

2014 Survey on Business Conditions of Japanese-Affiliated Firms in Russia

March 2015

**Japan External Trade Organization (JETRO)
Europe, Russia and CIS Division,
Overseas Research Department**

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● Questionnaire ●

Survey Report: 2014 Survey on Business Conditions of Japanese-Affiliated Firms in Russia

We would like to ask for your feedback on this survey report. This information will be used as reference for considering future survey themes.

■ Question 1: How did you feel about the contents of this survey report? (Circle one)

4: Helpful 3: Somewhat helpful 2: Not very helpful 1: Not helpful

■ Question 2: Please fill in the frame below with your: (1) Intended use and purpose, (2) Reasons for reaching the conclusion that you did above, and (3) Other impression regarding this report.

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■ Question 3: Please fill in the frame below with your requests for future JETRO survey themes.

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Affiliation	<input type="checkbox"/> Company/ organization	Name of company/organization
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Thank you for your cooperation

Preface

JETRO carried out a questionnaire survey from October to November 2014 concerning business conditions aimed at Japanese companies that are operating in Russia. This year marks the second time, after last year, that this survey focusing on Japanese companies operating in Russia has been carried out.

A number of Japanese companies operating in Russia lent their cooperation for this report. We would like to express our deepest gratitude to all of them. We hope that this report helps the parties interested in business development in Russia.

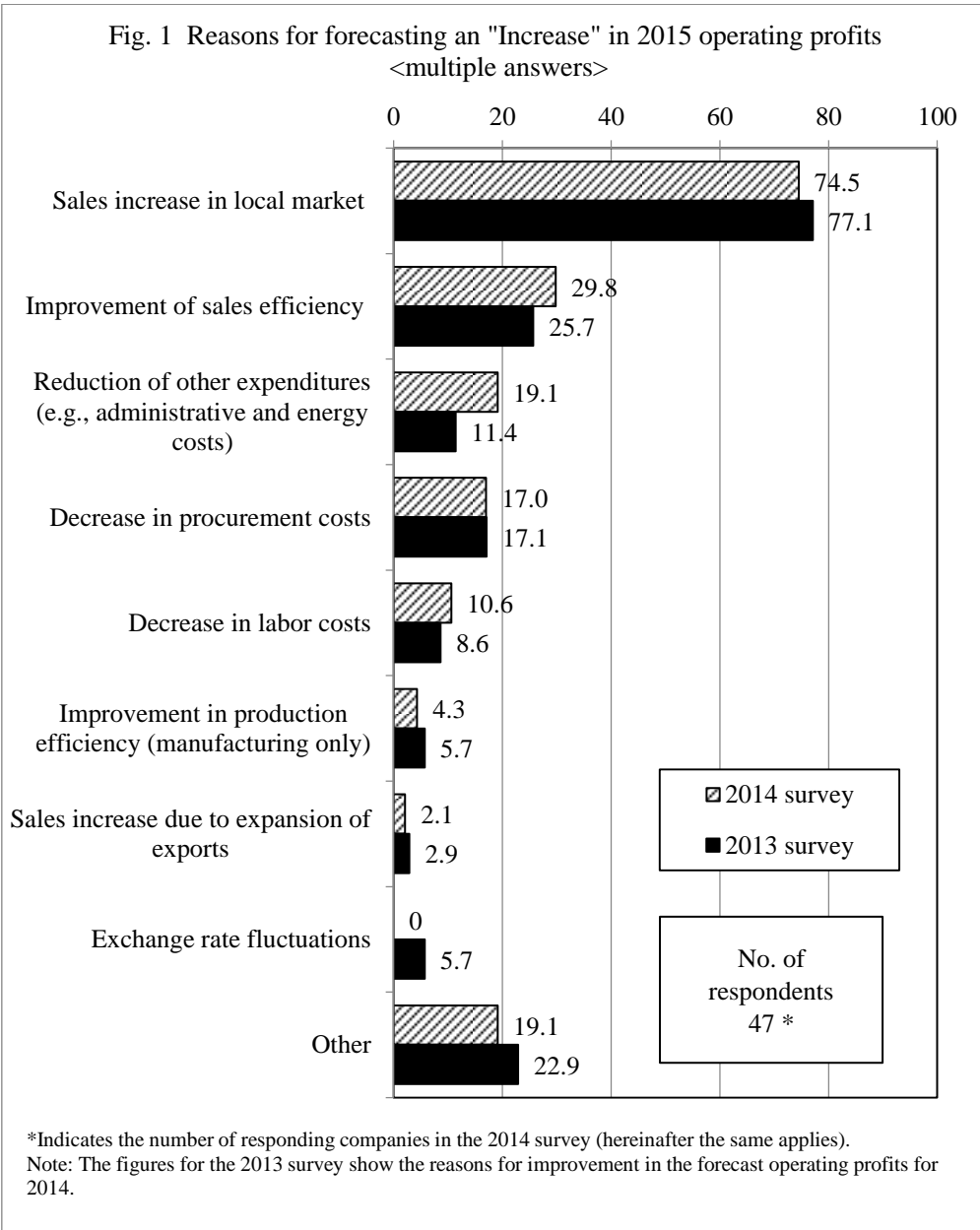
March, 2015
Overseas Research Department
Europe, Russia and CIS Division
Japan External Trade Organization (JETRO)

Table of Contents

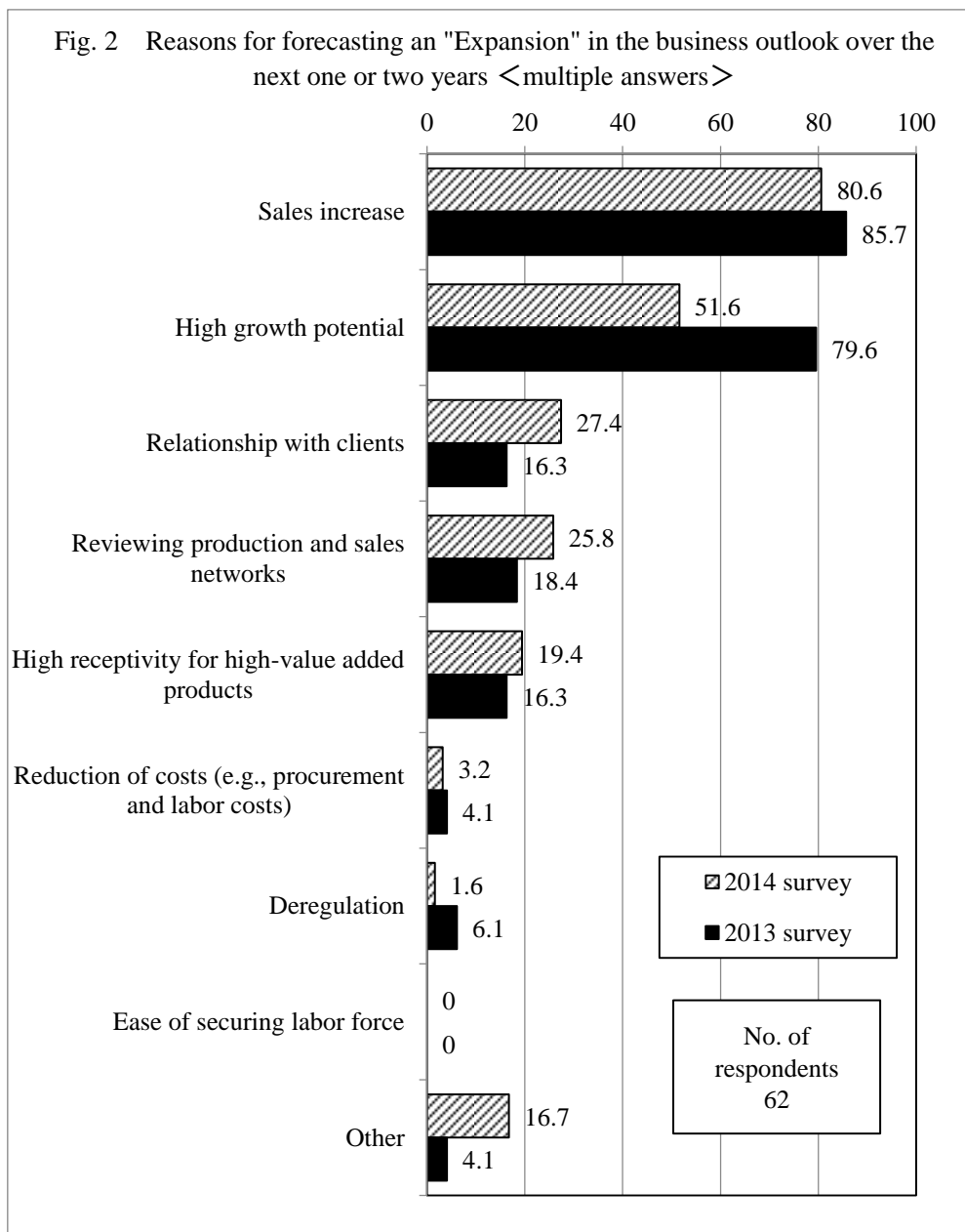
Executive Summary	1
1. Overview of the Survey's Purpose and Implementation	5
1-1. Purpose of the survey	5
1-2. Targets of the survey	5
1-3. Method of conducting the survey	5
1-4. Period of the survey	5
1-5. Response status	5
1-6. Notes on the survey results	5
2. Profile of the respondents	6
2-1. Respondents' locations	6
2-2. Percentage of respondents by type of industry	7
2-3. Form of enterprises of respondents	8
2-4. Year in which respondents were established	8
2-5. Respondents' number of employees	9
3. Survey results	10
3-1. Business forecasts	10
3-2. Challenges in management	27
3-3. Advantages and risks in terms of the investment environment	35
3-4. Procurement status for raw materials and parts in the local area	45
3-5. Effects of Russia's accession to WTO and Free Trade Agreements	47
3-6. Other challenges for developing business in Russia	52

Executive Summary

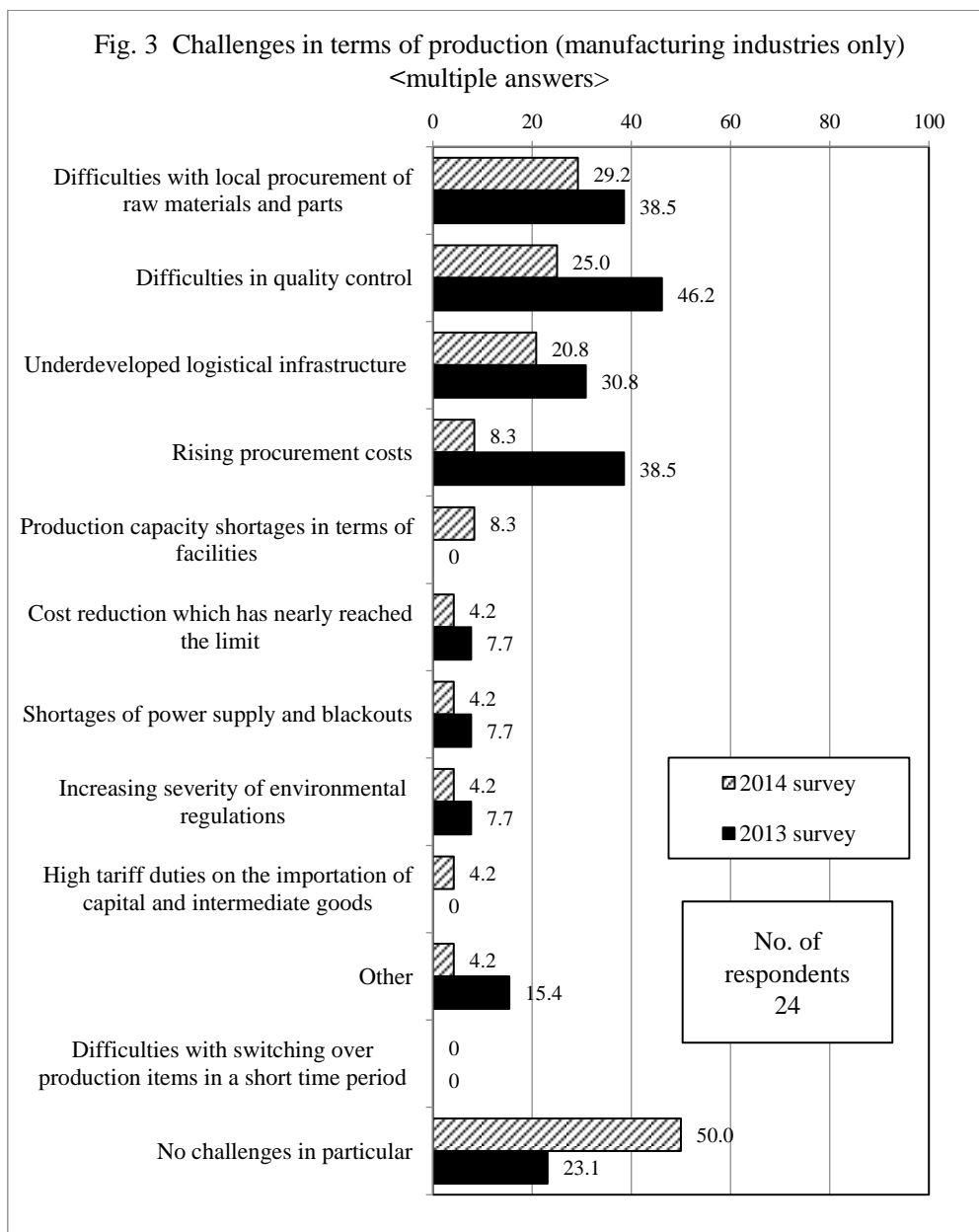
- (1) In 2014, 53.2% of companies reported an operating profit and forecast that they would improve upon their performance in 2015
 - The more common forecast for operating profit in 2014, given by 53.2% of respondents, was for a “Surplus,” which represents a reduction of 2.4 points in the number of respondents giving this answer compared with the previous year’s survey (55.6%). While “Deficit” fell by 5.7 points compared with the preceding year’s survey (30.2%), to 24.5%, “Breakeven” increased to 22.3% from 14.3% in the prior year.
 - Although the greatest number of companies responded that operating profit in 2015 would “Increase” (50.0%) compared with 2014, those responding that it would “Decrease” rose to 18.1% from 0% in the previous year. As a factor cited for an “Increase,” there was substantial expectation of “Sales increase in local market” (74.5%) (Fig.1), whereas for a “Decrease” respondents cited “Sales decrease in local market” (75.0%) as a factor.



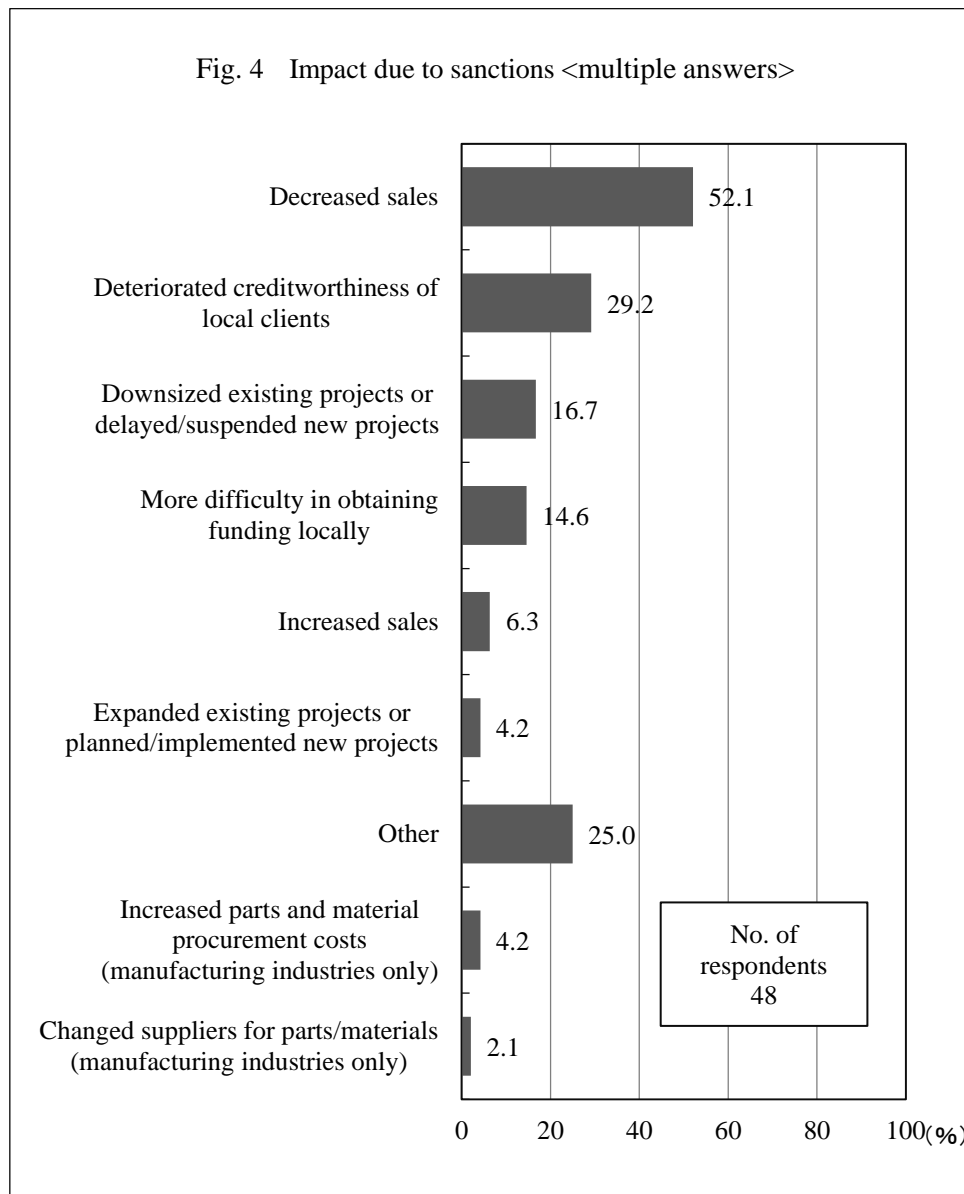
- (2) For their business outlook going forward, roughly two out of three companies are forecasting an expansion in their operations
- The companies replying with a forecast of “Expansion” in the orientation of their business outlook for the next one or two years came to 66.0%, down 11.8 points from the preceding year’s 77.8%, while 29.8% forecast “Remaining the same,” up 9.2 points from 20.6% in the prior year.
 - The most frequently cited reason for expansion was “Sales increase” at 80.6%, followed by “High growth potential” (51.6%) and “Relationships with clients” (27.4%) (Fig.2). The reason given for expansion by 79.6% of companies last year, “High growth potential,” fell by 28.0 points. Reasons cited for reduction in operations included “Decreased sales,” “Rising costs (e.g., procurement costs and labor costs),” and “Tighter regulations.”



- (3) There continue to be high hopes for market growth in Russia, but the unstable exchange rate and sociopolitical climate stand out as risks
- The most commonly cited advantage for investment was “Market scale/growth potential” (83.9%).
 - In terms of investment risks, “Exchange rate instability” was the most common answer at 78.5% (48.4% in the previous survey). The next most common response was “Unstable political and social climates” (74.2%, previously 37.1%). These results reflect the impact from the advancing decline in the ruble and the situation in Ukraine.
 - The most frequently cited challenge for local production was “Difficulties with local procurement of raw materials and parts” (29.2%), followed by “Difficulties in quality control” (25.0%), but these figures represent a decline of 9.3 and 21.2 points, respectively, compared with the prior year’s survey (Fig.3). Companies replying with “No challenges in particular” reached 50.0%, an increase of 26.9 points compared with the previous year (23.1%).



- (4) Roughly 60% of companies said they feel the impact of sanctions by Western countries
- When asked whether they felt the impact of sanctions from Western countries in association with the intensifying situation in Ukraine, or of Russia’s actions against the sanctions, 55.9% of the companies responded “Yes,” while 22.6% answered “No.”
 - The nature of the impact cited included “Decreased sales” (52.1%), “Deteriorated creditworthiness of local clients” (29.2%), and “Downsized existing projects or delayed/suspended new projects” (16.7%) (Fig.4).



1. Overview of the Survey's Purpose and Implementation

1-1. Purpose of the survey

This survey researches, collects data on, and analyzes the activities of Japanese companies operating in Russia via a questionnaire format to make clear their business status and other matters directly impacting their business performance, for the purpose of assisting the implementation of strategic overseas business planning at Japanese enterprises and policy planning at related agencies.

1-2. Targets of the survey

The survey subjects consisted of Japanese affiliates or their branches operating in Russia for which the Japanese direct or indirect investment ratio is 10% or more. This includes companies established by Japanese affiliates operating in Russia or third-party countries (i.e., lower-tier affiliates). Its subjects do not include representative offices or companies set up by Japanese persons locally.

1-3. Method of conducting the survey

The format was a questionnaire administered via a website. The survey was conducted by sending an Internet link (URL) to the online questionnaire form to the respondents and by asking them to reply directly on this page.

1-4. Period of the survey

October 9 through November 7, 2014

1-5. Response status

Of the 103 Japanese enterprises in Russia to which we sent questionnaires, we received responses from 94 companies (response rate of 91.3%).

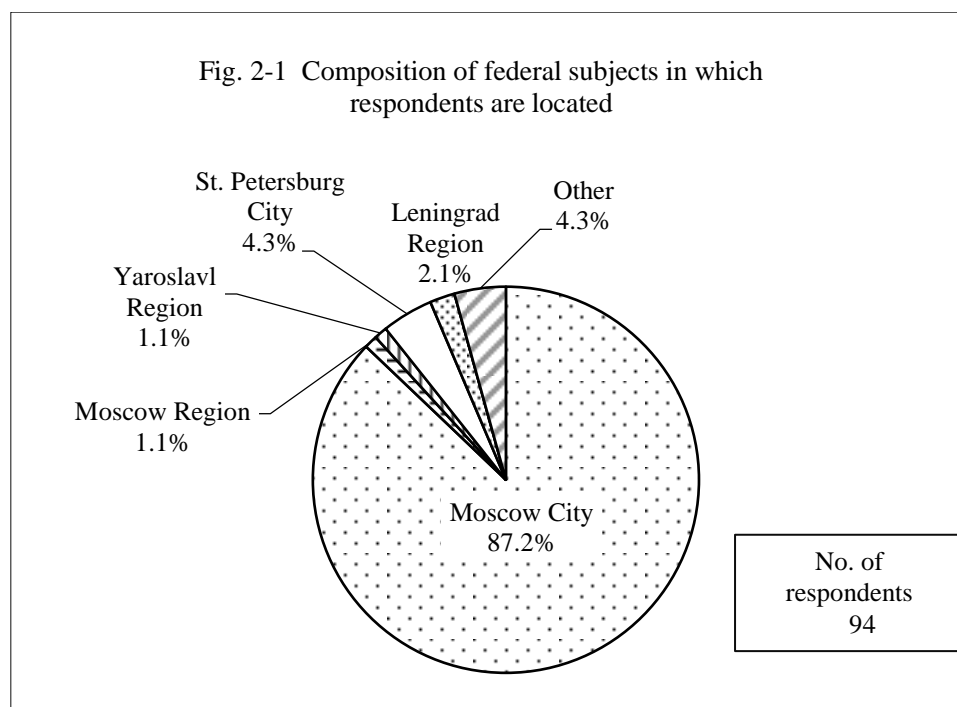
1-6. Notes on the survey results

- Not all the respondents answered every question.
- The total for the response rate for questions with multiple answers does not add up to 100%.
- The questionnaire survey was primarily carried out through the cooperation of member companies of the Moscow Japan Club. Therefore, the number of companies the questionnaire was sent to was 103, and is not representative of the number of Japanese companies operating in Russia.
- From among the industry types and answers where the number of respondents for each answer was less than five companies, those that could potentially be used to identify individual companies were not provided on this report.

2. Profile of the respondents

2-1. Respondents' locations

Those companies from among the respondents that are located in Moscow city made up the vast majority at 87.2% (82 companies).

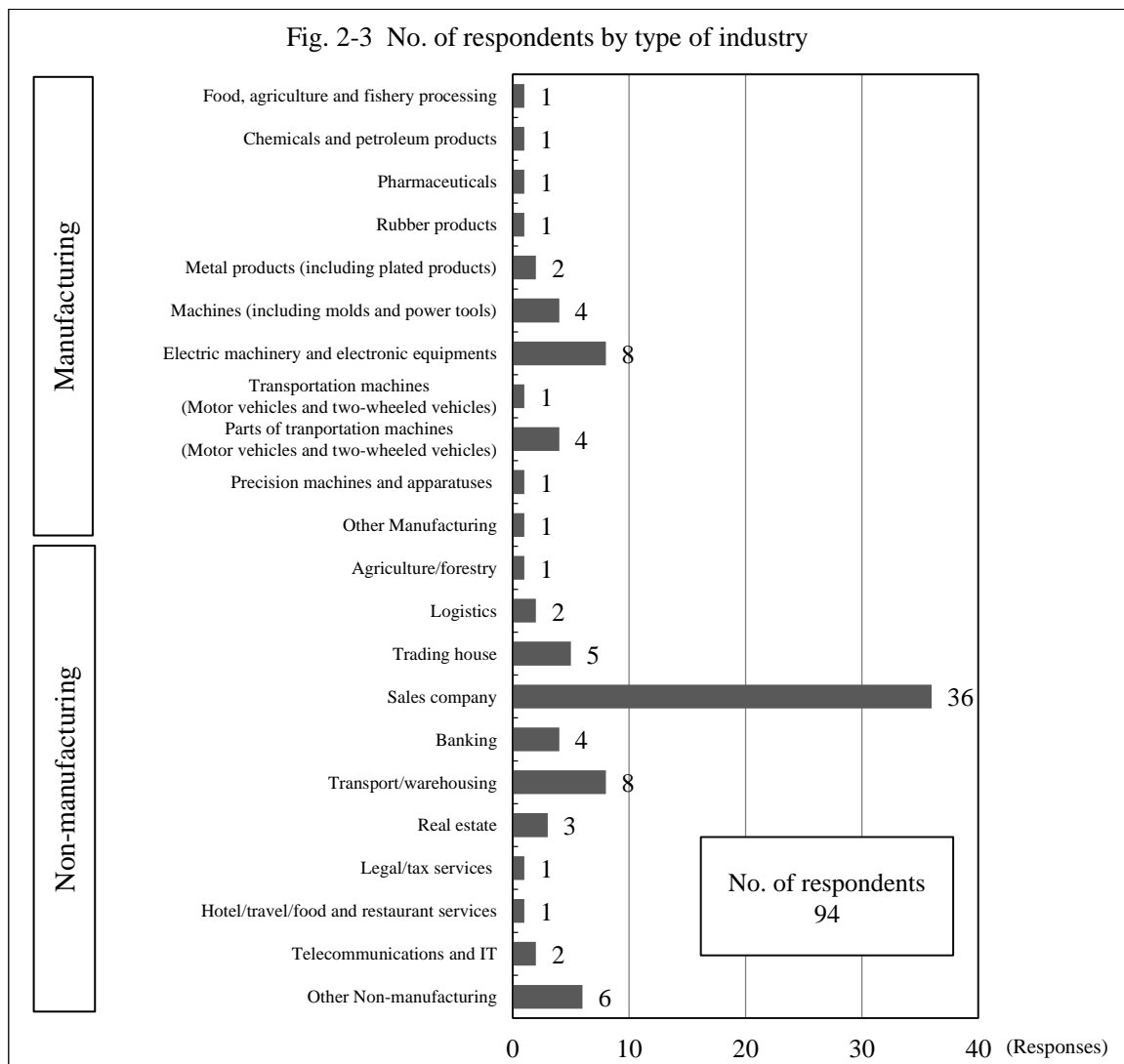
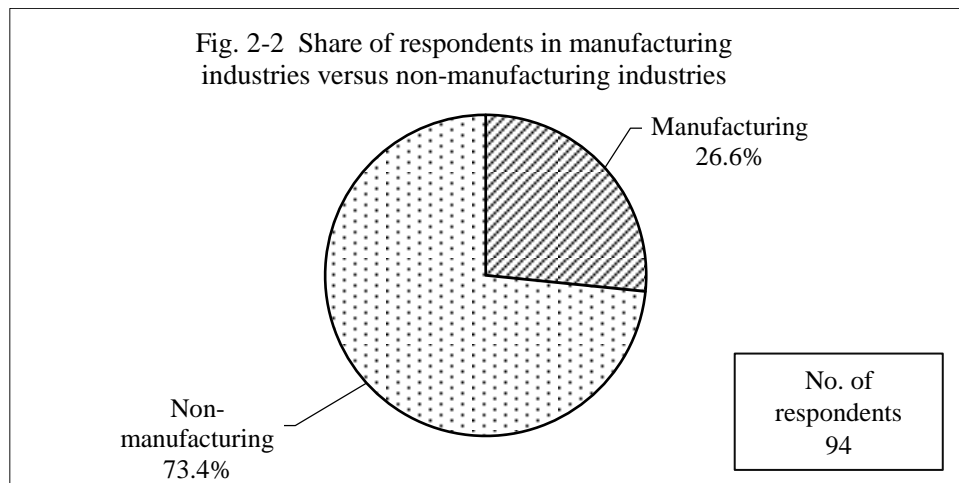


The numbers of respondents by location and by type of industry are shown in the table below. In terms of the scale of the respondents' main offices back in Japan, 83 were large-scale companies while 10 were small to medium-sized enterprises (SMEs).

		Total	Valid responses	Moscow City	Moscow Region	Yaroslavl Region	St. Petersburg City	Leningrad Region	Other
Total number		94	94	82	1	1	4	2	4
		100.0	100.0	87.2	1.1	1.1	4.3	2.1	4.3
Type of industry	Manufacturing	25	25	18	-	1	1	1	4
		100.0	100.0	72.0	-	4.0	4.0	4.0	16.0
	Non-manufacturing	69	69	64	1	-	3	1	-
	100.0	100.0	92.8	1.4	-	4.3	1.4	-	
	Unknown	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
Company size	Large-scale companies	83	83	73	-	1	3	2	4
		100.0	100.0	88.0	-	1.2	3.6	2.4	4.8
	Small-and-Mediums-sized companies	10	10	8	1	-	1	-	-
		100.0	100.0	80.0	10.0	-	10.0	-	-
	Unknown	1	1	1	-	-	-	-	-
		100.0	100.0	100.0	-	-	-	-	-

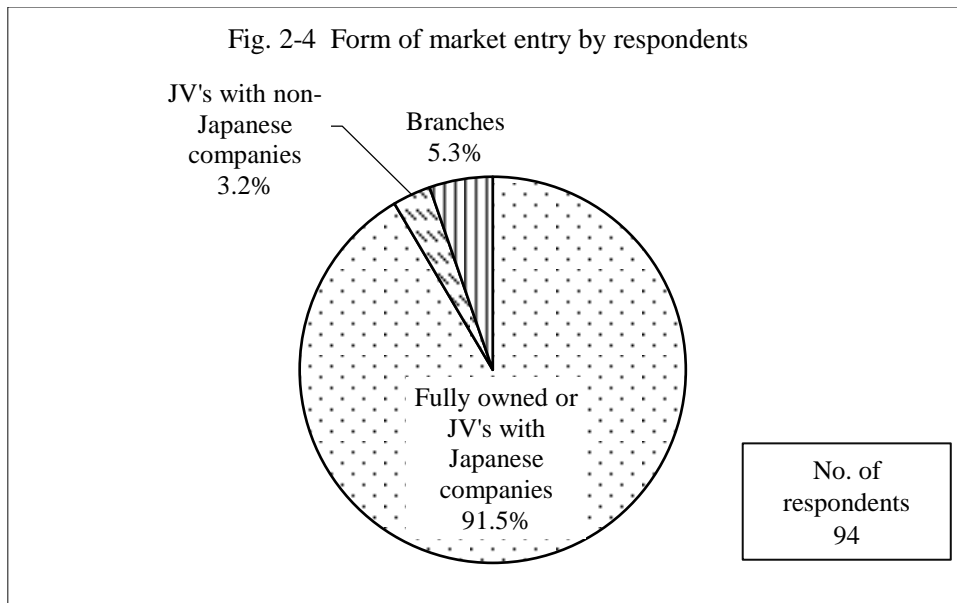
2-2. Percentage of respondents by type of industry

Of the respondents, 26.6% are in manufacturing industries and 73.4% are in non-manufacturing industries.



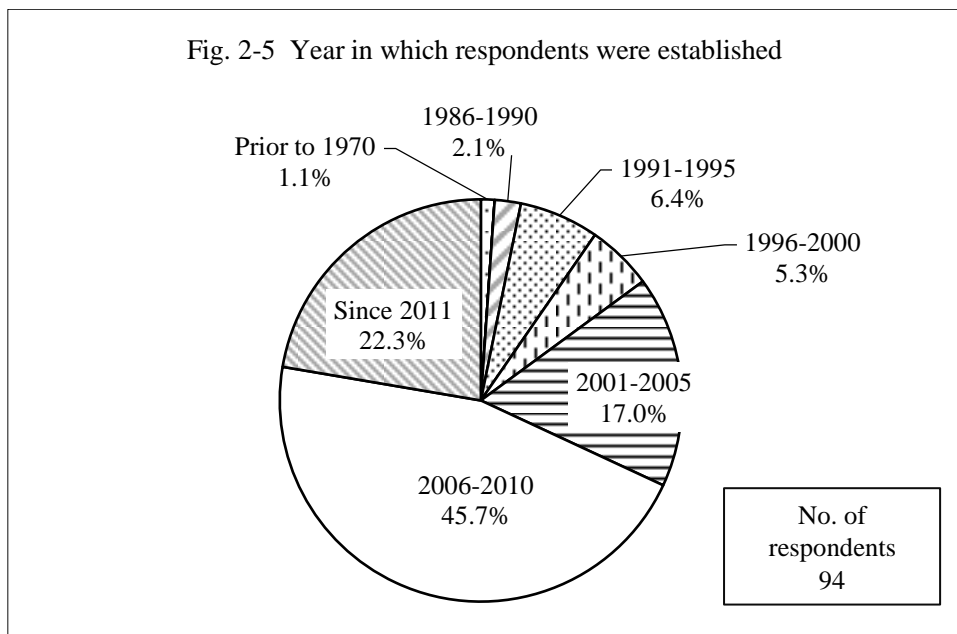
2-3. Form of enterprises of respondents

Companies that were either fully owned or jointly established with Japanese companies accounted for 91.5% of the respondents (86 companies). The percentage of so-called legal entities, which include Joint Ventures with non-Japanese companies, came to 94.7% of the total (89 companies).



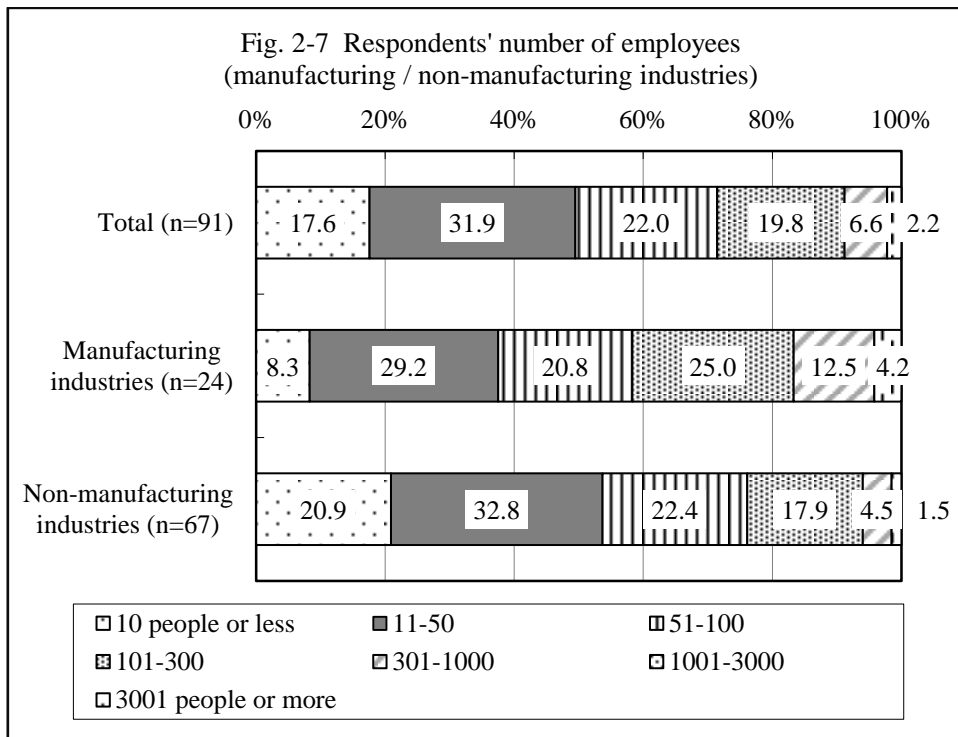
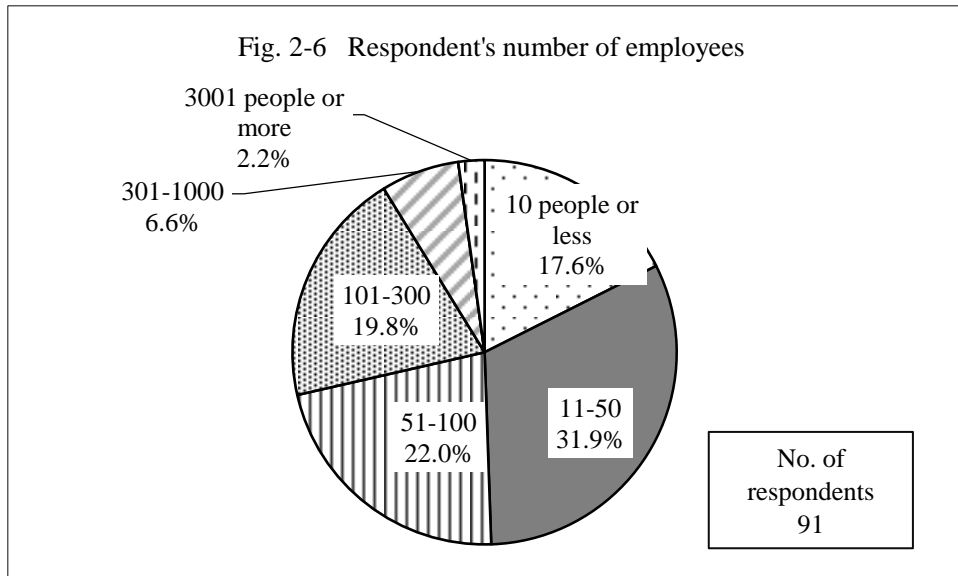
2-4. Year in which respondents were established

Respondents that were established in the year 2001 or later account for 85.0% of the total (80 companies). There were no respondents that were established between 1971 and 1985.



2-5. Respondents' number of employees

The majority of the companies among the respondents (all industries) had “11 – 50” people for their number of employees (31.9%, 29 companies). The answer of “11 – 50” people was the most common response even when distinguishing between manufacturing industries and non-manufacturing industries, given by 29.2% and 32.8% of the companies in those respective industry types.

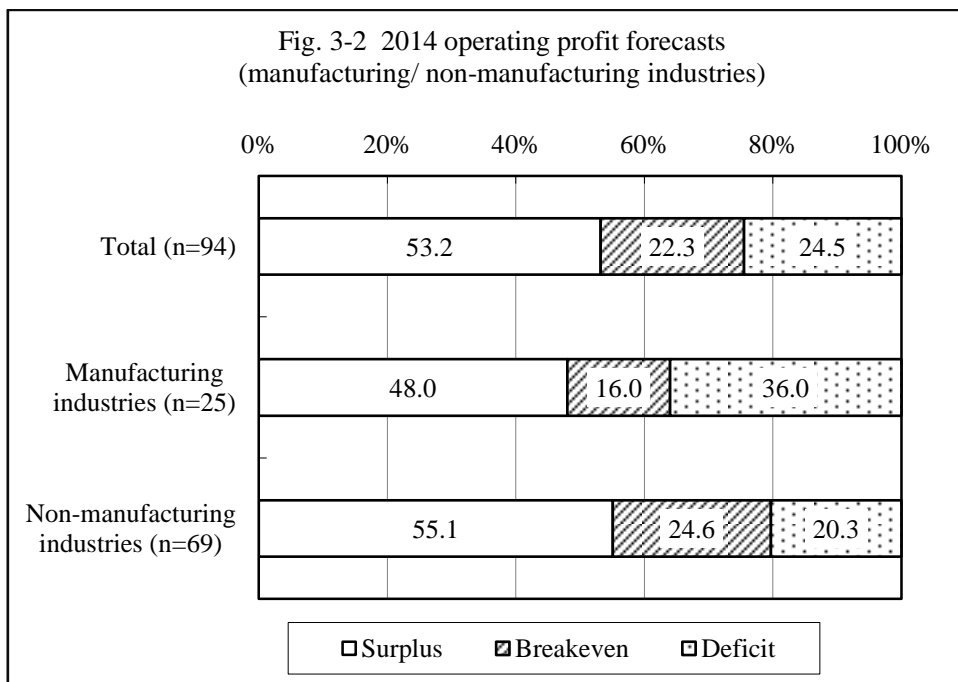
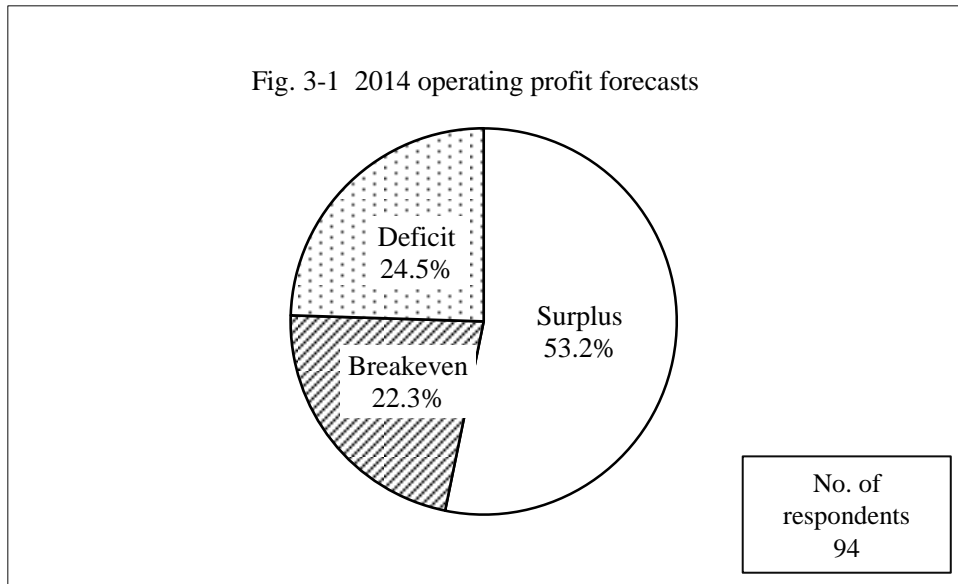


3. Survey results

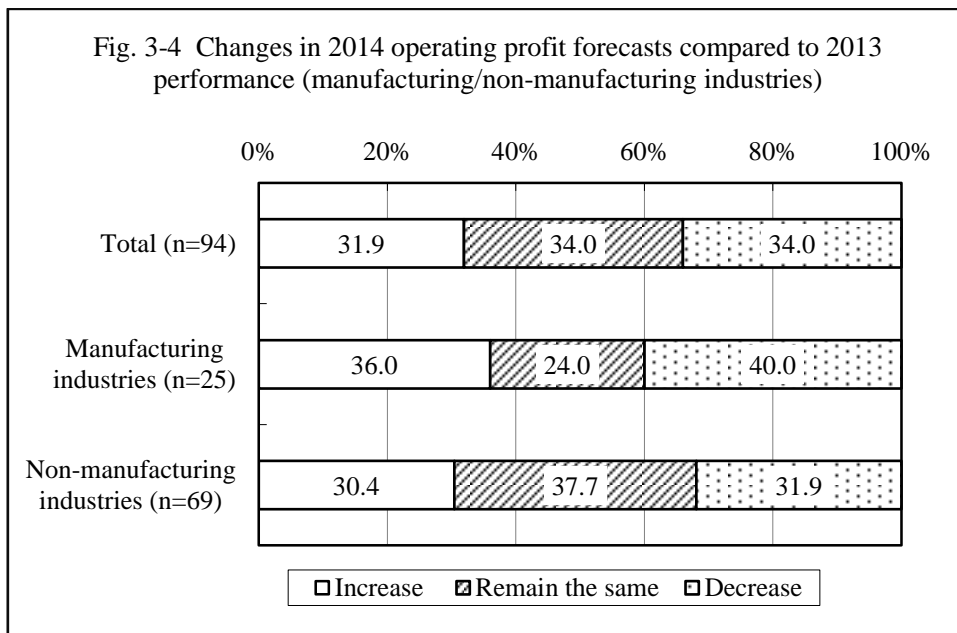
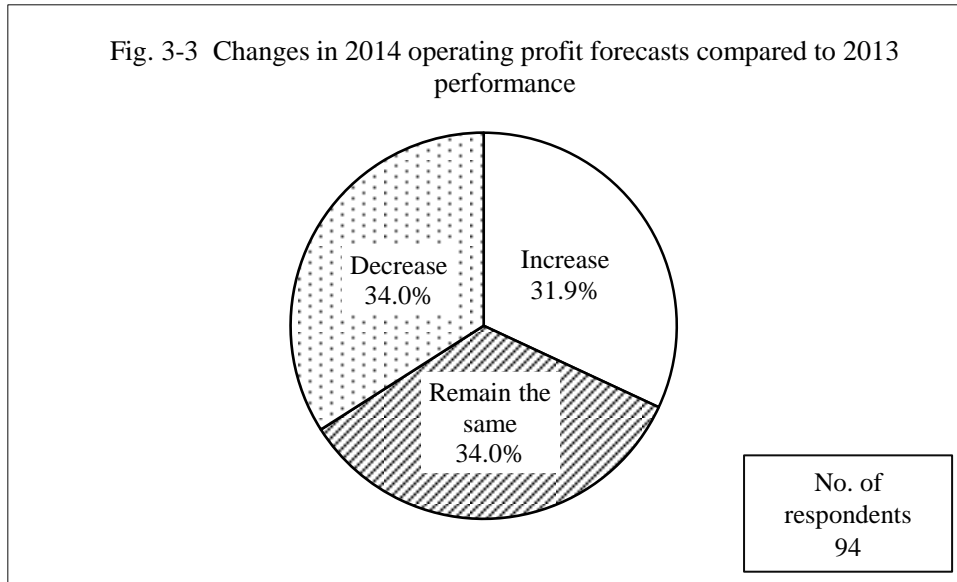
3-1. Business forecasts

3-1.1. 2014 operating profits

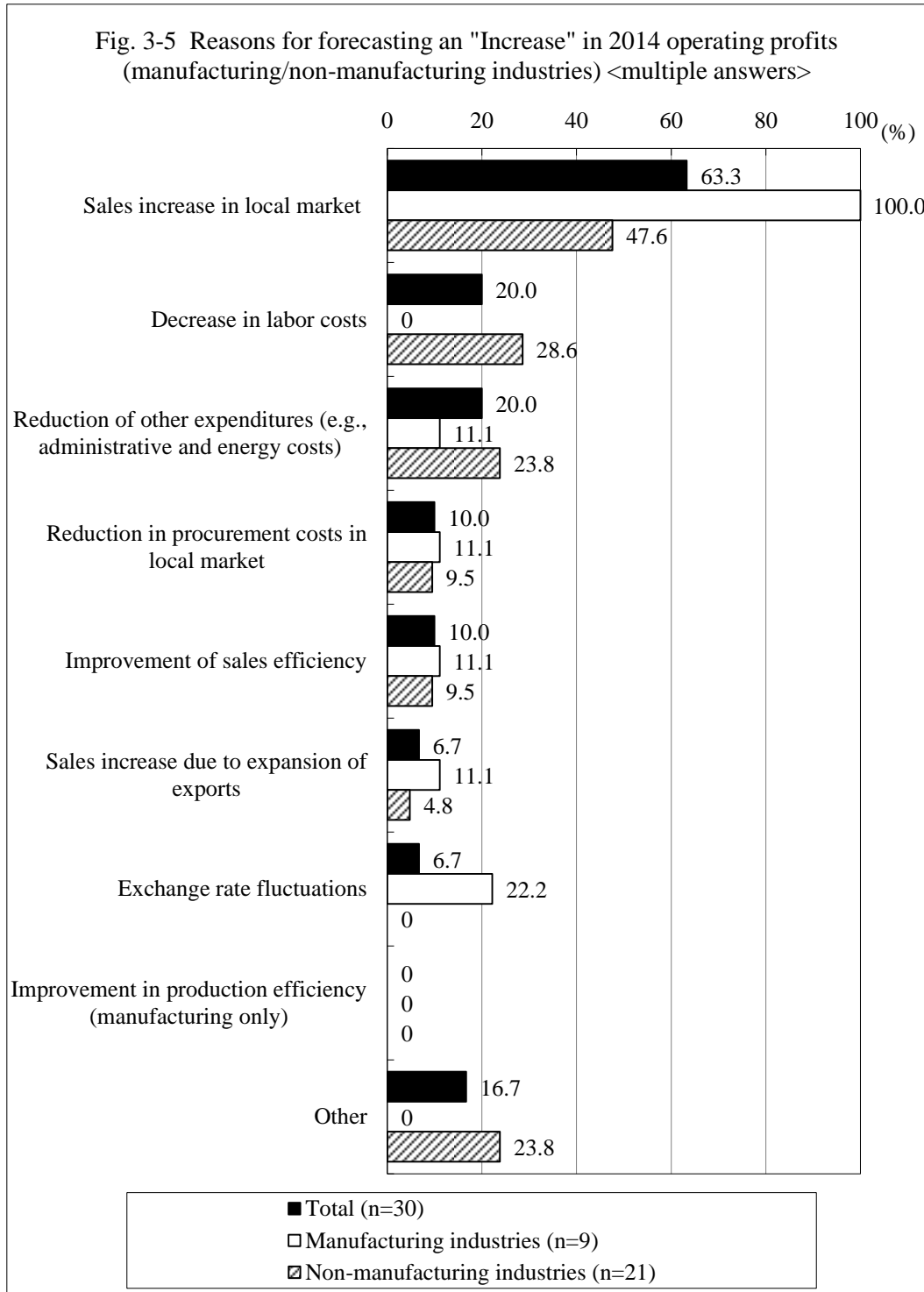
More than half of the respondents at 53.2% replied that they had had a “Surplus.” When viewed by type of industry the percentage of non-manufacturing companies reporting a profit (55.1%) was high relative to that from manufacturing industries (48.0%).



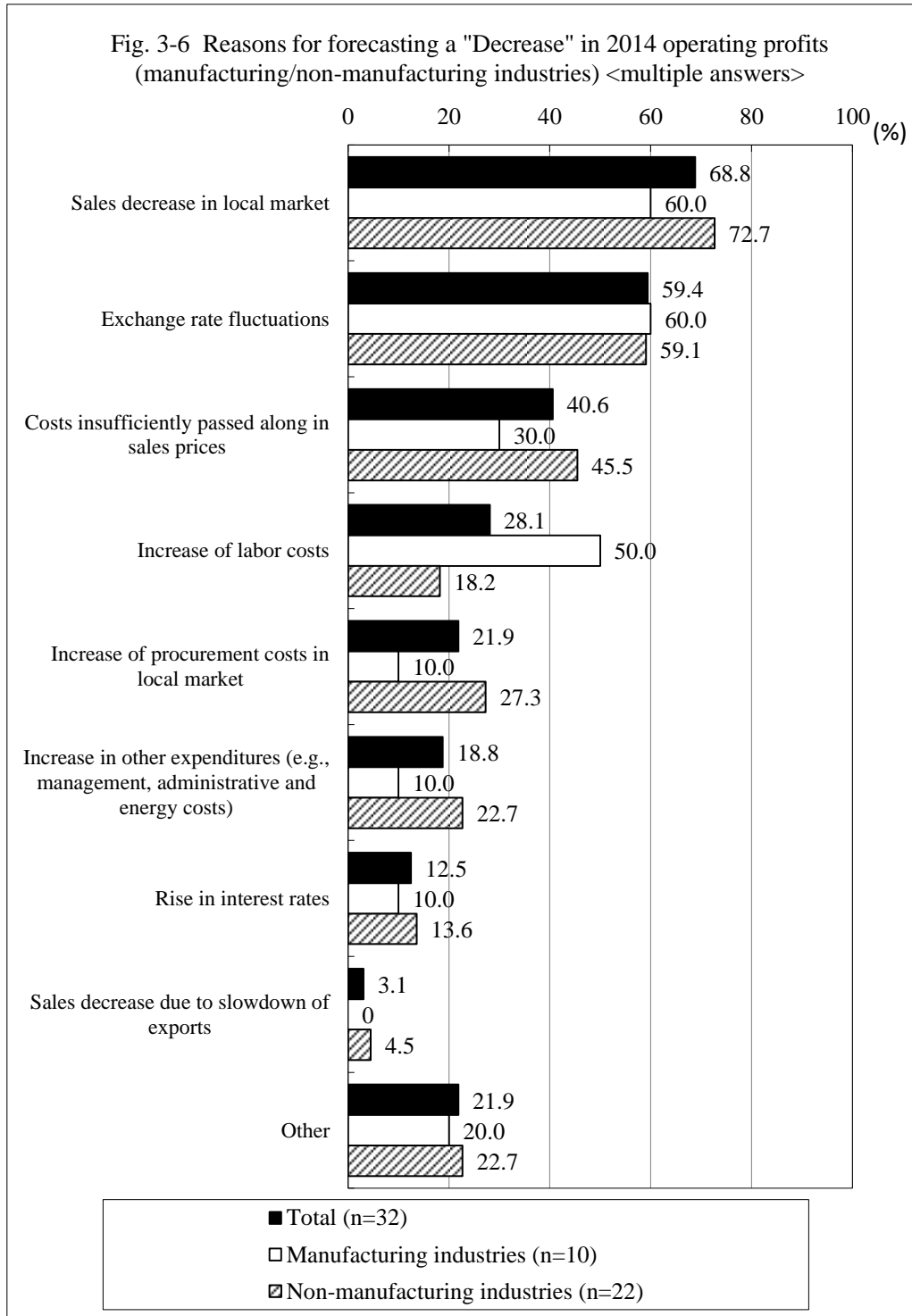
Compared with operating profits 2013, 34.0% of companies answered “Remain the same” and the same percentage answered “Decrease,” both surpassing those who replied “Increase” (31.9%). In the breakdown by type of industry, “Decrease” was the most common response from manufacturing companies, at 40.0%, while the most frequent answer from non-manufacturing companies was “Remain the same” (37.7%).



When asked about the factors affecting companies that responded with an “Increase” in their 2014 operating profits compared with the preceding year, the most common answer was “Sales increase in local market” (63.3%). For other factors, the most frequently cited by manufacturing companies was “Exchange rate fluctuations” (22.2%), whereas by non-manufacturing companies it was “Decrease in labor costs” (28.6%).

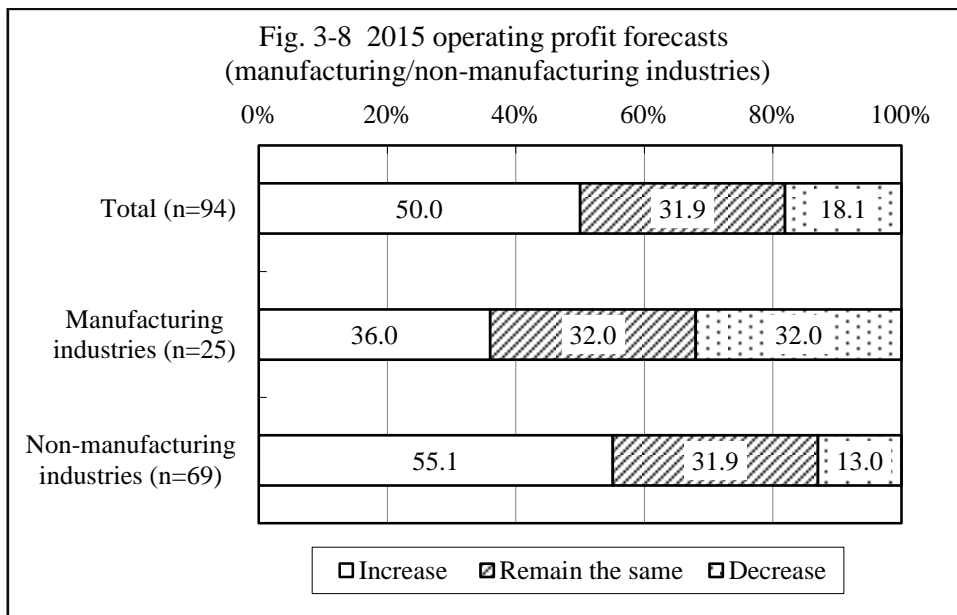
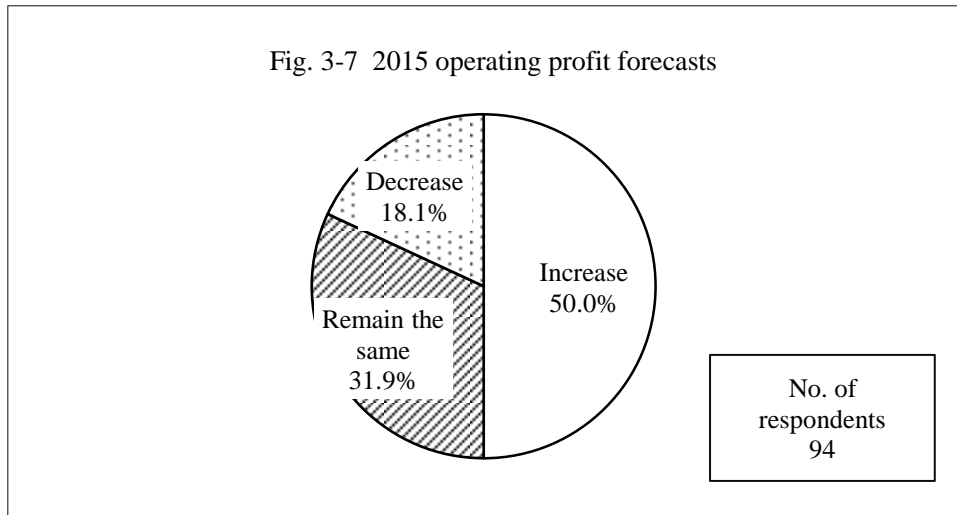


When asked about the factors affecting companies that responded with a “Decrease” in their 2014 operating profits compared with the prior year, the most common response was “Sales decrease in local market” (68.8%). For other factors, the most frequently cited by both manufacturing and non-manufacturing companies was “Exchange rate fluctuations” (60.0% and 59.1%, respectively).

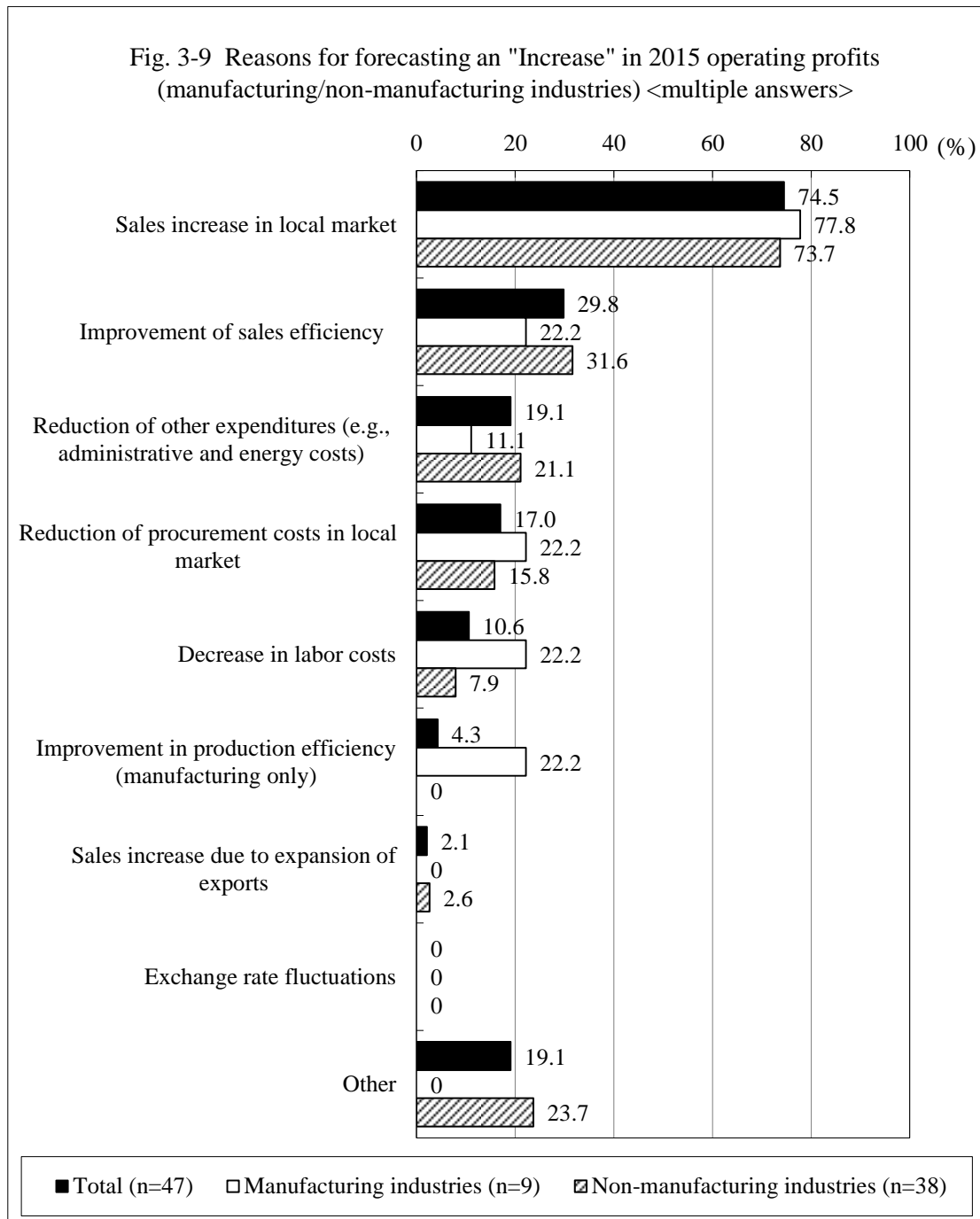


3-1.2. 2015 operating profits

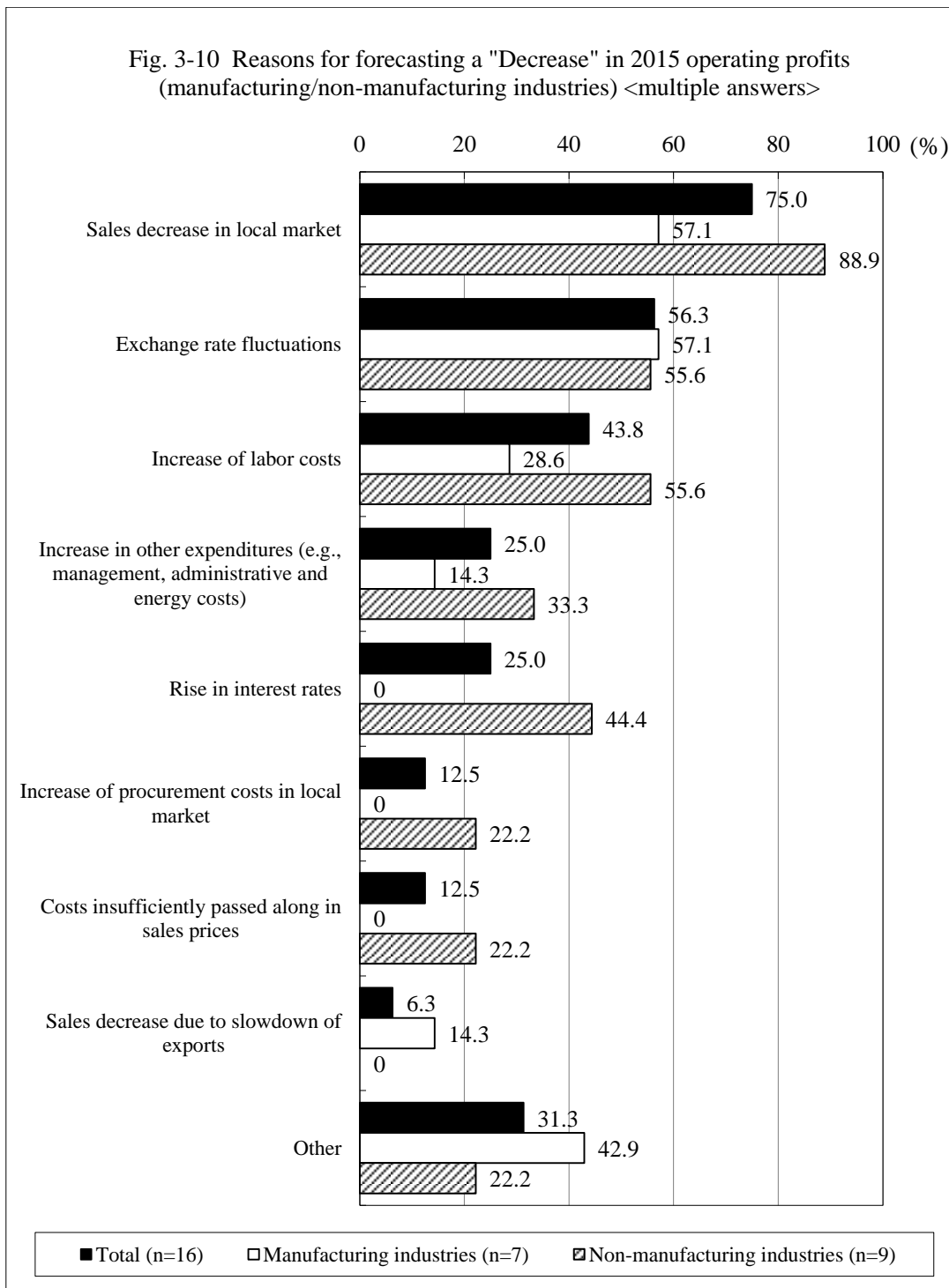
Fifty percent of the respondents forecast that their 2015 operating profits would “Increase” compared with 2014. Those forecasting a “Decrease” came to 18.1%, up from zero in the previous year’s survey. The percentage of manufacturing companies responding with “Decrease” was especially high, at 32.0%, compared with 13.0% for non-manufacturing companies.



When asked about the factors affecting companies that forecast an “Increase” in their 2015 operating profits compared with the preceding year, the most common answer was “Sales increase in local market” (74.5%). For other factors, those cited by manufacturing companies included “Reduction of procurement costs in local market” (22.2%), whereas many non-manufacturing companies cited “Improvement of sales efficiency” (31.6%). Among those responding “Other,” answers included “Price hikes” (sales company) and “Project launches” (trading house).

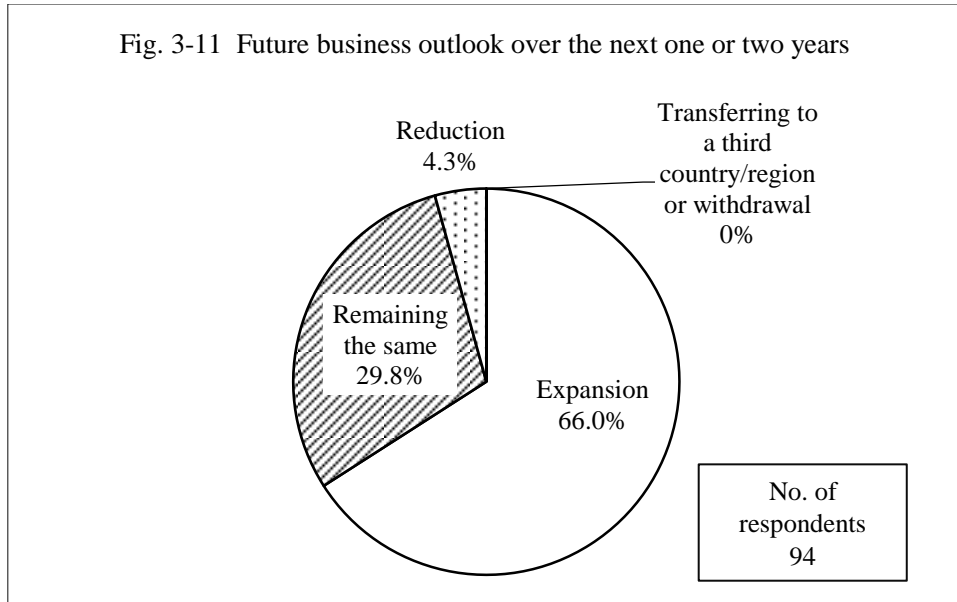


When asked about the factors affecting companies that forecast a “Decrease” in their 2015 operating profits compared with the prior year, the most common response was “Sales decrease in local market” (75.0%). This was followed by “Exchange rate fluctuations” (56.3%), but among non-manufacturing companies “Increase of labor costs” (55.6%) was also a common response. Among those responding “Other,” answers included “Extraordinary expenses from commencement of manufacturing” and “Increase in depreciation burden due to capital investment” (both from companies that manufacture parts for transportation machines).

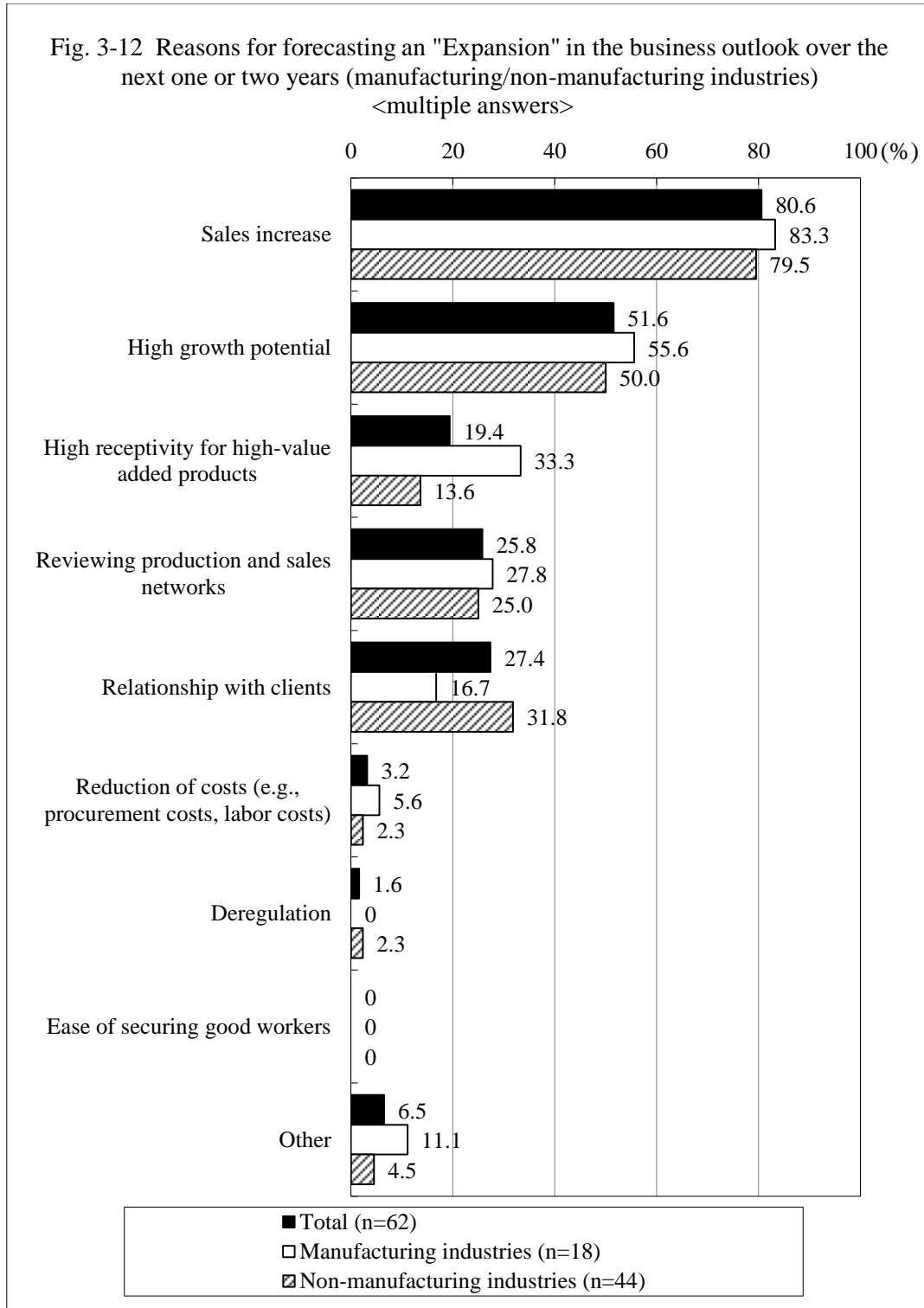


3-1.3. Future business outlook

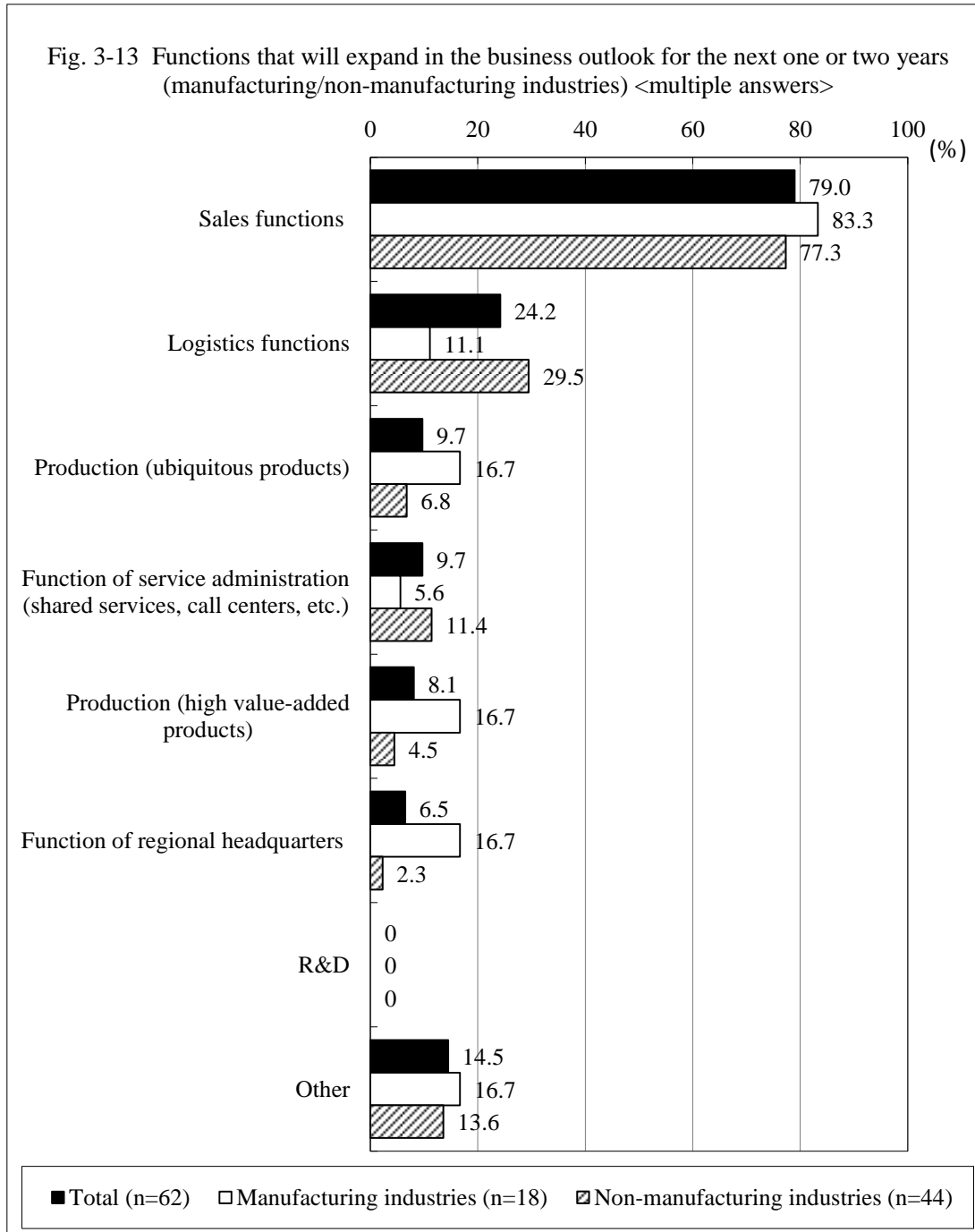
The percentage of companies which are supposed to do “Expansion” in their business over the next one or two years came to 66.0%. Those expecting to “Remaining the same” reached 29.8% , compared with 20.6% in the previous year’s survey, and those anticipating a “Reduction” amounted to 4.3%, up from 1.6%.



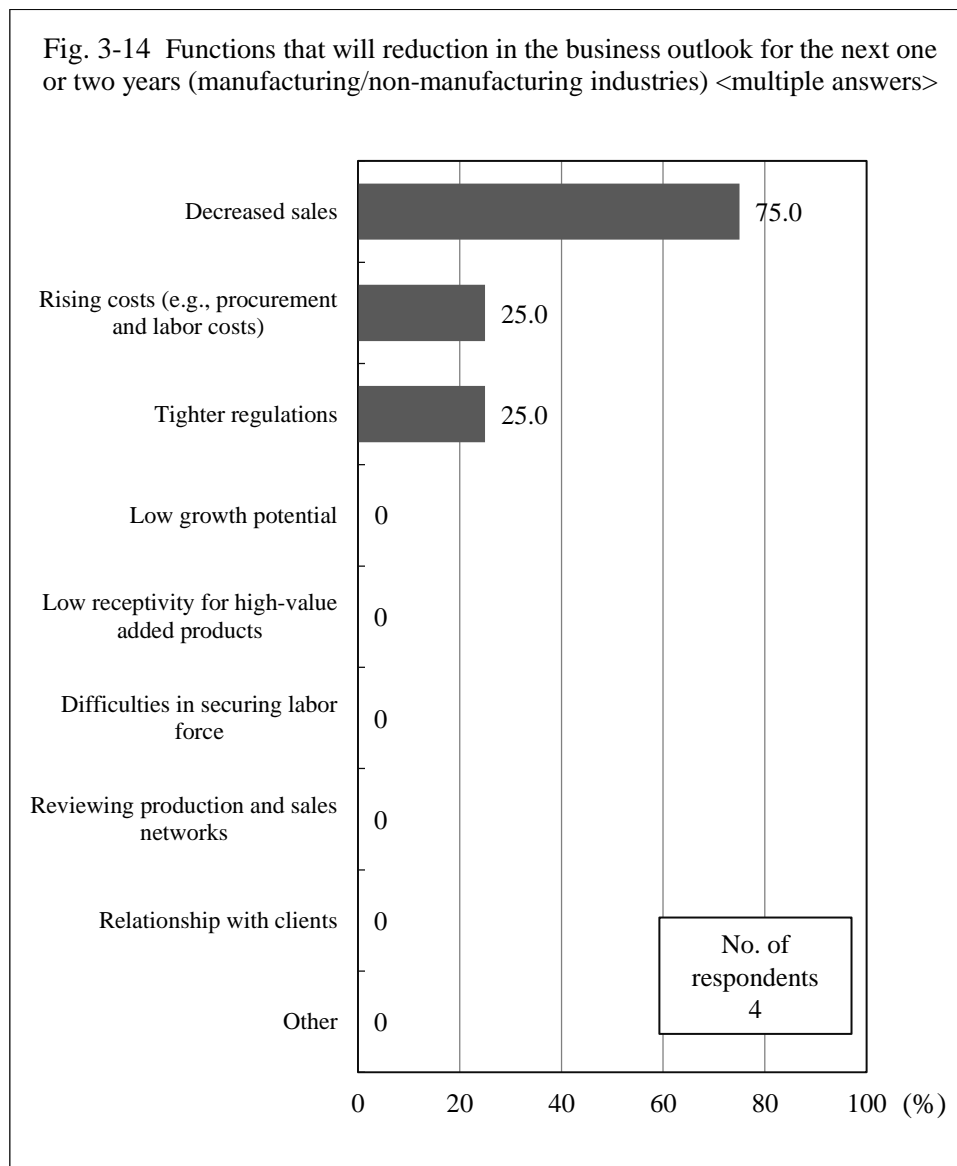
The most common reason given for companies that expect to do “Expansion” in their future business outlook was “Sales increase” (80.6%), followed by “High growth potential” (51.6%). These factors remain the most frequently cited even when viewed by industry type.



The most commonly cited function that will expand given by companies forecasting an “Expansion” in their future business outlook was “Sales functions” (79.0%), followed by “Logistics functions” (24.2%). Among companies that responded “Other,” answers included “Augmentation of after-sales services” (from a manufacturer of machines) and “Expansion of specialist staff” (from a service company).



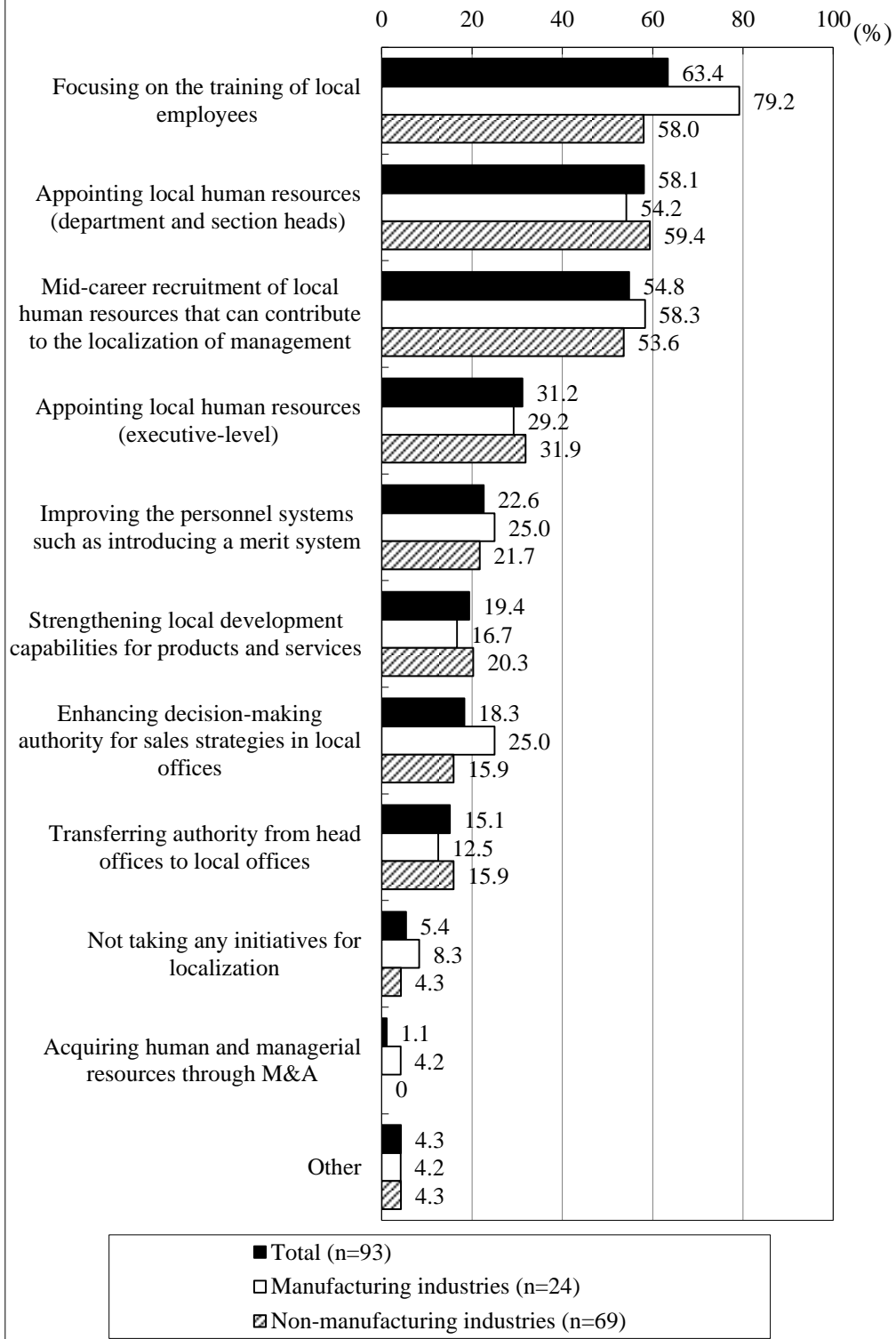
Among the four companies that forecast a “Reduction” in their business outlook, the reason most commonly given was “Decreased sales” (75.0%).



3-1.4. Initiatives for the localization of management

Commonly cited initiatives for the localization of management were “Focusing on the training of local employees” (63.4%), “Appointing local human resources (department and section heads)” (58.1%), and “Mid-career recruitment of local human resources that can contribute to the localization of management” (54.8%). Comments from those who answered “Other” included “Enhancement of local partners” (from a service company) and “Dispatch of Japanese engineers” (from a manufacturer of metal products).

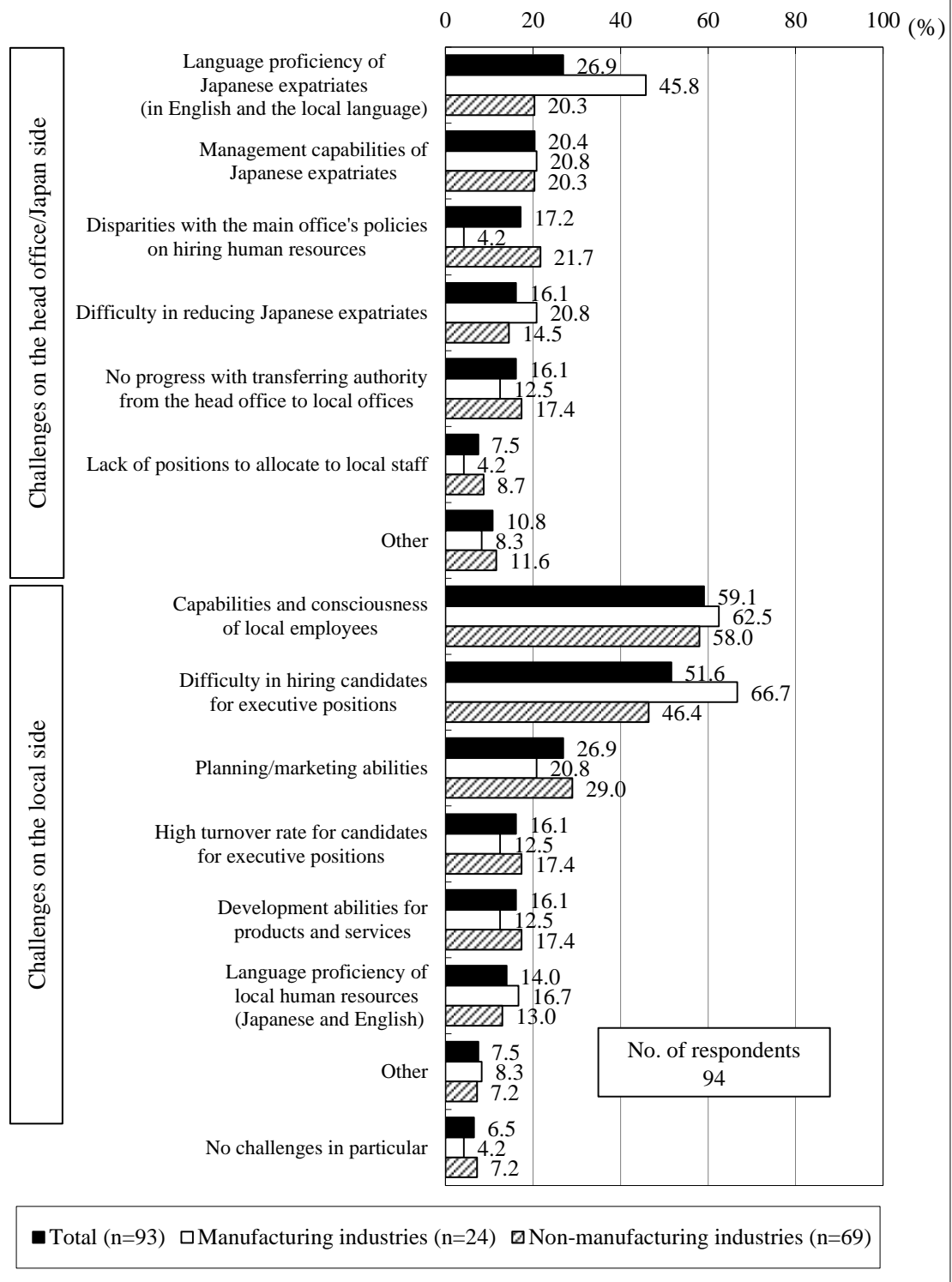
Fig. 3-15 Initiatives for the localization of management
(manufacturing/non-manufacturing industries) <multiple answers>



The most commonly cited challenge in promoting the localization of management (or in intending to promote it in the future) in all industries was “Capabilities and consciousness of local employees” (59.1%), followed by “Difficulty in hiring candidates for executive positions” (51.6%). Among manufacturing companies, many also consider “Language proficiency of Japanese expatriates (in English and the local language)” (45.8%) a challenge.

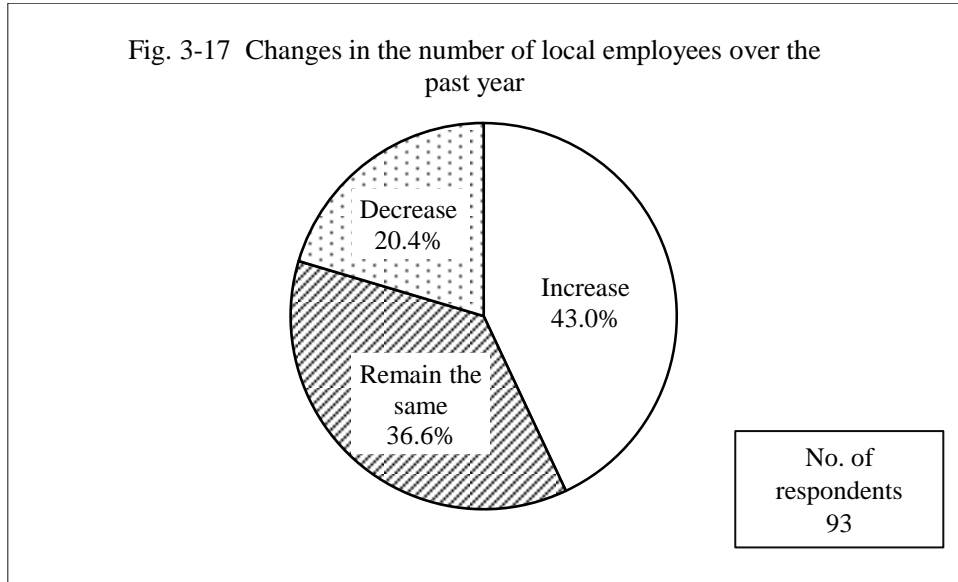
“Other” challenges cited included: “The head office does not have a firm grasp on the situation here in Russia” (from a transport/warehousing company), “Low interest in Russia” (from a telecommunications and IT company), “Low awareness of compliance issues (on the Russia side)” (from a sales company), and “Understanding and ability to deal with Japan’s unique culture on the part of local employees” (from a sales company).

Fig. 3-16 Challenges in promoting the localization of management (or continuing to promote it in the future) (manufacturing/non-manufacturing industries) <multiple answers>

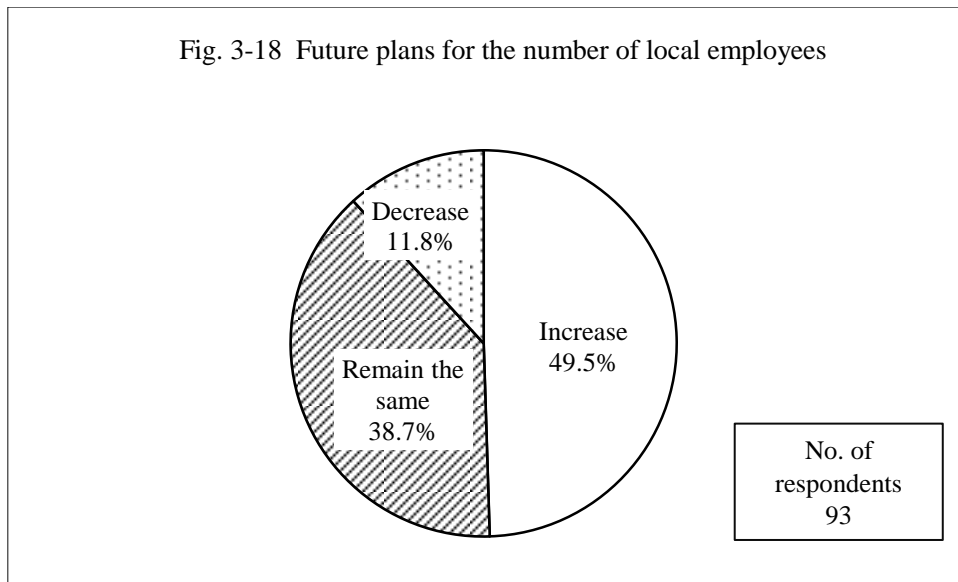


3-1.5. Current and prospective number of employees

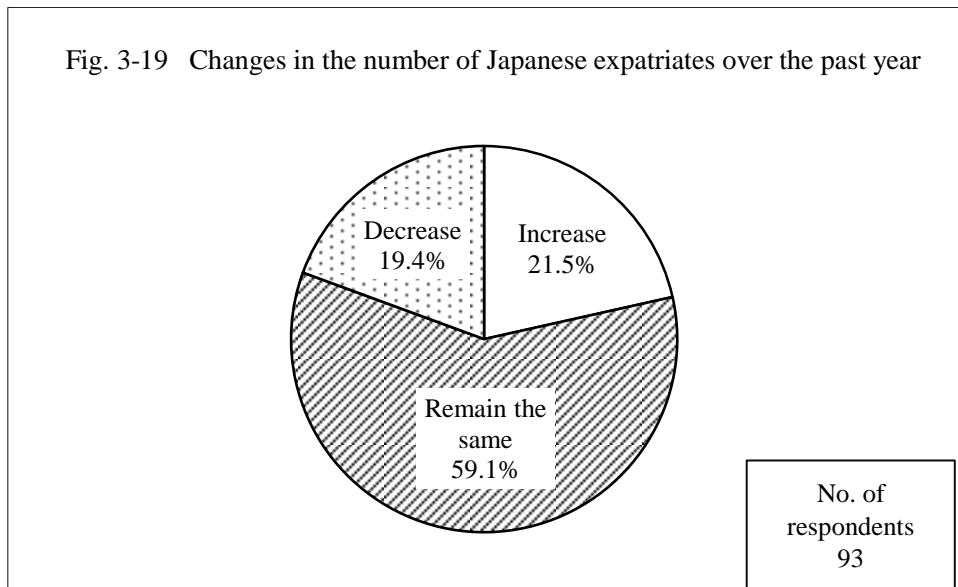
With regard to changes in the number of local employees over the past year, 43.0% of the companies answered that they had an “Increase.” Those that replied that they had a “Decrease” came to 20.4%, up from only 4.8% in the prior year’s survey.



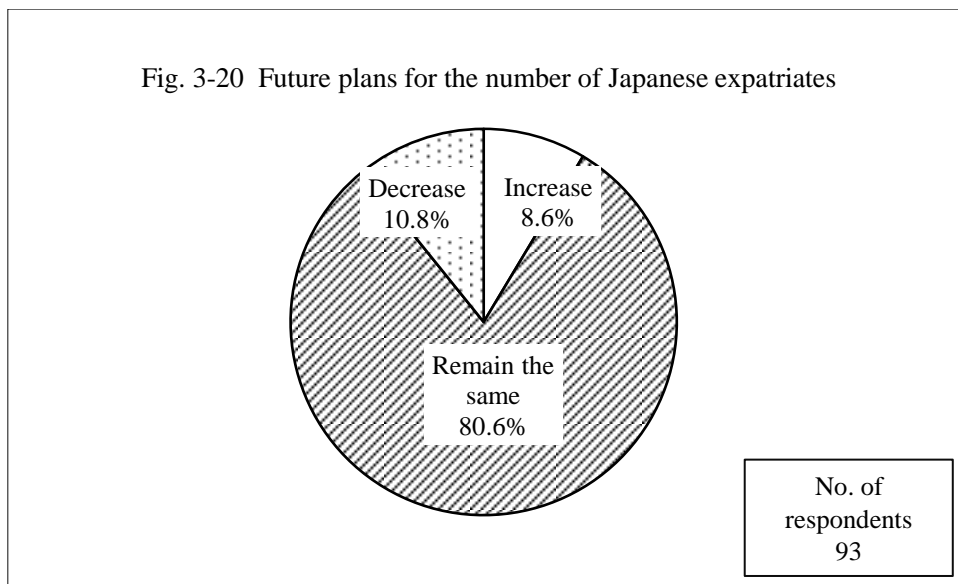
As for future plans for the number of local employees, 49.5% of the companies replied that this would “Increase.” Compared to the trends over the past year for the previous question, this was 6.5 points higher. Companies reporting a “Decrease” (11.8%) fell by 8.6 points compared with the changes over the past year, demonstrating a basic trend toward expansion in the number of local employees.



As for changes in the number of Japanese expatriates over the past year, 59.1% of the companies responded with “Remain the same” for this.



Regarding future plans for the number of Japanese expatriates, 80.6% of the companies replied that this would “Remain the same.” Compared to the trends for the previous question over the past year, “Increase” (8.6%) and “Decrease” (10.8%) were lower by 12.9 points and 8.6 points, respectively. The fact that many companies are increasing their number of local employees while keeping the number of their Japanese expatriates the same can be seen as an indication of their intention to promote the localization of management.



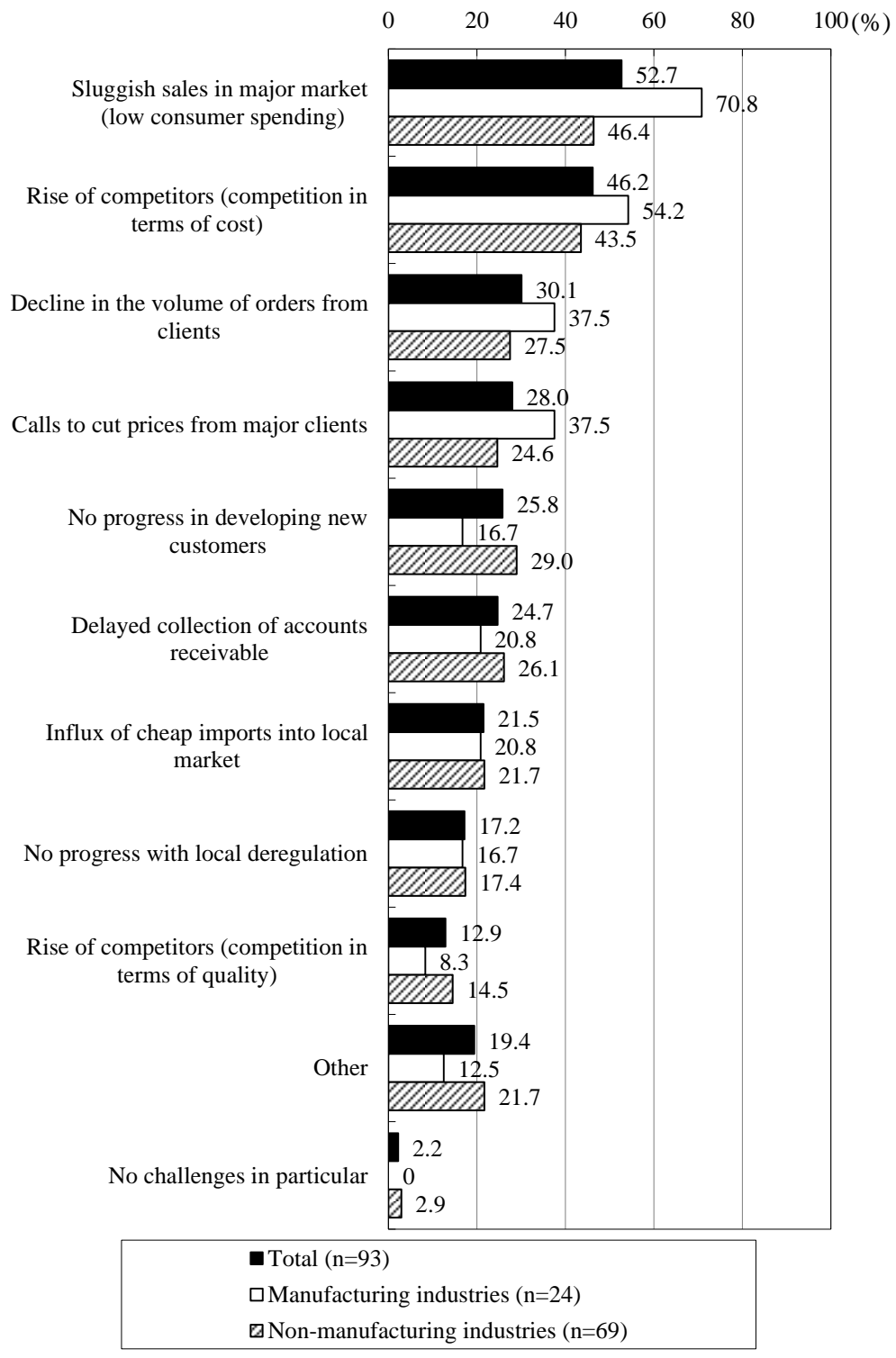
3-2. Challenges in management

3-2-1. Sales and marketing

“Sluggish sales in major market (low consumer spending)” was cited by 52.7% of the respondents, followed by “Rise of competitors (competition in terms of cost)” (46.2%). Aside from these, challenges cited by manufacturing companies included “Decline in the volume of orders from clients” and “Calls to cut prices from major clients” (both 37.5%), and challenges mentioned by non-manufacturing companies included “No progress in developing new customers” (29.0%).

Other challenges in terms of sales and marketing that were cited included “Pressure from clients to adopt contracts denominated in rubles” (from a sales company), “Tightening regulations in the industry” (from a company in food, agriculture and fishery processing), and “Building deep ties with customers and creating a network” (from a service company).

Fig. 3-21 Challenges for sales and management (manufacturing/non-manufacturing industries) <multiple answers>

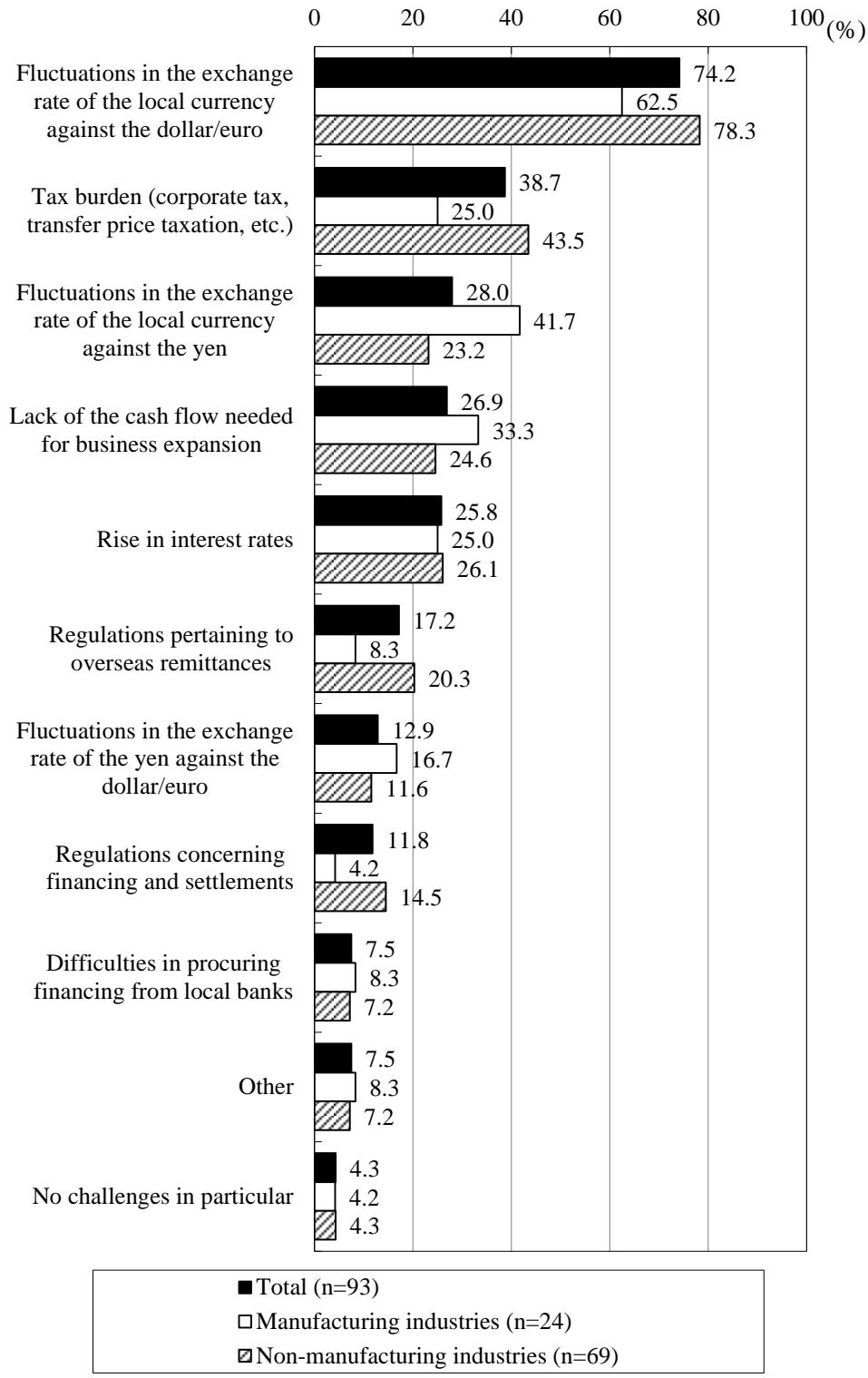


3-2-2. Financial and monetary affairs and foreign exchange

In terms of challenges in financial and monetary affairs and foreign exchange, 74.2% of the companies cited “Fluctuations in the exchange rate of the local currency against the dollar/euro,” reflecting the advancing ruble devaluation. Moreover, many manufacturing companies cited “Fluctuations in the exchange rate of the local currency against the yen” (41.7%) and “Lack of the cash flow needed for business expansion” (33.3%). In the non-manufacturing industries, a high proportion of companies viewed “Tax burden (corporate tax, transfer price taxation, etc.)” (43.5%) as a challenge.

Challenges noted among companies that responded “Other” include: “Restrictions and market shifts due to financial sanctions” (from a banking company) and “The unusually large difference in interest rates on foreign currency deposits at local banks compared with Japanese banks” (from a manufacturer of machines).

Fig. 3-22 Challenges in terms of financial and monetary affairs and exchange rates (manufacturing/non-manufacturing industries) <multiple answers>

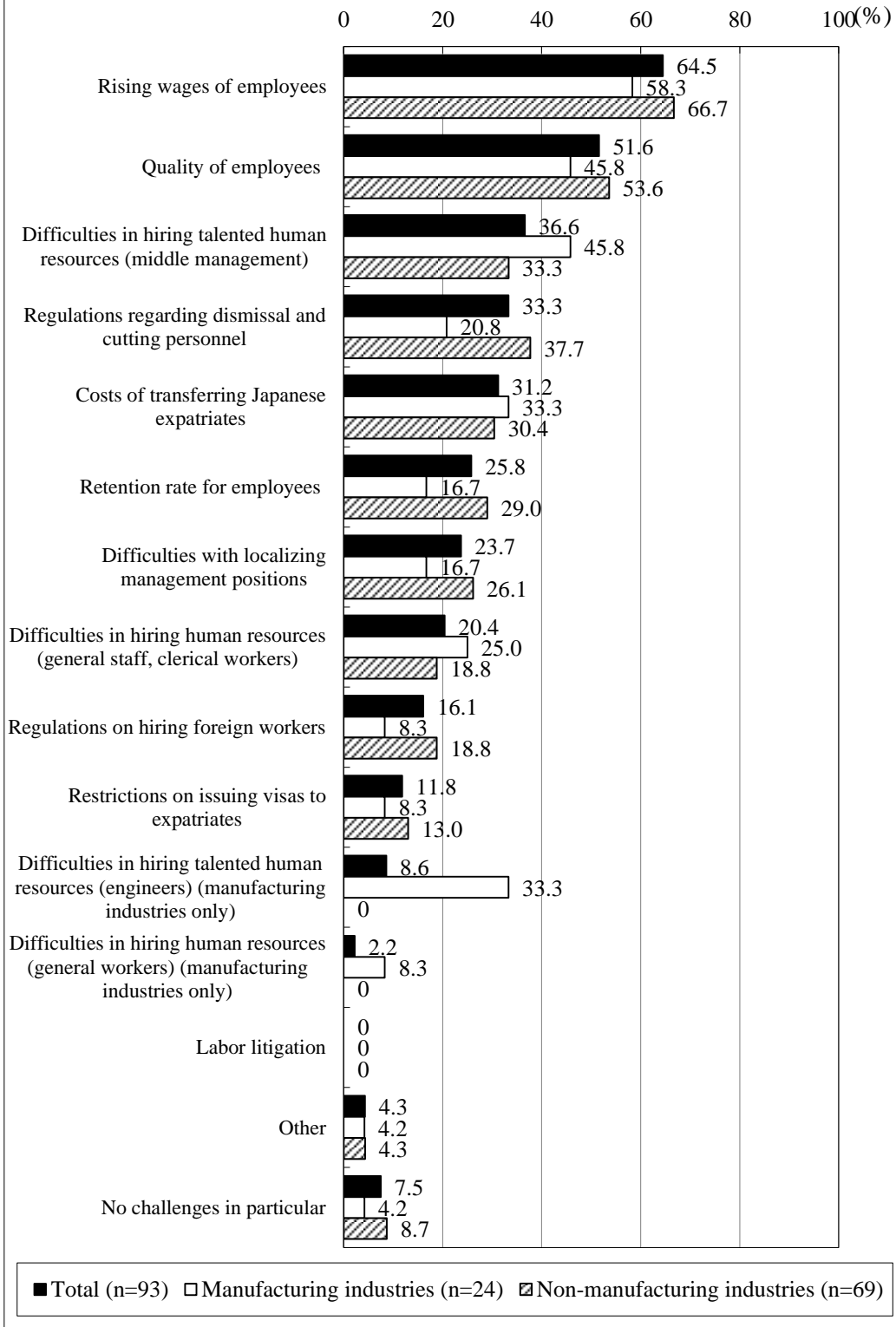


3-2-3. Hiring and labor

Across all industries, 64.5% of the companies cited “Rising wages of employees.” The next most commonly cited challenges for manufacturing industries were “Quality of employees” and “Difficulties in hiring talented human resources (middle management)” (both 45.8%), while for non-manufacturing industries it was “Quality of employees” (53.6%).

In the “Other” category, responses included “Strict laws regarding foreign workers (being barred from re-entering the country due to a history of traffic violations, etc.)” (from a service company) and “Difficulty hiring young staff because salary levels for those in their 30s and under are higher than for those in their 40s and above” (from a sales company).

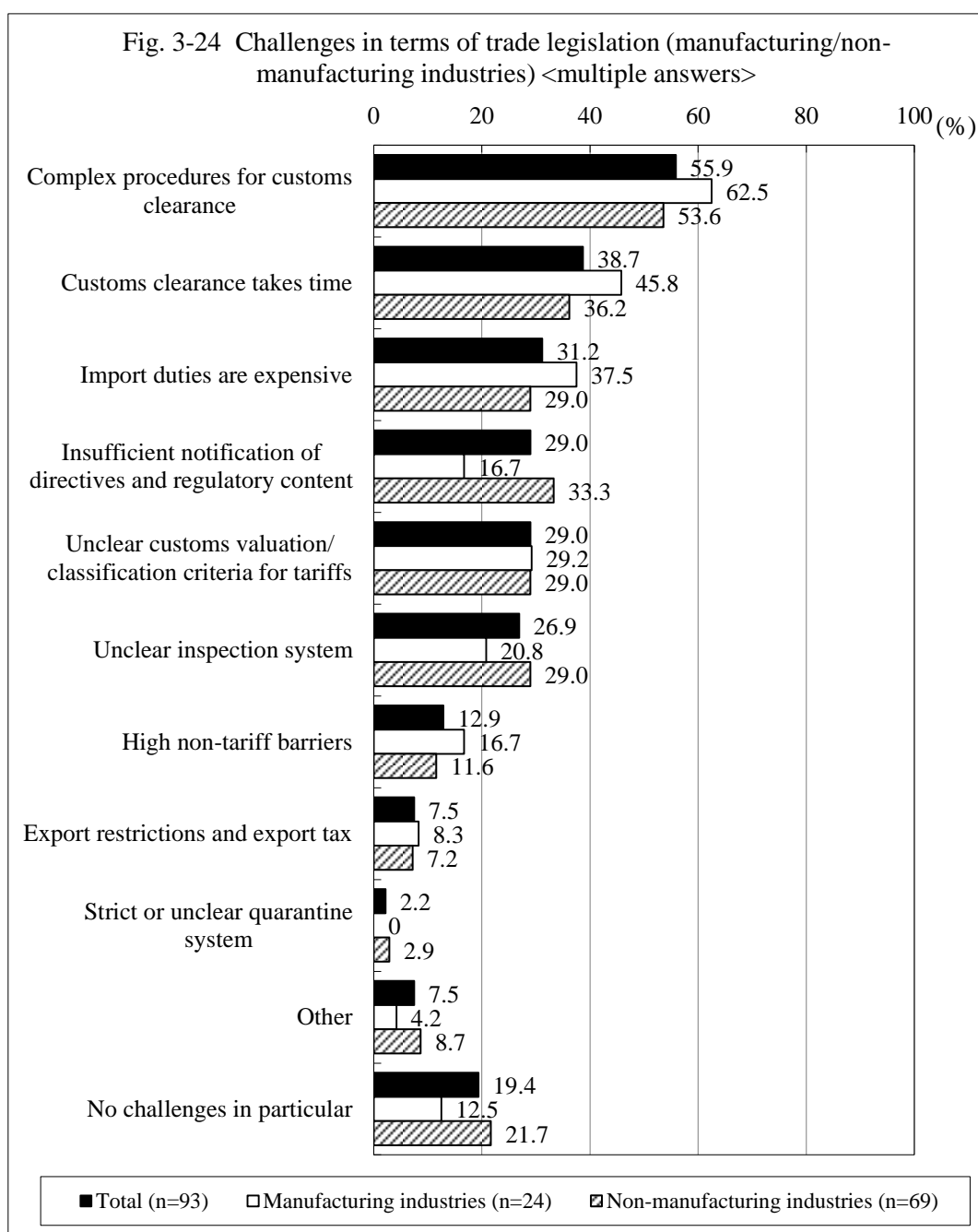
Fig. 3-23 Challenges in terms of hiring and labor (manufacturing/non-manufacturing industries) <multiple answers>



3-2-4. Foreign trade legislation

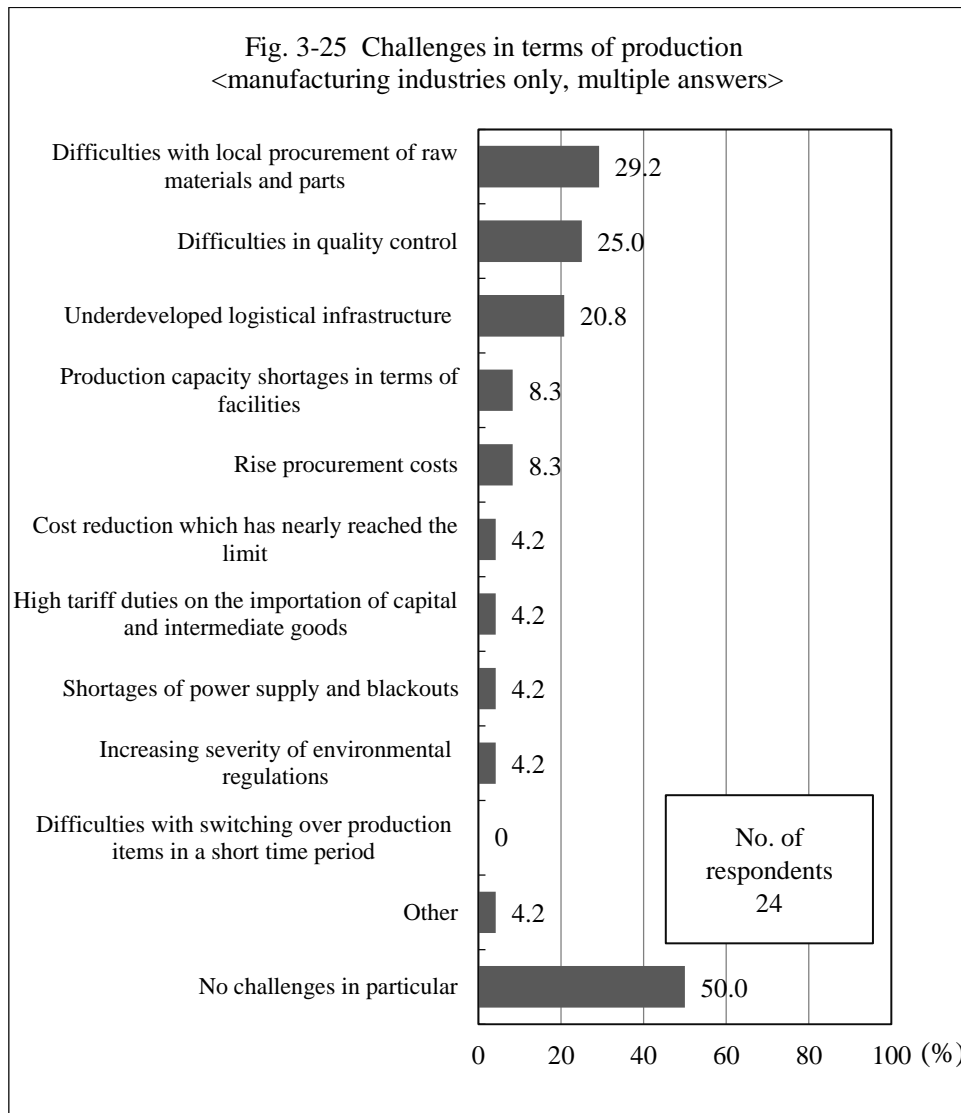
Across all industries, 55.9% of the companies cited “Complex procedures for customs clearance” as a challenge in terms of trade legislation, but the number of companies citing this fell by 23.1 points compared with the preceding year’s survey. “Customs clearance takes time” (38.7%) was the next most cited challenge, but the prevalence of this response similarly declined by 11.3 points compared with the previous year.

“Other” responses included “Extremely complex procedures for temporarily exporting an item for repairs then re-importing it” (from a manufacturer of machines) and “The fact that free samples are subject to tariffs/import consumption taxes” (from a sales company).



3-2-5. Production

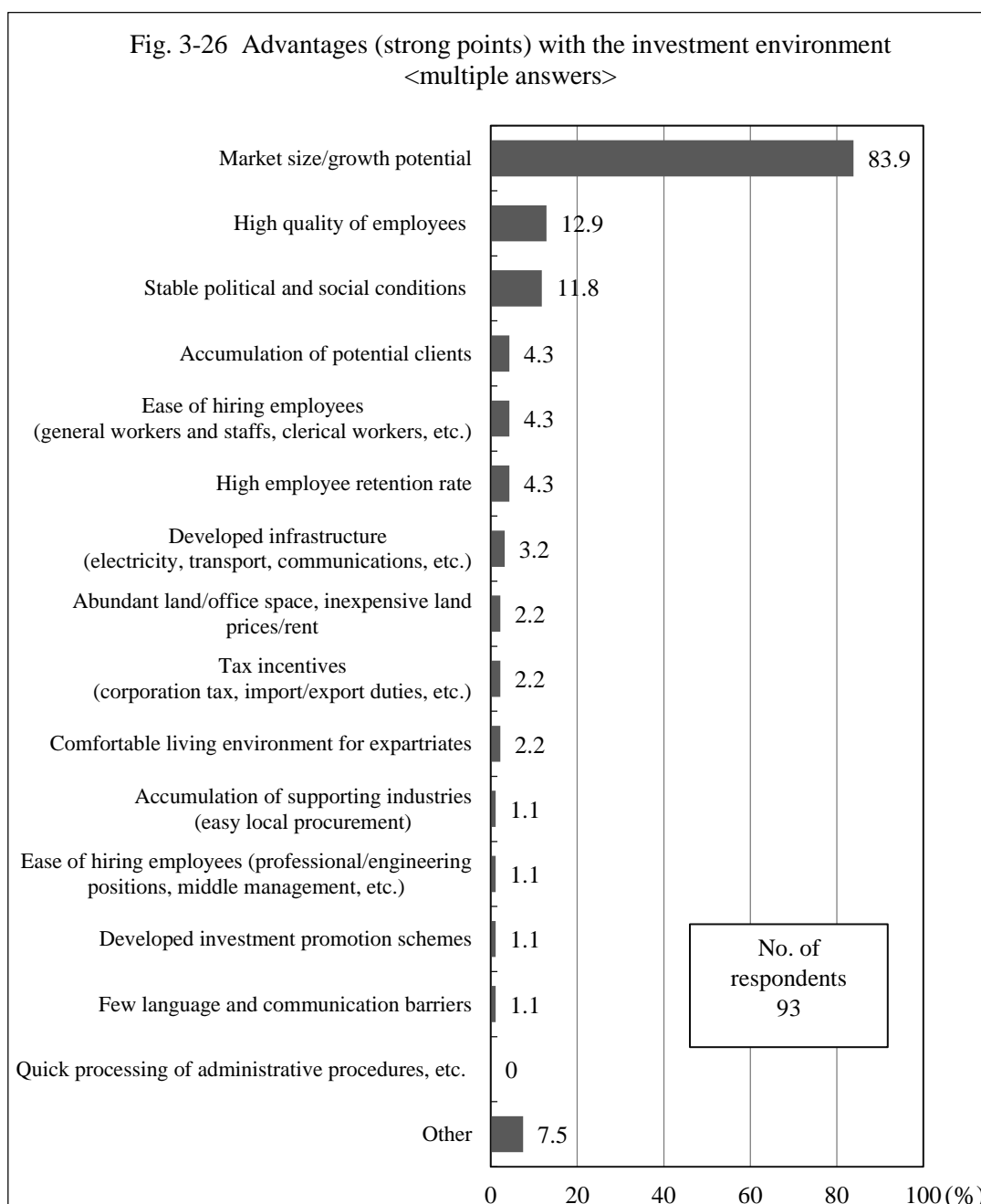
When those companies in manufacturing industries from among the respondents were asked about such challenges, their most common response was “No challenges in particular” (50.0%), up 26.9 points from the prior year’s survey. The most cited challenge was “Difficulties with local procurement of raw materials and parts” (29.2%), but this was down 9.3 points from the previous year. In addition, although “Difficulties in quality control” was cited by roughly half of the companies in the preceding year’s survey, this year that percentage dropped 21.1 points to 25.0%.



3-3. Advantages and risks in terms of the investment environment

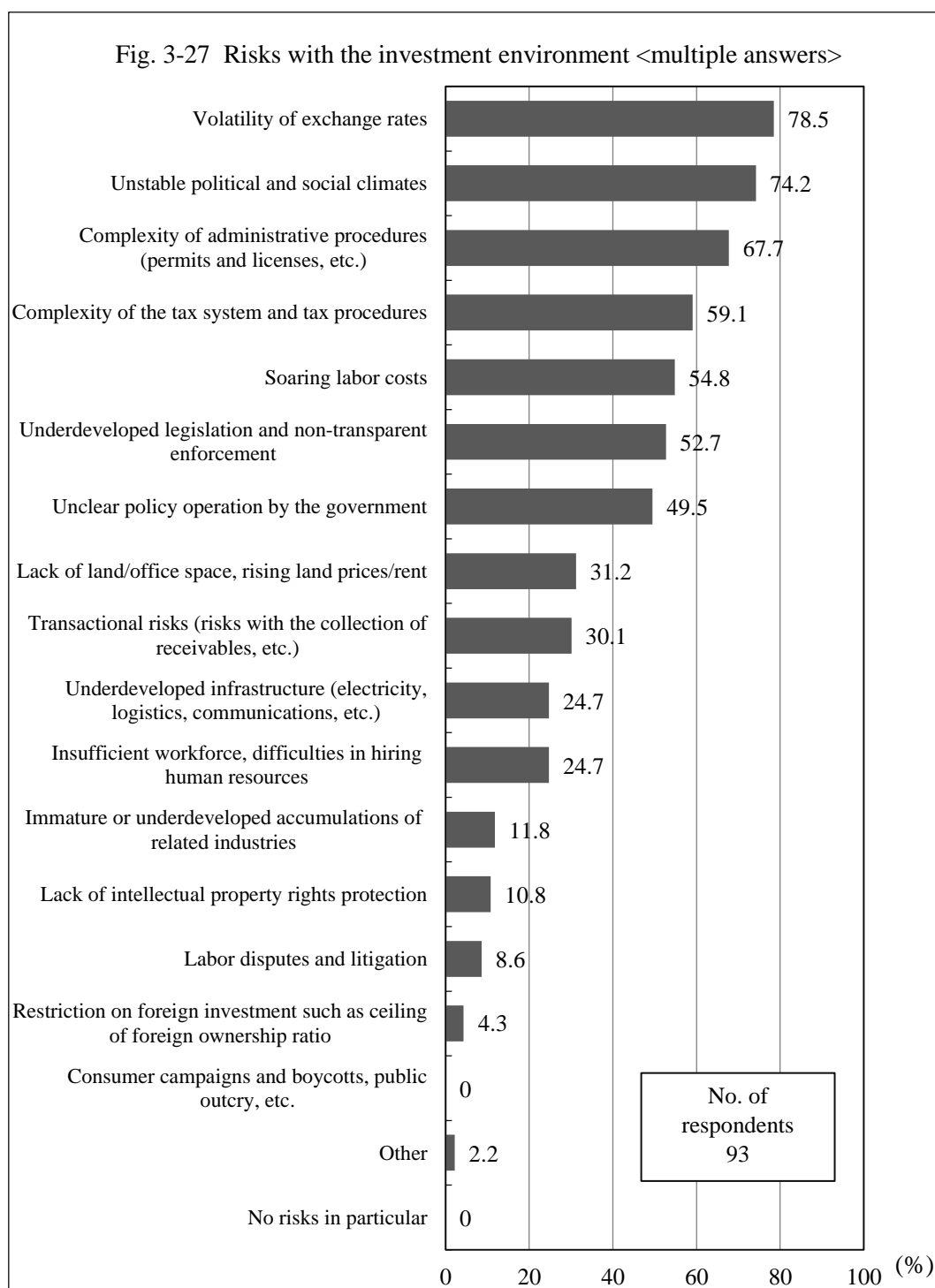
3-3-1. Advantages (merits) in terms of the investment environment

The most frequently cited advantage was “Market size/growth potential” (83.9%), and under “Other” some respondents also mentioned that “Russia is a country to emphasize in the international community from a geopolitical perspective.” As in the previous year’s survey, “Quick processing of administrative procedures, etc.” was not cited as an advantage.



3-3-2. Risks in terms of the investment environment

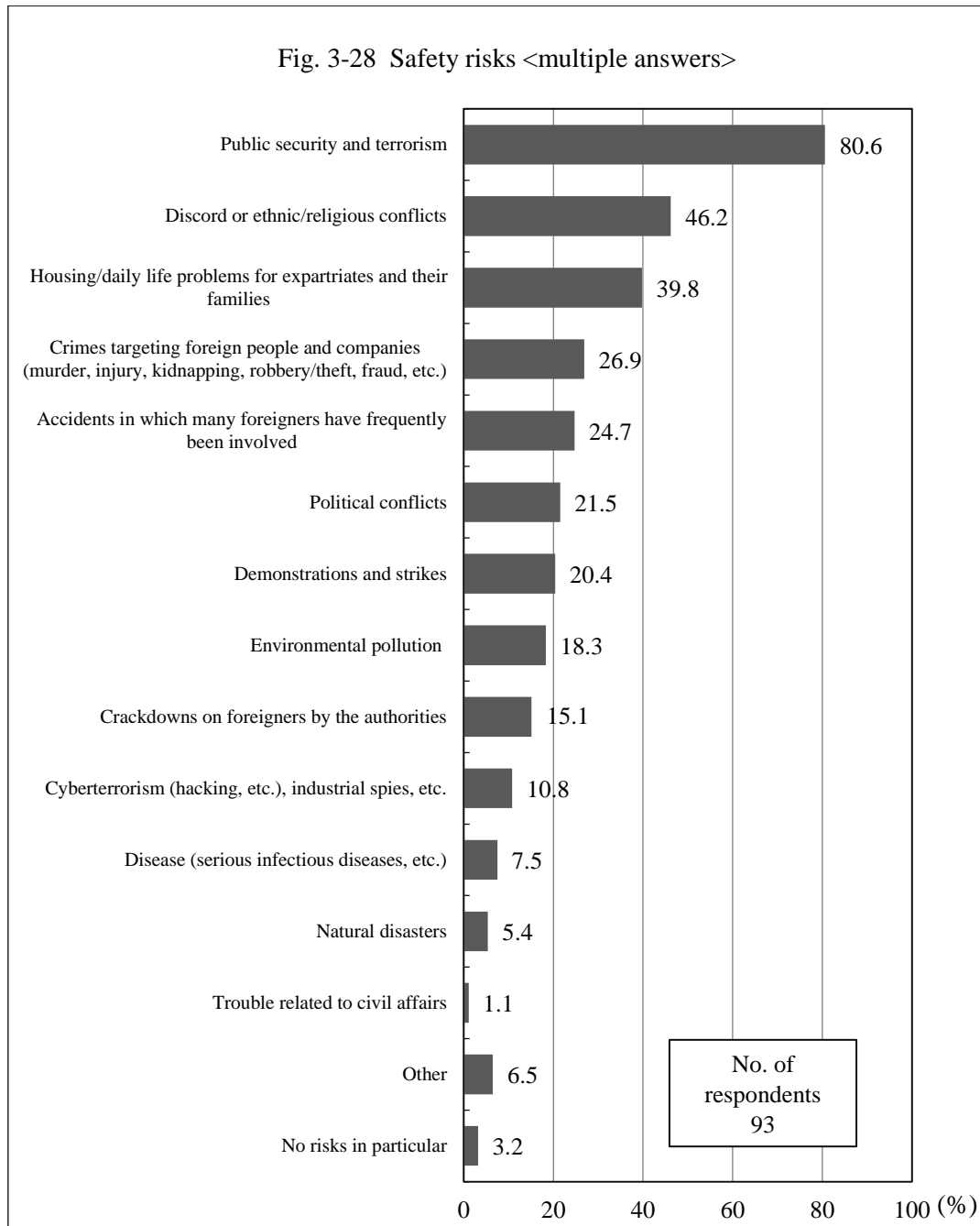
“Volatility of exchange rates” was the most frequently cited risk, at 78.5% (previously 48.4%), followed by “Unstable political and social climates” (74.2%, previously 37.1%). These results reflect the impact of the advancing ruble devaluation and the situation in Ukraine. Other cited risks included “Complexity of administrative procedures (permits and licenses, etc.)” (67.7%) and “Complexity of the tax system and tax procedures” (59.1%).



3-3-3. Safety risks

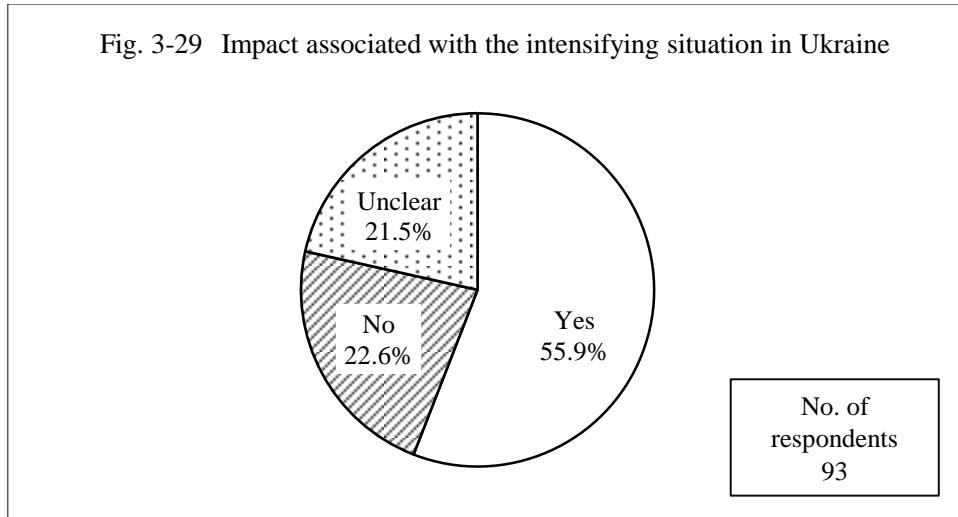
The most commonly cited safety risk was “Public security and terrorism” (80.6%). The next most frequently cited was “Discord or ethnic/religious conflicts” (46.2%), which could potentially cause this. “Trouble related to civil affairs” (1.1%) was rarely cited as a safety risk.

Among “Other” risks, several companies mentioned that they considered “Traffic accidents” (from a company in food, agriculture and fishery processing, as well as three sales companies) to be safety risks.

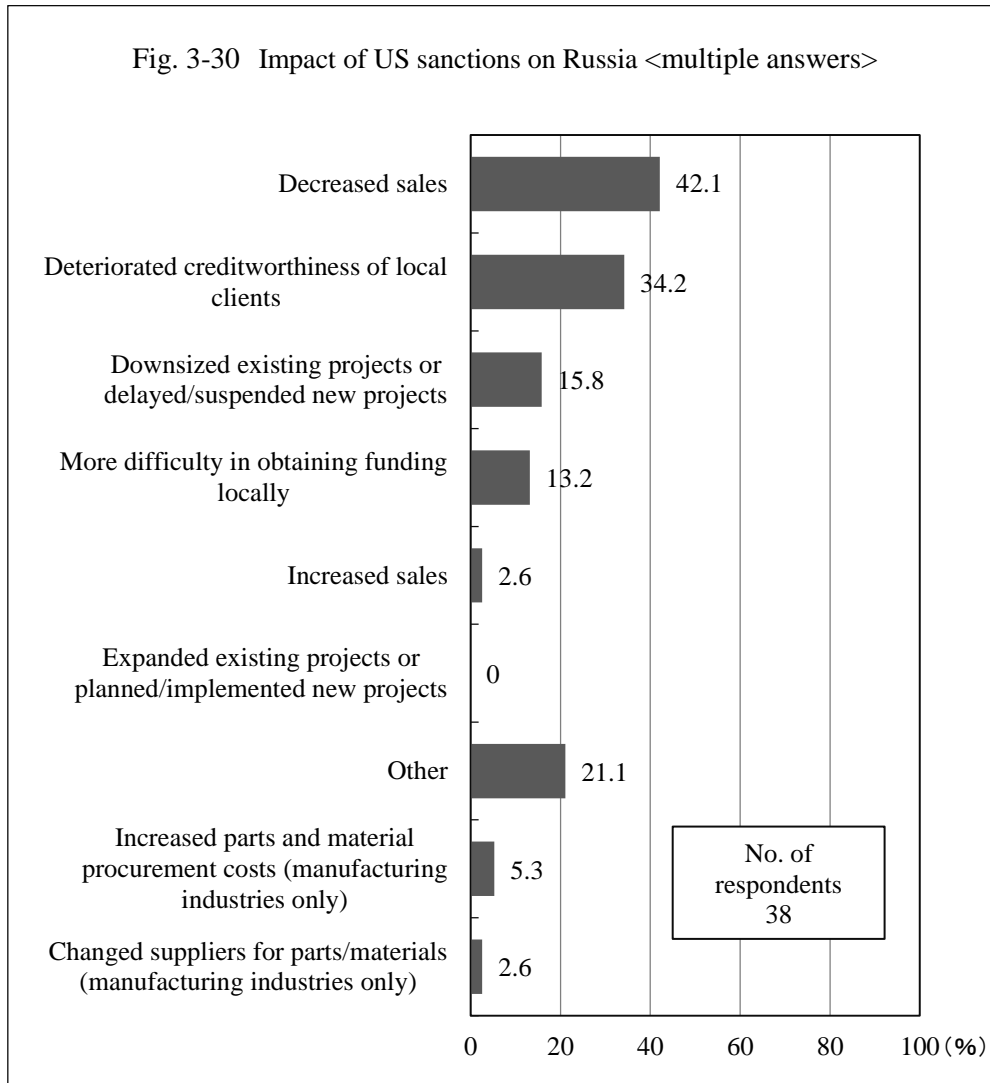


3-3-4. Impact associated with the intensifying situation in Ukraine

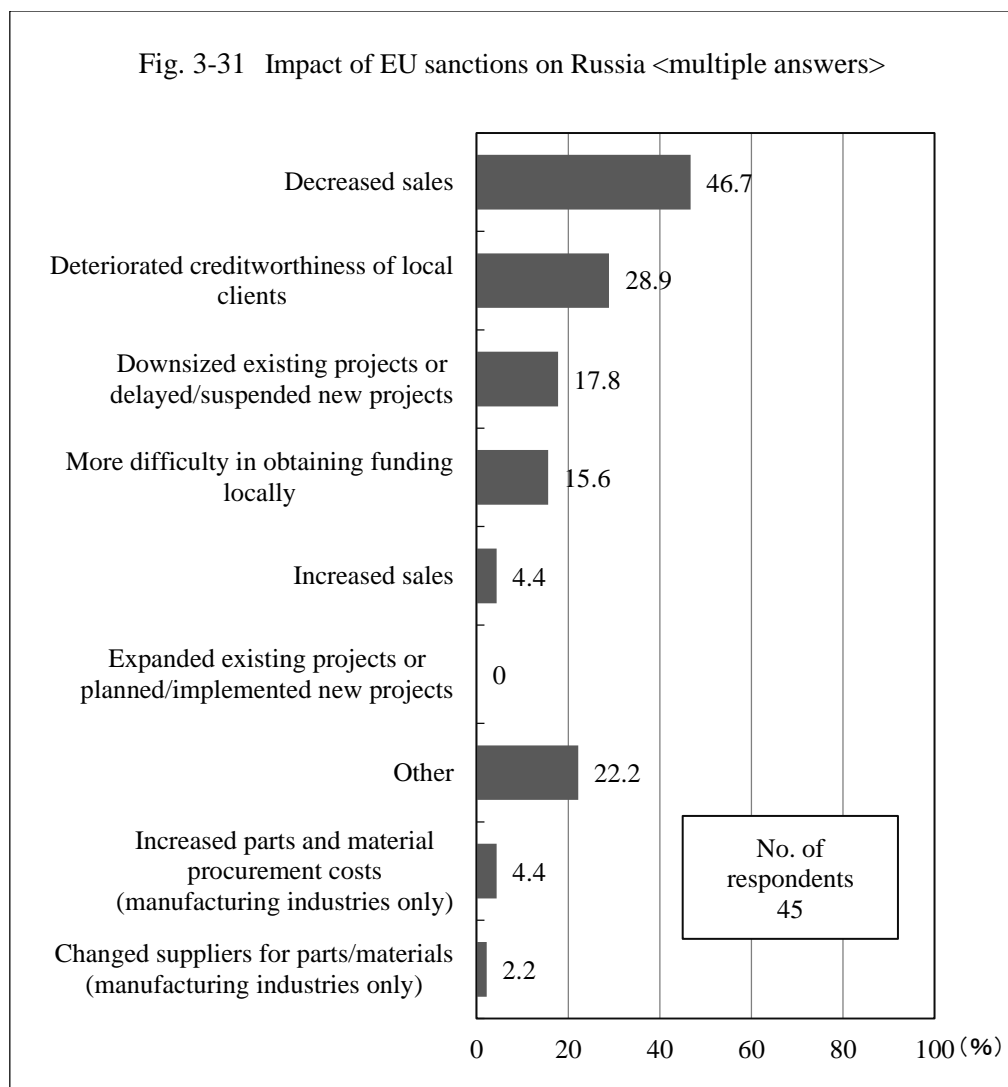
When asked whether they felt the impact of sanctions from the United States, Europe, and other countries in association with the intensifying situation in Ukraine, or of Russia's actions against the sanctions, 55.9% of the companies responded "Yes," while 22.6% answered "No."



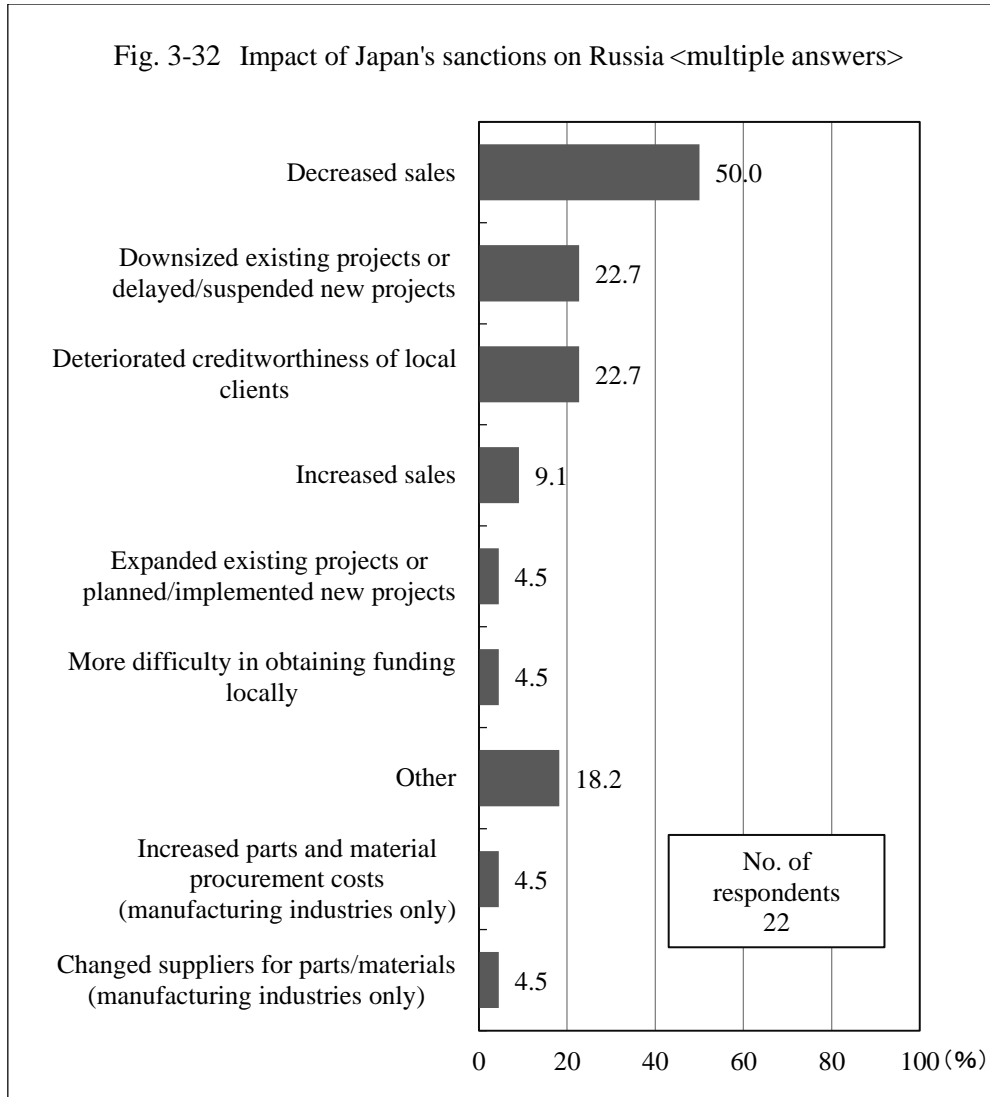
With regard to the impact of the sanctions placed on Russia by the United States, many companies stated that “Decreased sales” (42.1%) and “Deteriorated creditworthiness of local clients” (34.2%), but some companies also mentioned “Obstacles to collection of receivables from customers” (from a sales company) and “Connection between the sanctions and a deteriorating market environment and exchange rate” (from a sales company).



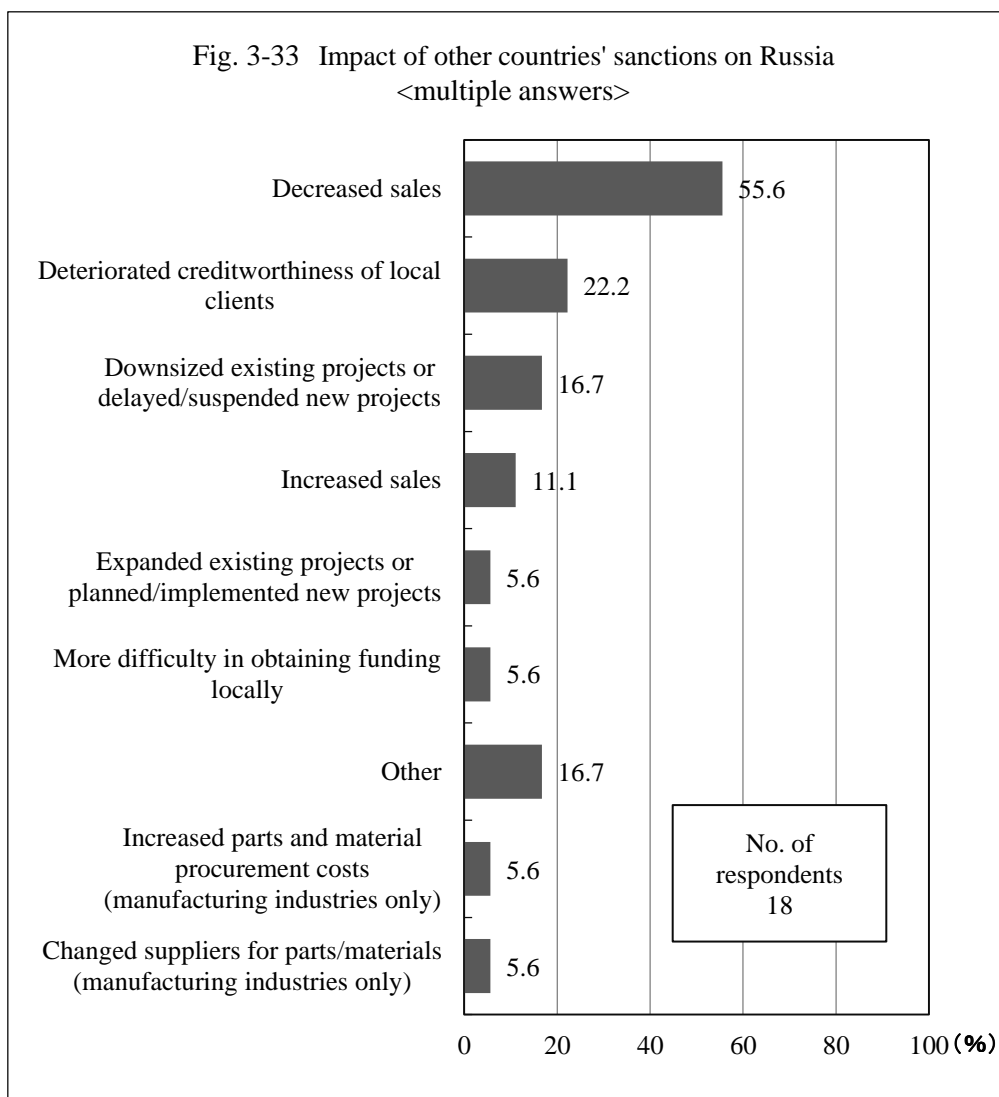
As for the impact of the sanctions placed on Russia by the European Union, 46.7% of respondents said that “Decreased sales.” Other responses included “More complex export procedures” (from a sales company) and “Deteriorated profitability and a slowdown in consumption due to the worsening exchange rate” (from a sales company).



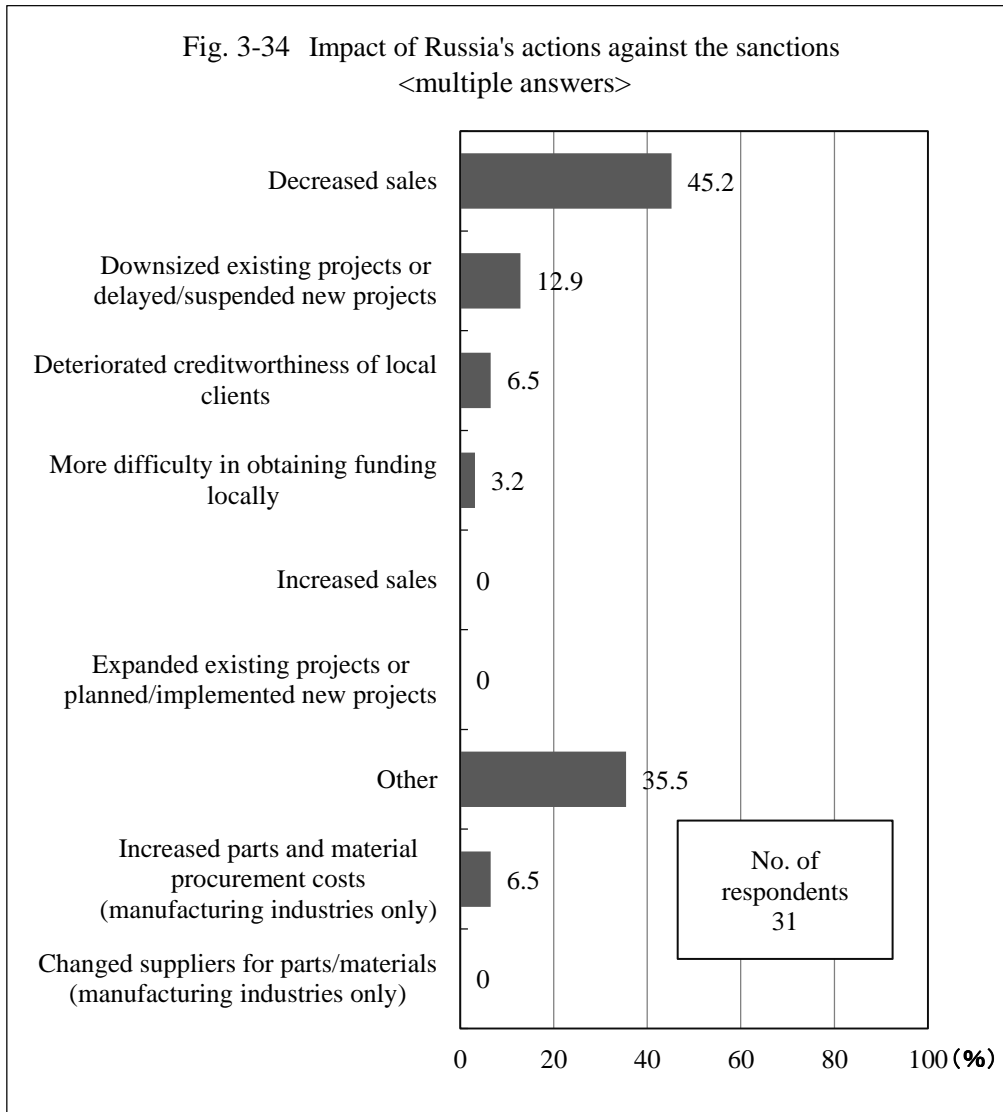
Concerning the impact of the sanctions placed on Russia by Japan, besides “Decreased sales” (50.0%), responses included “Greater difficulty in exporting machinery from Japan” (from a trading house) and “A greater commitment toward China” (from a manufacturer of electric machines and electronic hardware).



Regarding the impact of sanctions placed on Russia by countries other than those mentioned above, besides “Decreased sales” (55.6%), responses included “Connection between the sanctions and a deteriorating market environment and exchange rate” (from a sales company) and “Being refused settlement with some Russian banks” (from a trading house).

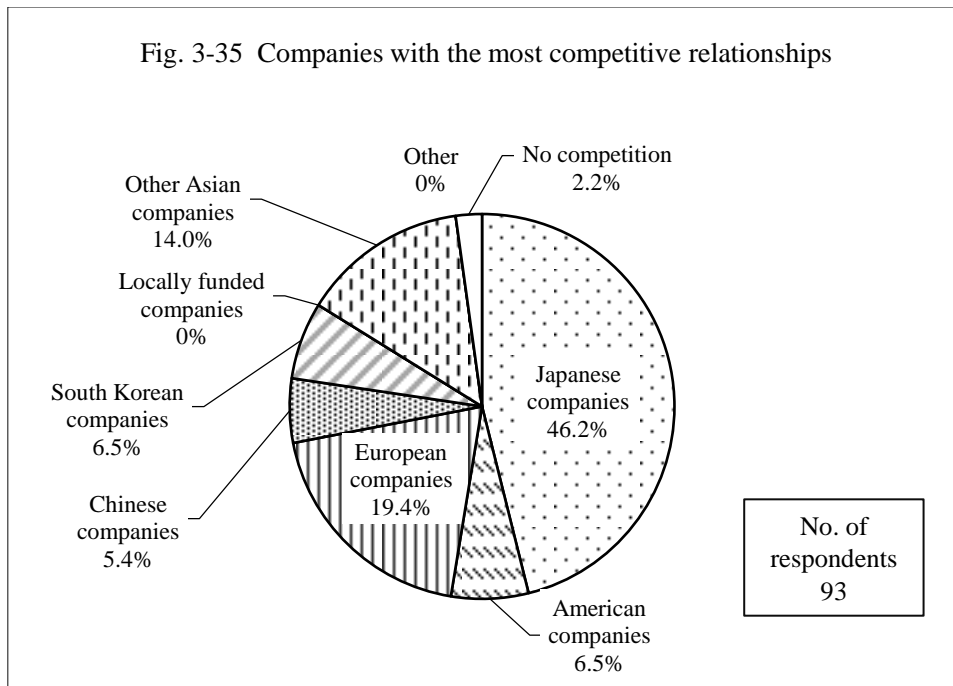


Concerning the impact of Russia's actions against the sanctions, the largest impact cited was again that "Decreased sales" (45.2%). Responses in the "Other" category included "Rising cost of goods" (from a manufacturer of electric machines and electronic hardware), "Delays in remittances" (from a sales company), "Reduced quality of the living situation" (from a banking company), and "More checks during import customs" (from a trading house).

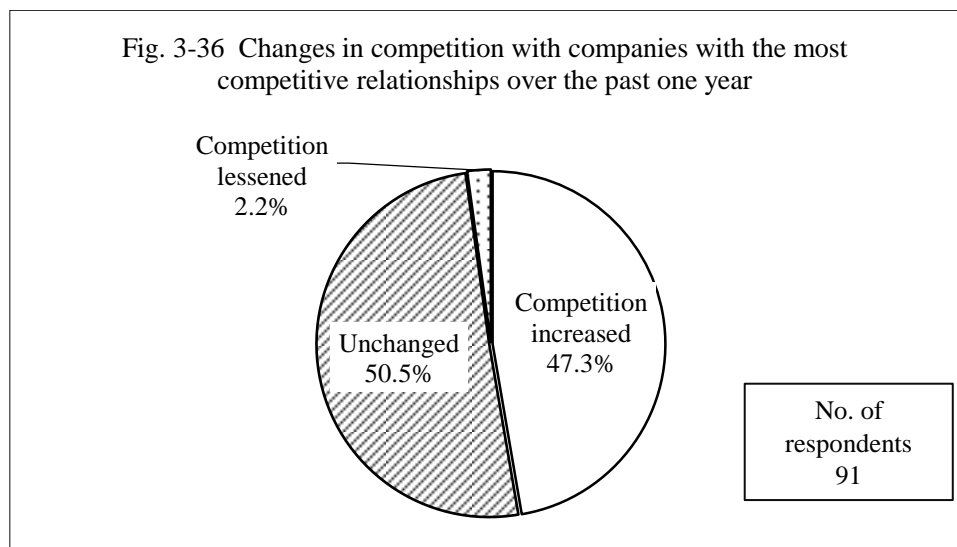


3-3-5. Competitive relationships

Japanese companies were the most commonly cited competitors for the respondents in the Russian market (46.2%), with these followed by mentions of European companies (19.4%). Other Asian companies were cited by 14.0% of the respondents, up 12.4 points from the prior year's survey.

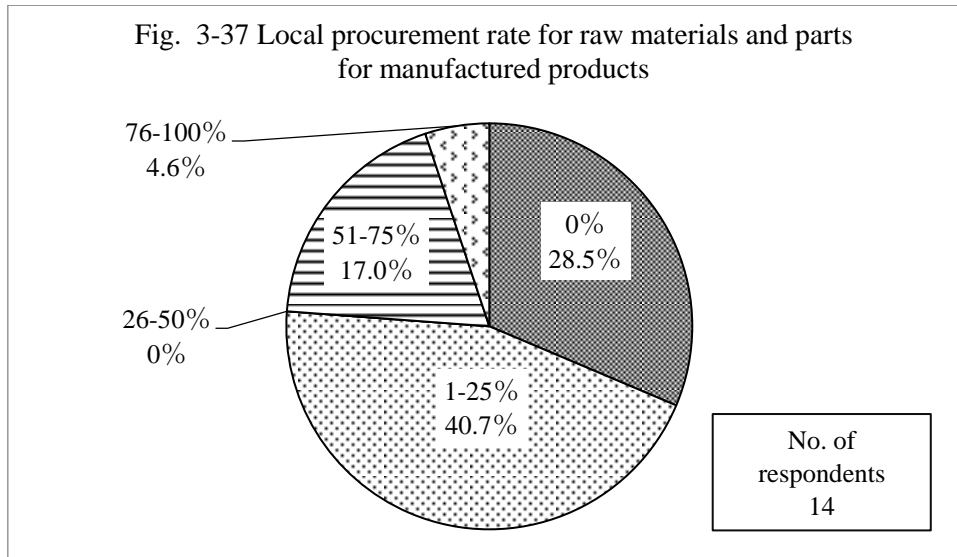


In terms of the competitive status in the Russian market, 50.5% of the companies replied that competition was “Unchanged,” with the percentage of companies replying that “Competition increased” falling 14.0 points compared with the previous year, to 47.3%.

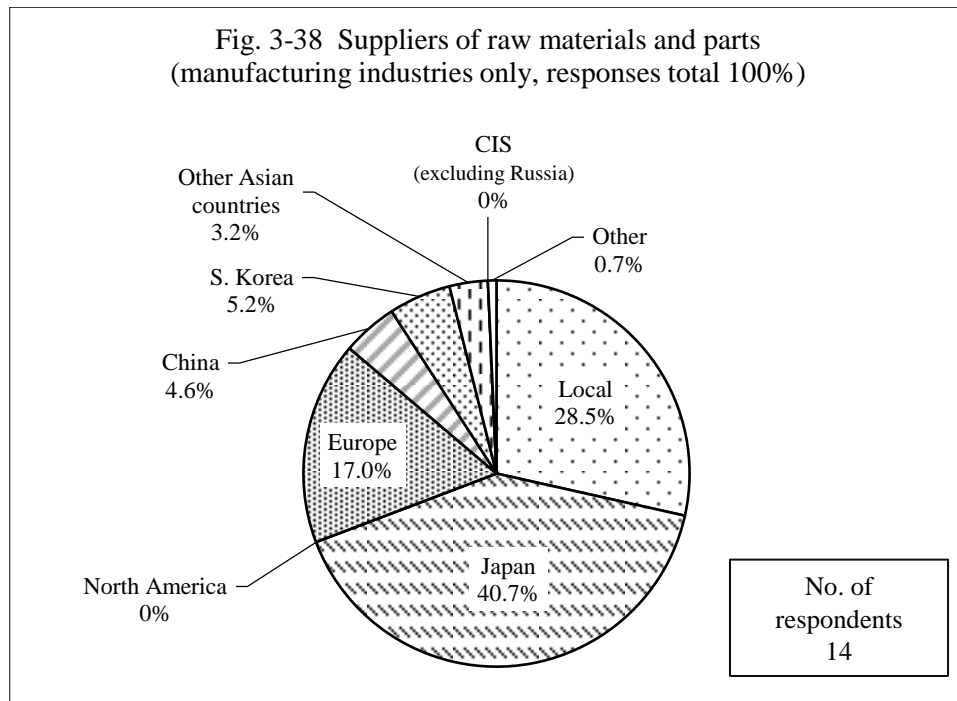


3-4. Procurement status for raw materials and parts in the local area

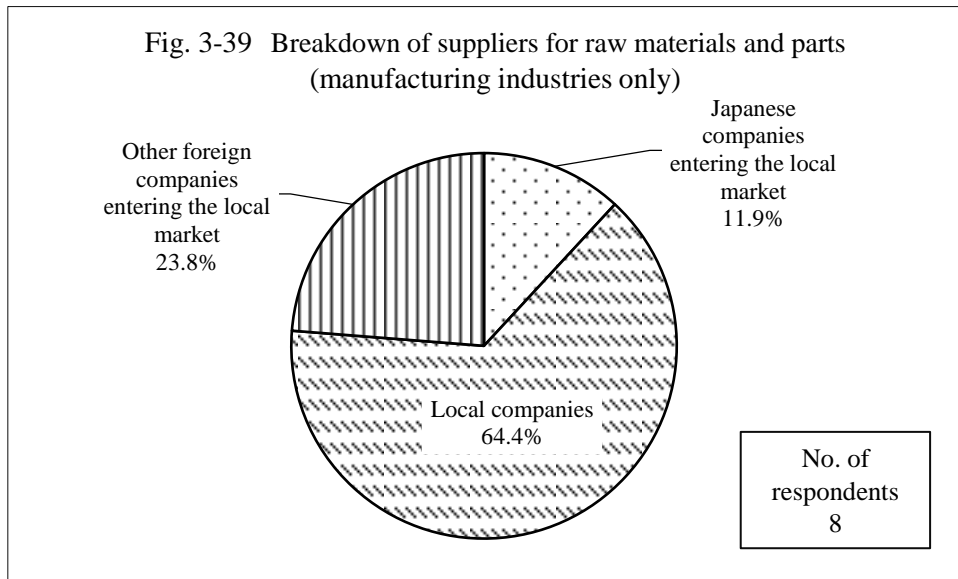
When those companies in manufacturing industries from among the respondents were asked about their local procurement rate for raw materials and parts, all together those replying that this was 25% or less came to 69.2%.



When asked about their suppliers for raw materials and parts, suppliers in Japan were the most commonly cited (40.7%), followed by local suppliers (28.5%) and suppliers in Europe (17.0%).



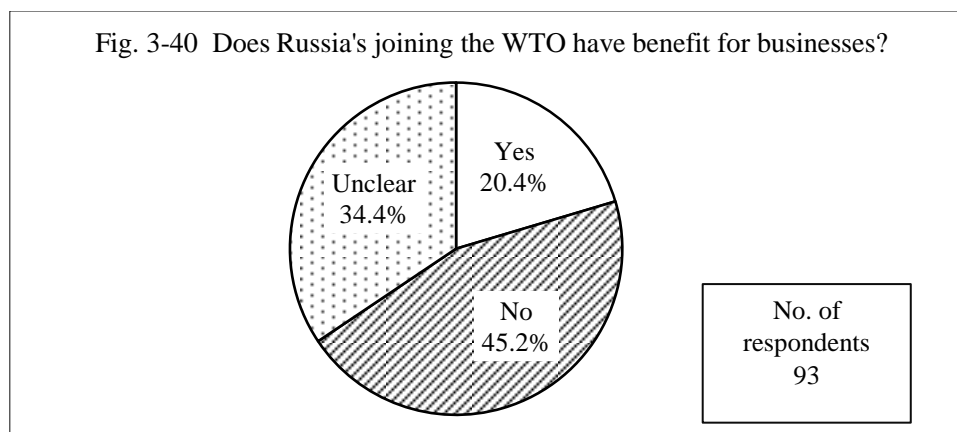
Among “Local companies,” the breakdown of suppliers shows that the greatest number were local companies, at 64.4%.



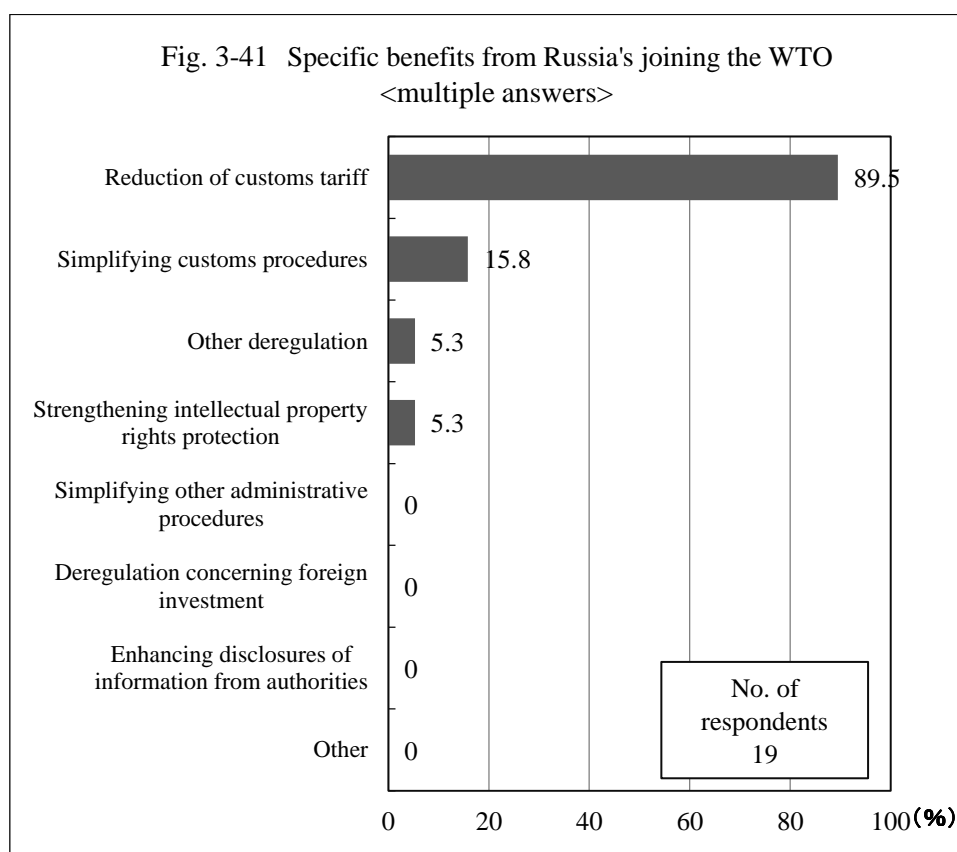
3-5. Effects of Russia's accession to WTO and Free Trade Agreements

3-5-1. Impact of joining the WTO

When asked if Russia's joining the WTO (which took place in August 2012), had benefit for businesses in the past year, only 20.4% of the companies responded with "Yes," while 45.2% of companies answered "No," up 6.5 points from the preceding year.

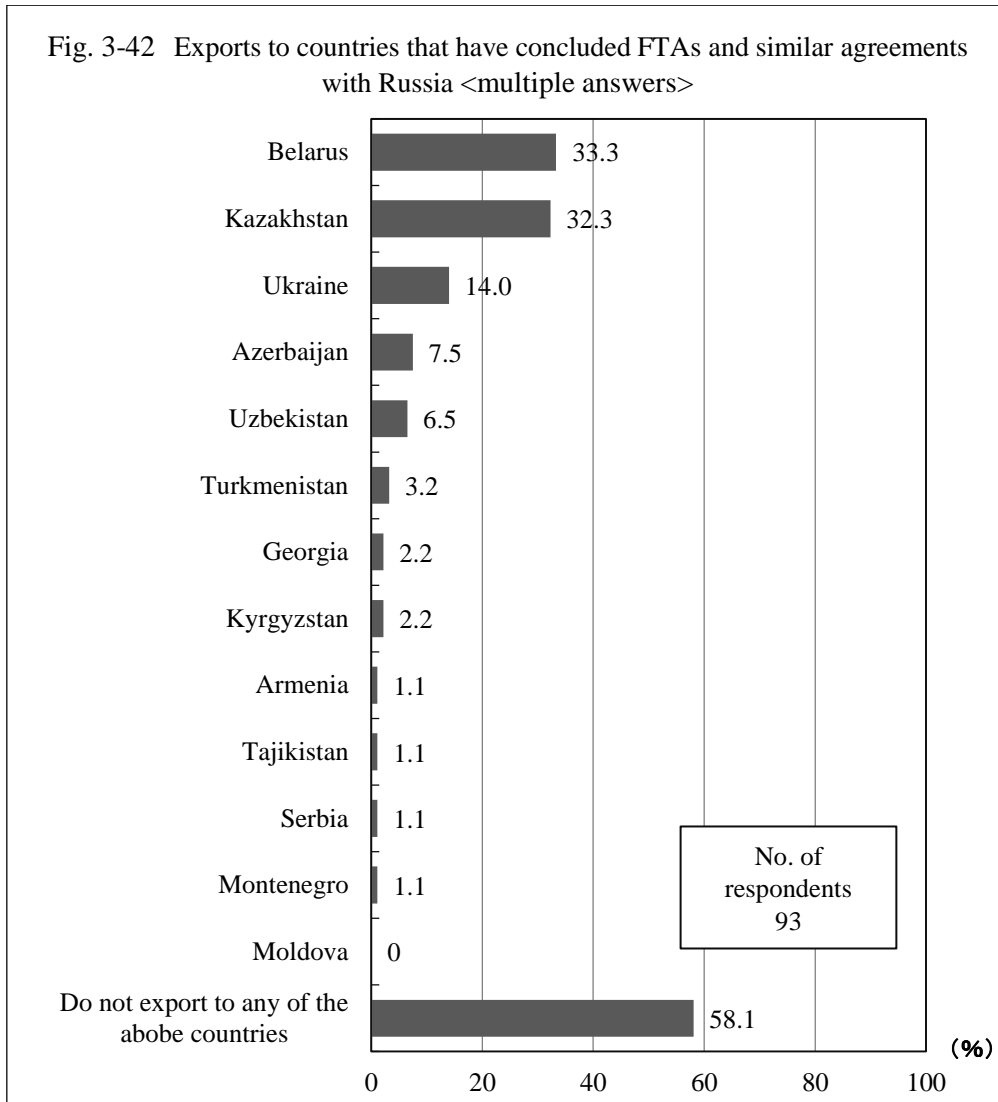


The most commonly cited specific benefit given by respondents who said "Yes" was "Reduction of customs tariff" (89.5%).

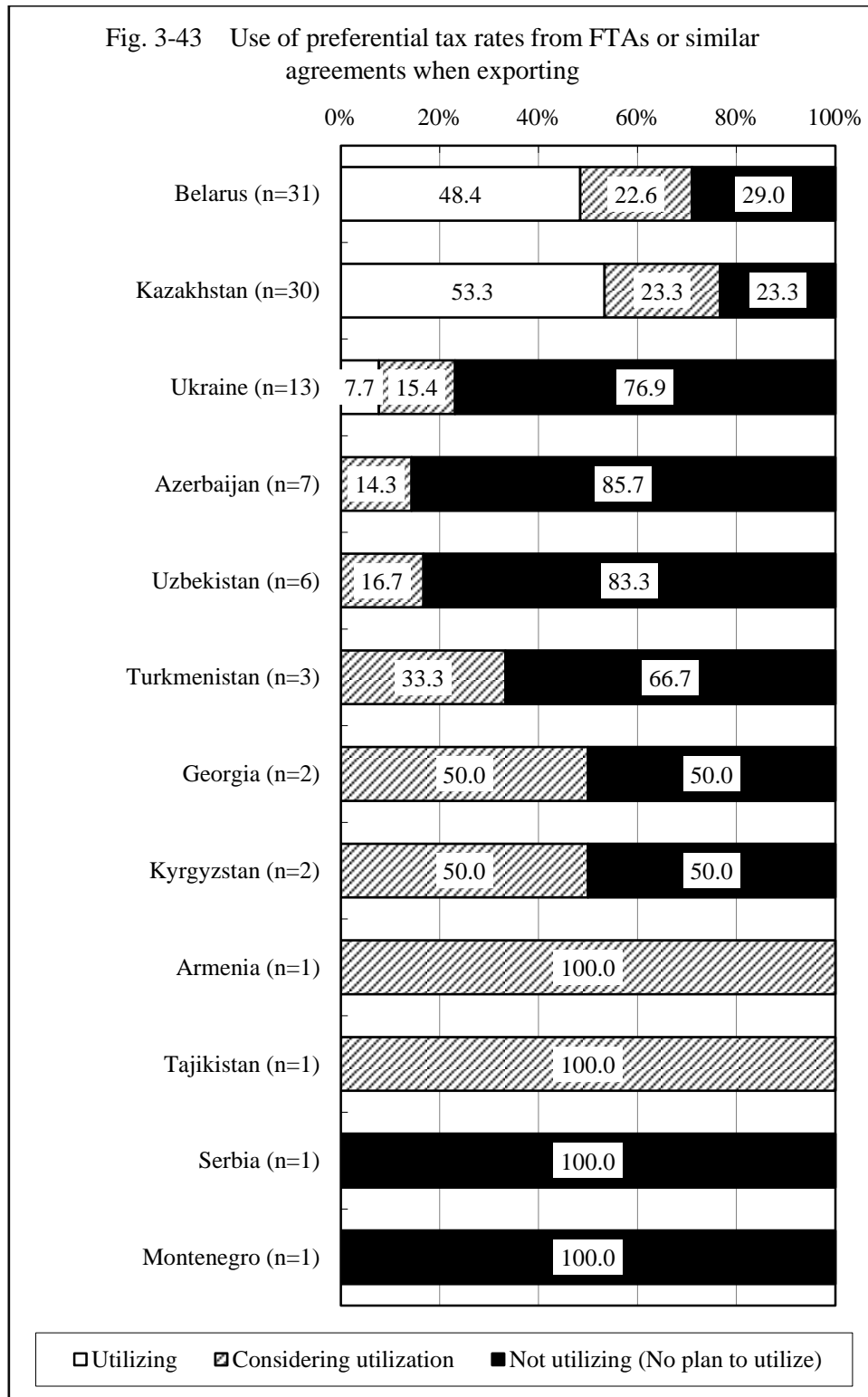


3-5-2. Use of bilateral/multilateral FTAs

Of the countries that have formed customs unions and concluded FTAs with Russia, Belarus is the most commonly cited export destination for Japanese companies operating in Russia (33.3%), followed by Kazakhstan (32.3%).



Of the Japanese companies that export to Belarus, 48.4% of them replied “Yes” when asked if they use preferential tax rates from an FTA when exporting. For exports to Kazakhstan, 53.3% of the companies use preferential tax rates from an FTA.



Almost none of the Japanese companies in Russia import goods from countries with which Russia has formed a customs union or concluded an FTA, with 95.7% of them replying “No” when asked if they import.

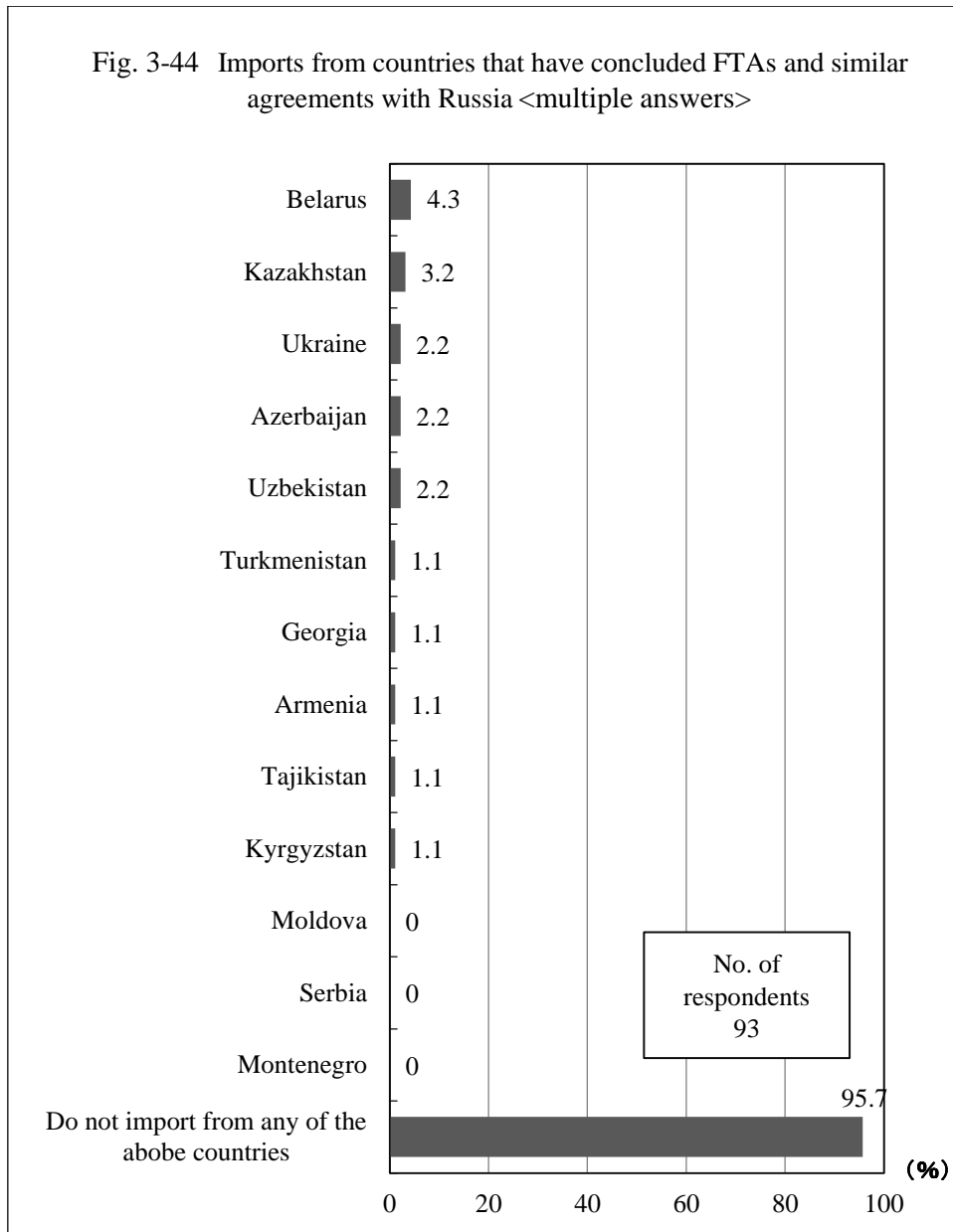
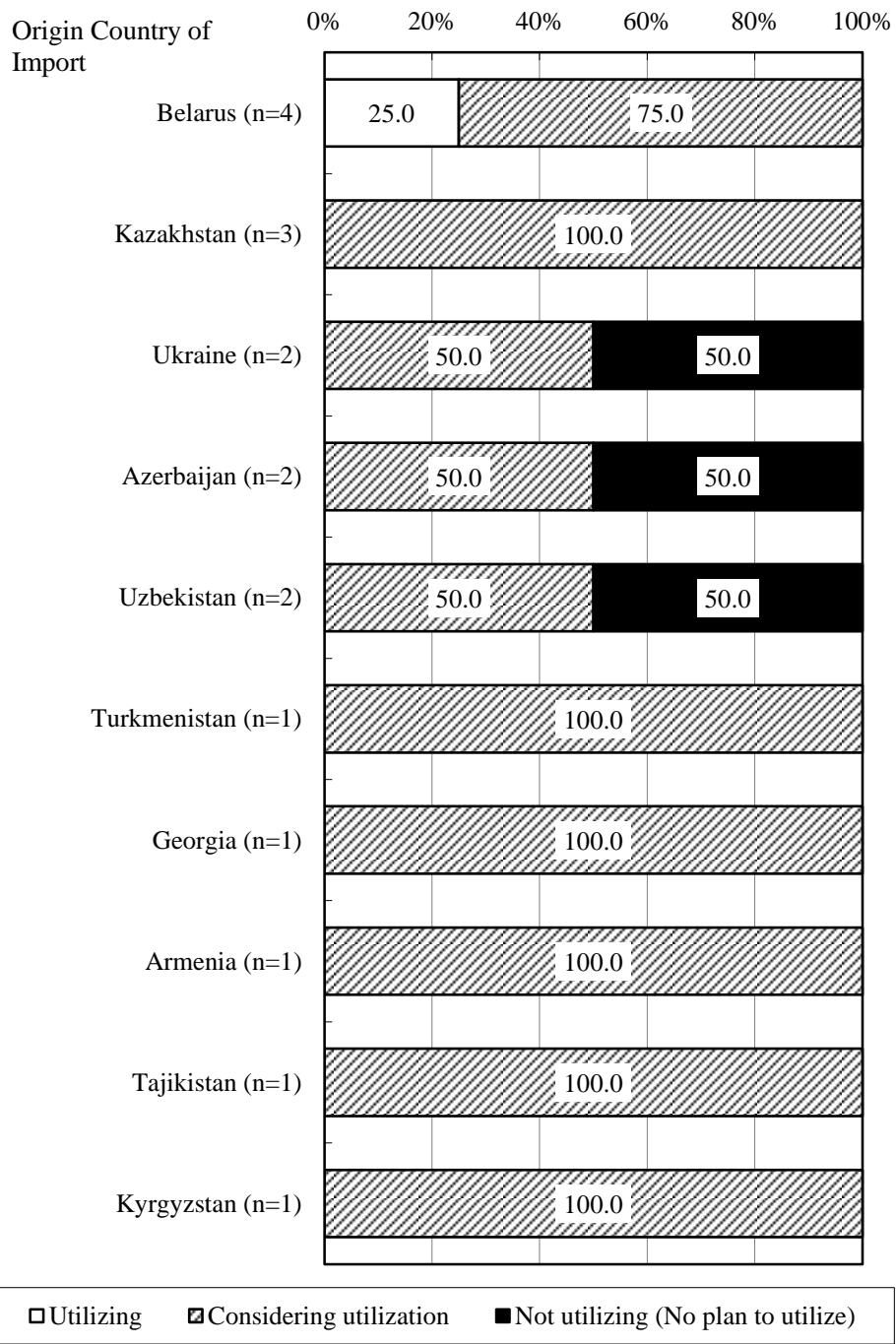


Fig. 3-45 Use of preferential tax rates from FTAs and similar agreements when importing



3-6. Other challenges for developing business in Russia

When the respondents were asked about challenges in developing their businesses in Russia in a free writing format, they offered the following comments.

The unstable exchange rate and the complex revisions to the legal system were challenges cited by companies in both manufacturing and non-manufacturing industries. Multiple companies in manufacturing industries also mentioned as challenges the difficulties in local procurement of materials and parts, as well as the rising cost of goods, while companies in non-manufacturing industries expressed the opinion that investment has not advanced due to the low level of awareness and understanding of Russia and its market on the part of company head offices in Japan. Other challenges cited included complex procedures and the high cost of leases for plants and warehouses.

< Manufacturing industries >	
Type of industry	Comments
Parts of transportation machines (Motor vehicles and two-wheeled vehicles)	<ul style="list-style-type: none"> •Complex procedures for customs clearance •High plant construction costs and complex approval procedures •High cost of leases for plants and warehouses •Soaring personnel expenses for specialist staff •Difficulties in transitioning to local procurement of materials and parts •Securing of term employees
Machines (including molds and power tools)	The federal government aims to advance the localization of the machine tool industry, but it leaves the specific matters of drawing in companies and their favorable treatment to the regional governments. For this reason, despite dodging the issue with fabrication that consists essentially of merely attaching a cover, the regional governments simply exaggerate the results in their appeals to the federal government. The federal government also seems to realize this to some degree, but we think it will be problematic to substantively localize machine production if the federal government does not directly set out to uncover the limited number of companies scattered around each region that have the possibility for material supply.
Electric machinery/ electronic hardware	There is little sign of a forthcoming return on investment given the concerns about an extended economic slowdown due to a critical worsening of the exchange rate, rising interest rates and prices of goods, and the government's fiscal difficulties
Electric machinery/ electronic hardware	Private Japanese banks are not proactive about lending to joint ventures with a stake less than 50% from a Japanese company. I think a situation where such joint ventures are forced to consider high-interest loans from local banks runs counter to the development of economic exchange via capital investment from private Japanese companies.
Electric machinery/ electronic hardware	Compliance (violations), the frequency of revisions to the legal system, and the high prices of goods. It costs money to prevent violations and respond to revisions to the legal system, but we are striving to always minimize risk in the operation of the company.
Machines (including molds and power tools)	The problem in 2015 is the exchange rate
Electric machinery/ electronic hardware	<ul style="list-style-type: none"> •Trend in the government's policy on natural resources and energy •Trend in the government's policy on localization

<Non-manufacturing industries >	
Type of industry	Comments
Sales company	The stabilization of the ruble against the euro and the dollar
Sales company	The visa system has an impact on exchanges of personnel
Logistics	The fact that the activities of Japanese banks and financial institutions are oriented toward Japanese companies
Sales company	Continual negative press coverage by the media biases the evaluation of marketability
Other service company	The low awareness and understanding of Russia as a country and a market on the part of the Japanese side. There is a strong hesitation to invest in Russia because of ignorance.
Trading company	<ul style="list-style-type: none"> • Costs tend to mount due to frequent changes in social insurance premiums and other tax-related matters • The Russian language and other tests to be officially introduced in the future could have a chilling effect on investment • Regions understand that investment leads to local growth and job creation, but very few regions combine this with the preceding step of infrastructure development (including the living environment, schools, and hospitals)
Telecommunications and IT	Low understanding of, interest in, and prioritization of Russia on the part of the head office
Trading company	Expansion of human infrastructure
Legal/tax services	Improvement of the macroeconomic environment between Japan and Russia, including at the political level
Sales company	Extreme formalism and red tape makes every office procedure complex, preventing top management from being able to concentrate on its proper role. The national government should not be meddling in every little internal document format and minor procedure (for example, documents regarding business trips) at each company. Such matters should be managed by each company. The citizenry as a whole has been brainwashed into putting form before substance, making it impossible to have a logical discussion with tax, legal, or accounting experts based on principles. Meanwhile, there are also too many companies and individuals that do not follow the rules at all. Although this situation may be the same as in other emerging markets and developing countries, it is highly regrettable and objectionable that such a world power as Russia with its high education standards is in such a state. Since in small- to medium-sized businesses it is hard to delegate to other employees because there are few employees in the first place, it seems that startups and small-scale businesses have a disadvantage in Russia's investment environment. Even for subsidiaries of large companies, I would like to see them be able to use simplified measures for each procedures provided the scale of their presence in Russia is small.
Agriculture/forestry	Exchange rate risks