

ExportReady  DISCOVER



 COUNTRY
REPORT



February 2018

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1. General information

1.1 Geography

- North Asia bordering the Arctic Ocean, extending from Europe (the portion west of the Urals) to the North Pacific Ocean.
- Borders with 14 countries: Azerbaijan, Belarus, China, Estonia Finland, Georgia, Kazakhstan, North Korea, Latvia, Lithuania (Kaliningrad Oblast), Mongolia, Norway, Poland (Kaliningrad Oblast) 210 km, Ukraine 1,944 km
- Area: 17,098,242 sq km

1.2 Population

- Population (millions): 144,096,870
- Natural Increase: 0.2%
- Density: 9 Inhabitants/km²
- Urban Population: 74.0%
- Population of main cities: Moscow (12,054,243); St Petersburg (5,191,690); Novosibirsk (1,567,087); Ekaterinburg (1,428,042); Nizhniy Novgorod (1,267,760); Kazan (1,205,651); Cheliabinsk (1,183,387); Omsk (1,173,854); Samara (1,171,820)
- Ethnic Origins:
- About 80% of Russian origin, 4% Tatar, 3% Ukrainians, 1% Chuvash, 1% Bashkir and 10% others ethnic background

1.3 Language

- **Official Language:**Russian
- **Other Languages Spoken:** More than 150 languages are spoken in the Russian Federation and some of them are the official language in a part of the country.
- **Business Language(s):** English is more and more widespread. Managers often understand English better than they speak it. You must be prepared to conduct negotiations in Russian.

1.4 Government

- Federal republic based on parliamentary democracy.
- The President is the Head of State. He is elected by universal suffrage for four years.
- The Prime Minister is the Head of Government. He is appointed by the President, with the approval of the lower house of Parliament, and manages the everyday business of the country.
- President: Vladimir Vladimirovich PUTIN (since 7 May 2012) – United Russia
- Prime Minister: Dmitriy Anatolyevich MEDVEDEV (since 8 May 2012)
- Next Election: March 2018

1.5 Currency

- Russian Rouble (RUB)

2. Economy

2.1 General Overview

After experiencing its largest recession since the fall of the Soviet bloc in 2009 and then recovering in the following few years, Russia went through two consecutive years of recession between 2015 and 2016.

This was due to

- staggering capital flight,
- the collapse of the rouble,
- the decline in oil prices
- and Western trade sanctions, which followed the outbreak of the Ukraine crisis.

In order to balance public finances, Russia privatised a part of Rosneft, the leading Russian oil producer.

Despite a high inflation rate (7.2%), the country's inflation has fallen by half since 2015, a trend which should continue with the strengthening of the rouble.

The situation of the banking sector has deteriorated, low-yielding loans bordering upon 10% total at the end of 2016.

In November 2016, Russia made a commitment to the OPEC in order to reduce its oil production, however, the levels of daily crude production in 2016 reached its highest in the last 25 years (11.2 million barrels per day).

State debt remains low, and the country has vast exchange reserves at its disposal to which are added sovereign fund assets.

To stimulate investment with an aim to diversify its economy, the Russian government is providing a wide array of incentives for investors developing new product, technology in the energy efficiency, nuclear engineering, space technology, medicine and IT industries.

Major incentives include profits tax / property / VAT tax exemption, reduced social contribution rates, special customs regime and a 150% deduction of qualifying costs for companies conducting eligible R&D activities to reduce profits tax / increase deferred tax assets.

Other key sectors for development and investment include pharmaceutical and medical, real estate, innovations and technology, infrastructure, aluminium, iron and steel, lead, platinum-group metals, precious metals, nickel, copper, zinc, coal, telecommunications, transportation, agriculture and food and gas.

Social inequalities remain strong, particularly between big cities and rural areas. Only 1% of the population owns 71% of private assets. Despite the appearance of an urban middle class, the poverty rate remains at 14%. A middle-class protest movement is demanding an end to corruption and nepotism.

Main Indicators	2014	2015	2016	2017	2018 (e)
GDP (billions USD)	2,063.66	1,365.87	1,280.73	1,560.71e	1,611.45
GDP (Constant Prices, Annual % Change)	0.7	-2.8	-0.2	1.4e	1.4
GDP per Capita (USD)	14,388	9,521	8,929	10,885e	11,248
General Government Balance (in % of GDP)	0.1	-2.4	-2.9e	-2.5e	-1.9
General Government Gross Debt (in % of GDP)	15.6	15.9	17.0e	17.1e	17.3
Inflation Rate (%)	7.8	15.5	7.0	4.5e	4.2
Unemployment Rate (% of the Labour Force)	5.2	5.6	5.5	5.5	5.5
Current Account (billions USD)	57.51	69.00	22.20	51.54e	55.76
Current Account (in % of GDP)	2.8	5.1	1.7	3.3e	3.5

Table 1: Main Economic Indicators. Source: IMF – World Economic Outlook Database, 2017

Strengths

- Abundant natural resources, in particular oil and gas
- 16 years of continued current account surpluses (including the crises years 2009 and 2015-2016)
- Low public debt
- Still comfortable foreign exchange reserves

Weaknesses

- Far-reaching structural reforms still outstanding
- High vulnerability to global oil price shocks
- Prone to capital flight
- Exchange rate remains vulnerable to volatility and sudden depreciation
- Prolonged recession has adversely affected corporate profitability
- Poor rule of law and high level of perceived corruption
- Geopolitical risks: Conflict with Ukraine and serious dispute with the West over that conflict (including sanctions and counter-sanctions). Also involved in Syria crisis

Structure of the Economy

Russia has a wealth of natural resources. It is the world's largest producer of natural gas and the largest producer of oil, but also one of the leading producers and exporters of diamonds, nickel and platinum.

Despite its large surface area, Russia has a relatively small amount of arable land because of unfavourable climatic conditions. The country nevertheless owns 10% of global agricultural lands.

The northern regions of the country concentrate mainly on livestock, while the southern regions and western Siberia produce cereals. Agriculture contributes 4% to national GDP. Industry represents 36% of Russia's GDP and employs nearly 28% of the population. The country inherited most of the Soviet Union's industrial bases. The most well developed sectors are chemicals, metallurgy, mechanics, construction and defence.

The services sector employs about two-thirds of the population and generates around 60% of the GDP. Since the 1998 financial crisis, the banking sector has not yet undergone a complete restructuring. Given the size of the country, the transport, communications and also trade sectors are particularly significant. Tourism is also becoming an important source of revenue.

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
Employment By Sector (in % of Total Employment)	6.7	27.2	66.1
Value Added (in % of GDP)	4.6	32.8	62.7
Value Added (Annual % Change)	2.9	-2.4	-2.5

Table 2: Economic Activity by Sector Source: World Bank, 2016

2.2 Taxation

- Russian legal entities are taxed on their worldwide income.
- Foreign legal entities which have a permanent establishment in Russia (subsidiary, branch, agency, etc.) are taxed on the income earned by this establishment in Russia. Expenses incurred abroad by this establishment can be deducted.

Corporate Tax Rates

- Standard corporate tax 15.5% to 20% (2% payable to central government and 13.5% to 18% payable to regional governments)
- Corporate tax for qualifying educational or medical companies (2011-2020) 0%
- Tax Rate For Foreign Companies: Foreign tax credit is available but may not exceed the amount of Russian tax payable on the foreign income.
- Foreign companies that have Russian-sourced income from the use, maintenance or rent of charter ships, aircraft and other vehicles or containers for international traffic purposes are taxed at 10%.
- Capital gains are treated as ordinary business income and taxed at the normal corporate rate of 20%. Qualifying capital gains are taxed at 0% and 15.5%.
- Numerous tax incentives are available, such as regional tax reductions for investment projects, tax reductions for technology and software companies, a ten-year tax holiday for the Skolkovo Innovation Centre, a 0% profits tax rate for specific educational and medical services and a 150% profits tax deduction for qualifying R&D expenditure.
- Regional authorities set taxes including property tax (cannot exceed 2.2%), transport tax and gambling tax. They may also levy an alternative income tax, a 'common tax' of 15%, on small business activities such as retail and personal services, in lieu of profits tax, VAT and property tax.

- A land tax of 0.3% applies to agricultural and residential land and 1.5% on other types of land. A stamp duty is applied for state registration of certain rights and contracts.
- A mineral resources tax is levied on the cost of extracted minerals.
- A water tax is levied on taxpayers consuming water for specific purposes.

VAT

- Standard Rate 18%
- The reduced rate of VAT in Russia is 10% and applies mainly to basic foodstuffs, children's goods, medical goods and pedigree cattle.
- A 0% rate applies to specific goods and services including supplies to diplomats, business activity related to the FIFA World Cup 2018, the sale of raw hydrocarbons extracted from Russian territory.
- Exports are not subject to VAT. Some imports of medical and cultural goods and other scientific, educational, technological, financial and legal services are exempt from VAT.
- Taxpayers have an option to tax certain groups of goods and services including banking operations, insurance services and the sale of precious metals.

Individual Taxes

- An individual who spends at least 183 days in Russia is considered as a resident. Russian residents are taxed on worldwide income, while nonresidents are taxed on Russian-sourced income.
- Tax Rate
Residents and foreign highly skilled specialists 13%
Non-Residents 30%

2.3 Intellectual Property Rights

In Russia, the protection of IPR is enforced on the basis of civil, administrative, criminal, or customs legislation. The Civil Code sets up the statutory damages for IPR infringement and/or incurred damages for copyright, trademarks and geographical indications. The Code of Administrative Offenses concerns IPR infractions that violate public or private interest or rights, but do not meet the criteria of the Criminal Code.

Enforcement actions combatting end-user piracy continued to decline over the past year, including a decrease in raids, initiations of criminal cases, and issuances of court verdicts. Industry representatives have recommended that the Russian government strengthen administrative penalties to serve as effective deterrents and increase political will to combat piracy more effectively.

Additionally, in December 2014, Russia amended the Law on Circulation of Medicines to allow the submission of registration materials and data that should be protected under regulatory data protection for “follow-on” drugs three years after the reference drug’s marketing authorization in the case of small-molecule drugs and four years after the reference drug’s marketing authorization for generics. Industry representatives see this “4+2” and “3+3” scheme as a significant weakening of protection for that data as well as a potential violation of Russia’s WTO obligations.

3. Consumer Behavior

3.1 Consumer Characteristics

Between 15-25% of the country's 142 million population belong to the middle class or middle class periphery. It is expected to grow 16% between now and 2020.

Great importance is attached to brands and the quality of a product, as well as its life span for people with a modest income.

The price is often only secondary but Russians are nevertheless attracted to bargains. According to a Nielson survey, more than three-quarters of Russians reported an interest in sampling new products. Moreover, 38% reported noticing when new products were added to shelves, which is higher than the global average of 29%.

However, it's also important to note that Russian consumers demonstrate strong brand loyalty, for example Nielson also reported that Russians will often know what they will purchase before they enter a shopping centre.

Moreover, Nielson reports that Russians only purchase products for use in the short-term; 25% of shoppers' purchases satisfy an immediate need, while 47% purchase items to be used that day.

Russians are attracted to foreign products, believing them to be higher quality. Italy means fashion, Germany represents reliability, and France stands for romance.

Yet many Russians also suspect foreigners of dumping inferior goods into Russia. Local goods, especially foods and beverages, are often preferred by Russians, given their belief that these Russian products are more authentic and given their loyalty to Russian companies.

At the same time, they often doubt the quality of these same domestic brands.

Non-Russian brands in Russia may be most successful when they operate in luxury categories, such as automobiles, fashion, beauty, hospitality, and watches. A 2012 study of most-searched for luxury brands in Russia were all non-Russian brands—BMW, Audi, Chanel, Louis Vuitton, Hilton, Sheraton, Rolex, Swarovski, and Bulgari.

Russian companies have tried to capture the high perceived value of western consumer goods by giving their products or companies foreign sounding names. For example, in the early 2000s, the big Russian home products retailer “TechnoSila” introduced a successful home appliance brand called “Bork” and registered the brand in Germany, which allowed the company the legal right to market it as a “German product.” Similarly, a Russian shoe company took an Italian name “Carlo Pazolini” and registered the brand in Italy.

Russian women like to wear fashionable clothing and footwear, especially in the cities, such as Moscow and St. Petersburg.

Russian women spend higher levels of their income on cosmetics than women in other European countries.

Women use a vast array of beauty products, including moisturizers, facial creams, foundation, deodorant, and perfume. Although Western beauty products are highly coveted, many women use domestic brands, as Western imports have become increasingly less affordable.

Many consumers are also choosing to eat healthier foods, buying and consuming more organic produce and fresh juices, and cutting out refined sugars and dairy products.

The current economic downturn has left many households unable to move to new houses and, as a result, many are instead fixing up their current living spaces. At the same time, there is a growing prevalence among apartment dwellers to undertake home renovation projects on their own rather than turn to more expensive contractors.

Although Russian consumers have increased the number of credit and debit cards they hold, cash remains the primary payment method. In large part, Russians prefer to use cash because they believe it is more “secure” and private. While it is possible to use credit and debit cards in large urban areas, it is almost impossible to use them in smaller towns and villages and rural areas. In addition, the majority of smaller stores and kiosks in large cities only accept cash

Shopping is most likely conducted for family members. Family remains important in Russian life, and it affects shopping habits. More than half (53%) of Russian consumers shop regularly for the whole family (compared with 45% globally). Comparatively, one-third (32%) of Russians shop only for themselves.

Whereas distribution systems were practically non-existent at the fall of the USSR, the almost total privatisation and liberalisation of the sector has led to a rapid market transformation.

Supermarket chains began to develop in the 1990s, and the present structure integrates the components of the Western model. There are well organised distribution channels especially in Moscow and St Petersburg. They are developing rapidly in other regions. Geographical coverage is still a significant challenge in Russian market.

An essential part of distribution is still carried out by informal means, such as stalls and markets. 20% of sales are represented by open-air markets and more than half by informal stalls. Being able to use these channels is often the key to success in Russia. In regards to chains, the market is dominated by supermarkets, which represent more than half of sales. Moscow and St. Petersburg are two major distribution hubs that have significantly developed in the past couple of years and enable bulk-purchasing.

Hypermarkets have appeared recently (opening of the first Auchan in 2002), and are already reaching 10% of total turnover. As such, they have strong potential for further growth. They target a relatively well-off clientele who is able to afford international imports.

Retailers must therefore understand that competing effectively may require innovative go-to-market strategies not used elsewhere.

Four strategies are worth noting.

- First, some companies have chosen to complement big box stores with smaller storefronts and even kiosks to penetrate markets.
- Second, other businesses with store-fronts also sell products online and distribute them to standard delivery locations where customers pick them up using an access code to enter a postal box.
- Third, several distributors offering “pick-up lockers” have now emerged to capture this demand.
- Fourth, established retailers with a national presence also serve as pick up locations for online companies without this capability.

Perhaps because the infrastructure is so poor, Russians have been very quick to adopt technology. Russia is the largest internet marketing audience in Europe (over 53 million).

Mobile phone penetration is among the highest in the world. Beyond using digital media to advertise and promote products, firms use it to overcome the poor infrastructure. The specialized delivery and pick-up services mentioned above incorporate mobile tracking of orders and text messaging alerts to notify customers when and where pick-ups are available.

3.2 Population

Distribution of the Population By Age Bracket in %	
Under 5:	5.4%
6 to 14:	9.6%
16 to 24:	14.4%
25 to 69:	60.7%
Over 70:	9.9%
Over 80:	3.0%

Table 3: Distribution of Population/Age Brackets. Source: United Nations Department of Economic and Social Affairs: Population Division Prospects

3.3 Household Expenditure

Between 2009 and 2014 the number of single-person households increased by 11.2 percent to reach 15.3 million in 2014, accounting for 27 percent of total households. The number is projected to rise to more than 17 million by 2020.

In contrast, the number of households occupied by couples with children (the greatest number of households in 2009) declined by 0.4 percent to reach 14.2 million in 2014 (25 percent of total households).

Over the same period, the number of households occupied by couples without children increased by 1.4 percent to reach 8.2 million in 2014 (15 percent of total households). Due to the country's high divorce rate, the number of single-parent households increased by 3.3 percent between 2009 and 2014, reaching 6.9 million in 2014.

Average Age of the Head of the Household	47.3 Years
Total Number of Households (in million)	54.6
Average Size of the Households	2.7 Persons
Percent of Households of 1 Person	25.7%
Percent of Households of 2 Persons	28.5%
Percent of Households of 3 or 4 Persons	37.0%
Percent of Households of 5 Persons and More	8.8%

Table 4: Household Distribution by number of members. Source: UN data, 2013 - 2016

Household Final Consumption Expenditure	2013	2014	2015
Household Final Consumption Expenditure (Million USD, Constant Price 2000)	938,427	957,036	863,935
Household Final Consumption Expenditure (Annual Growth, %)	4.3	2.0	-9.7
Household Final Consumption Expenditure per Capita (USD, Constant Price 2000)	6,539	6,551	5,901
Household Final Consumption Expenditure (% of GDP)	53.5	53.4	52.1

Table 5: Household Final Consumption.

Source: United Nations Department of Economic and Social Affairs: 2010 Population Division Prospects - Latest available data. Source: World Bank, 2015

Consumption Expenditure By Product Category as % of Total Expenditure	2011
Food and non-alcoholic beverages	30.0%
Transport	12.2%
Housing, water, electricity, gas and other fuels	10.1%
Clothing and footwear	9.0%
Alcoholic beverages, tobacco and narcotics	8.1%
Recreation and culture	5.1%
Furnishings, household equipment and routine maintenance of the house	4.9%
Communication	4.6%
Health	3.6%
Restaurants and hotels	3.3%
Education	1.0%

Table 6: Consumption Expenditure by Product Category Source: United Nations Department of Economic and Social Affairs: Latest available data

Information Technology and Communication Equipment, per 100 Inhabitants	2012
Telephone Subscribers	179.3
Main Telephone Lines	30.1
Cellular mobile subscribers	179.3
Internet Users	53.3
PCs	13.3

Table 7: Information Technology and Communication Equipment. Source: International Telecommunication Union, Latest available data

4. Trade Relations

4.1 Imports-Exports

Russia is fairly open to foreign trade (which represents around 50% of the GDP), despite strict legislation and fare policies.

Russia became a member of the WTO in 2012 and is negotiating a free trade agreement with India.

It is amongst the world's 15 largest exporters and 23 largest importers.

It mainly exports hydrocarbons, minerals, farm products and fertilisers and imports medicine, vehicles, machines and appliances.

Russia's main trade partners are China, Germany, the Netherlands and the United States. However, in 2014, the conflict in Ukraine and the economic sanctions imposed by the Western countries have resulted in the Kremlin's placing of an embargo on European and American agricultural products.

Also, hydrocarbon exports, which represent a significant proportion of the GDP, have been negatively impacted by the decline in global prices.

The country shows a large trade surplus, due to its rich natural resources, especially hydrocarbons, and this trend should continue regardless of the drop in raw material prices. Russia is a member of the Eurasian Economic Union, heir to the Eurasian Economic Community and CIS, which is a free-trade zone and common economic area.

It has signed a partnership and cooperation agreement with the European Union which aims to create a common economic area. It generally enjoys most favoured nation status (MFN) and benefits from the generalised system of preferences (GSP) in its relations with the United States.

Foreign Trade Indicators	2012	2013	2014	2015	2016
Imports of Goods (<i>million USD</i>)	335,446	341,335	308,027	194,087	191,406
Exports of Goods (<i>million USD</i>)	529,256	523,276	497,764	340,349	281,825
Foreign Trade (<i>in % of GDP</i>)	47.1	46.2	47.7	49.3	46.3

Table 8: Foreign Trade-Japan.

Source: WTO – World Trade Organization, World Bank– 2016

Main Suppliers (<i>% of Imports</i>)	2015
China	19.3%
Germany	10.4%
United States	6.3%
Belarus	4.4%
Italy	4.3%
Japan	3.7%
Ukraine	3.1%
France	3.0%
South Korea	2.5%
Kazakhstan	2.3%

Table 9: Top 10 Import Partners. Source: UN Comtrade

182.8 bn USD of products imported in 2015	
Medicaments consisting of mixed or unmixed...	3.7%
Motor cars and other motor vehicles principally...	3.6%
Parts and accessories for tractors, motor vehicles...	2.9%
Automatic data processing machines and units...	2.4%
Transmission apparatus for radio-telephony,...	2.0%
Powered aircraft e.g. helicopters and aeroplanes;...	1.7%
Electrical apparatus for line telephony or line...	1.7%
Machinery, plant or laboratory equipment whether...	1.4%
Instruments and appliances used in medical,...	0.9%
Machines and mechanical appliances having...	0.8%

Table 10: Top 10 Import Goods. Source : UN Comtrade

4.2 Tariffs-Customs

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

Import and export duties are calculated as a percentage of the customs value of the goods (ad valorem) or in euros per unit of measurement of the goods, and/or as a combination of these two rates. In most cases, however, ad valorem customs duties are levied as a percentage of the customs value of the goods.

The Customs declaration can be made by the informant of a company that comes under Russian law and sent to the Customs office where this company has previously been registered. A company exporting to Russia can also call in a Customs broker who will take charge of carrying out Customs formalities in its name. Clearance inward, with immediate payment of duties and taxes, is the regime most commonly used by operators.

The procedures and conditions to import merchandises in Russia changed in 2010 with the entry in force of the Customs Union (CU) between Russia, Belarus and Kazakhstan.

All importation must present a freight declaration. This declaration shall be accompanied by the following documents:

- Contracts
- Commercial invoices and packing list
- Transport documents
- Import licenses (if applicable)
- Certificates of conformity
- Certificates of origin (if applicable)
- Sanitary certificates (if applicable)

Foreign goods circulating in the Customs Union (CU) (Russia, Kazakhstan Belarus) area are customs cleared at the CU's border. After that, goods are free to circulate in the CU area without additional customs controls.

In the case of temporary entry, goods could be full or partially exempt from customs duties and import VAT for a period up to two years.

There is a license system for certain specific products (pesticides, jewelry and precious materials, electrical material, etc.) which represent about 3% of all the goods imported. These licenses are issued by the Ministry of Foreign Economic Relations and controlled by the State Customs Committee. Importing Samples Commercial samples are exempt of customs duties and import TVA for a period up to two years if they are used only for promotional proposes. Biological samples and samples of medicines must be accompanied by specific certificates.

Most imports, including consumer goods, are required to comply with appropriate Russian safety standards. The most common certificate that is required by customs border is the GOST R Certificate of Conformity (CoC) issued by the Gosstandart (GOST) of Russia Federation or its authorised agencies.

4.3 Labeling

Generally the name of the product and the producer.

For foodstuffs, add the weight or volume, the ingredients, the nutritional values, storage conditions and expiry date, type of product, legal address of the producer (it is possible in Latin letters), food contents, instruction for semi finished goods or children foodstuffs, warning information about any restriction and side effect, terms and conditions of use.

For non-food products, the characteristics, instructions for use, country of origin and name of manufacturer, main characteristics for effective and safe use of product.

Product labeling must obligatorily be in Russian. The other official languages of certain federal subjects or ethnic minorities are optional.

4.4 Commercial Intermediaries

Trading Companies

These companies are useful for penetrating the retail market at a lower cost. In fact, without setting up on the spot it is difficult to access the market. This is mainly due to the relative underdevelopment of buying groups. In Russia, distributors work with products from different companies. Usually they not offer promoting services unless the supplier provides promoting material.

The market is very segmented: Novoexport (cross category), Prommashimport (machine-tools), Prodintorg, Vneshintorg (foodstuffs), Rusimport (wine), Dina International (medicines), Elektromedoburovanie (medical equipment).

Wholesalers

The sector is made up of relatively small companies specialized in one type of product and larger companies offering especially logistic and storage services. Generally, wholesalers carry out import business.

Main Actors

Metro, Stock-Planet (clothes), TC-Belcom (chemicals), Exima (food), Morozilnik (household appliances), Mebel-Russi (furniture)

Commercial Agent

It allows you to start up business locally at reduced cost and to extend your business later.

It also allows you to widen your business to another geographical area if your company is already established in the country.

Because of the size of the country, it is not usual to depend on only one agent, but rather on a distribution network.

Counterfeit invoices and other irregularities are sometimes reported. Generally speaking, finding a trustworthy partner is not easy and you need to keep up a certain level of supervision.

The notion of a commercial agent is not often found in Russian business culture.. You must ensure active follow-up. Your physical presence and the development of personal relations are often useful.

The average amount of commission is generally from 5 to 10%. More if the market is limited (equipment) and less if the volumes are large (raw materials).

The company has the right to terminate a contract at any moment. It will then have to compensate the agent for any losses.

If no term has been specified in the contract, the agent may terminate it by giving a month's notice.

Setting Up a Commercial Unit

It allows you to have direct contact with consumers and the control of the distribution chain. It can be useful if a company wants to find growth opportunities or establish its presence in the medium or long term.

Representative Office

A representative office must be approved and registered with the Ministry of Justice. It allows you to employ up to 5 foreigners and to send out business invitations. Opening a representative office is a complex legal process that provides little opportunity. It is better to build a OOO (LLC) which is cheaper, simpler to implement and offers more possibilities.

Branch Office

A branch office is not considered to be totally independent. It cannot conduct commercial business, but it can negotiate, prospect, supervise the distribution network and give the parent company commercial support.

It is advisable to register with the Ministry in charge. All branches must register with the State Registration Chamber. The registration fees are as follow: RR 135,000 for one year, RR 140,000 for two, RR 155,000 for three and RR195, 000 for five years. After accreditation, branches must register with local Chamber of Commerce.

Company

A company must register with the Chamber of Commerce and Industry and with the Russia - Income Tax. That takes considerably more time.

It can be a joint-venture or a subsidiary belonging 100% to a foreign company.

Franchising

Over the last 10 years, franchises have developed in the automobile sector, company services (post, cleaning, logistics, consulting), education, health, leisure and tourism.

There is large number of franchises in the retail trade and especially in fast food and cafés. Most of franchises are concentrated in Moscow and St Petersburg but there is big potential in other big cities.

It is advisable to be particularly vigilant when drawing up contracts which must be registered. According to Russian law, the franchisor cannot impose standards or prices on his franchisee. There are still some problems in franchise legislation but the Russian Franchise Association is working to improve legal conditions.

5. Greek Exports to Russia

Greek exports to Russia have been hit by the embargo that Russia imposed on the imports of agricultural products from EU countries in 2014 as a response to the sanctions that the EU countries had imposed on Russia for the annexation of Crimea.

However, we witness an increase in the first 11 months of 2017, compared with 2016, especially in food and live animals and manufactured goods.

EXPORTS TO RUSSIA	2014	2015	2016	11 months of 2017
FOOD & LIVE ANIMALS	100.274.813	15.646.257	9.454.530	11.094.896
BEVERAGES & TOBACCO	10.791.528	18.816.502	22.604.901	14.609.447
CRUDE MATERIALS, INEDIBLE	2.647.448	2.530.431	3.036.826	3.171.816
MINERAL FUELS, LUBRICANTS	15.225.984	16.251.582	21.068.769	24.800.785
ANIMAL & VEGETABLE OILS, FATS	7.233.069	3.980.120	5.690.192	4.951.276
CHEMICALS & RELATED PRODUCTS	36.791.244	29.899.645	20.769.141	18.702.456
MANUFACTURED GOODS	32.454.355	33.219.289	39.979.635	46.274.375
MACHINERY & TRANSPORT EQUIPMENT	60.340.535	34.727.656	35.840.944	33.157.785
MISCELLANEOUS MANUFACTURED ARTICLES	90.146.527	57.922.014	56.732.948	60.087.621
OTHER COMMODITIES	128.935	87.897	313.251	201.453
TOTAL	356.034.438	213.081.393	215.491.137	217.051.910

Table 11: Greek Exports to Russia. Source: Eurostat

6. Key Sectors

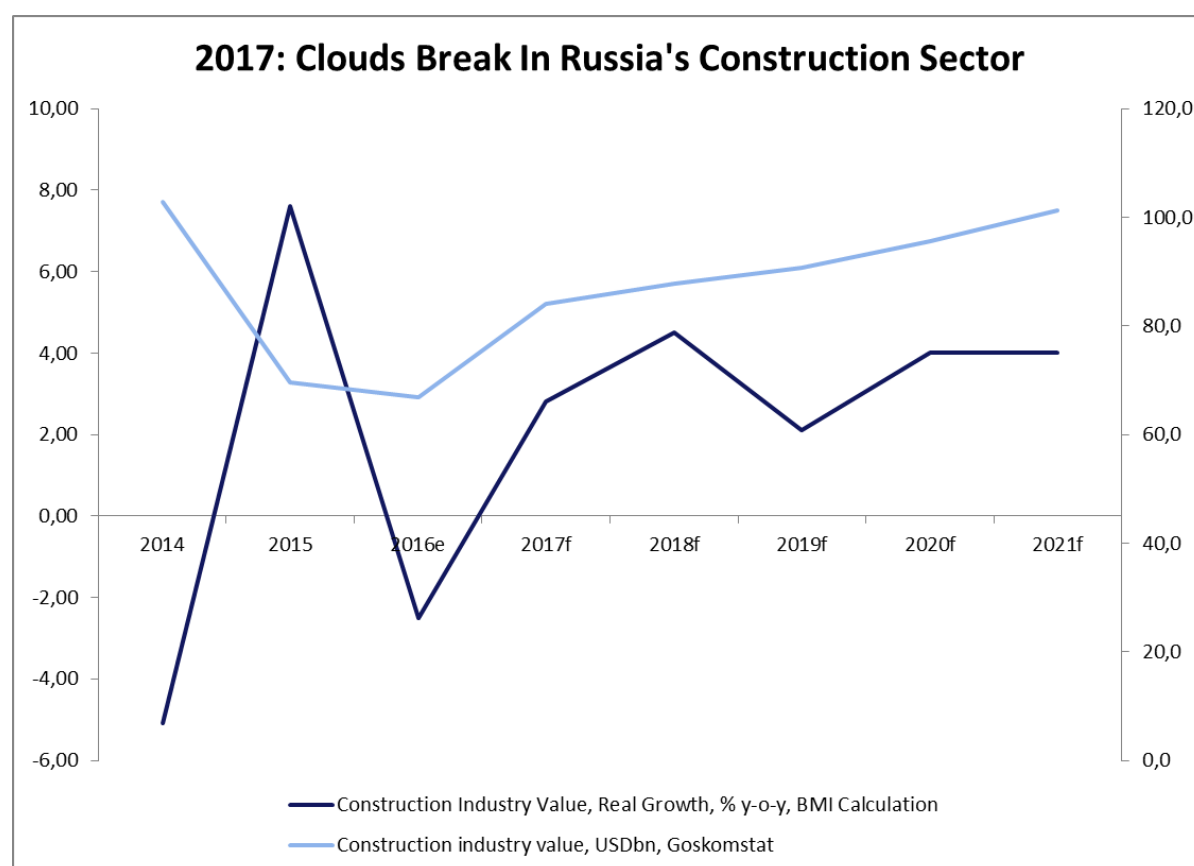
6.1 Infrastructure

The worst is over for Russia's construction industry after years of contraction, as an improving economy, rising oil prices, and project activity in the run up to the World Cup propel a return to growth in the coming years.

An intensification of political risk surrounding Russia's various geopolitical flashpoints with the United States and the European Union - and the possible ramping up of the existing sanctions regime - is the main downside risk.

	2016e	2017f	2018f	2019f	2020f	2021f
Construction industry value, RUBbn	4,268.46	4,644.09	5,131.72	5,547.39	6,107.67	6,718.44
Construction Industry Value, Real Growth, % y-o-y	-5.50	2.80	4.50	2.10	4.10	4.00
Construction Industry Value, % of GDP	4.8	5.0	5.2	5.3	5.5	5.8

Table 12: Construction Industry Values. Source: BMI



Graph 1: Construction Industry Values. Source: BMI

6.2 Pharmaceuticals-Healthcare

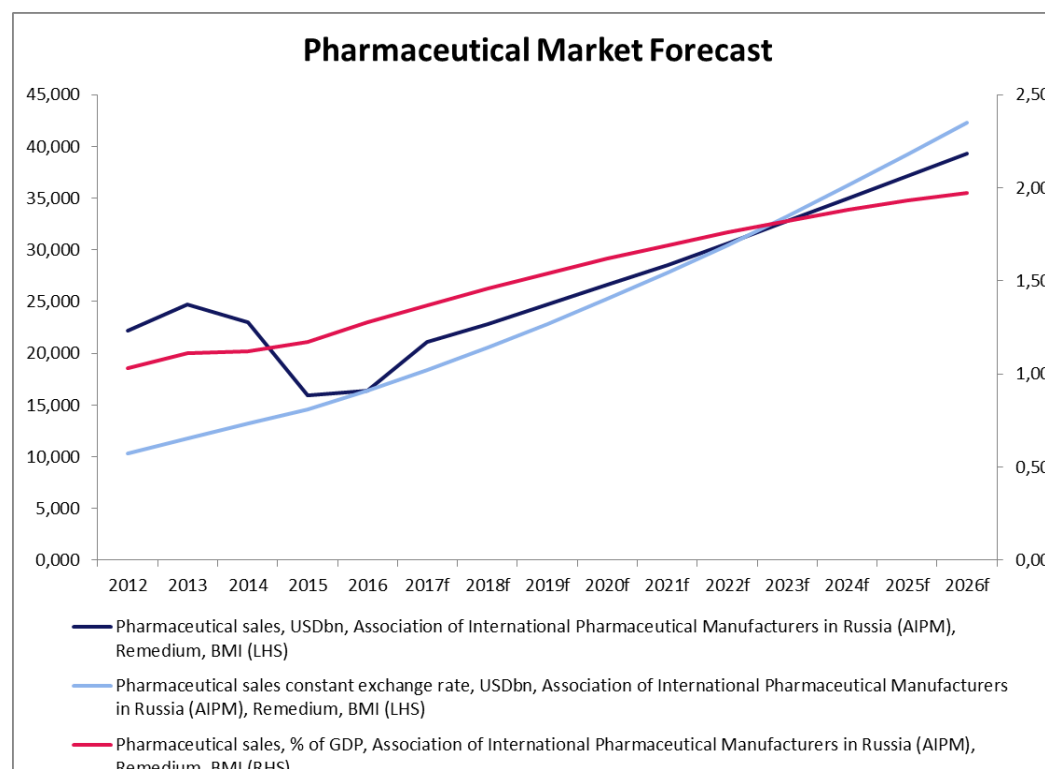
The outlook for the Russian pharmaceutical market continues to improve due to economic growth and increasing access to medicines.

Russia has returned to a leading growth market for many drugmakers, alongside Brazil and China, and growth is expected to accelerate over the coming years.

The continued development of the domestic manufacturing industry will remain a risk for multinational drugmakers, while the regulatory environment will pose challenges to innovative medicine firms.

	2015	2016	2017f	2018f	2019f	2020f	2021f
Pharmaceutical sales, USDbn	15.923	16.424	21.104	22.817	24.725	26.601	28.502
Pharmaceutical sales, % of GDP	1.17	1.28	1.37	1.46	1.54	1.62	1.69
Pharmaceutical sales, % of health expenditure	18.6	19.9	21.1	22.3	23.4	24.4	25.5
Health spending, USDbn	85.827	82.607	100.013	102.534	105.845	108.919	111.938

Table 13: Pharmaceutical Sales and Health Spending Source: World Health Organization (WHO), Association of International Pharmaceutical Manufacturers in Russia (AIPM), AESGP, BMI



Graph 2: Pharmaceutical Market Forecast. Source: BMI

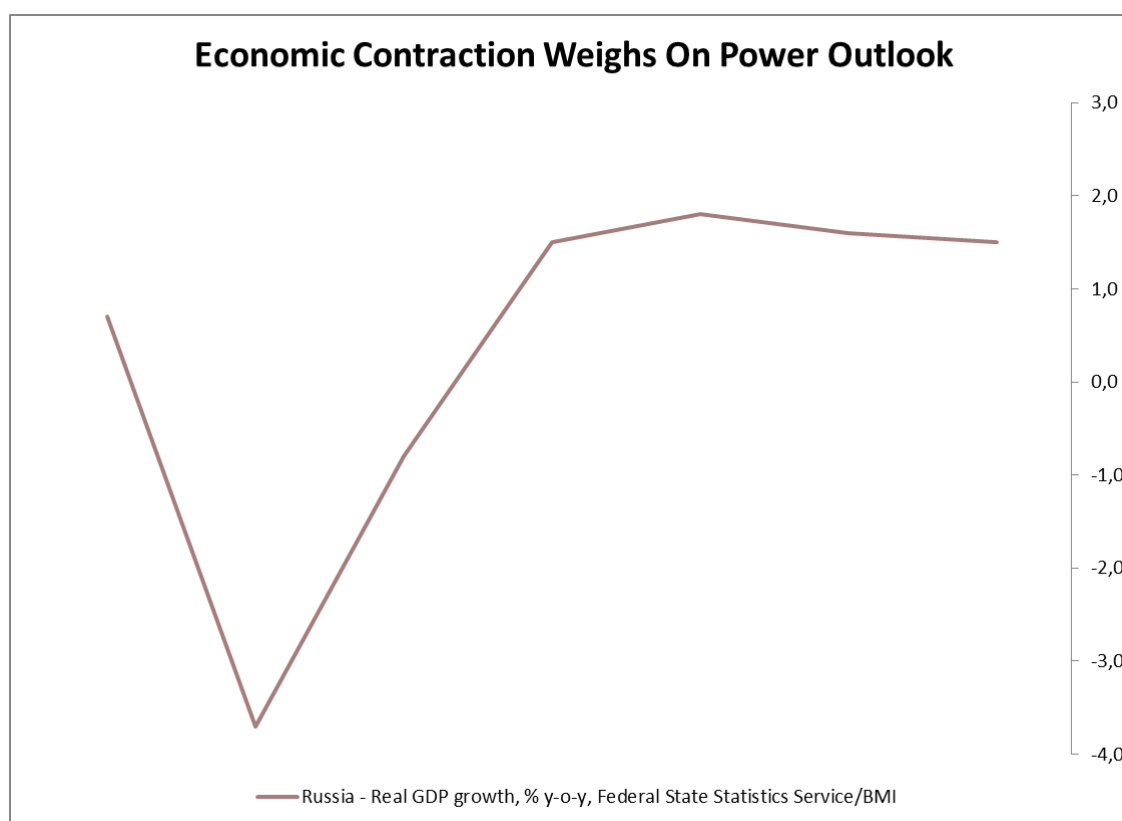
6.3 Energy

The Russian power sector is expected to continue to face severe challenges in 2017, amid a persisting global oil glut, weak economic performance and rising political tensions that continue to dampen the outlook for the Russia power sector in 2017.

Following four consecutive years of falling consumption levels, issues of over-capacity and a weak ruble offer a dim prospect of growth in the power market, leading to a muted outlook for the sector in our ten-year forecast.

	2016e	2017f	2018f	2019f	2020f	2021f	2022f
Generation, Total, TWh	999.261	1,010.615	1,020.650	1,028.637	1,040.489	1,046.151	1,057.261
Consumption, Net Consumption, TWh	864.2	875.5	885.1	895.7	903.8	916.4	927.7
Capacity, Net, MW	254,482.6	255,526.6	257,921.7	259,465.0	261,900.2	263,279.3	264,620.4

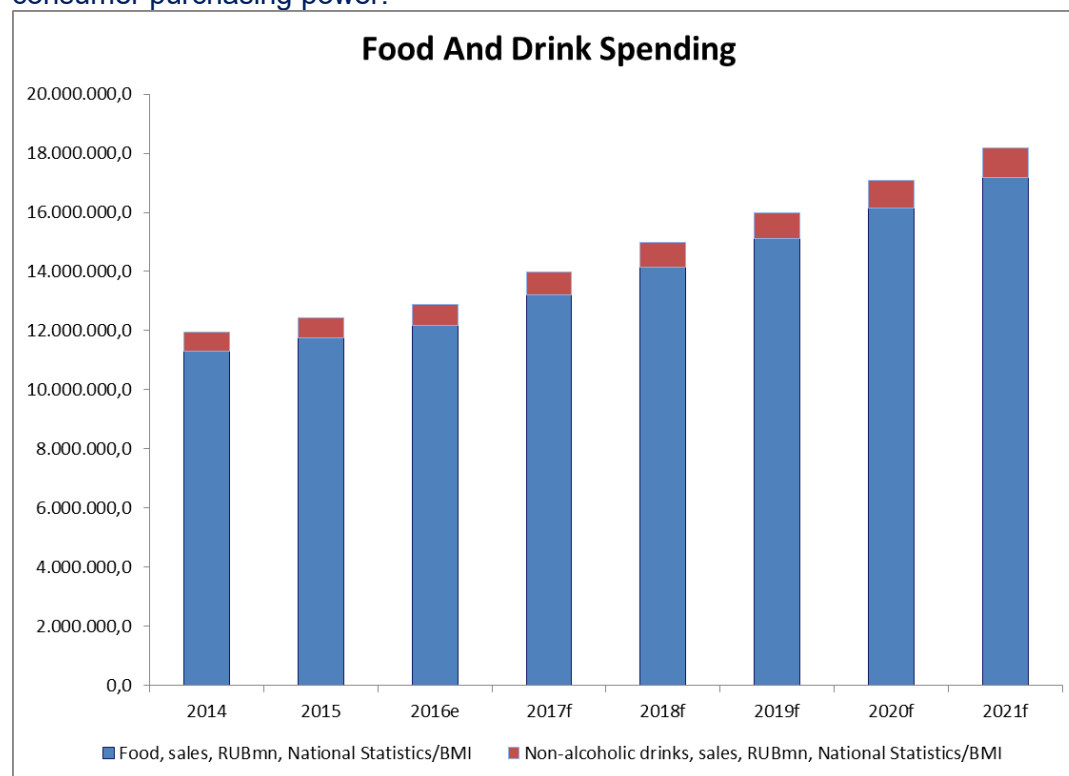
Table 14: Energy Consumption and Capacity. Source: BMI



Graph 3: Power Outlook. Source: BMI

6.4 Food and Drink

Russia's Food & Drink sector will experience some much-needed growth in 2017, following a very difficult 2016. Inflation will fall as oil prices rise and the rouble strengthens, supporting consumer purchasing power.



Graph 4: Food and Drink Spending. Source: National Statistics, BMI

6.5 Oil and Gas

Russia is reducing production to adhere to its pledged production cut, though on an annual average basis oil and condensate output will be higher in 2017. Both oil and gas production will rise over the coming years as Russia hooks up to Chinese demand.

	2015e	2016e	2017f	2018f	2019f	2020f	2021f
Crude, NGPL & other liquids prod, 000b/d	11,462.0	11,728.0	11,785.9	11,843.3	11,886.9	11,730.6	11,612.4
Refined products production, 000b/d	5,705.1	5,912.1	5,918.0	5,929.9	5,941.7	5,953.6	5,965.5
Refined products consumption & ethanol, 000b/d	3,310.2	3,281.5	3,295.0	3,321.3	3,337.9	3,348.0	3,337.9
Dry natural gas production, bcm	635.6	636.9	656.3	658.3	660.9	666.8	685.5
Dry natural gas consumption, bcm	446.7	413.1	416.8	419.7	421.4	423.5	425.6
Brent, USD/bbl	53.60	45.13	57.00	60.00	64.00	67.00	70.00

Table 15: Oil and Gas Value and Production. Source: Department of Energy, JODI, EIA, BMI

7. Business Culture and Communication

7.1 Dress Code

- Business dress is formal and conservative.
- Men should wear business suits.
- Women should wear subdued coloured business suits with skirts that cover the knees.
- Shoes should be highly polished.

7.2 Punctuality

- Time keeping, punctuality and work ethic are key areas of change in Russia. Previously there was a more relaxed attitude to all, especially for men, and may still be experienced. However, the Russian work ethic and attention to time is closing fast on that seen in Western countries, especially among the younger employees.
- For the visitor, it is always best to be on time and attentive to work commitments. It will be respected.
- Appointments are necessary and should be made as far in advance as possible.
- It often takes roughly 6 weeks to arrange a meeting with a government official.
- Confirm the meeting when you arrive in the country and again a day or two in advance.
- The first week of May has several public holidays so it is best avoided.
- You should arrive punctually for meetings.
- Typical Russian schedules are constantly changing and everything takes longer than expected, so be prepared to be kept waiting.

7.3 Business Meetings

- Use e-mail or fax rather than the post which is not reliable. If you are preparing a business trip to Russia, it is usual to inform the company you are targeting well ahead of time.
- Russians like direct contact and use the telephone a lot. Secretaries filter calls.
- Russians feel more comfortable when an introduction is made by a third party.
- It is common to begin by talking about personal matters (the family, for example) to get to know each other better before starting to talk business
- Introductions are made in order of importance.
- Full names are used as well as positions. You can also make do with giving your surname.
- Do not forget the titles of people you meet as these are considered quite important.
- Have one side of your business card translated into Russian using Cyrillic text.
- Include advanced university degrees on your business card.
- Hand your business card so the Russian side is readable to the recipient.
- If someone does not have a business card, note their pertinent information
- You must be patient. Negotiations are often long and Russians do not like to be rushed. Saying that you are in a hurry may have the opposite effect to the one you expected.
- Russians consider compromise to be a sign of weakness. They may show anger in an attempt to put pressure on you. Be firm.
- No contract is binding until it is signed. If a lot of the discussions may take place informally in a restaurant, the finalization will always take place at the office in an austere setting.
- The first meeting is often a vehicle to determine if you and the company you represent are credible and worthy of consideration for future business dealings.

- Use the time effectively to demonstrate what differentiates your company from the competition.
- Expect a long period of socializing and getting-to-know-you conversation before business is discussed.
- Have all printed material available in both English and Russian.
- Russians expect long and detailed presentations that include a history of the subject and a review of existing precedents.
- Meetings are frequently interrupted. It is common for several side conversations that have nothing to do with the topic of the meeting to be carried on during the meeting.
- At the end of the meeting, expect to sign a 'protokol', which is a summary of what was discussed.

7.4 Verbal and non-verbal Communication

- It is important to shake hands firmly (especially with men) and to look your partner in the eye.
- It is still a good idea to develop a network of people who you know and trust. The Russian word "svyazi" means connections and refers to having friends in high places, which is often required to cut through red tape.
- It is best to err on the side of formality when you first make contact.
- Sincerity is crucial as it is required to build trust, and trust is needed to build a relationship.
- Most Russians do not trust people who are 'all business'.
- An indication that you have successfully developed a personal relationship is being asked for a favor by that person.
- Touching (apart from handshake) is limited and usually happens only in closer relationships. In such close relationships, the greetings & partings are hugs and kissing on cheeks (three kisses). This is somewhat limited between men but normal between opposite sexes and sometimes between women.
- Public displays of affection, anger or other emotions are both acceptable and common. Affection, especially so in social occasions where there is alcohol, can be expected once the newcomer is accepted. Affection can take the form of hugging, or be verbal with extreme complimentary, sometimes bordering on maudlin, toasts and speeches, about the chosen person(s).
- Similarly in negotiations, things can get somewhat heated & noisy. While Russians can sometimes appear gruff & unsmiling, the foreign visitor should stay calm & smiling but reinforce points in strong voice, when appropriate. Russians respect strength.

7.5 Miscellaneous

- Avoid shaking hands across a doorway threshold as it is considered very bad luck. When visiting someone's house or office you must either go all the way in, or wait until s/he has come all the way out, before greeting each other.
- A distinctive feature of Russian names is that the middle name traditionally is "patronymic" i.e. a name derived from the given name (first name) of a person's father.
- For example, in the name Ivan Ivanovich Nikitin, the first name (given name) is Ivan; the surname (last name) is Nikitin; and the middle name, Ivanovich, the "otchestvo" (father's first name) and in this case means son of Ivan.
- Usually, a polite form of addressing a Russian male is by using the first & patronymic name, as in the example; Ivan Ivanovich; if it is a female, then it becomes Anna Ivanova.
- Giving gifts is a custom in Russia. They show the stature of the person giving, and underline the importance of the meeting.

- Choose personalized gifts: those representing the region or the country you come from or bearing the logo of your company
- For most Russians the personal relationship comes first & then the business relationship. Establishing these relationships can be expedited by social interactions. If invited, this would be an ideal opportunity to build a relationship.
- Russians are not as used to the openness & instant rapport practised by many other cultures. They prefer to slowly get to know someone & many of their personal & business relationships are built up over a lifetime of association. Hence the visitor should move slowly and be guided somewhat by the Russian party.
- Russians, when they are hosting, are usually anxious to be hospitable and offer tea, coffee &, in some instances vodka, regardless of the time of day. Business is not the first topic they wish to discuss & do require some personal time to assess the newcomer.
- The giving of gifts to Russians can be considered as "marks of respect". The gifts can range from high-end gifts such as those used for trade promotion (as opposed to tacky souvenirs), to alcohol (Canadian Whiskey or wines are novelties) or chocolates (mainly for women).
- Flowers are very popular gifts for men & women. The count of flowers is important—an even number is unlucky (for funerals); odd numbers of flowers should be given for all other occasions.

8. Useful Contacts

8.1 Embassy of the Hellenic Republic in Moscow

Address : Spyridonovka UI N 14, 123001 Moscow

Tel. : (007495) 5392940, 5392941

Fax : (007495) 5392950

Emergency Tel: (007916) 2574907

E-mail : gremb.mow@mfa.gr

Web Site: www.mfa.gr/russia

Head of Mission: Fryganas Andreas

Consulate General in Moscow

Address : Spiridonovka 14, Moscow 123001

Tel. : (007495) 5393840

Fax : (007495) 5393850

Emergency Tel: (007916) 2574907

E-mail : grgencon.mow@mfa.gr

Web site: www.mfa.gr/moscow

Consul General : Eleni Vakali

Commercial Section in Moscow

Address : Spiridonovka ul. No 14, 123001 Moscow

Tel. : (007495) 5393860

Fax : (007495) 5393864

E-mail : ecocom-moscow@mfa.gr

Head: Athanasios Karapetsas

Consulate General in St. Petersburg

Address : 17, Chernyshevskogo Prospect, 191123, St. Petersburg

Tel. : (007812) 3343586

Fax : (007812) 2728747

Emergency Tel: 0079219425934

E-mail: grgencon.spb@mfa.gr

Web Site: www.mfa.gr/spetersburg

Consul General : Panagiotis Beglitis

Consulate General in Novorossisk

Address : Mira 13, 353900 Novorossisk

Tel. : (0078617) 646452, 646485

Fax : (0078617) 646435

Emergency Tel: (007) 9883445947

E-mail : grgencon.nov@mfa.gr

Web Site: www.mfa.gr/novorossisk

Consul General: Gabriel Stylianou

Honorary Consulate in Kaliningrad

Address : Ul. Ogariova building 33, Kaliningrad 236010, Russian Federation

Tel./ Fax: (0074012) 916027

E-mail : scherbakov@avtotor.ru

Honorary Consul : Dr Vladimir Ivanovich Scherbakov

8.2 Embassy of the Russian Federation in Athens

Address: 28, Nikiforou Litra st.,
Paleo Psikhiko-Athens 15452
Phone: 210.672.52.35, 210.672.61.30
Fax: 210.674.97.08
Website: www.greece.mid.ru
E-mail: embraf@otenet.gr

Consular and Visa Department

Address: 5, Dzavella str., Halandri, 152 32 Athens
Phone: +30 1 674-2949
Fax: +30 1 672-9157
E-mail: consafl@athens.compulink.gr

9. Sources

International Organizations

- OECD: Global Economic Outlook, Economic Surveys
- World Economic Forum: Global Competitiveness Reports
- IMF: Country Information
- International Trade Center
- UNCTAD
- The World Bank
- World Trade Organization: Trade Policy Reviews
- European Commission: Market Access Database, Eurostat
- Fitch Group: BMI Research
- The Economist Intelligence Unit
- Global Affairs Canada: Country Insights
- Euler Hermes: Economic Research, Country Reports

Financial Institutions

- Eurobank: Export Gate
- Rabobank: RaboResearch
- Banco Santander: Santander Trade

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