

New perspectives in Russia - Opportunities resulting from new WTO membership

Press Release

Russia's accession to the World Trade Organization (WTO) will accelerate the modernization and differentiation of the country's economy. German companies with insight into the Russian market could be major beneficiaries.

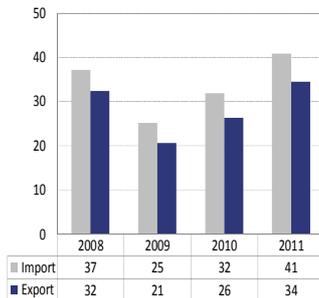
In August 2012, Russia became the 156th member of WTO. By joining the organization, the world's largest state made a commitment to comply with international trade rules and standards. This was a major step in long-term development of the economy, because the opening-up of the domestic markets will significantly improve the trade conditions and investment activities between Russia and other WTO member states. It will also pave the way for a sustainable modernization and differentiation of the Russian economy.

This generates new business opportunities for both, Russian and German companies. Germany as a high-tech country, with its export-oriented companies, is predestined to act as the modernizer of the world's biggest country. In doing so, the German economy could profit from the new situation in two ways. On the one hand, the Western European country could extend its position as one of Russia's major trading partners. On the other hand, Russia will become a more attractive production location.

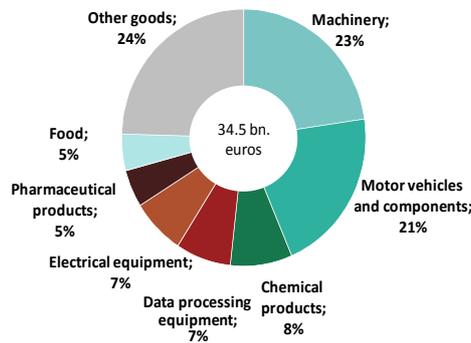
In 2011 German companies exported goods worth EUR 34.5 bn to Russia. In the same year, Germany imported goods worth EUR 40.9 bn from Russia (predominantly raw materials). The demand for machinery is particularly strong (EUR 7.8 bn) since Russian machinery and plant manufacturers are not yet competitive and there is an urgent need for modernization of the means of production. German vehicles, which have traditionally been popular in Russia, show a similar demand (EUR 7.2 bn). There are several other industrial segments which successfully export goods

to Russia. The WTO accession will eventually result in easier access to the Russian market. Import duties will decrease from a current average of 10% to 7.8%. The tariff reduction will be even more significant in the passenger car market. The current average of 25% will drop to 15% over the next seven years.

Bilateral trade:
German-Russia
in bn. euros



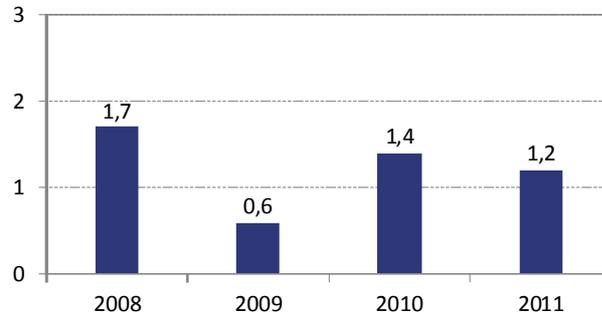
Germany's most important
export goods to Russia, 2011



Source: Federal Statistical Office

Russia is also becoming an attractive investment location. Contrary to all trends, German direct investments amounted to EUR 1.2 bn. in 2011. Today, 6,500 German companies have subsidiaries in Russia, generating revenue of EUR 40 bn. An increasing number of small and medium-sized enterprises have announced plans to build new production facilities in Russia. As a consequence of the continuing strong dependence on oil and gas prices, Russia is gradually opening up to foreign investments. Raw materials, which account for almost 80% of Russian exports, finance approximately 50% of the national budget. However, bureaucracy, corruption, and legal uncertainty prevent a higher investment volume.

German direct investments in Russia in bn. euros



Source: Rosstat

Russia will gradually abolish the current equity capital ceiling of 49% for foreign investments in the telecommunications industry within four years. Russia has also agreed to implement initiatives with respect to phytosanitary regulations and intellectual property.

The success of German companies on the Russian market will largely depend on Russia's implementation of the roadmap for the reduction in customs tariffs and the abolition of legal uncertainty. Furthermore, in-depth knowledge of the Russian market is indispensable. If these requirements are met, German companies could be the major beneficiaries of Russia's accession to the WTO.

Schlegel and Partners has supported its clients with reliable information about market potentials, stages of the value chain, and market trends in various Russian industrial sectors, such as the oil and gas industry, automotive, technical textiles (including nonwovens), chemical industry, construction, and the cement industry. In addition, we support our customers in gaining market intelligence prior to investments. We identify potential sales contacts and key decision makers for the distribution of various product categories. Furthermore, Schlegel and Partners carries out customer satisfaction analyses by consultants fluent in Russian (mother tongue).

If you have any question please do not hesitate to contact:

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