



INTERNATIONAL
T R A D E
ADMINISTRATION

The Russian Market: Assessing short term unpredictability and long term potential

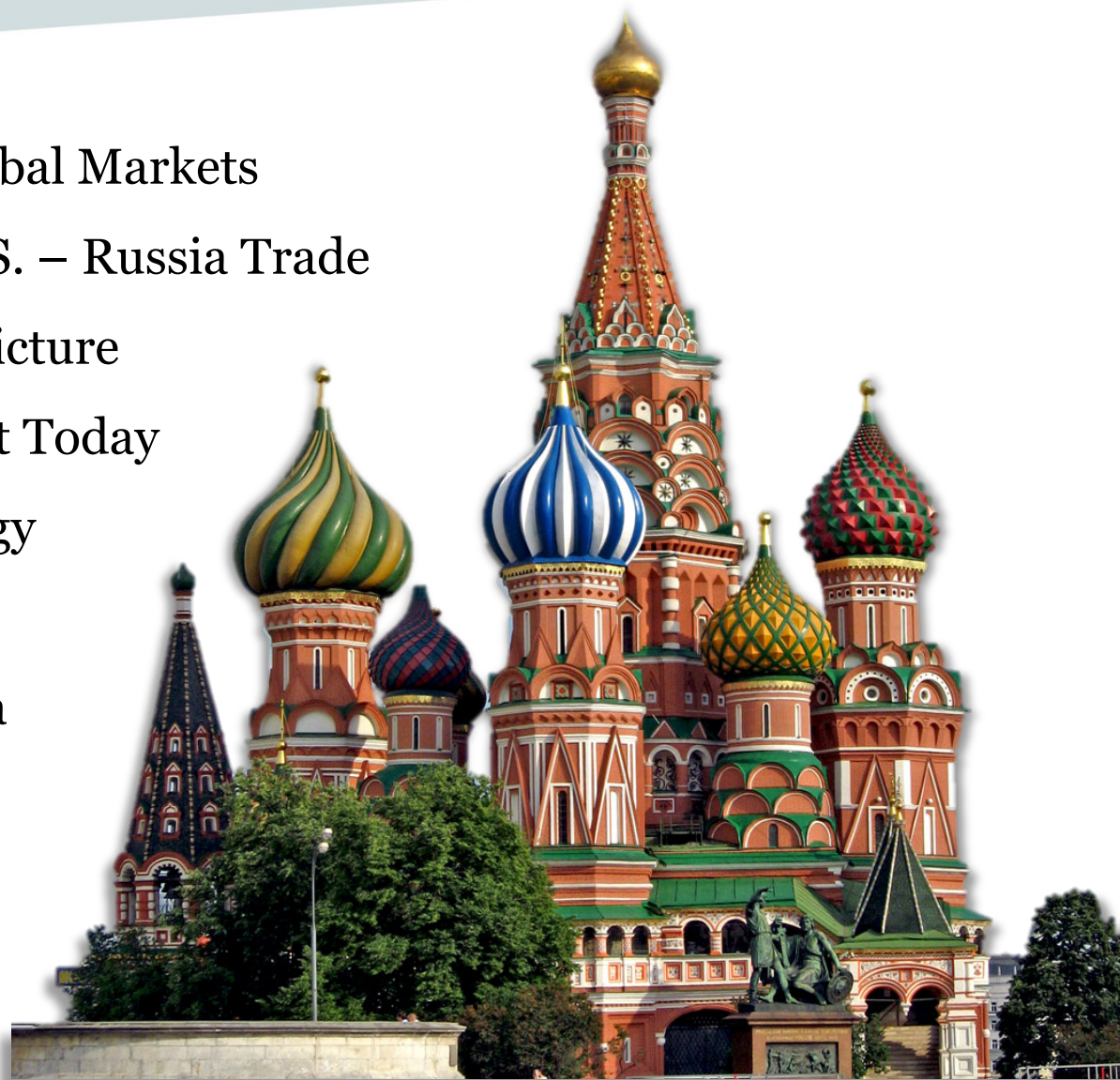
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U.S. Department of Commerce

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Agenda

- Introduction to Global Markets
- Development of U.S. – Russia Trade
- Russia Economic Picture
- Trade & Investment Today
- Commerce's Strategy
- Sanctions
- Operating in Russia
- Our Services
- Water Sector Opps.
- Q&A



Global Markets

- Mission: Assist and advocate for U.S. businesses in international markets to foster U.S. economic prosperity:
 - Promotes U.S. exports, especially among SMEs
 - Advances and protects U.S. commercial interests
 - Attracts inward investment into the United States
- International offices in over 70 countries.
- U.S. offices in over 100 locations.
- Headquarters in Washington, D.C.



Development of U.S.-Russia trade (1/2)

- 1972: Strategic commercial agreements; launch of Department of Commerce's engagement and role.
- 1974: Jackson-Vanik issue and politicization.
- 1975: High-Level Joint Commercial Commission.
- U.S. Commercial Office opens in Moscow.
- Precursor to American Chamber of Commerce opens.
- ExIm Bank, OPIC and other USG programs begin.
- 25 U.S. companies have accredited offices.
- Trade diversifies beyond ag and energy products.



Development of U.S-Russia trade (2/2)

- 1994: Russia commences negotiations to join WTO; American Chamber of Commerce formed.
- 1998: Default & devaluation.
- 2001: Russia begins major overhaul of business tax regime.
- 2012: Russia joins WTO.
- 2014: Russia becomes (briefly) United States' #24 export market.
- 2014: Crimea invasion and annexation; war in Ukraine .



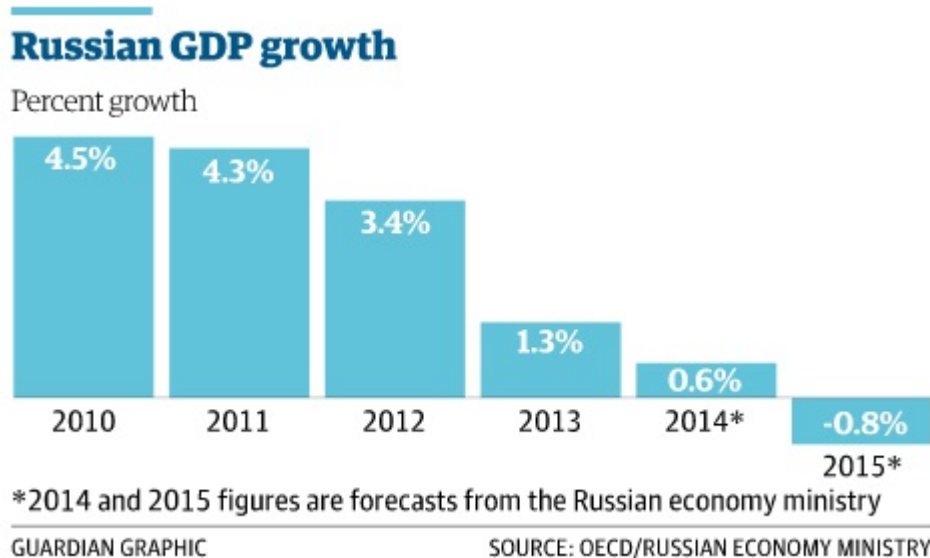
Why Russia Matters for business

- **\$2 trillion GDP (2013): 5th-largest economy** in the world in terms of PPP (2014)
- **143.7 million** consumers / Per capita GDP >\$14K - highest among BRICS.
- Geographic land mass is **1.8 times larger** than the United States
- **Largest exporter of natural gas** and the **2nd-largest exporter of oil** in the world (2014)

| (U.S.\$ billions) | 2011 | 2012 | 2013 | 2014 | JAN- JUN 2015 |
|-----------------------------|------|------|------|------|------------------|
| U.S. Exports to Russia | 8.3 | 10.7 | 11.2 | 10.8 | 3.9 |
| U.S. Imports from Russia | 34.6 | 29.4 | 27.0 | 23.7 | 9.1 |

Russia's economy today

- Oil prices have hit a six year low.
- Ruble lost 50% of its value in 2014 with nominal increases in the first half of 2015.
- Double digit inflation
- Recent performance has been declining with negative growth predicted for 2015 and 2016.



U.S. & Russia Investment

Annual Flows and Position (in USD millions)

| Foreign Direct Investment Position | 2012 | 2013 | 2014 |
|--|----------|----------|---------|
| U.S. FDI in Russia | \$13,389 | \$13,140 | \$9,263 |
| Russian FDI in the United States (by UBO)* | \$7,068 | \$8,222 | \$6,473 |
| Foreign Direct Investment Flows | 2012 | 2013 | 2014 |
| U.S. FDI to Russia | \$1688 | - \$750 | -\$472 |
| Russian FDI in the United States | - \$64 | \$727 | -\$396 |

*Ultimate Beneficial Owner

- 1,000 registered U.S. firms in Russia.
- \$13 billion in cumulative FDI through 2013.
- Key investment sectors:
 - Natural resource extraction
 - Manufactured autos
 - Fast-moving consumer goods
 - Software architecture



Commerce's Priorities for Russia Engagement

1. Conform with **USG foreign policy** and ensure **multilateral** application of **sanctions**
2. Tackle **key market access issues**; Press for trade liberalizing policies in multilateral for a
3. Help U.S. business **maintain and grow existing export interests** in non-sanctioned sectors

Goal of the sanctions

- Goal: Impose costs to change Kremlin behavior in Crimea and eastern Ukraine.
 - 1) Have a robust range of sanctions that can be carefully escalated over the long term if necessary
 - 2) Coordinate with EU and our major trade partners
 - 3) Understand impact on businesses worldwide and maintain the deliberative decision process they respect.

What is the impact on our bilateral economic relationship?

- Decisions have impacted Govt.-to-Govt. dialogues.
 - e.g., suspension of Presidential Commission's working groups
- Limits on senior-level interactions.
- Restrictions on U.S. Government engagement in trade-fairs; no Govt.-led trade missions.
- Ex-Im Bank and OPIC programs suspended.
- Still operating: Commerce international buyer program, business counseling, partner searches, due diligence report services for those companies that request this help.

Sanctions in practice (1/2)

- U.S. imposes three types of official sanctions (visas, financing, and export controls) on physical and legal persons/entities.
- Sectoral sanctions are in force in the financial, energy and defense sectors.
- An interagency group develops, designs and prioritizes these sanctions.
- Both the Department of Treasury (OFAC) and Department of Commerce (BIS) implement & enforce.

Sanctions in practice (2/2)

- Sanctions are complex and often very “case-specific.”
- Large firms’ in-house or outside counsel as well as regulatory staff are key players in researching and understanding sanctions, and conducting due diligence.
- In counseling SMEs, Commerce has found that direct contact between the company and the Office of Foreign Assets Control (OFAC) at Treasury and the Bureau of Industry and Security (BIS) at Commerce is the most efficient way to obtain answers to your questions.

Sanctions info sources

- Treasury Dept. / Office of Foreign Asset Control (OFAC) contact points:
 - Telephone hotline: 1-800-540-6322
 - Email: ofac_feedback@treasury.gov
- Commerce Dept. / Bureau of Industry & Security (BIS) contact point:
 - Office of Exporter Services hotline
 - Telephone: 202-482-4811
- Industry feedback is very positive on reaching these POCs and obtaining answers to the firm's questions.



Operating in Russia: Barriers and challenges

- Burdensome regulatory regimes.
- Lack of IPR protection and enforcement.
- Corruption and inadequate rule of law.
- Lack of transparency, and abrupt changes or new laws.
- Increasing import substitution strategy.
- Growing localization requirements, especially in IT and healthcare
- “Patriotic procurement” in response to sanctions.
- Not dissimilar to other developing/maturing markets.

Our services in Russia

- In addition to resources at Global Markets' U.S. Export Assistance Centers (USEAC), we have offices in Moscow and St. Petersburg, Russia.
- Our services include:
 - Business counseling
 - Partner searches
 - Due diligence reports
 - Market research
 - Individualized trade promotion activities



Water and Waste Water Sector in Russia



SWOT Analysis WATER & WASTE WATER

U.S. Commercial Service, Moscow

STRENGTHS

- Water/Wastewater market is not dominated by any large state-owned enterprise; many potential buyers exist in both public utilities and private enterprises
- Russian Ministry of Construction, Housing and Utilities was established in 2013, to be responsible for driving the change in these sectors
- Government is currently creating a legal framework for private investors to access municipal assets
- Strong lobbying and support for private businesses available from Russian Association of Water and Wastewater Industry

WEAKNESSES

- Weakness of Russian economy / currency fluctuations
- Lack of financing options for capital equipment
- Scrutiny of the municipal/state owned institutions, lack of experience in working with private investors under PPP schemes, etc.
- Legal regulations adoption is behind the needs of the industry, slowing down investors activities

OPPORTUNITIES

- Aging utilities assets across Russia will require large capital investments, Increasing opportunities for private sector to manage public assets through PPPs and privatization of municipal utilities
- Deployment of water works modernization programs in the regions (e.g. Saint Petersburg Waterworks)
- Energy efficiency and energy saving are prioritized within the utilities' modernization plans
- Impending changes to Federal Law 416 will strictly require industrial enterprises to be accountable for their own wastewater treatment on-site, or provide investment to public wastewater treatment facilities – either way, new equipment will be procured to comply with the law

THREATS

- Devaluation of local currency increases the cost of U.S. exports
- Import substitution program affects suppliers selection process within public sector procurements
- Strong competition from European suppliers (especially German)

Russia Opportunities/Advice

- Local partnerships are key
 - Complex bidding process
 - Russian municipal and federal agencies do not work directly with foreign companies
- Key Opportunities
 - Industrial water treatment
 - Municipal Water = Opportunities with Caveats
 - Aging municipal system but requires PPP
 - Each region of Russia requires specialization

Russia Opportunities/Advice

- ECWATECH 2016
 - About: Biannual show focusing on all things water with a focus on bottling & bottled water, infrastructure networks, and trenchless technologies (ex. pipeline construction)
 - Location: Moscow, Russia
 - Dates: April 26-28, 2016
 - Website: www.ecwatech.ru
 - CS value added services are still TBD

Latest Market Research

- Top Markets Report released July 2015
 - Brazil
 - China
 - Czech Republic
 - India
 - Indonesia
 - Mexico
 - Poland
 - Saudi Arabia
 - Turkey



Environmental Solutions Toolkit

- <https://new.export.gov/envirotech/toolkit>
- A buyer's resource guide that marries EPA expertise on solving environmental challenges with a catalogue of U.S. providers of related technologies.
- IT IS FREE!!!!

Water Infrastructure Business Development Mission

- Locations: Singapore, HCMC, Vietnam, and Manila Philippines
- Date: July 14 -22, 2016
- Cost: \$3,300 (SME) \$4,500 for large firms
- Mission Features:
 - Executive-led (accepted)
 - Site visits (industry and Singapore Water Week)
 - Customized one-on-one meetings and networking events
 - Connections to local knowledge (ADB Water Specialists)

Reflections & conclusions

- It takes decades for a trade relationship to develop and grow but only a few days for it to reverse course.
- We have weathered such ups and downs before.
- The current environment makes doing business more difficult in the short run; the long view is that Russia is a strategic market.
- The outcome we hope for is genuine stabilization in Ukraine so that we are in a position to adjust our sanctions and return to normal trade relations.
- An economically prosperous Ukraine, that can pay its bills and serve as a reliable supplier as well as customer, will stand to benefit everyone, including Russia.

Contact points



in Washington, DC:

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in Russia:

U.S. Embassy Commercial Section, Moscow

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Phone: +7-495-728-5580

www.export.gov/russia/

More contact points



in Ukraine:

U.S. Embassy Commercial Section, Kyiv

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Phone: +380-44-521-5743

www.export.gov/ukraine/



in Kazakhstan:

U.S. Consulate Commercial Section, Almaty

Pat Cassidy, Senior Commercial Officer

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Phone: +7 -727-250-7612, ext. 6488

www.export.gov/kazakhstan/



INTERNATIONAL
TRADE
ADMINISTRATION

Back up slides

and more contact points

in Domestic Office:



U.S. Export Assistance Center

ABC, Director

Address

City

Phone:

Email:

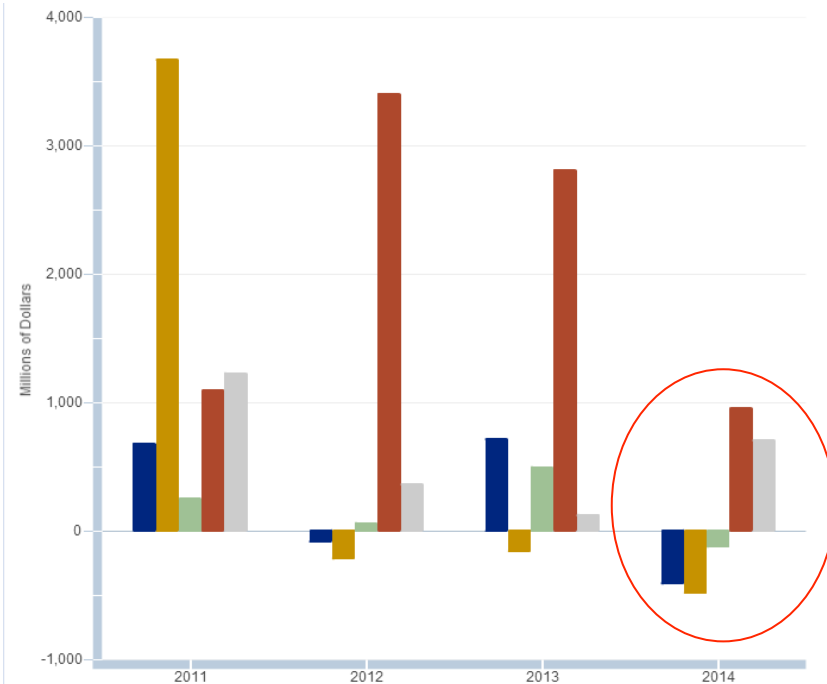


Timeline of Crimean annexation

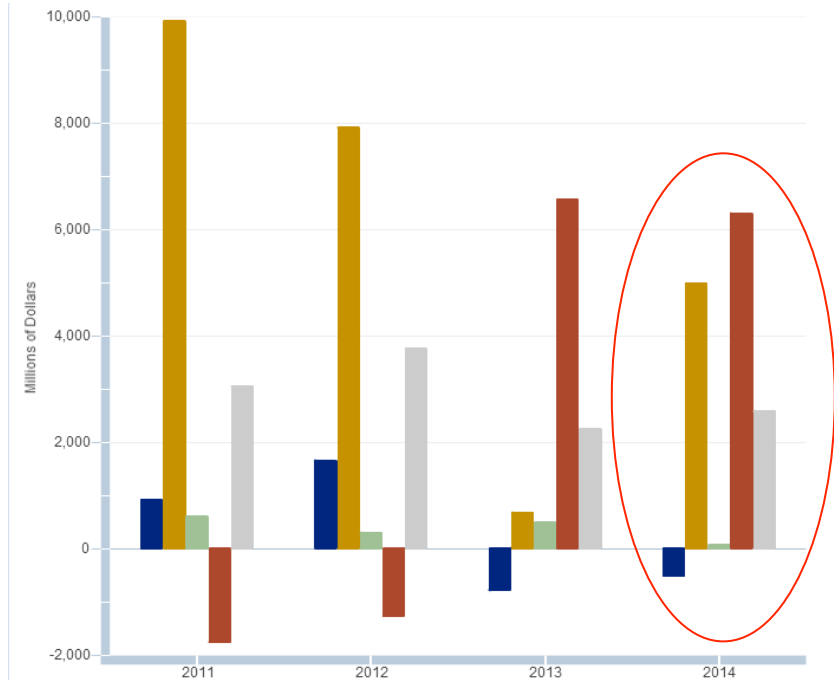
- Dates: 23 February 2014 – 19 March 2014[1] (24 days)
- Russian masked troops invade and occupy key Crimean locations, including Ukrainian airports and military bases, following Putin's orders.[2][3]
- Head of Ukrainian Navy, Admiral Berezovsky defects to the Russian side, followed later by half of the Ukrainian military stationed in the region[4][5][6]
- Russian forces seize the Supreme Council (Crimean parliament). The Council of Ministers of Crimea is dissolved, a new pro-Russian Prime Minister is installed. [7][8]
- The new Supreme Council declares The Republic of Crimea to be an independent, self-governing entity, then holds a referendum on the status of Crimea, voting to join the Russian Federation, on 16 March.[9]
- Treaty signed between Crimea and Russia at the Kremlin on 18 March to formally initiate Crimea's annexation by the Russian Federation.[10]
- The Ukrainian Armed Forces are evicted from their bases on 19 March by Crimean protesters and Russian troops. Ukraine subsequently announces withdrawal of its forces from Crimea.[11]

How Russia Compares

BRICS FDI in U.S.



U.S. FDI in BRICS

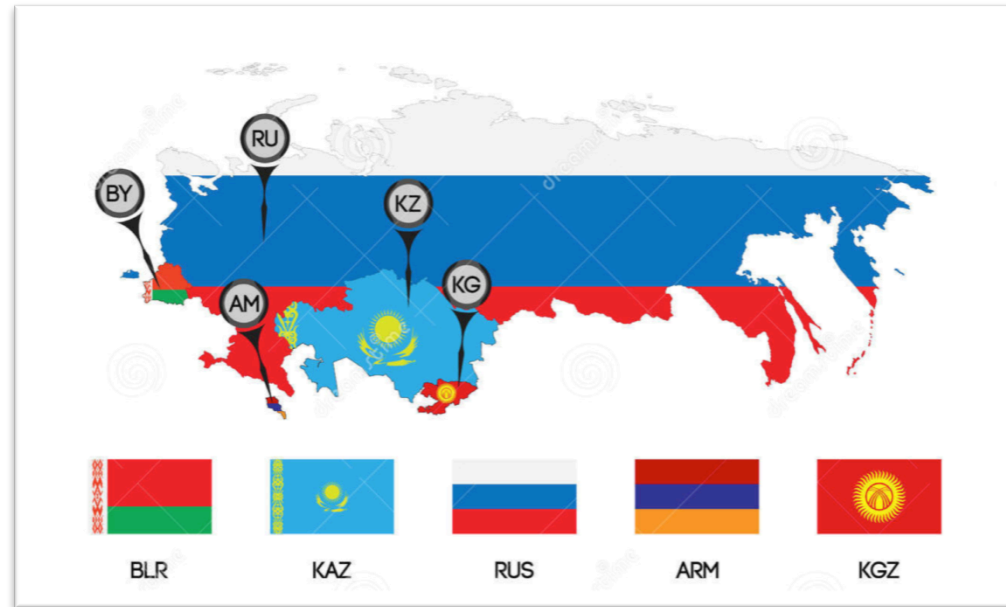


● Russia / All Industries Total ● Brazil / All Industries Total ● South Africa / All Industries Total
● China / All Industries Total ● India / All Industries Total

Source: U.S. Bureau of Economic Analysis

Third Country Opportunities: Eurasian Economic Union

- **177.8 million consumers**
- \$2.41 trillion GDP in 2013
- \$871.6 billion in foreign trade turnover
- > 20 million sq. km land mass
- \$1.3 trillion in industrial production
- World's largest producer of natural gas and oil
- Global leader in production of sunflower seeds (1st), sugar beets (1st), potatoes (3rd), and wheat (4th).
- 7th largest road network and **3rd largest railroad** network (total mileage) in the world



Dos & Don'ts...

- Know your market: Perform detailed market research; identify specific opportunities & competition.
- Speak with companies in the market.
- Start small.
- Don't short-change yourself on professional services.
- Пожалуйста, я вас прошу: Put it in Russian.

Dos & Don'ts (cont'd.)

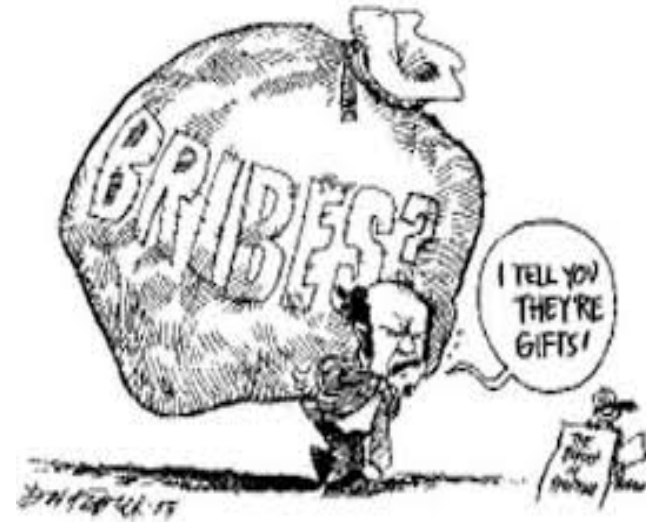
- Have a product-support plan.
- Think L/T.
- Don't be an “absentee” partner/seller.
- Don't lower your business standards.
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- Don't lower your business standards.

Operating in Russia: “best prospect” sectors

- Cosmetics/beauty products; premium brands.
- Energy efficiency products/technologies in all sectors.
- Travel and tourism to the U.S. despite relationship issues.
- Infrastructure projects; 2018 FIFA World Cup.
- Healthcare/medical equipment and technologies.

Anti-Corruption Hotline

- Commerce maintains a hotline and secure website for U.S. entities to report instances of bribery, attempted bribery, and other forms of corruption
- Hotline: **(202) 482-7945**
- http://tcc.export.gov/Report_a_Barrier/reportatradebarrier_russia.asp



Treasury links

Financial: The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) manages U.S. financial sanctions against physical and legal individuals in Ukraine and Russia as well as prohibitions on certain transactions with respect to the Crimea region of Ukraine. See:

<http://www.treasury.gov/resource-center/sanctions/Programs/Pages/ukraine.aspx>.

Frequently Asked Questions and guidance are located at:

http://www.treasury.gov/resource-center/faqs/Sanctions/Pages/ques_index.aspx.

http://www.treasury.gov/resource-center/sanctions/documents/licensing_guidance.pdf.

Commerce links

Export Controls: The Commerce Department's Bureau of Industry and Security (BIS) (<http://www.bis.doc.gov/>) regulates the export, re-export and transfer (in-country) of dual-use goods, software, and technology pursuant to the Export Administration Regulations (EAR).

BIS's list of frequently asked questions can be found at <http://www.bis.doc.gov/index.php/licensing/embassy-faq?view=category&id=114#subcat150>.