Doing Business In Russia: A Country Commercial Guide for U.S. Companies - 2005

Chapter 1: Doing Business In Russia

Market Overview Return to top

- The Russian economy has continued its strong recovery since the 1998 financial crisis, turning in healthy growth in 2004. GDP grew by an estimated 6.8% to $570 billion. However, this represented a decline from 7.3% growth in 2003.
- High world prices for oil and natural gas have also continued to be the engine behind much of this impressive growth. The economy is still too dependent on energy and other extractive sectors, such as timber, precious metals, non-ferrous metals and steel. These extractive industries taken together account for 80% of overall exports and provide a significant part of federal budget revenues.
- The overall balance of trade continues to register healthy surpluses, as does the federal budget. In 2004, Russia's total exports were $182 billion and imports were $94.8 billion. U.S exports to Russia for the first 10 months of 2004 totaled $2.4 billion; U.S. imports from Russia were $9.1 billion. Federal budget expenditures in 2004 totaled $101 billion with an estimated surplus of 4.1%.
- The country's financial situation also continues to improve, with a decline in sovereign debt levels and an increase in its sovereign credit ratings to investment grade. The ruble has continued to appreciate against the dollar, dipping just below 28 Rubles to one U.S. Dollar at the end of 2004.

- Adding to overall economic development is a multi-year consumer spending and construction boom. This dramatic growth is beginning to spread beyond Moscow and St. Petersburg to the regions. Per capita GDP reached almost $4,000 in 2004. With a 9% growth rate in 2004, real disposable incomes continue to outpace GDP growth. Retail sales also were up an even more impressive 12%.
- Though still underdeveloped, the small and medium-sized business sector is also growing and accounts for about 12% of the economy by value and 51% of total employment.
- Leading European companies, especially those from Germany, Scandinavia and Turkey, are well established in both consumer and industrial markets. Many well-known U.S. consumer brands are also successful and many Asian companies from Japan, South Korea and China are also doing well.
- In his second term, President Putin continues to reestablish more state control, both direct and indirect, over the economy, especially in strategic sectors such as energy, aluminum, steel and aerospace. Terrorism is an issue, but to date has not been directed at Western interests. At present, it remains primarily connected to the ongoing conflict in the breakaway Republic of Chechnya in southern Russia.
- In March 2004, at the beginning of his second term, President Putin instituted a major reorganization of the government. The total number of ministries was reduced to 14 major ones. Each ministry, in addition to continuing to provide policy guidance to the minister, was divided into several Federal Services and Federal Agencies, corresponding to their previous functions. In theory, Federal Services tend to perform a regulatory function, while Federal Agencies perform more of an information distribution and economic development function. In practice, however, there remains some confusion as to exactly who does what.

Market Challenges

Return to top

- Major barriers to the Russian market remain its distance from the U.S. and its ongoing transition from a socialist, centrally planned economy to a more open, market-oriented one.
- Tough competition from leading European and Asian companies.
- Government bureaucracy, poorly established rule of law and corruption affect such areas as establishing a business, tax collection, dispute settlement, property rights, product certification and standards and dealing with Russian Customs.
- Finding qualified local partners and employees. The pool of managers who understand Western accounting and business practices remains limited.
- Adequate financial resources for Russian buyers remains a problem as the banking system is still developing.
- The Russian Government's campaign against the country's leading private oil company, Yukos, has received considerable international press coverage. The manipulation of the legal system in order to take control of a major oil company (a state-owned energy company acquired Yukos' main production asset at the end of 2004) and the absence of the rule of law have raised questions about the investment climate and the political direction the country is taking.

Market Opportunities

Return to top

- The appreciation of the ruble against the dollar over the past year has made U.S. goods cheaper for Russian buyers.
- Strong growth in a range of consumer goods and services fueled by increases in disposable income in Moscow, St. Petersburg and growing regional centers:
    - telecommunications equipment and services, especially wireless
    - autos and parts
    - computer hardware and software
    - cosmetics and toiletries
    - building products
    - franchising.
- Strong growth in the energy, machinery and healthcare sectors :
    - oil and gas equipment and services
    - medical equipment
    - pharmaceuticals
    - agricultural machinery
    - construction equipment

Market Entry Strategy Return to top

- Perform detailed market research to identify specific sector opportunities.
- A local presence or partner is important for effective marketing and sales distribution. Due diligence is a must.
- Maintain a long-term timeframe for plan implementation and achieving positive results.
- Use the experience of other, successful U.S. companies in the market. The local American Chamber of Commerce has over 800 members and is a great resource.
- Be prepared to offer financing to Russian buyers. Both EXIM and OPIC have programs to address these needs.

Russia in the year 2004 was a fast moving, developing market economy offering opportunity and challenge in equal measure. While the economy is producing increasingly positive results, the country remains a complex place to do business. The best opportunities for experienced U.S. companies lie in developing exports in the sectors noted above. Most major corporations, especially those from Europe, have concluded that the vast potential of the country demands they have a presence in Russia, with its incredible natural resources, impressive human capital and 140 million consumers. A significant number are finding that presence to be profitable, and the majority express growing optimism for the future.

Return to table of contents

Chapter 2: Political and Economic Environment

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

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

Return to table of contents
Return to table of contents

Chapter 3: Selling U.S. Products and Services

Using an Agent or Distributor Return to top

Encompassing eleven time zones, Russia is the largest country in the world by land mass. Most businesses therefore tend to approach the Russian market on a regional basis. Moscow and St. Petersburg are the major population and business centers and are usually the best starting points. Well-organized distribution channels have developed significantly over the last few years, especially in Moscow and St. Petersburg, and are beginning to expand to the regions: Southern Russia, the Volga region, Siberia and the Russian Far East. To succeed in Russia it is important to choose sales targets and partners carefully. Since many Russian firms lack capital and experience poor cash flow, many firms seek potential customers based on their ability to pay. In general, Russian consumers seek bargains and are price sensitive, but they are willing to pay for quality, especially for a recognized brand.

U.S. companies can consider a variety of local and regional distribution alternatives. In some product categories (apparel, packaged foods, and alcoholic beverages), foreign suppliers can choose from a growing number of existing Russian distributors. These agents assist the foreign supplier by placing its products on store shelves, handling customs and transportation matters, and conducting advertising campaigns. Established Russian distributors can also assist U.S. businesses in reaching markets in Russia's regions, where they have developed networks.

Some foreign manufacturers of consumer appliances and durables have moved away from using distributors and have established their own representation in major cities. They then sell directly to Russian importers, who take possession of goods outside Russia (in Finland, for example) and import for their own account. This approach exposes the manufacturer to less risk by avoiding potential tax and customs liabilities, but also affords less control over distribution. In fact, some U.S. companies have met trouble as a result of false invoicing and other irregularities committed by their independent importers and the importers' in-country distributors. Other foreign companies have decided that the reputation of their brands could suffer if they fail to exercise control over the entire distribution process to the end-user. Firms opting for direct sales to the consumer through their own named distrubutors will be in a better position to ensure compliance with Russian Customs. They will likely face lower early returns because of higher costs associated with customs clearance, domestic shipping arrangements and other local expenses, however, for those determined to build a strong presence in Russia, this policy may be seen as an investment that will ultimately pay dividends.

U.S. exporters are advised to cultivate personal relationships with agents, proceed gradually, and retain a fall back position should a relationship sour. Experience reveals one of the riskiest practices: a company representative visits Russia once or twice, selects an agent, grants exclusive representation, and then moves quickly to consignment or credit sales without establishing a payment and performance record. In addition, exporters are cautioned to take responsibility for registering brands in their own names in Russia, and not rely on the agent or distributor to do this. Finally, it is important to provide your Russian representative with Russian language product information and marketing materials. These can be prepared in the U.S. or done jointly with the Russian partner, whatever is appropriate for the parties concerned.

The U.S. Commercial Service provides assistance to U.S. companies in finding local partners through the International Partner Search, Flexible Market Research and the Gold and Platinum Key Services. Contact information is in Chapter 10.

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

Establishing an Office

Return to top

Registration Options

Business registration in Russia is regulated by the following basic laws and Government resolutions:

- The 1999 Federal Law "On Foreign Investment in the Russian Federation",
- The 1999 Civil Code,
- The August 8, 2001 Federal Law "On State Registration of Legal Entities" (entrepreneurs),
- 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:

- Limited liability company (OOO),
- A privately held, closed joint stock company (ZAO),
- Publicly held, open joint stock company (OAO) (the above three modes are referred to as Companies in the text below),
- Representative or branch office of a foreign company,
- Registration as an individual private entrepreneur.

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 the foreign firm. Foreign ownership can be as high as 100%, except in certain sectors. For example, foreign stakes are restricted to 25% of defense-related enterprises.

Branch Offices

In Russian terminology, branches are not considered independent legal entities, though they can negotiate, market or provide other business support on behalf of firms based outside Russia. However, they cannot technically generate a profit on their operations in Russia. Setting up a branch may be worthwhile if a foreign company has started to pursue business in Russia and is exploring opportunities. Many large U.S. firms originally began their Russian operations as locally established branches. U.S. firms should not use the term "branch" with registration authorities if the purpose is to register as a company. Branches of foreign forms must register with the State Registration Chamber, which is part of the Ministry of Justice of the Russian Federation. Registration details are available on the following web site: www.palata.ru As part of the registration, the State Registration Chamber will include the newly registered branch in the State Register of Branches of Foreign Legal Entities Accredited in Russia.

Accredited Representative Offices

Like branches, accredited representative offices are not independent legal entities and cannot earn a profit in Russia. After accreditation is obtained from an appropriate Russian Government unit, the office should register with the Moscow or St. Petersburg registration chambers (if based in Moscow or St. Petersburg) or local (regional) registration chamber in other cities in Russia. Advantages of an accredited office include annual (rather than monthly) reporting requirements for some activities (including some tax payments), and greater leeway in issuing invitations for U.S. partners to visit Russia on business visas. Up to five foreign employees may work with an accredited office of a foreign company. Offices are usually accredited for one to three year terms. Branches can be accredited for a five-year term.

Accredited Representative Offices must also register with the State Registration Chamber in order to be included in State Register of Branches of Foreign Legal Entities Accredited in Russia. They are advised to also register with appropriate state organizations, depending on their industry. Such agencies include the Central Bank, Ministry of Economic Development and Trade, Ministry of Finance, Ministry of Transportation, and Ministry of Industry and Energy. According to the law, accreditation of a representative office or of a branch should take 21 days. Accreditation fees vary from $1,000-1,500 for one year to $3,000-3,500 for three, and $3,500 for 5 years (for branches only). An additional $500 may be paid for an expedited accreditation within seven days.

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

Companies

Beginning July 1, 2002, companies (full-fledged businesses) are required to be registered with the local Tax Inspectorates. Documents for state registration should be prepared and submitted to the local Tax Inspectorate in accordance with Chapter 12 of the August 8, 2001 Federal Law “On State Registration of Legal Entities”. An authorized legal entity, the Moscow Department of the Ministry of Finance of the Russian Federation (15 Tulskaya Street, Moscow) is currently providing counseling to business people on the new registration procedure and registration documents.

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

The U.S. Commercial Service provides counseling on registration requirements and procedures. The U.S. Commercial Service strongly recommends that interested U.S. companies seek legal advice on business registration, and can provide contact information for U.S. and Russian consulting firms who offer professional legal advice in this area.

Taxation

Major revisions of Russia’s tax code took place over three years from 1999 to 2002. Current tax legislation more closely matches the needs of a growing market economy, and many of the provisions of previous legislation that distorted the business environment and kept many businesses in the shadow economy, have been removed.

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

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

Profits Tax

The profits tax is levied on an enterprise's gross profits. Effective January 2002, the profit tax rate was reduced from 35% to 24%, a list of deductible expenses was drawn up, and the provisions on depreciation were changed. Thus, the tax rate has been reduced in tandem with the introduction of more realistic interpretations of deductible expenses, the combined effect of which is to alleviate significantly the profit tax burden for taxpayers.

The new provisions on the taxation of profit will enable foreign companies operating in Russia to benefit from the exemptions in Russia's dual taxation treaties (the U.S. and Russia have had a dual taxation treaty in place since 1992), which in certain cases could result in advantages to foreign companies. For example, foreign representative offices will be 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 EU model. VAT is calculated on the sales value and is applied at a general uniform rate of 18%, except for certain foodstuffs and children's clothes, which are taxed at 10%, and certain supplies that are entirely exempt from VAT (certain financial services and pharmaceuticals). (In June 2003, the Duma passed a bill to cut VAT from 20% to 18%, to be offset by an increase in various extraction and export taxes aimed at the energy sector . The new rate became effective January 1, 2004.)

Imports are also subject to VAT and are calculated based on the customs value of the item plus customs duties and customs fees. Import duties are assessed at specified rates, ranging from 5 to 30%. They are also assessed according to classification and are applied to the customs value of the imported goods (including shipping charges and insurance). Goods imported as in-kind contributions by foreign partners to the charter capital of a new enterprise may be exempt from import duties during a period specified in the charter documents under certain conditions.

In general, goods manufactured or assembled in Russia, whether by a Russian or foreign company, and then exported, are not subject to VAT. If these goods are exported before payment is received, then no VAT is 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.

Turnover, Social Welfare and Sales Taxes

The turnover tax is applied to gross sales and the revenue it generates is theoretically dedicated to highway maintenance and improvement. The tax has been reduced from 4% to 1% on January 1, 2001, and phased out on January 1, 2003.

The social welfare tax is a payroll tax assessed on a graduated scale, which starts at 5% and rises to 35%. (The recent tax reform legislation consolidated four previous taxes.) There are plans to reduce this tax. Sales taxes were eliminated effective January 1, 2004.

Withholding on Dividends, Interest and Royalties

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

Land, Property and Personal Income Taxes

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

The personal income tax rate is now a flat 13%, following the recent tax reform legislation, which sharply reduced the former graduated rate. When applied to expatriates, however, there may be some withholding requirements.

Franchising

Return to top

Growing domestic consumption and demand for high quality services has led to an increase of interest in franchising. The popularity of American franchise brands combined with positive macroeconomic trends in Russia have created the necessary conditions for successful market entry by U.S. franchisers.

Although there has been considerable interest in franchising for some time, the conditions that would support rapid growth in the sector have been created only recently. Both foreign and local franchisers successfully operate in the Russian market and most are reportedly quite optimistic about opportunities for expansion. There are currently fewer foreign than domestic franchisers in Russia, and the potential for growth is significant. However, there are signs that new market entries by third-country franchisers are increasing competition in the sector.

Currently, the most common form of franchising in Russia are restaurants, printing and copying services, photo-shops, repair and maintenance services, body/health care and leisure services, retail (clothing and footwear, furniture, sportswear, supermarkets, gasoline stations), business management and other services.

Regarding basic legal requirements, Chapter 54 of the Russian Federation Civil Code is the main law regulating franchising. This law employs the term “commercial concession” to refer to a franchise operation and “principals” for franchisors and “agent” for the franchisee. There is little further direct practical guidance specifically relating to franchising and the law does not impose direct limitations on business activities in this sector. On one hand, this lack of specificity allows franchisors and their franchisees extra flexibility in structuring franchise agreements. On the other hand, the absence of concrete guidelines can complicate the market entry process and create uncertainty in the local business environment.

Direct Marketing

Return to top

Telemarketing and fax marketing to business customers is common in Russian cities but not particularly effective. By contrast, person-to-person direct marketing works well and is cost effective for the distributor (e.g., health and beauty products). By some estimates, over 1.5 million people may be employed in direct marketing in Russia, although the informal nature of the activity makes precise figures difficult to obtain. For a large number of under-employed workers in Russia, the option of supplementing their meager wages through working in direct sales is attractive. Other direct marketing channels (catalogs, e-commerce and regular mail) are still in their infancy. Major, well-known U.S. direct marketers are active in Russia and doing well.

Joint Ventures/Licensing Return to top

U.S. companies often become strategic partners with Russian firms by taking an equity position in Russian joint stock companies and thus establishing joint ventures (JV). Establishing a JV in Russia demands meticulous planning and sustained commitment. In most cases, other forms of alliance, in which the U.S. partner retains managerial control, are preferable. JVs in which foreign partners hold minority stakes are dependent on the good intentions of their Russian majority owners. Recent experience shows that foreign minority shareholders face serious difficulty in protecting their interests in Russian courts.

One advantage of a JV is that it helps a U.S. firm gain a measure of Russian identity, which can be useful in a culture where many still view foreigners with suspicion. Political pressure is mounting in Russia for domestic content mandates in key sectors or for large-scale procurements. For example, some foreign investments in the oil industry may be required to source 70% of their goods and services from Russian providers. Firms that creatively help oil producers meet these requirements will have an advantage in this industry.

JVs are often viewed differently by the Russian and American sides. U.S. companies, especially smaller ones, often view JVs as a means of securing a local partner with experience in the Russian market. On the other hand, many Russian managers view a foreign partner chiefly as a source of working capital and these managers may place a low priority on local market development. While there are many examples of successful JVs, a U.S. investor invites trouble when it cedes oversight of any aspect of a JV to a Russian partner who does not share the same objectives. Before making financial or legal commitments, U.S. firms should thoroughly explore whether a potential partner shares their priorities and expectations.

One JV scenario often leads to commercial failure and, in some cases, bitter legal disputes: A U.S. company forms a JV with a Russian partner after a short history of cooperation. The American firm then returns to the U.S. as an "absentee" partner. The company has the expectation that the Russian partner will manage daily operations, implement a business plan, and wire profits on schedule. This is a recipe for disaster. Any firm that forms a JV in Russia should be ready to invest the constant personal attention of American managerial staff to keep the business on-course, both before and after the venture has achieved commercial success.

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

Selling to the Government Return to top

A law on federal procurement, adopted in May 1999, allows foreign firms to participate in public tenders if the product or service is not available from domestic producers, or if Russian production is not considered economical. Regional or local authorities are potential customers for U.S. suppliers. For example, the Federal Ministry of Health and Social Development and some of the regional administrations often buy supplies for distribution to hospitals and clinics. While local governments receive sharply reduced federal subsidies, they have the flexibility to make purchase decisions based on local factors and contacts. Although Russia's current fiscal situation has improved recently, especially at the federal level, funding for procurement is always a challenge. It should also be noted that there is pressure on many levels of government to purchase Russian goods and services.

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, such as Moscow and St. Petersburg, and are beginning to expand to the regions. In the consumer sector, some large-scale retail stores have recently emerged in Moscow that are able to buy in bulk and negotiate relatively stable long-term prices. Large shopping malls have opened up on the ring road circling the capital and are giving the Moscow retail environment more of the characteristics of other European cities.

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

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

Selling Factors Return to top

To succeed in Russia it is important to choose sales targets and partners carefully. As many Russian firms still lack capital and experience poor cash flow, it is important to seek potential customers who have the ability to pay. In general, Russian consumers seek bargains and are price sensitive, but they are willing to pay for quality, especially for a recognized brand.

Electronic Commerce

Return to top

B2B E-commerce is growing as the number of Internet users has increased dramatically over the past five years, reaching 15% nationwide. Most of these users, however, are in Moscow and St. Petersburg. Future growth in Internet usage is expected to be significant, but E-Commerce in general and B2C in particular, are constrained by the lack of on-line payment mechanisms. Many shippers are reluctant to send goods without prepayment, and memories of the 1998 freeze on bank accounts during the financial crisis still linger. The number of customers with credit and debit cards is rapidly increasing. Although card use is expanding, its scarcity remains a key constraint on the growth of catalog orders and e-commerce. Nevertheless, sales through these channels are expected to grow rapidly in coming years. The Russian Government's "E-Russia" program aims at stimulating the growth of e-commerce throughout the country using federal and local e-government initiatives as a catalyst.

Trade Promotion and Advertising

Return to top

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

Until the financial crisis of late 1998, and the subsequent devaluation of the ruble, foreign multinational consumer products companies had provided most of the revenues for Russia's budding advertising industry. These revenues collapsed after the crisis, as imported goods became prohibitively expensive for most Russians. However, the effects of the crisis had largely worn off by 2002, and strong economic growth and increasing incomes have resulted in a resurgence of the advertising industry. This time around, their clients include successful Russian manufacturers of consumer goods, particularly of processed foods and beverages

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

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

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

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

Pricing Return to top

As noted elsewhere, Russian consumers are attracted to bargains, but are willing to pay for quality merchandise. U.S. companies exporting to Russia should be prepared to offer competitive prices for their goods, knowing that in many areas they face inexpensive Russian and strong third-country competition. With a few exceptions, all goods and services sold in Russia are subject to a value-added tax of 18%. As noted above, imports into Russia are subject to VAT, which is assessed on the CIF value of an imported shipment plus applicable duty. In addition, in many sectors with strong local and third-country competition, it will be necessary to spend money on advertising. All these costs should be figured into the U.S. exporter's pricing structure and be 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. Russian manufacturers are notorious for inadequate post-sale service and as a consequence, for low cost items, Russian buyers are accustomed to purchasing several units in order to have a supply of spare parts. Similarly, buyers of sophisticated equipment of all types - from computers and process controls to medical and mining equipment - are keenly interested in training, as their employees may never have used particular products or brands. U.S. firms able and willing to offer training and support for products, particularly in remote sites, can gain a significant advantage over competitors. Conversely, companies not willing 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 to accessing leasing in Russia, and will play a larger role in the decision process as leasing continues to develop. Leasing in Russia is covered in Chapter 7.

Protecting Your Intellectual Property Return to top

The investment climate statement in Chapter 6 also covers this subject. Below is some summary information on the current situation as it relates to this issue and some advice on how best to protect your intellectual property rights (IPR).

According to industry sources, estimated losses to U.S. copyright industries due to copyright piracy (films, videos, sound recordings, books and computer software) continues to grow and is now estimated at $1.7 billion a year in Russia. Recently, Russian law enforcement has shown increased engagement in intellectual property enforcement and has taken many enforcement actions against pirate producers of optical disks, but this has not yet had a noticeable impact on the availability of pirate CDs, DVDs or computer software. U.S. and multinational companies also continue to report counterfeiting of patented and trademarked goods as a serious problem, especially for consumer goods, distilled spirits and pharmaceuticals. U.S. companies are advised to take the necessary steps to protect their intellectual property, including registering their trademarks with the Russian Federal Service for Intellectual Property, Patents and Trademarks (Rospatent). Some U.S. companies have had difficulty registering and protecting well-known trademarks in Russia, although recently approved legislation has improved protection for trademarks. U.S. copyright holders believe that at the prosecutorial and judicial levels, officials often do not consider IP infringements to be serious offenses compared to other crimes, although an increasing number of prosecutors are willing to file cases related to copyright piracy. Many U.S. companies also consider the Russian court system to be ill-prepared to handle sophisticated patent cases. However, a specialized higher patent chamber has been established at Rospatent, which has brought greater expertise and efficiency to the resolution of trademark and patent disputes.

There have been some marginal improvements in anti-piracy actions by Russian law enforcement agencies, including an increased number of raids by police, but overall enforcement of IPR remains inadequate. Enforcement actions depend on proactive initiatives by rights holders to investigate violations and then refer investigations to law enforcement agencies. The bottom line is that U.S. rights holders doing business in Russia are advised to register their intellectual property locally, retain competent local legal counsel and aggressively protect their own interests.

Due Diligence Return to top

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

Local Professional Services

Return to top

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

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

Web Resources

Return to top

The U.S. Commercial Service in Russia – www.buyusa.gov/russia
The U.S. Department of Agriculture – www.fas.usda.gov
The U.S. Embassy in Russia – http://moscow.usembassy.gov/
American Chamber of Commerce in Russia – www.amcham.ru
Company registration: - www.palata.ru, www.mosnalog.ru

Return to table of contents

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

Commercial Sectors

- Agricultural Sector

Telecomunications Equipment and Services #1

Overview

Return to top

(All figures in USD millions and all figures for 2004 are for January through November)

	2002	2003	2004 (estimated)
Total Market Size (Equipment and Services)	8,600	11,900	20,600
Total Local Production	n/a	n/a	n/a
Total Equipment Market Size	n/a	1,900	2,600
Total Exports (Equipment Only)	275	275	380
Total Imports (Equipment Only)	1,500	1,725	1,830
Imports from the U.S.	200	500	600
Total Services Market Size	8,600	10,000	18,000

(Note: The above figures are based on Russian Customs statistics and may underestimate imports from the U.S. Due to their corporate structure some U.S. equipment manufacturers ship product from their European warehouses. Russian Customs may attribute such shipments to Europe rather than the United States despite the U.S. origin of the product. $1 = R 28.00)

The Russian telecommunications market has demonstrated strong growth over the last year driven by Russia's continuing strong economic performance, and the need to upgrade the generally inadequate telecommunications infrastructure throughout the country. In 2003, the Russian market for telecommunication equipment sales reached $1.9 billion. It grew 37% to $2.6 billion in 2004. *

Cellular communication services revenue reached $3.31 billion in the first half of 2004, which was a 58% increase over the same period for 2003. Revenue from cellular services is estimated at $7.6 billion for 2004, which represents the lion's share of the telecom services market. The number of cellular subscribers reached 35 million in 2003, and increased by 216% to 66.05 million by November 2004. The penetration rate nationally grew from 30% to 45.5%. The cellular communication market is very concentrated, with 88% of total revenue belonging to three major national cellular operators: MobileTeleSystems (MTS), VympelCom and Megafon. The number of subscribers to fixed-line connections reached 36 million in 2003, and grew 6% in 2004 to 38.2 million. The total revenue for fixed-line connection services increased by 30% from $ 6.1 billion in 2003 to $ 7.9 billion in 2004. The number of Internet subscribers reached 12 million in 2003 and grew 35% to 16 million in 2004. Total revenue for Internet services increased by 20% from $650 million in 2003 to $780 million in 2004. In June 2003, the Ministry of Communications adopted a new federal communication law

"O svyazi" (On Communications). The new law, with its many contradictions, is highly controversial. Due to a number of unclear clauses, the law has not functioned effectively since it was introduced. Experts claim the communication law will still not operate properly into 2005. Some of the burning issues are incomplete licensing procedures, a universal service tax, unequal rights for current market players, lack of transparency, and the more general need to change the Ministry of Communications from an active market player into a regulatory body.

Best Products/Services

Return to top

The highest market growth is expected for VAS (value added services). Total revenue grew 62% and reached $ 600 million in 2004 in comparison to $370 million in 2003. The most popular services are ring tones and logos (44%), media-projects (22%), information and entertainment (14%).

Continued growth in the Russian telecommunications services market will yield business opportunities for competitive U.S. telecommunications equipment suppliers. The best sales prospects are digital switching equipment, high-speed, broadband Internet access technologies, multi-service and multimedia solutions, including SDH, xDSL, ISDN, DWDM, BWA, and call center equipment. Companies entering the market should be prepared to compete with major foreign equipment manufacturers and deal with a complex regulatory environment.

Opportunities

Return to top

One opportunity for U.S. companies is the modernization of payphone systems in Russia. Payphone system modernization is a government level priority project, mentioned in the new federal communication law "O svyazi". Companies affiliated with Svyazinvest (major state-owned telecom holding) are developing business plans as a part of this effort and U.S. payphone equipment companies are welcome to bid on these projects.

Resources

Return to top

Official site of Ministry of Communications: http://english.minsvyaz.ru/enter.shtml
SvyazExpoCom, 2005 Trade Show web link:
http://www.svyazexpo-online.ru/ring/ring_e.php
Cable & Satellite TV, Teleradiobroadcasting and Broadband Exhibition site:
http://www.cstb.ru/index_eng.php

Automotive Parts and Aftermarket #2

Overview

Return to top

(All figures in USD millions)

	2002	2003	2004 (estimated)
Total Market Size	4,200	4,500	5,000
Total Local Production	2,800	2,900	3,200

Total Exports	200	200	200
Total Imports	1,600	1,800	2,000
Imports from the U.S.	400	500	700

($1 = R 28.00)

In the last few years, the Russian automotive market has grown at an annual rate of 10-15%. This market offers good opportunities for new car sales, but these are limited by the relatively low purchasing power and tariff barriers in Russia. Nonetheless, in 2004, many import car dealers reported record results by increasing sales of new cars from 195,000 vehicles in 2003 to almost 350,000. The market for 2005 is estimated at over 450,000 units. At the same time, the import of used vehicles is rapidly decreasing due to prohibitive import taxes introduced by the Russian Government in 2003. These trends will continue to dominate in the next few years.

The market for new car components and aftermarket replacement parts is likely to become stronger as car ownership steadily increases and customers demand higher performance from domestically produced cars. Russia represents a large potential market for the U.S. automotive industry. Currently, the rate of car ownership in Russia is only 20% of the U.S. rate. The total Russian motor vehicle fleet is estimated at 33 million units, including 23 million cars (50% of which are 10 years or older, and another 30% are between 5 and 10 years old). In 2004, the Russian car ownership rate grew to 159 vehicles per 1,000 inhabitants, still far below the U.S. rate of 750.

The Russian auto industry represents a major force in the domestic economy because of highly competitive pricing, but quality must improve if the industry is to maintain its position. Russian vehicle assembly and component manufacturing factories remain plagued by outdated equipment, a lack of capital for modernization, and underdeveloped distribution systems. Nonetheless, the automotive sector of Russia's economy is in better shape than many other industries. In 2001-2002, several Russian automotive companies were acquired by two influential business groups: Basic Element (formerly Sibal), the largest Russian aluminum manufacturer, and Severstal, the leading Russian steel producer. Both Basic Element and Severstal successfully started restructuring of their automotive assets and made commitments to invest in the modernization of these outdated facilities.

There are several projects underway to assemble foreign cars in Russia. Ford's new plant began operation in July 2002 in a suburb of St. Petersburg, and the demand for Russian-manufactured Focuses exceeded even the best expectations. This high demand for the new Focus model made Ford one of the sales leaders in 2004 with 36,000 vehicles sold. The GM-AvtoVAZ joint venture, which launched production of the Chevrolet-Niva SUV in September 2002, sold 58,000 cars in 2004, and set 75,000 vehicles as a sales target for 2005. In 2003, Renault started construction of a $250 million Moscow-based facility to manufacture a new low-cost vehicle. The first Renault Logan is scheduled to be manufactured by this facility in 2005. Other smaller foreign CKD car assembly projects in Russia include BMW, Kia and Hyundai in Kaliningrad and Taganrog, and bus projects by Scania and Volvo. The major obstacle to successful development of foreign assembly projects in Russia is the lack of local suppliers.

Best Prospects/Services Return to top

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

Opportunities

Return to top

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

Another good prospect is to supply upgraded equipment and technology to Russian manufacturers. Opportunities also exist in the licensing and transferring of modern technology to Russian component manufacturers. Aftermarket sales of replacement parts and accessories are dynamic, with high customer receptivity to U.S. products. Many U.S. brand names are very well known and sold in Russia. Some of the "Made in the USA" products, which Russian motorists seem to favor, are: lubricants, automotive chemicals and off-road accessories. There are no known trade barriers affecting imports of U.S. automotive products; tariffs for imported components are a relatively low 5%.

Resources

Return to top

http://www.motorshows-ite.com
http://automechanika.messefrankfurt.com/petersburg/en/
http://www.interauto-expo.ru
http://www.ey.com/global/Content.nsf/Russia_E/International_Automotive_Supplier_Industry_in_Russia_-_Executive_Summary
http://www.ifc.org

Oil and Gasfield Equipment & Services #3

Overview

Return to top

(All figures in USD millions, $1 = R 28.00)

	2002	2003	2004 (estimated)
Total Market Size	2,150	2,400	2,660
Total Local Production	1,600	1,850	1,950
Total Exports	310	420	500
Total Imports	850	920	1,050
Imports from the U.S.	420	470	570
Total Services Market Size	4,100	4,500	4,700

(The above figures are based on Russian Customs and U.S. Department of Commerce data and unofficial estimates.)

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

Industry experts anticipate that major oil and gas development projects in the Tyumen, Yamal Peninsular, and Timan-Pechora areas in Western Siberia, as well as multiple Sakhalin projects and upcoming East Siberian onshore and Barents and Caspian offshore projects, will attract substantial additional cash inflow and catalyze technological upgrades as well as construction, infrastructure and other services for oil and gas field development on a large scale. In the natural gas segment, particularly LNG, local oil companies increasingly show interest in getting a piece of the action in spite of Gazprom's monopoly position.

Best Prospects/Services

Return to top

Oil and gas field machinery, oil recovery, exploration and field management services are expected to remain in first place for U.S. exports to Russia. The best prospects for U.S. equipment and services are oil recovery, well optimization, horizontal drilling, hydro-fracturing equipment and services, offshore development technologies and equipment, work-over, rehabilitation/reconditioning equipment/services as well as drilling and well tools and products, and idle well re-commissioning services.

Opportunities

Return to top

Major Russian oil companies are steadily increasing their capital expenditures on upstream development, infrastructure and rehabilitation equipment and services. The combined annual investment programs in Russia have reached $11 billion.

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

Resources

Return to top

Industry association: www.derrick.ru (Russian)

Gubkin Oil & Gas University: www.gubkin.ru (Russian and English)

Compressors, Pumps, Fixtures Trade Show
Location: LenExpo, St. Petersburg

Dates: March 15-18, 2005
Industries: Valves, Pumps, Compressors
www.restec.ru

NefteGazExpo
Exploration and Field Development; New Technologies and Equipment; Oil Refining and Petrochemistry.
Location: LenExpo, St. Petersburg
Dates: April 4-7, 2005
Industries: Oil and Gas Field Equipment and Services
www.restec.ru

MIOGE Trade Show
Location: Expocentr, Moscow
Dates: June 20-24, 2005
Industries: Oil and Gas Field Equipment and Services
www.mioge.ru

NefteGaz Trade Show
Location: Expocentr, Moscow
Dates: June, 2006
Industries: Oil and Gas Field Equipment and Services
www.neftegaz.ru

Franchising #4

	2002	2003	2004
Total Market Size	$ 650 mln	$ 780 mln	$ 940 mln
Total Local Production	$ 300 mln	$ 360 mln	$ 440 mln
Total Imports	$ 350 mln	$ 420 mln	$ 500 mln
Imports from the U.S.	$ 100 mln	$ 130 mln	$ 180 mln

(Above figures are best estimates based on local sources of information)

Overview

Return to top

With growing domestic consumption supported by positive macroeconomic trends in Russia, franchising is attracting increasing interest from Russian SMEs seeking new business partnerships and investment opportunities. Franchising is not yet fully developed in Russia, so it holds great potential for growth, offering vast opportunities for U.S. companies that enter the market at this early stage. The perception in Russia among consumers is that U.S. brands offer higher quality products and services than competitors. This is reflected in the success that current franchisees of American brands have enjoyed during their short period of operation in Russia.

Franchising as a business model first came to Russia in the early 90's, introduced by foreign franchisers that dominated the local market for almost a decade. The situation has changed over the past few years, however. An increasing number of Russian companies, especially those operating in retail trade, have established franchise businesses tailored to domestic consumption patterns. Nevertheless, foreign franchise systems continue to have a significant presence in Russia. The Russian Association of Franchise Development estimates that foreign and domestic brands share the market equally today. The United States is one of the leaders among foreign franchisers.

Due to the peculiarities of local legislation regulating this sector, there is no definitive source for market statistics. Franchise relationships are registered under various legal forms, such as a licensing agreement or a sales contract, so it is impossible to distinguish franchise deals from other transactions in the records of the State Registration Chamber - the main source of statistical data on the Russian market.

Various alternative and secondary sources such as the Russian Association of Franchise Development reported that, in its first 10 years of activity, franchising generated over 17 thousand jobs and attracted more than $350 million in foreign investment to Russia. Recent business publications report that around 100 franchise systems are currently operating in Russia, networked into nearly 5,500 individual franchise units. The Russian Association of Franchise Development claims that there are closer to 150 franchise systems currently established in Russia. According to the Consumer Market Development Committee of the Russian Chamber of Commerce and Industry, there are over 200 franchise systems operating in 10-15 business areas, and the number of newly signed franchise deals is growing at a rate of 20% per year.

Best Products/Services Return to top

Several well-known U.S. franchises have successfully entered the Russian market. Among the most visible brands are: Alphagraphics, Baskin Robbins, Candy Bouquette, ChemDry, Chips Away, Crestcom, Fastrackids, Gold's Gym, Jani King, KFC, Pappa John's, Pizza Hut, Sbarro's, and Subway. The U.S. Commercial Service in Russia is working with a number of prospective franchisers that are either finalizing agreements with local partners or in the midst of constructing their first stores in Russia.

As is apparent from the list above, fast food/restaurant/catering is one of the areas in great demand for U.S. franchise models. U.S. market presence is also highly visible in business education and training services, children's services/preschools, cleaning services, and automotive services.

The majority of non-U.S. foreign franchises in Russia are from Western Europe, mainly the U.K., France and Germany.

Opportunities Return to top

The U.S. Commercial Service receives numerous inquiries from local entrepreneurs, investors and companies seeking franchise opportunities with U.S. businesses in various sectors. The most frequently requested include the following:

- Automotive Products/Car Wash
- Children's Services/Preschool
- Clothing and Shoes
- Educational Services/Training
- Fast Food/Restaurant/Catering
- Health/Beauty/Fitness
- Hotels/Motels

- Laundry/Dry Cleaning/Cleaners/Commercial Cleaning Services
- Marketing/Public Relations
- Printing
- Recreation Facilities/Equipment & Services
- Retail Stores/Specialty Stores

As the market infrastructure is not yet fully established in Russia, there is also a demand for education in the area of franchise development. The U.S. Commercial Service has frequently fielded requests from local authorities and business associations seeking information about franchise legislation and regulation in the U.S. In 2004, SABIT organized a Russian delegation to the U.S. consisting of governmental officials, members of franchise associations, and private sector companies. The goal of the trip was to study the legal environment for franchising in the U.S. and learn how business associations service the needs of the industry.

Resources Return to top

Russian Association of Franchising Development http://www.rarf.ru/eng/ (Russian and English)
Magazine Gotovogo Biznesa www.deloshop.ru (available only in Russian).
A list of franchise systems operating in Russia is available on http://franchising.su/fr_001.html (available only in Russian).

Medical Equipment #5

Overview Return to top

(All figures in USD millions, $1 = 28.00)

	2002	2003	2004 (estimated)
Total Market Size	1,240	1,400*	1,600
Total Local Production	374	440	497
Total Exports	34	40*	47
Total Imports	900	1,100*	1,150
Imports from the U.S.	180	190*	200

(Source: Federal Customs Service, Federal State Statistics Committee
* Estimates)

A significant portion of the medical equipment and devices used in public clinics and hospitals is old and needs replacement. Russia still does not produce many types of high-end medical equipment and relies on imports. Opportunities in the market are vast, however financing is insufficient. Total public healthcare spending in Russia at all levels comprises only 3.7% of GDP.

In the last three years the Russian medical equipment and devices market has shown substantial and steady growth with annual rates exceeding 10%. In general, imported medical equipment and supplies still play a dominant role and account for 75% of the total market. For example, foreign-made high-end medical equipment with a large R&D component, sophisticated medical devices and many medical products and supplies do not have Russian produced substitutes. According to our estimates, German suppliers play a key role in the import market accounting for 46% of the total. The United States' share is 22%, ranking second in the total import market. Other major suppliers include Japan (9%), Italy (5%), and France (5%). U.S. medical equipment and devices are generally in high demand.

In Russia, medical equipment and devices are manufactured at 1,500 enterprises having federal licenses for the production of medical equipment and devices. The leading role is played by 32 specialized medical device enterprises controlling 42% of the total output, and 200 defense plants accounting for 12% of the total output. In addition, about 800 small and medium-sized enterprises hold 30% of total domestic production. A significant portion of high-tech medical equipment is still developed and produced at defense enterprises, which have traditionally had access to advanced technologies.

Russia has achieved significant progress in several traditional and a number of developing segments of medical equipment manufacturing such electrocardiographs, patient monitors, X-Ray and fluorography devices, anesthesia, sterilization and pulmonary equipment, ultrasound scanners, devices and instruments for endoscopy and laparoscopy as well as electrosurgical instruments. Stronger domestic positions were also achieved in emergency vehicles, operating lighting systems, surgical instruments, home healthcare products, orthopedic devices, ophthalmic products, test kits, polymeric and glass medical products, disposable syringes, IV solutions and sets and other disposables.

Best Prospects/Services Return to top

The best sales prospects in the Russian medical equipment, devices and supplies market include:

- modern computerized diagnostic equipment;
- computer and X-Ray tomographs;
- angiography systems;
- resuscitation equipment;
- functional diagnostic equipment;
- implants and prostheses;
- robotic clinical laboratory systems for express microanalysis;
- telemedicine complexes;
- hospital equipment and supplies;
- operational room equipment;
- artificial kidney complex components (oxigenerators and dialysizers);
- hospital beds, as well as advanced home healthcare equipment and supplies;
- different types of medical supplies and disposables, including polymeric packaging for IV solutions.

Opportunities Return to top

In the Russian medical equipment market there are significant opportunities for U.S. companies. Major obstacles, however, include lengthy and non-transparent registration and certification systems, and weak IPR protection leading to a significant portion of counterfeited products. Also, Russia still does not have a developed legislative basis for the medical device and equipment market. A law on medical equipment and devices has been discussed for several years in the Duma, the lower chamber of the Russian Parliament, but has not been adopted. Importation, registration, conformity assurance and licensing of medical devices are governed by a number of regulatory norms, often arbitrary and contradictory, which are issued by departments of various ministries (Ministry of Health and Social Development, Standards agencies, Customs service, Tax service). No clear-cut regulation exists for in-vitro medical devices.

Resources Return to top

www.minzdravrf.ru - Ministry of Health and Social Development official web site
www.regmed.ru - site of the Federal State Enterprise Scientific Center for Testing Medical Products
www.crc.ru - Center for Sanitary and Epidemiological Norm-setting , Hygienic Certification and Expertise of the Ministry of Health and Social Development
www.rmbc.ru - Research, Marketing, Business, Consulting, a consulting and market research company specializing in the pharmaceutical market
www.pharminform.ru - Consulting firm, Pharminform, specializing in assistance with registration and certification of medical equipment and pharmaceuticals. The site has an English version.

Drugs and Pharmaceuticals #6

Overview Return to top

(All figures in USD millions, $1 = R 28.00)

	2002	2003	2004 (estimated)
Total Market Size	2,500	3,300	3,550
Total Local Production	924	1,099	1,150
Total Exports	117	193	240
Total Imports	1,563	2,289	2,390
Imports from the U.S.	156	170	190

(Source: Federal Customs Service, Federal State Statistics Committee)

Russia has a developed pharmaceutical market with many major Western drug manufacturers represented in the country. The total market grew 19% in 2003 to $3.3 billion. Local production in 2003 also grew by 19% to $1.099 billion. Russia's imports of pharmaceuticals grew by 36% in 2003 and amounted to $2.289 billion, or about 66% of the total market. About 63% of total imports come from Western Europe, the United States, Canada and Japan. The top ten foreign suppliers of pharmaceuticals to the Russian market in 2003 included the following companies: Aventis, Gedeon Richter, Sanofi-Syntelabo, Berlin-Chemie/Menarini Pharma, Novo Nordisk, Novartis, KRKA d.d., Pfizer International Inc., Eli Lilly and GlaxoSmithKline.

About 700 enterprises of different sizes specialize in manufacturing pharmaceutical products in Russia. According to the April 2004 edition of Remedium magazine, over fifty% of total domestic output is controlled by 10 large manufacturers, including ICN Pharmaceuticals, Otechestvennye Lekarstva, Veropharm, Nizhpharm, Bryntsalov A, Akrikhin, Moskhimpharmpreparaty, Syntez, Biosyntez and Biokhimik. Domestic pharmaceutical producers specialize mainly in production of generics as well as tableting and packaging drugs made of imported substances. From 85 to 90% of all the substances used in pharmaceutical production are imported from Western Europe, China and India. Beginning in 2005, Russian manufacturers of drugs are supposed to comply with the new national GMP standard R52249-2004, which is a significant step forward towards harmonization with the internationally accepted pharmaceutical production standards. However achieving actual compliance to this standard may take several years.

Concentration of the distribution sector has been growing in the last several years. The number of distributors declined from several thousand to about in 700 in 2003. The top ten distributors control about 50% of the total market. The top three distributors in 2003 were Protek, SIA International and Shreya Corporation.

Best Prospects/Services Return to top

Best prospects for U.S. exports include cardiovascular, cancer, asthma, neurological and hormonal drugs, insulins, antibiotics, analgesics, vitamins, vaccines, and AIDS and psychotropic drugs. Another promising sub-sector is biologically active food additives. The total market of biologically active food additives was $2 billion in 2003.

Opportunities Return to top

The Russian pharmaceutical market presents good opportunities for Western drug manufacturers especially in the high-end quality product segment. The major obstacles in developing the pharmaceutical market in Russia are lack of transparency in the registration and certification systems as well as inadequate IPR protection and a large%age of counterfeit medicines. According to different analysts, counterfeit drugs currently represent from 7 to 12% of the market.

Resources Return to top

www.minzdravrf.ru - Ministry of Health and Social Development official web site
www.regmed.ru - site of the Federal State Enterprise Scientific Center for Testing Medical Products
www.crc.ru - Center for Sanitary and Epidemiological Norm-setting , Hygienic Certification and Expertise of the Ministry of Health and Social Development
www.remedium.ru - magazine for the Russian pharmaceutical market
www.rmbc.ru - Research, Marketing, Business, Consulting, a consulting and market research company specializing in the pharmaceutical market
www.aipm.org - Association of International Pharmaceutical Manufacturers (AIPM)
www.pharminform.ru - Consulting firm, Pharminform, specializing in assistance with registration and certification of medical equipment and pharmaceuticals. The site has an English version
www.pharmvestnik.ru - Major Pharmaceutical Industry periodical

Computer Hardware & Software #7

Overview

Return to top

(All figures in USD millions, $1 = R 28.00)

	2002	2003	2004 (estimated)
Total Market Size (computers & peripherals)	3040*	3370*	3930*
Total Local Production	1520**	1850**	2300**
Total Exports	70	40	50
Total Imports	1590	1560	1680
Imports from the U.S.	48	56	68

(Note: The above figures are based on Russian Customs and U.S. Department of Commerce data. *RosbusinessConsulting estimate, **Commercial Service estimate)

Russia represents a growing and dynamic market for IT industry suppliers. Industry sources estimated the IT market at $5.8-7.1 billion in 2004. The rate of growth is strong, with recent figures showing an increase of 25% for 2004. This growth is due to a favorable economic situation and high demand in the government and corporate sector including oil and gas, metallurgy, finance and insurance, telecommunications and retail. Many major U.S. companies are already present in the market; and their products are available either directly or through representatives or distributors.

The total number of computers in Russia exceeded 13 million in January 2004 with a penetration rate of 9%. It is estimated that by 2004 the number of Internet users will reach 15 million and in the following 7 years will grow to more than 35-40 million. The software market was estimated at $1 billion in 2003 and is growing at an annual rate of 40%. The market is estimated at $1.4 billion for 2004. The true demand for software, though, is difficult to determine due to the high level of pirated software. Industry sources estimate that up to 85% of all software is pirated. Russian law enforcement is beginning to become more engaged in copyright enforcement, but this has not yet had a noticeable impact on the availability of pirate CDs, DVDs or computer software. In 2004 the market for outsourcing software services was estimated up to $475 million. This market sector is maturing and new entrants will likely face serious competition from long-established companies.

Best Products/Services

Return to top

The main trends in 2004 were a sizable increase in government purchases, expansion to Russia's regions and strong growth in mobile office sales. Imports account for 13% of Russia's personal computer market, while peripherals, networking and larger system hardware are dominated by imports.

Continuing growth in the number and purchasing power of small and medium-sized private enterprises is driving demand for legally imported operating systems, software application packages and enterprise management software. The best opportunities for sales of U.S. manufactured hardware appear to be: data storage systems, networking equipment, PDAs and Internet mobile technology.

Opportunities

Return to top

The computer market is driven mainly by new investments by the federal government and its new IT concept adopted at the end of 2004. Computer hardware, personal peripherals, software and IT services are growing steadily and play an important role in the Russian-U.S. services trade because most high-tech equipment is imported. Growth is expected to continue due to a favorable economic situation and high demand in the corporate and government sectors.

Resources

Return to top

The Ministry of Information Technologies and Communications of the RF:
http://english.minsvyaz.ru/enter.shtml
Sviaz/Expo Comm Moscow 2005, IT and Business Russia
http://www.expocomm.com/itab/
Infocom 2005
http://www.infocom2004.ru/news.shtml?id=65

Aircraft & Parts #8

Overview

Return to top

	2002	2003	2004 (estimated)
Total Market Size (aircraft units)*	10	18	32
Total Local Production of civil aircraft (units)	10	9	7
Import of civil aircraft (units)	N/A	9	25
	2002	2003	2004 (6 months)
Total Exports HS 8802 ** Aircraft & Parts ($ million)	2,232.0	2,836.0	1,315.9
Total Imports HS 8802 Aircraft & Parts ($ million)	235.0	356.5	210.3
Imports from the U.S.	207.0	316.2	201.3

(Source: Federal Statistics Service, $1 = R 28.00)
* Commercial Service estimate.
** Consists mainly of military aircraft, jet fighters, helicopter, parts & components.

Russian airlines continue to experience growth in passenger and cargo transportation The State Service for Civil Aviation (GSGA) reported that in 2003 passenger transportation grew by 11% with the airlines carrying about 29 million passengers.

Cargo and mail traffic in 2003 grew on domestic routes by 6.4%, while cargo transportation on international routes decreased by 6.4%. During the first 9 months of 2004, Russian airlines carried 26.7 million passengers, a 17.4% increase compared to the same period in 2003, and transported 457 thousand tons of cargo. It is expected that in 2004 Russian airlines will transport an estimated 33-34 million passengers and 655 thousand tons of cargo.

Passengers & Freight Air Transport in Russia.

	2000	2001	2002	2003
Passengers (millions of people)	21.760	25. 07	26.52	29.42
International	8.40	10.04	11.08	12.31
Domestic	13.36	15.03	15.44	17.11
Freight (thousand tons)	530.0	612.5	627.24	620.94
International	300.0	344.5	364.57	341.35
Domestic	230.0	268.0	262.67	279.59

(Source: Air Transport Review Journal, State Civil Aviation Service)

Currently, the Russian fleet is comprised of 3,830 aircraft and 1,967 helicopters, with most of the aircraft operating since Soviet times. According to the Federal State Statistics Service, about 50% of the Russian aircraft fleet has been in service for 15 to 30 years - 3.5% have been operating more than 30 years. Industry experts note that Russia's depleted aircraft fleet will be able to operate for only another 5-7 years. By 2015 around 80% of the fleet will have exhausted its service life. The majority of aircraft needs upgrading or replacement, including replacement of engines and avionics. Only a few types of the existing Russian aircraft (Tu204, Tu214 and IL-96-300) meet Stage-III noise standards currently in effect in EU countries and the United States. Further introduction of the Stage-IV noise standards will require heavy expenses by airlines in order to comply with new requirements. Moreover, under new EU regulations starting January 1st 2005, aircraft which are not equipped with EGPWS ground collision equipment will not be allowed to fly to European airports. However, the Russian Ministry of Transportation reported that it managed to negotiate a one-year extension period. Only about 2% of Russian aircraft are equipped with this system and, according to industry experts, 300 to 400 aircraft must to be equipped. One of the major delaying factors cited by Russian carriers is cost. The cost of fitting a ground collision system to a Russian aircraft (Tu-154 or IL-96) is estimated to be between $50,000-100,000 per aircraft.

Civil aircraft production dropped dramatically in the 1990s, falling from 500 airplanes and 215 helicopters in 1990 to only 14 and 40 respectively in 1998. After 1998, production of civilian aircraft dropped to 7 airplanes in 1999 and 4 in 2000. In 2003, Russia produced

11 long-range aircraft. Industry experts provide different estimates for aircraft demand for the near future. The Ministry of Transport estimates demand for 2004-2010 at 536 aircraft, including 180 helicopters, 164 long-range aircraft and 146 regional aircraft (Source: "Vozdushnyy transport"). According to the Ministry of Industry and Energy, Russian manufacturers will build 135 new generation aircraft including IL-96 and AN-148 between 2005-2008. This so-called "start order" will be financed by the government through two leasing companies, Ilyushin Finance and Finance Leasing Corporation (FLC), and is reportedly the result of joint analyses performed by leasing companies, airlines and ministries.

The Russian aircraft industry consists of about 300 design bureaus, plants and research facilities, and includes 10 major aircraft designers and over 20 major manufacturing facilities. It suffers from a lack of financing for aircraft construction and needs significant restructuring. For a number of years, the Russian Government has been discussing possible measures to revitalize the industry, including consolidation. Recently, this long planned merger began to move forward. Prime Minister Mikhail Fradkov approved the idea of establishing a national aircraft-building company, which will consolidate Sukhoy, MIG, Ilyushin, Irkut, Yakovlev and Tupolev. At the first stage, participants will form a public- private consortium and a management company. The government share in the management company will be from 25.5 to 51%.

Best Products/Services

Return to top

Recent developments in the airline sector demonstrate that Russian airlines are acquiring, or planning to acquire, Western aircraft. Airlines publicly complain that the restrictions on their ability to acquire aircraft negatively impact their operations and prevent them from being competitive in the international market and from providing quality services to passengers. Although sales are severely constrained by high import tariffs of 20% plus VAT of 18% on aircraft and parts, for major Russian airlines the necessity to update their fleet is beginning to outweigh the prohibitive nature of the tariff. Additionally, a section of the new Customs Code, which came into effect at the beginning of 2004, allows purchasers of foreign aircraft to spread the tariff payment over almost 34 months, making it less of an obstacle to imports. The Russian Government is considering lowering import tariffs on aircraft where there is no Russian equivalent by spring 2005. So far it remains unclear exactly what type of aircraft may fall under this category. If import duties for aircraft are lowered, significant opportunities will arise for supply of aircraft, particularly used aircraft, spare parts, support and maintenance.

Opportunities

Return to top

The Russian Government and industry representatives are looking for broader cooperation with foreign firms in order to revitalize their domestic industry and integrate it into the global aviation industry. This includes participation in significant cooperative projects and further development of new generations of Russian aircraft able to compete in fuel-efficiency and able to meet the demands of international noise standards.

As part of its long-term plan to resurrect the domestic aircraft industry, the Russian Government is supporting the development of a locally-produced regional passenger jet. In March 2003, the Russian Aerospace Agency selected Sukhoi to work on the Russian Regional Jet project jointly with Ilyushin, Yakovlev and Boeing. There are plans to build the airplane in Russia with the intention of marketing it both in Russia and abroad. The new jet will have three modifications, seating 60, 75, and 95 passengers. Boeing is planning to assist in the design, marketing and after sales support of the airplane.

Some partnership agreements have been established with European and U.S. firms mainly in the area of small component manufacturing. Such cooperative projects with foreign companies could provide capital needed to sell newly designed aircraft in domestic and international markets. However, limiting this potential is a 1998 law that restricts foreign ownership in aerospace companies to 25%. Currently the Russian Government is considering lifting the limit for foreign ownership to 49%. Over the long run, the Russian market presents significant opportunities for U.S. aerospace trade and investment. U.S. commercial aircraft and U.S. aircraft makers (such as Boeing, United Technologies, General Electric, Lockheed Martin, and Raytheon) are engaged in joint production projects and component supply.

Resources Return to top

Russian Aviation News & Information Server
http://www.avia.ru/english

International Aviation & Space Salon
http://www.airshow.ru/etable.htm

Rosaviaexpo
www.rosaviaexpo.ru

Agricultural Machinery #9

Overview Return to top

(All figures in USD millions, $1 = R 28.00)

	2002	2003	2004 (estimated)
Total Market Size	1150.8	1050.4	1290.5
Total Local Production	788.9	682.6	892.2
Total Exports	86.5	88.4	90.0
Total Imports	283.3	374.1	400.0
Imports from the U.S.	32.6	34.4	40.0

(NOTE: The above statistics are unofficial estimates based on Russian Customs data and the Russian Statistics Committee. They are based on product under the following HS Codes: 84332, 843351, 843352, 843353, 843358, 843390, 870128)

A general boom in consumer spending has also translated into increased demand for a range of food and beverage products. This in turn has put pressure on the agricultural sector, which is in dire need of reform and modernization, to meet this increased demand and has created the need for a variety of agricultural machinery. The Russian economy overall suffers from a lack of adequate financial resources to fund purchases of machinery and equipment, and the agricultural sector is no exception. While recently more financial resources have become available for purchases of agricultural machinery and equipment, there is still a huge unmet demand for such equipment. It is estimated that the sector needs thousands of basic units. According to the Russian Ministry of Agriculture, Russia had a shortfall of tractors (46%), plows (57%), cultivators (37%), seeders (44%), forage harvesters (33%), and combine harvesters (35%) for their 2004 planting season. In addition to this tremendous shortage of equipment, a majority of the machinery that is currently operational has a fairly high (approximately 80%) rate of deterioration. According to the All-Russia Research Institute for Mechanization in Agriculture, annual market demand in new agricultural machines and equipment is approximately $5-6 billion.

Altogether, it is estimated that this sector is short 180,000 machines and that 50,000 units are inoperable. Additionally, within the next two to three years Russia will have to discard approximately 20,000 – 25,000 units due to the fact that they will reach the end of their useful life. It is estimated that Russian farmers will need approximately 40,000 combines per year for the next five years.

Currently, Russian combine and tractor manufacturers are working at 10-20% of capacity. The industry has not recovered from the crisis of the mid-nineties when production of agricultural equipment fell tenfold. Since that time, there has been considerable consolidation within the industry and at present two large domestic firms, Agromashholding and Rostselmash (Rostov-on-Don), manufacture approximately 90% (about 8,000 units) of all combines in Russia. In order to compete with foreign suppliers, Russian producers need to develop a full range of better quality agricultural equipment. Recently several leading producers introduced new models of tractors and combines. However, the industrial base and financial resources for the creation of competitive, universal agricultural equipment producers remains limited in Russia.

Best Products/Services Return to top

Combines and other harvesting equipment: such equipment has been a traditionally strong import item for Russia.

Cultivators and other soil preparation equipment, including plows, harrows, cultivators, seeders, and fertilizer spreaders.

Agricultural tractors.

Used and refurbished machinery only if the supplier is able to ensure reliable service and a supply of spare parts.

Sales to food processing companies may also provide some opportunities where financially healthy Russian companies are trying to expand to satisfy growing demand for domestic food. For example, increased sales may be possible in the areas of grain processing equipment, fruit and vegetable processing equipment, dairy livestock breeding, swine and poultry production.

Opportunities [Return to top]

Despite market demand, opportunities for imported farm machinery will be limited unless new sources of financing are found. Some import sales will be made to a few financially sound buyers or those receiving help from regional governments. Large sales, however, will probably be possible only for sellers who are able to provide financing, as well as a support system for purchases that go substantially beyond simple direct sales, or are willing to accept barter payments. Several major U.S. companies have proposed comprehensive equipment, financing and service projects, which could significantly increase farm machinery imports into Russia. Export credit guarantees such as those available from the U.S. Export-Import Bank can play a positive role in such projects.

In 2004 a number of major foreign investors – Bunge, Cargill (US), Glencore (Switzerland), Louis Dreyfus, Bonduelle, CECAB (France), and Barilla (Italy) increased their activities in the Russian agricultural market. Investments of these giants into agricultural production in Russia will create additional opportunities for agricultural and processing equipment and machinery suppliers. Additionally, recent favorable changes in euro/dollar and ruble/dollar exchange rates have improved the price competitiveness of U.S. products.

U.S. firms are advised to exhibit at Russian trade shows, as they are a powerful marketing tool and reassure Russian buyers that the company is committed to maintaining its presence in the Russian market. Also, companies occasionally make substantial floor sales at Russian exhibitions.

Resources [Return to top]

Russian Ministry of Agriculture, www.mcx.ru
Golden Autumn, Russian Agricultural Week Trade Show, www.apkvvc.ru/engaut.htm
Agroprodmash, Trade Show, http://www-eng.expocentr.ru/expo

Mortgage Finance #10

Overview [Return to top]

(All figures in USD, $1 = R 28.00)

	2002	2003	2004 (estimated)
Total Market Size	260	500	900
Total Local Production	NA	NA	639
Total Exports	NA	NA	NA
Total Imports	NA	NA	261
Imports from the U.S.	NA	NA	67

(Insert footnote information here)

In a still immature banking sector, mortgage lending is one area that is developing in Russia at a brisk pace. According to the Association of Russian Banks, a total of 27,000 mortgages were issued since 2001 valued at – $56 million in 2001, $260 million in 2002 and $500 million in 2003. In 2004 the volume of the local mortgage market was estimated at $850-$900 million.

However, despite such rapid growth, this segment of the Russian economy remains far below the industrialized world's average. The volume of mortgage lending as a% of GDP tops 34% in the European Union, 50% in Germany and 53% in the U.S. In Russia, mortgage lending is just emerging, accounting for only 0.1% of GDP.

The main problem contributing to the small size of the current market is the unaffordability of mortgages for a considerable part of Russia's population.

The limited volume of Western investment in this sector is influenced by sizeable country risk and lack of transparency in the Russian mortgage market. To address these problems, the Government of Russia has introduced a package of bills aimed at creating an affordable housing market. When the bills are passed and come into effect, it is hoped that the credit risks for primary mortgage lenders and the interest rates they offer will significantly decrease. Some major mortgage players from the West such as BSGV, GE and CitiBank have recently entered this segment of the market.

Best Products/Services Return to top

With the rapid expansion of mortgage lending in Russia, both domestic and foreign banks see it as a profitable new growth area. Mortgage financing has become one of the most attractive sectors in retail banking and an increasing number of Western financial institutions are thinking of including this business in their service portfolio.

New opportunities include a variety of related legal, financial and insurance services:

- foreclosure
- securitizations
- secondary mortgage market insurance policies
- mortgage guaranty insurance

The increased attention shown by the Russian Government to the market creates opportunities for various public-private partnerships, as well as opportunities for organizations and agencies involved in the U.S. mortgage market to participate in technical assistance programs aimed at the development of the mortgage sector in Russia.

Opportunities Return to top

In order to address the decrepit state of the housing sector, the Russian Government is trying to encourage development of the mortgage market. Two years ago, it announced a new home financing program that would help more families purchase new apartments. A new national program, launched in September 2002 by the Russian Agency for Housing and Mortgage Lending, aims to stimulate refinancing of mortgage loans provided by commercial banks. The Agency - founded in 1996 with support and assistance from the U.S.-Russia Investment Fund and leading U.S. mortgage experts - was patterned after the U.S. Federal National Mortgage Association. It is entirely state owned, and was created to encourage mortgage lending by purchasing mortgage debt from banks at a discount, and reselling it to investors on the secondary market.

As the basic infrastructure for a functioning mortgage lending market begins to emerge, and as the overall Russian economy continues to develop, there will be significant opportunities for experienced U.S. financial services companies to enter the market.

Resources Return to top

Regional Agency for Investments and Real Estate
http://www.novostroy.ru/html/RAIN.htm
(English language available)
Department of Investment Construction Projects in Moscow
http://www.homefree.ru/mortgage/ (English language is not available)
Miscellaneous information on mortgages http://ipotek.ru/ (English language is not available)

Agricultural Sectors

Return to top

Overview

Return to top

Exports of U.S. agricultural products to Russia are growing due to the revolutionary changes in Russia's retail and food processing sectors. Russia imports over $12 billion in food and agricultural products each year, and imports are growing by roughly 12% annually. In 2004, U.S. agricultural exports to Russia grew to over $850 million, up 40% year-to-year, reversing a downward trend; from 2001 to 2003 U.S. exports dropped due to a series of market access barriers.

Economic improvement over the last five years has increased consumer purchasing power and demand for quality products -- pushing the retail food market to $68.1 billion in 2003, 25% more than in 2002. Final 2004 figures are not available, but food retail sales were probably above $83 billion, up 22%. Russia is the fastest growing retail food sales market in the world, with the potential to again double in size by 2008, just as it did since 2001. With this growth and the participation of multinational retailers, the retail market has become more competitive, and quality now counts even more in purchasing decisions. In fact, suppliers now face penalties for failing to provide either the agreed quantity or quality to retailers. This creates a natural advantage for U.S. high quality consumer ready products, especially poultry, meat, snacks, nuts, fresh and frozen fruits and vegetables, wine, beer, seafood, among many others.

Russia's imports from the United States, while dominated by poultry, have begun to diversify. Red meat (beef and pork) exports were down in 2004 due to the ban Russia imposed on U.S. exports after the discovery of BSE in the United States in 2003. This ban hit hardest beef liver imported primarily by Russia for use in the meat processing industry. While overall red meat exports were off, U.S. pork is doing quite well, jumping 640% last year. As a group, food ingredient exports were down in 2004, due only to non-economic reasons related to one specific component. All other food ingredients saw staggering 88% growth. Tree nuts (such as almonds), seafood, and snack foods all grew impressively last year and have a bright future. While fresh fruits and wine sales appear to be quite moderate, official statistics underreport this trade due to heavy transshipments to Russia through Europe. In fact sales are quite brisk for each item, as explained in more detail below.

Best Products/Services

Return to top

1. <u>Poultry</u>

Although U.S. chicken leg quarters continue to dominate the Russian import market for poultry meat, the Russian government has imposed a safeguard measure that significantly limits market access. The safeguard quota, which will be in effect for three full years, is set at 1.05 MMT per year, with pro-rated amounts in the first and final years. For 2005, the total volume of the quota for the United States is 771,900 MT.

2. Beef

In 2003, Russia introduced new tariff rate quotas (TRQs) for beef under codes 0201 and 0202. Although the United States does not ship beef under these categories due to the current BSE-related trade ban, when the market reopens, US exporters can be expected to take advantage of growing demand in the HRI sector. The high demand for less expensive beef cuts (offals) is expected to remain strong, and would likely resume at levels equal to the $30 million dollars in 2003.

3. Pork

Despite a decline from pre-1998 crisis levels, Russia is one of the top ten export destinations for U.S. pork. In the near future, high-quality imported pork is likely to take advantage of the growing demand in the retail sector. However, the TRQ on pork could limit U.S. exports in the short term, which are capped by a country-specific allocation of 53,800 MT. U.S. suppliers are also facing extremely tough competition from Brazil due to very competitive pricing. The best export opportunities in the near future will include unprocessed and semi-processed pork products for further processing (i.e., hams and picnics). These products are popular because Russian processors are keen to locate sources of inexpensive raw materials for further processing into sausages and other products.

4. Food Ingredients/Food Processing

Russia's food processing industry has been growing rapidly in recent years, with a significant output increase of 25% in 2003 valued at $32.5 billion. In 2004, the industry grew by a reported 18%. Due to the growing preference for Western style food and beverages, rising consumer incomes, and a large population of 143 million, Russia is an excellent prospect for exporters to supply food processors. Consumer markets are not yet saturated with products. These trends are expected to continue, keeping prospects bright for U.S. exporters. Most local food processors trying to compete in the market are quality-oriented, rather than price-oriented ingredient consumers. Many companies report that raw resources and specialized ingredients for meat, bakery, confectionary, juice, and dairy processing available from Russia domestically are not sufficient to satisfy their needs in the future.

5. Edible Tree Nuts

Domestic consumption continues to expand for a wide variety of edible nuts, including almonds, hazel nuts, and pistachios. Nuts are popular as both sweet and salty snacks. In addition, the fast-growing confectionery industry uses nuts in a variety of chocolates and baked goods. In particular, imports of U.S. almonds are expanding sharply, although direct import figures do not reflect the actual level as large volumes of U.S. almonds are also imported through Western Europe.

6. Fish and Seafood

U.S. fish and seafood product exports will continue to grow and may reach $30 million in 2005, up from $23.1 million in 2004. High-quality fish, in particular for retail sale and in the hotel/restaurant sector, are growing in demand. Due to Russian industry's strong export focus, the domestic retail market is growing and relies heavily on imported fish and seafood. U.S. seafood exporters interested in the market should contact USDA's Trade Show Office or FAS/Moscow offices to participate in the seafood pavilion at the World Food Moscow Exhibition in September 2005.

7. Fresh Fruit (apples, pears, citrus, table grapes)

U.S. exports of fresh fruit are growing quickly. During 2004, Russia bought about 105,000 boxes of apples worth $2.3 million, and 170,000 boxes of pears worth $3.8 million. This estimate is based on industry representatives' information, since U.S. exports are often transshipped through Europe, artificially lowering US-Russia trade figures. Due to a high quality-low priced crop, the sales potential for apples alone in 2005 is estimated to be at least 500,000 boxes (about $12 million). As a further indication of market potential, some importers report they are already getting purchase requests from retailers for June shipment. For pears, the market is estimated at 300,000 boxes ($6.7 million) this year. The retail sales sector in Russia is extremely modern and competitive. Quality matters and the United States is well positioned to take advantage of this growth as the world's highest quality, most consistent fruit exporter.

8. Wine

Fueled by stable economic growth over the last six years, Russia is one of the most rapidly growing wine markets in the world with an average 30% wine consumption increase per year. Although Russian consumers still drink a greater quantity of popular wine labels from CIS countries like Moldova, Georgia, and European wines from France, the popularity of New World wines is growing steadily. U.S. wine exporters to Russia have excellent prospects. Chile and Argentina are the leaders among the other 'New World' countries among Russian imports. In addition, this year French exporters are going to invest about one million Euros in wine promotion to Russia, three times more than last year.

Other Products

In addition to the products described above, there is good market potential for a wide variety of other U.S. food and agricultural products, including: raisins; prunes; exotic juices (for retail and further processing); wine; wild rice; popcorn (especially microwave); prepared/canned foods (including private label); microwave foods; intermediate products for further processing (soy products, dried potato products, essential oils/flavorings, etc.); livestock genetics; and planting seeds.

U.S. Agricultural Exports to Russia, 2001-2004

Selected Products, Million Dollars

		2001	2002	2003	2004	CHANGE
	TOTAL	926.5	564.7	591.3	829.5	40%
1	**POULTRY MEAT**	**666.1**	**373.0**	**381.0**	**530.5**	**39%**
2	**TOBACCO**	**42.7**	**12.0**	**6.8**	**71.1**	**944%**
3	**FOOD INGREDIENTS**	**16.6**	**18.4**	**44.5**	**41.3**	**-7%**
	PROTEIN ISOLATES	***3.2***	***2.8***	***27.9***	***10.1***	***-64%***
	ALL OTHER INGREDIENTS	***13.3***	***15.6***	***16.6***	***31.2***	***88%***
4	**RED MEATS, FR/CH/FR**	**90.2**	**79.6**	**60.5**	**38.8**	**-36%**
	PORK MEAT FR/CH/FR	***25.5***	***9.1***	***2.6***	***19.3***	***640%***
	BOVINE LVRS	***31.6***	***36.4***	***33.8***	***0.2***	***-99%***
5	**GENERAL CONSUMER ORIENTED**	**5.3**	**6.3**	**22.7**	**30.7**	**35%**
6	**TREE NUTS**	**6.6**	**8.3**	**16.8**	**27.5**	**63%**
7	**TOTAL SEAFOOD**	**8.4**	**10.8**	**10.6**	**25.0**	**58%**
	FISH/SEAFOOD	***3.9***	***5.5***	***4.9***	***19.4***	***298%***

	SALMON WHOLE/EVIS	*0.1*	*0.6*	*0.7*	*3.0*	*363%*
	ROE/URCHIN/FISH EGGS	*1.7*	*4.5*	*5.0*	*1.5*	*-70%*
	SURIMI (FISH PASTE)	*2.7*	*0.2*	*0.0*	*1.1*	
8	**SNACK FOODS**	**2.7**	**3.4**	**8.0**	**15.0**	**88%**
9	**FRESH FRUIT**	**2.4**	**1.5**	**2.1**	**6.3**	**196%**
10	**PROCESSED FRUIT & VEG**	**4.8**	**5.9**	**4.4**	**5.5**	**26%**
11	**PLANTING SEEDS**	**0.4**	**0.2**	**0.4**	**5.1**	**1316%**
12	**COARSE GRAINS**	**8.4**	**1.1**	**0.6**	**4.7**	**634%**
13	**VEGETABLE OILS (EX SOY)**	**7.7**	**1.5**	**2.1**	**3.1**	**50%**
14	**PET FOODS**	**0.8**	**0.7**	**1.0**	**2.4**	**126%**
15	**SUGAR, SWEETNER, BASES**	**1.0**	**1.5**	**1.5**	**2.1**	**38%**
16	**WINE AND BEER**	**1.1**	**1.2**	**1.1**	**1.8**	**62%**

SOURCES: U.S. Census Bureau, USDA FAS, U.S. Trade Database

Resources Return to top

U.S. exporters are invited to learn more about sales opportunities to Russia by writing USDA's Agricultural Trade Office at: atomoscow@usda.gov or by participating in the U.S. company pavilions at World Food Moscow in September 2005 or Ingredients Russia in November 2005. For questions related to market access, agricultural policy, USDA's reporting program, and technical assistance, write USDA's Agricultural Affairs Office in Moscow, agmoscow@usda.gov. You may also contact USDA offices in St. Petersburg at: agstpetersburg@usda.gov and in Vladivostok at: agvladivostok@usda.gov.

Return to table of contents

Chapter 5: Trade Regulations and Standards

Import Tariffs Return to top

The following is a selection of tariffs for popular U.S. goods entering Russia. For more detailed information concerning tariffs, please refer to the "Customs Regulations and Contact Information" section below.

Commodity	Rate (%)
HS 02 Meat and edible meat products	5
HS 0207	25
HS 24 Tobacco and manufactured tobacco/Unmanufactured tobacco	5
- Cigars and Cigarettes	30
HS 28 Inorganic Chemicals	5
HS 38 Miscellaneous chemical products	5
HS 39 Plastics and Articles thereof	10
- Finished products	20
HS 73 Articles of iron and steel	15
HS 84 Nuclear reactors, boilers, machinery	5-20
HS 85 Electric Machinery	5-20
HS 87 Vehicles except railway and tramway	5-25
- Tractors	15
- Passenger cars new	25
- Used (depends on the age and engine displacement and varies from 0.85 Euro to 3 Euro for cubic cm)	
- Buses over 7 years (3 Euro for cubic cm of engine displacement)	
HS 8708 Auto parts	5
HS 90 Optic, Photo, Medical and Surgical Instruments and devices	5-15
Medical equipment	5

Trade Barriers

Return to top

U.S. companies face a number of tariff and non-tariff trade barriers when exporting to Russia. The most common complaint voiced by U.S. companies is Russia's complex system of standardization. As explained in detail in the "Standards" section below, Russia's standards regime remains extremely complex due to its lack of clarity 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.

With regard to tariffs, on January 1, 2004, Russia adopted a new Customs Code which complies with WTO requirements. The new code introduces significant changes in customs clearance and control procedures. Perhaps most notable is the limiting of the maximum time for the customs clearance process from 10 days to 3 days. In practice however, delays beyond 3 days continue to be the norm. Therefore, even with the adoption of the new code clearing goods through Russian Customs can still be a cumbersome ordeal and act as a barrier to foreign trade. For a detailed analysis of Russian Customs, please see the "Customs Regulations" section.

Import Requirements and Documentation

Return to top

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, payment documents confirming that the duties were paid to the customs account in advance, and documents confirming legitimacy of declarants/brokers/importers.

Exporters are required to complete an export declaration and, if necessary, present the appropriate export license at customs.

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

Free Trade Zones/Warehouses

There are no actual free trade zones in Russia. However, there are a few free economic zones, free customs zones, and free warehouses designed to encourage investment in specific areas. Free customs zones and free warehouses are located in customs areas (airports, seaports, railway and truck terminals) and selected automobile factories. The Kaliningrad Special Economic Zone (SEZ) provides advantages to foreign exporters and investors. Almost all goods imported into the SEZ are exempt from import customs duties. Further, when imported goods are processed there with value added of at least 30% and then shipped to other parts of Russia they are exempt from import duties and quotas.

U.S. Export Controls Return to top

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

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

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

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

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

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

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

Temporary Entry

Return to top

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

Full conditional relief from customs duties is allowed when it does not affect the Russian economy in such cases as:
- temporary imports of containers, pallets, other types of containers and packages for repeated use;
- temporary imports of goods for the purposes of the development of international relations in the scientific, cultural, sports, cinematography and tourism fields;
- if the purpose of temporary imports is international assistance.
- commercial samples, not for sale, used at trade shows and exhibitions*

Other categories of goods are subject to partial relief from customs duties. When partial relief from customs duties is applied, three% of the amount of customs duties and taxes should be paid on a monthly basis for the period when goods are located in the customs territory of the Russia Federation.

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

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

For further information, please refer to the Russian State Customs Committee Website: www.custom.ru, or www.tks.ru

Labeling and Marking Requirements

Return to top

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

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

Prohibited and Restricted Imports Return to top

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

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

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

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

Customs Regulations and Contact Information Return to top

The new version of the Customs Code, which complies with WTO requirements, was approved by the State Duma on April 25, 2003, signed by President Putin on May 24 of that year, and took effect on January 1, 2004. The new Customs Code introduces significant changes in customs clearance and customs control procedures. According to its authors, the Code is a significant improvement over the old one. It reduces the role of the state and does not allow the Russian Government or its agencies (including the Customs Service) to create contradicting regulations and instructions. One intended improvement in the new Code is to reduce the length of time required for customs clearance from 10 days to 3 days. It also offers the possibility of advance declaration of cargo before its arrival at customs.

The important changes introduced by the new Code include:

- Restricting the Russian Federation State Customs Committee from issuing contradictory additional regulatory acts.
- Making possible the settlement of disputes with Customs authorities directly in a court of law.
- Establishing a definitive and comprehensive list of documents that must be submitted for Customs clearance.
- Limiting the maximum time for the Customs clearance process to 3 days compared to the previous allowed maximum of 10 days.
- Prohibiting the Customs authorities from refusing to accept a declaration that contains inaccurate information, if this information has no impact on the defrayal of Customs payments, or does not restrictions in foreign trade.
- Allowing clearance of goods through any Customs office.
- Providing urgent Customs clearance for perishable goods, express cargoes, or time-sensitive materials for the mass media.

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

U.S. companies doing business in Russia may find that the new tariff provisions and fewer base rates generally simplify business activities. In a country where clearing goods through customs can still be more art than science, and significant delays are still common, the new import structures are seen as taking Russia a step further along the road to reduced barriers to foreign trade, conformity to world trade practices, and membership in the WTO.

In addition to tariffs, there are two types of charges applied to imports, the ubiquitous Value Added Tax (VAT) and selective excise taxes. The universal VAT rate was reduced from 20% to 18% effective January 1, 2004, with the exception of foodstuffs, pharmaceuticals and medical supplies for which VAT is 10% and is applied to the import price plus tariff plus excise tax. There are some exemptions to applying VAT. For example, resolution no.19 of January 17, 2001 provides a list of vitally essential medical equipment to which VAT is not applied. The excise tax applies to a number of luxury goods, alcohol and cigarettes and varies from 20% to 570%. The import duty on new passenger vehicles (1-3 years old) is 25%, to which is added an excise tax calculated based on horsepower.

In 2002 the former State Customs Committee legalized the so-called "white lists" of reputable importers with good records (State Customs Committee resolution #237 of May 8, 2002). Importers included on these "white lists" enjoy simplified procedures for the clearance of goods, thus saving time and money. Initially, there was no formal procedure for placement on the list and "white lists" existed without any legal basis. Importers in good standing were added to the list through the recommendation of a trade association. According to current regulations, an importer must now submit an application and necessary documentation to the regional customs office. In August 2004, the Federal Customs Service introduced more strict regulations for inclusion on the White List (Federal Customs Service decree #727) and all importers on the list must now participate in a new registration procedure.

Customs Valuation

The customs value is generally considered to be the CIF (cost-insurance-freight) price of the goods imported. A customs processing fee is also levied. As of January 1, 2005, new customs processing fees were introduced in accordance with Chapter 33 of the new Customs Code. Customs duties are payable in hard currency or rubles at the current exchange rate. If customs officials do not agree with the customs value of goods declared they are authorized to request additional documents that support the declared customs value. It is often normal practice for customs officials to request the Shippers Export Declaration (SED), which they consider to be a sufficient proof of the customs value. However, presenting SED is not mandatory and the importer can present other available documents.

For further information, please refer to the Russian State Customs Committee Website: www.custom.ru, or www.tks.ru

Standards Return to top

Overview Return to top

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

In addition, the former federal authority on standardization, Gossstandart, was restructured twice as part of a larger government reorganization begun in March 2004, which led to some uncertainty as to exactly who in the agency did what, further adding to delays in discharging its functions. The current authority for standardization, metrology and certification matters is the Federal Agency for Technical Regulations and Metrology under the jurisdiction of the Ministry of Industry and Energy. However, the old name for this agency, Gosstandart, remains in use. Affiliated with this new agency are 462 Technical Committees, comprised of research institutes which develop standards. Russia has a three year plan for standards development is published on the Federal Agency for Technical Regulations' website, www.gost.ru

Standards Organizations Return to top

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

The Department of Technical Regulations and Metrology estimate that Russia must develop approximately 2,000 technical regulations by 2010. The current plan consists of 146 technical regulations which are to be developed by 2006.

U.S. companies are recommended to work with reliable partners and consulting companies on registration and certification issues.

Standards Organizations In Russia:

The Federal Agency for Technical Regulations and Metrology
Grigory Iosifovich Elkin, Head
9, Leninsky Prospect
Moscow 119991 Russia
Phone: 7-095-236-0300
Fax: 7-095-236-62-31
E-mail: info@gost.ru, www.gost.ru

Rostest Moscow
Russian Center for Tests and Certification
31 Nakhimovsky Prospekt,
Moscow 117418 Russia
Phone: 7-095-129-1911, 332-6777,129-5936.
Fax: 7-095-124-9996.
E-mail: admtest@rostest-m.msk.ru, www.rostest.ru

VNIIKI (Russian Institute for Comprehensive Information on Certification and Quality)
4, Granatny Pereulok
Moscow 103001 Russia
Phone: 7-095-290-5569

Fax: 7-095-203-2598, 203-9517
E-mail: kpl@vniiki.ru, www.viiki.ru

VNIIS (Research Institute for Certification)
3/10, Elektrichesky Pereulok
Moscow 123557 Russia
Phone: 7-095-253-7006, 253-0078
Fax: 7-095-253-3360
E-mail: vniis@vniis.ru, www.vniis.ru

Russian Standard (general representative of ROSTEST for North America)
305 E. Walnut Street, Suite 110
Springfield, MO 65806, USA
Phone: (417) 799-0650
Fax: (417) 873-9110
E-mail: mail@rosstandard.com, www.rosstandard.com

For Telecommunications Equipment:

Ministry of Informatization and Communications of the RF
Ms. Lyudmila Yurasova
Deputy Head of Federal Agency
7 Tverskaya Street
Moscow, Russia
Tel: 7-095-771-8573
Fax: 7-095-771-8734
E-mail: sertifik@ptti.gov.ru, www.english.minsvyaz.ru

For Pharmaceuticals and Medical Equipment:

Federal Service for Surveillance in the Sphere of Healthcare and Social Development (Roszdravnadzor)
1 Birzhevaya Street
Moscow 109012
Tel.: 7-095-298-1470
Fax: 7-095-298-5049
http://www.roszdravnadzor.ru

Pharminform
Vladimir Makarov, Financial Director
3/5 Suschevsky Val
Entrance 1, Floor 6
Tel.: 7-095-797-4963
Fax: 7-095-797-4963
E-mail: info@post.pharminform.ru, www.pharminform.ru

For Building and Construction Materials:

Federal Agency for Construction and Housing Complex, Federal Licensing Center
8, Stroiteley St., Bldg.2
Moscow 119991

Phone/fax: 7-095-206-5735, 9494 or 9404
E-mail: fcc@certif.org, www.gosstrov.gov.ru

Conformity Assessment Return to top

In recent years there has been a substantial movement toward the adoption of common international language on product standards and certification procedures and some improvements have been made. In 1998 the Russian Government established a public information service for regulations covered by the Technical Barriers to Trade (TBT) Agreement in the World Trade Organization (WTO); however, technical difficulties have plagued this service and it has not been an easily accessible or reliable source of information. On July 31, 1998, new amendments to Russia's Law on Certification of Products and Services went into effect, which Russia claims generally meet requirements of the TBT Agreement. The law allows a manufacturer to submit a declaration of conformity in the certification procedure for a limited number of products. The government has established a list of 200 products eligible for this procedure. Russian standards and certifications bodies worked closely with the U.S.-Russian Business Council, the American Chamber of Commerce in Russia, and several U.S. Government agencies in order to become acquainted with international practice in this area and the concerns of international companies. As a result, approximately 35% of 25,000 Russian standards now conform to international norms, and many deficiencies in the standards and certification process have been removed.

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

LIST OF CERTIFICATION SERVICE PROVIDERS AND ACCREDITED LABORATORIES IN THE UNITED STATES:

Accreditation Velosi America, LLC
www.velosi-usa.com
Industry Specializations: Oil & gas, petrochemical and refining industries.

Information Handling Services Inc. (IHS)
www.ihs.com
Industry Specializations: Developing and implementing engineering, technical, and regulatory information solutions.

Nemko USA, Inc.

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

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

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

TUV Rheinland
www.us.tuv.com/certify/russia.html
Industry Specializations: Information technology equipment, industrial machinery, household appliances and medical/scientific equipment. TUV Rheinland can also assist clients in obtaining Russian telecommunications certification, and in obtaining Gosgortechnadzor (GGTN), hygienic and other licenses/permits.

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

Product Certification

Return to top

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

Russia participates in the following international certification systems:

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

As of January 1, 2005 the Federal Register of Gosstandart of Russia listed 31 systems of mandatory certification (national) and 65 systems of voluntary certification.

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

Accreditation

Return to top

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

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

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

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

Publication of Technical Regulations

Return to top

Proposed technical regulations are published (in Russian) on the Federal Agency for Technical Regulations and Metrology's website www.gost.ru for two months. Any Russian or foreign entity may comment in Russian to the contact listed on the website.

Draft and final documents are published in the monthly "Vestnik of Gosstandart of Russia" journal. This journal is an official publication of the Federal Agency for Technical Regulations and Metrology. The journal publishes official documents of the Agency: instructions, rules, decrees, etc. "Vestnik of Gosstandart of Russia" is the country's effort to ensure transparency in the development of national standards required for WTO compliance. WTO membership assumes that all changes in the standardization system will be transparent, thereby avoiding hidden obstacles (non-tariff barriers) in trading relations with WTO partners.

Labeling and Marking

Return to top

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

Foreign Commercial Service- Moscow
Luba Savchenko, Commercial Specialist
23/38 B. Milchanovka, Bldg. 2
Tel: 7-095-737-5028
Fax: 7-095-737-5033
E-mail: Luba.Savchenko@mail.doc.gov

ROSTEST-MOSCOW
Russian Center for Tests and Certification, GOSSTANDART
31 Nakhimovsky Prospekt,
Moscow 117418 Russia
Phone: 7-095-129-1911, 332-6777,129-5936.
Fax: 7-095-124-9996.
E-mail: admtest@rostest-m.msk.ru, www.rostest.ru

Trade Agreements

Return to top

Russia currently participates in a free trade agreement with the Commonwealth of Independent States (CIS), which comprises most of the countries of the former Soviet Union. A customs union with Belarus, Kazakhstan, Kyrgyzstan and Tajikistan has been formed, but is not operational. Russia has an association agreement with the European Union (effective December 1997), proposes to join the World Trade Organization, and has historically received MFN and GSP status from the United States. As of mid-June 2002, the U.S. Department of Commerce designated Russia a market economy. This has had a positive impact on investment and trade between the two countries. (Note on Jackson-Vanick??)

Web Resources

Return to top

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

Main site:	www.bis.doc.gov
Export Controls:	www.bis.doc.gov/licensing/exportingbasics.htm
Possible Violations:	www.bis.doc.gov/enforcement/redflags.htm
Forms:	www.bis.doc.gov/forms/eeleadsntips.html

Russian State Customs Committee Websites:
www.custom.ru, www.gtk.ru or www.tks.ru

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

Return to table of contents

Return to table of contents

Chapter 6: Investment Climate

Openness to Foreign Investment Return to top

Russia's economy continued to grow expansively in the first three quarters of 2004, with growth slowing noticeably during the latter part of the year. GDP is expected to grow by 6.8% for the year - significantly less than 7.3% growth in 2003. In order to accomplish President Putin's stated objective of doubling Russia's GDP within a decade, GDP would need to grow at a rate of more than 7% a year. Since the Ministry of Economic Development and Trade downgraded its growth forecast for 2005 from 6.3% to 5.8%, it appears increasingly unlikely that Russia will achieve this goal. Fixed capital investment from foreign and domestic investors increased by 11.1% year-on-year in January-November 2004, compared with a 12% increase during the same period in 2003. While the growth rate in fixed capital investment has generally declined since the beginning of 2004, it remains strong enough to suggest the continued modernization of production facilities and economic growth. Nonetheless, the trend downward is likely to continue, given current uncertainties in the business climate and the sluggish pace of reforms.

Direct foreign investment in Russia is still quite low by comparison with other transition economies in Europe and by international standards generally. However, the energy sector continues to dominate the investment climate, with several multi-billion dollar projects announced during 2004. Just to name a few, Royal Dutch/Shell and Exxon Mobil expect to spend USD 11 billion and 12 billion, respectively on their offshore oil and gas projects in Sakhalin; ConocoPhillips purchased 7.6% of LUKoil for a total of USD 2 billion; and France's Total acquired 25% of Russian gas producer Novatek for USD 1 billion.

Net flows of money out of the country have slowed noticeably since the 1998 financial crisis. Although net capital outflows for the first three quarters of 2004 totaled USD 10.9

billion, compared with USD 3.8 billion in 2003, the long-term trend in outflows continues to run downward. This year's anomalous increase was largely attributed to instability in the banking sector during the summer and uncertainties in the investment climate associated with the Yukos case. The majority of these outflows involved legitimate movement of money to more secure and profitable destinations abroad, unlike the largely illicit forms of capital flight that bled the Russian economy during the late 1990s. As of mid-2004, Cyprus remained the second leading source country for foreign investment, suggesting that Russian capital invested there was being repatriated. The Russian Government has undertaken efforts to address persistent weaknesses in the investment climate, but Russia remains a challenging environment for foreign investors.

Other improvements still must be enacted, such as making the judicial system truly independent, competent and effective, the reform of so-called natural monopolies in power, gas and community services, banking reform to improve the effectiveness and capacity of the financial sector, accounting reform to promote greater transparency and further improvements in corporate governance. Furthermore, a thorough overhaul of government bureaucracy aimed at streamlining functions and reducing corruption has long been high on the agenda of businesses, large and small, Russian and foreign, which operate in this country. The government has also embraced this cause, but has made only limited progress to date.

The GOR's investigation into alleged tax abuses by oil major Yukos –- punctuated by the December 19 sale of the company's main operating unit, Yuganskneftegaz and the trial of Mikhail Khodorkovsky and Platon Lebedev, the two principal shareholders of the company -- have caused concern among investors regarding the GOR's adherence to the principles of secure property rights and the rule of law. Yukos had come to epitomize for many the modernization and normalization of Russian corporate governance and had attracted interest from foreign portfolio investors. The systematic dismantling of the company casts doubt on the proposition that one of Russia's main economic goals is to create a more favorable climate for investment.

President Putin has repeatedly emphasized the importance of foreign investment as a critical element of Russia's economic development, though in some cases the GOR is less willing to permit investment strategies that keep project control in foreign hands. Rather, the GOR has in practice favored joint ventures with local entities or direct cash injections. In the energy sector, however, this commitment has been called into question as a consequence of the Sakhalin-3 tender. On January 29, 2004 the GOR's Commission on Production Sharing Agreements decided not to confirm the validity of a 1993 tender for the Sakhalin-3 oil and gas fields. The tender had been won by Exxon, Mobil and Texaco and since that time the successor firms ExxonMobil and ChevronTexaco have invested more than $60 million in exploration of these fields. The cancellation and possible reissuance of this tender in favor of another round of bidding - which the GOR has estimated could raise several billion dollars more than they would earn under the 1993 tender - would raise serious concerns about security of foreign investments in Russia. The Secretaries of State, Commerce, and Energy, as well as Ambassador Vershbow, have urged GOR officials to honor the 1993 tender, emphasizing its importance as an indicator of the security of foreign investment in Russia.

There have been changes as well in the basic laws governing the issuance of oil exploration licenses. Amendments to the existing Law on Subsoil Resources were passed by the Duma in early August. Essentially, these amendments redirected authority for awarding licenses back to the central government - previously, federal and regional governments both had to approve the granting of a license, a legacy of the Yeltsin years when the regions were more powerful. Subsequent to this, the government made public its draft of a new Law on Natural Resources (passage is expected sometime in 2005). The new law represents a modest improvement over the current law (as amended). In the current draft, the government has included several of the key provisions that industry had been seeking, including a guarantee that licenses will carry over from the exploration to the development stage, a provision that licenses will be based on civil rather than administrative law, and a limitation on the number of reasons for license revocation. However, the law will likely also include a provision allowing only companies registered in Russia to participate in auctions to win the right to use natural resources. There is also a possibility that the law will contain language reserving the right for the GOR to allocate certain "strategic" reserves outside of a transparent auction process.

As a practical matter, commentators report that the demand for investment in agriculture outstrips the ability of domestic banks to provide the necessary project financing, forcing project developers to use a consortium of financial institutions or request assistance from input suppliers. In addition, despite supportive statements by government officials on investment in agricultural processing facilities, some projects have not taken off due to entrenched interests and lack of clarity or attempts to turn legal ambiguity into an advantage regarding land procurement and control issues. The GOR's stated interest in substituting domestic production for imported agricultural products, however, does provide some encouragement for domestic investment in agriculture. Additionally, though some agricultural sectors are struggling, the food processing industry is more profitable, and is expected to continue to grow.

Russia's vigorous GDP growth and rising incomes have been attracting increasing interest from foreign investors, despite the difficulties of doing business here. While many regions have also developed laws and programs to attract FDI, tax reforms at the federal level aim at creating a level playing field for all investors and limit the scope of incentives regions can offer. In practice, however, large foreign investors continue to receive incentives from regions that compete to attract investors (though a completed investment project is often later expected to provide social services and other benefits to the local population). Despite available incentives, there remain chronic shortcomings in the investment climate. The uncertainty and lack of clarity of Russian tax law and administration, inconsistent government regulations, the unreliability of the legal system as well as crime and corruption all dissuade investors.

The 1991 investment code guarantees foreign investors rights equal to those of Russian investors. The July 1999 law on foreign investment confirmed the principle of national treatment. This 1999 law includes a grandfather clause that protects certain large investments (over approximately USD 33 million) from unfavorable changes in tax or other legislation until the project's breakeven point but not more than for a period of seven years. However, in practice, these protections have not been provided, for implementing regulations are still lacking. Tax and customs administrations still refuse to implement the law's provisions until corresponding changes have been made in tax and customs legislation, so these protections are not yet in effect. There have been no attempts to reintroduce earlier draft laws to restrict foreign investment in certain sectors.

Explicit restrictions on foreign direct investment are in effect for certain sectors. A 1998 law on the aerospace industry limits foreign ownership to 25% of an enterprise, although some existing joint ventures were "grandfathered." In 2001 foreign ownership limits in the natural gas monopoly Gazprom were raised from 11 to 20%. In 2003, Russia enacted several amendments to the insurance law that effectively liberalized the market, allowing majority-owned Russian subsidiaries of insurers from the European Union to sell life insurance in Russia. Although the law only permits those companies with offices in the European Union to wholly own Russian insurance companies that offer life insurance, the regulator has interpreted the legislation as allowing any foreign insurer to set up life insurance operations in Russia provided that the company has an office in the EU via which the investment is made. A 1998 law limits foreign investment in the electric power giant Unified Energy Systems to 25% or less, although it has not been enforced to date. UES Chairman Anatoliy Chubays is pushing to attract foreign investors into the divested electricity generating companies that will emerge from the restructuring of RAO UES.

On November 4, 2002, the Central Bank of Russia (CBR) lifted the cap on foreign capital participation in Russian banks. Until that time, foreign ownership was limited to 12% of consolidated Russian bank charter capital. Recent figures show foreign capital participation in the aggregate charter capital of the Russian banking sector at 5.35%. The Russian banking system remains tiny. The CBR and the GOR have discussed for some time the adoption of a new banking strategy, but nothing has materialized yet. If the strategy is effectively implemented, it will establish a sound banking system based on international best practices. The joint GOR-CBR strategy gives a big role to foreign capital participation in the Russian banking system. According to the strategy, all purchases of up to 10% of a Russian bank at one time will need to be reported ex post to the CBR, while only purchases in excess of 10% will have to receive CBR authorization. The banking sector at large experienced a liquidity shortage during the summer of 2004, forcing a sharp curtailment of business by those banks that had depended on the interbank market for funding. Several banks went out of business during this mini-crisis. Also in 2004, banks began to apply for admission into the Deposit Insurance System. By the end of the year, more than 1,200 banks had applied for admission, several hundred of which were admitted and all of the applications guaranteed a review by the end of March 2005. Most applicants are expected to gain entry into the system eventually.

Prior approval by the relevant government authority (eg. State Property Committee, Ministry of Industry and Energy, Ministry of Natural Resources) is required for foreign investment in: new enterprises using assets of existing Russian enterprises; defense industries (which may be prohibited in some cases); and the exploitation of natural resources. Approval is also required for all investments over 50 million rubles, investment ventures in which the foreign share exceeds 50%, or investment to take over incomplete housing and construction projects. Additional registration requirements exist for investments exceeding 100 million rubles. Projects involving large-scale construction or modernization may also be subject to expert examination for environmental considerations. In sectors which require licensing (e.g. banking, mining and telecommunications), procedures often can be lengthy and non- transparent. While new business registration procedures through a so-called "one-stop shop" approach run by the Ministry of Economic Development and Trade have been in effect since July 2002, the new law does not modify any of the requirements for foreign direct investments noted above.

The 1998 bill "On additional measures to attract investments into the Russian automotive industry development" includes a clause that exempts foreign investors from custom duties on raw materials used for car assembling or production of auto spare parts, provided that their investments into such enterprises exceed USD 49 million during a five-year period. In July 2003, the Ministry of Industry, Science and Technology requested that the Russian Government lower the investment threshold entitling investors to duty-free import of raw materials for car assembly to $4.9 million.

A new land code allowing ownership (including by foreigners) of non-agricultural land was adopted in October 2001, although some implementing regulations are still in development. In addition, the Duma passed a land code for agricultural land in June 2002, which permits long-term leases of agricultural land (up to 49 years) to foreigners, but prohibits direct sales of agricultural land to them. This code was signed into law on July 24, 2002. Investors in some sectors also may face restrictions requiring that a certain%age of staff be Russian citizens.

In the privatization of the mid-1990s, irregularities and lack of transparency, as well as the perception of great political risk at that time, limited foreign participation in many of these transactions. This meant that the sale of enterprises in oil, gas, and precious metals was de facto not open to foreign investors. Subsequently, some foreign investors have purchased shares of privatized enterprises in secondary transactions, including in oil and gas. Foreigners have participated in subsequent oil and gas sector privatization auctions. For example, U.S. oil firm ConocoPhillips bought the GOR's remaining stake of 7.6% in Russian oil major Lukoil. Foreign investors participating in Russian privatization sales often are confined to limited positions and face problems with minority shareholder rights and corporate governance. The treatment of foreign investment in new privatizations is likely to remain inconsistent.

Roughly three-quarters of the Russian economy has been privatized, although many privatized enterprises continue to have significant state-held blocks of shares. Some privatization of remaining state holdings is scheduled to continue, both as part of overall government policy, and at local, regional and federal levels as governments seek additional cash. Some of these offerings may be considered good buys by some investors. Potential foreign investors are advised to work directly and closely with appropriate local, regional and federal officials that exercise ownership and other authority over companies whose shares they may want to acquire. According to a draft privatization plan prepared by the State Property Committee, the government intends to sell most of its minority stakes in companies during 2004-2006 and plans to raise USD 1.1 billion a year from the sale of state assets. In 2004, the GOR attempted to sell all holdings of less than 25%. However, because such holdings in very small companies may not attract any interested buyers, the GOR likely did not manage to sell all such holdings.

Despite continued growth in 2004, the slow pace of structural reforms, uncertainty over the protection of property rights stemming from the Yukos case, and the increasing role of the state in the energy sector have most likely been the main causes for the continued disappointing results for foreign investment. Nonetheless, growth in real disposable incomes continues to outpace GDP growth, with official estimates forecasting a 9.0% growth in 2004. This indicator has proven a significant driver of overall growth, translating into significant growth in retail sales relative to 2003. This growth sped up international retailers' expansion into the Russian market. Many U.S. companies here report recovery in their earnings, with some now back to or above pre-1998 levels. Russia's macroeconomic recovery has revived the attention of outside investors, especially given troubles in other developing country markets and sluggish growth in the U.S. and Europe, although only a few new major projects have materialized.

Rule of law, weak corporate governance and respect for property rights, although improved over the years, remain key concerns for foreign investors. Although there is some increased interest, many large U.S. companies remain cautious about pursuing a strategy of growth through acquisition in Russia, because of fears of liabilities associated with existing operations (especially environmental cleanup), hidden financial liabilities, inadequate bankruptcy procedures and property rights protection. In recognition of widespread corporate governance problems, the Federal Commission for the Securities Market (now called the Federal Service for Financial Markets) adopted a new corporate governance code in April 2002 and also endorsed an OECD White Paper on corporate governance that recommends further improvements in corporate governance in coming years. Some large Russian companies have developed their own corporate governance policies, although implementation is not always within the spirit of the code.

As Russia's oil and gas sector accounts for more than 40% of its export revenues and comprises a major share of the world's undeveloped energy resources, it holds tremendous potential for foreign as well as domestic investment. Whether this potential is realized depends on the receptivity to such investment by private Russian oil companies and the Russian Government. One area of particular interest is Production Sharing Agreements, which are designed to facilitate the development of fields that require high upfront capital investment, but a long payback period for the investor. Production Sharing Agreement (PSA) legislation was adopted at the beginning of 1999, but PSA amendments to the tax code passed in mid-2003 sent a very mixed message. The amendments provided a firmer foundation for three operating projects and a few new projects supported by domestic companies, but greatly restricted the possibility of future PSA projects. The re-emergence of PSAs as a tool for attracting investment looks doubtful even though the efficacy of this regime is shown by the fact that U.S. and other foreign companies have poured several billion dollars into two of the three existing PSA projects, Sakhalin-1 and Sakhalin-2.

Elsewhere in the energy sector, shareholders in the Caspian Pipeline Consortium (CPC) are close to agreeing on the terms of a deal that would allow for an expansion of the Consortium's pipeline. Russian Government support for expansion is critical to ensuring both the long-term profitability of the pipeline and to providing an outlet for growing oil production in Kazakhstan and Russia.

Up until the attack on Yukos, changes in the ownership structure of the Russian oil industry had resulted in new, more market-oriented partners for U.S. firms seeking to invest in Russia. Now, with the forced sale of Yukos's assets, Sibneft's de-merger with Yukos, ConocoPhillips purchase of the remaining government stake in Lukoil, and Gazprom's impending merger with state-owned oil firm Rosneft, the oil and gas landscape has changed substantially compared to only a year ago. The industry no longer exerts extensive influence on the government but, on the contrary, it is the government that appears to have regained control over the oil and gas firms. Clearly this will, at least in the short run, reduce the number of competitors in the industry. One constant remains: that despite improvements at some of the leading private Russian oil companies, Russia's oil and gas industry continues to be marked by a lack of transparency and by judicial and legal uncertainty.

The investment climate for agriculture looked brighter in 2004, and better than in many other sectors of Russian economy, due to several factors. Domestic demand for food products is increasing as a result of an upward trend in per capita income. This change is stimulating investments in the food processing industry, and in food wholesale and retail infrastructure. Profits generated from these enterprises stimulated investments and modernization of Russian agricultural production and rural infrastructure, too.

Structural changes in farm ownership and financing have created a more favorable climate for investment. By the beginning of 2002, many former state and collective farms had completed privatization and bankruptcy procedures, and it became easier to acquire property as property ownership rights became clearer. Agricultural financing has improved, though investment mechanisms for agriculture, such as banks, are still not strong enough (keeping agriculture undercapitalized), and the practical inability to use land as collateral further reduces investment in agriculture. Vertically integrated companies do continue to support the development of agriculture, but large non-agriculture-based holding companies have begun to turn toward other sectors.

Experience has shown that one of the most important factors determining success or failure of a foreign investment project in agriculture is the degree to which the local administration supports the project. Almost all administrations invite investment into their regions, but fewer are prepared to allow business to operate in a relatively open market without interference in matters such as pricing inputs and contracting for services. Many local administrations still view foreign investors as sources of cash for the support of local government and favored businesses.

The U.S. government's Regional Initiative (RI) promotes cross-cutting development in selected areas of the country outside of the major population centers. Over a time frame of a number of years, the RI focuses and coordinates USG resources for technical assistance, training, partnerships and exchanges in selected geographic areas. The goal is to create successful models of change at the regional level that are suitable for replication in other areas of the country. RI coordinators work closely with local governments and Russian organizations in many sectors. Improving the local business climate and expanding entrepreneurship have been key RI objectives. A variety of USG programs help RI regions promote the development of small and medium enterprises, identify trade opportunities, support sustainable business networks, and conduct policy advocacy work. Other broad areas of RI work include the development of civil society, implementation of cost-effective social services and support for non-governmental organizations, support for the rule of law and independent media, and improvements in health care. RI sites in 2004 included the Russian Far East; Tomsk and Novosibirsk Oblasts in Siberia (closing mid 2005); and Chuvashia, Tatarstan, Samara, Perm and Saratov Oblasts in the Volga region (closed December 2004).

Conversion and Transfer Policies

Return to top

Currency controls in general are a moving target, and many controls are presently in the process of revision. The following discussion represents a "snapshot" of current requirements, but investors would be well advised to seek expert advice on the controls in effect at the time. The ruble is the only currency that is legal tender inside Russia. In general, companies and individuals face no significant difficulty in obtaining foreign exchange.

Generally, any payment obligation that lasts longer than 180 days is a "capital" transaction. "Current" forex transactions include contracts in which settlements take place within 180 days and loans not exceeding 180 days.

Currency controls exist on all transactions that require Customs clearance, meaning that in Russia they apply to both import and export transactions. Greatly simplified, the structure is the same: the importer or exporter presents the "passport of deal" documents to an authorized bank, which controls the flow of funds in and out of Russia according to CBR regulations. Authorized banks are not difficult to find as most have licenses to conduct currency transactions.

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

According to the instruction (#116-I) issued by the Central Bank in June 2004, non-residents in Russia have new types of ruble accounts. S accounts are used to trade sovereign ruble bonds, A accounts are used to trade shares in unit investment funds, O accounts are used to trade non-sovereign ruble bonds, B1 accounts are used to receive ruble loans from residents, and B2 accounts are used to give loans to residents as well as to buy certain types of securities from residents.

Only authorized banks may carry out the sale or purchase of foreign currency transactions. According to currency control laws, the Central Bank retains the right to impose restrictions on the purchase of foreign currency, including requirements that: a) the transaction be completed through a special account, and b) a security deposit be established (up to 20% and one year for non-residents, and up to 100% and 60 days for residents purchasing foreign exchange).

Special Controls on Current Transactions

Proceeds from the sale of exported goods for foreign currency must be credited back to the exporter's account in an authorized bank. The latest amendment to the Law on Currency Regulation And Currency Control, approved by the Duma on June 21, 2003 and effective June 2004, stipulates a ceiling for mandatory surrender requirement at 30% of foreign currency proceeds. The actual norm is to be set by the CBR, but in any event the%age may not exceed this ceiling. Effective December 27, 2004, the CBR set the surrender norm at 10%. Forex proceeds must be sold for rubles within seven days of credit to the exporter's account. If there are delays or discrepancies in the receipt of export earnings (due, e.g., to price fluctuations), or delays or non-shipment of prepaid goods, the importer/exporter is liable to Customs sanctions. They can submit documents to the Ministry of Economic Development and Trade to explain or justify the delay or non-receipt.

Restrictions on Capital Transactions

Currently, four general classes of transactions require CBR permits (licenses): capital forex transactions (including direct investments exceeding USD 10 million and portfolio investments exceeding USD 1 million); export transactions in which payments are delayed more than 90 days from the date Customs clears the goods; advance payment for imports more than 90 days between the payment and Customs clearance of the goods; and lease payments in foreign currency, unless both lessee and lessor are non-residents (with some exceptions). The CBR requires a lot of documents to obtain a license for these transactions: certified charter of the company; audited balance sheets; certificate from tax authorities that no taxes are owed; etc. Some licenses for transactions of less than $100,000 may now be obtained from the local Central Bank office located in several regions in Russia. Some restrictions on capital and currency flows are listed in articles 7, 8 and 11 of the Currency Law.

Since October 1, 2002, Russian legal entities have been allowed to receive loans in foreign currency from non-residents with terms exceeding 180 days without prior registration and permission from the Central Bank. However, a notification is required and there are some other exceptions, for example, transactions that involve issuing and placing securities.

The Central Bank instituted a number of regulatory measures in 1999 to scrutinize offshore financial transactions. Additional regulations were put in place in 2003 in an effort to crack down on money laundering, terrorism financing, and other financial crimes. As a result, Russian residents who want to invest in offshore companies must obtain government permission. A department with the Ministry of Economic Development and Trade (MEDT) reviews such requests from Russian firms. Once MEDT has approved the request, the Central Bank must then endorse the overseas currency transfer. The CBR is authorized to request information from other state agencies in reviewing the application.

Special rules for Suspicious Transactions

Certain transactions require authorized banks and obligated financial institutions to report the transaction to CBR, including:

1. Any transaction by a resident with a non-resident located in an "offshore zone" (the list includes 48 jurisdictions) must be reported within ten days.

2. Contracts without penalties for non-payment or non- compliance by non-residents (presumption that deal is a sham and non-resident counterparty has no intention of completing transaction).

3. Deals that involve more than 30% pre-payment of the purchase price of imported goods to non-residents, or where total prepayment exceeds USD 100,000.

4. Credit agreements that have residents paying non-residents at interest rates exceeding 20% per year.

5. Where non-resident previously failed to deliver goods and pre-payment was returned.

6. Where the actual recipient of goods or services imported or exported are not parties to the agreement.

7. Deals concluded by resident legal entities registered less than three months.

8. Any transaction that equals or exceeds 600,000 rubles (approximately USD 20,000) and involves or relates to: cash payments; individuals or legal entities domiciled in state that do not participate in international anti-money laundering fora; bank deposits; precious stones and metals; payments under life insurance policies; and/or gambling.

9. All transactions of extremist organizations or individuals included on Russia's domestic list of proscribed entities.

10. Any other "suspicious" transactions.

Expropriation and Compensation Return to top

The 1991 investment code prohibits the nationalization of foreign investments except following legislative action and where deemed to be in the national interest. Such nationalizations may be appealed to the courts of the Russian Federation, and are to be paid with prompt, adequate and effective compensation.

While in previous years the Russian federal leadership was deemed unlikely to nationalize foreign investment or engage in expropriation, the Yukos case may raise some doubts about this assumption. At the sub-federal level, expropriation has been a problem. In several cases, local government interference or lack of enforcement of court rulings protecting investors has been a problem. The embassy is tracking a small number of cases in which foreign companies are seeking compensation for the loss of their investment or property due to regional government action or inaction. Arbitration or legal proceedings are pending in some of these cases, and several were resolved in 2004.

Dispute Settlement Return to top

Russia has a body of conflicting, overlapping and rapidly changing laws, decrees and regulations, which has resulted in an ad hoc and unpredictable approach to doing business. Independent dispute resolution in Russia can be difficult to obtain; the judicial system is still developing. Regional and local courts are often subject to political pressure.

Many Western attorneys refer their western clients who have investment or trade disputes in Russia to international arbitration in Stockholm or to courts abroad. A 1997 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 made. Russia is a member of the International Center for the Settlement of Investment Disputes and accepts binding international arbitration. However, the enforcement of international arbitral awards still ultimately requires action from Russian courts and follow-up by court officers through a new system of bailiffs that, due to legal restrictions and limited trained personnel, has yet to become a consistently effective enforcer of court judgments.

As for legal avenues available in Russia through Russian arbitration, one choice is the Arbitration Court of the Russian Federation, which is part of the court system. It has special procedures for seizure of property before trial, so property cannot be disposed of before the court has heard the claim, as well as for the enforcement of financial awards through the banks. Additionally, the International Commercial Arbitration Court at the Russian Chamber of Commerce and Industry will hear claims if both parties agree to refer disputes there. Parties to foreign trade agreements and by companies with foreign investments can make applications. A similar arbitration court has been established in St. Petersburg. The Russian Union of Industrialists and Entrepreneurs, an organization representing some of the largest Russian companies, is also developing an alternate dispute resolution (ADR) system.

As with international arbitral procedures, the weakness in the system is in Russian enforcement of decisions. In one case, for example, after eight years of successful Russian litigation with repeated favorable decisions and court orders for financial restitution, a foreign investor continues to await execution of a judgment against a local government. However, in a few cases, other foreign investors have in recent years been able to use the Russian court system to protect their interests.

Performance Requirements and Incentives Return to top

The provision of investment incentives has been problematic in Russia, as the Russian Government's interest in attracting investment has been tempered by its tight financial situation, concern about special privileges given to foreign investors, and interest in complying with the rules of the World Trade Organization and other international economic institutions. Those investment incentives set out in the 1991 investment law, including certain tax benefits, have never been implemented, or have been largely eliminated or superseded by subsequent laws and decrees.

Russian federal government policy in recent years has discouraged new provision of incentives, as their preference has been to address systemic weaknesses in the investment climate. Changes to the corporate profits tax code adopted in 2001 reduced overall corporate profits tax rates from 35 to 24%, but limit regional government incentives to reducing corporate tax rates by up to 4%age points only.

The PSA Chapter of the Tax Code enacted in June 2003 local stipulates that 70% of purchased goods in each calendar year must be of Russian origin. Purchased goods are considered to be Russian by origin if they in turn have at least 50% Russian origin.

The PSA Chapter itself specifies that investors will be refused cost recovery if they do not meet Russian origin rules. However, the amended PSA Law acknowledges that changes will need to be made to the Russian origin rules in case Russia joins the WTO. The Russian auto decree, signed in early 1998, allows tariff breaks for large investments in the auto industry (where investment projects reach 50% domestic content levels within five years). However, the Russian Government has stated that it does not intend in the future to enter into such arrangements with investors. As mentioned above, the 1999 foreign investment law theoretically provides protection from unfavorable changes in taxes or customs duties for certain foreign investments exceeding USD 41 million. Implementing legislation to enact such protections is still outstanding.

Performance requirements are not generally imposed by Russian law, and are not widely included as part of private contracts. They have appeared in the agreements of large multinational companies investing in natural resources, and in production sharing legislation.

The GOR requires visas and residence permits for investors. Work and residence permits must be renewed annually, which can sometimes be a cumbersome process, as applicants may be required to reapply at a Russian embassy overseas. However, a recent decree by the Governor of Sakhalin requiring all foreigners to obtain permission to travel on the island has caused concern among the American investors working on the island. At this writing, the decree seems to have been rescinded.

Right to Private Ownership and Establishment Return to top

Both foreign and domestic legal entities may establish, purchase and dispose of businesses in Russia. Investment in some sectors, which are regarded as affecting national security (insurance, banking, natural resources, communication, transportation, and defense-related industries), may be limited. In late 2000, draft legislation to codify areas in which foreign investment would be prohibited or restricted was rejected by the Duma, and has not been reconsidered subsequently.

On April 23, 2004, the Constitutional Court upheld the constitutionality of the provisions of the Land Code permitting land sales to foreigners. The Court decided that selling land does not affect sovereignty. The issue was raised in the Constitutional Court by the Murmansk regional Duma. The Land Code was approved in 2001 and allows foreigners to buy non-agricultural land that is made available for private ownership and not located near international borders. The Agricultural Land Code allows foreigners to lease agricultural land for 49 years.

Protection of Property Rights Return to top

The Constitution, and a presidential decree issued in 1993, give Russian citizens general rights to own, inherit, lease, mortgage, and sell real property (usually not including the land on which it stands). Mortgage legislation enacted this year should make it easier for lenders to evict homeowners who do not stay current in their mortgage payments. This should in theory make mortgage lending (and the housing market) more attractive to lenders and developers. Nevertheless, mortgage lending is only in its initial stages. Land ownership is now regulated by the October 2001 land code for non-agricultural land, although implementing measures are still in progress. This law permits foreign land ownership for non-agricultural land. A land code for agricultural land passed the Duma in June 2002 and was signed into law on July 24, 2002. This law does not permit direct foreign ownership of agricultural land, but does permit leases of up to 49 years. The rights of Russian citizens to own and sell residential, recreational, and garden plots is now clearly established, with over 40 million properties of this type under private ownership.

Intellectual property violations continue to be a serious problem in Russia. According to industry sources, estimated losses to U.S. copyright industries due to copyright piracy (films, videos, sound recordings, books and computer software) continue to exceed $1 billion annually. 2004 saw continued increases in illegal optical disc production capacity far in excess of Russian demand, with pirated products intended not only for domestic consumption but also for export. The U.S. film industry estimates that over 80% of all DVDs on the Russian market are pirated. Piracy of music is estimated at approximately 66% of sales, and software piracy at approximately 88%.

In 2004 the Russian Government amendments to the Law on Copyright and Neighboring Rights that provide full protection for pre-existing works and sound recordings and implement nearly all aspects of the WIPO internet treaties. Among the amendments were full protection for sound recordings released before 1995 and extension to 70 years protections for most works (up from 50 years at present). One exception of concern is the timeline for implementation of the right of copyright holders to control dissemination of their works, as it is to take effect only in September 1996. The recording industry fears this two-year delay will allow internet file-swapping websites to operate freely until that provision takes effect and will make Russia a haven for internet-based piracy.

Russia remains on the Priority Watch List under Special 301 provisions of the U.S. Trade Act for failing to provide protection for U.S. copyrighted works and sound recordings still under protection in the United States. In addition, review of Russia's eligibility for Generalized System of Preference benefits, due to inadequate protection of IPR, was postponed in late June 2004 to give the Russian Government a short time to show greater commitment to IPR enforcement. IPR protection also remains a major issue in bilateral negotiations over Russia's accession to the World Trade Organization.

While legislative measures have been taken to improve IPR protection, enforcement remains a problem. Russian law enforcement has shown increased engagement in intellectual property enforcement and has taken many enforcement actions against pirate producers of optical disks, but this has not yet had a noticeable impact on the availability of pirate CDs, DVDs or computer software. Counterfeiting of pharmaceuticals also remains a serious problem, with producers complaining that new packages are frequently counterfeited and available in stores even before the legitimate version.

The September 1992 law on topography of integrated microcircuits, which also protects computer programs, protects semiconductor topographies for 10 years from the date of registration. Amendments to this law on topologies to bring provisions into full WTO TRIPs compliance were passed in June 2002 and signed into law in July 2002.

Russia has acceded to the Universal Copyright Convention, the Paris convention, the Berne convention, the Patent Cooperation Treaty, the Geneva Phonogram Convention, and the Madrid agreement. The U.S.-Russia bilateral trade agreement mandates protection of the normal range of literary, scientific and artistic works through legislation and enforcement.

Transparency of Regulatory System Return to top

The legal system in Russia is still in a state of flux, with various parts of government struggling to create new laws on a broad array of topics. In this environment, negotiations and contracts for commercial transactions are complex and protracted. Russia has implemented only part of its new commercial code (contained within the civil code) and investors must carefully research all aspects of Russian law to ensure that each contract conforms with Russian law and embodies the basic provisions of the new, and where still valid, old codes. Contracts must likewise seek to protect the foreign partner against contingencies that often arise. Keeping up with legislative changes, presidential decrees and government resolutions is a challenging task. Uneven implementation of laws creates further complications; various officials, branches of government and jurisdictions interpret and apply regulations with little consistency and the decisions of one may be overruled or contested by another. President Putin has stressed the consistent application of national law, and his seven Presidential Representatives have begun to review regional legislation and regulations to ensure their consistency with national law.

Legal requirements may be less burdensome than reaching final agreement with local political and economic authorities; registration can be a lengthy, bureaucratic process, particularly where natural resources or defense production are involved. Corruption is widespread and the fears of some Russian officials that foreigners will purchase Russian assets at below-market rates can impede bureaucratic approval. Environmental concerns are being raised more frequently now by Russian officials at federal and local levels as considerations in the approval process for investments.

A law on government procurement, adopted on May 6, 1999 and published May 13, contains a provision allowing foreign firms to participate in public tenders if the product is not produced in Russia or if Russian production is considered to be economically unprofitable.

Russia's tax policy has been an area of persistent complaints by foreign investors. The Russian Tax Code has gone through major revisions over the past several years. The GOR passed a major tax reform bill in August 2000, effective January 1, 2001. It substantially amended chapters 21 (Value Added Tax), 22 (Excise Taxes), 23 (Personal Income Tax) and 24 (Unified Social Tax). The effect of these reforms is to reduce the nominal tax burden from 41% of GDP (only 37% actually collected) to 39% in 2001 and to 31.5% in 2004. Six taxes were abolished entirely: the 1.5% social and housing turnover tax; the Employment Fund tax; the state border clearance fee; vehicle tax; vehicle acquisition tax; and oil and lubricant product sales tax. Further, the road users turnover tax was reduced from 2.5% to 1% of turnover, and in June 2002 was abolished entirely, effective January 2003. With the abolition of the road tax, no turnover (revenue) taxes remain in Russia. The GOR plans to cut the total number of taxes to 15 (from the current number of 54), effective January 1, 2006.

Value-added tax (VAT) rates are generally 18%, but a range of goods is taxed at 10% (largely foods, medicines, and some items for children). Both domestic and foreign companies exporting goods regularly complain that they are unable in practice to receive refunds of VAT for exported goods. Notable VAT tax changes include VAT tax relief for small businesses; considerable clarification to deductibility rules; reduction of import VAT exemptions; and an attempt to provide a zero VAT tax on exports, although the VAT refund system still does not function well. Effective 2006, the VAT rate is planned to be reduced to 16%.

In 2001, Russia moved to a flat individual income tax rate of only 13% for residents and 30% for non-residents, one of the lowest rates in the world. Deductions are allowed for, inter alia, home purchase or construction and exclusion of earnings on the sale of real property held for more than five years. The GOR's strategy is to substantially expand the current narrow tax base. In 2001, that strategy proved successful as both compliance rates and revenues increased substantially.

Excise duties are levied on alcoholic beverages, tobacco products, cars, motor fuel, and oil only. Excise duties on oil and natural gas increased considerably -- oil and gas duties rose from R5 to R66 per ton, and gasoline duties rose from R585 to R1850 per ton. Excise taxes on natural gas exported to CIS countries will fall from the current 30% to 15%. The new law expands list of dutiable activities and objects, but several additional transactions became exempt, including exports performed by the producer of the goods (except oil).

As of August 2004, a new system of mineral extraction taxes for oil, and export duties on oil and oil products, solely dependent on the level of Urals export prices, was introduced. The two changes together mean marginal taxation at 90% of extra revenues if the oil price is above $25/bbl. These new rules heighten the sensitivity of federal budget revenues to oil prices: the mineral extraction tax and export duties (98% of which are oil and gas tariffs) make up 33% of total budget revenues.

Amendments to the Corporate Profits Tax were signed into law in August 2001, effective beginning January 1, 2002. The amendment lowers corporate profit taxes to 24%, and allows many more deductions than under the old law, but eliminated partial and full tax exemptions (including the capital investment exemption). Regions are allowed, at their discretion, to grant a 4% tax reduction, effectively lowering the profits tax rate to 20%. Many regions have, in fact, done this. For dividends/interest earned by non-residents, the profit tax rate is 15%.

Several tax reductions came into effect starting in 2004, due a bill approved in 2003. The sales tax and the natural gas excise tax were both abolished. To compensate for losses in federal revenue, the bill included a gas extraction tax of 107 rubles (USD 3.52) per 1,000 cubic meters, a 5% increase in the crude oil extraction tax, and increases in various excise taxes. Lost local sales tax collection were covered by increased federal government transfers of revenues from taxes on small and medium enterprises, excises taxes on motor fuel, land taxes, and 50% of the alcohol excise tax. The export tariff on gas rose from 5 to 28%. Effective January 1, 2005 the Unified Social Tax, which is paid by employers and covers pensions, healthcare and social security, dropped from an effective rate of about 30% to a top rate of 26% on salaries up to 280,000 rubles (about $10,000) a year.

There remains, however, a high incidence of tax avoidance by Russian companies. Due process is relatively weak. Although firms have successfully appealed to the courts, tax authorities have been slow to implement these decisions. Penalties for non-compliance include confiscation and a company's accounts can be frozen relatively quickly. Tax authorities do not differentiate between criminal intent and honest mistakes when levying fines and penalties. Companies often have little recourse other than the courts during tax disputes.

Efficient Capital Markets and Portfolio Investment

Return to top

The stock market broke a three-year growth trend in 2004, growing only minimally over the course of the year. For 2004, the RTS only increased by seven% (as opposed to substantial double digit growth in the preceding three years). This depressing performance is a result of acute uncertainty in the business climate, driven largely by the Yukos case, questionable circumstances surrounding the auction of Yuganskneftegaz, turbulance in the banking sector during the summer, and increasing concerns over the implementation of tax policy.

Twelve stock exchanges operate in Russia. The dominant exchanges are in Moscow, and include the RTS and the equity trading floor on the MICEX (Moscow Interbank Currency Exchange). Although the RTS is more diversified, average trade volumes on the MICEX stock exchange are much higher than on RTS. In 2004, the average trade volume of the MICEX was USD 451 million, compared with USD 345 million in 2003. RAO UES shares continued to dominate the MICEX in 2004, amounting to approximately 50% of all trading on the exchange, on average. Other leading stocks in 2004 included LUKoil (average 15%), Yukos (8%), Surgutneftegaz (6.7%), Norilsk Nickel (6.5%), and Rostelecom (5%). On the Moscow Stock Exchange (MSE), trade in Gazprom shares accounts for up to 95-98% of all transactions on average. Several Russian regional centers have their own stock exchanges, but trade volumes outside Moscow tend to be low. Regional exchanges are still dependent on Moscow-based participants.

Amendments to the law "On the Securities Market," which entered into force in 2003, included definitions of corporate bonds, mutual funds, options, futures and forwards -- all of which provide a sounder legal basis for these markets. Companies offering public shares are required to disclosure more information during the placement process as well as in the quarterly reports. In addition, the responsibilities of financial consultants helping companies with their stock offerings are now clearly defined, and they will be held liable for correctness and accuracy of the data presented by companies to their shareholders. Also, the amendments define "price manipulation," giving the FSFM authority to investigate and punish violators of this practice. However, the amendments did not cover insider trading, which is the subject of another bill that is currently stalled in the Duma, as there is strong lobbying against it. In December 2004, the Duma also approved a number of amendments to the law "On Mortgage Securities" as part of the housing reform package in an effort to facilitate the issuance of mortgage-backed securities while protecting individual investors.

The corporate bond market is currently the most rapidly and dynamically developing sector in Russia's capital markets. High and increasing demand from enterprises for funds in the absence of an effective system of bank lending is the main driver of growth. It is also boosted by weaknesses in other current characteristics of the market: the absence of more attractive ruble-denominated alternative asset classes, low and even negative real interest rates on the secondary OFZ/GKO market, the absence of speculative opportunities on the currency market, and a large and increasing volume of rubles caused by dollar oil export earnings flowing into Russia. 2004 saw record high volumes of funds raised through the corporate bond market, with RUB 145 billion, compared with RUB 80 billion in 2003. The number of borrowers also increased significantly over 2003, with 71 companies and 16 banks issuing bonds in 2004 (compared with a total of 60 issuers in 2003). In addition, 15 corporations and 10 credit organizations issued Eurobonds in 2004 to the sume of USD 10 billion.

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

The banking sector remains one of the weakest legs in the Russian reform program, although progress continues at a sluggish but steady rate. As illustrated by the summer of 2004's mini-banking crisis, a fundamental lack of trust pervades the system. The result is that the Russian banking system inefficiently performs the basic role of financial intermediary (i.e. taking deposits and lending to business and individuals). Roughly 60% of retail deposits are held at the state savings bank Sberbank, while many people likely still hold their personal savings as "mattress money."

Political Violence Return to top

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

Corruption Return to top

U.S. firms have identified corruption as a pervasive problem, both in number of instances and in the size of bribes sought. Corruption in commercial and bureaucratic transactions and problems with the implementation of customs regulations also inhibit investment. Investment would benefit from improved dispute resolution mechanisms, the systematic protection of minority stockholders rights, conversion to international accounting standards, and the adoption and adherence by companies to business codes of conduct. Successive Russian Governments have designated the fight against corruption as a priority task of government due to its economic costs (particularly the deterring of foreign and domestic investment and encouragement of capital flight).

President Putin has repeatedly stressed that enforcement of laws is a high priority of his administration, and has periodically focused attention on corrupt practices. However, initiatives to address these shortcomings, either through regulation, administrative reform or government-sponsored voluntary codes of conduct have made little headway in countering endemic corruption. More transparent implementation of customs, taxation, licensing and other administrative regulations is necessary. Russia has laws and regulations against bribery and other forms of corruption, but penalties are often insufficient to act as a deterrent. Russia is not a signatory to the OECD bribery convention, nor has Russia criminalized bribery of foreign officials. However, strict documentary requirements applied to tax deductions for business expenses make it very unlikely Russians would be able to take tax deductions for bribes.

Bilateral Investment Agreements Return to top

In 2004 the Russian Duma did not actively consider signing the Bilateral Investment Treaty (BIT) between the United States and Russia that was signed in 1992 and ratified by the U.S. Senate that same year. Despite the passage of a new law regulating foreign investment in June 1999, Russian foreign investment regulations and notification requirements can be confusing and contradictory. The law on foreign investment provides that a single agency (still undesignated) will register foreign investments and that all branches of foreign firms must be registered.

Russia inherited from the Soviet Union 14 bilateral investment treaties (BITs) with Austria, Belgium and Luxembourg, Great Britain, Germany, Italy, Spain, Canada, China, Korea, the Netherlands, Finland, France, and Switzerland. They were ratified in 1989-90 and came into force in 1991. Russia has since negotiated another 34 agreements, of which 20 have been ratified - with Greece, Cuba, Romania, Denmark, Slovakia, Czech Republic, Vietnam, Kuwait, India, Hungary, Albania, Norway, Yugoslavia, Lebanon, Macedonia, the Philippines, Egypt, South Africa, Japan, and Moldova. However, in 2002 Russia requested that all treaty partners re-negotiate BITs, professing concerns that existing BITs may not be compatible with future WTO obligations.

OPIC and Other Investment Insurance Programs Return to top

In an agreement ratified in 1992, the U.S. Overseas Private Investment Corporation (OPIC) was authorized to provide loans, loan guarantees and investment insurance against political risks to U.S. companies investing in Russia. OPIC generally insures against three political risks: expropriation, political violence and currency inconvertibility. In 1994, to meet the demands of larger projects in Russia (and worldwide), OPIC doubled the amount of insurance and quadrupled the amount of finance support - to USD 200 million in each case - it can commit to an individual project (a total of USD 400 million). OPIC also makes equity capital available for investments in Russia by guaranteeing long-term loans to private equity investment funds. Russia is a member of the Multilateral Investment Guarantee Agency (MIGA). In December 2000, OPIC resumed coverage in Russia for currency inconvertibility, coverage that OPIC had suspended in September 1998 after the financial crisis. During this period, OPIC remained on cover in Russia for its other services.

Labor Return to top

The Russian labor market remains fragmented, characterized by limited labor mobility across regions, and consequent wage and employment differentials. Although statistics are often unreliable and many forms of unemployment are not counted, unemployment, using International Labor Organization (ILO) standards, was 7.5% of the workforce in October 2004. Estimates reach over 40% in the north Caucasus. However, unemployment in Moscow is about two%, and monthly incomes are generally at least three times higher than the national average, which was about USD 260 per month.

Labor mobility continues to be restricted by an under- developed housing and mortgage market, housing shortages in many cities, and the continued existence of residency permits and registration. The availability of subsidized housing and cultural ties often makes workers loath to move. Moreover, some workers are effectively tied to enterprises that can give them credits at the company cafeteria and grocery and the hope of future salary payments. This lack of labor mobility across regions significantly affects wage rates and employment. Nonetheless, labor mobility across professions and within regions is improving, as workers attempt to adapt to the needs of a market economy. Legislation that will come into force in 2005 should make mortgages more affordable, thereby allowing greater mobility for professional employees. The labor force is generally highly skilled and well educated.

Total wage arrears were USD 700 million as of October 2004. This is significantly lower than the previous year's level, and the overall problem of wage arrears continues to diminish. Strikes in the private sector are less frequent than they were in the mid-1990s. Workers have increasingly sought their demands through the court system or used methods such as rallies and days of action to call attention to their plight. Enterprises that pay wages in full and on time generally have smooth labor-management relations.

The trade union movement is still largely dominated by the Federation of Independent Trade Unions of Russia (FNPR), which inherited the bulk of the property of its Soviet predecessors and consists of formerly governmental unions. The government has used a policy of favoritism toward FNPR member unions, and on the factory floors FNPR, often together with management, has used tactics which amount to "union busting" and even intimidation to suppress new unions. That said, many new free trade unions outside this confederation have begun to make significant strides in defending their members' interests. In an effort to wield more influence on national legislation and government decisions, several national and regional free trade union structures formed in 1995 the Russian Confederation of Labor (KTR) and the All-Russian Confederation of Labor (VKT). In November 2000, the International Confederation of Free Trade Unions (ICFTU) accepted as members the KTR, VKT, and the FNPR.

The Russian Government generally adheres on paper to International Labor Organization (ILO) conventions protecting worker rights, though enforcement is often lacking. In December 2001, President Putin signed into law a new Labor Code that came into force in February 2002. The new Code seeks to diminish the role of government in setting and enforcing labor standards and to move toward more flexible labor markets. In the conceptual scheme of the new Code, trade unions are expected to play a balancing role in representing workers' interests. However, there are significant gaps in the proposed scheme, including no clear enforcement mechanisms for failure or refusal by an employer to engage in good faith collective bargaining or other obligations and provisions that favor designation of a majority union as the exclusive bargaining agent. Worker safety is a major unresolved issue, as enterprises are often unable or unwilling to invest in safer equipment or to enforce safety. Changes in social insurance scheduled to take effect January 1, 2005, will force employers to pay a portion of disability payments, which the government hopes will encourage improved safety measures.

Foreign-Trade Zones/Free Ports

Return to top

Federal legislation on the further development of Free Economic Zones (FEZs) has been languishing in the government for some time. Minister of Economic Development and Trade German Gref strongly favors FEZs as a means of attracting investment. The main opposition is thought to come from the Ministry of Finance. The FEZ in Kaliningrad, which allows goods to be imported duty-free as long as they are not re-exported to the rest of Russia, has generated little new investment. The other FEZ's, namely Magadan and Nakhodka, exist on paper but have had no economic impact.

Foreign Direct Investment Statistics

Return to top

Table 1 shows flows of foreign investment by country for the first nine months of 2004, compared to the same period in 2003. Consistent with the trend of recent years, the first nine months of 2004 showed a slight increase in foreign investment over the same period in 2003. Note that Russian statistical practice counts total investment as including direct investment, portfolio investment, and "other" investment (largely trade credits). Cyprus consistently figures high as an investor becaue most investment coming from Cyprus is actually returning Russian capital.

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

	Jan-Sept 2003	Jan-Sept 2004
Germany	3,697	1,168
Britain	3,011	4,856
Cyprus	2,905	2,850
USA	983	1,624
France	1,746	1,925
Netherlands	1,160	3,587
Luxembourg	1,773	6,757
The Virgin Islands	1,343	553
Japan	626	N/A
Switzerland	819	1,048
Austria	N/A	568
All Others	2,836	4,199
Total	20,899	29,135

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

87. The numbers in Table 2 can only be taken as a general indication of the stock of investment activity identified with a given country. This does not represent an accumulated stock of direct investment because these figures include portfolio and "other" investment and do not reflect any withdrawal of funds or decreases in value of assets. Although the U.S. fell behind the Netherlands and Cyprus in terms of direct

investment in the first nine months of 2004, this is largely due to Royal Dutch/Shell's USD 11 billion investment in Sakhalin and returning Russian capital from Cyprus. Note that although Germany continues to show a larger stock of total investment than the U.S., a large proportion of German investment consists of "other" investment, primarily trade credits.

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

	As of end of Sept. 2003		As of end of Sept. 2004	
	Total	Direct	Total	Direct
Germany	10,503	2,489	9,378	2,410
Cyprus	7,582	4,717	9,580	5,545
Britain	6,519	2,626	7,422	1,460
USA	5,850	4,759	6,670	4,207
France	3,737	320	4,206	364
Netherlands	3,323	2,646	10,678	7,858
Luxembourg	3,037	207	10,560	280
Virgin Islands	1,577	612	1,611	873
Japan	1,541	1,058	N/A	N/A
Switzerland	1,363	716	1,608	738
Austria	N/A	N/A	1,140	568
All Others	8,563	4,634	10,576	5,772
Total	53,595	24,784	3,429	29,769

Source: Federal Service for State Statistics (FSSS)

88. Table 3 shows foreign investment by region over the first nine months of 2004, compared to the same period in 2003. Moscow city attracted the largest volume of investments, mainly due to concentration of companies' headquarters that guarantees attraction of investments. Moscow also has the largest concentration of consumers with high purchasing power.

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

	Jan-Sept 2003		Jan-Sept 2004	
	Amount	%	Amount	%
Moscow (city)	10,431	49.9	11,796	40.5
Omsk Region	1,589	7.6	811	2.8
Khanty-Mansiisk Region-Ugra	1,455	7.0	3,899	13.4
Sakhalin	1,304	6.2	2,774	9.5
Moscow Region	902	4.3	1,292	4.4
Sverdlovsk Region	740	3.5	427	1.5
Chelyabinsk Region	602	2.9	210	0.7
Republic of Sakha (Yakutiya)	561	2.7	520	1.8
St. Petersburg	507	2.4	651	2.2
Samara Region	310	1.5	592	2.0
Krasnoyarsk Region	209	1.0	921	3.2

Vologda Region	157	0.8	1,054	3.6
Others	2,134	10.2	4,187	14.4
Total	20,899	100.0	29,135	100.0

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

89. Table 4 shows investment by sector over the first nine months of 2004, compared to the same period in 2003. Investment in trade and catering continued to lead all sectors as of September 2004, but the fuel industry consumed a larger%age of total investment in 2004 over the same period in 2003.

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

	Jan-Sept 2003		Jan-Sept 2004	
	%	Amount	%	Amount
Fuel Industry	13.3	2,770	24.2	7,055
Trade/Catering	42.8	8,948	32.8	9,557
Finance	1.1	226	2.4	691
Food Industry	3.7	779	3.5	1,019
Transport	1.5	308	1.7	486
Ferrous Metallurgy	4.2	872	5.1	1,478
Non-ferrous Metallurgy	6.9	1,434	6.9	2,003
Machine Building	2.8	588	2.6	771
Communication	2.7	574	3.4	1,003
CASM***	9.4	1,956	3.9	1,133
Lumber Industry	1.3	281	2.4	705
Chemical and Petrochemical	1.8	367	2.1	605
All Others	8.6	1,796	9.0	2,629
Total	100.0	20,899	100.0	29,135

***Commercial Activity Supporting the Market

Web Resources Return to top

U.S. Dept. of State: www.state.gov
U.S. Commercial Service: www.buyusa.gov/russia

Return to table of contents

Chapter 7: Trade and Project Financing

- U.S. Banks and Local Correspondent Banks
- Project Financing
- Web Resources

How Do I Get Paid (Methods of Payment) Return to top

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

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. In such cases it is possible to minimize the exporters risk through acquiring a bank or insurance guarantee from a Russian bank that will be accepted by a U.S. bank. In cases when leasing is appropriate, exporters should insist on an upfront payment of three to fourth months of lease payments upon delivery as a way to mitigate some of their risk.

Many Russian banks now offer factoring services. However, the volume and value of transactions using this technique have yet to achieve levels that are either profitable or self-sustaining. Given the continuing shortage of financing options in the Russian economy, international leasing may become an important alternative to export sales. Due to certain tax legislation in the Russian Federation, Russian companies may prefer leasing. Most large Russian banks have leasing programs that they offer their clients in such cases, and there are a handful of Western leasing companies operating in Russia that can offer Russian clients leasing terms for imported equipment. Aviation, energy, transportation, pharmaceutical, forestry and fishing industries equipment, which may be too expensive for Russian customers to purchase, is often leased.

The use of barter, once estimated to account for 70-80% of transactions in Russia, declined to less than 2% by 2001, as more liquidity returned to the system. While barter can be more complex than cash transactions, U.S. firms should not dismiss them, for they can be profitable and help a company win market share. As in cash transactions, companies are advised to stay engaged in all aspects of the deal, demand that commitments be met on schedule, and draw up contracts in accordance with Russian law to avoid tax and other problems.

How Does the Banking System Operate Return to top

Russia’s banking system has been improving, with foreign banks including Citigroup and Austria's Raiffeisen expanding into retail banking. Russian banks’ are also playing a more effective and normal role in the economy by collecting savings from more and more depositors and distributing them through loans and other types of financing to more productive uses. While the “pocket banks” of major financial and industrial groups which in the past just served their respective major clients are still common, the financial systems is becoming more populated with normally functioning, healthy banks.

Despite these recent improvements, the Russian banking system is still evolving in terms of being able to meet the capital and credit needs of a rapidly growing and dynamic market economy. However, a company doing business in Russia can easily access an expanding range of basic banking services offered by the larger commercial banks. Notwithstanding the closure of some banks by the Central Bank during the first half of 2004 that created a short-lived panic, a functioning banking sector is slowly beginning to emerge in Russia.

During the early 1990s a large number of small, poorly regulated and poorly managed banks grew up in Russia. By 1995, the country had 2,600 banks. The 1998 financial crisis crippled many banks and, although only a few were actually forced into liquidation, only around 300 remain active. In addition only 10% of Russia’s banks have charter capital in excess of $10 million. By 2002, the industry had become highly concentrated and dominated by a few large state-owned banks and private banks linked to financially strong industrial groups. The recent period of economic and political stability has benefited the financial services sector. Total banking assets, capital and loans to the real economy have grown to exceed pre-crisis levels. The rate of increase in the volume of loans provided by Russian banks currently exceeds GDP growth.

A new Chairman of the Central Bank of Russia was appointed in March 2002. Mr. Sergei Ignatyev announced as his immediate priorities a strengthening of bank supervision, adopting International Accounting Standards by 2004, and establishing a system of deposit insurance to include privately-owned banks able to meet selection criteria. A Deposit Insurance System similar to the U.S. Federal Deposit Insurance Corporation was introduced starting in the first half of 2004. All Russian banks which hold private deposits are required to apply for “certification” in order to participate in this system. By the end of 2004, more than 1,200 banks had applied for admission, several hundred of which were certified and all of the applications submitted are scheduled to be reviewed by the end of March 2005. Most applicants are expected to gain entry into the system eventually. While the level of insurance is still small per depositor, this is an important step towards increasing the public’s confidence in the system.

At the end of 2004, total deposits in Russian banks amounted to $95 billion, the majority of them from households. The state-controlled Sberbank still holds around 60% of total retail deposits. Commercial lending still dominates, but loans to households are beginning to grow. Overall bank lending has been growing at an annual rate of $20 billion.

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

Foreign Exchange Controls

Return to top

The Government of Russia has implemented a wide range of major economic reforms. Gradual removal of currency control restrictions will positively affect the development of Russia's business environment for U.S. exporters. The latest Currency Law (Federal Law No. 173-FZ, "On Currency Regulation and Currency Control" introduced on December 10, 2003) has led to a "softening" of currency control regulations in Russia. The law introduced a liberalized regime that substantially limits the authority of the Central Bank of Russia (CBR) to restrict currency operations in Russia and divided currency regulation functions between the CBR and the Government of Russia (GOR).

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

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

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

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

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

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

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

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

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

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

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

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

U.S. Banks and Local Correspondent Banks

Return to top

Most foreign businesses prefer to deal with foreign-owned banks as they are more stable, more experienced and generally offer higher levels of service. Until recently, these banks concentrated their activity in highly profitable financial markets and were not interested in commercial banking. However, strong demand has drawn them into diversifying their services to include foreign trade transactions and commercial banking. Many foreign banks now provide regular commercial services including accounts, transfers, currency exchange, credit, documentary operations, letters of credit, and trade financing. Some of these banks will establish individual accounts for non-residents and employees of their institutional clientele. Unfortunately, the lack of nationwide branches makes these services largely unavailable to customers operating outside the major metropolitan centers of Moscow and St. Petersburg. Among pure U.S. players only Citigroup is expanding into retail banking.

State Owned Banks

Some state financial institutions are taking on the role of commercial banks and project an image of stability and prestige. Sberbank, previously the savings bank for Soviet citizens, is the largest such institution in Russia. Following the August 1998 crisis, it received individual accounts transferred from banks liquidated by the government. Therefore, Sberbank has an unmatched nationwide network of 50 branches and over

2,000 outlets handling millions of private and commercial accounts. Sberbank is rapidly increasing its commercial loan portfolio and attempting to develop the organizational and management skills to operate successfully as a commercial bank.

Vneshtorgbank is a large state-owned bank. Originally founded to facilitate international trade, it is almost wholly owned by the Russian Central Bank. Since the crisis, it has focused on retail and corporate clients. Vneshtorgbank survived the 1998 crisis by minimizing speculative trading in GKOs (short-term federal obligations) on which the government defaulted. As one of the few institutions which met its obligations after August 1998, its has since garnered 7,300 new corporate and 7,100 new retail clients.

Russian Private Commercial Banks

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

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

- Alfa-Bank
- Bank of Moscow
- Gazprom Bank
- International Moscow Bank (almost entirely owned by European Banks & EBRD)
- MDM Bank
- Mezhprombank
- PromSvyazBank
- Rosbank
- UralSib Bank

Project Financing Return to top

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

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

Since the U.S. Export-Import Bank (Ex-Im Bank) began lending to support U.S. exports to Russia in 1992, total authorizations have been $3.2 billion (total exposure in Russia is currently around $1.4 billion). Although there was a decrease in activity in the wake of the financial crisis of 1998, in the last several years, authorizations for Russia have steadily increased and have averaged approximately $150 million per year. Today, Ex-Im Bank's outstanding portfolio is in such sectors as aircraft, health care and mining.

In fiscal year 2004 (from October 2003 to September 2004), Ex-Im Bank authorized approximately $103 million worth of exports to Russia. Ex-Im Bank's business in Russia during this time remained concentrated in supporting sales of agricultural commodities and equipment, machinery and equipment for the oil & gas sector and manufacturing equipment. While FY2004 authorizations decreased slightly relative to FY2003, the number of transactions authorized during FY2004 increased by approximately 22%. This trend implies that a greater number of local buyers sought finance for the import of U.S. goods. Authorizations for credit insurance, predominantly short-term credit (i.e. less than one year in maturity), increased significantly in terms of both the value and volume of transactions.

For additional information on the U.S. Ex-Im Bank's financing options and its projects in Russia, please contact the Bank directly (see Chapter 9 for contact information.)

The Overseas Private Investment Corporation (OPIC)

In an agreement ratified in June 1992, OPIC was authorized to provide long-term loans, loan guarantees and political risk insurance against political violence, currency inconvertibility, and expropriation. In 1994, to meet the demands of larger projects in Russia (and worldwide), OPIC doubled the amount of insurance and quadrupled the amount of finance support - to $200 million in each case - it can commit to an individual project (a total of $400 million). OPIC also makes equity capital available for investments in Russia by guaranteeing long-term loans to private equity investment funds.

In 2002, OPIC provided a $70 million investment guaranty to the fund, Russia Partners II, L.P., managed by New York and Moscow-based Russia Partners Management. This fund supports fast-growing businesses in consumer services. In 2003, OPIC approved a $150 million OPIC loan guaranty to support Citibank's U.S. Dollar and local currency projects in Russia and the CIS and also provided Russia's leading oil producer with $130 million in financing for a project that will enable Russia to expand its oil export capacity in a cost-effective manner. In 2004, OPIC provided $125 million in financing to enable DeltaCredit Bank to more than triple its residential lending in Russia. As of September 30, 2004, OPIC's combined exposure in insurance, finance, and equity funds in Russia stood at $4.84 billion for 138 transactions.

At the beginning of fiscal year 2005, OPIC opened a new office, co-located with the U.S. Commercial Service, in Moscow, Russia to respond to increasing interest in the region for political risk insurance and long-term project finance. (See Chapter 9 for contact information.)

Web Resources Return to top

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

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

OPIC: http://www.opic.gov/Russia

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

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

USDA Commodity Credit Corporation: http://www.fsa.usda.gov/ccc/default.htm

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

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

Return to table of contents

Return to table of contents

Chapter 8: Business Travel

Business Customs Return to top

At first meeting, Russian business people can come across as indifferent and cold to Americans. Do not let this influence your impression, as this is strictly cultural. Russians are known for not smiling and once they get to know you will tell you that they save their smiles for home and family.

Scheduling meetings can be difficult, but this is also the norm. It can sometimes take weeks to get a response to an email, fax or a telephone message request for a meeting. Once contact has been established, patience is still required to confirm a date and time to meet. And, it is not uncommon for meetings to be cancelled with no explanation. If you do not speak Russian, it is recommended that you hire an interpreter. Since traffic is a problem in Moscow and St. Petersburg, Russian company representative appreciate meeting in a convenient location, and are not adverse to meeting in their offices or accepting an invitation for a lunch meeting.

Russian businessmen and women predominately wear business suits.

Business cards are a must and are exchanged freely. Cards should have regular contact information and an email address as well. Most foreign businesspeople in Russia carry English/Russian business cards (one side English, the other Russia).

Small gifts are acceptable but not expected.

Travel Advisory Return to top

The State Department issues travel advisories when warranted by local conditions. Conditions in Chechnya and surrounding areas are extremely dangerous due to continued military action and political tension in the area and the State Department has issued a permanent warning against traveling to this area. Some U.S. citizens have been killed or have disappeared in Chechnya or adjacent Dagestan; and local gangs continue to seize hostages on occasion. Anyone considering travel to such areas is strongly urged to obtain an up-to-date travel advisory from the U.S. Department of State (Tel: 202-647-5225 or the travel advisory link from website www.travel.state.gov). Public gatherings and demonstrations occur occasionally in major cities of Russia. Although such demonstrations are usually peaceful, travelers are urged to exercise caution in areas where large groups are gathered.

Travel Tips

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

Clothing: While winters can be extremely cold in Russia with occasional temperatures in the minus-20 Fahrenheit range in northern and Siberian cities, Moscow and St. Petersburg's climate can be less severe than some northern U.S. cities. Winter clothes may be needed as early as October or as late as April. Water-resistant footwear with thick soles is advised, as the pavement is often rough and large puddles form after rain. In winter one must be prepared for either slush or icy sidewalks. People dress for warmth. However, a business suit is the norm for both working men and women. Men usually wear a heavy topcoat and women a mid-calf coat with a hood and gloves are the norm. Summers, while brief, can be surprisingly hot, and air conditioning is still rare outside big-city hotels.

Food: A meal in a hotel or top restaurant in Moscow and St. Petersburg can be very expensive by U.S. standards. Nevertheless, in these cities there is an increasing variety of less expensive restaurants, including pizza, Mexican and fast food establishments. Russian food is not exotic to American tastes, and many visitors find such regional cuisine as Caucasian, Georgian, and Uzbek to be interesting contrasts. In smaller communities, visitors often must accept the food available at hotels or traditional Russian restaurants.

Money: Russia is a predominately cash economy with the Russian ruble as the only legal tender for local transactions. It is illegal to pay for goods and services in U.S. Dollars or other foreign currency. Old, worn, or marked dollar bills are often not accepted at banks and exchanges. In Moscow and St. Petersburg, currency exchange offices are available in most shopping areas and provide reliable service. Credit cards are now accepted at some modern businesses in Moscow and St. Petersburg, and at some hotels and restaurants in larger regional cities, but at very few stores. Traveler checks are not widely accepted except in major cities, and only rarely at stores catering mainly to Russians. Travelers to regional cities or towns are advised to carry enough cash to cover foreseeable expenses. Major hotels and the American Express offices in

Moscow and St. Petersburg may be able to suggest locations for cashing travelers checks or obtaining cash advances on credit cards. Rubles (and Dollars, if needed) may be obtained from bank ATMs that are connected to the PLUS and CIRRUS systems using your U.S. debit/credit cards. It is not recommended to use your credit/debit cards for small purchases or in stand-alone ATMs (those not physically located at a bank). Automatic Teller Machines are becoming more common in downtown Moscow, although there have been some instances of theft from card numbers used in these systems. Western Union has agents in Moscow, St. Petersburg, and some other large cities, which disburse money wired from the United States.

Personal Security

Crime: While the violent crime rate in Moscow and St. Petersburg is still below that of many major U.S. cities, there has been a surge of racially and ethnically-motivated attacks by "skinhead" groups and others on foreigners in Moscow and other big cities over the last two years. There has also been a number of incidents in which foreign patrons of Russian bars and restaurants have been drugged and robbed. Nationals from several countries have had drinks spiked with the drug clonidine in clubs and restaurants, and after bringing a guest home. Clonidine can lower blood pressure and result in fatigue and disorientation, followed by up to twenty-four hours of unconsciousness. The after-effects often last three to five days.

In Moscow and St. Petersburg, the most prevalent crime is theft, primarily from hotel rooms and train compartments, and by pickpockets and bands of street criminals. While there is little overt anti-American sentiment in Russia, Westerners are often targeted because of their perceived wealth, and street criminals operate in areas frequented by tourists and business travelers. Most foreigners are easily identifiable on Russian streets.

To reduce the risk of personal crime, U.S. businesspeople should be alert to their surroundings and guard belongings in hotels, restaurants and other high-density tourist areas. Do not assume that you can blend in on the street. Do not leave valuables in hotel rooms - keep your passport and visa with you at all times, and retain copies in a separate location in case of loss or theft of the originals. Be alert to the potential for robbery in metro stations or trains where gangs of adults and children sometimes seize handbags or pick pockets. Also be alert to scams on the street or in stations involving money changing or lost or found money. Consider using a neck purse or belt wallet to protect your passport, visa and credit cards from pickpockets. On inter-city overnight trains, secure the door to your compartment with some sort of jamming device (many people simply use a wire coat hanger). While many residents of Moscow and St. Petersburg flag private "gypsy cabs" for rides, this is a riskier form of transport that is better avoided by the inexperienced. Travelers are advised to use only marked taxis or radio taxis.

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

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

U.S. Embassy/Consulate Locations and Services

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

U.S. Embassy - Moscow
Alexander Vershbow, Ambassador
8, Bolshoy Devyatinsky Pereulok, Moscow 121099
American Citizen Services, Consular Section
23 Novinskiy Blvd, Moscow 123242
Tel: (095) 728-5577
Fax: (095) 728-5084
After-hours (emergencies):
Tel: (095) 728-5025/728-5000

U.S. Consulate-General - St. Petersburg
Consul General Morris Hughes
15 Furshtadkskaya Street, St.Petersburg 191028
Tel: (812) 331-2600
Fax: (812) 331-2852
After-hours emergencies:
Tel: (812) 271-6455 or 939-5794

U.S. Consulate General - Vladivostok
Consul General John Mark Pommersheim
32 Pushkinskaya Street, Vladivostok 690001
Tel: (4232) 300-070
Fax: (4232) 499-371/2
(4232) 300-091 (visa section)
After-hours emergencies:
Tel: (4232) 710-067

U.S. Consulate-General – Yekaterinburg
Consul General Scott Rauland
15A Gogolya Street, 4th Floor, Yekaterinburg 620151
Tel: (343) 379-3001/379-4619/91
Fax: (343) 379-4515

Visa Requirements Return to top

All Americans traveling to or transiting through Russia by any means of transportation must have a valid passport and visa. Travelers who arrive without a passport or entry visa are subject to fines, delays, and/or deportation by route of entry at the traveler's expense. The Embassy continues to recommend that all travelers obtain visas before traveling to Russia, regardless of the length of their stay or the purpose of their travel, including those simply changing planes at Sheremetovo Airport. Visas, other than for transit purposes, are issued based on support from a Russian individual or organization - the sponsor. It is very important to know your sponsor and how he or she can be contacted. Russian law requires the sponsor to apply for replacement, extension or changes to your visa. The U.S. Embassy and Consulates cannot act as a sponsor. Tourists should contact their tour company or hotel in advance for information on visa sponsorship.

All foreigners must have an exit visa to depart. For short stays, the exit visa is issued along with the entry visa. For longer stays, the sponsor must obtain the exit visa after the traveler's arrival. The vast majority of Russian visas are issued exit permission along with the entry visa. Under new legislation, all foreigners are required to complete a "migration card", which is handed out upon arrival in Russia – either on airplanes or at border crossings. The migration card serves as a record of the visa type, entry/exit, and registration. Upon departure, the migration card must be turned into immigration authorities. Failure to do so may result in delays and possible problems during future travel to Russia. All travelers who spend more than three days in Russia must register their visa through their hotel or sponsor and may encounter problems when leaving the country if they fail to do so. Visitors who either lose or overstay their visas, even for one day, are unable to leave until the visa is extended or replaced. In order to avoid needing a visa extension, the Embassy advises all Americans to obtain visas for a longer validity than they anticipate needing and to depart before the visa expires. Errors in dates or other information on the visa can and do occur, and it is helpful to verify this information before departing the United States. It is recommended that travelers have all entry, exit, and itinerary points listed on their visa, in order to avoid any difficulties in registering or any delays in travel. Although it is no longer legally required for all itinerary points to be listed, not all local authorities seem aware of the change. Random document checks by police on foreigners are frequent, so U.S. citizens should carry their passport and visa. Failure to present proper documentation can lead to detention and/or fines.

Please note that the dates on Russian visas are listed in the European style (date, month, year). Below is contact information for the Russian Embassy and Consulates in the U.S.

The Russian Embassy and Consulate in Washington, DC
Tel: (202) 939-8902/07/13/18
Fax: (202) 483-7579

The Russian Consulate in New York City
Tel: (212) 348-0926/55
Fax: (212) 831-9162

The Russian Consulate in San Francisco
Tel: (415) 928-6878, 202-9800/01
(415) 929-0862 (visas)
Fax: (415) 929-0306

5/2/2005

Russian Consulate in Seattle
Tel: (216) 728-1910
Fax: (216) 728-1817

U.S. Companies that require travel of foreign businesspersons to the United States should allow sufficient time for visa issuance if required. Visa applicants should go to the following links.

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

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

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

Telecommunications

Return to top

Internet Accessibility: The level of penetration and Internet awareness is still low in Russia. Recent figures show that only 12% of the Russian population use the Internet on regular basis; 90% use dial-up connection services. The number of ADSL and broadband users are still small but gradually increasing. The largest players in Russian language e-mail service and search engines are Mail.ru, Rambler and Yandex. Mail.ru has 8 million subscribers, No. 2 Yandex has 4 million and Rambler has 3.6 million.

Wi-Fi is at the initial stages of its development in Russia. However, it is already available is select locations. Currently, there are about 100 hot spots active in Russia. They are primarily located in Moscow and St. Petersburg. The Marriott Hotel chain was the first Wi-Fi zone in Moscow and in Russia, launched in spring 2003. Vimpelcom (cellular carrier) has also entered this market by organizing a WLAN zone in Sheremetyevo airport and in the Iris Congress Hotel.

Mobile Technology: Mobile services are provided in the GSM, CDMA-450, AMPS and DAMPS standards. GSM dominates the market. In 2005 the Russian Ministry of Communications is expected to start issuing licenses for third-generation (3G) cellular communications services. The major cellular operators in the market are Mobile TeleSystems (MTS), Vimpelcom and Megafon.

Long distance telephone calls can usually be made from a hotel. AT&T, MCI and other telecommunications companies can provide calling card service with local access numbers. Check with your phone card provider for specific information. Calls can also be made from phone kiosks, located near metro and train stations, tourists attractions and in downtown areas, with pre-paid, locally purchased phone cards.

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

A rudimentary knowledge of the local language is extremely helpful for those placing a call through the Telephone and Telegraph office. Moscow is 8 hours ahead of

Washington, D.C. To reach Moscow from the U.S. you need to dial Russia Country Code +7, Moscow City Code 095 and a phone number.

Transportation Return to top

Air travel within Western Russia is occasionally erratic but generally stays on schedule; the quality of service continues to improve. Flights within the Russian Far East are often delayed or cancelled in winter months due to snow or fog. International Russian carriers such as Aeroflot and Transaero usually use western equipment and meet higher standards than domestic carriers. Moscow has four major airports. Most international flights enter Moscow through Sheremetyevo-2 and Domodedovo. Travelers may continue to other Russian cities from Sheremeyevo-1, Vnukovo or Domodedovo airports. Travel time to the connecting airport can be as much as an hour and a half from Sheremetyevo-2, and ample time must be allowed for passport control, customs clearance and baggage retrieval. St. Petersburg's airport has two terminals: Pulkovo-1 (domestic flights) and Pulkovo-2 (international flights).

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

In Moscow and St. Petersburg, the metro (subway) is an efficient and inexpensive, though crowded, means of transport. Signs are in Russian only, so it is helpful at least to learn the Cyrillic alphabet before you come. 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.

Language Return to top

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

Health Return to top

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

Local Time, Business Hours, and Holidays Return to top

There are eleven time zones across Russia. Moscow is 8 hours ahead of Eastern Standard Time.

Most companies and offices have the same business hours of 9:00 a.m. - 6:00 p.m. Many of the shopping centers and supermarkets are open 10:00 a.m. till 8:00 p.m.

Russian Holidays: The holidays listed below are not an exclusive list. Occasionally days off will be declared by the government to create a long weekend, particularly at Christmas. Travelers should be advised that little business is done from mid-December through mid-January. The country basically shuts down for business from New Year's to Orthodox Christmas. Government offices, most businesses and event much of the press close during this period. The period from May 1 through May 9 is similar.

Official Russian Holidays for 2005:

January 1-6	New Year Day Holidays
January 7	Orthodox Christmas
January 10	New Year Day Holiday extension
February 23	Defenders' Day
March 8	International Women's Day
May 1	International Labor Day
May 9	Victory Day
June 12	Russia's Day
November 4	Day of National Unity

When holidays fall on weekends, Russian authorities generally announce during the week prior to the holiday whether it will be celebrated on the previous Friday or the following Monday.

Temporary Entry of Materials and Personal Belongings Return to top

Russian customs procedures include entry and exit declaration forms. The new law on currency regulation and control allows foreigners to export up to $3,000 without providing a customs declaration or proof of how the money was obtained. However, 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.

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

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

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

Web Resources Return to top

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

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

U.S. Embassy Moscow Website: http://www.usembassy.ru

Return to table of contents
Return to table of contents

Chapter 9: Contacts, Market Research, and Trade Events

Contacts

Return to top

Ministries and Government Offices relating to Key Sectors and/or Significant Trade Related Activities

Ministry of Economic Development and Trade
German Oskarovich Gref, Minister
1/3, 1st Tverskaya-Yamskaya, Moscow 125993
Tel: (095) 209-5338, 200-5277; 950-9263 (The Americas Dept.)
Fax: (095) 250-3737

Ministry of Finance
Aleksey Leonidovich Kudrin, Minister
Ulitsa Ilyinka 9, Entrance 1, Moscow
Tel: (095) 298-9101/-9130/-9140/-9868; Fax: (095) 925-0889

Ministry of Industry and Energy
Viktor Khristenko, Minister
7, Kitaigorodskiy Proyezd, Moscow 103074
Tel: (095) 710-5200; Fax: (095) 298-5437 (International Dept.)

Ministry of Communications & Information Technology
Leonid Reiman, Minister
7, Tverskaya Ul., Moscow 103375
Tel: (095) 292-7100; Fax:(095) 230-2097

Ministry of Transport
Igor Levitin, Minister
Rozhdestevenka street 1
Moscow, 103759
Tel: (095) 926-1527
Fax: (095)926-9128

Ministry of Health and Social Development
Mikhail Zurabov, Minister
3 Rakhmanovsky Per.
GSP-4, Moscow 101461, Russia
Tel.: (095) 925-1140
Fax: (095) 200-0212

Ministry of Agriculture

Aleksey Vassilievich Gordeyev, Minister
Orlikov Pereulok, 1/11, Moscow, 107139
Tel: (095) 207-4243
Fax: (095) 207-6437
Website: http://www.mcx.ru

Russian Agency for Patents and Trademarks (Rospatent)
Alexander Dmitrievich Korchagin, Director General
30-1 Berezhkovskaya Nab., Moscow 121858, Russia
Tel. (095) 243-5509, 240-3295; Fax: (095) 243-3337
Website: http://www.rupto.ru

Central Bank of Russia
Sergey Ignat'yev, Chairman
Sergey Vladimirovich Tatarinov, Head of External and Public Relations
12 Neglinnaya Street, Moscow, 103016
Tel: (095) 923-1081; Fax: (095) 921-5476

Selected Regional Governments

Moscow City Administration
Iosif Nikolaevich Ordzhonikidze
Deputy Mayor of the Government of Moscow
13 Tverskaya Ulitsa, 103032, Moscow
Tel: (095) 229-6360; Fax: (095) 230-2856

St. Petersburg City Administration
Vladimir Churov, Deputy Chairman
Committee for External Relations
1, Smolniy, St. Petersburg
Tel: (812) 276-1092; Fax: (812) 276-1633

Chukotsky Autonomous Okrug Government
Alyona Burlaka, Assistant to Governor
20 Bering St., #49
689000 Anadyr
Tel: (47222) 29000, 40151 Fax: (47222) 22466
E-mail: alenab@chukotka.sibneft.ru and
goubernator@chukotka.sibneft.ru
Natalia Slugina, Head of International Dept.
Tel: (47222) 29049 Fax (42722) 22919
E-mail: NataliaSIChu74@yandex.ru

Kamchatka Oblast Government, Foreign Economic Relations and Tourism Division
Vladislav Gribkov, First Vice Governor
Tel: (4152) 112355 Fax: (4152) 120822
Tamara Tutushkina, Foreign Economic Relations and Tourism Division
1 Lenin square
Tel: (4152) 112-355; 120822; 125608

Fax:(4152) 112355
E-mail: kra@svyaz.kamchatka.su

Khabarovsk Territorial Administration
Aleksandr Borisovich Levintal,
Deputy Chairman of the Krai Government
Minister of Economic Development and Foreign Relations of the Khabarovsk Krai
72 Frunzhe Ul., 680002 Khabarovsk
Tel: (4212) 325-544, Fax: (4212) 322-253
E-mail: econ@adm.khv.ru
Website: http://www.adm.khv.ru

Leningrad Oblast
Committee for External Economic and International Relations
Sergei Naryshkin, Chairman
Suvorovsky Prospect, 67, St. Petersburg, 193311
Tel: (812) 274-4742; Fax: (812) 274-5986
E-mail: lenobl@mail.ru

Primorskiy Territorial Administration
Victor Vasilyevich Gorchakov, Vice Governor
Committee on Foreign Economic Relations and Investment
22 Svetlanskaya Ul., 4 floor
690110, Vladivostok
Tel: (4232) 221-018; Fax: (4232) 222-813
E-mail: gorchakov@primorsky.ru
Website: http://www.primorsky.ru

Sakhalin Regional Administration
Vladislav Vladimirovich Rukavets, Chairman
Committee of International, Foreign Economic and Inter-Regional Relations
32 Kommunisticheskiy prospect, "Sakhincenter", office 236
693000, Yuzhno-Sakhalinsk
Tel: (4242) 727-494 Fax: (4242) 727-493
E-mail: up_forecon@adm.sakhalin.ru

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

Yekaterinburg City Administration
Vladimir I. Lomovtzev, Director, Foreign Relations Department
1, Oktyabrskaya Ploshchad, Yekaterinburg 620031
Tel: (3432) 51-13-07, 51-43-83; Fax: (3432) 51-90-05

American Chamber of Commerce in Russia

American Chamber of Commerce in Russia (AmCham)
Andrew B. Somers, President

7-9 Dolgorukovskaya Ulitsa, Moscow 103006
Tel: (095) 961-2141; Fax: (095) 961-2142
E-mail: amcham@amcham.ru

American Chamber of Commerce in St. Petersburg
Elena Berezantseva, Executive Director
25 Nevsky Prospect, St. Petersburg, Russia, 191186
Tel: (812) 326-2590; Fax: (812) 326-2591
E-mail: st.pete@amcham.ru
Website: http://www.amcham.ru/stpete
Website: http://www.arcci.org

American Chamber of Commerce in Russia, Washington, D.C. Office:
Christina Moser Bolton
Washington Representative and Senior Advisor
American Chamber of Commerce in Russia
801 North Overlook Drive
Alexandria, Virginia 22305
Tel. (703) 683-2472
Fax (703) 683-5254
E-mail: CBolton@amcham.ru

Ambassador Gilbert A. Robinson
Communications Advisor
American Chamber of Commerce in Russia
Tel. (703) 917-9500
Fax: (703) 442-0969
E-mail: gar@gar-inc.com

Russia-focused Chambers of Commerce and Industry and Trade Associations in the U.S.

U.S.-Russia Business Council
Eugene Lawson, President
1701 Pennsylvania Ave., NW, Sutie 650
Washington, D.C. 20006
Tel: 202-739-9180
Fax: 202-659-5920
www.usrbc.org

American-Russian Chamber of Commerce and Industry
Helen Teplitskaya, President
200 World Trade Center Chicago
2400 Merchandise Mart
Chicago, IL 60654 USA
Tel: (312) 494-6562; Fax: (312) 494-9840

Foundation for Russian-American Economic Cooperation
Carol Vipperman, President
2601 Fourth Avenue, Suite 310

Seattle, WA 98121 USA
Tel: (206) 443-1935; Fax: (206) 443-0954
E-mail: fraec@fraec.org
Websites: http://www.fraec.org or www.ahwg,org

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

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

Russian-American Chamber of Commerce
Deborah Anne Palmieri, Ph.D., President & CEO
The Marketplace – Tower II
3025 South Parker Road, Suite 735
Aurora, CO 80014 USA
Tel: (303) 745-0757; Fax: (303) 745-0776
E-mail: dapalmieri@russainamericanchamber.org or
Generalinfo@russianamericanchamber.org
Website: http://www.russianamericanchamber.org

Russian Chambers of Commerce and Industry and Trade Associations

Council for Trade and Economic Cooperation (Russia-USA)
Boris Petrovich Alekseyev, President
3, Naberezhnaya Shevchenko, Moscow 121248
Tel: (095) 243-5514, -5470; Fax: (095) 258-8380

Moscow Chamber of Commerce and Industry
Yury Ivanovich Kotov, President
22 Pilyugina Street
Moscow 117393
Tel: (095) 132-7396,132-7255; Fax: (095) 132-0047
E-mail: mtpp@glasnet.ru

Russian Chamber of Commerce and Industry
Yevgeniy Maksimovich Primakov, President
Yuriy Nikolayevich Denissenkov, Head, Protocol Department

6, Ilyinka Ul., Moscow 103684
Tel: (095) 929-0003; Fax: (095) 929-0375

Russian Union of Industrialists and Entrepreneurs (RSPP)
Arkady Ivanovich Volsky, President
10/4 Staraya Ploshad, Moscow 103070
Tel: (095) 748-4173; Fax: (095) 206-5492
E-mail: volsky@mksnet.ru

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

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

Russian-American Business Council (RABC)
Yuly Mikhailovich Vorontsov, President
6 Krasnopresnenskaya Nab., Moscow 123100
Tel: (095) 258-3650, 970-1389; Fax: (095) 936-8011
E-mail: rabc@epam.net

U.S. Commercial Service Contacts (resident in Russia)

CS Russia has offices in Moscow, St. Petersburg, Vladivostok, and Yekaterinburg. Each office's Commercial Specialists have nation-wide responsibilities for industries of greatest interest to U.S. exporters. For a complete list of our services, upcoming events and industry specific contacts, please visit our website at: www.buyusa.gov/russia

- Moscow
- St. Petersburg
- Vladivostok
- Yekaterinburg

Moscow

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Local Tax Authorities contact info and application forms available on:
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In Moscow: http://www.mosnalog.ru
In St. Petersburg: http://www.nalog.spb.ru

International Banking Organizations:

European Bank for Reconstruction and Development (EBRD)
Alice Davenport, U.S. Department of Commerce Liaison
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Website: http://www.opic.gov

Special American Business Internship Training Program (SABIT)
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Web site: http://www.mac.doc.gov/sabit/

TPCC Trade Information Center in Washington
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U.S. Agency for International Development
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Market Research Return to top

To view market research reports produced by the U.S. Commercial Service please go to the following website: http://www.export.gov/marketresearch.html and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

Trade Events Return to top

Please click on the link below for information on upcoming trade events.

http://www.export.gov/tradeevents.html

For information for trade events in Russia, click on the link below.

http://www.buyusa.gov/russia/en/trade_events_russia.html

Return to table of contents

Return to table of contents

Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service in Russia offers U.S. businesses, please click on the link below.

http://www.buyusa.gov/russia/en/products_services.html

Return to table of contents

U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: http://www.export.gov