



INDUSTRIAL COMMITTEES



# RETAIL TRADE COMMITTEE



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**TRADING UNDER THE PANDEMIC CONDITIONS**

Retail trade was deeply impacted by the COVID-19 pandemic. Even though the industry already displayed a noticeable recov-

ery in 2021 compared to 2020 (Rosstat declares trade turnover from January to September 2021 to exceed same periods of 2019 and 2020 by 16%), new waves of coronavirus continue to put the trade industry under repeated stress-tests.

The non-food trade restrictions imposed in Russia during the pandemic had already forced the industry to shut down operations twice, with much effort to rebuild business needed between the periods of complete closure and high additional expenses on anti-pandemic measures incurred. Nevertheless, from January to September 2021, non-food commerce managed to raise its turnover by 22% over the same period in 2020.

The major aspect was the expansion of the e-commerce sales channel, which helped to partially compensate for the profits lost. However, even though e-commerce has grown significantly over the past two years, it has also faced regulatory restrictions and requirements.

The food retail sector was able to continue operating without major disruptions. Nevertheless, from the very beginning of the pandemic, it had to undergo a number of challenges – providing an urgent response to dramatically increased demand for various durable food items, regional entry permit regimes and interregional transportation restrictions for goods, the introduction of enhanced anti-pandemic measures in retail facilities, interaction with customers who violate the state regulations, and the comprehensive vaccination of employees. The food trade also had to cover the high costs of the anti-pandemic measures – additional logistics, personnel, etc. Small and medium-sized trading enterprises were the most affected by the restrictions in the food sector. Overall, however, food retail from January to September 2021 was able to grow by 10% compared to same period in 2020.

In addition to that, the trade continues to face regulatory uncertainty after almost two years. The unpredictable, sudden and urgent introduction of new requirements and the lack of proper coordination between the regional authorities produced just as much negative impact on the recovery process and further development of the trade sector as the restrictive measures themselves (and their excessiveness).

Still, the state of the industry could have been much more dire without the support measures taken by the Russian Government and the stimulation of demand through direct financial assistance to the citizenry in 2020 and 2021.

## RECOMMENDATIONS

The AEB believes that the Russian authorities, through a constructive dialogue with businesses, need to develop a regulatory framework for trade operations during the pandemic – a framework that would:

- ▶ provide justification, consistency and transparency of criteria for classifying certain goods and/or services as falling under a certain category of restrictive measures;
- ▶ exclude the closure of trade facilities, provided that the accurately prescribed sanitary anti-pandemic requirements are fulfilled by business;

- ▶ guarantee financial support to businesses by the authorities in order to meet these requirements;
- ▶ ensure the essential predictability and consistency of measures taken by the federal and regional authorities, as well as the tools for ongoing dialogue with businesses for tackling emerging problems and challenges;
- ▶ to exclude the enforcement of excessive and obviously unfeasible regulations in retail;
- ▶ to recognize all major retail, as well as wholesale and small wholesale companies, as strategic enterprises, given their importance of the seamless supply of necessary goods to other businesses and consumers.

## STATE REGULATION OF PRICES AND TRADE MARGINS

Over the last few years, there has been a number of initiatives launched either by government bodies or political parties with the goal of regulating prices or mark-ups on various goods and services (basically by introducing amendments to the Federal Law "On the basic principles of state regulation of trade activities in the Russian Federation" of Dec. 28, 2009 No. 381-FZ).

In March 2020, during the extremely difficult period at the beginning of the pandemic and the sharp depreciation of the national currency, trade companies faced an explosive growth in demand for a number of socially important goods, leading to sensitive price increase for certain food products. On average, of about 5–15%. At the same time, in April 2020, two draft laws were submitted to the State Duma: No.942591-7 limiting retail margins on essential food items, and No.942566-7 that would oblige the Government to establish maximum retail prices on certain types of socially important food items. Furthermore, in December 2020, yet another draft law was introduced to the State Duma (No.1077520-7) that proposed that the mechanism of state price regulation for essential food items be deployed, and, in March 2021, the draft law No.1134395-7 on state regulation of prices for engine fuel was introduced.

The declared aim of these legislative initiatives is to support people during the crisis but their implementation would, amid the other factors arising from crisis, become an additional destructive factor for trade and, consequently, for consumers. The business community very much appreciated the consequent and formal position of the Government and the Parliament, which blocked the initiatives mentioned above.

Nevertheless, the trade faced a paradigm shift when, starting from December 2020, the Russian Government began to take practical steps in regulating prices in the national food market. Trade companies and suppliers' unions were forced to sign "agreements" with the Ministry of Agriculture and the Ministry of Industry and Trade of Russia on price containment (for granulated sugar and sunflower oil). The practical application of these agreements led to serious disruptions in the in-



teraction between retailers and suppliers, which had to be tackled “manually” by the ministries.

In August, the Federal Antimonopoly Service of Russia came up with an initiative to regulate trade margins, which was applied to a set of 25 socially important food products.

The reasons for such initiatives are evident, considering the continuing decline in the population’s real incomes and purchasing power. Nevertheless, the chosen approach to the problem seems to be fundamentally wrong-headed and counterproductive, due to the fact that such measures:

- › disturb the market-driven pricing mechanisms in trade based on suppliers’ prices and the costs of trade services;
- › significantly increase the complexity in the interaction between trade and suppliers, increasing the level of conflict in these relationships;
- › threaten to hinder promotional activities in trade, in clear disregard of the needs of consumers;
- › lead to increased price competition between large and small retail companies, which will negatively affect SMEs engaged in trade;
- › will only have a short-term effect, as they do not respond to the real causes of inflationary processes associated with the development of domestic and international markets.

It is important to note that such initiatives were perceived by the business community as a withdrawal of the RF Government from its firm rejection of regulating consumer prices/price margins. They signaled a change of the economic paradigm in Russia. No doubt, such measures undermine the credibility of Russian economic policy, despite the fact that it is aimed at preserving and developing the market economy, and at improving the national business and investment climate.

## RECOMMENDATIONS

- › The AEB believes that administrative regulation of consumer prices and trade margins (including through quasi-market price agreements) should be abandoned.
- › Considering all the social and economic challenges Russia is facing, it makes sense to focus on targeted support of low-income groups and increasing state support for food producers and suppliers in order to let them reduce their prices, and promoting free and fair competition — both among suppliers and retailers.



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