

# FIAC survey: foreign business in Russia

October 2020







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## Alexander Ivlev

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CIS Managing Partner,  
Deputy Regional Accounts  
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Eastern and Southeastern  
Europe & Central Asia, EY





Russia was always an interesting place to work, as the foreign business community well knows, but it is safe to say that the scale of changes now facing Russia and the world is truly unprecedented.

First, there were sanctions and the ensuing investment downturn. Now, we have the coronavirus pandemic, falling oil prices and declining household incomes. All this is happening amid rapid developments in technologies that have become integral to our lives. It is important for companies to understand how to build their business in this environment, achieving short-term goals while working for long-term success.

Our study contains answers to a number of questions that reflect the concerns of the business community and the government:

- ▶ Russia is a strategically important market for foreign investors. The pandemic, the volatility of commodity prices and macroeconomic instability have done little to change this perception. The proportion of companies that regard Russia as a strategic market remains consistently high and has grown compared with last year.
- ▶ International companies have coped well with the pandemic restrictions, shifting their employees to remote working and moving communications online. They will spend more on information technology but have lower office maintenance costs. Supporting people and organizations that have suffered as a result of the pandemic is a major priority for international businesses.
- ▶ There are still many regulatory barriers in Russia. Laws frequently change and may be interpreted differently depending on the situation. Some areas of legislation are less developed than others. That is why it is important to maintain a direct and open dialogue between the business community and the government, and much has already been done in that direction.

Despite the challenges, many foreign investors fully recognize the advantages of doing business in Russia. Just as importantly, international companies are willing to share the expertise they have gained in other countries to help align Russia's business environment with global best practices.

I would like to wish all foreign investors continued success with their work in Russia.

# 1 Key conclusions



## Russia remains a strategic market



92% of international companies that took part in the survey consider Russia as a strategic market. Russia's high rating among foreign investors is not influenced by short-term changes in the economy and grew by one percentage point compared with last year's survey.

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## Frequent changes in legislation are an impediment to business



While legislation has to be regularly updated to meet changing requirements, foreign companies believe that it happens too often. 50% of respondents are concerned that constant changes in regulation might have a negative impact on Russia's investment attractiveness.

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## Companies plan to save on office maintenance



The participants in the survey have recognized the advantages of remote working arrangements and plan to cut expenditure on office maintenance. Since some employees will continue to work from home after the pandemic, 42% of international companies may relinquish or sublet excess office space.

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## Support for victims of the pandemic is a priority for foreign businesses



76% of international companies have given financial assistance to Russian medical, social or charitable organizations that are helping to tackle the consequences of the coronavirus pandemic. The survey participants have already spent USD 15.5 million on such assistance.

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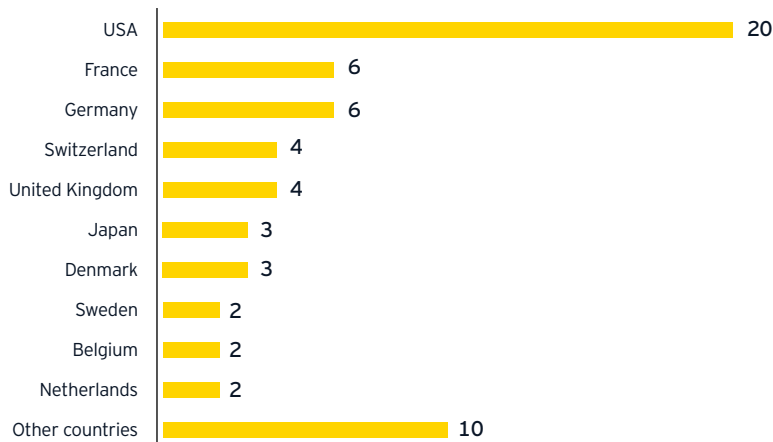
# 2 Respondent profile





## Geographical distribution of survey participants

Country of headquarters, *number of companies*



## Business sector

Main industry, *number of companies*



62

companies,

including 49 FIAC members,  
took part in the survey  
conducted  
in August-September 2020

1.1

USD billion

average revenue  
from Russian operations  
in 2019

3,100

people

the average number  
of employees

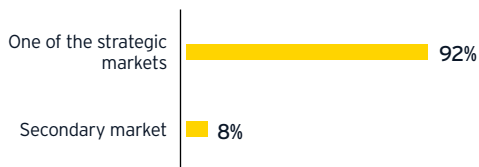
# 3 Russia's prospects



# Russia is a strategic market for international companies

The results of the survey show that 92% of companies that took part in the study view Russia as one of their strategic markets. This reflects the fact that the Russian market has a great deal of potential that is ready to be exploited. A large population, a skilled workforce, access to the world's best commodity resources and high growth potential are factors that make Russia an attractive place for foreign companies to do business.

## Importance of the Russian market for your company



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From 2020 Russia will become the production and commercial hub for the CIS, which should help to attract additional orders for the Volvo Trucks plant in Kaluga and should create additional localization opportunities. We are, more than ever, staunch supporters of closer relations with Russian manufacturers of automotive components and will help to promote their products on international markets as well as their integration into global value chains.



**Sergey Yavorsky**  
CEO, Volvo Group Russia & CIS

## Macroeconomic conditions are largely stable

Over the last five years Russia's economy has grown more slowly than those of other developing countries and the global economy as a whole. The coronavirus pandemic has turned slow positive growth into negative growth. According to the Global Economic Outlook Update published by the International Monetary Fund in June, global GDP is set to contract by 4.9% in 2020, while the Russian economy will shrink by 6.6%.

Despite the complex external conditions, the Russian government has managed to preserve macroeconomic stability. In the second quarter of 2020 the economic decline was smaller than expected<sup>1</sup> and the country managed to avoid a liquidity crisis in the banking sector and a wave of bankruptcies in the real economy. The Bank of Russia continued to pursue a course of monetary easing, reducing the key rate to a historic low of 4.25% in July 2020. This makes it easier for individuals and companies to borrow money and is reflective of the stability of the economic situation in the country<sup>2</sup>.



Given this situation, international companies take an optimistic view of the conditions for doing business in Russia. 40% of the survey participants believe that the macroeconomic environment has only slightly worsened over the last year, while 35% of companies say that it has not changed at all.

The reasons for this attitude may reside in the normalization of the business situation and the gradual revival of

demand and orders, as is corroborated by the results of the Markit PMI business activity index for Russia's service sector, which showed rapid growth in August<sup>3</sup>. In manufacturing, too, there is evidence of an improvement in the business situation, with the sector showing its first expansion since April 2019 thanks to accelerated output growth and renewed growth in new orders<sup>4</sup>.

<sup>1</sup> Rosstat, Rosstat gives preliminary GDP estimate for Q2 2020, 11 August 2020, <https://rosstat.gov.ru/folder/313/document/95385>

<sup>2</sup> CBR "On the Development of the Banking Sector of the Russian Federation in July 2020", 20 August 2020, [http://www.cbr.ru/collection/collection/file/29166/razv\\_bs\\_20\\_07.pdf](http://www.cbr.ru/collection/collection/file/29166/razv_bs_20_07.pdf)

<sup>3</sup> Press-release, IHS Markit PMI index for Russia's service sector, 3 September 2020, <https://www.markiteconomics.com/Public/Home/PressRelease/Oe80a381a1854e47b303fed42abb0364>

<sup>4</sup> Press release, IHS Markit PMI index for Russia's manufacturing industries, 1 September 2020, <https://www.markiteconomics.com/Public/Home/PressRelease/a51d5aba0be0450e92c0339296c68272>

## Foreign businesses will expand their presence on the Russian market

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Over half of the survey participants (53%) said that they planned to increase their presence in Russia in the near future. Those most likely to report such plans were Asian companies and companies in the energy and natural resources sector, which are attracted by the large resource base, the gradual recovery of commodity prices and, in the case of Asian companies, the absence of tough sanction restrictions.

The launch of new products and services is the principal way of developing business in Russia for 56% of survey participants. A further 42% of international companies reported plans to expand manufacturing. And only 5% of companies said that they planned to open new regional offices.



# 4 Regional development



## Regional expansion put on hold

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The majority of survey participants (53%) do not plan to expand their presence in the regions. But regional expansion plans vary greatly according to industry. The majority of manufacturers of industrial products and consumer goods, which are already well represented outside Moscow, plan to hold off on regional expansion for the time being.

## International businesses give a positive assessment of the competence of regional authorities

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Two thirds of companies rated the authorities in their key region as “good” or “excellent”. Only 5% of survey participants were dissatisfied with the professionalism of regional officials.

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The success of METRO depends to a large extent on the development of its professional customers in retail trade and HoReCa segments. These are mostly small and medium-sized businesses across all 51 regions of METRO’s presence in Russia. We support any activities of the regional authorities that help our customers do their business, obtain easier access to financial resources and convenient locations, upgrade their professional and business competencies and reduce the tax and administrative burden.



**Alexey Grigoriev**

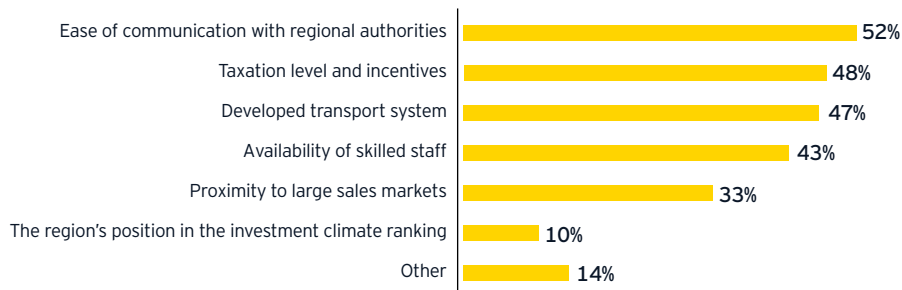
Head of Moscow Representative Office METRO AG

## Ease of communication with regional authorities is a key factor in choosing a region

For 52% of international companies, being able to communicate directly with regional authorities has become the most important factor in choosing a region for investment. Tax conditions and reliefs also play a substantial role, as noted by 48% of the respondents.

### Most important factors in choosing a region for investment

Multiple answers may be selected





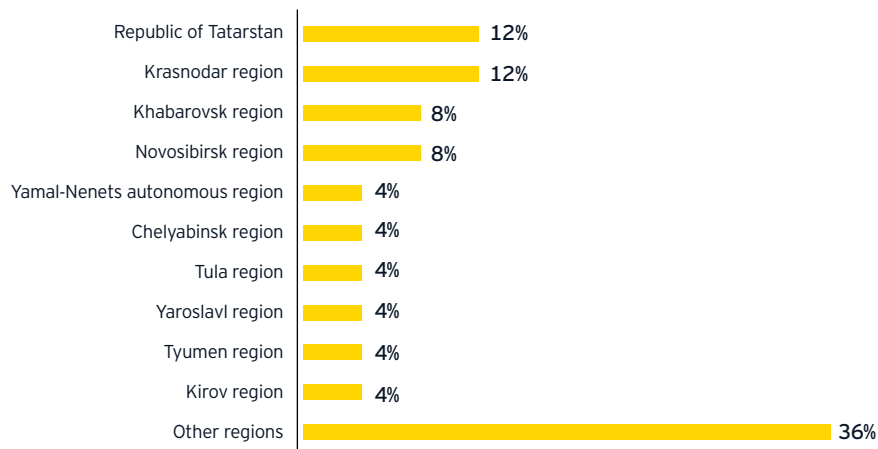
## Foreign investors view Tatarstan and the Krasnodar region as the most promising regions

If the international companies were to choose one region for investment other than Moscow, Saint Petersburg and their respective regions, it would be the Republic of Tatarstan (12%) or the Krasnodar region (12%). Next most popular among investors were the Khabarovsk and Novosibirsk regions (8% each).

Since 2015, Tatarstan has placed among the top 3 Russian regions in terms of investment climate according to the ranking published by the Agency for Strategic Initiatives (ASI)<sup>5</sup>. The Krasnodar region's position in the ranking has markedly improved: in 2020 the region moved up seven places to sixth position, which is reflected in the results of our survey.

### Promising regions for investment

As viewed by respondents planning regional development



## Interaction between government authorities and international companies

In the opinion of the survey participants, the most effective way of liaising with government authorities is through business and industry associations (76%) and permanently operating consultative bodies (73%). Personal contacts are regarded as the chief method of communication with

government authorities for the majority of Asian companies, but about half of all respondents take this view.

Only 3% of the survey participants said that contacting the business ombudsman was the most effective way of liaising with the authorities.

The business ombudsman (or commissioner for the protection of entrepreneurs' rights) is a new institution for Russia. The post was created in 2012, and not all international companies have yet recognized the advantages of this channel of communication.

<sup>5</sup> Agency for Strategic Initiatives, National ranking of investment climate, [https://asi.ru/government\\_officials/rating/](https://asi.ru/government_officials/rating/)

# 5

## Cooperation with SMEs



## Foreign companies will continue to work with small businesses in Russia

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Small and medium-sized enterprises (SMEs) play an important role as suppliers for large businesses. They can be effective providers of transport and security services and suppliers of materials for manufacturing needs.

This year, only 19% of international companies said that they would increase their dealings with SMEs as suppliers. Almost half of respondents (48%) plan to keep their dealings with SMEs at the same level.

Small and medium-sized enterprises can become attractive partners for international companies if they are able to ensure high product quality and expand their range with new products and services.

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Coca-Cola in Russia traditionally actively backs the development of entrepreneurship and small business. Currently, we have more than 160,000 direct clients throughout Russia, with over 60% of them being individual entrepreneurs and over 90% located outside Moscow.

As for our role as an important purchaser of goods and services, we have over 2,700 regular suppliers in Russia, which allows us to carry out more than 96% of all direct purchases from Russian suppliers. We are confident that the level of collaboration between Coca-Cola in Russia and small and medium-sized businesses will grow in the future as well.



**Andy Buckingham**  
Coca-Cola General Manager of Russia

# Direct investments



From the 1990s to the beginning of 2020, the survey participants invested USD 193.9 billion in Russia. FIAC member companies account for 95.7% of that amount, i.e. USD 185.5 billion. The average amount invested by FIAC companies stood at USD 3.4 billion.

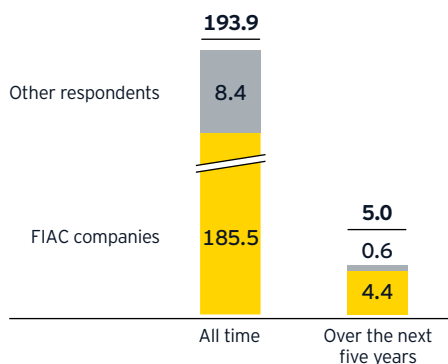
The biggest investors are companies in the energy and natural resources sector, where one company accounted for almost USD 9 billion of direct investments.

Over the next five years, international companies that took part in the survey plan to invest USD 5 billion in Russia. However, many companies were unable to give an exact figure owing to the uncertainty caused by the pandemic and the resulting need to revise their plans.

Investment amounts were calculated on the basis of the results of the survey and data obtained from public sources and supplied by FIAC companies in the period 2018-2020.

## Amount of investment in Russia

USD billion



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For us, the most important factors, which could support further expansion of investment projects are the predictability of the regulatory environment and overall market stability. Given the complexity of the value chain for pharmaceutical products, predictability of the pricing system is of critical importance. Having price reviews no more frequently than once a year enables us to plan with confidence and thus ensure the stable supply of products to patients.

We encourage the provision of equal treatment for different types of investments – whether in the form of technology transfer or greenfield projects.

As a producer of innovative drugs Merck considers a well-developed system for the protection of intellectual property rights as one of the most important factors in enabling positive investment decisions.



**Dr. Matthias Wernicke**  
Managing Director, Merck Russia and CIS

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# International cooperation



## The United States of America remains a key partner for Russian businesses

The respondents view the USA, Germany and Kazakhstan as the most important economic partners for businesses in Russia.

16% of companies said that the USA remained a key partner in Russia. This is due to the large number of survey participants from that country (almost a third) and American companies' plans to expand their presence in Russia despite external restrictions.

10% of the respondents identified Germany as being of key importance. Germany has traditionally been an important economic ally of Russia, and figures show that it was Russia's second biggest trading partner in turnover terms in the first half of 2020 (with a 7.2% share), surpassed only by China<sup>6</sup>. Official statistics also record the inflow of direct foreign investments from Germany into Russia, which has amounted to over USD 3.5 billion since 2015<sup>7</sup>.

The importance of Kazakhstan was noted by 10% of international companies. This is probably due to Kazakhstan's increased role as a key Eurasian Economic Union (EAEU) partner and the fact that it is second only to Belarus among EAEU countries in terms of the volume of bilateral trade with Russia (USD 8.6 billion in the first half of 2020)<sup>8</sup>.



<sup>6</sup> Federal Customs Service, Russia's foreign trade with key countries in the period January-June 2020, [http://customs.gov.ru/storage/document/document\\_statistics\\_file/2020-08/10/QfDw/WEB\\_UTSA\\_09.xlsx](http://customs.gov.ru/storage/document/document_statistics_file/2020-08/10/QfDw/WEB_UTSA_09.xlsx)

<sup>7</sup> Central Bank of Russia, Direct investments in Russia by instrument and partner country, [https://www.cbr.ru/vfs/statistics/credit\\_statistics/inv\\_in-country.xlsx](https://www.cbr.ru/vfs/statistics/credit_statistics/inv_in-country.xlsx)

<sup>8</sup> Federal Customs Service, Russia's foreign trade with key countries in the period January-June 2020, [http://customs.gov.ru/storage/document/document\\_statistics\\_file/2020-08/10/QfDw/WEB\\_UTSA\\_09.xlsx](http://customs.gov.ru/storage/document/document_statistics_file/2020-08/10/QfDw/WEB_UTSA_09.xlsx)

# Operating activities





## Companies plan to retain remote working arrangements

The swift transition of office workers to remote working during the pandemic enabled many companies to continue operating without interruption. Client work and the majority of communications have shifted to digital channels, generally resulting in greater efficiency.

A study conducted at Stanford University back in 2012 showed that the productivity of employees who were given the opportunity to work from home rose by 13%. They were twice less likely to quit their job and reported greater work satisfaction<sup>9</sup>. Now, companies and employees have access to a much greater range of communication tools and collective working and data security solutions, raising the standard of remote working to a new level.

For these reasons, 65% of survey participants said that their companies would continue to use remote working arrangements in the future. One out of five companies plan to leave the remote working format in place for over half of their employees.

Internal staff surveys conducted by EY and other large companies show that the majority of employees like working remotely: it does not reduce their efficiency and they would like to have the option of working in this way even when the pandemic comes to an end.

“

Henkel Russia has been included in the list of backbone enterprises. During the pandemic, our plants have doubled the production of beauty care, hygiene and household sanitary products, maintaining business continuity and timely deliveries to all regions in the most challenging environment. In terms of our customer interaction, we have strengthened our e-commerce business and developed and launched new products and solutions. In just one month, the Russian team developed and launched an antibacterial hand spray, which went on sale in June.

Our diversified business approach and presence in different categories allowed us to maintain our leading position and adapt to the new working conditions. This reaffirms my belief that any challenge is an opportunity to take another step forward and reach a new level.



**Sergey Bykovskih**

President Henkel Russia, General Manager Henkel Beauty Care Russia and CIS

<sup>9</sup> Quarterly economics journal, Does Working from Home Work?, March 2013, [https://www.researchgate.net/publication/256051553\\_Does\\_Working\\_from\\_Home\\_Work\\_Evidence\\_from\\_a\\_Chinese\\_Experiment](https://www.researchgate.net/publication/256051553_Does_Working_from_Home_Work_Evidence_from_a_Chinese_Experiment)

## Flexible employment will help to reduce office maintenance costs

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It is not only employees that stand to benefit from remote working, but employers too, which will be able to reduce their expenditure on office premises. 42% of the international companies we surveyed plan to cut down on office maintenance costs by giving up or subletting part of their office space.

Businesses had begun to doubt the need to maintain large offices even before the pandemic. Coworking (flexible offices or individual workspaces that can be rented for short periods) has been a noticeable

trend on the Russian real estate market since the mid-2010s. Many companies that are not yet ready to ditch the traditional office format have been dispensing with permanent workspaces and shifting some of their employees onto hoteling systems (common work zones in which workers have to schedule the use of a workspace for a limited period).

The results of our survey confirm that, as businesses face the need to cut costs and adapt to the changes wrought by the pandemic.



## The pandemic has changed many companies' approach to investment in IT

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Before the outbreak of the coronavirus pandemic, many companies viewed digitalization as a "growth activator" - a new way of increasing revenue or cutting costs thanks to automation. But when, because of government-imposed restrictions, employees began to work remotely, borders closed and air traffic came to a halt, information technologies became survival tools. They made it possible to keep processes running

and support continued communication among employees, clients and contractors.

For the majority of companies that have managed to keep themselves in operation, now is the time to think about the future: what should their IT budget be over the next three years? Is their technological infrastructure adequately protected? How will IT support their long-term strategy?

Not surprisingly, almost half (47%) of the survey participants believe that their companies' expenditure on information technologies will increase as a result of the pandemic.

## Transferring processes to the regions is not yet a priority

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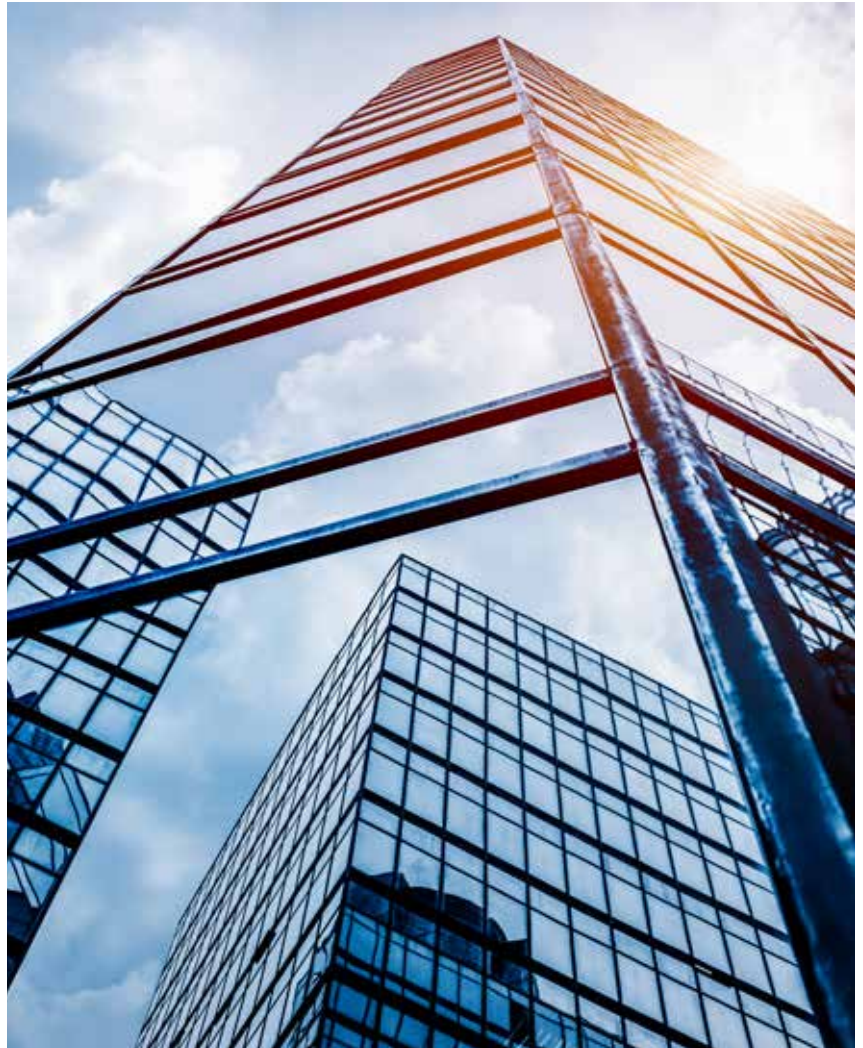
The development of technologies presents opportunities not only for remote working, but also for long-distance working. Large businesses have recognized the advantages of creating shared service hubs that perform auxiliary processes (accounting, technical support, record-keeping) and are generally located in low-cost countries. However, the majority of respondents in the survey said that they had no plans as yet to hire more employees in Russian regions or transfer some of the functions based in the corporate center to regional offices.

## Marketing expenditure will gradually rebound

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Amounts spent by companies on marketing and advertising in Russia have grown at double-digit rates since 2000, dipping only in the crisis years 2009 and 2015<sup>10</sup>. The Zenith agency predicts that advertisers' budgets will contract 4.8% this year to RUB 470 billion<sup>11</sup>.

The coronavirus outbreak has driven growth in the consumption of Internet and television content while reducing consumer spending power. Accordingly,



<sup>10</sup> Association of Communication Agencies of Russia (ACAR), Size of Russia's Advertising Market in 2000-2018, billion roubles, ex VAT, <http://www.akarussia.ru/node/7849>

<sup>11</sup> RBC, Experts Predict Weakest Decline Advertising Market for 20 Years, 27 July 2020, [https://www.rbc.ru/technology\\_and\\_media/27/07/2020/5f1b04619a794785d2b919b3](https://www.rbc.ru/technology_and_media/27/07/2020/5f1b04619a794785d2b919b3)

large advertisers are rescheduling their campaigns, putting them on hold and reallocating marketing budgets to other media categories<sup>12,13</sup>. Advertising companies predict that budgets for press advertising will shrink by 40% this year. They also expect to see a 15% fall in demand for outdoor advertising and a decline of around 10% in radio and television advertising. Only the Internet will see growth of around 3.5%<sup>14</sup>.

We looked a little further and asked businesses how their marketing budgets would change next year. Only 18% of respondents intend to reduce their marketing budgets, while 48% of international companies plan to leave their marketing expenditure unchanged. The advertising market and the marketing budgets of large companies may help support the recovery of Russian economy, which should begin in 2021 as business activity picks up and household incomes grow<sup>15</sup>.

“

We will see our medical marketing budgets grow in 2021 as we continue to make our innovations available and accessible to the growing number of people with diabetes and obesity problems.

The bulk of these budgets continue to be dedicated to the medical education of healthcare professionals, unbranded disease awareness campaigns and social projects directed at supporting the most vulnerable patient populations.

In light of Covid-19 we do see a shift towards digital initiatives and away from traditional communication channels.



**Hans Duijf**  
Vice-President and General Manager of Novo Nordisk  
Russia & Belarus

<sup>12</sup> Vedomosti, Over a Third of Large Advertisers Have Cut Spending on TV Advertising, 15 May 2020, <https://www.vedomosti.ru/media/news/2020/05/15/830329-na-tv-reklamu>

<sup>13</sup> IAB Russia, 2000 / Findings of the third wave of the study of the impact of COVID-19 on the interactive advertising market, May 2020, <https://www.iabrus.ru/projects/1867>

<sup>14</sup> RBC, Experts Predict Weakest Decline in Advertising Market for 20 Years, 27 July 2020, [https://www.rbc.ru/technology\\_and\\_media/27/07/2020/5f1b04619a794785\\_d2b919b3](https://www.rbc.ru/technology_and_media/27/07/2020/5f1b04619a794785_d2b919b3)

<sup>15</sup> Ministry of Economic Development of the Russian Federation, Forecast of the Social and Economic Development of the Russian Federation for 2021 and the Planning Period 2022 and 2023, 26 September 2020, [https://www.economy.gov.ru/material/directions/makroec/prognozy\\_socialno\\_ekonomicheskogo\\_razvitiya/prognoz\\_socialno\\_ekonomicheskogo\\_razvitiya\\_rf\\_na\\_2021\\_god\\_i\\_na\\_planovyy\\_period\\_2022\\_i\\_2023\\_godov.html](https://www.economy.gov.ru/material/directions/makroec/prognozy_socialno_ekonomicheskogo_razvitiya/prognoz_socialno_ekonomicheskogo_razvitiya_rf_na_2021_god_i_na_planovyy_period_2022_i_2023_godov.html)

## The respondents have cut costs on business events

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2020 has been a difficult year for the event industry. Organizers have cancelled all major business events, including the Russian Investment Forum in Sochi, the St. Petersburg International Economic Forum, the Eastern Economic Forum and other offline events.

The main losers have been event organizers and contractors. The Union

of Exhibition Builders estimates that the cancellation of forums will reduce taxes paid to the state budget by over RUB 1 billion, while companies that make exhibition stands are set to lose over RUB 10 billion<sup>16</sup>.

However, sponsors and foreign participants in events have been able to make savings in this area. They

have recovered most of their event fees and refrained from paying out in advance for hotels and travel<sup>16</sup>, thereby reducing their event costs in 2020. Our survey shows that 42% of international companies also plan to cut expenditure on offline events in 2021 compared with 2019 before the crisis began. The same proportion again plan to leave their event budget unchanged.

## International companies support victims of coronavirus

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76% of survey participants said that their company had given material assistance to medical, public-funded, charitable and social organizations in Russia in connection with the pandemic.

Material assistance included donations of money, purchases of medical equipment and devices, or the supply of the company's own products free of charge.

The 20 companies that disclosed the exact amount spent on such support gave material assistance totaling USD 15.5 million to Russian organizations.

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<sup>16</sup> RBC, Businesses Weigh Up Losses Dues to Cancellation of Petersburg Forum, 7 March 2020, <https://www.rbc.ru/business/07/03/2020/5e6210f99a794733f683ad86>

<sup>17</sup> RBC, Businesses Weigh Up Losses Dues to Cancellation of Petersburg Forum, 7 March 2020, <https://www.rbc.ru/business/07/03/2020/5e6210f99a794733f683ad86>

# 9 Regulation



## Russia's high positions in international rankings show that the regulatory environment is improving

It is a well-known fact that administrative barriers hold back business development in any country. World Economic Forum experts pointed to the reduction of bureaucracy as one of the four measures that would have the greatest impact on growth in Russia<sup>18</sup>.

The government is making great efforts to eliminate bureaucratic barriers: a reform of control and supervisory measures, dubbed the "regulatory guillotine", is in progress<sup>19</sup>; a mechanism for managing systemic changes in the business environment has been set up under the "Business Climate Transformation" plan<sup>20</sup>; and an Investment Development Agency is to be created, tasked with supporting the implementation of new investment projects and acting as an intermediary between government and business<sup>21</sup>.

The improvement of Russia's standing in international business climate rankings testifies to the success of these efforts. In 2019 Russia placed among the top 30 countries in the World Bank's Ease of Doing Business ranking for

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In the tense times of 2020, we keep believing in the Russian market and the business opportunities that it brings to 3M. Just a small fact: 3M Russia was one of the best performing subsidiaries in the EMEA region for the company. This clearly demonstrates the fundamental stability and strong economic conditions of the market for foreign investors.

Regulatory changes also played an important role in our judgement. The elimination of the duplication of market access procedures for medical devices as well as other positive regulatory changes in this area allow us to focus more on our business operations and improving our efficiency in the segment.”



**Mats Friberg**

Managing Director 3M for Russia and CIS Region

<sup>18</sup> World Economic Forum, Russia's Regions: Drivers of Growth, July 2014, p. 7 [http://www3.weforum.org/docs/GAC/2014/WEF\\_GAC\\_Russia\\_DriversGrowth\\_Report\\_2014.pdf](http://www3.weforum.org/docs/GAC/2014/WEF_GAC_Russia_DriversGrowth_Report_2014.pdf)

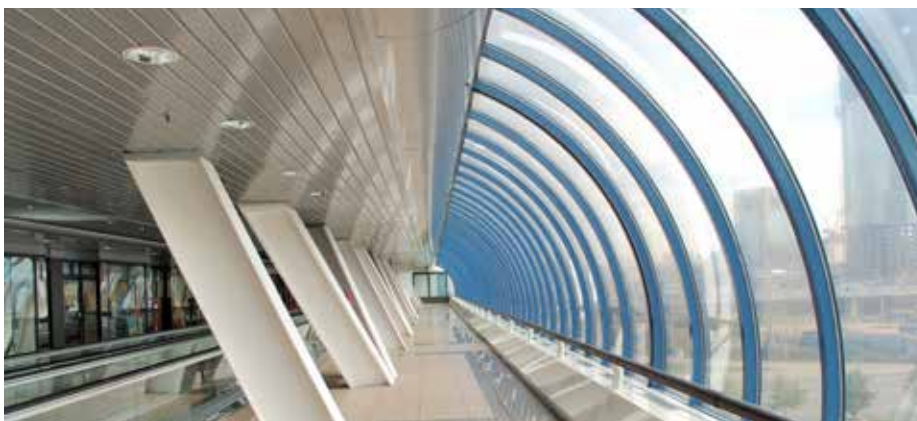
<sup>19</sup> Analytical Centre attached to the Government of Russia, What is the "Regulatory Guillotine?", <https://knd.ac.gov.ru/about/>

<sup>20</sup> Ministry of Economic Development of Russia, Business Climate Transformation, [https://www.economy.gov.ru/material/directions/investicionnaya\\_deyatelnost/investklimat/tdk/](https://www.economy.gov.ru/material/directions/investicionnaya_deyatelnost/investklimat/tdk/)

<sup>21</sup> Prime Economic Information Agency, Investment Development Agency to be set up in Russia, 11 September 2020, <https://1prime.ru/state/regulation/20200911/832016506.html>

the first time<sup>22</sup>, despite having been in 120<sup>th</sup> place only eight years ago<sup>23</sup>. It also managed to retain 43<sup>rd</sup> place out of the 141 countries in the global competitiveness index compiled by the World Economic Forum<sup>24</sup>.

Are these changes noticeable to foreign businesses operating in Russia? What are the strengths and weaknesses of Russian legislation?



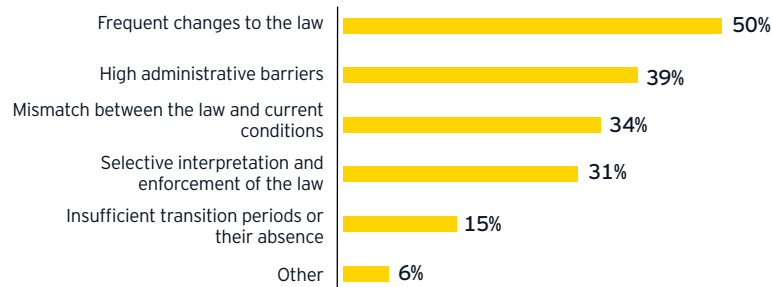
## Frequent changes in the law have a negative impact on investment attractiveness

Frequent changes in the law are cited by participants in the survey (50%) as having a negative effect on Russia's investment attractiveness. This is one of the key problems encountered by large foreign businesses in the country in terms of the legal environment.

The high level of administrative barriers (39%) and the mismatch between the law and current conditions (34%) are other problems cited by the respondents.

### What issues produce a negative impact on Russia's investment attractiveness?

Multiple answers may be selected



<sup>22</sup> World Bank, Economic Profile of the Russian Federation, Doing Business 2020 Indicators (published in October 2019), <https://www.doingbusiness.org/content/dam/doingBusiness/country/r/russia/RUS.pdf>

<sup>23</sup> BBC Russian Service, Russia Making Ever Slower Progress in Doing Business Ranking, 24 October 2019, <https://www.bbc.com/russian/features-50158573>

<sup>24</sup> World Economic Forum, Global competitiveness report 2019, [http://www3.weforum.org/docs/WEF\\_TheGlobalCompetitivenessReport2019.pdf](http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf)

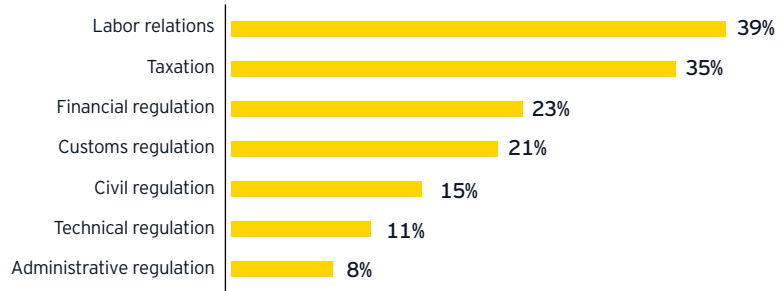


# Labor relations and taxation are strong areas in Russian legislation

The international companies that took part in the survey identified labor relations, taxation, and financial regulation as the three best developed areas of Russian legislation.

## Best developed areas of Russian legislation

Proportion that chose each option



# Foreign companies cite examples of positive and negative changes in regulation

The survey participants point to the following examples of positive changes in the regulatory environment in Russia:

- ▶ The development of labor legislation, and in particular the experiment involving the use of electronic digital signatures in personnel documents.
- ▶ The emergence of a special tax regime for self-employed people.
- ▶ The development of legislation on the protection of capital investments.

- ▶ Measures to support non-commodity exports and export companies.
- ▶ The regulatory guillotine and the abolition of obsolete regulations.

The following are commonly cited as negative changes:

- ▶ The introduction of compulsory marking for consumer products.
- ▶ The slow process of protecting intellectual property in the pharmaceutical industry.

- ▶ The lack of a long-term and stable approach to the taxation of the oil and gas industry and the frequent changing of financial rules by the government.

The government should continue its course of removing barriers and simplifying regulation. Also, perhaps there is no sense in dividing business into “ours” and “theirs”. The rules of the game should be the same for all.

# 10

## Success stories of FIAC companies



# Investments in 2019-2020

**3M has expanded production of respirators to meet growing demand in countries of the Eurasian Economic Union (EAEU)**



3M Russia invested USD 4.5 million in two additional lines for the production of filtering half-masks in Volokolamsk, Moscow Region. The decision was made last year as part of the company's strategy to localize production in Russia.

The new lines were successfully launched in 2020 and currently produce 8100 and 9900p series filtering half-masks (cup type), including respirators with FFP1 and FFP2 filter efficiency.



The investment project increased production capacity by 30% to meet the growing demand for cup-type respirators on the Russian and EAEU markets.

**Cargill's new energy center has reduced the company's carbon footprint and lowered its production costs**



In 2020, Cargill completed an investment project for the construction of its own energy center to produce thermal power in Yefremov, Tula Region. Investments totaled RUB 1.5 billion, and 16 new jobs were created.

In view of the energy-intensive production process, the project's objective was to reduce energy costs as a share of production costs and so make the company's products more competitive.

The project also lowered the risks of power interruptions. The high-tech equipment used in construction made it possible to reduce greenhouse gas emissions - the carbon footprint - and to lower steam consumption by using hot water.



The year 2020 marks 25 years since Exxon Neftegas Limited, a subsidiary of ExxonMobil, signed the production sharing agreement of June 1995 with SODECO and Rosneft, its partners in the Sakhalin-1 Consortium. The Indian company ONGC Videsh Limited came on board in 2001.

Sakhalin-1 has shown impressive results in the last 25 years:

- ▶ 123.5 million tons of oil have been shipped out in more than 1,200 tankers, and consumers in the Russian Far East have received over 28 billion cubic meters of natural gas.
- ▶ Since the project was launched, Sakhalin-1 has generated over USD 16 billion in the state share of oil and gas and tax and royalty payments to the federal and regional governments, including more than USD 6.6 billion to the Sakhalin budget.
- ▶ USD 100 million was transferred to the Sakhalin Development Fund.

- ▶ Russian contractors and joint enterprises were awarded contracts worth over USD 18.4 billion - around 70% of all contract work.
- ▶ During the project, USD 230 million was invested in the modernization of infrastructure that is heavily used by local residents: roads, bridges, hospitals, clinics, the Nogliki Airport, the De-Kastri power plant, and many other objects.
- ▶ Members of the Sakhalin-1 Consortium have supported more than 1,600 charity projects totaling about USD 37 million, helping to implement social initiatives.
- ▶ Around USD 3.6 billion were invested in the protection of wildlife and the environment as well as in rational land use.

In 2019, members of the Sakhalin-1 Consortium agreed to progress plans to build an LNG plant in Russia's Far East with a view to monetizing Sakhalin-1 gas and have started preparations for front-end engineering and design with a view to considering a final investment decision in due course.

## Henkel: expanding production capacities in Russia



Over the past 30 years Henkel has consistently pursued a localized production strategy in Russia. At the beginning of 2020, Henkel completed the construction of a new building for the manufacture of beauty care products in Noginsk (Moscow Region). After the expansion, the plant became one of the largest cosmetics facilities in Russia and Henkel's second largest beauty care plant in the world.

The new phase of investment of more than EUR 20 million has allowed the company to increase its production capacity to 320 million units of finished products per year and almost double its storage space. Total investment now stands at EUR 40 million. The plant's products are supplied to all regions of Russia and several CIS and European countries.

In addition to the construction of new production and warehouse facilities, the company has invested

around EUR 1.5 million in the opening of its first R&D laboratory, which will enable it to create and customize formulas for new products as well as to test new packaging solutions and raw materials provided by local suppliers.

In 2020, Henkel is celebrating its 30<sup>th</sup> year of operating in Russia. This country has always been a key strategic market for Henkel. The company has consistently invested in the development of local production and the expansion and modernization of its manufacturing and logistics capacities. Over the past 10 years, Henkel has invested around EUR 280 million in Russia. Today, the company has 10 plants across the country, offering a broad range of products and high-tech solutions for a variety of industries. The company employs more than 2,500 people.

## Merck: drug localization has increased the resilience of the supply chain



In late 2019, the science and technology company Merck successfully localized production of the drug Concor®, which is indicated for the treatment of hypertension, coronary heart disease and chronic cardio failure.

The localization project is a full-cycle production facility operating in accordance with GMP standards. The drug is produced at the production facilities of Merck's partner NANOLEK in the Kirov region. Investments in the project amounted to



over EUR 10 million, including investment not only in physical infrastructure, but also in technology transfer, quality assurance processes, and general capability building.

Production volume is expected to reach 650-700 million pills per year when planned capacity is achieved in 2021. The localization of production at the Russian manufacturer's facilities is a major step towards improving the security of the supply chain and the affordability of the product for patients.

**Mondelēz International's project to expand the capacity of its chocolate plant in Vladimir Region has injected over RUB 1.1 billion into the local economy**



In September 2019, Mondelēz International launched a new line for the production of chocolate bars at its plant in Pokrov, Vladimir Region. The company invested over RUB 1.1 billion in increasing the plant's capacity and enlarging its warehouse for raw materials and packaging materials. Some 50 new jobs were created as a result of the project.

The new line has an annual production capacity of around 13,000 tons, thereby increasing the plant's overall capacity to 93,000 tons of chocolate products annually. The installation of the line required extensive preparation, redesign and expansion at the plant.

An important part of the project involved expanding the warehouse for raw materials and packaging materials by 2,000 square meters and installing additional storage racks with a total of around 2,500 pallets.

The plant practices separate waste collection, and over 92% of the waste produced by the plant is recycled. The plant also maintains an energy efficiency level that is high for the food production industry: power costs average 2.7 gigajoules per ton of output.



## Novo Nordisk and ABB: a robot has been deployed to automate repetitive tasks at a pharmaceutical plant



In July 2020, Novo Nordisk's plant in Kaluga deployed Russia's first ABB YuMi® collaborative robot. The robot is used to automate certain non-manufacturing control operations: preparing insulin pens for quality assessment. The robot's two arms allow injector pens to be tested without the use of machine vision technology. The robot tests the pens' ratcheting mechanism in several positions with maximum deviations, thus ensuring that the end product is completely safe to use.



Investments totaled around RUB 6.5 million. The ABB collaborative robot has enabled Novo Nordisk to automate monotonous and repetitive tasks and reduce the burden on employees, who now monitor the new robotic system. Subsequently, Novo Nordisk plans to expand the plant's potential by fully automating the production line.

The YuMi® collaborative robot is made by ABB, a leading international technology company. The use of robots in the pharmaceutical and medical industry is a high-priority area for ABB.

**PepsiCo's Kashira plant has become the company's largest snack manufacturing facility worldwide**



In 2019, PepsiCo completed a major project involving capacity expansion and infrastructure upgrades at its Kashira plant in the Moscow Region. A new production line was launched along with comprehensive renovation of infrastructure and utilities and expansion of the plant's administrative building.



The new production line has enabled the plant to increase its annual output of potato crisps by 20%, from 100,000 to 120,000 tons of finished products a year. 100+ new jobs have been created. Investments in the project totaled around RUB 2.4 billion.

Following its expansion, the Kashira plant produces more finished snacks than any other PepsiCo facility worldwide.

## Société Générale: a pre-export loan tied to sustainability indicators became the first such syndicated loan on the Russian market



The Société Générale Group, as part of a syndicate of international and Russian commercial banks, arranged for RUSAL to be granted a five-year syndicated pre-export loan, tied to sustainability indicators, in the amount of USD 1,085 million. This was the first such syndicated loan on the Russian market.

The margin on the loan may change depending on key indicators (KPIs) of the company's sustainability



and environmental impact. These include sales of ALLOW - RUSAL aluminum, which is manufactured using hydropower and has a small carbon footprint. KPIs also include reduced carbon footprint and lower fluoride emissions. Success in meeting the indicators will be assessed and verified on an annual basis by an independent specialized company. All of the target KPIs for 2019 that are tied to the loan were either met or exceeded, and the interest rate was lowered as a result.

#### About EY

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#### About FIAC

The Foreign Investment Advisory Council in Russia (FIAC) was established in 1994 as a result of the combined efforts of the Russian government and foreign businesses. In 2019, FIAC celebrated its 25th anniversary in Russia. Over the years, it has made a major contribution to improving the investment climate in Russia. Chaired by the Prime Minister of the Russian Federation, FIAC brings together the executives of 53 major international companies and banks. Four more companies hold observer status.

Throughout the year, FIAC is focused on key Russian sectors and industries covered by specialized working groups.

FIAC's activities are coordinated by an Executive Committee chaired by the Russian Minister for Economic Development. Annual plenary sessions bring together members of the government and global CEOs of member companies to discuss priorities in investment policy, legislative amendments to resolve current issues, and measures to improve the investment climate that recognize the interests of all parties involved.

[www.fiac.ru](https://www.fiac.ru)