOPERERABOTKA)
September 11, 2014
Moscow, Russia
http://www.n-g-k.biz/?page=meropr44

Moscow International Oil and Gas Expo (MIOGE) - 2015
June 23-26, 2015
Moscow
http://www.mioge.com
USA Pavilion will be organized at MIOGE – 2015
http://www.mcnabbmarketing.com/mioge/

References & Key Contacts

Information on Russian and Central Asian refinery projects:
http://abarrelfull.wikidot.com/russian-and-central-asia-refinery-projects
Rosneft refineries (includes a detailed description of modernization program):
http://www.rosneft.com/Downstream/refining
LUKOIL refineries: http://lukoil.com/static_6_5id_257_.html
Gazprom-Neft refineries: http://www.gazprom-neft.com/business/petroleum_refining.php
Bashneft refineries: http://www.bashneft.com/processing-retail/processing/
The Kirishi Refinery: http://www.surgutneftegas.ru/en/oil/about/

Register of Russian refineries (projected, under construction, acting – Russian only): http://minenergo.gov.ru/upload/iblock/669/6692c2b0469f5e14686b0a2b9bd7765c.xlsx
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minenergo@minenergo.gov.ru
http://www.minenergo.gov.ru

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Safety & Security Equipment

Overview

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$ Thousands

	2011	2012	2013	2014 (estimate)
Total Market	7,008,000	8,059,000	9,267,850	9,731,242
Services	4,830,000	5,554,000	6,387,100	6,706,455
Equipment	2,178,000	2,505,000	2,880,750	3,024,787
Local Production	660,000	759,000	113,850	119,542
Exports	440,000	506,000	581,900	610,995
Imports	1,958,000	2,252,000	2,589,800	2,719,290
Imports from the US	100,000	140,000	160,250	168,262

The Russian safety and security market has potential for steady development because of the country's vast infrastructure, large area, and number of potential security threats.

In 2013, the safety and security market achieved moderate growth with companies recovering losses incurred as a result of the financial crisis. The safety and security market segment directly correlates with the construction and transportation markets and is therefore dependent on its financial situation. In 2012, the Russian government initiated substantial investment in traffic safety, spending almost $80 million on traffic cameras and traffic violation recording systems.

Police service reorganization, initiated in 2011, cost another $6.5 billion. The reorganization required purchases of uniforms and new scanning equipment for public places and installing new equipment. Police criminal investigation departments are in the process of deploying new types of forensic examination equipment.

One of the most promising segments of this market is cash collecting and transportation of valuables. This segment is rapidly expanding attracting global players such as Brinks. The value of money that was moved in Russia by key players totaled $285 billion in 2013.

Another segment is burglar alarm and security services for residential and commercial property. In less than 3 years, this market segment reached the $100 million mark.

An ongoing program of refitting the Russian Army is estimated at $750 billion through 2020, which includes acquiring modern equipment for troops. The refitting program is creating vast opportunities for companies producing auxiliary equipment for military machines (tanks, aircrafts), military/tactical uniforms, and highly elaborate medical first aid kits. There are also opportunities for manufacturers of bulletproof vests, tactical flashlights, and torches.

Approximately 50% of the market is concentrated in Moscow and St. Petersburg, 30% in the Urals Federal District, 7% in the Siberian Federal District, and 6% in the Northwest Federal District. The rest of the market is divided among the Volga, Far East, and Southern Regions.

The safety and security equipment market is divided into five main product segments:

- CCTV and Video Surveillance
- Access Systems
- Fire Safety Systems
- Perimeter Security and Control Systems
- Cloud Computing Systems

In 2013, the Russian CCTV and access systems segments totaled just over $1.6 billion or 55% of the equipment market. It is considered the most developed and competitive segment. The size of the security and fire alarm segment was approximately $500 million (24% of the equipment market), historically increasing 12% to 15% annually.

The most important is the CCTV market segment - online surveillance, recording, personal identification, and face recognitions systems. Along with Olympic projects and transportation infrastructure upgrades, the Government of Russia has allocated almost

$312 million through 2015 to implement this technology at metro stations, railways, public areas, and city halls.

Depending on the segment, the share of imported products ranges from 50% to 95%. Experts estimate that up to 80% of access control, about 50% of intruder and fire alarms, and more than 95% of CCTV systems are imported. Even locally manufactured equipment contains 60% to 95% imported components. Hi-tech solutions come from China, Taiwan, and Korea and are popular in Russian regions outside of Moscow and St. Petersburg. Premium systems are imported from the United States, Europe (Great Britain, Germany, France, Italy, and Poland), Japan, and Israel, though the majority of the components in these systems originate from China.

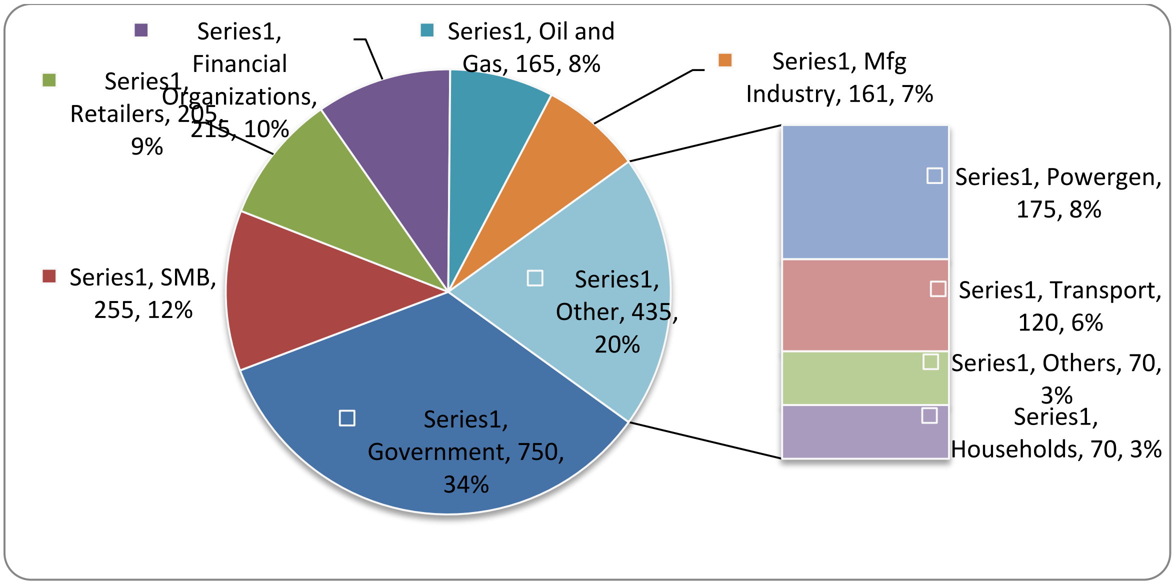
The Government of Russia is one of the key consumers of safety and security equipment, with purchases of over $800 million in 2013. The Russian government still owns a large number of entities, banks and manufacturing companies.

The government’s share in purchases of safety and security equipment is increasing as it embarks on new construction projects for upcoming events such as the FIFA Soccer World Cup in 2018. The criminal situation in the Northern Caucasus is still uncertain, and ethnic crimes along with terrorism still represent a threat to stability in the central and southern regions of Russia.

Russia is actively engaged in modernizing its border system. The government border control agency “Rosgranitza” is actively undergoing transformation after a series of corruption scandals that took place in 2013.

With Russia’s accession to the WTO, many foreign companies are making plans to enter previously inaccessible safety and security market segments including the supply of prison safety products, prisoner control equipment, and some types of protective gear.

Major Consumers of Safety and Security Products and Services in 2013



While Russian government procurement is substantial, private entities, mainly in real estate, banking, retail, and oil and gas, are also important buyers and end users of a wide variety of security equipment. Currently, there are over 300 distribution companies operating in the Russian security market and 65 % of these companies are located in the Moscow and St. Petersburg regions.

Finding a local partner knowledgeable in the industry and experienced in procurement tenders would be the most efficient path to successfully penetrating the Russian market. All government purchases are made through http://www.zakupki.gov.ru, a large Web-based resource consolidating all procurement inquiries from state organizations and agencies. It operates only in Russian. It is essential to cooperate with a Russian company or to open a representative office inside the country to handle operations related to government tenders. Moreover, companies working in this industry should develop steady and long-term relations with law enforcement and emergency agencies, which are the main consumers of safety and security products.

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CCTV and access systems are merging into a single market for cloud computing applications. CCTV has become more comprehensive, bringing in higher resolution for the transmitted image. Higher data traffic in turn creates more vigorous technical requirements for the hardware.

There is also increased demand for fire security equipment as well as alert and emergency notification products. In 2012, floods in the southern regions forced the government to implement major changes in the Emergency Ministry. Much attention is currently being paid to fire security in public places, forests, and to river and lakes control agencies.

The Russian government continues to show concern about possible terrorist attacks. Companies selling metal detectors and scanning equipment are steadily selling their products in light of luggage and individual security inspection becoming mandatory at rail stations and other transportation-related areas.

U.S. companies may also find opportunities related to the 2018 FIFA World Cup.

The best prospects for sales of U.S. manufactured hardware in 2014-2015 include the following:

- IP-based solutions in various equipment segments (surveillance, detection, day/night surveillance and infrared systems), especially high end systems;
- access control systems;
- fire/intruder alarm systems, especially for public places;
- integrated control systems;
- biometric equipment, identifiers, and readers;
- antiterrorist equipment, especially bomb-detection equipment;
- anti-theft systems, radar detection, and recording equipment (wireless);
- fire safety equipment;
- cloud computing used for CCTV/access systems; and
- rescue equipment
- personal protection gear for police/army

Experts believe that 10-15% annual growth in these product groups may be achieved in the next three years in the absence of any major financial or political events that could negatively impact the market.

Companies should be aware of possible U.S. export control regulations related to the export of these types of technologies and equipment.

Opportunities Return to top

The strength of the safety and security systems market is in constant innovation and price competitiveness. New concepts and products may create market entry opportunities.

Participation in major safety and security events is very important in the Russian market and facilitates successful market entry. Key companies in the sector participate in the Moscow International Exhibition for Protection, Security & Fire Safety (MIPS), a show that has received government support, as well as in Interpolitex, a specialized trade show dedicated only to emergency and law enforcement and supported by the Ministry of the Interior. Companies exhibiting at this trade fair work closely with this ministry and its law enforcement agencies.

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Organizations
Russian Security Industry Association
http://www.rasi.ru/index_eng.php

VNIIPO; All-Russian Scientific-Research Institute for Fire Prevention (Fire security equipment certification body)
http://www.vniipo.ru

Trade Events
Interpolitex (International Exhibition of Police and Defense Technologies)
October 21-24, 2014
Moscow
http://www.interpolitex.ru/en

MIPS (Moscow International Exhibition for Protection, Security & Fire Safety)
April 13-15, 2015
Moscow
http://mips-expo.com

Publications
Safety Systems Magazine published by Groteck Company
http://www.groteck.net

Sec.ru
http://www.sec.ru

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Travel and Tourism Services

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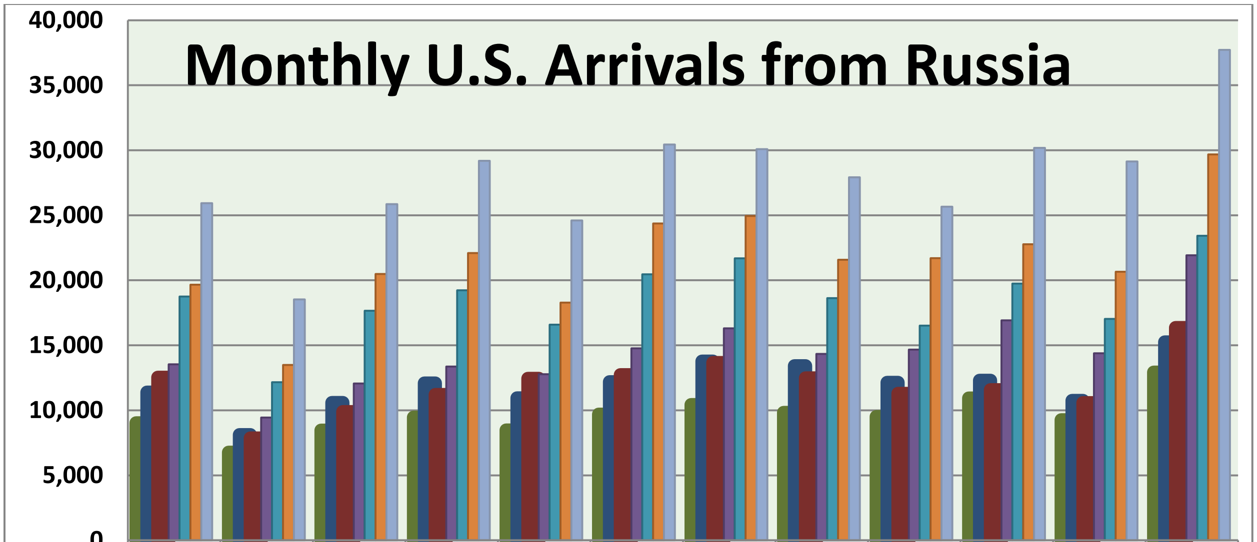
Unit: persons

	2012	2013	2014 (forecast)	2015 (forecast)
Russians Traveling Abroad	34,977,310	38,040,360 (est.)	41,539,070	45,255,910
Russians Traveling to U.S.	259,699	335,279	416,000	515,000

Source: Q2 Russian Tourism Report, BMI 2014; Office of Travel & Tourism Industries, U.S. Department of Commerce; CS Moscow Estimates

Russia is the ninth most populous country in the world with a population exceeding 140 million, and it is a huge market for outbound travel. Russians undertook over 38 million international trips in 2013. As the growing Russian middle class discovers new routes that cater to their tastes and budget, U.S. destinations are becoming more popular among Russian tourists.

Russia is the second fastest growing inbound U.S. market among the top 25 countries generating travel to the U.S. with over 29% annual growth behind only Taiwan in 2013. Growth of Russian arrivals to the U.S. has been consistently strong for the last seven years, except for the economic crisis year of 2009. The figures below provide an overview of the impressive growth of the Russian market from 2007 to 2013.



	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
2007	9,034	6,775	8,471	9,461	8,483	9,702	10,431	9,836	9,509	10,944	9,269	12,935
2008	11,391	8,123	10,597	12,089	10,948	12,192	13,773	13,423	12,145	12,307	10,753	15,257
2009	12,531	7,861	9,888	11,211	12,447	12,739	13,672	12,490	11,293	11,580	10,576	16,362
2010	13,543	9,450	12,068	13,368	12,774	14,764	16,308	14,343	14,669	16,922	14,384	21,918
2011	18,754	12,163	17,65	19,228	16,587	20,464	21,692	18,632	16,513	19,742	17,026	23,429
2012	19,662	13,484	20,482	22,090	18,282	24,365	24,943	21,583	21,697	22,772	20,654	29,685
2013	25,934	18,530	25,862	29,186	24,606	30,443	30,086	27,928	25,655	30,189	29,137	37,723

Source: Office of Travel & Tourism Industries, U.S. Dept. of Commerce

New direct passenger flights to the United States, simplified U.S. visa procedures and the continued strength of the Euro and British Pound against the U.S. dollar, have helped make travel to the United States more attractive and affordable for Russian travelers. While the financial crisis of 2009 interrupted the rapid growth of the Russian travel and tourism market, double digit returned in 2010 and continued through 2013. Longer-term forecasts by experts are also optimistic.

According to the United Nation's World Tourism Organization (UNWTO), Russia is one of fastest growing market in terms of tourism expenditure. UNWTO data show that Russians are among the top five tourism spenders in the world having spent $42 billion in 2012. Visa reported that Russian travelers spent $5.8 billion with their Visa cards in 2010, registering 36% growth within a year. In 2010, Russians spent $438 million when they visited the U.S., a 42% increase over 2009. The number one segment for spending among Russians on their Visa cards is in Department Stores, outpacing what they spend on other categories, including airline tickets. In the years since, the market has benefitted from continued growth in purchasing power by the Russian consumer.

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Based on the results of the survey of Russian tour operators conducted and 2012 National Tour Association data, the most promising destinations in the United States include:

- Cities: New York City, Los Angeles, Miami, Las Vegas
- National Parks
- Ski / Winter Resorts
- Leisure / Entertainment Complexes

New York City (NYC) has been and will likely remain the most popular city destination for Russian tourists in the near future. Russians will often combine their business travel to NYC with a pleasure trip. Their family, historical and cultural ties to NYC place it on the top of the list for brand awareness, followed by Miami and other locations in Florida that are famous for their comfort and opportunities for various forms of leisure. As more Russian tourists reach the U.S. West Coast, California resorts and attractions are becoming increasingly popular in this respect as well. Las Vegas, historically considered by many Russians as the gambling and entertainment capital of the world, has gained in popularity especially after July 1, 2009, when gambling was officially banned in Russia. Interest in national parks is growing as Russian tourists learn more about what they have to offer. Ski and winter sports resorts have become more popular in recent years as an alternative to European resorts since they provide a unique travel experience in terms of variety, beauty, and quality of service.

For West-coast destinations, an emerging best prospect territory is Russian Siberia/Far East. The income level of the population in these regions, rich in oil and other mineral resources, is comparable to or higher than in Moscow, and the average vacation length exceeds that of the populations of other regions in Russia. Meanwhile, the choice of options for international travel available to Russians living in Siberia/Far East are more narrow than in Moscow and surrounding regions.   Therefore, those travel destinations that have made special efforts to attract travelers from the Russian Siberia/Far East have already yielded very good dividends on the time and resources invested in attracting travelers from these regions. For example, in April 2014, Guam Visitor Bureau reported a 222% increase in number of Russian tourists compared to the same month in 2013. For West coast destinations, flights from the Russian Far East via Seoul are a possible option to consider, especially in the light of the fact that Korea has recently introduced visa-free admission for Russian travelers. Incorporating city-breaks in Seoul in tours to Guam, Saipan, Hawaii and other West-coast destinations is now becoming increasingly popular with travel operators, thus making such trips more attractive to Russian travelers.

Another emerging best prospect area for American destinations interested in the Russian market is the Meetings, Incentives, Conventions and Exhibitions (MICE) segment and business travel services. According to the 2013 data provided by the Office of Travel and Tourism at the U.S. Department of Commerce, the share of business travelers in the overall number of Russian visitors to the U.S. is under 14% and is growing in much slower pace (7%) than the leisure travel (34%). Meanwhile, the potential of the Russian MICE market is huge. MICE business from Russia is already a multi-million segment, estimated to be worth more than $500 million per year. Traditionally, business travel was organized by dedicated departments of big Russian companies, but now this segment of services is increasingly being undertaken by big travel companies that are also engaged in the leisure segment. Professional specialization has been developing over the years, which has been driven by the market demand. The number of Russian companies specializing in the MICE sector has also been steadily growing. Currently MICE constitutes an important, highly profitable and promising segment for U.S. destinations that are willing to invest in its development and promotion.

Opportunities Return to top

Increased prices for domestic travel destinations and the development of outbound travel services triggered Russians' growing interest in travel to destinations outside of Russia. Turkey, Egypt and China have been the most popular international destinations for Russian tourists for the past several years. These countries, along with Finland, Italy, Spain, Greece, Bulgaria and Thailand still constitute the core of mass tourism destinations for Russian travelers. However, recent outbound traffic statistics indicate that in addition to traditional warm and seaside destinations, more Russians are choosing countries where they may supplement time on the beach with other activities, such as cultural and sporting events, shopping, and recreation. Moreover, Russians who have traveled to Asia and Europe in the past are willing to explore destinations other than those they have already visited. While the activity may be similar, the different destination is appealing. For example, skiers who have visited the Alps for their proximity are looking to Colorado, Utah and Vermont for their next trip.

The popularity of the United States as a tourist destination has grown steadily over the last decade with especially strong growth in recent years. According to international arrival data from the Office of Travel and Tourism at the U.S. Department of Commerce, the number of Russians traveling to the United States totaled almost 222,000 in 2011, and this represented 27% growth over the prior year. That number increased to almost 260,000 in 2012 (17% growth), reaching over 335,000 in 2013 (29% growth). If current trends continue, the number of Russian travelers to the U.S. could reach nearly a half a million people by 2015.

An important factor accounting for the steady growth in the number of Russian travelers to the United States is the significant improvement in the visa application process that has taken place in recent years. The U.S. Embassy has made great progress in streamlining the process in the face of a rapidly growing number of applications including: providing visa information available online in Russian; allowing application fees and supporting documents to be sent to the Embassy via a courier service with offices across Russia; and accepting payments at Russian post offices and online.

Russians now have the opportunity to secure three-year, multiple entry visas. For those wishing to renew a visa, the requirement to appear for an interview is waived if they apply within four years following their previous visa expiration date which has allowed many Russian visa applicants to obtain their visa without an in-person interview. The availability of visa information online has made it possible to counter the market's impression that U.S. visas are expensive, difficult to obtain, and take a long time to process. Russian tour operators are also educating their travelers regarding these improvements. Leading the way is Visit USA Russia, an organization of local travel professionals, which is actively promoting travel and tourism to the United States through seminars, trade promotion, and other outreach events across Russia.

Another significant improvement is the introduction of more non-stop service flights from Moscow to destinations in the U.S. At present, Delta Airlines, Aeroflot Russian Airlines, Transaero and Singapore Airlines all offer direct flights to U.S. cities. Delta flies to New York; Aeroflot flies to New York, Washington DC and Los Angeles; Transaero to New York and Miami, and Singapore Airlines flies to Houston. Many more international airlines transport Russian travelers to the U.S. via hubs such as Frankfurt, Copenhagen, Amsterdam, Madrid, London, and Paris. As the market becomes more educated about U.S. destinations, visa processing, flight availability and purchase value, the Russian market is looking increasingly to the United States for tourist destinations.

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Trade Events

Visit USA Roadshow 2014
(Contact Gulnara.Kenzhabulatova@trade.gov for details on Commercial Service programs in conjunction with this event)
September 15-29, 2014
Moscow, St. Petersburg, Yekaterinburg (more cities TBC)
http://www.visit-usa.ru/en

Moscow Ski Salon
October 25-27, 2014
Moscow
http://eng.skiexpo.ru/
Visit USA Russia organizes a joint US pavilion at Moscow Ski Salon

ANTOR-MICE 2015
January 2015
Moscow, Russia
http://antormice.com/AntorMICE_workshop_2014_ENG.pdf

International Travel Fair Intourmarket
March 14-17, 2015
Moscow
http://www.itmexpo.ru/en/

Moscow International MICE Forum
March 16, 2015
Moscow
http://www.miceforum.ru

America Day
March 17, 2015
Moscow
http://eng.discover-america.ru/

Moscow International Travel & Tourism (MITT)
March 18-21, 2015
Moscow
http://www.mitt.ru/en

References & Key Contacts

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American Airlines
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Moscow
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http://www.aa.com

United Airlines
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Delta Airlines
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http://www.delta.com

Singapore Airlines
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18/1, Olympisky Prospect
Moscow
Tel: +7 (495) 937 5920
http://www.singaporeair.com

U.S. Travel Association
1100 New York Avenue, NW Suite 450
Washington, DC 20005-3934
http://www.ustravel.org

International Trade Administration, Office of Travel & Tourism Industries
U.S. Department of Commerce
http://tinet.ita.doc.gov

U.S. Department of Homeland Security, US-Visit Program
1616 N. Fort Myer Drive
Arlington, VA 22209
Tel: +1 (202) 298-5200
http://www.dhs.gov/usvisit

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Agricultural Sectors Return to top

Russia's total agricultural, fish and forestry imports increased by 3.1% in 2013 and totaled $40.4 billion. Russia's imports of agricultural, fish, and forestry from the United States decreased 20.8% year-on-year to $1.6 billion, primarily due to lower sales of red meat products. U.S. exports of soybeans, almonds, fish and seafood and peanuts all reached record levels.

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

	2009	2010	2011	2012	2013
Agricultural Imports (billion dollars[1])	28.3	33.7	40.3	39.2	40.4
Growth Year-on-Year (percent)	-17.5	19.4	19.4	-2.7	3.1

[*] UDG: WTO 2010; Source: Global Trade Atlas (excludes Belarus for entire time series and Kazakhstan after July 2010)

The average applied external agricultural tariff of the Russia-Kazakhstan-Belarus Customs Union (CU) is approximately 13.2% ad valorem equivalent. Tariff rate quotas (TRQ) for beef, poultry, pork, and whey are under the control of the Eurasian Economic Commission (EEC), which is the regulatory body of the Customs Union. Consistent with Russia's WTO commitments, Russia's TRQ volumes in 2014 are the same as in 2013. However, despite Russia's accession to the WTO in August 2012, the Russian government's control over imported foodstuffs remains complicated and bureaucratic. Additionally, many of Russia's food and trade regulations have or are undergoing reform as the Customs Union continues policy integration. While the legal framework has improved, in practice, Russia has not yet taken all of the steps expected towards improving the environment for trade. Moreover, Russia has, in some instances, moved backward, to harmonize with restrictive European Union regulations.

Russian retail sales turnover in 2013 grew by 3.9% year-on-year (in comparable prices) while, in value terms, the indicator reached $744 billion. The grocery retail market increased in value from $321 billion in 2012 to $350 billion in 2013 representing 2.5%

growth year-on-year (in comparable prices). Sales of food including alcohol and tobacco accounted for 47% of total retail sales in Russia in 2013 versus 46.5% in 2012, according to the Russian Federal Statistics Service (Rosstat).

Modern format stores are continuously increasing their share of total grocery retail turnover in Russia -- from 28.5% in 2011 to 29.3% in 2012 and 30.2% in 2013 (according to PMR research). As for traditional channels (including open-air markets, independent grocery stores and kiosks), they continue to dominate in Russia. However, they are gradually losing their market share to the modern formats. In 2013, open-air markets accounted for 18% of grocery retail sales compared to 19% in 2012, and its numbers continue to shrink.

Russian food retail development continues to be led by large domestic retailers. Russian retail giants such as the X5 Retail Group, Magnit, Seventh Continent and Dixie chains are still among the top Russian retail players. In addition to domestic companies, the French Auchan Group, German Metro AG and others have earned significant market shares during last decade.

The leading company in terms of revenue in 2013 was Magnit that operates grocery and cosmetics stores in Russia. Magnit overtook the previous leader the X5 Group by achieving a 29% growth rate in 2013, compared to the 8.7% annual growth rate for the X5 Group. The Auchan Group was the third-ranked retailer in 2013.

Top 10 Grocery Retailers in Russia by sales turnover, 2013

N	Retailer	Chains	Country of origin	Sales revenues ($ mln)	Market share	Number of stores
1	Magnit	Magnit, Magnit Semeyny, Magnit Kosmetik	Russia	17,840	5.3%	7,087
2	X5 Retail Group	Karusel, Pyaterochka, Perekrestok, Perekrestok Zeleny, Perekrestok Express, Kopeyka	Russia	16,696	5.0%	4,532
3	Auchan Group	Auchan, Auchan City, Radouga, Atak, Auchan Sad	France	9,531	2.8%	196
4	Dixie Group	Dixie, Megamart, Minimart, Victoria Supermarket, Kvartal/Deshevo/Kopilka, Cash	Russia	5,658	1.7%	1,799

5	O'Key Group	O'Key, O'Key Express	Russia	4,383	1.3%	97
6	Metro Group	Metro Cash & Carry, Real, Media Markt	Germany	4,026	1.2%	73
7	Lenta	Lenta	Russia	2,720	0.8%	77
8	Sedmoy Kontinent	Sedmoy Kontinent, Nash Hypermarket	Russia	2,265	0.7%	159
9	Element-Trade	Monetka	Russia	1,785*	0.5%	550
10	Spar Russia	Spar, Interspar, Eurospar, Spar Express	Netherlands	1,648*	0.5%	363

Source: PMR, 2014

* - PMR estimations

The top 10 largest grocery retailers accounted for close to 20% of the Russian retail market in 2013 (versus 18% in 2012). Thus, the market is still rather fragmented although consolidation is slowly increasing. One of the major events which is likely to influence the competitive landscape of retailing in Russia is the acquisition of Real hypermarkets by the Auchan Group from the Metro Group in May, 2013. Auchan has become the owner of Real hypermarkets in the Central and Eastern Europe region, including 16 existing Real stores, one hypermarket under construction and seven shopping malls in Russia.

Discounters and hypermarkets remain the largest distribution channels within the sector. In 2013, they generated 19.6% of total grocery sales in Russia, according to PMR. In the product range of grocery retailers the share of food items varies between 80 and 91%, depending on the format. For example, the X5 Retail Group reported that food goods accounted for 90.9% of the company's total sales in 2013. For Magnit, the share of food was 80% in the hypermarket format and 88.5% in the convenience format.

Since retailers demand consistent quality and adherence to contract specifications and penalize suppliers for failure to meet requirements, foreign suppliers continue to be competitive in the Russian market as they are more accustomed than Russian agricultural producers to meeting such strict specifications.

Russia's food processing sector growth is supported by rising disposable income, increasing real wages, declining unemployment and growing food expenditure. Food processing sectors that are showing strength include: meat and offal, sausages, meat products (including pork, poultry, sausages and semi-finished meat), dry milk and cream, butter, canned milk, pasta, sugar, confectionery, frozen fruits and vegetables, and mineral water. Food ingredients are imported, mainly from Denmark, Belgium, France, Germany, Austria, Great Britain, and the United States. Many Russian manufacturers are investing in modernization and expansion in order to strengthen their position in the market. The Russian food industry continues its dependence on imports and therefore, opportunities to supply the market with U.S. products are plentiful.

The food processing industry is comprised of foreign and domestic manufacturers with the latter dominating number wise. The biggest Russian food manufacturers are: Baltika Brewery Company, Unimilk, "United Confectionaries," "Cherkizovo," and the "Efko" Groups of Companies. Among the most well-known foreign food manufacturers in Russia are Kraft Foods and PepsiCo which invested heavily in WimmBill Dann in 2010-2011. These foreign investors are strengthening their positions with investments and marketing activities that overshadow domestic companies. The leaders in this market are focused on consolidation and expansion into regions outside of Moscow and St. Petersburg.

Sub-Sector Best Prospects

Animal Genetics

While Russia's stated goal to be self-sufficient in categories such as meat and dairy products may, to some extent, limit U.S. exports of those products, these goals may also create new market opportunities for U.S. exporters to supply high protein feeds and animal genetics. The Russian government has adopted several plans to stimulate development of the dairy, poultry, pork, and beef sectors. As market access for meat and poultry continues to be limited through quotas and/or the imposition of trade restrictive SPS measures, the demand and opportunity for higher quality animal genetics is expected to continue to grow. Demand exists for both dairy cattle, specifically registered Holsteins, as well as beef cattle, particularly Angus.
For example, Russian government subsidies and current development projects facilitated the import of 37,725 head of cattle in 2010, 94,468 in 2011,137,613 in 2012, and 96,826 in 2013, from around the world. The United States is well-positioned to be a major supplier into the future, especially for producers seeking the best genetics available. The United States was the largest exporter of live bovine animals to Russia in 2013, and the market also continues to grow for semen and embryos.

In addition, hatching eggs and chick exports to Russia remain important for the expanding Russian poultry and egg sector and, as a result, most import tariffs are set at zero. Swine genetics also remain an area of opportunity.

Edible Tree Nuts

Russia's commercial nut production is limited to pine nuts and therefore, Russia is entirely dependent on imports for all other tree nuts. In 2013, imports of tree nuts reached 73,081 metric tons (MT) valued at $384.4 million – down 18% in volume and down 10% in value compared with 2012. The overall drop in 2013 resulted from a bad harvest of pistachios in Iran – a major supplier to Russia. The Russian tree nut market is far from saturated and has good potential for further expansion. Per capita tree nut consumption is only around 0.69 kilograms (kg) including imported sweetened nuts and seeds, which is significantly lower than consumption levels in European countries, the United States, Japan, and China. According import statistics, the most popular nut in Russia is the almond (25% of the market in volume terms), followed by pistachio (20%), hazelnut (14.5%), coconut (12%), walnut and cashew (10% each).

The major suppliers of tree nuts to Russia are the United States (almonds), Iran (pistachios), Indonesia (coconuts), Turkey (hazelnuts), Ukraine (walnuts), and Vietnam (cashews). In 2013, the United States was the largest supplier of tree nuts to Russia with a 40% market share of which the U.S. had 90% share of almonds and 16% of pistachios. U.S. sales in calendar year (CY) 2013 grew by 28% to a new record of $184 million. The best prospects for American tree nuts exports to Russia are as follows:

Almonds: Russia imports roughly 90% of all its almonds from the United States on any given year. In CY 2013, U.S. almond sales exceeded $125 million setting a new record. The trend is expected to continue driven by growing demand from the confectionary, bakery, and other food processing industries (consuming 65% of shelled almonds) and growing consumption of nuts as a healthy snack leading to sales of high grades of shelled and in-shell almonds.

Pistachios: Russia is one of the largest importers of pistachios in the world in 2013, with market volume at 12,474 tons valued at $107 million. 95% of imported pistachios are in shell, most of which goes to snack packing or sold “loose” via retail. The popularity of pistachios as a snack product, along with rising incomes, in Russia are driving the demand for quality pistachios and offers a great opportunity for U.S. pistachio exporters. Iran is the main supplier of pistachios with roughly 75% market share followed by the United States. In 2013, U.S. sales grew by over 46% reaching 5,528 MT valued at more than $55.5 million – a new record. Growth in this market is expected to continue as Russia’s confectionary and food processing sectors continue to develop. However, American pistachios sales are directly affected by the crop situation in Iran, the main supplier of pistachios to Russia.

Pecans: In 2013, Russian imported 534 MT of pecans valued at $4.7 million, up 288% compared to the previous year – a new record. Mexico and the United States are the main suppliers with close to 50% share. Due to high prices for pecans compared to other nuts as well as insufficient knowledge about nutrition and application options for pecans in the confectionary industry, demand is somewhat unstable. However, taking into account growing interest in high quality natural ingredients in Russia, increased pecan exports are expected especially with greater informational outreach to the confectionary industry and consumers.

Fish and Seafood

During CY2013, Russia’s imports of fish and fish products reached almost $3.0 billion, a 16% increase from 2012. Fish and seafood exports from the United States to Russia rebounded significantly in 2013 and reached a record $77 million, double the level of 2012. The increase in imports from the United States is mostly attributed to higher imports of salmon roe due to better than expected harvest of salmon in Alaska. Salmon roe imports from the United States reached $33.4 million in 2013, accounting for a market share of 43% share of all fish and seafood imports from the United States. In addition to salmon roe, the other major fish species imported from the United States to Russia include: Alaska Pollock, Frozen (HS30494), with a market share of 16% or $12.5 million, frozen hake (HTS 030366), equating to 11.5% of U.S. fish and seafood trade to Russia, followed by Fish meat, Frozen (HS030499) with 4.6% share. The U.S. still currently supplies only about 2% of total fish and seafood products to Russia, which indicates that there is massive room for growth. . Because of this growing market, U.S. fish and seafood producers will continue to be able to find new market opportunities in Russia as consumers' incomes rise, demand continues to boom, and consumer habits continue to change.

The importation of high value seafood, such as cold-water shrimps and prawns, live lobsters and cuttle fish has also significantly increased, due to consumer preference and rising incomes.

Fish consumption patterns will continue to depend heavily on household income, prices, and preferences within the population. Russian consumers tend to prefer the following: herring, pollock, mackerel, salmon and trout. Frozen fish is also traditionally popular in Russia.

Fresh Fruit (Apples, Pears, Grapes, Citrus)

Russia is the world's 2rd largest importer of fresh fruits and is the largest import market for apples and pears. In 2013, Russian imports reached $5.63 billion - a 1.8% increase compared with 2012. The United States exported 22,788 MT of fresh fruits to Russia valued at $33.7 million, up 43% in volume and up 47% in value compared to 2012. Apples, pears, grapes, and pomegranates are the major fruits varieties that traditionally come from the United States and, if priced appropriately for the market, have opportunities for expansion.

Fruit sales in general are on a long term steady increase in Russia. In 2013, per capita fruit consumption in Russia increased 4.7% reaching 74.4 kilograms. Russians are still hesitant, however, to go back to their pre-2008 crisis high spending levels despite signs that purchasing power is increasing due to the higher income and lower unemployment. Consumers remain cautious and their purchasing behavior reflects a calculated balance between price and quality. In 2014, fruit consumption is expected to grow supported by the growing "healthy eating" trend in Russia. Russians mainly buy apples, bananas, pears, and citrus.

Imports have grown from 3.8 million MT in 2005 to 5.9 MT in 2013, while the value during this time nearly tripled to $5.63 billion in 2013. The largest overall fruit suppliers to Russia are Ecuador (bananas), Poland (apples), Turkey (citrus, grapes, and stone fruits), China (apples, citrus, stone fruits), Argentina (apples, pears, and citrus), and

Chile (grapes). Russia is the priority export market for many former Soviet republic countries, European countries, Turkey, and Northern African producers due to the close proximity to Russia and long term relations with Russian buyers.

The best prospects for American fruits are apples and pears.

Apples: Apples are, without question, the favorite fruit in Russia. In 2013, Russia was the largest importer of apples in the world having purchased 1.28 million MT valued at $759.1 million. The United States' market share in Russia is very low - around 1% as U.S. apples are typically more expensive and compete with Italy, Belgium, Germany, and the Netherlands in the higher-cost and quality segment. The total share of these higher-quality apples in Russia is around 20$. With decreasing tariffs as a result of World Trade Organization (WTO) accession, these quality apples will be somewhat more affordable in Russia. U.S. apples have the potential for increased sales to Russia especially considering that Russian consumers like large, richly colored apples - characteristics that U.S. suppliers can normally provide.

Pears: Pears are one of the most popular fruits in Russia following apples, citrus, and bananas and consumption is growing. Russia does not produce this fruit commercially and is the world's largest importer of pears. In 2013, pear imports decreased by 14% compared to 2012 valued at $375 million. While most of Russia's main pear suppliers lost market share in 2013, U.S. sales of pears increased 42% compared to the previous year. American pears have seen remarkable growth in recent years, rising from just over $1 million worth in 2004 to over $12 million worth in 2013. Market share of U.S. pears remains low in Russia at only 3% of the total pear market. U.S. pears will always face strong competition from European pears but the huge Russian market allows for ample opportunity for expansion. In order to diversify product offerings, importers have strong interest in U.S. Anjou pears, which are not a typical European grown variety.

Prunes and Other Dried Fruit

Russia is the biggest importer of prunes in the world. In 2013, prune imports to Russia grew by 8% and reached 31,459 MT valued at $64.5 million compared to 2012. Prunes are one of the most popular dried fruits in Russia often used in home cooking and the food processing sector. The food manufacturing and snack packing industries are major consumers of prunes and demand is expected to grow following the "eating healthy" trend that has taken hold in Russia.

The Unites States is among the three largest suppliers of prunes to Russia, along with Chile and Argentina. In 2013, U.S. prune exports jumped 70% in volume to 4,411 MT valued at $9.3 million. According to market analysts, U.S. prunes are more expensive compared with product from Chile and Argentina due to superior quality and taste and have good potential for expanding sales.

Wine and Spirits

Russia is the 10th largest wine market in the world with per capita wine consumption estimated at 7.2 liters in 2013 and growing each year. Russia is one of the largest global growth markets for wine and is the most developed wine market of all the "BRICs". Italy, France and Spain, the three major wine producers globally, are also the top exporters of wine to Russia. U.S. wine sales have risen in recent years, and reached over $15 million in 2013, up 30% from 2012. Despite this, U.S. wine currently only has about 1.5% market share but there is tremendous opportunity for growth as Russia's wine culture blossoms. Russian wine imports reached $1.331 billion in 2013, up 14% from 2012.

Among the world's top ten spirits markets in volume terms, Russia has dramatically increased imports of U.S. bourbon and rum since 2009. The United States (including Puerto Rico) is the sixth largest supplier of spirits to Russia and the potential for continued growth is high over the medium term. In 2013, U.S. exports of spirits to Russia were worth $124 million, reaching a new record. Russian imports of hard liquor totaled $1.392 billion in 2013 – no change from 2012.

All alcoholic products saw tariffs fall after Russia acceded to the WTO, with full implementation expected by 2016. However, excise tax rates on distilled spirits have been significantly increasing in recent years in addition to import guarantees and other regulatory requirements which add significant bumps to the final retail prices.

Web Resources

Organizations
U.S. exporters should consult reports from USDA's office in Moscow, which are posted on the website of the Foreign Agricultural Service under the "Attaché Reports" heading or go to http://gain.fas.usda.gov/Pages/Default.aspx. 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 2014) or the Golden Autumn trade show (October 2014). For further information on these shows, please contact the Moscow Agricultural Trade Office at atomoscow@fas.usda.gov.

U.S. Embassy
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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://www.usda.ru

Russian Federation Ministry of Agriculture: http://www.mcx.ru

Russian Federation Ministry of Economic Development:
http://www.economy.gov.ru/wps/wcm/connect/economylib4/en/home

Trade Events
Food and Beverage Products for the Wholesale and Retail Sectors:
Prodexpo
February 9-13, 2015
Moscow, Expocenter
http://prod-expo.ru/en/

World Food Moscow
September 15-18, 2014
Moscow, Expocentre
www.world-food.ru/eng

Food and Beverage Products for the Hotel and Restaurant Sector:
PIR Hospitality Industry
September 23 - 26, 2014
Moscow, Crocus Expo Center
http://www.pir.ru/

Food and Beverage Ingredients:
Ingredients Russia
March 17 - 19, 2015
Moscow, All-Russian Exhibition Center (VVC)
http://www.ingred.ru/Default.aspx?lang=en-GB

Russian Farming Sector Shows (animal genetics, feeds, agricultural equipment, machinery, technology, and veterinary medicines)

VIV Russia
May 19 - 21, 2015
Moscow, Crocus Exhibition Center
http://www.vivrussia.nl/en/Bezoeker.aspx

Golden Autumn
October 8 - 11, 2014
Moscow, All-Russian Exhibition Center (VVC)
http://lenagro.org/vystavki/109-vystavki-2013/3309-zolotaya-osen-2013.html

Agro Farm
February 3 - 5, 2015
Moscow, All-Russian Exhibition Center (VVC)
http://www.agrofarm.org/
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Chapter 5: Trade Regulations, Customs and Standards

In August 2012, following 18 years of negotiations, Russia became a member of the World Trade Organization (WTO), lowering the average bound tariff rate on industrial and consumer goods, from almost 10% to less than 8%. However, 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. On January 1, 2010, the Russia-Kazakhstan-Belarus Customs Union (the Customs Union or CU) adopted a common external tariff (CET) with the majority of the tariff rates established at the level that Russia applied at that time. All issues such as tariffs, tariff rate quotas, and licensing and certification are being harmonized by the Eurasian Economic Commission (EEC), the multilateral entity established by the three countries to manage the Customs Union, although implementation so far has been uneven and national governments retain some discretion. 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.

Commodity	Rate (%)
HS 02: Meat and edible meat products	
(within quota, but not less than .20-.25 Euro/kilo)	15
(beyond quota, but not less than 1-1.5 Euro/kilo)	50-65
HS 0207 (within quota, but not less than .2 Euro/kilo)	25
(beyond quota, but not less than .7 Euro/kilo)	80
HS 24: Tobacco and manufactured tobacco/Unmanufactured tobacco	5-20
- Cigars and Cigarettes but not less than 2.75 Euro/1000 pcs	
27.4	
HS 28: Inorganic Chemicals	0-13.1
HS 38: Miscellaneous chemical products	0-13.6
HS 39: Plastics and Articles thereof	0-10
- Finished products	0-17.8
HS 73: Articles of iron and steel	0-15
HS 84: Nuclear reactors, boilers, machinery	0-18.4
HS 85: Electric Machinery	0-19
HS 87: Vehicles except railway and tramway	0-25
HS: 8708 Auto parts	0-10
HS 90: Optic, Photo, Medical and Surgical Instruments and devices	0-18.1
-Medical equipment	0-14

Current information on the harmonized tariffs of the CU can be found in Russian at: http://www.eurasiancommission.org/ru/act/trade/catr/ett/Pages/default.aspx.

In order to meet its WTO commitments, Russia changed many of its tariffs and tariff lines, including EEC Council Resolution #45 of July 2, 2013 which reduced rates on nearly half of the products by 1 to 3% in line. Certain commodities continue to be regulated through seasonal duties and quotas. Importers report various challenges to doing business, including that documentation requirements and official decisions can be unpredictable, inconsistent, and non-transparent. Some report that Russian customs officials in select cases inappropriately challenge declared import values and assess tariffs on the royalty amounts for the domestic use of imported audiovisual materials, such as television master tapes. U.S. industry has argued that this practice represents a form of double taxation, because royalties are also subject to withholding, income, value-added, and remittance taxes.

In addition to tariffs, there are two other charges applied to imports, the Value Added Tax (VAT) and selective excise taxes. The universal 18% VAT rate (with the exception of certain foodstuffs, pharmaceuticals and medical supplies, goods for children, and printed media for which VAT is 10%) is applied to the import price, tariff, and excise tax combined. There are some exemptions from VAT. Some firms report that obtaining VAT credit, refunds, or recovery, such as could occur if the amount of input tax exceeds the amount of output tax payable, is slow and burdensome. The excise tax applies to a number of luxury goods, motor fuel, lubricants and other petroleum products, alcohol and tobacco products, and varies from 20% to 570%.

High import duties on finished vehicles (as much as 30% for new cars and at a prohibitive level for used cars older than five years) have forced companies to set up local assembly plants to get past the tariffs. Russia has also maintained an automotive investment regime since 2005 with domestic content requirements and production targets. In 2011, it added a second program with more stringent requirements. As part of its WTO accession commitments, Russia agreed to end the WTO-inconsistent elements of these programs (the domestic content provisions applying to goods) by July 1, 2018 and reduce the average bound tariff rate on imported vehicles to 12.3% by 2019. The Russian government also passed a bill in 2012 applying a “recycling fee” to all imported vehicles. This fee, calculated from a base rate plus a multiplier based on engine size, has yet to be put into force as Russia continues to determine exactly how such a fee will be imposed and collected. In October 2013, President Putin signed a law extending the recycling fee to domestic automobile manufacturers. The final regulations on this fee have yet to be passed.

In 2009, Russia increased import tariffs in various key areas to protect domestic industries, often citing the global economic crisis as justification. With the adoption of the CU CET on January 1, 2010, Russia made permanent many of those “temporary” duties (*e.g.*, tariffs on automobiles, trucks, combine harvesters, soy meal, selected dairy products, and some construction equipment). While it initially appeared that the Russian government imposed these measures mainly to protect domestic producers from competing imports during the global economic crisis, their new permanence in the CU tariff schedule suggests that Russian policy aims to promote local industry at the expense of foreign producers. Additionally, the Russian government has called for greater domestic production of pharmaceuticals, medical devices, and telecommunications equipment.

In addition to duty increases, trade investigations conducted by the Eurasian Economic Commission have maintained or established additional duties on such products as certain steel products, large diameter pipes, mechanical fasteners, and cutlery and steel pipes. On October 15, 2013, the EEC imposed a quota on imported combine harvesters, from January 1, 2014 to August 21, 2016. This is in lieu of its June 25, 2013 decision to impose a safeguard tariff of 26.7% on imports of combine harvesters.

Trade Barriers

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

Importers of alcoholic products face a number of challenges. One long-standing challenge is the requirement that all customs duties, excise taxes, and value-added taxes on alcohol be paid in advance using a bank guarantee and deposit, and the slow reimbursement process. U.S. industry is concerned that the assessment and licensing procedures administered by different Russian government and EEC agencies add an unnecessary level of complexity leading to increased costs and time delay.
The 1996 federal law "On Banks and Banking Activity" permits foreign banks to establish subsidiaries in Russia. However, Russia does not allow foreign banks to establish branches in Russia. The 1990 federal law on banking activities specifically states that any quota or limitation on the size of foreign charter capital in the banking sector would require a new law to be put forward by the Government of Russia and agreed to by the Central Bank of Russia. Among other WTO accession commitments, Russia has pledged to allow foreign ownership to account for as much as 70% of the country's total banking sector equity. As of January 1, 2014, the share of foreign capital is 26%.

The Central Bank requires newly established banks, whether domestic or foreign subsidiaries, to have a minimum of 300 million rubles ($10 million) in capital, and 900 million rubles ($30 million) is required to obtain a general license, which allows a bank to conduct operations in foreign currency and attract deposits. Banks established before 2007 are required to have a minimum capital of 90 million rubles ($3 million), while banks established after January 1, 2007 must have at least 180 million rubles. At least 75% of the bank's employees and 50% of the bank's management board must be of Russian nationality if the chairman is not a Russian citizen. Heads of foreign banks' Russian offices are required to be proficient in the Russian language.

In the insurance sector, Russia allows foreign firms to establish subsidiaries but not branches. Insurance firms are individually subject to a cap of 49% foreign capital. On December 27, 2012, Russia increased the quota 50% on the aggregate share of foreign capital in the insurance sector. The sector temporarily reached this maximum early in 2013, but near the end of 2013 foreign capital was less than 25%.

Russia's WTO membership provides increased market access to foreign insurance companies, including 100% foreign ownership of non-life insurance companies. Limits on the number of life insurance licenses granted to foreign insurance firms, as well as foreign participation in a small number of mandatory insurance lines will be phased out five years from August 2012. Russia will allow foreign insurance companies to open direct branches for life and non-life insurance, reinsurance, and services auxiliary to insurance nine years from August 2012.

In 2010 the law "On Private Detective and Security Activities" entered into force. The law states that no security company can be owned by a non-Russian entity, including a Russian subsidiary owned by a foreign entity, and includes restrictions on the use of foreign capital in the operation of such firms.

On May 5, 2014, President Putin signed into law amendments to the Federal Law "On Information, IT and Protection of Information," that require internet companies, broadly defined as companies allowing users to exchange information, to store all information on users for six months on data servers located in Russia. In addition, it grants Russian law enforcement agencies unfettered access to this data. It is not yet clear how this law will be implemented since regulations are still being drafted. The law will enter into force on August 1, 2014.

The Land Code allows equal treatment of domestic and foreign entities to buy land and buildings, although purchase of agricultural land by foreigners and foreign legal entities, or legal entities with more than 50% of foreign capital, is still prohibited. Foreign entities are restricted from buying land close to federal borders and in areas that the President determines critical to national security. On January 12, 2011, Russia published a presidential decree listing 380 areas around the country, primarily along its borders, in which the sale of land to foreigners or foreign companies is forbidden. A ban on the ownership of real estate by foreigners has been in force in Russia's border areas since 2001, but the geographic scope of the ban had not been definitively established. In November 2013, Russian government officials proposed a ban on foreign ownership of any property or tracts of land in Russia, without prior approval of the Federal Migration Service.

The government enacted the Strategic Sectors Law (SSL) in May 2008. The SSL introduced a list of 42 strategic sectors in which purchases of controlling interests by foreign investors must be pre-approved by the Russian government. The list of restricted sectors includes: enterprises in the nuclear industry or involved in handling radioactive materials; enterprises involved in work on infectious diseases; arms, munitions, and military equipment production, maintenance, or repair; the aviation and space industries; certain data-transmission (radio, television, telecommunications) infrastructure; production and distribution of encryption technologies and equipment; production and sales of goods and providing services under conditions of a natural monopoly (e.g., activities such as operating certain gas networks); newspapers with a circulation of more than one million; and natural resource extraction.

Under the procedures created by the SSL, the Federal Antimonopoly Service (FAS) conducts initial vetting of proposed foreign investments, and in some cases the Federal Security Service (FSB) conducts additional verification to determine whether the transaction would result in a foreign company gaining control over a strategic business. Once vetting is completed, the Government Commission on Foreign Investment, chaired by the Prime Minister, is charged under the SSL with reviewing proposed transactions and either approving or denying them or deferring them for additional review. Partly in response to investor criticism, in 2011, Russia amended the law to simplify the approval process and narrow the range of potential investments requiring formal review by the commission. Some foreign investors have raised concerns that the law could be used to restrict foreign investors' access to Russia's strategic sectors. Many of the applications came from Russian-owned companies based offshore. In 2012 (most recent information published), FAS considered 44 petitions from foreign investors of which 22 were pre-approved, 18 were returned to the petitioner for additional information, and four were withdrawn. In April 2013, FAS denied a petition from Abbott Laboratories to purchase Russia's Petrovax in a deal that was strongly supported by Petrovax.

The Strategic Sectors Law and Russian subsoil legislation require government approval for foreign investment in excess of 10% in companies operating subsoil plots of federal significance as well as for foreign investment in excess of 5% if the target company is state-owned. In November 2011, the Russian government signed an amendment that raised the foreign investment threshold for non-state companies from 10 to 25%. In addition, subsoil legislation limits the licensing of strategic fields located offshore, on the continental shelf, to Russian legal entities at least 50% controlled by the government with at least five years of experience in the development of fields on the continental shelf. Foreign companies may participate in shelf projects as a minority partner.

After several years of decreasing growth yet still setting new records since the end of the Soviet era, Russian oil production levelled off by the end of 2013 and declined slightly in early 2014. After reaching a monthly high of 10.63 million barrels per day (bpd) in December 2013, oil production declined for the first fourth months of 2014 to 10.54 million bpd in April. High global oil prices and new output from several major fields, primarily from state-owned Rosneft's giant Vankor field, continued to sustain production, though output from new fields no longer offset a slowdown from mature deposits. Many analysts and oil sector executives continue to predict longer-term oil production stagnation and decline in the absence of further fundamental reforms to the sector's antiquated tax structure. Oil taxes are levied on revenues, instead of on profits, hindering necessary major investments in new fields and efficient production in existing fields. Rosneft's success in obtaining tax breaks were an essential component of the decision to proceed with the development of the Vankor field, and more recently, in offshore areas (particularly the Arctic), tight oil deposits, and East Siberia.

Russia's power generation sector remains in need of modernization and extension of generation capacity. The main investment vehicle for the sector for foreign investors has been capacity supply agreements, which guaranteed a return on the investment in ten years. In early 2014, lengthening the term of this investment vehicle was under discussion. In 2013, an IEA report detailed Russia's ambitious electricity sector reform and referred to them as impressive, but suggested that the sector has entered a critical phase where government commitment to reforms will be tested. Reforms which have already been started include unbundling and a $30 billion dollar privatization of the power generation infrastructure, where government enterprises continue to own 60% of total generation assets. Energy efficiency provides opportunities for growth. Russia's Ministry of Energy would like to raise power generation efficiency and reduce energy intensity in the economy – each by over 50% by 2030.

In aviation, Russian airlines, especially the larger ones, are updating their fleets with newer airplanes. These airplanes are mostly foreign made, such as Boeing and Airbus, and offer the benefits of fuel efficiency, safety and comfort. Russia has developed a global navigation positioning technology called GLONASS as an alternative to the U.S. GPS system and Europe's Galileo. Since U.S. aircraft are not currently configured for GLONASS, modifications to the aircraft would be necessary to meet a Ministry of Transport rule issued March 2012. The Federal Air Transport Agency is still developing the Minimum Operational Performance Standards for GLONASS compatible satellite navigation equipment for aircraft.

When purchases are undertaken, the impact of tariffs, VAT, and customs handling fees on aircraft is equivalent to a 40% tax, making it virtually impossible for Russian airlines to afford the purchase of foreign airplanes. However, the Customs Union has created exemptions to facilitate key purchases for leading airlines. Regulations and tariff levels in this area remain subject to change and potential market entrants should check on current conditions.

Russia made a number of commitments when joining the WTO which will improve market access for aircraft. For example, it committed to reduce its bound tariffs on wide body aircrafts from 20 to 7.5 percent. Tariffs on passenger and cargo aircrafts will be reduced from 20 to 8, 10, 12.5 or 15 percent, depending on the weight of the aircraft. However, for cargo aircraft that has a maximum take-off weight in excess of 370,000 kg, the tariff will be 20 percent if it has a cargo ramp or duty-free if it does not have a cargo ramp.

In September 2011, the Russian Coordinating Center of the National Internet Domain (the Coordination Center) issued an updated version of the *Regulations for Domain Names Registration in .RU and .РФ domains*, effective November 11, 2011 in an effort to harmonize the procedure of national domain registration in both .RU and .РФ domains. These Regulations have lifted a number of restrictions imposed in the previous versions, such as the former restriction on non-Russian residents from registering domain names in the .РФ domain. Currently, Russian citizens and businesses registered in the country as well as non-Russian residents are able to purchase .РФ domain names. Both .RU and .РФ domain names may be registered for a fee of approximately $20 for a one-year period, with the possibility of subsequent renewal of the domain name's registration each year. As of May 1, 2014, the Coordination Center has registered almost five million domain names in the .РФ domain.

A new law on electronic digital signatures went into effect on April 8, 2011 which intended to considerably widen the sphere of application of electronic signatures, including foreign electronic signatures. The law states that electronic documents signed by electronic signatures will have the same legal effect as paper documents signed by hand. For both simple and advanced electronic signatures, the parties shall explicitly agree or it shall be additionally stipulated by the Russian law. In May 2014, the government published FZ-114 which authorizes the government to change customs regulations to streamline Russian foreign Internet purchases. It is expected that the authorization will be used to reduce the duty-free level of personal imports from 1,000 Euros to 150 Euros and 31 kilos to 10 kilos per month.

While this law on electronic digital signatures represents an important step forward, licensing requirements related to goods with encryption technology present serious obstacles to trade in goods that Russia requires for further development of electronic commerce. Although Russia committed during the WTO accession process to reform its import licensing regime for encryption products, it continues to limit their importation through the use of import licenses or requirements for one-time notifications. The process for obtaining these licenses is often unpredictable, nontransparent, time-consuming and expensive. There are similar licensing requirements which impact other high tech business such as energy industry service providers. New technology brought in by western service companies must be certified by Russian experts before it is permitted entry into Russia, which is a lengthy and expensive process.

Both Russian and foreign SMEs complain about raiding (“reiderstvo”), a practice which refers to the criminal takeover of a business through corruptly obtained legal documents. Raids are often carried out by professional raiders, sometimes working in tandem with corrupt officials and former employees or business partners of the victim company. Raids can be difficult to protect against as they rely on legal documents and frequently result in the victim being tied up in litigation for extended periods of time while the assets are transferred through a series of shell companies to an ostensible good faith purchaser. To minimize the risk of such attacks, investors are urged to vet local partners, review all business documents, and make sure that documents are properly secured.

As many details regarding the operation and implementation of Customs Union regulations are still being ironed out, there is a lack of clarity in many areas such as import licenses, customs procedures, and IPR enforcement. Additionally, the Customs Union countries are drafting a treaty which will establish a Eurasian Economic Union on January 1, 2015. This Treaty is not yet public so businesses cannot judge how it might impact their operations.

Import Requirements and Documentation

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The Customs Union (CU) harmonized tariffs entered into force on 1 January 2010, and the unified Customs Code took effect on July 1, 2010. These two documents now regulate trade in the integrated customs zone. Despite this effort at harmonization, customs clearance remains one of the main issues for foreign companies working in the Russian market. While the main function of the customs is control and statistics, Russia still uses the customs framework as a budget cash flow generator. Customs clearance as a general rule should be performed in the jurisdiction of the respective participants in foreign economic operations. For example, goods transiting to Russia and/or Kazakhstan from foreign suppliers through Belarus are customs cleared at the CU's external frontier in Belarus. This is the same procedure for items entering Russia and Kazakhstan to other countries within the Customs Union.

Some freight forwarders have noted that using Belarus and Kazakhstan as an entry point for goods bound for Russia can be advantageous. These forwarders indicated that the customs procedures at ports of entry in Belarus are often more efficient than Russian ports of entry. Since the Customs Union allows products to be transshipped between Russia, Belarus and Kazakhstan without additional customs clearance, this provides an opportunity for importers to bypass the more cumbersome Russian border crossings. However, the transportation infrastructure in Belarus is not as developed as other ports of entry, which may cause delays. The main seaport for Belarus is Gdansk, Poland with goods then transferred via truck or rail to the Belarus border. Major importers continue to use ports in Finland as the main hub for import to Russia. Kotka, Finland's port is more efficient and transparent and handling costs are better compared to Saint Petersburg's port.

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

As for all exports, U.S. exporters 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 request it. Exporters must present the appropriate export license (see next section), if applicable, 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 transaction passport for both exports and imports to ensure that hard currency earnings are repatriated to Russia. The regulations also ensure that transfers of hard currency payments for imports are for goods actually received and properly valued.

U.S. Export Controls

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The United States imposes export controls to protect national security interests and promote foreign policy objectives. The United States also participates in various multilateral export control regimes to prevent the proliferation of weapons of mass destruction and prevent destabilizing accumulations of conventional weapons and related material. The Bureau of Industry and Security (BIS) administers U.S. laws, regulations and policies governing the export and reexport of commodities, software, and technology (collectively "items") falling under the jurisdiction of the Export Administration Regulations (EAR). The primary goal of BIS is to advance national security, foreign policy, and economic objectives by ensuring an effective export control and treaty compliance system and promoting continued U.S. strategic technology leadership. BIS also enforces antiboycott laws and coordinates with U.S. agencies and other countries on export control, nonproliferation and strategic trade issues.

The EAR controls certain exports, reexports, or in-country transfers of purely commercial items, dual-use items, and less sensitive military items. "Dual-use" refers to items that have both commercial and military applications. The EAR controls less sensitive military items as a result of the Export Control Reform Initiative. On October 15, 2013, BIS began administering controls on military items formerly under the jurisdiction of the Department of State that do not warrant control under the International Traffic in Arms Regulations (ITAR). Items subject to the EAR may require a license prior to export or reexport. 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 purposes may require a license from BIS for export to Russia.

BIS's Export Administration reviews license applications for exports, reexports and deemed exports (technology transfers to foreign nationals in the United States) subject to the EAR. Through its Office of Exporter Services, Export Administration also provides information on BIS programs, conducts seminars on complying with the EAR, provides guidance on licensing requirements and procedures, and presents an annual Update Conference on Export Controls and Policy as an outreach program to industry.

BIS's Export Enforcement is staffed with criminal investigators who investigate illegal exports of items subject to the EAR and enforcement analysts who analyze intelligence and other information to assess the bona fides of parties and evaluate export transactions in support of investigations. BIS also posts Export Control Officers as attaches in Beijing, Hong Kong, New Delhi, Moscow, Singapore, and Dubai to conduct end-use checks.

In response to Russia's actions in southern and eastern Ukraine, beginning April 28, 2014, BIS is denying applications for licenses to export or reexport any high technology item subject to the EAR to Russia or occupied Crimea that contributes to Russia's military capabilities.

U.S. exporters should consult the EAR for information on how export license requirements may apply to the sale of their goods to Russia. If necessary, a commodity classification request may be submitted in order to obtain BIS assistance in determining how an item is controlled (i.e., the item's classification) and the applicable licensing policy. Exporters may also request a written advisory opinion from BIS about application of the EAR to a specific situation. Information on commodity classifications, advisory opinions, and export licenses can be obtained through the BIS website at www.bis.doc.gov or by contacting the Office of Exporter Services at the following numbers:

Washington, D.C. Tel: (202) 482-4811 Fax: (202) 482-3322
Western Regional Office Tel: (949) 660-0144 Fax: (949) 660-9347
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/index.php/compliance-a-training/export-management-a-compliance/elements-of-an-effective-emcp/23-compliance-a-training/51-red-flag-indicators

Also, BIS has "Know Your Customer" guidance at:
http://www.bis.doc.gov/index.php/compliance-a-training/export-management-a-compliance/elements-of-an-effective-emcp/23-compliance-a-training/47-know-your-customer-guidance

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: http://www.bis.doc.gov/index.php/component/rsform/form/14-reporting-violations-form

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's Directorate of Defense Trade Controls has authority over defense articles and services. A list of other agencies involved in export control can be found on the BIS Web site or in Supplement No. 3 to Part 730 of the EAR, which is available on the Government Printing Office Web site at:
http://www.access.gpo.gov/bis/ear/ear_data.html

BIS provides a variety of training sessions to U.S. exporters throughout the year. These sessions range from one to two day seminars and focus on the basics of exporting as well as more advanced topics. A list of upcoming seminars can be found at:
http://www.bis.doc.gov/index.php/compliance-a-training/export-administration-regulations-training/current-seminar-schedule

For more information about the Bureau of Industry and Security and its programs, please visit the BIS Web site at: http://www.bis.doc.gov.

Temporary Entry

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Temporary entry of goods is allowed with full or partial relief from customs duties and import VAT for a period of up to two years. Russian Customs 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 Customs Union.

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

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

All goods falling outside of this list are subject to partial relief only, as established by the Customs Code. The Customs Code provides for temporary import with a partial exemption from customs duties for 36 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 Russia. 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 the goods are located in Russia. However, in practice 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. Russian Customs accepts the use of ATA Carnets, which are widely and effectively used.

For further information, please refer to the Customs Union Web site: http://www.eurasiancommission.org or Russian Federal Customs Service Web site: http://www.russian-customs.org/, or http://www.tks.ru.

Labeling and Marking Requirements Return to top

The Technical Regulation (TR) of the Russia-Kazakhstan-Belarus Customs Union (CU) on Safety of Packaging (TR CU 005/2011) is a key CU regulation covering standards and requirements for packaging, including that of food products, produced both as a finished product and as part of the products' manufacturing process. The TR was adopted by the CU Commission decision No. 769 of August 16, 2011, and has been in effect since July 1, 2012.

It covers main rules for the packaging of the ready goods and regulates following areas:

- Market Circulation Rules
- Safety Requirements
- Requirements for Marking of Packaging (Closures)

Detailed information on Technical regulation TR CU 005/2011 is available by this link: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Customs%20Union%20Technical%20Regulation%20on%20Safety%20of%20Packaging_Moscow_Russian%20Federation_29.08.2012.pdf

Labels on food items must feature the following information in the Russian/Kazakh/Belarussian language:

- Type and name of the product;
- Legal address of the producer (may be given in Latin letters);
- Weight/volume of the product (if item is preserved in liquid, weight without liquid mass);
- Food contents (name of basic ingredients/additives listed by weight in decreasing order);

- Nutritional value (calories, vitamins if their content is significant or if product is intended for children, for medical, or for dietary use);
- Conditions of storage;
- Expiration date (or production date and period of storage);
- Directions for preparation of semi-finished goods or children's foodstuffs;
- Warning information with regard to any restrictions and side effects;
- Terms and conditions of use.

  For additional requirements for food labeling and certification, visit the Foreign Agricultural Service GAIN Reports search page: http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx

Labels on nonfood items must include:

- Name of the product;
- Country of origin and name of manufacturer (may be given in Latin letters);
- Usage instructions;
- Main characteristics, rules and conditions for effective and safe use of product;
- Any other information determined by the state regulation body.

Prohibited and Restricted Imports Return to top

The import and export of goods in Russia is carried out in accordance with the unified list of the commodities that are prohibited or restricted for imports into the Customs Union is dated 16th August 2012 document №134, by the Customs Union Agreement on licensing regulations of international trade dated 9th June 2009 and GOR decree N 1567-p of 23.09.2010.

Import licenses are issued by the Russian Ministry of Industry and Trade or its regional branches, and controlled by the Federal Customs Service. Licenses for sporting weapons and self-defense articles are issued by the Interior Ministry. Licenses are required for many other items. The comprehensive list is available by clicking on this link: http://www.tsouz.ru/DB/ENTR/NORM-PRAV-DOC/EDINIY_PERECHEN/Pages/default.aspx List of prohibited and restricted items

- Cattle meat, chilled and frozen, at the in-quota tariff rate
- Chemicals used for plant's protection
- Collection items (paleontology, minerals, etc.)
- Combat and sporting weapons
- Cultural valuables

- Endangered animal and plant species protected in the Russian Federation
- Gems
- Human organs, tissues, and blood
- Live wild animals, live fish, live crustaceans, mollusks, and invertebrates, some wild plants, including for medical purposes
- Military and ciphering equipment
- Ozone damaging substances
- Pork at the in-quota tariff rate
- Poultry meat at the in-quota tariff rate
- Precious metals
- Radioactive materials and waste
- Self-defense articles
- Species covered by Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)
- Strong poisons and narcotics
- Technical means purposed for receiving non-disclosed information
- Valuable wood species

To learn whether an import license is needed for a particular product, contact the Russian Ministry of Industry and Trade at pr@mte.gov.ru or by +7(495)632-87-83.

Russian Post, the postal system in Russia, has its own regulations on prohibited and restricted, based on Article 22 of the Federal Law on Postal Service.

The following items are prohibited for international mailing of all kinds and categories:

- Indecent or immoral items;
- Items infringing patents or trademark laws, such as pirated recordings, etc.;
- items that by their nature or packaging may be hazardous for the postal personnel or ordinary population, may soil or damage other mail units, postal equipment or property of the third party;
- documents of current and personal correspondence and any correspondence exchanged by the persons not being the sender and recipient or a person residing therewith;
- money of the Russian Federation and foreign currency;
- any weapons, their parts, ammunition thereto and their parts similar in design with the civil and service weapons;
- explosive, inflammatory substances, blasting devices and firing agents;
- live animals, except bees, leeches, silkworms that require a veterinary certificate;
- conventionally pathogenic and pathogenic organisms;

- quickly perishable goods;
- alcohol products and ethyl alcohol, beer;
- any kinds of tobacco products and smoking mixes;
- precious stones in any form and condition and natural diamonds, except jewelry;
- narcotics, psychotropic substances and their precursors;
- ozone-breaking substances;
- hazardous wastes;
- poisonous substances other than precursors of narcotics and psychotropic substances;
- protective means for plants to which Appendices A and B of Stockholm Convention on Persistent Organic Pollutants of May 22, 2001 are applicable;
- equipment for fishing/catching the aqueous biological resources;
- ready mesh fishing nets of synthetic or other polyamide monothreads with the thread diameter less than 0.5 mm and the mesh size less than 100 mm (the mesh bar less than 50 mm);
- electric fishing systems and devices consisting of electric generators of signals with connected wires and storage batteries used for fishing/catching the aqueous biological resources;
- printed and audio-visual materials: calling to extreme and terrorist activities or public justification of terrorism;
- pornographic materials;
- materials on elections and referendums made or disseminated in violation of the requirements of the legislations in the Customs Union countries of the Eurasia Economic Community;
- materials advocating the Nazi attributes or symbols or attributes or symbols similar to the Nazi attributes or symbols to their confusion;
- Materials containing other information that may cause damage to political or economic interests of the Russian Federation, its state security, health and morals of its population.

In addition, the following mail units for personal use (sent to the address of private persons or sent to private persons for the needs not connected with business activities) are also prohibited for mailing:

- specialty technical devices designed for information eavesdropping;
- human organs and/or tissues, blood and its components;
- radioactive substances;
- cultural values;

- plants in any form and conditions, plant seeds;
- wastes and scrap of ferrous and nonferrous metals;
- non-worked precious metals, scrap and wastes of precious metals, ores and concentrates of precious metals and raw materials containing precious metals;
- mineral raw materials (natural non-worked stones);
- information about the Earth's interior.

The items referred to the category of conventionally permitted for international mailing for personal use and requiring authorization from the appropriate state control bodies:

- cryptographic devices and equipment with the cryptographic function;
- radioelectronic devices and/or high-frequency civil devices, including built-in or being a part of other goods restricted for import to the customs territory of the Customs Union;
- bees, leeches, silkworms that require a veterinary certificate for their sending.

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As a member of the World Customs Organization, the Convention of Temporary Imports and the International Convention on Harmonized Commodity Description and Coding System, Russia is obligated to adhere to internationally accepted customs regulations and practices. The Russian Customs Code includes certain safeguards, such as the following:

- 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;
- Prohibiting customs authorities from refusing to accept a declaration containing inaccuracies, if the inaccurate information has no impact on the defrayal of customs payments, or does not place restrictions on foreign trade;
- Allowing clearance of goods through any customs office;
- Providing urgent customs clearance for perishable goods, express cargos, or time-sensitive materials for the mass media.

In 2010, Russia's existing Customs Code was replaced by the unified Customs Code of the Customs Union and the Law on Customs Regulation, which took effect on July 1 and December 2010, respectively. The Law on Customs Regulation, in particular, contains the "ex-officio amendment," a key part of Russia's commitments under the 2006 United States-Russia Bilateral Agreement on IPR.

Recently, the priorities for customs modernization included improvement in 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 gray market practices and to implement effective control coordinated on a global scale. However, many examples of arbitrary practices by local customs officials still exist and are encouraged by ambiguities in customs legislation. Small and medium-sized enterprises remain most vulnerable to these arbitrary practices.

On August 22, 2012, Russia became the WTO's 156th member. This historic step in the long run is aimed at unifying the customs rules and making them relevant to the standards and practices used worldwide for clearing goods through customs.

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 still underdeveloped. Russia continues to follow 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 Soviet federal authority on standardization, Gosstandart, has been restructured twice as part of a larger government reorganization which has caused uncertainty with respect to the role and responsibilities of those employed by the agency further exacerbating delays. The current government authority for standardization, metrology and certification matters is the Federal Agency for Technical Regulations and Metrology or Rosstandart. The agency is housed in the Ministry of Industry and Trade.

Affiliated with Rosstandart are 497 technical committees, comprised of research institutes that develop standards.

Standards Organizations

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The following are the key government standards organizations in Russia.

Federal Agency for Technical Regulations and Metrology (Rosstandart)
9, Leninsky Prospect
Moscow, 119991
Tel: +7 (499) 236 0300
Fax: 7 +(499) 236 6231
E-mail: info@gost.ru
http://www.gost.ru/wps/portal/pages.en.Main

Federal Service for Control over Healthcare and Social Development (Roszdravnadzor)
Slavyanskaya sq. 4, building 1
Moscow, 109074
Tel.: +7 (495) 698 4538
E-mail: info@rosdravnadzor.ru
http://www.roszdravnadzor.ru

Federal Service for Supervision of Consumers Protection and Welfare (Rospotrebnadzor)
Vadkovskiy pereulok, house 18, stroenie 5 and 7
Moscow, 127994
Tel.: +7 (499) 973 2690
E-mail: depart@gsen.ru
http://www.rospotrebnadzor.ru/

Federal Service for Ecological, Technological and Nuclear Surveillance (Rostechnadzor)
ul. Luykyanova, house 4, korpus 1
Moscow, 105066
Tel: +7 (495) 647 98 97
Fax: +7 (495) 645 89 86
E-mail: rostehnadzor@gosnadzor.ru
http://en.gosnadzor.ru/

Federal Agency of Svyaz (Rossvyaz) Ministry of Communications and Mass Media
Nikoloyamskiy per. 3 A, building 2
Moscow, 109289
Mr. Marina Kuznetsova, Head of Conformity Department

Tel: +7 (495) 986 30 61
Fax: +7 (495) 986 30 48
E-mail: mail@rossvyaz.ru
http://eng.rossvyaz.ru/

Federal Service on Accreditation (Rosakkreditastia)
ul. Vavilova, 7
Moscow, 117997
Tel: +7 (495) 539 26 70
E-mail: info@fsa.gov.ru
http://fsa.gov.ru/

NIST- Notify US 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 US is a free, web-based, e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL:
https://tsapps.nist.gov/notifyus/data/index/index.cfm

Russia TBT Enquiry Point
All members of the World Trade Organization have agreed to the Technical Barriers to Trade (TBT) agreement which requires the establishment of “enquiry points” – offices that provide information about the country's technical regulations, test procedures, and adherence to various international standards.

The enquiry point for Russia is:

Standartinform
4 Granatny per.,
Moscow, K-1, GSP-5
123995 Russian Federation
Tel/Fax: + 7 (499) 400 30 36
E-mail: info@gostinfo.ru
http://www.gostinfo.ru/pages/En

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Products sold in Russia are covered under the GOST-R standards, which were developed following the collapse of the Soviet Union.
The regulatory document that the company applied for was called the GOST-R

certificate, indicating that the products conformed to the requirements of the applicable standards.

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 realized.

For the last ten years the main document that governed the standardization field was Federal Law No. 184-FZ "On Technical Regulations" (December 27, 2002). It was intended to change the existing cumbersome standardization and certification systems and harmonize Russian legislation with international standards by transitioning from a mandatory certification system to a modern system based on self-declaration. This law has been amended a number of times, but still it does not address the big picture of standards because it serves only the 45 technical regulations that replace GOST-R standards. Due to this limitation, a new Federal Law "On Standardization in Russian Federation" http://webportalsrv.gost.ru/portal/GostNews.nsf/acaf7051ec840948c22571290059c78f/31df4d876b7c282244257a37003e01d3/$FILE/3.%20Fed_Zak_Stand.pdf is being developed and the draft, at the time of writing, has been placed on the Web site of Rosstandart. The main developers of this law are the Ministry of Industry and Trade and the industry association RSPP (The Russian Union of Industrialists and Entrepreneurs). Also other business organizations and companies have been participating in the public discussions of this law. This aim of this law is a realization of *Concepts of development of national system of standardization until 2020* adopted by the government on September 24, 2012. This draft contains the main principles that determine the structure of the national system of standardization, its main definitions, roles of participants, state policy in standards field, development of national standards, and application of national standards in solving social and economic issues.

Establishment of the Customs Union (CU) between Russia, Belarus and Kazakhstan, affected the regulatory regime because the technical regulations developed by the three countries must be consistent with each other. Information about new technical regulations approved by the three countries can be found on the website of the European Eurasian Commission, permanent supranational regulatory body of CU (http://www.eurasiancommission.org/en/). Russia, Belarus and Kazakhstan, signed a treaty i May 2014 that call for the creation of the Eurasian Economic Union (EEU) for these three countries in 2015. Currently the three countries coordinate only the trade policies under the umbrella of CU. The creation of EEU will to give the supranational regulatory body wide authority over unified macroeconomic, labor and social policies. It will also influence the regulatory regime.

Currently, the prior system of certification, GOST-R, has been replaced by certificates and declarations of conformity. The process of obtaining these certificates is still time consuming and applies to virtually all products entering the Russian market. The different types of certification and the process for obtaining these certificates are reviewed in the next section.

Product Certification

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As the result of the establishment of the CU, the system of obtaining certification documents has changed. Now there are two sets of documents dedicated to Technical Regulations and Sanitary Regulations.

Technical Regulations (Certificate of Conformity/Declaration of Conformity)
On July 1, 2010, new rules for conformity assessment, established in the CU, went into force. As a result, manufactures may now obtain unified certificates and declarations of conformity for all three countries. The full set of documents, including the unified list of accredited bodies and laboratories that governs this process, is published on the CU Web site (http://www.eurasiancommission.org). A unified list of products was also established and according to this list, those products included are required to have certificates of conformity and declarations of conformity. If a product is not included, then it should go through the conformity process according to the national standards of Russia, Kazakhstan, or Belarus, depending on the final destination of the product.

Sanitary Regulation (Certificate of State Registration)
After July 1, 2010, the Certificate of State Registration was established for all products that need a sanitary certificate. Products which need a Certificate of State Registration are listed in part II of the "Unified list" that was approved by the CU Commission on May 28, 2010, No. 299 (last edition No. 456 dated November, 11, 2010). The procedure for obtaining Certificate of State Registration is also outlined on the CU Web site (http://www.eurasiancommission.org).

A number of other mandatory and voluntary certification systems also exist, which are partly managed by other ministries or agencies. Below are the most widely used certificates:

Fire Safety Certificate: The Federal Law No. 123-FZ "Technical Regulations of Requirement for Fire Safety," which came into effect on May 1, 2009, now governs this process. Products requiring this certificate are listed in Government Decree No. 241 dated March 3, 2009.

Certificate of Conformity/Declaration of Conformity for Systems of Communications: The system of certification in the area of communication confirms that the equipment conforms to technical requirements. Rossvyaz is responsible for issuing those certificates. Rossvyaz obtained this function due to Government Decree No. 320 dated June 30, 2004. The list of communication devices which require a certificate of conformity can be found in Government Decree No. 532 dated June 25, 2009. Despite the fact that on November 1, 2011 the function of accreditation of bodies and laboratories was moved from Rossvyz to the newly established organization – Rosakkreditastia, Rossvyaz still publishes an updated list of technical requirements on its Web site.

License (permission) from Rostekhnadzor allows the manufacture, installation and use of industrial machinery and equipment for the petrochemical, metallurgical and other industrial facilities in Russia. The process and list of products requiring this certificate was listed in Rostekhnadzor's Order No. 112, dated February 29, 2008. As of January 1, 2014 it was abolished.

Approval for Encrypted Products is issued by the Federal Security Service (FSB), while the Ministry of Industry and Trade issues import licenses.

Russia participates in the following international certification systems:

- System of the International Electrotechnical Commission (IEC) for tests of electrical, electronic and related equipment on conformity to safety standards (http://www.iecq.org)
- System of certification of passenger cars, trucks, buses and other transport vehicles (http://www.unece.org)
- OIML Certificate System of Measuring Instruments (http://www.oiml.org)

Russia's complicated, cumbersome and often changing system of certification as well as cultural and language barriers are a challenge for foreign companies attempting to certify products without the appropriate legal advice or assistance from experienced distributors or consultants. In order to minimize time and expenses, it is recommended that U.S. companies work with reliable partners and consulting companies on registration and certification issues. For additional information regarding product certification, please contact the U.S. Commercial Service in Moscow.

Certification Service Providers (this list is not exhaustive and is not to be construed as an endorsement of the companies listed below).

Russia

VNIIS (Research Institute for Certification)
3/10, Elektrichesky Pereulok, Building 1
Moscow, 123557
Phone: +7 (499) 253 7006
Fax: +7 (499) 253 3360
E-mail: vniis@vniis.ru
http://www.vniis.org/

Rostest Moscow (various products)

Russian Center for Tests and Certification
31 Nakhimovsky Prospect,
Moscow, 117418
Phone: +7 (495) 544 0000
E-mail: spravka@rostest.ru
Web: http://www.rostest.ru/

Consult Business Group (pharmaceutical products including biological active supplements, medical equipment and cosmetics)
Ul Butyrksaya, 77, Business center "Diagonal House", 8 floor
127015 Moscow
Olga Makarova, President
Email: makarova@c-b-g.ru
Abramova Oksana, Vice President
Email: abramova@p-s-a.ru
Tel/Fax: + 7 (495) 797 4963
Web: http://www.c-b-g.ru/en/

Eurotest
4 Krutitskiy pereulok, house 14
Moscow, 109044
Tel. +7 (495) 660 5228
E-mail: eurotest@eurotest.ru
Web: http://www.eurotest.ru

Russian Register - Baltic Inspectorate Ltd.

87, Maliy Prospect P.S.
St. Petersburg, 197022
Russian Federation
Tel: +7 (812) 332 9536/37
Fax: +7 (812) 332 9534
Email: rr-baltic@rusregister.ru,
Web: http://www.rr-baltic.ru/

United States

Underwriters Laboratories (UL)
http://www.ul.com

TUV Rheinland
http://www.tuv.com

TUV SUD America Inc.

http://www.tuv-sud-america.com/us-en

Velosi Group (Oil & gas, petrochemical and refining industries)
http://www.applusvelosi.com/en/

Nemko
http://www.nemko.com/

Russian Standard, Ltd. Certification and Regulatory Consulting Center (almost all areas, except aviation equipment and aviation instruments, military products, telecommunication equipment)
http://www.rosstandard.com

Accreditation Return to top

Bureaucratic incongruities, overlapping fields of activity, and the application of different procedures and criteria in the accreditation process have recently become commonplace in Russia. In order to improve the whole certification system, the Russian government issued Presidential Decree No 86 on January 24, 2011, *On Unified National System of Accreditation*, according to which a new approval agency, the Federal Service on Accreditation (Rosakkreditastia, http://fsa.gov.ru/), was established. This agency reports to the Ministry of Economic Development and is responsible for the establishment of the Unified National System of Accreditation. It controls all legal entities and entrepreneurs, who are accredited as testing laboratories, and issues certificates to organizations.

Various federal executive authorities used to have responsibility for carrying out accreditation in accordance with the relevant legislation. There were 16 government agencies that were in charge of accreditation, including Rosstandart, Rostechnadzor, Rospotrebnadzor, and Rossvyaz. Currently Rosakkreditastia publishes the list of certification bodies and accredited testing laboratories, the list of all issued declarations and certificates of conformity. Rosstandart previously performed this function.

Publication of Technical Regulations Return to top

Proposed technical regulations are published in Russian on the Rosstandart Web site (http://www.gost.ru/wps/portal/pages.en.Main) for two months. Any Russian or foreign entity may comment in Russian to the contact listed on the web site. Draft and final documents are published in the monthly *Vestnik of Technicheskogo Regulirovania* (Journal of Technical Regulations). This journal is an official publication of Rosstandart for its documents, instructions, rules, and decrees. *Vestnik of Technicheskogo Regulirovania* is the country's effort to ensure transparency in the development of national standards required for WTO compliance. WTO membership presumes that all changes in the standardization system will be transparent, thereby avoiding hidden obstacles, such as non-tariff barriers, in trade relations with WTO partners. Another publication that can be found on Rosstandart's web site is *Mir Standartov* (World of Standards).

Contacts

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Trade Agreements

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Russia currently participates in a free trade agreement with the Commonwealth of Independent States and the Customs Union with Belarus and Kazakhstan. Russia also has an association agreement with the European Union and has historically received NTR and GSP status from the United States. Russia formally joined the WTO on August 22, 2012, and gained permanent normal trade relations (PNTR) on December 20, 2012.

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

Russian Federal Customs Service: http://eng.customs.ru/

Russian Ministry for Economic Development:
http://www.economy.gov.ru/wps/wcm/connect/economylib4/en/home

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

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Chapter 6: Investment Climate

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Openness to, and Restrictions Upon, Foreign Investment

Russia's annexation of Crimea in March 2014 is not recognized by the U.S. government and led to the placement of USG sanctions on various Russian government officials and a limited number of entities, and the postponement of key bilateral and multilateral engagement on economic reforms. The United States announced the first round of sanctions against influential Russian government officials and entities in early March and has added additional names to the sanctions list on subsequent occasions. Policy discussions with the Russian government regarding measures to increase bilateral trade and investment ties were also halted in the aftermath of Russia's illegal actions in Ukraine.

In late March, 2014 Senator Andrei Klishas of the Federation Council, the upper chamber of Russia's national legislature, said the Council plans to draft legislation which would allow the confiscation of property, assets, and accounts of American and EU companies, including private companies, as a retaliatory measure on possible sanctions from the U.S. and EU. While no specific legislation has been proposed or passed, such an announcement clearly adds an additional element of uncertainty to any investment prospect in Russia because it would signal the willingness of the Russian government to violate national and international norms when it finds it to be politically expedient.

However, the government of Russia continues to express interest in attracting higher levels of domestic and foreign investment by private companies. Looking to domestic investment, the Russian Government has established a number of regulations which penalize Russian individuals and firms for investing abroad, possibly to offset lower foreign direct investment in Russia during 2014. It is unclear what success this policy initiative, called “de-offshorization” by President Putin, has had to date. In the first quarter of 2014, capital outflow from Russia reached approximately $63.7 billion, the highest quarterly outflow since the last quarter of 2008 during the height of the global financial crisis.

As detailed below, the Russian Government has also worked actively on the technical level to improve the business and investment climate. Despite numerous new programs and initiatives, progress has been uneven and the government has yet to take action to make much needed structural reforms.

Russia’s illegal annexation of Crimea has dampened growth prospects for the Russian economy. The International Monetary Fund predicts the Russian economy will grow by a sluggish 0.2 percent in 2014. Given the uncertainty surrounding Russia’s actions in Ukraine, the World Bank provided two estimates for GDP in 2014. The low risk scenario anticipates 1.1 percent GDP growth and the high risk scenario anticipates a contraction of 1.8 percent for 2014. Russia finished 2013 with 1.3 percent growth, the lowest rate since the 2009 financial crisis and well under half of the 3.6 percent the Russian government forecasted at the beginning of the year. Russia’s economy continues to be particularly vulnerable to fluctuations in global energy prices and continued weakness in the European economy, as the EU represents more than 50 percent of Russia’s total trade volume. According to the United Nations Conference on Trade and Development (UNCTAD) Global Investment Trends Monitor from January 2014, FDI inflow into Russia jumped 83 percent to $94 billion in 2013 from $51 billion in 2012.

Russian government officials have repeatedly stressed that foreign investment and technology transfer are critical to Russia's economic modernization. At the same time, the government continues to limit foreign investment in sectors deemed to have strategic significance for national defense and state security via the Strategic Sectors Law of 2008. The law originally specified 42 activities and has since been amended on five separate occasions. As of April 2014, 45 activities require government approval for foreign investment. Foreign investors wishing to increase or gain ownership above certain thresholds need to seek prior approval from a government commission headed by Russia's Prime Minister. While the Commission has approved 129 of 137 applications for foreign investment since 2008, the number of transactions approved with conditions has been increasing significantly.

Russia continues to promote the use of high-tech parks, special economic zones and industrial clusters which offer additional tax and infrastructure incentives to attract investment. One of President Putin's stated goals, to move Russia from 120th (in 2010) to 20th on the World Bank's Doing Business Index by 2020, saw progress with Russia climbing to 92nd in the 2014 publication. It will likely climb in the ranks again due largely to improvements in obtaining a connection to electricity for new businesses and in the ease of registering a business.

Russia's policy to foster innovation continues but the enthusiasm and funding for this policy appears to be waning. The flagship project, the Skolkovo Innovation Center, was designed to be the Russian equivalent of Silicon Valley and has been assured funding through 2015 with future funding uncertain. Roughly a dozen American firms have made sizable commitments to investment in the tech park portion of the project and the Massachusetts Institute of Technology continues to run a multi-million dollar program with Skolkovo Institute of Science and Technology (SkolTech) to design educational curricula and research programs, innovation activities, administrative policies and structures, recruiting processes, and campus operations and infrastructure. So far, tangible results from the project have been modest. On top of this, in 2013, the Skolkovo Foundation, which runs the endowment portion of the project, faced accusations of corruption though no case was ever brought to court. In early 2014 the Russian government announced a new initiative to create an innovation center on Russky Island in Vladivostok. It remains to be seen if this latest project will yield results.

While a legal structure exists to support foreign investors, the laws are not always enforced in practice. The 1991 Investment Code and 1999 Law on Foreign Investment guarantee that foreign investors enjoy rights equal to those of Russian investors, although some industries have limits on foreign ownership (see Establishment section). Russia has sought to enhance consultation mechanisms with international businesses (for example through the Foreign Investment Advisory Council whose members are CEOs of large companies) regarding the impact of the country's legislation and regulations on the business and investment climate. In June 2012, President Putin created the position of Ombudsman for Entrepreneur's Rights, which was designed to be an additional measure of protection and advocacy for entrepreneurs, and the relevant implementation legislation was signed into law by President Putin on May 7, 2013. Still, the country's investment dispute resolution mechanisms remain a work in progress, and at present can seem non-transparent and unpredictable (see Dispute Settlement section).

The government continues to hold significant blocks of shares in many privatized enterprises with state-owned enterprises (SOEs) accounting for approximately 50 percent of Russia's GDP in 2013. In June 2013, the Russian government unveiled its

2014-2016 Privatization Plan, the most recent update of Russia's original privatization plan that was drafted in 2010 and amended in 2012. However, the government has taken little action to implement additional privatizations, arguing current valuations for SOEs are too low to justify proceeding with a privatization. The new plan significantly rolled back the scope of privatizations and involves, to a large extent, the Russian government maintaining "golden shares" in some of the most prestigious SOEs. To date, treatment of foreign investment in new privatizations has been inconsistent: foreign participation has often been confined to limited positions in the companies. Subsequently, many have faced problems with inadequate protection for minority shareholders and corporate governance. Potential foreign investors are advised to work directly and closely with appropriate local, regional, and federal agencies that exercise ownership or authority over companies whose shares they may want to acquire. (See State-Owned Enterprises)

In September 2012, the United States and Russia signed a new bilateral visa agreement which extended the validity of a tourist visa to 36 months for both American and Russian travelers. This agreement also reduced the documentary requirements for Americans applying for a visa and eliminated the need for an invitation letter in some cases. The process for the approval and renewal of visas and residence permits for foreign businessmen and investors remains cumbersome with numerous documentary requirements. Additionally, there are regulations in specific industries that require a certain percentage of staff be Russian citizens, which may have a negative impact on foreign investors. The situation is improving, however. As part of Russia's efforts to encourage investment in innovative sectors, the GOR has eased the regulations on visas and residence permits for "highly-skilled" workers, and eliminated yearly quotas for foreign workers who fall into this category (defined by salary, position and education level). Potential investors are advised to consult the State Department's Country-Specific Information on travel to Russia, which includes the latest information on Russian visas.

Corruption remains a major challenge for Russia. Targeted efforts in 2012 to root out corruption by public officials and within business transactions led to widely-reported investigations in the Ministry of Defense and the Ministry of Agriculture. Russia's ranking improved six spots to 127th in Transparency International's 2013 Corruption Perceptions Index (CPI). The National Anti-Corruption Plan for 2012–2013 contains guidance and recommendations for the government on counteracting corruption, including the establishment of a legal framework for lobbying and increasing the transparency of state officials' personal finances and acceptance of gifts. Specifically, the bill requires all civil servants to declare large expenditures or face termination. These officials must also present information on the expenditures of their spouses and children if the expenditures involve acquisitions of land, vehicles or securities. Expenditures that do not match the declared income will be investigated by law enforcement agencies. If an individual fails to prove that the property in question was acquired legally, the property will be confiscated and turned over to the state. Bribing a public official has been illegal in Russia since May 2011 (see Corruption section).

Global Benchmarks

The following table includes the most recent data from indices measuring the investment and business climate in Russia:

Measure	**Year**	**Index/Ranking**
Transparency International Corruption Index	2013	127 of 175 countries
Heritage Economic Freedom	2013	140 of 184 countries, “Mostly Unfree”
World Bank Doing Business	2014	92 of 185 economies
Trade Policy (Heritage Economic Freedom)	2013	74.6 out of highest score of 100
Starting a Business (World Bank Doing Business)	2014	88 of 189 economies
Land Rights Access (World Bank Doing Business) Freedom Rating (Freedom House)	2014 2014	Construction Permits: 178 of 189 economies Registering Property: 17 of 189 economies 5.5 out of 7 (scale of 1-7, 1 being the best) Status: Not Free Political Rights: 6 Civil Liberties: 5

Conversion and Transfer Policies

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While the ruble is the only legal tender in Russia, companies and individuals generally face no significant difficulty in obtaining foreign exchange. Only authorized banks may carry out foreign currency transactions but finding a licensed bank is not difficult. 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 does not require security deposits on foreign exchange purchases. Russia has no capital controls and there are no barriers to remitting investment returns abroad, including dividends, interest, and returns of capital. Nonetheless, investors should seek expert advice at the time of an investment.

Currency controls exist on all transactions that require customs clearance, which in Russia applies to both import and export transactions and certain loans. A business must open a “deal passport” with the authorized Russian bank through which it will receive and service the transaction or loan. A “deal passport” is a set of documents that importers and exporters provide to authorized banks which enable the bank to monitor payments with respect to the transaction or loan and to report the corporation's compliance with currency control regulations to the Central Bank. Russia’s regulations regarding deal passports are prescribed under Instructions of the Central Bank of Russia number 117-I of June 15, 2004. In early 2011, the Central Bank of Russia expanded the list of grounds under which a deal passport does not have to be submitted. On June 4, 2012, the Central Bank issued Instruction number 138-I, which introduced some changes to the regulation. In particular, an authorized bank is no longer required to submit additional documentation if the authorized bank is debiting money for a currency operation from an existing bank account of a resident or non-resident. In case of multilateral agreements with multiple parties and participation of non-residents, only one resident deal participant is obligated to execute a deal passport for this agreement rather than all resident parties being required to submit documentation. The Central Bank further amended the regulation by issuing Directive number 3016-U of June 14, 2013, which came into effect in the fall of 2013. A deal passport is now needed only if the value of the underlying contract is equal to or exceeds the equivalent of $50,000.

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 Russian courts, and the investor must be adequately and promptly compensated. At the sub-federal level, expropriation has occasionally been a problem, as has local government interference and a lack of enforcement of court rulings protecting investors. Some Russian parliamentary deputies suggested in March 2014 that Russia might expropriate Western firms in reaction to U.S. and EU sanctions but there has been no government action to that end.

Dispute Settlement

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Russia has a body of conflicting, overlapping, and frequently changing laws, decrees and regulations, which complicates the environment for dispute resolution. Independent dispute resolution in Russia can be difficult to obtain since the judicial system is still developing. Courts are sometimes subject to political pressure. According to numerous reports, corruption in the judicial system is widespread and takes many forms, ranging from bribes of judges and prosecutors to fabrication of evidence. However, corruption likely does not play a role in the vast majority of cases, most of which involve relatively low stakes.

Until mid- 2014, Russia will continue to have two parallel court structures: one, which is specialized in commercial cases and known as the Arbitrage Courts, answers to the Higher Arbitrage Court and a second criminal and civil court system that answers to the Russian Supreme Court. At the end of June 2014, the Higher Arbitrage Court will be eliminated and the lower arbitrage courts will thereafter answer to the Russian Supreme Court. Many in the business community have expressed concern about this change, as the Arbitrage Courts have been known for their professionalism and reputation for judicial independence (although they were not completely free from corruption). The process of appointment to the Higher Arbitrage Court – done via regional structures and not federal structures – also was more independent from the centralization of power in the Russian government. When this change is implemented, the legal chain for the lower arbitration courts will run through to the Supreme Court, which consists of federally-appointed judges who are widely believed to pay particularly keen attention to the wishes of the Kremlin. It is too early to tell if these changes will make it more difficult for foreign investors to receive independent dispute resolution under this new system. It is also unclear how the elimination of the Higher Arbitrage Court will affect the existence of the lower arbitrage courts. No indication was given if these specialized courts will also eventually be eliminated at the lower levels. However, it is clear that the level of judicial independence of the courts will have been reduced.

In an attempt to address some of these challenges facing the business community, the GOR created the Office of the Ombudsman for Entrepreneur Rights in 2012 which is responsible for advocating for foreign and domestic business rights in court and requesting suspension of official actions if a business feels its rights were violated. Each Russian Federal District also has an Investment Ombudsman who reports to the national Ombudsman and oversees efforts to improve the business climate, including the protection of foreign and domestic investors. The government has also encouraged international business leaders, as part of their work in the Foreign Investment Advisory Council, to participate in the discussion of dispute resolution mechanisms and individual commercial disputes. While these steps offer some promise, overall, the country's investment dispute mechanisms remain underdeveloped and largely non-transparent.

In 2008, then-President Medvedev carried out a series of legal reforms that aimed to reduce corruption in the courts. These measures included a law that requires judges to disclose their income and real estate assets, including those owned by their spouses and minor children. Another component of included a series of amendments to the Code of Criminal Procedure – in 2008, 2009, and 2010 – to limit pre-trial detention of individuals accused of economic crimes. Implementation of these reforms has yielded mixed results. Prosecutors have sometimes avoided them by charging defendants under articles technically not covered by the amendments and judges have sometimes refused to apply them. Nevertheless, available statistics reveal a substantial decrease in the number of pre-trial detentions in cases involving economic crimes since the legislation was passed. In June 2013, President Putin announced plans for a widespread amnesty for those convicted of economic crimes. However, by years' end, only a relatively small number of persons had been released under this program.

Commercial arbitration courts are required by law to decide business disputes relatively quickly, and many cases are decided on the basis of written evidence and little or no live testimony of witnesses. The arbitration court workload is dominated by relatively simple non-contentious cases involving the collection of debts between firms and disputes with the taxation and customs authorities, pension fund, and other state organs. Tax-paying firms often prevail in their disputes with the government in court. The number of routine cases limits the time available to decide more complex cases. The court system has special procedures for the seizure of property before trial, such that it cannot be disposed of before the court has heard the claim, as well as for the enforcement of financial awards through the banks. Many observers believe that over the twenty year period that the arbitration court system has existed, its judges have grown more competent and better at writing decisions. Many lawyers nonetheless report that due to insufficient training, especially in complex business disputes, many judges often make poorly reasoned or simply incorrect decisions. As with international arbitral procedures, the weakness in the Russian arbitration system lies in the enforcement of decisions. Few firms pay judgments against them voluntarily and rumors of corruption concerning bailiffs, who are charged with enforcing decisions, are frequent, although hard evidence is scarce.

Federal Law 262, in effect since 2010, requires courts to publish their decisions online and otherwise make information about their activities publicly available. All Russian courts now have websites, which generally include a schedule of cases to be heard, the name of the judge, the location of the court, form documents that can be used by prospective litigants, and copies of decisions. Personal information is expunged before case decisions are posted online. The better of these court websites allow citizens to calculate filing fees and search for analogous decisions. The arbitrage courts have played a leadership role in providing information online and using information technology. Electronic filing allows citizens to sign up to receive e-mail notifications of developments in cases of interest to them. NGOs have rated the compliance of courts with their obligations under the law and found that the information provided varies greatly in quality from one region to another, but have noted a willingness by some courts to respond to queries and criticisms by improving their sites. Although there are gaps and failures to provide information, overall judicial transparency has increased since the law took effect in 2010.

Many attorneys refer 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 (ICSID) 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 (UNCITRAL). However, international arbitral awards still require Russian courts to enforce awards and bailiffs to attach assets; these courts have yet to become consistently effective enforcers of court judgments, whether domestic or international.

In January 2011, a new law took effect that authorizes the use of mediation in various kinds of disputes, including commercial ones, and provides for the confidentiality of mediation proceedings and for their enforceability in court. Although there are still issues concerning implementation, this represents an important step towards further development of alternative dispute resolution in Russia.

According to a Federal Law of December 2011, a specialized court for intellectual property (IP) disputes began to function in 2013. This court, embedded in the system of arbitration (commercial) courts, will hear cases on intellectual property rights (IPR), including those challenging statutory instruments on IP, in the first instance and cassation. In September 2012 the Higher Qualification Board of Judges (a body within the Russian judicial corps responsible for nominating judges to be further appointed by the President) nominated 20 judges to form the new IPR Court, and the Chief Judge of the IPR Court was appointed by the President in December 2012. The elimination of the Higher Arbitrage Court has now raised doubts about how the decisions of the IP Court will be reviewed.

The IP Court has reportedly adjudicated around 360 cases as a trial court, and over 200 cases as the court of the 3rd instance (second level of appeal) out of over 900 suits admitted to the court since it started operation in July 2013. Several legal experts and litigation practitioners have cited the good quality of its dispute resolution, the high qualification of its judges and the good attention to detail in the court.

Performance Requirements and Incentives

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

The Central Bank of Russia has imposed caps on foreign employees in foreign banks. The ratio of Russian employees in a subsidiary of a foreign bank is set at no less than 75 percent; if the executive of the subsidiary is a non-resident, at least 50 percent of the bank's managing body should be Russian citizens.

In early 2014, the Russian government drafted a directive requiring all state-controlled assets including SOEs to come up with a series of key performance indicators (KPIs) to guide their development strategy going forward. In rolling out the initiative, the government made it clear that if KPIs were not met, personnel changes would be made. This measure is meant to push state corporations toward a more efficient operating strategy. The Russian government also declined to increase the size of the government budgetary subsidies to each state corporation, with a view to forcing these companies to run more efficiently.

Right to Private Ownership and Establishment Return to top

Both foreign and domestic legal entities may establish, purchase, and dispose of businesses in Russia, except in certain sectors that are regarded as affecting national security. There is a blanket ban on purchases of property in border areas for national security reasons. Some Russian Duma deputies called for a ban on foreigners purchasing land without the permission of the Federal Management Service, but no legislative action has been taken in this regard yet.

The Russian government limits foreign investment in sectors deemed to have strategic significance for national defense and state security via the Strategic Sectors Law of 2008 (Law No. 57-FZ). The law has been amended on four occasions, most recently in February 2014. The law currently specifies 45 strategic activities that require government approval for foreign investment. Foreign investors wishing to increase or gain ownership above certain thresholds in any of the sectors listed need to seek prior approval from a government commission headed by Russia's Prime Minister. In 2012 (most recent information published), the Russian government considered 44 petitions from foreign investors of which 22 were pre-approved, 18 were returned to the petitioner for additional information, and four were withdrawn. Russia also established via Executive Order No. 1009 of August 4, 2004 a separate list of strategic companies which includes the largest and most profitable Russian companies. Companies identified on this list have some level of government ownership; the Executive Order sets forth the requirements to privatize these firms. The 2012 addition of Russian privately-held internet company Yandex to the strategic companies list highlights the broad interpretation of what is required to protect state security and national defense.

Real Estate: The Constitution and a 1993 presidential decree give Russian citizens rights to own, inherit, lease, mortgage, and sell real property. Foreigners enjoy similar rights with certain restrictions, notably with respect to the ownership of farmland and areas located near federal borders. Mortgage legislation enacted in 2004 facilitates the process for lenders to evict homeowners who do not stay current in their mortgage payments. Thus far, this law has been successfully implemented and is generally effective. Mortgage lending is in its initial stages, and after a sharp contraction in 2008-09, the total value of mortgages in Russia is around three percent of GDP. In 2013, mortgage lending grew by 31 percent compared to 2012, with new issuances amounting to $42.5 billion in 2013.

IPR: In Russia, the protection of intellectual property rights (IPR) is enforced on the basis of civil, administrative, criminal or customs legislation. The Civil Code sets up the statutory damages for IPR infringement and/or incurred damages for copyright, trademarks and geographical indications. The Code of Administrative Offenses concerns IPR infractions that violate public or private interest or rights, but do not meet the criteria of the Criminal Code. An administrative investigation may be initiated at the request of an IPR owner or by law enforcement authorities (police or customs) suspecting possible IPR infringement. Administrative cases are dealt with by general jurisdiction courts or state arbitration (commercial) courts that have jurisdiction over economic disputes. The IPR provisions of the Criminal Code apply to large-scale infringements of copyright, patent and trademark rights that cause gross damages, as defined by the Criminal Code.

Enforcement: The United States Government has expressed concerns that IPR enforcement continued to decrease overall in 2013, following a dramatic decline in 2012, and remained plagued by a lack of transparency and effectiveness. Stakeholders express concern about the manufacture, transshipment, and retail availability of counterfeit goods, including counterfeits of agricultural chemicals, electronics, information technology, auto parts, consumer goods, machinery and other products. Enforcement actions combatting end user piracy have sharply declined, including a decrease in raids, initiations of criminal cases and issuances of court verdicts.

Copyright violations (audiovisual and sound recordings, computer software) remain a serious problem, particularly in the online environment. Although dwarfed in volume by pirated products online, legitimate DVD sales are on the rise, thanks in part to cheaper legitimate products, a growing consumer preference for high quality goods, and law enforcement action against physical piracy. Russian police on occasion carry out end-user raids against businesses using pirated products, namely software. However, at times, police have used IPR enforcement as a tactic to elicit bribes or harass NGOs.

Bankruptcy: Russia has had a law providing for bankruptcy of enterprises since the early 1990s. Law enforcement officials, however, tend to view bankruptcy with suspicion and reported 500 cases of financial crimes involving bankruptcy in 2011. In November 2012, the State Duma passed in its first reading (three readings are required for passage) a personal bankruptcy bill, but the bill has not been adopted. The bill states that a citizen who finds himself in financial difficulty can submit a bankruptcy statement to the court. The court may then grant the individual the right to pay the debt in installments for a term of up to five years. An individual with debts exceeding 50,000 rubles ($1,389) and whose arrears amount to three months can be declared bankrupt. In this case, the individual cannot apply for a bank loan without citing his bankruptcy for the five years after his bankruptcy status was declared. The individual is then given six months to come up with a debt restructuring plan subject to the approval of both the creditors and the court. Once the plan is approved, all late payment fees and penalties will be waived and assets unfrozen. Only in the case of a person who has no assets and no income may the debt be completely written off. The bill also stipulates a ban on declaring oneself bankrupt more than once in five years. The Duma is expected to consider the bill in the first half of 2014.

Transparency of Regulatory System

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Russia's legal system remains in a state of flux, with various parts of the government continuing to implement new regulations and decrees on a broad array of topics, including the tax code and requirements related to regulatory and inspection bodies. Negotiations and contracts for commercial transactions, as well as due diligence processes, are complex and protracted. Investors must do careful research to ensure that each contract fully conforms to Russian law. In some cases, Russian law has contradictory provisions. 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 inconsistently and the decisions of one may be overruled or contested by another. As a result, reaching final agreement with local political and economic authorities can be a long and burdensome process. Companies should be prepared to allocate sufficient funds to engage local legal counsel to set up their commercial operations in Russia.

Taxes: Russia's tax system has recently undergone major changes. The Russian government has brought its tax legislation into line with OECD requirements, which has simplified the system and prevents double taxation on transfer prices. However, businesses continue to raise concerns regarding audits. Multiple audits, repeated requests for documentation, and technical weaknesses of some claims have been identified as serious impediments to the conduct of business. Russia's Law on Transfer Pricing entered into force on January 1, 2012, and fully phased in all provisions by the start of 2014. Some experts caution the new provisions could result in additional disputes with the tax authorities.

Public Comment: All draft laws that go through the Russian Duma are published on the Duma's website. Sometimes, but not consistently, ministries and other Russian government bodies also publish proposed legislation (including draft laws, government decrees and regulations) on their websites. The scope of Russia's Open Government initiative was severely reduced after the Russian government announced in May 2013 that it would no longer be a part of the international Open Government Partnership due to unspecified differences regarding the terms of the partnership. In a statement announcing the decision, Kremlin spokesperson Dmitry Peskov said that Russia remained committed to providing more transparency in government and might reconsider joining the partnership at a later date. Russian Ministries have become more active in seeking input from industry experts and business groups, including the Foreign Investment Advisory Council, when developing business-related laws and regulations.

Strategic Sectors: Statements made by key Russian officials in November 2012 suggest the government will take additional action to roll back administrative barriers to foreign investment in Russian strategic companies. The Federal Antimonopoly Service (FAS) has prepared various amendments, still awaiting approval by the State Duma, intended to simplify the procedures for state supervision of foreign investment in Russian strategic companies and to eliminate ambiguities in the interpretation and application of existing legislative provisions. The proposed amendments include the following: (1) removal of food and beverage production from the list of strategic activities involving the use of infectious agents (e.g., cultured bacteria in yogurt production). FAS is considering similar revisions to exempt certain entities involving selected activities (e.g., foreign banks vis-a-vis distribution and servicing of encryption devices required for their operations); (2) eliminating the need for prior approval by the Government Commission for certain share increases or transactions in cases where the foreign investors hold 75 percent or more of a Russian strategic company's shares; (3) eliminating the need for prior approval for intra-group transactions by foreign investors controlled by the same entity; (4) allowance of automatic permit extensions for foreign investors already holding a permit (typically with a 2-year term) to invest in a strategic enterprise; (5) elimination of the need for government approval for acquisitions by Russian-controlled purchasers from foreign-controlled sellers (currently, only Russian-to-Russian transactions are exempt, but not acquisitions by Russian-controlled purchasers from foreign-controlled sellers); (6) clearer rules on state supervision and approval of transactions involving the placement of securities of Russian strategic companies (including depositary receipts) on stock exchanges, including foreign stock exchanges. However, it is unclear if and when such proposals would be advanced in the current economic and political climate.

Efficient Capital Markets and Portfolio Investment Return to top

Banks continue to make up a disproportionate share of Russia's financial system. Although Russia has roughly 900 banks, the sector is dominated by state-owned banks, particularly Sberbank and VTB. The six largest banks (in terms of assets) in Russia are state-controlled, and the top five held 53.7 percent of all bank assets in Russia as of March 1, 2014. The growing role of the state in the banking sector continues to distort the competitive environment, impeding Russia's financial sector development. The successful implementation of the Deposit Insurance System in 2004 has proved a critical psychological boon to the banking sector, reflected in the overall growth of deposits. This has significantly enhanced the stability of the banking sector's deposit base. At the beginning of 2014, aggregate assets of the banking sector amounted to 86.0 percent of GDP and aggregate capital was 10.6 percent of GDP. Russia's banking sector has recovered from the global economic crisis, with corporate loan growth reaching 17.0 percent and retail loan growth 27.4 percent in the 12 months running up to March 1, 2014. The share within Russia's banking sector of non-performing and troubled loans (categories III-V), which during the 2008-2009 financial crisis increased substantially, stabilized in 2010 at around 20% and began to slowly decline in the second half of 2011, so that as of March 1, 2014, it was equal to 14.0 percent. These positive trends notwithstanding, Russian banks reportedly still operate on short time horizons, limiting capital available for long-term investments.

On September 1, 2013, the Central Bank of Russia became the consolidated financial markets regulator (replacing the Federal Financial Markets Service) for Russia's capital markets and financial institutions. Whereas the Central Bank previously had primary responsibility for banks, the new Financial Markets Service of the Bank of Russia, the so-called mega-regulator, has responsibility for other non-bank financial institutions including pension funds, insurance companies, and asset management companies, as well as the securities markets. Consolidated supervision is expected to improve overall regulation and oversight of the capital markets.

Along these lines, the Central Bank has closed down a growing number of banks in recent months as part of a crackdown on the banking sector, as the Central Bank attempts to tighten oversight of banks and rein in shadow banking activity. The Central Bank revoked licenses for 54 banks from June 2013 through March 2014, with many banks cited for violating anti-money laundering or countering the financing of terrorism (AML/CFT) laws. This effort is succeeding in not only much needed banking sector consolidation, but also in weeding out bad banks that have been complicit in money laundering and facilitating the so-called "grey transactions" that have been part of capital outflows from Russia.

To fill the gap in capital available for long-term investments, authorities have also sought to improve the regulatory environment for non-bank institutional investors. This has had some success, though non-bank financials remain small relative to the size of the financial sector. Pension funds are viewed as the most promising source of long-term capital. Pension funds have had strong inflows, in recent years, though they have shown little risk appetite, primarily investing in sovereign debt, corporate debt, and bank deposits, thus limiting their utility as a source of long-term capital. A recent decision by the government to freeze inflows to funded pensions has increased uncertainty, undermining confidence in the industry. The government plans to allow inflows to resume to private pension funds once they have been audited and restructured. This could bolster confidence in the industry over the long term.

Russia's two main stock exchanges – the Russian Trading System (RTS) and the Moscow Interbank Currency Exchange (MICEX) – merged in December 2011. The MICEX-RTS bourse conducted an initial public offering on February 15, 2013, auctioning an 11.82% share. Russian authorities and shareholders of MICEX and RTS believe the merged entity, now branded the Moscow Exchange, has the potential to become a global player. While most large Russian companies currently choose to list their stocks in London and elsewhere abroad, the Russian government has begun a campaign to encourage state-owned companies to use the Moscow Exchange as a vehicle for privatization.

The Law on the Securities Market includes definitions of corporate bonds, mutual funds, options, futures, and forwards. Companies offering public shares are required to disclose specific information during the placement process, as well as on a quarterly basis. In addition, the law defines the responsibilities of financial consultants who assist companies with stock offerings and holds them liable for the accuracy of the data presented to shareholders.

Russian financial authorities are attempting to deepen the ruble-denominated domestic debt market to make it more attractive to foreign investors. In December 2011, the Central Bank issued a resolution allowing, effective January 1, 2012, government bonds (OFZ) to be traded outside Russian exchanges (over the counter). In February 2013, Euroclear and Clearstream, two international securities depositories, began settling transactions of OFZ bonds, Russia's primary sovereign debt security. Euroclear and Clearstream have since also begun settling transactions of Russian corporate and municipal debt, and may soon be able to settle equity transactions as well, possibly by early 2015. This has increased access to Russian securities markets for foreign investors by negating the need to have onshore brokerage and custody accounts.

Competition from State Owned Enterprises Return to top

State-owned enterprises (SOEs) accounted for roughly half of Russia's GDP in 2013 and the Russian government's policy is for the most part focused on maintaining the status quo, rather than supporting competition. In June 2013, the Russian government unveiled their 2014-2016 Privatization Plan, the most recent update of Russia's original privatization plan that was published in 2010 and amended in 2012. The new plan rolled back previous commitments to fully privatize oil giant Rosneft, VTB bank, energy company Zarubezhneft and hydroelectric company Rushydro. Instead of selling all stakes in those companies by 2016 the Russian government will continue to own a 50.1 percent of each company, a "golden share." Plans for Russian Railways, the Russian Agricultural Bank and Rosagroleasing were also scaled back. However, a decision was made to fully privatize Rostelecom and a total of 431 enterprises were added to the block for privatization by 2016. Most of the sales involve selling off minority share positions, privatization through dilution of shares rather than divestment and retaining golden shares to maintain government veto power. To date, treatment of foreign investment in new privatizations has been inconsistent; at times, foreign participation has often been confined to limited positions. Subsequently, many have faced problems with inadequate protection for minority shareholders and corporate governance. Potential foreign investors are advised to work directly and closely with appropriate local, regional, and federal agencies that exercise ownership or authority over SOEs whose shares they may want to acquire.

Corporate Governance: Due to the significance of SOEs within Russia's economy, corporate governance within those companies is a significant factor in Russia's economic growth. A specific variant of SOE, state corporations, are 100% owned by the Russian government and operate under special legislation. The Russian economy also features thousands of other companies owned in part or whole by the Russian government that operate under different legal arrangements, such as unitary enterprises and joint stock companies. In early 2014, the Russian government drafted a directive requiring all state corporations to come up with a series of key performance indicators (KPIs) to guide their development strategy going forward. In rolling out the initiative, the government made it clear that if KPIs were not met personnel changes would be made. This measure is aimed at pushing state corporations toward more efficient operating strategies. The Russian government also declined to increase the size of the government subsidy supporting each state corporation, also with the aim of forcing these companies to run more efficiently. Private enterprises are theoretically allowed to compete with SOEs on the same terms and conditions, and in some sectors, including where state ownership is minimal, competition is robust. But in other areas the playing field can be tilted. Issues that hamper efficient operations and fair competition with SOEs include a lack of transparency, lack of independence and unclear responsibilities of boards of directors, misalignment of managers' incentives and company performance, inadequate control mechanisms on managers' total remuneration or their use of assets transferred by the government to the SOE, and minimal disclosure requirements.

SWFs: There are two sovereign wealth funds in Russia: the Reserve Fund ($87.46 billion, or 4.3% of GDP as of April 1, 2014, up from 3.9% of GDP as of April 1, 2013) and the National Wealth Fund ($87.5 billion, or 4.3% of GDP as of April 1, 2014, up from 4.1% of GDP as of April 1, 2013). The Ministry of Finance manages both funds' assets in accordance with established procedures; the Central Bank of Russia acts as operational manager. Both funds are audited by Russia's Chamber of Accounts and the results are reported to the Federal Assembly. The Reserve Fund, at 4.3% of GDP, remains below the target of 7% of GDP and is, under currently loosening fiscal policy policies, expected to fall. In February 2014, the Finance Ministry announced plans to spend RUB 212.2 billion on FX purchases for the Reserve Fund. Since the beginning of the year, 38 billion rubles ($1.1 billion) have been spent on currency purchases. The Ministry said that currency purchases for the country's Reserve Fund were tied to the position of the ruble within the currency's euro-dollar trading corridor. Due to the high volatility of the markets, triggered by the tensions around the situation in Ukraine and Crimea, the Ministry suspended such purchases March 4.

Corporate Social Responsibility

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While not standard practice, Russian companies are beginning to show an increased level of interest in their reputation as good corporate citizens. When seeking to acquire companies in Western countries or raise capital on international financial markets, Russian companies face international competition and scrutiny, including on corporate social responsibility (CSR) standards. Consequently, most large Russian companies currently have a CSR policy in place, or are developing one, despite the lack of pressure from Russian consumers and shareholders. CSR policies of Russian firms are usually published on corporate websites and detailed in annual reports. However, these CSR policies and strategies --are still in an early stage relative to those of Western counterparts. Most companies choose to create their own NGO or advocacy group rather than contribute to an already existing organization. The Russian government is a powerful stakeholder in the development of certain companies’ CSR agendas, predictably, some companies choose to support local health, educational and social welfare organizations favored by the government.

The Federal Service for Financial Markets established a corporate governance code in 2002 and has endorsed an OECD White Paper on ways to improve practices in Russia. International business associations such as the American Chamber of Commerce in Russia, the U.S.-Russia Business Council, the Association of European Businesses in Russia, the International Business Leaders Forum, and Russian business associations, all stress corporate governance as an important priority for their members and for Russian businesses overall. One association, the Russian Union of Industrialists and Entrepreneurs, developed a Social Charter of Russian Business in 2004 in which over 200 Russian companies and organizations have since joined.

Political Violence

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Political freedom has been significantly curtailed during the past year, including rising hostility toward almost all opposition media outlets and increasing harassment of non-governmental organizations. In the aftermath of Ukraine's EuroMaidan protest which led to the ouster of Kremlin-friendly Ukrainian President Viktor Yanukovich, the Russian government and Russian society as a whole has been gripped by nationalist rhetoric. Soviet-era phrases such as "national traitors" and the "fifth column," which for the Government refers to persons and groups within Russia which they regard as fomenting revolution on behalf of outside forces but in reality may include those opposed to government policy, have reappeared. It remains difficult to predict the next actions of the Russian government, ruled with increasing authoritarianism by President Putin. Political risk is arguably the biggest drag on the Russian economy through the end of 2014.

On the media front, in December 2013, RIA Novosti, the only remaining semi-independent Russian wire service, was abruptly dissolved and reorganized into a new organization to be called "Rossiya Segodnya." The new organization will take marching orders directly from the Kremlin and is charged with producing a specifically Russian view on world events. In early 2014, popular opposition-minded cable channel Dozhd was cut from every major cable and satellite network due to an internet poll that was deemed to be "unpatriotic." The channel continues to produce online content but retains only 20 percent of its original audience, and little advertising revenue without access to cable networks. In a call-in show in April, President Putin indicated a reprieve for the embattled channel but it is still unclear how much longer Dozhd will be able to continue to operate in its limited state.

Public protests continue to occur sporadically in Moscow though they are often disrupted by spur of the moment construction work at the protest site and heavy police presence. The most recent large-scale protest was in February 2014 when 30,000 persons took to the street to protest the illegal Russian annexation of Crimea. There have been smaller protests regarding media freedom and eCommerce issues in 2014 that drew a few thousand participants as well as protests in support of opposition politician Alexey Navalny, who has faced a variety of legal charges due to his activism. The Russian government has also been more inclined to use government-sponsored counter-protests to gain support for their actions. Counter protests in support of Russia's illegal annexation of Crimea drew less than 5,000, although the Russian media erroneously reported the participation figure as much higher.

Some individuals who took part in Moscow's Bolotnaya Ploshchad protest in May 2012 are currently serving jail sentences of up to 4 years for offensives including violence against police officers and participating in an unsanctioned rally. Opposition leaders insist that the individuals were arrested at random and their prosecution was meant to intimidate Russians and prevent future protest actions. Aleksey Navalny, anticorruption whistleblower and member of the opposition Coordination Council, was convicted in October 2013 of stealing $500,000 worth of state-owned timber in a trial that was maligned by opposition leaders and international organizations as little more than a show trial. However, he was released and his five-year sentence was suspended so he could run in the Moscow mayoral elections. His conviction and release resulted in large rallies in Moscow. He has since spent ten days in jail for participation in an unsanctioned rally and is currently under house arrest on a new set of trumped up fraud charges. Although the use of strong-arm tactics is not unknown in Russian commercial disputes, the U.S. Embassy is not aware of cases where foreign investments have been attacked or damaged for purely political reasons. Russia continues to struggle with an ongoing insurgency in Chechnya, Ingushetiya and Dagestan. These republics and neighboring regions in the northern Caucasus have a high risk of violence and kidnapping.

In yet another sign of the worsening civil rights situation in Russia, prominent economist and Rector of the New Economic School Sergei Guriev fled Russia in April 2013. He currently lives in exile in Paris. He has written extensively in the Western press regarding his decision, which was motivated primarily by increasing harassment by the Russian government for support of opposition politicians. He is only one of many examples of high-profile people who have fled Russia because they fear repercussions for holding opinions different from the government's.

The remaining two imprisoned members of the Russian punk rock group "Pussy Riot" were released on December 12, 2013 as a part of a Presidential amnesty to celebrate the 20th anniversary of the Russian constitution. Since their release they have been arrested and subsequently released for their participation in additional protest actions in Moscow and in Sochi, on the margins of the 2014 Winter Olympic Games. They have also been physically abused in public multiple times, with authorities refusing to press charges against their assailants despite video evidence of the crimes. Also released as a part of the amnesty was Russian oligarch Mikhail Khordorkovsky, who was convicted in 2005 of fraud in the controversial Yukos case and sentenced to nine years in prison. He was convicted on secondary charges in 2010 which extended his term to 2014 and a third case was in the process of being brought before the courts. Upon release, Khordorkovsky departed Russia for Germany and currently resides in Switzerland.

Corruption
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The Russian government stepped up its campaign against corruption in 2012. In March 2012, then-Russian President Medvedev adopted the National Anti-Corruption Plan for 2012–2013. The plan contained guidance and recommendations for the government, federal executive bodies and other government agencies on counteracting corruption, including the establishment of a legal framework for lobbying and increasing the transparency of state officials' personal finances and acceptance of gifts. Additionally, in 2012, Russia adopted a law requiring individuals holding public office, state officials, municipal officials and employees of state organizations to submit information on the funds spent by them and members of their families (spouses and underage children) to acquire certain types of property, including real estate, securities, stock and vehicles. The law also required public servants to disclose the source of the funds for these purchases and to confirm the legality of the acquisitions. In addition, the State Duma adopted a law in 2013 that required state officials, deputies, senators and governors to disclose information on their foreign property holdings and to close foreign bank accounts.

Speaking at the Russian General Prosecutor's Office on the occasion of the 291st anniversary of its establishment, Sergei Ivanov, Chief of the Presidential Administration, mentioned that in 2012, over 7,000 persons charged with corruption had received prison sentences and a greater number of corruption cases were initiated. One high level case led to the firing of Defense Minister Anatoly Serdyukov, who was reportedly at the center of multiple corrupt schemes on a very large scale. However, after a year of investigation, no charges have been filed. Various reports in the media speculated that Serdyukov had been given amnesty, or alternatively, that the investigation had been limited to suspicious of negligence rather than more serious crimes. Failure to hold high government officials accountable for corruption sends a strong signal throughout the system that certain persons are untouchable and protected by the highest authorities. This phenomenon undermines the rule of law in Russia.

Indeed, a long-running dispute between the Russian Prosecutor General, Yuri Chaika, and the Chairman of the Investigative Committee, Alexander Bastrykin, flared up in the Spring 2014. Chaika publicly accused the Investigative Committee of being unwilling to handle serious corruption matters. However, even the General Procuracy has experienced public embarrassment on this issue, when Hewlett Packard Russia pleaded guilty in the United States in April 2014 to bribing Russian prosecutors ten years earlier in exchange for a computer systems procurement contract. Media reports suggested that Russia has not been very helpful in investigating cases under the U.S. Foreign Corrupt Practices Act (FCPA).

Russia is a signatory to the UN Convention against Corruption, the Council of Europe's Criminal Law Convention on Corruption, and, as of 2012, the OECD Anti-Bribery

Convention. The OECD Convention calls for the implementation of national legislation to criminalize commercial bribery and to prohibit both offering bribes to foreign government officials and accepting such bribes. It provides no exceptions for “grease payments,” and includes foreign entities doing business in Russia, meaning these entities could be subject to liability under their own country’s law, as well as Russia’s. The convention also calls for increasing the penalties that may be imposed upon an individual or entity found in violation. Fines and terms of incarceration contemplated by the Convention vary, depending upon the type of bribe and the official involved. During 2011-2012, Russia passed national legislation to bring itself into better compliance with its commitments under the OECD Convention and UNCAC. For instance, Article 13.1 of the Federal Law on Corruption allows removal of government officials for failure to take measures to combat corruption. Article 13.3, very broadly requires all legal entities in the Russian Federation implement an ethics and compliance program to combat corruption and conflict of interest. This law also applies to Russian government budgetary entities like schools.

Some analysts have expressed concern that lack of depth in the compliance culture in Russia will render the law a formality that does not function in reality. The implementation and enforcement of the many measures required by these conventions have not yet been fully tested. In recent years, there appears to be a greater number of prosecutions and convictions of mid-level bureaucrats for corruption, but real numbers were difficult to obtain and high-ranking officials were rarely prosecuted. After the close of the 2014 Winter Olympic Games in Sochi, anti-corruption blogger and opposition political candidate Alexey Navalny released a detailed report alleging wide-spread corruption and graft from those government and private individuals involved in construction of the Olympic venues. According to reports, the Prosecutor General’s Office opened over 50 criminal cases related to the Olympic Games and has imposed administrative penalties on over 100 persons and companies. It is likely that many of these cases touch only lower level bureaucrats and not high-ranking government officials or prominent businessmen close to the Kremlin who won the lucrative construction contracts for the Olympics.

It is important for U.S. companies, irrespective of size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance programs or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in Russia should take the time to become familiar with the relevant anticorruption laws of both Russia and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

Additional country information related to corruption can be found in the U.S. State Department's annual Human Rights Report available at http://www.state.gov/g/drl/rls/hrrpt/.

Assistance for U.S. Businesses: The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of a company's overarching compliance program when choosing business partners or agents overseas. The U.S. Commercial Service can be reached directly through its offices in major U.S. and foreign cities, or through its Website at: http://www.trade.gov/cs.

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department's Advocacy Center and State's Office of Commercial and Business Affairs. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. government officials, including local embassy personnel and through the Department of Commerce Trade Compliance Center "Report A Trade Barrier" Website at: tcc.export.gov/Report_a_Barrier/index.asp.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by requiring them to uphold their obligations under relevant international conventions. A U.S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

U.S. Foreign Corrupt Practices Act (FCPA): In 1977, the United States enacted the FCPA, which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: www.justice.gov/criminal/fraud/fcpa/docs/lay-persons-guide.pdf.

The Department of Justice (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of DOJ's present enforcement intentions under the anti-bribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ's Fraud Section Website at: www.justice.gov/criminal/fraud/fcpa.

Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel's website, at: http://www.ogc.doc.gov/trans_anti_bribery.html.

Other Instruments: It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental to the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Anti-Bribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements.

OECD Anti-Bribery Convention: The OECD Anti-Bribery Convention entered into force in February 1999. There are 38 parties to the Convention including the United States (see http://www.oecd.org/dataoecd/59/13/40272933.pdf). The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. The United States meets its international obligations under the OECD Anti-Bribery Convention through the FCPA. In 2011, Russia passed anti-corruption legislation that clearly criminalized foreign bribery and acceded to the Anti-Bribery Convention in 2012.

Local Laws: U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department's U.S. Commercial Service can provide assistance with navigating the host country's legal system and obtaining a list of local legal counsel.

Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 183 countries and territories around the world. The CPI is available at: http://cpi.transparency.org/cpi2011/. TI also publishes an annual Global Corruption Report which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. Seehttp://www.transparency.org/publications/gcr. Transparency International-Russia also posts corruption-related research materials and findings on the following sites, all specific to Russia: www.transparency.org.ru/INTER/index.asp and www.askjournal.ru.

The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 213 economies, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See http://info.worldbank.org/governance/wgi/sc_country.asp. World Bank Business Environment and Enterprise Performance Surveys may also be of interest.

The World Economic Forum publishes the Global Enabling Trade Report, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See http://www.weforum.org/reports/global-enabling-trade-report-2012.

Global Integrity, a nonprofit organization, publishes its annual Global Integrity Report, which provides indicators with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: http://www.globalintegrity.org/report.

Bilateral Investment Agreements Return to top

While the United States and Russia signed a bilateral investment treaty (BIT) in 1992, it is not in force due to lack of ratification by the Russian Duma. In January 2014, Russia and the United States began talks on ways to improve the bilateral investment relationship. Those talks were suspended after Russia's illegal invasion of Crimea in February 2014. Russia has BITs with 75 countries, 54 of which are currently in force.

The United States and Russia have shared an income tax treaty since 1992, which is designed to address the issue of double taxation and fiscal evasion with respect to taxes on income and capital. Full text of the treaty: http://www.irs.gov/pub/irs-trty/russia.pdf. There is some concern that taxation requirements have sometimes been used in Russia as a way to "raid" or illegally take possession of foreign companies, particularly small and medium enterprises.

OPIC and Other Investment Insurance Programs return to top

Since 1992, the U.S. Overseas Private Investment Corporation (OPIC) has been authorized to provide loans, loan guarantees (financing), and investment insurance against political risks to U.S. companies investing in Russia. OPIC's political risk insurance and financing help U.S. companies of all sizes invest in Russia. OPIC insures against three political risks: expropriation; political violence; and currency inconvertibility. OPIC recently announced that political risk insurance now covers private equity fund investments. To meet the demands of larger projects in Russia and worldwide, OPIC can insure up to $250 million per project and up to $300 million for projects in the oil and gas sector with offshore, hard currency revenues. Projects in the oil and gas sector with offshore, hard currency revenues may be approved for an exposure limit up to $400 million if the project receives a credit evaluation (shadow rating) of investment grade or higher. The individual per project exposure limit for financing is $250 million. The maximum combined (insurance and financing) exposure limit to OPIC on a single project is $400 million. OPIC has no minimum investment size requirements. OPIC also makes equity capital available for investments in Russia by guaranteeing long-term loans to private equity investment funds. Detailed information about OPIC's programs can be accessed at www.opic.gov. Russia is also a member of the World Bank's Multilateral Investment Guarantee Agency.

Labor Return to top

The Russian labor market remains fragmented, characterized by limited labor mobility across regions and consequent wage and employment differentials. Earnings inequalities are substantial, enforcement of labor standards is relatively weak, and collective bargaining is underdeveloped. Employers regularly complain about shortages of qualified skilled labor. This is due in part to weak linkages between the education system and the labor market. In addition, the economy suffers from a general shortage of highly skilled labor. Businesses face increasing labor costs as competition over a limited pool of workers intensifies. On the other hand, private business must compete with SOEs, where Russians have indicated in recent surveys they would prefer to work due to salaries and benefits. The public sector, which maintains inefficient and unproductive positions, accounts for about 25 percent the workforce. The 2002 Labor Code governs labor standards in Russia. The enforcement of worker safety rules continues to be a major issue, as enterprises are often unable or unwilling to invest in safer equipment or to enforce safety standards.

The rate of actual unemployment (calculated according to ILO methodology) in 2013 was low at 5.5 percent. Average unemployment in urban districts (4.7 percent as of December) was much lower than in rural districts (8.3 percent). In 2013, two regions in the North Caucasus had the highest unemployment rates in the country: Ingushetia (43.7 percent) and Chechnya (26.9 percent). In stark contrast, the unemployment rate was 1.5 percent in St. Petersburg and 1.7 percent in Moscow.

Foreign-Trade Zones/Free Ports Return to top

Russia has 26 Special Economic Zones (SEZs), which fall in one of four categories: industrial and production zones; technology and innovation zones; tourist and recreation zones; and port zones. Enterprises operating within SEZs enjoy a range of benefits that the Ministry of Economic Development (MED) – which manages the SEZ program – estimates can save investors up to 30% of the cost of doing business. Specifically, investors enjoy streamlined administrative requirements and procedures, a more favorable customs regime (including the waiver of import duties and refunds of the value-added-tax), and reduced tax rates on income, property, land, and transport. SEZ investors also receive discounts on infrastructure expenses, including facilities and utilities costs. Such benefits are extended for an agreed introductory period, often lasting five years.

Progress in attracting foreign investors to SEZs is uneven. The majority of SEZ investments are still listed as "planned," meaning investors are still able to back out of commitments. The lack of interest from foreign investors in addition to environmental concerns led to the closure of the proposed Kaliningrad tourist and recreational zone SEZ in late 2012. The Russian government has been hesitant to go forward with major SEZ infrastructure projects. Detailed information about the benefits and results of Russia's SEZs can be found at the MED's SEZ website: http://www.economy.gov.ru/minec/activity/sections/sez/main/.

Independent of the SEZs, in 2010 then-President Medvedev launched an initiative to establish the Skolkovo Innovation Center in the Moscow suburbs to promote investment in high-technology startup businesses, research, and commercialization of technological innovation. Inspired by the model of Silicon Valley, Skolkovo "resident companies" can receive a broad range of benefits, including exemption from profit tax, value-added tax, property taxes, and import duties, and partial exemption from social fund payments. Applicants for residency are evaluated and selected by an international admission board; company performance is monitored to ensure continued qualification for benefits. According to the Skolkovo Foundation, over 1,000 startups have been selected as residents thus far, although very few are physical present at Skolkovo now. The infrastructure for Skolkovo is still being built.

Foreign Direct Investment Statistics

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Table 1 shows flows of foreign investment into Russia by country for the first nine months of 2013, compared to the same period in 2012. Total foreign investment increased by 15 % year-on-year. According to Russian statistical practice, total foreign investment numbers include direct investment (FDI), portfolio investment, and other investment (largely trade credits). FDI flows into Russia also increased in 2013, rising by 52%; the largest share came from Cyprus according to available data. FDI from the Netherlands and Cyprus is consistently high, reflecting the fact that most FDI coming from these countries is likely either returning or reinvested Russian capital through subsidiaries or off-shore "shell" vehicles. The data in the table below is from the Central Bank of Russia. While official statistics for 2014 are not yet available, anecdotal evidence suggests that uncertainty spawned by the crisis in Ukraine as well as market fluctuations in Russia will drive FDI numbers down for this year.

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

Country	Jan-Sep 2013		Jan-Sep 2012		Jan-Sep 2011	
	Total	**FDI**	**Total**	**FDI**	**Total**	**FDI**
Switzerland		754	43,252	88	69,115	70.1
Netherlands	12,812	2,655	15,676	909	13,218	3,023
Cyprus	17,612	7,772	11,788	3,842	12,972	2,758
Germany	6,338	2,411	3,799	1,119	8,169	1,480
UK	12,158		10,618	500	6,336	176
All Others			29,330	5,819	23,976	4,228
Total	**132,385**	**18,610**	**114,463**	**12,277**	**133,784**	**11,736**

The numbers in Table 2 represent the accumulated stock of total foreign investment in Russia by originating country, including FDI, portfolio, and "other" investment as of September 30, 2013, compared to the amount accumulated a year prior. Source: Central Bank of Russia.

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

Country	As of Sep 30, 2013		As of Sep 30, 2012		As of Sep 30, 2011	
	Total	**FDI**	**Total**	**FDI**	**Total**	**FDI**
Cyprus	67,635	44,160	78,566	53,357	69,057	47,290
Netherlands	67,113	23,385	59,223	21,723	46,295	23,328
Luxembourg	47,197	1,319	39,808	1,191	35,051	643
Germany	21,969	12,119	24,757	11,393	29,779	11,386
China	32,383	1,492	27,792	1,346	27,356	1,238
All Others			123,198	46,298	115,650	42,529
Total	**379254**	**122500**	**353,344**	**135,308**	**323,178**	**126,415**

Table 3 shows total foreign investment by region over the first nine months of 2013, compared to the same period in 2012. Moscow continues to attract the lion’s share of investments, mainly due to the concentration of companies’ headquarters and consumers with high purchasing power. Source: Central Bank of Russia, including direct, portfolio and “other” investments.

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

	Jan-Sep 2013			Jan-Sep 2012			Jan-Sep 2011		
	Amount	**%**	**Rank**	**Amount**	**%**	**Rank**	**Amount**	**%**	**Rank**

Moscow (city)	78,383	59.20%		63,211	55.20%		84,878	63.40%	1
Tyumen Region	4,669	3.50%		6,975	6.10%		9,821	7.30%	2
Sakhalin Region	1,908	1.50%		8,541	7.50%		6,570	4.90%	3
St. Petersburg	8,974	6.80%		6,580	5.70%		3,972	3.00%	4
Belgorod Region	1,433	1.10%		465	0.10%		3,171	2.40%	5
Others							25,371	19.00%	
Total	**132,385**	**100%**		**114,463**	**100%**		**133,784**	**100%**	

Table 4 shows investment by sector over the first nine months of 2013, compared to the same period in 2012. Total investment increased in six of the ten top sectors. Data for investment into the financial sector was not available. Source: Central Bank of Russia

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

Industry/Sector	Jan-Sep 2013		Jan-Sep 2012		Jan-Sep 2011	
	%	Amount	%	Amount	%	Amount
Finance	11.77%	15,579	33.46%	38,300	49.10%	65,711
Extraction of Fuel	5.06%	6,702	10.60%	12,136	9.60%	12,850
Wholesale and Retail Trade	16.97%	22,463	15.79%	18,074	9.20%	12,363
Production of coke and oil products	34.42%	45,563	10.78%	12,338	7.50%	9,997
Metallurgy	7.50%	9,932	6.05%	6,927	4.40%	5,902
Transport and Communications	2.41%	3,190	2.95%	3,377	4.10%	5,494
Real Estate and Related Services	4.79%	6,337	6.25%	7,150	3.60%	4,782
Chemical Industry	3.67%	4,858	2.09%	2,387	2.70%	3,636

Food Industry	2.08%	2,755	1.38%	1,583	1.50%	1,964
Production of vehicles	3.90%	5,164	2.45%	2,802	1.40%	1,845
All Others	7.43%	9,842	9.20%	9,389	6.90%	9,240
Total	**100.00%**	**132,385**	**100.00%**	**114,463**	**100.00%**	**133,784**

Table 5 shows stocks of Russian FDI abroad as of September 30, 2013 and September 30, 2012, as well as flows of Russian FDI abroad for the first nine months of 2013, compared to the same period in 2012. Russian FDI stocks decreased in the Netherlands and the United States but increased in Cyprus, the United Kingdom and Luxembourg (data from 2011 was unavailable for Luxembourg and the United Kingdom). Source: Central Bank of Russia.

Table 5: Top Destinations of Russian FDI - By Year (in $ million)

Country	**as of Sep 30, 2013**		**as of Sep 30, 2012**		**as of Sep 30, 2011**	
	Stock	**Flow**	**Stock**	**Flow**	**Stock**	**Flow**
Netherlands	22,284	6,388	31,049	6,848	25,067	8,427
Cyprus	33,595	14,974	25,686	10,834	14,280	842
Switzerland	8,190	36,446	8,115	38,641	2,814	328
United States	4,004	545	7,880	642	6,663	439
United Kingdom	9,157	3,550	6,270	7,528	N/A	N/A
Luxembourg	6,846	7,873	6,206	213	N/A	N/A
Belarus	5,501	2,831	5,820	5,877	2,685	629

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See above sub-sections.

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Chapter 7: Trade and Project Financing

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Payment methods and terms vary depending upon the U.S. company's business model and relationship with its Russian trading partner. 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. 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. One of the more commonly used payment terms for international transaction in Russia is 30/70, meaning 30 percent due at the time of order/invoice and 70 percent due upon shipment.

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.

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 can 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.

How Does the Banking System Operate? Return to top

Despite improvement over the last several years, 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, while the banking services available from Russian banks are still limited compared to what is available in the United States, a company doing business in Russia can access an expanding range of basic services offered by a larger commercial bank.

Foreign-Exchange Controls

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Currency control legislation has been liberalized considerably in the last few years. For payments related to the import of goods, there are no significant restrictions. However, the bank of the Russian importer is obliged to ensure compliance of payments with the currency regulations. Therefore, the Russian importer and its bank set up a transaction passport for each contract. The foreign exporter is not directly involved, but may be affected due to the need for the Russian importer to obtain documents and information from the exporter. For more information, see Conversion and Transfer Policies in the Investment Climate Statement (Chapter 6).

U.S. Banks and Local Correspondent Banks

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The Russian banking sector is dominated by large state-owned banks, in which the top five banks control over 50% of assets. At one time there were over 1000 small and regional banks, but economic pressures and insolvency have led to significant consolidation within the sector. State-owned banks have been the primary beneficiaries of the Russian government’s efforts to inject short- and long-term liquidity into the market to mitigate the economic crisis. Russia’s largest domestic banks include Sberbank (controlled by the Central Bank); VTB Bank (state-owned, also includes subsidiaries VTB24, VTB Capital, and Bank of Moscow); Gazprombank (subsidiary of state-owned Gazprom); Rosselkhozbank (state-owned agricultural bank); and Alfa-Bank (private commercial bank).

The largest U.S. and European investments operating in Russia include Goldman Sachs, Morgan Stanley, Bank of America Merrill Lynch, JPMorgan, Barclay’s, Deutsche Bank, and UBS. The largest foreign-owned commercial banking institutions in Russia include: Raiffeisen Bank (Austria), Unicredit Bank (Italy), Citibank (U.S.), HBSC (UK), and Deutsche Bank (Germany). In recent years, many other well-known global finance institutions have suspended commercial banking activities or exited the Russia market due to economic pressures and legislative changes. For example, in 2013, new legislation was passed that forbids foreign banks from establishing branches across the Russian Federation – only subsidiaries may be created.

Project Financing

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The U.S. Government offers a variety of international financing programs to support U.S. companies who are exporting. Assistance may come in the form of working capital loans, loan guarantees, insurance, lease financing, grants for major projects, and in some cases, financing for the foreign buyers of U.S. manufactured products. Other sources of international trade and project financing in Russia include regional development banks.

The **Small Business Administration (SBA)** offers financing packages specifically targeted to assist U.S. exporters expand overseas and fund export transaction costs or financing for the export of goods or services. SBA programs can provide the liquidity needed to accept new orders, enter new markets and compete more effectively in the international marketplace, such as their: Export Express Loan Program, Export Working Capital, International Trade Loans, and SBA and EX-IM Bank Co-Guarantee program.

The mission of the **U.S. Export-Import Bank (EXIM)** is to assist in financing the export of U.S. goods and services to international markets. EXIM provides export financing products that fill gaps in trade financing, by assuming credit and country risks that the private sector is unable or unwilling to accept, and by leveling the playing field for U.S. exporters by matching the financing that other governments provide to their exporters. EXIM provides working capital guarantees (pre-export financing); export credit insurance; and loan guarantees and direct loans (buyer financing).

The **Overseas Private Investment Corporation (OPIC)** provides medium- to long-term funding through direct loans and loan guarantees to eligible investment projects in developing countries and emerging markets. OPIC achieves its mission by mobilizing private capital and providing investors with financing, guarantees, political risk insurance, and support for private equity investment funds.

The **European Bank for Reconstruction and Development (EBRD)** is an international financial institution that supports projects in Europe, the Mediterranean, and central Asia. The EBRD works with banks, industries and businesses, and publicly owned companies, to provide loan and equity finance, guarantees, leasing facilities and trade finance. Direct investments generally range from €5 million to €230 million, and can typically fund up to 35 per cent of the total project cost. The EBRD tailors solutions to client and project needs and to the specific situation of the country, region and sector.

The **Eurasian Development Bank (EDB)** was established to promote economic growth in its member states and to support integration in Eurasia. Originally founded by Russian and Kazakhstan, current members also include Armenia, Belarus, Kyrgyzstan and Tajikistan. The EDB invests in large, mid- and long-term projects with minimum project volume of US$30 million, and maximum tenure of 15 years. Priority sectors for the EDB include infrastructure development projects (transportation, energy, telecommunications, and municipal facilities), energy Efficiency programs, and the development of high value-added production.

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

Overseas Private Investment Corporation: http://www.opic.gov

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

USDA Commodity Credit Corporation: https://www.fsa.usda.gov/

European Bank for Reconstruction and Development: http://www.ebrd.com

Eurasian Development Bank: http://www.eabr.org/e/

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Chapter 8: Business Travel

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

Establishing a personal relationship with business partners is a critical factor in the successful negotiation of major projects, government procurement or in developing long-term business relationships. Scheduling meetings with potential Russian business partners can be challenging. It may take weeks to get a response to an email, fax or a telephone request for a meeting. Once contact has been established, patience may still be required to confirm a date and time to meet. U.S. business visitors to Moscow or St. Petersburg are advised to factor traffic into scheduling.

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

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

Promotional materials in Russian are an important tool for creating interest in a company's products in the Russian market. It is very important that the translation be accurate and of high quality. Many companies interested in the Russian market have used on-line translation services for translation of their promotional material, only to learn that the translation was inferior and did not serve the intended purpose. For the best results, it is highly recommended that professional translation services be used. The U.S. Commercial Service can recommend fully qualified translators upon request.

Travel Advisory

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The State Department issues Travel Alerts and Warnings when warranted by local conditions. If you are traveling to Russia, please refer to the Country-Specific Information (CSI) for the Russian Federation at http://travel.state.gov/travel/cis_pa_tw/cis/cis_1006.html#page and consider enrolling your travel with the Department of State in order to receive e-mail updates. The CSI is updated regularly and contains key information for travelers regarding security and safety, health, visa and immigration regulations, and general travel information about the Russian Federation.

Travel Tips

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

Clothing: Russian businessmen and women predominately wear business suits. For women, dresses, skirts or pants are acceptable. 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 can be quite cold as well, with temperatures in the teens Fahrenheit. . Winter clothes may be needed as early as October or as late as April. During the winter months people dress for warmth. Travelers are advised to bring boots or other protective footwear, as streets and sidewalks in winter are frequently slushy or icy. Summers, while brief, can be surprisingly hot, and air conditioning is still rare outside big-city hotels and offices.

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. Regardless of the city or hotel, bottled water served with no ice is recommended.

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 another foreign currency. Old, worn, or marked bills are often not accepted at banks and exchanges. In Moscow and St. Petersburg, currency exchange offices are available in most shopping areas and provide reliable service. Credit cards are now accepted at many modern businesses in Moscow and St. Petersburg, and at some hotels and restaurants in larger regional cities, but frequently only in major stores. Traveler checks are not widely accepted in Russia. Travelers to regional cities or towns are advised to carry enough cash to cover foreseeable expenses. Major hotels and the American Express offices in Moscow and St. Petersburg may be able to suggest locations for cashing traveler's 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 common in the larger cities, although there have been some instances of theft from card numbers used in these systems. Western Union has many agents in Moscow and other cities in Russia, which disburse money wired from the United States.

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

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

Personal Security

Incidents of unprovoked, violent harassment against racial and ethnic minorities regularly occur throughout the Russian Federation. The U.S. Embassy and Consulates General continue to receive reports of American citizens, often members of minority groups, having been victimized in violent attacks by "skinheads" or other extremists. Travelers are urged to exercise caution in areas frequented by such individuals 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 of harassment by police authorities.

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

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

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

Groups of children and adolescents have been aggressive in some cities, swarming victims, or assaulting and knocking them down. They frequently target persons who are perceived as vulnerable, especially elderly tourists or persons traveling alone. Some victims report that the attackers use knives. Persons carrying valuables in backpacks, in back pockets of pants and in coat pockets are especially vulnerable to pickpockets. Recently, groups of older teen males have also swarmed Metro passengers and forcibly stolen personal belongings.

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. The Russian media report that the drug GHB is reportedly gaining popularity in local nightclubs, under the names butyrate or oxybutyrate. This drug can also cause amnesia, loss of consciousness, extreme intoxication when mixed with alcohol, and death. The drug, typically a capful of liquid mixed with a beverage, gained notoriety in the United States after incidents of date rape and death.

In many cases, stolen credit cards are used immediately. Victims of credit card or ATM card theft should report the theft to the credit card company or issuing bank immediately. Travelers are advised to be vigilant in bus and train stations and on public transport. Travelers have generally found it safer to travel in groups organized by reputable tour agencies. Visitors are strongly discouraged from using unmarked, “gypsy” taxis. Passengers have been victims of robbery, kidnapping, extortion and theft. Criminals using these taxis to rob passengers often wait outside bars or restaurants to find passengers who have been drinking and therefore more susceptible to robbery. Robberies may also occur in taxis shared with strangers. Although there are few registered taxi services in Russia, travelers should always use authorized services when arriving at major airports.

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

To avoid highway crime, travelers should try not to drive at night, especially when alone, or sleep in vehicles along the road. Travelers should, under no circumstances, pick up hitchhikers; they not only pose a threat to physical safety, but also put the driver in danger of being arrested for unwittingly transporting narcotics.

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

Travelers should be aware that certain activities that would be normal business activities in the United States and other countries are either illegal under the Russian legal code or are considered suspect by the Federal Security Service (FSB). U.S. citizens should be particularly aware of potential risks involved in any commercial activity with the Russian military-industrial complex, including research institutes, design bureaus, production facilities or other high technology, government-related institutions. Any misunderstanding or dispute in such transactions can attract the involvement of the security services and lead to investigation or prosecution for espionage. Rules governing the treatment of information remain poorly defined.

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

Consular Services: All Americans who travel to Russia are encouraged to register at the U.S. Embassy or at one of the U.S. Consulates, listed below. In addition to providing updated travel and security information, registration facilitates replacement of a lost or stolen passport as well as contact in case of emergency.

U.S. Embassy - Moscow
8 Bolshoy Deviatinsky Pereulok, Moscow 121099

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

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

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

U.S. Consulate General – Yekaterinburg
15 Gogol Street, 4th Floor, Yekaterinburg 620151
Tel: 7 (343) 379-3001/379-4619/91, Fax: 7 (343) 379-4515

Visa Requirements

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The Russian Government requires visas and residence permits for businessmen and investors. Work and residence permits must be renewed periodically – a cumbersome process that almost always requires local legal counsel. Russia's visa system is very complicated, and visitors should consult the State Department's Country-Specific Information (CSI) for the Russian Federation for up-to-date information on Russian entry and exit requirements. The CSI can be referenced at: http://travel.state.gov/travel/cis_pa_tw/cis/cis_1006.html#page.

U.S. companies that require travel of foreign businesspersons or workers to the United States should be aware that Russian citizens require visas to enter the United States. A visa is issued by a U.S. Embassy or Consulate and entitles the holder to travel to the United States and apply for admission; it does not guarantee entry. An immigration inspector at the port of entry determines the visa holder's eligibility for admission into the United States. The Embassy and Consulates process visa applications in an expeditious manner, but it is important to apply as early as possible. Further information on U.S. visas is available at the following links:

State Department visa Web site: http://travel.state.gov/visa/

U.S. Embassy Moscow Visa Information: http://moscow.usembassy.gov/visas.html

Telecommunications

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Internet Accessibility: The level of penetration and Internet awareness continues to increase in Russia. Recent figures show that roughly half of the Russian population uses the Internet on a regular basis. The largest players in Russian language e-mail services and search engines are Mail.ru, Rambler and Yandex. Internet is widely available in the major cities.

Wi-Fi is increasingly available in Russia. Currently, there are about 6,000 hot spots active in Russia that are primarily located in Moscow, St. Petersburg and other large cities. Launching WIMAX services combined with Wi-Fi will be the driver for further proliferation of wireless Internet access.

Mobile Technology: Mobile services are provided in the GSM, CDMA-450, AMPS and DAMPS standards. GSM dominates the market, holding 80% of the market space. The major cellular operators in the market are Mobile TeleSystems (MTS), Vimpelcom (Beeline) and Megafon.

Long distance telephone calls can usually be made from any place in the city using IP phone services, including SKYPE, if you have an available Internet connection. One can also buy a mobile SIM card for intercity or international phone calls at a special rate. To save money on international calls and internal calls, one can buy a phone at a cell phone shop (starting $30 and a local sim -$5)

A rudimentary knowledge of Russian is extremely helpful for those placing a call through local telephone and telegraph offices. Moscow is eight hours ahead of Washington, D.C., during Eastern Daylight Time and nine hours ahead during Eastern Standard Time. To reach Moscow by phone from the United States you need to access an international line, and then dial Russia Country Code “7,” Moscow City Code “495” followed by the phone number. Some new numbers use “499” for Moscow, and calling cell phones in Russia often require a different dialing string.

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

Travelers should be aware some local airlines may not have advance reservation systems and sell tickets for cash at the airport. However, due to consolidation of Russian airlines and the growing popularity of Internet-based sales, advance on-line ticket purchases are becoming more common. 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 sometimes 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 other domestic carriers.

Moscow has three major airports (Sheremetyevo, Domodedovo and Vnukovo); a fourth airport, Bykovo, deals primarily with cargo and emergency flights. International flights generally enter Moscow through Sheremetyevo and Domodedovo. Most international flights arrive in Sheremetyevo-2 (renamed SVO-F in December 2009) while Sheremetyevo-1 (renamed SVO-B in March 2010) handles most domestic traffic. With the opening of terminal C (SVO-C) in March 2007 and the opening of terminal D (SVO-D) in November 2009, some international and domestic travel has been diverted to these facilities.

Travelers may continue to other Russian cities from Sheremetyevo, Vnukovo or Domodedovo airports. However, travel time between airports or to the city center can take as much as three hours, and ample time must be allowed for passport control, customs clearance and baggage retrieval. The introduction of Aeroexpress trains that provide a high-speed direct connection from each of the airports to the city center (35-45 min travel time) has greatly alleviated this problem over the recent years. St. Petersburg's airport has two terminals: Pulkovo-1 (domestic flights) and Pulkovo-2 (international flights).

Train travel in Russia is generally reliable and convenient as stations are located in the city center. From St. Petersburg to Moscow, travelers often ride overnight trains, although unaccompanied passengers are reminded to keep an eye on their valuables and lock their doors at night (if in a sleeping compartment), as some incidents of pick-pocketing have been reported. For quicker train connection between Moscow and St. Petersburg during the daytime, travelers can consider taking the high-speed SAPSAN train that reaches destination only within 4 hours. 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 the 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 disadvantage relative to your European and Asian competitors, not to mention local firms.

Health

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Western medical care in Moscow can be expensive, difficult to obtain, and not entirely comprehensive. The Embassy strongly urges all travelers who visit Russia to purchase traveler's medical insurance which includes coverage for a medical evacuation.

The U.S. Embassy maintains a list of medical service providers on its Web site at: http://moscow.usembassy.gov/medical.html.

The Department of State updates its Country-Specific Information (CSI) for Russia every six months and includes information on Medical Facilities and Health Information as well as Medical Insurance. Please go to: http://travel.state.gov/travel/cis_pa_tw/cis/cis_1006.html#medical.

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.

Local Time, Business Hours, and Holidays

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There are 9 time zones across Russia. As of March 2011, daylight savings time is observed year-round. Moscow is eight hours ahead of Eastern Daylight Time and nine hours ahead of Eastern Standard Time. Most companies and offices maintain business hours of 9:00 a.m. - 6:00 p.m. Many shopping centers and supermarkets are open from 10:00 a.m. - 8:00 p.m. Increasingly, major supermarket chains are open 24 hours, 7 days per week.

Russian Holidays: The holidays listed on the U.S. Embassy’s Web site are not an exclusive list. Occasionally days off will be declared by the government to create a long weekend, particularly at Christmas (when holidays fall on weekends, Russian authorities generally announce during the week prior to the holiday whether it will be celebrated on the previous Friday or the following Monday). Travelers should be aware that little business is conducted from mid-December through mid-January. The country essentially shuts down for business from New Year's Day 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 2014:
http://moscow.usembassy.gov/holidays.html

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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. Additional information can also be found at http://eng.customs.ru/.

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 a much lower cost. Certain items, such as caviar, medications, jewelry, precious and 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 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.

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U.S. Department of State Web site: http://www.travel.state.gov

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

U.S. Embassy Moscow Web site: http://moscow.usembassy.gov

U.S. Federal Aviation Administration (FAA): http://www.faa.gov/
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Chapter 9: Contacts, Market Research and Trade Events

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Russian Government Offices

Ministry of Economic Development
Mr. Aleksey Ulyukayev, Minister
1/3, 1st Tverskaya-Yamskaya Street, Moscow 125993
Tel: 7 (495) 694-0353; 950-9263 (The Americas Dept.), Fax: 7 (499) 251-6965
http://www.economy.gov.ru/wps/wcm/connect/economylib4/en/home

Ministry of Finance
Mr. Anton Siluanov, Minister
9 Ilyinka Street, Entrance 1, Moscow 103097
Tel: 7 (495) 987-9101/-9130/-9140/-9868; Fax: 7(495) 625-0889
http://www.minfin.ru/en/

Ministry of Industry and Trade
Mr. Denis Manturov, Minister
7 Kitaigorodskiy Proyezd, Moscow 109074
Tel: 7 (495) 710-4888; Fax: 7 (495) 710-5150 (International Dept.)
http://www.minpromtorg.gov.ru/eng

Ministry of Energy
Mr. Aleksandr Novak, Minister
42 Shchepkina Street, GSP-6, Moscow 107996
Tel: 7 (495) 631-98-58; Fax: 7 (495) 631-8364
http://minenergo.gov.ru/
Ministry of Information and Mass Communications
Mr. Nikolay Nikiforov, Minister
7 Tverskaya Street, Moscow 125375
Tel: 7 (495) 771-8100; Fax: 7 (495) 771-8710
http://minsvyaz.ru/ru/

Ministry of Transportation

Mr. Maxim Sokolov, Minister
1/1 Rozhdestevenka Street, Moscow 109012
Tel: 7 (495) 626-1000, Fax: 7 (495) 626-9128, 626-9038
http://www.mintrans.ru

Ministry of Healthcare
Ms. Veronika Skvortsova, Minister
3 Rakhmanovsky Per., GSP-4, Moscow 127994
Tel.: 7 (495) 628-4453, Fax: 7 (495) 627-2944
http://www.rosminzdrav.ru/

Ministry of Agriculture
Mr. Nikolay Fedorov, Minister
1/11 Orlikov Pereulok, Moscow 107139
Tel: 7 (495) 607-8000; Fax: 7 (495) 607-8362
http://www.mcx.ru

Ministry of the Interior
Mr. Vladimir Kolokoltsev, Minister

16, Zhitnaya St., Moscow 119049
Tel: 7 (495) 667 2221
http://eng.mvdrf.ru

Ministry of Regional Development
Mr. Igor Slyunyaev, Head
Sadovaya-Samotechnaya St., 10/23, bldg. 1, Moscow 127994
Tel: (495) 980-25-47; Fax: (495) 699-38-41
http://www.minregion.ru/eng

Federal Customs Service
Mr. Andrey Be'lyaninov, Head
11/5, Novozavodskaya St., 121087 Moscow
Tel: 7 (495) 449 7252
http://www.customs.ru

Federal State Statistics Service (Goskomstat)
Mr. Alexander Surinov, Head
39 Myasnitskaya St., Moscow 107450
Tel: 7 (495) 607 4902; Fax: 7 (495) 607 4087
http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/en/main/

Russian Agency for Patents and Trademarks (Rospatent)
Dr. Boris Simonov, Director General
30-1 Berezhkovskaya Nab., G-59, GSP-5, Moscow 123995
Tel. 7 (495) 240-6138, 240-6015; Fax: 7 (495) 243-3337
http://wwwrupto.ru

Central Bank of Russia
Ms. Elvira Nabiulina, Chairman
Sergey Tatarinov, Head of External and Public Relations
12 Neglinnaya Street, Moscow 107016
Tel: 7 (495) 771-9100; Fax: 7(495) 771-4932
http://www.cbr.ru/eng

Selected Regional Governments

Moscow City Administration
Sergey Sobyanin, Mayor of the City of Moscow
13 Tverskaya Street, Moscow 125032
Tel/Fax: 7 (495) 692-1637
http://www.mos.ru

St. Petersburg City Administration
Georgiy Poltavchenko, Governor of St. Petersburg
Yevgeniy Grigoriev, Vice Chairman
Committee for External Relations
Smolny, Nevskiy Prospekt, 176
St. Petersburg 191060
Tel: 7 (812) 576-7204; Fax: 7(812) 576-7633
http://www.kvs.spb.ruhttp://eng.gov.spb.ru

Vladivostok City Administration
Igor Pushkaryov, Mayor of Vladivostok
Okeanskiy prospect, 30, Vladivostok 690950
Tel: 7 (4232) 614-223
http://www.vlc.ru

Chukotsky Autonomous Okrug Government
Roman Kopin, Governor
20 Bering Street, Anadyr 689000
Tel: 7 (42722) 290 86, Fax: 7 (42722) 290 87
http://www.chukotka.org/en/

Kamchatka Oblast Territorial Administration
Vladimir Ilyukhin, Governor
1 Lenin Square, Petropavlovsk Kamchatsky 683040
Tel: 7 (4152) 412 096; Fax: 7 (4152) 423 503
http://www.kamchatka.gov.ru/en/

Gevork Shkiyan , Director
Department of Foreign Economic Relations l
Tel/Fax: 7 (4152) 41-2355
E-mail: travel@komgov.ru
Khabarovsk Territorial Government
Viktor Kalashnikov, Vice-Chairman, Minister
Ministry of Economic Development & Foreign Relations
19 Muravjeva-Amurskogo Street, Khabarovsk 680002
Tel: 7 (4212) 329 739; Fax: 7 (4212) 324-153
E-mail: econ@adm.khv.ru
http://gov.khabkrai.ru/

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

Primorskiy Territorial Administration
Mr. Aleksey Starchikov, Director
Department of International Relations and Tourism
22 Svetlanskaya Street, Vladivostok 690110
Tel: 7 (4232) 208 340; Fax: 7 (4232) 209 259
E-mail: intnlcmt@primorsky.ru
http://www.primorsky.ru

Sakhalin Regional Administration
Ms.Yekaterina Kotova, Minister
Ministry of Investments and Foreign Economic l Relations
173 Lenina Street, Yuzhno-Sakhalinsk 693009
Tel: 7 (4242) 670-810; Fax: 7 (4242) 670-814
E-mail: mininvest@admsakhalin.ru
http://www.adm.sakhalin.ru/

Sverdlovsk Oblast Administration
Ministry for International and Foreign Economic Relations
Andrey Sobolev, Minister
1 Oktyabrskaya Ploshchad, Yekaterinburg 620031
Tel: 7 (343) 217-86-72/73; Fax: 7 (343) 217-89-07/11
E-mail:so@midural.ru
http://www.midural.ru/

Tatarstan Republic Administration
International Foreign Economic Relations Department
Timur Akulov Director
Krem,l 9 , Kazan 420014
Tel: 7 (843) 921949
E-mail:dfa@kremlin.kazan.ru
http://prav.tatar.ru/eng/

Yekaterinburg City Administration
Svetlana Garipova, Chairman
Foreign Relations Department
24a Lenina Prospect, Yekaterinburg 620014
Tel: 7 (343) 354-5567 , 51-43-83; Fax: 7 (3432) 51-90-05
Email: garipova@adm-ekburg.ru
http://www.ekburg.ru/english_version/

American Chamber of Commerce in Russia

American Chamber of Commerce in Russia
Alexis Rodzianko , President
Tatiana Raguzina, Executive Vice President
7 Dolgorukovskaya Street, Moscow 127006
Tel: 7 (495) 961-2141; Fax: 7 (495) 961-2142
E-mail: amcham@amcham.ru
http://www.amcham.ru

American Chamber of Commerce in St. Petersburg
Ms. Maria Chernobrovkina, Executive Director
“Na Novo-Isaakievskoy” Business Center
Ulitsa Yakubovicha 24, left wing, 3rd floor
St. Petersburg 190000
Tel: 7 (812) 448 1646; Fax: 7 (812) 448 1645
E-mail: all@spb.amcham.ru
http://www.amcham.ru/spb/

Russia-Focused Chambers of Commerce and Industry and Trade Associations in the United States

U.S.-Russia Business Council
Daniel Russell , President and CEO
1110 Vermont Avenue, NW, Suite 350, Washington, DC 20005
Tel: (202) 739-9180, Fax: (202) 659-5920
www.usrbc.org

Smolensky Business Center
Smolenskaya Square, 3 , office 907
Moscow 121099
Tel: 7 (495) 937-8352 ; Fax: 7 (495) 937-8200
www.moscowinfo@usrbc.org

American-Russian Chamber of Commerce and Industry
Helen Teplitskaya, President
Aon Center, 200 E Randolph St., Suite 2200
Chicago, IL 60601
Tel: (312) 494-6562; Fax: (312) 494-9840
E-mail: info@arcci.org
www.arcci.org/

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

Mid-Atlantic Russia Business Council
Val Kogan, President and CEO
1760 Market Street, Suite 1100, Philadelphia, PA 19103
Tel: (484) 467-7444 ; Fax: (215) 963-9104
E-mail: info@ma-rbc.org
http://www.ma-rbc.org

Russian-American Chamber of Commerce
Sergey Millian, President
100 Wall Street, 11th Floor
New York, NY 1005-3817
Tel:(212)884-9455
Fax: (678)559-0418
E-mail: sergio@russianamericanchamber.com

http://www.russianamericanchamber.com

Russian Chambers of Commerce and Industry and Trade Associations

Moscow Chamber of Commerce and Industry
Mikhail Kuzovlev, President
38/1, Sharikopodshipnikovskaya Street
Moscow, 115088 Russia
Tel.: 7 (499) 940-3312

E-mail: mtpp@mtpp.org
http://www.mostpp.ru/eng

Chamber of Commerce and Industry of the Russian Federation
Sergey Kartyrin, President
6/1 Ilyinka Street, Moscow 109012
Tel: 7 (495) 620-0009
Fax: 7 (495) 620-0360
E-mail: tpprf@tpprf.ru
http://www.tpprf.ru/en/

Russian Union of Industrialists and Entrepreneurs (RSPP)
Alexander Shokhin, President
17,Kotelnicheskaya Nab., Moscow 109240
Tel: 7 (495) 663-0404
Fax: 7 (495) 663-0432
E-mail: rspp@rspp.ru
http://www.rspp.ru

St. Petersburg Chamber of Commerce and Industry
Vladimir Katenev, President
Ms. Yekaterina Lebedeva, Director of External Relations Department
46-48 Chaikovskogo Street, St. Petersburg 191123
Tel: 7 (812)719-6644; Fax: 7 (812) 272-8612
E-Mail: spbcci@spbcci.ru
http://www.spbcci.ru/english

Russian-American Business Council (RABC)
Ednan T. Agayev, Vice President
17 Kotelnicheskaya Nab. Office 324, Moscow 115184
Tel: 7 (495) 970-13-89
Fax: 7 (495) 970-13-88

E-mail: rabc@rabc.ruwww.rabc.ru

U.S. Commercial Service Contacts in Russia

CS Russia has offices in Moscow and St. Petersburg. For a complete list of services, upcoming events and industry specific contacts, please visit: http://www.buyusa.gov/russia/en

Moscow
U.S. Embassy, U.S. Commercial Service
8, Bolshoy Deviatinsky Pereulok
Moscow 121099, Russia
Phone: 7 (495) 728-5580, Fax: 7 (495) 728-5585
Email: Office.Moscow@trade.gov

St. Petersburg
U.S. Consulate General, U.S. Commercial Service
15 Ulitsa Furshtatskaya
St. Petersburg 191028
Tel: 7 (812) 326-2560, Fax: 7 (812)326-2561
Email: Office.StPetersburg@trade.gov

U.S. Embassy and Consulates in Russia

U.S. Embassy
8 Bolshoy Deviatinsky Pereulok
Moscow 121099, Russia
Tel: 7 (495) 728-5000; Fax: 7 (495) 728-5159
After-hours (emergencies):
Tel: 7 (495) 728-5025
http://moscow.usembassy.gov

U.S. Consulate General - St. Petersburg
15 Ulitsa Furshtatskaya, St. Petersburg
Tel: 7 (812) 331-2600; Fax: (812) 331-2852
After-hours emergencies:
Tel: 7 (812) 331-2600
http://stpetersburg.usconsulate.gov/

U.S. Consulate General - Vladivostok
32 Pushkinskaya Street, Vladivostok 690001
Tel: 7 (4232) 300-070, Fax: 7 (4232) 499-372
http://vladivostok.usconsulate.gov/

U.S. Consulate General - Yekaterinburg
15 Gogolya Street, 4th Floor, Yekaterinburg
Tel: (343) 379-30-01, 379-46-19, 379-46-91, 379-45-51
Fax: (343) 379-45-15
http://yekaterinburg.usconsulate.gov/

Market Research

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To view market research reports produced by the U.S. Commercial Service please go to the following Web site: http://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, and is free.

Trade Events

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Please click on the link below for information on upcoming trade events.

http://www.export.gov/tradeevents/index.asp

(Add link to trade events section of local buyusa.gov Web site here or just delete this text.)

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Chapter 10: Guide to Our Services

The President's National Export Initiative aims to double exports over five years by marshaling Federal agencies to **prepare U.S. companies to export successfully**, **connect them with trade opportunities** and **support them once they do have exporting opportunities**.

The U.S. Commercial Service offers customized solutions to help U.S. exporters, particularly small and medium sized businesses, successfully expand exports to new markets. 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
- Gain access to the full range of U.S. Government trade promotion agencies and their services, including export training and potential trade financing sources

To learn more about the Federal Government's trade promotion resources for new and experienced exporters, please click on the following link: www.export.gov

For more information on the services the U.S. Commercial Service offers to U.S. exporters, please click on the following link: (Insert link to Products and Services section of local buyusa.gov Web site here.)

U.S. exporters seeking general export information/assistance or country-specific commercial information can also contact the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRAD(E).**

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