



Doing Business in Russia:

2017 Country Commercial Guide for U.S. Companies

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Doing Business in Russia

Market Overview

Russia presents both significant challenges and opportunities for experienced American exporters. Russia's 2014-2016 economic downturn, driven by low oil prices and the lack of structural economic reform, squeezed both Russian corporations and the average consumer. While targeted American and European economic sanctions remain in place, there is no overall trade embargo on Russia. On the back of a tight fiscal and monetary policy, coupled with higher oil prices, Russia should return to limited economic growth of 1-2% in 2017. Over 1,000 American firms of all sizes continued to do business in Russia, given its 142 million consumers, \$27k+ GDP per capita (as measured in purchasing power parity), a growing middle class and highly educated and trained workforce.

There are two broad considerations when considering business prospects in Russia: geopolitics and market dynamics. Russia's continued aggression in Ukraine and Syria and interference in the 2016 U.S. elections have raised tensions with the United States and its allies. Targeted U.S. and European economic sanctions instituted in 2014 remain firmly in place and are not expected to be lifted for the foreseeable future. Restrictions on offshore, Arctic and shale oil and gas, the financial sector and the defense industry continue. For the past three years, U.S. agricultural exporters have been hit with Russian countersanctions. In addition, a number of Russian entities and individuals are also subject to sanctions, requiring American firms to do careful due diligence on potential business. Increasing state dominance of the economy, high costs of borrowing and a lack of broad economic reform constrain growth. Both large, publicly-traded U.S. multinationals and small and medium size enterprises continue to carefully monitor the overall business climate in Russia, balancing opportunity and risk.

As for market-based considerations, both Western and Russian firms approach 2017-8 with cautious optimism. Stable oil prices, a less volatile ruble and a return to growth in some sectors will likely lift the Russian economy in 2017. Indeed, Western and Russian firms report year-on-year growth in large industrial equipment in the mining, energy, and heavy construction sector. The retail and residential construction sectors remain weak. Early in 2017, Standard & Poors and Moody's upgraded their ratings to BB+, a step below investment grade. A Treaty on the Avoidance of Dual Taxation and Russia's WTO accession in 2012 have helped create new opportunities for American trade and investment through more certain and predictable access to the market across tariff, trade rules, and dispute resolution platforms. Despite the need for deeper economic reform, most analysts doubt any major policy changes prior to the March 2018 Russian presidential elections. For more on U.S.-Russia trade, read Ambassador John Tefft's article on ["Why U.S.-Russia Trade Still Matters"](#).

U.S.-Russia trade reached over \$20 billion in 2016, well off its peak of \$38 billion in 2013. American investment in Russia was about \$9 billion in 2015 (latest data available). These figures are low and conservative, as they do not include third country trade and investment flows of U.S. origin and reinvested earnings from subsidiaries of American

parent corporations. Numbers aside, American firms view the Russian market as a long-term, strategic play, given its population, natural resources, growing consumer class and access to a low-cost labor force.

Market Challenges

- Russia is a large country, with varied market segments spread across eleven time zones. The major markets of Moscow and St. Petersburg are well served and quite competitive for new market entrants. However other large cities such as Yekaterinburg, Novosibirsk and Vladivostok may not be as developed but can move quickly on a new product/service offering.
- While sanctions are limited to a certain number of sectors, entities and individuals, compliance is often cited as a major concern by American firms. The U.S. Embassy's Commercial Service can counsel your firm on such considerations and connect you with key U.S. Government resources to navigate Departments of Treasury and Commerce controls.
- While business rule of law has improved in the last two decades in Russia, it remains weak by Western standards. Burdensome regulations, weak intellectual property protection, the preponderance and strength of state-owned enterprises and a government focus on localization present challenges to U.S. exporters.
- Russian importers and consumers are price-sensitive and will ask a lot of questions on the product/service offer. Come with convincing arguments and a strong negotiating position.
- English is not widely spoken, even in large cities such as Moscow and St. Petersburg. A little Russian can go a long way, especially in de rigeur meals and toasts when you meet new business contacts. See more in Business Travel.

Market Opportunities

With a vast landmass, extensive natural resources, more than 142 million consumers, and acute infrastructure needs, Russia remains a major, potential market for U.S. exporters. Russia is the world's 11th largest economy by nominal gross domestic product (GDP) and the 6th largest by purchasing power parity (PPP), as cited by the International Monetary Fund. According to the IMF, 2016 GDP per capita (PPP) was \$26,490, the highest of the BRICS countries (Brazil, Russia, India, China, and South Africa). Russia is a high-income country, with an educated and trained workforce and sophisticated, discerning consumers.

A combination of low oil prices, structural limitations, and sanctions pushed Russia into a recession in 2015, with the economy contracting by four percent. The Russian economy then fell by about .6 percent in 2016. The Economist estimates that structural weaknesses, low investment and fiscal tightening will keep GDP growth at about 2% a year in the medium term.

In terms of trade in goods, Russia was the United States' 38th largest export market and the 24th largest exporter to the United States in 2016. Russia was the United States' 30th largest trading-partner overall. U.S. exports to Russia in 2016 were \$5.8 billion, a decrease of 18.2% from 2015. Russian exports to the United States in 2016 were \$14.5 billion, a decrease of 11.3% from 2015. Russia's leading individual trading partners are China, Germany, the Netherlands, Belarus, United States, Italy, Japan, and Turkey.

In 2015, the latest available data showed that the U.S. direct investment position in Russia was \$9.2 billion, a decrease of 0.8% from 2014. The direct investment position from Russia in the United States was \$4.6 billion, a decrease of 6.8% from 2014. Given the prevalence of third-country trade and investment channels, U.S.-Russian trade and investment actuals are likely much higher.

Russia joined the World Trade Organization (WTO) in August 2012. Congress also enacted legislation to extend permanent normal trade relations to Russia in the same year. U.S. manufacturers and exporters experienced more certain and predictable access to the Russian market because of Russia's commitment not to raise tariffs on any products above the negotiated rates.

For American businesses, Russia's accession to the WTO also provided the following benefits, although Russia has been slow to fulfill many of its WTO obligations:

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

Best Prospects Sectors for U.S. Exports

Agriculture

Agricultural Equipment

Automotive Parts /Accessories

Aviation Equipment

Cosmetics and Perfumery

Education and Training

Food Processing and Packaging

Franchising

Medical Equipment

Mining

Pharmaceuticals

Rail

Road Construction
Travel and Tourism

Market Entry Strategy

- Russia is a market for sophisticated American firms of all sizes with a clear and compelling product/service offer. Be prepared to invest significant time, personnel and capital on the front end, to ensure success down the road.
- Use the resources of the U.S. Mission's Commercial Service in Russia to get to market cheaper, quicker and for the long-term. We work with the U.S. Mission's Economic Section and Foreign Agricultural Service to help American firms find reliable partners quickly and expand existing business in Russia and throughout Eurasia.
- Network with the American Chamber of Commerce in Russia and the U.S.-Russia Business Council. These two leading organizations have deep and wide knowledge of the market.
- Face to face business is an important factor to Russian partners. Frequent travel and communication will help your business grow and manage the inevitable problems that will arise in this developing market.
- Think long-term. Russia is not a market for quick and easy wins.

Political Environment

Political Environment

Prepared by our U.S. Embassies abroad. With its network of 108 offices across the United States and in more than 75 countries, [the U.S. Commercial Service of the U.S. Department of Commerce utilizes its global presence and international marketing expertise to help U.S. companies sell their products and services worldwide.](#) Locate the U.S. Commercial Service trade specialist in the U.S. nearest you by [visiting this page>>](#).

Selling US Products & Services

Using an Agent to Sell US Products and Services

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

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

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

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

The Russian government has supported mega-projects in the fuel and energy sectors, including continued development of the major Sakhalin oil and gas project at a cost of over 1.8 trillion rubles (US\$54.2 billion). Chemical production facilities using natural gas will likely be built along the pipeline routes. Large-scale petrochemical and natural gas production are expected to be developed in the Russian Far East along the main pipeline routes to include methanol, ammonia, and fertilizer products, and the manufacturing of polymeric plastics. These new projects will require procurement of equipment and

machinery to support their production. The mining sector is also expected to expand, including continued development of gold deposits in the Amur and Magadan regions and the Chukotka Autonomous Region. New projects in the mining sector will spur demand for expanded fleets of road construction machinery and other equipment by local companies.

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

1) Distributors

The most common market entry strategy is to select a relevant and well-established distributor or several distributors, depending on the product. U.S. companies may consider a variety of national, regional, and local distribution alternatives. In some product categories (e.g., apparel, cosmetics, packaged foods, alcoholic beverages, consumer electronics, and household appliances), foreign suppliers can choose from a growing number of established distributors. A good distributor will typically sell and deliver foreign suppliers' products to end-users and/or the retail market and provide a wide range of logistical support, including customs clearance, warehousing, and inventory management. However, handling promotion and advertising campaigns exclusively through independent distributors could produce disappointing results. Russian distributors normally handle products from multiple suppliers and are not typically dedicated to promoting a specific company's product unless the supplier provides substantial support for promotion and advertising. Russia's retail law also limits some types of promotional activities.

2) Representative/Branch Offices

Some foreign manufacturers have established their own representative offices in addition to using distributors. The major advantage of opening a representative office is more direct contact with end-users and control over the promotion and distribution of products. However, under the Russian Civil Code, such offices cannot be directly involved in commercial activity. Instead, the representative office typically oversees a network of distributors and/or agents that perform commercial functions. This approach affords greater control by the foreign supplier over the distribution process and helps to reduce risks.

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

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

3) Foreign Subsidiaries

Some foreign manufacturers, particularly in the cosmetics, pharmaceuticals, consumer appliances, durables, and industrial products sectors, have registered their wholly-owned

subsidiaries in Russia. They then sell directly to their own companies registered in Russia that import for their own account. This approach affords full control of the supplier over distribution and helps to further reduce possible risks from false invoicing and other irregularities sometimes committed by independent importers and distributors. For more information on registering a company in Russia, please refer to the “Establishing an Office” section below.

4) Agents

In Russia, distributors or representative offices of foreign companies often employ agents in Russian regions to promote their products. Therefore, it is not common for foreign companies to solely rely upon one agent to cover the entire country.

General Recommendation

U.S. exporters are advised to cultivate personal relationships with their Russian representatives and clients, to proceed gradually, and to ensure that they have a contingency plan should problems arise. Since it is often difficult to find information on Russian companies, it is recommended that U.S. firms consider using [the U.S. Commercial Service’s due diligence service to validate potential partners](#). The U.S. Commercial Service advises against the risky practice of a company representative simply visiting Russia once or twice, selecting a representative, granting exclusive representation, and then moving quickly to consignment or credit sales without first establishing a payment and performance history. In addition, exporters are cautioned to take primary responsibility for registering their brand names in Russia and not to rely on a local partner for this step. Finally, it is important to provide a Russian partner with Russian language product information and marketing materials. These can be prepared in the United States or done jointly with a Russian partner.

The U.S. Commercial Service provides a range of customized business development assistance to U.S. companies in the Russian market. For more information about these services, please go [to this source](#)>>.

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Establishing an Office

The U.S. Commercial Service provides basic counseling on registration requirements and procedures. However, it is strongly recommended that interested U.S. companies seek legal advice on business registration. U.S. Commercial Service staff can provide contact information of U.S. and Russian firms that offer professional legal advice in this area. As a general rule, foreign nationals working in Russia are required to obtain a work permit. There are a few exceptions for certain citizens of countries in the Commonwealth of Independent States (CIS) and other foreign nationals who possess residency permits.

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

Russian law offers several commonly used structures to conduct business:

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

Branch Offices and Accredited Representative Offices

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

Federal Law N 106-FZ last amended in May 2016 governs branch and representative offices of foreign entities. According to the law, accreditation of branches and representative offices of foreign companies is regulated by the Federal Tax Service of the Russian Federation (hereinafter - the "FTS"). The FTS accredits branches and representative offices of all foreign companies, except for foreign banks and foreign civil aviation companies, which are accredited by the Central Bank of Russia and the federal Aviation Service respectively.

The FTS maintains the register of accredited branches and representative offices of foreign entities (hereinafter - the "Register"). Free access to the main part of the Register is available on the official website of the FTS on the Internet. Extracts from the Register can be issued for a fee within five business days.

Individual accreditation and visa support of foreign employees of branches and representative offices is exercised by the Chamber of Commerce and Industry of the Russian Federation (hereinafter - the "CCI").

The accreditation procedure is as follows:

- The application on accreditation is submitted to the FTS within 12 months from the date of adoption of the decision by the foreign company's headquarters to open the branch or representative office;

- The application shall include certain documents (the list of the documents will be adopted by the FTS) as well as certified by the CCI data on the number of foreign employees of a branch or representative office;
- The term for making a decision on accreditation by the FTS is 25 business days;
- Document confirming entry to the Register constitutes a proper confirmation of accreditation;
- Accreditation denial is possible both when there are inconsistencies in the submitted documents or a violation of the term for their delivery. Accreditation will be denied if the purposes of a branch or representative office contradict the legislation, and in cases when such purposes threaten the sovereignty, political independence, territorial integrity, national interests of the Russian Federation;
- The registration of changes to the Register is performed within 10 business days from the day of delivery of proper documents to the FTS.

Regulations of a branch or a representative office of foreign company must contain certain provisions set by the Law. The accreditation fee for each branch office is 120,000 rubles (apprx. \$2100, at current exchange rates).

Further information is available [on the FTS Web site](#)

Registration Options

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

- The 1999 Federal Law "On Foreign Investment in the Russian Federation".
- The 1994 Part I of the Civil Code.
- The 2001 Federal Law "On State Registration of Legal Entities".
- Russian Government Resolution No. 319 "On Authorized Federal Entity of the Executive Power, Providing State Registration of Legal Entities" of May 17, 2002, and a number of legal acts.
- Accreditation of Foreign Physical Persons and Legal Entities Federal Law No. 106-FZ of May 5, 2014 Concerning the Introduction of Amendments to Certain Legislative Acts of the Russian Federation.

Taxation

Companies are required to register with the local Tax Inspectorate, which will also include registration with the Russian Social Security Funds. Documents for state registration should be prepared and submitted to the local Tax Inspectorate in accordance with Chapter 12 of the August 8, 2001, Federal Law on State Registration of Legal Entities. An authorized legal entity, the Moscow Department of the Ministry of Finance of the Russian

Federation (15, Tuskaya Street, Moscow), provides counseling to business people on registration procedures and registration documents.

Further information on company registration, including the list of documents to be submitted and contact information for local tax authorities may be obtained from the following [Web site](#).

Tax Code

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

The most fundamental changes were reflected in the new chapters of the Tax Code Part II and affected the value added tax, excise taxes, individual income tax, and profits tax. Also affected was the Federal Law on the Introduction of Amendments and Additions to Part II of the Russian Federation Tax Code and to Separate Russian Federation Legislative Acts. These changes aimed at improving Part II of the Russian Tax Code were passed by the Duma and enacted into law in 2003. The ongoing tax reform has further improved procedural rules and reduced the overall tax burden in the country.

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

Profits Tax

The profits tax is levied on net profits. The basic profits tax rate is 20 percent (17% of this amount is allocated to regional Russian authorities and 3% to federal). The regional authorities may, at their discretion, reduce their regional profits tax rate to as low as 12.5%. Thus, the overall tax rate can vary from 12.5% to 20%. The tax rate was reduced in tandem with the introduction of more realistic interpretations of deductible expenses, the combined impact of which was to significantly reduce the profit tax burden and support the Russian economy during the financial downturn.

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

Value Added Tax (VAT) and Import Duties

VAT is designed as a tax to be borne ultimately by consumers, but is collected on a basis similar to the European Union model. VAT is calculated on sales value and is applied at a uniform rate of 18%, except for certain foodstuffs, pharmaceuticals and children's clothes, which are taxed at 10%. Some products, such as some financial services and medical

equipment, are entirely exempt from VAT. As of January 1, 2008, in an attempt to bolster research and development (R&D) and investment in technology, intangibles such as inventions, software, industrial designs, and production know-how are exempt from VAT.

Imports are also subject to VAT, calculated based on the customs value of the item plus customs duties and fees. In addition, import duties are assessed at specified rates, ranging from 5% to 30%. Moreover, as of January 1, 2010, import duty rates for some goods increased with the introduction of the Eurasian Customs Union (EACU). The EACU initially consisted of Belarus, Kazakhstan, and Russia, and was enlarged to include Armenia on January 1, 2015, when the group became the Eurasian Economic Union (EAEU). Kyrgyzstan also joined in 2015. The duties are assessed according to classification and are applied to the customs value of the imported goods, including shipping charges and insurance. Goods imported by foreign partners as in-kind contributions to the charter capital of a new enterprise may be exempt from import duties during a period specified in the charter documents and import VAT under certain conditions (*e.g.*, the goods qualify as technological equipment which has no analogues manufactured in Russia).

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

Social Welfare Taxes

As of January 1, 2010, the Unified Social Tax was replaced by social security (payroll) contributions to the State Pension Fund, Social Security Fund, Federal Medical Insurance Fund and Territorial Medical Insurance Fund. A business is liable for the entire amount of social security contributions and no amount is withheld from employees.

The social security contributions apply at the aggregate rate of 30% of an employee's annual salary, and the threshold may be adjusted in the future by the Russian government. The portion of an employee's annual salary in excess of this threshold is exempt from the social security contributions. Social security contributions are payable as follows: 22% to the State Pension Fund (SPF), 2.9% to the Social Security Fund (SSF), 5.1% to the Federal Medical Insurance Fund. The social security contributions apply to all payments to individuals, including individuals applying a simplified system of taxation, even if made from net income. Salary or other payments to foreign citizens temporarily present in Russia (*i.e.*, not having a permanent resident permit) are not subject to social security contributions. Social security contributions are paid on a monthly basis and the calculations of the social security contributions were filed until 2017 with the SPF and the SSF on a quarterly basis. As of January 1, 2017, FTS will accept reports and social welfare payments for workplace accident contributions which will be still controlled by the SSF and pensions which will be under the SPF.

Reduced social security contribution rates apply to certain business categories, including software and high-tech companies (14% from 2011-2017) and companies engaged in special innovation projects (14%). Companies that are members of the Skolkovo project pay 20% to the SPF and are exempt from payments for the SSF and the Federal Medical Insurance Fund.

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

[Withholding on Dividends, Interest, and Royalties](#)

Foreign legal entities without a business presence in Russia are subject to a withholding tax of 10% on freight services provided in Russia. Income tax on most Russian-sourced income including interest, royalty, income from leasing, and rental operations is taxed at a 20% rate. Dividends are taxed at a rate of 15%. These rates are often reduced pursuant to an applicable relevant double taxation treaty. Interest on certain types of state and municipal securities, mortgage-backed bonds, and certain income from certificates of participation in a mortgage pool are subject to tax at reduced rates. For example, the United States-Russia tax treaty may potentially reduce the dividends rate to as low as 5%, depending on whether ownership and investment criteria are met, and the tax on interest and royalties could drop to 0%. Lease payments and other income are subject to a 20% withholding rate.

[Land, Property and Personal Income Taxes](#)

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

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

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Franchising

Franchising as a business model only came to Russia once formal franchise legislation was adopted in 1994. Since then, the number of franchise operations has steadily grown. Since 2000, the number of franchising systems in Russia has risen from 54 to more than 7000. As of today, there are more than 1000 domestic franchising businesses in Russia. Retail trade constitutes 57% of all active franchisers, followed by services at 25%, and fast food at 16%. According to data from the Russian Franchising Association, 65% of all franchise concepts are established domestically, and 35% are foreign of which 12% are American.

Until 2011, one of the impediments to the development of franchising in Russia has been the legal framework, and in particular, the provisions of the Civil Code of the Russian

Federation that regulate franchising. At that time, Russian franchise law strongly favored the franchisee.

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

For a franchising agreement to be valid, it has to be executed in written form. The grant of the right to use the intellectual property under a franchise agreement shall be registered with the Federal Service for Intellectual Property, Patents and Trademarks (Rospatent). Absent such registration, the intellectual property rights are considered not granted by a franchisor to a franchisee. Prior to the execution of a franchise agreement, any trademarks to be licensed must already be registered with Rospatent or the World International Property Organization (WIPO), with Russia designated as a designated country.

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Direct Marketing

The Russian direct sales market represents two percent of the world market. Leading direct sales companies such as Avon, Amway, Mary Kay, Oriflame, Herbalife and Tupperware are active in Russia. [World Federation of Direct Selling Associations statistics revealed that direct sales in Russia in 2015 amounted to \\$2.145 billion](#) (5.5% drop from 2014) and that slightly over five million salespeople (also a 5% drop from 2014) Russia-wide were engaged in direct selling. The decrease may be explained by 30% growth of prices for products which are mainly imported. Personal direct selling has been most successful in cosmetics and personal care products (62%, with 1% increase from 2014), wellness (19%, with 3% increase from 2014).

According to Euromonitor, Avon Products led direct selling in 2016, with a market value share of 25%. The company benefited from an increasing number of active sales representatives. Amway, whose market value share declined from 15% in 2015 to 13% in 2016, followed Avon in second.

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Joint Ventures/Licensing

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

A principal benefit of a JV is the possibility of brand recognition for the U.S. company's products in the Russian market, particularly in the face of the inherently complex challenges that many foreign companies encounter here. The May 2008 *Strategic Sectors Law* identified 42 industry sectors requiring the Russian government's pre-approval of a foreign firm's purchase of controlling interest. Additionally, political pressure is mounting in Russia for domestic content mandates in key sectors and for large-scale procurements. Firms that creatively help oil producers meet these requirements will have an advantage in this industry.

Russian and U.S. partners often take a different view of JVs. U.S. companies, especially SMEs, often consider JVs as a means of securing a local partner with experience in the Russian market. On the other hand, many Russian managers view a foreign partner chiefly as a source of working capital, and these managers may place a low priority on local market development. Before making financial or legal commitments, U.S. firms should thoroughly explore whether a potential partner shares their priorities and expectations. Any firm that forms a JV in Russia should be ready to invest the necessary resources, including the personal attention of its managerial staff, to keep the business on course both before and after the establishment of the JV.

Certain types of business activity need a special license issued by an authorized licensing body for:

- surveying
- cryptic IT and telecommunication systems
- pharmaceutical activities and the production of medicines
- development, production, repair, sales and trade of weapons and military equipment
- overseas and inland waterway passenger and freight transportation
- use of highly explosive and hazardous objects for production
- production, storage, usage and distribution of explosive materials for an industrial assignment
- educational activities, *etc.*

The full list of activities that require licenses is stipulated by the Federal Law "On Licensing of certain Types of Activity" N 99, May 4, 2011, with amendments adopted by Federal Law № 185 (FZ - N185) July 2013.

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

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Selling to the Government

Many governments finance public works projects through borrowing from the Multilateral Development Banks. Please refer to "*Project Financing*" Section in "*Trade and Project Financing*" for more information.

Distribution & Sales Channels

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

Well-organized distribution channels have developed significantly over the last few years, particularly in the major population centers of Moscow and St. Petersburg, and have started to expand to the regions. In the consumer sector, there are large-scale retail stores in Moscow that are able to buy in bulk. Shopping malls and big box stores are common sights in St. Petersburg, Moscow, and many other Russian cities. By employing the domestic distribution organizations, the task of bringing goods to market in Russia has been greatly eased. However, the geographic coverage of distribution companies may be limited and accessing markets in some of the regions is still problematic. In these regions, U.S. firms may encounter erratic distribution, unpredictable schedules and tough competition.

The retail sector had been developing rapidly in recent years. Discount stores, hypermarkets, supermarkets and specialized stores have gained 20% between 2012 and 2016. In 2016, the sector, however, registered a slowdown and then a 13% drop. In 2016 the lowest sales were in non-food retail especially in consumer electronics, apparel and household appliances. Several large apparel retailers such as Finnish Stockmann, Spanish Desigual, Russian/Polish Maratex announced closures or sales of their Russian businesses.

Retail & Loyalty magazine reports that food retail has shown signs of consolidation: the ten largest federal chains increased their market share by 2.9% mostly at the expense of smaller retail stores and due to the overall economic slow down.

According to Data Insight, 68% of Russians are using or plan to use e-commerce and m-commerce applications to search for goods or purchase them, and the volume of online sales more than doubled (2.5 times) within the last three years. Among traditional channels, hypermarkets grew most rapidly, though it is still the channel with the lowest penetration rate - 7 to 8 times less than in developed countries and 3 to 4 times less than in developing markets. Experts predict that discount stores will register the largest volume of sales by 2018 among all traditional retail channels.

Those who manage to successfully distribute their products rely on a combination of improvisation and innovation, combined with a substantial investment of time and patience in the face of obstacles and challenges. U.S. companies with a long-term market development strategy may find regional markets well worth exploring.

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Express Delivery

According to J'son & Partners Consulting, the Russian express delivery market grew 5% reaching 54.6 billion rubles (approximately \$850 million) in 2015 (the latest available data). The Russian market represents 0.5% of the global express delivery market. It grew 30% annually until 2015, but market growth has slowed significantly due to the economic downturn and exchange rate fluctuations. The 38 largest Russian cities, including Moscow, St. Petersburg and cities with more than 500 thousand residents, consume 70% of the total volume of express delivery services, with more than 60% of the market coming from B2C transactions. The size of the B2B express delivery segment, which is especially important for healthcare products, has not changed since 2015.

According to the East West Digital News (EWDN industry report, the Russian B2C e-commerce market reached approximately \$16.3 billion (physical goods only) in 2016, including an estimated \$4.3 billion for cross-border sales, mainly from China. Cash-on-delivery and partial returns are widespread practices in Russia, which leads to increasing delivery costs. A person can receive goods below 31 kilos and 1000 Euros per month without having to pay customs duties. Parcels of larger weight and value needs to be cleared. As of January 1, 2017, Russian customs require passport data of physical persons receiving parcels from abroad which significantly increases delivery time.

Russian Post controls more than 90% of the cross-border B2C shipping market, but has a much smaller share in domestic operations. According to the Russian Association of Express Delivery Companies, DHL is the leading foreign operator in the market. FedEx, TNT and UPS are also very active, but the total share of the four largest global companies is still less than the share held collectively by Russian firms, including EMS Russian Post, Armadillo, Garantpost, PonyExpress, CityExpress, and SPSR.

Approximately 38% of all orders are delivered through pick up points. PickPoint is the leader in this segment with 80% of the market followed by QIWI Post and LogiBox. The express delivery sector is growing in proportion with e-commerce growth. Experts suggest that the express delivery market will grow 5% annually over the near term. In 2015, AliExpress and eBay signed contracts with Russian express delivery companies, and Amazon is expected to join them in the Russian market shortly.

Currently, the express delivery market in Russia is highly segmented, with each of the largest players holding less than 5% of the market. Industry insiders suggest that over the next ten years consolidation will leave only five or six large companies, including DHL, Armadillo, and UPS.

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Selling Factors & Techniques

As with any country, successfully marketing and selling goods and services in Russia require adaptation to its commercial climate and business practices. Market research is required to identify opportunities and potential Russian business partners. The choice of a partner is key and should be done only after conducting sufficient due diligence to determine its reputation and reliability. [The U.S. Commercial Service can provide customized services, which may include market research, promotional events, partner and buyer identification, and due diligence services.](#)

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

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

Every foreign product intended for sale in Russia needs to have a description in Russian that includes information about contents, manual/use explanation, manufacturer,

importer, certificates, *etc.* For more information please refer [to the RF Law "On Protection of Customers' Rights"](#).

Business should always be conducted in compliance with all Russian laws and regulations (taxes, customs, labor, *etc.*), as well as applicable U.S. laws and standard business practices, including corporate governance and accounting practices.

Exporters should avoid selling on open account until they have developed a well-established track record with buyers. Letters of credit and other secure financing vehicles are possible. Exporters should be prepared to adjust prices according to currency fluctuations.

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

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eCommerce

Overview

With over 70 million people using the internet monthly, Russia has the largest online audience in Europe. Despite the difficult economic situation, the long-term prospects for growth look good. According to the new edition of East West Digital News Agency's (EWDN) Russian E-Commerce Report, which cites data from the Russian agency Data Insight, online sales in 2016 exceeded \$26 billion, growing more than 20% year-on-year. Included in this figure are \$16 billion for physical goods and \$10 billion for online travel. Up to 2015, the online market grew 25% annually. Data Insight also reports that in 2015, Russia's domestic online retail grew in rubles, reaching 650 billion (+16%), with an average order value amounting to some 4,050 rubles (up from 3,750 rubles in 2014). However the picture looks different if viewed in U.S. dollar terms given the ruble's sharp depreciation: the market size fell to \$10.5 billion, down 28% from 2014, which tracks more accurately with the recent economic recession.

Current Market Trends

According to the EWDN's Russian E-Commerce Report, Russia's e-commerce market continued to grow in 2016 even as offline retail was severely affected by the economic crisis. Real-estate infrastructure has become dramatically cheaper and more accessible, and key players are taking advantage to build out warehousing and fulfillment facilities. Although demand still exceeds supply on the fulfillment service market, delivery conditions across this huge country have improved.

In 2016, the most popular product groups were clothing, shoes and lifestyle, media and entertainment, telecom, consumer electronics, home and garden, health and beauty, and others.

Domestic eCommerce (B2C)

According to Yandex Report of E-Commerce in Russia, payment aggregator Robokassa and analytics company Openstat identified 1.17 million “commercial sites” in the .ru, .su and .рф domains out of more than 3 million sites on the Russian Internet in 2014. Of these “commercial sites,” just a small part can actually be considered e-commerce sites as far as physical goods are concerned. In 2014, InSales estimated the number of e-commerce sites (with a shopping cart function) at 43,000. Of these sites, a mere 50 generated more than 4 billion rubles (approximately \$100 million) in sales revenues per year, and 950 reached or exceeded 200 million rubles (\$5.2 million).

Cross-Border eCommerce

The cross-border segment is the fastest growing, up 26% by value and 80% by number of parcels and small packages, and exceeded \$4 billion for physical goods alone, according to Russian Post and industry association NAMO.

The growth of this segment has been driven in large part by Chinese companies - most notably Alibaba’s B2C marketplace Aliexpress.ru - but key western players including Amazon, Asos, Next and Yoox are also in the game.

According to eMarketer, in 2015, 39% of Russia’s online shoppers made a cross-border digital purchase at least once that year. Clothing, accessories, and footwear are the most common products Russian shopper by abroad, making up over 51% of Russian cross-border digital purchases. The second most purchased category of goods are cosmetics, beauty and health products. The leading categories come as no surprise, as many Russians hold a high value on appearance and name brands. Some other popular categories Russians look to shop abroad for include toys, electronics, and household goods.

B2B eCommerce

According to Moscow Times research, in 2015, 68 % of Russian corporations used electronic trading platforms for procurement purposes. According to data from B2B-Center, online corporate and government purchases ballooned by 40% in the first nine months of 2014 compared with the same period of time in 2013.

The majority of this business sprouted from construction goods and services, with more than one-fifth of all purchases made in 2014 falling into this category. Trailing close behind was the procurement of machinery and specialized products for the mining and oil-field industries, making up 18.6% of all online B2B purchases seen on B2B-Center.

As B2B online shopping increases in Russia, the industry has become tightly regulated. Transactions made through B2B e-commerce platforms are legally binding due to the large financial value of these purchases. Procurement procedures, especially for state-run entities, face strict legal requirements.

eCommerce Services

Russia's exceptionally vast geography makes the country challenging for anyone who wants to deliver goods to or within Russia. However, delivery options have improved significantly over the past few years. While the Russian Post began its reforms, several new providers emerged with higher quality service and shorter delivery time to large and mid-sized cities across the country.

Meanwhile, pure online players like KupiVIP, Lamoda, Ozon and Ulmart have deployed their own warehousing and delivery processing facilities across the country. Others, like multi-channel (online and offline) retailers Otto and Svyaznoy, have developed existing logistics systems to serve the growing needs of their e-commerce branches. Much remains to be improved and created, however, for Russia's e-commerce infrastructure to meet today's and tomorrow's needs.

eCommerce Intellectual Property Rights

[IPR resources can be found at this link >>](#)

Popular eCommerce Sites

The top most popular B2C sites are [WILDBERRIES.RU](#), [ULMART.RU](#), [CITILINK.RU](#), [MVIDEO.RU](#), [ELDORADO.RU](#), [LAMODA.RU](#), [OZON.RU](#), [EXIST.RU](#), [SVYAZNOY.RU](#), [KUPIVIP.RU](#), [AVITO.RU](#), [ALIEXPRESS.RU](#)

Online Payment

Cash-on-delivery (COD) is the existing trend for physical goods and will remain so for some time, although the use of electronic payments is slowly increasing. Despite being used by a minority, many forms of electronic payments are on the rise. EWDN's report states that according to the opinion of industry experts and e-commerce executives, the use of electronic payments will continue to rise. There are differing opinions on the specifics of using bank cards online.

Various forms of electronic payment are on the rise, even though they are used only by a minority of consumers. In addition to bank cards, the use of which is growing slowly, several new solutions and offers appear each year, and some of them are intended to create a universal means of payment. Large segments of the electronic payment market are led by domestic players, from payment terminal operators to mobile carriers to electronic currency companies.

Mobile eCommerce

The number of mobile shoppers has exceeded 8.5 million. These numbers are expected to increase dramatically as mobile internet and smartphone devices grow in popularity across Russia.

Digital Marketing

The amount and frequency of searches for your product or service should be analyzed prior to launching a campaign in Russia. As well as using Google Trends, there is the

useful Yandex service to help you select the right words to use on your website to attract consumers: wordstat.yandex.ru.

Major Buying Holidays

Foreign retailers must prepare their advertisement campaigns, promotions, and products for Russian New Year, Men's Day, and International Women's Day. These three holidays drive a significant portion of Russian online shopping and vary from Western holidays.

Over the past few years, Russia started participating in Black Friday weekend sales to kick off the winter holiday shopping season. For the most part, shoppers make their purchases throughout December for the ever-popular Russian gift-giving day on January 1. The majority of shoppers don't start shopping in November and many last-minute shoppers are still making purchases in late December when Westerners have already returned their gifts. A third of Russian holiday shoppers turn to the Internet for gift ideas and to make these purchases - 14% of shoppers search online, but then purchase in stores.

Russia recognizes men on February 23, which is Men's Day or otherwise known as "Day of Fatherland Defenders", and celebrates International Women's Day on March 8. During the weeks leading up to these holidays, Russians search for a number of gifts in the cosmetic and electronics categories to recognize their friends and family members. Combined, these three holidays make the winter a very important shopping period unique to Russia.

Beyond these holidays, Russians also search online for Valentine's Day gifts, wedding gifts, and birthdays.

Social Media

More than 90% of Russian Internet users access social networks. The most popular social network in Russia is VKontakte, which has over 380 million registered users, 65% of them live in Russia. VKontakte has 80 million visitors per day, 60% aged 25 or older.

Trade Promotion & Advertising

Television, radio, print, and billboard media are ubiquitous in the Russian market. Most international advertising agencies are active in Russia, and domestic agencies are present in the market as well. Enforcement of some advertising laws has been inconsistent, however, leading to situations where already-purchased advertising is then disallowed by local government officials. Major advertisers in Russia include successful Russian and foreign manufacturers of consumer goods, particularly in the processed foods and beverages sectors.

A recent study showed that the Russian advertising market grew 11% in 2016 to 360 billion rubles. The marketing services segment grew 7% up to 94.5 billion rubles. Traditional forms of advertising are still prominent in Russia. However, according to the Association of Communication Agencies of Russia (AKAR) "Out of Home" advertising, including outdoor, transit, indoor ads and advertising in cinema theaters, as well as Internet advertising have increased significantly.

In 2016, television was the leading advertising platform with 42% of the market and total revenues of over 150.8 billion rubles (\$2.6 billion), and it is likely to keep its position. Internet advertising has grown significantly and has second largest share of 38%, while press continues to lose its position with only 5%.

Experts from the Russian Association of Communication Agencies summarized the results of the advertising market performance in 2016 and CS Moscow compiled the numbers from 2011-2016.

Segments	2016 (Rubles, billions)	2015 (Rubles, billions)	Percent change to 2015	2014 (Rubles, billions)	2013 (Rubles, billions)	2012 (Rubles, billions)	2011 (Rubles, billions)
TV	150,8	136,7	10%	159.2	156	143.2	131
Incl. Terrestrial Television	146,9	134.2	9%	155.7	152.2	139.9	128.9
Cable	3,9	2.5	52%	4.1	4	3.31	2.16
Internet	136,0	97	21%	84.6	71.7	56.3	41.8
Incl. Media Advertising	n/a	18.7		19.1	20.1	17.9	15.3
Contextual Advertising	n/a	78.3		65.5	51.6	38.4	26.5
Press	19,7	23.3	-16%	33	37	41.2	40.4
Incl. Newspapers	5,4	6.5	-16%	8.1	8.7	9.5	8.8
Magazines	10,7	11.6	-8%	16.5	18.5	20.1	19.8
Advertising Periodicals	3,6	5.3	-32%	8.5	9.9	11.6	11.8
Outdoor Advertising	31,4	32	- 1,8 %	40.6	40.7	37.7	34.3
Radio	15,1	14.2	6%	16.9	16.5	14.6	11.8
Other	n/a	4.2	-19%	5.1	5.7	4.9	4.1
Total		307	-10%	340.1	327.8	297.8	263.4

Source: [Association of Communication Agencies in Russia](#)

Social Networking

Russia is Europe's largest Internet market by number of users, at over 105 million people, or approximately 74% of the population, and 82% of users on social networks daily.

Both Russian and Western social networking sites are growing in popularity, especially among younger demographic groups. The two most popular social networks are Russian-based [VKontakte](#), (or [VK](#)), a similar platform to Facebook, and [Odnoklassniki](#), a platform for connecting old friends and classmates. VKontakte (VK) is the second biggest social platform in Europe, and the most popular website in Russia, with over 380 million registered users. With 60% of its patrons aged 25 or older, VKontakte receives 80 million visitors per day. Odnoklassniki is Russia's second most popular social platform, with more than 124 million registered users, with approximately 60% of its audience in the 20 to 40 year old age bracket, and 40 million visits received daily. Facebook has 13 million Russian users.

Another Internet site with growing popularity, LinkedIn, had approximately 6 million Russian users before it was blocked by Russia's communications regulator Roskomnadzor. LinkedIn was blocked after it failed to transfer Russian user data to servers located in the country, violating the 2014 data localization law instituted in Russia which requires all online sites to store personal data on national servers.

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

TV Channels¹

1. [Russia 1](#)
2. [ORT](#)
3. [NTV](#)
4. [5 kanal](#)
5. [REN TV](#)

Radio Stations²

1. [Europa Plus](#)
2. [Dorozhnoye Radio](#)
3. [Avtoradio](#)
4. [Russian Radio](#)
5. [Retro FM](#)

¹ Source: TNS statistics for Russia April 10-16, 2017.

² Source: TNS statistics for Russia July - December 2016

Press³

Daily Newspapers

1. [Metro](#)
2. [Rossiskaya Gazeta \("Russian newspaper"\)](#)
3. [Moskovsky komsomolets](#)
4. [Moskva vechernaya](#)
5. [Sport-express](#)

Weekly Newspapers⁴

1. [Arguments and facts](#)
2. [Komsomolskaya Pravda Tolstushka](#)
3. [777](#)
4. [Vechernyaya Moskva](#)
5. [Moskovskovskiy Komsomolets](#)

Weekly Magazines⁵

1. [Antenna - Telesem](#)
2. [Teleprogramma](#)
3. [7 Days](#)
4. [Teleweek](#)
5. [Teshin Yazik](#)

Monthly Magazines⁶

1. [Za rulem](#)
2. [Vokrug Sveta](#)
3. [Caravan of stories](#)
4. [Lyublyu Gotovit'](#)
5. [Teshin Yazik/Zyatek](#)

Most Popular Web Sites⁷

1. [VKontakte](#)
2. [Yandex](#)

³ Source: TNS statistics for Russia - Moscow and St Petersburg, September 2016 – February 2017

⁴ Source: TNS statistics Russia - Moscow and St Petersburg, September 2016 – February 2017

⁵ Source: TNS statistics Russia - Moscow and St Petersburg, September 2016 – February 2017

⁶ Source: TNS statistics Russia - Moscow and St Petersburg, September 2016 – February 2017

⁷ Source: SimilarWeb Top Russian websites ranking April 2017

3. [Youtube](#)
4. [Odnoklassniki](#)
5. [Google](#)

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Pricing

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

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Sales Service/Customer Support

Good after-sales service, training, and customer support can be a major competitive advantage for U.S. firms entering the Russian market, as Russian manufacturers are known for inadequate post-sale service while European suppliers on the contrary offer very good customer support. 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 have never used particular products or brands. U.S. firms able and willing to offer training and support for products, particularly in remote sites, could gain a significant advantage over competitors. Conversely, companies unwilling to make this commitment may find themselves at a distinct disadvantage to European or Asian companies, whose proximity facilitates training and service. After-sales service is also often an important component in leasing arrangements in Russia and will play a larger role in the decision process as leasing continues to develop. Companies that offer training on site in the U.S. or are sending trainers to Russia are advised to start the visa process as early as possible - issuance of both Russian and American visas can take up to several months depending on the type and time of the year (the summer period is particularly busy). AmCham and USRBC offer their members expedited visa appointment services.

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Protecting Intellectual Property

In 2017, Russia remained on the “Priority Watch list” of the U. S Trade Representative’s “Special 301 Notorious Markets” reports on countries that engage in substantial IPR (intellectual property rights) violations. Several general principles are important for U.S. companies to effectively manage IPR in Russia. First, it is important to have an overall strategy to protect IPR. Second, IPR are protected differently in Russia than in the United States. Third, IPR must be registered in order to be enforced in Russia, under local laws.

U.S. firms should proactively take steps to protect their intellectual property in Russia, including registering their trademarks with the Federal Service for Intellectual Property (Rospatent) as well as recording them with the Russian Federal Customs Service’s IPR Register. It is vital that companies understand that intellectual property is primarily a private right and that the U.S. Government generally cannot enforce rights on behalf of private individuals in Russia. While the U.S. Government is willing to assist, there is little it can do if the right holder has not taken the fundamental steps necessary to secure and enforce its IPR in a timely fashion. U.S. businesses are encouraged to contact the U.S. Commercial Service for a list of law firms that may be able to assist you with registering your intellectual property and/or may search the Commercial Service Moscow business service provider page on export.gov for listings of law firms. To access this site directly, [please go to this link >>](#)

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

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

- American Chamber of Commerce in Russia (AmCham)
- National Association of Manufacturers (NAM)
- International Intellectual Property Alliance (IIPA)
- International Trademark Association (INTA)
- Coalition Against Counterfeiting and Piracy
- International Anti-Counterfeiting Coalition (IACC)
- Pharmaceutical Research and Manufacturers of America (PhRMA)

- Biotechnology Industry Organization (BIO)
- Russian Anti-Piracy Organization (RAPO) (represents the Motion Picture Association of America)
- National Federation of Music Industry (NFMI)
- Business Software Alliance (represented by IP Novus Law firm in Russia)
- Association of Branded Goods Manufacturers in Russia (RusBrand)
- Federal Service for Intellectual Property (Rospatent)
- Russian Federal Customs Service
- Russian Ministry of the Interior, Economic Security Department

More detailed information on IPR issues in Russia is provided in the Investment Climate Statement in this guide.

While the U.S. Government stands ready to assist, there is little we can do if the rights holders have not taken these fundamental steps necessary to securing and enforcing their IP in a timely fashion. Moreover, in many countries, rights holders who delay enforcing their rights on a mistaken belief that the USG can provide a political resolution to a legal problem may find that their rights have been eroded or abrogated due to legal doctrines such as statutes of limitations, laches, estoppel, or unreasonable delay in prosecuting a lawsuit. In no instance, should U.S. Government advice be seen as a substitute for the responsibility of a rights holder to promptly pursue its case.

It is always advisable to conduct due diligence on potential partners. The Commercial Service in Russia can produce a due diligence report for you. For more information, go to [Commercial Service in Russia official page](#) and search under "Services for U.S. companies". A good partner is an important ally in protecting IP rights. Consider carefully, however, whether to permit your partner to register your IP rights on your behalf. Doing so may create a risk that your partner will list itself as the IP owner and fail to transfer the rights should the partnership end. Keep an eye on your cost structure and reduce the margins (and the incentive) of would-be bad actors. Projects and sales in Russia require constant attention. As with all partnerships, U.S. companies are recommended to work with legal counsel familiar with Russian laws to create a solid contract that includes non-compete clauses, and confidentiality/non-disclosure provisions.

In any foreign market, companies should consider several general principles for effective management of their intellectual property. For background on these principles please link to our [article on Protecting Intellectual Property](#) and also on [corruption](#).

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IP Resources

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

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

Due Diligence

As previously noted, Russia can be a challenging market U.S. companies that do not take the time to learn about the business environment and choose local partners wisely. Taking shortcuts in evaluating business opportunities and in selecting local partners is not advisable. Complicating these efforts is the fact that the Russian economy continues the transition from a closed, centrally-planned economy to an open, market economy. This means that basic business information about regulations, company ownership and credit

worthiness is not always easy to find, and the regulatory framework continues to evolve, requiring companies to stay up-to-date with changes. The U.S. Commercial Service offers an International Company Profile service as a way to evaluate potential partners. For more information on this service and other customized services, [visit this page >>](#).

Commercial Service Contact

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Local Professional Services

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

In Moscow and St. Petersburg, there are many offices of major western accounting, legal and consulting firms blending the skills of Russian and foreign professionals. Competent smaller firms also operate under Russian or U.S./European management. U.S. firms should avail themselves of locally based specialists familiar with issues confronting western firms in Russia. The U.S. Commercial Service offices in Russia maintain lists of local attorneys and accounting firms. For more information, see [the link](#). The American Chamber of Commerce in Russia is also a good source of contacts and information.

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Principle Business Associations

[American Chamber of Commerce in Russia](#)

[U.S. -Russia Business Council](#)

[Russian Direct Selling Association](#)

[Russian Association of Internet Trade Companies](#)

[Russian Association for Electronic Communications](#)

[Russian Association of Communication Agencies/Russian Association of Advertising Agencies](#)

[Association of Russian Banks](#)

[Association of Advertisers](#)

[Russian Brand Owner Association](#)

[Association of Russian Retailers](#)

[Federation of Restaurateurs and Hoteliers](#)

[National Packaging Confederation \(NCPack\)](#)

[Association of software developing companies from Russia \(Russoft\)](#)

[Information & Computer Technologies Industry Association \(APKIT\)](#)

[International Medical Device Manufacturers Association \(IMEDA\)](#)

[Association of International Pharmaceutical Manufacturers \(AIPM\)](#)

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Limitations on Selling US Products and Services

Unlike brick and mortar sectors in Russia, e-commerce is not subject to specific legislation. In most cases, this industry has been subject to rules contained in Russia's Civil Code and a range of federal laws, which were designed to regulate larger sectors. Since 2011, several important laws have been adopted in the field of personal data and electronic payments. In certain cases, these efforts to improve the legal framework have resulted in significant complications for market players. In particular, many aspects of the legislation on personal data collection, storage and use have become particularly demanding and its implementation may be burdensome and costly, especially for players operating from abroad. All companies operating in Russia have been required to store their users' or clients' personal data on servers located physically in Russia.

Federal Law No. 188-FZ "Concerning the Introduction of Amendments to the Federal Law "Concerning Information, Information Technologies and Information Protection" and Article 14 of the Federal Law "Concerning the Contract System for Procurements of Goods, Work and Services to Meet State and Municipal Needs" signed on June 29, 2015 provides for the creation of a Unified Register of Russian Computer Programs and Databases and a partial prohibition on the procurement of foreign software and databases for State needs. The Law was enacted on January 1, 2016. The signing of this law forms part of the import substitution policy laid down in the Russian Government's crisis response plan. Under the new rules, software will be recognized as Russian only if details of the software have been entered in the Unified Register. Only software listed in the Unified Register may be

purchased to meet State and municipal needs. The law states that in order for exceptions to be applied, the buyer will have to prepare a statement explaining why the restrictions cannot be observed.

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Web Resources

[Bureau of Industry & Security, U.S. Department of Commerce:](#)

[Export Controls](#)

[Possible Violations](#)

[Consolidated Screening List](#)

[Eurasian Economic Commission](#)

[more about the Eurasian Economic Commission >>](#)

[Harmonized Tariffs](#)

[Draft Technical Regulations](#)

[Russian Federal Customs Service](#)

[and alternative site >>](#)

[Russian Ministry of Economic Development](#)

[Russian Ministry of Industry and Trade \(in English\)](#)

[Russian Ministry of Industry and Trade \(in Russian\)](#)

Legislation passed by Congress that authorized the President to extend Permanent Normal Trade Relations to Russia and Moldova requires the Secretary of Commerce to establish and maintain a phone hotline and secure website for U.S. entities, and to report to Congress, on instances of bribery, attempted bribery and other forms of corruption in the Russian Federation.

Individuals and companies that wish to report instances of bribery or corruption that impact, or potentially impact their operations, and to request the assistance of the United States Government with respect to issues relating to issues of corruption may call the Russia Corruption Reporting hotline at (202) 482-7945, or submit the form provided at http://tcc.export.gov/Report_a_Barrier/reportatradebarrier_russia.asp

Every effort will be made to protect the confidentiality of the information provided.

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Leading Sectors for US Exports & Investments

Agriculture

Leading Sub-Sectors

Soybeans

Russia's demand for soybeans continues to grow with Russia's focus on development of the livestock, poultry and aquaculture sectors. While soybeans have not been banned under Russia's countersanctions food embargo. Imports of U.S. soybeans have been restricted due to phytosanitary concerns raised by the Government of Russia. In addition, there are GE regulatory concerns which could impact imports soybeans if the phytosanitary restrictions are lifted.

During marketing year 2015/16, Russia's imports of soybeans from the United States ranked third after Brazil and Paraguay and was 486 thousand metric tons. From September 2016 until March 2017, Russia imported no soybeans from the United States. If the phytosanitary and GE issues are resolved, the market for soybeans in Russia has tremendous potential.

Animal Genetics

While Russia's stated a goal to be self-sufficient in beef and dairy products, among other food categories, and has initiated an import substitution program, there are still market opportunities for U.S. exports, particularly for live cattle and genetic materials. While Russia's current counter-sanctions prevent imports of many U.S. food and agricultural products, imports of U.S. live cattle and genetic materials are still permitted. For example, demand exists for dairy cattle, specifically registered Holsteins, and beef cattle, particularly Angus. The Russian government subsidizes live animal purchases for numerous domestic development projects. This program facilitated imports of 97,023 head in 2013, 74,647 head in 2014, 93,795 head in 2015, and 62,920 head in 2016 from around the world. The United States was the second largest exporter of live bovine animals to Russia in 2014 (after Australia), and the 6th largest in 2015. The United States did not export any live cattle to Russia in 2016, mostly because the prices for livestock from the United States were comparatively high against prices from competitors. When currency rates and prices are favorable, U.S. livestock is the best option, matching the needs of large industrial cattle farms in Russia. The product which shows the best potential in the current market is cattle genetic - semen and embryos.

The Russian government declared that it has successfully implemented the modernization of the poultry and pork sectors, but demand for hatching eggs and daily chicks still exceeds domestic availability. Russia will remain an important importer of poultry genetics. Swine genetics also remain an area of opportunity as the sector continues to expand. Moreover, imported agricultural animals, poultry and genetic materials for breeding purposes are eligible for zero import tariffs and VAT free until January 1, 2020. As the supply of all red meats, poultry and dairy products continues to be limited due to the Russian agricultural import ban, the demand and opportunity for higher quality animal genetics is expected to continue to grow.

Chocolate and Cocoa Preparations

Chocolate and cocoa products are traditional treats in Russia accounting for up to half of the confectionery market in physical terms. Virtually every Russian household purchases such products at least once a year while the average Russian consumes nearly 5 kilograms of chocolate per year. As production costs for chocolate continue to rise in connection with the ruble's depreciation against the U.S. dollar and euro, Russian authorities have reduced the import duty on cocoa to zero. A similar decision was taken by the Eurasian Economic Commission (EEC), the executive body of the Eurasian Economic Union (EAEU). According to the ECC, the zero-duty rate will be effective until December 31, 2017. Although the cost of chocolate production in Russia has risen sharply, Russians continue to consume it in large quantities creating opportunities for U.S. exporters of chocolate and cocoa products.

Edible Tree Nuts

Russia's commercial nut production is limited to pine nuts making Russia entirely dependent on imports for all other tree nuts. In 2015, total Russian tree nut imports amounted to 15,633 MT worth \$139 million - a 42% decline in value compared with 2014. The overall drop in 2015 resulted from the ruble depreciation, slowing economy, falling disposal income, and market access restrictions applied in August 2014. The Russian tree nut market is far from saturated and has good potential for further expansion once market access is restored. Per capita tree nut consumption is only around 0.60 kilograms (kg) including imported sweetened nuts and seeds, which is significantly lower than consumption levels in European countries, the United States, Japan, and China. According to import statistics, the most popular nuts in Russia are hazelnuts (47 percent of the market in volume terms), followed by almonds (28%), pistachios (14%) and walnuts (5%). In 2015, the major suppliers of tree nuts to Russia were (in order) the Azerbaijan, Turkey, Chile, Iran, Georgia and China according to the Russian Customs Service. On August 6, 2014, Russian President Vladimir Putin signed a decree banning a list of agricultural products from the United States, Canada, European Union, Australia, and Norway for a period of one year due to the implementation of economic sanctions placed against Russia, which has since been extended through August 2016. The list of the banned products includes raw tree nuts under harmonized tariff codes (HTC) 0801, 0802, 0811, and 0813. Processed tree nuts are not affected by the ban and imports have grown substantially. When/if the restriction is eventually lifted, U.S. tree nuts will likely be a best prospect commodity for the Russian market again.

Wine and Spirits

Russia is the world's 7th largest wine market with a growing consumption currently estimated at 10 liters per person per year. It is one of the most developed wine markets of all the "BRICS". Italy, France and Spain are the top exporters of wine to Russia. Between 2009 and 2013, U.S. wine sales increased, but have since fallen by 33 percent to \$2.76 million in 2016. As U.S. wines account for 0.38% of total imports, there is tremendous opportunity for growth as Russian wine culture continues to develop and as the economy recovers. Total wine imports in Russia reached \$728 million in 2016.

Since 2009, Russia has significantly increased imports of U.S. bourbon and rum. The United States (including Puerto Rico) is now the fourth largest supplier of spirits to Russia. As Russia is one of the world's largest spirits markets by volume, there is significant potential for continued growth over the medium to longer term. In 2016, Russian imports of U.S. distilled spirits were valued at \$44.6 million. Overall Russian imports of distilled spirits totaled \$684 million in 2016, down 4.7% in value terms compared to 2015. In 2017, Russia raised excise taxes on spirits to 523 rubles per liter of anhydrous alcohol.

Craft Beer

In 2013, Russia also started importing American craft beer. In 2016, Russian imports of U.S. craft beer reached \$887,064, a 61% increase from 2015. While U.S. craft beer has less than a 0.7 percent share of total beer market, American craft beer is very popular in Russia and with some marketing investment, there is potential for growth.

Trade Events

[International exhibition of testing and measuring equipment, testing and control](#)

Moscow

October 24-26, 2017

Web Resources

Organizations & Publications

[Ministry of Industry and Trade](#)

[Federal Customs Service](#)

Agricultural Trade Office Contact:

[U.S. Embassy Moscow](#)

Agricultural Equipment

Overview

Russia contains 220 million hectares or 20% of the world's supply of fertile land and could potentially feed two billion people, according to the Food and Agriculture Organization of the United Nations (FAO). However, this potential is not fully developed, since 38% of Russian land is fertile and only 13% is cultivated. Four regions (Central, North Caucasus, the Urals and Povolzhie) produce 73% of agricultural outputs in Russia.

Unlike other sectors in the economy, the agricultural sector registered 4.8% growth in 2016, largely driven by a weak ruble and the food import ban imposed by the government in August 2014. The Ministry of Economic Development forecasts 7.8 % growth by 2018.

The Russian government has made it a priority to ensure food security for the nation by increasing the amount of agricultural products produced in Russia. Therefore, there is a demand for agricultural equipment that allows increasing yield and labor capacity while ensuring ecological protection and a safe work environment. The Russian government plans significant investments in projects that will help substitute the import of meat, milk and vegetables in the next five years. The Ministry of Agriculture endorsed 464 projects totaling 263 billion rubles (approximately \$4 billion at an exchange rate of 60 rubles/dollar), which will receive government support. In 2015, for example, the Russia government developed a program to subsidize up to 30% of the direct construction cost of milk plants.

The increasing need for modernized agricultural machinery in Russia is clear with inadequate agricultural machinery and equipment remaining a key weakness in Russian agricultural production. Per a recent study by J'son and Partners Consulting, in the last ten years, the Russian fleet of tractors decreased 51%, with similar reductions in the number of plows (57%), cultivators (47%). Other experts also note a decrease in seeders (52%), grain harvesters (50%), and forage harvesters (49%). Almost 60% of tractors owned by Russian farmers exceeds the typical service age of 10-12 years. One tractor in Russia serves 247 hectares, compared to 38 in the U.S. and 14 in France. Russian Minister of Agriculture Alexander Tkachev stated that the sector still needs 180,000 tractors and 80,000 combines. Russian agricultural companies buy approximately 12,000 tractors annually, approximately a third of the number required to maintain an efficient and up-to-date equipment pool. Market players and experts have consistently expressed the view that there is a significant need for large-scale replacement of old agricultural equipment in the next few years.

General deterioration in economic conditions and uncertainty in the market place coupled with increased interest rates, unstable exchange rate and political challenges limit the sector's development. The government is attempting to stimulate investment in capital purchases by offering various subsidies for strategically important subsectors, including meat and milk production.

Overall the agricultural equipment market dropped significantly in 2014. Certain types of equipment, such as cultivators and forage harvesters, increased slightly in 2015. Global Trade Atlas statistics for 2016 show that U.S. exports of tractors more than doubled from 2015 numbers, totaling \$71 million. According to Russian Customs statistics, total imports of machines and equipment in Russia in 2016 increased slightly by 2.2% in monetary value but decreased in the number of machines and attachments by 17%.

According to the Association of Agricultural Equipment Producers "Rosagromash," in January 2017 sales of self-propelled combines decreased 15.1% in comparison with January 2016 while sales of tractors increased 53.5%. Both imports of large foreign tractors (above 100hp) and sales of local assembly plants increased. A federal program, adopted in 2013, has stimulated Russian production of agricultural equipment by offering subsidies to local equipment producers.

Prospects for foreign manufacturers in the Russian market are still mixed, but agricultural equipment market development trends appear somewhat promising. The current economic situation presents challenges to developing a strong market for foreign equipment, but there are opportunities available. However, the factors mentioned above have decreased demand for new agricultural equipment and forced agricultural producers to delay capital investments or look for cheaper options and, at least in the short-term, switch to local agricultural equipment producers. Recently reduced subsidies to local equipment producers and increased government support for priority projects are levelling the playing field for some foreign equipment.

\$thousands	2014	2015	2016	2017 (Estimated)
Total Local Production	666,666	n/a	1,466,000	1,759,200
Total Exports	73,000	82,490	133,333	n/a
Total Imports	1,172,334	665,535	n/a	n/a
Imports from the US	244,422	82,766	148,163	n/a
Total Market Size	1,766,000	1,550,000	n/a	n/a
Exchange Rates	60	60	60	

(total market size = (total local production + imports) - exports)

Leading Sub-Sectors

The leading subsectors of agricultural equipment are:

- Forage, irrigation and soil preparation equipment including plows, harrows, cultivators, seeders, and fertilizer spreaders.
- Equipment for dairy livestock breeding, swine, and poultry production; milk processing and animal feed preparation equipment.

- Equipment for vegetable production including greenhouse technologies.

The leading Russian producers of agricultural equipment are:

- Rostselmash
- St. Petersburg Tractor Plant
- Klever Company (OOO "Klever")

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

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

Opportunities

In 2016, the sector showed 4.8% growth including 3.4% in livestock, 2.1% in poultry, 52% in vegetable production. Forage production increased 3.7% in 2016. The sector still requires significant investment to ensure that it is equipped to provide food security for the nation.

U.S. firms interested in the Russian agricultural machinery market may wish to consider exhibiting at one of the key Russian agricultural trade shows or undertaking promotional events organized by U.S. Commercial Service in Russia. These events are powerful marketing tools and serve to reassure Russian buyers that the American supplier is committed to establishing and maintaining a presence in the Russian market, with sales often made at these events. U.S. companies may also find opportunities as financially healthy Russian companies seek to expand in order to satisfy a growing demand for domestically produced food. For example, there may be opportunities to sell meat, fruit, and vegetable processing equipment due to increasing sales in these segments.

Over the long-term, it is important to remain connected with potential customers and use every opportunity to maintain a presence in the market.

Challenges

Although there are prospects for certain types of equipment market growth in Russia there are serious challenges confronting the agricultural equipment market generally:

- High interest rates for purchasing agricultural equipment. Current interest rates for purchase of foreign equipment from Rosselkhozbank, Rosagroleasing and Sberbank vary from 25 to 27%, and a new proposal will further restrict purchases and prohibit Rosagroleasing financing for foreign equipment.

- Reduction in government subsidies for agricultural producers coupled with rapid price growth for raw materials and energy.
- Low growth in foreign investments in the sector.
- Unstable demand for agricultural equipment, due to the financial instability of Russian farming enterprises.
- A utilization fee introduced in February 2016 imposes prohibitive fees for agricultural equipment older than three years.

Trade Events

[Agro Farm Russia](#)

February 7-9, 2017

Moscow

[VIV Russia - From Feed to Meat](#)

May 23-25, 2017

Moscow

[Golden Autumn Russia](#)

October 4-7, 2017

Moscow

[YugAgro](#)

November 28- December 1, 2017

Krasnodar, Russia

[Agrotech Russia](#)

TBD, 2017

Moscow

[Agrosalon](#)

October 9-12, 2018

Moscow

Web Resources

[Ministry of Agriculture](#)

[Ministry of Industry and Trade](#)

[RosSpetsMash, the Association of Russian Specialized Machinery and Equipment Producers](#)

[Russian Customs Service](#)

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Automotive Parts /Accessories

Overview

In the long term, Russia represents a large potential market for the U.S. automotive industry. However, the sector is currently facing significant challenges: consumer demand has slackened (due to the overall slowdown in the Russian economy) and imported components are relatively more expensive (due to the devaluation of the ruble).

USD thousand	2015	2016	2017
Total Market Size	35,000,000	30,000,000	28,000,000
Total Local Production	15,000,000	12,000,000	15,000,000
Total Exports	NA	NA	NA
Total Imports	20,000,000	17,000,000	13,000,000
Imports from the U.S.	600,000	400,000	400,000

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

Russia is one of the largest automobile markets in Europe. In 2016, the passenger car ownership rate in Russia was 358 units per 1,000 population, which is 42% lower than in Western Europe (615 units) and 55% lower than in the United States (776 units) The total Russian motor vehicle fleet is estimated at over 42 million units, including almost 39 million cars.

In addition to import duty, VAT importers are required to pay a recycling fee. The fee disadvantages foreign manufacturers because domestic manufacturers are compensated for their recycling fees through incentives and subsidies from the Russian Government. In 2016, the Government issued a decree that requires all new cars sold in Russia to be equipped with Accident Emergency Response Global Navigation Satellite System (ERA GLONASS), the Russian emergency response system for vehicles, based on the European e-call emergency response system. The number of models for all manufacturers will shrink considerably as a result of this new requirement and luxury/niche cars will likely, in many cases, end up pulling out of the market.

In 2013, Russia's car and light commercial vehicle (LCV) market started to slow down, with a significant decline in sales by the end of the year. In 2013, 2.9 million vehicles were sold, which was 7% fewer than the number sold in 2012. In 2014, only 2.5 million vehicles were sold, a 15% decline from 2013. In 2015, the market continued this downward trend, declining 35.7% from 2014, with only 1.6 million vehicles sold. In 2016, 1.4 million vehicles were sold, a decline of 12% from the previous year.

Market analysts predict a slow recovery of the market in 2017, projecting that annual sales will be around 1.5 million vehicles. Experts believe that further growth of sales in the

sector will depend on the ruble exchange rate, oil prices, overall economy conditions, and potential sector stimulus actions taken by the government.

As part of the automotive industry, the supply chain and market for components, including aftermarket replacement parts and accessories, depend on the vehicle market. However, in the imported parts market, the decline is less significant than in the car and LCV market since the parts market is less price-sensitive than the vehicle market. Analysts estimate that the parts/accessories market will grow approximately 10% in 2017.

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

There are several projects by international OEMs to manufacture cars and trucks in Russia. The major players include Renault-Nissan Corporation that manages the largest Russian vehicle factory with AutoVAZ in Togliatti, 500 miles east from Moscow.

There are several other foreign players in the market such as Renault, which runs a plant in Moscow and a Nissan plant in St. Petersburg. Hyundai Motor Company operates a plant in St. Petersburg, Volkswagen (VW) is running a car production facility in Kaluga, 100 miles south from Moscow, and an engine plant in the same location, Toyota is planning to increase the capacity of its plant in St. Petersburg, and Ford Motor Company, which in 2015 acquired control on their joint venture with Sollers. The Ford/Sollers joint venture operates four manufacturing facilities:

- A manufacturing facility in a suburb of St. Petersburg that is capable of producing over 100,000 vehicles annually.
- A plant in Alabuga that manufactures the Ford Kuga crossover, the Ford Explorer SUV and the lineup of commercial Ford Transit vehicles with utilization of full-cycle technology
- An engine plant which opened in 2015 in Alabuga.
- A plant in Naberezhnye Chelny that manufactures Ford EcoSport crossover and Fiesta compact.

In 2015, General Motors (GM) shut its plant in St Petersburg and wound down sales and production of its Opel brand in Russia as it did not want to make significant investments in

a tumbling market. GM now sells only the iconic Chevrolet and Cadillac models in Russia such as the Chevrolet Tahoe, Corvette, and Camaro.

There are also LCV, truck and bus assembly projects in Russia developed by Daimler, Ford, Hyundai, Man, Volvo and Scania. The major obstacle to the successful development of foreign assembly projects in Russia is the lack of local tier-2 and tier-3 component suppliers.

The Russian government actively encourages investment in component manufacturing. Recently Ford, VW and Mazda set up engine manufacturing facilities for their projects. It should be noted that component manufacturers of all tiers are in great demand for the local projects.

Leading Sub-Sectors

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

Opportunities

The best opportunities for U.S. firms are in the establishment of local manufacturing facilities either independently or in cooperation with Russian partners and the supply of components to vehicle assembly projects in Russia. Although car sales from 2013 -2016 dramatically dropped, industry analysts believe that the growth in the OEM supplies and aftermarket products seen in the recent past will continue in the near term, since the demand remains strong.

Another good prospect is the supply of 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. brands are well known and sell well in Russia. Some of the "Made in the USA" products that Russian motorists seem to favor are lubricants, automotive chemicals and off-road accessories. There are no known trade barriers affecting imports of U.S. automotive products; tariffs for many imported spare parts are a relatively low at 5%. The most important factor affecting the growth of sales of U.S. aftermarket products in Russia is the U.S. exporters' lack of interest in sharing brand building risks with local distributors. The small and mid-size suppliers of specialty equipment for cars will be competitive if they are aggressive in their market entry, brand-building and promotion actions.

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

to meet increasing demand for quality, independent aftermarket maintenance and repair services.

Resources

[Ministry of Industry and Trade](#)

[Department of Automotive Industry and Railroad Equipment](#)

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[National Association of Automotive Component Manufacturers](#)

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[St. Petersburg Association of Automotive Component Manufacturers](#)

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Tel. +7-812-313-8254

Trade Events

[Automechanika - Moscow International Motor Show](#)

Moscow - Expocenter

Aug 21-24, 2017

[Interauto](#)

Moscow - Crocus Expo

Aug 23-26, 2017

Web Resources

[Autobusiness Market Research Agency and Magazine](#)

[Autostat Market Research Agency](#)

Commercial Service Contact

office.moscow@trade.gov

Aviation Equipment

Overview

Aircraft manufacturing is an important industrial sector in Russia, consisting of 248 enterprises and employing around 400,000 people. A consolidation program launched by the Russian government in 2005 led to the creation of the United Aircraft Corporation (UAC) holding company, which now holds majority ownership of the domestic industry's key companies.

The Russian government continues to support the industry through a special state program and plans to allocate \$28 billion in order to make Russia one of the world's top three aircraft manufacturers by 2025. In fact, the Russian government is planning to allocate more than 40 billion rubles (approximately \$702 million) for the support of the national aircraft industry this year, PM Medvedev said at the conference in Ulyanovsk on June 7, 2017.

While the Russian aircraft industry is well known for a portfolio of internationally competitive military aircraft such as MiG-29 and Su-27, the hope is that new projects such as the Sukhoi Superjet 100 and MC-21 will revive the commercial potential of the civilian aircraft segment. The MC-21 airliner performed its debut flight on May 28, 2017 in Irkutsk. According to Russia's Minister of Trade and Industry Denis Manturov, serial production of the MC-21s will begin in 2019. The aircraft is being offered with a choice of engines—P&W's PW1400G or Russia's United Aircraft Corp.'s PD-14. The current portfolio of orders for MC-21 is 285 airliners, 185 of which have been contracted on prepayment. The first client is Russia's Aeroflot, which plans to have 50 MC-21 in its fleet. The United Aircraft Corporation (UAC) plans to sign a firm contract with Russia's flagship airline Aeroflot this year for the delivery of 50 MC-21 medium-haul airliners. In April, the company's DG Vitaly Savelyev said they expect the first three airliners in 2019. The government's long-term strategy is to increase Russia's global market share of civil aircraft production to 3.2% in 2025 from 0.6% in 2011. In the civil helicopter industry, the industry development program seeks to elevate the country's share to 12% from just over 6%; in aircraft engines - to 1.4% from 0.4%. Following Russia's actions in Ukraine, Ukrainian President Petro Poroshenko banned further military cooperation with Russia, which has affected Russia's aircraft and helicopter manufacturing as they previously relied heavily on Ukrainian engines.

The current production levels, while lower as compared with Boeing and Airbus, continue to increase. According to UAC, Russia plans to build 152 airplanes in 2017, 194 in 2018 and 203 in 2019. Those include both military and civilian aircraft. Russia built 94 aircraft in 2012 (23 civilian/71 military), 111 in 2013 (32 civilian/79 military), 159 (35 civilian/145 military) in 2014 and 143 in 2016. Nonetheless, the aircraft fleets of the domestic airlines are dominated by Western made airplanes.

Leading Sub-Sectors

Aircraft Replacement Parts & Aircraft Maintenance (MRO)

Due to the current predominance of western fleets, the market for western aircraft replacement parts and components is quite considerable. At the same time, the market is very competitive and the priority is given to those suppliers who are able to build efficient and quick air parts delivery channels. The complicated Russian customs' procedures represent a significant hurdle for getting parts quickly into the country. Therefore, the current trend in this segment is to build one's own local stock of critical (AOG) parts to allow efficient parts delivery. Several Russian and international suppliers have previously announced their intent to create such stocks.

Aircraft Cabin Interior Reconfiguration

Customization of aircraft interiors for the needs of VIP clients has become a profitable business for many local aircraft interior companies that are using their foreign supplier networks to furnish the needed materials and components. Projects focus on cabin furniture and decoration, carpeting and curtain fabrication, cabin lighting, life support systems, in-flight entertainment and communication systems, seats and seat upholstery, windows, galleys, and lavatories. The components and materials in demand include aviation textiles for VIP seats and couches, expensive leathers, precious wood veneer, innovative seat belt systems, composite materials and structures, and specialized aviation resins.

Opportunities

International cooperation is very important for the Russian aircraft industry. Despite the Russian government calls for more import substitution, cooperation with U.S. and European suppliers is expected to continue in the medium to long term. Western manufactured components, equipment and technology are viewed as technologically more advanced and competitive to Russian analogues. Below is a list of aircraft projects that may be open for more foreign cooperation:

MC-21 (short-medium aircraft, 5,500 km, 150-212 passenger capacity)

The MC-21 was unveiled on June 8, 2016 in Irkutsk. The ceremony was attended by Prime Minister Dmitry Medvedev and Deputy Prime Ministers Rogozin and Dvorkovich. The full certification is expected to be finished by the end of 2017. Serial production is expected to commence in 2017. Beginning in 2020, Irkut Corporation plans to produce 20 MC-21 aircraft per year, increasing the rate of production to 70 planes in 2023.

MC-21 Western suppliers: An estimated 30-40% of the aircraft's components are produced by Irkut Corporation's foreign partners. U.S. and European suppliers contribute several critical systems for MC-21, including the avionics, landing gear, hydraulics, power systems and engines. Despite the U.S. and EU economic sanctions against Russia, Russia's civil aircraft programs remain outside of their impact. Irkut Corporation has also successfully resisted a broad application of the import substitution policy of the Russian government on the MC-21 program. It is believed that replacing Western suppliers with Russian sources could significantly delay the program and drive up costs.

SUKHOI SUPERJET-100 (regional aircraft, 3,000-4,500 km, 60-100 pax)

Since 2010, Sukhoi Civil Aircraft Company (SCAC) has manufactured an estimated 110 aircraft, including 93 aircraft for use in Russia and the remaining for use in Europe, Central and North America, and South-East Asia. The aircraft is currently in service with Aeroflot - Russian Airlines, Gazprom Avia, Yakutia Airlines and Red Wings. Other operators include the Russian Interior Ministry and Mexico's Interjet airline. Below are the most recent modifications of this aircraft:

- **SSJ-100SV (Stretched Version):** In 2016, SCAC began developing the upgraded, stretched version to be designed for the passenger capacity between 110 and 125 seats. Certification is planned for 2018 and market sales for 2019, with plans to sell 140 aircraft by 2031.
- **SSJ-100 Business Version:** This is a VIP version of the SSJ-100, with a 19 passenger capacity. As of October 2015, SCAC assembled six aircraft of this type. All the aircraft are highly customized. The main features of the VIP version include better comfort, increased fuel capacity to cover the range of 8,000 km, and competitive pricing. UAC plans to produce 35-40 Sukhoi SuperJet 100 (SSJ100) aircraft a year, with a total of 38 planes in 2017. Foreign air operators include: Mexico's Interjet, Irish CityJet and Brussels Airlines.

WIDE BODY COMMERCIAL AIRCRAFT (long-range, 12,000 km, 280 pax)

Russia and China have announced plans to create a wide body long-range commercial aircraft by 2025. The Memorandum of Understanding (MOU) between Russia's state-owned UAC and Commercial Aircraft Corporation of China (COMAC) was signed in May 2014. Cooperation between Russia and China will focus on aircraft design, research and manufacturing. The aircraft will be designed for 250-300 passengers, with a range of 12,000 km. The aircraft will be sold not only in Russia and China, but also in the global market. The potential investment in this project is estimated at \$7-8 billion.

Trade Events

- [10th International Exhibition of the Helicopter Industry \(HeliRussia-2017\),](#)

[May 25-27, Moscow](#)

- [Moscow International Air Salon \(MAKS-2017\), July 18-23, Moscow](#)
- [Jet Expo-2017 \(business aviation\), Sept 7-9, Moscow](#)
- [MRO Russia & CIS- 2018, March 1-2, Moscow 13th International Conference and Exhibition,](#)

Web Resources

Russian Aviation Industry News:

- [Russian Aviation Insider](#)

- [Russian Aviation](#)
- [ATO Events](#)

Key Russian Aviation Companies

- [United Aircraft Corporation](#)
- [Helicopters of Russia Holding](#)
- [Engineering Aviation Maintenance Holding](#)

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Cosmetics and Perfumery Overview

	2014	2015	2016	2017 (Estimated)
Total Local Production	1,624,853,450 pcs	1,580,000,000 pcs	2,250,000,000, pcs	2,925,000,000 psc
Total Exports	\$520,000,000	\$396,158,000	\$488,731,000	\$538,000,000
Total Imports	\$3,416,974,000	\$2,631,359,000	\$2,600,358,000	\$2,800,000,000
Imports from the US	\$208,021,739	\$157,707,096	\$142,389,342	\$155,000,000
Total Market Size*	\$14,215,560,000 RUB550,000,000,000	\$9,844,135,000 RUB600,000,000,000	\$9,398,090,000 RUB630,000,000,000	\$12,000,000,000 RUB660,000,000,000
Exchange Rates	38,69	60,95	67,0349	55

(total market size = (total local production + imports) - exports)

*Due to the depreciation of the Ruble, there was a decline in dollar terms. However, in ruble terms the market has shown an increase.

Data Sources:

Total Local Production: Discovery Research Group

Total Exports and Imports: Federal Customs of Russian Federation

Total Market Size: Financial Group FINAM

The Russian beauty market segment has demonstrated positive dynamics in a turbulent economic situation. Despite the recession in the economy and ruble devaluation, this market segment remained resilient. However, the depreciation of the ruble resulted in increased prices for imported beauty products. Some estimates show that prices for premium cosmetics increased by 13%, mass market cosmetics by 18%, and cosmeceuticals by 20% compared to 2013 (the last year Russian GDP grew).

As GfK research agency states, the largest share in the beauty segment in 2016 was occupied by hair care (25.7% in monetary terms) and personal hygiene (22%).

Beauty products remained very popular among Russian women, despite the economic downturn.

Domestic manufacturers of beauty products provide serious competition to overseas manufacturers. They are trying to expand their market share through price advantages as well as an increased focus on the use of natural ingredients.

Retail beauty chains have managed to restore their position in the market and even to exceed the pre-recession sales. The 2015 sales turnover totaled \$13.3 billion or almost 16% more versus 2014 - the highest growth among other retail segments. Three key chains, Rive Gauche, Ile de Beaute and L'Etoile, still control the market. The market share of these three companies accounted for 68.6% of total sales of perfumery and cosmetics in 2016.

According to BusinesStat, the volume of the beauty salon market in Russia increased by 1% in 2016. According to BusinesStat, the volume of beauty salon market in Russia increased by 1% in 2016. In recent years, the overall turnover of the market exceeded the previous year's level by 10%.

Market trends:

- Russian consumers seek quality at reasonable prices and study product ingredients.
- Russian consumers make rational purchasing choices on the basis of price and ingredients.
- Russian consumers are becoming more sensitive to price and promotions.
- Marketing campaigns are positioning and repositioning brands as professional, but affordable in terms of prices and salon level for home hair care.

Leading Sub-Sectors

The segment of anti-aging and professional aesthetic products remains the main category for expansion and further development in Russia. The best sales prospects include the following categories: anti-aging and body care professional equipment, affordable make-up, skin and hair care products from mass-high to high-end, professional skin and hair care products for beauty salons, manicure and pedicure products, cosmetics for children, and niche perfumery.

Opportunities

- Russian consumers tend to choose products with natural ingredients.
- Russian consumers are expected to seek premium facial care products.
- Growing interest in multifunctional products (such as BB/CC creams) and advanced skin hydration technologies.
- Growing demand for beauty products such as cosmetics, hygiene products, and perfumery.

- Russian men tend to purchase simple and universal hair care products. Shampoos for hair and body 'two-in-one' have become widespread.
- Growing interest in natural perfumery and innovative perfumers

Trade Events

[American Beauty Showcase by the U.S. Commercial Service Moscow - November 2018](#)

[Intercharm](#)

[International Congress on Aesthetic Medicine](#)

Web Resources

[Association of Manufacturers of Perfumery, Cosmetics, Household and Hygiene goods](#)

[Russian Association of Perfumery and Cosmetics](#)

[Spa and Wellness International Council](#)

[Society of Aesthetic Medicine of Russia](#)

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Education and Training

Overview

Russia is the 6th largest economy in the world and its GDP in PPP terms is \$3.6 trillion. The Russian economy is expected to grow to almost \$4 trillion in 2020. The country has a population of over 140 million with growing purchasing power that demands well known global brands and quality service.

Education in Russia is provided predominantly by the state and is regulated by the Ministry of Education and Science. Regional authorities regulate education within their jurisdictions within the prevailing framework of federal laws. Russia's expenditure on education has grown from 2.7% of the GDP in 2005 to 3.8% in 2015, but remains below the OECD average of 5.2%.

Private institutions account for 1% of pre-school enrollment, 0.5% of elementary school enrollment and 17% of university-level students. Education in state-owned secondary schools is free; first tertiary (university level) education is free with reservations: a substantial number of students are enrolled for full tuition fees. Male and female students are represented equally in all stages of education, except tertiary education where women lead with 57%. The literacy rate in Russia, according to a 2016 estimate by the Central Intelligence Agency, is 99.7% (99.7% men, 99.6% women). According to a 2016 OECD estimate, 54% of Russia's adults (25 to 64-year-olds) have attained a tertiary education, giving Russia the second highest attainment of college-level education in the world. Nearly 48% have completed secondary education (the full 11-year course); 26.5% have completed middle school (9 years) and 8.1% have elementary education (at least 4 years). Women aged 35-39 have the highest rate of tertiary education at 24.7% (compared to 19.5% for men of the same age bracket).

Russian students are increasingly choosing to pursue university degrees abroad. About 5,444 Russian students studied in the U.S in 2016. Over the last five year period (2011-2016), there is a 20% increase in the number of Russian students studying in the U.S. schools.

Leading Sub-Sectors

As Russia starts to emerge from an economic downturn, the key subsectors that attract Russian students to U.S. schools are Undergraduate (43% students), Graduate (36%), non-degree (7.4%), OPT (13.6%)

	Undergraduate	Graduate	Non-degree	OPT	Total
Russia	2321	1975	406	742	5444
	42%	36%	7.4%	13.6%	

Other attractive U.S. educational institutions are boarding schools, high schools, and English language short term courses for both adults and children.

Opportunities

As Russian students are traditionally interested in pursuing their Graduate Studies in the U.S., most Russian students choose to major in Business/Management, Life Sciences, Social Sciences, Fine/Applied Arts, Maths/Computer Science, and Engineering. Summer English language programs are very popular among Russian high school and undergraduate students. There is also an increasingly growing interest in elite U.S. boarding schools for children (from the age of 12 and up) from wealthy Russian families.

Web Resources

[Education USA](#)

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Food Processing and Packaging

Overview

Food production and processing is one of the key sectors of Russia's economy. The constantly fast pace of life in Russia led to a strengthening of demand for products suitable for consumption on-the-go. Easy storage and longer shelf life of packaged foods make them more attractive to the modern consumer. Modern retail formats have been rapidly developing in Russia.

Globally, Russia has the eighth largest market of packaged food products with 27.5 million tons of trade volume and drinks (alcoholic and soft) with a trading volume of 26 billion liters. The growth of personal incomes in Russia until 2014 provided a higher standard of living and a favorable consumer climate. Now that real incomes are falling, consumer spending has dampened. Market researchers expect that in 2017, sales may begin to grow again. The growth in demand for packaged products is expected to reach 7.7%, which would mean 29 million tons by 2020. This long-term projected growth is the basis for the positive forecasts for the packaging market.

Over the past 10 years, the import of equipment for food processing and packaging has doubled in Russia. The food and processing industry has an 11.5% share of the total production in Russia. It covers more than 30 industries and includes 43,000 active organizations. This industry is attractive for foreign investments, which has exceeded 900 billion rubles in the last 5 years. The positive dynamics of the food and processing industry influences the development of the market of food production equipment.

In addition, government projects in the food sector and agriculture offer U.S. suppliers new commercial opportunities. The domestic consumer goods and packaging industry is under pressure to improve its competitive edge so as to substitute the decline in imports. The Russian government is highly interested in import substitution of food production. The ban on imports of food from a number of countries means that the Russian food industry will continue to develop and expand, which requires investment in modern technology for processing and packaging.

The current development of the Russian food processing sector is under the influence of the economic downturn in the country. On August 7, 2014, Vladimir Putin signed a decree banning a long list of agricultural products from the United States, Canada, the European Union, Australia and Norway in reaction to economic sanctions against Russia. The list includes red meat, poultry, dairy products, fruit, vegetables, nuts and many other products.

To meet growing consumer demand for food products, Russia had to import large quantities of food. For some time, the Russian government tried to reduce its dependence on imported food products. Given the prohibition of the Russian government on the import of a number of products from the European Union, the United States and other countries, introduced in early August 2014, Russia is now investing more in the

development of its food industry, which should have a positive impact on demand, as well as on modern processing and packaging equipment.

Key factors that influenced the development of the market situation in 2016:

- The downward trend in oil prices, the weakening of the ruble, large fluctuations of the ruble exchange rate
- Reduction of income of the population;
- Decrease of production; increased costs of local production due to the import of spare parts and materials
- The reduction of retail trade turnover;
- High key rate of the Central Bank and high interest rates on loans

All these factors influenced the gradual slowdown in demand for food processing and packaging in 2015 and 2016, but could pick up in the coming years, with signs that the economy is set to grow in 2017.

The low exchange rate of the ruble, which has raised the cost of machinery and equipment imports and high interest rates on loans, has had an impact on the sales of foreign suppliers. However, a high dependence on imports of packaging equipment will remain in the future.

Recently held in Moscow, Interplastica and Upakovka trade shows, as well as the International Exhibition of Plastics and Rubber, reflected the improvement of the Russian packaging market. About 800 exhibitors from 33 countries presented their novelties to 23,000 visitors from Russia and neighboring countries (in 2016 there were 20,900 visitors). Western companies are expecting an upturn and consider this a confirmation of their policy of maintaining business contacts in difficult years. This positive outlook relates in particular to the plastics and packaging industries, as well as the food processing industry. Great demand for foreign technologies in Russia remains, and there is a special need for further optimization of the production of consumer goods, food and packaging. According to VDMA research agency, the volume of imported food processing and packaging equipment in Russia amounted to about \$2 billion.

The Russian market of food production equipment is highly competitive and price sensitive. The following equipment manufacturers work in the Russian market: Wynveen International BV, Nivoba BV, Meyn Food Processing Technology BV (Netherlands), Winkler und Dünnebier Süßwarenmaschinen GmbH, Kraft Foods Deutschland Services GmbH & Co. KG (Germany), Bühler AG (Switzerland), Ferrero SpA (Italy), Haarslev Industries A / S (Denmark), Franz Haas Waffelmaschinen GmbH (Austria) and others.

At the moment, German manufacturers continue to lead the list of suppliers of food and packaging machinery (e.g. for the first 11 months of 2016, Russia imported German products and packaging machines valued at 304 million Euros).

The Russian packaging market consists of the following segments: metal (10%), glass (12%), soft plastic (21%), hard plastic (21%), paper and cardboard (36%). There are currently more than 2,000 companies involved in the packaging process in Russia's six major regions (Central, Ural, Siberian, North-Western, Volga and Southern regions). There are about 900 companies involved in the production or distribution of packaging machinery.

Russian food and processing industry enterprises often buy equipment directly from manufacturers. Large businesses usually equip their facilities with imported equipment. Many companies are faced with a choice to buy new or used equipment. Cheap second-hand models are purchased by small and medium business, especially for new producers.

Leading Sub-Sectors

There is demand for equipment in many categories of food and drinks production and processing. The best opportunities exist for the equipment for higher value-added processing and energy-efficient equipment

- Meat and poultry processing equipment (the highest demand is in turkey processing and packaging)
- Food processing equipment for the restaurant industry
- Rendering equipment
- Fruit and vegetable processing and packaging equipment
- Dairy processing and packaging equipment
- Baking equipment, both for small bakeries and large bread making factories

Consumer market development stimulates the Russian packaging market and the demand for innovative machinery and technologies producing materials for packaging solutions in all sectors - from the food industry and the cosmetics and pharmaceuticals sector to the chemical and consumer goods industries. To develop Russia's autonomy in meat, poultry, dairy products and fruit sectors, there is an increasing focus on food processing machinery, packaging processes and packaging designs. Whether it is hygiene, storage or design, packaging and process technologies play an important role. The suppliers of these machines benefit from this development. Foreign and Russian producers invest in modern and flexible machinery to offer consumer-oriented product performance.

Trade Events

[UNIPACK, major packaging industry web portal](#)

[Upakowka trade show, one of the largest annual events for packaging sector in Russia. It is the leading Russian trade fair for packaging machinery, packaging production and packaging material.](#)

[RosUpak trade show. The first exhibition was held in 1996 and annually brings together the main domestic and international leaders of the packaging industry.](#)

[Agroprod mash trade show, one of the largest annual events for the food processing in Russia. It is the leading Russian trade fair for food production machinery.](#)

Web Resources

[Ministry of Agriculture](#)

[ProdIndustry professional industry journal](#)

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Franchising

Overview

Franchising, as a business model, only came to Russia once formal franchise legislation was adopted in 1994. Since then, the number of franchise operations has steadily grown. Since 2000, the number of franchising concepts in Russia has risen from 54 to over 2500 in 2017. There are approximately 500 domestic franchising businesses in Russia. Retail trade constitutes 35% of all active franchisers, followed by fast food (27%), services (35%), and industrial franchises(2%). The growth potential of franchised businesses is about 15-18% per annum. Franchising is mostly developed in Russian cities with a population of 1 million, among these cities are Moscow, Saint Petersburg, Kazan, Krasnodar, Perm, Yekaterinburg, Novosibirsk and others. There are 15 cities of more than one million people in Russia.

According to the Russian Franchising Association, 65% of all franchise concepts are established domestically, 35% are foreign, of which 12% are American. Small and medium sized businesses, which constitute about 20% of all Russian businesses, demonstrate continuous interest in developing franchising concepts in the country. According to Moscow government statistics, in September 2015, there were 11,000 registered restaurants in the nation's capital. By the end of 2016, about 900 restaurants closed in Moscow - roughly 8 percent of the total Moscow foodservice market. One of the main reasons for this phenomenon is a drop in consumer purchasing power of the general population. Moscow restaurateurs have seen average guest check totals drop by 20 to 25% compared to one year earlier. Market analysts report restaurant sales are down 10 to 30% because of significant traffic reduction. Chain restaurants from lower-cost foodservice segments have successfully developed in recent years making franchising one of the key expansion methods for foodservice chains in Russia. Currently there are 6,500 food service franchise outlets in Russia and its share is 8% of the total Russian restaurant market. Roughly 44,300 people are working in food service franchise outlets in Russia.

Russian businessmen are ready to invest in well-known franchising brands. Thus, the total investment potential of Buybrand 2016 visitors is estimated to be \$700 million. As mentioned earlier, 65% of franchises in Russia are of local origin. Russia ranks 8th for this indicator worldwide. Meanwhile international brands continue entering the Russian market. For instance, 1,620 stores were opened by international operators in Russia during the period from July 1, 2015 through July 1, 2016.

U.S. fast food and fast casual restaurants franchising concepts are the most popular in Russia. The largest players are McDonald's, Burger King, KFC, Pizza Hut, Papa John's, Domino's, Baskin Robbins, Subway, and Nathan's Famous.

Hotels and hospitality is another active franchising segment for U.S. brands. Such large U.S. hotel chains as Hilton, Marriott, Best Western, InterContinental, Wyndham Hotel Group, Radisson by Carlson Group are actively expanding in Russia.

Opportunities

There are good franchising opportunities for U.S. fast food and fast casual restaurants franchising concepts as well as for coffee shop chains. Another high potential area for U.S. franchising brands is retail, predominantly in luxury apparel and footwear.

Web Resources

[American Franchising Corner by the U.S. Commercial Service at Buybrand 2017 - October 2017](#)

[Russian Franchise Association](#)

[Buybrand Expo](#)

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Medical Equipment

Overview

The Russian medical devices market is very attractive for U.S. companies. First, the size of the market is one of the largest in the Central & Eastern Europe. It still heavily relies on imported medical devices, despite all the efforts of the Russian government to develop a strong and robust medical technology industry. The public medical facilities prefer to buy medical devices from foreign manufacturers, if they have the choice. In February 2017, the Russian government extended the re-registration deadline for medical devices until 2021, which saved a lot of time, effort and money for all the medical devices manufacturers present on the Russian market.

	2014	2015	2016	2017 (Estimated)
Total Local Production	1,815.2	1,072.2	N/A	N/A
Total Exports	141.3	128.7	N/A	N/A
Total Imports	4,533.8	2,907.4	N/A	N/A
Imports from the US	N/A	571.28	N/A	N/A
<u>Total Market Size</u>	6,207.7	3,850.9	3,705.2	4,257.5
Exchange Rates	38.69	60.95	67.03	55.00

(total market size = (total local production + imports) - exports)

Unit: \$ millions

Source: Business Monitor International

In addition, the five countries of the Eurasian Economic Union (EAEU) are moving toward the common market for medical devices. This process was started back in January 2016 and should be completed by January 2021, when manufacturers will have a choice to have one marketing authorization - registration certificate for all five member countries.

In 2015, the structure of the imported medical devices market was the following: diagnostic imaging - 22.5%, consumables -15.4%, dental products -8.8%, orthopedics & prosthetics - 7.7%, patient aids - 12.9%, and other medical devices- 32.9%. In 2016 in dollars, imports decreased or stayed the same, but in Russian rubles the import market increased. Industry experts envision the positive dynamics of imported medical products even in U.S. dollars in the next couple of years.

Germany, U.S. and China are the leading suppliers in Russia. The main U.S. export products are high technology medical products, diagnostic imaging and orthopedics and

prosthetics. Chinese exports consisted mostly of bandages and dressings, and therapeutic appliances.

The following foreign medical device manufacturers are present in the Russian market: B. Braun, BD, Fresenius Medical Care, J&J, Medtronic, Philips, Siemens, Stryker, GE Healthcare and many others.

Leading Sub-Sectors

In February 2015, Russia barred foreign medical device manufacturers from participating in government tenders for a specific list of medical devices (mostly low-technology goods) if two producers from an EAEU Member State participated in the tender. In December 2016, the Russian government expanded the list of covered goods to include 86 additional products (such as gauze and cotton dressings, glucometers, defibrillators, and certain types of tomography scanners). Despite this preference, there are still opportunities for U.S. suppliers because there are no EAEU producers. These devices usually use innovative technologies and require large investments in Research & Development, including diagnostics and visualization, cardiovascular, ophthalmology, orthopedics, laboratory diagnostics, and urology equipment.

Opportunities

The Russian market for medical devices has potential for growth because of an aging population. As a result of the Russian National Project "Health," that took place from 2005 to 2011, over 10,000 municipal polyclinics received new high technology medical equipment. This equipment needs servicing, spare parts and disposables, so it is a good opportunity for U.S. companies to supply these products and services.

After a couple of years of economic recession, industry experts see potential for a recovery in the next two years, which means that medical institutions, especially in the private sector will be more willing and capable to buy new medical equipment, devices and disposables.

Opportunities not only exist in the main cities of Moscow and St. Petersburg. As other Russian regions invest in new equipment and supplies, it is important for U.S. companies to explore these regions as well. The "Russian Strategy for the Development of Medical Science until 2025," which was approved in 2013, also provides concrete opportunities for U.S. companies.

Trade Events

[Dental Expo](#)

Moscow

September 25-28, 2017

[International exhibition of equipment for non-destructive testing and technical diagnostics \(NDT\)](#)

Moscow

October 24-26, 2017

[International exhibition of testing and measuring equipment, testing and control Moscow](#)

October 24-26, 2017

[Zdravookhraneniye, International Exhibition for Health Care, Medical Engineering and Pharmaceuticals](#)

Moscow

December 4-8, 2017

[Moscow International Optical Fair \(MIOF\)](#)

Moscow

September 19-21, 2017

Web Resources

Organizations & Publications

[Ministry of Health Care](#)

[Ministry of Industry and Trade](#)

[Federal Customs Service](#)

[Federal Service for Surveillance in Healthcare \(Roszdravnadzor\)](#)

[International Medical Device Manufacturers Association \(IMEDA\)](#)

[Business Monitor International](#)

[Dentons](#)

[Remedium](#)

[Vademecum](#)

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Mining Overview

Russia represents a large potential market for the U.S. mining equipment industry due to the importance of the sector for the development of the Russian economy and the inability of the domestic industry to meet the demand. The country is one of the world's largest importers of mining equipment.

USD thousand	2015	2016	2017
Total Market Size	10,000,000	9,500,000	9,500,000
Total Local Production	2,700,000	2,700,000	3,200,000
Total Exports	700,000	700,000	700,000
Total Imports	8,000,000	7,500,000	7,000,000
Imports from the U.S.	600,000	500,000	500,000

Source: U.S. Commercial Service Russia - rough estimates

Russia is a country with substantial mineral resources and a significant global producer of a wide range of mineral commodities. The mining industry is one of the best developed segments of the Russian economy.

The most well-known subsectors include: coal, iron ore, gold, diamonds, potash, phosphates and aluminum. Income from the sales of metals and mineral fertilizers constitutes a large share of Russian export revenues.

The mining sector is controlled by several large, well-capitalized companies that invest in development and modernization of equipment and management. These companies include Norilsky Nickel, SUEK, Fosagro, Evraz Group, Rusal, Eurochem, SDS, Mechel, Polymetall, Severstal, Polyus Gold, Petropavlovsk, Nordgold, and Alrosa

Industry Specifics

- Key players in the mining market are large and mid-size companies. Most of these companies are based in the mining regions, but almost all have offices in Moscow.
- Since a large share of mining industry revenues come from exports, the industry is more dependent on the world market conditions than on the economic situation in Russia.
- During the last several years the global metals market has been in decline because of falling metal prices. In addition, the Russian metal mining industry was also in decline.
- The coal mining sector has been developing rapidly in recent years and annual productivity in this subsector has grown 30% to as much as 2,500 tons per employee in 2015 from 1,880 tons in 2010. Russia is the world's third largest exporter of coal,

exporting 140 million tons in 2015. This became possible as a result of equipment modernization implemented by coal mining companies. The demand for boring and coal preparation equipment remains despite the economic slowdown.

- The safety of coal mining has been growing substantially through the modernization of mining safety equipment and, specifically, methane detection equipment. The demand for modern equipment in this niche is still significant.
- Although in the metal mining subsectors the global market was not favorable for active growth, opportunities still exist for marketing modern boring, ore preparation, and conveying equipment, as well as safety equipment.

Russian mining industry challenges

- Ineffective subsector management policies and inadequate tax and investment legislation.
- Lack of conformity in land, forest and mining legislation.
- Outdated research, exploration, extraction, and ore preparation technologies.
- Anemic government investment in geological research.
- Electricity and transportation tariff growth.
- Inadequate railroad capacity, especially in the Asian part of Russia.
- Inadequate quality of domestically manufactured mining equipment, therefore the industry is critically dependent on foreign suppliers.
- Mining sciences development is also inadequate.
- Lack of an incentive system which would motivate mining companies to implement innovative technologies.
- Domestic mining education system is far behind the global level, and, as a result, the industry reports a lack of qualified specialists.

Leading Sub-Sectors

Excavation, earth moving, conveying, and screening equipment. Industrial hydraulics products. Safety equipment for shafts and quarries.

Opportunities

American mining equipment has a good reputation among Russian end-users. Several U.S. mining equipment suppliers, such as Joy Global, Caterpillar, GE Mining have their offices in Russia and actively market their products in the Russian market. There are no significant barriers to U.S. companies entering the market. However, there are some restrictions regarding foreign ownership of mining companies in the Russian legislation.

Due to the high cost and poor access to commercial credit, financing options are a crucial part of competing effectively in the Russian market. Also, end-users are interested in new technologies that would allow them to do business more effectively.

Resources

The industry is regulated by the [Ministry of Natural Resources and Environment of the Russian Federation](#), which includes The [Federal Subsoil Resources Management Agency](#).

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Web Resources

[Mining World](#)

Moscow - Crocus Expo

April 24-26, 2018

[News information and analysis of mining sector development. Extensive databases of mineral resources, financing of the mining industry, and geological data.](#)

[News report, conference presentations, monthly magazine, mining vocabulary and encyclopedia.](#)

[Statistical reports by minerals extracted.](#)

[Professional magazine with good reports by mining industry subsectors, extensive info resource on mining equipment.](#)

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Pharmaceuticals

Overview

The Russian pharmaceutical market is very attractive for several reasons. In 2016, spending per capita on medicines was \$115 per person, which placed Russia 16th out of 32 CEE countries. In terms of sales, Russia sold \$16.5 billion of pharmaceuticals in 2016, which was equal to 1.3 % of GDP and 19.9% of health spending in 2016.

The Russian pharmaceutical market can be divided by prescription drugs and over the counter (OTC) drugs. The prescription drugs sales historically took the biggest share of the market. The year 2016 was not an exception with prescription drugs capturing 61% of the market. The pharmaceutical market sales don't show growth in USD dollar terms but in Russian rubles the growth was about 10% from 2015. The forecasted growth in 2017 is approximately 25% in U.S. dollars.

The sales of generic drugs dominate in the prescription category at 64.5% . Out of all pharmaceutical sales they constitute only 39.4%.

	2014	2015	2016	2017 (Estimated)
Pharmaceutical Sales, \$B	22.961	16.598	16.540	20.737
Prescription drugs sales, \$B	14.026	10.138	10.101	12.660
OTC drugs sales, \$B	8.935	6.460	6.439	8.078
Generic drugs sales, \$B	8.838	6.466	6.519	8.267
Exchange rates	38.57	61.25	67.00	58.00

Source: Business Monitor International Ltd.

For many years, the Russian government allocated a lot of resources to the healthcare sector. Approximately half of the healthcare expenses were attributed to the government sources. However, the industry expects a big shift towards the private healthcare spending. The Russian healthcare system is funded by the federal government, social spending and the Federal Mandatory Insurance Fund (FOMS). The law on the budget for FOMS that President Putin signed in December 2016 increases the employers' contribution.

Drug manufacturers prefer not to work with retail pharmacy chains or pharmacies directly, relying instead on distributors to promote their products to retail outlets. Distributors operate vast networks of contacts and work to direct retail distribution channels. According to DSM, one of the major Russian pharmaceutical Agencies, the major four distributors include Katren, Protek, Rosta and CIA.

The number of pharmacy chains has been growing and currently it exceeds 50,000. Though the major sales are coming from the following chains: Apteka 36.6, A5, Samson Pharma, Rigla, and Neopharm.

Challenges that foreign pharmaceutical manufacturers face in Russia include ongoing problems with Russia's new good manufacturing practices regime, which may lead to delays in foreign pharmaceutical products receiving market access, as well as weak protection of intellectual property rights, such as erosions in regulatory data protection and patent rights, and the spectre of compulsory licensing.

Leading Sub-Sectors

The most widespread diseases in Russia are cardiovascular diseases, cancer and HIV. As a result, pharmaceutical products addressing these ailments are the leading sub-sectors for the pharmaceutical industry in Russia. The factors that contribute to spreading of these diseases include the high percentage of the smoking population which is 39.1%, compared to 22.7% globally and 27.3% in European countries according to WHO report in 2015. In addition, the per capita alcohol consumption (in liters of pure alcohol per year) was an average of 15.1 between 2008 and 2010, compared to 6.04 globally and 10.9 in European countries.

Opportunities

The Russian pharmaceutical market has a great potential to expand because the population is expected to grow and age.

The Russian government is focused on creating its own pharmaceutical industry. The main document that governs this focus is the "Pharma 2020 Strategy". Its main goal is to reduce the reliance of the Russian economy on imported pharmaceuticals. In July 2016, Prime Ministry Medvedev said that he expects the domestic production to increase from 28.5% now to 75% by 2020. Despite the challenges that U.S. companies face as the result of this strategy, there a lot of opportunities, including licensing agreements and technology transfer for pharmaceutical companies and also sales of pharmaceutical equipment for the U.S. producers of this equipment.

In the short-to-medium term, the market for generic drugs will continue its growth due to the incentives from the Russian government, as well as population's preference to buy cheaper drugs.

Trade Events

[Pharmtech & Ingredients, International Exhibition of equipment, raw materials and ingredients for pharmaceutical production](#)

Moscow

November 21-24, 2017

[Zdravookhraneniye, International Exhibition for Health Care, Medical Engineering and Pharmaceuticals](#)

Moscow

December 4-8, 2017

[Pharmtech, Technologies of Pharmaceutical Industry](#)

Moscow

TBD March 2018

[Web Resources](#)

Organizations & Publications

[Ministry of Health Care](#)[Business Monitor International](#)[DSM Group - Russian pharmaceutical marketing agency](#)[Association of International Pharmaceutical Manufacturers \(AIPM\)](#)[Remedium](#)[Pharmaceutical Herald](#)[Vademecum](#)

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Rail

Overview

The Russian railway complex is of particular strategic importance to the Russian government, contributing about 0.2- 0.3% to the country's GDP and employing more than 800,000 workers. Third largest in size, after the United States and China, the Russian railway network expands over 85,200 kilometers, of which 43,300 kilometers are electrified. The fleet of the rolling stock comprises 11,100 freight locomotives (diesel and electric), 6,100 diesel switching locomotives and 3,100 passenger locomotives (diesel and electric). The number of freight railcars is estimated at 1,218,169 (2015). A considerable portion of the rolling stock is outdated and is in need of either decommissioning or renewal.

The majority of the country's rail infrastructure network and the locomotive fleets are owned by OAO Russian Railways (RZD), a state-owned-enterprise, operating freight and passenger railway services. Supported and funded by the Russian government, RZD has been pursuing a comprehensive reform process since 2001, to achieve greater efficiency and competitive advantage in the domestic and global markets.

Besides RZD, the Russian railway complex also comprises operations of private rail companies and industrial enterprises that have their own fleets of locomotives and railcars, and their own networks of rail tracks. Compared to RZD, their share of locomotives is rather insignificant (1,163 versus 20,300), while the share of freight railcars is much greater (1,123,012 versus 95,157).

Unit: USD thousands

	2014	2015	2016	2017 (Estimated)
Total Local Production	6,593,382	4,596,523	4,729,822	4,866,513
Total Exports	776,937	569,172	548,113	527,833
Total Imports	1,732,717	420,052	432,653	445,286
Imports from the US	2% (35,591)	3.2% (13,524)	3.2% (13,928)	3.2% (14,249)
Total Market Size	7,549,162	4,447,403	4,614,362	4,783,966
Exchange Rates	\$1=55 RUB	\$1=65 RUB	\$1=66.50 RUB	\$1=58 RUB

(total market size = (total local production + imports) - exports)

Data Sources:

- Local production for 2014-2015 - are drawn (and recalculated into USD) from the data provided by the Russian Institute of Natural Monopolies Research (IPEM) under the code 35.20 of the All-Russian Classifier of Economic Activity (OKVED) - "production of railway rolling stock".

- Local production estimates for 2016-2017 - are based upon the forecasted 2.9% average annual growth in the segment of locomotive production, as inferred from the Prognosis of the Social and Economic Development of the Russian Federation for 2016 and the planned period of 2017-2018 (released in October 2015 by the Russian Ministry of Economic Development).
- Total exports and imports for 2014-2015 (including imports from the U.S.) - are based upon the Global Trade Atlas figures under Chapter 86 of the Harmonized Tariff Schedule (HTS) - "railway or tramway locomotives, rolling stock, track fixtures and fittings, and parts thereof".
- The 2016-2017 estimates for total exports and imports for 2014-2015 (including imports from the U.S.) - are based upon the forecasts made by the RF Ministry of Economic Development referenced above. These forecasts indicate a drop of 3.7% in average annual exports for 2016 and an increase of 2.9% in 2017. The average annual imports will grow by 3% in 2016 and 3.6% in 2017. standards.

Leading Sub-Sectors

Although the Russian rail market is well-developed and mature, the sheer size of it continues to attract potential suppliers - whether currently present or new-to-market - as the potential for new opportunities makes it well worth the extra effort. In particular, new and innovative components, featuring unique designs bringing greater efficiency and safety will continue gaining attention and interest, particularly those for which no Russian analogues currently exist.

The Russian rail industry has a strong preference for technologies that advance the following priorities:

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

Opportunities

The amount of RZD investment for 2017 is expected to reach RUB 459.5 billion (\$8.06 billion), an increase of 6.3% compared to 2016. About 13.7% of this budget will be spent on the procurement of new locomotives. In 2017, RZD plans to acquire 450 new

locomotives (compared to 507 in 2016) worth of RUB 63.1 billion (about \$1.1 billion), including 210 electric locomotives and 240 diesel locomotives.

Another 39.3% of this RUB 459.5 billion investment will be spent to support direct state orders to modernize the Trans-Siberian Railroad and the Baikal Amur Mainline, to construct the by-pass railroad around Krasnodar (Southern Russia), to develop the Moscow Transit Hub, to build access facilities for the ports of the Azov, the Black Sea and the Baltic basins, and to construct the high speed line Moscow-Kazan. According to RF Transport Minister (November 2015), the projects to support safety and security of the rail infrastructure will have the budget of RUB 106.7 billion (\$1.8 billion).

The longer-term priority projects include the high-speed rail development program until 2030. The RUB 5 trillion program includes the construction of Moscow - Kazan - Yekaterinburg, Moscow - Adler and Moscow - St. Petersburg high-speed lines, as well as other high-speed lines connecting regional cities.

Web Resources

Russian Rail Industry News:

- [RZD news](#)
- [RZD Strategy-2030](#)
- [RZD Partner Information Agency](#)
- [Institute of Natural Monopolies Research](#)
- [Russian Rail Consulting](#)

Major Russian Rail Companies

- [OAO Russian Railways \(RZD\)](#)
- [Joint Stock Company High-Speed Rail Lines](#)
- [Transmashholding](#)
- [Sinara Group \(only in Russian\)](#)
- [United Wagon Company](#)
- [Russian Association of Rail Equipment Manufacturers \(only in Russian\)](#)

Key Trade Events

- [1520 Strategic Partnership, Sochi, Russia](#)
June 6-8, 2017

- [EXPO 1520, Moscow, Russia \(major Russian expo\)](#)
August 30-September 2, 2017
- [INNOTRANS 2016, Berlin, Germany \(significant Russian presence\)](#)
September 18-21, 2017

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Road Construction Overview

USD billions	2014	2015	2016	2017(Estimated)
Total Local Production	1.07	0.49	0.55	0.76
Total Exports	0.05	0.07	0.08	0.10
Total Imports	2.94	0.93	0.71	0.84
Imports from the US	0.6	0.3	0.2	0.27
<u>Total Market Size</u>	4.06	1.49	1.34	1.7
Exchange Rates	38.42	60.95	67.03	58.05

(total market size = (total local production + imports) - exports)

[Topic \(in Russian\) about the current situation on the road construction in Russia,](#)

With 1,396,000 km of roads, Russia holds 5th place in the world in total road length behind the U.S., India, China and Brazil. Road infrastructure is a cornerstone for rapid economic development since it provides the quick exchange of commodities inside the country and also stimulates the ability of the population to travel within the country.

The general condition of the road network in Russia is average compared to many European countries and in some regions, is poor. However, the Russian government allocated 494 billion rubles (\$7.39 billion) for the renovation of existing roads and the construction of new roads in 2017. This figure consists of 260 billion rubles (\$3.8 billion) allocated for renovation and 115 billion rubles (\$1.72 billion) allocated for overhaul and construction of new roads.

Funds are allocated from the federal budget and are managed by the state controlled [company Avtodor](#). This is an enterprise that runs major infrastructure projects to build, develop, and operate motorways and highways. Avtodor attracts private sector investments in the implementation of long-term infrastructure projects.

In 2013, Russian authorities decided to involve foreign contractors, operators, investors, and manufacturers more actively in infrastructure projects. The National Association of Road Industry Investors and Operators was set up at the initiative of Avtodor Company, with support from the Russian transport ministry. The Association is an independent platform that brings together key professional players in the road infrastructure market, including Russian and foreign designers, builders, and road operators. The road industry generates the highest number of concession agreements. From 2013-2016, Avtodor announced bids for ten large-scale projects, including the financing, construction and operation of four central ring road start-up blocks, two phases in the construction of the new M11 road between Moscow and St. Petersburg (58-149 kilometers and 208-259

kilometers) and a road to Tsemdolina that is part of the Novorossiysk transport hub. Bids were also announced for the design, renovation and operation of an M1 Belarus Road section (33-132 kilometers) and operation contracts for two M4 Don Road sections (21-225 kilometers and 1,091-1,119 kilometers).

Leading Sub-Sectors

Road construction equipment remains the key subsector in the road construction industry. However, from 2013-2016, this sector contracted by a factor of five. Given the fact that sales continue to decline, market players are changing their strategy and transferring their focus from equipment sales spare part sales, overhaul, and maintenance services. The main reason for the demand contraction from 2013-2016 is a two-fold price increase compared to 2013 prices. As a result, construction companies stopped buying new equipment and decided to prolong the life cycle of current assets. This resulted in the local production increase of pneumatic and hydraulic engines and parts by 64% and 37% respectively in 2015, and the output of spare parts for trucks increased by 7%. In 2015, imports of foreign equipment and spare parts decreased by 69.1% and 31.5% respectively.

Currently there are three distinctive market trends:

1. Some Russian manufacturers are leaving the market due to increased competition. Companies that possess R&D potential and sufficient capital to continue operations are staying in the market.
2. The rental equipment market for road construction equipment continues its steady growth. The current growth rate is 7% per year.
3. Buyers express interest in used road construction equipment, however a new law which came into force January 1, 2016, obliges companies to pay a utilization fee which, acts as a prohibitive duty, for equipment older than three years. For more information on this fee, [please see more information here >>](#).

This negative trend is expected to continue in 2017. The main reasons are high prices for foreign equipment, the reluctance of banks to provide financing to a stagnating construction industry, and the utilization fee mentioned above that leaves buyers almost no other choice than to buy used equipment inside Russia or rent it.

Excavators and wheel loaders have noticeably contributed in the price increase. Though localized, companies such as Caterpillar, Komatsu, Hitachi and Terex practice SKD (semi-knocked down) assembly, importing a majority of the parts from factories abroad. The cost of imports includes duties, taxes, and logistics. Russian manufacturers of this equipment are located close to the place of equipment deployment in such cities as Novosibirsk, Vladimir, and Irkutsk. This allows the Russian manufactures to be more price competitive as they save substantial logistics costs when sending finished equipment to the end user.

The Russian road construction equipment market can be divided into two main segments: the first is the earthmoving equipment, road rollers and stationary cranes segment traditionally dominated by foreign manufacturers; and the second is the special vehicles segment dominated by Russian companies making dump trucks, auto cranes and vehicle based concrete mixers.

As mentioned above, the Russian market is dominated (66-74%) by foreign manufacturers. The key players are Caterpillar, Komatsu, Hitachi, JCB, Volvo, XCMG, Bobcat Company, Shandong Lingong, Shantui, Doosan, and Liebherr.

Opportunities

There are several opportunities in the market for U.S. exporters:

- Export of spare parts for road construction equipment.
- Overhauling of transmission and complicated hydraulic parts and engines.
- Investing in rental businesses to bring U.S. equipment to the market.
- Exports of used equipment not older than 3 years.

Trade Events

[CTT EXPO](#)

30 May -3June 2017

Crocus Expo, Moscow

[Mosbuild](#)

3-6 April 2018

Expocenter, Moscow

Web Resources

- [About Russian road construction market](#)
- [Construction Equipment Top Markets Report](#)
- [Currencies dynamics for 3 years](#)
- [Russian highways news](#)

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Travel and Tourism

Overview

As Russia starts to emerge from a recession, the key drivers of the tourism sector look promising. After a steep depreciation, the Russian ruble has stabilized. According to market research agency Ipsos Comcon analysts, 36% of Russians are now in the income range that usually travels. The United Nations World Tourism Organization (UNWTO) has ranked Russia ninth in the world in terms of leading spenders on international travel. The Russian outbound tourism demonstrates positive dynamics. For the coming years further growth is expected, both for the Russian leisure and business outbound travel market.

Analytics firm Hopper had a rather surprising finding. After analyzing about 3.5 billion price and itinerary searches since New Year's Day, Hopper found searches of flights to the U.S. are down in 94 out of 122 countries. [However, Hopper said, that the U.S. flight search demand increased by 88% in Russia since U.S. President Trump's inauguration.](#)

According to the Ipsos Comcon, the total amount spent by Russians who spend holidays abroad increased by 40% over 2016 - even though the actual number of tourists decreased during the same period.

The most popular destinations for Russians in the U.S. are the following:

1. New York
2. California
3. Florida
4. Mariana Islands and Guam
5. Nevada

The top outbound travel destinations for Russians are Finland, China, Estonia, Poland and Germany in 2016 (this includes both business and leisure). The U.S. market share is tiny - it is only 0.7%. This demonstrates that there is a great amount of potential.

Tourism Infrastructure

Russia has a very developed tourism infrastructure. Travel is typically booked through travel agents and tour operators. However, online bookings are on the rise, especially among younger consumers. There are luxury travel agencies dealing with VIP clients and corporate travel agencies.

Year	2015	2016
Number of trips to all countries	34,390,169 trips	31,658,706 trips
Number of trips to the U.S.A.	295,281* trips	292,389 trips **

Source: [Number of trips to all countries Number of trips to the U.S.A. - U.S. Department of Commerce, ITA, National Travel and Tourism Office from the Summary of International Travel to the U.S. \(I-94\) report.](#)

Consumer Behavior

When choosing a destination Russians tend to look at the climate (beach holidays are popular), price level and historic/cultural attractions first. More experienced travelers are focusing on transportation, possibilities for shopping and the “trendiness” of a destination.

Frequent Russian travelers (upper class and emerging middle class) both like relaxed sun and beach holidays. Wealthy Russians tend to take at least 7-10 days off to travel abroad every two months. Middle-class Russians take at least two vacations per year, including one to a beach destination during the summer months. Russians book very late - 80% of holidays are sold in the last four weeks before departure.

Opportunities

Russians are more attracted to less well known places currently. They prefer travel in which the experience is more important than the cost. Even though the luxury segment is not that big, it is not sensitive to price. Therefore, individual tours, exclusive offerings are appealing to Russian high-spending consumers.

Russians are starting to look for a new way to travel abroad. For example, Russian tourists are starting to buy services from non-Russian travel agencies. This is a great opportunity for American tour operators to do outreach and introduce their services on the Russian market.

Destinations with spas, sports facilities and culinary delights are all increasingly in demand. Event tourism (visits to fairs, festivals, events, *etc.*) has also grown in importance to Russian consumers.

Web Resources

[“Travel to America!” Grand trade show by the U.S. Commercial Service in Moscow-October/November 2017](#) .

[Russian Union of Travel Industry](#)

[Association of Tour Operators of Russia](#)

[International Travel and Tourist trade show](#)

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Customs, Regulations & Standards

Trade Barriers

U.S. companies face a number of tariff and non-tariff trade barriers when exporting to Russia. For example, importers of alcoholic products confront a long-standing requirement that all customs duties, excise taxes, and value-added taxes on alcohol be paid in advance using a bank guarantee and deposit, in which the reimbursement process is very slow.

U.S. industry is concerned that the assessment and licensing procedures administered by different Russian government agencies and the EEC (Eurasian Economic Commission) add an unnecessary level of complexity leading to increased costs and delays.

U.S. food and agricultural exports were banned in the Russian Federation after the Crimean peninsula was annexed in 2014.

U.S. companies also cite technical regulations and related product testing and certification requirements as major obstacles to U.S. exports to Russia. Russian authorities require product testing and certification as key elements of the product approval process for a variety of products, and only an entity registered and residing in Russia can apply for the necessary documentation for those product approvals. Consequently, opportunities for testing and certification performed by competent bodies outside Russia are limited. For example, U.S. companies have observed that the procedures associated with Russia's requirement to have a "supplier's declaration of conformity" are unnecessarily burdensome. This document is meant to confirm the safety of products for the environment and the health of people and animals. Manufacturers of telecommunications equipment, oil and gas equipment, and construction materials and equipment, in particular, have reported serious difficulties in obtaining product approvals within Russia. Other member countries of the EAEU are in the process of adopting a similar system.

Laws in the information technology (IT) sector have made it more difficult for U.S. technology companies to provide goods and services in the Russian market. For example, Russian Government Resolution No. 1236, in effect since the start of 2016, requires Russian government agencies to give priority to Russian software based on a registry published and updated by the Russian Communications Ministry. Under the new law, government agencies may only buy foreign software when a suitable domestic substitute is not available. Moreover, on July 21, 2014, President Putin signed the Personal Data Localization Law 242-FZ that requires companies to store personal data of Russian citizens only on servers physically located within Russia. This law made it more difficult for companies to select cloud based IT solutions. After this Law entered into force on September 1, 2015, the Russian Federal Service for Supervision in the Sphere of Telecom, Information Technologies and Mass Communications (ROSKOMNADZOR) can fine companies which violate the law and restrict access to their websites. The Russian Ministry of Communications later published explanatory notes about the law at this [link >>](#) :

President Vladimir Putin signed the Yarovaya package of anti-terrorism amendments, which include provisions requiring telecommunication service providers to furnish

encryption keys to law enforcement agencies upon request. Effective July 1, 2018, the Yarovaya amendments also mandate that domestic telecoms and Internet service providers (ISPs) to store all customers' telephonic and electronic content for six months. It also mandates ISPs to keep records of all transmitted communications for one year and telecoms for three years.

New regulations in the auto and aviation sectors could make it more difficult to sell U.S. products in this Russia. For example, Russia developed a global navigation positioning technology called Global Navigation Satellite System (GLONASS) as an alternative to the U.S. Global Positioning System (GPS) system. Russia's Ministry of Transport issued a rule in March 2012 requiring that GLONASS compatible satellite navigation equipment must be installed on all Russian-manufactured aircraft, with varying deadlines depending on the use, age, and size of the aircraft, but on all aircraft no later than January 2016. In addition, any foreign-manufactured aircraft listed in a Russian airline's Air Operator Certificate must have GLONASS or GLONASS/GPS compatible satellite navigation equipment installed by January 1, 2018 or earlier, depending on the size of the aircraft. Since U.S. aircraft are not currently configured for GLONASS, modifications to the aircraft would be necessary to meet this new rule. The same issue is applies to cars imported into the Russian Federation. All the vehicles both new and used that are imported should be equipped with a GLONASS system . [Any vehicle without a GLONASS equipment cannot be imported into Russia. This amended was enacted in the TR TS 018-2011 regulation on the January 1, 2017.](#)

Import Tariff

In August 2012, Russia became a member of the World Trade Organization (WTO), lowering the average bound tariff rate on industrial and consumer goods, from almost 10% in 2011 to 7.8% by 2017. Over one-third of tariff lines received the final bound rate upon accession, while another quarter of tariff reductions will be phased in over a transition period of 3-7 years. The longest implementation periods include seven years for automobiles, helicopters and civil aviation (i.e. 2019), and eight years for poultry (i.e. 2020).

Food and agricultural exports to Russia from the U.S. are not currently possible due to Russian sanctions. However, if sanctions were lifted and agricultural and food exports resumed with Russia, these would fall under Russia's WTO Accession Protocol. The protocol establishes tariff rate quotas (TRQ's) for agricultural goods, such as beef, pork, poultry, and some whey products. Imports entering the market within the quota would enjoy lower tariffs, but higher tariffs would be applied to imports outside of the quota. Some of these TRQ's could also be subject to member-specific allocations. The current in-quota and out-of-quota rates are listed below:

- Beef: 15% duty in-quota, 55% duty out-of-quota
- Pork: 0% duty in-quota, 65% duty out-of-quota (The TRQ for pork will be replaced with by a flat top rate of 25% as of January 1, 2020.)

- Selected poultry products: 25% duty in-quota, 80% duty out-of-quota
- Selected whey products: 10% duty in-quota, 15% duty out-of-quota

On January 1, 2015, the Eurasian Economic Union (EAEU) was launched, incorporating the tariff regulations previously set forth in the Russia-Belarus-Kazakhstan Customs Union (CU) established in 2010. Armenia's accession into the EAEU came into force on January 2, 2015, while Kyrgyzstan's accession came into effect on August 6, 2015. The Unified Customs Tariff of the EAEU/CU has undergone periodic revision since 2011, with the rates of import customs duties now set in accordance with the obligations outlined in Russia's WTO Accession Protocol. All issues such as tariffs, tariff rate quotas, technical regulations, licensing and certification are being harmonized by the Eurasian Economic Commission (EEC), the multilateral entity established by the member countries to manage the Customs Union, now the Eurasian Economic Union. Current information on the harmonized tariffs of the EAEU/CU [can be found at this link >>](#) :

In addition to customs duties, import excise taxes may be applied for limited categories of products, such as luxury goods, alcohol and tobacco products, cars, diesel and motor oil, and other petroleum products. Import excise taxes range from 20% to 570%.

Value Added Tax (VAT) is applied to the sum total of the customs value, the customs duty, and any excise tax. Russian customs VAT is levied at the same rates as Russian sales VAT - generally 18% for most goods, works, and services. Limited categories of goods (*e.g.* pharmaceuticals, children's products, some food products) are subject to 10% VAT, while some categories (*e.g.* medical goods and equipment) may be VAT exempt.

Import Requirements & Documentation

Importers are required to complete a Russian customs freight declaration for every item imported. A declaration must be supported by the following documents (when applicable): contracts, commercial documents such as commercial invoices and packing lists, transport documents, import licenses, TR TS (technical regulation of technical safety) certificates, certificates of origin, sanitary certificates, import permission and licenses (*e.g.* for products containing encryption technology), and documents confirming legitimacy of declarants/brokers/importers. All customs import declarations are submitted electronically. [The website of Russia's Federal Customs Service contains the link to the portal for electronic declarations.](#)

As of 2014, Russian customs authorities should no longer require a separate submission of certificates or declarations of technical compliance as part of the clearance process, as the information should merely be stated within field 31 of the electronic import customs declaration. However, it has been reported that in practice customs officials may in fact require separate submission of these documents, especially for controlled items.

The EAEU maintains a unified list of goods to which import and export limitations and prohibitions apply, in order to monitor and control movement of goods classified as sensitive by the member states or by the international community. In Russia, import

licenses are issued by the Ministry of Industry and Trade in accordance with the unified licensing rules of the EAEU.

Customs payments generally include: import/export customs duties, taxes, and customs processing fees. Some goods may also require payment of utilization fees (e.g. wheeled vehicles), or the new ecological fee, introduced on January 1, 2015.

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

Labeling/Marking Requirements

In general, Russian Customs will require specific product information, as per field 31 on the customs declaration form (e.g. name, trademark, manufacturer, country of origin, composition, etc.).

Additional labeling and marking requirements have generally been harmonized across the Eurasian Economic Union (EAEU) member states for products entering the territory, according to specific Technical Regulations (TR) applying to product categories. Where required, the official certification mark logo ("EAC") should be applied to each production unit, packaging, or instructions for use (as specified by the appropriate TR), and should be clearly visible throughout the lifetime of the product. The "EAC" mark indicates conformity with TR's established by the EAEU, and should only be used for products which have been formally tested and approved by officially recognized certification authorities. [All specifications regarding the design and dimensions of the "EAC" mark are outlined in the CU Commission decision No. 711 of July 15, 2011.](#)

The Technical Regulation (TR) on Safety of Packaging (TR CU 005/2011) is a key regulation covering standards and requirements for packaging, including that of food products, produced both as a finished product and as part of the products' manufacturing process. The TR was adopted by the CU Commission decision No. 769 of August 16, 2011, and has been in effect since July 1, 2012. [A number of changes were made and the last one was done by the Eurasian Economic Commission \(EEC\) in its Decision 96 of October 18, 2016.](#)

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

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

[The English translation of the original Technical Regulation TR CU 005/2011 is available here >>.](#)

In general, labels on food items must feature the following information in the Russian, Kazakh, and Belarussian languages:

- Type and name of the product;
- Legal address of the producer (may be provided in the Latin alphabet);
- Weight/volume of the product
- Food contents (name of basic ingredients/additives listed by weight in decreasing order);
- Nutritional value (calories, vitamins if their content is significant or if product is intended for children, for medical, or for dietary use);
- Conditions of storage;
- Expiration date (or production date and period of storage);
- Directions for preparation of semi-finished goods or children's foodstuffs;
- Warning information with regard to any restrictions and side effects;
- Terms and conditions of use.

For additional requirements for food labeling and certification, [visit the Foreign Agricultural Service GAIN Reports search page](#):

Labels on nonfood items must include:

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

Commercial Service Contact

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U.S. Export Controls

The United States imposes export controls to protect national security interests and promote foreign policy objectives. The United States also participates in various multilateral export control regimes to prevent the proliferation of weapons of mass destruction and prevent destabilizing accumulations of conventional weapons and related material. The U.S. Department of Commerce's Bureau of Industry and Security (BIS)

administers U.S. laws, regulations and policies governing the export and re-export of commodities, software, and technology (collectively “items”) falling under the jurisdiction of the Export Administration Regulations (EAR). The primary goal of BIS is to advance national security, foreign policy, and economic objectives by ensuring an effective export control and treaty compliance system and promoting continued U.S. strategic technology leadership. BIS also enforces anti-boycott laws and coordinates with U.S. agencies and other countries on export control, nonproliferation and strategic trade issues.

BIS is responsible for implementing and enforcing the EAR, which regulate the export and re-export of items with chiefly commercial uses that can also be used in conventional arms, weapons of mass destruction, terrorist activities, or human rights abuses; and less sensitive military items; including “production” and “development” technology. Items subject to the EAR may require a license prior to export or re-export. Items with an Export Control Classification Number (ECCN) that are regulated for Chemical and Biological Weapons (CB), National Security (NS), Missile Technology (MT), Regional Stability (RS) or Crime Control purposes may require a license from BIS for export to Russia.

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

In response to Russia's actions in southern and eastern Ukraine, beginning April 28, 2014, BIS is denying applications for licenses to export or re-export any high technology item subject to the EAR to Russia or occupied Crimea that contributes to Russia's military capabilities. In addition, Commerce has imposed sanctions on entities that contributed to the occupation and imposed a license requirement for activities involving production or development of crude oil or gas from deep water, arctic off shore or shale.

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

Washington, D.C. Tel: +1 (202) 482 4811 Fax: +1 (202) 482 3322

Western Regional Office Tel: +1 (949) 660 0144 Fax: +1 (949) 660 9347

[Further information on export controls is available on this link >>.](#)

BIS has developed a list of "red flags," or warning signs, intended to discover possible violations of the EAR. [posted link >>](#)

Also, BIS has "Know Your Customer" [guidance at >>](#)

BIS provides a variety of training sessions to U.S. exporters throughout the year. These sessions range from one to two day seminars and focus on the basics of exporting as well as more advanced topics. A list of upcoming seminars [can be found at >>](#)

The EAR does not control all goods, services, and technologies. Other U.S. Government agencies regulate more specialized exports. For example, the U.S. Department of State's Directorate of Defense Trade Controls has authority over defense articles and services. A list of other agencies involved in export control can be found on the BIS Web site or in Supplement No. 3 to Part 730 of the EAR, which is available [on the Government Printing Office Web site at >>](#)

A list that consolidates eleven export screening lists of the Departments of Commerce, State and the Treasury into a single search as an aid to industry in conducting electronic screens of potential parties to regulated transactions is [available here >>](#)

Temporary Entry

Temporary entry of goods is allowed with full or partial relief from customs duties and import VAT for a period of up to two years. Russian Customs issues authorization for temporary entry of goods based on a written application submitted by an importer. Temporarily imported goods must remain unchanged, except for normal wear and tear or natural loss, and must not be sold or otherwise transferred to any third party. Customs authorities may also require the importer of record to provide security for import customs payments (i.e. bank guarantee or cash deposit) before granting the temporary import customs regime.

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

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

When partial exemption from import customs payments is granted, the temporary import regime requires a payment of 3% of the regular import duty, which must be paid for each month that the goods stay in Russia, if the goods value exceeds 20,000 rubles (\$370 at the exchange rate of 57 rubles/\$1). However, the generally permitted term for temporary imports is still limited to two years.

Although Russian Customs accepts the use of some temporary import regime (TIR) carnets, the issuance tends to be made under somewhat limited circumstances. Entry into Russia through Moscow or St. Petersburg is preferred.

For further information, please refer to the [Russian Federal Customs Service website](#) or [on alternative page >>](#) or chapter 33 and 37 of Russian Customs Code.

Prohibited & Restricted Imports

The import and export of goods in Russia is carried out in accordance with the unified list of the commodities that are prohibited or restricted for imports into the EAEU (Eurasian Economic Union). The list was approved by the EEC (Eurasian Economic Commission) Collegium Resolution No.134 dated August 16, 2012. Additional documents regulating the import and export of goods include the Customs Union Agreement on Licensing Regulations of International Trade dated June 9, 2009, and the RF decree No.1567-p of 23.09.2010.

A current list of these items, and the applicable regulations, can be found at the following [link >>](#)

On August 7, 2014, in response to Ukraine-related sanctions, Russia imposed a one-year ban on imports of certain agricultural and food products (covering about 52 specified HS classifications) originating from the United States, European Union, Canada, Australia, and Norway. On June 24, 2015, Russia extended the agricultural food ban by one year, to August 2016 and carried out until December 31, 2017.

Russian Post, the postal system in Russia, has its own restrictions and prohibitions for international mailing of specific items, based on Article 22 of the Federal Law on Postal Service. Some categories of items may be permitted for international mailing for personal use, but will require authorization from the appropriate government agency. This is related to the imports of encryption containing electronics. For more information and the current list of items, check the [Russia Post website at >>](#)

Customs Regulations

The introduction of the Eurasian Economic Union (EAEU) has not affected the internal structure of the Russian customs service, which continues to be comprised of the Federal Customs Service, regional customs administrations, customs-houses, and customs posts. Goods that are moved into Russia through other EAEU member countries are placed under the transit customs regime at the external border of the EAEU and are finally released for free circulation by the Russian customs authorities, through electronic notification.

Customs clearance is normally completed by the importer of record (or a customs agent acting on its behalf) filing the customs declaration along with the required set of supporting documents.

Customs brokers provide the full outsourcing for customs clearance. In many cases brokers let the companies outsource their import operations without being a party to the international transaction.

Only companies that are local residents of any EAEU member state may act as importers of record before the customs authorities. The declaring importer of record must have a direct interest in goods imported under a foreign trade transaction (i.e. the right to own, possess, or dispose of the imported goods.). Alternatively, a declarant may clear goods through a customs broker/agent, as long as the broker/agent is registered on the official list maintained by the EAEU Commission. As a general rule, foreign entities may not act as importers of record, except for a limited number of cases when goods may be imported by representative offices or branches of foreign entities accredited in Russia.

The timing for the customs clearance procedure is usually one business day after the declaration is registered by the Russian customs authorities, provided that all documentation is in order. However, legislation does provide a customs inspector the right to extend the term by up to 10 business days at the discretion of the chief of a customs terminal.

The list of documents required for customs clearance depends on the type and characteristics of the goods, and the terms of their importation. As December of 2014, nearly all customs declarations were being submitted in electronic format without any documents in hard copy. The transition to full e-documentation was completed in January 2017, equipping all the customs posts with e-docflow.

The website of [Russia's Federal Customs Service](#) contains regional customs contact information, as well as a link to the portal for electronic declarations.

Standards for Trade

Overview

Russia has a unique system of standards, which uses a combination of various international standards, but relies mostly on product testing as a key element of the product approval process. Russia does not have an association agreement with EU or the US and doesn't recognize internationally recognized certificates, including CE mark and FDA certificates. These certificates will be part of a application file submitted to relevant approval government agencies, but tests would have to be carried out in Russia.

In 2010, Russia became part of the Russia-Kazakhstan-Belarus Customs Union (CU) which was later transformed into Eurasian Economic Union (EAEU) in 2015. The process has forced member countries to align their standards with the other five member states and create common markets for industries, like pharmaceuticals and medical devices.

Standards

The main Russian standards body is the Federal Agency for Technical Regulations and Metrology (Rosstandart), which in the late 1990s used to develop the Russian GOST-R standards (state standards for Russia), similar to GOST standards (state standards) in the former Soviet Union. The regulatory document that the company applied for was called the GOST-R certificate, indicating that the products conformed to the requirements of these standards.

Later the agency started developing Russian Technical Regulations (TU) that were sector specific. When the Russia-Kazakhstan-Belarus Customs Union (CU), and later the Eurasian Economic Union (EAEU) was established, it gradually discontinued creation of the Russian Technical Regulations. Now the Eurasian Economic Commission (ECC), a permanent supranational regulatory body of EAEU, oversees the alignment of standards and the creation of new Technical Regulations (TR) for all five member states.

Currently Russia uses a [combination of 24 Russian and 35 EAEU technical regulations](#)

Once the EAEU Technical Regulations come into force they prevail over the relevant Russian technical regulations for the same products.

Russia is a member of the International Organization for Standardization (ISO), the International Electrotechnical Commission (IEC) and many others listed on the [Rosstandart website](#)

Russia, as a member of the World Trade Organization (WTO), is required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. U.S. companies can register on Notify U.S. <https://tsapps.nist.gov/notifyus/>, which is a free, web-based, e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect their access to international markets, including Russia.

Testing, inspection and certification

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

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

RosAccreditation signed 14 bilateral agreements with counterpart organizations in Abkhazia, Vietnam, Germany, Greece, India, Spain, Kyrgyzstan, Macedonia, Moldova, Mongolia, Serbia, Slovakia and Ukraine. In addition, RosAccrditation is a member of the following international organizations:

- [The Asia Pacific Laboratory Accreditation Cooperation \(APLAC\)](#)
- [The Interstate Council for Standardization, Metrology and Certification of the Commonwealth of Independence States \(CIS\)](#)

It is also [an associate member of International Laboratory Accreditation Cooperation \(ILAC\)](#)

In 2013-2015 RosAccreditation started to work with the [European co-operation for Accreditation \(EA\)](#) to realize a project “Bringing closer the Russian and European accreditation systems”. In 2015 a series of educational seminars was conducted in the Russian regions to teach more than 250 employees of [RosAccreditation ISO/IEC 17011 “Conformity assessment”](#)

Confirmation of compliance is designed to confirm that goods conform to the statutory quality and consumer characteristics requirements. Confirmation of compliance in Russia is based on the Russian national regulations and on the legislation of the EAEU. The technical rules of the EAEU establish a unified list of goods that are subject to mandatory confirmation of compliance in the form of (i) certification or (ii) declaration of compliance, as well as unified forms for the (i) certificate and (ii) declaration of compliance that are issued by the accredited agencies and laboratories of the EAEU member states and are valid throughout the EAEU.

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

- Technical Regulations (Certificate of Conformity/Declaration of Conformity)

Any U.S. exporter planning to enter the Russian market should, if include products in the “Unified list of products that are subject to mandatory conformity and issuance of a Certificate of Conformity or Declaration of Conformity”. For the latest information, go to the most [recent decision \(No. 146 on October 18, 2016\)](#)

A manufacturer can choose whether he wants to apply for a Certificate or Declaration of Conformity. He also can make a choice to have these Certificates according the EAEU or Russian standards, but if he chooses the former his products can only be entered through and sold in Russia. Only Russian legal entities can apply for these Certificates or Declarations, so the U.S. manufacturer must work with a Russian distributor or importer. The validity of these certificates are for five years. Only EAEU accredited Testing and Certification organizations can perform the necessary tests and issue Certificates or Declarations. If the product is not included in the list, then it should go through the conformity process according to the national standards of the five countries depending on the final destination of the product. The U.S. manufacturer should also check similar unified lists for all five countries to insure its full compliance with all the regulations. Companies [can find this list for Russia on the website of Rosstandard](#).

- Sanitary Regulation (Certificate of State Registration)

After July 1, 2010, the Certificate of State Registration was established for all products that need a sanitary certificate. Products which need a Certificate of State Registration are listed in part II of the “Unified list of products subject to sanitary and epidemiological supervision at Customs and on the territory of the EAEU” that was approved by the [Decision 299 of CU Commission on May 28, 2010 and later amended by the Decision 146 of Eurasian Economic Commission on September 18, 2014.](#)

A number of other mandatory and voluntary certification systems also exist, which are partly managed by other ministries or agencies (please see the key ones in the contacts sections).

Publication of technical regulations

[The development of the Russian Technical Regulations was discontinued in January 2015 and only the Russian and EAEU TRs already approved can be found on this website.](#)

[The Technical Regulations of the EAEU are published in Russian on the EEC website for at least 60 days and notified to the WTO.](#) Any Russian or foreign entity may comment (in Russian) to the contact listed on the web site. The final EAEU Technical Regulations are published on the EEC website and then Russia notifies WTO about them.

Contact information

The following are the key government standards organizations in Russia.

[Federal Agency for Technical Regulations and Metrology \(Rosstandart\)](#)

Kitaygorodsky proezd, 7, building 1, Moscow, Russia, 109074

Moscow, 119991

Tel: +7 (499) 236 0300

Fax: 7 +(499) 236 6231

[E-mail >>](#)

[Federal Service for Surveillance in Healthcare \(Roszdravnadzor\)](#)

Slavyanskaya sq. 4, building 1

Moscow, 109074

Tel.: +7 (495) 698 4538

[E-mail >>](#)

[Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing \(Rospotrebnadzor\)](#)

Vadkovskiy pereulok, house 18, stroenie 5 and 7

Moscow, 127994

Tel.: +7 (499) 973 2690

[E-mail >>](#)

[Federal Environmental, Industrial and Nuclear Supervision Service \(Rostekhnadzor\)](#)

Building 1, 34, Taganskaya Street,
Moscow, 109147 Russia
Tel: +7 (495) 645 94 79; +7 (495) 645 64 97
Fax: +7 (495) 532-13-65

[E-mail >>](#)

[Federal Communication Agency \(Rossvyaz\)](#)

Nikoloyamskiy per. 3 A, building 2
Moscow, 109289
Mr. Marina Kuznetsova, Head of Conformity Department
Tel: +7 (495) 986 30 61
Fax: +7 (495) 986 30 48

[E-mail >>](#)

[Federal Service for Accreditation \(RosAccreditation\)](#)

ul. Vavilova, 7
Moscow, 117997
Tel: +7 (495) 539 26 70

[E-mail >>](#)

For more information on standards in Russia, please contact:

U.S. Foreign Agricultural Service, U.S. Embassy Moscow
8 Bolshoy Deviatinsky Pereulok, Moscow 121099
Tel: +7 (495) 728-5222
Fax: +7 (495) 728-5133

[E-mail 1 >>](#)

[E-mail 2 >>](#)

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Trade Agreements

[On August 22, 2012, Russia formally joined the WTO, and on December 20, 2012, Russia gained permanent normal trade relations \(PNTR\).](#)

[As part of WTO accession, Russia signed the General Agreement on Trade in Services \(GATS\) that provides a legal framework for addressing barriers affecting trade in professional services. In the services sector, Russia committed to substantial openness in a broad range of sub-sectors, including the elimination of many existing limitations, such as financial services, telecommunications, distribution, energy, express delivery, professional services, and audio-visual services.](#)

Currently nine countries (Russia, Belarus, Ukraine, Moldova, Tajikistan, Armenia, Kazakhstan, Kyrgyzstan, and Uzbekistan) from the Commonwealth of Independent States (CIS) ratified a Free Trade Agreement (FTA), which provides the free movement of goods within the territory of the member states.

On January 1, 2015, the Eurasian Economic Union (EAEU) was launched, which incorporated the regulations previously set forth in the Russia-Kazakhstan-Belarus Customs Union (CU) formed in 2010, and expands the tariff provisions to cover services and establishes unified standards and labeling requirements. The accession of Armenia and Kyrgyzstan came into force on January 2, 2015 and August 12, 2015 respectively.

On December 30, 2015 President Putin signed a Federal Law 410 Suspending the FTA between Russian and Ukraine mentioned above.

On October 05, 2016, the FTA between the EAEU and Vietnam came into force. On December 28, 2016 Russia, Kazakhstan, Armenia, and Kyrgyzstan signed an agreement to start negotiations with Iran, India, Egypt and Singapore about the FTA. Belarus is expected to sign this agreement as well.

Thanks to the EAEU, U.S. exporters can choose one of the five member countries to receive both regulatory approvals, in the form of registration certificates, and declarations or certificates of conformity for those types of products for which the EAEU Technical Regulations (TR) apply.

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Licensing Requirements for Professional Services

The Federal Law 99 “About licensing of separate types of activities” of May 4, 2011, which was last amended in 2016, describes all the activities that require licenses and the process of obtaining them.

[Link 1 >>](#)

[Link 2 >>](#)

The 52 professional services listed include, among others, the production of pharmaceuticals and medical devices, and educational services. Although legal, consulting, and accountancy services don't require any special licenses, foreign companies that would like to operate in Russia need to register as a Russian legal entity, which is not a very complicated and time consuming procedure. As a result, there are a number of multinational companies in the above sectors that are present on the Russian market, including Baker & McKenzie, PWC, KPMG, Deloitte and many others.

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Web Resources

[Bureau of Industry & Security, U.S. Department of Commerce](#)

[Export Controls](#)

[Possible Violations](#)

[Consolidated Screening List:](#)

[Eurasian Economic Commission](#)

[Eurasian Economic Commission doc](#)

[Harmonized Tariffs](#)

[Draft Technical Regulations](#)

[Russian Federal Customs Service \(EN\)](#)

[Russian Federal Customs Service \(RU\)](#)

[Russian Ministry of Economic Development:](#)

[Russian Ministry of Industry and Trade \(EN\)](#)

[Russian Ministry of Industry and Trade \(RU\)](#)

Investment Climate Statement

Executive Summary

While the Russian Federation made substantial advances in 2016 to decrease the regulatory burden on businesses at the regional level, fundamental structural problems in governance of the economy continue to stifle foreign direct investment throughout the country. In particular, Russia's judicial system remains heavily biased in favor of the state, leaving investors often with little recourse in the event of a legal dispute with the government. High levels of corruption among government officials compound this risk. The Russia government frequently adopts rules with little to no transparency or without incorporating public comments, creating significant business uncertainty. Moreover, Russia's import substitution program often gives local producers a sizeable advantage over foreign competitors that do not meet Russia's localization requirements.

Additionally, Russia's actions in eastern Ukraine and Crimea have led to the imposition of sanctions on targeted Russian entities by the United States and European Union - increasing the cost of legal compliance for U.S. companies and placing restrictions on the types of business activities permitted in Russia.

U.S. investors in Russia must ensure they are in full compliance with U.S. sanctions stemming from Russia's annexation of Crimea in March 2014. These measures include a prohibition on the refinancing of debt beyond 30 days for sanctioned entities, restrictions on the export to Russia of certain kinds of equipment for the energy sector, and a complete ban on dealings with those entities or individuals identified by the U.S. Treasury Department as "specially designated nationals." Further information on the U.S. sanctions program is available [at the U.S. Treasury's website](#).

The Agency for Strategic Initiatives has played an important role in improving Russia's investment climate. Its system of ranking Russian regions, [available at >>](#), has spurred many local authorities to improve the investment climate in their regions relative to others. As different regions compete for foreign investment, local authorities have substantially reduced local regulations, which account for the bulk of foreign investors' regulatory burden.

A new law on public-private-partnerships (224-FZ) took effect January 1, 2016. The legislation allows an investor to acquire ownership rights over a property; in previous approaches to public-private-partnerships, the public authority retained ownership rights

Russia's Special Investment Contract program, launched in 2015, aims to increase investment in Russia by offering tax incentives and simplified procedures for dealings with the government. These contracts, generally negotiated with and signed by the Ministry of Industry and Trade, ostensibly allow for the inclusion of foreign companies in Russia's import substitution programs by providing access to certain subsidies for foreign producers if local production is established. In principle, these contracts may also aid in expediting customs procedures. In practice, however, reports suggest even companies that sign such contacts find their business hampered by policies biased in favor of local producers.

Russia's Strategic Sectors Law (SSL) establishes a list of 45 "strategic" sectors or activities in which purchases of controlling interests by foreign investors must be pre-approved by Russia's Commission on Control of Foreign Investment. In 2014, the Russian government expanded the list to include companies, investments, and transactions.

In 2015 Russian law was amended to give the Russian Constitutional Court authority to disregard verdicts by international bodies, including investment arbitration bodies, if it determines the ruling contradicts the Russian constitution.

Table 1

Measure	Year	Index/Rank	Website Address
TI Corruption Perceptions Index	2016	131 of 176	Link >>
World Bank's Doing Business Report "Ease of Doing Business"	2016	40 of 190	Link >>
Global Innovation Index	2016	43 of 128	Link >>
U.S. FDI in partner country (\$M USD, stock positions)	2015	\$9.201 billion	Link >>
World Bank GNI per capita	2015	\$11,450	Link >>

Openness To, and Restrictions Upon, Foreign Investment

Policies toward Foreign Direct Investment

The Ministry of Economic Development (MED) is responsible for overseeing investment policy in Russia. The Foreign Investment Advisory Council (FIAC), which is chaired by the Prime Minister and includes over 50 international companies and banks, allows select foreign investors to directly present their views on improving the investment climate in Russia. FIAC also advises the government regarding regulatory rule-making.

Russia's basic legal framework governing investment includes Law 160-FZ of July 9, 1999, "On Foreign Investment in the Russian Federation"; Law No. 39-FZ of February 25, 1999, "On Investment Activity in the Russian Federation in the Form of Capital Investment"; Law No. 57-FZ of April 29, 2008, "Order of Investing by Foreign Persons in Companies Having Strategic Importance for Ensuring the Defense of the Country and Security of the States"; and the Law of the RSFS No. 1488-1 of June 26, 1991, "On Investment Activity in the Russian Soviet Federative Socialist Republic (RSFSR)." This framework nominally attempts

to guarantee equal rights for foreign and local investors in Russia. However, exemptions are permitted when it is deemed necessary to protect the Russian constitution, morality, health, human rights, and national security or defense, as well as for promoting the socioeconomic development of Russia. Foreign investors may freely use their revenues and profits obtained from Russia-based investments for any purpose as long as they do not violate Russian law.

Limits on Foreign Control and Right to Private Ownership and Establishment

Russian law places two primary restrictions on land ownership by foreigners. First, land located in border areas or other specifically assigned sensitive territories is restricted from foreign ownership. Second, foreign citizens and foreign legal entities cannot own more than 50 percent of a plot of agricultural land. As an alternative to agricultural land ownership, foreign companies typically lease land for up to 49 years, the maximum legally allowed.

President Vladimir Putin signed in October 2014 the law “On Mass Media,” which took effect on January 1, 2015 and restricts foreign ownership of any Russian media company to 20 percent (the previous law applied a 50 percent limit only to Russia’s broadcast sector). U.S. stakeholders have also raised concerns about similar limits on foreign direct investments in the mining and mineral extraction sectors; they describe the licensing regime as non-transparent and unpredictable as well.

Russia’s Strategic Sectors Law (SSL) establishes a list of 45 “strategic” sectors or activities, such as national defense and state security, in which the establishment of companies, investments, and transactions or purchases of controlling interests by foreign investors must be pre-approved by Russia’s Commission on Control of Foreign Investment, which was established in 2008 to monitor foreign investment in strategic sectors. The Commission received approximately 395 applications for foreign investment between 2008 and 2015, of which 195 were reviewed, according to the Federal Antimonopoly Service (FAS). Of those, the Commission granted preliminary approval for 183 cases, rejected 12 cases, and found that 150 applications did not require [approval >>](#)

International organizations, foreign states, and the companies they control are treated as a single entity under this law, with their participation in a strategic business subject to restrictions applicable to a single foreign entity.

Other Investment Policy Reviews

The WTO conducted the first Trade Policy Review of the Russian Federation in September 2016. Reports relating to the review [are available at >>](#)

Business Facilitation

The Agency for Strategic Initiatives, created by President Putin in 2011 to increase innovation and reduce bureaucracy, has released since 2014 a yearly ranking of Russia’s regions in terms of the competitiveness of their investment climates. This initiative provides potential investors with important information about which regions are most

open to foreign investment. By providing a benchmark to compare regions, known as the “Regional Investment Standard,” this initiative has also stimulated competition between regions, resulting in an overall improved investment climate in Russia. [See \(in Russian\) for more information.](#)

The Federal Tax Service (FTS) operates [Russia’s business registration website](#). A company must register with a local FTS Office within 30 days of launching a new business. The business registration process must not take more than five days, according to Law 129-FZ of 2001. Foreign companies may be required to notarize the originals of incorporation documents included in the application package. To establish a business in Russia, a company must pay a registration fee of RUB 4,000 and register with the Federal Tax Service. [See for more details.](#)

The Russian government established in 2010 an ombudsman for investor rights protection to act as partner and guarantor of investors, large and small, and as referee in pre-court mediation facilitation. The First Deputy Prime Minister was appointed as the first federal ombudsman. In 2011 ombudsmen were established at the regional level, with a deputy of the Representative of the President acting as ombudsman in each of the seven federal districts. The ombudsman’s secretariat, located in the Ministry of Economic Development, attempts to facilitate the resolution of disputes between parties. Cases are initiated with the filing of a complaint by an investor (by e-mail, phone or letter), followed by the search for a solution among the parties concerned. The breakdown of problems reported to the ombudsman has shown a majority of cases related to administrative barriers, discrimination of companies, exceeding of authority by public officials, customs regulations, and property rights protection.

In June 2012 a new mechanism for protection of entrepreneur’s rights was established. The head of the business organization “Delovaya Rossia” was appointed as the Presidential Commissioner for Entrepreneur’s Rights.

Outward Investment

The Russian government does not restrict Russian investors from investing abroad. In effect since 2015, Russia’s “de-offshorization law” (376-FZ) requires that Russian tax residents notify the government about their overseas assets, potentially subjecting these to Russian taxes.

Bilateral Investment Agreements and Taxation Treaties

Russia is party to some 69 treaties in force which contain investment provisions; [for a full list, see >>](#) . Russia is a signatory but never ratified and ultimately terminated its application to the European Energy Charter Treaty, which includes a mechanism for investor-State dispute settlement.

Four regional integration agreements include the Eurasian Economic Union (EAEU) treaty ([with Armenia, Belarus, Kazakhstan, and Kyrgyzstan](#)), the Belarus-Kazakhstan-Russia agreement on services and investment, the Common Economic Zone Agreement (with

Belarus, Kazakhstan, Ukraine), and the European Union-Russia Partnership and Cooperation Agreement (PCA). As a member of the EAEU, Russia is party to the EAEU-Vietnam Free Trade Agreement (FTA), which contains investment provisions; individual member countries of the EAEU generally retain authority to enter into their own bilateral investment treaties.

The United States and Russia signed a bilateral investment treaty (BIT) in 1992, however, it was never ratified by Russia and is not in force. A U.S.- Russian dialogue to explore prospects for negotiating a new BIT ceased upon Russia's annexation of Crimea in 2014. As such, investors from the two countries have no protections beyond domestic laws.

The U.S.-Russia Income Tax Convention, in effect since 1994, was designed to address the issue of double taxation and fiscal evasion with respect to taxes on income and capital. The treaty [is available at >>](#). In total, Russia is party to 82 double taxation treaties; the Russian Ministry of Finance's list (in Russian) [is available at >>](#) .

Legal Regime

Transparency of the Regulatory System

While the Russian government at all levels offers moderately transparent policies, actual implementation can be inconsistent. Moreover, Russia's import substitution program often leads to burdensome regulations that can give domestic producers a financial advantage over foreign competitors. Draft bills and regulations are made available for public comments in accordance with disclosure rules set forth in the Government Resolution 851 of 2012.

Key regulatory actions are published on a centralized web site and [can be accessed at >>](#) . The web site maintains regulatory documents that are enacted or about to be enacted. Draft regulatory laws are published [on the web site](#). Draft laws that do not fall under Resolution 851 [can be found on the State Duma \(Russia's parliament\) legal database](#).

The President's office has the authority to take major decisions affecting businesses without a formal comment period. In practice, this has meant that major decisions affecting businesses are often take without industry input. This has led to an unpredictable regulatory environment.

Accounting procedures are generally transparent and consistent. Documents compliant with Generally Accepted Accounting Principles (GAAP), however, are usually provided only by businesses that interface with foreign markets or borrow from foreign lenders. Russian Accounting Standards, which are largely based on international best practices, otherwise apply.

International Regulatory Considerations

As a member of the Eurasian Economic Union (EAEU: [Armenia](#), [Belarus](#), [Kazakhstan](#), [Kyrgyzstan](#), and [Russia](#)), Russia has delegated certain decision-making authority to the supra-national Eurasian Economic Commission (EEC), the EAEU's executive body. In particular, the EEC has the lead on concluding trade agreements with third countries,

customs tariffs (on imports), and technical regulations. EAEU agreements and the EEC decisions establish basic principles that are implemented by the member states at the national level through domestic laws, regulations, and other measures involving goods. EAEU agreements and EEC decisions also cover trade remedy determinations, establishment and administration of special economic and industrial zones, and the development of technical regulations. The EAEU Treaty establishes the priority of WTO rules in the EAEU legal framework. Authority to set sanitary and phytosanitary standards remains at the individual country level.

U.S. companies cite technical regulations and related product-testing and certification requirements as major obstacles to U.S. exports of industrial and agricultural goods to Russia. Russian authorities require product testing and certification as a key element of the approval process for a variety of products, and, in many cases, only an entity registered and residing in Russia can apply for the necessary documentation for product approvals. Consequently, opportunities for testing and certification performed by competent bodies outside Russia are limited. Manufacturers of telecommunications equipment, oil and gas equipment, and construction materials and equipment, in particular, have reported serious difficulties in obtaining product approvals within Russia. Technical Barriers to Trade (TBT) issues have also arisen with alcoholic beverages, pharmaceuticals, and medical devices.

Russia joined the WTO in 2012. Although Russia has notified the WTO of numerous technical regulations, it appears to be taking a narrow view regarding the types of measures that require notification. Consequently, Russia's notifications in 2016 may not reflect the full set of technical regulations that require notification under the WTO TBT Agreement.

Legal System and Judicial Independence

The U.S. Embassy advises any foreign company operating in Russia to have competent legal counsel and create a comprehensive plan on steps to take in case the police carry out an unexpected raid. Russian authorities have exhibited a pattern of transforming civil cases into criminal matters, resulting in significantly more severe penalties. In short, unfounded lawsuits or arbitrary enforcement actions remain an ever-present possibility for any company operating in Russia.

Critics contend that Russian courts in general lack independent authority and, in criminal cases, have a bias toward conviction. In practice, the presumption of innocence tends to be ignored by Russia's courts, and less than one percent of criminal cases end in acquittal. In cases that are appealed when the lower court decision resulted in a conviction, less than one percent are overturned. In contrast, when the lower court decision is "not guilty," 37 percent of the appeals result in a finding of guilt.

Russia has a civil law system, and the Civil Code of Russia governs Russian contracts. Specialized commercial courts (also called arbitration courts) handle a wide variety of commercial disputes. Russia was ranked by the World Bank's 2017 "Doing Business" Index

as 12th in terms of contract enforcement, based upon “the time and cost for resolving a commercial dispute through a local first-instance court,” as well as the extent to which it had “adopted a series of good practices that promote quality and efficiency in the court system.”

Commercial courts are required by law to decide business disputes efficiently, and many cases are decided on the basis of written evidence, with little or no live testimony by witnesses. The courts’ workload is dominated by relatively simple cases involving the collection of debts and firms’ disputes with the taxation and customs authorities, pension fund, and other state organs. Tax-paying firms often prevail in their disputes with the government in court. The volume of routine cases limits the time available for the courts to decide more complex cases. The court system has special procedures for the seizure of property before trial to prevent its disposal before the court has heard the claim, as well as procedures for the enforcement of financial awards through the banks. As with some international arbitral procedures, the weakness in the Russian arbitration system lies in the enforcement of decisions; few firms pay judgments against them voluntarily.

A specialized court for intellectual property (IP) disputes was established in 2013. The IP Court hears matters pertaining to the review of decisions made by the Russian Federal Service for Intellectual Property (Rospatent) and determines issues of IP ownership, authorship, and the cancellation of trademark registrations. It also serves as the court of second appeal for IP infringement cases decided in commercial courts and courts of appeal.

Laws and Regulations on Foreign Direct Investment

The 1991 Investment Code and 1999 Law on Foreign Investment (160-FZ) guarantee that foreign investors enjoy rights equal to those of Russian investors, although some industries have limits on foreign ownership (see separate section on “Limits on Foreign Control and Right to Private Ownership and Establishment”). Russia’s Special Investment Contract program, launched in 2015, aims to increase investment in Russia by offering tax incentives and simplified procedures for dealings with the government. In addition, a new law on public-private-partnerships (224-FZ) took effect January 1, 2016. The legislation allows an investor to acquire ownership rights over a property; in previous approaches to public-private- partnerships, the public authority retained ownership rights.

Competition and Anti-Trust Laws

The Federal Antimonopoly Service (FAS) implements antimonopoly laws and is responsible for overseeing matters related to the protection of competition. Russia’s fourth and most recent anti-monopoly legislative package, which took effect January 2016, introduced a number of changes, including limiting the criteria under which an entity could be considered “dominant,” broadening the scope of transactions subject to FAS approval, and reducing government control over transactions involving natural monopolies. Over the past several years, FAS has opened a number of cases involving American companies.

In addition, FAS has claimed the authority to regulate intellectual property, arguing that monopoly rights conferred by ownership of intellectual property should not extend to the “circulation of goods,” a point supported by the Russian Supreme Court.

Expropriation and Compensation

The 1991 Investment Code prohibits the nationalization of foreign investments, except following legislative action and when such action is deemed to be in the public interest. Acts of nationalization may be appealed to Russian courts, and the investor must be adequately and promptly compensated for the taking. At the sub-federal level, expropriation has occasionally been a problem, as well as local government interference and a lack of enforcement of court rulings protecting investors.

Despite legislation prohibiting the nationalization of foreign investments, investors in Russia – particularly minority-share investors in domestically-owned energy companies – should exercise caution. Russia has a history of indirectly expropriating companies through “creeping” and informal means, often related to domestic political disputes. Some examples: the privately-owned oil company Bashneft was nationalized and then “privatized” in 2016 through its sale to the government-owned oil giant Rosneft without a public tender; and in the Yukos case, the Russian government used questionable tax and legal proceedings to ultimately gain control of the assets of a large Russian energy company. Other examples include foreign companies being pressured into selling their Russia-based assets at below-market prices. Foreign investors, particularly minority investors, have little legal recourse in such instances.

Dispute Settlement

ICSID Convention and New York Convention

Russia is party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. While Russia does not have specific legislation providing for enforcement of the New York Convention, Article 15 of the Constitution specifies that “the universally recognized norms of international law and international treaties and agreements of the Russian Federation shall be a component part of [Russia’s] legal system. If an international treaty or agreement of the Russian Federation fixes other rules than those envisaged by law, the rules of the international agreement shall be applied.” Russia is a signatory but not a party/never ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID).

Investor-State Dispute Settlement

Available information indicates that at least 13 investment disputes have involved a U.S. person and the Russian Government since 2006. Some attorneys refer international clients who have investment or trade disputes in Russia to international arbitration centers, such as Paris, Stockholm, London, or The Hague. A 1997 Russian law allows foreign arbitration awards to be enforced in Russia, even if there is no reciprocal treaty between Russia and the country where the order was issued, in accordance with the New York Convention. Russian law was amended in 2015 to give the Russian Constitutional Court authority to

disregard verdicts by international bodies if it determines the ruling contradicts the Russian constitution.

Bankruptcy Regulations

Russia has had a law providing for bankruptcy of enterprises since the early 1990s. A law on personal bankruptcy came into force in 2015. Russia's ranking in the World Bank's "Doing Business" Index for "Resolving Insolvency" is 51 out of 190 economies.

In accordance with Art. 9 of the Law on Insolvency (Bankruptcy), the management of an insolvent firm must petition the court to declare the company bankrupt within 1 month of failing to pay the Bank's claims. The court will institute a supervisory procedure and will appoint a temporary administrator, which will convene the first creditors' meeting, where the creditors will decide whether to petition the court for liquidation or reorganization.

In accordance with Article 51 of the Law on Insolvency (Bankruptcy), a bankruptcy case must be considered within 7 months of the day the petition was received by the arbitral court.

Liquidation proceedings by law are limited to 6 months and can be extended by 6 more months (art. 124 of the Law on Insolvency (Bankruptcy)). Therefore, the time dictated by law is 19 months. However, in practice, liquidation proceedings are extended several times and for longer periods.

Total cost of the insolvency proceedings can be approximately 9% of the value of the estate, including: fees of attorneys, fees of the temporary insolvency representative for the supervisory period, fees of an insolvency representative during liquidation proceedings, payments for services of professionals hired by insolvency representatives (accountants, assessors), and other (publication of announcements, mailing fees, etc.).

Industrial Policies

Investment Incentives

Since 2005, Russia's industrial investment incentive regime has granted tax breaks and other government incentives to foreign companies in certain sectors in exchange for producing locally. As part of its WTO Protocol, Russia agreed to eliminate the elements of this regime that are inconsistent with the Trade-Related Investment Measures TRIMS Agreement by July 2018 and to begin consultations in July 2016 with the United States and other WTO members on WTO-consistent measures. The government also introduced Special Investment Contracts as an alternative incentive program in 2015.

The Russian Direct Investment Fund (RDIF) was established in 2011 as a state-backed private equity fund to operate with long term financial and strategic investors and by offering co-financing for foreign investments directed at the modernization of the Russian economy. RDIF participates in projects estimated from USD 50 to 500 million, with a share in the project not exceeding 50 percent. RDIF has participated in over 52 projects in the following sectors: energy, energy saving technologies, telecommunications, healthcare and other areas, with a total amount of investments of about USD 11 billion and with

expected foreign co-financing of USD 25-30 billion. RDIF has also developed a system for foreign co-investment in its projects that allows foreign investors to participate automatically in each RDIF project.

Foreign Trade Zones/Free Ports/Trade Facilitation

Russia continues to promote the use of high-tech parks, special economic zones, and industrial clusters, which offer additional tax and infrastructure incentives to attract investment. “Resident companies” can receive a broad range of benefits, including exemption from profit tax, value-added tax, property tax, import duties, and partial exemption from social fund payments. The government evaluates and grants funding for the business investments on a yearly basis.

Russia has 23 special economic zones (SEZs), which fall in one of four categories: industrial and production zones; technology and innovation zones; tourist and recreation zones; and port zones. An Audit Chamber investigation of SEZs in April 2016 found the zones have had no measurable impact on the Russian economy since they were founded in 2005.

“Territories of Advanced Development,” a separate but similar program, was launched in 2015 with plans to create areas with preferential tax treatment and simplified government procedures in Siberia, Kaliningrad, and the Russian Far East. In May 2016, President Putin ordered work on 10 existing SEZ’s to cease and suspended the creation of any new SEZs, at least until a more integrated approach to SEZ’s and “Territories of Advanced Development” was put in place.

Performance and Data Localization Requirements

Russian law generally does not impose performance requirements, and they are not widely included as part of private contracts in Russia. Some have appeared, however, in the agreements of large multinational companies investing in natural resources and in production-sharing legislation. There are no formal requirements for offsets in foreign investments. Since approval for investments in Russia can depend on relationships with government officials and on a firm’s demonstration of its commitment to the Russian market, these conditions may result in offsets in practice.

In certain sectors, the Russian government has pressed for localization and increasing local content. Russia is currently considering local content requirements for industries that have high percentages of government procurement, such as medical devices or pharmaceuticals. Russia is not a signatory to the WTO’s Government Procurement Agreement. Consequently, restrictions on public procurement have been a major avenue for Russia to implement localization requirements without running afoul of international commitments.

The Central Bank of Russia has imposed caps on the percentage of foreign employees in foreign banks’ subsidiaries. The ratio of Russian employees in a subsidiary of a foreign bank is set at less than 75 percent. If the executive of the subsidiary is a non-resident of Russia, at least 50 percent of the bank’s managing body should be Russian citizens.

Protection of Property Rights

Real Property

Russia placed ninth overall in the 2017 World Bank “Doing Business Index” for “registering a property,” which analyzes the “steps, time and cost involved in registering property, assuming a standardized case of an entrepreneur who wants to purchase land and a building that is already registered and free of title dispute,” as well as the “the quality of the land administration system.”

The Russian Constitution, along with a 1993 presidential decree, gives Russian citizens the right to own, inherit, lease, mortgage, and sell real property. The state owns the majority of Russian land, although the structures on the land are typically privately owned.

Mortgage legislation enacted in 2004 facilitates the process for lenders to evict homeowners who do not stay current in their mortgage payments. To date, this law has been successfully implemented and is generally effective.

Intellectual Property Rights

Russia remained on both the 2017 U.S. Special 301 Priority Watch List and the 2016 Notorious Markets report, as a result of continued and significant challenges to intellectual property right (IPR) protection and enforcement, particularly in the areas of copyright infringement, trademark counterfeiting/hard goods piracy, and non-transparent collecting society procedures. Stakeholders reported in 2017 that IPR enforcement continued to decline overall in 2016, following similar declines in the prior several years and a reduction in resources for enforcement personnel. There were also reports that IPR protection and enforcement were not priorities for government officials.

Online piracy continues to pose a significant problem in Russia. Some progress has been made in the field of copyright protection, most notably with the 2015 antipiracy law and site-blocking implementation, as well as a licensing agreement the three major music labels reached with vKontakte (vK). The film and publishing industries, however, have made no progress with notorious market/social networking site vK. The Russian government has developed amendments to its anti-piracy law to facilitate the permanent blocking of “mirror” websites, which passed the first reading in the Duma in March 2017. At present, obtaining a permanent injunction for site blocking takes from three to four months - including derivative “mirrors” of a site previously blocked. Because these “mirrors” can appear within hours or days of a site being blocked, expediting the legal process remains important. Industry sources estimate that obtaining a final writ of execution from a court to block permanently a “mirror” site will take around two weeks.

For additional information about national laws and points of contact at local IP offices, please [see WIPO's country profiles at >>](#) .

Resources for Rights Holders

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Financial Sector

Capital Markets and Portfolio Investment

Russia is open to portfolio investment and has no restrictions on foreign investments. Russia's two main stock exchanges - the Russian Trading System (RTS) and the Moscow Interbank Currency Exchange (MICEX) - merged in December 2011. The MICEX-RTS bourse conducted an initial public offering on February 15, 2013, auctioning an 11.82 percent share.

The Russian Law on the Securities Market includes definitions of corporate bonds, mutual funds, options, futures, and forwards. Companies offering public shares are required to disclose specific information during the placement process as well as on a quarterly basis. In addition, the law defines the responsibilities of financial consultants assisting companies with stock offerings and holds them liable for the accuracy of the data presented to shareholders. In general, the Russian government respects IMF Article VIII, which it accepted in 1996.

Credit in Russia is allocated generally on market terms, and the private sector has access to a variety of credit instruments. Foreign investors can get credit on the Russian market, but interest rate differentials tend to prompt investors from developed economies to borrow on their own domestic markets when investing in Russia.

Money and Banking System

Banks make up a large share of Russia's financial system. Although Russia had 616 licensed banks as of February 1, 2017, state-owned banks, particularly Sberbank and VTB Group, dominate the sector. Five of Russia's largest banks are state-controlled (with private banks Otkritie and Alfa Bank ranked fifth and eighth, respectively). The top five banks held 55.4 percent of all bank assets in Russia as of March 1, 2017. The role of the state in the banking sector continues to distort the competitive environment, impeding Russia's financial sector development. At the beginning of 2017, the aggregate assets of the banking sector amounted to 93 percent of GDP, and aggregate capital was 10.9 percent of GDP. Russian banks reportedly operate on short time horizons, limiting capital available for long-term investments. Overall, non-performing loans (NPLs) account for 9.5 percent of total banking assets as of February 2017. Foreign banks are allowed to establish subsidiaries, but not branches within Russia.

Foreign businesses operating within Russia must register as a business entity in Russia.

Foreign Exchange and Remittances Foreign Exchange

While the ruble is the only legal tender in Russia, companies and individuals generally face no significant difficulty in obtaining foreign exchange. Only authorized banks may carry out foreign currency transactions, but finding a licensed bank is not difficult. The Central Bank of Russia (CBR) retains the right to impose restrictions on the purchase of foreign currency, including the requirement that the transaction be completed through a special account, according to Russia's currency control laws. The CBR does not require security deposits on foreign exchange purchases.

Otherwise, there are no barriers to remitting investment returns abroad, including dividends, interest, and returns of capital, apart from the fact that reporting requirements exist and failure to report in a timely fashion will result in fines. To navigate these requirements, investors should seek legal expert advice at the time of making an investment.

Currency controls also exist on all transactions that require customs clearance, which, in Russia, applies to both import and export transactions, and certain loans. A business must open a "deal passport" with the authorized Russian bank through which it will receive and service the transaction or loan. A "deal passport" is a set of documents that importers and exporters provide to an authorized bank, which enables the bank to monitor payments with respect to the transaction or loan and to report the corporation's compliance with currency control regulations to the CBR. Russia's regulations regarding deal passports are prescribed under Instructions of the Central Bank of Russia No. 117-I of June 15, 2004.

Effective 2016, the CBR introduced tighter regulations for cash currency exchanges: a client must provide his full name, passport details, registration place, date of birth, and taxpayer number, if the transaction value exceeds 15,000 rubles (approximately \$200). In July 2016, this amount was increased to 40,000 rubles (approximately \$680). The declared purpose of this regulation is to combat money laundering and terrorist financing.

Remittance Policies

The Central Bank of Russia (CBR) retains the right to impose restrictions on the purchase of foreign currency, including the requirement that the transaction be completed through a special account, according to Russia's currency control laws. The CBR does not require security deposits on foreign exchange purchases. Otherwise, there are no barriers to remitting investment returns abroad, including dividends, interest, and returns of capital, apart from the fact that reporting requirements exist and failure to report in a timely fashion will result in fines. To navigate these requirements, investors should seek legal expert advice at the time of making an investment. Banking contacts confirm that investors have not had issues with remittances and in particular with repatriation of dividends.

Sovereign Wealth Funds

There are two sovereign wealth funds in Russia: the Reserve Fund (\$16.02 billion and 1.1 percent of GDP as of March 1, 2017) and the National Wealth Fund (\$72.6 billion and 4.8

percent of GDP on March 1, 2017). It was expected that the Reserve Fund would be depleted under the 2017- 2019 budget passed in December 2016. However, if global oil prices remain above the budgetary estimate of \$40 per barrel for 2017 it is possible the Reserve Fund will be replenished over time. The Ministry of Finance oversees both funds' assets, while the CBR acts as the operational manager. Both funds are audited by Russia's Accounts Chamber (the standing body of state financial control established by Russia's parliament), and the results are reported to the State Duma. The two funds have different charters. The Reserve Fund is designed to supplement federal budget deficits due to a fall in oil revenues. The National Wealth Fund provides support for the pension system. The two funds are maintained in foreign currencies, and are included in Russia's foreign currency reserves, which amounted to \$395.7 billion as of March 17, 2016.

State-Owned Enterprises

Russia defines a state-owned enterprise as a business in which the government owns at least 25 percent. State-owned enterprises could be subdivided into four main categories: unitary enterprises (federal or municipal, that are fully owned by the government), of which there are 3,719; other state-owned enterprises where government holds a majority stake - such as Sberbank, the biggest Russian retail bank (over 50 percent is owned by the government); natural monopolies, such as Russian Railways; and state corporations (usually a giant conglomerate of companies) such as Rostec and Vnesheconombank (VEB). There are currently eight state corporations.

FAS announced in October 2016 that the Russian government and state-owned enterprises (SOEs) accounted for 70 percent of Russia's economy. The number of government-owned "unitary enterprises" has tripled in the past three years. The total number of SOEs exceeded 24,000 as of 2016.

SOE procurement rules are non-transparent and use informal pressure by government officials to discriminate against foreign goods and services. The current Russian government policy of import substitution mandates numerous requirements for localization of production of certain types of machinery, equipment, and goods.

Privatization Program

The Russian government and its SOEs dominate the economy. Due to federal budget constraints in 2016, privatization plans became a higher priority. In 2016, the Russian government sold 10.9 percent of diamond company Alrosa in July, 50.08 percent of Bashneft in October, and 19.5 percent of Rosneft in December. The government approved in early 2017 a new 2017-19 plan identifying state-controlled assets of Sovcomflot, Alrosa, Novorossiysk Commercial Seaport, and United Grain Company for privatization. The plan would also reduce the state's share in VTB, one of Russia's largest banks, from over 60 percent to 25 percent plus one share within three years.

Responsible Business Conduct

While not standard practice, Russian companies are beginning to show an increased level of interest in their reputation as good corporate citizens. When seeking to acquire

companies in Western countries or raise capital on international financial markets, Russian companies face international competition and scrutiny, including with respect to corporate social responsibility (CSR) standards. Consequently, most large Russian companies currently have a CSR policy in place, or are developing one, despite the lack of pressure from Russian consumers and shareholders to do so. CSR policies of Russian firms are usually published on corporate websites and detailed in annual reports, but do not involve a comprehensive “due diligence” approach of risk mitigation that the OECD Guidelines for Multinational Enterprises promotes. Most companies choose to create their own non-government organization (NGO) or advocacy outreach rather than contribute to an already existing organization. The Russian government is a powerful stakeholder in the development of certain companies’ CSR agendas; some companies view CSR as merely financial support of social causes and choose to support local health, educational, and social welfare organizations favored by the government. One association, the Russian Union of Industrialists and Entrepreneurs, developed a Social Charter of Russian Business in 2004 in which over 200 Russian companies and organizations have since joined.

Corruption

Despite some government efforts to combat it, the level of corruption in Russia remains high. Endemic corruption at the highest levels of government was the focus of nationwide protests in March 2017. Transparency International’s 2016 Corruption Perception Index, ranked Russia in 131st place out of 176. Russia adopted a law in 2012 requiring individuals holding public office, state officials, municipal officials, and employees of state organizations to submit information on the funds spent by them and members of their families (spouses and underage children) to acquire certain types of property, including real estate, securities, stock, and vehicles. The law also required public servants to disclose the source of the funds for these purchases and to confirm the legality of the acquisitions. Recent anti-corruption campaigns include guidance for government employees and establishment of a legal framework for lobbying. In 2014, government plans called for an education campaign for employees and students in tertiary education on bribery and the law. In 2015, federal legislation provided a clear definition of conflict of interest as a situation in which the personal interest (direct or indirect) of an official affects or may affect the proper, objective, and impartial performance of official duties.

The 2016 anti-corruption plan, typically adopted for two years, called for anti-corruption activity in the judiciary, investigations into conflicts of interest, and increased practical cooperation between the NGO/expert community and government officials. Legislative amendments were introduced in 2016 to improve the anti-corruption climate: (1) the new Criminal Code established a punishment for individuals who were acting as middlemen in corrupt business practices, and (2) the Federal Law on anti-corruption established reporting requirements for municipal deputies and

officials. The Constitutional Court gave clear guidance to law enforcement bodies on the issue of asset confiscation due to the illicit enrichment of officials. Russia has ratified the UN Convention against Corruption, but its ratification did not include article 20, which deals with illicit enrichment. The Council of Europe’s Group of States against Corruption

reported in 2016 that Russia fully complied with 11 recommendations - and partially complied with 10 - provided by this organization during the previous periodic review.

Nonetheless, the Russian government acknowledged difficulty enforcing the law effectively, and Russian officials often engaged in corrupt practices with impunity. Some analysts have expressed concern that a lack of depth in the compliance culture in Russia will render Russia's adherence to international treaties a formality that does not function in reality. The implementation and enforcement of the many measures required by these conventions have not yet been fully tested. In recent years, there appear to have been a greater number of prosecutions and convictions of mid-level bureaucrats for corruption, although real numbers were difficult to obtain. The areas of government spending that ranked highest in corruption were public procurement, media, national defense, and public utilities.

Russia's Investigative Committee estimated annual damages of 40 billion rubles (\$615 million) caused by corruption, although independent estimates put the figure much higher. The Russian Prosecutor General Yuri Chaika said that Russian law enforcement registered in 2016 close to 33,000 crimes of this category. Most regular categories of corruption crimes were acts of bribery, kickbacks in government procurement, embezzlement, and incorrect obligation of federal and local budget funds. Vladimir Kolokoltsev, the Russian Minister of Interior (MVD), said that more than 1,300 officials were charged in 2016 on various corruption crimes by his Ministry and other law-enforcement agencies.

Corruption in the past was mostly associated with large construction or infrastructure projects. Russia's Federal Security Service stated in February 2016 that 5 billion rubles (\$77 million) of defense spending was lost to corruption in 2014. In 2016, authorities brought corruption charges against three governors, one federal minister, one deputy minister, the head of Federal Customs (charges were later dropped), and the deputy head of the Federal Investigative Committee. Not one law-enforcement agency managed to avoid high-level corruption investigations in their ranks, including the newly-formed National Guard. In September of 2016, Russian authorities arrested a MVD colonel who allegedly had stashed more than U.S. \$120 million in cash in a Moscow apartment.

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

Additional country information related to corruption [can be found in the U.S. State Department's annual Human Rights Report available at >>](#)

Resources to Report Corruption
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Political and Security Environment

Political freedom has been significantly curtailed during the past year, including rising government hostility toward almost all opposition media outlets and increasing harassment of NGOs. In the aftermath of Russia's attempted annexation of Crimea in March 2014, nationalist rhetoric increased markedly. New laws give the government the authority to label NGOs "foreign agents" if they receive foreign funding, greatly restricting the activities of these organizations. As of March 2016, more than 150 NGOs have been labelled foreign agents. A law enacted in May 2015 authorizes the government to designate a foreign organization as "undesirable" if it is deemed to pose a threat to national security or national interests. Seven foreign organizations currently have this designation and are banned from operations in Russia.

Although the use of strong-arm tactics is not unknown in Russian commercial disputes, the U.S. Embassy is not currently aware of cases where foreign investments have been attacked or damaged for purely political reasons. In Chechnya, Ingushetia, and Dagestan in the northern Caucasus region, Russia continues to battle resilient separatists who increasingly ally themselves with ISIS. These jurisdictions and neighboring regions in the northern Caucasus have a high risk of violence and kidnapping. Since December 2016, the number of terror attacks in Chechnya claimed by

ISIS has increased markedly, as have counterterror military operations. Chechens and other North Caucasus natives have joined the ranks of ISIS fighters by the thousands, and the group has issued threats against Chechen and Russian targets. In the past, ISIS affiliated cells have carried out attacks in major Russian cities, including Moscow and St. Petersburg. In 2016, Russian law enforcement reportedly thwarted planned ISIS cell attacks in both cities.

Public protests continue to occur sporadically in Moscow and other cities. Authorities frequently refuse to grant permits for opposition protests, and there is usually a heavy police presence at demonstrations. The most recent large-scale protest took place on March 26, 2017, when an estimated 60,000 people took to the streets in coordinated demonstrations in Moscow, St. Petersburg, and dozens of other cities across Russia to protest government corruption. Police arrested more than 1,000 people. Official counts of participants at demonstrations tend to overestimate numbers at pro-government events and underestimate those at anti-government events.

Labor Policies and Practices

The Russian labor market remains fragmented, characterized by limited labor mobility across regions and substantial differences in wages and employment conditions. Earning inequalities are significant, enforcement of labor standards remains relatively weak, and collective bargaining is underdeveloped. Employers regularly complain about shortages of qualified skilled labor. This phenomenon is due, in part, to weak linkages between the education system and the labor market. In addition, the economy suffers from a general shortage of highly skilled labor. Meanwhile, a large number of inefficient enterprises, with high vacancy levels offer workers unattractive, uncompetitive salaries and benefits. The minimum wage is currently set below the government's official poverty line. Employers are required to make severance payments when laying off employees in light of worsening market conditions.

The rate of actual unemployment (calculated according to International Labor Organization (ILO) methodology) averaged 5.5 percent in 2016. Average unemployment in urban districts (4.5 percent) was much lower than in rural districts (8.1 percent). As of the end of 2016, St. Petersburg and the Republic of Ingushetia had the lowest and highest unemployment rates in the country - 1.6 percent and 28.8 percent, respectively. Real wages increased slightly in 2016 by 0.6 percent year-on-year, but retail sales remained negative, dropping to 5.9 percent year-on-year in December 2016. Private businesses must compete with SOEs, which dominate the economy. Recent surveys indicate Russians would prefer to work for SOEs because they offer better salaries and benefits. SOEs and the public sector employ 33 percent of Russia's 65 million economically active persons. The public sector, which maintains inefficient and unproductive positions, directly accounts for about 24.5 percent of the workforce.

The 2002 Labor Code governs labor standards in Russia. Normal labor inspections identify labor abuses and health and safety standards in Russia. The government generally complies with ILO conventions protecting worker rights, though enforcement is often insufficient, as the Russian government employs a limited number of labor inspectors.

Official statistics show 1.69 million registered migrant workers (down from 1.83 million in 2015) who have valid work permits from visa countries or work "patents" from visa-free Central Asian countries. Workers from EAEU countries (Armenia, Belarus, Kazakhstan, and Kyrgyzstan) are eligible to work in Russia without work authorization documents. Russia's Federal Migration Service, which is part of the Ministry of Internal Affairs, has estimated the number of unregistered migrants at as many as 1.55 million people. Migrant workers are concentrated in the construction, retail, housing, and utilities sectors. The Russian government enacted sectoral restrictions for foreign workers in 2016 that cap the percentage of foreign workers allowed in different industries.

OPIC and Other Investment Insurance Programs

The U.S. Overseas Private Investment Corporation (OPIC) announced in the wake of Russia's actions in Ukraine in 2014 that it had suspended consideration of any new financing and insurance transactions in Russia. Prior to this decision, OPIC had been

authorized to provide loans, loan guarantees (financing), and investment insurance against political risks to U.S. companies investing in Russia since 1992. OPIC currently has 15 active projects in Russia totaling \$501,986,655 (10 projects covered by OPIC finance and five projects by OPIC insurance). [See for more information](#).

The OPIC agreement (Investment Incentive Agreement) between the United States and Russia [can be found at >>](#) .

Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Economic Data	Host Country Statistical Source*		USG or International Statistical Source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$T USD)	2016	\$1.232	2015	\$1.331	Link >>
Foreign Direct Investment	Host Country Statistical Source*		USG or International Statistical Source		USG or international Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	2016	\$2.95 billion	2015	\$9.2 billion	Link >>
Host country's FDI in the United States (\$M USD, stock positions)	2016	\$8.09 billion	2015	\$4.6 billion	Link >>
Total inbound stock of FDI as % host GDP	2016	0.2%	2015	0.7%	N/A

*Host Country Source Data: FDI data - Central Bank of Russia; GDP data - Rosstat (GDP) (Russia's GDP was 85,880.6 billion rubles in 2016, according to Rosstat. The yearly average ruble-dollar exchange rate in 2016, according to the IRS, was 69.685 rubles to the dollar.)

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment (2015)			Outward Direct Investment (2015)		
Total Inward	257,287	100%	Total Outward	286,583	100%
Cyprus	86,281	34%	Cyprus	104,446	36%
Netherlands	32,368	13%	Netherlands	57,461	20%
Bahamas	21,297	8%	British Virgin Islands	33,501	12%
Bermuda	13,562	5%	Austria	21,054	7%
Germany	13,523	5%	Switzerland	16,456	6%

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets (as of December 2015)								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	68,119	100%	All Countries	2,814	100%	All Countries	65,304	100%
Luxembourg	24,612	36%	United States	546	19%	Luxembourg	24,257	37%
Ireland	19,379	28%	Cyprus	437	16%	Ireland	19,377	30%
Netherlands	4,420	6%	Luxembourg	355	13%	Netherlands	4,179	6%
United States	3,514	5%	Netherlands	241	9%	United States	2,968	5%
Cyprus	2,468	4%	Ireland	42	1%	Cyprus	2,031	3%

Contact for More Information on the Investment Climate Statement

Embassy of the United States of America Economic Section
Bolshoy Deviatinsky Pereulok No. 8 Moscow 121099, Russian Federation
+7 (495) 728 5000, ext. 5179 (Economic Section)

Trade & Project Financing

Methods of Payment

Payment methods and terms vary depending upon the U.S. company's business model and relationship with its Russian trading partner. For new-to-market companies, requesting advance payment for goods and services from a Russian customer may be a prudent course to follow until both parties establish a positive record of payment. Once a U.S. firm has established a strong relationship with a Russian trading partner, it may consider extending short and eventually longer term credit as a way to bolster sales volume. This should be done with caution and only after careful evaluation and establishment of successful payments. One of the more commonly used payment terms for international transactions in Russia is 30/70, meaning 30 percent due at the time of order/invoice and 70 percent due upon shipment.

For some large transactions, advance payment from a Russian buyer may be impractical. In such cases, financing may be provided by a bank, export credit agency or venture fund. Please note that due to the illegal annexation of Crimea and ongoing Ukrainian conflict, Export-Import Bank of the United States (EXIM) has suspended its operations in Russia. Exporters' risk can be minimized with a bank or insurance guarantee from a Russian bank that would be acceptable to a U.S. bank. Several Russian banks are currently sanctioned by the United States so exporters must verify that they are not working with a sanctioned entity prior to engaging in business. In leasing deals, exporters should insist on an upfront payment of three to four months upon delivery to mitigate risk.

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

Companies must also be careful to comply with U.S. sanctions that currently place limits on financing debt. For more information on Crimea and Ukraine related Russia sanctions, please consult the [Department of the Treasury](#).

Banking Systems

Despite improvements over the last several years, the Russian banking system is still evolving in meeting the capital and credit needs of a rapidly growing and dynamic market economy. However, while the banking services available from Russian banks are still

limited compared to what is available in the United States, a company doing business in Russia can access an expanding range of basic services offered by a larger commercial bank. The Central Bank reclaimed operating licenses from nearly 300 banks since it began a banking cleanup in 2013, citing various legal and regulatory violations. While individual investors are covered up to 1.4 million rubles, corporations receive no insurance on deposits, resulting in near total loss of funds in the case of a bank closure. High lending interest rates pose another challenge, however the Central Bank of the Russian Federation has significantly reduced rates since 2014. Currently rates range from 10-12% from commercial banks and 5%-9% for State loans. One-time equipment leasing deals rates range from 10-12% depending on market conditions and details of the agreement.

Foreign Exchange Controls

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

US Banks & Local Correspondent Banks

The Russian banking sector is dominated by large state-owned banks, with the top five banks controlling over 50% of assets. At one time there were over 3,000 small and regional banks, but economic pressures, regulatory actions, and insolvency have led to significant consolidation within the sector. State-owned banks have been the primary beneficiaries of the Russian government's efforts to inject short- and long-term liquidity into the market to mitigate the economic downturn. Russia's largest domestic banks include Sberbank (controlled by the Central Bank); VTB Bank (state-owned, including subsidiaries VTB24, VTB Capital, and Bank of Moscow); Gazprombank (subsidiary of state-owned Gazprom); Rosselkhozbank (state-owned agricultural bank); and Alfa-Bank (private commercial bank). All of the above state-owned banks (except for Alfa-bank) were included in the Office of Foreign Assets Control of the U.S. Department of Treasury Ukraine-related Sanctions List. The sanctions significantly limited access of these organizations to the U.S. financial markets. As of September 2014, these banks cannot apply for loans and issue debt with a maturity of longer than 30 days.

Russia's largest private commercial banks, in addition to Alfa-Bank, include Otkrytie (former Nomos Bank), Russian Standard, Moscow Credit Bank, Bank St. Petersburg, and Binbank.

The largest U.S. and European investments banks operating in Russia include Goldman Sachs, Morgan Stanley, Bank of America Merrill Lynch, JPMorgan, Barclay's, Deutsche Bank, and UBS. The largest foreign-owned commercial banking institutions in Russia include: Raiffeisen Bank (Austria), Unicredit Bank (Italy), Citibank (U.S.), HBSC (UK), and

Deutsche Bank (Germany). In 2013, new laws were enacted forbidding foreign banks from establishing branches in Russia, permitting only subsidiaries to be created.

Project Financing

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

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

The mission of the **U.S. Export-Import Bank (EXIM)** is to assist in financing the export of U.S. goods and services to international markets. EXIM provides export financing products that fill gaps in trade financing, by assuming credit and country risks that the private sector is unable or unwilling to accept, and by leveling the playing field for U.S. exporters by matching the financing that other governments provide to their exporters. EXIM provides working capital guarantees (pre-export financing); export credit insurance; and loan guarantees and direct loans (buyer financing). **Due to the illegal annexation of Crimea and the ongoing conflict in Eastern Ukraine, EXIM has suspended its operations in Russia**, however, they sent representatives to Moscow several times since 2014 to monitor repayment of pre-existing loans. For more information, please go to the EXIM website or [click here >>](#)

The **Overseas Private Investment Corporation (OPIC)** provides medium- to long-term funding through direct loans and loan guarantees to eligible investment projects in developing countries and emerging markets. OPIC achieves its mission by mobilizing private capital and providing investors with financing, guarantees, political risk insurance, and support for private equity investment funds. **Due to the illegal annexation of Crimea and the ongoing conflict in eastern Ukraine, OPIC has suspended its operations in Russia** however, they sent representatives to Moscow several times since 2014 to monitor repayment of pre-existing loans.

Multilateral Development Banks:

- The **European Bank for Reconstruction and Development (EBRD)** is an international financial institution that supports projects in Europe, the Mediterranean, and Central Asia. The EBRD works with banks, industries and businesses, and publicly owned companies, to provide loan and equity finance, guarantees, leasing facilities and trade finance. Direct investments generally range from €5 million (\$5.65 million) to €230 million

(\$260 million), and can typically fund up to 35 percent of the total project cost. The EBRD tailors solutions to client and project needs and to the specific situation of the country, region and sector. However, in reaction to the illegal annexation of Crimea and the ongoing conflict in eastern Ukraine, in July 2014, the EBRD has frozen all decisions regarding new projects in Russia. However, the EBRD continues to support its existing projects and clients in Russia.

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

Financing Web Resources

[Trade Finance Guide: A Quick Reference for U.S. Exporters](#), published by the International Trade Administration's Industry & Analysis team:

[Export-Import Bank of the United States](#)

[Overseas Private Investment Corporation](#)

[SBA's Office of International Trade](#)

[USDA Commodity Credit Corporation](#)

[European Bank for Reconstruction and Development](#)

[Eurasian Development Bank](#)

Business Travel

Business Customs

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

Establishing a personal relationship with business partners is a critical factor in the successful negotiation of major projects, government procurement or in developing long-term business relationships. Scheduling meetings with potential Russian business partners can be challenging. It may take weeks to get a response to an email, fax or a telephone request for a meeting. Once contact has been established, patience may still be required to confirm a date and time to meet. U.S. business visitors to Moscow or St. Petersburg are advised to factor traffic into scheduling.

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

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

Promotional materials in Russian are an important tool for creating interest in a company's products in the Russian market. It is very important that the translation be accurate and of high quality. Many companies interested in the Russian market have used on-line translation services for translation of their promotional material, only to learn that the translation was inferior and did not serve the intended purpose. For the best results, it is highly recommended that professional translation services be used. The U.S. Commercial Service can recommend fully qualified translators upon request. The Commercial Service has started identifying business service providers in Russia in different categories that are known by our team and/or U.S. companies in the market. Please check out this link to see if any professional interpreters are listed that may be of interest.

Travel Advisory

The State Department issues Travel Alerts and Warnings when warranted by local conditions. If you are traveling to Russia, please refer to the Country-Specific Information (CSI) [for the Russian Federation at >>](#)

and consider enrolling your travel with the Department of State in order to receive e-mail updates. The CSI is updated regularly and contains key information for travelers regarding security and safety, health, visa and immigration regulations, and general travel information about the Russian Federation.

Travel Tips

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

Clothing: Russian businessmen and women predominately wear business suits. For women, dresses, skirts or pants are acceptable. Winters can be extremely cold in Russia with occasional temperatures in the minus-20 Fahrenheit range in northern and Siberian cities; Moscow and St. Petersburg can be quite cold as well, with temperatures in the teens Fahrenheit. Winter clothes may be needed as early as October or as late as May. During the winter months people dress for warmth. Travelers are advised to bring boots or other protective footwear, as streets and sidewalks in winter are frequently slushy or icy. Summers, while brief, can be surprisingly hot, and air conditioning is still rare outside big-city hotels and offices.

Food: The recent ruble depreciation has made dining out in Moscow and St. Petersburg more affordable, in line with major U.S. cities. Russian food can be bland to American tastes, while many visitors find Caucasian, Georgian and Uzbek cuisines to be interesting contrasts. Asian food is becoming increasingly popular, and sushi restaurants are pervasive. Regardless of the city or hotel, bottled water served with no ice is recommended. Tips are generally 10% of the bill for good service.

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

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

Personal Security

Russia's political, economic, and social climates changed markedly as a result of the country's illegal annexation of the Crimean Peninsula, ongoing support for military separatists in eastern Ukraine, U.S./Western economic sanctions, and a dramatic drop in

the price of oil that significantly weakened the value of the Russian ruble. These aggregate events have greatly strained the U.S.-Russian bilateral relationship. Although anti-American and anti-Western sentiment increased since the latter half of 2014, there have been no incidents of wide-scale violence specifically targeting American citizens.

Nevertheless, incidents of unprovoked, violent harassment of foreigners regularly occur throughout the Russian Federation. The U.S. Embassy and Consulates General continue to receive reports of American citizens, often members of minority groups, having been victimized in violent attacks by individuals espousing nationalist views. Travelers are urged to exercise caution in areas frequented by such individuals and wherever large crowds have gathered. Americans most at risk are those who, because of their complexion, are perceived to be non-Russians. The impression given by the media acknowledges the existence of discrimination against those who are not ethnically Russian, but aggression is directed more towards individuals from the North Caucasus and Central Asia rather than Westerners who happen to be darker-skinned.

Discrimination on the basis of sexual orientation is widespread; harassment, threats, and acts of violence targeting the LGBT community are also prevalent. Members of the LGBT community who do not openly express their preferences are able to avoid extra attention. Small demonstrations in support of LGBT rights often are dispersed, sometimes violently, by nationalists claiming to be defending traditional Russian values.

Visitors to Russia need to be alert to their surroundings. The overall crime threat is comparable to that of other large cities around the world. Pickpocketing, muggings, and similar personal crimes take place on metros, areas with heavy pedestrian traffic, and tourist sites. In large cities, they need to take the same precautions against assault, robbery, or pickpockets that they would take in any large U.S. city:

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

The most vulnerable areas include underground walkways and the subway, overnight trains, train stations, airports, markets, tourist attractions, and restaurants. Violent crime, including incidents backed by organized crime, is not uncommon. Police reports indicate that criminal groups actively target individuals carrying large sums of cash, often numbering in the tens of thousands of U.S. dollars and/or millions of rubles. Robberies of individuals in expensive vehicles are common.

Groups of children and adolescents have been aggressive in some cities, swarming victims, or assaulting and knocking them down. They frequently target persons who are perceived as vulnerable, especially persons traveling alone. Some victims report that the attackers use knives, but the use of pneumatic pistols/air guns is common as well. Persons carrying

valuables in backpacks, in back pockets of pants and in coat pockets are especially vulnerable to pickpockets.

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

Foreigners who have been drinking alcohol are especially vulnerable to assault and robbery in or around nightclubs or bars, or on their way home. Some travelers have reported being drugged at bars, while others have taken strangers back to their lodgings, where they were drugged, robbed, and/or assaulted. It is difficult to gauge how common drug-facilitated crimes are in Russia. Travelers should be aware that many drugs are tasteless, odorless, and difficult to detect both before and after consumption. These substances can be quickly mixed into beverages without one’s knowledge. Effects of these substances include loss of consciousness, inability to remember events before and after consumption, and possibly death. Effects can be magnified when substances are mixed with alcohol. The relatively short half-life of these substances makes it difficult for medical personnel to determine what might have been consumed.

The cybercrime threat is acute. The risk of infection, compromise, and theft via malware, spam e-mail, sophisticated spear phishing, and social engineering attacks is significant. U.S. businesses and private citizens should exercise all due caution and adhere to all cybersecurity best practices. The U.S. Embassy continues to receive periodic reports of ATM and credit card fraud. Victims of credit card or ATM card theft should report the theft to the credit card company or issuing bank immediately.

Travelers are advised to be vigilant in bus and train stations and on public transport. Travelers have generally found it safer to travel in groups organized by reputable tour agencies. Visitors are strongly discouraged from using unmarked, “gypsy” taxis. Passengers have been victims of robbery, kidnapping, extortion and theft. Criminals using these taxis to rob passengers often wait outside bars or restaurants to find passengers who have been drinking and therefore more susceptible to robbery. Robberies may also occur in taxis shared with strangers. Travelers should always use authorized taxi services when arriving at major airports and avoid solicitations by drivers in the terminal. In addition, online ride hailing applications, such as Uber and GetTaxi, are used widely in major cities.

To avoid highway crime, travelers should try not to drive at night, especially when alone, or sleep in vehicles along the road. Travelers should not, under any circumstances, pick up hitchhikers; they not only pose a threat to physical safety, but also put the driver in danger of being arrested for unwittingly transporting contraband. In addition, Russia practices a zero-tolerance policy with regard to alcohol consumption prior to driving. The

maximum punishment is a two-year suspension of a driver's license. An intoxicated driver may also be detained until deemed to be sober.

Extortion and corruption are common in the business environment. Threats of violence and acts of violence are common in business disputes. Organized criminal groups and sometimes local police target foreign businesses and have been known to demand protection money; small businesses are particularly vulnerable to this threat. Many Western firms hire security services that offer additional overall security, although this is no guarantee against the threat posed by organized crime and corrupt law enforcement officials. American citizens are encouraged to report all extortion attempts to the Russian authorities and to inform consular officials at the U.S. Embassy or nearest Consulate General.

Travelers should be aware that certain activities that would be normal business activities in the United States and other countries are either illegal under the Russian legal code or are considered cause for investigation by the Federal Security Service (FSB). U.S. citizens should be particularly aware of potential risks involved in any commercial activity with the Russian military-industrial complex, including research institutes, design bureaus, production facilities or other high technology, government-related institutions. Any misunderstanding or dispute in such transactions can attract the involvement of the security services and lead to investigation or prosecution for espionage. Rules governing the treatment of information remain poorly defined.

It is not uncommon for foreigners to become victims of harassment, mistreatment and extortion by law enforcement and other officials. Police do not need to show probable cause in order to stop, question or detain individuals. If stopped, travelers should obtain, if safe to do so, the officer's name, badge number, and patrol car number, and note where the stop happened, as this information assists local officials in identifying the perpetrators in cases where the incident is not for legitimate purposes. Individuals should refrain from paying bribes, and should instead ask the officer to take them to a police station where the matter can be handled in the presence of others. Police agencies are concerned about these incidents and have cooperated in investigating such cases. Travelers should report crimes to the U.S. Embassy or the nearest Consulate General.

Consular Services: All Americans who travel to Russia are encouraged to register at the U.S. Embassy or at one of the U.S. Consulates, listed below. In addition to providing updated travel and security information, registration facilitates replacement of a lost or stolen passport as well as contact in case of emergency.

U.S. Embassy - Moscow

8 Bolshoy Devyatinsky Pereulok, Moscow 121099

American Citizen Services, Consular Section

21 Novinskiy Blvd, Moscow 123242

Tel: +7 (495) 728 5577, Fax: +7 (495) 728 5084

After-hours (emergencies): Tel: +7 (495) 728 5025/728 5000

U.S. Consulate General - St. Petersburg
15 Furshtadskaya Street, St. Petersburg 191028
Tel: +7 (812) 3312 600, Fax: +7 (812) 331 2852
After-hours emergencies: Tel: 7 (812) 271 6455 or 939 5794

U.S. Consulate General - Vladivostok
32 Pushkinskaya Street, Vladivostok 690001
Tel: +7 (4232) 300 070, Fax: +7 (4232) 499 371/2
(4232) 300 091 (visa section)
After-hours emergencies: Tel: +7 (4232) 710 067

U.S. Consulate General - Yekaterinburg
15 Gogol Street, 4th Floor, Yekaterinburg 620151
Tel: +7 (343) 379 3001/379 4619/91, Fax: +7 (343) 379 4515

Visa Requirements

The Russian Government requires visas and residence permits for businesspersons and investors. Work and residence permits must be renewed periodically - a cumbersome process that almost always requires local legal counsel.

Travelers planning to attend business meetings, negotiate transactions, or make business presentations while in Russia are required to clearly state this on their visa application and apply for the proper visa. There have been a number of instances of U.S. citizens being detaining and/or expelled for traveling on an incorrect visa, typically for conducting business while on a tourist visa. In addition, registration with local authorities is required when remaining in Russia more than seven business days.

Russia's visa system is very complicated, and visitors should consult the State Department's CSI for the Russian Federation for up-to-date information on Russian entry and exit requirements. [The CSI can be referenced at >>](#)

U.S. companies that require travel of foreign businesspersons or workers to the United States should be aware that Russian citizens require visas to enter the United States. A visa is issued by a U.S. Embassy or Consulate and entitles the holder to travel to the United States and apply for admission; it does not guarantee entry. An immigration inspector at the port of entry determines the visa holder's eligibility for admission into the United States. The Embassy and Consulates process visa applications in an expeditious manner, but it is important to apply as early as possible. As of May 10, 2017, wait times for visa appointments are approximately 60 working days. Up to date information on U.S. visas is available at the following links:

[State Department visa Web site >>](#)

[U.S. Embassy Moscow Visa Information >>](#)

Currency

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

Telecommunications/Electric

Internet Accessibility: The level of penetration and Internet awareness continues to increase in Russia. Recent figures show that roughly half of the Russian population uses the Internet on a regular basis. The largest players in Russian language e-mail services and search engines are Mail.ru, Rambler and Yandex. Internet service is widely available in the major cities. Wi-Fi is increasingly available in restaurants, hotels, shops, and public spaces throughout Russia though primarily in Moscow, St. Petersburg and other large cities.

Mobile Technology: Mobile services are provided in the GSM, CDMA-450, AMPS and DAMPS standards. GSM dominates the market, holding 80% of the market space. The major cellular operators in the market are Mobile TeleSystems (MTS), Vimpelcom (Beeline) and Megafon.

Long distance telephone calls can usually be made from any place in the city using IP phone services, including SKYPE, if you have an available Internet connection. One can also buy a mobile SIM card for intercity or international phone calls at a special rate. To save money on international calls and domestic calls, one can buy a phone locally for around \$30 and a local SIM card for \$5.

A rudimentary knowledge of Russian is extremely helpful for those placing calls through local telephone offices. Moscow is seven hours ahead of Eastern Standard Time in the summer and eight hours ahead of Eastern Standard Time in the winter. To reach Moscow by phone from the United States you need to access an international line by dialing "011", then dial Russia Country Code "7," Moscow City Code "495" (for example), followed by the

phone number. Some new numbers use “499” for Moscow, and calling cell phones in Russia often requires a different dialing string.

Transportation

The U.S. Federal Aviation Administration (FAA) has assessed the Russia Government as being in compliance with the International Civil Aviation Organization (ICAO) safety standards for oversight of Russia air carriers operations. See <http://www.faa.gov/about/initiatives/iasa/> for more information.

The majority of domestic airlines offer on-line ticket sales, which makes it convenient for travelers to order tickets in advance. Some flights can be canceled, if more than 30% of the seats remain unsold. However, this does not happen very often. Travelers should have their passport with them at all times. Air travel within western Russia generally stays on schedule; the quality of service continues to improve. Flights within the Russian Far East are sometimes delayed or cancelled in winter months due to snow or fog. International Russian carriers, such as Aeroflot and S7 Airlines, usually use Western equipment and meet higher customer service standards than other domestic carriers.

Moscow has three major airports (Sheremetyevo, Domodedovo and Vnukovo); the fourth airport Bykovo deals primarily with cargo and emergency flights. The VIP terminals of Sheremetyevo (Terminal A), Domodedovo (Domodedovo Business Aviation Center) and Vnukovo (Vnukovo-3) offer customized service to VIP clients on a regular basis. International flights generally enter Moscow through Sheremetyevo and Domodedovo. Most international flights arrive in Sheremetyevo-2 (renamed SVO-F in December 2009) while Sheremetyevo-1 (renamed SVO-B in March 2010) handles most domestic traffic. With the opening of Terminal C (SVO-C) in March 2007 and the opening of Terminal D (SVO-D) in November 2009, some international and domestic travel has been diverted to these facilities. Terminal E (SVO-E) provides convenient access between SVO-D and SVO-F, offering high speed movement systems (elevators, escalators and moving walkways) and other amenities for travelers.

Travelers may continue to other Russian cities from Sheremetyevo, Vnukovo or Domodedovo airports. However, travel time between airports or to the city center can take as much as three hours, and ample time must be allowed for passport control, customs clearance and baggage retrieval. The introduction of Aeroexpress trains that provide a high-speed direct connection from each of the airports to the city center (35-45 minutes travel time) has greatly alleviated this problem in recent years. St. Petersburg's airport has two terminals: Pulkovo-1 (domestic flights) and Pulkovo-2 (international flights).

Train travel in Russia is generally reliable and convenient as stations are located in the city center. From St. Petersburg to Moscow, travelers often ride overnight trains, although unaccompanied passengers are reminded to keep an eye on their valuables and lock their doors at night (if in a sleeping compartment), as some incidents of pick-pocketing have

been reported. For quicker train connections between Moscow and St. Petersburg, travelers can take the high-speed SAPSAN train, which takes approximately four hours.

Inclement weather, erratic maintenance and a culture of aggressive driving make road conditions throughout Russia highly variable. Drivers and pedestrians should exercise extreme caution to avoid accidents. Traffic police sometimes stop motorists to levy cash "fines", but the scope of this problem has declined in recent years. Criminals occasionally prey on travelers, especially in isolated areas. At the same time, the Moscow's Committee for Tourism and Hotel Industry reported a low crime rate against foreign tourists in 2016.

In Moscow and St. Petersburg, the metro (subway) can be an efficient and inexpensive means of transportation. However, for non-Russian speakers, it can be difficult without researching the route in advance. Be sure to carry a metro map with you and learning the Cyrillic alphabet is useful. The Yandex metro map application is very helpful.

Marked taxis are prevalent in Moscow and St. Petersburg, and as noted online ride hailing applications, such as Uber and GetTaxi, are used widely in major cities. Short-term business travelers may wish to consider renting a car and driver for extensive excursions, or hire taxis through their hotels for shorter trips. Car rentals are another option that has become available recently, although driving in Russia can be difficult for the uninitiated. Please see this [link>>](#) for a list of transportation firms with which our team frequently works.

Language

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

Health

Western medical care in Moscow can be expensive, difficult to obtain, and not entirely comprehensive. The Embassy strongly urges all travelers who visit Russia to purchase traveler's medical insurance which includes coverage for a medical evacuation.

The U.S. Embassy maintains a list of medical service providers [on its Web site at >>](#)

The Department of State updates its CSI for Russia every six months and includes information on Medical Facilities and Health Information as well as Medical Insurance.

[Please go to >>](#)

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 >>](#)

Local Time, Business Hours and Holidays

There are nine time zones across Russia. Since Russia does not observe Daylight Savings Time, Moscow is seven hours ahead of Eastern Standard Time in the summer and eight hours ahead of Eastern Standard Time in the winter. Most companies and offices maintain business hours of 9:00 a.m. - 6:00 p.m. Many shopping centers and supermarkets are open from 10:00 a.m. - 8:00 p.m. Increasingly, major supermarket chains are open 24 hours, 7 days per week.

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

[U.S. Embassy Official Holidays for 2017 >>](#)

Temporary Entry of Materials or Personal Belongings

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

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

Export duties may be imposed on any items that are determined by customs officials at the point of departure to be of commercial use. Items which may appear to have historical or cultural value -- icons, rugs, art, antiques, *etc.* -- may be taken out of Russia only with prior written approval of the Ministry of Culture and payment of a 100% duty. Occasionally, dealers of quality items may be able to arrange this approval at a much lower cost. Certain items, such as caviar, medications, jewelry, precious and semi-precious stones or metals, and fuel may be exported duty-free in limited amounts only.

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

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

Travel Related Web Resources

[U.S. Department of State Web site](#)

[Centers for Disease Control and Prevention](#)

[U.S. Embassy Moscow Web site](#)

[U.S. Federal Aviation Administration \(FAA\)](#)