Design & Construction Sector Opportunities in Russia/Conexpo
March 2014

Russian Market Overview
Russia’s Construction Sector/What is the Russian Market Demanding?

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COUNTRY FACTS

- **Largest Country by Area**
  - 17,098,242 sq km
  - 1.8 times larger than U.S.
  - Spans 9 time zones

- **9th Largest Country by Population**
  - Bangladesh (8th) – Japan (10th)
  - 142 million inhabitants

- **Population Centers**
  - 12 cities over 1 million population (73% urban [82% in U.S.])
  - European West: Moscow (11.5 million); St. Petersburg (4.8);
    Yekaterinburg (1.4); Nizhniy Novgorod (1.3); Samara (1.2)
  - Asian Central: Novosibirsk (1.4); Omsk (1.1); Krasnoyarsk (.9)
  - Asian East: Vladivostok (.6); Irkutsk (.6); Khabarovsk (.6); Yakutsk (.2);
    Yuzno-Sakhalinsk (.2)

- **Population Growth Rate**
  - -0.01% (Ranks 192nd out of 231)

Source: [World Bank Data](https://data.worldbank.org/)
ECONOMIC OVERVIEW

- 8th Largest Economy *(Source: IMF)*
  - $2.03 trillion GDP (Current Prices)
  - Brazil (7th), Italy (9th)

- Projected GDP Growth *(Source: IMF)*
  - 4.3% - 2011
  - 3.4% - 2012
  - 1.3% - 2013 *(forecast)*
  - 2.2% - 2014 *(forecast)*

- Unemployment *(Source: Rostat)*
  - 6.6% - 2011
  - 5.7% - 2012

- GDP Per Capita Current Prices *(Source: IMF)*
  - $14,300 (2012 est.)
  - Highest of BRIC Countries (Brazil, $11,400 – China, $6,100 – India, $1,500)
ECONOMIC OVERVIEW

- **Positive Trends**
  - Per Capita Income $23,209 by 2016  
    *(Source: Business Monitor International)*
  - Affluent, urban population – strong base for consumer goods
    - 85 Shopping Centers in Moscow
    - 2.5% vacancy rate (6% average in Europe)
  - Moscow consumers 2x as affluent as rest of Russia  
    *(Source: Jones Lange LaSalle)*
  - World’s 3rd largest foreign exchange reserves
  - Dramatic reduction in sovereign debt (11% of GDP  
    – U.S. 73%)
  - 2012 bilateral trade: $10.7 billion in U.S. exports to Russia; $29.3 billion in U.S. imports from Russia
ATTRACTIVE FEATURES OF THE RUSSIAN ECONOMY

Resources

- The largest consumer market in Europe
- Highly educated workforce
- Low labor costs
- Vast amounts of raw materials and natural resources

Business Environment

- 2012 Accession to the World Trade Organization (WTO)
- Relatively simple taxation system
- Telecom infrastructure
STEPS TO IMPROVE THE BUSINESS ENVIRONMENT

- Improve Effectiveness of the Rule of Law
- Reduce Bureaucracy
- Improve Transparency of Business Regulation

International Rankings:

- World Bank Ease of Doing Business: 92 (up from 112 in 2012)
- World Economic Forum (2012): 67/144
- Transparency International (2013): 127/177
- USTR IPR Priority Watch List (2012)

Source: 2012 Ernst & Young Investment Attractiveness Survey
COUNTRY OVERVIEW

Concerns/Challenges

- Transparency International 2013 Corruption Perceptions Index
  - Russia 127 of 177 (Source: Index)
  - Brazil (72), China (80), India (94)
- Intellectual Property Protections
  - Trade Mark and Domain Name Squatters
- Challenge to find qualified business partners
- Product Registration – Time-consuming, $$
- Large state role in the economy
- Complicated and non-transparent regulatory regime
- Nothing Happens Fast in Russia
- Resource
  - Department of Commerce Country Commercial Guide
SELLING IN THE RUSSIAN MARKET

Distribution Channels

- Four Basic Channels
  - Agents
  - Distributors
  - Representative/Branch Office
  - Foreign Subsidiaries
SELLING IN THE RUSSIAN MARKET

Successful Market Entry Requires

- Thorough market research & due diligence
- Senior management long-term commitment
- Creativity and persistence
- Carefully following US and Russian laws from the start
Commercial Service Regional Offices

Moscow, Russia – [http://export.gov/russia/](http://export.gov/russia/)


Construction market opportunities in Russia in 2014-2018

1. **2018 FIFA World Cup – 13 Host Cities across Russia**
   - At least $21 billion will be spent in the next five years from government and private investors
   - Host cities submitted projects to be developed with a total value of about $43 billion
   - More than half of $43 billion is to be provided by the Federal Government, another 1/3 by local governments and the remainder by private investors

2. **Retail construction market - ranks №1 in Europe (building retail space)**
   - Still has a lower ratio of shopping malls to people

3. **2013 floods in the Russian Far East**
   - Heavy devastation of residential property and infrastructure worth about $800 million

4. **Active residential and commercial construction in the Moscow area**
   - Many projects in both the middle and luxury segments - opportunity for manufacturers of windows, doors and other finishing materials

5. **Green building materials and energy saving technologies**
   - Increasing demand due to increasing utility tariffs

6. **WTO accession decreased many tariffs making international trade more profitable**
Construction industry is one of the main economic growth drivers.
Central federal district (Moscow region) is the core of construction activity, due to high level of residential construction.
Construction market issues and obstacles

1. Major construction sites are financed by the Russian government
   • Where potential ROI is not high (sport stadiums, railways, roads, social infrastructure)

2. Corruption
   • Construction industry is one of the most corrupt sectors of the Russian economy.
   • Corruption negatively effects quality of construction
   • Kickbacks vary from 20% to 40% of the contract value.

3. Most government investments are distributed among small number of contractors
   • They are either close to the government or have previous construction sector experience in Russia
## Import of construction equipment and materials from the US to Russia

*Source: Global Trade Atlas*

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<thead>
<tr>
<th></th>
<th>2011 ($)</th>
<th>2012 ($)</th>
<th>2013 ($)</th>
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<tbody>
<tr>
<td>Machinery for public works</td>
<td>14,529,864</td>
<td>28,557,382</td>
<td>28,436,687</td>
</tr>
<tr>
<td>Paints</td>
<td>964,908</td>
<td>212,659</td>
<td>573,439</td>
</tr>
<tr>
<td>Additives to construction mixes</td>
<td>8,292,760</td>
<td>10,144,821</td>
<td>9,684,806</td>
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Due to extensive road and residential construction, Russia has become a rapidly growing market for equipment, construction technologies, and finishing materials.
Russian construction market facts

1. All the major brands and manufacturers of equipment are present

2. Find an appropriate distributor, or locate/hire a person to perform the interaction on site

3. U.S. companies working in the construction industry are most successful in the following segments: construction equipment, complex precision tools, engineering of construction technologies, finishing and decoration materials

4. Russian companies have good knowledge of the products and technologies available all over the world:
   General calculation used: If the cost of a new product purchased in the U.S. + Freight + Profit Margin exceeds the similar product/technology from Europe by more than 15% and from China by more than 25%, they generally will not purchase the American product
Hints and tips for architectural and design companies

Licensing and permits for architectural activity in Russia

- Joint venture with a local architectural bureau or establishing representative office

- Membership in Self Regulating Organization

Membership in the Self Regulating Organization is mandatory for any architectural bureau that develops buildings with more than 3 floors and designated for 6-8 people. Any other larger or taller building would require the SRO membership. Starter package for the membership consists of following expenses (average figures, they may vary depending on the region and the scale of projects)

$1700-$2000 - payment to compensational fund
$200- $400 - entrance fee
$2400-$3000 - annual membership (paid in installments)
$250 - insurance for 1 year

Locating potential customers and bidding process

- Bidding process and tender announcement is largely influenced by rapidly developing Ecommerce.
- Private companies and developers use e-tender platforms to announce tenders and get the best possible bids.
- The marketing policy includes advertisement, web-site development, integration in the social and professional network, as well as integration in the local business community through the SROs, Chambers of Commerce, professional associations, building council, participation in trade fairs and conferences.
- Government tenders are published at http://www.zakupki.gov.ru, the state-owned tender e-platform.
- All tenders are published only in the Russian language in accordance with Russian legislation.
- Government-owned corporations have so far reserved the right not to enter their tenders into zakupki.gov.ru and use their own websites to announce tenders.
- Compared to the past, the present situation in the tender process has greatly changed for the better and the government is applying efforts to eliminate corruption chances during the bids.
Important facts for exporters

1. Russia formed a Customs Union with Belorussia and Kazakhstan.

2. Customs union has its own certification system. (Rostest based on technical norms and codes)

3. Russian distributors tend to work at a 30-60% markup depending on how unique the product is.

4. All the major European DIY chains are present in Russia (OBI, Leroy Merlin, Castorama).

5. 75% of construction materials are sold through distributors or by representative office in the country.
TECHNOLOGICAL ISSUES OF THE CONSTRUCTION INDUSTRY IN RUSSIA

1. OUTDATED BUILDING CODES.
2. CORRUPT SELF REGULATION ORGANIZATIONS.
3. STATE-SUBSIDIZED CONTRACTORS ARE RELUCTANT TO TRY NEW TECHNOLOGIES.
4. INSUFFICIENT KNOWLEDGE/EXPERIENCE; ABSENCE OF QUALIFIED ENGINEERS.

SOME ADVANTAGES OF U.S. TECHNOLOGIES APPLIED IN RUSSIA

1. In many cases, U.S. technologies are simpler to use.
2. Price advantage over the Euro.
New construction technologies required in Russia.

TECHNOLOGY:
Technology of bridges, highways and road junctions construction with the use of precast concrete blocks mounted/connected with steel ropes on monolithic or prefabricated concrete columns.

Key words:
- SPAN BY SPAN CASTING METHOD OF BRIDGE CONSTRUCTION
- Continuous overpass made of prefabricated box shaped hollow concrete structures strapped with steel ropes located on concrete columns
- Precast Segmental Box Girder anchored with steel ropes located on concrete columns.

![Construction Site Images](images)
**TECHNOLOGY:**
Technology and machinery equipment for the production of road plates, stacked in the transverse direction of the roadway on the principle of phase-ridge tied with steel ropes. POST-TENSIONING technology.

**TECHNOLOGY:**
Shore protection (pitching) technology with usage of reinforced concrete sheet pile and construction of maritime terminals with precast concrete structures and elements.

**TECHNOLOGY:**
Prefabricated frame and prefabricated panel technologies of low-rise housing.
Equipment for the production of hardware components, software for the design of buildings, structures and products manufacture, national standards and codes, as well as professional standards.
**TECHNOLOGY:**
House-building systems for housing and civil construction using precast concrete frames, bent sheet metal profiles, as well as prefabricated panels for interior and exterior walls, as precast concrete, and with the use of composite materials.

**TECHNOLOGY:**
Purchase of an industrial complex and technology for the production of cement bonded particle boards and blocks of wood chips and cement, with the addition of a small amount of the chemical for mineralization of wood chips.
Cement particle board (cement bonded particle board, CBPB) - large-format sheet building material made from fine wood chips, Portland cement and chemical additives that reduce the harmful effects of extracts of wood on cement. Design solutions and standards for houses built with usage of this technology.
TECHNOLOGY:
Waste treatment plant for the city, the region with a population of up to 100,000 people an annual capacity of 20,000 tons, 120,000 cubic meters of household and municipal solid municipal waste (PET bottle, paper, cardboard).