

RELOCATING TO RUSSIA: CURRENT ISSUES FACING COMPANIES AND EXPATRIATE STAFF

~ A WHITE PAPER FROM PRIMACY RELOCATION ~

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I. EXECUTIVE SUMMARY

International companies and their HR directors face unique challenges in successfully transferring employees to Russia for the intended duration of their assignments. Determining benefits, locating rental or temporary housing, and recommending international schools are critical support services for individuals. On a more organisational level, HR directors must anticipate personal and economic risks while weighing the advisability (or inevitability) of local employment contracts and work permits.

Each of these relocation-related topics present their own set of challenges to the relocating expatriate staff and their families. However, the simple process of enumerating and prioritising all of them (the purpose of this white paper) goes a long way in preventing each challenge from escalating into a crisis or a failure.

Whether a company or organisation operates its own relocation programme or manages it through a third-party provider, its international HR director must be prepared to address these key questions in ensuring the competitive success of individual assignments in Russia:

- What benefits are usually provided?
- What is the procedure for obtaining company and individual work permits?
- What is the status of the rental and temporary/serviced housing markets?
- What are the international schooling options?
- What is the level of personal risk to expatriates in Russia and what security assessment measures should the employer take?

SARAH COLLINS

*Managing Director
Primacy Relocation
London*

CHARLES HECKER

*Senior Consultant and
General Manager
Control Risk Group
Moscow*

OLGA TODORENKO

*Relocation Consultant
Moscow*



III. SITUATION OVERVIEW: THE RUSSIAN ECONOMIC LANDSCAPE

Winston Churchill famously described Russia in 1939 as a 'riddle wrapped in a mystery inside an enigma,' an observation that has held true across successive generations and economic systems. Casual observers have only a vague idea of Russia's realities, especially relating to its emerging role in the global marketplace or as an assignment destination for expatriate staff.

Since the last major economic crash in Russia in the late 1990s, international companies have approached business in the former Soviet Union with a justifiably wary eye. Following President Vladimir Putin's social and economic reforms, foreign businesses have again started to deploy staff and other resources to Russia. However, recent terrorist attacks and an apparent attempt by the Russian government to take control of privatised assets have moderated the trend.

The expatriate employment environment in Russia is unique. No other economy has experienced so broad and swift a change in direction in modern memory. Visually, Russia presents the newcomer with a composite of the extravagant glories of imperial Russia and the drab legacies of the Soviet era.

Running a business enterprise in Russia offers many advantages. The country is evolving as a principal magnet for foreign investment with a burgeoning foreign business community. The country has a highly educated workforce with relatively low labour costs. There is a massive growth potential, plentiful natural resources, and a rich cultural tradition—art, literature, music, ballet, history, and science.

The disadvantages, however, are just as abundant. The archaic and complex bureaucracy harbors an ambivalent-to-hostile attitude to foreign companies. Then there's the tax system, corruption, the harsh climate and pollution, and a wealth gulf as wide as any developing nation's with a tiny, emerging middle class. The highly educated workforce is nevertheless short on western business skills or service ethics.

This white paper began as an open forum on expatriate employment issues in Russia, organised by Primacy Relocation at the Institute of Directors in London.

III. OPERATIONAL CHALLENGES

For the international HR vice president or global relocation director managing assignments in Russia.

A. Administrative Issues

The primary administrative issues facing expatriate staff or their employers include visas, company work permits, individual work permits, secondee (contractor) work permits, changes in documentation requirements, and local authorities' variable interpretation of regulations.

'Russia under Mr Putin is no longer – if it ever was – on a clear path towards economic liberalism'
– *The Economist, December 11th, 2004*

'Continuous growth makes Russia, although still considered by some a high-risk location, one of the most attractive places for... multinational investment'
– *Ernst and Young CIS Report, December, 2004*

'Russia is a riddle wrapped in a mystery inside an enigma'
– *Winston Churchill, 1939*

Visas in Russia fall into two categories, business and non-business. They must be registered on entry to Russia (within three to five days). It is permissible to register using a temporary address or hotel.

Business Visas are valid for one year and are set up for multiple entries. They should be issued by a corporate 'invitation letter.' Approval of an invitation letter by the Russian Ministry of Interior takes 30 days. An application to embassy takes one day to one week. This process requires Visa Support Registration, which in turn requires a Company Work Permit.

Non-Business Visas can be single-entry, double-entry, or date-specific. The visa holder's passport must be valid for six months after the date of entry.

Visa Support Registration is the process of registration with the local Russian passports/visa authority. The timeframe for this process is two to three months. Inspectors will physically visit the company to ensure it's a real business entity. The process includes registration with the central UVIR (Ministry of Interior) who will interview the company's local general director (general manager). The general director must have a work permit.

Company Work Permits are required of any Russian-based [domestic or foreign-owned] business wishing to hire foreign nationals. Extensive documentation is required for initial application to the Department of Employment, Ministry of Interior. Further documentation may be required on an ad hoc basis. Once the application is submitted, the process time is normally four to eight weeks, assuming documents are readily available. The company work permit will be valid for one year and it can cover more than one employee. The permit must state the job titles and nationalities of each employee, but not their name—take advantage of this flexibility.

Individual Work Permits are applicable once a company work permit has been obtained. Work permits are only issued to employees with local contracts. These should be 'simple.' This simple process includes submitting various personal documents, including a recent HIV test (no older than two months), copies of passport and visa, and higher education certificates. The individual work permit generally takes two to three weeks. Work permits are also legally required for medium-term secondees if in Russia for longer than one month.

Secondees (or contractors) are individuals employed by one legal entity outside of Russia who is working for another legal entity in Russia. It is an increasingly popular method of employment.

Work Permits for Secondees do not 'generate' any presence of the legal employer in Russia. This allows the employees to continue normal employment terms, compensation, and benefits. The arrangement enables a corporate tax deduction for the host company. Russian immigration authorities are now more comfortable with secondments, but a workable system for issuance of work permits is still under legislative review. Until then, pragmatic workarounds

Administrative Issues:

- *Visas*
- *Business Visas*
- *Non-Business Visas*
- *Visa Support Registration*
- *Company work permits*
- *Individual work permits*
- *Secondee work permits*
- *Company structure and roles*
- *Statutory registrations*

include employment/consulting contracts—which may affect the deductibility of offshore costs—and regular trips abroad to avoid continuous residence in excess of one month.

On a side note regarding **Company Structure and Roles**, the role of the Branch General Manager/General Director, a common expatriate position in Russia, is very critical. He or she is responsible for signing every contract or agreement, notarising documents, and use of the company stamp. If the General Director is mobile, it is critical to issue power of attorney to another, more permanently based staff member.

Statutory Registrations needed to employ Russian nationals include the State Statistics Committee Pension Fund, Mandatory Medical Insurance Fund, and the Employment Fund.

B. Employee Benefits

The expatriate headcount in Russia is likely to rise by 23 percent in 2005. This increased demand for suitable transferees has pushed up compensation and benefits demands while the national inflation rate has been running a steady 11-12 percent per annum.

Given this competitive context and country-specific special needs, the menu of standard employee benefits resembles a mixture of military-style measures and senior executive-class perquisites.

Hardship allowances, depending on location, can add 10 to 25 percent to basic compensation. Tax consultancy is typically provided, especially for expatriates. Employers typically pay all or part of housing costs. Short-term, serviced accommodations are offered, usually up to 45 days, along with household goods (HHG) moving and customs clearance under Temporary Import laws. Expatriates normally have access to western medical centres and evacuation insurance. Employers often cover international school fees and the very critical spousal support. They have ruble bank accounts set up for them, car and driver or taxi allowance, and club memberships and memberships in networking groups. Additionally they may have housekeeping/cleaning services, cross-cultural and language training, family meals allowance, and even home delivery of bottled water.

Recruiting and mobility issues within the Russian workforce presents different challenges. Labour mobility continues to be restricted by an under-developed housing and mortgage market, housing shortages in many cities, and the continued existence of residency permits and registration. The availability of subsidised housing and cultural ties often makes workers reluctant to move. Also, many workers are effectively tied to enterprises that can give them credits at the company cafeteria and grocery and the hope of future salary payments. This lack of labour mobility across regions significantly affects wage rates and employment. Nonetheless, mobility across professions and within regions is improving, as workers attempt to

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adapt to the needs of a market economy. As stated earlier, the Russian labour force is generally highly skilled and well educated.

C. Household Goods and Customs

Even the most inveterate move-it-yourself nomads will require expert assistance in managing the import, storage, and delivery of household goods in Russia. There are a limited number of international moving companies with expertise and necessary contacts in Moscow and St. Petersburg. The good ones are competent with international forwarding services, door-to-door or door-to-port delivery, storage, export packing, and import/export customs formalities at the expatriate's new (or soon-to-be vacated) residence. The most common customs approach is Temporary Import mode.

D. Housing and the Property Market

In choosing an apartment based on its location, one always makes a compromise between work, school, shopping, and transport. As to the building itself, a secure entrance is critical, equipped with a videophone at the very minimum. Doormen do not solve the problem. Other necessities are well-lit common areas and an easy fire evacuation route. Parking and street access must be well lit and secure. Gauge potential new neighbours by how comfortable they make you feel.

Ensure that the apartment unit has a steel door with a four-way bolt, a 180° peep-hole, and a videophone. Find out if the flat can handle TV, DVD, VCR, MP3, microwave, cordless phones, hairdryer, mobile chargers, laptop, and food processor. Check the security of the windows, too. Check the operability of the apartment's boiler, air conditioning, and gas supply.

Learn about the landlord. Is he a distant real estate investor? A development/management company? An aging pensioner? A money-laundering gangster?

Standard leases should be available in Russian and English and are rarely notarised. Rental terms are typically one to three years, depending on registration. Early lease termination by tenant requires a one to three month notice. Early terminations by the landlord are rare—usually implemented when the tenant is in breach. Rent is usually measured in US dollars or Euros, but is actually paid in rubles. Payment is monthly or quarterly, usually by bank transfer to local or foreign accounts, but cash payment for budget apartments is common. Rent reduction is usually offered for pre-payments. The traditional one-month's rent security deposit should be applied to the last month of rent as there is no legal procedure in Russia to guarantee fair deposit return. The landlord usually pays for security and some utilities, whilst electricity, long distance phone charges, and satellite TV incur extra charges. Telephone calls within Moscow are free.

'Customs clearance for household items is particularly exciting,' Primacy's Sarah Collins says. 'It's a very bureaucratic process and Customs legislation changes all the time.' With the right assistance, however, it shouldn't take more than ten days to clear your worldly possessions through Customs.
– *The Times, June 2, 2005*

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A **tenancy management service** (TMS) is a popular form of expatriate staff support that assists tenants throughout the complete term of the lease for resolution of all property/landlord-related issues. Some TMS companies even provide an optional concierge service. Typically, TMS representatives handle all communications with the landlord, monitoring compliance with contractual obligations, and provide 24/7 English-fluent telephone support. Like any corporate-class relocation related service, a good TMS provides one point of contact for all property related issues.

Serviced apartments are very similar to corporate or temporary housing. This type of accommodation is for business travelers and short-term assignments. Apartments are available from one night to six months, saving up to 40 percent compared to hotel rates. Usually situated in premium locations such as Tverskaya and Arbat, the units tend to have more space than hotels, fully fitted kitchens, on-site property management, and housekeeping services. Nightly rates for a one-bedroom unit range from \$110 to \$190 US. A two-bedroom unit can cost \$150 to \$190, depending on length of stay.

Residential Parameters Checklist

- Desirability of location and accessibility
- Size and fitout quality
- Layout efficiency
- Security features
- Quality of common areas
- Neighbourhood and environment
- Building technical provision, condition of utility networks
- Additional amenities and facilities
- Availability of secure parking

MOSCOW RENTAL PRICING				
BEDROOMS	AVERAGE SIZE (SQ. METRES)	BUILDING CLASSIFICATION		
		CLASS A	CLASS B	CLASS C
1	60-115	\$2,500-6,000	\$1,500-2,000	\$800-1,900
2	100-150	\$5,000-8,500	\$2,800-5,500	\$1,500-2,500
3	130-220	\$7,000-15,000	\$5,500-9,000	\$3,500-5,500
4	160-250	\$8,000-18,000	\$7,000-12,000	\$5,000-7,000
5	180-350	\$11,000-25,000	\$7,500-12,500	\$6,000-7,500

Russian Apartment Building Classifications

Class A: Modern Development/Ministerial Building/Secure Gated Developments

Today's elite residential complexes usually offer all modern amenities such as underground garages, gyms, swimming pools, and management. These are impressive buildings with elaborate entrances, high level of security, independent infrastructure (heating, phone lines, Internet, etc.), and many apartments are decorated with expensive fixtures and furniture.

Class B: Stalin Skyscrapers There are seven such skyscrapers in Moscow, three of them are residential. They are outstanding examples of Stalinist architecture with great views, balconies, and magnificent entrances, giving them premium edge in the property market.

Class C: Post-Stalin Blocks These 'reduced' Stalinist-style buildings have lower ceilings and smaller floor plans. They are usually six to eight stories with aging lifts and unrenovated entrances and communal areas.

E. Security: Personal, Office and Your Company's Brand

Security consciousness in modern Russia can be measured by its unbreakable rules: Make no assumptions about your security. Make no assumptions about how people will behave in business. Be proactive, not reactive since something is bound to happen at some point. The problems will be complex, with no easy solution. Understand what is really happening—not just what's on the surface. Have careful plans for when things go wrong.

As they apply to **personal security**, these rules call for a list of behaviours that reads like a cross between an espionage manual, a Girl Guide handbook, and Confucian proverbs: Remain aware and alert. Do not take your safety for granted. Be comfortable and relaxed, but not forgetful or lazy. No need to be nervous, but no need to be complacent. Vary your routine. Don't be predictable—use different routes and different times. Maintain a discreet profile—no ostentation. (Let the Russians flaunt their wealth.)

Identifying **places requiring increased awareness** is important, too. Russian cities do not have the same contrasting 'good' and 'bad' areas found in London or New York, but avoid 'workers' areas' such as the northeastern outskirts of Moscow. Expatriates should keep up their guard in airports, stations, outdoor markets, the Metro on the outskirts at night, 'local' bars, tourist areas, and central places of entertainment.

Terrorism is a threat mainly in the North Caucasus region. Recent incidents by Chechens in Moscow include 2004's Rizhskaya and Avtozavodskaya train-related bombings, 2003's National Hotel and rock concert bombings, and 2002's infamous Dubrovka theatre siege. While foreigners are never directly targeted in these attacks, they should minimise time spent in the vicinity of likely targets. Such likely targets include symbols of the Russian military, political power, and densely populated areas like airports and railway and Metro stations.

Kidnappings of wealthy businessmen and their families are common in Moscow, but the real threat is **street crime, like muggings**. These incidents occur in crowded streets in daylight, empty streets at night, and in subways. When this involves weapons, victims should comply with the criminal's demands. They should not argue or be aggressive, but hand over their wallets slowly. Many savvy expatriates carry \$50 US in a 'throw-away' wallet and spread their valuables about their bodies.

Pick-pocketing occurs in crowded streets, trains, bars, and restaurants often in broad daylight. The perpetrators are disguised as beggars, street entertainers, and professionals.

Another very common crime is known as the 'Turkey Drop.' A person behind the victim points to money on the ground and asks whether it belongs to them, then suggests they divide the money. Suddenly a third person arrives and claims the money, aggressively insisting that some of it is missing.

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Expatriates should make sure that their documents are valid, with correct dates, leaving copies of documents to be held by the office.

Travel

Expatriates should use recommended hotels only; however, there is a shortage of good hotels outside Moscow, St. Petersburg, and Kiev. Take care entering and leaving hotel rooms: treat them as insecure and use all available locks. Store valuables in the hotel safe. Be suspicious of all visitors. Make sure no one follows you in before exterior doors close.

When traveling, expatriates should restrict knowledge of their movements to necessary people only. They should make sure that their documents are valid, with correct dates, leaving copies of documents to be held by the office.

Non-Russians should ideally avoid unofficial taxis. Taxi booking services are now quite reliable. There are few metres, so the driver and passenger agree on the fee in advance. It's best to have a Russian-speaker do this.

Third-party relocation firms can hire private drivers in Moscow and St. Petersburg, ensuring that they have a clean driving background, no substance abuse, and adequate language skills.

Most airlines use ageing, noisy Russian planes for domestic flights. Choose the best-known airline where possible (e.g., Aeroflot, Sibir, KrasAIR). The giant Il-86 jets are considered safer.

Office Security Measures

- Schedule a fire safety inspection
- Plan an evacuation procedure
- Arrange for a building/office security inspection, reviewing systems, procedures, and guards
- Policy, procedures for confidential documents
- Procedures for handling cash
- IT security, including controlled access to computer/server room
- Secure parking

Business Security: Protecting the Brand

The guiding principles for protecting a business in Russia are based on reputation, operations, and finance/legal. Reputation damage is impossible to measure and global in scope. Operational damage is not limited to one jurisdiction. Financial and legal liability is high in a litigious world full of rules and compliance requirements.

In choosing business partners, look for the origins of their start-up capital and sources of growth to detect any liabilities connected with the money. In assessing shareholding structure, find out if there are hidden shareholders or any type of third-party control. Learn about the company's standing with law enforcement and regulators.

Examine the nature of their business activities, especially if there is a hidden function for the company. Investigate relations with larger structures and holding companies. When

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investigating a partner-company's employees, check out everyone from the country manager down to the receptionists.

I V . I D E N T I F Y I N G A N A P P R O P R I A T E R E L O C A T I O N S E R V I C E S P R O V I D E R

When a corporation or organisation begins the search process for a relocation and assignment management provider, HR and procurement leaders must evaluate proposals from the candidates based on four critical standards (beyond the obvious capabilities such as on-the-ground requirements for knowledge of Russian business, bureaucracy, culture, and language).

1. A singular, systemic, operational, and technology focus on global assignment management and relocation.
2. Senior management that participates in strategic planning, is accessible to clients, and remains intimately familiar with all accounts.
3. Strict policies of providing best-in-class service subcontractors for each client's needs.
4. Comprehensive information reporting: specifically look for transparent operational and financial systems that allow online, instant access to both numbers and performance results.

V . A B O U T P R I M A C Y R E L O C A T I O N

Primacy Relocation is one of the top third-party employee relocation providers in the world, and is the largest to focus all resources and technology on relocation and global assignment (expatriate) management. Primacy administers programmes for employers throughout the Western Hemisphere, Europe, and the Asia/Pacific region as well as the U.S. government. Core services include home sales, destination services, household goods move management, and overall programme administration. In addition to its Memphis headquarters, Primacy has offices in Chicago, Dallas, Los Angeles, Minneapolis, Omaha, Sacramento and Washington D.C., as well as Basel, Geneva, Lausanne, London, Montréal, Munich, Neuchâtel, Shanghai, and Zurich. Primacy is online, in eight languages, at www.primacy.com.

Primacy Relocation is one of the top third-party employee relocation providers in the world.

Primacy Relocation in Europe is operated through three separate regional headquarters:

Primacy Relocation in the UK (London)

Sarah Collins, Managing Director

Grayson Fuller, Operations Director

+44 (0) 20 8334 8970 sarah.collins@primacy.com

Primacy Relocation in Switzerland

(Geneva, Basel, Lausanne, Neuchâtel, and Zurich)

Anne-Claude Lambelet, Managing Director

+41 (0) 22 307 01 07 anne-claude.lambelet@primacy.com

Primacy Relocation in Deutschland (Munich)

Anne-Claude Lambelet, Managing Director

+41 (0) 22 307 01 07 anne-claude.lambelet@primacy.com

Karin Hafner, Operations Manager/Country Manager

+49 89 579 59 639 karin.hafner@primacy.com

Other Locations:

Primacy Relocation in Canada (Montréal)

Isabelle Ducharme, Managing Director

+1 514-861-0903 isabelle.ducharme@primacy.com

Primacy Relocation - Global Headquarters

6077 Primacy Parkway

Memphis, TN 38119 USA

+1 901-291-5500 info@primacy.com

The Authors

Sarah Collins

Before building a distinguished career in relocation and financial management in Russia and the UK, Collins spent eight years working in the security sector in Russia. She has an honours degree in Russian and French and an MBA in International Business.

Charles Hecker

A former reporter for the English-language *Moscow Times* and *The Miami Herald*, Hecker is Senior Consultant and General Manager at the Moscow office of the Control Risk Group, one of the largest business security risk analysis companies in the world. It operates offices in 15 countries on six continents, including two project offices in Iraq. Hecker advises clients on how to minimise the risks to direct investment throughout the former Soviet Union.

Olga Todorenko

Todorenko is a Moscow-based real estate and relocation professional and a recognized expert in Russian property law.