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Foreign IT Companies Threaten to Quit Russia Over Restrictive Legislation

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The new legislation, prepared by the Communications Ministry, allows the purchase of foreign software from Jan. 1, 2016 only if a domestic version is not available or if the domestic analogue doesn't have the required functions.

Major foreign IT companies could suspend their investment in Russia or withdraw from the country altogether over restrictions in the Russian market, the Kommersant newspaper reported Monday.

These restrictions include a Russian law that obliges state agencies to justify the purchases of foreign software from Jan. 1, 2016, as well as a government decree that prohibits the state purchase of foreign software when a domestic version is available, Frank Schauff, head of the Association of European Businesses (AEB), wrote in a letter to top Russian officials.

AEB considers these measures discriminatory as they limit competition and access to the Russian market for foreign companies, Kommersant reported, citing a copy of Schauff's letter

to the Trade and Industry Minister Denis Manturov, Communications Minister Nikolai Nikiforov, Minister of Economic Development Alexei Ulyukayev and Federal Anti-Monopoly Service chief Igor Artemyev.

“European business has made significant investments in Russia over the past decade and was planning to invest in the future, but now foreign IT companies may suspend investment or even leave the Russian market,” the paper quoted Schauff as saying.

Equal conditions for Russian and foreign companies must be provided if foreign investment is to remain in Russia, Schauff said in the letter, according to Kommersant.

According to data from The United Nations, direct foreign investment dropped by 70 percent in Russia last year over sanctions and Russia's economic recession, the newspaper reported.

However, the share of foreign software in the Russian market currently exceeds 75 percent or 90 billion rubles ($1.4 billion), the RBC newspaper reported last month, citing data from Russian IT company Parallels. Foreign investment is a key factor in the development of the IT sector.

In its letter, AEB urged the Russian government to postpone for six months the law that obliges state agencies to provide written justification when purchasing foreign-made software. During those six months, AEB suggests that joint criteria be developed for the localization of foreign IT companies in Russia so that they can qualify as Russian under the new laws.

Last year, foreign IT firms SAP, Oracle, IBM, Microsoft and Cisco supplied the Russian state sector with software worth 20 billion rubles ($312 million), according to Kommersant.

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The document is expected to be signed by Prime Minister Dmitry Medvedev within the next two

weeks, Kommersant reported, citing an unidentified source in one of the ministries.

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