Russia Passport 2015

Cross-Border Trading Report

Your guide to international e-trading

A report researched & compiled
by Ecommerce Worldwide, supported by

wnDirect

NATIONAL ASSOCIATION OF MAIL ORDER and DISTANCE SELLING TRADE

The Russia Cross-Border Trading Passport is the third publication in a series of international trading guides produced and maintained by Ecommerce Worldwide and key industry specialists and supporters for a variety of prospective trading locations around the globe.

These Passports are designed to operate as comprehensive guides for cross-border ecommerce, exclusively focusing on the B2C markets in their subject territories.

The complete set of published Passports are available for download on the Ecommerce Worldwide website at www.ecommerceworldwide.com

For more information please visit

www.ecommerceworldwide.com

or you can email

info@ecommerceworldwide.com

CONTENTS

FOREWORD

By wnDirect

To give you an idea of the size of the prize when it comes to ecommerce in Russia, ecommerce turnover in the country was USD 17 billion in 2014 alone, up 27 per cent in ruble on the previous year. It now ranks in the top 5 ecommerce countries in Europe.

Despite the current political climate which may dampen the economy and online sales with it, all indications would suggest that the Russian ecommerce market is only headed in one direction – up. Expert predictions forecast Russia's ecommerce market to reach between USD 40 and 50 billion by 2020; a growth rate that far outstrips the already healthy growth rate of 21% in store-based sales.

However, as with many opportunities, it is not all plain sailing. The current economic, political and cultural challenges have caused a number of high profile retailers to cut their losses and explore other regions. UK-based retailer New Look pulled out of Russia citing political uncertainty, and Apple halted online sales of its products in Russia due to extreme ruble fluctuations.

Importantly, there have also been a number of successes. Samsung holds around 50 per cent of the handset market (2013) and also topped a poll of favourite brands in Russia. ASOS has additionally reported strong sales in its first year of trading in the location.

Samsung holds around 50 percent of the handset market (2013) and also topped a poll of favourite brands in Russia.

You can find more information about wnDirect's services at: www.wndirect.com

So what do these brands have that others don't? Essentially, the insight to treat Russia as an individual country. Both Samsung and ASOS adapted their business models to suit Russian consumer behaviour and preferences – amongst other things, modifying product names and providing a tailored delivery service. Samsung also recognised the benefit of having domestic partners and used this insight to negotiate contracts with major carriers in Russia.

wnDirect's own experience of the Russian market reflects the benefit of local partnerships in the location. Having partnered with SPSR, one of Russia's leading providers of express delivery services, wnDirect gains valuable insight and knowledge into the local market. This paid significant dividends in 2014, when legislative changes in Russia made it incredibly difficult for retailers to send deliveries into the territory. At the time of the changes, wnDirect was the only carrier that was already complying with the new customs clearance requirements for ID capture and, therefore, the only carrier that was able to process and clear Russian customs. Whilst many people had to simply halt activity, for wnDirect it was business as usual.

The general message, then, is that there is significant opportunity in Russia; you just have to be mindful of the challenges. In addition to the current political and economic uncertainty, these also include a very distinct language and a harsh climate.

Recognising the associated opportunities, many of the world's largest ecommerce brands are still focused on the region. eBay, the world's largest online marketplace, opened up its platform to Russia's biggest retailers in 2014. This represented eBay's first local overseas site in seven years.

As well as the impressive size of the market in Russia, there is also a strong desire for foreign brands. Most of the world's largest luxury brands have established themselves in Russia, and have found that their Russian operations outperform other markets in terms of overall profitability and growth. Impressively, in 2013, the top 25 brands searched for on Yandex (the top Russian search engine) were overseas brands – a clear indication of Russian consumer preference. Research from Yandex has also shown that more than a third of Russia's online consumers have made a purchase from a foreign online store, with international brands occupying more than 40 per cent of the market.

However, once again, all is not as simple as it appears; although Russians believe foreign brands are of superior quality, there is an undercurrent of nationalism and a resentment of foreign influence, stimulating the belief amongst Russian consumers that foreign companies offload inferior goods into the territory. Localisation, then, is vital as it further enhances a feeling of trust and credibility amongst these shoppers.

Localisation is a concept we often hear about in the context of international ecommerce. Never, however, was it more important for e-Retail success than it is in Russia. Only a small proportion of Russians speak a foreign language, and there is a general distrust of credit cards, with cash on delivery recorded as by far the most popular payment method in the region for online sales. e-Retailers looking to expand into the territory should take note of the fact that research suggests people in Russia would be motivated to spend more on ecommerce purchases if they felt safer making card payments online, and it is well-documented that they are encouraged by more flexible payment options. Fortunately, these are increasing in reputation and use in the Russian Federation.

Unsurprisingly, online shoppers in Russia don't place much faith in retailers' logistical capabilities, nor do they typically trust having items delivered directly to their homes. Instead, Russian consumers tend prefer 'click and collect' options. According to Planet Retail research, over 80 per cent of Russian consumers would be motivated to shop online with increased frequency if there were more convenient means of acquiring their purchases, such as collection points, lockers and click and collect. In addition to these cultural preferences, fulfilment in general is a major consideration for international retailers looking to sell in Russia. At more than 17 million km², expanding across 11 time zones, it is the largest in the world. Many parts of Russia additionally experience very harsh winters, and the domestic postal service is notoriously unreliable. Being able to deliver to all areas of a country that is 70 times the size of the UK can clearly be a serious problem.

Providing local language communications and offering a customer the option to contact a retailer offline is, of course, also vital. It is common practice for Russian ecommerce sites to display a free contact telephone number for enquiries, and international retailers should mimic this service if they wish to level the playing field with their Russian competitors.

Russian consumers are also frequently afforded the option to 'try at home'; it is normal for customers in this location to order more products and sizes than they intend to keep, particularly when it comes to ordering apparel. This requires retailers to have flexible mechanisms for dealing with order and cash returns. It also means retailers must have a well-stocked inventory so they can adequately fulfil such orders.

So, in summary, is it all worth it?

Russia undoubtedly offers significant opportunities to international retailers, and will continue to do so for years to come. Despite a general stagnation of the Russian economy, the online retail market is actually experiencing respectable growth, driven by a strong desire for Western brands and large proportions of disposable income being dedicated to consumer goods. However, excitement about this market must be tempered with caution; establishing a successful online presence in Russia takes time, a thorough understanding of the marketplace and a commitment to offer a localised experience -something we'd be very happy to talk to you about.

Stu Hill, CEO & Co-Founder of wnDirect
shill@wnDirect.com

ecommerce WORLDWIDE

EXECUTIVE SUMMARY

It's all eyes on Russia at present, with recent political and economic turmoil rapidly diverting the nation from its former path of steady economic growth and improving international relations. Plummeting world oil prices, the highly publicised Russian annexation of Crimea and military intervention in Ukraine have all led the Russian ruble to decrease dramatically against the US dollar, and these events – amongst others - have compounded many online retailers' fears about broaching this tumultuous marketplace.

It is unsurprising that the international retail community has recently expressed marked hesitancy concerning the expansion of their online offering to Russia. Recent politico-economic events aside, the nation's sheer land mass presents significant challenges in terms of logistics and delivery, and adapting a digital offering to appeal to Russia's diverse market presents further difficulties. After all, cross-continental Russian consumers express online behaviours that differ dramatically across Russian regions and Russian consumer expectations are further likely to be at odds with those encountered in an e-Retailers familiar marketplaces.

With all challenges, however, come opportunities, and the Russian ecommerce landscape is certainly no exception to this rule. Russia is the largest country in the world, covering more than one-eighth of the Earth's inhabited land area and -as would be expected – it also has an impressive consumer base. Russia is the world's ninth most populous nation with more than 143 million people, and a delineated area of focus amongst the territory's authorities is increasing the prosperity of the nation's inhabitants and growing the Russian middle class. Russian consumers are also notorious for spending a high proportion of their disposable income on consumer goods, having been dissuaded from saving and investing from former financial crises. Interestingly, for prospective e-Retailers into Russia, the nation's consumers are reported to spend significant sums on electronic and white goods, as well as foreign luxury fashion brands.

Overall, Russia is a complex place to do business, and will remain so for the foreseeable future. Despite this, many major corporations have concluded that the country's potential demands their presence there. A significant number are finding their Russian contingents very profitable, and the majority express optimism for continuing lucrative business opportunities now and in the future.

The purpose of this Passport is to detail and examine the key considerations of a prospective merchant in seeking to successfully trade with customers in Russia, a country still reporting ecommerce growth despite the strains of economic recession. From effective Russian marketing and payment strategies to obligatory requirements surrounding legality, company formation and tax, the information contained in this Passport documents the building blocks of setting up and running a successful and prosperous e-Business in Russia. The body of this report seeks to explore these considerations in detail, though some of the key findings, insights and statistics are shared in the following section summaries.

TERRITORY OVERVIEW

This section forms a general overview of Russia as a prospective trading location, and contains information related to component parts, gross domestic product and population distribution. This section also compares the ecommerce growth rates of the 'capitals' of Moscow and St Petersburg and the regions of Russia, where, in recent years, the majority of the ecommerce market growth has taken place. The section finally contains statistics extracted from OECD iLibrary data, which forms a useful comparative piece when viewed in conjunction with the identical statistical profiles in other Cross-Border Trading Passports.

ONLINE & MOBILE

STATISTICAL OVERVIEW

This section documents statistics and facts related to online and mobile purchasing behaviours within and across different regions of Russia. From popular search engines, social media platforms, domain names and devices to individual spends, peak online shopping periods and e-Retail sector growth, this section offers a comprehensive overview of the general trends and statistics a merchant should be aware of when digitally expanding into Russia. Key findings include:

- In 2014 there were 79 million internet users in Russia (nearly 55% of the population). Russia was Europe's number one in internet users.
- In 2013, Russia had a 160% mobile penetration rate, though smartphone penetration was only recorded at 43% (or just over 61 million people) that year. Though currently around half of Russians connect to the internet via 'feature' phones, smartphones are dramatically increasing in popularity.
- At present, there are only around 8.5 million mobile shoppers in Russia, and Russian consumers spend a comparatively small proportion of their mobile browsing time shopping online. Instead, social networking, messaging and search functions are typically preferred, though Russian consumers often research goods online using smartphones before making purchases via alternative means.
- The overwhelming dominance of Yandex over other search engines in the Russian Federation, with a 60.5% market share.
- In 2014 there were around 31 million online shoppers in Russia, and this figure is expected to reach 40 million in 2015. The total ecommerce value that year was approximately USD 17 billion, and cross-border sales made up around USD 5 billion of this figure.
- In 2014, the average Russian consumer e-order value was around USD 75, though when a purchase was made from a foreign internet shop, the average value increased to USD 95.
- Online sales in Russia account for just 2 -2.5% of overall retail sales, but this is estimated to rise to 5% during 2015.
- The most frequently-purchased categories of online goods bought by Russian consumers include consumer electronics and white goods (42%), clothing and footwear (13%), and car parts (10%).
- The Russian ecommerce market will continue to grow in coming years, despite being slowed by economic difficulties. In the next five years, the Russian ecommerce market is expected to grow to between USD 40 - 50 billion.

In Russia, Yandex overwhelmingly dominates other search engines with a 60.5% market share.

MARKETING & BRANDING

This section explores the most popular and effective marketing mechanisms in Russia with the aim of assisting prospective e-merchants in making the best overall marketing choices for their businesses in this location.
Key points explored include:

- A brief examination of the approaches that have proved popular amongst e-Retailers when it comes to expanding into Russia, including the use of an online shop's existing infrastructure, the setting up of a separate, stand-alone website within Russian borders and/or the establishment of (or partnership with) legal entities in the territory. This section additionally explores the merits and demerits of these options, as well at the stages of trading at which they might become commercially expedient.
- The overarching importance of localising a website for the Russian marketplace. This section includes a brief examination of some recommended localisation measures, such as the production of content that is relevant to the Russian marketplace, the hosting of this content in the Russian language and the presentation of it on platforms familiar to Russian e-Shoppers. Russian search engines favour local domain names, and so to maximize exposure e-Retailers looking to target Russian e-Shoppers should consider setting up a website with a .ru domain name.
- Detail and advice relating to the three most popular methods of digital marketing within the Russian Federation, including organic search via search engine optimisation (SEO), pay-per-click (PPC) and media advertising, including digital media.
- The importance of utilising social media as a marketing tool in Russia to establish a brand presence in the location, Particular regard should be given to popular home-grown social media platforms such as VK and Odnoklassniki. This section also explores the value of YouTube as a marketing tool in Russia.
- An examination of consumer trends and habits in the Russian Federation, including an exploration of the current and historic events which have impacted shopping behaviours in this location. One example is the proclivity of Russian citizens to spend large proportions of their disposal income on consumer goods instead of saving and investing. This is largely a result of a number of Russian financial crises in recent years, ultimately leading to a general mistrust of domestic financial institutions.
- The seven major trends of digital marketing in Russia expected to be encountered in 2015.

POLITICAL, SOCIAL & ECONOMIC ENVIRONMENT

This section explores the currently turbulent Russian political, social and economic environment, focusing in particular on any areas that might impact upon an aspiring e-Trader looking to target Russian consumers. Key points of interest include:

- An examination of the causes of the rapid collapse of the ruble and general stagnation of the Russian economy, due to –amongst other things - plummeting world oil prices and stringent sanctions imposed by the international community as a direct result of Russia's foreign policy in Crimea and Ukraine.
- The international repercussions of Russia's economic upheaval, including a soaring rate of inflation (to 16.7% in February 2015), an increase in costs associated with the import of goods and a decrease in purchasing activity amongst Russian consumers.
- By the summer of 2015, the Russian economy is likely to further contract by about 5%
- Russia's membership of and participation in international treaties and agreements such as the Eurasian Economic Union, WTO and the Vienna Convention, and the past and future impacts and benefits of Russia's status as a member of these alliances. One important result of these international co-operations is the reduction of barriers to trade amongst member States.
- An exploration of the level of government intervention in business that a foreign e-Retailer might expect through expansion into the Russian Federation. Forbes magazine, for example, in its ninth annual ranking of the Best Counties for Business in 2014, allocated Russia 91st out of 146 countries for its business environment, and 30th for government interference in business.
- Recent and future progress in Russia's business environment for both domestic and international organisations, and any associated hurdles to be overcome. In coming years, organisations can expect to see the lessening of government supervision of businesses, as well as a reduction in administrative barriers related to day-to-day practice. Future plans additionally include the unification of the regulatory powers of State authorities. New laws will be progressive, and foresee greater equality in the official inspection of businesses, though it is unlikely they will receive as much focus whilst Russia is still in the midst of international disputes and domestic crisis.
- The minimal differences in the level of official intervention in and regulation of domestic and foreign retailers.
- A brief look at the socio-demographics of the Russian Federation, including the ways in which Russia's social structure has changed in recent years as a result of shifts in macro-economic policy.
- This area specifically focuses on the impact Russia's current social system may have on e-Retailers into the territory, as well as any past and upcoming improvements in this area which may ultimately improve a retailer's trading experience in the location. Specific areas explored include Russia's growing middle class, the substantial divide between social classes in this territory - both within and across different regions – and employment rates and average wages in the Russian Federation.
- The main tenets of the Russian Government's 2015 anti-crisis plan, the overarching goals of which branch into three basic principles:

  1. The encouragement of economic growth;
  2. The support of priority industries; and
  3. The fulfilment of social commitments.

- Some additional, more positive repercussions of the Russian financial crisis on a prospective e-Retailer into the territory; namely that many costs of broaching the Russian digital market have decreased.

FINANCE & PAYMENTS

This section details the key financial information a prospective e-Merchant should take into account before trading in Russia. This includes the implications of currency controls in the location, as well as the popularity of different payment methods and important taxes and tariffs - both for individuals and businesses - and their respective rates. Key considerations include:

- The financial infrastructure of the Russian Federation, including key regulatory authorities and the leading State-owned banks.
- The recent and future impacts of the Russian economic crisis on the territory's financial sector, including the likelihood of a banking crisis in the location.
- The number of credit and debit cards in the Russian Federation (32 million and 232 million in 2014, respectively), and the remarkable dominance of cash on delivery as a payment method in this territory. At present, some 80-95% of all ecommerce transactions involving physical goods are paid for using this method.
- The growing popularity of non-cash payment methods in Russia, as well as the individual purchasing circumstances in which these digital payments are most used. According to a 2014 study conducted by TNS, the most popular and well-known non-cash payment methods in Russia that year included e-Wallets, bank cards, SMS payments and online banking. Bank cards and e-money were reported to be the most popular of these, with 56% and 46% of respondents having used these methods at least once in the preceding six months, respectively.
- An in-depth examination of some of the leading non-cash payment methods in the Russian Federation, as well as some general payments guidance to take into account upon broaching this digital market.

LEGAL FRAMEWORK & REGULATION

This section provides a general overview of the legal framework of the Russian Federation, as well as an in-depth look at some of the key legislation a foreign e-Retailer must contend with both before and during their trading experience in this location. Key points include:

- A comparison of the different legal requirements imposed upon a foreign e-Retailer choosing to set up a legal entity in Russia, on the one hand, and those that choose to operate via domestically incorporated bodies.
- The highly complex and often-changing nature of Russia's regulation and legislative infrastructure, made more complicated by myriad regional disparities.
- The purpose and effect of some of the most important legislation relating to sellers operating in Russia, including the relevant law on privacy and data handling, consumer protection – including the all-important distance selling regulations -, advertising, digital signatures and authentication and intellectual property.

CORPORATE FORMS & INCORPORATION

This section explores the main corporate forms that exist within Russia and the requirements for operating in each. It also highlights the restrictions imposed on the formation and running of a company in this location.

LOGISTICS, COMMUNICATIONS & CUSTOMS CLEARANCE PROCEDURES

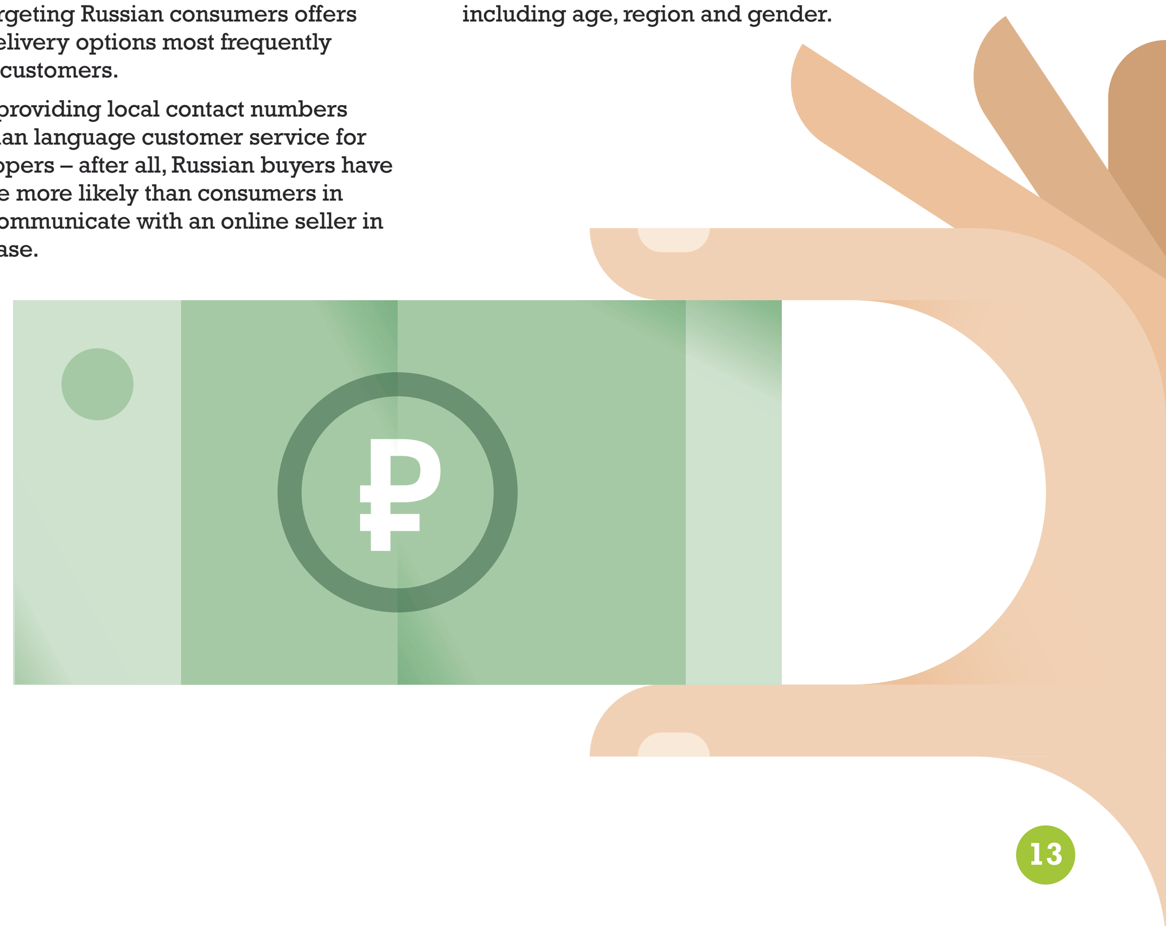
This section examines many of the significant considerations and developments that may impact upon an e-seller when delivering goods to Russian consumers. Particular considerations include:

- The multiple logistical hurdles that can complicate an e-Retailer's Russian delivery aspirations where products, and thus services, are offered to regions outside of the major economic and commercial areas of Russia – namely 143.7 million people spread across a surface area of 17,075,000 km², 11 time zones, extreme climatic challenges, two continents and a diverse range of consumer expectations for delivery.
- Russia's overall progress in the development of its logistical infrastructure, spurred on by the notable growth of B2C ecommerce and new technologies. Developments have further been aided by the fact that many regions of Russia have excellent access to sea, road and rail routes, and the fact that the territory is home to several major airports. Despite advancement in this area, there is still much work to be done before the more remote regions of Russia can compete with more developed markets or even the nations 'capitals' of Moscow and St Petersburg.
- The relative merits and demerits of logistics solutions available within Russian borders, and the increasing market saturation of third-party suppliers in this area. This section explores in particular some notable complications that accompany the operations of the Russian Post, the provider that offers the greatest level of territorial coverage in the Russian Federation.
- An in-depth exploration of customs clearance processes in the Russian Federation, including an examination of what can be expected both in B2B and B2C customs clearance procedures.

OPTIMISING CUSTOMER EXPERIENCE

The final section of the Russian Cross-Border Trading Passport offers information and advice on inspiring consumer confidence and promoting customer retention in the Russian Federation. Specifically, this section explores:

- Consumer expectations and trends in digital behaviour that, in some cases, are unique even to particular regions of Russia.
- The overall necessity of localising an online shop to appeal to Russian consumers, through, for example, the translation of all pages and elements of an offering into the Russian language, the display of pricing in rubles and the adaption of infrastructural operations for the Russian market market. It is strongly recommended that an e-retailer targeting Russian consumers offers the payment and delivery options most frequently preferred by these customers.
- The importance of providing local contact numbers and adequate Russian language customer service for Russian online shoppers – after all, Russian buyers have been reported to be more likely than consumers in other locations to communicate with an online seller in advance of a purchase.
- The factors which have been reported to motivate Russian consumers to shop online, both domestically and internationally. When surveyed by Yandex and GFK in 2013, Russian consumers reported that in both cases, it was price considerations that played the most important role in encouraging online purchasing behaviour.
- Shopping habits of typical Russian consumers, both as a whole and across a variety of demographic groups, including age, region and gender.



TERRITORY OVERVIEW

Supported by wnDirect

World ecommerce rank: 13

Population: 143.7 million

Components: The territory of Russia is grouped into federal subjects which are then subdivided into administrative and municipal divisions. As of March 2014, the Russian Federation is made up of 85 federal subjects. Each constituent member is granted some degree of autonomy and equal federal rights of representation in the Russian Federation Council.

There is some controversy over the jurisdictional status of two federal subjects of Russia: the Republic of Crimea and the federal city of Sevastopol. These subjects are internationally recognised as part of Ukraine.

Russia's federal subjects can further be grouped into nine federal districts and twelve economic regions.

Official language: Russian

Gross domestic product: USD 2.1 trillion

Currency: Ruble

You can find more information about wnDirect's services at: www.wndirect.com

COUNTRY STATISTICAL PROFILE: RUSSIA

The below table (Table A) displays the overall country statistical profile for the Russian Federation. The table was assembled using OECD iLibrary data, and forms a useful comparative piece when viewed in conjunction with the identical statistical profiles in other Cross-Border Trading Passports.

In some instances across the range of Passports, Ecommerce Worldwide uses the concept of purchasing power parity, displayed as 'PPP', to make accurate financial comparisons across different territories. The Dictionary of Economics published by The Economist defines PPP as 'a theory which States that the exchange rate between one currency and another is in equilibrium when their domestic purchasing powers at that rate of exchange are equivalent.' Thus, exchange rates are free to fluctuate, but the rates of exchange between two currencies in the long run will be determined by the territories' respective purchasing powers – an identical basket of goods should cost the same amount in both territories when you take the exchange rates into account.

For the purposes of these Passports, in this section we will be using the US dollar (USD) as a comparative currency.

Table A

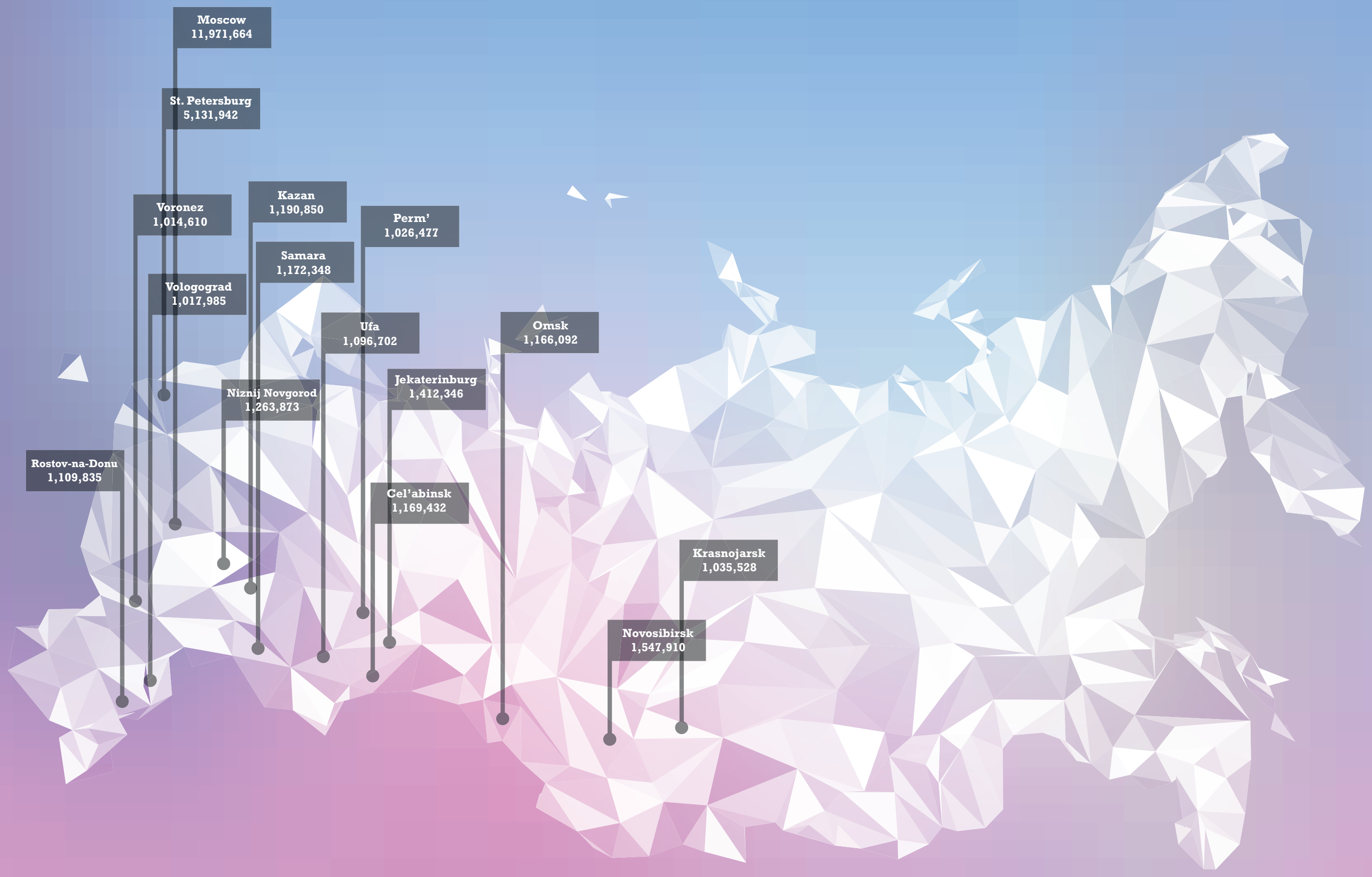
Topic	Measure	Unit	2010	2011	2012	2013
Production and Income	GDP per Capita	USD current PPPs	20 475	22 570	-	-
	Gross national income per capita	USD current PPPs	19 821	21 857	-	-
	Household disposable income	Annual growth %	8.6	4.7	7.5	-
Economic Growth	Real GDP growth	Annual growth %	4.5	4.3	3.4	1.3
Economic Structure – Value Added	Agriculture, forestry, fishing: share of real value added	%	3.9	4.4	3.9	3.9
	Industry: share of real value added	%	28.2	30.1	29.3	29.0
	Finance, insurance, real estate, business: share of real value added	%	16.7	15.6	16.4	16.9
Government Deficits and Debt	Government deficit	% of GDP	-1.2	3.8	2.0	-
	General Government revenues	% of GDP	38.5	40.7	40.7	-
	General Government expenditures	% of GDP	39.7	36.9	38.7	-

Trade	Imports of goods and services	% of GDP	21.1	21.7	22.3	22.5
	Exports of goods and services	% of GDP	29.2	30.3	29.6	28.4
	Imports of goods	Bln USD	228.9	-	316.2	-
	Exports of goods	Bln USD	397.1	-	524.8	-
	Imports of services	Bln USD	73.7	90.0	-	-
	Exports of services	Bln USD	45.0	54.0	-	-
	Current account balance of payments	% of GDP	4.7	5.2	-	-
Foreign Direct Investment (FDI)	Outward FDI stocks	Mln USD	366 301	361 452	387 217	-
	Inward FDI stocks	Mln USD	490 560	454 949	497 820	-
	Inflows of foreign direct investment	Mln USD	31 668	36 868	30 188	54 477
	Outflows of foreign direct investment	Mln USD	41 116	48 635	28 423	70 122
Prices and Interest Rates	Inflation rate: all items	Annual growth %	6.9	8.4	5.1	6.8
	Producer Price Indices (PPI): manufacturing	Annual growth %	11.5	14.0	3.8	2.2
	Long-term interest rates	%	7.83	8.06	8.15	7.33
Purchasing Power and Exchange Rates	Purchasing power parities	RUB per USD	15.83	17.35	18.49	-
	Exchange rates	RUB per USD	30.37	29.38	30.84	31.84
Research and Development (R&D)	Gross domestic expenditure on R&D	Mln USD	22 822	22 963	24 497	-
Population	Population growth rates	%	0.0	0.1	0.2	-
	Youth population aged less than 15	% of population	15.2	15.4	15.7	16.1
	Elderly population aged 65 and over	% of population	12.9	12.7	12.8	12.9

Based on data from: *OECD (2014), "Country statistical profile: Russian Federation", Country statistical profiles: Key tables from OECD.DOI dx.doi.org/10.1787/csp-rus-table-2014-2-en, accessed on 16/02/2015.*

LARGEST RUSSIAN CITIES 2014

The below diagram shows the largest cities in the Russian Federation by population estimate in 2014.



1. Moscow	**CEN**	**11,971,664**
2. St. Petersburg	**SZA**	**5,131,942**
3. Novosibirsk	**SIB**	**1,547,910**
4. Jekaterinburg	**URA**	**1,412,346**
5. Nižnij Novogorod	**PRV**	**1,263,873**
6. Kazan'	**PRV**	**1,190,850**
7. Samara	**PRV**	**1,172,348**
8. Čel'abinsk	**URA**	**1,169,432**
9. Omsk	**SIB**	**1,166,092**
10. Rostov-na-Donu	**JUV**	**1,109,835**
11. Ufa	**PRV**	**1,096,702**
12. Krasnojarsk	**SIB**	**1,035,528**
13. Perm'	**PRV**	**1,026,477**
14. Vogograd	**JUZ**	**1,017,985**
15. Voronež	**CEN**	**1,014,610**

THE CAPITALS v THE REGIONS

Given their impressive populations and high internet penetration rates when compared with other Russian cities, it should come as no surprise that historically the majority of Russian online shoppers were concentrated in Moscow and St Petersburg, with Moscow accounting for nearly half of orders from Russian consumers.

The prevailing - and to some extent, accurate- view is thus of a 'digital divide' between the 'capitals' of Moscow and St Petersburg and the regions, and many e-Retailers have solely targeted these two areas as a result.

However, this traditional perception does not sufficiently take into account the new and emerging realities of Russian ecommerce; market geographies and delivery infrastructures are rapidly changing and improving, and the growth rate of internet users and those making online purchases in the regions has overtaken the growth rate in these capital cities.

The regions of Russia, therefore, should not be discounted from an e-Retailer's strategy when it comes to selling online in this country; there is substantial and growing potential for online sales in these locations, and many nationwide ecommerce companies have generated higher revenues in cities with populations of between 300,000 and one million than they have in Moscow.

	2012 Market Volume (in billion rubles)	2013E Market Volume (in billion rubles)	2015F Market Volume (in billion rubles)	Growth 2012-2015
Capitals	214	260	365	x 1.7
Regions	191	265	480	x 2.5

***Source: Data Insight.** These estimates were made before the 2014 - 2015 crisis.*

The dominance of Moscow and St. Petersburg as ecommerce destinations within Russia is therefore coming to an end.

ONLINE & MOBILE STATISTICAL OVERVIEW

OVERALL

Technological penetration

Number of internet users 2014: 79 million (nearly 55%)

In early 2014, 59% of the Russian adult population had access to the internet and Russia was Europe's number one in terms of internet users. However, the growth of the Russian internet audience had slowed in recent years, boasting only 4% growth when compared with 2013. Internet penetration and usage rates also differ across the regions of Russia, with monthly internet usage rates much higher in Moscow, St Petersburg and other cities with one million + inhabitants, when compared with Russia's smaller towns and villages.

Mobile penetration 2013: Up to 230 million active SIM cards (160% penetration rate)

Broadband penetration 2013: In the Russian Federation the most popular method of accessing the internet is still broadband (fixed and wireless).

In the fourth quarter of 2013, it was estimated that there were 23.1 million fixed broadband subscribers in the Russian Federation, with an annual growth rate of 13.27%. This penetration growth rate has been slowing in recent years, and Moscow, the Novosibirsk Region and St Petersburg had much higher penetration rates than the national figure. In 2013, fixed broadband penetration in the general population reached 16.21%.

IHS forecasts that this growth in broadband penetration will continue, reaching 28.1 million fixed broadband connected households in 2018.

Overall adoption of broadband (fixed and wireless) in Russia stood at 77% in 2014. Broadband penetration rates are continuing to grow at an impressive rate, with annual growth rates above the global average at around 27%. 56 million Russians (48% of population) are now accessing the internet every day.

Tablet penetration 2013: 14%

Smartphone penetration 2014: 43% (over 61 million people)

In contrast to Brazil, China and many Western territories where smartphones have become much more popular than traditional mobile phones, roughly half of mobile internet users in Russia connect to the internet via 'feature phones', or, mobile devices with no touchscreen, QWERTY keypad or operating system.

It is important to note, however, that in 2012 high speed cellular bandwidth became more widely available in the Russian Federation, resulting in a vastly increased annual user growth rate for smartphones. eMarketer thus predicts that the next four years will continue to produce double digit growth rates for the smartphone industry in Russia.

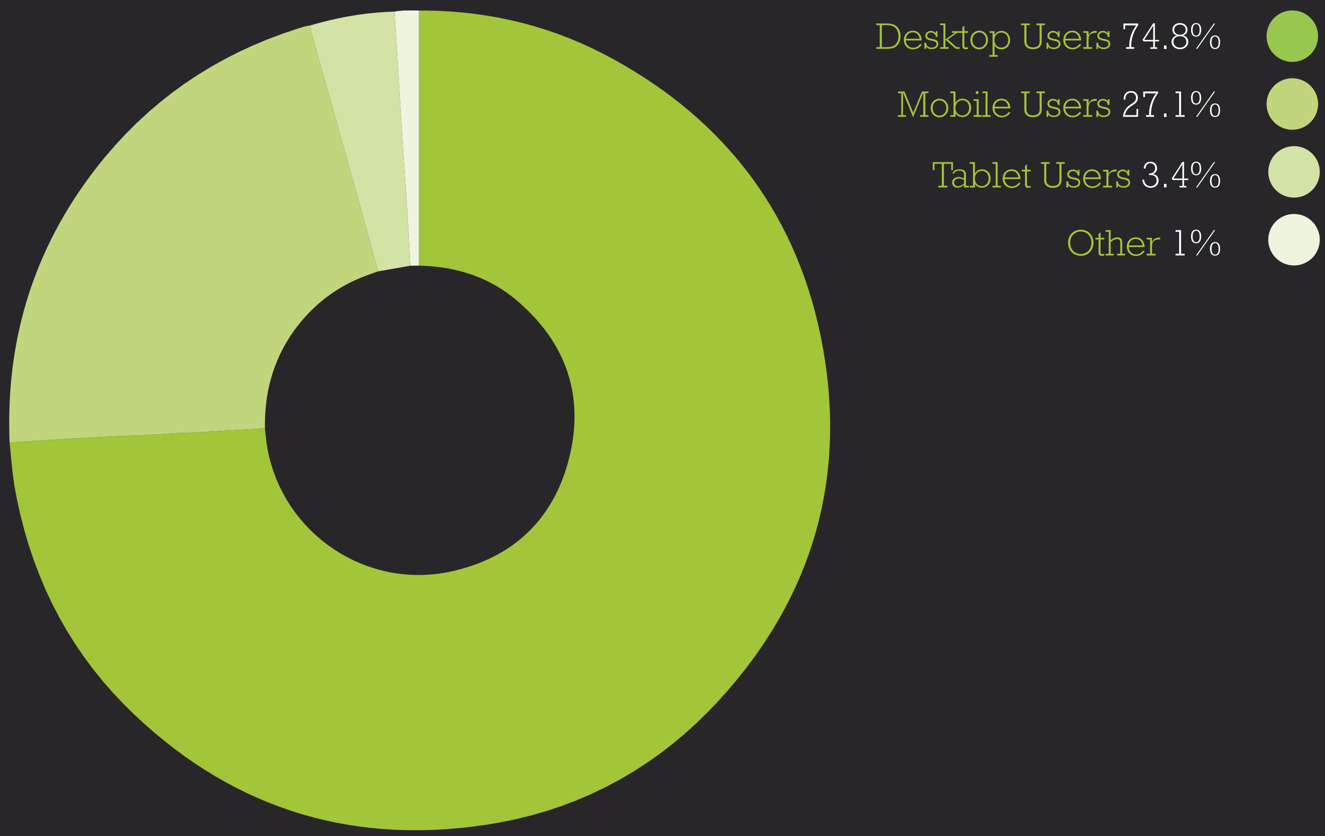
Therefore, though Russia has been a relatively slow adopter of mobile internet and smartphones when compared with its European neighbours, it is now placed amongst the top five fastest-growing countries in terms of smart device penetration. Indeed, smartphone sales made up approximately half of all mobile sales in the third and fourth quarters of 2013.

According to Yandex, in 2013 the number of Russians using the internet on a mobile device (smartphone or tablet) increased by 1.5x to 25.5 million users. By 2017, PwC predicts Russia will have 100 million mobile internet users, or roughly 70% of the population as it currently stands.

How did Russian consumers access the internet?

As is the case with most territories across the globe, within Russia the growth rate of desktop internet usage is slowing down whilst mobile internet usage (including feature phones, smartphones and tablets) is on the rise.

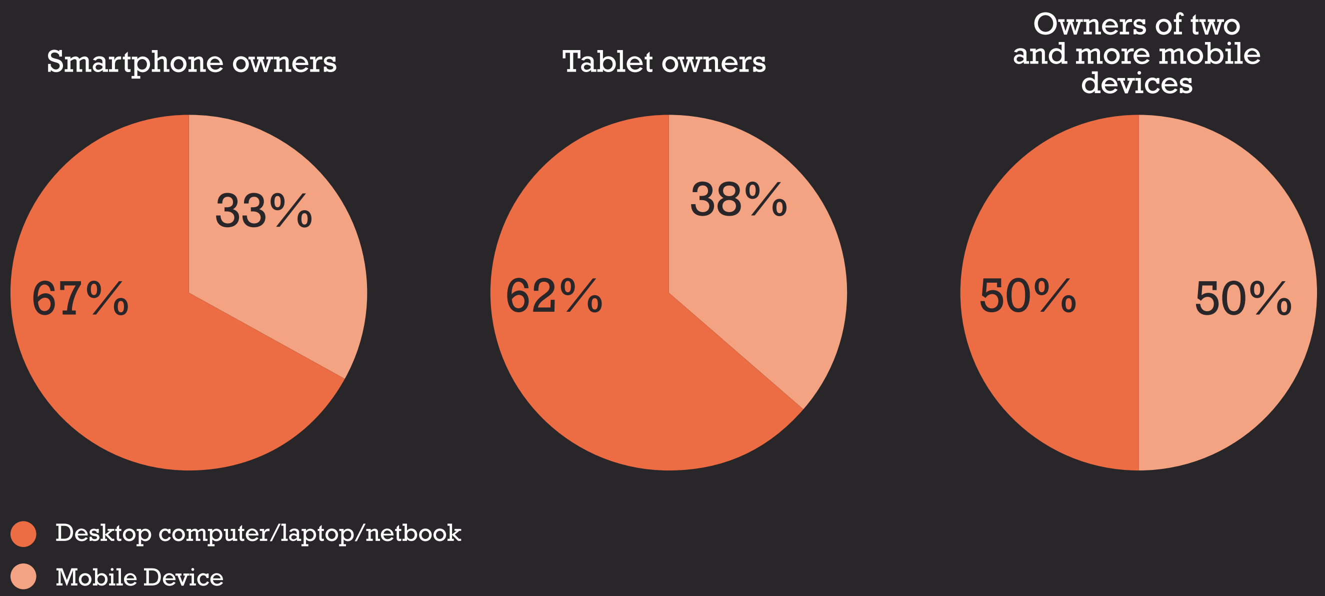
The below chart depicts Russian usage rates by device in 2013:



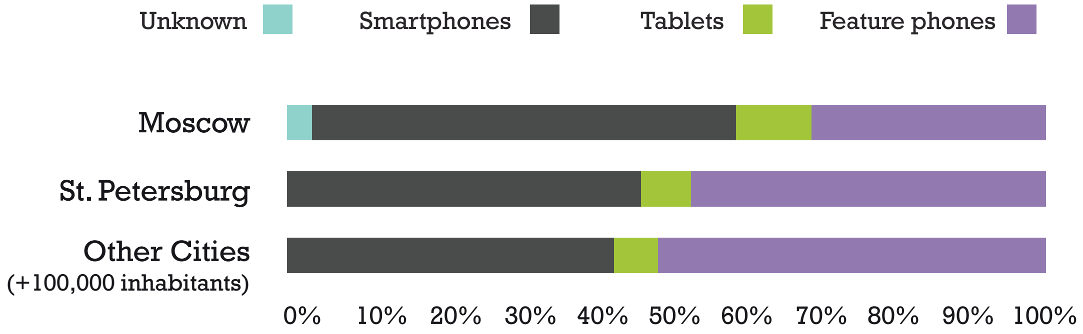
Accessing the Internet

Internet users in Russia lead Europe in time spent online, with users spending an average of 4.8 hours on the internet every day.

When an individual in Russia owns a desktop/laptop/notebook computer and two or more mobile devices, 50% of their time online is spent on a mobile device as depicted below. E-Retailers looking to target Russian consumers should take this into account when developing their digital strategies.



Methods of accessing the internet in Russia also vary according to geographic region. For example, mobile internet users in this location are most likely to be residents of economically advanced regions.
Indeed inhabitants of Moscow and St. Petersburg, are 2 to 3 times more active in their online presence than the country average, and are more likely to use smartphones than their counterparts in less advanced areas of Russia



Source Yandex, 2012

National website domains:

The below table displays popular Russian domain names, together with some general information on the circumstances in which they are most commonly used.

Domain	Comment
.ru	.ru is the Latin alphabet country code top-level domain (TLD) for the Russian Federation. Domain registration is open to anyone.
.рф	.рф is the Cyrillic country alphabet code top-level domain for the Russian Federation, and domain registration is open to anyone. The domain accepts only Cyrillic subdomain applications, and is the first Cyrillic implementation of the Internationalising Domain Names in Applications (IDNA) system.
.su	.su was assigned as the country code top-level domain for the Soviet Union, and this domain is still used today though it is subject to some controversy and is decreasing in popularity. Registration is open to anyone, though a registrant wanting a .su domain will be required to submit authentic personal data. The .su TLD allows an option to register a domain in national script (IDN). The administrative body for the .su domain is the Russian Institute for Public Networks, and an accredited registrar must be contacted for registration.
.moscow / .москва	These top-level domains were established to create a unified information space for Moscow; an online brand for the Russian capital. Such domains can be beneficial for users who want to associate their websites with Moscow, and thus attract specific types of visitor. The .moscow / .москва domain is coordinated by the Foundation for Assistance for internet Technologies and Infrastructure Development (FAITID) with the official support of the Department of Information Technology of Moscow. Registration is open to anyone. To register a .moscow / .москва domain, a registrant must contact an accredited registrar, a list of which is hosted on http://nic.moscow/registrars.
.com.ru	The .com.ru domain name is a generic second-level domain for commercial enterprises and is an option for individuals and legal entities conducting online business in the Russian Federation.
.org.ru	The .org.ru domain name is a generic second-level domain that can be a good choice for those launching a non-commercial project.
.net.ru	The .net.ru generic second-level domain is the best choice for network operators and developers.

Importantly for an e-Retailer looking to set up a website in Russia, .com.ru and other second-level domain names are ranked lower on search engines than top-level alternatives. What's more, second-level domain names became popular in Russia 10 years ago when hosting was very expensive. Now, however, the price of hosting on top-level domains is negligible both for individuals and businesses, and second-level domain names have become less and less popular as a result.

By far the most popular domain names in Russia are .ru and .com, and where available these will almost certainly be the best choice for your e-Shop in this location. All other zone names will sound exotic and strange to Russian consumers, though .net and .org are certainly acceptable alternatives for IT or non-commercial organizations.

The .рф domain is growing in popularity in Russia but its usefulness is limited as it is very inconvenient when it comes to organic search results. The SEO rule-of-thumb is that if you plan to promote your website, don't use .рф - go for .ru.

Administrative control and technical support of the .ru/.рф domain has been assigned to the Coordination Centre for TLD RU/ рф. The Coordination Centre for TLD RU/ рф, does not, however, perform a registrar's functions. Registration of second-level domain names in .RU/. рф is available only through accredited registrars, a list of which is displayed at http://www.cctld.ru/en/registrators/.

All geographical regions of Russia have their own second-level domains, as do many specific sectors, and there are a number of pre-set second-level domains designated for third-level domain registration (some of the most popular of which are included in the previous table). There are currently 133 active second-level domains available for registration in Russia.

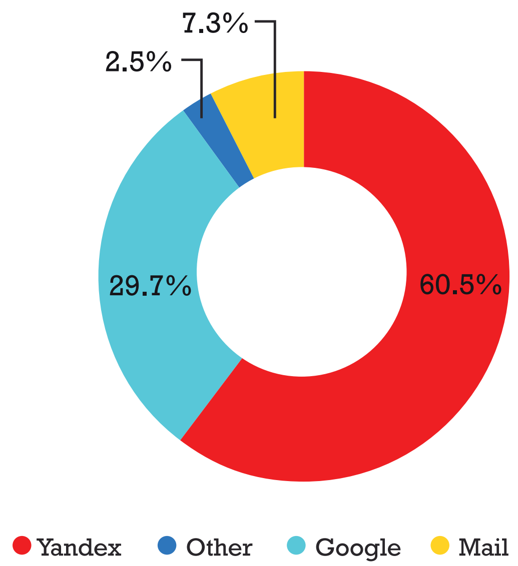
Domain names are registered for a period of one year. To keep an allocated domain name for an additional year, the registrant must go through a re-registration procedure.

Popular search engines:

Yandex is the leading search engine in Russia, with Google in second place trailing quite significantly behind in terms of market share. Yandex has long maintained its dominance in this area of the market, and is forecasted to continue to do so into the future.

When it comes to broaching the Russian ecommerce market, it is clear that an e-Retailer should not ignore Yandex as a means of establishing a presence amongst Russian consumers. Yandex is a tool that is reputed to be unparalleled when it comes to digital marketing strategies.

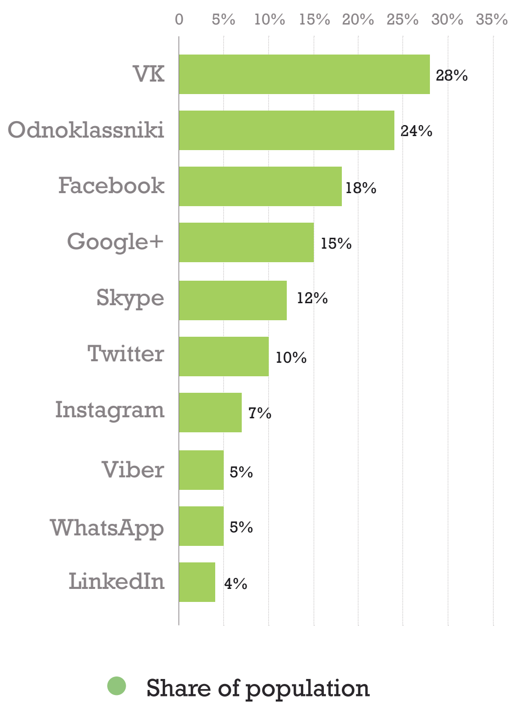
Other popular search engines in the Russian Federation include Search.Mail.ru (depicted as 'Mail', right), Rambler and Bing. The latter two search engines do not play a significant role in Russian search behaviour.



Social media:

As with search engines, Russian consumers tend to prefer home-grown social media platforms to otherwise popular global alternatives, with domestic social networking site VKontakte the most popular with a 28% penetration rate. Odnoklassniki.ru follows closely behind, and is particularly popular with Russian students that want to connect and share data.

In the fourth quarter of 2014, it was reported that 46% of the Russian population had an active account with any social network and 34.5 million Russians were visiting at least one social network every day. These statistics go a long way in explaining why social media platforms are being considered an increasingly important marketing and advertising tool within the Russian Federation.

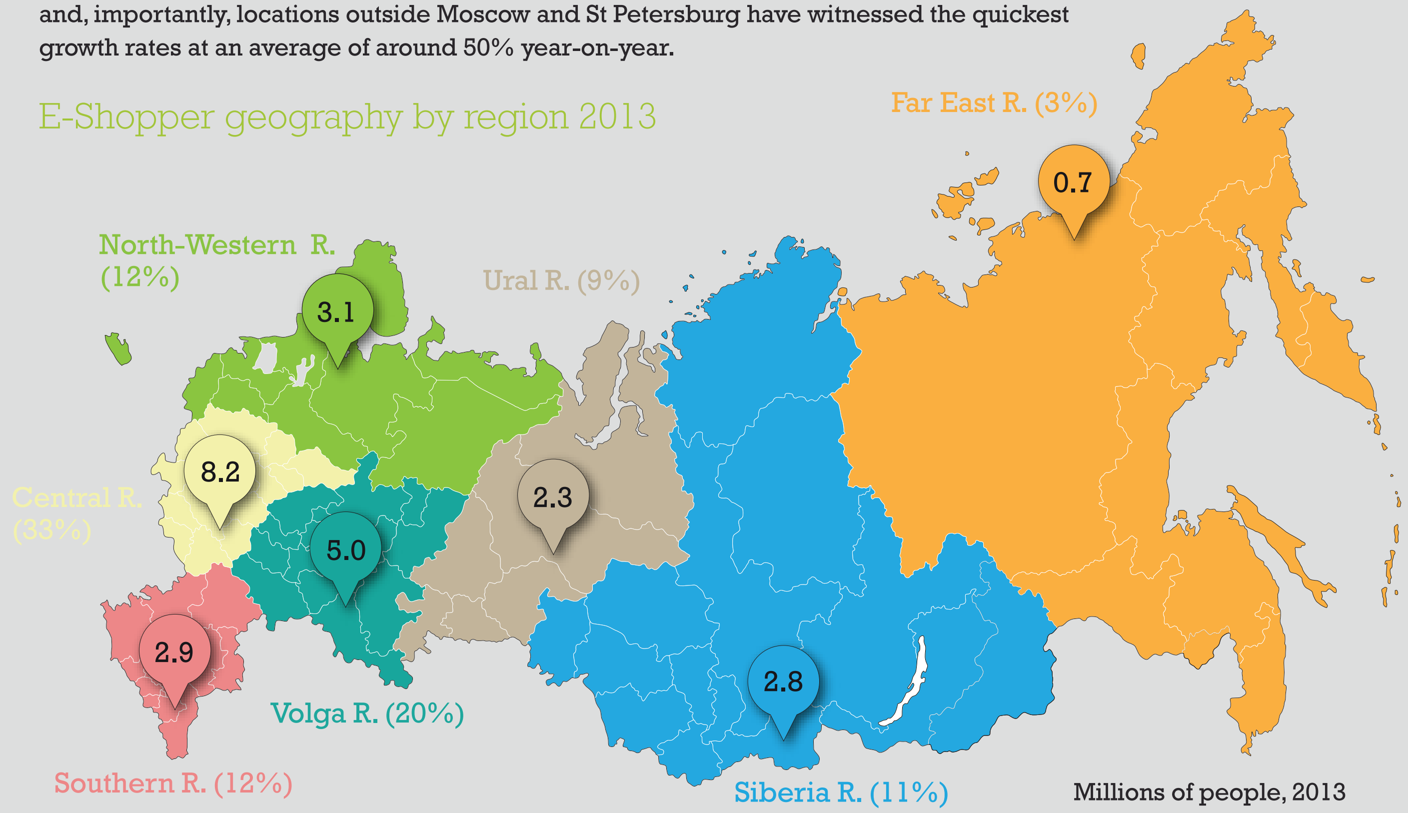


E-RETAIL IN RUSSIA

Number of online shoppers 2014: Roughly 31 million, representing around 21.5% of the population and 39.2% of active internet users. The figure is expected to reach 40 million in 2015.

The number of internet users making online purchases in Russia grew dramatically in 2013, and, importantly, locations outside Moscow and St Petersburg have witnessed the quickest growth rates at an average of around 50% year-on-year.

E-Shopper geography by region 2013



Number of mobile shoppers 2014: Approximately 8.5 million, representing around 0.6% of the population. These numbers are expected to increase dramatically as mobile internet and smartphone devices grow in popularity across Russia.

Total ecommerce value 2014: Approximately USD 17 billion (RUB 660 billion), up 5% in USD and 27% in RUB on the previous year. This figure includes domestic purchases of physical and digital goods, including tickets, but not hotel bookings, B2B sales and coupons. Of this figure, approximately USD 11.5 billion (RUB 440 billion) was spent on physical goods and cross-border sales made up around USD 5 billion.

36% of Russian online shoppers have reported that they have made purchases from foreign internet shops, and one of the fastest growing segments in Russian ecommerce is cross-border online retail.

Total m-Commerce value in 2014: Roughly USD 3.4 billion (or RUB 222 billion)

As an emerging market, Russia has a lower share of mobile transactions than many Western markets; mobile transactions only account for a 20% share of total ecommerce transactions (split by 7% smartphones and 13% tablets).

Although each year the actual growth of sales via mobile devices turns out a little less strong then experts have predicted, volumes still grow considerably and each year m-Commerce takes up an increasing proportion of the total ecommerce sales.

Average annual online spend per capita 2014: Approximately USD 828. This figure is increasing substantially every year.

Average consumer online order value 2014: Around USD 75, and Russian consumers typically make around 10 purchases a year.

Average purchase value in foreign internet shops 2014: Approximately USD 95 (RUB 6250)

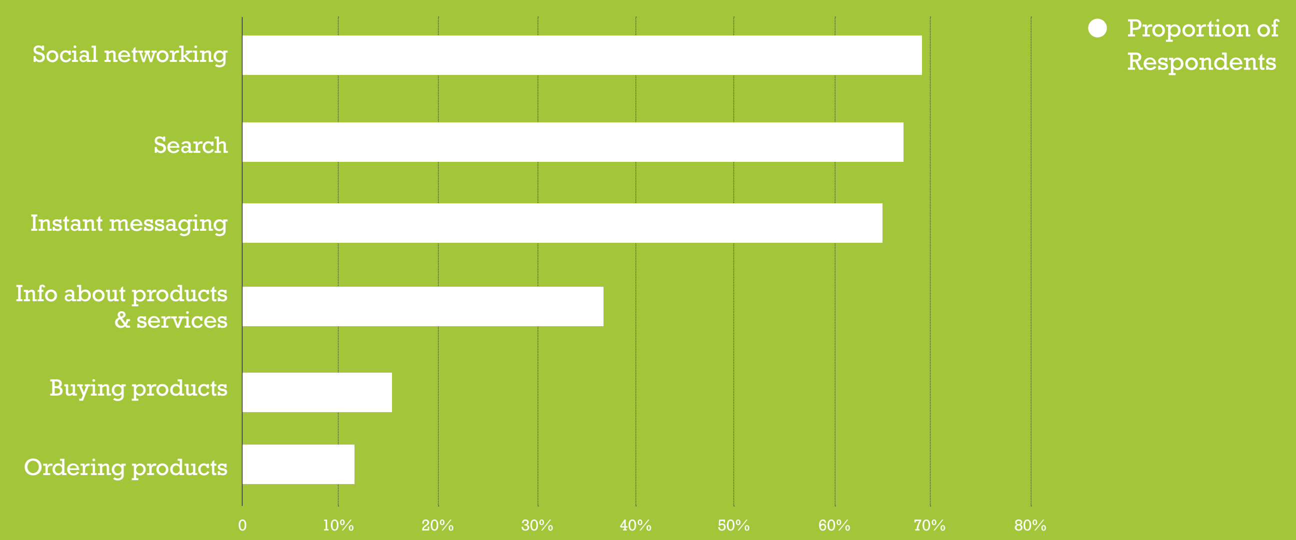
Online's percentage of total retail sales in 2014: Online sales in Russia account for just 2 -2.5% of overall retail sales, but this is estimated to rise to 5% in 2015, according to Morgan Stanley.

HOW THEY BUY: PC V MOBILE

As previously indicated, although mobile internet activity has recently grown dramatically in the Russian Federation, there is still a long way to go before Russia's m-Commerce sphere will compete with other, more developed digital markets, or indeed sales concluded via desktops, laptops and notebooks within Russian borders.

Overall, mobile device traffic only constitutes around 7% of all traffic to Russian websites, and so far only 21% of surveyed smartphone users living in Russian cities with a population of 100,000+ have made purchases via their phones, although the proportion increases in Russia's largest cities, Moscow and St Petersburg, to 23.6% and 23.9% of smartphone users respectively.

Interestingly, at present Russian consumers spend a comparatively small proportion of their mobile browsing time shopping online. TNS in their 2013 research discovered that most people in Russia use their smartphones for social networking, messaging and search, whereas only around 10-15% of surveyed respondents used their smartphones for buying or ordering products online, as indicated in the chart below.



It is important to note, however, that almost 40% of Russian respondents surveyed by TNS stated that they researched information about products using a smartphone before buying the products offline or via another device, and so –even without the promise of dramatic future m-Commerce growth – this is a channel that shouldn't be ignored by a prospective e-Retailer into Russia.

A report entitled 'The Russian m-Commerce Market in 2014', presented by the marketing agency, has additionally indicated that those Russian consumers who have purchased tablet devices are much more likely to complete the online order process using those devices than those shopping on smartphones. The report stated that around 48% of tablet users made purchases of goods and services via these devices in 2014. Sales of tablet devices are increasing dramatically in Russia, so m-Commerce sales in the territory will certainly increase as a result.

Of course, as is the trend across the globe, a main driver of m-Commerce in Russia will be an increase in smartphone and tablet penetration amongst Russian citizens, and we can only expect order numbers to increase as a result.

PEAK ONLINE SHOPPING TIMES

Peak online shopping days within the Russian Federation include the New Year on December 31st, the days leading up to Christmas on January the 7th, and International Women's Day on March 8th.

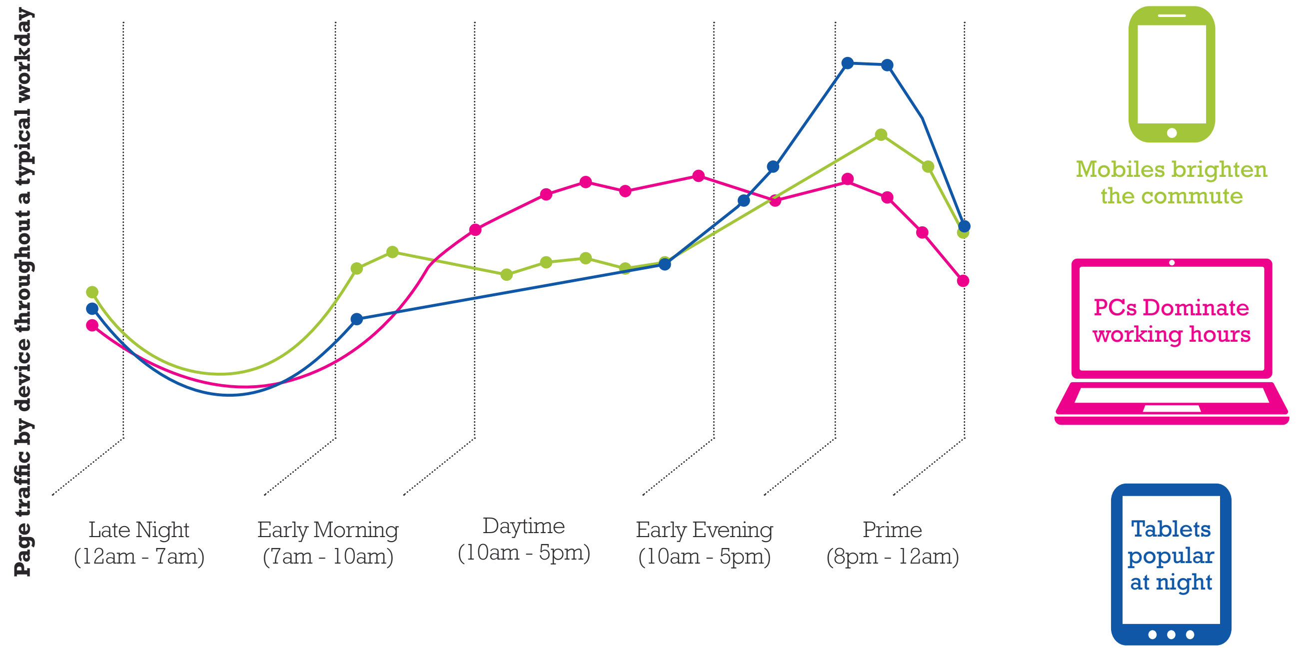
DEC 31st New Year

JAN 7th Christmas Shopping

MARCH 8th International Woman's Day

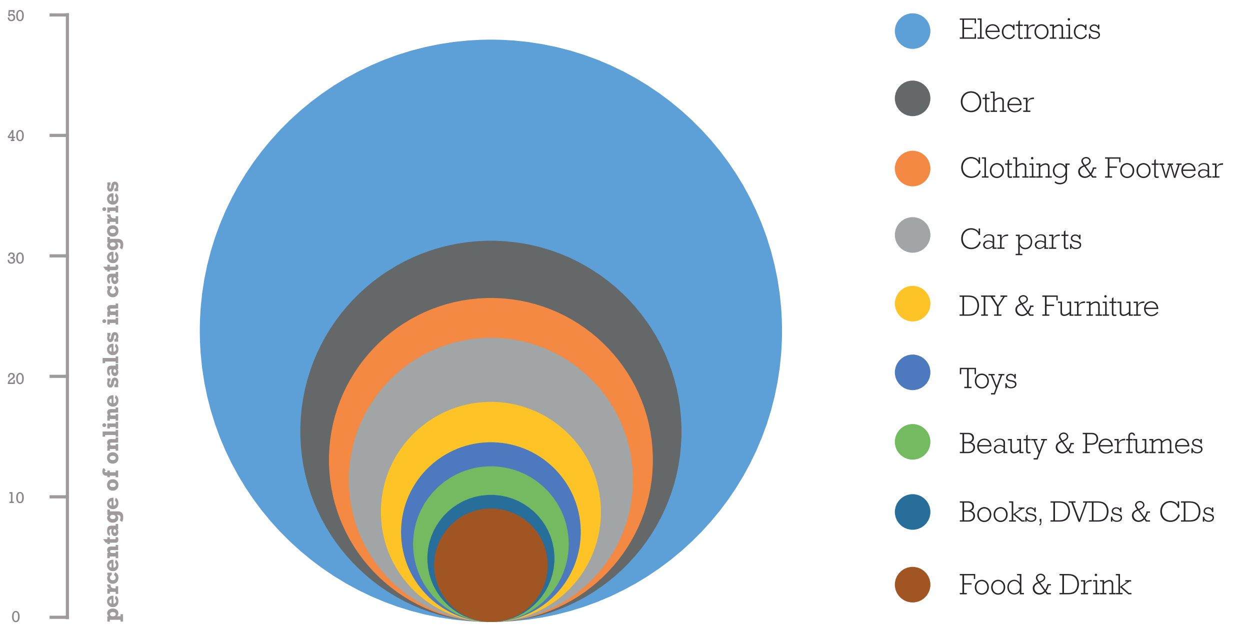
The most prolific times of day when it comes online shopping in Russia are depicted below:

The device preference of Russian consumers also fluctuates throughout the working day, as demonstrated by the chart below.



RETAIL CATEGORIES & GROWTH RATES

Russian consumers display a clear preference for certain categories of goods when shopping online, and three in particular take up a significant proportion of this online marketplace: consumer electronics and white goods (42%), clothing and footwear (13%), and car parts (10%). Digital sales of clothing and footwear have seen dramatic growth over the past few years, partially due to the fact that consumers are getting used to using the free returns option offered by many e-Retailers in this location.



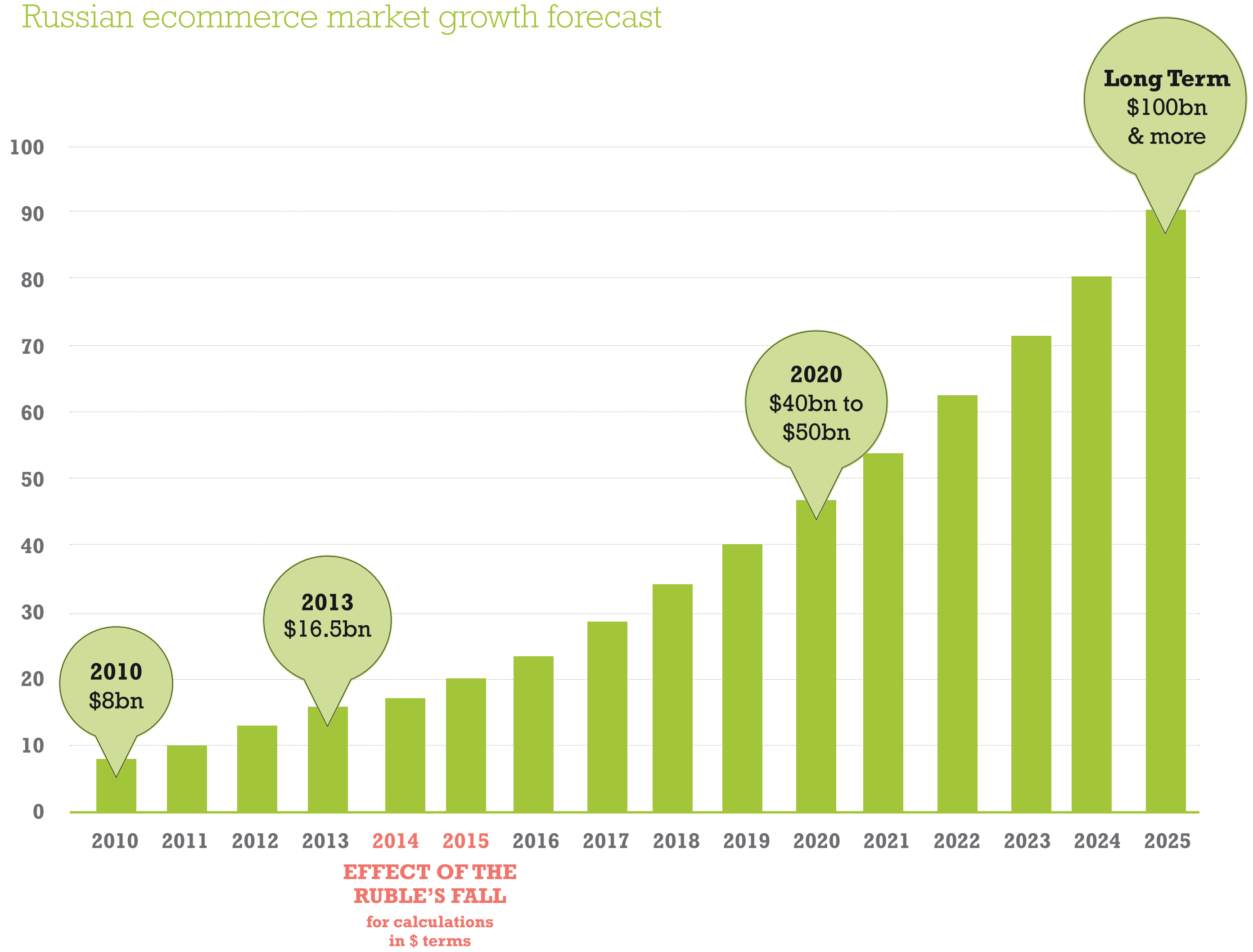
The table below then shows the growth rate of different sectors of the Russian ecommerce marketplace between 2012 and 2013. When comparing the growth rate of specific segments to proportionate ecommerce sector market shares, the category of 'computer, notebooks and computer parts' below is subsumed into 'electronics and white goods', above.

Segments	Growth 2012-13
Household appliances & electronics	34%
Clothing & footwear	34%
Computer, notebooks & computer parts	23%
Car parts	43%
Mobile phones	32%
Children's goods	29%
Home items	97%
Furniture	36%
B2B equipment	55%
Construction materials	40%
Sports, tourism & leisure	42%
Groceries	-1%
Office appliances	30%
Cosmetics & perfumes	31%
Accessories	37%
Books	3%
Gifts	50%
Medicine	63%
Pet goods	95%
Flowers	31%

ECOMMERCE GROWTH

It has been well-publicised that the Russian Federation has recently been affected by both international and domestic turmoil; upheaval which has led to the current quasi-stagnation of the Russian economy. Despite these difficulties, however, the Russian ecommerce market continues to show resilience and grow at significant double-digit rates, though this growth rate will slow in coming years. Long-term expectations for this digital market remain high, with the full potential of Russian ecommerce far from realised.

Russian ecommerce market growth forecast



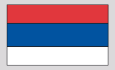
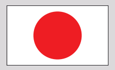
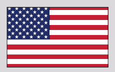
Within the Russian Federation, impressive ecommerce growth figures are and will continue to be driven by a variety of factors. Aside from continually increasing broadband and internet-connected mobile device penetration throughout the regions, growth is fuelled by the wider use of online payments and the further development of fulfilment infrastructure in the remote areas of Russia, amongst other things. Indeed, online sales more than doubled in December 2014 when compared year-on-year with December 2013, with some Russian e-Retailers such as Wikimart experiencing even more impressive December year-on-year growth figures. Wikimart reported a fourfold increase in one-day online sales revenues for goods purchased on December 17 2014 when compared with the same day the previous year. Impressively, the Russian ecommerce market has been predicted to reach or exceed the USD 100 billion mark within 10 to 15 years.

Russia's leading online retailers

The following table was compiled using information extracted from Data Insight, Enter Vision and East-West Digital News' research into Russia's 2013 sales data. It solely takes a companies' online revenue into account.

	Site	Segment	Net Sales (online sales incl. VAT in million USD)	Average monthly traffic (million unique users per month)
1	ulmart.ru	Home appliances & Electronics	684	7000
2	svyaznoy.ru	Home appliances & Electronics	507	8000
3	wildberries.ru	Apparel & Footwear	487	13000
4	citilink.ru	Home appliances & Electronics	383	2900
5	exist.ru	Autoparts	364	2700
6	ozon.ru	Diversified assortment	289	8100
7	quelle.ru	Apparel & Footwear	229	1900
8	lamoda.ru	Apparel & Footwear	191	5800
9	mvideo.ru	Home appliances & Electronics	186	8800
10	bonprix.ru	Apparel & Footwear	185	2900

Major Russian Trade Partners 2013

country	x-border retail volume	exports	imports	% change from 2012
	88842,0	35630,5	53211,5	+ 1,7%
	75972,0	70126,1	5845,9	- 8,3%
	74944,1	37027,8	37916,3	+ 2,2%
	53868,3	39314,5	14553,8	+ 17,8%
	33211,9	19648,5	13563,3	+ 6,6%
	32755,8	25499,7	7256,0	- 4,6%
	27916,5	19582,2	8334,3	+ 2,0%
	27732,9	11196,1	16536,8	- 2,6%
	22214,8	9292,9	13011,9	- 8,7%
	25182,9	14868,3	10314,6	+ 1,5%

*This data includes all cross-border retail trade– not just purchases made online.

MARKETING & BRANDING

When entering the Russian ecommerce market, the considerations associated with building and marketing a brand are very similar to those deliberated when broaching other foreign markets, although the practical steps required, as well as the approaches resonating with Russian consumers, are likely to differ to those successful in other territories. Russia has both a unique language and culture, and both of these factors are key considerations for any online retailer attempting to break into this digital market.

Broaching the market – the basics

The simplest – though perhaps not most effective - overall method of broaching the Russian ecommerce market is to make use of an online shop's existing infrastructure; an e-Trader simply needs to make his products purchasable by Russian consumers and put in place logistical mechanisms to facilitate delivery. Marketing strategies are no exception to this approach – no active marketing need be undertaken in the Russian Federation.

This route may help an e-Trader gauge whether there is any natural demand in Russia for their particular product(s), but it is unlikely to be very effective unless this retailer has a truly unique, niche offering and/or some brand recognition already established in the Russian market, perhaps through a local distributor. For e-Retailers whose products don't fit this description, it is better to view this approach as a discretionary 'stage 1' of entering the market. Reliable delivery and clearly understandable returns procedures, however, are still vital.

The next, more successful, method of penetrating this market necessitates localisation. If your product is not one-of-a-kind, lacks brand presence and it is unlikely that Russian consumers will navigate a website in English to make a transaction (which is often the case), then localisation is an important factor when it comes to attracting potential customers to your website.

When localising a webpage for the Russian marketplace, it is of the upmost importance to provide content that is relevant to Russian customers, host this content in the Russian language and present it on platforms familiar to Russian e-Shoppers. The key online marketing platforms in Russia differ from the rest of the world, and it is vital to conduct appropriate market research in advance of expanding your international presence; specialist knowledge about Russia-specific platforms is a must. Taking these steps will dramatically increase an e-Retailer's visibility to, and therefore success with, Russian customers. Russian search engines also favour local domain names, so to maximize exposure e-Retailers looking to target Russian online shoppers should consider setting up a website with a .ru domain name; the associated visibility will far outweigh that which is received with home market domains.

Localisation measures – when implemented correctly - can to some extent negate the need to set up a separate, stand-alone website within Russia; many retailers simply localise the content of their website specifically for the Russian market – for example, asos.com/ru. The decision whether to establish a Russian domain name or simply localise your domestic webpage for the Russian market is always a trade-off – the SEO benefits that accompany .ru wepages must be weighed against a domestic website's brand consistency, marketing convenience and integrity of consumer perception.

What could arguably be labelled the final phase of e-Trading within the Russian marketplace may become commercially expedient when an e-Retailer's order volumes increase to the point that it is necessary to think about the optimisation of expenses. This can be done by establishing or contracting with legal entities within Russian borders - whether this be for marketing, customer service or warehousing purposes. After all, exporting individual packages of goods into Russia can of course be successful, but a number of factors make it very expensive, particularly when demand for an e- Retailer's goods increases. At this stage it might become pertinent for an e-Retailer to consider optimising his logistics and distribution strategies. Once an e-Retailer has put a local infrastructure in place, it can be profitable to begin directly advertising in Russia.

Effective approaches to digital marketing

In terms of visibility to consumers, the three most effective and popular methods of improving an online shop's digital exposure in the Russian Federation are:

1. Organic search via search engine optimisation (SEO)
2. Pay-per-click (PPC)
3. Media advertising, including digital media

Organic Search via SEO

Of the three approaches listed above, directing organic traffic to an online website via keyword advertising is a financially appealing and decisively targeted option, and it has proved successful in practice. In terms of overall return, however, it is slower and arguably less effective than the stated alternatives, and the risks associated with this option are greater due to frequently changing web algorithms.

There are essentially two major players in the search engine market in Russia: Yandex and Google, which boast market shares of 60.5% and 29.7% respectively. Importantly for an online retailer into this territory, in recent years Google has been increasing in popularity and Yandex's market share has been declining as a result.

Both of these search engines operate in Russia via very developed algorithms, and a prospective e-Retailer into this territory should plan accordingly and expect the same level of SEO sophistication as would be encountered in Western markets. If your website is in English, the chances of your online shop or product appearing in an organic search in Russia are low unless you have a very niche offering and there are no or few corresponding links in Russian. This is a particularly important consideration as appearing organically on search engines is a huge driver of Russian customers to foreign online shops.

Website analytics play an important role in an e-Retailer's marketing strategy generally, but it is also worth highlighting that these same analytics contribute to a website's positioning on domestic search engines. These Search engine algorithms are designed to display a hierarchy of websites with particular preference for pages that attract more consumer time, and e-Retailers looking to improve their digital visibility in the Russian Federation should make use of Yandex's 'Yandex Metrica' and Google's 'Google Analytics' to evaluate their search engine performance. These analytical tools further allow retailers to examine the performance of their online shops by providing a means to analyse customer behaviour, allowing an e-Shop owner to see his webpage navigated by consumers through the consumers' eyes. This allows him sight of what his customers are clicking, which areas of particular pages attract the most interest and typical customer scrolling habits.

Yandex additionally has several unique features for SEO specialists that can prove invaluable when building digital strategies in Russia. WORDSTAT - a word selector tool - will not only help e-Retailers find the right keywords for their SEO activities, but will also display the number of search requests for that specific word/phrase by region and time period.

Organic search via SEO undeniably offers a valuable driver of website traffic, both within Russia and abroad, and it's important to remember that search engine trends in Russia are consistent with global ones. e-Retailers should therefore take note of certain occurrences across their international expansion initiatives, for example the fact that search engines favour interactive websites - those that engage consumers through mechanisms like commenting upon or 'liking' aspects of webpages, or through the embedding of videos. Ultimately, the hierarchy of search engines is difficult to manipulate, so fresh, multimedia and interactive content in Russian, as well as content relevant to search requests, are vital component of any e-Retailer's offering.

Pay-per-click (PPC)

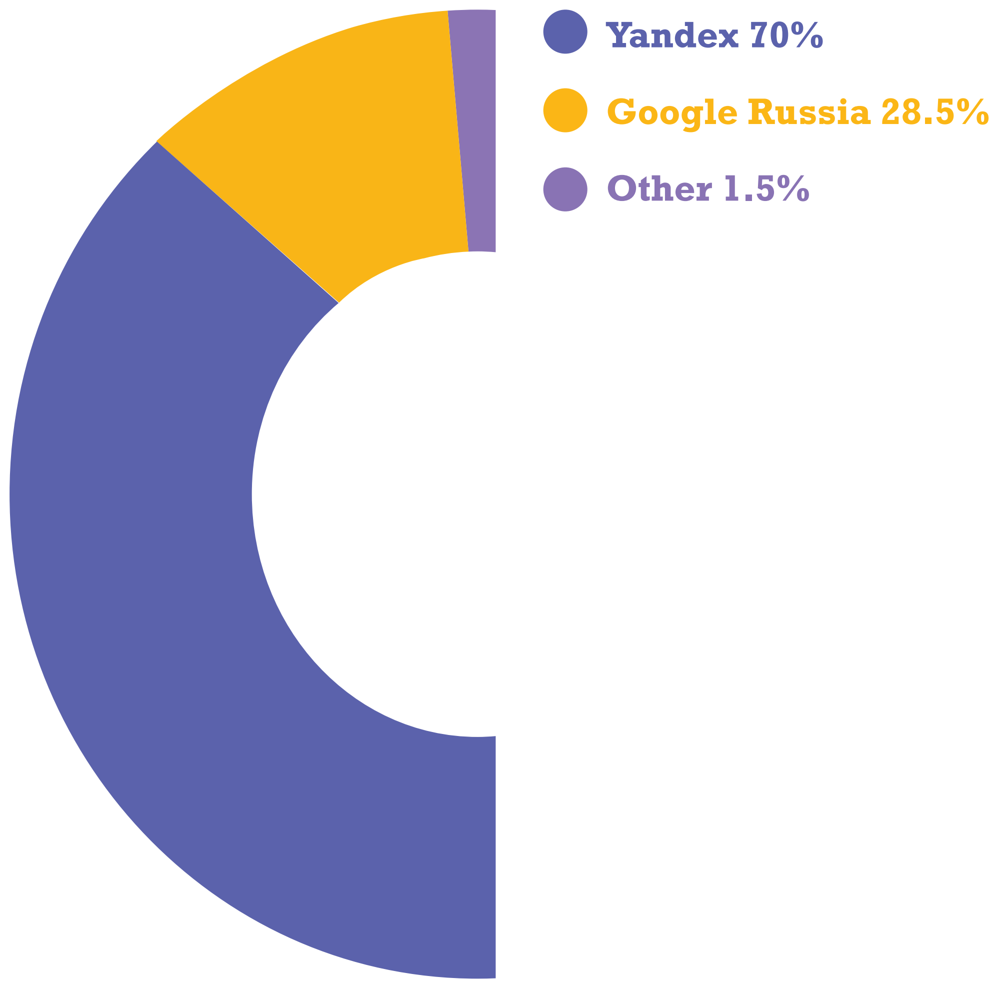
As with many jurisdictions, within the Russian Federation Google AdWords is a well-known and commonly-used marketing tool. Yandex offers a similar PPC marketing option - Yandex Direct - which together with the reputation of the search engine has achieved considerable success and popularity.

These two major tools can form the backbone of an e-Retailer's PPC strategy in Russia, though there are additional options on the market. Competitors, however, play a comparatively minor role.

When putting together a PPC strategy for Russia, an e-Retailer looking to launch a brand presence in the location should always check the price and competition of his selected keywords in both major search engines in order to get the most from his marketing budget and PPC campaign.

Prices and customer conversion rates vary across both tools, and the extent of this largely depends on the state of the market and consumer preference. Often, an e-Retailer can make significant savings on one specific keyword simply by relocating his PPC budget from one search engine to the other.

There are additionally solutions on the market that allow for automatic management of a PPC campaign with several search engines; these can often maximize the benefit of such endeavours, but come at an additional cost. Pay-per-action (PPA), retargeting and other digital tools are also available options, and Yandex leads the way in contextual advertising in the Russian Federation in terms of overall spend. The chart below illustrates the distribution of contextual advertising dollars in Russia.



MEDIA ADVERTISING

Many forms of digital media advertising are to some extent losing their foothold in the Russian market as increasing numbers of advertisers are shifting their marketing budgets to SEO, PPC and social media marketing campaigns. That being said, an e-Retailer broaching the Russian online market can still achieve reasonable conversion rates by advertising on carefully targeted websites and other digital media.

Social media

Utilising the marketing opportunities afforded by social media platforms in Russia is a very important consideration for any online retailer looking to trade in the territory. As displayed in 'Online and Mobile Statistical Overview', Russia has a variety of popular social media channels, the largest of which is VK (originally VKontakte), a site similar in structure to Facebook which has far surpassed it in terms of popularity and usage in this location – though it is worth noting that Facebook is closing the gap and boasts a more worldly user base. VK hosts a variety of communities and groups, including business and brand pages where consumers can review and show their support for specific products and/or brands. Marketing strategists in the region report that a successful marketing strategy within Russia necessities a presence either on Facebook or on this social networking site, depending on your target audience.

Despite the success of social media as a vehicle for exposing specific brands and products to consumers, however, it's important to note that the overall revenues derived from marketing on social media platforms are negligible compared to other, more conversion-ready marketing methods; consumers largely flock to social networking sites to communicate with peers – not buy products. That being said, if the products on offer are unique and strongly desired by Russian consumers, and retailers invoke strategies which allow them to locate whole communities of their targeted customers on social networking sites, it's entirely possible that these websites can form the entirety of a business' marketing strategy; they alone can generate enough brand awareness and website traffic in Russia.

YouTube is also showing dramatic growth in popularity across Russia, despite historically being an underutilised tool in ecommerce. As mentioned previously, search engines express a preference for websites displaying videos and - as a result - many Russian e-Retailers have begun to embed media content into their pages; videos increase the amount of time a consumer spends on a particular page, and retailers are consequently being rewarded by search engines with a higher rank in a relevant organic search. Retailers who successfully embed such videos are thus seeing a greater degree of competitive advantage, particularly in crowded sectors such as apparel or cosmetics – categories where PPC can be very expensive and successful SEO is more competitive due to the oversubscription of the marketplace. Many retailers are additionally building their own YouTube channels where they explain and conduct demonstrations of their products, and there is a growing trend for customers to review products via YouTube videos; these reviews can hold a lot of sway with peers.

Regardless of your product, it's always important to examine what your competitors are doing in the Russian marketplace. Taking such action will help dictate your marketing strategy, as well as help you decide which mechanisms will best improve your online shop's performance: if all your competitors are communicating to consumers in Russian, for example, this is what the Russian market will expect of your online shop.

Targeting Russian consumers

When broaching any market, it invariably makes sense to examine your newly targeted customers: what are their particular preferences and behaviours? How do they compare to your home market and other consumers around the world?

Russian consumers are typically regarded as young and impulsive shoppers, who, on the whole, were exposed to international brands fewer than 20 years ago. They are largely very brand-oriented, especially when the brand in question is reputable, luxury and international. Despite this prevailing reputation, however, it is important to note that Russian consumer demographics are changing somewhat. As the digital age moves forward, the typical Russian internet user is getting older – in fact, Russian broadband penetration rates grew in 2013 largely as a result of Russian citizens aged 55+ beginning to access the technology. This is at present the largest age group, making up 37% of the Russian population, though currently only 8% of them are using the internet. It seems likely that as time goes on, an increasing proportion of this age group will be purchasing products online, both due to the internet generation growing older and older generations adapting to changing technologies. Prospective e-Retailers should take this into account when planning longer-term marketing and branding approaches.

When compared with their European neighbours,, Russian consumers of various income brackets are inclined to spend a much larger proportion of their disposable income on high-end clothing, travel, and food. This is partly due to the fact that Russian citizens are typically less willing to invest and save than their European counterparts, as Russian history has taught them that these are potentially risky options. In recent decades, modern Russia has felt the strain of a number of economic crises that have devastated the personal savings of families and engendered a general mistrust of banks. Any surplus income is thus generally spent on consumer goods.

Russian consumers are also, on the whole, very hesitant to provide credit/debit card information and other personal details online for fear of being spammed and defrauded. This is due to a number of factors, not least of which is past experience; history has witnessed a culture of Russian citizens feeling cheated – not just out of funds for sub-standard or non-existent goods, but by social and financial institutions. Trust in the Russian infrastructure is severely lacking, and the Russian legal system is not regarded as robust enough to protect the consumer, through actions are being taken to improve this and heighten trust in the domestic market, as well as in State protection. During the 1980s and early 1990s – following the Soviet Government but before the real emergence of the Russian market economy - counterfeit products held quite a substantial market in Russia. Consumers were frequently fraudulently parted with their money, and repercussions for selling imitation products were negligible; consumers constantly had to be cautious about all aspects of a transaction – from quality to price and return - or they would be vulnerable to suffering losses.

This atmosphere of mistrust still exists within Russia today, with the counterfeit market by no means extinguished. Any retailer looking to trade in Russia should understand this enduring apprehension on the part of the consumer. The more indication of security and safety a retailer offers on their website, the more success they are likely to have. Reassurance of security can be more important than price, and at any rate, if goods imported into Russia are judged to be counterfeit and without proper documentation or licence, they will be confiscated on the border by the Russian customs authorities.

Russian consumers, like those in most markets, are price-conscious, not wanting to pay out unduly for any one item. These behaviours have been reinforced by the internet making it far easier for consumers to compare prices online, something Russian consumers were historically less likely to do in bricks and mortar shops. These customers are, however, willing to pay premium prices for quality brands and items.

2015: 7 MAJOR TRENDS OF DIGITAL MARKETING IN RUSSIA

1. Greater Emphasis on Online

As the Russian internet age moves forward, the market will continue its shift to digital marketing tools as they have proven more measurable and easy to manage than their traditional alternatives. The 2014-2015 Russian financial crisis will additionally drive the prices of advertising and internet service agencies down, so it's a great time to test the water. Overall, internet marketing in Russia will likely prove to be a relatively cheap and profitable investment.

2. More Diversity In Social Media Marketing

In addition to the three most popular social networks (Facebook, Vkontakte and Odnoklassniki), in 2015 and coming years the Russian market will continue to see increasingly specialised social media networks grow in popularity – for example Tumblr, Pinterest, Instagram and Google+. Through these channels, advertisers will be able to communicate with more targeted consumers in their familiar environments, expanding their marketing reach. Experts forecast that in 2015, digital strategies will include several social networks concurrently – both those that have historically attracted large consumer bases and more specialised start-ups.

3. Retargeting

The popularity of tools aimed at the retargeting of consumers will continue to grow as retailers increasingly see the value of repeat consumer purchases and brand loyalty. 88% of Russian retailers already use these tools and are planning to continue to use them in the future.

4. Importance of Content Marketing

Analysts are continuously emphasising the importance of content marketing in the Russian Federation, indicating that it is the most effective tool in bringing a retailer's website to the forefront of organic searches, helping them find new customers and build a loyal audience.

5. Shorter Advertising Messages

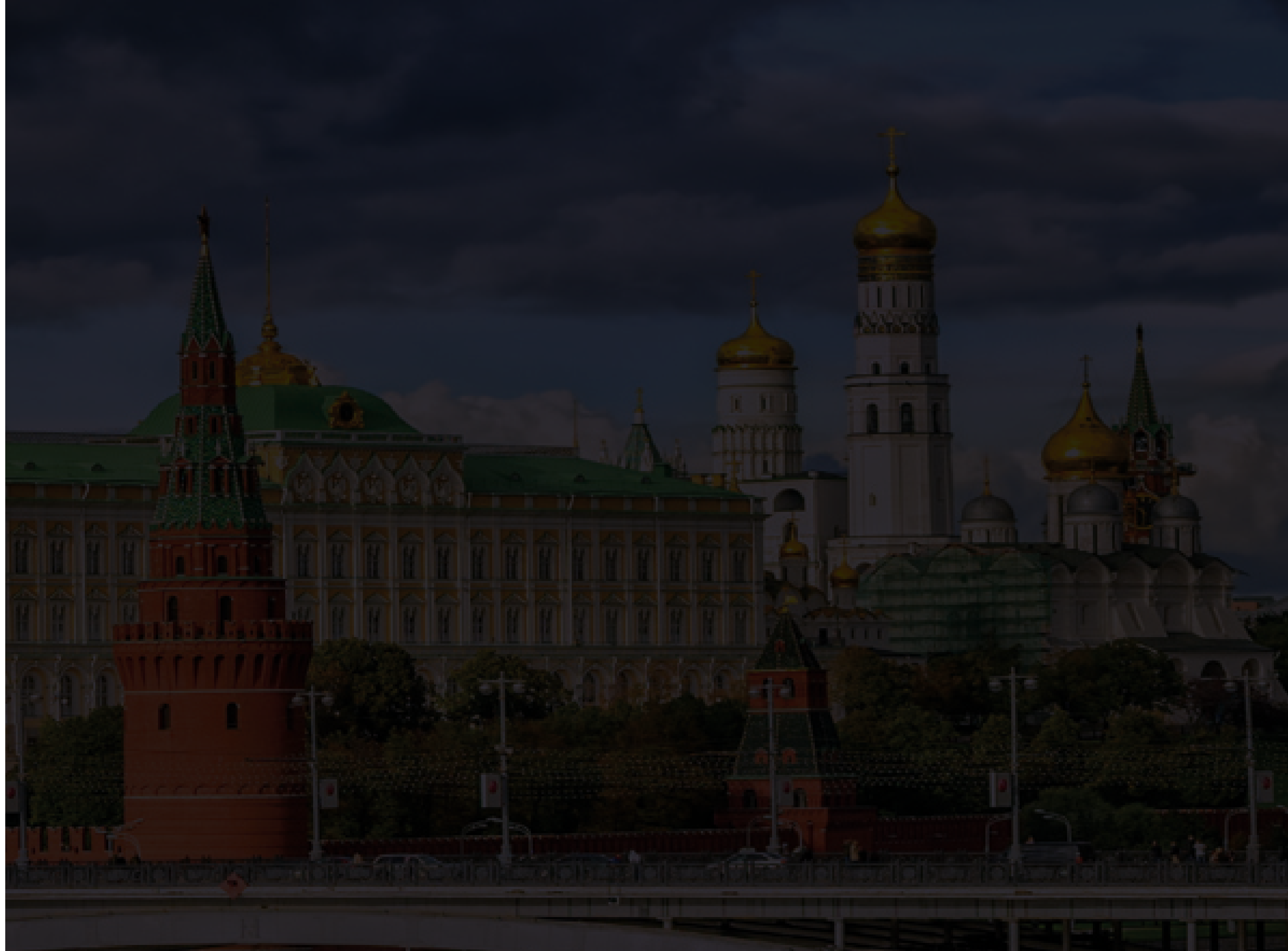
Within the Russia Federation, a recent and popular marketing trend highlighted by experts is the formulation of marketing messages that are as succinct as possible– not longer than 1 tweet. e-Retailers are discouraged from putting together wordy messages comparing particular products to others; they will be more effective if they are simple and clear. The modern consumer is busy and has a short attention span - they don't have time for long and complicated marketing messages and will likely pass over them in favour of shorter ones.

6. Interactive SEO

Search engines place significant value on user interaction with webpages; likes, comments, reposts and other consumer actions are much more favourably regarded than links, and this trend promises to grow in 2015.

7. Omni-Channel Adaptation

The growth in smartphone and tablet penetration in Russia and the increasing proclivity of consumers to use these devices for online shopping has meant that an e-Retailer must go to lengths to optimise its online shop for multiple devices, including tablets, laptops/desktops and smartphones. What's more, a retailer will enjoy greater success if he can ensure a consistent experience across multiple channels. This means ensuring adaptive designs, logical and user-friendly navigation and cross-platform visibility. Today's customers digitally shop on the go, and a modern e-Retailer cannot afford to miss out on the associated opportunities.



POLITICAL, SOCIAL & ECONOMIC ENVIRONMENT

POLITICAL

System of Government: Federal semi-presidential republic, which has its legal basis in the Constitution of the Russian Federation and the federal constitutional law 'On the Government of the Russian Federation'

Current president: Vladimir Putin

Elections: Presidential elections are held every 6 years, and the next presidential elections in Russia will take place in 2018. Presidents are directly and anonymously elected by Russian citizens, and a presidential candidate will be elected if he gains an absolute majority of votes, i.e. 50%+.

OVERVIEW

The Russian Federation has been a hotbed of political activity, criticism and controversy in recent months, capturing the attention of the international media and the marked hesitancy of foreign retailers looking to expand into the nation. Prominent UK retailer, New Look, withdrew from Russia and Ukraine in late 2014 amidst fears over the nations' political stability, and many others have followed suit. This tenuous atmosphere and retail retreat have provoked reluctance within the retail community; is this the time to take advantage of Russia's vast ecommerce potential or will the stumbling blocks outweigh the opportunity?

Examining the political and economic climate in Russia is certainly one of the first steps a prospective e-Retailer into the nation should take before making the decision to expand, and this section seeks to outlay the building blocks of an e-Merchant's examination of the political, social and economic environment of this controversial territory.

Recent & upcoming major political/economic events

- The official rejection of the initiative to change threshold limits for duty-free trade. It had been anticipated that from January 2015, a new, lower, duty-free threshold would be put in place on imports into the Russian Federation, ultimately negatively impacting many foreign distance selling companies. At the date of publication of this Passport, the threshold of €1,000 PCM remains in force (see Customs Clearance Procedures).
- As of 1 July 2015, the cities of Moscow, St Petersburg and Sevastopol are anticipated to have an additional trading fee imposed for traders who operate in stationary trade facilities. After this date, this trading fee may be imposed in additional municipalities.

Over the past year, the Russian economy has been put under considerable strain by the rapid and unanticipated collapse of the ruble; a currency that, at the date of this publication, has fallen by more than 40% against the US dollar since early 2014, despite the Central Bank of Russia's last-minute interest rate hikes. This depreciation has been brought about by a series of interconnected factors, ultimately leading to the global scrutiny of the Russian economy which has promoted prompting some investors to sell large proportions of their Russian assets.

Plummeting world oil prices – a product which together with gas accounts for three-quarters of Russia's exports and more than half of its budget revenues - have been hugely damaging to the Russian economy and Russia's headline-grabbing annexation of Crimea and military intervention in Ukraine have attracted a highly critical international spotlight. Russia's recent foreign policy has dramatically affected its internal economy, the international community – and in particular the US and EU - choosing to impose stringent sanctions as a direct result of Russia's actions in Ukraine. The Russian Government's decision in August 2014 to ban the import of a wide range of food products in retaliation to Western sanctions has further increased the strain on the nation.

The economic upheaval associated with these events has been swift and substantial, resulting in:

- A hike in prices for domestic and foreign raw materials;
- A soaring rate of inflation (to 16.7% in February 2015);
- A general decrease in Russian business profitability; many enterprises have had to reconsider budgets and cut down on expenses;
- An increase in the costs associated with the import of goods, and - as a result- a rise in the price of individual goods for Russian consumers. Against the backdrop of the evolving crisis, a change in buyer behaviour can be observed; a decrease in purchasing activity is an inevitable result of the escalation of the crisis sentiment;
- The growing debt of the Russian population and the increasingly proclivity of the consumer to save amidst economic fears for the future.

By the summer of 2015, the economy is likely to further contract by about 5%, and the Russian Government may have to spend in excess of USD 40 billion this year in granting additional capital to banks to support lending and absorb credit losses. GDP growth has also fallen as a consequence. Settlement of the conflict in Ukraine, together with the repeal of sanctions between the West and the Russian Federation are unlikely to take place in the near future.

International treaties & agreements

On the 1 January 2015, a new economic alliance was established with, amongst other things, the aim of further reducing barriers to trade amongst its member States. The Eurasian Economic Union (EEU), comprised of Russia, Kazakhstan, Belarus and Armenia –with Kyrgyzstan expected to join in May 2015 - is now viewed as the most advanced organisation for regional cooperation the former Soviet bloc has seen.

Whilst the Eurasian Customs Union - in force from 2010 and made up of Russia, Belarus and Kazakhstan - had already brought about partial economic integration amongst its members, the EEU is viewed as the maturation of this initiative. The EEU has found some success where previous attempts to create trading zones and customs unions amongst member States of the Commonwealth of Independent States (CIS) have failed.

These international initiatives are, of course, of importance when it comes to cross-border trade into Russia, particularly for e-Retailers residing in the member States of the Union. Here, most internal trade has been liberalised (with the exception of certain categories of goods, such as sugar, tobacco, alcohol or rice) and since July 2011, border controls have largely disappeared.

Conversely, border controls have been increased when it comes to trade with direct neighbours in the CIS who have opted to stay out of the Union. Member States of this alliance additionally established a common external trade tariff in January 2010, and around 85% of import duties are now harmonised.

The EEU will continue to have influence on import tariffs to both Russia and other Union member States, and changes in this area are anticipated. Importantly, the Union's commission is currently working on the introduction of harmonised de minimis duty threshold limits for its member States (see Customs Clearance Procedures), an action which could not only reduce the frequency of more expensive Russian consumer purchases from foreign online shops, but also remove the possibility of a non-member international entity bringing goods into Russia through one of the other member States, ultimately benefiting from a nation's formerly more-favourable threshold limits.

It is expected that the Eurasian Economic Union will expand in coming years. Syria, Tunisia, Azerbaijan, Uzbekistan and Tajikistan have all announced their interest in joining, and the Union frequently encourages the admission of other nations. Russia is currently fervently pushing for other members of the CIS to join the bloc.

Ultimately, the formation of the largest common market in the CIS territory is in its final stage, boasting over 170 million member citizens and a combined GDP of USD 2.7 trillion. A powerful and expanding new centre of economic development is thus coming into play, bringing with it greatly increased levels of inter-economic success amongst its members.

The establishment of the EEU has attracted its fair share of controversy. Though its basic makeup, at least theoretically, closely resembles the EU, some see the rise of the Eurasian Economic Union as an attempt to restore the former Soviet Union. Importantly, Russia overwhelmingly dominates this customs union, accounting for 86% of the bloc's GDP and 84% of its population. The project also undoubtedly has some inherent economic and political flaws that could yet derail it. For instance, other Union members do not wholeheartedly share Russia's overall plans for the alliance, and are wary of its dominance.

The EEU then, is still very much a work in progress, and its future direction is somewhat unclear. In the interim, the EU and its partners will work together to ensure that, in implementing this customs union, Russia abides by WTO rules and respects its members' and neighbours' political sovereignty. Though Russia is also a member of WTO, as seen, Russian economic integration has recently changed direction to the Pacific Rim, largely in light of the above-mentioned economic and political events.

Russia is additionally a member of many international treaties that regulate cross-border trade, including the Vienna Convention, which governs buying and selling between its signatories. In accordance with Russian legislation, if an international norm and a local norm conflict, the international norm prevails.

Government interference in business

Russia is a territory notorious in reputation for the level of governmental regulation and red tape that accompany business transactions, and it is undeniable that the Russian Government exercises strict control over commercial procedure and infrastructure, as well as the economy at large. Natural monopolies, for example, are severely restricted through legislation and government bodies, in particular the Federal Antimonopoly Service (FAS). Forbes magazine, in its ninth annual ranking of the Best Counties for Business in 2014, allocated Russia 91st out of 146 countries for its business environment, and 30th for government interference in business. It is easy to see why Russia's business environment might not be perceived to be particularly inviting for a foreign e-Retailer into the territory.

Russia's recent macroeconomic policies, however, suggest future progress in this area, and long-term initiatives have been put in place with the aim of creating a nurturing and progressive environment for international and domestic enterprise. Advancement in this area is therefore eagerly anticipated for coming years; organisations can expect to see the lessening of government supervision of businesses, as well as a reduction in administrative hurdles related to day-to-day practice. Plans additionally include the unification of the regulatory powers of State authorities.

These goals, as embodied in Federal Law No. 294[1] of 26 December 2008, evidence commitment on the part of the Russian legislature to provide a legal basis for the protection of businesses from excessive administrative pressure and regulatory control. The Law is progressive, and foresees greater equality in the official inspection of businesses (including the transparency of information), and remedies for businesses are available where impartiality is demonstrated.

Over the next few years, a goal of the National Association of Mail Order and Distance Selling Trade is the establishment of a State programme aimed at Russian distance selling development. Unfortunately, however, despite goods intentions, actions of Russian authorities are still somewhat uncoordinated and inefficient and - whilst ministries and departments are trying to launch several stimulating programmes for business development - difficulties are complex and must be solved systematically. It is possible that focus on schemes to nurture enterprise and promote investment will be lower on the Government's agenda whilst Russia is in the midst of international dispute and domestic crisis.

Overall, it is well-acknowledged amongst Russian authorities that the territory's regulatory and supervisory practices require improvement, and in some areas are archaic. There are additionally important steps to be taken with regard to the cultivation of commercial enterprise. As indicated above, however, reform and public discussion are underway, and approaches are likely to change as tensions reduce. Coming practices in this area will likely be a compromise between the interests of the Russian Government, businesses and citizens.

As mentioned elsewhere in this Passport, the administrative procedures and regulations applicable to foreign legal entities trading in Russia differ to those applicable to domestically incorporated bodies, though a foreign company choosing to establish a Russian legal entity will be subject to the same standards and requirements as its Russian counterparts. For distance sellers looking to expand into the Russian market, it is important to note that there are minimal differences in the level of official intervention and regulation between domestic and foreign retailers.

[1] *Federal Law No. 294 'on the protection of legal entities' and individual entrepreneurs' rights in the course of State control (supervision) and municipal control'*

SOCIO-DEMOGRAPHICS

Extensive socio-economic change has swept across the Russian Federation in recent decades, a seemingly inevitable result of the evolution of economic policy in the territory. Economic liberalisation has been labelled a priority, and the results of this ideological shift are marked. An increase in privatisation of State-run enterprise, a growing consumer market and a shift from a centrally-planned economy to a market-based system are all notable movements.

Such changes in the macroeconomic direction of the Russian Federation have resulted in an increase in social mobility. Employment rates in the private sector have increased, and entrepreneurship - at least in some regions of Russia -has thrived. Ultimately, the structure of Russian society is becoming less rigid, and this greater flexibility has achieved some impressive public results.

Social inequalities and the Russian middle class

The social demographics of a targeted e-Market are an important consideration for any e-Retailer looking to sell to international consumers, and the Russian Federation is certainly no exception to this rule.

The social structure of Russia is undeniably unique, and historically has been known to attract some fairly negative press. On the whole, however, the Russian Federation has made progress over the last decade in improving the quality of life of its citizens. Throughout his time in power, Vladimir Putin has promised to level the socio-economic playing field, and has placed emphasis on growing the Russian middle class. Notably, these efforts have achieved some success. According to research conducted by the Institute of Sociology, Russian Academy of Science in 2014, 42% of the Russian population are now defined as middle class - some 60 million individuals. It is important to note in this that Russia's middle class differs significantly from its counterparts in many Western countries - indeed, a large proportion of Russia's middle class citizens are employed by the State.

According to the Economic Development Ministry, in 2013 the Russian public sector accounted for 50 % of the Russian economy, with the Federal State Statistics Service (FSSS) reporting that the State employed 25.7 percent of all economically active citizens (up from 24.6 % in 2009). The resulting nearly 20 million State employees –most of whom fit into the 'middle class' income bracket - are largely better off than their fellow citizens, and are the main beneficiaries of the current socio-political and socio-economic system.

The recent direction of macroeconomic policy in the Russian Federation – and most notably the transition from a State socialist system to a capitalist market economy – has, however, greatly increased the divide between social classes in Russia. Encapsulating, amongst other things, health access, housing and particularly wealth, social inequality can indeed be named one of the key problems of modern Russia. According to a 2014 Credit Suisse analysis, the top 10 percent of the population in Russia control a staggering 84.8% of wealth in the location, and Russia is the world leader in the concentration of wealth.

Credit Suisse's analysis further suggests that 83 percent of the Russian population has less than USD 10,000 in personal wealth.

Russian income gains in recent years have primarily benefited the nation's wealthy energy hubs, bypassing Russia's poorest areas. Regional and inter-regional socio-economic disparities are unsurprisingly rife, and areas where at least half of the economic output comes from the oil, gas and mineral industries on average have incomes one-third higher than the rest of Russia. Four of the five highest-income regions in this territory are centres of oil and gas production, and all are home to the highest levels of recorded income inequality in Russia.

Overall, OECD reports that, in Russia, the average household net-adjusted disposable income per capita is USD 17,230 a year, falling short of the OECD global average of USD 23,938. Significantly, the average net - adjusted disposable income of the top 20% of the Russian population is an estimated USD 33,860 a year, whereas the bottom 20% live on an estimated USD 5,735 USD annually.

Employment and wage

A low rate of unemployment in the Russian Federation has been one of the signature economic achievements of the last 15 years. As would be expected, however, the economic crisis in the territory is taking its toll on the labour force. Though in January 2015 the unemployment rate in Russia had decreased year-on-year by 2.1%, month-on-month the picture is far less positive. The FSSS reports that between December 2014 and January 2015, unemployment in the Russian Federation increased by 3%, reaching 4,176 million people, or around 5.5% of the economically active population. By February 2015, this rate had increased to 5.8%. Unemployment rates are likely to continue to increase as Russian financial difficulties set in.

The national minimum wage in the Russian Federation from January 2015, as approved by Federal Law No. 408-FZ of 1 December 2014, amounts to RUB 5,965 per calendar month (around USD 101 as of March 2015), though individual regions of Russia do have the ability to set the minimum wage in their particular territory. For example, in the Moscow region the minimum wage is set at RUB 9,000 PCM, whereas in Moscow itself the minimum wage is set at RUB 12,200. The Krasnodar territory has enacted a minimum wage of RUB 6,469 PCM, and in St. Petersburg the minimum wage is set at RUB 8,326.

The table below demonstrates national minimum wage changes between 2009 and 2015 in the Russian Federation.

Date	Minimum wage
From January 1, 2015	RUB 5,965 PCM
From January 1, 2014	RUB 5,554 PCM
From January 1, 2013	RUB 5,205 PCM
From January 1, 2012	RUB 4,611 PCM
From January 1, 2011	RUB 4,611 PCM
From January 1, 2010	RUB 4,330 PCM
From January 1, 2009	RUB 4,330 PCM

It is important to note here that, as is the case with most nations, minimum wage rates in Russia differ greatly from average reported wages in the country, which represent a far higher purchasing power amongst the population at large. According to the FSSS, whilst State employees are the best paid workers in Russia with an average salary of around RUB 250,000 (USD 4,040) per month, the overall average salary in Russia is RUB 32,800 (USD 530 by early March 2015 exchange rates; before the Ukrainian-Russian crisis this stood at around USD 1,000) per calendar month.

A survey conducted by the Russian Public Opinion Research Centre (VTsIOM) in February 2015 reported that a third of Russians expect salary cuts in the next three months, whilst a quarter fear they or their family members will be laid off. In addition to that, Russia currently suffers from the biggest drop in consumption in over two decades due to the ruble's 40% loss against the US dollar in just half a year.

Crisis response

In recent months the Russian Government has been dedicating much of its time and resource towards bolstering the nation against the repercussions of the financial crisis, with the further goal of mitigating deeper economic recession. Whilst through the end of 2014 it was those holding a mortgage in a foreign currency that suffered most from the fall of the ruble, the next major issue confronting the Russian Federation is likely to be the rise of unemployment. With this in mind, official actions are underway to address the increasing redundancy rates, with President Vladimir Putin announcing the Government's solidarity with the labour force in early February 2015. The Russian president has stressed that 'the State will continue supporting trade unions in their main mission of protecting the labour rights of Russian citizens. The State, the trade unions and the employers should work jointly, and only this will allow us to achieve all our goals.'

In order to ensure Russia's stable socio-economic development in 2015, authorities have quickly developed and adopted an anti-crisis plan which allows active amendments to be made both to federal and regional legislation. The so-called 'priority action plan for the sustainable development of the economy and social stability in 2015', the implementation of which will cost Russia around USD 35 billion, includes 60 measures with the aim of securing sustainable growth and macroeconomic stability in the medium term. These overarching goals branch into three basic principles:

1. The encouragement of economic growth;
2. The support of priority industries; and
3. The fulfilment of social commitments.

The measures coming into force over the next few years are designed to accelerate the restructuring of the economy, as well as stabilise strategic companies in sectors deemed to be of the upmost importance. Further stated aims include the balancing of the labour market, the reduction of inflation and the moderation of the consequences of consumer price increases for low-income families. Amongst other things, key actions encapsulated in the anti-crisis plan include:

- Assisting the development of SMEs by reducing the cost of capital and administrative expenditures;
- Creating conditions for attracting investments in the key sectors;
- Compensating additional inflation outlays of the most exposed social groups, e.g. pensioners and large families;
- Reducing tensions in the labour market and supporting full employment;
- Optimizing budget expenses, concentrating resources in the priority areas of development and fulfilling all social commitments made by the Government; and
- Securing the robustness of the banking system and creating financial support mechanisms for strategic companies.

Budget expenditure is anticipated to be cut by 10 percent in 2015 and this will be achieved by reducing inefficient spending, though honouring social commitments will require additional budgetary allocations.

Some hope for the short-term

At present, the political and economic landscape in Russia is unquestionably tense, and - despite prompt action on the part of Russian authorities - the atmosphere in the territory won't change overnight. Any retailer would be right to exercise caution in making the decision to enter this tumultuous marketplace.

However, whilst the economic recession in Russia has unquestionably made this market a complex choice for an e-Retailer at present, this financial cloud certainly has a silver lining for international retailers into the territory. Though the fall in value of the ruble and associated increase in exchange rates have made foreign products more expensive for Russian consumers to purchase, many costs of broaching the Russian digital market have correspondingly decreased for a foreign e-Retailer. Web development, localization, PPC and SEO – amongst other things – are all offered in rubles by Russian companies, and these services now cost a fraction of their former price for international companies. What's more, PPC rates have dropped even in RUB prices as competition in the market has decreased. Those who make timely use of these opportunities to establish a presence in the Russian marketplace will likely reap the benefits of expansion once the Russian economy has stabilised. After all, prior to the financial crisis, Russia's personal consumption levels led the BRIC countries, with 60% of pre-tax income being spent on shopping - the highest rate in Europe.

Overall, though some ecommerce companies have reported their sales volumes stagnating or decreasing as a result of the economic downturn in Russia - a trend which might continue in the short-term - experts forecast that impressive ecommerce growth will resume after the crisis. It is, after all, undeniable that the full potential of the Russian ecommerce market is yet to be tapped. As highlighted elsewhere in this Passport, in the middle and long term, growth will be fuelled by:

- Growing broadband and ecommerce penetration in Russia's regions;
- The increased knowledge and use of a variety of digital payments methods;
- The Russian fulfilment infrastructure reaching maturity. With reduced delivery costs, the scope of ecommerce in Russia will extend to cheaper product categories and will be made a viable option even to small cities and remote areas.

FINANCE & PAYMENTS

OVERVIEW

Banking in Russia is primarily regulated by the Central Bank of the Russian Federation (CBR), one of the few State institutions largely under the control of the Russian legislature, as opposed to the executive branch. This body is responsible for oversight of the entire financial segment of the Russian economy.

The foundations of the Russian banking system are provided by the territory's federal laws, and the banking sector is subject to stringent regulation, though this has been relaxed somewhat in recent years. Financial institutions in Russia have to meet mandatory legislation requirements, as well as comply with numerous CBR instructions and regulations.

but the Russian banking sector is dominated by State-owned financial giants such as:

- Sberbank;
- VTB Bank;
- Gazprombank;
- Vnesheconombank (VEB); and
- Rosselkhozbank

The 2014/2015 fall of the ruble combined with sanctions from the West over political strife in Ukraine has put heavy pressure on the Russian financial sector, and sharp economic recession will likely spell a banking crisis in the territory. Experts have predicted that as many as 20% of Russian banks are at risk of folding as the country's economic crisis takes its toll, and the Russian Government may have to spend more than USD 40 billion this year in granting additional capital to banks to support lending and absorb credit losses.

Economic and political difficulties are having a wide-ranging effect in Russia, and the implications of this are being felt worldwide. Russian authorities, for example, are in search of ways to increase government revenues through taxation, and establishing an anti-offshore tax policy is part of that plan. It remains to be seen what the full effect of these troubles will be on both the Russian and international community over the coming years.

Current tax year: 1 January 2015 – 31 December 2015. A financial year in Russia corresponds exactly to the calendar year.

Russian currency control:

- In recent years, the CBR and the federal government have undergone a programme of currency liberalisation, whereby many of the former financial controls have been lifted with the aim of freeing up trade in the nation.
- At present, the applicable currency control requirements differ according to whether the subject in question is a Russian resident or non-resident– though it should be noted that the definition of 'resident' under currency control legislation differs to the definition applicable under taxation law. For the purposes of this Passport, it is important to note that branches, representative offices and other subdivisions of foreign legal entities are considered non-residents under Russian currency control regulation.

In brief:

Russian non-residents have the ability to open and operate ruble and foreign currency bank accounts in the Russian Federation, so long as this is done with an authorised bank.

Payments in foreign currencies are generally permitted without restriction between non-residents, though payments in rubles between such parties are only permitted through accounts opened in Russian banks.

Transactions between residents and non-residents involving payments in rubles and foreign currency can currently be conducted without limitation, though there are procedural requirements for such operations.

Foreign currency can be imported freely into the Russian Federation by residents and non-residents alike. In the case of individuals, both categories must file a written customs declaration when importing currency in cash, travellers' checks or securities if the value is more than USD 10,000.

The situation when it comes to exporting foreign currency in this location is a bit more restrictive. Both resident and non-resident individuals can export foreign currency up to a value of USD 3,000 without a customs declaration, and up to USD 10,000 with a declaration. Exports of currency over this amount are additionally permitted, though further procedural and documentary requirements must be adhered to.

It should be noted that the CBR closely monitors currency transactions involving the import and export of goods between residents and non-residents using transaction passports. Thus, certain documents relating to such transactions must be filed with the bank.

This is quite a complex area and is subject to frequent change, particularly in light of the 2014/2015 economic crisis which has made stricter currency controls a definitive possibility. It is thus recommended that professional advice is sought in this area.

PAYMENTS AND PAYMENT METHODS

Regardless of the desired destination, an e-Retailer expanding internationally should always take steps to educate himself on the payment methods most commonly favoured by consumers in his chosen locale, as well as any practical steps necessary to facilitate them. Receiving payment for goods sold is, of course, as important as any other aspect of an online transaction.

As with many of the other topics covered in this Passport, Russia is unique in its payments landscape and time should be taken to research this area thoroughly, particularly as retailers in Russia are almost unanimous in the identification of this as a key area of difficulty. Research should be done well in advance of launching a digital shop - the facilitation of payment is an area which can make or break success in a region and as an online merchant, one cannot just enter the Russian market with a 'basic' web counter and a Russian bank. It is important to offer a tailor-made solution. Should it be required, varying degrees of third-party assistance, for example through the services of a specialised payments service provider, are available.

Payments and Payment Methods	
Number of Credit Cards Issued (2014)	32 million
Number of Debit Cards Issued (2014)	232 billion
Preferred Online Payment Method	Cash on delivery
Preferred Mobile Payment Method	Cash on delivery

The dominance of cash on delivery

One of the most important points to note from the outset is that - in contrast to many other markets- within the Russian Federation cash on delivery is by far the most commonly utilised payment method for ecommerce transactions involving physical goods, though its proportionate share is slowly decreasing. Though estimates vary, some 80-95% of all such transactions are paid for using cash on delivery, and putting mechanisms in place to facilitate this is a must when trading online in Russia. This can seem something of a headache for purely off-shore retailers; the absence of a local agent on the ground in the territory can significantly restrict the potential reach of an online shop's appeal, particularly if that shop has no brand recognition in Russia.

Despite some initial hesitancy, overall many retailers into Russia report that they have discovered more or less satisfactory ways to cope with the demands of cash on delivery, unhindered by the method's reputed negative effect on returns and extra resource strain. With sufficient attention and understanding, then, this peculiarity of the Russian market should not dissuade a digital entrepreneur.

Cash on delivery has retained its foothold in the Russian market for a variety of reasons, both historical and current. A long-standing wariness of distance sellers, electronic payment mechanisms and providers and financial institutions persists – particularly in the regions- meaning that Russians are very hesitant to disclose personal and financial information online for fear of being defrauded. Russia additionally still suffers from a relatively undeveloped interbank network and a somewhat precarious supply chain, and it is not uncommon for packages not to arrive at their destination, lost among the sheer volume of dispatches. Added to this is a perceived lack of transparency with regard to the actual availability of a product, which can entail long waiting times and/or the sending of goods not matching original product descriptions. For these reasons, it is not difficult to see why Russian citizens choose cash on delivery as their payment option of choice.

These considerations are also important when it comes to examining other popular online payment methods in Russia, many of which have been developed with these consumer concerns in mind.

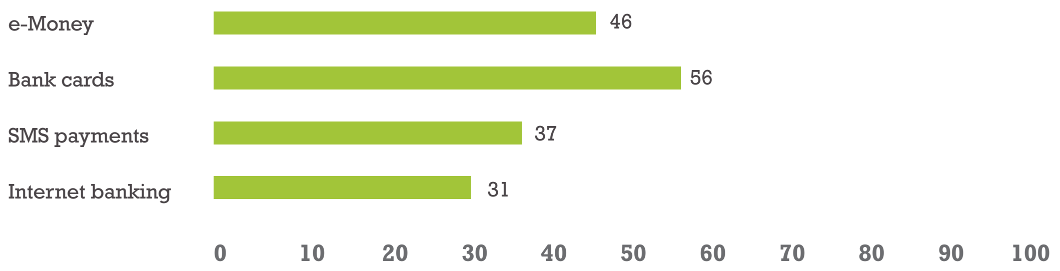
Non-cash payments

Electronic payment systems in Russia are still largely in their infancy, and Russian e-Shoppers remain somewhat dubious of them. Despite this, however, systems and technology are establishing themselves quickly and attitudes to payments are changing. In the spring of 2014, TNS conducted an enlightening study into the knowledge and use of non-cash, electronic payment methods, surveying 2,800 Russian online shoppers. The results of this research have important implications for aspiring e-retailers into this territory.

Survey questions were directed at Russian residents between the ages of 12 and 55 who lived in cities with a population of more than 800,000, and all respondents surveyed used the internet at least once per week.

Upon being questioned on whether they had used a particular payment method in the previous six months, it because clear that -at least in these larger Russian cities -bank cards and e-Money were the most popular, non-cash online payment methods with 56% and 46% of respondents having used these methods at least once in the preceding six months, respectively. SMS payments and internet banking were also relatively popular payment methods amongst those surveyed.

Use of non-cash payment methods



Percentage of internet users (using the internet more than once per week) aged 12-55 living in Russian cities with populations not less than 800,000 people.

The overall awareness of these different methods of electronic payment was high in all cases, with almost the complete set of respondents being familiar with e-Money and bank cards, which could indicate the increased use of these payment facilities in coming years as trust continues to build and Russia's infrastructure develops.

Awareness of non-cash online payment methods:

- e-Money – 97%
- Bank cards – 96%
- SMS-payments – 91%
- Internet banking – 90%

The different electronic payment methods will now be explored in turn.

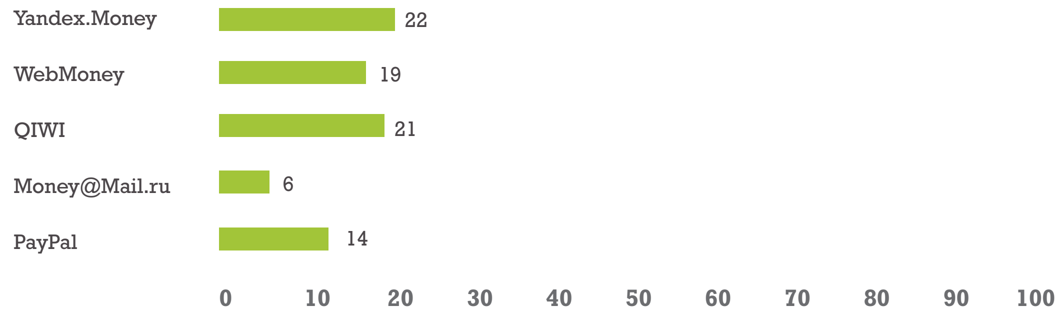
E-money

In recent years, electronic wallets have become an increasingly popular digital payment method in the Russian Federation, and Russian consumers have a variety of options to choose from. Yandex.Money, Qiwi, WebMoney and PayPal all have sizeable market shares, though the latter was only made available for domestic transactions in 2013 and has yet to gain a strong foothold in the Russian market; as with search and social networks, e-Wallets in Russia are dominated by local players.

e-Wallets, which transform cash into digital currency, provide an easy and safe way for consumers to make online payments in real time, and e-Retailers can integrate these payment solutions directly into their websites. Consumers register for the particular e-Money service on the provider's designated website, and subsequently deposit money into their accounts. Deposits can be conducted in a variety of ways in all of Russia's regions, for example via bank card, cash, bank transfer, ATM or through cash-in kiosks. Qiwi, importantly, provides both cash terminals and an e-Wallet service in partnership with Visa.

In their 2014 study (see 'non-cash payments', above), TNS further surveyed their Russian respondents on particular e-Wallets they had used at least once in the preceding six months when making online transactions. The results are recorded in the chart immediately below.

Use of electronic wallet services

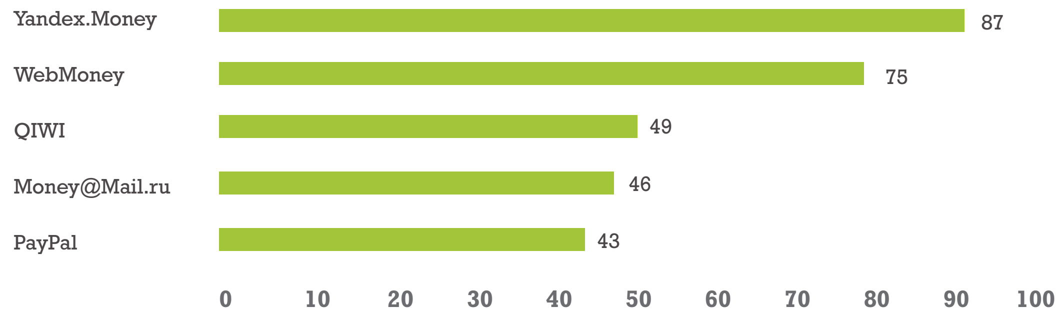


Percentage of internet users (using the internet more than once per week) aged 12-55 living in Russian cities with populations not less than 800,000 people.

The most commonly used electronic money service in Russia was reported to be Yandex.Money, with 22% of survey participants reporting the use of this digital wallet in the allotted timeframe. This was followed closely by Qiwi with 21% participant use.

The study examined studied brand awareness amongst respondents of these same e-Wallet providers, and Yandex.Money again came out on top.

Knowledge of electronic wallet services

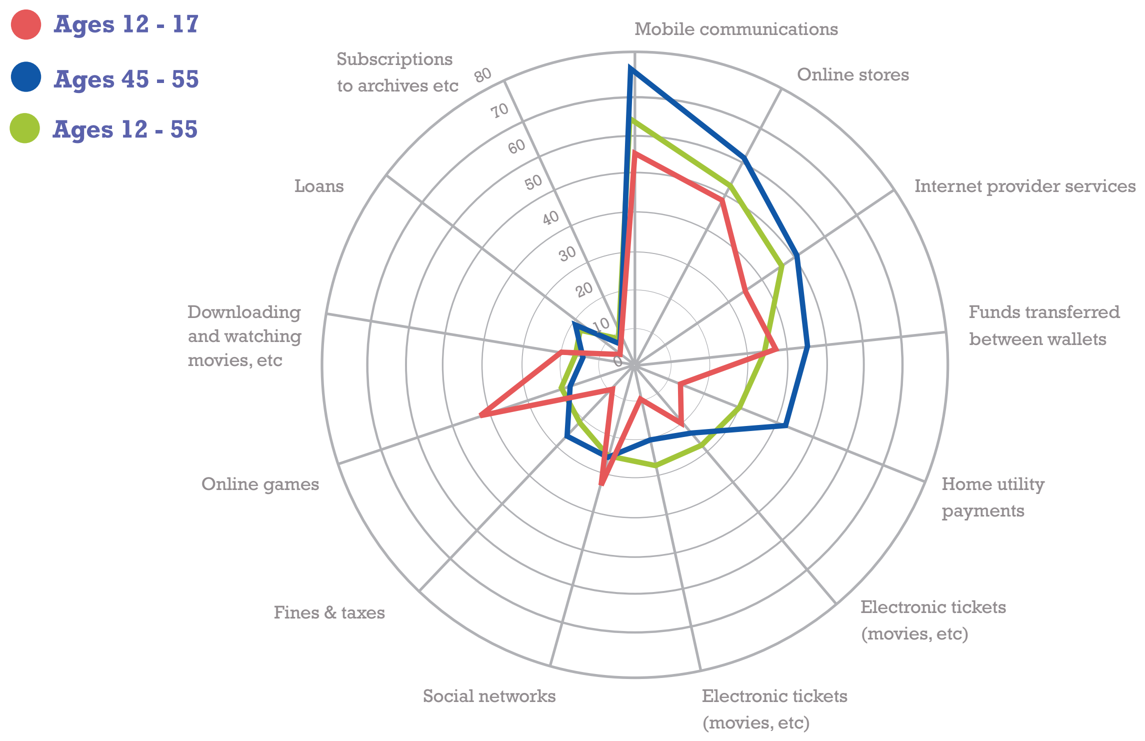


Percentage of internet users (using the internet more than once per week) aged 12-55 living in Russian cities with populations not less than 800,000 people.

Impressively, at the end of 2014 Yandex.Money and WebMoney each announced over 20 million users. Qiwi reported some 16.5 million users, and PayPal brought up the rear with 1.5 million users in Russia.

Importantly, for the purposes of this Passport, it should be noted here that TNS' survey did not just report on e-Wallet payments for physical goods, but electronic currency use in all digital transactions.

Purchases made with electronic money in Russia



Percentage of internet users (using the internet more than once per week) aged 12-55 living in Russian cities with populations not less than 800,000 people.

Purchases made using electronic money differ with age, but some general points are worth noting here. For example, only around 54% of respondents aged 12-55 had used e-Wallets to make a purchase from an online shop in the preceding six months, and this proportion is likely to dip significantly in smaller Russian cities and towns. Older age groups are also more likely to pay for goods using e-money than their younger counterparts. Other popular purchases with electronic money include mobile services, internet access and home utilities.

In the near future, it is anticipated that increasing numbers of consumers will make use of e-currencies for the purchase of goods and services, but for the time being this will largely be for offerings at lower price points.

The historical Russian suspicion and banking institutions has overall meant a rapid rise in the use of these payment methods by consumers and merchants alike in Russia, and they are a key driver of ecommerce growth. However, every transaction using e-Wallets is accompanied by a commission amounting to 3-5% of a purchase price. For this reason, most e-Shoppers continue to prefer to pay cash on delivery. Regardless, for the reasons stated above, e-Wallet payments should be a payment option provided by e-Retailers into Russia.

Bank cards and online banking

Despite the high penetration rate of debit cards in the Russian Federation, as a whole bank cards are not used overwhelmingly either online or offline for making purchases. Instead, a significant proportion of card holders essentially use them to withdraw cash from their bank accounts after receiving their salary ; this activity accounted for an astonishing 92% of bank card transactions in 2013.

TNS' 2014 study (see above) recorded that 56% of respondents surveyed had used bank cards as an electronic payment method in the six months preceding the survey – not a particularly impressive statistic in itself when compared with other European markets – but this figure does not paint an entirely accurate picture as it is common knowledge that bank cards are more frequently used for transactional purposes in larger Russian cities (the homes of TNS' survey respondents). The proportion of Russian consumers using bank cards to make purchases online in the country at large, then, is much lower than this figure, and when considering the purchase of physical goods it is lower still. We have also seen that Russia's credit card market remains largely underpenetrated.

These points aside, the popularity of bank cards as an online payment method in the Russian Federation is growing slowly, and it should not be discounted that it was the payment method used by the largest proportion of TNS' survey respondents. The use of this method will only increase as trust in online payments systems grows and cash on delivery loses its dominance in the Russian market. That being said, opinions are somewhat polarised on the specifics of using bank cards online in Russia. Whilst some sites – such as online travel services and cross-border platforms - are already recording significant activity and rapid growth in the use of bank cards, many (particularly those selling physical goods) believe today's situation will likely continue for the foreseeable future. At any rate, bank cards will continue to integrate further with other systems in the Russian Federation (e.g. Qiwi and Visa, Yandex.Money, and MasterCard).

Overall, online retailers are strongly advised to make provision for this payment method, but also to make their security policies very clear. Russian consumers have a history of doubting the honesty of online sellers and the safety of online transactions. Thus, the more reassurance that is given, the better the customer conversion rates. To pay by bank card in Russia, a buyer simply enters information from his card into the designated fields of an online shop's payment webpage.

Upon the submission of this information, the customer's bank will send the user an SMS confirmation with a special code. Once this code has been entered by the user, payment is made directly from the card.

Internet banking appeared only relatively recently in the Russian Federation, though it has since established itself as quite a popular online payment method in its own right. As we saw with e-Wallets, however, the vast majority of electronic payments conducted via internet bank transfers in the Russian Federation are for mobiles, internet access, household utilities and other services; only a very small fraction of online purchases of physical goods are paid for via online bank transfers – some estimate the proportion at less than 1%.

Where offered, a consumer can choose to pay for an online service or product via his bank's online platform. After he accepts an obligation to pay, within the stated time limits he must login to his online banking website and pay the funds outstanding under the seller's invoice.

SMS payments

SMS payments – where products or services can be purchased directly via a text message sent from a mobile phone- are another popular method of conducting online transactions within the Russian Federation, and many large Russian mobile operators such as Beeline, Megafon, MTS and Tele2 offer their subscribers the option to make online payments via this method.

SMS payments work much like standard SMS: to make a purchase of a product or service, the buyer will sent a text message to his mobile payment provider. This provider will then clear the transaction between the buyer and seller, and the cost of the purchase will be added to a monthly phone bill or deducted from a pre-paid balance. By using SMS payments, mobile phone users can securely, quickly and safely pay merchants for the provision of goods or services, whether they be physical or virtual.

In recent years, Sberbank -one of the largest banks in Russia and Eastern Europe – have begun providing their clients an SMS payments service via the phone number 900 – an additional option for online shops to integrate. The service allows users to make text message payments via Sberbank's Mobile Bank interface; a user simply selects this payment method, inputs their phone number into the designated fields of an online shop's website and confirms payment by sending a text message to Mobile Bank's 900 number. The particular sum of money is then withdrawn directly from the user's bank card as issued by Sberbank.

This payment method is available to users commission free.

This particular payment method is additionally available to online stores as part of the Yandex Payment Solution afforded by Yandex.Money, and it should be noted that payments via Sberbank-Online and Mobile Bank of Sberbank can only be activated by an online shop using the Yandex Payment Solution; Yandex.Money has an exclusive contract with Sberbank for this particular solution. There are, of course, other methods of facilitating SMS payments through payment integrators, such as via Robokassa and Assist. Many more solutions will continue to develop as demand for this payment method grows.

It is again important to note, however, that SMS payments are still used relatively infrequently for the purchase of physical goods; trust in electronic payments is low when compared with other areas of the world, and in no area is this wariness more pronounced than in mobile. Despite this hesitancy, though, such purchases are growing. Experts in the industry have reported certainty that these payments will become an ecommerce standard, and they will be an important factor contributing to the increase in the volume of purchases made through mobile terminals.

Cash payment terminals & mobile point of sale

Cash payment terminals are and will remain incredibly popular in the Russian Federation, especially when it comes to payment for services and virtual goods. However, again this payment method is underutilised directly for the purchase of physical goods. In 2013 alone, non-banking payment terminals handled RUB 850 billion (USD 18.6 billion) in payments. Importantly, however, the use of these payment options in Russia is declining to make way for more convenient options, and the number of installed terminals has actually fallen.

These terminals are touchscreen ATM-like self-service devices installed throughout Russia, and are easily accessible in public places. They provide users with a simple and safe way to deposit money into their e-Wallets (Yandex Money, Qiwi, etc.), pay mobile phone or utility bills and pay for purchases.

The largest non-banking payment terminal providers in Russia are QIWI, CyberPlat and ElecsNet. Interestingly, even PayPal - an international online payments company that launched in Russia in 2013 - now gives Russian customers the opportunity to pay by cash as well as card.

A mobile point of sale (mPOS) is a compact device that receives payments made by bank card at any place or time, and is a mechanism that can be used by a courier to receive cash on delivery – an important consideration for any e-Retailer into Russia. To receive a payment, the courier presents a smartphone, tablet or dedicated wireless device programmed with a special payments mechanism to the customer, who will insert a bank card into the device to facilitate payment. The programmes and mechanisms necessary to receive payments via mobile terminals can be supplied by companies such as 2can, Lifepay and Yandex Payment Solutions.

Collection points

E-Retailers into Russia should finally consider putting mechanisms in place for customers to pick up ordered goods from designated collection points within Russian borders. Customers can pay for their items online via the services mentioned above, or in whatever form they like upon collection.

Payments guidance

Unquestionably, when expanding into Russia an e-Retailer should examine and provide for the payment method most commonly used by consumers for the purchase of goods in the location. Cash on delivery will remain the predominant payment method for physical goods in Russia for the foreseeable future. However, consideration should also be afforded to up-and-coming payments methods –those that are often used for online purchases but not yet typically for purchases of physical goods. These include e-Wallets, bank cards, payments via cash terminals, online transfers and mobile and SMS payments, and each can be integrated onto an online retailer's website separately. The growth of ecommerce will substantially spur the development of these electronic payment mechanisms, the safety, efficiency and popularity of which will in turn encourage more electronic consumer spending.

Often it can make sense to allow for several payment methods via a payments integrator, such as Yandex Payment Solution (the market leader in payments), Robokassa or Assist. Each payment integrator offers its own set of payment options and methods. As a rule, payments integrators usually offer card payments, popular electronic wallets and SMS payments.

Facilitating online payments through the services of a payments integrator in Russia can offer significant advantages. There are drastically fewer technical and documentary complications with this method, as an e-Shop only has to follow one technical protocol with an integrator. These providers offer versatile solutions with the goal of activating several payment methods simultaneously, by-passing a host of convoluted technical requirements for an e-Retailer; setting up several payment methods separately otherwise requires taking into account all of their distinctive peculiarities and characteristics. Paperwork and documentation are also reduced as a result of this solution.

Payment solution integration – whatever the form – onto a retail website does, of course, come at a cost, and appropriate research should be undertaken in this area before third-party providers are approached.

The use of electronic payments systems will continue to increase in Russia, particularly with government encouragement favouring the development of ecommerce in the country. Online payments systems are integrated by State institutions, such as the Tax Service - , public transport providers and law enforcement (enable users to pay taxes, travel cards and fines), with increased frequency, and these projects help to increase the number of Russians who are aware of online payment methods and enhancing their overall confidence in these systems. New payment methods (such as recurring, one-click and mobile acquiring) - now just emerging – will likely develop and improve exponentially as a result of increased demand and knowledge.

Ultimately, the payments market in Russia is still developing and great change in the area is inevitable. Providing popular options will allow you to meet the payment expectations of any Russian consumer. The more payment methods you allow for, the more success you will have in this location. Indeed, according to Yandex.Money, the use of popular online payment methods helps e-Shops to increase successful orders by 10-15%.

BAKER & McKENZIE

TAXATION, TARIFFS & FINANCIAL POLICY

Supported by Baker & McKenzie

OVERVIEW

Over the past 16 years Russia has been engaged in a significant reform of its tax system, which has been implemented in phases. This reform has improved procedural rules and made them more favourable to taxpayers, has reduced the overall number of taxes and has reduced the overall tax burden in the country.

Types of Tax

The Tax Code sets forth three levels of taxation: federal, regional and local. Currently, federal taxes include VAT, excise taxes, profits tax, individual income tax, mineral extraction tax, State duty, special tax regimes, and several other taxes. Regional taxes include corporate property tax, transportation tax, and gambling tax, while local taxes include land tax, individual property tax, and the trade levy. Social security contributions are payable to the State Pension Fund, Social Security Fund, and Federal Mandatory Medical Insurance Fund.

There are five types of special tax regimes that may be applicable to certain activities and/or categories of taxpayers: single agriculture tax, simplified system of taxation, single tax on imputed income from certain kinds of activity, taxation of production sharing agreements, and the patent system of taxation. These special tax regimes have the status of a federal tax and may provide exemptions from certain federal, regional, and local taxes.

Corporate Profits Tax

The maximum corporate profits tax rate is 20%, which is currently payable at a rate of 2% to the federal budget and 18% to regional budgets. The regional authorities may, at their discretion, reduce their regional profits tax rate to as low as 13.5%. Thus, the overall tax rate can vary from 15.5% to 20%. For taxpayers participating in investment projects in the Russian East Siberia and Far-East regions the corporate profits tax rate may be reduced for a certain stability period (down to 0% in certain cases).

In the course of ongoing reforms significant changes were made to dividend taxation. Effective 1 January 2015, the tax rate on dividends received from Russian and foreign companies by Russian shareholders increased from 9% to 13%. To promote Russian holding companies, starting from 1 January 2008 dividends payable by foreign and Russian entities qualifying as "strategic investments" to Russian companies are exempt from profits tax. The exemption applies provided that on the day the corporate decision to pay the dividends is taken the following three tests are met:

1. The recipient of the dividends has held the shares continuously for not less than 365 days;
2. The recipient of the dividends owns not less than 50% of the shares in the company paying the dividends; and
3. The company paying dividends is not located in a jurisdiction included in a blacklist of off-shore jurisdictions adopted by Order No. 108n of the Russian Ministry of Finance, dated 13 November 2007 (the blacklist includes most off-shore low-tax jurisdictions and territories).

Starting from 1 January 2011 Russian holding companies are no longer required to meet the RUB500 million (approx. USD8.9 million) investment threshold to apply the dividend exemption, which has substantially increased the use of Russian holding companies.

As of 1 January 2015, the following tax rates apply to dividends:

- 0% withholding tax on dividends payable by Russian and foreign companies qualifying as "strategic investments" (50% or more shareholder with 365 days or longer holding period);
- 13% withholding tax on dividends payable by Russian and foreign companies to Russian shareholders in all other cases; and
- 15% withholding tax on dividends payable by Russian companies to foreign legal entities.

Taxable profit is defined as income less deductible expenses. A taxpayer is generally permitted to deduct economically justified and documentarily confirmed business expenses, however, deduction of certain types of expenses is subject to restrictions (e.g., certain advertising costs and representational, including business entertainment, and travel costs). As of 1 January 2009, some of these restrictions were repealed, in particular, taxpayers are now entitled to deduct per diems (previously only within the limits set by the Russian Government) and expenses on the education of employees in Russia and certain voluntary insurance expenses. Expenses on research and development (including those that failed to yield a positive result) falling into the list approved by Resolution of the Russian Government No. 988, dated 24 December 2008, are deductible in the reporting period at a rate of 150% of their actual amount.

Taxation of Foreign Companies

Russian legislation taxes profits derived from a "permanent establishment" in Russia, as well as certain other types of income derived without a permanent establishment in Russia. Importantly, whether a permanent establishment exists under Russian tax law is unrelated to whether a foreign company's office has been registered in Russia. A permanent establishment may exist even if the office is not registered, and the existence of a registered office may not necessarily give rise to a taxable permanent establishment. Profit derived by foreign legal entities from their permanent establishments in Russia is generally taxed at the same profits tax rates applicable to Russian taxpayers. As of 1 January 2012, a new rule was included in the Tax Code requiring that the income of a permanent establishment be determined taking into account the functions performed in Russia, the assets used and commercial risks assumed, which is generally in line with the OECD approach.

Unless an applicable double taxation treaty provides for a lower rate, dividends payable by Russian companies to foreign shareholders are subject to a 15% withholding tax. Other listed income received by foreign legal entities from Russian sources is subject to either a 20% withholding tax (for most categories of income, including royalties and most types of interest) or a 10% withholding tax (for income from freight and lease of transportation vehicles), subject to any reduction available under an applicable double taxation treaty.

The corporate profits tax is payable and reported on a quarterly basis based on actual results for the first three months, the first six months, the first nine months and the year or on a monthly basis based on actual results for the previous month. The annual tax return and a report on a foreign legal entity's activity in Russia must be submitted to the tax authorities by 28 March of the year following the close of the taxable year.

Controlled Foreign Companies Rules

On 24 November 2014 the President of the Russian Federation signed Federal Law No. 376-FZ (the "Deoffshorization Law") introducing fundamentally new rules on taxation of profits of controlled foreign companies (CFC rules) in Russia. These new rules fundamentally affect most of the wealth management and private holding structures for Russia and mean that immediate review and action may be required. The new rules are effective as of 1 January 2015.

The Deoffshorization Law provides for an obligation of Russian tax residents (individuals and legal entities) to assess, report and pay taxes on undistributed profits of foreign companies and "foreign unincorporated structures" (unincorporated vehicles: funds, partnerships, trusts, and other forms of collective investment vehicles, that may engage in business activities on behalf of their partners/beneficiaries) where they own, directly or indirectly (through other Russian or foreign companies) (1) more than 25% of the shares, or (2) more than 10% of the shares if Russian persons in total own more than 50%, or which they otherwise control, subject to certain exemptions and temporary rules.

Russian CFC rules are very broad and cover not just companies in traditional low tax jurisdictions (e.g. BVI, Panama), but also companies in tax treaty jurisdictions (Cyprus, Luxembourg, Netherlands, USA), whose effective tax rate is less than 3/4 of the weighted average Russian corporate profits tax rate (composed of 20% standard rate and 13% rate for dividends based on the structure of the CFC's income). The new rules could also cover certain types of trusts and other popular wealth management tools.

Russian taxpayers that are controlling persons are required to report a pro rata share of the CFC's profits in their tax returns by the end of the year following the year for which the CFC prepared its financial statement (i.e., the first reporting campaign would be for 2016). CFC profits are subject to ordinary tax rates in Russia: 13% for individuals; 20% for legal entities.

Failure to file a notification on owning shares in foreign companies or a notification on participation in CFCs is subject to penalties of RUB50,000 (approx. USD889) and RUB100,000 (approx. USD1,778), respectively, for each company.

New Tax Residency Rules for Foreign Companies Based on Effective Management

Starting from 1 January 2015 foreign companies may be recognized as Russian tax residents (and become fully taxable in Russia on their worldwide income) if they are effectively managed in Russia. The company is deemed effectively managed in Russia if at least one of the following criteria is met: (1) the majority of board of directors' meetings are in Russia; (2) management of the day-to-day activities takes place in Russia, or (3) executive bodies' management decisions are made in Russia.

There are also certain secondary criteria which may impose an even higher compliance burden in order to avoid Russian tax residency.

The secondary criteria for foreign companies to be recognized as Russian tax residents include: (1) accounting and management accounting is performed in Russia, (2) document (records) management is performed in Russia, or (3) operational HR management is performed from Russia.

There is an exemption for companies with strong substance, i.e., local qualified staff and assets in a State which has a tax treaty with Russia. This may be helpful to protect bona fide companies registered in tax treaty jurisdictions.

New Beneficial Ownership Rules

The Deoffshorization Law introduces the concept of a beneficial owner into the domestic tax legislation, and it is drafted broadly (and focuses more on anti-conduit company rules) and seems to be more onerous than the latest accepted OECD interpretation. Withholding tax exemptions or reduced tax rates under tax treaties concluded with Russia are only available to beneficial owners of income (exercising functions and risks with respect to such income and determining its "economic fate") and should not be provided to foreign companies having limited authority to dispose of income and exercising intermediary functions. Russian tax agents are encouraged to obtain additional beneficial owner status confirmations from recipients. The form of such confirmation is currently unclear. This is likely to result in more uncertainty and tax risks for many cross-border payments. Conservatively, the beneficial ownership requirement may apply even if a particular tax treaty does not contain the beneficial ownership clause. The new rules are effective as of 1 January 2015.

A foreign legal entity is deemed to be acting in the interest of non-disclosed third parties with respect to payments, and is subject to the 30% withholding tax (15% withholding tax with regard to dividends from shares in Russian joint stock companies), unless it provides aggregate information on the persons exercising rights to these securities and (or) on the persons represented by trustees/asset managers (except for investors in collective investment vehicles), which includes a number of securities and (or) depository receipts representing Russian securities, jurisdictions where the beneficial owners of income ("fakticheskiye poluchateli dokhoda") have their tax residency and other relevant information on applicable tax benefits.

Double Taxation Treaties

Russia has signed 87 double taxation treaties (although seven tax treaties have not yet entered into force), which can provide for the reduction of the withholding tax rate on dividend income to as low as 5% and generally provide for a 0% withholding rate on other income (e.g. interest, royalties, and capital gains). For example, the 1998 Russia-Cyprus Double Taxation Treaty provides for a 0% withholding tax rate on interest, royalties, capital gains, and other income not related to a permanent establishment; a 5% withholding tax rate on dividends payable to Cypriot shareholders who have contributed over EUR100,000 to the charter capital of a Russian subsidiary responsible for paying out these dividends; and a 10% withholding tax rate on dividends payable to all other Cypriot shareholders. Many other tax treaties provide for similar withholding tax rates, although some have higher rates.

Value Added Tax ("VAT")

VAT is imposed on all goods imported into Russia and is also applied to the sale of goods, work and services. According to recent amendments to the Tax Code the same VAT regime applies to goods and services that are sold in or imported into territories under Russian jurisdiction e.g., artificial islands and drilling platforms on the continental shelf. Under the new rules, certain types of works (services) provided for the purposes of geological study, exploration and development of hydrocarbons on subsoil plots located on the continental shelf, exclusive economic zone of the Russian Federation and (or) the Russian sector of the Caspian Sea bed are subject to Russian VAT.

The tax period for VAT for all taxpayers and tax withholding agents is a calendar quarter. Starting from 1 January 2015, as a general rule taxpayers must pay VAT in equal instalments not later than the 25th day of each month following the reporting quarter. Current legislation imposes a VAT rate of 18% on the sale of most goods, work and services. A lower 10% rate is applied to limited types of goods, such as pharmaceuticals, medical equipment, and certain food products and periodicals. The export of goods is subject to 0% VAT. In addition, certain types of goods, work, and services are exempt from VAT including, but not limited to, the following:

- Land plots, dwelling houses and apartments, lease of office space to accredited representative offices and branches of foreign legal entities from jurisdictions which apply reciprocal benefits;
- Certain medical goods and services;
- The sale of shares, derivatives and repo transactions;
- Certain operations provided by financial services businesses (registrars, depositaries, dealers, brokers, securities management businesses, investment, mutual and private pension fund management companies, clearing organizations, trade organizers);
- The assignment of exclusive IP rights (e.g., patents, know-how), with the exception of trademarks, and rights to use the results of these IP rights (e.g., a software use license) based on licenses (including non-exclusive licenses).

An import VAT exemption applies to technological equipment that is not produced in Russia according to a list adopted by Resolution of the Russian Government No. 372, dated 30 April 2009 (as amended).

Generally, VAT paid on the acquisition of goods, work and services may be offset against VAT collected from customers. Russian buyers are not required to postpone offsetting input VAT on advance payments until the goods, work and services are delivered and can take an offset on special advance VAT invoices. Russian VAT legislation allows recognition of retroactive discounts in the current tax period through issuing corrective VAT invoices (however, if a discount does not change the price set in a contract, the taxpayer does not need to issue a corrective VAT invoice). The form of a corrective VAT invoice and the standards for its completion became effective as of 1st January 2012. Starting from 23rd May 2012 new e-Invoicing regulations came into force. e-Invoicing requires a digital signature and data transfer via authorized operators and is subject to agreement of the counterparties.

A Russian customer of a foreign company that is not registered with the tax authorities and is active (making sales or providing services) in Russia must withhold either 9.09% or 15.25% reverse charge VAT (depending on the applicable underlying VAT rate of 10% or 18%, respectively) from the amounts transferred to the foreign company and must itself remit such reverse charge VAT directly to the State budget.

As of 1 January 2014 VAT tax returns may be filed with the tax authorities only in electronic form.

Corporate Property Tax

As of 1 January 2004, Chapter 30 of the Tax Code (covering corporate property tax) came into effect, replacing the former 1991 Corporate Property Tax Law. Property tax is a regional tax, i.e. it is regulated by the legislation of the relevant region, with a maximum rate of 2.2%. The tax base includes movable and/or immovable fixed assets owned by the taxpayer in Russia, and is calculated based on the depreciated book value of those assets determined according to accounting rules (and not tax accounting rules). Starting from 1 January 2014 the tax base of certain types of real property, such as business and shopping centres, offices, trading premises, catering and consumer services premises as well as property owned by foreign entities with no permanent establishment in Russia or properties that are not used for the activities of such permanent establishments, shall be calculated based on their cadastral value, which is determined by a State cadastral assessment. The maximum tax rate for 2015 calculated under the new rules should not exceed 1.7% for property located in the Moscow region and 1.5% for objects located in all other regions of the Russian Federation.

Taxable assets do not include inventory, any costs or intangible assets recorded on the taxpayer's balance sheet, land and bodies of water. Starting from 1 January 2013, movable property recorded as fixed assets from 1 January 2013 is not taxed.

Managing companies of mutual funds investing in real estate are subject to property tax on the property held in the fund. The corporate property tax is paid by the managing company from the property of the fund and effectively applies to property held for both corporate and individual investors. Effective as of 1 January 2013, the property of natural monopolies is taxed. The maximum tax rate is set for public railroads, pipelines, power lines and items considered an integral technical component of these facilities, and cannot exceed 1% in 2015.

Corporate property tax is payable on an annual basis, with advances due every quarter. However, regional governments in the Russian Federation may exempt certain categories of payers, including both Russian and foreign organizations, from the obligation to assess and make such advance payments, and sometimes provide property tax exemptions or investment incentives.

The Deoffshorization Law referred to in Section 8.6.1 above introduced a new requirement for foreign companies (and "foreign unincorporated structures") holding real property in Russia to disclose direct and indirect owners (full ownership chain including individual beneficiaries) along with filing property tax returns.

Social Security Contributions

Effective as of 1 January 2010, the Unified Social Tax, which previously combined payments to the various Russian social funds, was replaced by separate contributions to the State Pension Fund, the Social Security Fund, the Federal Mandatory Medical Insurance Fund and the Territorial Mandatory Medical Insurance Funds (the latter were excluded from the list of recipients as of 1 January 2012).

As of 1 January 2015, the social security contributions apply at an aggregate rate of 30% (the same rate as for 2014) of an employee's annual salary of up to the following thresholds ("social contributions thresholds"):

- For contributions to the State Pension Fund — RUB711,000 (approx. USD12,640, RUB624,000 in 2014);
- For contributions to the Social Security Fund — RUB670,000 (approx. USD11,910);
- For contributions to the Federal Mandatory Medical Insurance Fund — no threshold.

The social security contributions are payable as follows: (i) to the State Pension Fund at a rate of 22% of the amount not exceeding the threshold and 10% of the excess, (ii) to the Social Security Fund at a rate of 2.9% of the amount not exceeding the threshold and 0% of the excess, (iii) to the Federal Mandatory Medical Insurance Fund at a rate of 5.1% of the amount with no limit.

The social security contributions apply to all payments to individuals (including individuals applying the simplified system of taxation) even if made from net income. The social security contributions period is a year, and the social security contributions are paid on a monthly basis.

Individual Income Tax

Individuals who are defined as "Russian tax residents," i.e. those who have been in the country for 183 days or more during any 12 consecutive months, are subject to individual income tax on all their income, both that earned in Russia and that earned elsewhere. Individuals who do not meet this criterion are subject to tax on any income received from Russian sources. From 1 January 2001, Russia has enacted various income tax rates, including: a 13% flat rate applicable to most types of income received by Russian tax residents, including dividend income; a 35% rate applicable to income from gambling, lottery prizes, deemed income from low-interest or interest-free loans (except loans directed at new construction or acquisition of a residence) and excessive bank interest; a 30% rate applicable to Russian-source income received by non-residents; and to income from certain types of securities held on foreign nominal holder and similar accounts (and not on an owners account) if the relevant foreign nominee receiving such income fails to provide appropriate aggregate information to the Russian depository in a timely fashion. As of 2011, foreign nationals who have not yet obtained Russian tax resident status but are recognized as highly qualified foreign specialists for the purposes of Russian employment legislation (i.e., receiving a salary of at least RUB2 million per year (approx. USD35,560)) enjoy 13% Russian individual income tax on their Russian salary.

As part of the legislative initiative to create an international financial centre in Russia, from 1 January 2010 new rules have applied to individuals recording financial results on transactions with different categories of securities and derivatives for tax purposes. Also, individual investors were granted the right to carry forward losses on tradable securities and tradable derivatives for ten years. Detailed provisions regarding the determination of the tax base on repo transactions for individuals were included into the tax code effective from 1 January 2011. Similarly to companies, Russian individuals also received a full tax exemption on income from the sale or redemption of shares in Russian companies (acquired after 1 January 2011) satisfying the requirements discussed in Section 4 above. Starting from 1 January 2015 new investment tax deductions have been introduced in the Russian Tax Code that are designed to attract long-term investments in securities (listed on Russian stock exchanges) by Russian individuals (tax residents).

By 30 April of the following year, a taxpayer who received income on which no income tax was withheld at the source of payment must file a tax return based on his/her actual income for the previous year, and settle tax obligations for that year by 15 July of the following year. Foreign individuals are required to file annual tax returns with the tax authorities by 30 April of the year following the reporting year only if they receive income from non-Russian sources, or income where no income tax was withheld at the source of payment. Those foreign individuals who leave the country during a calendar year should file a tax return for the relevant taxable period no later than one month prior to leaving Russia.

Regional and Local Taxes

Regional and local legislative bodies may, at their discretion, introduce various tax incentives and credits with regard to regional and local taxes. Regional taxes currently include corporate property tax, transportation tax, and gambling tax. Local taxes currently include property tax on individuals, land tax and the trade levy. Although these taxes are set regionally and locally the federal legislature has enacted limits on their overall rates. The trade levy may be enacted no earlier than 1 July 2015 only in Cities of Federal Significance (Moscow, St. Petersburg and Sevastopol). All other municipalities located in other Russian regions may introduce the trade levy only upon adoption of the relevant federal law.

LEGAL FRAMEWORK & REGULATION

Supported by Greenway

DISCLAIMER

This section of the Russian Cross-Border Trading Passport document is provided for general information only and does not constitute legal or other professional advice. Neither Ecommerce Worldwide nor Greenway owes any duty of care to any reader of this section of the Passport document. You should consult a suitably qualified lawyer on any specific legal problem or matter.

Legal Framework

The legal framework of the Russian Federation is highly complex and -at first glance - will undoubtedly appear intimidating to those unfamiliar with its many nuances. Like many developing nations around the world, Russia's legislative infrastructure is constantly evolving and undulating, and regional differences are rife. This makes understanding the basic legal structure and applicable legislation of the country a step that should not be overlooked when preparing to trade within Russian borders, or – indeed – even after a presence has been established therein. Importantly, the necessity of this comprehension becomes all the more pronounced when a retailer's sights are set upon setting up a legal entity within Russia, as the legal obligations imposed alter drastically as a result. Overall, as with many other areas covered in this Passport, the varying legal facets of this market are likely to differ significantly from home markets.

The current legislation of the Russian Federation is relatively new and applies according to an intricate hierarchy. A summary of this hierarchy is set out below.

Precedence of statutory instruments

Ratified international treaties

Primary laws	Secondary legislation
The Russian Constitution	RF Presidential edicts
Federal constitutional laws	RF Government decrees
Federal laws, including Codes (i.e. the civil, criminal, labour, administrative, tax, customs and other Codes)	Orders, regulations and statutes of ministries, State committees and branches
Constitution (statute of the territorial entities of the RF)	Acts of executive organs of Russian territorial entities
Laws of the territorial entities of the RF	Acts of self-governing authorities

It's important to note that legislation in Russia is frequently changing, and that this is a common occurrence with lesser orders and directions. These often contradict higher-level laws, at which point the higher-level laws prevail. Often, lower-level acts are enacted as tools to clarify and amend other effective laws.

Court system

Formally, from a legal point of view, Russia is not a country with judiciary law – a court is under no obligation to repeat or abide by the finding or interpretation of another court, and practice can, in theory, vary dramatically by region or by presiding judge. However, in actuality, lower courts almost always follow the decisions of higher standing ones. A brief explanation of the Russian court system is set out in the table below.

	Constitutional courts	Standard courts	Military courts	Arbitration courts
Courts of the highest instance	The Constitutional Court of the Russian Federation	The Supreme Court of the Russian Federation		
Courts of the second and third instances	The Constitutional Courts of territorial entities of the Russian Federation These courts do not have to act according to the rulings of the Constitutional Court of the Russian Federation	Courts of territorial entities of the Russian Federation	Military district courts	At third instance: • Federal Arbitration courts of applicable areas At second instance: • Arbitration appeal courts A new, specialized intellectual property arbitration court has recently been introduced to handle cases related to intellectual property protection. It can act as a court of the first or third instance.
Courts of the first instance	N/A	Municipal and district courts, justices of the peace	Military garrison courts	Arbitration courts of the territorial entities of the Russian Federation

The Russian legislature

Federal law in the Russian Federation is drafted and enacted by a bicameral Federal Assembly. This Federal Assembly is made up of the Federation Council (upper house) and the State Duma (lower house). As mentioned previously, however, simply examining federal law prior to expanding into Russian borders may not be adequate for a retailer's purposes; ignoring applicable regional laws and developments could be a mistake. Within Russia, there is significant competition amongst the different regions to attract investment, whether it be Russian or foreign-sourced. As a result of this, the respective regions have passed a significant number of laws, regulations and other legal measures intended to promote and regulate investment, with the ultimate aim of improving local social and economic conditions. Prospective retailers into Russia should take time to examine which of these regional laws may apply to them, and seeking appropriate professional legal advice is recommended.

As noted above, laws in the Russian Federation are constantly being enacted and amended; the State Duma drafted 1,684 bills in 2014 alone, with the Russian president accepting and signing 464 of them into law.

Foreign v domestic legal entities

A vital point should be made at the outset of this section, before the intricacies of applicable Russian legislation are explored. That is, that - practically speaking and with few exceptions - Russian legal norms and domestic laws are not actually enforceable against foreign legal entities targeting Russian consumers. Though the Russian Civil Code dictates that a physical person in Russia is entitled to defend the rights he is granted in accordance with the legislation of the Russian Federation, from a practical point of view, this course of action is infrequently attempted, and an e-Retailer will simply be bound by the rules of the jurisdiction in which he has established a legal entity and by the rules of international law; a local Russian court will largely be unable to enforce its decision against a foreign-established international retailer with any degree of success.

Where an international retailer establishes a legal entity within Russia, however, the applicable rules and associated obligations and benefits can change, and a Russian consumer's protections, in some circumstances, become more easily enforceable. For more information on Russian legal entities, please see Corporate Forms and Incorporation.

There are, of course, courses of action for foreign international retailers that enable them to establish a physical presence in Russia without actually setting up a Russian legal entity, however, these establishments are somewhat limited in their operations under Russian law. Some detail relating to two of the most popular options when it comes to e-Retail - representative offices and affiliate/branch offices – is set out below.

Representative office: A representative office cannot conduct any transactional or commercial activity in its own right; it is simply established to represent and promote the interests of the foreign international company selling to Russian consumers, typically undertaking marketing and other information-gathering operations. Legally speaking, a representative office is not subject to as much regulation as an affiliate/subsidiary branch, and they are generally easier to establish. Importantly, most legal norms and domestic laws of the Russian Federation are not enforceable against a representative office.

Affiliate/branch office: An affiliate/branch office may undertake all the activity available to a representative office (see directly above), but additionally can engage in many commercial activities, performing many of the functions of its establishing foreign company on its behalf. An affiliate/branch may, however, find that it is subject to an increased level of Russian regulation as certain responsibilities within the legislated remit may be delegated to the branch by the organisation's international head office. Applicable rules depend upon the activities conducted by the local office, as it will be the legal norms and rules relevant to these areas that are enforceable.

Importantly, neither a representative office nor an affiliate/branch office is regarded as a separate legal entity from its establishing foreign company; it is seen as an agent under Russian law. Whilst both representative offices and branches can import goods into Russia, these goods can be used only for internal purposes – neither of these bodies can sell products on their establishing companies' behalf in the Russian Federation. Should an e-Retailer wish for his Russian contingent to sell goods with Russian borders, he will need to set up a Russian legal entity, though this is only the case when it comes to physically selling goods to the end customer – a retailer can distance sell into the territory from anywhere in the world without establishing a legal entity of any form in Russia.

International retailers establishing legal entities within Russia for the purpose of conducting commercial activities, i.e. selling to Russian consumers, will have to comply with stringent Russian legislation relating to these goods, including those laws relating to the category and quantity of goods that can be imported into Russian borders by a physical entity without incurring duties and taxes.

KEY LEGISLATION

The Civil Code

In the Russian Federation, the Civil Code is the primary source of civil law. Importantly for a prospective e-Trader into Russia, this law governs – amongst other things - civil relations between Russian citizens, the purchase and selling process, intellectual property rights and the rules relating to identifying which jurisdiction's legislation is applicable in a particular international transaction.

The table opposite contains some key legislation to consider before you begin trading in the Russian Federation. Please note that the table is not an exhaustive list, and that it is limited to the legislation that applies in Russia at the date of this Passport's publication unless otherwise stated.

** Many of the laws governing data protection detailed in this table are not currently in full force – at the date of this Passport's publication, a seller can simply detail on their online shop that they are protecting a consumer's personal data.*

In contrast to Russian consumers, domestic Russian legal entities encounter very onerous procedures and processes when it comes to purchasing products from foreign online shops, as legislation regulating the international economic activities of Russian legal entities imposes very strict documentary rules for such purchases, both for the transaction itself and for the associated customs clearance procedures.
Because of these rules, where avoidable few internationally-based companies sell to Russian legal entities; it is much easier for a Russian legal entity to make online purchases from other Russian-based internet shops, or otherwise make international purchases as individuals where processes are simpler.

Where a foreign online retailer does choose to sell to a Russian legal entity, this legal entity can only refuse a product and demand a refund where there is a significant problem with the quality of the product purchased; i.e. where it is not fit for purpose and/or the cost of repairing the product is higher than its original price. Individuals are thus afforded much greater protection than legal entities when it comes to product quality.

Whether a Russian individual or organisation is buying from a foreign internet shop or a Russian one depends upon the status of the owner of the venture – i.e. whether it is a Russian or international legal entity. In accordance with Russian legislation, it is the responsibility of the seller to inform a buyer of the pertinent details of a transaction, i.e. who is offering the goods for sale and the conditions of sale, and penalties are imposed for the breach of this duty.

Where an international e-Retailer wishes to operate via its own warehouse within Russian borders, it first must establish a Russian legal entity, though it is possible to contract separately with a third-party Russian commercial warehouse. In such cases, goods must move from an international legal entity to a Russian counterpart; foreign legal entities are unable to declare goods in Russia for the purpose of customs clearance procedures. A Russian legal entity, whatever the form, will then be able to sell goods to consumers. As stated previously, a foreign legal entity's affiliate/branch office can clear goods from abroad, but only if they are for the office's internal use.

Topic Area	Relevant Regulations	Purpose
Privacy and Data Protection* Articles 23 and 24 of the Russian Constitution establish the right to privacy for each individual.	1.The Federal Law of the Russian Federation from July 27, 2006, No. 152-FZ "About personal data" (As amended 04/06/2014)	With the growth of ecommerce, privacy and data protection legislation has become a key area of focus for Russian legislative authorities, though these regulations are frequently being adapted and changed, leading to significant confusion. This particular legislation constitutes the backbone of the Russian law centring on privacy and data protection. It regulates the processing of personal data by means of automation equipment. Other legislative acts – i.e. laws, orders and directions – refer to, explain and expand upon this legislation. Within the Russian Federation, it is still somewhat unclear from a legal point of view what is included within the category of 'personal data', and there are differing views amongst authorities on the subject. Some are of the opinion that all data provided by a consumer should be regarded 'personal', though others feel that it is only certain combinations of data viewed together that should be afforded protection. With the exception of the Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data and Federal Law No. 242-F, which will come into force on 1 September 2015, the effects of all national Russian legislation concerning privacy and data protection are contained in the corresponding 'effects' column for the Federal Law of the Russian Federation No. 152-FZ 'About Personal Data', though regulation titles and purposes are set out separately.
	2.The regulations on 'Securing Personal Data Being Processed in Personal Data Systems', enacted by the Russian Government Regulation of 17/11/2007, No. 781	These regulations contain mandatory security requirements to be complied with when processing and storing personal data.
	3.The Information, Information Technologies and Information Protection Act No. 149 FZ, of 27 July 2006	Establishes basic protection of information

Effects

This law, and other relevant regulations which refer to it, applies to all natural and legal entities processing personal data in the Russian Federation. There are some exceptions to this, i.e. the processing of data by an individual for that individual's personal non-commercial use.
These laws require compliance from the operator of a given website, and compel all data processors to take all necessary organisational and technical measures required for protecting personal data against unlawful or accidental access.

Scope

- Under this regulation, all personal data is regulated. This includes any information that relates directly or indirectly to a specific/defined physical person.
  These protections do not extend to the information of legal entities.
- Special protection is given to certain types of personal information – also known as **sensitive personal data**.
  This includes all information concerning a person's
  - health;
  - private or intimate life,
  - nationality;
  - race;
  - political, religious and philosophical views;

and the law requires consent in written form before such information can be processed.
Under this law, 'processing' can refer to gathering, storing, blocking, deleting and transferring the personal data of a specific/defined physical person.

Requirements and Obligations

When processing the data of a defined/specific physical person, a data controller must:

- Obtain consent from data subjects before processing their personal data. In this regard, implied consent is not sufficient and in some cases the law dictates this consent must be issued in writing, though overall there is no formally prescribed method of obtaining consent.
- Disclose the purpose of data collection, as well as the volume of data collected/processed at the point of collection or beforehand so that a data subject can give their informed consent.
- Take appropriate technical and organisational measures against the unauthorised or unlawful processing of or accidental loss, changing, blocking or destruction of, or damage to, personal data.
- Guarantee the confidentiality of the personal data collected.
- Receive prior written consent from a data subject before he passes the subject's personal data onto a third-party. Third-parties are subject to the same duties and obligations as the original data processor.

Notification

- All would-be processors of personal data in Russia must notify the authorised regulatory authority, the Federal Service for Supervision of Communications, Information Technologies and Mass Media (or, *Roskomnadzor*) before they begin to process personal data, though there are a few exemptions from this notification obligation.

This notification should include:

- the name of the processor;
- the type of data to be processed;
- a description of the categories of data subjects;
- the purposes of processing the data;
- the timeframes of processing;
- a description of the IT systems of the processor.

Rights of Individuals

A data subject can:

- Require access to his personal data as stored by a data controller.
- Request details of the specifics of a processor's data processing, such as:
  - types of data involved;
  - purposes of processing; and
  - name of the data processor.
- A data subject can also demand the discontinuance of the processing of his personal data, with few exceptions.
- A data subject can additionally request that his personal data is deleted by the data processor in the event that the data is:
  - incorrect;
  - unlawfully obtained; or
  - unnecessary for the declared purposes of the data processing.

Other

As present, there is no specific regulation governing a data processor's use of cookies in the Russian Federation.
Thus, no conditions are imposed upon data processors in this area.

Topic Area	Relevant Regulations	Purpose
Privacy and Data Protection* Articles 23 and 24 of the Russian Constitution establish the right to privacy for each individual.	4.The Strasbourg Convention for the Protection of Individuals with Regard to Automatic Processing of Personal Data 1981 (Strasbourg Convention), signed and ratified by the Russian Federation on December 19, 2005	The purpose of this Convention is to secure in the territory of each member State, for every individual - whatever his nationality or residence - respect for his rights and fundamental freedoms, and in particular his right to privacy, with regard to automatic processing of personal data relating to him.

Effects

The transfer of a data subject's personal data to a jurisdiction outside Russia is subject to the same general limitations as apply to the processing of personal data (see above).

Under this Convention, however, a data subject's personal data can be transferred to other Strasbourg Convention-ratifying States, or other States that ensure adequate protection of personal data without following additional requirements, such as the written consent of the data subject (though this rule has some exceptions).

The personal data of data subjects can only be transferred to 'unsecure' jurisdictions on limited grounds, i.e. where the data processor has received the written consent of data subjects. There are currently no established guidelines concerning which States are unsecure.

Topic Area	Relevant Regulations	Purpose
Privacy and Data Protection* Articles 23 and 24 of the Russian Constitution establish the right to privacy for each individual.	5. Federal Law No. 242-FZ "On Amendments to Certain Legislative Acts of the Russian Federation for Clarification of the Procedure of Personal Data Processing in Information and Telecommunication Networks", adopted on 21 July 2014.	Amongst other things, the purpose of this legislation is to provide more certainty than is granted by other statutory instruments in the realm of the procedures associated with personal data processing.

Effects

As mentioned previously, distance selling companies can, of course, operate from abroad without establishing a legal entity or opening a representative or branch office in Russia, and in such a cases must operate according to international law. The recently adopted Federal Law №242-F, when in force, will constitute an exception to this rule. This law obliges all legal entities handling the personal data of Russian citizens to keep the data in servers located within the Russian Federation.

This law will enter into force on 1 September 2015, and, when in force, will almost certainly give rise to myriad questions regarding its practical implementation.

Topic Area	Relevant Regulations	Purpose
Consumer Protection	1.The law of the Russian Federation from February 7 1992, No. 2300-1 "Protection of the Rights of Consumers" (as amended 21/12/2013).	This legislation regulates relations between consumers and manufacturers, importers and sellers in the sale of goods (as well as the performance of works and the rendering of services). It establishes the rights of consumers in the acquisition of such goods, highlighting the necessity of providing goods of quality and regulated standards in respect of health, safety, property and environment. The legislation also governs necessary information disclosure related to purchasable goods (works, services) from their manufacturers (sellers, etc.), as well as consumer education and State and public protection of the consumer. Finally, it defines the mechanism of the realisation of these interests. This is one of the major pieces of Russian legislation setting out consumer protections in commercial transactions. Other legislative acts –laws, orders and directions – refer to, explain and expand upon this legislation. Importantly, these regulations apply only to contracts between traders and non-commercial consumers (natural persons).

Effects

From a legal perspective, Russian consumers are quite well protected by Russia's consumer protection legislation. Legal entities are afforded less protection than individuals.

For the purposes of this Passport, which largely examines online selling, we will examine the specifics of consumer protection legislation only as it relates to such protection in distance selling contracts, which is expanded upon in point 2 below. In some cases, the protection offered to consumers changes depending upon whether goods are being sold from a distance or not. For example, this generic federal consumer protection law States that a customer can return or exchange a product of satisfactory quality within 14 days. In accordance with the distance selling rules, however (see below), this is reduced to 7 days, but if a seller has not informed a customer in writing about this rule, this term can extend to three months.

Within the order of the Government of the Russian Federation from September 27, 2007, No. 612 (expanded upon directly below), it is stated that:

'According to the Law of the Russian Federation "About protection of the rights of consumers", the Government of the Russian Federation decides: to approve enclosed rules of sale of goods by remote method.'

An overview of the consumer protection rules as they relate to distance selling are thus examined immediately below.

Topic Area	Relevant Regulations	Purpose
Consumer Protection	2. The order of the Government of the Russian Federation, from September 27 2007, No. 612: "Rules of Sale of Goods by Remote Method" (as amended 04/10/2012), more commonly known as the distance selling regulations. .	These regulations apply only to contracts between traders and non-commercial consumers for the sale of goods and are intended to set out the rules related to distance selling in the Russian Federation. The regulations are designed to protect consumers and add certainty to consumer contracts. They apply to seller-to-consumer purchase agreements that are conducted from a distance – i.e. where goods are purchased online, through digital TV, by mail order or by phone (from example through a catalogue), text message, radio or fax. They also cover services rendered in connection with such sales.

Effects

These regulation impose a number of requirements upon traders, including:

Delivery

- A seller must organise delivery services and advise consumers on available delivery methods and modes of transportation of goods.
- If the agreement specifies details, e.g. transportation methods and procedure, timeframes, etc. by which the goods will be transported, the seller must deliver the goods according to these specifications. The seller must deliver the goods to the location specified by the buyer, and, where one is not specified, to the buyer's place of residence. Goods are deemed delivered when they have arrived at a buyer's stated address.
  - If there is no agreed delivery date, the goods must be transferred by the seller to the buyer in 'reasonable time'. If they are not, the seller must deliver the goods within 7 days of the buyer bringing this to his attention.
  - A seller may use the services of third parties to deliver goods, but he must inform the buyer of any pertinent details related to such delivery.
  - If the delivery of goods is made according to the terms of the agreement, but fails through the fault of the buyer, the seller and buyer can arrange a new time for delivery. In such a case, the buyer must front the cost of re-delivery.

Seller Disclosure

- To the conclusion of a contract, a seller will provide a consumer with information on:
  - the main consumer properties of goods sold;
  - the address of the seller;
  - the location of production of goods;
  - the full company name of the seller;
  - the price and conditions of acquisition of goods;
  - delivery services;
  - the duration of services offered;
  - any warranty periods associated with the goods;
  - payment procedures
  - the term of a seller's offer
- Where goods are imported into Russia, a seller must inform a buyer in writing of:
  - any regulations or other official orders implemented by Russian legislation relating to a product's technical requirements and/or any required confirmation on the part of a seller of the conformity of a proffered product to Russian standards;
  - the main consumer properties of goods sold;
  - the price in rubles and conditions of acquisition of the goods;
  - any information related to warranty periods and special offers, where they are established;
  - any rules and conditions related to the effective and safe use of products sold;
  - any pertinent information related to the service-life or period of validity of goods. Detail on necessary actions on the part of a buyer after any specified time periods are also required to be stated, as are possible consequences in the event of a failure to carry out these actions where such goods - after specified times - may pose a hazard to life, health or property, or become unsuitable for proper use;
  - the name and address of the seller and the addresses of any organisations authorised by the seller to deal with customer complaints and claims or to repair and/or maintain the goods. Where goods are imported into Russia, the goods' country of origins is also required to be disclosed;
  - where deemed obligatory by Russian legislation, a guarantee of the conformity of the supplied goods to the mandatory requirements of the Russian Federation, ensuring their safety for life, health, property and the environment;
  - information on the Russian rules for the sale of goods;
  - information as highlighted below relating to the refusal and/or return of goods.

If these conditions are violated or if the information proffered is incorrect, a seller may be liable to pay a fine.

Additionally,

- If the purchased goods were either previously used or repaired, this information must be disclosed by the seller to the buyer.
- Obligatory guarantees on the conformity of supplied goods to mandatory requirements must be represented in accordance with the procedure and methods established by Russian legislation, and must include information on document number, relevant dates and the selling organisation.
- The seller must inform the buyer of the time period during which the offer to purchase goods will be accepted by the buyer.
- The seller must provide prospective buyers with catalogues/photos/other informative materials with complete, reliable, and available information characterising the proffered goods.

Effects Cont:

Cancellation of Contract/Return of Goods

- A buyer can cancel an order of goods at any time before their receipt, or within 7 days of receipt of goods.
- If adequate information on the procedure and window of time associated with the return of goods was not provided by a seller in writing at the moment of delivery, the buyer has the right to return the goods within 3 months of the moment of their transfer.
- Returns of goods of adequate quality are only possible if the goods are in their received condition, and only if the document confirming the fact and conditions of purchase (i.e., the receipt) is kept, though the absence of this document does not necessarily deprive the buyer of the ability to refer to other proofs of acquisition for the specific goods.
  - » A buyer cannot return personalised goods of the proper quality if the goods have certain properties rendering them usable only by the consumer making the purchase.
- In the case of a refusal/return of goods within the specified time periods, the seller must issue a refund of the amount paid to the buyer, with the exception of expenses encountered for the delivery of returned goods. All refunds must be paid no later than 10 days from the date the buyer demands the refund.
- If the goods received by the buyer are in breach of the agreement with the seller, the buyer must inform the seller of this no later than 20 days after the receipt of goods.

Specific information must be provided on the procedure and timeframes associated with the return of goods, such as the address to which returned goods should be sent, the time period during which goods can be returned to the seller and the time and procedure related to the refund of monies paid by the buyer.

Where the goods returned are of suitable quality, the delivery note or statement of return must contain certain detail as specified by law, such as a description of the goods, the full name of the buyer and seller, the amount which is subject to return and the signatures of the buyer and seller. A refusal on the part of the seller to create such a delivery note does not deprive a buyer of its right to return the goods or require the return of the amount paid by the buyer according to the agreement.

Product

- The quality of goods sent to a buyer must correspond with the information presented to the buyer on conclusion of a contract, and must be as stated in the agreement between the parties.
- Goods must also be of the quality dictated by Russian law in accordance with the nature of the product (as stated, for example, in the technical documentation that comes with the goods, on labels, instructions, etc.)
  - » If there are no conditions relating to quality in the agreement, the seller must transfer goods that are suitable for the purposes that such goods are usually used for;
  - » Where a buyer advises a seller as to the specific reason(s) behind the acquisition of goods, the seller must transfer goods suitable for use in such circumstances;
  - » If alternatives or notifications are not provided for in the agreement, the seller shall transfer with the goods purchased any corresponding accessories and necessary documentation accompanying the goods (i.e. technical data sheets, quality certificates, maintenance instructions, etc.) as provided for by Russian law.
- A seller cannot send a buyer goods not specified in the original offer of goods for sale. Transferring goods that do not correspond to original descriptions/agreements negates a seller's ability to demand payment for such goods.
- If defects in goods are discovered within a warranty period/period of validity, a buyer is entitled to make a claim to the seller.
- If defects with goods are discovered and no warranty periods or periods of validity are provided for, the buyer has the right to make claims concerning these defects within 'reasonable time', but always within 2 years of the date of receipt if longer terms are not established by law or the agreement between the parties.

Remedies

- If the seller does not send the agreed goods to the buyer, a buyer may refuse the performance of the agreement and demand compensation for any incurred losses.
- If a buyer receives goods of inadequate quality, and such condition was not previously stipulated by the seller, he may demand:
  - » That the seller remedies any defects free of charge, or otherwise reimburses the buyer for any expense he incurs for remedying a defect;
  - » A proportionate decrease in the purchase price of the defective goods;
  - » The replacement of the defective goods with an identical or otherwise acceptable similar item with a corresponding recalculation in purchase price. If the consumer discovers an issue with the replacement product(s) received, he must inform a seller within a period of 20 days;
  - » Otherwise, a buyer can refuse the performance of the agreement at any point doing the guarantee period, and may demand a refund of the price of the goods. A seller can request the return of the defective goods, but must front the costs of the return. In the event that a guarantee period is not expressed by a seller, then this period is set at a standard term of two years. If the period stated by the seller is less than two years, then in certain circumstances - if a consumer can prove that there is a defect with the product - the expressed term can be extended to two years.
- A buyer also has the right to demand the full recovery of any losses incurred owing to defective goods.
- If a buyer returns goods of inadequate quality to a seller, the absence of a receipt or other documentation confirming the facts and conditions of purchase does not deprive him of the possibility of referring to other proofs of acquisition of the goods in question.

Other

- Any remotely-sold inventory and services offered in connection with such sales are determined by the seller of the goods.
- The seller must inform the buyer if goods purchased additionally require skilled specialists to set them up or otherwise operate them as advertised.
- Alcohol and goods whose free distribution has been prohibited or limited by the Russian Federation cannot be sold by any of the aforementioned distance selling methods.
- A seller cannot request a fee for additional works performed or services rendered in relation to the goods (or otherwise) without the prior consent of the buyer. A buyer will have the right to refuse payment for such additional works or services, or, if they have already been paid, can demand a refund of this additional fee from the seller.
- The agreement is considered concluded from the perspective of the seller from the moment:
  - » of the issuance of a sales receipt or other documentation confirming payment of goods; or
  - » from the time a seller receives a message from a buyer confirming his intention to purchase goods.

Topic Area	Relevant Regulations	Purpose
Consumer Protection	3.The order of the Government of the Russian Federation from January 19 1998, No. 55: "Rules of Sale of Separate Types of Goods..." (as amended 04/10/2012). .	This legislation regulates the relations between buyers and sellers when it comes to the sale of specific types of food and non-food products. The regulations apply only to contracts between retailers and non-commercial consumers in the sale of goods. The regulations are designed to protect consumers and add certainty to consumer contracts. Only the general provisions of this particular piece of legislation have been given in this Passport. Detailed rules on particular categories of goods can be found in the legislation from section II on. Information which has been covered above by the distance selling regulations is not repeated herein.

Effects

For the purposes of this legislation, retail in Russia is defined as the sale of new and used products by legal entities for the purposes of personal consumption/home use of individual persons, and does not relate to commercial activities (i.e. it only applies to B2C transactions).

The order sets out the specific rules of sale as they relate to:

- food products;
- textiles, knitwear, apparel, fur products and footwear;
- consumer electronics and durable household products;
- perfumes and cosmetic products;
- cars, motor vehicles, trailers and numbered vehicle units
- products produced from precious metals and stones;
- medicines and medical appliances;
- live animals and plants;
- household products;
- pesticides and agrochemical products;
- copies of audio-visual works and records, and software for computers and databases;
- weapons and ammunition;
- construction materials and products;
- furniture;
- non-periodic publications; and
- used, non-food products.

The order lists those products that are not subject to the requirement of offering a consumer a free replacement for any period of repair, vbpand those which don't require replacement with a like product.

The order also lists non-food products of proper quality that can't be returned or exchanged for a similar product of different size, form, dimension, style, colour or complexity.

Topic Area	Relevant Regulations	Purpose
Advertising	1.The Federal Law of the Russian Federation from March 13 2006, No. 38-FZ: "On Advertisement"	Amongst other things, this legislation regulates marketing communications sent by electronic means including e-mail and SMS

Effects

Unsolicited electronic commercial communications are not permitted in the Russian Federation. Spam can only be lawfully sent after obtaining an individual's consent and must be terminated upon his request.

Topic Area	Relevant Regulations	Purpose
Digital Signatures and Authentication	1.The Federal Law of the Russian Federation from April 6 2011, No. 63-FZ: "About the Digital Signature"	This legislation regulates the use of electronic signatures in civil law transactions and other legally significant actions. The law provides detail of when such signatures will be regarded as legally enforceable, and the conditions for this. It should be noted that within the Russian Federation, electronic signatures are largely used by entities and individuals for the purposes of signing legal and taxation documents – not in distance selling. During the online selling process, largely there is no physical document or contract present - just a public offer which states the conditions of sale, a description of the product and information about the seller – amongst other things (see consumer protection, above) – as well as a means for a consumer to agree to a payment obligation, such as a 'buy now' web button or other assent that a customer has read and received all necessary information about a particular transaction. This assent is the legal expression of a customer's willingness to purchase a particular product.

Effects

Digital signatures have legal effect in the Russian Federation, and the applicable law States that there are two categories of legally-recognised electronic signature:

- 'Simple' signatures; and
- 'Reinforced' signatures.

Reinforced signatures are subdivided into unqualified and qualified signatures, though in practice it is typically the reinforced qualified signature that is used.

Within the realm of commerce, only reinforced signatures are of relevance – simple signatures are not typically used for actual electronic document exchange and are not intended for concluding legal agreements or signing documents of legal effect.

A reinforced qualified signature achieves its status upon the issuance of a verifying qualification certificate. Such certificates are issued by an accredited Certification Centre, and this certification - together with designated cryptographic protection tools - ensure that reinforced qualified signatures are the most protected electronic signatures in the Russian Federation.

An electronic document signed with a reinforced qualified electronic signature holds as much legal weight as a paper document bearing a handwritten signature in almost all cases, with the exception of situations where the law dictates that hard copy documents must be produced.

Contrastingly, electronic documents bearing reinforced unqualified signatures will be considered equivalent to a paper document with a handwritten signature only in those cases where legal regulation explicitly stipulate that they will, or when this is set out in an agreement between the parties.

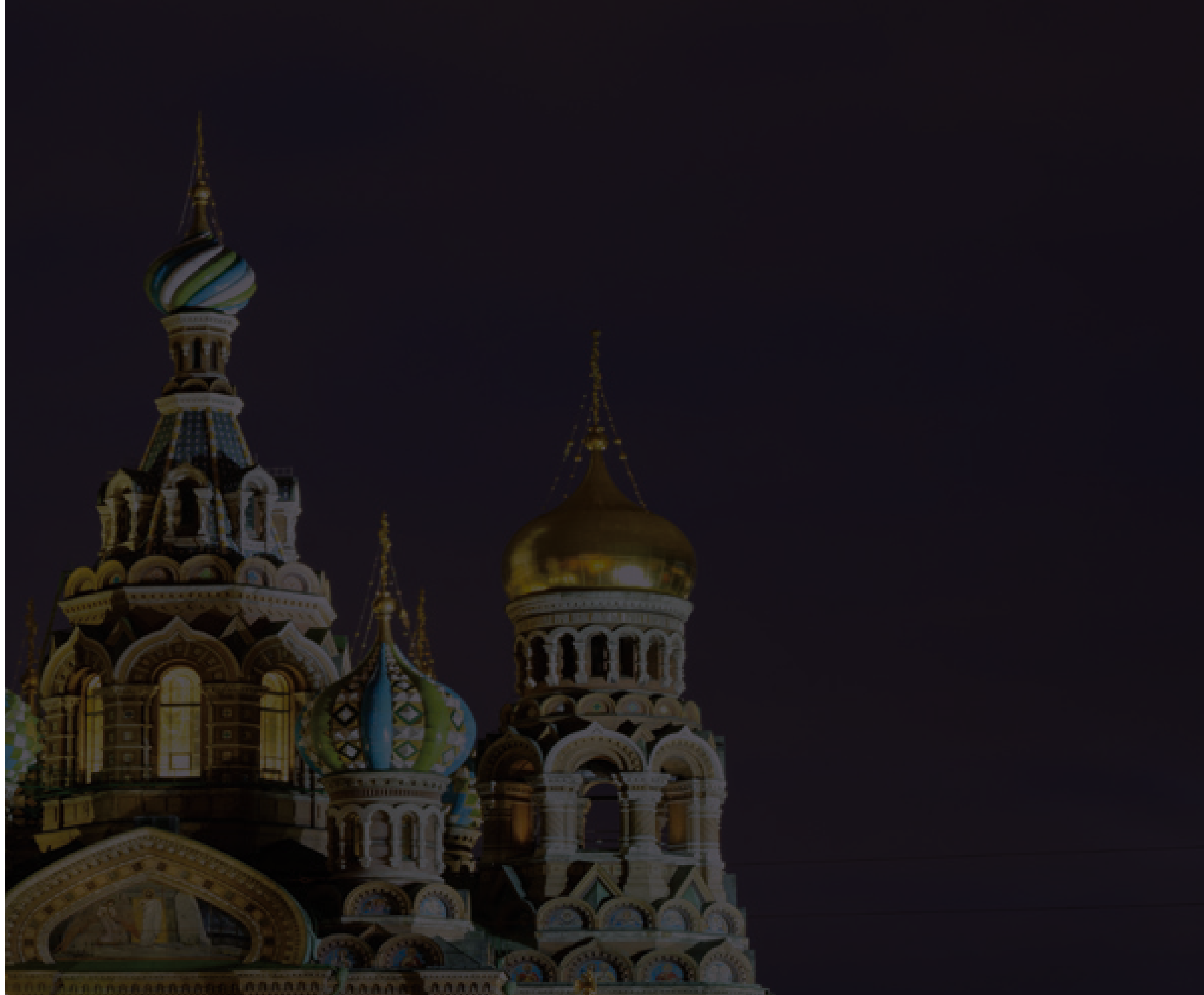
Topic Area	Relevant Regulations	Purpose
Intellectual Property	The Russian Civil Code	Russia has a reputation for significant infringements when it comes to intellectual property rights. Rights holders have concerns about the very real issues of counterfeit goods and parallel imports. As a result of the Russian Federation's joining of the World Trade Organisation, it has been required to ensure that its legislation is in line with the standards set out in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Russia is additionally a signatory to further international conventions relating to intellectual property rights.

Effects

In Russia, most intellectual property issues are regulated by civil law rules. The Russian Civil Code is the main source of intellectual property rules, including regulations on copyright, industrial property rights and trademarks.

Generally, existing IP laws in Russia are in line with TRIPS, although there are certain areas where TRIPS contains additional requirements which will require future implementation in Russia. In addition, court and enforcement authority precedents and practices in this area are limited, and where they exist they can be contradictory.

A specialised IP Court was recently introduced in Russia to deal with matters relating to intellectual property (see court system, above).



CORPORATE FORMS & INCORPORATION

The establishment and operation of all recognised structures of conducting business in the Russian Federation are governed by the Russian Civil Code, though other corporate legislative acts - including laws, orders and directions - refer to, explain and expand upon the Code's basic delineated structures.

A foreign e-Retailer can establish a legal entity in Russia without having to physically travel to the country, though a commonly asked question is whether he actually should. Within the Russian Federation, almost everything can be outsourced to domestic Russian third-parties - whether it be delivery and logistics, marketing, customer relations or warehousing –, and should an e-Retailer choose to do this, there is unlikely to be any need to establish his own legal entity within the borders. However, a decision may be made that it is more convenient, reliable, affordable and/or efficient to conduct these activities in-house. If so, a legal entity can be the best – and sometimes only way – to undertake these operations in this territory.

When deciding whether to establish a legal entity in Russia, an e-Retailer should ask himself:

- Do I need to process transactions in rubles?
- Do I need to make payments in rubles to local contractors?
- Do I need my own warehouse within Russia?
- Am I planning to manage logistics/delivery myself?
- Am I planning to manage returns/customer service myself?
- Am I planning to hire Russian citizens in Russia?
- Am I planning to conduct marketing/ PR activities myself?

The more a e-Retailer answers 'yes' to the above questions, the stronger an argument he has for establishing a legal entity in Russia.

For the purposes of this Passport, we will only be examining commercial legal entities, of which the Russian Civil Code recognises a number, including:

- Limited partnerships
- Limited liability companies (LLC)
- Joint-stock companies (JSC)
- General partnerships

Some of the more popular forms of legal entity are now explored in turn, though an in-depth examination of these is beyond the scope of this Passport. Seeking professional advice is, therefore, advised in this area.

Limited liability companies

When it comes to setting up a legal entity in the Russian Federation, LLCs are one of the more frequently established corporate forms. LLCs:

- Are established by one or more shareholders, to a maximum of 50;
- Require a minimum share capital of 10,000 rubles. Half of this share capital must be paid at registration, with the other half requiring
- payment a maximum of three months after registration;
- Operate such that any key decisions are typically made in periodic shareholders meetings, though day-to-day decisions are most commonly delegated to a general director. The structure of this corporate form is quite flexible, and depending on need and resource, a board of directors and an executive committee can be appointed. The life of this type of company can be stipulated in the company's charter or foundation agreement, though this is not necessary and the duration of the company can remain undetermined;
- Entitle a shareholder to exit the company without the others participants' consent.

Joint-stock companies

Like LLCs, JSCs are another very popular corporate form in the Russian Federation. JSCs:

- May be open (shares in the company are freely transferable to the public) or closed (shares are only transferable amongst shareholders in the company);
- Require a minimum share capital, though this changes depending upon whether the JSC is open or closed to RUB 100,000 (open) and RUB 10,000 (closed), respectively. Any capital is divided into separate shares;
- Have unlimited duration, unless otherwise stipulated in the company formation agreement;
- Like in an LLC, management decisions in a JSC are typically undertaken in periodic general meeting, and a specially appointed general director usually makes day-to-day decisions;
- Where they have more than 50 shareholders, must appoint a board of directors. A supervisory board can also be appointed, if so desired.
- Where they are closed, are not obliged to publish reports on their economic activities. Conversely, open joint stock companies must publish reports relating to their profits and losses, as well as balance sheets. Open joint stock companies must additionally have an annual audit, wherein closed joint stock companies are only required to have an audit under certain circumstances.

Partnerships

General partnerships in Russia are based upon an agreement made between two or more individuals, and the personal property of these partners can become subject to a claim by a partnership's creditors if its debts are not covered. The general partners are typically equally responsible for the company's managerial decisions. At least half of the declared contribution to the partnership's capital must be paid up at the time of its registration, whilst the other half must be paid by the time specified in the partnership agreement.

A limited partnership is Russia is typically made up of both general and limited partners, though the number of each may vary. As the name suggests, the general partners are fully liable for the company's debts, whilst the limited partners have their liabilities limited to the amount they contributed to the charter capital. Major decisions are usually taken by the general partners during a periodic participant's meeting.

Sole traders

Sole tradership in Russia is the most basic form of conducting business in the territory. Key decisions are made by the organisation's founder, and this business form doesn't require a minimum share capital to commence trading. Importantly, sole traders in Russia are not legal entities, and their personal assets may be claimed by creditors in the event that the business' debts are not covered. A sole proprietor must submit a personal tax income declaration every year.

Representative and branch offices

Further information related to the establishment of representative and branch offices in the Russian Federation can be found in the Legal Framework and Regulation section of this Passport. These bodies constitute alternatives to establishing legal entities in Russia, but still allow a foreign e-Retailer to have a physical presence in the territory. Commercial activities through these bodies, however, are significantly restricted.

LOGISTICS & COMMUNICATIONS

OVERVIEW

One of the more frequently cited concerns amongst international e-Retailers looking to expand into Russia centres around the physical delivery of remotely purchased goods to Russian consumers. Russia certainly boasts a force to be reckoned with, even when it is only its sheer expanse being taken into account. A population of 143.7 million people spread across a surface area of 17,075,000 km² presents a daunting task both in time and expense, particularly when 11 time zones, two continents, and a diverse range of consumer expectations for delivery are adding to an e-Merchant's complications. Russia is the largest country in the world, its European and Asian portions individually still dramatically outranking their continental counterparts in size.

In 2014, the World Bank allocated Russia 90th place out of 160 countries in its International Logistics Performance Index, a relatively poor score even when a surface area the size of Pluto is taken into account. The ranking - which includes customs, infrastructure, international shipment, logistical competence, tracking & tracing and timeliness - certainly reflects Russia's overall status as a nation whose ecommerce market is still in its infancy, though it is important to note that it is developing quickly. Progress is aided by the fact that many regions of Russia have excellent access to sea, road and rail routes, and the territory is home to several major airports. The spectacular growth of Russian ecommerce has created increased demand for suitable B2C logistics providers -not in the least as an alternative to the Russian Post. At a minimum, an e-Retailer should scope out a suitable partner who can effectively cope with Russia's vast distances and climate and temperature changes.

140 million parcels were delivered in Russia in 2014 alone and, of these, roughly half were despatches from foreign distance selling companies. For the majority of international retailers, selling into Russia is a primary priority, but the reasons behind a general retail hesitancy to broach this market are immediately apparent. How does one go about overcoming these logistical hurdles?

General delivery considerations

Shipping costs within the Russian Federation can be noticeably higher than those encountered in Western Europe, largely due to the reality that goods must often be transported over long distances. Where goods are made available for purchase in the Far East of Russia, they must almost exclusively be delivered by airfreight, and temperature-proof packaging will in many cases be required, particularly at certain times of the year. Indeed, parts of Siberia are recorded to be some of the coldest continually inhabited places on Earth, with temperatures dropping as low as -60°C in the winter. The proper packaging of goods can thus be a major consideration whether goods are coming from overseas or from a warehouse within Russian borders.

As would be expected, the costs and timeframes associated with delivering consumer goods in Russia differ depending upon the logistics solution selected by an e-Retailer. The Russian logistics market has some key and dominating players, and one of the major Russian natural monopolies is the Russian Post. During the first six months of 2014, the most popular delivery method in the territory was courier delivery, 33% of which was carried out by the Russian Post.

Despite its market share, however, the Russian Post leaves something to be desired both in service and reputation. One of the major stumbling blocks identified with the Russian delivery system as a whole is the immaturity of the working process of the Russian Post, which does not meet world service and delivery time standards despite being one of the more popular logistics solutions. Problems surrounding the Russian Post include:

- The typical transit time for Russian Post delivery is between 10 and 14 days. However, deliveries to remote areas usually take much longer, and cross-border shipments can even take months;
- Some parcels are lost or even stolen. The situation, however, has improved over the past few years, with industry association NAMO reporting that less than 1% of parcels were so affected in 2014;
- The system of recipient notification employed by the Russian Post is considered deficient. Whilst the Russian Post offers a tracked service, there is manual handover required and visibility can be lost. Where a customer is not home to receive a package, the Post is supposed to leave a notification in the recipient's mailbox evidencing the attempted delivery. However, many mailboxes in Russia are broken or inaccessible, and it is reported that postmen do not always leave these notifications. Many parcels thus end up returned to the merchant with the customer never being informed about the attempted delivery;
- The Russian Post's system is also hampered by long lines at post offices to collect parcels. A 2012 study reported that half of recipients surveyed spent 30 minutes or more on average waiting to collect goods in these locations;
- The Post has raised its delivery rates over the past few years, whilst alternative providers have lowered theirs to compete competitively;
- The Russian Post additionally charges a fee for 'storage service'; an additional expense that must be paid if a parcel is not picked up from a post office within a few days. Storage time is additionally not tracked efficiently, and many parcels are returned to the sender before the standard storage time expires.

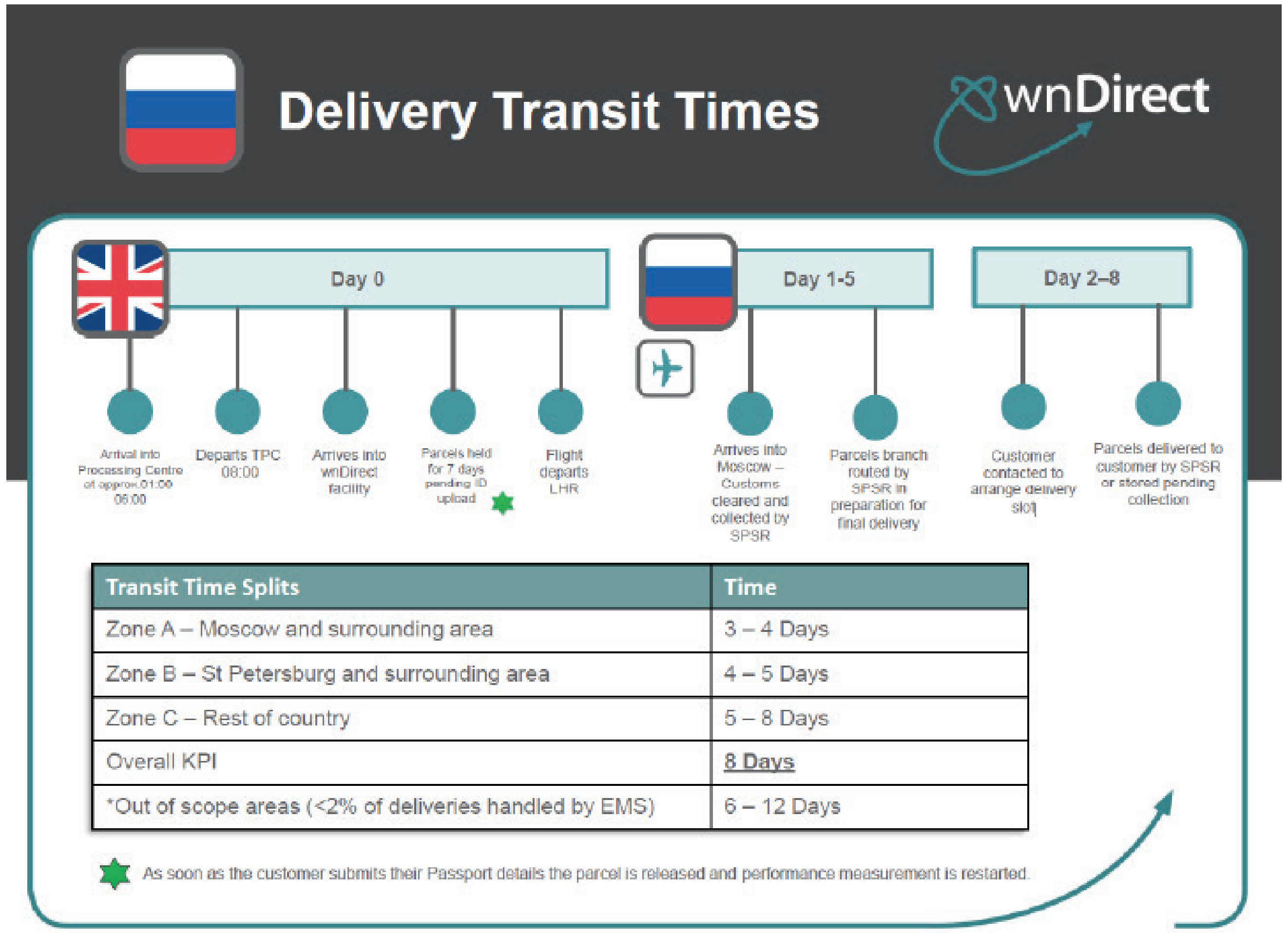
Importantly, despite its reputation for slow speeds, lack of reliability and high costs, the Russian Post does offer the greatest level of territorial coverage in the Russian Federation. Additionally, although there's a perception of unreliable end-carrier postal service as a whole in Russia, in actuality the fulfilment levels are relatively high.

Although historically alternative logistics providers in Russia had been somewhat unappealing as viable delivery options for distance sellers, this area of industry has developed impressively in recent years, undergoing competitive modernisation. Indeed, in 2012, of the 108 million packages shipped across Russia, half were shipped by alternative companies to the Russian Post network. A variety of new providers have appeared on the market, offering a higher quality of service and shorter delivery times to large and mid-sized cities than those offered by the Russian Post. Fees charged for the use of such services - which used to be significantly higher than those charged by the Russian Post - now tend to be competitive, though it is important to note that they are by no means negligible. The Russian Post's offering has thus become less popular in those areas that are also covered by its competitors.

One alternative commercial end-carrier operating in the Russian Federation is certainly worthy of note here. SPSR covers deliveries to around 98% of the Russian population, and the remaining 2% is serviced by EMS, the premium service of the Russian Post (though, impressively this 2% of the Russian population is spread around roughly 30% of Russia's landmass). SPSR offers competitive delivery times and enhanced parcel tracking mechanisms to its consumers, as well as up to three delivery attempts in total. After an initial failed delivery attempt, a calling card will be left at the specified delivery location, explaining the process for re-arranging delivery or picking up the parcel from a customer's local SPSR office.

Domestic players by no means saturate the Russian logistics market; many international Western companies have recognised a high demand for a qualitative delivery service in the country, and have expanded their offerings to include the Russian market as a result. Importantly, however, many third-party carriers into Russia have recently pulled out due to changes in import laws, which can cause a logistical headache for these suppliers. Over recent years, the documentation required for ecommerce imports into Russia has increased dramatically and now includes proof of product value and bankcard ownership. This requirement for the presentation of bankcard documentation at customs, in particular, has caused problems for carriers.

The below graphic, provided by international ecommerce delivery partner, wnDirect, shows typical delivery transit times between the UK and the Russian Federation.



Transit Time Splits	Time
Zone A – Moscow and surrounding area	3 – 4 Days
Zone B – St Petersburg and surrounding area	4 – 5 Days
Zone C – Rest of country	5 – 8 Days
Overall KPI	8 Days
*Out of scope areas (<2% of deliveries handled by EMS)	6 – 12 Days

As soon as the customer submits their Passport details the parcel is released and performance measurement is restarted.

Delivery times and processes will of course vary depending upon the initial location of the goods sold.

Making the best choice for your business

Russia as it exists today only has 25 years of experience in international economic activities ; the practices currently in place have evolved quickly since the dismantling of the Soviet Government. As the years go by, the Russian system is moving increasingly close to becoming aligned with European practice.

If an e-Merchant is selling or has plans to sell only limited stock in the Russian Federation, it is usually the case that he will contract to export with an express carrier that has a presence in the location. It is a relatively simple process and typically significant support is offered by the third-party. What's more, the express carrier can easily communicate with a consumer in the event of a problem or delay.

Importantly, however, it can make sense for an e-Retailer to change his delivery strategies with the aim of optimising his expenses once he achieves a certain volume of Russian sales. Should order volumes justify it, the next logical step can be for an e-Retailer to expand his presence within the Russian market, optimising not only his expenses but also those of his customers.

A physical presence in Russia allows for cheaper delivery, more favourable returns options and shorter delivery times. Establishing a physical presence in the country can take place in a variety of ways, and some popular methods with regard to logistics are set out below.

1. A retailer can set up a warehouse in Russia in which to store his products. This cuts down on lengthy international delivery times and avoids the cost and procedure associated with shipping individual units through customs. Should he choose this option, an international retailer should ship his items to the Russian Federation in bulk, though in this case a range of separate complications and considerations arise. This option - of course - doesn't make financial sense if only small quantities are being exported cross-border, as the costs will outweigh the benefits. A retailer can also contract with a third-party warehouse within Russian borders, which bypasses the need to set up a Russian legal entity.
2. Manufacturing facilities can also be established within Russia if consumer demand grows to this level, though the precise details of this are beyond the scope of this Passport.

Should resources allow, an e-Retailer into Russia additionally has the option of investing in his own logistics system across the territory. Many pure play online retailers such as Enter.ru, Lamoda.ru and Ozon.ru have deployed their own warehousing and delivery processing facilities and others, such as multi-channel retailers Otto and Svyaznoy, have developed existing logistics systems to serve the growing needs of their ecommerce branches.

Ozon, colloquially known as the Russian Amazon, is a good example of a company that has developed its own, complete logistics network. Indeed, the relutance of Russian consumers to make online payments has required Ozon and many others to invest in company-owned fleets of delivery trucks to deliver goods, from which the drivers then typically collect payment on delivery. The company KupiVIP takes this a step further, waiting until the customer has checked his purchases and, where necessary, taking the goods back if they are rejected.

An online retailer looking to target Russian consumers should ultimately take note of how similarly-placed companies organise their internal Russian delivery infrastructures, and attempt to adapt to this market accordingly. Establishing a physical presence in Russia can be game-changing for an international e-Retailer into the territory; the associated logistical advantages can give a retailer a much-needed edge against his competitors, and mean the difference between Russian consumers buying from an intentional e-Shop or abandoning his basket in favour of cheaper, local options.

Russia's more remote regions

It is no secret that the problems associated with delivery in the Russian Federation are greatly exacerbated when it comes to delivering goods to Russia's more remote regions – areas which consist of all locations not covered by the underground zones of Moscow and St. Petersburg.

On the whole, the further away from these 'capitals' a customer lives, the more likely it is that an e-Retailer and/or their delivery partners will have to contend with ailing road and rail infrastructures, as well as a host of other problems often related to weather condition and temperature. Fortunately, however, consumer expectations for delivery in the regions of Russia do not directly correspond to those of their counterparts in these capitals; Russians outside of Moscow and St. Petersburg are willing to wait extra days or weeks for their deliveries, though it is important to note that as infrastructure improves and delivery options expand, their patience and flexibility is sure to decrease.

As has been noted elsewhere in this Passport, whilst historically the highest volume of ecommerce orders have come from e-Shoppers living in Moscow or St. Petersburg, this is now starting to change and the regions are coming out on top.
Adapting delivery options to cater for these areas is therefore highly recommended.

The future of logistics in Russia

At the outset of Russia's ecommerce development, many of the main problems encountered by e-Merchants looking to target Russian consumers were logistical; potential consumers are widely distributed across the regions, and Russia's historical reputation for delivery quality has been poor.

Though many problems have been partially solved thanks to the ever-increasing infrastructural development of the logistics service in and to Russia, still the service leaves much to be desired. Even if potential consumers are eager to buy something in a particular online shop, if delivery is not offered to his particular location – which it frequently isn't - a high bounce rate amongst Russian consumers can be an all-too-often encountered occurrence.

Overall, the Russian Federation is still only at the beginning of its distance selling market development, though increases in ecommerce activity are swiftly driving improvements forward. Only in Moscow, St Petersburg and other cities with a population of one million+ dwellers are logistical infrastructures at - or at least approaching - world standards. As we have seen, however, the more remote regions of Russia will now be the centre of the nation's ecommerce growth and development. Here the offline, bricks and mortar shopping options are characterized by poor development, and more and more consumers are turning towards e-Shopping and other forms of distance selling for their retail needs. To truly cater to these more remote consumers, as well as facilitate delivery standards on par with Russia's larger cities and developed markets around the world, however, there is still much work to be done. Delivery times will have to be further cut, as will costs. What is clear is that improvement is certainly on the agenda of the industry's solutions providers. The Russian Post and increasingly more non-state postal operators are reducing their delivery tariffs and investing in their internal infrastructures, and competition in the sector is growing. Such actions are necessary to nurture the growth of ecommerce in this vast territory.

CUSTOMS CLEARANCE PROCEDURES

GREENWAY customs broker

Supported by Greenway

OVERVIEW

As is the case with many aspects of e-trading explored in this Passport, Russia sets itself apart from much of Europe and the rest of the world in its customs clearance procedures. Due to this likely unfamiliarity, an e-Retailer into the territory would be well-placed to educate himself on any existing regulatory and practical differences before he commences trading in this complex location. In any case, seeking professional advice is recommended at this stage of an e-Retailer's international trading experience.

In Russia, customs clearance is strictly exercised and always occurs before goods are released to a purchaser. This advance declaration dictates the procedure of Russian customs clearance; goods need to be cleared either on the Russian border or within specially designated Russian customs clearance centres. Correspondingly, all associated duties and taxes need to be paid in full either before the product crosses into the country, or in advance of it leaving a designated warehouse.

Responsibility for paying customs duties and taxes for goods always rests with the buyer of goods. All supporting documentation - for example, certificates for certain types of goods, confirmation that such goods can enter Russia, as well as confirmation of product prices - must also be presented for customs clearance, though responsibility for such presentation varies with the clearance method adopted.

B2B customs clearance

B2B customs processes in Russia will be relevant to some e-Retailers during their trading experiences into the country – either at the outset of slightly later on. Establishing recognition and demand in the Russian marketplace will lead to an increase in order volumes, and eventually there will come a time when a distance seller should optimise his expenses by shipping in bulk. Should necessity dictate, there are myriad advantages for both retailer and consumer in this approach, i.e. cheaper delivery costs and enhanced speeds for the consumer, as well as less onerous labelling and customs requirements for the retailer.

Where a merchant elects to establish a physical presence in the Russian marketplace – for example where he sets up or contracts with a local warehouse - the customs procedures and rules directly below may apply.

There are three broad methods of customs clearing goods bound for Russia that are to be received by businesses in the territory, all of which require preliminary customs notification.

1. The first option is for all process and procedure to occur directly on the Russian border. Goods are brought to a customs post located on territory lines where they will remain until the purchaser sends all relevant documentation for inspection and pays any associated duties. In this instance, the responsibility for documentation and payment are entirely placed upon the buyer. After clearance, the goods are transported to their subsequent destination. Significant risks include delays with information delivery, especially due to time zone differences. 18% of B2B goods are customs cleared under this scheme.
2. Businesses also have the option of using customs clearance centres located within the territory of Russia itself. Goods can move directly to these internal centres, but in such a case will require specific transit documents that allow them to cross into the territory without immediate clearance. In this case, it is the carrier who has responsibility for presenting the relevant documentation at the customs clearance centre – including these transit documents - though it is the purchaser who must prepare this documentation and pay applicable duties for goods already within borders. 80% of goods are customs cleared under this scheme.
3. The third option when it comes to proceeding through Russian customs clearance necessitates the use of electronic declaration. With this method, though goods and their transportation vehicles are physically present on the Russian border, customs clearance itself takes place in one of the centres of remote declaration located within the territory. All relevant documentation is sent to this centre, and is usually presented in electronic format. The two customs points will then communicate electronically with each other with the aim of clearing the goods, and - should the goods require inspection - the internal centre will give the order to the customs post on the border to carry this out. Cleared goods can then be shipped to different destinations within Russia right from the border.

Within this scheme, responsibility for preparing and presenting relevant documentation and paying associated duties and taxes falls on the buyer. This method of customs clearance is the most recently implemented of the three set out, and just 2% of goods are currently customs cleared according to this scheme. As the electronic age moves forward, this will likely become the predominant method of facilitating customs clearance. Advantages include:

- No representatives are required at the customs terminal;
- Goods located at any border can be declared from a local customs office;
- Logistics don't depend on the location of declaration;
- The likelihood of delays associated with paperwork are reduced.

If all required documentation is present and all applicable payments are made in advance, the average amount of time required for a shipment of goods to pass customs clearance checks is about 50 minutes.

Importantly, for all of these B2B customs clearance methods, a specially certified and equipped customs storage warehouse - or customs terminal - is required so goods awaiting customs clearance can be temporarily held, though the goods need not necessarily be unloaded from their transportation vehicle. Goods can await documentation and payment in one of these customs terminals for up to four months, though costs increase proportionately according to the amount of time goods are stored.

These customs terminals:

- Inform customs upon arrival of goods for control;
- Confirm the delivery of goods is received according to the transit procedure (in order to close transit declarations);
- Control the goods in the customs terminal (for no more than 4 months);
- Provide the services necessary for actual customs control: unloading/loading, weighing and packaging, etc.

Any carrier can bring shipments of goods to these designated customs terminals, and a variety of methods can be used to remove them. This is an important consideration if a shipment contains goods from multiple buyers.

Because these customs terminals are commercially motivated, there are of, course, costs associated with storing goods in them. Where the commercial storage unit is on the border, it is usually the carrier who covers the costs of storing goods. Conversely, where the goods are stored at a customs clearance centre within Russian borders, it is typically the purchaser who fronts these costs. These costs also cover some of the paperwork necessary for the customs clearance process.

It is necessary to realise that, under this system, the party who physically receives goods in Russia and initiates the B2B customs clearance procedure must be a Russian legal entity.

Commercial customs brokers operate specifically in Russia to ensure that all documents are prepared correctly for the import or export of goods, and will present them to customs on a company's behalf. Customs brokers are licensed by the Russian Government, and must pay a security deposit of EUR 1 million as a guarantee of quality of service. Additionally, their activities are insured. If a company chooses to conduct their business through the medium of a customs broker, the company bypasses the need to communicate directly with Russian customs at all; all responsibility passes to this agent, and the customs broker will inform a purchaser of the progress of a particular order. The cost of this will depend upon the specifics and frequency of particular shipments of goods, the average price being roughly USD 150 per shipment. Typically, customs brokers not only handle the procedure associated with the import of goods but also offer transportation services as well.

Customs payments

There are several categories of payments required during customs clearance in Russia, including:

1. Duties for customs clearance. This is a mandatory fee assessed using government thresholds. These duties apply according to the value of the shipment imported, and the fee must be paid for every shipment of goods that crosses Russian borders. The average fee for such a shipment comes in at around RUB 4,000, or approximately USD 65. These funds are allocated to the federal budget.
2. Import customs duties, which range from 0 - 15% of the value of goods imported. The exact duty payable depends upon the category of goods brought into Russia, and there are specific materials available explaining how to calculate this fee for particular product. These rates have decreased as a consequence of Russia entering the World Trade Organisation (WTO).
3. VAT will also likely become payable, typically at 18%. There is, additionally, an important distinction to be noted here: Russian legal entities that conduct typical business activities within the borders pay VAT to the Government monthly. However, when goods are imported from abroad, a legal entity must pay VAT each time a shipment crosses Russian territory lines.

It is sometimes the case that an importer in Russia ends up paying out much more in customs duties than was anticipated because he is lacking some knowledge or experience of the process, so vigilance and prior research here is key.

This is additionally why, in many cases, it makes sense to use the services of a customs broker as an intermediary, as they can substantially decrease costs that may be incurred through a problem or delay during customs control, which start from around EUR 1,150 (about 10% of the normal cost of clearance) and one additional day at a customs terminal. An overwhelming majority of goods imported into Russia are customs cleared with the help of customs brokers; only a small percentage of international companies handle all customs clearance procedures solely via their own, in-house staff. Using a forwarder in your home territory who has experience of shipping goods to Russia is also strongly recommended.

Risk management

Customs control in Russia entails a thorough system of customs investigations. These include weight control, x-Rays, document checking and physical inspection. Some shipments through customs will be labelled 'risk categories', requiring additional inspection by authorities. Russian customs operate risk management systems which are in full compliance with European standards, though European classification systems are simpler. These systems investigate:

- The price of the product;
- The product information of previous shipments, i.e. manufacturing country, manufacturer and model (based on factory ID);
- The correctness of classification.

For this reason, customs brokers or buyers should ensure that the information contained in customs documents is sufficient and correct; if it is not, customs will make enquiries of the purchaser/customs broker.

Russia uses its own version of the European harmonised codes for classifying goods, and the categories used to assess applicable customs clearance fees are wide-ranging. Every product matches with a designated code which has been assigned corresponding payable duties, and risk management systems are designed to ensure that goods requiring higher levels of duties are not imported citing incorrect codes, thus attracting lower duty rates. Customs does this in part by assessing the legal entities that are importing goods into Russia - examining histories and whether customs codes have been incorrectly allocated before. They will examine values of like shipments on a database, as well as current market prices of goods. Some companies have very good reputations and are awarded a 'green channel'. For such companies, only 0.1% of goods are physically inspected.

This risk management system works automatically via a system of algorithms, with Russian customs trying to minimise as far as possible the potential for human error.

Any business exporting goods to Russia should be aware that Russian customs are very particular about the weight of goods shipped into the country. Some goods – for example particular categories of shoes – actually have their customs duties calculated according to the weight of a shipment. If a shipment requires further inspection due to being labelled a weight risk, this can result in further costs for a purchaser.

Documents for customs clearance

The full list and scope of the specific documents required for the successful import of goods into Russia is beyond the scope of this Passport, and expert advice is recommended in this area.

Particular categories of goods will require additional documentation in order to be imported into Russia. Shampoo, for example, requires a certificate of State registration. These documents certify that particular products meet set criteria, ultimately allowing them to be distributed in the territory. Though these documents are largely not particularly difficult to acquire, they take around three weeks to arrive and there is a cost associated with receiving them. These documents, then, need to be ordered well in advance of the customs clearance process.

B2C customs clearance in Russia

As regards customs procedures and regulation, B2C business transactions differ significantly from those that are conducted B2B, and, importantly, direct-to-consumer selling is the route many e-Retailers will choose when they first begin broaching the Russian ecommerce market.

Within B2C sales, customs payments are the responsibility of the end consumer, and in the event of a customs enquiry, it is the responsibility of the customer to explain the contents of a package. Customs can require a customer to show proof of the value of the contents of a particular parcel to ensure that the duties paid are accurate.

B2C customs duties and limits

From July 2010, a unified customs scheme was implemented for all goods delivered to individual customers in Russia from abroad; these rates are equivalent whether a package is delivered by a commercial carrier or the Russian Post, the national carrier of the Russian Federation. If the total value of a particular purchase is less than EUR 1000 and the full weight does not exceed 31 kg, this purchase will be exempt from customs duties altogether.

It is important to note that a customer can only receive a particular purchase from abroad customs duty-free in the case that the total value of online purchases received by this customer during any one month does not exceed a limit of EUR 1000 (including cost, freight and insurance). If they do, this customer will be required to pay customs duties of 30% on the amount exceeding this limit. Customers who purchase in excess of 31 kgs per month (combined) will be charged a duty rate of EUR 4 per kg on any excess. If the customer's monthly orders exceed both maximum weight and value, a greater charge is applied.

Whilst during 2014 the Russian Government had approved the lowering of this duty-free threshold for cross-border trade from January 2015 – legislation which could have had a negative impact on ecommerce orders in the territory by increasing the number of orders subject to customs duties, in the wake of economic recession in Russia, no further action has been taken. However, with Russia's ascension into the Eurasian Economic Union, it seems likely that the issue of harmonised thresholds will be reconsidered as soon as economy is back on track. A specific figure has yet to be publically disclosed, and opinions are divided, but it is anticipated that this new tax-free threshold will be around EUR 500. It is important to note that even this threshold is substantially higher than the average price of cross-border shipments, so the actual impact on cross-border ecommerce will be limited. In 2014, Greenway estimated that with the introduction of the new limit, every 100th shipment would require the payment of customs duties, as opposed to the current threshold which subjects one out of every 500 orders to the tax. Retailers selling luxury goods to Russian consumers, however, might suffer from the introduction.

As has been highlighted elsewhere in this Passport, there are strict limitations on certain categories of good when it comes to import into the Russian Federation. For example, some goods can be carried only by commercial carriers, and some only by the Russian Post.

Some goods are prohibited from shipment into Russia altogether, and there are some products that are always considered by Russian customs to be products for commercial – as opposed to personal – use, even when a consumer has stated otherwise.

An e-Retailer into Russia should thus be vigilant in checking which categories the goods he is offering fall into before offering the products to Russian consumers. For instance, medical and photo laboratory equipment are always considered to be commercial products, and thus need to be customs cleared in accordance with B2B procedures. Additionally, video and audio CCTV surveillance products, live plants and seeds are prohibited from import for personal use, whilst cultural valuables can be carried only by commercial carriers and not by the Russian Post.

Importantly, a different customs declaration procedure is followed depending upon whether a parcel goes through the Russian Post or a commercial carrier, though the duties paid are the same in either case.

- If the product is shipped by a commercial carrier, the carrier prepares the declaration and presents a list of the items transported to customs. This will include such details as value, contents, country of origin and details of the buyer for customs' inspection. If the shipment requires the payment of customs duties, a carrier will notify the customer regarding the payment of this duty.
- If the parcel is transported by a national carrier in the Russian Federation, i.e. the Russian Post, then the national carrier of the shipment in the goods' country of origin puts forward the customs declaration, and a CN22 form- a declaration created in accordance with international postal agreements – is issued to customs authorities. Russian customs accepts this CN22 as a declaration.

If Russian customs authorities don't agree with the specifics of a declaration, i.e. if they think that the value has not been correctly stated, then customs can approach the end consumer directly and require them to present additional documentation.

Returns

When it comes to returns in Russia, there are no set rules. They hinge on the relationship between the retailer and the consumer, and it is the responsibility of the buyer to organise the process. As long as a foreign merchant does not have a legal entity within Russian borders, Russian consumers will not be able to enforce any Russian statute or obligations against them relating to consumer rights (see Legal Framework and Regulation).

OPTIMISING CUSTOMER EXPERIENCE

OVERALL

Russia is unquestionably a market unlike any other when it comes to trading online. Whether you're considering the tumultuous political and economic environment, the inconsistent and frequently changing legal and regulatory framework or the greatly expanding number of online and mobile shoppers with high disposal income, Russia presents a daunting but lucrative challenge for any aspiring e-Retailer looking to expand into the Russian market.

These points aside, however, there are other – often overlooked – aspects a retailer must consider and prepare himself for in advance of broaching Russian's online retail landscape; namely, a Russian consumer's expectations and particular digital behaviours. Russian e-Shoppers are likely to contrast fairly substantially to those encountered in home markets and even from one another, and an e-Retailer should be willing to adapt to the desires and familiarities of this up-and-coming online market in order to drive profits and overall success.

When preparing to enter the Russian market, it is important to consider from the outset that consumers in the territory don't form a homogeneous group; Russia is the largest country in the world in terms of land mass and the ninth most populous nation. It spans two continents and, as of 2014, 11 time zones. Catering to Russian consumers and their diverse and rich cultural identity is, then, anything but a simple task, particularly when specific regional differences, urban and rural disparities and various age and gender demographics are taken into consideration.

Localisation in Russia

Regardless of the method selected to broach this digital market, language barriers will always be an important hurdle to overcome. Despite being the international language of business, English has a relatively low penetration rate in Russia -particularly in more rural areas - and at any rate, as with all consumers around the world, Russian customers prefer to speak, read and trade in their native tongue.

At present, only 12% of Russians speak English, so unless you have a truly niche and unique product on offer that Russian consumers will be unable to purchase elsewhere, Russian e-Shoppers are extremely unlikely to make a purchase from a shop with shipping and pricing policies in English, let alone other, less commonly-spoken languages. In nearly all cases it is also necessary to undertake full translation of product descriptions. An e-Retailer looking to broach the Russian online market, then, should ideally make efforts to translate all pages and elements of their offering into the Russian language – a step that fewer than 30% of the international brands present in Russia or those looking to enter this market were willing to take in 2013. Partial translation, at any rate, is an almost unequivocal must. Overall, this is a relatively simple step which doesn't necessitate the setting up of a separate .ru webpage – a translated .com/ru website section, for example, can suffice, although there are additional marketing considerations that come along with this decision (see Marketing and Branding).

Similarly, a retailer looking to achieve success in the Russian online market should ensure that they display all elements of their pricing in the local currency – the ruble. Taking early action on elements such as language and currency can mean the difference between success and failure in the Russian Federation, especially when a retailer wishes to appeal to the mass market.

The Russian online marketplace is characterised by a number of additional peculiarities which necessitate at least a degree of localisation. For instance, Russian buyers have been reported to be more likely than their counterparts in many other jurisdictions to communicate with an online seller in advance of purchase due to a preference for making purchases 'from human beings', and appropriate facilities for this should be put in place. Almost all Russian retail websites display their local contact numbers prominently on their homepages, as well as offer toll-free telephone and online chat support. Best practice of course dictates that this should also be provided in the Russian language.

Online sellers will also often telephone an individual buyer after receiving an order with the purpose of confirming order details, product availability and payment and delivery methods. At the very least, an e-Shopper should be able to contact a retailer in the event of a complaint. Call-centre and customer service investment, then, is an important consideration in this market.

It is needless to say that infrastructural operations should also be adapted for the Russian market. As discussed elsewhere in this Passport, logistics and payments are commonly felt to be the greatest hurdles to market entry, and tailoring these elements of your offering to suit Russia is a must, as e-Retailers into Russia will be at a strategic disadvantage if they do not meet the expectations of Russian consumers in all aspects of the process. This can mean mimicking the actions of successful, local Russian e-Retailers and offering a wide range of delivery options, some of which are uncommon in a retailer's local market. It is commonly known that cash on delivery is the most popular payment method in the Russian Federation (see Finance and Payments and Logistics and Communications). This can result in high returns rates, but is a necessary delivery option for any e-Retailer into Russia. Free next-day delivery is also a popular and commonly-used option, as is 'try before you buy'. Russian consumers consider it important to be offered alternative delivery options: 8 out of 10 consumers surveyed took this into consideration before deciding whether to purchase from a particular e-Shop.

Regarding delivery timeframes, most Russians expect to receive their purchases between 7 and 10 days after the order is placed, though it's worth noting here that customers in relatively remote locations have lower expectations when it comes to delivery timescales. Should resources and circumstances suggest, it can make sense to save on delivery times and expense for both retailers and consumers by stocking all offered items – or at least the most popular ones – within Russian borders so orders can be fulfilled more quickly and cost-effectively.

Where an international retailer is hoping to benefit from natural and paid marketing options in the Russian Federation, they should additionally ensure that ad copy is adapted to ensure delivery expectations are managed. Otherwise, sizeable budgets could be dedicated to keywords only for customers to discover delivery options and abscond from the webpage without making a purchase.

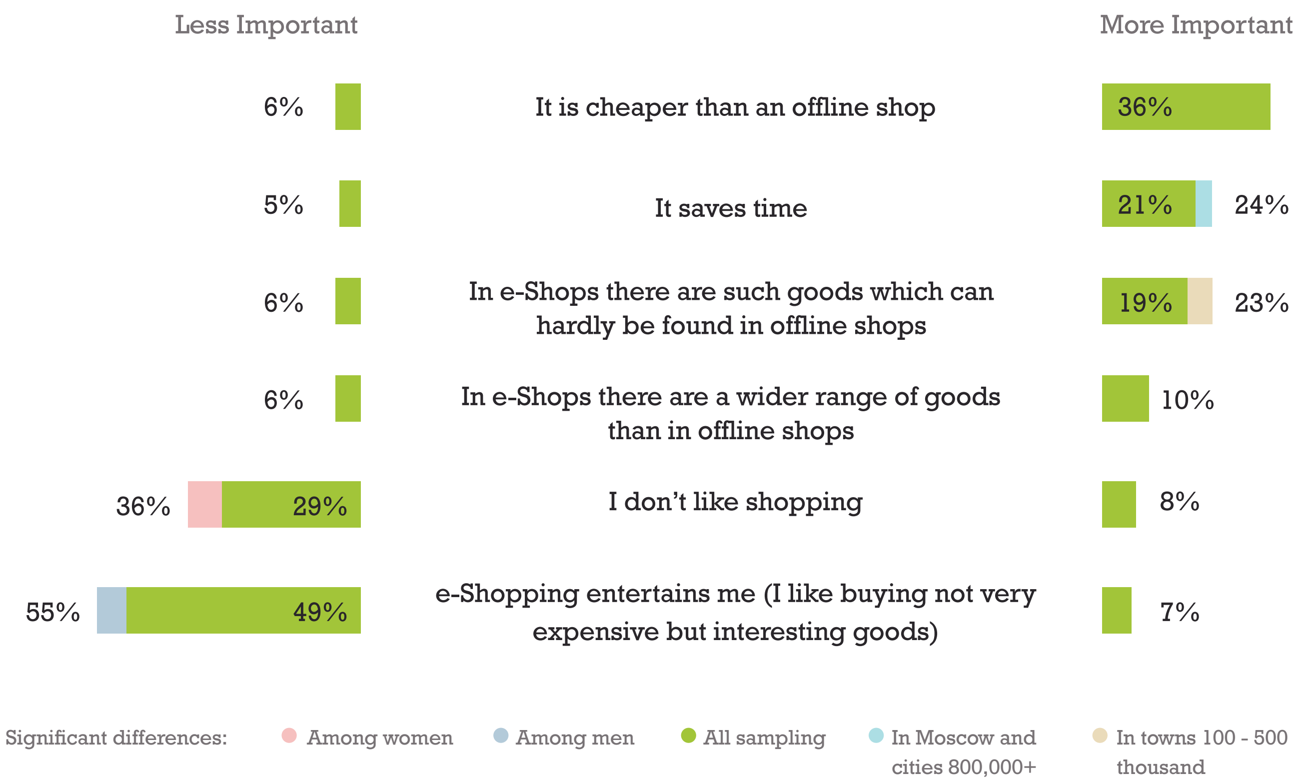
Though cash on delivery takes up an overwhelming majority of the Russian market in terms of payment methods for online product purchases, other online payment systems and e-currencies are growing in popularity, and -as with delivery - a range of payment options should be provided to consumers to ensure success. Bank cards, e-money, SMS payments and internet banking are all important considerations.

Consumer-friendly returns policies and local and regional delivery options should also not be discounted, and whether it be a question of adapting your website, operations or a combination of these elements for the Russian marketplace, should circumstances require there are always local Russian partners on hand to help you sufficiently cater to this diverse online marketplace.

What motivates Russian consumers to shop online, whether domestically or internationally?

When surveyed by Yandex and GFK in 2013 about their motivations for shopping online, Russian consumers reported that it was the cheaper overall prices that played the most important role in encouraging online shopping purchases. An aversion to shopping in bricks and mortar establishments and the entertaining nature of online shopping played lesser roles in inspiring digital purchases.

In order of importance, rate the motives which influence your decision to buy goods in e-Shops. Base: Customers shopping in Russian e-shops, August - September 2013.



Yandex and GFK also surveyed Russian consumers on their main motivations for making online purchases from foreign internet shops, as shown by the chart on the following page:

Main motivations of Russian consumers shopping abroad

Market Research of Yandex-GFK, August 2013

By a significant margin, it was price considerations when compared with domestic online shops that played the most important role in Russian consumers making international e-Retail purchases.

Shopping for goods not available in Russia was additionally an important consideration, with 15% reporting this as a motivating factor. Indeed, brands – particularly international luxury fashion brands - are in such high demand in the Russian Federation that in 2013 the top 25 brands searched for on Yandex were overseas fashion brands.

The Russian consumer

Russian internet users, particularly in recent years, have been reported to be highly educated and technologically savvy – appealing qualities in any potential customer. However, in comparison to some of their Western counterparts– at least in many regions of the country - Russians spend a proportionately small amount of their time online actually purchasing products. Regardless, as we have seen, online shopping in Russia is growing exponentially, with 26 million Russians participating in the practice on a monthly basis. Ultimately, in the longer term, Russia is expected to catch up with more advanced countries like the UK in terms of the popularity of online shopping and internet user ecommerce penetration rates.

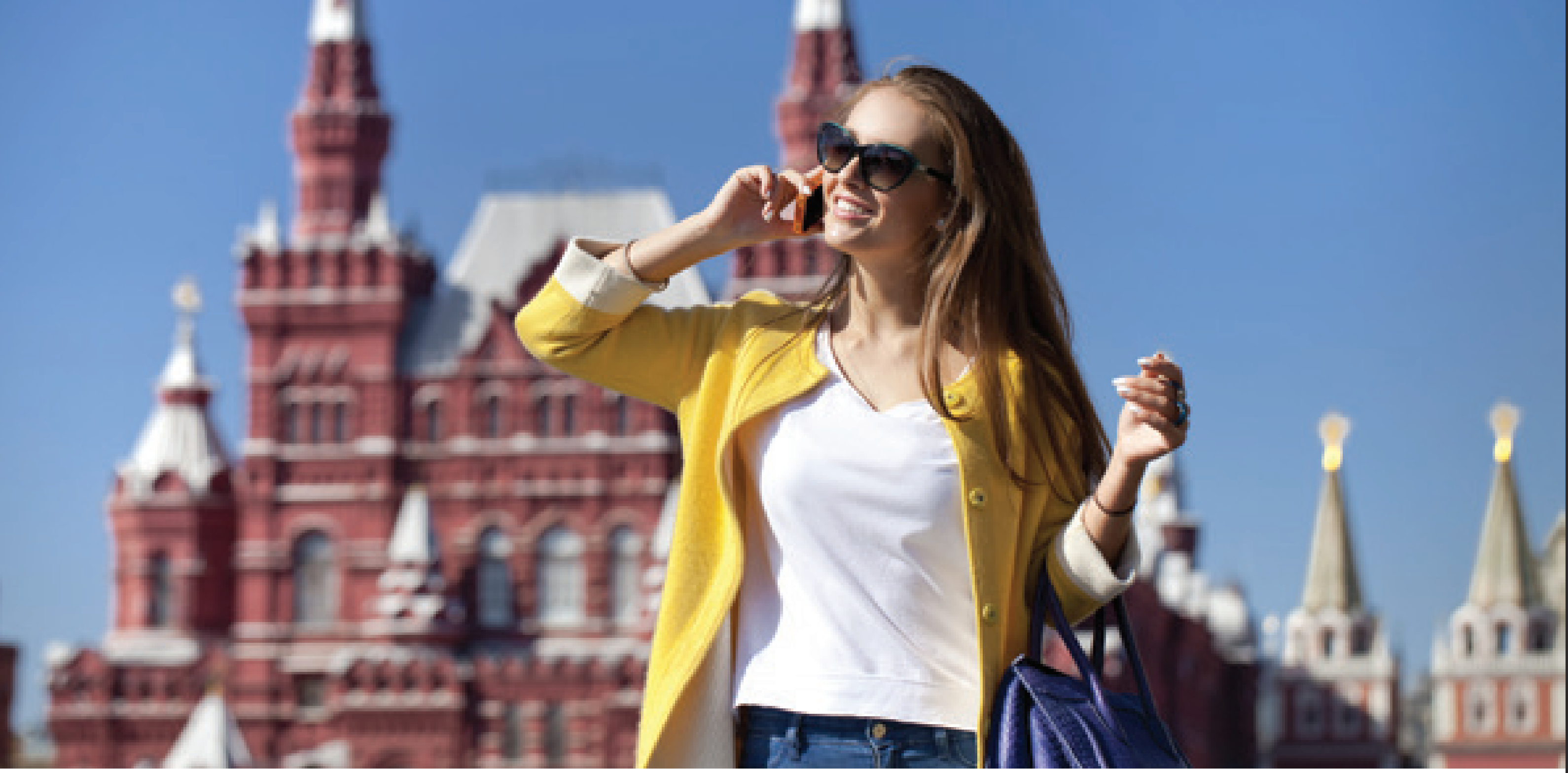
Demographic considerations are of the upmost importance when it comes to targeting these diverse shoppers. Amongst these, socio-geographic variations can play an important role. Certainly historically, e-Retailers – both international and domestic – have found great success selling to those of upper-middle and high incomes living in Moscow, St. Petersburg and other large Russian cities. These locations can certainly boast more impressive historical levels of infrastructural development – particularly in back-end logistics operations - and investment focus. However, as indicated elsewhere in this Passport, these locations should not form the extent of an e-Retailer's locational offering, as at present other regions account for over 50% of the total ecommerce market volume, and this is forecasted to increase in coming years with increased investment and development.
Indeed, these regions are already recording higher ecommerce growth rates.

Regional variation aside, significant disparities also exist in online purchasing behaviour across different subsections of the population. Men, for example, on average spend more online than women, and tend to purchase different categories of goods, though women spend more time shopping online. Car parts and electronic devices - such as mobile phones and computers – are more frequently purchased by men, whilst women gravitate towards clothing and products for children.

As with many other territories, age also plays a role in online purchasing behaviours. Those from younger age groups -particularly when youth is combined with middle-to-high income brackets and the completion of higher education - tend to be well-versed in this comparatively recent technology, and they are also inclined to place more trust in online commerce and payment mechanisms when compared with their older counterparts. This inevitably leads to higher rates of online spending and consumption.
Certainly, ecommerce in Russia has additionally not been fully democratised yet, and online purchases are much more widespread in households with higher disposable incomes.

There are, of course, some consumer characteristics that shoppers across Russia are largely reported to share. Russians are notoriously very sensitive to the price of goods, for example, and on the whole will be active in making price comparisons across multiple online shops. As a result, Russian e-Shoppers are reputed to be quite disloyal. These consumers will also be vigilant in checking product information on a website, as well as pricing and delivery conditions, so being up-front about this information is vital if you want a respectable customer conversion rate. Trust is additionally reported as a key concern, so e-Retailers should consider publishing their privacy and security policies in an obvious and easily accessible location on their websites.
Importantly, around 30% of Russian internet users have declared that they never shop online, which is quite a significant figure when compared with the 10 to 20% reported in most Western countries. Trust and transparency of information – particularly related to costs, delivery and privacy - play an important role in this.

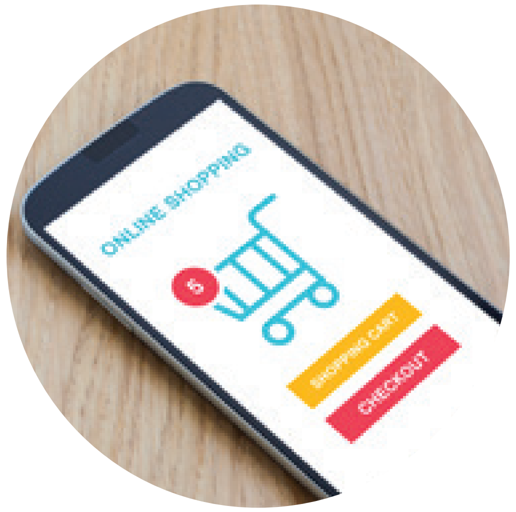
As has been reported elsewhere in this Passport, social networking websites are immensely popular amongst Russian citizens of all classes and creeds, and social media engagement rates in this location exceed global averages. This proclivity for social networking should not be ignored by a potential online retailer into Russia as a means of accessing consumers; indeed, in 2013, 51% of Russian internet users followed their favourite brands or retailers on social media and these platforms constitute excellent marketing and exposure channels.



And mobile?

Though mobile commerce is relatively undeveloped in the Russian Federation when compared to more advanced web-commerce economies, it's undeniable that the popularity of the practice – as well as smartphone and tablet penetration, generally – is growing exponentially. Considering optimising your e-Shop for mobile browsing is thus an important consideration now, and will only become increasingly vital as time goes on. A survey by ExactTarget recorded that 85% of smartphone users consider it a central part of their everyday life (reaching 90% amongst 18-24 year olds), and many research information about products using their smartphones before buying these same products offline.

Concerns relating to mobile shopping are underpinned by the fact that Russian mobile users have reported dissatisfaction with the mobile versions of websites they frequent: 54% noted a lack of information provided in this regard. A study conducted by Retail Systems Research additionally found that 49% of mobile device users leave an e-Shop without making a purchase. The report suggested that one reason for this might be that e-Shoppers are unable to locate the tools that they are used to, or find the button navigation inconvenient.



Yandex has reported that searches on mobile devices are also on the rise: In 2013 they made up 14% of all searches, up from 10% in 2012 and 6% in 2011. Impressively, mobile advertising additionally contributed to over 10% of Yandex's profits in this same year, and Sberbank has reported that this search engine's revenue from sales of mobile advertising doubled in 2013.

It is thus clear that mobile is not a channel that should be overlooked by an e-Retailer into Russia, and mechanisms should be put in place to optimise a customer's mobile experience.

REFERENCES

For a comprehensive list of links and references to accompany this Passport please visit, www.ecommerceworldwide.com

- forum.bratsk.org
- Report on Russian ecommerce Market NAMO 0414
- forum.bratsk.org
- cnews.ru
- Пресс-бюллетень № 2СЗТУ за 2104 г.
- rg.ru/2013/11/05/pokupatel.html
- akit.ru/may-2014/
- vedomosti.ru/tech/news/15417161/ebay-ne-hvataet-pochty-rossii
- wnDirect's published Russia in Country Pack (April 2014)
- Reaching Russia by InfoCom – Reaching Russia through eCommerce
- internetretailer.com/commentary/2014/06/02/good-news-online-Retailers-selling-russia
- Why UK online retailers should be looking to Russia – SearchLaboratory
- ecommercenews.eu/ecommerce-per-country/ecommerce-russia/
- www.borderfree.com/global-insights/ecommerce-in-russia-borderfree-country-report
- OECD (2014), "Country statistical profile: Russian Federation", Country statistical profiles: Key tables from OECD.DOI: http://dx.doi.org/10.1787/csp-rus-table-2014-2-en, accessed on 16/02/2015
- The International Tax and Business Guide 2014, published by the GGI Geneva Group International Ltd
- www.digitalintheround.com/ecommerce-russia-trends-players/
- www.pkf.com
- www.cms-cmck.com
- TNS Russia
- www.cctld.ru/en/registrators
- The Paypers - Russia
- komdat.com/blog/market-update-search-engines-russia-q1-2014
- br-analytics.ru/en
- point-topic.com/free-analysis/russia-broadband-overview/
- technology.ihs.com/508771/broadband-in-russia-investment-in-regional-networks-is-essential-as-big-cities-near-saturation
- ecommercenews.eu/ecommerce-per-country/ecommerce-russia/
- ewdn.com/ecommerce/insights.pdf
- ewdn.com/2014/12/19/mobilecommerce-takes-off-in-russia-number-of-shoppers-more-than-doubles-in-2014/
- criteo.com/media/1350/criteo_mobile_commerce_report_2014.pdf
- ystats.com/en/reports/preview.php?reportId=1074
- GlobalWebIndex, 2013
- ewdn.com/2014/11/24/new-ewdn-study-cross-border-sales-still-growing-fast-chinese-players-invading-the-market/
- IMF World Economic Outlook, April 2014
- bpostinternational.com/sites/default/files/POSK1053_Factsheet_Russie_UK_V1c.pdf
- money.yandex.ru/doc.xml?id=526568
- ey.com/Publication/vwLUAssets/EY-doing-business-in-russia-2014/$FILE/EY-doing-business-in-russia-2014.pdf
- cbr.ru/statistics
- goaleurope.com/2013/01/21/startup-russia-making-sense-of-mobile-payments-in-general-and-russia-in-particular/
- money.yandex.ru/doc.xml?id=526964
- ecommerce-europe.eu
- tsar-events.com/intersting-facts-about-russia/
- uk.businessinsider.com/17-mind-blowing-facts-about-russia-2014

DISCLAIMER

ABOUT NAMO

The **National Association of Mail Order and Distance Selling Trade (NAMO)** was founded in Russia in 2004 by many leading international and Russian distance selling companies, including OTTO, Yves Rocher, Readers Digest, La Redoute and Mir Knigi.

Today, NAMO helps a variety of Russian and international distance sellers succeed both in their home markets and abroad, and one of its foremost goals is overcoming existing trade barriers with the aim of facilitating cross-border selling.

NAMO's comprehensive offering is geared towards the industry's welfare, and includes the services of highly qualified English-speaking experts who provide advice on crucial issues, as well as support foreign companies in their expansion into Russia's extensive market. NAMO provides guidance on many aspects of selling, including marketing, customer service, operations, logistics and payments.

NATIONAL ASSOCIATION OF MAIL ORDER and DISTANCE SELLING TRADE

For more information, please contact us via phone or email:

Phone: **+7 (495) 973-2011**
Email: **info@namo.ru or help@namo.ru**

Or visit our website at **www.namo.ru**

ABOUT WNDIRECT

More than just a logistics partner

wnDirect came to market determined to do things differently. Its international logistics offering quickly gained traction with a number of leading e-Retailers and it has since become renowned for its disruptive way of thinking.

Since launch wnDirect has evolved to offer a broad range of solutions designed to enable e-Retailers to 'go global'. Its comprehensive services can support both large and small retailers alike to realise their international aspirations and achieve success in global markets.

More than just a logistics partner; wnDirect is a retailer's key to global success.

We don't just understand international logistics; we also understand retail. As a business many of the Board members, managers and staff have worked in retail and, therefore, understand you and your business – not just how to deliver your parcels.

Combining young, flexible and entrepreneurial thinking with leading edge technological developments to provide turn-key solutions which enable retailers to 'switch on' their global expansion plans. Supporting retailers successfully navigate the complexities of cross border trade in key markets quickly, easily, reliably and cost effectively.

wnDirect

A full range of added value services:

- Unique fully integrated customs service – a paperless solution at the pack bench
- Full tracking and visibility throughout the entire delivery lifecycle
- Automated email and SMS updates to the consumer in their local language
- Can be integrated into a retailer's online shopping solution
- Duty Payment & ID Upload solutions
- Access to a Global PUDO network
- Solution to support entry to the China Tmall marketplace
- Simple Returns solution
- Comprehensive bespoke reporting to your requirements
- Best-in-class, independent delivery partners trusted by your consumer

For more information, please visit **wndirect.com** or email **marketing@wnDirect.com** to speak to one of the wnDirect team.

SECTION SUPPORTERS

BAKER & MCKENZIE

For more than 65 years Baker & McKenzie has been effectively providing global and multidisciplinary advice on corporate compliance, for over 25 of those years providing such advice here in Russia. The size and global reach of our Firm, its 77 offices in 47 countries, guarantees that know-how is shared among different jurisdictions and allows resources from our international network to be allocated so as to supplement local office needs. Recommended by Chambers, FT Innovative Lawyers, Global Competition Review, IFLR1000, International Tax Review, Legal 500 and Managing IP, Baker & McKenzie is the largest international law firm on the Russian market, with over 120 lawyers in Moscow and St. Petersburg serving an impressive roster of large domestic and multinational clients. We are recognized as a provider of premium services, especially in the areas of banking and finance, competition, corporate compliance, dispute resolution, employment, IT and communications, intellectual property, M&A, real estate, tax, and trade and commerce.

For more information about Baker & McKenzie in Russia and other CIS countries, please call or email:

Arseny Seidov

tel: **+7 495 787 27 00**

email: **arseny.seidov@bakermckenzie.com**

Or visit **www.bakermckenzie.com/russia**

GREENWAY

Greenway is a major global logistics operator that provides a full range of import services to Russia. We render high-quality services to large and medium-sized international companies, and design tailored and efficient logistics systems for each customer. Greenway will take personal charge of your transportation needs, as well as oversee customs clearance procedures to ensure the safe and efficient import of customer cargo. We are the first and only Russian ecommerce-ready customs broker: advanced technological solutions enable our customers to save money and control shipments in real time. In addition, for those customers who are just considering entering the Russian market, we offer legal, marketing and logistics consultancy services.

For more information please call or email:

Greenway

tel: **+7(812) 438-80-90,**

email: **greenway@greenway.spb.ru**

Or visit **http://www.greenway.ru/en/**

ecommerce WORLDWIDE

Russia Passport 2015
Cross-Border Trading Report

Ecommerce Worldwide
2 Ching Court, 49-53 Monmouth Street,
Covent Garden, London, WC2H 9 EY.

T +44(0) 203 696 0980
E info@ecommerceworldwide.com

Published May 2015

www.ecommerceworldwide.com

OwnDirect

NATIONAL
ASSOCIATION
OF MAIL ORDER and
DISTANCE SELLING TRADE