Non-Tariff Barriers – Russia

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Executive Summary

This paper will discuss the non-tariff barriers which exist when importing electronics into Russia. With our product being the Apple iPod, we planning to enter a market where electronics not at the same level as the western world. Tariffs are a strategy utilized by governments to manage the volume of a specific imported good in an effort to level out the playing field for its own products and limit the volume of the import. This paper will also discuss the increased costs of doing business in Russia as a result of these non-tariff barriers. Subsequently, Apple will have to develop some creative strategies to minimize the effect of operating its business in Russia and importing Apple’s iPod advanced product in Russia.

We will discuss the background of Russian consumer goods and retail backgrounds. We will provide discussions on tariffs in various industries like oil and transportations and their indirect effect on importing goods into Russia. Next, the electronics market in Russia will be described and non-tariff barriers will be examined. Then, creative strategies will be suggested to reduce minimize importing costs. Lastly, other issues like freight managements will be discuss and a future outlook for the importing of the iPod will be reviewed.

Introduction

Apple is extremely excited about the opportunities which exist in Russia, due to the lack of a true competitor. Additionally, the Russian government still transitioning from its communist economic system to a modern capitalist society, this market can be a
gold mine and explode like an oil well in Texas or it can be a bust or draining on a company like leech, because of the instability and constant evolution of Russia’s business environment. For a culture which is electronically deficient, the Apple iPod should thrive. If import costs can be minimized, Apple can make this product retain its cost effectiveness, value, and develop a comparative advantage.

About the Russian Electronic Market

The Russian electronics market is evolving and the demand for electronics is drastically increasing. As a result, Apple is entering a market which has the potential to be a cash cow. With Russia’s lack to electronics, new outside manufacturers have entered their electronics market. A problem for the Russian market is the fact that the majority of the electronic components are manufactured outside of Russia and the transition to a capitalist economy has not been as smooth as the Russian government and Russian consumers would like. Nonetheless, the Russian government is making a concerted effort to see the transition through.

In Russia, everyone wants consumer electronics. There is a major trend of growth in this industry and this is due to the growth of the electronic components markets. For example, TV sales grew by 20%; now many foreign TVs are assembled in Russia and exported under Korean brands (http://export.gov). With electronic components being manufactured in Russia, this resource can be used to cut the cost associated with Apple’s iPod hitting the Russian markets. These manufactured electronic components are distributed by 350 distribution companies in Russia, but the drawback is very little
warehouse space. Since Russia has very little warehouse space it, which means manufactured electronic components must assembled and shipped quickly for sale.

Russian has a rapidly growing middle-class which would definitely be interested in the purchasing of the Apple iPod and making us the market leader in the underdeveloped market; thus, making importing this product a win – win situation for all parties involved.

The Russian consumer has increased its spending. The retail sales volume has grew at an annual rate of 10% in 2001-2004 and the US dollar value of the retail goods plunged by an annual average of 30% in 1998 and 1999 (www.viewswire.com.ezproxy.umuc.edu). Nonetheless, these figures are on the rebound. With continuous retail sales growth, which means the supply on hand is being purchased and the demand is increasing as well. The consumer is wanting the products and getting what he wants. Capitalism is becoming part of the Russian society. Russians are wanting; the Apple iPod can satisfy their want for innovative technology.

Non-Tariffs Barriers

In a developing country like Russia, Apple can expect to experience costly non-tariff barriers. These issues include custom problems, certification issues, transportation, and tax concerns. Russia’s customs system is riddled with corruption. Russia’s government needs to strongly reinforce the trade laws instead of freely interpreting and creating their own custom regulations. During Russia’s 1998 economic crisis, it was forced to close its bonded warehouses used for importing. For secure transport of the Apple iPods, these facilities will need to be re-opened. The overall customs transaction
needs to improve its quality and speed. If the speed of the customs process does not improve, rule will need to be changed. Currently, Russia has rule which states imported goods must be cleared at Customs within 90 days after the payment to the exporter should be changed as customs clearance often takes more time and the rule that Russian importers should deposit the amount equal to the import contract price in a local bank, with the deposit returned to importers after the goods have arrived in Russia, is problematic (www.bisnis.doc.gov).

Another issue non-tariff barrier is complicated tax laws and ever changing legislation. They have legislation which is difficult to apply and the Russian tax professional often have difficulty applying these new laws. Russian laws legislated are unpredictable and notification of these changes which go into affect when publish are not often communicated to imported in a timely manner if at all and as a result, adapting to this laws is difficult. To import to Russia, Apple will need to register in Moscow, which results in delays and added expenses.

A lack of competition in cargo transportation and certification issues adds to the additional unwarranted costs to importing into Russia. For example, airfare from Vladivostok to South Korea and Japan is very expensive, although the distances are very short. Foreign carriers (Korean Air) are not able to reduce the price until Russian carriers do (www.bisnis.doc.gov). Internationally, goods are certified with an ISO certification; however, Russia requires the more costly GOST certification.

To alleviate these non-tariff barriers, Apple will need to discuss with the Russian how they can assist us in making this transition to importing its products and see if the Russian will extend itself to maybe reopen the bonded warehouses and setup a
streamlined importing process for Apple’s product. If Russia is not receptive to the negotiations, Apple could strongly consider, operating a manufacturing facility in Russia offering jobs in return for tax breaks or other costs reductions.

**Other Import Costs**

Unfortunately, Russian government has imposed tariffs on imports. Any and all imported electronic components are affected by tariffs. The average tariff is 15% and the tariffs range from 5% to 30% (http://export.gov). As a result of the tariffs, the costs can make the imported product less attractive in comparison to a product manufactured in a Russian facility, simply based on the cost savings. On items like microprocessors not manufactured in Russia, those components have a tariff of 5% (http://export.gov). It appears that any electronic item imported into Russia has a tariff. In addition, a 20% VAT is paid by all Russian importers and this is later reimbursed (http://export.gov). Currently, Russia has a value added tax which was reduced in 2003 from 20% to 18%. This tax applies to Russian imports. The VAT includes sales of goods and services as well. The leasing of space is exempt from VATs and the VATs can be reimbursed. Nonetheless, Russia is a country that is attempting to develop and improve its faculties in the electronic industry moving from the Stone Age to the 20th century. Luckily, in 2001, Russia begins to lower their tariff and electronics and hopefully, this decision has paid off and helped them raise the level of electronic in this country.

When importing Apple’s iPod, these tariffs and VATs are some additional costs that we must consider when importing the iPod into Russia. Other costs to consider are the costs associated with shipping of the iPod via air and rail transportation; both of
whom are affected by their own set of tariffs. Therefore, we need some creative strategies to alleviate these additional costs and we can look to over industries has a guide to handling Russia’s importing costs. One strategy to help reduce expenses would be to market to the consumers and lobby the government to reduce tariffs; thus pressuring the government in Russia to review its policy of tariffs. Unfortunately, this strategy may pose to be more problematic than beneficial to us as well as the Russian consumers. Another strategy, Apple could consider is to collaborate with Russian companies and companies who already import a product into Russia. They should be able to provide Apple with some ideas on cost reduction. Apple could also consider the feasibility of manufacturing its iPods in Russia or at least have the iPods assembled in Russia. As a result, we would provide jobs for Russian in exchange for eliminating or reduction of tariffs. Working in Apple’s favor, the Russian government is already considering dropping its 40% tariff for the airline industry in exchange for bringing work there (Gethin, 2005). A large manufacturer like Siemens is planning on building a new facility in Russia to manufacture automotive electronic components (Anonymous, 2005); therefore eliminating the high cost of importing its components into Russia and long-term this will prove to be a profitable move. Many other companies like LG and Eun already have facilities there and Samsung is assembling television there.

Conclusion

Russia has to stabilize itself and attempt to make itself more business friendly. For the Apple iPod to be successful, it will need to be continuously be in communications
with the Russian government to be aware of changes in laws and in an effort to eliminate as many non-tariffs barriers as possible.

While other countries like Vietnam are proposing new and higher tariffs and other import fees. Russian’s government has the proactive approach and business minded ideas in reducing its tariffs in industries like electronics and importing the products its’ consumers desperately want. Unfortunately, Russia is considering raising tariffs in other areas like railways for cargo transportation and natural gas, both of which would possibly further hike the costs of importing Apple’s iPod into Russia.

After years of communism, it has taken its toll on Russia’s economic structure and foundation. When entering this market it is going to take time and a great deal of patience to overcome all trade barriers and other issues, but success can be achieved with communications and proactive business decision making.
References


