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Moscow

COVID-19 economic impact on European companies in Russia: new opportunities or prolonged recession?

According to the survey held by Association of European Businesses (AEB), most European companies managed to withstand the turmoil of the pandemic without significant layoffs. At the same time, given the limited amount of state support available compared to the scale of the economic downturn, businesses prepare for significant losses in income and potential painful adaptation processes ahead.

The coronavirus outbreak has caused an unprecedented public health emergency around the world, as well as an economic downturn, which, according to some experts, has not been seen since the Great Depression. To assess the effect of the current situation on foreign business in Russia more accurately, AEB conducted an online survey among its member companies at the end of May 2020. On 9 June 2020, the results of the survey were presented in an online event, which was accompanied by a discussion with representatives of various sectors and industries.

Business activity falls

According to the survey data, the crisis associated with coronavirus has affected, to one extent or another, 90% of European companies operating in Russia. Among the most frequent problems encountered by European businesses were defaults on payments by customers (34%), problems with supply of raw materials and components (33%), and logistical complications (31%). During the period of restrictive measures, 23% faced inextricable difficulties and saw a drop of activity by more than 50%. Moreover, the respondents expect a further decline in business activity throughout the second half of 2020 and 2021.

That said, 78% consider the risk of business shutdown in the next 12 months to be low. In particular, the food industry is confidently showing stable income trends. The recovery of the tourism and hospitality industry will depend on how quickly events resume, epidemiological restrictions in the regions are lifted, borders opened, and international flights and private mass transportation re-allowed.

Staff retention and lack of state support

During the period of restrictions associated with the coronavirus pandemic, 74% of the companies managed to retain their employees, and some even expanded their staff. 46% said they were not stopping production, and 63% of the respondents said they planned to introduce flextime, including work from home, in the future.

At the same time, the companies noted that it would be difficult to maintain the current level of employment for long without the state support.

However, 88% of the companies surveyed said they were not eligible for the state support, as systemic companies – in accordance with Order of the Government No. 651 dated 10 May 2020 – with more than 50% foreign equity are significantly disadvantaged with regard to access to state support measures (requires additional application and approval process). This restriction, in essence, applies to all foreign companies included in the list of systemically important enterprises in various industries.

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Members of the Association of European Businesses believe that this provision constitutes a serious discrimination against foreign companies that were included in the list of systemically important enterprises in Russia, precisely due to the importance of their investments, business, technologies and the ecosystems created around them for the normal functioning of the Russian economy – including during the crisis. It also implies a differential treatment of jobs, depending on who created them. In the view of AEB such differential treatment is unjustified and contrary to economic logic.

During the presentation of the survey results **Andreas Bitzi, Chairman of SME Committee; Managing Director, quality partners**, noted that *"many support measures for SMEs have been taken by the Government. However, practically all of them have little effect, with the exception of reduced social contributions rates. Many foreign businesses that are, according to Russian rules, SMEs, feel discriminated as they have more than 49% foreign capital and are excluded from support measures"*.

Alexey Grigoriev, Chairman of Retail Trade Committee; Head of Representative Office, METRO AG, informed, that *"While food trade adapted to new regulatory and market challenges and successfully supported consumers in hard times, non-food trade was severely affected and is struggling to recover. The industry now needs and deserves both, strong support – especially in the non-food and small trade segments – as well as public appreciation for having kept the Russian consumer market stable"*.

The need for state support was also mentioned by **Andrey Komov, AEB Construction Equipment Committee Chairman, Managing Director, Volvo CE Russia**: *"Our industry was not included into the list of mostly affected by the crisis. But it does not mean that we and our end customers have not been harmed. In order not to find yourselves in a situation when there are nobody to save, it is necessary to conduct effective measures of state support already now. The overall recovery of the economy will also depend on how our end customers will go through this crisis and how quickly they will be able to recover"*.

Jan Aichinger, Chairman of Commercial Vehicles Committee; Managing Director, MAN Truck&Bus Rus, presented the committee's forecast of the situation on the commercial vehicle market for the next two years: *"The Committee expects a 14% drop in commercial vehicle market in 2020 in the worst case: strong first quarter has partially absorbed the hit of the shutdown. 2021 may see a fall of up to 21% in the worst case as recovery will take time. Government's efforts to support of the leasing industry are needed as that would help the commercial vehicle market to pick up and serve the general economic recovery."*

In his turn, **Ivan Glushkov, Deputy Chairman of Health and Pharmaceuticals Committee; Deputy General Director, STADA CIS**, noted that *"the COVID-19 pandemic has become a catalyzer of many decisions for both the regulator and companies. The implementation of some of these decisions can significantly change the business models we are used to"*.

"On a wave of encouraging news from the Moscow government regarding the partial lifting of restrictive measures, we hope that European businesses can breathe a little freer. These months have not been easy for most companies: according to our survey, 90% of companies said their business was somewhat more affected by the crisis. However, it is important to stress that 74% of them are trying to keep the staff on board so far, and some of them even hired new personnel. This means that European businesses in Russia are not only responsible employers, but are also trying to follow Winston Churchill's advice: "never let a good crisis go to waste!"

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*Still, it is important to remember that a further spread of COVID-19 would increase the risk of a prolonged recession, which in turn could lead, as a result, to an outflow of foreign capital from the Russian economy or a series of bankruptcies. Therefore, we sincerely hope that European business will receive additional support by the Russian Government in order to jointly overcome the consequences of the pandemic and help Russia to create a strong, open and resilient economy for the time after the present crisis”, - commented **Tadzio Schilling, AEB CEO.***

Presentation of the AEB survey results is available via a link on the official website:
https://aebrus.ru/upload/iblock/c5e/COVID_19-survey-results.pdf

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