

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION



RUSSIA – GETTING READY FOR GROWTH



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“COMPANIES ARE BUYING FOR ALL THEY ARE WORTH FOR”

Trade bodies and company representatives are saying that the trend in European-Russian foreign trade and the Russian economy has turned. To what extent do you share this assessment?

In recent months, there clearly has been a positive trend in foreign trade. Trade between the EU and Russia has risen sharply by about 25 percent in the first half of 2017. This is due to the development of the ruble rate. The ruble has stabilized and increased again in value. On the Russian side, the realization of postponed investments thus became possible.

In contrast to 2015 and 2016, we have seen positive economic growth this year. This is a good indicator for European companies. In certain areas, such as automotive and capital goods, the market is again growing in the double-digit range, which is of course also a very good sign. Companies are buying for all they are worth. Bilateral trade is not so much affected by sanctions; it is more influenced by economic than political factors.

Are the Russian import substitution policies and the orientation towards China further pursued with high priority?

The policy of import substitution continues to be pursued, albeit not with the same degree of public communication as before. It focuses in particular on agriculture and food production, where imports from the EU have been excluded.

This is, of course, problematic for European exporters. However, in the meantime they have been able to find other sales markets, so that the loss of the Russian business was compensated for. Overall, agricultural import substitution plays a small role in the overall economy with around 5 per cent of the Russian gross domestic product.

In the industrial sector, foreign firms still face restrictions in public tenders, which also apply to Chinese companies. The growing market share of Chinese companies is also due to the fact that they were previously underrepresented in Russia.

Overall, the Russian turn to China turned out to be difficult. It seems clear now that the Chinese rather have their export in view, than investing in Russia.

Where do you see potential for European companies in Russia, what makes Russia interesting as a production location?

There is potential in the consumer goods sector in the widest sense. This can be, for example, building materials that can be used in private residential construction.



Dr. Frank Schauff

is the CEO of the Association of European Businesses (AEB). He is a member of the Advisory Board at CT Executive Search.

Production localization in the capital goods sector has proved to be difficult; the ideas of the Russian government in this area have not yet been realized. The reasons are the insufficient market size and the qualifications available in the country. Larger-scale investments in the machine-building sector can hardly be expected.

The ruble valuation makes real estate and construction works more affordable. Against this backdrop, goods are now being exported from Russia, while in the past exports have rarely played a role in business strategies. Nowadays, I am aware of several companies that are shipping from Russia to Europe and Asia.

What can Europe do, what can Russia do to revitalize economic relations?

The main problem is the sanctions which particularly obstruct investment. The underlying problem is political, the Ukraine crisis has to be resolved. All sides must work on this. As long as the problem of Ukraine is not solved, the lifting of sanctions is difficult to imagine.

Despite the sanctions, the majority of European companies are still active in the Russian market anyway. The sanctions are designed in a way that their work is not significantly hindered.

“POOR ROAD INFRASTRUCTURE IS AN IMPORTANT FACTOR”

What products do you offer in Russia and how is your company organized?

Our key business activities are built on the company's capabilities in seafreight, airfreight, overland as well as Contract Logistics and Integrated Logistics. In addition, we provide customs brokerage, insurance brokerage and we handle industrial projects.

We provide logistics services to virtually all key industry sectors, including aerospace, automotive, consumer and fashion, high-tech, industrials, oil & gas logistics, pharma and healthcare as well as sport events.

More than 700 specialists are operating our business out of 28 locations and 21 cities. We are serving 150.000 sqm warehouse space in Moscow and St. Petersburg.

How have the rouble devaluation and the decreasing European exports 2014/2015 affected your business in Russia? How do you assess the further market development?

The mentioned economic developments have different aspects. Surely, we have seen a certain market adjustment. Several companies have either left the market or were looking for an investor. However, even in this difficult environment, Kuehne + Nagel Russia has further invested and generated new jobs.

INTERVIEW



Perry Neumann

Managing Director Russia & Belarus at Kuehne + Nagel LLC, Moscow

This year, the business confidence has improved compared to the previous 2-3 years, although sanctions have still not been lifted, but were even severed.

How is the logistics business in Russia different from other markets?

All international markets have their own specifics. Issues with documentation in the regulatory and legal basis of the forwarding industry are one area. For Russia, logistics are still a quite new business area.

The current standards provide only general definitions and understandings, which is not enough to work in the logistics and forwarding areas in Russia. There is still no clear picture and understanding whether the forwarding business should be treated as a type of agency ("agency relations") or as an absolutely independent liability type. Contract liability caps are depending on this, as well as the documents required and tax obligations of contract partners.

Today there still exists a wide variety of logistics providers in Russia, including small and medium sized local companies. Most of the local providers are focusing only on particular fields instead of offering a wide portfolio of services. At the same time, international manufacturing companies require full supply chain services and look for logistics partners able to offer solutions, seamlessly integrating different transportation modes.

Another important factor for the Russian logistics industry is the poor road infrastructure.

A significant proportion of the existing roads lacks maintenance and requires modernization. Taking into account the size of the country, it is obvious that a huge budget is required to build highways and to catch up with European standards in this respect.

Russian shipping procedures and customs regulations are complex and can change suddenly with short notice. One of the major differences between the European and Russian systems is that the Russian customs authorities are a governmental authority, while bonded warehouses are in ownership of the private sector. In Europe, everything is under the governmental shelter.

What future trends do you see in the Russian logistics sector?

The most important influence on the logistics industry in Russia comes from the ever growing importance of the information technology.

„WE EXPECT SUSTAINED DEMAND FOR SALES-RELATED SPECIALISTS“

In which areas do companies recruit managers at the moment?

The requirements arise mainly from localization projects and investments in sales structures.

In addition to the localization projects reported by the media and business associations, there are a few more projects that are pursued below the public radar. "Localization" does not always mean greenfield investment in production plants; it can also refer to partnering with Russian manufacturing companies or simple assembly activities. However, these projects generate demand for production experts and executives to oversee and manage them.

In the years 2014, 2015 and also last year, reducing cost was the main focus for most foreign companies. Only few companies have invested in sales and service, not to speak of increasing their production capacities. The current economic upturn has led to growing confidence again.

Accordingly, we are being approached by companies wanting to relaunch their Russian business by bringing in fresh people.

What development do you expect for 2018?

From today's point of view, no short-term change in the general conditions for doing business in Russia is to be expected. A short-term lifting of the sanctions seems hardly realistic, at least not without a political settlement of the problems surrounding Ukraine.

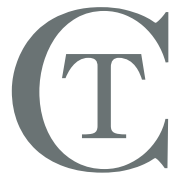
It is no secret that the ruble exchange rate correlates strongly with the oil price, the further development of which is difficult to predict. The consequences of a rising or falling ruble rate are complex and varied in every industry. A stronger ruble strengthens the purchasing power of the population and companies for imported goods.

However, the weak ruble has also fueled the competitiveness of Russian products and stimulated exports. A stronger ruble would put these recent successes at risk. We expect a sustained demand for sales-related specialists throughout 2018. In view of the currently very low (by Russian standards) level of inflation we expect moderate nominal wage increases this and next year. The stable exchange rate between ruble and euro corroborates this prediction. In former years, the dramatically decreasing ruble evaluation has been one of the main arguments for Russian executives when negotiating ruble-denominated salary increases.



Christian Tegethoff

Managing Director
CT Executive Search



EXECUTIVE SEARCH

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