



STUDY OF THE FINANCIAL AND ECONOMIC CONSEQUENCES OF LIBERALIZATION OF PARALLEL IM- PORTS IN RUSSIA

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Introduction

Study Description

In recent years, the possibility of parallel import liberalization has been discussed in different forums. Parallel imports (hereinafter “PI”) can be defined as the unauthorised import of intellectual property rights in the form of goods which are sold through channels not connected with the rights holder or manufacturer.

The parties concerned produce reasons both for and against liberalization of parallel imports. The Ministry of Economic Development, the Ministry of Industry and Trade, the Russian Agency for Patents and Trademarks, and representatives of other ministries and agencies have expressed concerns about the potential negative consequences of parallel import legalization. On the other hand, the Russian Federal Anti-Monopoly Service supports the proposal.

To study the potential consequences of parallel import liberalization on investors in Russia, the International Institute of Marketing and Social Studies GfK Rus LLC has carried out a study of the issues at the request of the Association of European Businesses. The topic of liberalization of parallel imports is widely discussed within the Russian government, the ministries and institutions concerned, the mass media and various scientific and research agencies. Several other studies have been conducted, including those by the Skolkovo Fund, the NRU Higher School of Economics, and the Analytical Centre of the government of the Russian Federation. Those studies do not form part of this one, which presents a survey of expert opinion, focussing on economic analysis.

In the course of this study, 34 expert interviews were conducted with representatives of the top management of major companies which are key players in different markets: automotive, including light motor and commercial vehicles, and components (18 interviews); construction machinery and equipment (3 interviews); household appliances and electronics (5 interviews); chain retailing of household appliances and electronics (3 interviews); and other markets (5 interviews).

Description of the Methodology

Purpose of the study:

Analysis of the financial risks and socio-economic consequences of liberalization of parallel imports into Russia

Tasks of the study:

1. Estimation of the impact of legalization of parallel imports on:
 - 1) Investment climate in the country
 - 2) Process and extent of localization of production facilities in Russia
 - 3) Economic security of production facilities already localized
 - 4) Quantity and quality of jobs created by manufacturers, distributors and dealers
 - 5) Retail prices
 - 6) Changes in the market share of counterfeits
 - 7) Changes in the market share of imported goods in the markets under review
 - 8) Quality of customer services
 - 9) Quality of competition development
 - 10) Outlooks for R&D development
2. Comparison of prices for comparable products in the markets under review in Russia and 2–3 European countries
3. Analysis of the socio-economic consequences of liberalization of parallel imports

Target audience:

Representatives of the top and middle management of:

- 1) Foreign investor companies
- 2) Members of the AEB
- 3) Market players: major retail and wholesale companies

Method of the study:

- 1) Financial risk analysis by expert interviews
- 2) Comparison of prices for comparable products¹ by analysis of audit prices of GfK-Rus LLC's retail trade (household appliances and electronic), and prices in other categories available from open sources in Russia and 2–3 European countries (for comparison).

¹ Goods for studies were selected by GfK at random, solely for the purposes of analysis of the objective market situation.

Table 1. Markets under review and their expert interview coverage²

	Market	Coverage	
		market share	headcount
1	Automotive industry	63 %	More than 25,000
2	Household appliances and electronics	53 %	More than 6,000
3	Construction machinery and equipment	71 %	More than 4,000
4	Household appliances and electronics retailing	52 %	More than 21,000
5	Other markets	–	More than 28,000

² The markets described herein were selected by GfK as the most exposed to potential risks in case of parallel import liberalization.

Section 1. Description of the Key Consequences of PI Liberalization

1.1 Impact on the Scope of Investments to the Russian Economy

Nearly all respondent companies consider that upon liberalization of parallel imports, the profitability of their business or their dealer business would decrease due to unfair intra-brand competition. Therefore, they would have to decrease investments under current projects and freeze plans for future investment, in particular, the localization of production facilities in Russia.

17 out of 34 respondent companies said they would reduce investment, with 4 of them intending to wind up their investment programs in Russia completely. None of the respondent companies plans to increase investment after the legalization of parallel imports, and only 2 out of 34 said they would maintain investment at the current level. 15 out of 34 expected a longer payback period.

“Due to chaos, mess, and the uncertainty of business outlooks, we will freeze our plans for further investments” (expert No. 9, see Annex).

Moreover, liberalization of parallel imports will adversely affect the investment climate in the Russian Federation due to imports being boosted at the expense of intellectual property rights rather than by decreasing customs duties. Lowering import tariffs would stimulate imports without infringing intellectual property rights, whereas the liberalization of parallel imports implies the exploitation of intellectual property by independent importers.

On average, the estimate of respondent companies is that the level of investment in the Russian economy will decrease by 30-50%, depending on the sector. The most significant decrease is expected in the automotive industry where it will be 60-70%.

“At the moment, most vehicle makers who have already localized their production facilities within the territory of the Russian Federation (more than 20 companies) are considering the possibility of starting component manufacture at the existing facilities for sales to end users (rather than to assembly facilities)” (expert No. 18, see Annex).

It should be noted that certain retail chains now buying products from manufacturers or their official representatives in Russia (i.e., with all purchase and sale operations effected in Russia) will be forced to change their business model due to a decrease in local production and more advantageous purchase conditions abroad. Instead of buying directly from manufacturers' representative offices in Russia, with settlement in Russian roubles, they will tend, after liberalization, to import products from abroad on their own account, thereby actually becoming parallel importers themselves.

“Liberalization of parallel imports might produce a situation in which retail chains would have to become parallel importers: opening currency accounts, procuring vast amounts of currency for procurement abroad (for which the Central Bank would have to maintain foreign exchange reserves), so more currency would flow abroad to pay for the products procured.” (expert No. 26, see Annex)

1.2 Impact on the Amount of Customs and Tax Revenues

Representatives of all respondent companies expect a decrease in tax revenues after legalization of parallel imports. This is attributable to the fact that a share of manufacturers' and their representative offices' sales in the Russian Federation will be taken by independent importers. Tax payments by manufacturers will reduce accordingly, and deduction-independent importers will not make up for this decrease.

This is due to the fact that independent importers, due to the specifics of their business, may be able to take advantage of preferential tax arrangements. For example, a two-year tax liberalisation scheme is under discussion for individual entrepreneurs (IEs) registering for the first time. Some experts feel this will be open to abuse by unscrupulous operators.

“For example, an IE could operate without paying taxes for 2 years, then wind itself up and register another IE in the name of a relative and so forth. Each time it will be a newly registered IE.” (expert No. 20, see Annex)

In the opinion of representatives of the respondent companies, some independent importers might use illegal tax-minimizing and evasion arrangements along with preferential treatment.

It should also be noted that liberalization of parallel imports is expected to boost import volumes. However, it is possible that customs receipts will not increase enough to make up for the tax revenue losses due to the clearance arrangements used by independent importers who minimize customs charges.

“This measure (liberalization of parallel imports) will take us back to the 1990s in terms of tax and customs manipulations. Parallel importers decrease both the dutiable value of the imported goods, and the amount of them. It will enable them to save significantly and increase their proceeds.” (expert No. 27, see Annex)

“The market for household appliances is one of the 'white' markets in Russia due to a high level of consolidation and control. Legalization of parallel imports will induce a return to 'grayness' due to numerous small, short-lived players popping up who are focused on quick returns.” (expert No. 26, see Annex)

Moreover, a decrease of budget receipts is expected in the range 5-10% due to the contraction of employment.

It should be noted that market transparency will also be reduced as a result of the appearance of numerous small-scale companies whose activity will be hard to monitor.

“Large companies are like big white elephants: they are more easily monitored than little grey mice (independent importers).” (expert No. 3, see Annex)

1.3 Impact on the Localization of Production Facilities in Russia

Liberalization of parallel imports will not increase market volumes, because market growth is dictated by purchasing capacity. It is also obvious that liberalization of parallel imports will exert a stimulating influence more on imports than domestic production.

Our expert survey data enables us to estimate the extent of impact of parallel import legalization on localized production facilities. Among the respondent companies in the course of the study, 12 out of 34 predicted a decrease in the volume of local production; 7 foresaw continuance of the status quo; 1 expected an increase; while others could not say.

The impact on the localization of production facilities within Russia should be examined from the point of view of different companies:

- Companies that have already localized their production facilities

According to the estimates of most experts (30 out of 34 respondent experts), the volume of orders for domestic production would decrease, as domestic production is partially replaced by imports, including parallel imports. This would reduce the profitability of domestic production, and the company would be forced to reduce local output. By some estimates, this reduction will be as much as 20% in the first year of parallel import liberalization.

The payback period for companies' investments in production localization will increase. About half of the respondent companies stated that the payoff period would increase by 40-50%. Some companies which just have invested in production localization said that their pay-back period would double. Due to a reduction in demand for local production, manufacturing companies will be forced to produce less to avoid accumulation of unsold inventory.

“Our company sees an increase of imports (in case of parallel import legalization) as a threat to development of production in Russia, as some production will become unprofitable.” (expert No. 9, see Annex)

“On the one hand it (parallel import liberalization) will cause a decrease in jobs, and, correspondingly, growth in unemployment, and on the other hand a decrease of fac-

tory load ratio may render production in the Russian Federation unprofitable.” (expert No. 2, see Annex)

A map of household appliance production localized in Russia is provided below. The major part is located in the territory of the Central FD (Federal District), and also in North-western FD and Privolzhsky FD, i.e., closest to the most significant markets of the country: Moscow and St. Petersburg.

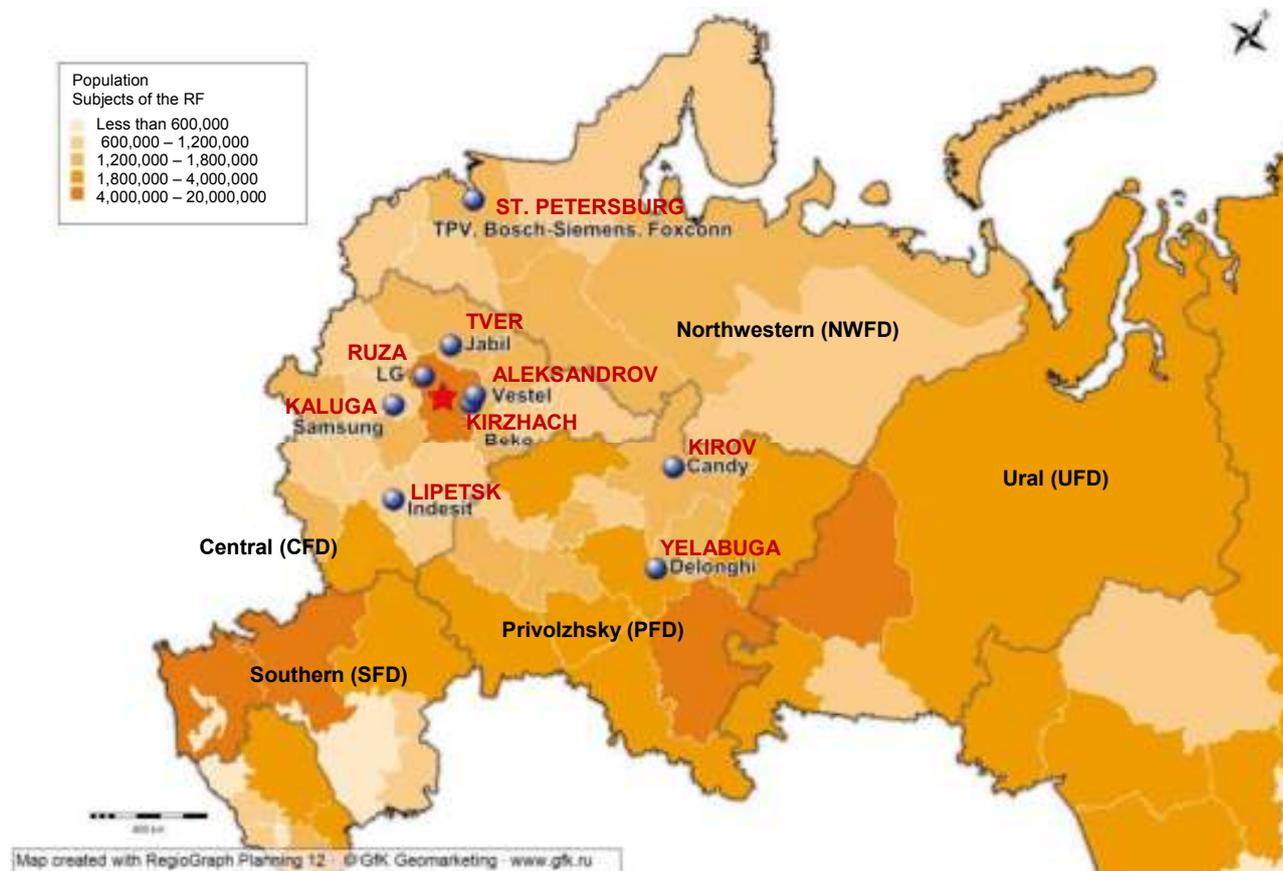


Figure 1. Map of localization of household appliance production

“[Parallel import legalization is] an attack on local producers, both Russian and foreign. Due to the difference in labour cost it would be better to transfer production to Asia, even for Russian companies.” (expert No. 9, see Annex)

Thus, most pessimistic experts suggested that the companies which had localized production in the Russian Federation would close and transfer their activities to neighbouring countries. The most probable candidates are Poland, Hungary and China. Below is a map of household appliance factories in the neighbouring countries capable of increasing production to make up for the loss of Russian domestic production.



Figure 2. Map of household appliance production factories in neighbouring countries

- Companies that have considered the possibility of localization

According to the respondent experts, some companies which have considered localizing production in Russia in the short- to medium-term will put such plans on hold and import their products as previously. This is due to the risk of not recovering their investment due to an increase of intra-brand competition between its own products produced in Russia and those imported.

An illustration is the major automakers who have already localized their production within Russia. Many of these companies are considering expanding their production in Russia by manufacturing spare parts at the existing production facilities for sales to end consumers (but not for use at the assembly facility). In the event of the liberalization of parallel imports, such plans might be suspended or cancelled.

Car production sites in Russia and the CIS are shown in the map below. More than 20 companies have their production localized to a greater or lesser degree in Russia and are considering expanding production at the expense of supplementary spare part production.



Figure 3. Car plants in Russia and the CIS

- Companies that have not planned to localize their production facilities

Such companies will continue importing their products without making plans to localize their production.

1.4 Impact on the Share of Counterfeited Products

Along with non-certified products, there is the problem of counterfeits which enable independent importers to reduce prices for products. At the moment, most of the respondent companies suffer from counterfeiting (25 out of 34 respondent experts). The majority of counterfeits are produced in China and are distributed through chains of dealers.

Most car-makers occasionally come across counterfeited products in the course of processing customer claims, causing troubles for both companies and users. It is not unusual that, for example, a counterfeited filter causes a malfunction of an entire engine. Discovering counterfeits is often possible only after expert examination, as they look no different from the original. Furthermore, such counterfeited parts can be purchased from large-scale importers: one inspection identified 30% of a batch of spare parts as counterfeits.

On average, companies expect that the level of counterfeits will increase by 10-30% depending on the sector. Even higher percentages are anticipated by companies producing automotive parts, tyres and sports articles/clothing: up to 30–50%.

As with the automotive sector, independent importers are often unable to distinguish genuine goods from counterfeits due to the high quality of the imitation.

Active steps are taken against counterfeit products by major rights holders (or their representatives) whose trademarks are registered in TROIS (the customs register of intellectual property objects). Rights holders or their representatives, in cooperation with customs authorities, are tracking low-quality goods that are potentially harmful for users and the image of their ostensible producers. However, if parallel imports are legalized, original manufacturers will be left with fewer remedies against counterfeits, which would probably increase their share of the market, thus affecting the quality of imported goods and their consumers.

“Studies and oral evidence often confirm that parallel imported goods are frequently mixed with counterfeited ones. Counterfeits are concealed among genuine goods. Distribution channels for parallel imported products are ideal for counterfeited ones. Brand owners use the usual routes and ports, where customs officers have expertise in dealing with regular deliveries. Parallel importers and counterfeit distributors avoid such regular routes and benefit from the confusion caused by use of several ports and agencies.” (expert No. 2, see Annex)

1.5 Impact on the Level of Competition

In the experts' opinion, liberalization of parallel imports will profoundly affect competition in different markets. Moreover, both positive and negative consequences may arise.

The entry of new but legal importers into the Russian market will result in intensification of fair competition. This should increase efficiency and reduce costs.

However, experts are concerned that parallel import liberalization will bring unfair competition from importers who may evade payment of taxes and customs charges, minimize wage payments and deductions. Moreover, these companies do not pay for marketing, advertising and other overhead costs required for creating a brand image. In this way, these market players are able to set prices in the market below acceptable minimums for producers and official dealers. They act as parasites on the companies which do invest in their brand image, causing unfair "intra-brand" competition.

Liberalization of parallel imports could be positive only as long as unscrupulous players are restricted from entering the market. However, many of the respondent experts express concerns that this will be difficult to achieve in the short-term.

1.6 Impact on Employment

In the opinion of many respondent experts, one of the consequences of parallel import liberalization may be the reduction of employment in Russia due to a decline in domestic production when it is replaced by imports. Importers do not need as many personnel as companies with their own production facilities. Jobs will go as domestic production declines.

A "snowball" effect should be noted, for example in the automotive industry, where one job in manufacturing creates 10 jobs in related sectors. In turn, these 10 jobs create new jobs. This effect is characteristic of jobs in the industrial rather than trade and dealer sector.

"One job on the assembly line creates about 12 jobs in the economy. Each additional car produced employs 12 more citizens in service, sales, logistics or even at gas stations. And this is an endless chain." (expert No. 18, see Annex)

On average, the companies which have localized their production estimate the likely decline in production and jobs as being approximately 20-25%, depending on the trade.

The most drastic job cuts are expected in such branches as the tyre industry, automotive parts and machinery servicing. Expert estimates are that in these sectors employment will be cut by 40–60% as a result of global market restructuring if independent importers sell goods for lower prices. Unlike the original manufacturers, they do not pay for marketing, advertising and servicing, and minimize their customs and tax charges.

Aside from a decline in production, the number of future jobs will be affected by foreign manufacturers freezing plans for investments and localization of production in Russia.

1.7 Impact on the Quality of Goods and Consumer Services

Trademark owners invest in, and protect, their trademarks, providing consumers with guarantees of the quality of the goods they buy.

The end consumer with branded products acquires:

- proof of reliability and certain quality of the goods;
- certainty that branded products are the same as ones purchased before, and therefore will meet their needs;
- the expectation that the products are supported by a dependable warranty and the after-sales services of the brand owner.

Independent sellers, who do not provide these benefits to consumers, undermine the brand value for the brand owner and mislead or deceive consumers. In the opinion of the respondent experts, liberalization of parallel imports will result in a decline of the general level of customer service quality, both as regards both products and after-sales service.

“Decline in the quality of products” is understood as the importation of goods which are neither intended, adapted nor certified for the Russian market.

A majority of experts are sure that independent importers would not provide such adaptation, as they are interested in short-term gains rather than in developing long-term, solid relations with consumers.

In the car component market, spare parts of untested quality declared by independent importers to be original will be entering the market. This will cause brand pollution and the growth of mistrust and negative attitudes as consumers will be under the impression that the quality of official spare parts is low.

Moreover, the use of spare parts of unchecked quality when entry is uncontrolled will endanger consumers. They will be acquired by independent service companies and dealers, and will have a deleterious effect on the quality of services and safety of end consumers. This is particularly important in the case of vehicles, which are a source of special danger.

In the opinion of the respondent experts, the level of quality of servicing and after-sales services will decline as well. For example, quality standards are established for dealers in the automotive branch with regard to workshop arrangement, personnel qualifications, training and education, with safety standards carefully observed. The producing companies carry out regular service-level inspections of official dealers, often by “mystery shopping”. Unofficial importers will not be inspected and will therefore be free to ignore these standards.

Many experts expressed their concern at the level of competence of the personnel rendering service support at independent dealers. Official dealers employ the best specialists, at the cost of higher wages. Furthermore, dealers invest in training personnel and certifying employees on an ongoing basis. Independent importers, by contrast, economize on wages and training, which may potentially cause errors in the course of equipment installation. The problem is especially acute for the household appliance and car services sectors, where incorrect installation of a part can be unsafe. Special attention should be paid to the fact that the quality level of products and after-sales services provided by manufacturers and official dealers will not alter or improve. The companies will provide *“immaculate service, which will serve as a basis of marketing strategy in contest with independent importers”* as previously. (expert No. 31, see Annex)

In view of the above, and taking into account the deterioration of business transparency due to the appearance of a great number of small-scale players in the market, it is evident that a general decline in quality will occur as a result of independent importers. End consumers may be deceived by lower prices, and acquire a product or a service of a lower quality than expected.

1.8 Conclusions on Section 1

In the opinion of the respondent experts, liberalization of parallel imports will have negative socio-economic consequences for Russia.

In the short-term, parallel import liberalization will cause a growth in volumes of imported goods with a potential slight correction of market prices, followed in the long-term by a decline in local production due to a deterioration of business profitability, and a return of prices to the previous level.

Most of the respondent companies expressed concern that parallel import liberalization would have negative consequences.

This process will affect all fields of activity and cause a decrease in investment in the Russian economy, resulting in a loss of jobs, a transfer of localized production facilities outside Russia and an end to many current plans to localize production.

Section 2. Impact of the Legalization of Parallel Imports on Retail Price Levels and Product Range

2.1 Impact on Retail Price Levels

Despite a general deterioration of the economic environment in Russia, legalization of parallel imports, in the opinion of a majority of respondent companies, would not cause drop of retail prices. Let us examine this matter in the short- and long-term perspectives.

In the opinion of the respondent companies, a small, short-term decrease in wholesale prices, of approximately 5–10%, is expected, but there will be no decrease in retail prices.

“Prices will drop in the short-term; however, wholesale margins will increase.” (expert No. 26, see Annex)

“We are sure that parallel importers will not sell imported products for significantly lower prices than official distributors, as it did not and does not happen at the moment with the existing parallel imports.” (expert No. 18, see Annex)

This decrease will re-balance the market in favour of independent importers, as the official representative offices of producing companies will not decrease wholesale and retail prices since their prices are set with reference to the global market. In these conditions, local production within Russia may lose its attractiveness and become unprofitable, followed by production decreases. According to producing companies, it would then be more advantageous to import products into the Russian market, and also to deliver after-sales support from abroad.

In the long-term, respondent companies’ estimates are that prices after re-distribution of the market will return to their previous level (i.e., increase by 5–10%) due to the increased profit margins of independent importers. Thus, legalization of parallel imports will have no positive effect in the sense of lowering prices for consumers.

2.2 Price Structure Analysis

On the subject of prices, it is worth noting that they are governed both by the sector in which the company is operating and by whether it has a production facility in Russia or not.

Typically, a manufacturer's price is arrived at after aggregating the following factors:

- prime cost
- marketing
- wages
- corporate and social responsibility costs
- overhead costs
- profit.

In turn, overhead costs include:

- customs duties
- administrative costs
- taxes and dues
- leasing of premises
- cost of logistics.

Let us consider each factor. The prime cost comprises approximately 35–40% of the retail price (with electronics manufacturers, this is closer to 70%) on average. Expenses for marketing comprise 5% on average, while wages and corporate and social responsibility costs are about 20% (with clothing and electronics manufacturers, this is around 10%). As a rule, profit is 10-15%. Administrative and logistics costs comprise about 3% of the final price, and the leasing of premises and miscellaneous costs come to 1-2%.

The remaining 20–30% constitutes overhead costs. Moreover, in sportswear and footwear sales overhead costs comprise up to 50% of the retail price. It should be noted that the key component of overhead costs are customs dues and taxes.

The price structure for independent importers differs by having no expenses for marketing and warranty service: independent importers do not bear these costs since they take advantage of the investments made by official manufacturers. It should be also noted that, according to experts, the profit margin of independent importers is significantly higher than that of official manufacturers' representatives. For certain commodity items, like mobile phones, the difference can be up to 30–50%.

In addition, some experts expressed concern that the customs and tax payments by independent importers may be lower due to their potentially unfair manner of running their businesses. On average, the experts estimate that independent importers may save about 15% when compared to manufacturers' official representatives, due to the fact that,

according to the respondent companies, independent importers are accustomed to undervaluing goods during customs clearance.

Moreover, *“not infrequently they evade paying taxes, import of goods via the Russian Post, and pay 'grey' wages to their employees.”* (expert No. 26, see Annex)

In addition, independent importers have lower expenses for wages and corporate and social responsibility.

The combination of these factors leads to lower final prices from independent importers compared with official manufacturers' representatives.

The estimated structure of final prices in the case of official companies' representatives and independent importers, as well as the difference in profit share by sector, is shown in the tables below.

Table 2. Structure of the final price

Final price components	Manufacturer/official representative	Independent importer
Prime cost	35–40%	35–40%
Marketing	5%	0%
Wages, corporate and social responsibility	20%	10%
Overhead costs	20-30%	5-10%
Profit	10-15%	25-30%

Source: data collected in the course of expert interviews

Table 2. Profits in different branches

Profit by branches	Manufacturer/official representative	Independent importer
Vehicles and spare parts	10%	30%
Household appliances and electronics	5%	10%
Sportswear and footwear	16%	50%
Special Equipment	11%	20%

Source: data collected in the course of expert interviews

In general, a comparison of the price structure of official companies and independent importers suggests that the latter are taking advantage of the investment and operating results of manufacturers and their official representatives. Demand for a product is created by official companies through advertising and the brand credibility gained through

after-sales service. Independent importers, by contrast, have little infrastructure in Russia and do not invest in domestic production.

A spectacular example of this comes from the field of engineering services. In order to participate in a tender for equipment supplies, an exclusive dealer needs to train personnel in the factory issuing the tender to use that dealer's equipment. Long-lasting and labour-consuming engineering calculations then follow as to the possibility of installation of the required equipment, and the expenses for equipment certification in compliance with Russian standards. Independent importers appear in this field at the purchase phase. Without expenses for the above procedures, independent importers are able to offer a lower price.

Though household appliance manufacturers' activities are different, they suffer from similar competitive abuses. The ultimate product price includes expenses for after-sales service and consumer support. Independent importers bear no such expenses. Moreover, demand for their products is stimulated by advertising, the costs of which are borne by an official importer. In the event of breakdowns of equipment bought from an independent importer, the consumer still seeks help from the official representative, thus increasing the expenditures of the latter.

One of the key factors in product choice by end consumers is price, rather than quality and product warranties provided. But consumers are not always aware that they are purchasing products that may be neither meant for the Russian Federation nor properly certified. A lack of spare part certification often causes failure of equipment that is much more expensive than the spare part itself.

It should be noted that the Russian market looks rather attractive to foreign companies against the backdrop of the European crisis. Manufacturers are ready and planning to invest in the Russian economy to expand their production and their presence in our market. Due to its attractiveness, the Russian market is highly competitive, owing to the presence of key global players and competition between them. As a result, retail prices are optimised, and at the fairest level for both buyers and sellers.

In the current economic climate, independent importers take advantage of the efforts of manufacturers and their official representatives, in particular their investments in product advertising and marketing. However, the scope of the independent importers' activities is too small to have a significant impact on the Russian economy, even though some sectors are under pressure from parallel imports, for example: automotive parts, laptop computers, mobile phones and accessories.

In the event of legalization of parallel imports, the structure of the market could change drastically. It will be much harder to control deliveries of parallel imports and counterfeited products, while manufacturers and their official representative offices will gradually lose market share, which will further decrease production within Russia. The number of small-scale players (independent importers) will, by contrast, grow. In turn, this may change price structures significantly. In the opinion of the experts, expenses for marketing, wages, corporate and social responsibility and overhead costs will be reduced in the structure of the end consumer price. Overhead costs, customs, tax and administrative charges will be reduced, while logistics expenses will increase, as will profit, in the opinion of the respondent companies, though for the independent importers only.

As noted above, a change of the wholesale price as a result will not cause retail prices to drop for end consumers in the long run.

2.3 Comparison of Prices and Product Ranges

This section provides a comparison of retail prices for the most popular products of branches under review in Russia and some European countries, as well as the range of household appliances and electronics. In each of the sectors, a line of products was selected with the help of the experts, for which end consumer prices were compared. Information comes from the websites of the producing companies/official representative offices, as well as from GfK-Rus LLC's retail trade data from an audit carried out both in Russia and all European countries.

2.3.1 Sports Articles (Clothes and Footwear)

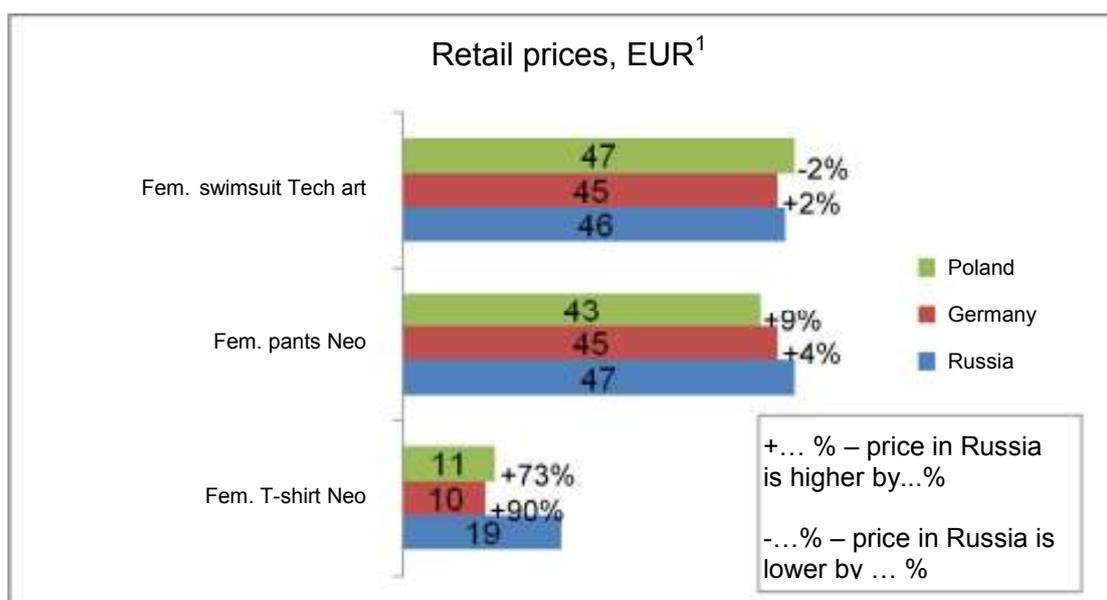


Figure 4. Retail prices for sports articles

Source: website data from the official representative offices of the Adidas Company in the countries under review

Table 4. Retail prices for Adidas² sportswear and footwear

Model	Russia, EUR	Europe, EUR	Russia/Europe
Male trousers HT HIKE PANTS	88	70	25%
Leggings TREFOIL LEGGING	35	25	42%
Tube top ESS MFSTR TANK	24	28	- 16%
Female sweatshirt BIGTREF HOODIE	83	70	19%
Male T-shirt AESS LOGO TEE	24	25	- 6%
Female T-shirt TREFOIL TEE	35	28	27%
Male sweatshirt SPO HOODED FLOC	83	65	28%
Male sweatshirt STREET DIVER TT	95	80	19%
Male trousers SPO FLEECE TP	64	55	16%
Male trousers STREET DIVER TP	71	60	19%
Male trousers TIR013TRG PNT	59	42	41%
Male sweatshirt ESS 3S FZHOOD	64	60	7%

Source: website data from the official representative offices of the Adidas Company in the countries under review

From the above data it will be seen that average prices for foreign sportswear and footwear in Russia (prices of official representatives) are approximately 15% higher than in European countries (differing in the range –16% to +42% for different articles). The difference arises from the expenses for logistics/delivery of goods to Russia and customs charges. For reference, import duties for sportswear and footwear in Russia are around 10–15%.

2.3.2 Cars and Automotive Spare Parts

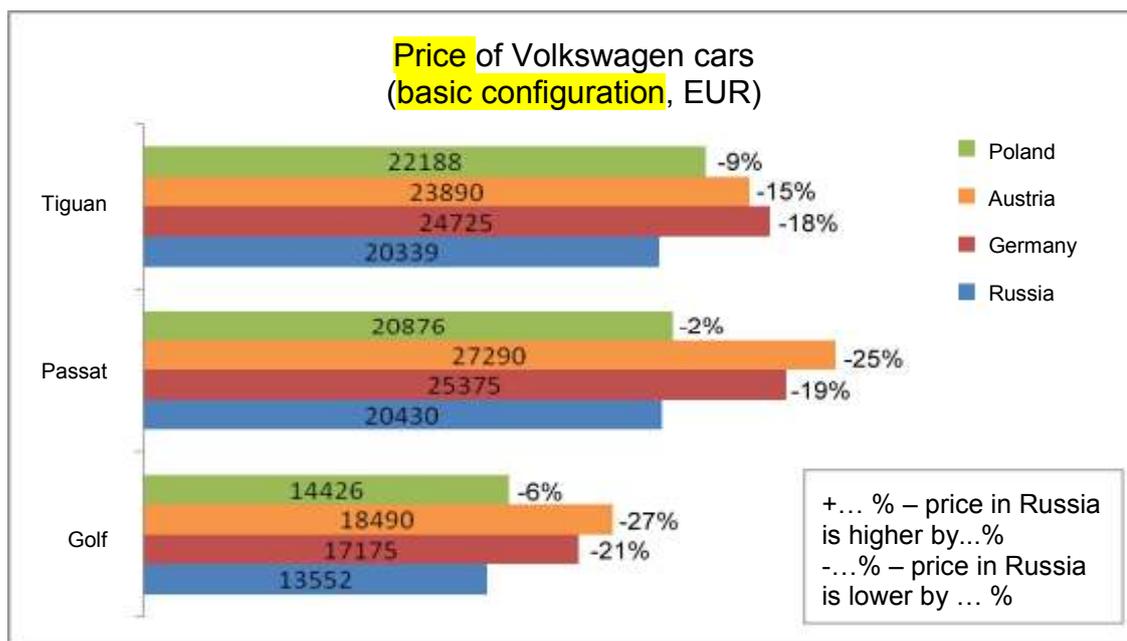


Figure 5. Retail prices for cars

Source: website data of the official representative offices of the Volkswagen Company in the countries under review

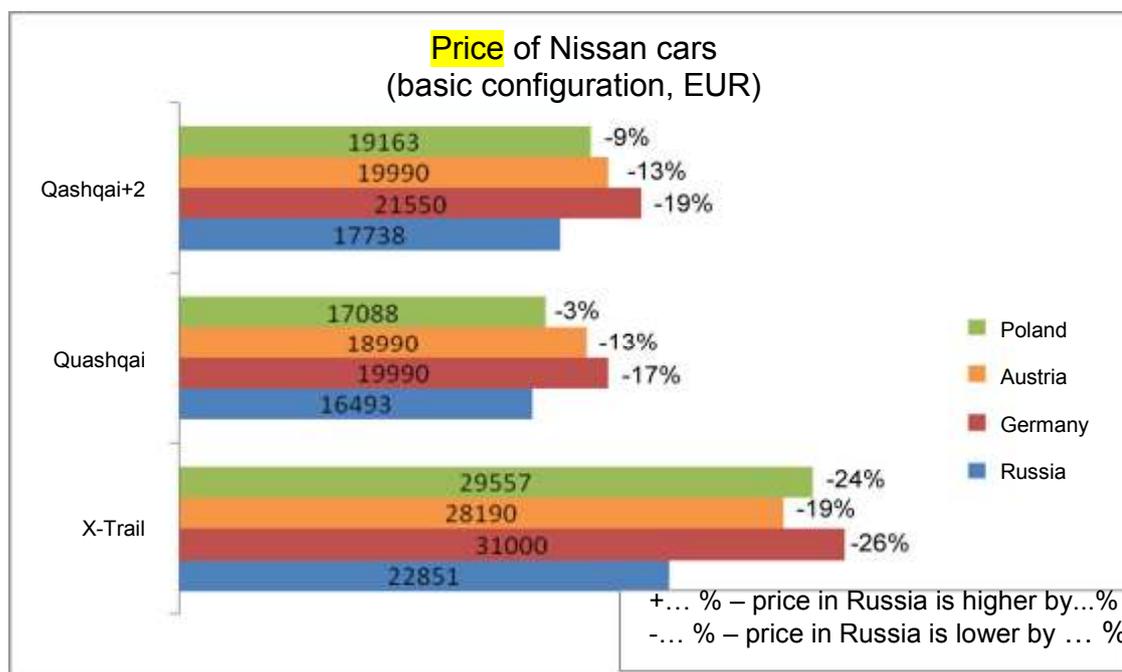


Figure 6. Retail prices for cars

Source: website data of the official representative offices of the Nissan Company in the countries under review.

A cost analysis of cars using the examples of Volkswagen and Nissan shows that, in their standard configuration, cars in Russia are cheaper on the average by 10–15% than in Europe. This is partly due to local car assembly in the RF (Nearly all leading carmakers have such plants: Volkswagen, Ford, Renault, Mazda, BMW, Hyundai, Nissan, Toyota, Skoda, General Motors, Kia, Fiat, Volvo, Audi, and others).

By comparison, the cost of imported (e.g., Mercedes-Benz) cars in Russia is on the average 10–15% higher than that of similar cars in Germany (The price of a Mercedes CL63 AMG in Russia is 183,258 EUR, while in Germany it is 163,149 EUR; the price of a Mercedes GL350CDI 4MATIC in Russia is 78,507 EUR, while in Germany 73,125 EUR). The situation is similar with Honda cars: their cost in Russia is about 10–15% higher than in European countries (The price of a CR-V in Russia is 25,949 EUR, in Germany 22,990 EUR, and in Poland 22,941 EUR). For reference, the average export duty rate for motor-cars in Russia comprises 20–25%, depending on engine size.

The above figures prove the positive impact of local car production/assembly on final retail prices. The higher cost of the imported product is a result of customs duties and logistics expenses.

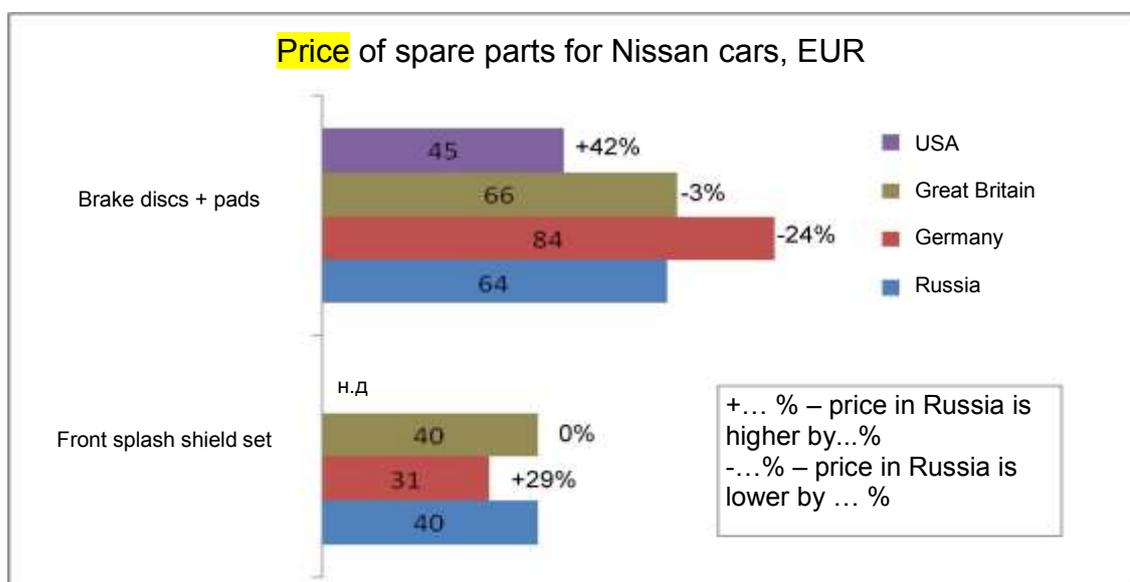


Figure 8. Retail prices for spare parts

Source: website data of the official representative offices of the Nissan Company in the countries under review

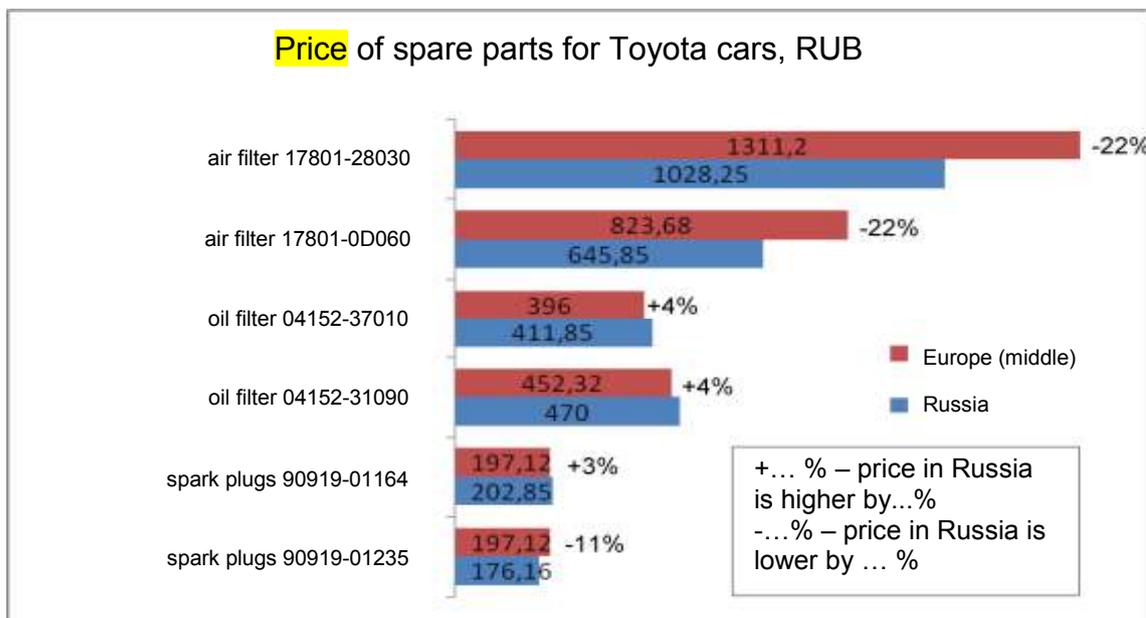


Figure 9. Retail prices for spare parts

Source: website data of the official representative offices of the Toyota Company in the countries under review

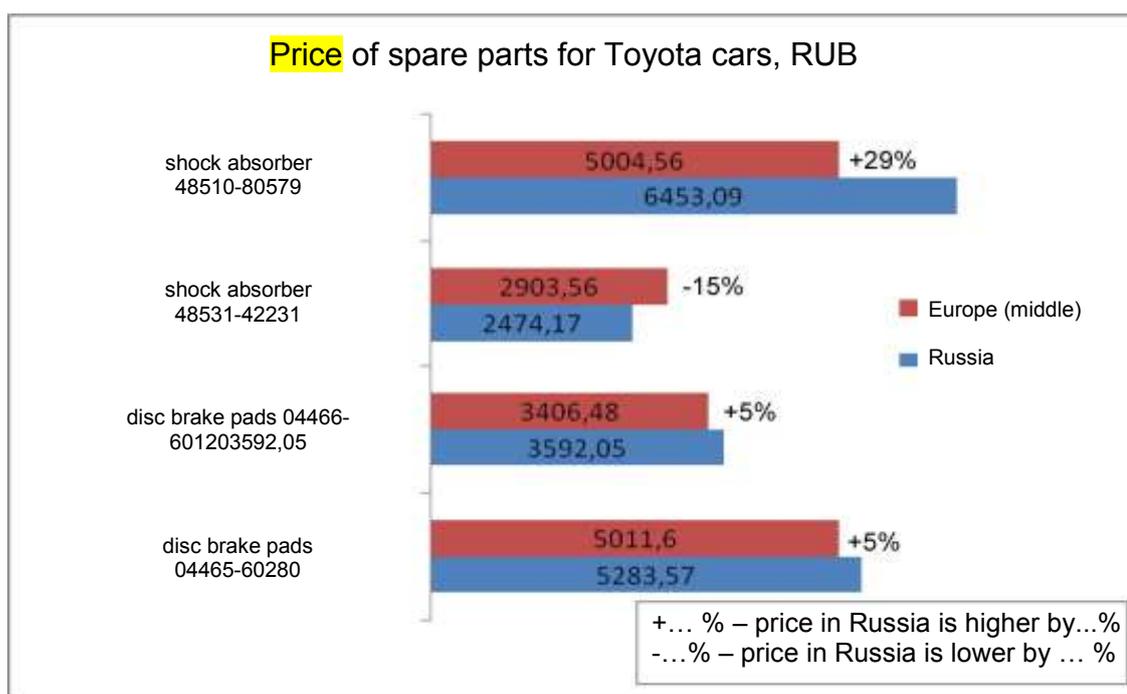


Figure 10. Retail prices for spare parts

Source: website data of the official representative offices of the Toyota Company in the countries under review

The charts above show the lack of uniformity of the situation with regard to the cost of spare parts. For example, the price of spare parts for Nissan cars in some countries (for example, Great Britain) is comparable with the price level in Russia. In other countries, like Germany, one part may be significantly more expensive, while another sig-

nificantly cheaper than in Russia. The situation with spare parts for Toyota cars is similar: prices for certain spare parts are 15–20% lower than in Russia, whereas for others they are higher by 5–30%.

2.3.3 Spare Parts for Trucks and Special Machinery

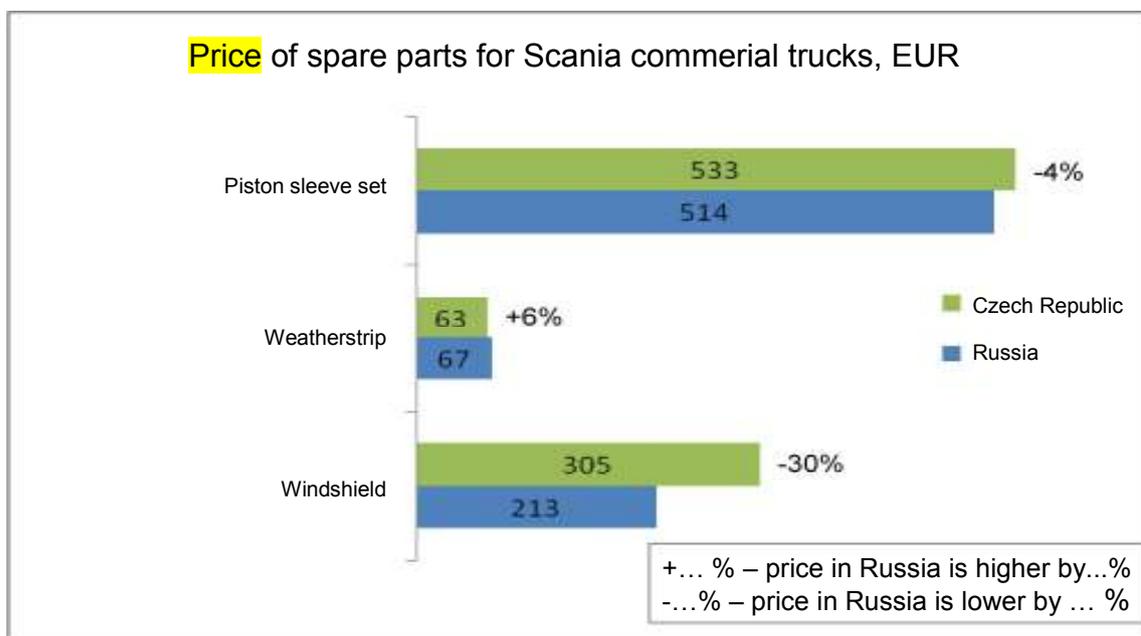


Figure 11. Retail prices for spare parts of commercial vehicles

Source: website data of the official representative offices of the Scania Company in the countries under review

A cost analysis of truck and special machinery spare parts taking the example of Scania commercial vehicles shows that the price level for this product category is not just comparable but even a bit lower than the European level.

2.3.4 Household Appliances

Table 6. Average weighted retail prices for household appliances and electronics for the period January 2012 – December 2013 (EUR)

	Retail prices, EUR				Average price in Austria, Germany and Poland	Russian price difference with foreign prices
	Russia	Austria	Germany	Poland		
TV sets	428	632	627	461	574	146
Refrigerators	466	542	510	339	464	- 3
Washing machines	312	518	503	270	431	119
Smartphones	262	223	195	67	162	- 101
Tablets	346	388	380	185	318	-28
Vacuum cleaners	114	139	110	72	107	- 7
Irons	49	75	60	39	58	9

Source: retail trade audit data of GfK Group, 2012-2013

Analysis of the average weighted retail prices for household appliances and electronics shows that the price of certain products in Russia is lower than in Austria and Germany by 30% on average. This particularly concerns TV sets and washing machines, due to the fact that the leading foreign companies, like Samsung, Bosch-Siemens and Indesit, set up production for many models in Russia.

Those types of appliances for which the entire or main product range is imported have Russian prices 20-30% higher than in Germany and Austria.

For comparison, prices are provided for appliances which are not produced within Russia, but are imported from abroad:

- Tablet: Samsung Galaxy Tab2 10.1 P5110WiFi 16 Gb: price in the RF – 327 EUR, in Poland – 289 EUR, in Germany – 258 EUR, in Austria – 281 EUR. Russian prices exceed European prices by 19 % on average.
- Mobile phone: Sony Xperia Z NFC LTE: price in the RF – 694 EUR, in Poland – 634 EUR, in Germany – 570 EUR, in Austria – 575 EUR. Russian prices exceed European prices by 16 % on average.

Comparison of prices for the appliances produced within Russia and the appliances with all or most of the product range imported shows that production localization influences the retail price level positively. As stated above, legalization of parallel imports may cause a decline in local production, with the difference being made up by imports, which in

their turn will have a negative influence on prices. For reference, the import duty rate for fridges is 20%, for washing machines 15%, and for TV sets 16.5%.

2.3.5 Product Range Comparisons

Respondent experts consider the product ranges in Russia to be wide, due to the competitiveness of the market.

Automakers and producers of commercial vehicles and road-building machinery stated that almost all models they produce are sold in Russia, with the exception of certain items that are not in demand in the Russian market. Accordingly, liberalization of parallel imports will not result in expansion of the product range in these markets.

The household appliances and electronics market provides a wide range of commodity groups, satisfying the needs of even the narrowest segments. Furthermore, manufacturers of household appliances and electronic goods stated that they carry out surveys of target audience preferences on a continuing basis. Should demand appear, they are ready to introduce more models to the market. The Russian market is a key one for many leading players. They see significant potential in Russia and introduce new models to the Russian market on a high-priority basis, prior to the “global premiere,” which enables Russian consumers to be the first to use the latest technical innovations. For example, sales of the Samsung Galaxy S4 smartphone started in Russia 3 days before they began in the USA, a traditional leader in technical innovation premieres. Smartphones like the HTC Butterfly, HTC 7 Mozart, and Sony Xperia ZL were also introduced in the Russian market before European countries.

Reference information on the number of models of various types of household appliances and electronics in Russia and some European countries are provided in the table below.

Table 7. Quantity of models in the markets of Russia and European countries in 2012-2013

	Quantity of models				Average quantity of models in Austria, Germany and Poland	Quantity difference of Russian models from those in other countries
	Russia	Austria	Germany	Poland		
TV sets	5,368	3,665	5,800	2,737	4,067	+ 1,301
Refrigerators	5,261	3,581	4,942	2,588	3,704	+ 1,557
Washing machines	4,180	1,690	2,195	1,931	1,939	+ 2,241
Smartphones	888	706	1,281	1,440	1,142	-254
Tablets	1,546	561	811	657	676	+ 870
Vacuum cleaners	2,621	1,793	2,648	1,445	1,962	+ 659
Irons	1,980	670	1,001	860	844	+ 1,136

Source: retail trade audit data of GfK Group, 2012–2013

From the table above, it can be seen that in most product categories the product range sold in Russia significantly exceeds the range in European countries. The most dramatic difference is in washing machines (with twice the quantity of models in Russia), irons (twice) and fridges (one and a half times more).

All representatives of household appliance and electronics production companies believe that parallel import liberalization would tend to narrow rather than expand the product range in the Russian market, due to the fact that it is more profitable for independent importers to import the most popular models rather than ensure maximum turnover and profitability across a wider range. They are not interested in satisfying niche needs, as there is a possibility of such goods selling slowly.

2.4 Conclusions on Section 2

As stated above, the introduction of parallel imports will have no positive effect on price levels for the end consumer. Price reduction is only possible in the short-term for the wholesale sector by 5–10%.

In the long run, retail prices will remain at current levels as, due to the change of the balance in the market and the appearance of a great number of small independent companies, the final price structure will change only due to profit rate increases and the

decrease of miscellaneous expenses (customs, tax payments, marketing, wages, etc.) of independent importers.

The Russian market is characterized by a comparatively high level of competition due to the wide range of products sold. In the experts' opinion, product ranges will tend to narrow upon legalization of parallel imports, because importing a wide product range would be inexpedient for independent companies, who will focus on the most popular models. Thus, upon legalization of parallel imports, Russian consumers risk losing some of the diversity of goods available to them without seeing any reduction in price levels.

Section 3. Analysis of Socio-economic Consequences

The consequences of legalization of parallel imports will be multifaceted, and will affect most spheres of social and economic life in Russia to a greater or lesser degree.

Therefore, we will examine the some aspects of the impact of the legalization of parallel imports with respect to:

1. manufacturers and authorized dealers
2. policy regarding modernization, innovations, and import substitution
3. policy regarding foreign and domestic investors
4. reputational risks and long-term consequences for the business climate in Russia

3.1 Economic Analysis of the Impact of Parallel Import Legalization on Retail and Wholesale Prices

Let us examine the impact of legalization on price reduction (under the idealized condition that retail and wholesale prices change commensurately).

The following price structure emerges from the experts' estimates (%):

Table 8. Price structure of official and parallel imports (example)

	Official import	Parallel import
Prime cost	40	40
Profit	12	20
Marketing and advertising	5	0
Wage fund	17	10
Administrative costs and logistics	3	3
Misc.	2	2
Overhead costs	21	5
Total	100	80

Source: Averaged data collected in the course of expert interviews

Thus, the price of the goods brought in via parallel imports is 20% lower than the official importers' price. This is achieved due to saving on marketing and advertising, the wage fund, after-sales and warranty costs, and general overheads.

The second scenario provides for reducing prices for the goods brought in via parallel imports below official importers' price by 25%. We calculate the reduction of average aggregate prices at different levels of parallel import market share:

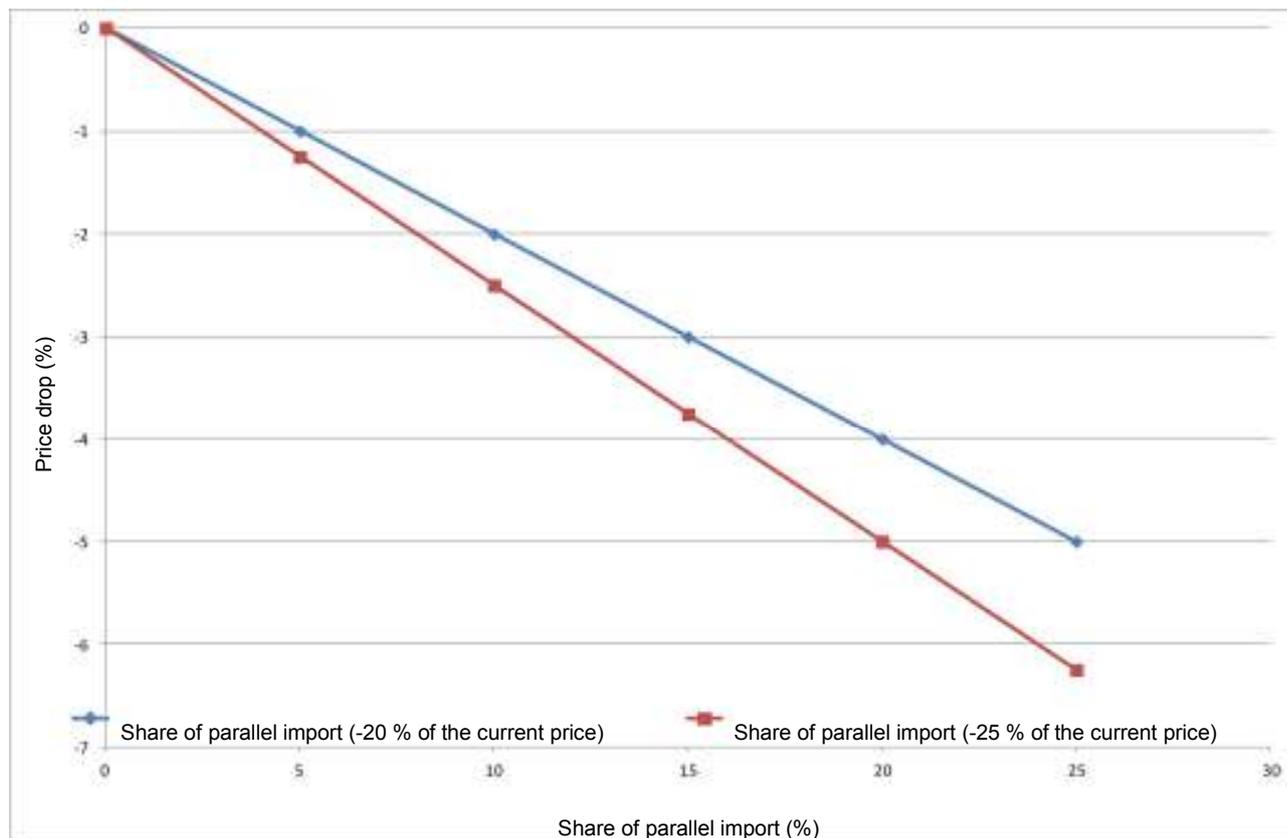


Figure 12. Price reduction depending on parallel imports' market share

Source: Calculations of GfK-Rus LLC

Thus, in ideal conditions, including commensurate reduction of retail and wholesale prices, as well as competition between official and independent imports across the entire product range, the aggregate reduction in retail prices will be 6.25%, assuming that the parallel import prices are 25% lower and such imports capture 25% of the market.

In reality today, in most markets, the parallel import share is at least 5–10%, resulting in a price reduction, on average, of 1–1.25%. So if the parallel import share of the market increases from 10 to 25% the result will be a drop in retail prices by 4–5% across the board.

This price reduction will not last for long. Legalization of parallel imports may mean a growth in supply, but that does not necessarily imply a corresponding growth in demand. With a reduction of prices, markets will tend to expand at the expense of consumer groups with lower effective demand. But the range of such consumers is quite narrow in both quantitative and monetary terms. An indirect indicator is the decrease of the share of population with earnings below subsistence wage, from 29% in 2000 to 11% in 2012. Besides, it is not price reduction that is important in the mid- and long-term economic prospects, but increase of the purchasing capacity of the population as a whole. This point can be illustrated by the following example: In the period from 2000 to 2012, the price of a

kilogram of beef grew by 5.3 times (from 46 to 244 roubles); however, growth in per capita income enables Russians to buy 2.2 times more beef today than then (87 kg in 2012 against 39 kg in 2000).

For business, the tendency to increase prices is more natural. However, this tendency is limited by the paying capacity of the population. Here is a spectacular example where price for a product nearly quadrupled in less than six months:

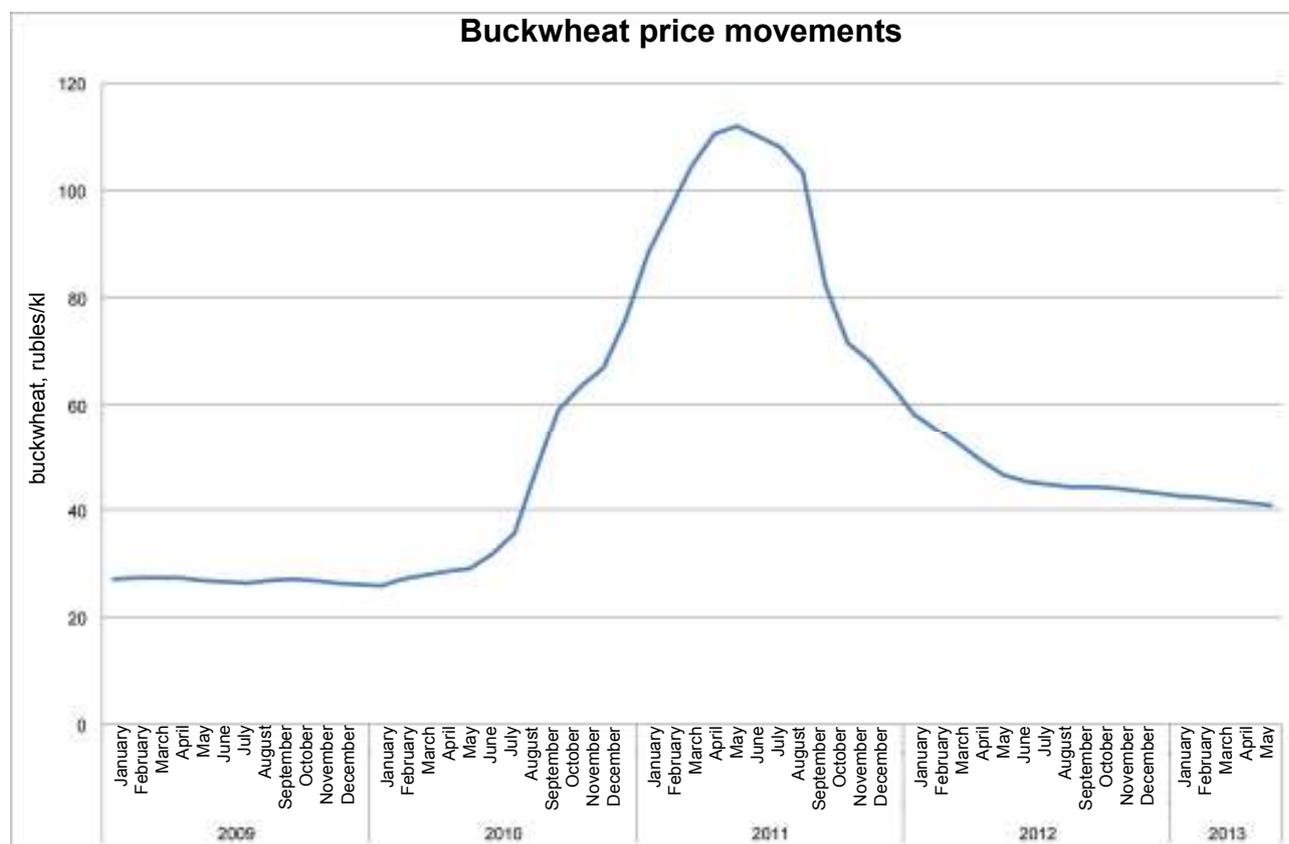


Figure 13. Buckwheat price behavior Source: GfK Consumer Scan data

The market was unable to sustain the high price level, which resulted in a three-fold drop in price approximately within a year, with further reductions later. Furthermore, the volume of the buckwheat on the market in physical terms decreased so dramatically that in the longer term neither producers nor resellers benefited from such an abrupt price rise.

In our calculations above, we have made the assumption that wholesale prices and end-consumer prices (in the retail trade) change in step with each other. In reality this is not always the case. Let us examine crude oil (wholesale) price behaviour, and the retail price for 1 litre of AI-95 gasoline in the period 2004–2012. As oil and gasoline prices are different, we have taken the 2004 price level as 100%:

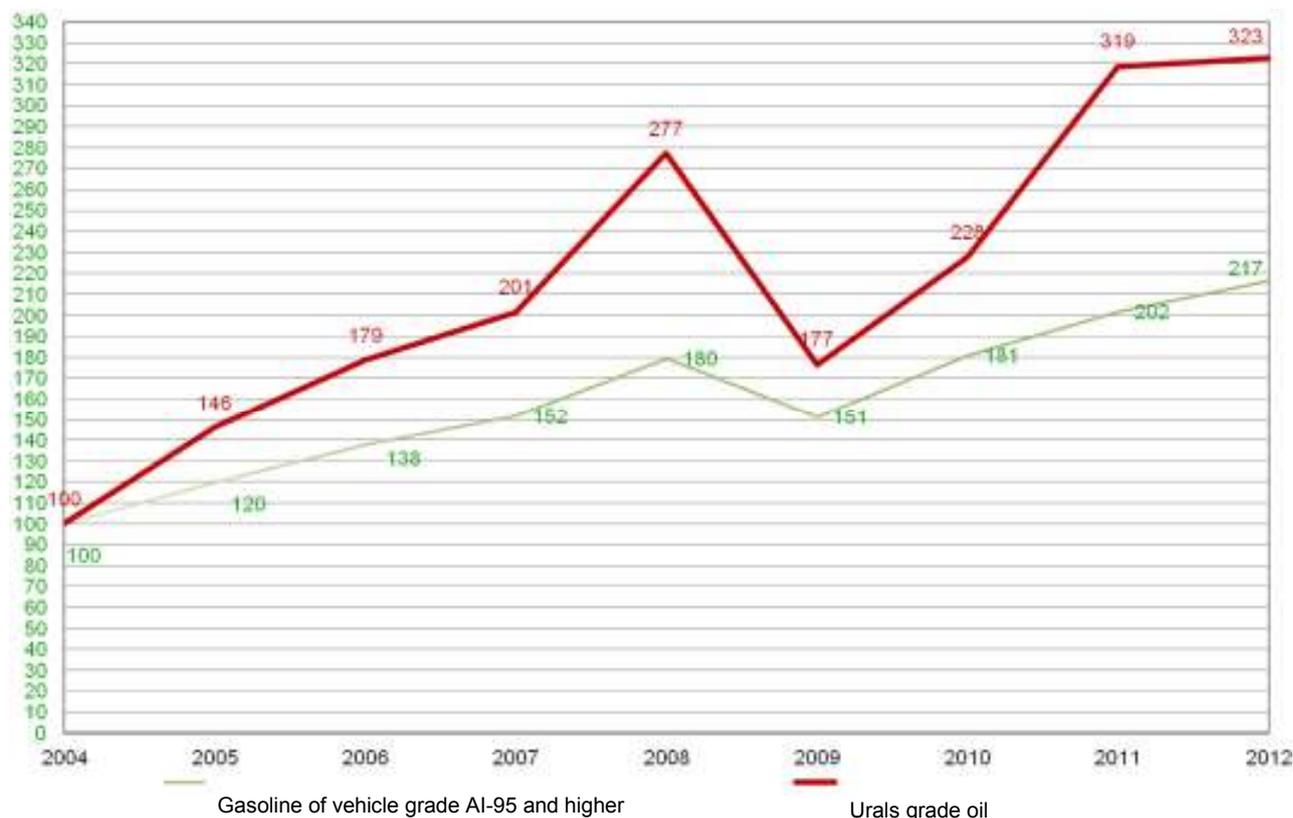


Figure 14. Growth of the price for Urals oil and retail prices for AI-95 gasoline (as a percent of the prices in 2004)

Source: Data of Federal State Statistics Service.

We can see that in the recession of 2009, the annual average wholesale price for oil dropped by 36% as against 2008. However, retail prices for AI-95 gasoline in the same period dropped by only 16%. Subsequently, oil prices recovered within a year and a half, while retail prices for gasoline in the same period not only reached the pre-crisis level but surpassed it by approximately 5%.

Thus, a price drop with lack of commensurate growth of effective demand usually produces only a short-range effect. Within 1–2 years, market demand-and-supply balance recovers, often at a higher price level.

Let us examine the TV market as an example. Foreign manufacturers invested in this market and brought production localization to 92%. For the most part, TVs in the top price brackets are imported to Russia, i.e., plasma panels, large-screen TVs, etc. Thus, for parallel import focused on high-margin products a market niche is available which comprises less than 10% of the market. Upon legalization of parallel imports, an initial reduction of prices will occur in the top price brackets, resulting in a transfer of part of the top price brackets models to the mid-price brackets. This will have a knock-on effect, resulting in reduced profitability for manufacturers of mid- and, in particular, lower-price bracket

models (which are mainly the models produced locally). As a result, production of these models will be discontinued. The consequence of that will be that lower-end model prices will start growing again. Moreover, 5–6% annual inflation will soon neutralize the price reduction effect as, psychologically, consumers perceive nominal rather than real price growth. Finally, even without considering inflation, the TV market will undergo price reduction in the top-price, along with their growth in lower- and mid-price, brackets. Similar processes will occur in all markets in which parallel imports are permitted. It is logical to assume that legalization of parallel imports will be beneficial primarily for high-income population groups, while for other groups the price reduction effect will be insufficient and rapidly neutralized by removal of the cheapest goods from the bottom- and mid-price brackets.

As previously mentioned, independent importers save on marketing, advertising, and warranty service costs. The cumulative effect of such savings on average comprises 10–15% of the product cost. After legalization of parallel imports, expenses of this type will still burden manufacturers and official importers, and the share of such expenses will inevitably grow, decreasing their profit rate. With a 15% share of expenses for marketing, advertising and warranty service costs, the growth of parallel import share from 0 to 25% will result in a growth of these expenses by 5%, or from 15–20% of the product cost. With the initial 10% level of parallel imports, the growth of expenses is lower, but they still will grow by 3.3% with parallel import growth up to 25%. For enterprises with previous profit rates below 5%, such a burden will make business unprofitable and may lead to their exit from the Russian market.

This will be typical of major importers and manufacturers who are oriented toward total profits (increasing profits at the expense of sales) rather than profit rates (increasing profits as a proportion of revenue). Thus, legalization of parallel imports leads to unfair competition if expenses for marketing and after-sales service for the whole market are born only by one part of the market, namely official manufacturers and their representatives.

Moreover, risks of growth of unfair competition on the part of parallel importers who might be bringing in counterfeited rather than original products are quite high. Upon legalization of parallel imports, 16 out of 34 respondent companies are expecting growth, and only 2 companies out of 34 are expecting a decrease of counterfeited product import volumes.

We are approaching here one more aspect of the matter under review. Parallel import is a small-scale activity. In recent years, we have seen so-called “shuttle” businesses. This is based on the import of high-margin goods only, so does not compete with offi-

cial imports across the entire product portfolio. Forcing official importers out of this segment inevitably leads to a decrease in profits for them and compels them to take countermeasures. In the range of such measures, the most evident and simple one is narrowing the product range in order to reduce the share of goods with low profit margins. As a rule, such goods belong to mass mid- and bottom-priced brackets. Thus, the net effect of price reduction will be neutralized by removal of “economy-class” articles.

3.2 Economic Analysis of the Impact of Parallel Import Legalization on Domestic and Foreign Manufacturers

Another consequence of narrowing the mid- and bottom-priced market sectors is an attack on domestic manufacturers and localized production facilities, as this is where the majority operates. Precise calculation of the impact of legalization of parallel imports on domestic manufacturers is difficult. However, even approximate figures suggest a demand reduction for domestic products by around 5% resulting from parallel import growth from 10-25%. When the Russian economy is slowing down, even a 5% drop in demand for domestic products would be significant for many of manufacturers. The industrial production index in Russia has declined for the fourth year in a row, so a deteriorating environment for domestic producers would be a highly negative step.

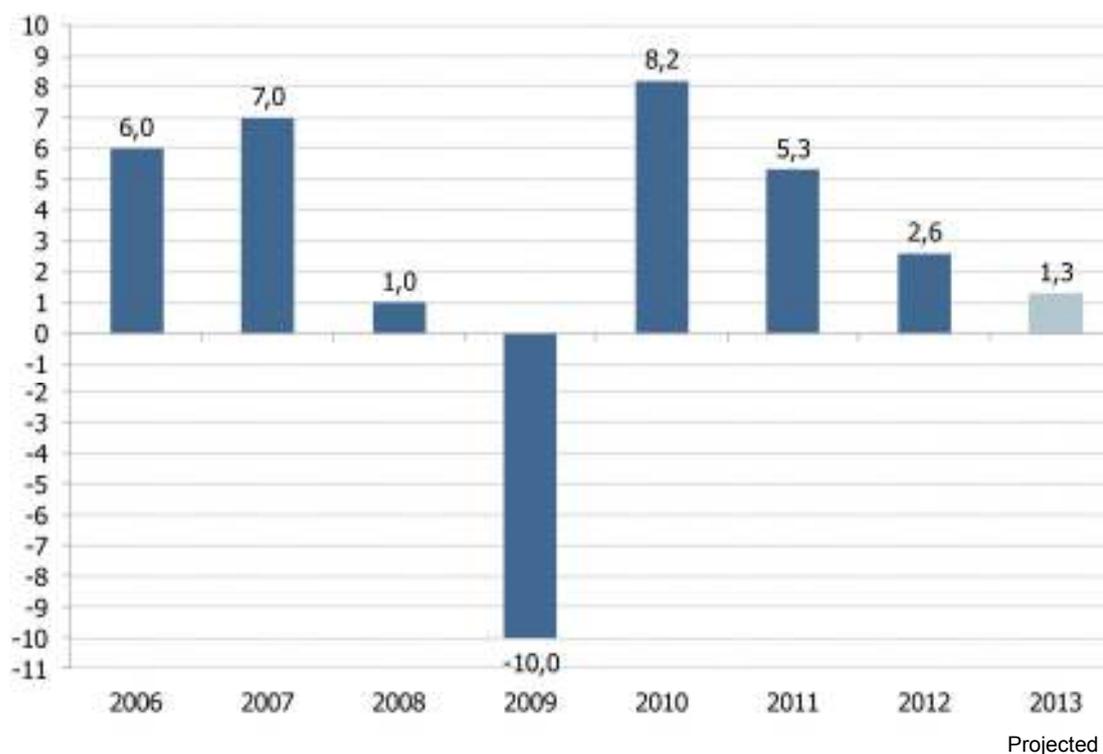


Figure 15. Industrial production index, % change against the previous year

Source: Data of Federal State Statistics Service.

By no means unimportant is the matter of correlation between legalization of parallel imports and growth in employment of the population. In May 2013, the unemployment rate in Russia calculated by the methodology of the International Labour Organization was 5.2%. The historical experience of market-economy countries shows that 3–5% unemployment is the lowest practical rate in a stable economic environment and in periods of intensive growth. As the global economic situation at the moment is not stable, and growth sluggish, the unemployment rate in Russia cannot realistically be reduced significantly using market mechanisms such as the legalization of parallel imports.

Legalization of parallel imports will result in a drop of the unemployment rate by no more than 0.2% in Russia as a whole. But it is not only the level of employment that matters to the economy; the employment quality is important too. From this point of view, parallel imports tend to worsen rather than improve the quality of employment. In recent years, there has been a deficiency of qualified manpower in Russia in productive spheres of the economy, which are short of workers, engineers, designers and process planners. It would be extremely unwise to create opportunities for trade and reselling personnel in this situation. The strategy of development for Russia in the next 5 years provides for a 1.5–2-fold growth of labour capacity, and the creation of 25 million new technology-intensive, well-paid jobs for highly educated persons. Manpower migration to the sphere of trade and

import operations goes against this strategy as they do not require highly-qualified and educated manpower.

The decrease in price differences between countries that could allegedly be promoted by legalization of parallel imports is quite a controversial matter. For example, there is still a significant price difference between countries in Europe, where the regional principle applies. According to EUROSTAT data, the variation in prices for end consumers in Europe is more than 2.5-fold. In Bulgaria, prices are 49% of the European mean, while in Switzerland they are 128.6%. An example closer to home is Estonia, an EU country and a former Soviet Republic. Both Russia and Estonia have similar par values of consumer purchasing capacity, and historically had similar levels of industrial and manpower development. Despite that, prices in Estonia are 15% higher than mean European prices. Mean prices in Russia are 15–25% higher than European prices, which takes into account customs duties which are absent within the boundaries of the European Economic Space. This suggested that legalization of parallel imports would not significantly decrease price differences between countries, as those depend primarily on the current business environment in any given country.

In the context of customs duties mentioned above, the influence on prices on the mid- to long-term view of Russia's entry to the WTO should not be left out. The general tendency for most goods is for a reduction of customs duties. An increase of parallel imports from 0 to 25%, with prices around 75% of those of official importers in the example quoted above, results in a reduction in mean market prices of 6.25%. A 7% reduction of customs duties will have the same effect as an increase of the parallel import share with reduction of price analysed above.

Thus, it can be concluded that beneficiaries of parallel import legalization are small trade and reselling businesses, then the wholesale trade and, to a much smaller extent, the end consumer.

3.3 Conclusions on Section 3

It follows from the above that liberalization of parallel imports will have numerous negative socio-economic consequences for the development of Russia. Moreover, analysis shows that a reduction of prices will not occur in most sectors of the economy and price brackets, due to the fact that the Russian market is a competitive one, with prices controlled by competition between brands. Reduction of prices will only occur where produc-

tion is outside Russia. Accordingly, the most favourable strategy would be to maximize production within Russia, and therefore retain the parallel import prohibition currently in force.

Main Findings

In general, in the opinion of the respondents, liberalization of parallel imports will have a negative impact on the economy of Russia.

In particular:

- It is evident that the appearance of new small-scale businesses engaged in trade and reselling activities will impact negatively on the profitability of large-scale manufacturers who (apart from conducting absolutely transparent business) bear expenses for marketing, advertising, servicing, product testing and certification. Reduction of the profitability of these businesses will cause a decline of investments into the Russian economy by 30-50%, depending on the specific sector.
- Customs and tax returns will decrease, due to the possible use of simplified and “shadow” arrangements by independent importers, by approximately 5–10%.
- Due to high manpower costs and easy import access, localization of production will become unprofitable for many companies. Production facilities will be relocated to neighbouring countries, which will adversely affect employment in Russia. The reduction in localized production could be as much as 20% in the first year after parallel import liberalization.
- As a result of increased import flows, the share of counterfeited products will increase because customs control will be weakened. On average, companies expect that the counterfeit level will increase by 10-30%, depending on the sector. The biggest share of counterfeiting is expected by companies producing automotive parts, tyres and sports articles/clothing.
- The quality level of products and service delivered to end consumers will decrease, as parallel importers are interested more in short-term gains than in long-term development of brand image and customer relations. In addition, a narrowing of product ranges in the Russian market is expected, as independent importers will bring in high-margin products rather than niche goods.
- Upon liberalization of parallel imports, no significant reduction in prices in the retail sector can be expected. It is stated that prices will drop by 5-10% in the wholesale sector, thus increasing the margins for independent importers.
- The main beneficiaries of parallel import legalization will be high-income population groups, small trade and reselling business, and the wholesale

trade. On the one hand this will increase socio-economic disparities in society, and on the other it will impede an increase in labour productivity, creation of new jobs for highly qualified personnel, and adversely affect the modernization of the domestic economy.

- The Russian market is highly competitive. This is evidenced both by the number of market players and the wide range of products on sale. Liberalization of parallel imports will have both a negative and positive influence on competition in different markets. On the one hand, fair businesses run by independent importers will intensify fair competition, optimization of structure, and the business processes of companies.
- On the other hand, the appearance of unfair competition is possible, from companies which will be able to offer lower prices for goods due to their evading tax and customs duty payments. Such prices will be hard for official manufacturers and their dealers to compete with, which will lead to a growth of unfair intra-brand competition.
- Russia's entry to the World Trade Organization (WTO) will result in a general reduction of customs duties for a wide range of imported articles, and the reduction of customs duties will have the same price-reducing effect as legalization of parallel imports. However, reduction of customs duties will benefit all goods, not only high-margin ones. In other words, the benefits will be distributed evenly across the whole range, which is fairer to the mid- and low-income elements of the population. It should be noted that in contrast to the situation with legalization of parallel imports, a decline in tax revenues and other potential financial and economic effects upon Russia's entry to the WTO has already been taken into account in the government's plans for the federal budget for the next few years.

Appendix: List of Respondent Companies

Expert No.	Branch	Position
1	Other (fabrication of construction materials)	Sales department and procurement department managers
2	Other (manufacture of electrical equipment)	Director of customs affairs, Russia and CIS
3	Other (fabrication of convenience goods)	Manager of relations with government institutions
4	Manufacture of household appliances	General Director, Russia and CIS
5	Retail trade	Director of the corporate governance and legal support department.
6	Sports articles	Chief Financial Officer
7	Manufacture of household appliances	Director of the Component Department
8	Manufacture of electronics	General Director and Marketing Director
9	Manufacture of household appliances	Commercial director and manager for procurement and legal support
10	Manufacture of household appliances	Product manager
11	Manufacture of construction machinery and equipment	Regional manager
12	Manufacture of construction machinery and equipment	Manager of the spare part department
13	Manufacture of construction machinery and equipment	General Director, Russia and CIS
14	Manufacture of vehicles and spare parts	Expert for strategic development and strategic projects
15	Manufacture of vehicles and spare parts	Legal consultant
16	Manufacture of vehicles and spare parts	Managing director
17	Manufacture of vehicles and spare parts	Legal consultant
18	Manufacture of vehicles and spare parts	Manager of interaction with government institutions
19	Manufacture of vehicles and spare parts	Director of legal support and external relations
20	Manufacture of vehicles and spare parts	Chief Financial Officer
21	Manufacture of vehicles and spare parts	Vice-president for interaction with government institutions

Expert No.	Branch	Position
22	Manufacture of vehicles and spare parts	Manager of the planning and marketing department
23	Automotive industry (tyre production)	Director of legal work
24	Manufacture of commercial vehicles and spare parts	Commercial director, director of the service market department, and legal counsel
25	Automotive industry (tyre production)	Chief sales officer
26	Retail trade	Manager for interaction with public authorities
27	Manufacture of vehicles and spare parts	Manager of interaction with government institutions
28	Manufacture of vehicles and spare parts	Legal counsel
29	Other (manufacture of drying cupboards)	Deputy Director of a representative office
30	Manufacture of household appliances and electronics	Director of the audio/video equipment department
31	Retail trade	Analyst
32	Automotive industry (dealer)	Manager of the spare part department
33	Automotive industry (dealer)	Manager of the service and spare part department
34	Manufacture of vehicles and spare parts	Director of the marketing department