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Russia as one of the world's most important markets

Falk Tischendorf, Managing Partner of Beiten Burkhardt in Moscow, talks about doing business in Russia

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Let us start from the beginning – tell us your history. When did you enter Russian market, and why Russia of all countries? What was your start in the business?

The Moscow office of BEITEN BURKHARDT was established in 1992 and became the first Russian office of a major German law firm. I personally have worked in Russia for over 14 years. We consult international companies, as well as German and Russian businesses operating in very different areas. Many of them are involved in machinery engineering, automotive industry, in construction material production, woodworking, IT, media, food, chemical and pharmaceutical industries as well as consumer goods manufacturing. The Russian market has always been one of the world's most important markets for our clients and for us as well. Within the past 24 years we have expanded our activities in Russia consistently and successfully and we continue to work in this direction.

Business is a "team game" where the role of individuals working "with you" and "for you" is very important. What is your opinion of the proficiency level of Russian specialists?

In Russia, just like in any other country, there are specialists with different expertise and capacities. Truly, there are many highly qualified employees, however, it is always a challenge to find and retain such highly proficient specialists in the company. You have to "invest" into personnel constantly and ensure skill development. Many German companies in Russia pay special attention to this aspect, for example they develop cooperation with

universities or introduce professional development programs at their companies. To be successful in business, one needs to define working standards and expectations from the very start and monitor the process constantly. Communication and experience are the key. This enables us to move forward.

Do you do any international business in other EEU member states?

Many of the companies that we support in Russia also work in the markets of Kazakhstan, Belarus, Armenia and Kyrgyzstan. Therefore, we, likewise, cooperate closely with local legal companies in these countries.

How convenient do you think it is to work in the common customs territory? How perceptible is the difference between running a business in Russia, Kazakhstan and Belarus? How different are approaches to doing business in Russia and European/Western countries?

Undoubtedly, the common customs territory presents a number of advantages to a business; still there are local particularities specific to every country. Even within Europe itself, German approach to running a business is different from, say, French one or any other. This is especially evident if you take the example of the European Union. Besides, every enterprise has its own business culture, which it often takes pride in. Business practices are not universal. Nevertheless, this does not prevent companies around the globe from cooperation. Here the key word is mutual interest. Essentially, this is what allows us to break through barriers.

How did the exchange rate variations affect your cross-border operations?

The abrupt drop of Russian ruble and high volatility of exchange rates have evidently affected our business, too. These developments directly influence commercial activities of companies that we advise in Russia, that is, absolutely all of them. This concerns both those businesses that supply their products to Russia and those who have launched manufacturing facilities in Russia, and there are quite a lot of such companies. Companies that have established their production facilities in Russia import a part of components that they need to manufacture the final product in Russia. In many cases, the cost of these imported components has gone up twice. For many enterprises this is economically challenging or even unacceptable. This is also true for relations between Russian companies, which have agreed on contractual payments at a certain exchange rate. Of course, there are a number of legal options – from pegging an exchange rate through a price adjustment clause to currency bands. However, legal structures cannot solve the issue of economic feasibility of a project. For this reason a good few projects require revision from economic standpoint, since at least

one of the counterparts would never have concluded a contract on the initial terms, had it known about such changes at the moment of the signing.

The issue of a heavy tax burden receives increasingly more publicity. In your opinion, what measures need to be taken so that the business community could "take a breath"?

When compared to Germany, it is debatable whether tax burden in Russia is too severe. Some even say that Russian fiscal system in regard to its structure and substance is better than that of Germany. Naturally, tax remissions are always welcomed by businesses; however, tax burden in itself is not the decisive factor when choosing to invest in Russia. When companies consider investing in Russia, taxation system of the country is not the only issue of their deliberation.

When making a decision on possible establishment of production facilities, companies need to perform long-term planning. Ultimately, the main issue is always return on investment, and in the case of large-scale projects – its assessment over at least a five-year period. The more complex and long-term the project is, the more problematic it is to gain insight into the cost to profit ratio. This makes me believe that in today's Russia the issue is not so much about decreasing tax burden. Rather, of crucial importance is the issue of whether a business can indeed factor in all possible costs in Russia in the long term. Unfortunately, this is not always possible. In other words, the issue is about long-term planning, not about two or three percent of the tax rate.

Lately a staggering number of changes have occurred in Russia, especially concerning business operations. As an example, the Agency for Strategic Initiatives launched and successfully implemented the National Business Initiative. It is largely owing to this Initiative that barriers obstructing development of business community in the country were relaxed. What are your thoughts in this regard? About five years ago everything was very different, do these changes show?

Without a doubt, these changes are noticeable and in this context the ASI has made an invaluable contribution. The fact that Russia has moved from the 123rd position in Doing Business ranking of the World Bank in 2011 to its present 51st place is a massive achievement. We notice these changes, particularly in Russia's legal system, which now offers more attractive investment conditions. A crucial reform of the civil law has brought about a number of changes that have been appreciated by the business community. These include, for example, the possibility to appoint several directors, option agreements, as well as changes in securities. Sadly, this success has somewhat faded against the background of the controversy concerning the general economic situation, sanctions and political complications.

What administrative barriers in the Russian Federation require, in your opinion, further relaxation/reliefs and why?

If a person is, like me for example, of German origin, it is very important to be very careful on the issue of criticizing bureaucracy somewhere. In Russia, one indeed witnesses excessive number of formal requirements in many spheres. Primarily this problem concerns official document flow. Besides, legal, tax or accounting significance of written documents does not make your life easier. For another thing, officials and businessmen oftentimes do not seem to speak the same language. Receiving vague responses to specific questions prevents from making decisions, which leads to additional expenses, loss of time and obstructs implementation of interesting and important projects. This makes me wish that ministerial and official employees would see their work as active support in implementation of projects in their homeland, and that they would look a little farther than their desks. Then again, this pertains not to Russia alone, and not to every state agency.

Regarding the sanctions, we often hear that the interest of foreign investors in Russia is waning. Do you believe that it is the sanctions that hamper investing activities in Russia, or that there may be other reasons – too many bureaucratic procedures, barriers, or even corruption?

Let me first briefly address the sanction matter in general: the discussion whether the sanctions make sense, whether they are conducive to achieve any result, and if so, what result, has been active since April 2014. If we discuss this situation by contradiction, we may ask rhetorically – is it reasonable to introduce sanctions in respect of a particular market and discuss them actively if this market is of no interest? The vigor of an impressive number of businesses who advocate lifting the sanctions is a perfect testimony to how much Russian market is attractive today, and how attractive it will become in the long run.

Presently, I suppose, it is the current economic state that is the factor which from the long-term planning perspective puts the question of advisability and ways of making investment in Russia before many enterprises. That being said, we must not forget that the majority of German investors worldwide represent medium business. Many of them evolved from family businesses and may be family enterprises even to this day. These companies generally invest their equity capital. If we imagine that a decision to invest, especially in establishment of production facilities, would affect development of a business over a long period of time, it makes sense that today investments generate many questions, considering the current economic situation. The fact is that, on the one hand, such investments lead to long-time capital investment. This is what makes long-term planning and profitability so important for such companies. On the other hand, future "adjustments" may be performed only at the cost of considerable financial losses.

At the end of the day, for a specific project the optimal balance of factors is of critical importance. Such factors may include, along with market potential, stability and transparency of legal and administrative procedures, relations with local and federal agencies, issues related to personnel and remuneration, proficiency level of the personnel, transport, infrastructure and logistics, possibilities for research and innovative development, as well as social environment.

Do you have some advice for a Western businessman/investor wishing to launch a business in Russia? Some words of warning, maybe?

For any investment project in Russia (or in any other country) rigorous preparation of the project is the key. It is very difficult to implement a project without a clear understanding of the Russian partner's vision and expectations of the project, or without deep knowledge of applicable Russian laws and administrative procedures. In practical terms, one should endeavor to avoid any surprises during the implementation of the project. You should not underestimate time and funds spent on the preparation for the project implementation. A well-prepared venturer may find success in Russia today, of all time, when this country is very attractive in the context of countercyclical investments.

[Source: The Agency for Strategic Initiatives](#)