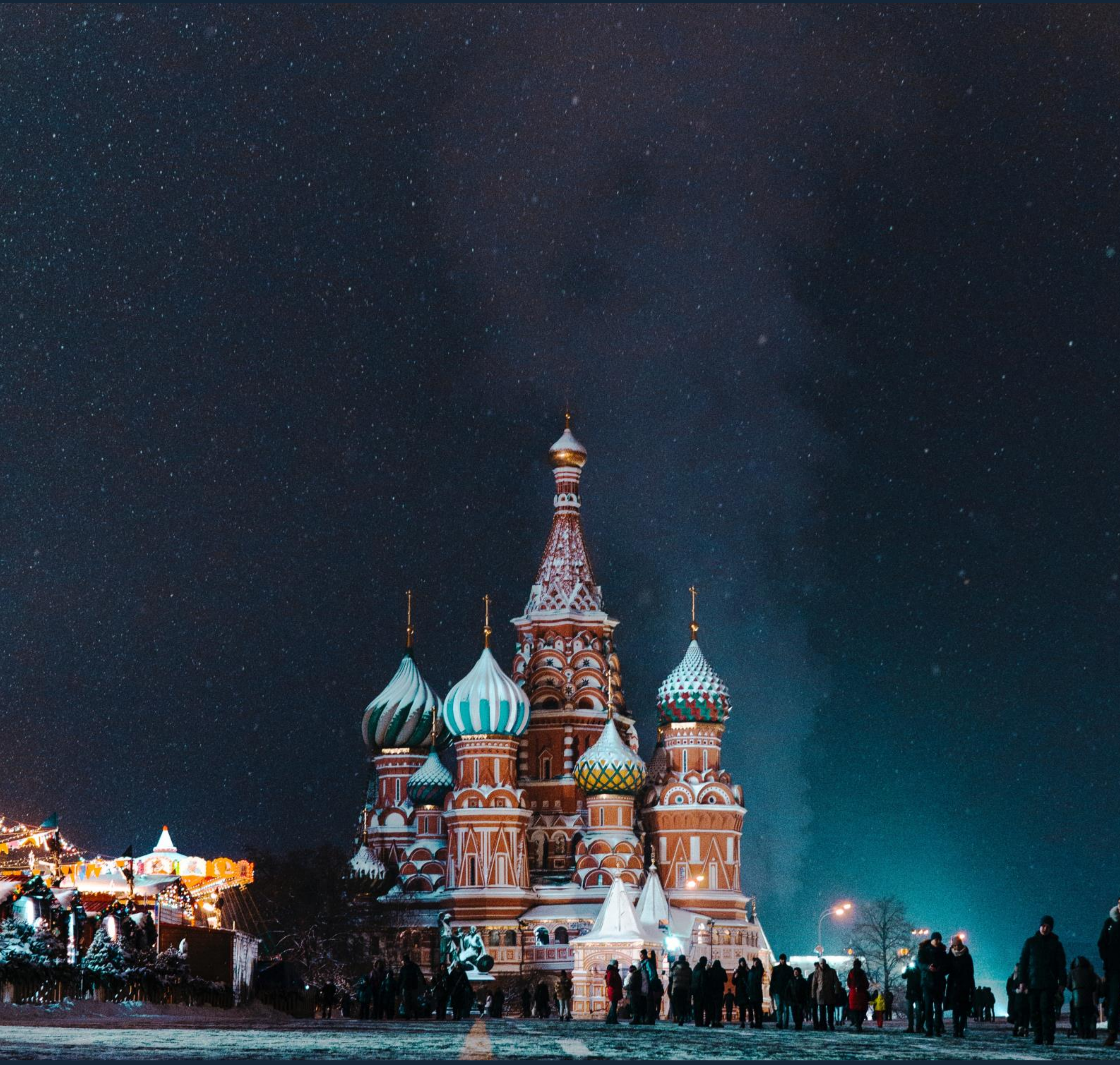
Team Sweden



# BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN RUSSIA 2021

A REPORT FROM TEAM SWEDEN IN RUSSIA

## KEY CONTRIBUTORS TO THIS REPORT

**Business Sweden in Russia**

**Embassy of Sweden in Russia**

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# FOREWORD

Russia-Sweden relations date back to the 10th century when Swedish Vikings traded on the big Russian rivers and started settlements that later became large cities such as Novgorod and Kyiv.

Today, more than 500 Swedish companies are operating on the Russian market. IKEA, Volvo Trucks, H&M, Tetra Pak, Essity and Volvo Cars are today among Russia's 600 most significant companies in terms of sales. For several large Swedish companies, including IKEA, H&M, Oriflame and Scania, Russia is one of the ten most important global markets.

This report is the result of the Business Climate Survey conducted in Russia in April 2021. The Business Climate Survey is an appreciated tool used to map the opportunities and challenges Swedish companies face when doing business internationally.
The Business Climate Survey questionnaire gathers unique information about Swedish firms' view of the local business climate and aspects of doing business in Russia.

At Team Sweden, we are very closely following the development and doing our utmost to support Swedish companies abroad in the firm belief that the world markets should bounce back to normality in a short distance. We are inspired by the recent development signs when comparing current results with the last year's data and recognise Russia being an essential market from the global results perspective.

We express our most genuine appreciation for all companies sharing their opinions with us throughout the years. This research wouldn't take place without your valuable participation.

Thank you!

**Mattias Lindgren**
Trade Commissioner for Russia, Business Sweden

# EXECUTIVE SUMMARY

## SAMPLE SELECTION

**124**
**Swedish companies** in Russia participated

**46%**
respondents operate in the **Industrials sector**

## ECONOMIC OUTLOOK

**40%**
**reported profitable** financial performance in Russia back in challenging 2020

**64%**
**expect increased** industry **turnover** in 12 months

**41%**
are interested to **upturn market investments**

## MARKET INSIGHTS

**37%**
**positively view business climate in Russia**

**41%**
keep a neutral attitude

**TOP LOCAL CONDITIONS:**

1. Market access
2. Digitalisation level
3. Personal safety

## SUCCESS FACTORS

**88%**
**perceive "Swedish brand" as contributing** to their business in Russia

**KEY SUCCESS FACTORS:**

1. Partnership/ local relationship
2. Sales competence
3. Cost efficiency

## SUSTAINABLE BUSINESS

**36%**
**believe environmental aspects to be considered** in purchasing decisions in their industry in Russia

**72%**
**report corruption** to affect their business **insignificantly**

**79%**
view the risk to encounter **human rights violations as insignificant**

# ABOUT THE SURVEY

## 124 respondents constitute a mixed crowd

The Business Climate Survey is an appreciated tool used by Team Sweden to map the opportunities and challenges Swedish companies face when doing business in different markets.

There are about 500 Swedish or Sweden-related subsidiaries established in the Russian market. This year 124 Swedish companies, our largest sample in the history of this survey in Russia, provided their views and opinions on their experience of doing business in the country. The answers were collected between 12 and 30 April 2021. To be included in the sample selection, companies have to be owned by either a Swedish juridical entity (e.g., private limited, branch office, joint venture, representative office) or a natural person.

Almost half of the respondents (43 per cent) are large companies with a headcount of more than 1 000 global employees; followed by 16 per cent of medium-sized and 41 per cent of small firms.

The diverse range of business areas represented are in this report grouped into three broad categories: industrial players occupy the largest 46 per cent proportion, while professional services and consumer sector are covered by 25 per cent and 18 per cent respectively.

Six industrial segments make up 51 per cent of the responding companies: Industrial equipment (15 per cent), IT and electronics (11 per cent), Retail and wholesale (7 per cent), Metals and mining (six per cent), Healthcare and pharmaceuticals (six per cent) and Consumer goods (six per cent).

Around a third (35 per cent) of participating companies have more than two decades of experience in Russia; 47 per cent were established between 2001 and 2015, while younger newcomers (established after 2016) constitute the remaining 12 per cent.

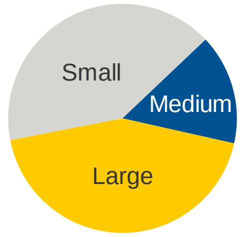
It should be noted that the survey is being used to map the opportunities and challenges Swedish companies face when doing business in Russia. Therefore, these results shall not be considered as a representative of the overall business landscape. Any of this survey's statistics presented in this report are solely indicative of our respondents' experience in the Russian market.

The report is divided into three main sections:

- The first section investigates the economic outlook of Swedish companies in Russia, including assessment of the influence of import substitution policy implications for Swedish businesses on the market.
- The second section further elaborates on the companies’ operations in Russia and perceived success factors; outlines the estimated business climate temperature, reveals managers' voices and opinions on the matter.
- The third section explores sustainability-related aspects and how they are interpreted in the market.

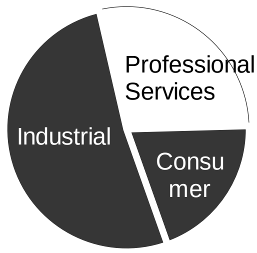
This year's report is also nurtured with 2020's survey results in Russia and the Global Business Climate Survey 2021 data comparisons. It also contains zoom-ins to the relevant slicing by companies' size, sector and age on the market characteristics – whenever sufficient differences are requiring our attention.

### SIZE OF COMPANIES



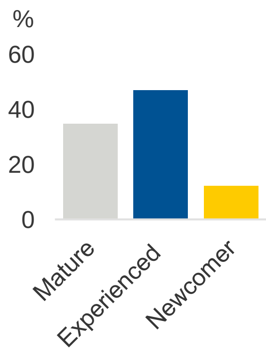

NOTE: Global employees.
Large >1000. Medium 250-1000.
Small 0-249.

### MAIN INDUSTRY




NOTE: 46 per cent Industrial.
25 per cent Professional services.
18 per cent Consumer.

### AGE OF COMPANIES




NOTE: Mature (-2000).
Experienced (2001-2015).
Newcomer (2016-)

# ECONOMIC OUTLOOK

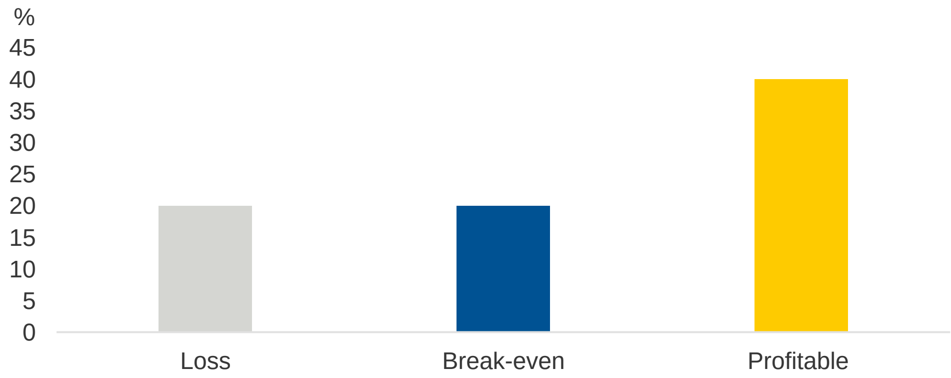
## Recovering after challenging 2020

Russia is an important market for Swedish companies. Although Sweden's exports to Russia fell sharply in 2014, due to the economic crisis following the sharp fall in oil prices and EU sanctions but bilateral trade recovered and had a positive development until the beginning of 2020 when the Covid-19 pandemic broke out.

In 2020, Sweden's imports of goods from Russia fell by almost 66 per cent and amounted to SEK 13.2 billion (2019: SEK 38.5 billion). The sharp decline is mainly due to reduced imports of crude oil and oil products, which are Russia's most significant exports to Sweden. Russia was Sweden's 20th most prominent importing country in 2020, compared with 13 the year before.

Exports from Sweden to Russia essentially consist of machinery and equipment, transport vehicles and medical products. The value of Swedish exports to Russia fell by 15 per cent (from SEK 21.9 billion to just over SEK 18.6 billion) in 2020, despite the value of certain exported product groups was increasing (telecommunications and pharmaceutical products). Of the most important Swedish export products to Russia, exports of trucks and cars decreased in particular. Russia retained its 15th place as Sweden's largest export market.

**HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN RUSSIA IN 2020?**



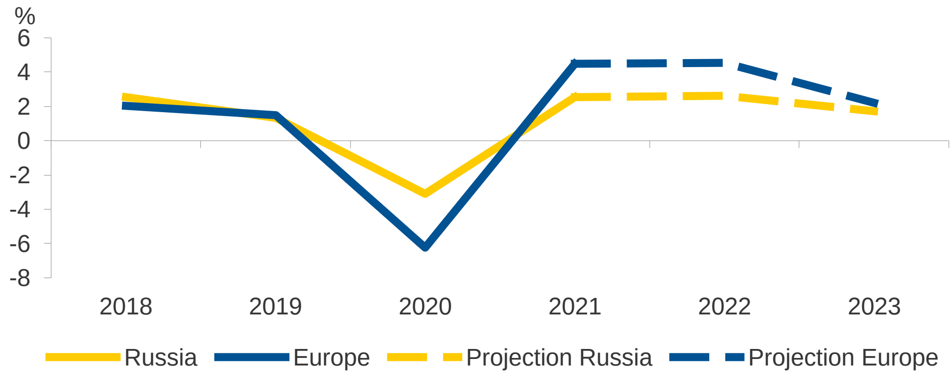

NOTE: The number of respondents for this question was 124.
"Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Russia 2021.

## The Russian economy has not escaped the turbulence of global markets

During the pandemic year 2020, Russia's GDP decreased by -3.1 per cent. The fact that GDP did not contract further can be explained by the fact that the country has a relatively humble service sector, a substantial proportion of large companies and that the shutdown over a couple of months did not extensively cover the manufacturing industry. The government crisis package, stimulus measures and monetary policy mitigated negative effects on domestic consumption and foreign trade. Exports decreased in value by 21 per cent and imports by 5.7 per cent in 2020.

The EU is still Russia's largest trading partner, and Russia is the EU's fourth-largest trading partner. At the same time, China remains Russia's single largest trading partner, and China's share of trade is increasing.

### PROJECTED GDP GROWTH IN RUSSIA

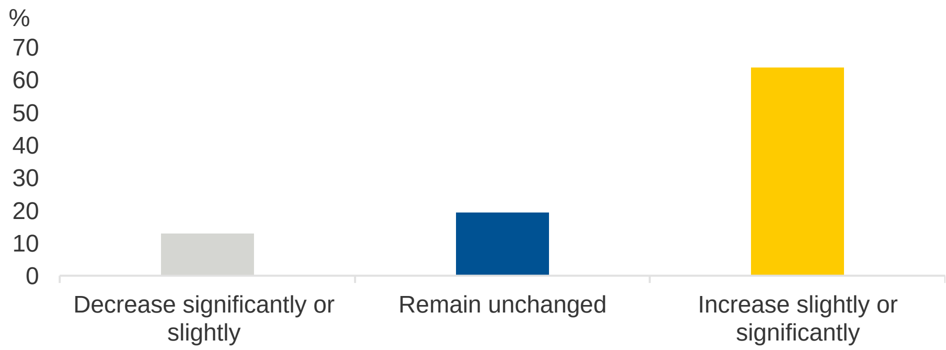



NOTE: Constant prices.
SOURCE: Oxford Economics 2021-03-31

Even considering that any comparison with May 2020's data favours data of the forthcoming period, Swedish companies' positive expectations regarding future turnovers have improved significantly: 64 per cent in 2021 against 38 per cent in 2020. In 2021, only 13 per cent of respondents expect turnover to decrease, while 50 per cent followed this projection.

### COMPARED TO THE DEVELOPMENT IN THE PAST 12 MONTHS, WHAT ARE YOUR EXPECTATIONS FOR THE COMING 12 MONTHS FOR YOUR INDUSTRY IN RUSSIA REGARDING TURNOVER?

*TURNOVER WILL…*




NOTE: The number of respondents for this question was 124.
"Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Russia 2021.

**Revised expectations: Swedish turnovers' recovery in Russia**

# Russia continues to be an important market for Swedish companies

Foreign direct investment fell sharply in 2020 to a total of $ 1.4 billion, compared with $ 28.9 billion the year before. A sharp decline in Swedish direct investment in Russia took place in 2020. The Russian central bank's statistics on Swedish direct investment in the Russian economy for January 2019–June 2020 recorded a net outflow of the Swedish capital of $ 2.5 billion.

Multi-billion-dollar investment projects have been implemented in Russia by Ingka Group (IKEA). In FY2018–2019, the production localisation level exceeded 50 per cent. IKEA's Russian enterprises employed about 12,000 people, while orders to local suppliers provide jobs for another 60,000 people in different regions of Russia. Over the entire period of operations in Russia, IKEA has invested more than $ 4 billion in the Russian market, including all company divisions, both manufacturing and commercial. In 2020, the Russian government included IKEA entities in the list of strategic enterprises in the retail and furniture industries.

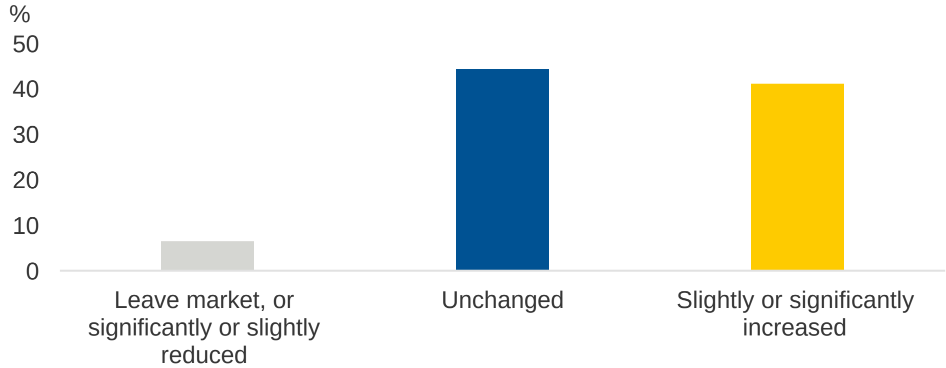
Swedish investors in Russia are also visible in such industries as mechanical engineering (ABB, Alfa Laval, Volvo, Scania, Sandvik, ESAB, Fläkt Group), hygiene (Essity) and cosmetic products (Cetes Cosmetics), food industry (Lantmännen), pharmaceuticals (AstraZeneca), pulp and paper (Stora Enso) and others. The long-awaited music streaming and media services provider Spotify has celebrated its launch for the Russian audience in July 2020.

In late May 2020 (last year's survey), 40 per cent of the Swedish companies reported that their investment standpoint is resilient, and only 25 per cent foresaw the improved outlook.

In April 2021, 44 per cent claimed to be consistent with their investment activities, while 41 per cent of companies have now indicated their interest to slightly increase or increase their investments on the market for the upcoming 12 months. This is a positive recovery sign for the market, coupled with the overall correspondence to the Global Business Climate Survey 2021 implications where 34 per cent haven't changed their investment plans while 51 per cent are planning to raise the planned amounts.

### WHAT ARE YOUR COMPANY'S INVESTMENT PLANS FOR THE COMING 12 MONTHS IN RUSSIA, COMPARED TO THE PAST 12 MONTHS?

***INVESTMENTS WILL BE…***




**Improved attitude to the further investments**

NOTE: The number of respondents for this question was 124.
"Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Russia 2021.

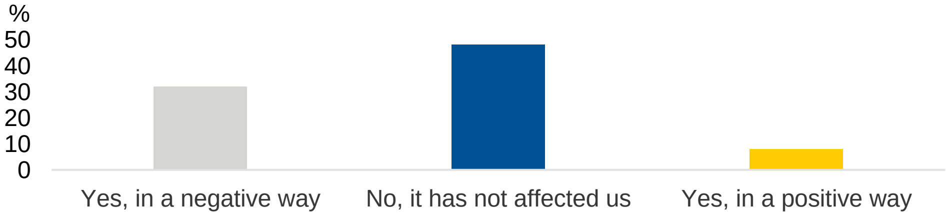
# Import substitution trend in Russia affects 32 per cent of responding companies

Over the past ten years, Russia has gradually introduced several measures favouring domestic products and services over foreign ones and offering incentives to foreign companies that locate their production in Russia. The Russian measures aim to reduce vulnerability to new sanctions in strategic sectors by limiting access to state-related procurement.

The Russian government's import substitution policy is a long-term challenge, which since 2012 has gradually expanded to include more and more sectors and product groups: energy, agriculture, IT and software, pharmaceuticals and a number of manufacturing industries, including the automotive and engineering industries. Import substitution, primarily linked to government procurement, is also a priority item in the Russian government's recovery plan for the country's economy following the Covid-19 pandemic.

The share of Swedish companies negatively influenced by the import substitution trend in Russia has a minor decrease from 37 per cent in 2020 and 32 per cent in 2021, while the share of those not affected increased from 39 per cent in 2020 to 48 per cent in 2021. 13 per cent of companies have seen positive effects of this policy during 2020, while in 2021, only 8 per cent could receive any benefits from it.

## HAS YOUR COMPANY BEEN AFFECTED BY THE TREND OF IMPORT SUBSTITUTION IN RUSSIA?




NOTE: The number of respondents for this question was 124.
16 “Don’t know/Not applicable” responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Russia 2021.

In 2021, state subsidies and benefits for local producers, state-related procurement restrictions continue to have the largest influence from Swedish companies' perspective in Russia, while Russia's counter-sanctions obtain the least effect.

## PLEASE, INDICATE WHICH IMPORT SUBSTITUTION MEASURES AFFECT YOUR COMPANY IN RUSSIA (RATE 1-5)


NOTE: The number of respondents for this question was 39.
SOURCE: Business Climate Survey for Swedish Companies in Russia 2021.

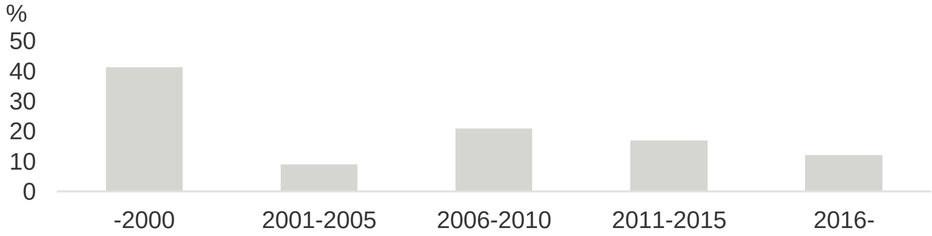
# THE MARKET

## Almost half of responding companies are mature on the Russian market

Today, more than 500 Swedish companies are operating on the Russian market. IKEA, Volvo Trucks, H&M, Tetra Pak, Essity and Volvo Cars are today among Russia's 600 most significant companies in terms of sales. For several large Swedish companies, including IKEA, H&M, Oriflame and Scania, Russia is one of the ten most important global markets.

41 per cent of responding companies are present in Russia since the 20th century, and this number is slightly higher for the larger ones (45 per cent) and consumer industry representatives (50 per cent). Companies from the professional services area dominate the Russian market's newcomers entered after 2016 with 12 per cent against 23 per cent on average.

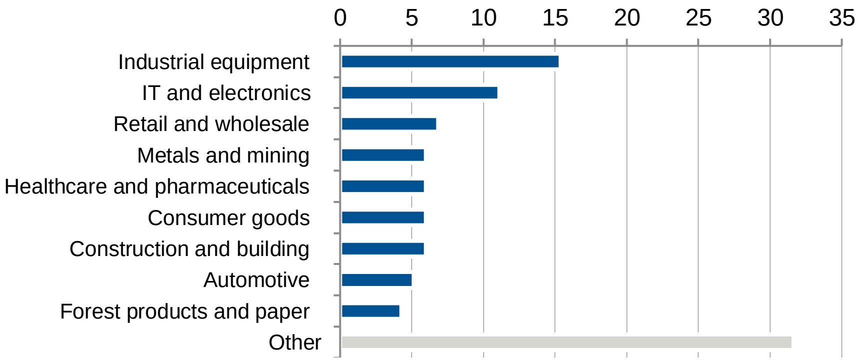
**IN WHAT YEAR DID YOUR COMPANY ESTABLISH OPERATIONS IN RUSSIA?**




NOTE: The number of respondents for this question was 124.
SOURCE: Business Climate Survey for Swedish Companies in Russia 2021.

Six industrial segments make up 51 per cent of the responding companies: Industrial equipment (15 per cent), IT and electronics (11 per cent), Retail and wholesale (seven per cent), Metals and mining (six per cent), Healthcare and pharmaceuticals (six per cent) and Consumer goods (six per cent).

**WHAT IS YOUR COMPANY'S MAIN INDUSTRY IN RUSSIA?**

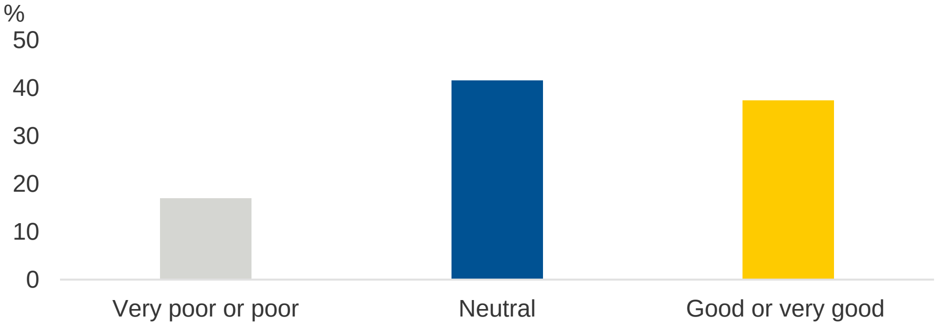



NOTE: The number of respondents for this question was 124.
"Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Russia 2021.

# Mostly neutral yet improved attitude against business climate in Russia

While comparison with May 2020's state of affairs favours data of the forthcoming period, the perceptions of Swedish companies have improved significantly. Against the last year's ambiguous results, in 2021 37 per cent demonstrate bright views on the Russian market (24 per cent in 2020) and only 17 per cent consider it being inopportune (28 per cent in 2020). Still, the largest share, 42 per cent, holds to the neutral position. Industry-wise, consumer companies are slightly more positive about the business climate in Russia than others.

### HOW DO YOU PERCEIVE THE CURRENT BUSINESS CLIMATE IN RUSSIA?




NOTE: The number of respondents for this question was 118.
5 "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Russia 2021.

Some comments from responding companies on business climate in Russia are as follows:

*"Overall, we are experiencing a large demand on our products and good business with above-average profitability. Challenges are Import Substitution and to recruit local service providers that can meet our ABC Compliance requirements."*

*"The awareness related to political risks and lack of private property protection mechanisms seems to be the most challenge for doing business in Russia for our clients."*

*"Also, Russia is moving very fast in digitalisation. I heard from Apple that Russia is one of the largest markets worldwide for Apple Pay. Through the Internet portal of state services, the Russian government provides services to its citizens through Internet as conveniently as I have seen it in the USA, for example, or better"*

*"Slow positive progress."*

*"We have to wait and see how the political situation will progress in the coming months."*

*"Very demanding customers on product quality, quick services, delivery on time."*

*"The unpredictability of laws, rules and regulations are making business rather difficult."*

*"The poor growth of the economy and the uncertainty holds back the investments and makes companies short sited."*

*“Non-transparent Juridical system. Not creating clear rules of the game by introducing laws/regulations that act retrospectively (e.g. Customs)."*

*“This is a very volatile market with very good potential. There are challenges, but all are manageable provided there is a long term vision and the right strategies in place. One has to understand that doing business in Russia needs investments and be patient.*

*"Transparency is important for us with our partner in Russia, so we have better market understanding from the end-users and their needs.”*

*“Customers are willing to take niche products and lower volumes from Sweden, but the bigger volume products source locally. Also, tedious documentation for shipping and customs clearance is time-consuming and complicated."*

*“Generally low English knowledge, so an interpreter is needed."*

*“The Russian export control regulations cause severe impact on our business delivery planning.”*

*“It's OK if you act locally with qualified staff.”*

*“Normal climate – you just need to work hard as anywhere in the world.”*

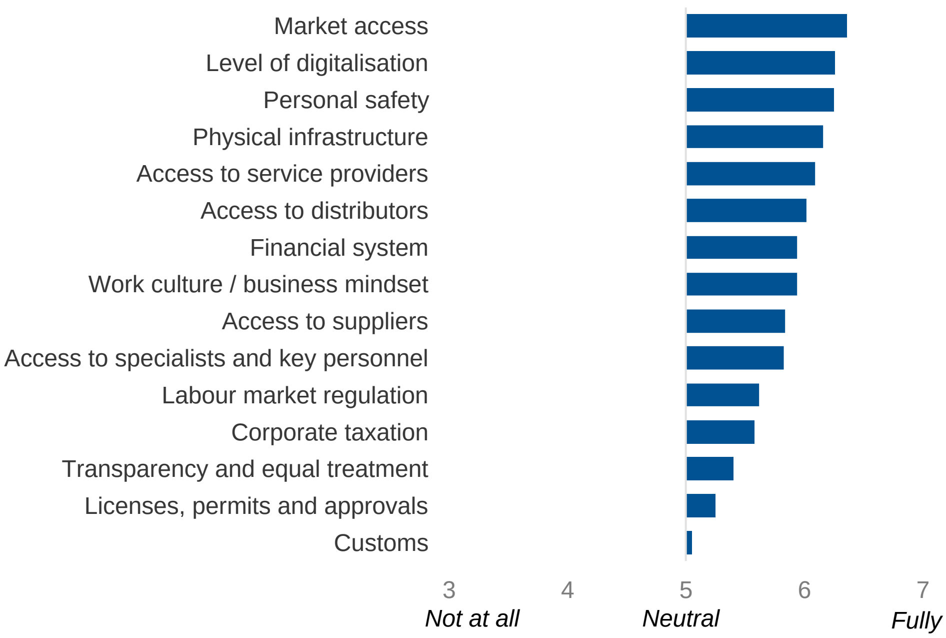
# Market access, digitalisation level and personal safety are the top-rated local conditions

In 2021, market access, digitalisation, and personal safety have been marked as the topmost conditions for Swedish companies in the Russian market. Access to distributors, being the most valued in 2020, has dropped to the sixth place in this year's survey.

In 2020, the top three conditions Swedish companies have been satisfied with in Russia included acccess to distributors, personal safety and access to service providers.

Transparency and equal treatment criteria, insufficient last year, has improved till the neutral position and together will customs, licenses and permits continues to occupy the bottom position.

## HOW WELL DO THE FOLLOWING CONDITIONS MEET THE NEEDS OF YOUR COMPANY IN RUSSIA? (RATE 1-9)



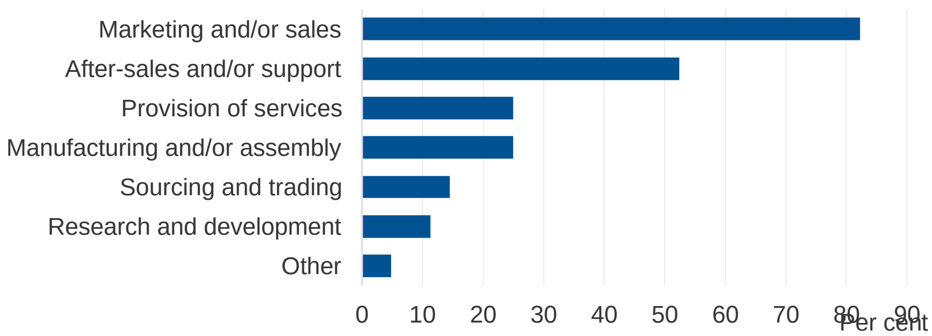

NOTE: The number of respondents for this question was 123.
SOURCE: Business Climate Survey for Swedish Companies in Russia 2021.

# HOW SWEDISH COMPANIES SUCCEED IN RUSSIA

## Sales is the key operational focus in Russia

The key operational focus in the Russian market for essentially all responding companies is marketing and/or sales (82 per cent), followed by 52 per cent of companies offering after-sales support and 25 per cent with services provision. 25 per cent of companies are engaged in manufacturing and/or assembly activities. 15 per cent are sourcing or trading products from Russia. Reasonably small companies are frequently present within the sales, marketing and support operations, and those grounded in manufacturing and/or assembly are
of medium and large size.

### OPERATIONS OF SWEDISH FIRMS IN THE MARKET




NOTE: The number of respondents for this question was 120
“Don’t know/Not applicable” responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Russia 2021.

### SWEDISH FIRMS’ LOCAL NUMBER OF EMPLOYEES IN RUSSIA IN 2021


NOTE: The number of respondents for this question was 120.
5 “Don’t know/Not applicable” responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Russia 2021.

# Partnership/local relationship, sales competence and cost efficiency continue to be the key success factors in Russia

In 2021, partnership/local relationship, along with sales competence and cost efficiency continues to be the key success factors in Russia.

Comparing with 2020, changes in the top have happened only to the “staff development/ training” area which has moved from the third place of importance in 2020 to the middle of the list in 2021. Cost efficiency in 2021 has become slightly more important, upgrading from the fourth to the third rating position. Public affairs/relations with the government are continuously mentioned as the least important area in maintaining a competitive position in the Russian market.

## TO DATE, WHICH OF THE FOLLOWING AREAS HAVE BEEN IMPORTANT IN MAINTAINING COMPETITIVENESS IN RUSSIA?


NOTE: The number of respondents for this question was 122.
5 “Don’t know/Not applicable” responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Russia 2021.

# "Brand Sweden" in Russia stays strong

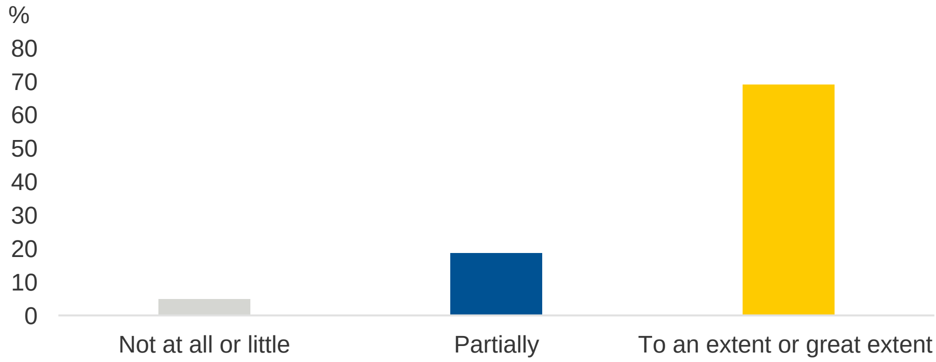
Sweden's brand identity is synonymous with innovation, creativity, sustainability, which contributes significantly to competitiveness for many companies. Swedish businesses utilise their origin to communicate their brands' attributes; some local players even joined their forces to strengthen their messages based on their shared "Swedishness".

In 2021, only five per cent of respondents see no or small value in their company's Sweden's brand identity in Russia, and 69 per cent notice its distinctive positive influence (slightly higher than 64 per cent in 2020). Sweden's brand power spreads across all sectors and company sizes; both experienced Swedish firms in Russia and newcomers demonstrate a similar attitude to its value.

While Global Business Climate Survey outcomes show that Sweden's brand identity is almost equally important across all regions, "Brand Sweden" rating in Russia is slightly higher than the global weighted average (62 per cent for the positive influence and 14 for no or liitle power).

The rating of "Brand Sweden" kept its firm positions even when most markets perceived Sweden's strategy of handling the crisis at least with curiosity and interest, numerous media around the globe demonstrated criticism. This limelight of international media has also provided a unique opportunity to shift the attention from Covid-19 topics to the essence of what "Brand Sweden" stands for and all the positive values which have made Sweden into what it is today.

### TO WHAT EXTENT WOULD YOU ESTIMATE THAT THE "SWEDISH BRAND" CONTRIBUTES TO YOUR BUSINESS IN RUSSIA?




NOTE: The number of respondents for this question was 123.
"Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Russia 2021.

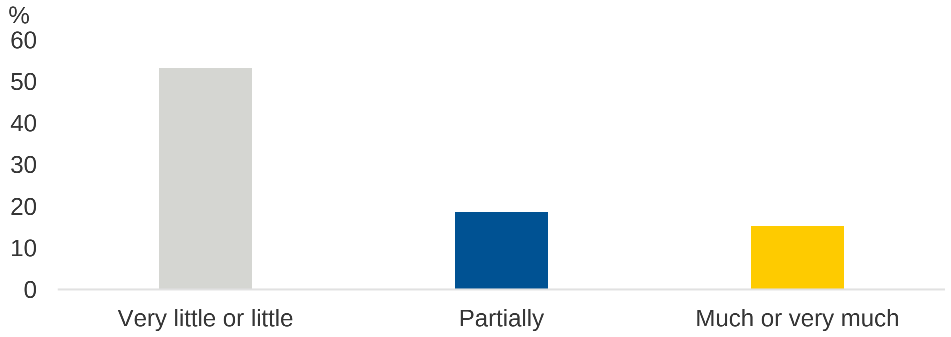
# ACTING SUSTAINABLY

The Business Climate Survey cover three aspects of acting sustainably: 1) corruption, 2) human rights and 3) environmental aspects.

## No substantial influence of corruption for most Swedish businesses

In 2021, 53 per cent of Swedish companies claim that corruption has insignificantly little or little influence on their business in Russia – improved from 45 per cent in 2020. The share of companies commenting on the notable influence has slightly decreased from 18 per cent in 2020 to 15 per cent in 2021.

**TO WHAT EXTENT DO YOU PERCEIVE THAT CORRUPTION IN RUSSIA AFFECTS YOUR BUSINESS?**

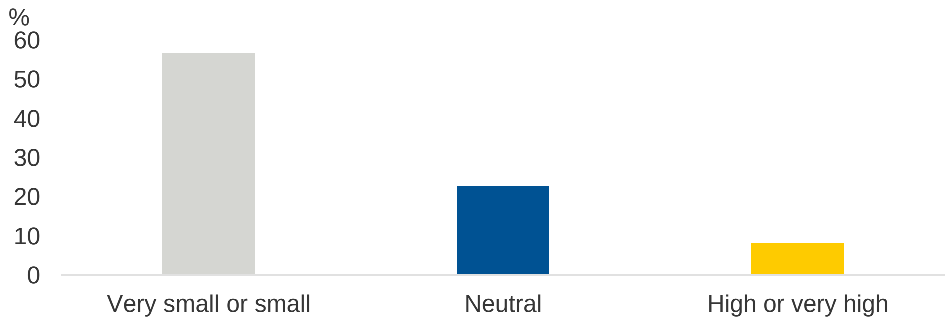



NOTE: The number of respondents for this question was 124
SOURCE: Business Climate Survey for Swedish Companies in Russia 2021.

## Diminutive risk of human rights violations

In 2021, human rights violations continue to be an inessential issue in Russia, with only eight per cent of responding companies demonstrating significant risk estimation (10 per cent in 2020).

**HOW DO YOU PERCEIVE THE RISK OF ENCOUNTERING HUMAN RIGHTS VIOLATIONS AND/OR LABOUR RIGHTS ABUSES WHEN CONDUCTING BUSINESS IN RUSSIA?**

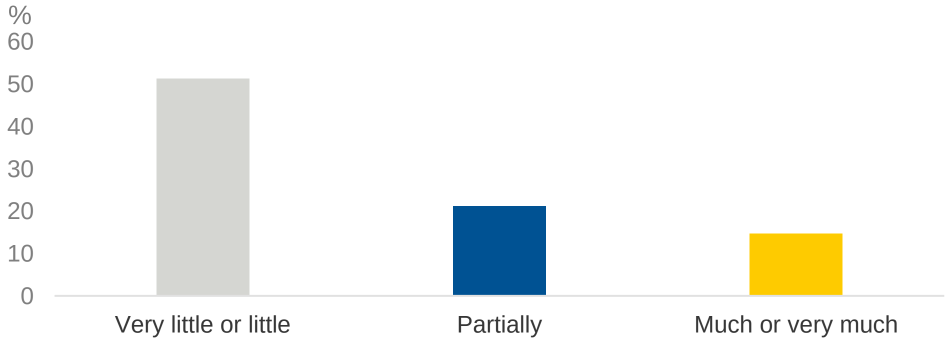



NOTE: The number of respondents for this question was 124. SOURCE: Business Climate Survey for Swedish Companies in Russia 2021.

# Weak environmental concerns among the Russian consumers

Only 15 per cent of Swedish companies believe that consumers in Russia strongly acknowledge the environmental aspects of their products or services, and in 2021 the situation has no change comparing to 2020's results. This parameter is reasonably even smaller for the industrial industry representatives – 9 per cent.

### IN YOUR VIEW, TO WHAT EXTENT DO CUSTOMERS IN YOUR INDUSTRY IN RUSSIA CONSIDER ENVIRONMENTAL ASPECTS OF A PRODUCT OR SERVICE IN THEIR PURCHASING DECISION?




NOTE: The number of respondents for this question was 123.
1 "Don't know/Not applicable" response is included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Russia 2021.

Some comments from responding companies on sustainability-related challenges and ways to mitigate them in Russia are as follows:

*"We are an IT company making games, and yet 43 per cent of our staff are female, and female employees is a large and very important part of the workforce. I find that the society overall in Russia, at least in large cities, at least in IT, is very open towards female participation in work. In my view, this comes from the Soviet past when women were so equal they did not actually like it because they had to lay railroad tracks, among other things… I think the best approach to Russia is to leave cliches and propaganda at the border and see it for what it really is."*

*"The picture can be different depending on whether you look in Moscow or elsewhere, of course, but so it is in many large countries."*

*"The awareness will slowly increase with the younger generation."*

*"The government needs to support more green technologies and companies driving sustainability agenda. Measures must be concrete and actionable."*

*"Sustainability became one of the main criteria for major retail chains in Russia during the last 1-2 years."*

*"There are a lot of challenges, Climate and Environmental Impact, Education in Environment, etc."*

# CONTACT US

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