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Internal Affairs and
International Trade Canada

Affaires extérieures et
Commerce extérieur Canada

USSR:

INFORMATION FOR AN INITIAL

APPROACH TO THE MARKET

JULY 1989

JUN 4 1990

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1. Preparations:

Planning is all important as business will not be done by those businessmen who happen to be passing through and decide to make impromptu calls. Your appointments must be confirmed before you leave on your trip, but this may occur only at the last minute. A minimum of two or three weeks notice is advised. The Canadian Embassy Commercial Division can assist in the organization of a program of meetings and visits if sufficient notice is given.

2. Visas:

In issuing a visa, the Soviets generally agree to a visit in principle (either invited by a foreign trade organization, Soviet Enterprise or on an Intourist pre-paid visa) and fix the exact appointment times one to three days in advance. Visas should be applied for at least three weeks in advance through the Soviet Embassy in Ottawa or the Soviet consulate in Montreal. Most Canadian businessmen travel on tourist visas. All cities to be visited in the USSR must be listed on the visa. You are advised to verify that all locations are included before departing Canada. Visas are generally issued for the period requested but rarely extend longer than two months.

3. Accommodation:

Hotel reservations for accommodation and travel within the USSR are handled by Intourist through accredited travel agents in Canada. The Embassy cannot make hotel reservations but recommends the following hotels: Intourist, National, International and Kosmos (the last 2 are Sovincenter hotels). Hotels in Moscow are relatively expensive at between 80 to 110 roubles per night. Pre-paid vouchers can include transport to and from the airport (40 minutes each way), hotel accommodation, and breakfast. Most buildings have 220 volts AC but some older places still have 127 volts. In most hotels, round, continental 2-pin plugs are in use.

4. Customs:

On arrival all currency and valuables must be declared and the receipt retained for outward clearance. Currency regulations must be taken seriously. The

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import and export of roubles is prohibited. Most important, currency should be converted only at official exchange bureaux which can be found at the airport and in most hotels. All receipts should be retained. Generally only small amounts of roubles are required since major expenses are usually pre-paid and souvenirs are most often bought at hard currency beriozkas with credit cards. Any controversial publications may be confiscated at airport customs. Any businessmen carrying promotional videos or samples must telex their host organization at least a week in advance so that a letter may be sent to airport customs requesting clearance. Failure to receive clearance will delay entry of your promotional materials.

5. Transportation:

Taxis are usually stationed outside Intourist hotels. If not, the hotel service bureau can book a cab but at least one hour's notice is required. Ensure that the cab has a working meter. Cabs are identifiable by a checkerboard on each side of the car. A green light at the top of the windscreen indicates that the car is for hire. Taxis can also be hailed in the street. Chauffeur-driven cars may be hired by the hour at the hotel service desk if sufficient notice is given. Since few drivers speak or read English or French, businessmen would be wise to have addresses written in Russian by the hotel service bureau. If you have any knowledge of the cyrillic alphabet the city metro/subway is a convenient and cheap means of transport.

6. Telephone Contact:

Phone numbers should be obtained in advance where possible. There is no Moscow phone book, but the Embassy Commercial Division is usually in a position to assist businessmen with Soviet contacts' phone numbers and meeting arrangements. The visitor should note his hotel room phone number since calls are made direct and not through a switchboard. The Embassy phone number is 241-5882, 241-5070 or 241-4232 (weekend/night line). The latter should only be dialed for emergencies. The Embassy is open Monday - Friday 08:30 - 17:00 with a lunch break from 13:00 - 14:00.

7. Business Hours:

Office hours for Soviet organizations are 09:00 to 18:00 Monday to Friday. Lunch is usually 13:00 - 14:00, although appointments are sometimes scheduled during this time. Appointments are rarely scheduled before 10:00 and sometimes begin at 17:00. Bank hours are Monday - Friday 09:30 - 12:30. Business cards are generally exchanged at the beginning of the first meeting. Not all Soviet officials carry business cards; however, do not hesitate to have such officials write their names, positions and phone numbers for you. It is recommended that visiting cards be printed in both English and Russian. English language interpreters are usually provided by the host Soviet foreign trade organization. In any case, many trade officials speak English. However many companies, particularly when they are beginning to do business in the Soviet Union, find it helpful to hire their own interpreters to assist with travel arrangements, as well as business. Interpreters may also be hired at the International Hotel service bureau.

8. Communications:

Air mail usually takes a minimum of 10 days between Canada and the USSR. Long distance phone calls from the Soviet Union to Canada are extraordinarily expensive (three times the cost of phoning Canada-USSR) and may be booked through the hotel service bureau or by visiting the Central Post Office, 7 Gorky Street, Moscow. Some hotels now have the capability for direct dialing, from room phones, to other cities in the USSR. The international exchange number is 8-194. Speak very slowly and clearly and repeat names and cities until the operator fully understands you. Occasionally, the operator will want to know the expected length of your call. Many Canadian visitors find it more convenient to have their office phone them in the evening at the hotel once they have obtained their room telephone number. Telegrams to Canada usually reach their destination almost immediately and can be sent from the hotel or the Embassy (business-related and brief only). Western newspapers are virtually unobtainable in the USSR. Radio and TV broadcasts are in local language only but BBC World Service can be received on shortwave.

9. Departures:

You should reconfirm your flight by telephoning the local airline office 48 hours prior to departure or through your hotel service bureau. Check-in time at Moscow Sheremetyevo II airport is 90 minutes before departure. A bank, foreign currency souvenir shop, and snack bar are located at the airport. If you encounter any travel problems American Express maintains an office in Moscow: 21-A Sadova-Kudrinskaya, Moscow. Telephone: 254-0671, 254-2111, 254-4305, 254-4495. Telex: 413075 AMEXM SU.

10. Eating:

Service at restaurants is often extremely slow. The hotel's express buffet service is quicker and breakfast in your room (where available) can also save time. Restaurant specialties include borsch (beetroot and cabbage soup with boiled meat), solianka (cabbage soup), pelmeni (meat dumplings), bliny (Russian pancakes with sweet or savoury fillings), beef stroganov, kotleti po-kievski (chicken Kiev), julienne (mushrooms in sauce cup), crab salad, and black or red caviar (the former is expensive). Alcohol, including beer, is by law not served until after 14:00. Vodka and wines from Georgia and Moldavia are good. Usual meal times are 12:00 - 15:30 for lunch and 18:30 - 21:00 for dinner.

11. Restaurants:

Reservations are a must and can be made through the hotel service bureau. Moscow restaurants and night spots generally close relatively early at around 23:00. Among the recommended restaurants are the following: National, Aragvi, Prague (terrace in summer) and Continental, Mercury or Russky in the modern International Hotel. A quick lunch can be ordered at the German Bierstube at the International Hotel. Special high-level hospitality lunches and dinners are recommended at Moscow's most expensive restaurant, the Japanese Sakura restaurant, also in the International Hotel. Payment at most Intourist restaurants and Beriozka stores may be made by credit card (eg. American Express, Visa and Mastercharge). A number of excellent cooperative restaurants also exist in all parts of the city.

12. Gifts:

Tippling, while officially discouraged, is becoming more common. Foreign cigarettes, lighters, and Canadian motif lapel pins are very much appreciated. In terms of gifts for Soviet business hosts: hockey calendars, lapel pins, pens, ties, photo books about Canada and electronic calculators are always welcomed. Alcohol is rarely presented as a gift. An invitation to dinner or lunch at a good restaurant is often appreciated. Usually gifts are only presented at the conclusion of the final meeting.

13. Time:

Moscow time is Greenwich Mean Time (GMT) plus three hours. Between 1 April and 30 September daylight saving time is observed. As a benchmark, Moscow time is eight hours in advance of Eastern Standard Time.

14. Language:

While Russian is the official language of the USSR some Soviets do have fluency in the two leading foreign languages, English and German (in that order). It is also advisable for you to at least familiarize yourself with the Russian cyrillic alphabet so that public signs can be sounded out and recognized phonetically. You should also have the name and address of your hotel written down in Russian to show to taxi drivers. Moscow is a large sprawling city and ample time should be budgeted to travel between appointments. Soviets are extremely punctual for meetings and a late arrival can affect the climate for business dealings.

15. Entertainment and Shopping:

For evening entertainment: ballet, opera, concert, puppet theatre, and circus tickets may be reserved well in advance through the hotel service bureau. For souvenirs, the largest Beriozka store in Moscow is located across the street from the Novodevichy Monastery, a ten minute taxi ride from the Canadian Embassy. In this two-story store furs, glassware, lacquered boxes, dolls, and amber jewelry are good buys. Shopping hours are Monday - Sunday 10:00 - 20:00 (19:00 on Mondays).

16. Sightseeing:

During the inevitable gaps between meetings Canadian businessmen can enjoy interesting city sightseeing. Among the leading attractions are the Kremlin Armoury museum, Kremlin grounds and cathedrals, Red Square (including Lenin Mausoleum), Pushkin and Tretyakov art museums, Novodevichy monastery, and a one-day weekend trip to the old Zagorsk religious centre north of Moscow. Business and pleasure may be mixed at the USSR Exhibition of National Economic Achievement. This permanent park of pavilions and displays demonstrates many aspects of Soviet agriculture and industry. Each republic of the USSR has its own pavilion showing agricultural achievements complete with many samples and descriptive data. Among the favourite pavilions are the cosmos and atomic energy pavilions. The livestock, agricultural machinery, and grains displays are also interesting. Always ask permission before photographing people. Do not photograph airports, factories, military installations, railways, or any other scenes which could be considered to have anything other than touristic interest. You are advised to bring camera film for processing outside the Soviet Union.

17. Timing and Clothing:

Avoid business visits in August when many officials are on holiday. It is also recommended that the first two weeks of May (1-2 May and 9 May holidays) and first week of November (7-8 Revolution holiday) be avoided. Moscow closes most of its hotels to foreigners during the above periods. It is advisable to check with the Canadian Embassy to ensure that your trip does not conflict with major political meetings, international conferences, or large trade fairs often held in Moscow. When visiting wear warm clothing in winter with a heavy overcoat and a hat providing ear protection. Good water-resistant snow boots and warm gloves are also suggested. Moscow and Leningrad are known for long, cold winters with heavy snowfall. It is preferable not to wear any nylon clothes. Wear light woollens or other clothing in summer and take a raincoat and/or umbrella, especially for the European portion of the USSR. A pair of good walking shoes will be needed. Shorts are not usually worn. Evening dress is not required for ordinary entertainment and formal wear is non-existent. During both farm and

factory visits you will be expected to wear a tie and jacket. Laundry service at hotels is acceptable but dry cleaning is rare and of poor quality.

18. Overall:

In conclusion, exporters new to the Soviet market will likely experience all or some of the following sensations early in their marketing efforts:

- (a) Frustration: Business is often conducted at a slow pace but visitors should demonstrate patience, because if discussions are continuing the Soviet buyer is still interested. It is not unusual for businessmen to be kept waiting in their hotel room for a call that seemingly never comes. You may be out of contact with the Soviet party for days without explanation or even warning;
- (b) Isolation: Hotels for foreigners are segregated and there is little contact with local people. Communications with the outside world are cumbersome and a sense of having events beyond one's control can emerge;
- (c) Intimidation: In a centrally planned state the buyer is in control. Soviet trade officials are clearly proud of their negotiating skills, and demands in initial contracts can be aggressive, if not outrageous. This test of a newcomer to the market can involve all contract details including price, quantity, quality, delivery, packaging and arbitration procedures.

SOVIET UNION: FACTS AND FIGURES

OFFICIAL NAME: Union of Soviet Socialist Republics
(U.S.S.R.)

POPULATION: 287,500,000 (January, 1989)
Average annual growth rate 1.0%

POPULATION DENSITY: 12.7 persons per sq. km.

ETHNIC GROUPS: 52% Russians
16% Ukrainian
32% among over 100 other ethnic groups

MAJOR CITIES: (1986)

Moscow (the capital)	8,703,000
Leningrad	4,901,000
Kiev	2,495,000
Tashkent	2,073,000
Baku	1,722,000
Kharkov	1,567,000
Minsk	1,510,000
Gorky	1,409,000
Novosibirsk	1,405,000

AREA: 22,402,200 sq. km.
35.5% forests
16.8% pasture and hay
10.2% cultivated
37.5% other

LANGUAGE: Russian (official); more than 200
languages and dialects (at least 18
with more than 1 million speakers); 75%
Slavic group, 8% other Indo-European,
12% Altaic, 3% Uralian, 2% Caucasian.

LITERACY RATE: 99.8%

RELIGION: 18% Russian Orthodox, 9% Muslim, 3%
Jewish, Protestant, Georgian Orthodox,
or Roman Catholic; population is 70%
atheist.

CLIMATE: The USSR comprises several different
climatic regions, ranging from polar
conditions in the north, through
sub-arctic and humid continental to
sub-tropical and semi-arid conditions
in the south. Rainfall amounts are
greatest in areas bordering the Baltic,

Black Sea, Caspian Sea and eastern coasts of Asiatic Russia. Temperatures in various parts are as follows:

Moscow: - 9.4C (15F) in January
18.3C (65F) in July
annual rainfall - 630 mm

Vladivostok: - 14.4 C (6F) in January
18.3C (65F) in July
annual rainfall - 599 mm

HOLIDAYS: New Year's Day (January 1)
Soviet Army and Navy Day (February 23)
International Women's Day (March 8)
May Day celebrations (May 1-2)
Victory Day (May 9)
Constitution Day (October 7)
October Revolution (November 7-8)

OFFICE HOURS: Government: Mon-Fri 09:00-18:00
(Lunch 12:00-13:00)

Banks: Mon-Fri 09:30-12:30
Sat 09:00-11:30

WEIGHTS & MEASURES: The metric system is in force

LOCAL TIME: GMT+3 hours in Moscow, other time zones eastward range to GMT+13 hours

ELECTRIC CURRENT: 127 and 220 volts AC, mostly used -
220V, 50 Hz AC

CURRENCY: 100 kopeks = 1 rouble.
Exchange rate: 1 rouble = \$1.91
Canadian (Feb. 1989)

POLITICAL SYSTEM: Socialist state, comprising 15 Union Republics. The 2,250 members of the Congress of People's Deputies, some of whom won their position in the national elections of March 1989, will select from amongst themselves 750 representatives for the Supreme Soviet. The President will then be elected by the Supreme Soviet.

POLITICAL PARTIES: The Communist Party is the only legal political party

PARTY SECRETARY: Mikhail Gorbachov (March 1985)

Net Material Produced (NMP) Components (1986):

Consumption 74.0%
Investment 26.0%

Origins of NMP (1986):

Mining & Manufacturing 44.0%
Agriculture, Forestry, Fishing 21.0%
Wholesale & Retail Trade 17.0%
Construction 12.0%
Transport, Storage & Communications 6.0%

Components of Foreign Trade (1987):

	<u>Exports</u>	<u>Imports</u>
Fuel & Raw Materials	47.5%	-
Machinery, Instrument & Transport Eqpt	15.5	41.4%
Chemicals	3.0	7.6
Base Metals	4.4	5.7
Wood, Pulp & Paper	3.1	1.2
Textile Fibres & Yarns	1.5	1.5
Fabrics, Clothing & Footwear	-	7.7
Foodstuffs	1.5	15.5
Others	23.5	19.4

Destinations/Origins of Foreign Trade (1987):

	<u>Exports</u>	<u>Imports</u>
Socialist Nations:	62.2%	65.9%
East Germany	11.2	11.7
Czechoslovakia	9.9	11.4
Poland	9.6	10.4
Western Europe:	20.1	19.7
West Germany	3.4	4.3
Italy	2.6	2.8
Finland	2.5	3.4
Other Countries:	17.7	14.4
Canada	0.1	0.7
USA	0.4	1.5
Japan	1.4	2.7

Source: Economist Intelligence Unit, Country Profile, USSR
First Quarter 1989

SOVIET MARKETING CHECKLIST FOR CANADIAN EXPORTERS

Preface

Since Mikhail Gorbachov became Communist Party General Secretary in 1985, the world business community has increasingly focused its attention on the course of Soviet economic reform. Of particular interest has been how stepped-up modernization and decentralization from the top would affect commercial opportunities for Western companies. Glasnost, perestroika (meaning economic reorganization and renewal), greater plant efficiency and labour productivity, retooling, waste recycling, new cooperatives and joint ventures are all new signs of the times.

The USSR realizes that to reduce economic shortages, in particular supplies of food and consumer products, while at the same time increasing technological sophistication and export competitiveness, radical shifts in economic thinking and structure must take place. For the USSR to remain the world's third largest economic power and maintain its cherished superpower status, domestic agriculture and industry must be made to work faster and smarter.

In light of the downward trend in world oil prices and the enormous hard currency costs of food (mainly grain) imports, two priority sectors where Canada's world class expertise under similar conditions can be profitable are medium-high technology applied to agriculture and oil/gas extraction. For the purposes of the following marketing checklist we shall restrict ourselves mainly to agrotechnology.

While some elements of the over-enthusiastic Western press and business worlds may have been initially swept up by the winds of the Gorbachov economic revolution, doing business with the Soviets will continue to demand patience, perseverance, connections, and special expertise. Business customs in Moscow remain extremely demanding, with Soviet negotiators and end-users setting special conditions which demand considerable investments of time and money guided by deft diplomacy; all qualities that do not come easily to even the largest and best established Canadian bottom-line-oriented companies.

However, the fact that over one hundred of the West's best corporations and banks maintain offices in Moscow is testimony to the fact that properly-marketed goods and services can translate into profitable business. The objective of the following checklist is to provide Canadian exporters and government trade-oriented personnel with a synopsis of do's and don't's in the unique, often mystifying, Soviet market.

Introduction to the USSR Market

1. In a centrally-planned economy the first step in evaluating whether a particular Canadian product fits the market is to become familiar with the Five-Year plan. The USSR's 1986-1990 plan highlights key weaknesses which require correction, often with sophisticated goods from the West. Market potential theoretically exists if a particular hard currency product contributes to the solution of any of the following economic problems:
 - (a) A dwindling labour supply and slowdown in work force growth at a time when labour productivity is disproportionately low by industrialized countries' standards.
 - (b) Relatively low level of automation and increasing need to use resources more effectively with less waste (i.e. less material for each unit of production). Main labour shortages are in construction, transport and light food industries with low levels of mechanization in agriculture and the network of transportation/warehousing which is stretched to the breaking point.
 - (c) Slowness in ensuring the swift and effective transfer of new scientific ideas from conception to broad application and commercialization.
 - (d) Rising cost in extraction of raw materials such as oil/gas, minerals, coal, and forest products from increasingly remote and inhospitable Arctic and Siberian regions in difficult cold weather conditions similar to those found in Canada. Geological exploration/drilling equipment and mining machinery are backward.
 - (e) Need to modernize existing production facilities and raise the technical quality and reliability of export products such as machinery (including

spare parts), vehicles, instruments and apparatus. More advanced machine-building (particularly cars and trucks) is a leading national requirement.

- (f) Need to move from "extensive growth" to "intensive growth" in search of a new post-industrial engine of growth to replace the flagging petroleum sector.
 - (g) A bottlenecked transportation and communications sector in a country spanning eleven time zones.
 - (h) Sloppy construction and poor building maintenance, including energy waste, and growing environmental protection requirements.
 - (i) In agriculture, the need to improve plant breeding in line with difficult growing conditions, farm mechanization to enhance seeding and harvesting while reducing soil erosion, storage capacity aimed at eliminating massive waste, animal husbandry for improved breeds and meat/dairy output, livestock nutrition and veterinary care, and food processing and packaging designed to improve consumer choice and convenience.
2. In surveying the Soviet market, businessmen should not lose sight of the fact that the USSR is a major world producer and trader. Despite low yields, the sheer size of the country ensures that in absolute terms it is one of the world's leading agricultural producers. Despite a series of disastrous harvests caused mainly by adverse weather and unfavourable geography, the USSR is the world's top producer of wheat, potatoes, sugar, and milk. It rivals the USA in cotton and Australia in wool. Only Japan has a bigger fish catch. Yet the USSR is the world's leading importer of grains due largely to post-harvest losses of 20-30 percent.

On the non-agricultural scene, the Soviet Union is the world's biggest oil producer and second largest natural gas producer. Furthermore, the USSR is the global leader in the production of iron ore, pig iron, crude steel, manganese, zinc, nickel, lead, tungsten, and titanium. Above and beyond raw materials production and trade, the USSR has gained an enviable

reputation for scientific research prowess (particularly in mathematics and physics). It also sells advanced technology licenses and some machinery centred in the heavy industry sector (for example steel-making technology and machine tools).

3. Despite past successes enumerated in (2), Gorbachov's party and management team demonstrates increasing impatience with repeated failures and lack of progress in engineering the shift from inertia and reliance on old methods to an economy based on diligence, competence, innovation, initiative, and sharper organizational training. Consequently, a long-term national campaign has been launched to boost decentralization and incentive bonuses in hopes of removing obstructions in the key sectors already described. Among the reform developments and goals now affecting the traditionally static market for Western goods are the following:
 - (a) Increase in the initiative given to rural workers allowing farms to freely market surplus production;
 - (b) Provision of hard currency incentives to enterprises in the expectation of improving exports to the West and Japan;
 - (c) Introduction of some demand-related pricing;
 - (d) Increase in freedom of individual enterprises to contract with one another without central interference;
 - (e) Reduction in the scope of Gosplan's central power;
 - (f) Acceptance of unemployment and bankruptcy;
 - (g) Grouping of state-run enterprises into concentrated groups of "trusts" following the East German "Kombinat" system;
 - (h) Free elections for management positions in enterprises;
 - (i) Joint ventures with Western companies on Soviet territory;

- (j) Reduction in dependence on energy exports;
 - (k) Reduction in hard currency imports of foodstuffs.
4. Competition amongst exporters for the Soviet market is fierce, given the more favourable terms of trade between the USSR, Comecon, and countries such as Finland, Turkey, and India. Trade is often utilized as a lever to reward political performance. The Soviets are also sensitive about bilateral trade imbalances which are not in their favour and Canada has consistently had a large trade surplus with the Soviet Union. A product already available for export from Czechoslovakia, for example, would have a relatively better chance of being sold to the Soviets than the same product from Canada. Apart from annual grain purchases, the USSR limits its hard currency imports to highly specialized and technically superior machinery, equipment, and technology from the West. The following provides a general overview of where such competition originates:
- (a) Federal Republic of Germany: As the USSR's top Western supplier, the FRG has established exports in energy, chemicals, machine tools and consumer goods industries. The FRG is now seeking to expand sales into the agricultural sphere;
 - (b) France: All sectors, particularly agriculture and food;
 - (c) Japan: The long-term cooperation approach has prompted many Japanese companies to establish trade offices in Moscow. Japan supplies mainly technology for extraction and processing of energy resources in return for access to raw material;
 - (d) United Kingdom: Strong in chemical plant engineering and heavy industry. The UK Chamber of Commerce established a trade office in Moscow in 1987;
 - (e) Finland: Special clearing arrangements (acceptance of roubles) based on oil imports have enabled Finland to supply both advanced technology and construction services (eg. icebreakers and hotels).

5. Finally, businessmen should be alert to the probability that the continuing hard currency shortage due to oil price declines combined with the extension of more responsibility in spending decisions (including hard currency transactions) to the regional and enterprise level will lead to more counter-trade demands in the future. Counter-trade (particularly compensation deals) and/or leasing may emerge as pressure mounts for the USSR to raise export earnings before making further expenditures. Unfortunately, the USSR Ministry of Foreign Trade and related foreign trade organizations (FTO's) have so far failed to establish an adequate marketing network abroad to achieve quick results. The Ministry has traditionally preferred to avoid counter-trade and may require some time before its officials master its intricate details.
6. On the financial side, the USSR has for a long time maintained an excellent record of punctual repayment of debts. However, whereas in the pre-perestroika times, a business contract in the USSR had basic government guarantee, this is no longer the case; under the USSR law on State Enterprise, the Government of the USSR no longer will take responsibility for the legal acts of Soviet enterprises or cooperatives. Thus, if a Canadian exporter enters into business arrangements with unknown Soviet organizations, it will be worthwhile to request bank guarantees from Vnesheconombank prior to delivering the product. To date, Soviet insolvency has not affected many export transactions, however, the trend to reduced central government involvement does mean greater risks related to payments.
7. Decentralization of the Foreign Trade Apparatus

With most Soviet enterprises being granted, in April 1989, the right to become involved in foreign trade, many new Soviet players will be entering the foreign trade market in the USSR. Initially this will cause confusion and greater delays in procuring business. However, if the right Soviet partner is chosen, the potential for new commercial relationships are excellent. This decentralization will mean higher marketing costs due to further travel requirements to end-users and new purchasers. It will also create credit problems, due to the unknown credit worthiness of many of the new players, and the limited hard currency assets which they have available.

Decentralization will also mean a narrowing of counter trade possibilities as each purchasing entity will seek to finance its purchases with sales from its own enterprise.

8. Joint Ventures

Increasingly, long term business relationships in the Soviet Union require Western partners to enter into joint venture agreements with Soviet organizations. These ventures can be quite complex due to problems associated with establishing full time western employees in the USSR, dealing with Soviet management techniques and repatriating profits, while the rouble is non-convertible. For further information on this technique for doing business, it is suggested that you contact External Affairs, USSR and Eastern Europe Trade Development Division (RBT), Department of External Affairs, 125 Sussex Drive, Ottawa, Ontario K1A 0G2. Telephone: 996-7107. Telex: 053-3745 or the Commercial Division of the Canadian Embassy, 23 Starokonyushenny Pereulok, Moscow, USSR.

9. Cooperatives

As of April 1989, Soviet production cooperatives, enterprises formed and operated by individuals not the government, will be permitted to deal in foreign trade. Although regulations have not been released as of the date of this printing, it is expected that production cooperatives which are officially registered will be permitted to have business contacts with western business. Credit risk information on these new organizations is very difficult to procure and many of the managers are neophytes in business. However what they may lack in experience is often more than made for up with drive and initiative qualities which according to the government were often lacking in foreign trade organizations.

SOVIET BUSINESS PRACTICE

1. Faced with an often mysterious and frustrating Soviet decision-making system, Canadian exporters will be forced to demonstrate great patience in the long-term process of developing a trustworthy commercial relationship with risk averse foreign trade bureaucrats and anxious end-users. Soviet import decisions based on an extensive approval process can take weeks or years, and even established companies have difficulty in understanding why a particular offer was rejected or accepted and by exactly whom. Despite the foreign trade reorganization begun on 1 January 1987, the USSR Ministry of Foreign Trade and its FTO's remain the main repository of information on the world market, ie. prices, market conditions, reliable suppliers, and so on. Similarly, the managers of industrial and agricultural enterprises are the main sources of information on what plants need or can produce and at what cost.

2. Exporters must realize that delays may result from bureaucratic "turf" squabbles. Foreign Trade Organization Directors-General are heavily burdened by routine managerial responsibilities such as overseeing market research, legal and foreign exchange operations, and personnel policy. At the same time, failure to delegate is a long-standing bad habit in a Soviet system which demonstrates a surprising shortage of secretarial and clerical staff, meeting rooms and even telephones, typewriters and photocopying machines. The tendency for "one man management" in FTO's and ministries is unfortunately reinforced by the general bureaucratic reluctance to risk having a subordinate make a serious mistake while the boss is absent on vacation, medical leave, or business. Such coordination and timing problems characteristic of the system can and do lead to missed sales and higher costs of doing business. These complications consume much time, energy, and money before an exporter can establish and build credibility and trust in the Soviet market. You are cautioned not to confuse bureaucratic rigidity and inertia with intentionally devious behaviour.

3. The Soviet buyer is constantly seeking dependability of supply, reliable quality, uninterrupted high performance, spare parts and technical support, and the delivery of an undamaged product in full conformity with both the letter and spirit of the contract. In order to satisfy the

potential buyer, exporters must transmit the correct signals through proper channels at the right time. Having established that a certain market potential exists, the exporter must make key decisions on how to approach the market: in summary, how frequently salesmen should visit the USSR and how demand for the product is to be created - by visits to end-users, by advertising or the distribution of Russian language technical brochures, by participation in trade fairs, by membership in government - led missions, by staging private company displays and/or seminars, by hosting incoming missions of buyers and/or end-users in Canada, by signing a protocol for technological cooperation, or by securing Soviet press coverage of a product's superior advantages.

4. In theory, the easiest way of determining market potential is a written approach to the appropriate FTO or end-user, depending on the product. However, written inquiries and follow-up personal visits may not yield sufficient information and often prompt exporters to abandon their sales efforts. But Soviet traders are extremely busy and overworked and are therefore sometimes tempted to reduce the number of visitors by informing the Canadian firm that no demand exists. Some Western companies have accepted such misleading information and dropped their marketing campaign, only to find out later that more persistent Western competitors have managed to get on the import list.
5. As a matter of protocol, successful exporters tend to involve their senior executives in marketing efforts with a view to underlining high level commitment to the firm's relationship with the Soviets. Such trade negotiations may demand strategic considerations as well as technological so engineers and salesmen are only effective to a certain point. Once a sale is made, the best advertising for future repeat business is excellence in contract execution, particularly in the meeting of deadlines and the provision of solid technical support. First impressions count and the Soviets have long memories of any disappointments or slights. The following checklist items of advice are meant to assist you in conducting business with the Soviets:

- (a) Innovation: Be ready to be flexible in your marketing approach. A joint venture arrangement with firms in third countries such as Finland, India, or Turkey may be advantageous. A compensation deal for sale of some or all resulting product in Canada or in a third country might also be worth considering. Formation of a consortium allows companies to share risk and heavy front end marketing costs. Place an accent on buying to attract Soviet attention before your sales pitch;

- (b) Embassy Assistance: Seek guidance and advice from the trade commissioners stationed at the Canadian Embassy in Moscow. At the same time, contact the Soviet trade mission in Ottawa for their view of market potential. Capitalize upon the agreement between the Chambers of Commerce of Canada and the USSR establishing a Trade Council located in Ottawa, by requesting an introductory call on the USSR Chamber and Trade Council for market guidance. Trade commissioners can provide initial indicators of potential and names of trade contacts and recommended marketing agents. They can also arrange meetings and carry out follow-up after marketing trips. Investigate PEMD financial assistance possibilities;

- (c) Agents: At the outset there is usually no real need for a marketing agent in Moscow. Only after a letter of intent or a contract has been signed, indicating possible repeat business, should an agent be hired. Some firms prefer to approach the market themselves with the logistical support of a Moscow-based marketing expert for trade fairs and seminars. For example, many of the leading Japanese and West European trading houses maintain offices in Moscow. Agents can identify new sales opportunities in the monitoring of project, investment, and import plans. They can also maintain and develop key personal relations with end-users and FTO's in assuring the necessary persistent follow-up;

- (d) Trade Shows: Most firms agree that trade fair participation is a useful means of fostering goodwill and establishing a company's name in the marketplace. Virtually no company expects fair participation to result in a short-term increase

in sales. Instead, the long-term view must prevail. Once a company begins to participate in fairs of a particular country it will have to attend on a regular basis if it expects to achieve results. Companies may choose the large specialized exhibition for selected industrial sectors favoured by the USSR, specialized exhibitions reserved for foreign firms only, national "solo" fairs organized by Western governments (general or specialized) and private company displays for specially chosen categories of visitors. Before choosing any of these trade fairs, companies should determine which of their direct competitors will be present at similar events, whether organizers plan to schedule technical symposia in conjunction with the fair and what other type of special events may be scheduled to attract influential buyers.

Several months before the fair draw up a list of the names/titles of FTO, enterprise and institute personnel who are likely to influence final purchase decisions;

Write a letter to each official listed informing him of the products which the company plans to exhibit and enclose a descriptive brochure in Russian for each product. Ask each official to make suggestions for other items from the firm's product range which could be included at the fair;

A few weeks prior to the fair send another personal letter to all those responding to the request. The letter should thank the officials for their input and propose a meeting at the company's exhibit during the fair;

Within one month following the fair contact each display invitee/visitor. Enclose a standard set of questions to test reaction to the displayed products and note the replies in a report gauging the impact of the fair on key buying influences;

- (e) Seminars: Company experience demonstrates that more concentrated events such as symposia and special displays have a greater impact on sales performance than trade fairs/exhibitions. Product specialists/technicians are able to give talks and demonstrations to institute researchers

assigned to evaluate the products, FTO purchasing directors and even end-users. Such symposia are always welcome in the USSR because they promote the effective presentation of complex technological data about complicated products, materials, and processes which buyers find difficult to fully grasp.

The key to success in this marketing activity is the selection of the proper buyer audience. The cost of making product specialists available to a private display is usually legitimized by having the technical team stage similar symposia in neighbouring countries.

In terms of timing, symposia/private displays should be held once the company has launched its product in the market. This stage may be reached following a general trade fair/exhibition. Prior awareness of the product among FTO and client ministry buying influences elicits curiosity and assures better seminar attendance despite a possible weak image or profile in the market. Ideally such seminars should have the sponsorship of a ministry, FTO, institute, or state committee (such as Science and Technology). A protocol of cooperation can set the stage for such exchanges aimed at mutual familiarization;

- (f) Publicity: Companies report that advertising, mainly in the Soviet technical press, has positive value if viewed in the long term. Advertising may be placed in the state advertising agency in specialized or general journals, depending on how potential demand for the product is structured. Readers of Western company advertising who manage end-user plants and other enterprises can request further product information from the responsible FTO or sometimes the company itself. Contact could be established with the State Committee for Science and Technology and its FTO Vneshtekhnika which specializes in testing Western products in the USSR. Technical literature on new products should be routinely sent to the Division of Industrial Catalogs, State Public Scientific-Technical Library, Ploshchad Nogina 2/5, Moscow;

- (g) Budget: Be prepared to incur higher marketing costs than in the West due to higher costs of preparing more detailed quotations, higher and more frequent travel costs, inclusion of spares in the offer, visit costs of Eastern technicians to the West, and excessive local representational office costs. Your proposal will be scrutinized on both its technical and financial merits. A serious offer will contribute to developing a credible reputation and could enhance subsequent prospects even though an immediate contract may not be won;
- (h) Barriers: Good products travel on well communicated ideas. Apart from the language barrier, the Canadian exporter faces lack of information on specific requirements of the buyer, technical standards (particularly health and testing/certification regulations), end-use environments and needs, competitive tenders, and foreign competitors. Internal communications within the Soviet bureaucracy are also difficult - buyers have not identified with the end-users and therefore favour price discounts over needs or quality;
- (i) Big is Beautiful: Soviet buyers are partial to large Western corporations since they have found it simpler and more convenient to deal with fewer partners possessing wide product variety over a long confidence-building period of time. Larger companies also have stronger financial resources with which to afford comparatively high marketing costs and long delays before achieving return on investment;
- (j) Lack of Co-ordination: You will usually find that the potential customer suffers from a lack of clear objectives, priorities, and continuity. Furthermore, the Soviets often find it difficult to locate the right decision-makers within their own industry and agriculture bureaucracies. The Embassy Commercial Division sometimes finds itself acting as a bridge between buyer and end-user by focusing attention on a new product opportunity;
- (k) The Negotiations: Your company should send a negotiating team skilled in all aspects of negotiations. For example, technical clauses should be handled by an engineer. Commercial or

legal matters should be handled by an experienced contract specialist familiar with Soviet contract law. In most cases, a negotiating team consists of two people and in some cases a third acting as lawyer. In certain circumstances it is also advisable to bring an interpreter/note-taker. The Canadian team should have full authority to negotiate legally binding agreements even when discussions take an unexpected turn. In some cases senior executives should be in attendance at the start of talks. Under other conditions, top managers are kept in reserve in case of deadlock. The Soviet side is likely to include FTO and end-user representatives and an interpreter/secretary who doubles as a protocol escort to and from meeting rooms;

- (l) Foreign Trade Officials: Soviet negotiators have become better educated, younger, pragmatic, and more business-like so commercial dialogue is more understandable, normal, and comfortable. They are more preoccupied with economics, law, management, and engineering than ideology. Jokes and small talk are not as routine as in the West. You are seldom invited home or out for any entertainment or sports. Dinners are occasionally held but only representatives of each Soviet organization attend, leaving their spouses at home. Vodka and other spirits are less common now at official functions and should never be offered as gifts. Soviets rarely reply in advance (RSVP) to invitations cards. They require at least one week's advance notice for lunch, dinner, or reception invitations.
- (m) Risk-averse: Soviet negotiators are also known to be extremely tough, experienced, and well-schooled negotiators. However, they are risk-averse and if the deal pays off there is little to gain individually. If the deal sours, the negotiator can encounter serious trouble. Negotiators in the USSR therefore enjoy certainty: typical contracts are elaborate so as to foresee all eventualities. Above all, the contract should contain a carefully drafted arbitration clause (USSR Chamber of Commerce in Moscow or preferably Stockholm) as a deterrent to disputes. The Soviets prefer negotiated dispute settlement over litigation and codified business law. The Soviets use a standard contract often

on pre-printed forms. Pay particular attention to delivery clauses since these usually carry relatively heavy penalties for late or incomplete delivery. The usual "Force Majeure" clause mentions the familiar words "circumstances beyond our control" but these do not generally include strikes, lockouts or other forms of industrial disputes. Penalties varying 5 - 10 percent of contractual value are strictly interpreted;

- (n) Brochures: Prepare a well illustrated and technically detailed (metric) brochure in Russian for circulation. Avoid overly vague "advertising" glossy brochures which describe the company rather than the product and its comparative advantages. Numbers and facts key to convincing senior engineers and commodity experts that the product is technically superior and can play a role in fulfilling the plan should be highlighted. The Academy of Sciences has recently joined the usual gates of access: the Ministry of Foreign Trade and its Foreign Trade Organizations (mainly for commodities), industrial ministries (mainly for machinery and equipment), and the State Committee for Science and Technology (for highly advanced and general turnkey technology);
- (o) Buyer's Tactics: Dealing with medium and low level bureaucrats is an enormous waste of time and money. Your up-front costs will be higher than in most market economies but for some companies the long-term rewards warrant the effort. It is important to move up as soon as possible to the ministerial level where crucial decisions are made, particularly with regard to large deals. Remember that you may be placed under considerable financial and time pressure to negotiate while the Soviets are adept at playing bidders off each other. For example, you may be faced with the following scenario:
 - (i) negotiations first with the weakest or least experienced competitor to set the bottom line for other negotiations;
 - (ii) offers of your competitors will be revealed;
 - (iii) time is almost always on the Soviet side so they do not share your sense of urgency;

- (iv) negotiation teams can be completely and frequently changed at any stage in the discussions;
 - (v) the Soviet side will seek to establish price first and then introduce numerous additional demands. You should therefore never quote a final price until full agreement is reached on each point;
 - (vi) the buyer will often imply the awarding of an order much larger than is actually intended in order to reduce the per unit price and/or improve the terms;
 - (vii) the Soviet buyer will not shrink from simultaneously negotiating with your competitor, sometimes in the adjoining room,
- (p) How to Respond: Do not hesitate to make direct comparisons with your chief competitors. Be prepared to walk away from a deal. You must know your exact terms of price, delivery, training and installation before negotiations begin. Raise the most difficult points early to allow time to compromise and clear the obstacles. Begin with an agenda and note all names of those across the table. The buyer will often "leak" information on purchase requirements early in the year but prolong talks over many months in order to depress prices. Often the buyer will announce that funds must be spent and goods delivered by November/December, thereby implying "take it or leave it". Soviets are protocol conscious and at a certain point a high level Canadian executive should visit Moscow. A chief executive officer or vice-president can open doors and ease the shift to the higher decision-making level;
- (q) Stimulate Interest: Stage an event with Canadian government support (eg. during a ministerial visit) that calls for the signing of a protocol of co-operation, letter of intent, or preliminary agreement. Invite the proper Soviet official to company headquarters in Canada at your expense. Organize plant tours and business meetings with leading company and government officials. A program with as much business-related activity as possible should be included in a written invitation to the most senior levels for a one-week delegation visit;

- (r) **Persuasion:** If the buyer/end-user is genuinely interested in your product, you may be invited to present a technical seminar in Moscow. It may be absolutely necessary to make such a presentation (supported by audio-visual aids) in Russian in order to elicit a purchasing decision. To avoid releasing excessive "free" information you must provide just enough information about efficiency, productivity, and quality advantages to tantalize your audience;

- (s) **Follow-up:** Personal contact is key. There is no substitute for regular face-to-face contact. Once an initial sale is made, a good locally-based agent (in Moscow) or Western Europe (Switzerland, Vienna, Helsinki, or London, for example) can be identified with the help of the Canadian Embassy Commercial Division. An agent is more cost effective than dealing directly from Canada. If you already sell in Eastern Europe or Cuba, for example, make certain to tell your Soviet counterpart because such activity bolsters and reinforces that vital level of confidence.

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