

# U.S. Country Commercial Guides



Russia  
2018

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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, Western sanctions, and compounded by a lack of structural economic reform, squeezed both Russian corporations and the average consumer. While targeted American and European economic sanctions remain in place and have gradually expanded, there is no overall trade embargo on Russia. On the back of a tight fiscal and monetary policy, coupled with higher oil prices, Russia returned to GDP growth of 1.7% in 2017 and the economy is expected to expand at a comparable or slightly slower pace in 2018. 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 assessing 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 and led to increased economic restrictions. U.S. and European economic sanctions instituted in 2014, and subsequently augmented, remain firmly in place and are not expected to be lifted in the near term. Restrictions on offshore, Arctic and shale oil and gas, the financial sector and the defense industry continue. In addition, a number of Russian entities and individuals are subject to sanctions, requiring American firms to conduct careful due diligence on potential business partners. For the past three years, U.S. agricultural exporters have been hit with Russian countersanctions, among a number of protectionist, import-substitution policies designed to provide Russian firms implicit or explicit advantages over international competitors. In 2018, the Russian Duma passed legislation endorsing further restrictions on Western imports, and legislation is under consideration to make illegal any cooperation with Western sanctions. These laws may not be implemented, as potential damage to the Russian economy could be significant. Increasing state dominance of the economy, high costs of borrowing and a lack of broad economic reform will likely continue to constrain growth and market potential. Both large, publicly-traded U.S. multinationals and small- and medium-sized 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 2018-2019 eager to capitalize on opportunities but cognizant of the significant challenges facing Western market participants. Stable oil prices, a less volatile ruble and a return to growth in some sectors will likely keep the Russian economy growing in 2018, albeit slowly. Indeed, Western and Russian firms report year-on-year growth in large industrial equipment in the mining, energy, civil aviation, and heavy equipment sectors. However, retail and residential construction are examples of sectors that remain weak. Early in 2018, Standard & Poors and Moody's assigned Russian debt ratings of BBB- (lower investment grade) and Ba1 (a step below investment grade) respectively. A treaty on the avoidance of dual taxation and Russia's WTO accession in 2012 helped create hope that new opportunities might emerge for American trade and investment through more certain and predictable access to the market across tariff, trade rules, and dispute resolution platforms. But, despite the need for deeper economic reform, most analysts doubt there will be any major policy changes that would serve as a catalyst for significant economic acceleration.

Two-way U.S.-Russia trade reached over \$24 billion in 2017, 18% higher than 2016 but 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 conservative, as they do not include all 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 new market entrants will face stiff competition from established businesses. 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 and future risk 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 the Departments of Treasury, State, Customs and Border Protection, and Commerce for more information on export controls and economic sanctions.
- Dating from well before the Russia-Ukraine conflict in 2014, there is a long-term trend of "import substitution" serving as an official policy of the Russian government. Preferential financing for Russian companies, soft guidelines that limit the purchase of foreign products, official "buy-Russian" preferences in government tenders, and mandatory storage of customer data on local servers are representative of policies that can inhibit U.S. firms' ability to compete from a price/quality standpoint.
- 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. Russia is included on the Special 301 Priority Watch List due to significant intellectual property rights (IPR) violations. While the character and severity of these threats varies by industry, the prospect of compulsory licensing for pharmaceuticals is among persistent challenges.
- Russian importers and consumers are price-sensitive and will ask a lot of questions about 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 eleventh largest economy by nominal gross domestic product (GDP) and the sixth largest by purchasing power parity (PPP), as cited by the International Monetary Fund (IMF). According to the IMF, 2017 GDP per capita (PPP) was \$27,890, the highest of the BRICS countries (Brazil, Russia, India, China, and South Africa). Russia is a high-income country, with an educated, 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 0.6 percent in 2016. The Economist estimates that structural weaknesses, low investment and fiscal tightening will keep GDP growth at about 1-2% a year in the medium term.

In terms of trade in goods, Russia was the United States' 34th largest export market and the 23rd largest exporter to the United States in 2017. Russia was the United States' 30th largest trading-partner overall. U.S. exports to Russia in 2017 were \$6.9 billion, an increase of 20.6% from 2016. Russian exports to the United States in 2017 were \$17 billion, an increase of 17% from 2016. Russia's leading individual trading partners are China, Germany, the Netherlands, Belarus, the 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 of 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; and
- More effective WTO dispute resolution mechanisms.

In some areas, subsequent Russian government actions, such as prohibitions it has placed on imports of most U.S. and European products since August 2014, have effectively negated market-opening measures that resulted from Russia's entry into the WTO.

### **Market Entry Strategy**

Russia is a market for sophisticated U.S. 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 more cheaply, quickly 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**

For background information on the state of the diplomatic relationship between the United States and Russia, please read the U.S. Department of State's [Bilateral Relations Fact Sheet](#).

## Selling US Products & Services

### Using an Agent to Sell US Products and Services

Russia is the largest country in the world by landmass, spanning 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 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 region possesses significant natural resources, especially forest products and oil and gas. The region's population of over 13 million also provides a stable and highly educated workforce, and 40% of European Union-Russia trade takes place along the shared border with Finland. American companies including Caterpillar, Ford, International Paper, Kraft Foods, Procter & Gamble/Gillette, and Mars/Wrigley have made significant investments in northwest Russia.

Some companies have successfully entered the Russian market by first establishing distribution networks in key regions with attractive 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, the Urals, Siberia, and the Far East.

With a high concentration of revenue-generating mineral resources (e.g. diamonds, gold, silver, tin, tungsten, lead, and zinc), fishing, and timber resources, the Russian Far East presents some U.S. exporters with compelling business opportunities. The Russian government is promoting a shift to the region to capitalize on the abundance of natural resources and foster local production of high value-added products while maintaining a focus on resource extraction. Efforts to spur value-added processing are focused on the timber, fishing, and agricultural (meat and milk production) industries and are intended to spur demand for equipment to support growth in these industries. Local and international environmental groups support this strategy, which is aimed at fostering 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, petrochemical, and natural gas production facilities using natural gas will likely be built along the pipeline routes. Such production facilities are expected to include methanol, ammonia, and fertilizer products, and the manufacturing of polymeric plastics. Such new projects will require the procurement of equipment and machinery to support 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 services, including customs clearance, warehousing, and inventory management. However, handling promotion and advertising campaigns exclusively through independent distributors may produce disappointing results. Russian distributors often 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. Russian retail law also prohibits certain types of promotional activities.

## 2) Representative and Branch Offices

Some foreign manufacturers have established their own representative offices in addition to using distributors. The major advantages of opening a representative office include a greater degree of 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 actual sales. Instead, the representative office typically oversees a network of distributors and/or agents that perform commercial functions. This approach affords greater control over the distribution process to the foreign supplier and helps reduce the risk that sales will be hindered by distributor inattention.

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 can be attractive to foreign businesses seeking to minimize tax rates, administrative burdens, and currency control restrictions.

## 3) Foreign Subsidiaries

Some foreign manufacturers, particularly in the cosmetics, pharmaceutical, consumer appliances, durables, and industrial products sectors, have registered wholly-owned subsidiaries in Russia. These companies are able to sell products directly to their own subsidiary companies registered in Russia that import for their own account. This approach provides full control over distribution to the supplier and further reduces possible risks from false invoicing and other billing 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. It is uncommon for foreign companies to rely solely 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 relative to similar settings in the United States, 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 a U.S. 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.

The U.S. Commercial Service provides a range of customized business development assistance services to U.S. companies in the Russian market. For more information please visit the “Services for U.S. Companies” section of our website (<https://2016.export.gov/russia/>).

### **Establishing an Office**

The U.S. Commercial Service provides basic counseling on registration requirements and procedures. However, U.S. companies are strongly advised to 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 services in this area. As a general rule, foreign nationals working in Russia are required to obtain a work permit.

Conducting business absent registration is illegal. Although there is federal law governing the registration, 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;
- Subsidiary companies;
- Limited Liability Company (OOO);
- Privately held, closed joint stock company (ZAO); and
- 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 is legally permitted to be as high as 100% in most sectors, but potentially 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. Pursuant to the law, accreditation of branches and representative offices of foreign companies is regulated by the Federal Tax Service of the Russian Federation (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”).

Individual accreditation and visa support for foreign employees of branches and representative offices is supported by the Chamber of Commerce and Industry of the Russian Federation (hereinafter the “CCI”).

The accreditation procedure is as follows:

The application for accreditation is submitted to the FTS within 12 months of the date the decision by the foreign company’s headquarters to open the branch or representative office is adopted.

- The application should include certain documents (the list of the documents will be published by the FTS) and shall be accompanied by CCI certification regarding the number of foreign employees of a branch or representative office;
- The term for FTS' decision on accreditation is 25 business days;
- A document confirming entry into the Register constitutes confirmation of accreditation;
- Accreditation can be denied in the event of either inconsistencies in the documents submitted or a violation of the term for their delivery. Accreditation will be denied if the purposes of a branch or representative office runs contrary to Russian legislation, and in cases when FTS assesses that establishment threatens the sovereignty, political independence, territorial integrity, or national interests of the Russian Federation;
- Changes in the Register occur within 10 business days from the day of delivery of required documents to the FTS.

Regulations of a branch or a representative office of a foreign company must contain certain provisions set by law. The accreditation fee for each branch office is 120,000 rubles (approximately \$2,000, at current exchange rates).

Further information is available on the [FTS website](#).

### **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; and
- 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 Russian tax authorities, which will also include registration with the Russian Social Security Fund. 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 Russia's Ministry of Finance (15, Tuskaya Street, Moscow), provides counseling to businesses on registration procedures and 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 <http://eng.nalog.ru/>.

### **Tax Code**

Major revisions to 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 provisions that distorted the business environment and kept many businesses in the shadow economy were removed.

The most fundamental changes affecting the value added tax, excise taxes, and individual income tax were reflected in the new chapters of the Tax Code Part II. The Federal Law on the Introduction of Amendments

and Additions to Part II of the Russian Federation Tax Code was also amended along with separate Russian Federation legislative acts. These changes aimed at improving Part II of the Russian Tax Code were passed by the Duma and enacted in 2003. Ongoing tax reform has further improved procedural rules and reduced the overall tax burden in the country.

Companies operating in Russia should consult with a professional tax advisor to learn about the nuances of requirements. A general overview of Russian taxes follows.

### **Profits Tax**

The profits tax is levied on net profits. The standard profits tax rate is 20 percent (17% is allocated to regional Russian authorities and 3% to federal). The regional authorities may, at their discretion, reduce the regional profits tax rate to as low as 12.5%. 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 could be advantageous for U.S. companies in certain cases. 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 including certain financial services and medical equipment are entirely exempt, along with some intangibles such as inventions, software, and industrial designs. As of June 2018, the Russian government is considering raising the standard rate to 20% from 18%.

Imports are also subject to VAT, calculated based on the item's Customs value plus Customs duties and fees. In addition, import duties are assessed at specified rates, ranging from 5% to 30%. 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 exempt from 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. However, if payment is received before shipment, the exporter must pay the applicable VAT and then request a refund from 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 entirety of social security contributions and no amount is withheld from employees.

Social security contributions apply at the aggregate rate of 30% of an employee's annual salary, and the percent of salary/rate of contribution 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 distributed 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. Social security contributions apply to all payments to employees considered permanent residents, 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 contribution calculations were filed until 2017 with the SPF and the SSF on a quarterly basis. As of January 1, 2017, FTS accepts reports and payments for workplace accident contributions which will remain under the purview of the SSF and pensions which are now under the purview of the SPF.

Reduced social security contribution rates apply to certain business categories, including software and high-tech companies (14% from 2011 until 2023) 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 to 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.

Following a change of law in November 2011, income paid to foreign employees (individual contractors) became subject to employer contributions. When the following conditions are met the income is subject to the contributions:

- The foreign employee is a temporary resident or is temporarily staying in Russia, and
- The foreign employee works under an employment agreement for an indefinite period or a fixed-term agreement for a period of 6 months or more.

However, these insurance contributions are due only for the part allocated to the Pension Fund at a rate of 22% (of the total 30%). But by an explicit provision of the law, although the remuneration of these foreign employees is subject to pension contributions, they will still not be entitled to any pension. (Only those foreign nationals who have received a temporary or permanent residence in Russia are entitled to a Russian state pension.)

### **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 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 also benefit from 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 residents is a flat 13% imposed on worldwide income while non-residents are taxed at 30% of Russian-sourced income.

## **Franchising**

Franchising only emerged as a business model in Russia following the adoption of formal franchise legislation in 1994. Since 2000, the number of franchising operations in Russia has risen from 54 to more than 2,600. Retail trade constitutes 57% of all active franchises, 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. The most popular franchises are those that require investments between \$15,000 and \$150,000. Approximately 14% of entrepreneurs are ready to invest \$150,000 – \$500,000 and 4 - 6% have the means to invest over \$500,000. The market for restaurants/food concepts is the fastest growing in terms of franchise entry: 52% of chain restaurants and cafes are franchises. This market is currently showing the most predictable returns, especially in the fast-food segment. Coffee-to-go concepts are also becoming more popular and are growing rapidly. The retail clothing sector also has a sizeable percentage of franchised stores : 23%. Foreign and domestic brands that provide high quality products at affordable prices continue to open new sales points both in Moscow and in the rest of Russia. About 35% of children's retail outlets are franchises. In addition, in recent years, a growing interest in educational/developmental franchises has been observed.

In the services sector, such franchises as EMS-fitness and barber shops are gaining more popular. Beauty salons and medical centers are in high demand among entrepreneurs also. The demand for hotels grows annually with the increasing popularity of Russia as a travel destination. According to the Russian travel industry organization, inbound tourism to Russia grew by 20% in 2017 (versus 2010), and domestic tourism increased by 85% (also versus 2010).

Until 2011, the legal framework surrounding franchising in Russia was an impediment to the development of the sector and strongly favored the franchisee. On July 18, 2011, the Federal Law No. 216-FZ on Amendments to Part II of the Civil Code was signed into law, and more effectively balanced rights and obligations for parties of a franchise agreement. Specifically, the Law on Amendments (1) expands the list of permissible restrictions under 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 new terms for the unilateral early termination of a franchise agreement. Although enactment of this legislation is considered a significant development, Russian franchising legislation remains cumbersome, and it is highly recommended that franchisors seek professional guidance regarding legal, real estate, tax, and Customs issues.

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 must be registered with the Federal Service for Intellectual Property, Patents and Trademarks (Rospatent). Absent such registration, intellectual property rights are not considered 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 identified as a designated country.

## **Direct Marketing**

The Russian direct sales market accounts for two percent of the global market. Leading direct sales companies such as Avon, Amway, Mary Kay, Oriflame, Herbalife and Tupperware are active in Russia. The World Franchising Direct Selling Association's statistics revealed that direct sales in Russia in 2016 amounted to \$2.172 billion. (11.1% year-on-year sales increase from 2015) and that slightly over five million

salespeople (also a 17.1% year-on-year increase from 2015) were engaged in direct selling. Personal, direct selling has been most successful in cosmetics and personal care products (representing 49.9% of the Russian direct sales market, with a 13.2% decrease from 2015), wellness (representing 27.8% of the Russian direct sales market, with an 8.6% increase from 2015) and homecare (representing 10% of the Russian direct sales market, with a 2.2% increase from 2015). Note: this is the latest data available from WFDS; a new report will be released in late summer 2018.

According to Euromonitor, Avon Products led direct selling in 2017, followed by Amway.

### **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 highly dependent on the good intentions of their Russian majority owners and foreign minority shareholders could face difficulty 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

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 evaluate 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. These include:

- Surveying;
- Encryption-capable IT or telecommunication systems;
- Pharmaceutical activities or the production of medicines;
- Development, production, repair, sales or trade of weapons and military equipment;
- Overseas and inland waterway passenger and freight transportation;
- Use of highly explosive or hazardous objects for production;
- Production, storage, usage or distribution of explosive materials for an industrial assignment; and
- Educational activities.

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) in July 2013.

U.S. technology can be licensed for Russian production in the absence of a JV but there will be significant obstacles to doing so: ensuring that desired quality levels are attainable by Russian facilities without significant retooling, addressing uncertain intellectual property protection, and resolving difficulty in receiving regular and prompt payments. Concurrently, Russian companies are usually eager to license their technologies to foreign companies in exchange for the cash infusion.

## **Selling to the Government**

The Russian government and state-owned-enterprises (SOEs) play an outsized role in the economy with the Russian government controlling the oil and gas sector. Sanctions resulting from Russia's actions in Ukraine mean that U.S. companies should carefully evaluate OFAC/Treasury regulations before concluding any sales to the Russian government.

## **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 20 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 domestic distribution organizations, the task of bringing goods to market in Russia has been greatly eased. However, the distribution companies' geographic coverage may be limited and accessing regional markets remains problematic. In more remote regions, U.S. firms may encounter erratic distribution, unpredictable schedules and tough competition.

2017 was a landmark year for Russian retail. According to the Federal State Statistics Service, the 27-month decline in retail sales ended in April 2017 at a level of 2.33 trillion rubles, and retail trade grew through October at the following levels (year-on-year):

- May: 0.7% to 2.38 trillion rubles;
- June: 1.2%, to 2.4 trillion rubles;
- July: 1%, to 2.5 trillion rubles;
- August: 1.9%, to 2.6 trillion rubles;
- September: 3.1%, to 2.57 trillion rubles;
- October: 3% growth to 2.58 trillion rubles.

Overall, retail trade turnover from January-October 2017 increased by 0.8% to 24.15 trillion rubles compared to the same period in 2016.

Despite the growing popularity of online purchases, Russians still tend to make in-store purchases. According to the Ministry of Industry and Trade, internet trade was only 3-4% of the total retail turnover in the Russian Federation as of October 2017.

At the same time, the Ministry believes internet commerce in Russia will account for 20% of retail sales by 2025 and Russia will account for 10% of global internet commerce. This goal is outlined in the Ministry's "Strategies for the Development of Electronic Commerce in the Russian Federation through 2025."

## **Express Delivery**

According to J'son & Partners Consulting, the Russian express delivery market grew 5% to 54.6 billion rubles (approximately \$850 million) in 2015 (the latest available data), representing 0.5% of the global express delivery market. The market had been growing 30% annually until 2015, but growth slowed significantly after that due to the economic downturn and ruble volatility 2013-2015. The 38 largest Russian cities with

more than 500,000 residents account for 70% of the total volume of express delivery services, with more than 60% of the market coming from (business-to-consumer) B2C transactions. The size of the (business-to-business) 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 was approximately \$16.3 billion (physical goods) 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 is leading to increasing delivery costs. A person can receive goods that weigh less than 31 kilos and a de minimis valued at up to 1,000 euros per month without having to pay Customs duties. Parcels of larger weight and value need to be cleared via Customs and, as of January 1, 2017, Russian Customs require the passport data for individuals receiving parcels from abroad, which significantly increases delivery time.

The Russian Postal Service controls more than 90% of the cross-border B2C shipping market, but has a much smaller share of 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 and 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. Amazon has started shipping a limited number of product categories to Russia.

The Russian express delivery market remains 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.

On December 7, 2017, a new order of the Federal Customs Service came into force which affected import transactions (Federal Customs Service No. 1861 of 24.11.2017). As a result, Russian Customs requires additional recipient data, including Taxpayer ID Number (TIN) and price confirmation of the goods to help Customs to track whether they exceed the limit and whether Customs payments apply. Passport data of users, TIN, as well as information about the value and weight of the goods they buy in euros and rubles will be maintained/tracked in the United Automated Information System of Customs Authorities (EAISTO). International shipments sent through the "Post of Russia" are not included in this initiative.

Since 2014, Customs officials and regulators have discussed and enacted rules that would make Russia a more restrictive environment for express delivery services and exporters to the market. However, purchases from abroad continue to grow and exporters to Russia captured 40% of the e-commerce market in 2017.

## **Selling Factors & Techniques**

Adapting sales and marketing strategies to Russia's business climate is a key factor that will determine whether a product or service offering is well-received. 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 the realities of doing business in the market.

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, such as the American Chamber of Commerce in Russia (with offices in Moscow and St. Petersburg) or the U.S. Russia Business Council (headquartered in Washington D.C.) whose members have a track record of success in an array of industries.

Business planning should include advertising and market promotion. When recruiting personnel or identifying business partners, local talent should be considered, especially for government relations, which can be of critical importance for certain industries. Professional services of all kinds, such as law, accounting, and engineering are readily accessible. Absentee management should be avoided, because it is important to communicate regularly with Russian business partners, customers and clients to ensure a 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 its contents, manual/use explanation, manufacturer, importer, certificates, etc. For more information please refer Russia's 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 recognizable, reliable imported brands.

## **eCommerce**

With over 80 million people using the internet monthly, Russia has the largest online audience in Europe and long-term growth prospects are promising. Approximately 60% of Russian internet users shopped online in 2017, according to the Association of Internet Trade Industries (AKIT). The Russian e-commerce market is \$26 billion as international players seize opportunities amid crisis. Online retail sales exceeded \$26 billion in 2016, up more than 20% year-on-year, even as the Russian economy contracted. Cross-border e-commerce is the fastest growing segment (+26% by value, +80% by number of parcels and small packages), exceeding \$4 billion in physical goods alone. Real-estate infrastructure has become dramatically cheaper and more accessible, and key players are taking advantage of the opportunity to build out warehousing and fulfillment facilities. Although demand still exceeds supply on the fulfillment service market, delivery conditions across this vast country have improved.

This growth 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 well represented.

### **Domestic eCommerce (B2C)**

According to Yandex's "Report on E-Commerce in Russia," in 2016, the domestic online retail market exceeded \$22 billion (including \$12 billion for physical goods and \$10 billion for online travel), growing by more than 20% year-on-year despite facing economic headwinds. Some western-funded companies (like KupiVip, Lamoda, and Ozon) recorded impressive growth in 2016, while others (Oktogo and Wikimart) were on the verge of bankruptcy.

### **B2B eCommerce**

According to the Moscow Times, 68 % of Russian corporations used electronic trading platforms for procurement purposes in 2015.

The majority of this business was associated with construction goods and services, with more than one-fifth of all purchases made in 2014 falling into this category. Machinery and specialized products for the mining and oil-field industries was another significant source of revenue, making up 18.6% of all online B2B purchases seen on B2B-Center.

As B2B online shopping becomes more prevalent 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 vast landmass presents logistical challenges for e-Commerce outside of major metropolitan areas. However, delivery options have improved significantly over the past few years. Russian Post's reform initiatives were a catalyst for the emergence of several, higher quality service and shorter delivery time to large and mid-sized cities across the country.

Meanwhile, purely online enterprises such as 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.

### **eCommerce Intellectual Property Rights**

IPR resources can be found at the following site: <https://www.stopfakes.gov/article?id=Russia-IPR-Resources>

### **Popular eCommerce Sites**

AKIT data shows that foreign, online stores accounted for 36% of all online purchases by Russians , amounting to 374.3 billion rubles in 2017. This marked an uptick from 2016, when purchases from international online retailers amounted to 33% and 304 billion rubles. Online purchases from foreign suppliers accounted for almost 60% of the market's growth.

In 2017, 90% of Russian internet purchases from foreign sellers were conducted with Chinese e-Commerce retailers. In monetary terms, these purchases account for 53% of the market. The Aliexpress website had the largest audience: 20 million people in 2017. The average purchase total from Aliexpress by Russian shoppers was 980 rubles (approx. \$16).

The most popular B2C Russian online shops are:

- [WILDBERRIES.RU](http://WILDBERRIES.RU)
- [CITILINK.RU](http://CITILINK.RU)
- [MVIDEO.RU](http://MVIDEO.RU)
- [TECHNOPOINT.RU](http://TECHNOPOINT.RU)
- [ELDORADO.RU](http://ELDORADO.RU)
- [LAMODA.RU](http://LAMODA.RU)
- [OZON.RU](http://OZON.RU)
- [SVYAZNOY.RU](http://SVYAZNOY.RU)
- [KUPIVIP.RU](http://KUPIVIP.RU)

- [ULMART.RU](http://ULMART.RU)

### **Online Payments**

Cash-on-delivery (COD) is the preferred medium of exchange for physical goods and will likely remain so for some time; however, the use of electronic payments is slowly increasing.

In addition to bank cards, several new solutions are appearing on the market and some of them are intended to create a universal payment mechanisms. Large segments of the electronic payment market are led by domestic players, from payment terminal operators to mobile carriers, and electronic currency companies.

### **Mobile eCommerce**

There are more than 8.5 million mobile shoppers and this is expected to increase dramatically as mobile internet and smartphone devices grow in popularity across Russia.

### **Digital Marketing**

The amount and frequency of searches for a product or service should be analyzed prior to launching a campaign in Russia. Complementing Google Trends, Yandex can support search-engine optimization efforts: [wordstat.yandex.ru](http://wordstat.yandex.ru)

### **Major Buying Holidays**

Foreign retailers should consider adapting their marketing 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, some Russians started participating in Black Friday weekend sales to kick off the winter holiday shopping season – but the vast majority of Russian shoppers make their purchases throughout December for the Russian gift-giving day on January 1. Indeed, many last-minute shoppers are still making purchases in late December in Russia, when Westerners have already returned/exchanged 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 conduct purchases in stores.

Russia recognizes men on February 23, which is the country's unofficial "Men's Day" (officially, "Day of Defenders of the Fatherland"), 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 represent a critically important retail period that is largely unique to the Russian market.

Beyond these holidays, Russians also utilize internet searches for Valentine's Day gifts, wedding gifts, and birthdays.

### **Social Media**

The number of social networks users in Russia has almost doubled over the last six years, from 35% to 59% of the Russian population 18+. More than 90% of Russian internet users access social networks.

The most popular social network is VKontakte. In December 2017, 65% of Russian users visited it. It is followed in current by "Odnoklassniki" which attracted 63% of Russian users. Traffic and use rankings also include Instagram (23%) and Facebook (20%). This is followed by My World (9%), Twitter (7%), LiveJournal (3%) and other networks (1%).

## Trade Promotion & Advertising

Television, radio, print, and billboard advertising is ubiquitous in the Russian market. Most international advertising agencies are active in Russia along with domestic counterparts.

The Association of Communication Agencies (ACAR) estimated Russia's advertising market at 417 billion rubles in 2017, up 14% year-on-year from 2016. This followed 11% growth 2015-2016. Accounting for the production of creative products, advertising goods, and payment for agency services, the total value of marketing communications is estimated at 730-750 billion rubles.

Television continues to be the principal advertising medium in Russia, and this sector increased by 13% and amounted to 170.9 billion rubles in 2017 following 10% growth in 2016. By the end of 2017, the regional television advertising market was expanding (up 14% to 24.8 billion rubles).

Internet advertising continues to expand rapidly and the market was 166.3 billion rubles in 2017. This spending level equated to 22% year-on-year growth following 21% growth in 2016. Experts anticipate spending on internet advertising will overtake television in 2018.

Russian advertising market growth is distributed across a number of media and the volume of advertising on the radio grew by 3% since 2016, to 16.9 billion rubles. According to Alexei Zyatitsky, Sales Director of GPM Radio, the growth in this segment was mainly driven by growth in the Russian regions and the Moscow market stagnated during this same period. At the same time, he foresees growth in 2018.

The following summary of 2017 Russian advertising market performance was derived from the Russian Association of Communication Agencies experts. The numbers from 2011-2016 have been compiled by CS Russia from Russian Association of Communication Agencies reports.

Segments	2017 (Rubles, billions)	2016 (Rubles, billions)	2015 (Rubles, billions)	2014 (Rubles, billions)	2013 (Rubles, billions)	2012 (Rubles, billions)	2011 (Rubles, billions)
TV	170.9	150.8	136.7	159.2	156	143.2	131
Inc. Terrestrial Television	165.6	146.9	134.2	155.7	152.2	139.9	128.9
Cable	5.3	3.9	2.5	4.1	4	3.31	2.16
Internet	166.3	136	97	84.6	71.7	56.3	41.8
Incl. Media Advertising	n/a	n/a	18.7	19.1	20.1	17.9	15.3

Contextual Advertising	n/a	n/a	78.3	65.5	51.6	38.4	26.5
Press	20.5	19.0	23.3	33	37	41.2	40.4
Incl. Newspapers	8.7	5.4	6.5	8.1	8.7	9.5	8.8
Magazines	11.9	10.7	11.6	16.5	18.5	20.1	19.8
Advertising Periodicals	n/a	3,6	5.3	8.5	9.9	11.6	11.8
Outdoor Advertising	33,8	31,4	32	40.6	40.7	37.7	34.3
Radio	16,9	15,1	14.2	16.9	16.5	14.6	11.8
Other	n/a	n/a	4.2	5.1	5.7	4.9	4.1
Total	417	n/a	307	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 with over 105 million people. 74% of the population has internet access and 82% of those utilize social media.

Both Russian and Western social networking sites are growing in popularity, especially among users from younger demographic groups. The two most popular social networks are Russian-based [VKontakte](#) - a platform similar to Facebook - and [Odnoklassniki](#), a conduit for connecting old friends and classmates. Nearly 65% of all Russian internet users are active on these services. Instagram and Facebook are the third and fourth most popular services, attracting 23% and 20% of Russian internet users respectively. My World (9% of users), Twitter (7% of users), LiveJournal (3% of users) are among other popular applications.

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, which requires all online sites to store personal data on servers in Russia.

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

#### TV Channels.<sup>1</sup>

1. [Russia 1](#)
2. [Pervyj Canal](#)
3. [TNT](#)
4. [NTV](#)
5. [STS](#)

#### Radio Stations .<sup>2</sup>

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

#### Press.<sup>3</sup>

##### Daily Newspapers

1. [Metro](#)
2. [Rossiskaya Gazeta \("Russian newspaper"\)](#)
3. [Moskovsky Komsomolets](#)
4. [Moskva Vechernaya](#)
5. [Sport-Express](#)

##### Weekly Newspapers<sup>4</sup>

1. [Arguments and Facts](#)
2. [Komsomolskaya Pravda Tolstushka](#)
3. [777](#)
4. [Vechernyaya Moskva](#)

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<sup>1</sup> Source: MediaScope statistics for Russia 2018.

<sup>2</sup> Source: MediaScope statistics

<sup>3</sup> Source: MediaScope statistics

<sup>4</sup> Source: MediaScope statistics

5. [Moskovskovskiy Komsomolets](#)

Weekly Magazines<sup>5</sup>

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

Monthly Magazines<sup>6</sup>

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

Most Popular Web Sites

1. [VKontakte](#)
2. [Yandex](#)
3. [Youtube](#)
4. [Odnoklassniki](#)
5. [Google](#)

## **Pricing**

Russian consumers are attracted to bargains but are increasingly able and willing to pay a premium 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, goods and services sold in Russia are subject to the 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 is advisable to invest in advertising and brand promotion.

## **Sales Service/Customer Support**

Reliable 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 after-sales service. Similarly, buyers of sophisticated equipment ranging from computers and process controls to medical and mining equipment are keenly interested in training as their employees may have never used particular technology or brands. U.S. firms willing and able to offer training and support for products, particularly for

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<sup>5</sup> Source: MediaScope statistics for Russia April 2018

<sup>6</sup> Source: MediaScope statistics for Russia April 2018

remote sites, could gain a significant advantage over competitors. Conversely, companies unwilling to make this commitment may find themselves at a distinct disadvantage relative to European or Asian companies, whose proximity readily 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 acquisition process as leasing continues to develop. Companies that offer training in the United States or Russia are advised to start the visa process as early as possible - issuance of both Russian and U.S. 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 (although as of July 2018, even these slots had several-weeks-long waiting lists).

## **Protecting Intellectual Property**

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

In 2018, Russia remained on the Special 301 Priority Watch List, a report on countries that engage in substantial intellectual property rights (IPR) 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 is protected differently in Russia than in the United States. Third, IPR must be registered in order to be enforced under Russian law.

U.S. firms should take proactive steps to protect their intellectual property in Russia, including registering their trademarks with the Federal Service for Intellectual Property (Rospatent) as well as having the patents recorded in 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 recourse if the right holder has not taken the fundamental steps necessary to secure and enforce its IPR.

It is always advisable to conduct due diligence on potential partners as reliable business partners can be important allies in protecting IP rights. The Commercial Service in Russia can produce a [due diligence report](#) to assist in this effort. Additionally, allowing a business to register your IP rights on your behalf warrants careful consideration. Doing so may create a risk that your partner will list itself as the IP owner and fail to transfer the rights when the partnership concludes. Closely evaluate 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 law to create a robust contract that includes non-compete clauses, and confidentiality/non-disclosure provisions.

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.

It is also recommended that small- and medium-sized companies work with trade associations and organizations to support IPR protection and prevent counterfeiting. There are a number of these organizations based in the United States and Russia including:

- 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)
- Russian Software Association (russoft)
- 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 U.S. Department of State's Investment Climate Statement.

### **IP Resources**

A wealth of information on protecting IPR is available to U.S. rights holders:

- 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 <http://www.stopfakes.gov/>. Also see the [specific IP snapshot about Russia](#).
- 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**; <http://www.copyright.gov/>

### **Due Diligence**

Russia can be a challenging market which means U.S. companies need to take time to learn about the business environment and select local partners wisely. Taking shortcuts when evaluating business opportunities and selecting local partners is not advisable. Occasionally, basic information about regulations, company ownership and credit worthiness is not readily accessible, and the market's regulatory framework continues to evolve, requiring companies to closely monitor 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, please visit CS Russia's website:

<https://2016.export.gov/russia/servicesforu.s.companies/index.asp>

Russia-related sanctions have been implemented under multiple legal authorities in the form of executive orders and public laws since 2014. On August 2, 2017, the President signed the Countering America's Adversaries Through Sanctions Act (CAATSA) which codified and expanded sanctions announced from 2014-2016 on certain Russian entities and sectors. CAATSA includes sectoral sanctions affecting the financial, defense, and energy transactions, and "blocking sanctions" that prohibit business with certain individuals and entities.

Implementation and enforcement of sanctions legislation is a shared and partitioned responsibility across the U.S. government. The Departments of State and Treasury have published numerous public FAQ's and links to components of the legislation that serve as extremely valuable resources for conducting initial due diligence.

In response to inquiries from the business community, we have compiled the following resource center for use in understanding the multiple components of Russian sanctions legislation applied by the U.S. government since 2014. This information is not comprehensive and is subject to ongoing updates. We strongly urge U.S. firms conducting business in Russia to perform careful due diligence and seek legal counsel when vetting potential transactions and counterparties. Questions on specific transactions should be directed to the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC), and the Department of Commerce's Bureau of Industry and Security.

U.S. Department of Commerce Resource Center on Russia Sanctions: <https://www.export.gov/article?id=US-Sanctions-Information-Related-to-Ukraine>

### **Local Professional Services**

While professional services are expensive, attempts to avoid such expenditures can be penny-wise and pound-foolish. In Russia's unsettled commercial environment, early and ongoing advice on tax and legal issues will ultimately mitigate administrative and compliance costs over the long-run. Russian commercial regulations are contained in thousands of presidential, governmental and ministerial decrees. These decrees and laws often overlap or conflict, and determining tax obligations is a complex task. Moreover, Russian accounting practices differ from Western standards and the adoption of international accounting standards 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 in Russia maintains a roster of local attorneys and accounting firms in our list of [Business Service Providers](#). The American Chamber of Commerce in Russia is also an alternate source of contacts and information.

### **Principal 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 \(NCPack\)](#)

[Russian Software Association \(Russoft\)](#)

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

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

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

## **Limitations on Selling US Products and Services**

In Russia, several important laws have been adopted in the field of personal data. These efforts to improve the legal framework have resulted in significant complications for market players as many aspects of the legislation on personal data collection, storage and use have become particularly demanding and implementation may be burdensome and costly for international market participants. The regulation requiring that companies operating in Russia store their users' or clients' personal data on servers located physically in Russia is an example of how evolving regulatory practices can place a burden on U.S. firms.

Another restrictive law, 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 Russian government 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 it has been entered in the [Unified Register](#). The law defines basic criteria for including software products in this register. Russian right holders should possess exclusive right on software, software should be freely handled and distributed in Russia, the amount of licensed and other contributions in favor of foreign right holders should be no more than 30% of revenue from software implementation. Data stored on foreign software should not contain national security information and Russian right holders should possess the exclusive right for the entire operating term. Only software listed in the Unified Register may be purchased to meet federal 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.

## **Web Resources**

[Ministry of Information](#)

[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 \(in Russian\)](#)

### **Corruption Reporting Hotline**

Legislation passed by Congress in December 2012 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 [report a barrier](#) to the Office of Trade Agreements Negotiations and Compliance. Every effort will be made to protect the confidentiality of the information provided.

## Leading Sectors for US Exports & Investments

### Agricultural Equipment

#### Overview

While the Russian government has largely banned the import of U.S. food products since 2014, agricultural machinery and food processing equipment is generally allowed to be sold without restriction.

Russia's agricultural market has immense potential, with 220 million hectares 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 as only 38% of Russian land is fertile and 13% is cultivated. Four regions (Central, North Caucasus, the Urals and Povolzhie) produce 73% of agricultural outputs in Russia.

Growth in the agricultural sector continues to outpace that of the broader Russian economy. Unlike other sectors in the economy, the agricultural sector registered 4.8% growth in 2016, and 2.4% in 2017, largely driven by a weak ruble and the food import ban imposed by the government in August 2014.

Today, Russia is the world's largest producer of barley; the fourth-largest producer and the largest exporter of wheat in 2017; the second-largest producer of sunflower seeds; the third-largest producer of potatoes and milk, and the fifth-largest producer of eggs and chicken meat. In addition, agriculture has been one of the fastest growing segments of the Russian economy in recent years, with gross output up 2.4 percent in 2017, to 5.1 trillion rubles. This transition from import dependence toward self-sufficiency can be traced back to 2005, when Russia launched agricultural support policies on a meaningful scale as part of the National Priority Projects, which then converted into multi-year programs for agricultural development. From 2014, these were supplemented by protectionist counter sanctions and sanitary and phytosanitary measures, including an SPS ban on U.S. soybeans. As a result, Russia has transformed its agriculture sector from a modest level of production in the 2000s to a significant contributor to the economy and growing global player, competing with the United States in the global wheat market and regionally in poultry markets.

Recently the most significant growth in Russia's agricultural production has been in the livestock sector. Traditionally, most animals were produced in small farms or backyard holdings. Today, the industry is shifting toward large agro-holdings. Of note, however, is that while production of poultry, pork, and eggs has increased in the past ten years (by 6.9, 4.8, and 3.1 percent, respectively, according to Rosstat), the long-term trend in the cattle sector is downward. The total number of cattle decreased by 0.4 percent to 18.7 million (in agricultural enterprises – 8.252 million head, a 1.2 percent decrease compared to the previous year). Production of meat, including beef, pork, as well as goat, horsemeat and venison, grew by 7.7 percent compared with 2016, to 2.3 million metric tons (MMT). Production of poultry increased by 7.4 percent to 4.8 MMT. According to Rosspestmash and Russian Customs statistics, the Russian agricultural equipment market grew 13% in 2017. Sales of foreign and Russian tractors increased by 20% while sales of self-propelled combines decreased by 3%.

Prospects for foreign manufacturers in the Russian market are mixed. There are extremely promising trends and structural challenges that weigh on demand for new agricultural equipment and force agricultural producers to delay capital investments or look for cheaper options from 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.

The Russian government has made it a priority to increase domestic production of agricultural equipment and provides manufacturers incentives to localize as part of its strategy to produce 80% of agricultural machinery in Russia by 2021, triple equipment production, and increase exports of agricultural equipment by

a factor of 12 compared to 2017 levels, by 2030. Currently, domestically manufactured equipment represents over 50% of the Russian market

Since 2013, Russia has maintained several federal programs offering subsidies to local equipment producers. However, there have been concerns that not all manufacturers receive equal treatment under the law and certain producers are excluded from these programs despite having localized manufacturing.

There is an acute need for modernized agricultural machinery in Russia, but equipment purchase growth is constrained by high credit costs and geopolitical uncertainty. The government is attempting to compensate for these challenges and stimulate investment in capital purchases by offering various subsidies for strategically important subsectors, including meat and milk production.

Per a 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%), and 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 exceed the typical service age of 10-12 years. On average, one tractor in Russia serves 247 hectares, compared to 38 in the U.S. and 14 in France. Russian Deputy Minister of Agriculture Petr Chekmarev stated that the sector needs 56,000 tractors totaling \$5.5 billion, 16,000 harvesters totaling \$2.2 billion, and 2,400 forage combines totaling \$167 million annually. Russian agricultural companies buy approximately 12,000 tractors annually, 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.

<i>Figures in thousands of \$USD</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018 (estimated)</i>
Total Local Production	666,666	n/a	1,466,000	1,733,000	2,000,000
Total Exports	73,000	82,490	133,333	160,000	190,000
Total Imports	1,172,334	665,535	755,000	1,527,000	n/a
Imports from the US (8701)	24	31	287	1,390	n/a
<b>Total Market Size</b>	1,766,000	1,550,000	2,221,000	3,100,000	n/a
Exchange Rates	60	60	60	60	60

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

Units: \$ millions

Source: Estimates of industry experts

### **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 suppliers of agricultural equipment in Russia are:

- Tractornye Zavody
- St. Petersburg Tractor Plant
- Rostselmash
- CLAAS
- Bryanskselmash
- CNH-Kamaz Industry
- John Deere (USA)

### **Opportunities**

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 working with the U.S. Commercial Service to organize a booth at same. Such events often lead to direct sales and are powerful marketing tools that serve to reassure Russian buyers that the U.S. supplier is committed to establishing and maintaining a presence in the market. 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. Increasing sales of meat, fruits, and vegetables are driving corresponding equipment sales in these sectors.

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 also serious in the market:

- High interest rates for purchasing agricultural equipment. Current interest rates for the 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 from financing foreign equipment.
- Reduction in government subsidies for agricultural producers;
- Low growth in foreign investments in the sector;
- Unstable demand for agricultural equipment, due to the financial instability of Russian farming enterprises; and
- A utilization fee introduced in February 2016, which imposes prohibitive fees for agricultural equipment older than three years.

### **Trade Events**

#### [Agrosalon](#)

October 9-12, 2018

Moscow

#### [Golden Autumn Russia](#)

October 10-13, 2018

Moscow

[YugAgro](#)

November 20-23, 2018

Krasnodar, Russia

[AgroFarm](#)

February 5-7, 2019

Moscow

**Web Resources**

[Ministry of Agriculture](#)

[Ministry of Industry and Trade](#)

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

[Russian Customs Service](#)

Agricultural Trade Office Contact:

[U.S. Embassy Moscow](#)

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## Cosmetics and Perfumery

### Overview

	2015	2016	2017	2018 (estimated)
Total Local Production	1,580,000,000 pcs	2,250,000,000, pcs	1,980,000,000 pcs	2,200,000,000 pcs
Total Exports	\$396,158,000	\$488,731,000	\$659,000,000	\$750,000,000
Total Imports	\$2,631,359,000	\$2,600,358,000	\$3,113,443,000	\$3,200,000,000
Imports from the US	\$157,707,096	\$142,389,342	\$188,492,000	\$200,000,000
Total Market Size	\$9,844,135,000	\$8,730,000,000	\$8,900,000,000,	\$9,100,000,000
Exchange Rates	60.95	67.0349	58.30	62

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

Units: USD

Source: Total Local Production: Finam; Total Exports and Imports: Federal Customs of Russian Federation; Total Market Size: Euromonitor

The Russian beauty market has maintained a positive trajectory in the face of macroeconomic challenges that affected the broader Russia economy. Despite the economic recession and ruble devaluation, the market remained resilient and beauty products continued to be very popular among Russian women. However, the 2013-2015 ruble depreciation resulted in increased prices for imported beauty products. Some estimates show that prices for premium cosmetics increased by 13% 2013-2017, mass market cosmetics by 18%, and cosmeceuticals by 20% versus 2013.

According to the Statista research agency, hair care and perfumery were the largest components of the beauty segment in 2017, attracting 23% and 21% of consumer spending in this industry respectively.

Domestic manufacturers of beauty products provide serious competition to overseas manufacturers and capitalize on price advantages they possess relative to importers. Domestic producers also strive to focus on the use of natural ingredients.

Retail beauty chains have managed to restore their position in the market and even surpass pre-recession sales levels. Three key chains, Rive Gauche, Ile de Beaute and L'Etoile, continue to dominate the market, accounting for 63% of total sales of perfumery and cosmetics within Russia in 2017.

According to BusinesStat, the volume of the beauty salon market in Russia slightly increased in 2017.

Market trends:

- Russian consumers seek quality at reasonable prices and demonstrate a high level of concern for product ingredients.
- Russian consumers are becoming more sensitive to price and promotions.
- Marketing campaigns are positioning and repositioning brands as professional and affordable, striving to deliver salon-level quality at a price suitable for home use.

### Leading Sub-Sectors

Anti-aging and salon-use aesthetic products are poised for expansion and development in Russia. The best sales prospects include the following categories: anti-aging and body care salon-use 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 generally seek premium facial care products.
- There is growing interest in multifunctional products (such as color-correcting BB/CC creams) and advanced skin hydration technologies.
- Demand for beauty products such as cosmetics, hygiene products, and perfumery is expanding.
- Russian men tend to purchase simple and universal hair care products. 'Two-in-one' shampoos for hair and body have become widespread.
- Interest in natural perfumery and innovative perfumers is increasing.

### **Trade Events**

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

[Intercharm](#)

### **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](#)

Commercial Service Contact

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## Education and Training

### Overview

Russian students are increasingly choosing to pursue university degrees abroad. According to [The Institute of International Education Open Doors Report](#), approximately 5,412 Russian students studied in the United States in 2017. Over the last five-year period (2012-2017), there has been an 18% increase in the number of Russian students studying in U.S. schools.

Education in Russia is predominantly state-run and is regulated by the Ministry of Science and Higher Education and the Ministry of Education (which, until May 2018, were one Ministry). Regional authorities regulate education in 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 enrollment. Education in state-owned secondary schools is free; first tertiary (university level) education is free with caveats; and 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 represent 57% of students. The literacy rate in Russia, according to a 2017 estimate by the Central Intelligence Agency, is 99.7% (99.7% men, 99.6% women). According to a 2017 OECD estimate, 54% of Russian adults aged 25 to 64 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).

### Leading Sub-Sectors

As Russia continues to emerge from its 2013-2015 economic downturn, the key subsectors that attract Russian students to U.S. schools are undergraduate (43.3% students), graduate (35.5%), non-degree (7.8%), and OPT (13.2%).

	<b>Undergraduate</b>	<b>Graduate</b>	<b>Non-degree</b>	<b>OPT</b>	<b>Total</b>
Russia	2,345	1,925	424	718	5,412
	43.3%	35.5%	7.8%	13.2%	

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

### Opportunities

As many Russian students are 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 increasing interest in elite U.S. boarding schools for pre-college age 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 represents a key component of Russia's economy. The fast pace of life in Russia has led to increased demand for products suitable for consumption on-the-go. Easy storage and increased shelf life of packaged foods make them more attractive to the modern consumer and modern retail formats continue to develop.

The Russian food processing industry has been growing steadily since 1999, averaging 7.3 percent annually between 1999 and 2007. After the 2008 financial crisis, the growth rate slowed significantly, to an annual average of 2.3 percent between 2008 and 2016. In 2017, Rosstat changed its methodology and began reporting production statistics for food, drinks and tobacco separately. Thus, according to preliminary data, in 2017 production of food products increased by 5.6 percent, while production of drinks declined by 1.0 percent. Overall, the food processing industry's output of commodities and services (in current prices) came in at 5.2 trillion rubles (\$89.4 billion) in 2017. The World Bank estimates that Russia's food processing sector contributes 13.5 percent of the value-added to the country's total manufacturing, but less than 2.0 percent of its GDP.

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 trade volume of 26 billion liters. The growth of Russian personal incomes in Russia until 2014 led to a higher standard of living and a favorable consumer climate. Now that real incomes have fallen, consumer spending overall has been dampened. The fast-moving consumer goods (FMCG) segment has remained the most stable sub-sector, even during the economic downturn, with a 79% share of food products. Additionally, the demand for packaged products is expected to increase and reach 29 million tons by 2020.

Over the past 10 years, the import of equipment for food processing and packaging has doubled in Russia and accounts for 87% of the market. The food and food processing industry has an 11.5% share of the total production sectors in Russia and is comprised of more than 30 industries and includes 43,000 active organizations.

In addition, government projects in the food and agriculture sectors offer U.S. suppliers new commercial opportunities. The domestic consumer goods and packaging industry is under pressure to improve its competitive edge and offset 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.

Key factors that influenced the market's development in 2017:

- The downward trend in oil prices, the weakening of the ruble, large fluctuations of the ruble exchange rate;
- Reduction of income for the population;
- Decreased production and increased costs of local production due to the import of spare parts and materials;
- The reduction of retail trade turnover; and
- High cost of credit.

Western companies are expecting an upturn and consider this a confirmation of their policy of maintaining business contacts in difficult years. This positive outlook is 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 the VDMA research agency, the volume of imported food processing and packaging equipment in Russia amounted to about \$2 billion in 2017.

The Russian food production equipment market 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.

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 food processing industry enterprises often buy equipment directly from manufacturers, and large businesses enterprises typically prefer new, imported equipment. Less expensive, second-hand models are often purchased by small- and medium-sized business.

### **Leading Sub-Sectors**

Demand for equipment is present in many categories of food and drinks production and processing. The best opportunities exist for high value-added processing and energy-efficient equipment inclusive of the following categories:

- 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; and
- Baking equipment, both for small bakeries and large bread making factories.

### **Opportunities**

#### [RosUpak](#)

June 26-29, 2018  
Moscow, Russia

#### [Agroprod mash](#)

October 8-12, 2018  
Moscow, Russia

#### [Upakovka](#)

January 31-February 1, 2019  
Moscow, Russia

### **Web Resources**

[Ministry of Agriculture](#)

[ProdIndustry professional industry journal](#)

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

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## **Franchising**

### **Overview**

Franchising as a business model only emerged in Russia following the adoption of formal franchise legislation in 1994. Since then, the number of franchise operations has steadily increased. Since 2000, the number of franchising concepts in Russia has risen from 54 to over 2,500 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 or higher (of which there are 15 in Russia), among these cities are Moscow, St. Petersburg, Kazan, Krasnodar, Perm, Yekaterinburg, Novosibirsk and others.

According to the Russian Franchising Association, 65% of all franchise concepts are established domestically and 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 was a drop in consumer purchasing power among the general population. Moscow restaurateurs have seen average guest purchase totals drop by 20-25% year-on-year. 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 they hold 8% of the total Russian restaurant market. Roughly 44,300 people are working in food service franchise outlets in Russia.

Russian businesspeople are particularly interested in investing in well-known franchise brands. The total investment potential of Buybrand 2017 visitors was estimated as \$700 million. As mentioned earlier, 65% of franchises in Russia are of local origin. Russia ranks eighth for this indicator worldwide. Meanwhile international brands continue entering the Russian market. For instance, 1,424 retail outlets were opened by international operators in Russia in 2017, with the biggest growth in the “restaurants and cafés” category (86 stores) mainly due to the rapid development of fast food chains.

U.S. fast food and fast casual restaurant franchises are popular in Russia: the largest players are McDonald's, Burger King, KFC, Pizza Hut, Papa John's, Domino's, Sbarro, Baskin Robbins, Subway, Cinnabon and Nathan's Famous. In 2018, U.S. franchises Panda Express and Godfather's Pizza entered the Russian market.

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

### **Opportunities**

There are good franchising opportunities for U.S. fast food and fast casual restaurant franchises as well as for coffee shop chains. Another high potential area for U.S. franchise brands is retail, particularly luxury apparel and footwear.

### **Web Resources**

[Russian Franchise Association](#)

[Buybrand Expo](#)

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## Information Technologies

### Overview

With a population of 142 million, Russia's IT market is one of the world's largest and continues to grow. By 2025, there are expected to be 124 million internet users in Russia. According to Rosstat, the information and telecommunications industry grew by 3.7% in 2017 and was among the most successful sectors of the Russian economy. Participants' aggregate revenue as detailed in the annual CNews100 rating (based on 2017 data) decreased by 1.9% in rubles to 1,157 billion Rubles, but grew in dollar terms by almost 12.6%. TAdviser provided similar estimates of 12-14% growth from 2016-2017.

Current growth projections stand in contrast to market declines from 2015-2016. Per research firm IDC, Russia's IT services market was \$ 4.27 billion in 2016, which was 5.3% lower compared to 2015 (the market grew by 3.6% in ruble terms).

IT demand suffered in 2015 due to ruble depreciation and negative real GDP which depressed private consumption and reduced the affordability of imported devices and solutions. The hardware segment witnessed postponed spending and a further shift towards cheaper brands and models, however, retailer reports and import data showed a modest rebound in 2016. Domestic software and services vendors benefited as imports became less competitive with ruble depreciation in 2015 and 2016, increasing their market share for certain products.

In 2017, the country's economy began to rebound and about a third of the surveyed executives expected to see a positive trend in demand for IT services in 2018. Research agency IDC published the following results for the IT sector in 2017: data on smartphone shipments +19%, desktop PCs +6% (after 3 years of continuous decline), cloud services +50% in the (infrastructure as a service) IaaS segment and print devices +16 %.

The "thawing" of IT budgets in Russia is proceeding slowly and systematically. 2018 is witnessing more optimism among IT market participants. The largest IT spends have been by the banks (26% of the total IT market, including the Central Bank), oil and gas (25%) and the public sector (17%, taking into account Federal and Regional Executives Authorities only).

IT expenditures are concentrated among the 100 largest Russian companies accounting for 85% of total IT spending. Concurrently, this level of concentration exhibits some variation by industry according to TAdviser, and the following list represents the percentage of IT spending budgets in each industry, controlled by the five largest firms in that sector:

- Transportation: over 90% including Russian Railways and Aeroflot;
- Telecom: 80%;
- Oil and Gas: 80% (including Gazprom, Lukoil and Rosneft); and
- Energy and Finance: over 50%.

Russian IT industry experts single out five key technological trends for the Russian market in 2018:

1. **Robotic Assistance:** Virtual assistants are becoming an essential component as companies seek to deliver cost effective and personalized services;
2. **Internet of Things (IoT):** Russian utilities, energy, and transportation systems will become increasingly interconnected and enabled by advanced technology, leading to Smart Cities initiatives throughout the country. This type of technology-focused infrastructure development is a central component of Russia's Digital Economy program;
3. **The all-over-platform platform** has become an essential component of modern IT vernacular that encompasses IoT platforms, cloud platforms, virtual reality (VR) platforms, block platform platforms, and

platforms for managing drones. Such projects involve many players, can be built on the basis of a revenue sharing model and, while minimizing costs, will generate new sources of revenue;

4. **Import substitution:** the Russian Unified Software Register displays new solutions developed in Russia that are beginning to displace global vendors. In RusHydro, EMC Documentum was replaced by a domestic electronic document management system from Lanit. Transneft has migrated from SAP to Galaxy. RZD (Russian Railway), the largest user of products of the German vendor in the world, is partnering with Galaxy and with 1C in 2017. These examples reflect a trend of Russian companies looking for domestic solutions, the Russian Software Association (Russoft) reports 3-5% growth in 2017;

5. **Improving speed to market:** The main focus is not only the holders of the largest IT budgets, but also all those who are striving to catch up with the digital economy;

Russian internet and telecom regulators have taken a number of actions in 2017-2018 that have elicited mixed reactions from industry participants and warrant consideration by U.S. exporters:

**Telemedicine Law:** In accordance with a January 2018 law, doctors are now officially allowed to consult patients through the internet by means of video conference calls or by phone;

**Anonymizers and VPNs:** As of November 1, 2017, VPN-services and anonymizers operating in Russia must restrict access to banned information. The list of such banned information is maintained by Roskomnadzor. Roskomnadzor has the power to block such VPN-services and anonymizers if they are found to be non-compliant;

**Fines for illegal processing of personal data have been increased** by a factor of 3-4. Additionally, the list of actionable offences has been expanded. As of 1 July 2017, there are seven punishable offences and the maximum fine is RUB 75,000 (approx. EUR 1,100).

**Instant Message Provider and User Information:** In accordance with the amendments to Articles 10.1 and 15.4 of the Information Law, instant message (“IM”) providers are obliged to identify users by their phone numbers as of January 1, 2018. Furthermore, such IM providers must ensure confidentiality of transmitted messages and be prepared to submit such messages to the governmental bodies upon request. Messengers are also compelled to store user identification records within Russia (not outside Russia).

Russia’s enforcement of this regulation has resulted in the blocking of millions of IP addresses perceived to be associated with the popular messenger Telegram due to its developers’ repeated refusal to give regulators access to users’ data. Roskomnadzor has cast a very wide net in its actions, restricting access to IPs that have no apparent relation to Telegram and disrupting an array of web-based services.

**Critical Infrastructure:** The law sets the basic framework for critical informational infrastructure (“CII”) in Russia. It was adopted in July 2017 and came into force on January 1, 2018.

**VAT:** Services provided by foreign IT companies to Russian customers are subject to 15.25% VAT. As of January 1, 2017, foreign companies providing services to Russian customers via the Internet are obliged to pay Russian VAT and register with tax authorities.

**Online Cash Registers:** The online cash register law came into force in July 2017. In accordance with the law, organizations and sole proprietorships must register and use only advanced cash registers that can transmit fiscal data to tax authorities on an automated basis. This law has had a significant impact on the growing e-commerce market of Russia.

In aggregate, changes to Russia’s internet regulatory framework in 2017 exhibit competing priorities. The government is striving to enhance the use of modern technologies in daily life while attempting to maintain significant control over the information available on the web.

2018 may be a year of modernization in Russia's digital regulatory framework. Per a recently announced plan, the government aims to introduce major updates and/or new rules to such areas as electronic identification (including remote biometrical identification), electronic signatures, smart contracts, big data, Internet of Things, and mobile health.

The United States is one of the leading suppliers of IT products and technologies in Russia's highly competitive market. The quality level of most of domestic products is lower than that of the foreign manufacturers, but Russian firms are frequently trying to sell products and services at a lower price point. Google, Apple, IBM, Cisco, Oracle, Intel, Dell, and HP are among U.S. market participants that face competition from Russian firms including Kaspersky Lab, Yandex, 1C, Cognitive Technologies, EPAM Systems, CFT, Luxoft, Abbyy, Acronis, Parus, CBOSS, and Mail.Ru.

### **Leading Sub-Sectors**

Government, Banking Industry, Oil and Gas, Transportation, Data Centers, Utilities and eCommerce

### **Opportunities**

Best Prospects: Cloud Computing, Artificial Intelligence, Data Center equipment and Smart Cities.

### **Web Resources**

[Integrated Systems Russia \(Audio Visual Equipment\)](#)

[Svyaz Expo \(Telecom\)](#)

[Ministry of Digital Development, Communications and Mass Media of the Russian Federation](#)

[Roskomnadzor](#)

[IDC Research Agency \(Information Technology Sector in Russia\)](#)

[TAdviser \(Media Portal for IT Industry in Russia\)](#)

[CNews \(IT Media\)](#)

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## Medical Equipment

### Overview

The Russian medical devices market is very attractive for U.S. companies. The market is one of the largest in central and eastern Europe. It still heavily relies on imported medical devices, despite Russian government efforts to develop a strong and robust medical technology industry. 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 medical devices manufacturers present on the Russian market.

	2015	2016	2017	2018 estimated
Total Local Production	1,143	1,232	N/A	N/A
Total Exports	128.7	130.4	N/A	N/A
Total Imports	2,907.4	2,999.8	N/A	N/A
Imports from the US	N/A	N/A	N/A	N/A
Total Market Size	3,922	4,101	4,994	5,148
Exchange Rates	60.95	67.00	58.5	60.4

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

Units: \$ millions

Source: Business Monitor International

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

The 2016 market for imported medical devices was segmented as follows: diagnostic imaging: 19.4%, consumables: 15.2%, dental products: 8.9%, orthopedics & prosthetics: 8.6%, patient aids: 13%, and "other medical devices:" 35%. Industry experts generally foresee growth in medical device imports in the coming years.

Germany, the United States and China are Russia's leading suppliers. Principal U.S. exports include high technology medical products, diagnostic imaging and orthopedics and prosthetics. Chinese exports consisted mostly of bandages and dressings, and therapeutic appliances. The following American medical device manufacturers are among those present in the Russian market: J&J, GE Healthcare, Medtronic, Varian, Baxter, and Stryker. Among the leading European manufacturers present in Russia are Philips and Siemens.

### 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 at least two producers from EAEU member countries 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 where EAEU analogs do not exist. These devices usually use innovative

technologies and require large investments in R&D, including diagnostics and visualization, cardiovascular, ophthalmology, orthopedics, laboratory diagnostics, and urology equipment.

### **Opportunities**

Russian's aging population contributes to the medical device market's growth potential. As a result of the Russian national project "Health," carried out from 2005 to 2011, over 10,000 municipal polyclinics received new high technology medical equipment. This equipment needs servicing, spare parts and disposables, providing an opportunity for U.S. companies to supply these products and services.

During President Putin's May 7, 2018 inaugural speech, he spoke about healthcare issues and his comments were reflected in the decree, "On the National Goals and Strategic Objectives of the Development of the Russian Federation through 2024." As part of this initiative, Russia is undertaking efforts to enhance systems for early disease detection and distance monitoring. The main areas of focus are cancer, cardiovascular and pediatrics; anticipated total healthcare investments for the next six years will be approximately \$160 billion.

Opportunities for U.S. medical device producers exist not only in the main cities of Moscow and St. Petersburg, but also in Russia's regions. The ["Russian Strategy for the Development of Medical Science until 2025,"](#) which was approved in 2013, also provides concrete opportunities for U.S. companies that can provide scientific equipment for use in research and development.

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

Moscow

September 11-13, 2018

#### [Dental Expo](#)

Moscow

September 24-27, 2018

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

Moscow

October 23-25, 2018

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

Moscow

October 23-25, 2018

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

Moscow

December 3-7, 2018

#### [Laboratory Diagnostics](#)

Moscow

March, 2019

### **Web Resources**

[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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## Pharmaceuticals

### Overview

The Russian pharmaceutical market has tremendous promise and warrants consideration by U.S. exporters. In 2017, per capita spending on medicines was \$142 per person, placing Russia 17th out of 32 central and eastern European (CEE) economies. In terms of sales, \$20.7 billion of pharmaceuticals were sold in Russia in 2017, equal to 1.3 % of GDP and 20.3% of the nation's health spending.

The Russian pharmaceutical market can be divided by prescription drugs and over the counter (OTC) medicines. Prescription drug sales have traditionally dominated the market, and this trend continued in 2017: prescription medications represented 61.3% of sales. However, sales of generics constituted 65.3% of Russian prescription sales in 2017, compared to 39.7% of global pharmaceutical sales in 2017.

Pharmaceutical sales grew 25% in dollar terms from 2016-2017 and forecasts project 9% growth in 2018.

	2015	2016	2017	2018 estimated
Pharmaceutical Sales,	16,598	16,540	20,737	22,568
Prescription drugs sales	10,138	10,101	12,660	14,066
OTC drugs sales	6,460	6,439	8,078	8,503
Generic drugs sales	6,466	6,519	8,267	9,508
Exchange rates	60.95	67.00	58,5	60.4

Units: \$ millions

Source: Business Monitor International

For many years, the Russian government accounted for approximately half of health care expenditures. However, industry anticipates a significant shift towards private healthcare spending.

The Russian healthcare system is funded by the federal government, social spending and the Federal Mandatory Insurance Fund (FOMS). The FOMS's budget consists of two revenue streams: companies paying for their employees and the federal government paying for the unemployed. The FOMS operated at a deficit in 2017 that will likely continue through 2018, but experts project a 2019 surplus due to the scheduled increase in the contribution rate from 5.1% to 5.9% of the income of each person.

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. Protek Katren, Pulse, Pharmkomplekt, and CIA are the four major distributors in the Russian market.

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

U.S. pharmaceutical exporters face a complex regulatory landscape in the Russian market. Russia's new Good Manufacturing Practices regime can lead to delays in foreign pharmaceutical products receiving market access. and there is weak protection of intellectual property rights. IPR issues include erosions in regulatory data protection and patent rights, and the specter of compulsory licensing.

## **Leading Sub-Sectors**

Cardiovascular diseases, cancer and HIV are the most prevalent diseases in Russia and drive demand for associated pharmaceutical products. High rates of smoking and alcohol consumption also contribute significantly to illnesses. Per a 2015 WHO report, 39.1% of the Russian population smokes compared to a rate of 22.7% globally and 27.3% in Europe. In addition, per capita alcohol consumption of 15.1 liters of pure alcohol per year between 2008 and 2010 far exceeded a global average of 6.04 and 10.9 in European countries.

## **Opportunities**

Demographic factors will continue to drive pharmaceutical market growth as the population ages. However, the Russian government's desire to curb imports may constrain opportunities for U.S. exporters.

The Russian government is focused on creating its own pharmaceutical industry as outlined in its "Pharma 2020 Strategy," which aims to reduce the reliance of the Russian economy on imported pharmaceuticals. In July 2016, Prime Ministry Medvedev said that he expects domestic production to increase from 28.5% to 75% by 2020. Despite the challenges that U.S. companies face as the result of this strategy, profitable opportunities persist, including licensing agreements/technology transfers, done by the U.S. manufacturers of pharmaceutical products and supply of equipment done by the U.S. manufacturers of pharmaceutical equipment.

The Ministry of Industry is developing the "Pharma 2030 Strategy," which will be a continuation of the existing "Pharma 2020 Strategy."

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

Trade Events:

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

Moscow

November 20-23, 2018

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

Moscow

December 3-7, 2018

## **Web Resources**

[Ministry of Health Care](#)

[Business Monitor International](#)

[DSM Group - Russian pharmaceutical marketing agency](#)

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

[Association of Pharmaceutical Companies «Innovative Pharma» \(InPharma\)](#)

[Remedium](#)

[Pharmaceutical Herald](#)

[Vademecum](#)

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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, for importers of alcoholic products there is 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, for 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, the executive body of the Eurasian Economic Union, a.k.a. EAEU) add an unnecessary level of complexity leading to increased costs and delays.

Nearly all U.S. food and agricultural exports were banned by the Russian government in August 2014, in reaction to the imposition of sanctions against Russia.

U.S. companies also cite technical regulations and related product testing and certification requirements as major obstacles. 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. Additionally, 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 governing the information technology (IT) sector have made it more difficult for U.S. technology companies to provide/export goods and services to 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. The law of the Ministry of Telecom and Mass Communications of the Russian Federation envisioned a transition to the use of domestic office software by federal executive agencies and state extra-budgetary funds from 2016-2018. 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) was given authority to fine companies that violate the law and restrict access to their websites. The Ministry of Telecommunications and Mass Communications of the Russian Federation later published explanatory notes about the law at <http://minsvyaz.ru/ru/personaldata/#1438548218895>

President Vladimir Putin has additionally 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 mandate that domestic telecoms and Internet service providers (ISPs) store all customers' telephonic and electronic content for six months. These amendments also require 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 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 be installed on all Russian-manufactured aircraft, with varying deadlines depending on the use, age, and size of the aircraft, but in all circumstances no later than January 2016. In addition, any foreign-manufactured aircraft listed on a Russian airline's Air Operator Certificate was required to 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 applies to cars imported into the Russian Federation. All 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 amendment was enacted in the [TR TS 018-2011](#) regulation on January 1, 2017.

## **Import Tariffs**

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.

Food and agricultural exports to Russia from the U.S. are not currently possible due to Russian counter-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, while imports outside of the quota would face higher tariffs. 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; and
- 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 originally established by the member countries to manage the Customs Union which now oversees the Eurasian Economic Union. Current information on the harmonized tariffs of the EAEU/CU [can be found the Eurasian Economic Commission's website](#).

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. A 10 % rate applies to certain food products, children’s goods, medical and pharmaceutical products, pedigree livestock, and certain books and periodicals. Some categories (e.g. medical goods and equipment, goods designated for diplomatic corps) 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 the 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 a result of regulatory changes in 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 inclusion of such information within field 31 of the electronic import customs declaration should be sufficient. However, it has been reported that Customs officials may require separate submission of these documents in practice, 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 for the below 36 groups of goods and packaging subject to recycling:

<b>Textile articles (other than apparel)</b>	<b>Plastic building products</b>
Carpets and rugs	Other articles of plastic
Protective overalls	Shaped and treated sheet glass
Other outer garments	Hollow glass
Underclothes	Barrels and similar containers of ferrous metals
Other clothing and accessories	Light metal packaging
Knitted and crocheted garments	Computers and peripherals
Wooden building materials and millwork	Communication equipment
Wooden packaging	Consumer electronics

Corrugated paper and paperboard and paper and paperboard packaging	Optical instruments and photographic equipment
Household and sanitary products and toiletries	Accumulators
Paper stationery	Storage batteries
Other articles of paper and paperboard	Electric lighting equipment
Oil products	Electric domestic appliances
Rubber tires, casings and inner tubes; retreading of rubber tires	Non-electric domestic appliances
Other articles of rubber	Power-operated hand tools
Plastic packaging articles	Industrial refrigeration and ventilation equipment
	Other general-use machinery and equipment not included elsewhere

Rates of the ecological fee may be revised annually.

In addition, currency control regulations require the issuance of a transaction passport for both exports and imports to ensure that hard currency earnings are repatriated to Russia.

### **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 Technical Regulations (TR) for each 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 provision which governs standards and requirements for packaging, including that of food products, produced both as a finished product and as part of the product’s 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 most recent version was completed 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; and
- Requirements for Marking of Packaging (Closures).

An English translation of the original Technical Regulation TR CU 005/2011 is available [the U.S. Department of Agriculture website](#).

In general, labels on food items must feature the following information in 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; and
- 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; and
- Any other information determined by the state regulation body.

## **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](http://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 BIS' website.](#)

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

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

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.

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](#).

The [Consolidated Screening List](#) is a web-based platform which consolidates eleven export screening lists of the Departments of Commerce, State and the Treasury into a single list of parties for which the USG maintains restrictions on certain exports, reexports, sanctions, and transfers of items.

## **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. They can only be used by importers who have obtained Customs' permission for temporary importation. Nevertheless, transferring temporarily imported goods to other company is possible as long as the authorization of the Customs authorities has been obtained.

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.

Fixed assets goods for manufacturing purposes may be admitted and subject to a 3% monthly Customs payment for a temporary import period of 34 months, in the case that a Russian user has to obtain property rights (e.g. for leasing). 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 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 Eurasian Economic Union (EAEU). The list was approved by the Eurasian Economic Commission (EEC) 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 site:

[http://www.eurasiancommission.org/en/act/trade/catr/nontariff/Pages/ediny\\_perechen.aspx](http://www.eurasiancommission.org/en/act/trade/catr/nontariff/Pages/ediny_perechen.aspx)

Russia has maintained a ban on the importation of nearly all U.S. food products since 2014.

Background: 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. The ban applies to meat, meat products, milk, dairy products, fish, fish products, fruit and vegetables. Salt was added to the list of prohibited products on November 1, 2016. The ban on salt deliveries for the production of medicines and bio-active supplements was lifted on May 20, 2017. On June 24, 2015, Russia extended the agricultural food ban by one year, to August 2016. Subsequently, Russian President Vladimir Putin signed an executive order on June 30, 2017 extending these countersanctions on Western food products until December 31, 2018. Absent

significant improvements in Russia's relations with the United States and Europe, analysts expect these countersanctions to be further extended beyond 2018.

Russia-related sanctions have been implemented under multiple legal authorities in the form of executive orders and public laws since 2014. On August 2nd, 2017 the President signed the Countering America's Adversaries Through Sanctions Act (CAATSA) which codified and expanded sanctions announced from 2014-2016 on certain Russian entities and sectors. CAATSA includes sectoral sanctions affecting the financial, defense, and energy transactions, and "blocking sanctions" which prohibit business with certain individuals and entities. U.S. sanctions on Russia include restrictions on the duration of debt and equity financing that can be provided to some Russian banks and energy firms, and restrictions on specific oil-related exports, services, and technology to Russia. Technology export controls focus on the exportation of goods, services, or technology in support of exploration or production for deepwater, Arctic offshore, or shale projects that have the potential to produce oil in Russia or in the maritime area claimed by Russia.

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](#).

## **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. However, on January 1, 2018, Russia updated its Customs Code to be congruent with its EAEU commitments. 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 can be utilized to fully outsource the Customs clearance process. 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 legal 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 the EU or the United States and does not recognize internationally recognized certificates, such as CE mark or FDA certificates. These certificates will often be part of an application file submitted to the 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 start aligning their standards with the other five-member states and creating 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). In the late 1990s the Agency was responsible for developing the Russian GOST-R standards (state standards for Russia), similar to GOST standards (state standards) in the former Soviet Union. The regulatory document for which the company applied was called the GOST-R certificate and indicated 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 the creation of Russian Technical Regulations. Now the Eurasian Economic Commission (ECC), a permanent supranational regulatory body of the 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 45 Russian and EAEU technical regulations. Once 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 other standards organizations, the list of which can be found on [Rosstandart's website](#).

### **Testing, Inspection and Certification**

In past years, bureaucratic incongruities, overlapping fields of activity, and the application of different procedures and criteria in the accreditation process were common in Russia. To improve the certification system, the Russian government issued Presidential Decree No. 86 on January 24, 2011, "On the Unified National System of Accreditation," according to which a new approval agency, the Federal Service on Accreditation ([RosAccreditation](#)), 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 accredited as testing laboratories and issues certificates to organizations.

Various federal executive authorities previously had responsibility for carrying out accreditation in accordance with the relevant legislation. There were 16 government agencies with accreditation oversight, including Rosstandart, Rostekhnadzor, Rospotrebnadzor, and Rossvyaz. Currently, Rosakkreditastia

publishes the list of certification bodies and accredited testing laboratories, as well as all issued declarations and certificates of conformity. Rosstandart previously performed this function.

RosAccreditation signed 16 bilateral agreements with counterpart organizations in Abkhazia, Vietnam, Germany, Greece, India, Spain, Kyrgyzstan, Macedonia, Moldova, Mongolia, Serbia, China, Iran, Slovakia, and Ukraine. In addition, RosAccreditation 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 \(CIS\)](#)
- [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 were 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, and further establish 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 a 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 check if their products are included in the “Unified list of products and 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 \(No. 146 on October 18, 2016\)](#). [On September 15, 2018 some amendments were made to the list.](#)

A manufacturer can choose whether to apply for a Certificate or a Declaration of Conformity and manufacturers can also choose between EAEU and Russian certifications. EAEU certifications enable the product to be imported by any EAEU member country and transferred/reexported to other member states. Only Russian legal entities can apply for these Certificates or Declarations, so U.S. manufacturers must work with a Russian distributor or importer. Once obtained, certificates are valid 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 on the unified list of products subject to mandatory conformity, then it should go through the conformity process according to the national standards of the five EAEU countries, depending on the final destination of the product. U.S. manufacturers should also check similar unified lists for all five countries to insure full compliance with all the regulations. Companies can find this list for Russia [on the website of Rosstandart](#).

- 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 [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 additional mandatory and voluntary certification systems also exist, which are partly managed by other ministries or agencies (please see the “contacts” section of this document).

### **Publication of Technical Regulations**

The development of Russian Technical Regulations was discontinued in January 2015 and only the Russian and EAEU TRs already approved can be found at <https://www.gost.ru/portal/gost/home/standarts/technicalregulationses>.

EAEU technical regulations are published in Russian on the [EEC website](#) for at least 60 days, after which notification is sent to the WTO. Any Russian or foreign entity may comment (in Russian) to the contact listed on the website. The final EAEU Technical Regulations are published on the EEC website after which Russia submits notification of the regulation to the WTO. In practice, requisite WTO notifications not have always been provided by EAEU member states.

Members of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to notify to the WTO proposed technical regulations and conformity assessment procedures that could affect trade. Notify U.S. ([www.nist.gov/notifyus](http://www.nist.gov/notifyus)) is a free, web-based e-mail registration service that captures and makes available for review and comment key information on draft regulations and conformity assessment procedures. Users receive customized e-mail alerts when new notifications are added by selected country(ies) and industry sector(s) of interest, and can also request full texts of regulations. This service and its associated web site are managed and operated by the USA WTO TBT Inquiry Point housed within the National Institute of Standards and Technology, part of the U.S. Department of Commerce.

### **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  
<mailto:info@gost.ru>

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

Slavyanskaya sq. 4, building 1  
Moscow, 109074  
Tel.: +7 (495) 698 4538  
[info@rosdravnadzor.ru](mailto:info@rosdravnadzor.ru)

#### [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  
[depart@gse.ru](mailto:depart@gse.ru)

#### [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  
[rostehnadzor@gosnadzor.ru](mailto:rostehnadzor@gosnadzor.ru)

[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  
[mail@rossvyaz.ru](mailto:mail@rossvyaz.ru)

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

ul. Vavilova, 7  
Moscow, 117997  
Tel: +7 (495) 539 26 70  
[fgis@fsa.gov.ru](mailto:fgis@fsa.gov.ru)

For more information on standards in agricultural sector 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  
[agmoscow@fas.usda.gov](mailto:agmoscow@fas.usda.gov) ; [atomoscow@fas.usda.gov](mailto:atomoscow@fas.usda.gov)

## **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. However, the ongoing conflict between Russia and Ukraine has resulted in a severe disruption of trade between the two countries.

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, expanded the tariff provisions to cover services, and established 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 from which to receive both regulatory approvals, in the form of registration certificates, and declarations or certificates of conformity for those products for which EAEU Technical Regulations (TR) apply.

### **Licensing Requirements for Professional Services**

The regulations associated with the licensing professional services are outlined in 2011's Federal Law 99 "About licensing of separate types of activities". These regulations were most recently amended in 2016.

<http://government.ru/docs/all/99954/?page=2>

<http://en.smb.gov.ru/support/regulation/99fz/>

The 52 professional services listed include the production of pharmaceuticals and medical devices and educational services. Although legal, consulting, and accountancy services do not require any special licenses, foreign companies that would like to operate in Russia are required to register as a Russian legal entity. As a result, there are a number of multinational companies operating the Russian market, including Baker & Mackenzie, PWC, KPMG, Deloitte and many others.

### **Web Resources**

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

[Export Controls](#)

[Possible Violations](#)

[Consolidated Screening List](#)

[Eurasian Economic Commission](#)

[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**

The U.S. Department of State's Investment Climate Statements, prepared annually by U.S. embassies and diplomatic missions abroad, provide country-specific information and assessments of the investment climate in foreign markets. Topics include: Market barriers, business risk, legal and regulatory system, dispute resolution, corruption, political violence, labor issues, and intellectual property rights.

Visit the U.S. Department of State's [Investment Climate Statement](#) website.

## **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 safeguard 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 step should be undertaken with caution and only after careful evaluation and establishment of successful payments. 30/70 is a commonly used payment structure for international transactions in Russia, meaning 30 percent due at the time of order/invoice and 70 percent due upon shipment.

For large transactions, advanced payment from a Russian buyer may be impractical and financing may be provided by a bank, export credit agency or venture fund. Please note that due to the Russian 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 and/or their corporate leadership are currently sanctioned by the United States and exporters must verify that they abide by U.S. sanctions when conducting financial transactions. Sectoral sanctions applied against Russian banks limit the duration of debt/equity financing that can be provided and may affect standard export transactions. 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 (as already mentioned) currently place limits on the duration of debt and equity financing. For more information on 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 has 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 are approximately 10-25% from commercial banks and 5%-9% for State loans. One-time equipment leasing deals rates are approximately 10-19%, depending on market conditions and details of the agreement.

### **Foreign Exchange Controls**

Currency control legislation has been liberalized considerably in the past 20 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’s Ukraine-related Sanctions List. The sanctions significantly limited access of these organizations to the U.S. financial markets, as August 2017 legislation prohibits the conduct by U.S. persons or persons within the U.S. of all transactions in, provision of financing for, and other dealings in new debt of longer than 14 days. Russia’s largest private commercial banks, in addition to Alfa-Bank, include 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 (U.K.), 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**

Many U.S. Government international financing programs to support U.S. exports have halted consideration of transactions in Russia in response to Russia’s invasion of Ukraine and annexation of Crimea. This includes both the U.S. Export-Import Bank (EXIM) and the Overseas Private Investment Corporation (OPIC). Prior to these suspensions, assistance had 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 the SBA and EX-IM Bank Co-Guarantee program. For more information, please go to the [SBA website](#).

## **Multilateral Development Banks**

In July 2014, the European Bank for Reconstruction and Development (EBRD) froze all decisions regarding new projects in Russia. However, the EBRD continues to support its existing projects and clients in Russia.

The Commercial Service maintains Commercial Liaison Offices in each of the main Multilateral Development Banks, including the European Bank for Reconstruction and Development and the World Bank. These

institutions lend billions of dollars in developing countries on projects aimed at accelerating economic growth and social development by reducing poverty and inequality, improving health and education, and advancing infrastructure development. The Commercial Liaison Offices help American businesses learn how to get involved in bank-funded projects, and advocate on behalf of American bidders. Learn more by contacting the Commercial Liaison Offices to the European Bank for Reconstruction and Development (<http://export.gov/ebd>) and the World Bank (<http://export.gov/worldbank>).

### **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**

Establishing a personal relationship with business partners is a critical factor in successfully negotiating 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).

Russian language promotional materials 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, and utilizing professional translation services is often required. Many companies interested in the Russian market have used on-line translation platforms, only to learn that the translation did not appropriately convey the U.S. firm's message or conform to professional standards. 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.

**Hotels:** While world-class tourist and business facilities exist in Moscow and St. Petersburg, they are underdeveloped in much of Russia, and many goods and services taken for granted in other countries are not yet widely available. Western-style hotels are present in Moscow, St. Petersburg, Yekaterinburg, Kazan, Nizhniy Novgorod, Nizhnevartovsk, Perm, Samara, Perm, Sochi, Yuzhno-Sakhalinsk, and Vladivostok, though they are often priced at a premium in comparison to similar accommodations in other countries. Outside major cities, traditional Russian hotels offer modest accommodations at modest rates, and 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, during seasonal maintenance outages, for example.

**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. Winter clothes may be needed as early as October or as late as May. 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 an interesting contrast. 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

### **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](#) 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**

Personal Security: Deterioration in the U.S.-Russian bilateral relationship has not dramatically affected the security environment for U.S. travelers to Russia. Although anti-American and anti-Western sentiment increased since the latter half of 2014, there have not been widespread reports of overt aggression against or harassment of Westerners because of their nationality. Media reports highlighting incidents of discrimination against those who are not ethnically Russian portray that aggression as 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, and
- 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, and the use of pneumatic pistols/air guns has been witnessed. 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 their 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 GettTaxi, 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 roadway. 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.

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 such violations remain poorly defined.

It is not uncommon for foreigners to become victims of harassment, mistreatment and extortion by law enforcement. 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 - 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 June 2018, wait times at U.S. Embassy Moscow are approximately 300 days for tourist visas, and 25 days for student and other non-immigrant visas. 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 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/Electronics**

**Internet Accessibility:** Current statistics demonstrate that roughly half of the Russian population uses the internet on a regular basis. The largest players in Russian e-mail services and search engines are Mail.ru, Rambler and Yandex. Internet service is widely available in the major cities, and 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 include Mobile TeleSystems (MTS), Vimpelcom (Beeline) and Megafon.

Long distance telephone calls can be placed using IP phone services, including Skype, with an 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) assesses the Russian government as complies with 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.

Following are current characteristics of Russian airlines:

- The majority of domestic airlines offer on-line ticket sales.
- Flights can be canceled, if more than 30% of the seats remain unsold; however, this rarely transpires.
- Travelers should have their passport with them at all times. Air travel within western Russia generally stays on schedule and 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 typically 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 redirected 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, and 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 GettTaxi, 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.

## **Language**

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, Asian, and local competitors.

## **Health**

Western medical care in Moscow can be expensive, difficult to obtain, and is 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 website](#).

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 visit the U.S. Department of State's website](#).

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](#).

## **Local Time, Business Hours and Holidays**

There are eleven 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, seven days per week.

Russian Holidays: Holidays listed on the U.S. Embassy's Web site are not an all-inclusive list. Occasionally days off will be declared by the government to create a long weekend, particularly in late December/early January (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.

## **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 on Russian Custom's website: <http://eng.customs.ru/>

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

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

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

### **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 \(FAA\)](#)