

Russian Federation Facts and figures



Political capital: Moscow
Top business cities: Moscow, Saint Petersburg, Novosibirsk, Yekaterinburg, Nizhny Novgorod, Krasnodar, Khabarovsk, Sochi, Kazan
Business language: Russian
Business currency: Russian Rouble (RUB)
Working days: Monday through Friday, 8:00-18:00
Time-lag with Luxembourg: between +1:00 hour and +12:00 hours (Moscow: +2:00 hours)
Surface: 17,098,242 square km (6,612 times the surface of Luxembourg)
Population: 142.26 million people (July 2017 est.)
GDP per capita: \$23,225 (2016 OECD est.), 53rd in the world ranking (Luxembourg is 2nd)
Growth rate: -0.2% (2016 est.)
Inflation rate: 3.6% (2016 est.)
Unemployment rate: 5.5% (2016 est.)
Ease of doing business: 35 among 190 countries ranked by World Bank (Luxembourg is 59)
Literacy rate: 99.7%
Internet users: 76.4% of the population (2016 est.)
Mobile phone usage: 231.4 million subscriptions
Logistic performance index: 2.57/5 (99th out of 160 countries ranked by World Bank; Luxembourg is 2nd)
Corruption indicator: 29 on a scale of 0 (highly corrupt) to 100 (very clean), 131st out of 176 countries ranked by Transparency International (2016). N.B.: Great disparities depending on the region
Main economic sectors: Services: 4.7% (2016 est.); Industry: 52.5% (2016 est.); Agriculture: 62.1% (2016 est.)
Country risk classification (OECD): 4 on a scale from 0 (lowest risk) to 7 (highest risk)
Country commercial risk classification (ODL): C (Luxembourg is A); the scale goes from A (no risk) to C (very risky)

Sources: CIA, World Bank, Transparency International, OECD, European Commission, ODL

RUSSIAN FEDERATION

A COUNTRY OF SUPERLATIVES

Russia extends throughout most of the Eurasian continent, 11 time zones and a range of environments with its arid plains, wide forests and Arctic tundra. Its economic diversity mirrors its rich geographic variety. This Market Watch will attempt to produce a comprehensive overview of the themes that could be of use to our affiliated companies.

Text: International Affairs, Chamber of Commerce – Photo: Angelio.net

Russia's prime geographic situation has allowed the country to tie a strong network with its neighbours in Europe, Central Asia and in the Far East. Along with Armenia, Belarus, Kazakhstan and Kyrgyzstan, Russia is one of the five members of the Eurasian Economic Union single market. Despite the EU-Russia sanctions and the somewhat acrimonious political climate, business opportunities between the world's largest country and Luxembourg are plentiful.

KEY ECONOMIC FACTORS

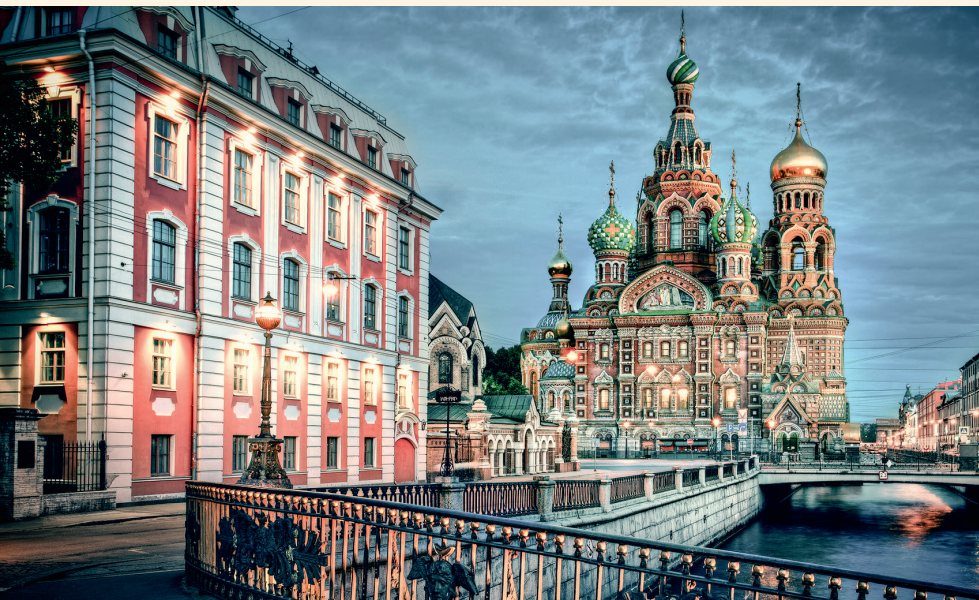
Following two years of recession caused by the low oil prices and economic sanctions, the Russian economy has engaged on a path towards improvement at the end of 2016, along with the strengthening of global growth and trade. Russia's abundant natural resources played a critical role in the economic development of the country in the past centuries yet plunged the nation in a deep crisis in 2014 when oil and gas prices dropped severely. Today, they seem to benefit the country once again (amongst other tradable sectors) due to the relative price adjustments and the still interesting exchange rate of the Russian Rouble, facilitating the export of Russian goods and the rise of foreign investment. From a sectorial standpoint, Russia is making efforts to diversify its economy in order to protect itself from the global price fluctuations of natural resources. The most active sectors today are the production of machinery, oil & gas industry, petrochemistry, metallurgy, agriculture, infrastructure and logistics, as well as finance and innovative technologies. Despite the ambitious shift towards diversification and improving economic and financial trends, Russia's growth projections will still remain susceptible to oil prices and global macroeconomic stability in the near future.

DOING BUSINESS WITH RUSSIA

The export of goods from the Grand Duchy to Russia has almost grown sixfold in the past 20 years (from roughly €21M in 1997 to €126M in

2016), mainly through the sale of machinery, electrical appliances, chemical products, rubber and base metals. The iron and steel industry has long been the economic link between Russia and Luxembourg. Today, financial flows and exchanges of services have taken precedence over purely commercial exchanges. The export of services to Russia amounted to €36M in 2002 and grew to over €246M last year alone. These numbers show that the trade relations between Russia and Luxembourg have increased rapidly in recent years. Numerous Luxembourg banks and funds now have settled into a prominent position as foreign investors in Russia (Luxembourg ranks amongst the top foreign investor in Russia) and Luxembourg private banks are appealing to Russian clients. More importantly, many major Russian entities have a presence in Luxembourg and use the country as a hub for their international activities and investments, particularly within the EU.

Russia is Europe's third biggest trade partner. Yet the EU has progressively imposed restrictive measures against Russia since 2014 by limiting access to EU primary and secondary capital markets for certain Russian banks and companies, imposing an export and import ban on trade in arms and dual-use goods for military end users in Russia and by curtailing Russian access to certain sensitive technologies and services that can be used for oil production and exploration. The exchange of all other products and/or services remains unchanged. In response to these sanctions, the Russian government imposed 'measure-for-measure' sanctions on a number of European agricultural imports. The losses for European businesses are, however, alleviated to a large extent by redirecting export of agricultural goods and dairy products to alternative markets. On the other hand, the rising trade pressure motivates the Russian government to support local businesses, oftentimes to the detriment of foreign businesses (which did not yet localise their production in Russia), when granting public tenders.



When tackling the Russian market, interested companies should consider localising some of their operations in Russia. The more 'local' a company becomes by building a network in collaboration with local partners, contributing to local tax, employing local labour and sourcing from local suppliers, the better its chances at winning public tenders and extending its market presence from within.

LOCATION, LOCATION, LOCATION

Choosing the right place to promote or start your business is equally important: each of the 85 federal subjects of the Russian Federation has its own sectorial strength as well as economic, cultural and political characteristics. Companies interested in mining should consider (amongst others) the region of the Ural Mountains, Norilsk or Novosibirsk depending on the metal type; Moscow, St. Petersburg, the Urals, Volga region and Western Siberia for the construction of machinery; the Lipetsk, Volga or Cherepovets regions for petrochemistry; the city of Moscow for finance, etc. The list of possibilities is, as mentioned in the introductory paragraph, extensive. To continuously explore its business opportunities, the Chamber of Commerce of the Grand Duchy of Luxembourg regularly organises activities focused on the Russian market. In order to identify the region most interesting to you, you can find a list of contacts (see opposite box), which are disposed to assist you in your projects of grasping the many opportunities to be found in the Russian market. ●

St. Petersburg

Useful contacts

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INTERVIEW
SALVADOR CANO
Chief representative officer
at Moscow, Paul Wurth

What are the main activities of Paul Wurth in Russia?

"Paul Wurth has been active in the Russian market for 40 years, starting as a supplier of equipment and technology to the major integrated iron & steel companies in Russia. Throughout the years, we developed towards a plant builder and system provider in the field of blast furnaces. By offering advanced and tailor-made engineering solutions, Paul Wurth can today be considered as the market leader for imported technology to Russia in the primary stage of integrated steelmaking. These activities could successfully develop thanks to a long-standing presence in the market and a trustful relationship with our customers. In terms of local set-up, sales efforts and project execution are supported by Paul Wurth's Representation Office in Moscow, the joint venture Paul Wurth Kovrov dedicated to local supply of electrics, automation, hydraulic and mechanical parts as well as Paul Wurth Metallurgical Service with a workshop in Chelyabinsk dedicated to servicing and performing local repair and refurbishment of customers' equipment. Presently, customer acquisition efforts are also done in new areas of activities, in which Paul Wurth stepped in more recently, such as coke-making, agglomeration or recycling.

In your opinion, what opportunities does the Russian market have to offer for the Luxembourgish enterprises?

"In general, Russians are highly educated, technology-oriented and consequently very open-minded towards innovative technical solutions. And this is true for any field of activities, from heavy industry to consumer goods. So, whoever promotes a product or service meeting these criteria has a real chance to succeed in the Russian market.

What advice would you give to entrepreneurs who want to do business in Russia?

"As a supplier of imported equipment, Paul Wurth didn't experience any problems with customers, once the contract is negotiated and signed. Like in many other countries, marketing and sales efforts may require patience and perseverance for convincing the customer. Just to illustrate this: recently, Paul Wurth made a market breakthrough by selling for the first time in Russia its state-of-the-art INBA® slag granulation technology, developed more than 30 years ago. Thanks to this officially recognised 'Best Available Technology', the customer will now reach emission targets at lowest possible level during its operations, as well as better quality of the slag product."