

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION

RUSSIA



RUSSIA – SUCCESS THROUGH LOCALIZATION



P. 2

INTERVIEW:

**Vladimir Nikitenko**

"THE RISK IS WORTH IT" ►



P. 3

**Christian Tegethoff**

"RUSSIA HAS BECOME  
MORE COMPETITIVE" ►



P. 5

ANALYSIS:

**Thomas Brand et al.**

LOCALIZATION – APPROACH  
AND LEGAL FRAMEWORK ►

## "THE RISK IS WORTH IT"

### What advantages do companies that produce in Russia have?

Those companies benefit from the huge potential of Europe's largest single market, relatively high purchasing power, consumer behavior and the geographical proximity of the Russian market to Europe.

More than 100 million people live in the European part of Russia. Moscow and the Moscow region, with their population of 15 million, are the largest metropolitan area in Europe.

In addition, Russia has sustainably improved its position in the global competition for foreign direct investment (FDI) in recent years. In the Doing Business Ranking of the World Bank, the country was able to work its way up to rank 35.

In particular, counter-cyclical investments in the Russian market can foster the trust of Russian partners and are welcomed by politicians as a commitment to Russia. In addition, they provide access to the system of public purchases, which usually requires local production. Given the relatively high governmental share in the Russian economy, these are quite important. Often localization is the only way to bring a product to the market.

The „Pharma 2020“ strategy of the Russian government, for example, provides that 90 percent of all strategically important and vital drugs are produced locally. In the medium term, 50 percent of other medicines are to be produced locally, too.

In recent years, the cost of investment projects has fallen significantly in euros as a result of the decline in the ruble – this concerns both construction and labor costs.

Industrial parks and special economic zones often emphasize that the entire required infrastructure is readily available. Russian partners and suppliers are basically ready for negotiations. The large number of German and other European SMEs, which are currently actively looking for production sites, evidences that the risk pays off.

### What possibilities of localization exist, apart from building your own production facility?

In addition to own production, joint ventures with Russian partners are also a popular solution. Contract manufacturing is also common. Another option is the rental of industrial space in Technoparks. Such opportunities exist, for example, in the regions of Moscow, Kaluga or Tatarstan.

Joint ventures, such as the joint venture between Daimler and Kamaz, DaimlerKamaz-Rus, enable cost savings in the initial stage. A Russian company can thus provide its production areas and customer access, the foreign investor new production technologies – a win-win situation.



**Vladimir Nikitenko**

Managing Director  
DEInternational, German-Russian  
Chamber of Commerce (AHK),  
Moscow

However, this variant also carries high risks. And I am not talking about industrial espionage - this issue is overemphasized, and Russia is far less dangerous than China. The main reasons for a failure of German-Russian joint ventures are due to the mentality.

Russian partners are usually interested in short-term profit maximization through minimal investment, with German partners being more oriented towards long-term planning. In the long term this can lead to problems. It is therefore advisable to secure yourself legally. A joint venture should be better not registered in Russia.

Contract manufacturing is mainly found in the pharmaceutical and light industry. The German concern Merck, for example, works together with the Russian company Nanolek, where it manufactures medicines. There is also contract assembly in the automotive industry.

### **How do you assess the availability of land and infrastructure for plant sites in Russia?**

The industrial sites in Russia already offer a reasonable infrastructure in terms of quality. The regions have been competing for foreign investors in recent years. There were significant improvements in land plots, in terms of infrastructure and also investment subsidies.

In the future, we expect the regions to shift more towards building specialized industry clusters and leveraging so-called „soft factors“ such as home comfort, trust in the regional administration etc.

---

## “RUSSIA HAS BECOME MORE COMPETITIVE”

### **Where do potential investors find information about production sites in Russia?**

Information can be found today in several of sources. Unlike before, facts and figures are easily accessible today, also online and in English.

For example, the Association of Clusters and Technology Parks publishes a navigator (<http://akitrf.ru/en/news/russian-special-economic-zones-business-navigator-published-in-english/>), portraying relevant Russian regions and also including an investment attractiveness index.

The Russian Agency for Strategic Initiatives (ASI) assesses 85 regions on the basis of 45 indicators, including access to gas, water and electricity, the efficiency of bureaucratic processes, fiscal and financial aspects and the support of investors by administrations. In addition to prominent regions like the Republic of Tatarstan and Moscow or Kaluga, some less-known locations occupy top ranks here, such as



**Christian Tegethoff**  
Managing Director  
CT Executive Search

Tyumen or the Chuvash Republic. ASI also maintains an online map of regions with information on locations (<https://investinregions.ru/en/>).

The Association of Industrial Parks publishes an investment guide, which is accessible digitally (<http://www.indparks.ru/en/industrial-parks/overview-of-industrial-parks-of-russia-2014/>).

### **Which factors are decisive for the choice of location?**

Of course, every company has different needs, which result from the respective customer and supplier relationships as well as the planned vertical range of manufacture.

Nevertheless, there are a few factors that are important to all companies. These include easy access to gas, water and electricity as well as to national transport routes. In Russia, too, support from state authorities is crucial for project success. Companies should therefore schedule visits to local and regional decision-makers and assure their support.

### **Is Russia a favorable location from an HR perspective?**

The availability of qualified and motivated staff should be considered as a factor when evaluating potential production sites. In terms of skilled workers, Russia is not an easy location.

HR professionals do not only complain about a numerical deficit of skilled workers, but also about the impractical Russian training system. Consequently, companies usually have to train their new employees themselves. When planning new production sites, companies must budget enough time for these efforts.

However, Russia benefits from the considerable number of foreign companies that have settled in the country over the past 20 years and invested heavily in human resources. Especially where other international companies have already settled, newcomers can resort to a pool of qualified candidates.

Mobility is low in Russia. If no suitable candidates are found on site, companies may find it difficult to motivate candidates from elsewhere to move.

In general, Russia has become much more competitive in salaries in recent years. The devaluation of the ruble since 2014 has reduced labor cost significantly.

---

## LOCALIZATION – APPROACH AND LEGAL FRAMEWORK

### What conditions should be met to obtain the label „Made in Russia“?

In times of sanctions, the localization of production in Russia is a trend and a part of the policy of the import substitution. In 2015 Russian Ministry of Industry passed numerous regulations in order to support the domestic industry which mainly targeted at relocating production in 19 industries to Russia by 2020. Producers of local goods have many preferences, including easier access to public tenders.

In order to be qualified as „Made in Russia“, the goods have to meet certain criteria. These criteria are stated either:

- in the special investment contracts (see p. 4 for more detail), or
- in the Regulation of the Russian Government No. 719 dated 17.07.2015, or
- in the Agreement „On the Rules for the Determination of the Country of Origin of Goods in the CIS states“ dated 20.11.2009.

The most important is Regulation No. 719 „On the Confirmation of Industrial Production on the Territory of the Russian Federation“ (the „Regulation No. 719“). The Regulation No. 719 lays down numerous goods-specific criteria for the most important industrial sectors (factory engineering, radio-electronics, medical products, lighting engineering, automobile and furniture industry, wood processing, etc.).

Regulation No. 719 sets forth specific requirements for the obtaining label „Made in Russia“ for certain categories of products, including but not limited to:

- registration within the Eurasian Economic Union,
- disposal of the rights to the technological (design) documentation,
- availability via service centers within the Eurasian Economic Union,
- execution of certain technological processes within the deadlines established by law,
- compliance with the rules on the legally permissible foreign components in the production etc.

Starting from 01.01.2018 the foreign components in machine tools must not exceed 50% in order to be “made in Russia”. It is also planned to reduce the share down to 20% for certain products. Localization in the automotive industry should be increased up to 70-85% according to the strategy for development of the automotive industry till 2025 (Regulation of the Russian Government dated 28.04.18 No. 831-p).

Regarding the goods not listed in the Regulation No. 719, the Agreement „On the Rules for the Determination of the Country of Origin of Goods in the CIS-States“ dated 20.11.2009 (the „Agreement from 20.11. 2009“). According to this agreement, the country of origin means the country where the goods were produced or processed.



**Thomas Brand**

Partner, Brand & Partner



**Valeria Khmelevskaya**

Lawyer and tax consultant (RF),  
Brand & Partner



**Maria Braun**

Lawyer, Brand & Partner



**Roman Manko**

Lawyer, tax consultant,  
Brand & Partner

**What are the benefits of obtaining of this label?**

Firstly, obtaining the „Made in Russia“ label allows access to public tenders, which might be often unrealistic for foreign manufacturers. Recently, several restrictions have been imposed on foreign government procurement products. Particularly affected are the areas of software, radio electronics, pharmacy etc.

Secondly, local products of the state-owned companies that buy goods as a result of public tenders are more preferred. The Regulation of the Russian Government No. 925 dated 16.09.2016 provides for a deduction of 15% for the supply of „Made in Russia“ products if they are purchased as a result of price competition. The purpose of this provision is only to determine the winner, so that a local product always has a price advantage over foreign products under the same circumstances. For instance, if one „Made in Russia“ product and one from the EU participate in the price competition and have the same bid price of EUR 1,000, under otherwise identical conditions the local product shall win, since the bid price of EUR 850 applies for the local product for the purpose of determining the winner. However, the contract shall be concluded at the full price (EUR 1000).

**What is the procedure for applying for the label „Made in Russia“ and how long does it take to submit the application?**

The label „Made in Russia“ is issued by the Russian Ministry of Industry and Trade (Russian Minpromtorg). The application is made in 2 steps:

At first, it is necessary to get the opinion of the Russian Chamber of Commerce and Industry on compliance with the requirements of Regulation No 719 („Opinion“) or, if the goods are not listed in Regulation No 719, the certificate of origin of the goods under Form ST-1 according to the provisions of the Agreement from 20.11.2009 („Certificate ST-1“).

After receiving of one of these documents, it is necessary to submit the application directly to the Ministry of Industry and Commerce.

**I. Application for the expert opinion / certificate at the Russian Chamber of Commerce**

All requirements for the application for the opinion or the certificate ST-1 as well as the detailed description of the application procedure are confirmed in the Rules of the Russian Chamber of Commerce and Industry No. 52 dated 30.05.2018 that replaced Regulation No. 33 of 28.04.2016 applicable earlier.

The application has to include following information: name of applicant, tax and registration number, product information (including classification number according to the General Classifier OK 034-2014) etc. The application must be enclosed by a large number of accompanying documents containing details of the production site, its capacities and personnel. Among other things, numerous documents relating to the technological process (technical conditions, licenses, information on service centers, etc.) listed in Regulation No 719 should be provided.

Within 3 working days after the receiving of application, it will be registered in the Chamber of Commerce and Industry, the information about the registration will also be published on the official website of the Chamber of Commerce and Industry (<http://tpprf.ru/ru/>).

If the documents submitted by the applicant are not complete, then there will be a request to the applicant made within 10 working days of the registration of the application. The feedback period is 5 working days and can be extended for no more than 10 working days.

If the submitted documents are complete, the applicant will receive a notification of the external inspection of the production site within 5 working days. Notification has to be addressed to the applicant at least 3 days before the examination. If the data provided in the application is not confirmed during the production site inspection, the application shall be rejected within 5 working days.

In case the all information will be confirmed by the external audit, the applicant will be provided with an opinion or certificate ST-1 within 10 working days of the completion of the review and drafting of the review protocol. In exceptional cases, the deadline can be extended up to a maximum of 10 working days.

The opinion or certificate ST-1 shall be valid for one year provided that the products comply with the requirements laid down by Regulation No 719 or the Agreement from 20.11.2009 during this period.

## II. Application for the report to the Russian Ministry of Industry and Trade

Upon receipt of the opinion or certificate ST-1, the application for recognition of the products as „Made in Russia” must be submitted to the Ministry of Industry and Trade (Minpromtorg).

The requirements for request of the opinion of Minpromtorg are laid down in Regulation No 719. The application should contain the following information:

- Name of the applicant
- Tax number (INN), Registration number (OGRN)
- Address
- Name of the product (including classification number according to General Classifier OK 034-2014)
- Copies of the confirmation documents (special investment contract or opinion of the Chamber of Commerce and Industry or certificate ST-1)
  - Certificate of industrial, technological etc. characteristics of the products

The deadline for processing of the application is 5 working days from the date of application receipt. 5 more working days are required to prepare the report. The issued report is valid within 1 year. The list of issued opinions is published on the website of Minpromtorg: <https://gisp.gov.ru/pp719/p/pub/res/>.



## How does a special investment contract work?

The federal and regional legislation currently provide various support measures for foreign investors. Thus, the Law from 31.12.2014 No. 488-FZ „On Industrial Policy“ has introduced the Special Investment Agreement – in Russian the abbreviation „SPIK“ stands for it – as a government support guarantee for major investors. The SPIK creates special benefits and incentives for investors – whether Russian or foreign – to invest in Russia and localize their production. In particular, the tax holidays with regard to the corporate profit and property tax are financially “interesting” for investors.

Investors may have the opportunity to complete a SPIK at federal, regional and local levels. To conclude federal SPIK contract are eligible only those investors who invest more than RUB 750 million in a project in Russia. The contract period extends to the time of the first project revenue (EBIT), plus five years. There is a limit of ten years in total.

Besides the conclusion of SPIK at the federal level, there is also a possibility to conclude a regional SPIK („rSPIK“). The main difference between the SPIK and the rSPIK is that the minimum investment amount at the federal level is at least RUB 750 million, approximately EUR 10 million, but significantly lower for rSPIK (for example in Tambov at least RUB 100 million, approx. EUR 1.3 million or Ekaterinburg RUB 10 million, approx. EUR 135,000), making it particularly interesting for medium-sized companies.

The conclusion of these investment contracts may in some cases guarantee investors the following support measures:

- Reduction of corporate profit tax, property tax, individual income tax etc.
- Exemption from lease payments;
- Stock guarantee of tax rates;
- Accelerated depreciation;
- Subsidies from the fisc;
- Support of scientific-technical and innovation activity;
- Consulting and information support;
- Development of the personnel potential;
- preferred procurement of production for state and local needs from the foreign investor in comparison with the production made in other states;
- Promotion of export of manufactured production, among others.

The procedure of conclusion of the federal SPIK begins with a request of the investor to the Russian Ministry of Industry and Trade. The application should list the benefits which the investor desires from the state; at the same time, the investor should list his obligations and detailed information on the proposed investment project, such as the amount of investments, planned sales volume, number of jobs to be created, technologies being used, expected taxes, imported materials, etc. in the form of a business plan.

The Ministry of Industry reviews the application and has to prepare a preliminary opinion within 30 working days. This opinion will be sent to the so-called „Inter-governmental Commission“. This commission is made up of representatives of the



Ministry of Industry, the Ministry of Economic Development, the Ministry of Finance, the Ministry of Energy and representatives of the association, among others.

Within 60 working days the Commission will examine the conditions for the completion of an SPIK. If the decision is positive, the investor will be notified and will receive the draft of SPIK for approval. Then the investor has 10 working days to sign the draft or propose changes – or to refuse to sign it. Any proposed changes must be negotiated and decided within 10 working days.

You can find information about benefits for investors through internet pages specifically about investment promotion measures in the various regions, as well as a regional ranking.

Under this link <https://www.investinregions.ru/de/> you can find investment legislation, support measures and the economic situation by region in German. On this website <https://asi.ru/investclimate/rating/> there is the regional investment attractiveness announcement published on May 28, 2018 by the State Agency of Strategic Initiatives. The Tyumen region is in first place, followed by Moscow. The Republic of Tatarstan is in third place.

If the region does not look particularly attractive according to the ranking, it might not be bad either, because in some regions, especially where the investment legislation has not yet been passed, the investor has the opportunity to negotiate with local authorities, sometimes even together with those participate in drafting the normative acts devoted to investment support measures.

---



## EXECUTIVE SEARCH

### EXECUTIVE SEARCH EXPERTS IN THE EMERGING MARKETS

CT Executive Search focuses on placing key positions in the emerging markets – in Russia/ CIS, Africa, the Middle East and Asia.

We are experts in cross-border search processes and identifying top-notch candidates for international companies. Leveraging a broad network of analysts and consultants across the emerging markets, CT Executive Search has established itself as a reliable partner for well-reputed companies.

#### MOSCOW

CT Executive Search LLC  
Central Office  
Shlyuzovaya nab. 8,1  
115114 Moscow, Russia  
Telephone: +7 499 678 2111  
E-Mail: [office@ct-executive.com](mailto:office@ct-executive.com)

- ★ CT Executive Search Central Office
- CT Executive Search Liaison Locations
- International Research Capacities

