



# Investments and Import to Russia: Aiming for Careful Growth

3rd annual survey of the American Chamber of Commerce in Russia

Report prepared in partnership with EY

May 2018

# Outline

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- Importance of and outlook for business in Russia
- Sanctions
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# Survey Description

- In 2018 the American Chamber of Commerce conducted its third annual survey devoted to prospects for direct investments and bilateral trade between Russia and the USA.
- 72 American companies took part in the survey out of over 500 members of the organization.
- This report is based on the results of the survey, publicly available information and official statistics.
- The purpose of the survey is to show the real scale of bilateral investment and trade between Russia and the US.
- The survey was conducted in April 2018 in partnership with EY.
- The target audience is executives of American companies operating in Russia and government officials of the two countries.

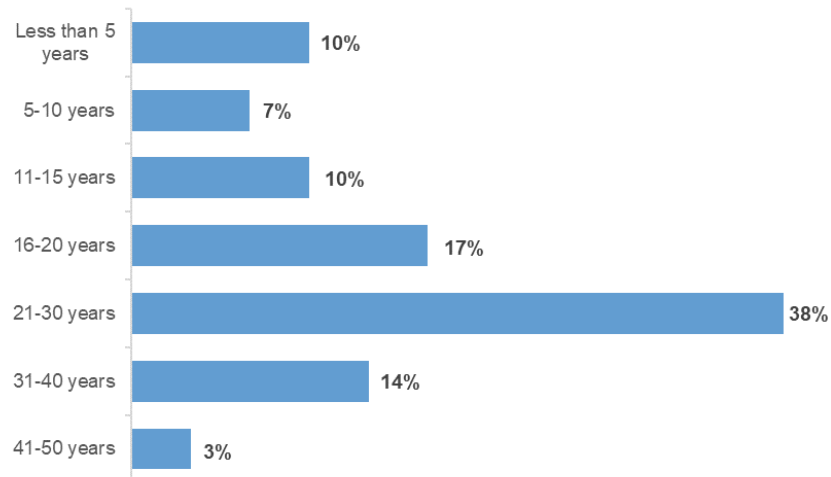
# Executive Summary

- American companies remain positive despite the complex geopolitical situation and slow economic growth: Russia is a key market for one in four companies, and a majority still regard Russia as a strategic market (65%) and expect to see future growth and improved financial performance driven by the recovery of the Russian economy (92%).
- Official statistics underestimate the actual level of trade and economic relations between Russia and the US. Bilateral investment figures collected as a result of the survey are 7-8 times higher than official values.
- American business plays an important role in the Russian economy. The average number of full-time staff of American companies which took part in the survey significantly exceeds one thousand.
- Many companies already have a local production site and the majority plan to expand their operations through investment in existing capacities rather than building new capacities (71%).
- Sanctions have severely impacted American companies' development plans in Russia – 84% of companies indicated that they had had an adverse impact, and one in four said that new projects had been put on hold.
- American companies are not contemplating any major increase (or decrease) in investment in Russia. The general stance is to leave things as they are and see what happens.

# Information on the Respondent Companies

- 72 companies took part in the survey. The 2017 and 2016 studies had 83 and 59 respondents correspondently.
- The total number of full-time employees of the survey participants was over 96,000.
- This year's participants included a greater number of companies that have been operating in Russia for less than five years (10% in 2018 against only 1% in 2017).
- Over half the companies surveyed (55%) have been doing business in Russia since the beginning of the 1990s or longer.
- 17% of the companies came to Russia as early as the 1970s-1980s. This is the best sign of commitment to the Russian market despite economic difficulties or political disagreements.

## Period of operation in Russia:



# Companies by Industries

## Industry

- More companies from the construction industry, the financial services sector and healthcare and pharmaceuticals took part in this year's survey (each of these groups accounted for approximately 10% of the respondents)
- But the largest number of companies were from the IT and telecommunications sector (16% of all respondents, or 11 companies)
- Industrial product and FMCG manufacturers were well represented (each group accounted for 7% of the respondents)

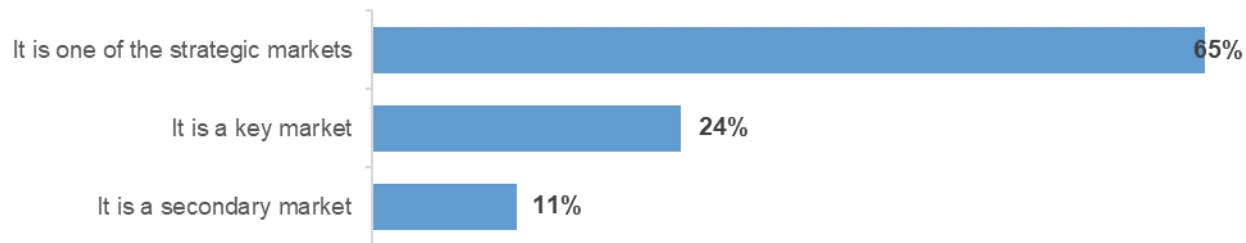
Industry	% of respondents	Number of companies
Chemicals	6%	4
Energy & Natural Resources	7%	5
Engineering & Construction	10%	7
Financial Services	10%	7
FMCG manufacturing	7%	5
Healthcare & Pharmaceuticals	10%	7
Hospitality	1%	1
Industrial products manufacturing	7%	5
IT & Telecommunications	16%	11
Media & Entertainment	3%	2
Multi-industry	4%	3
Professional Services	7%	5
Real Estate	1%	1
Retail	3%	2
Transport & Logistics	7%	5

\* Two surveyed companies did not indicate their industry

# Importance of and Outlook for Business in Russia

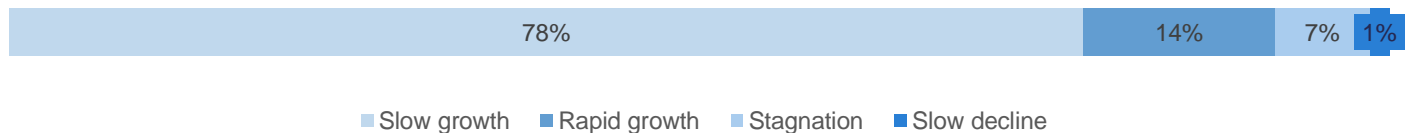
- For 65% of survey participants, Russia is a strategic market, and for 24% it is a key market (one of the most important in the world).

Importance of Russia in terms of strategic development



- 92% of companies expect their Russian business to grow in the next three years. But the majority of them (78%) believe that growth will be slow.
- There are few pessimists among the survey participants – only 1% of surveyed companies expect to see a decline in their Russian business.

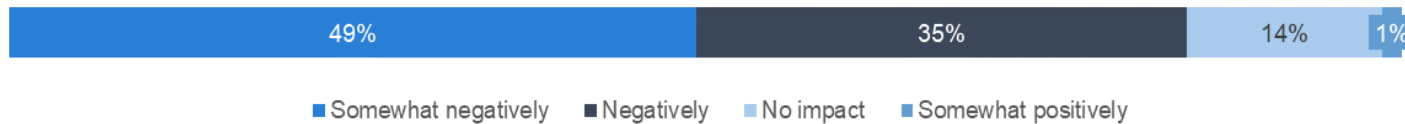
Growth prospects for a company in Russia over the next 3 years



# Sanctions

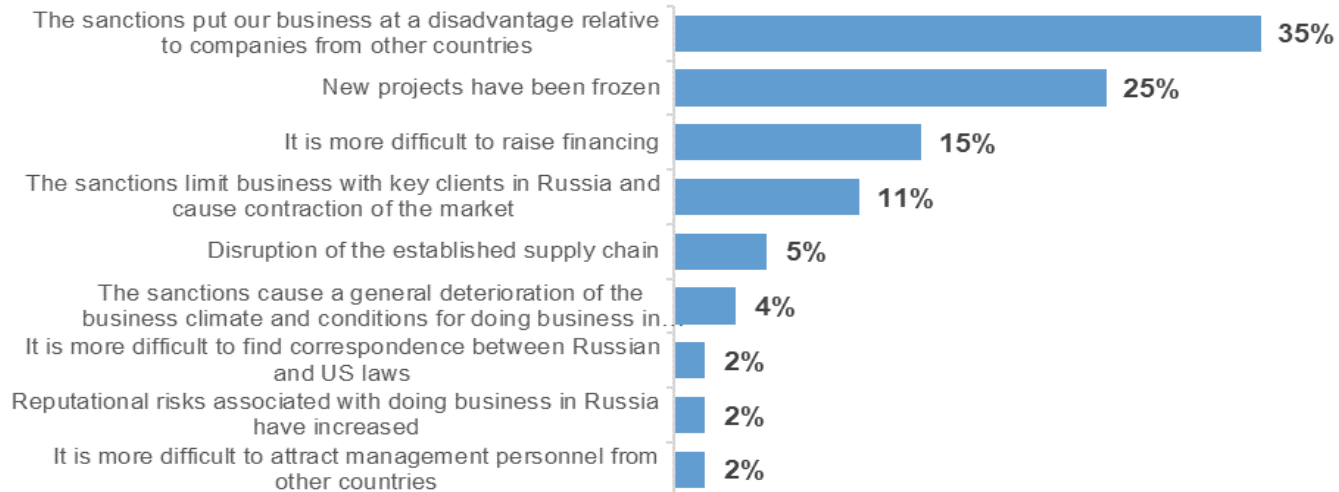
- 84% of the surveyed companies reported an adverse impact of US sanctions on their business in Russia. In 2017, there were 69% of such companies.

How do sanctions impact your business in Russia?



- The most commonly indicated (35%) negative effect of the sanctions is that they put American businesses at a disadvantage relative to competitors from other countries.

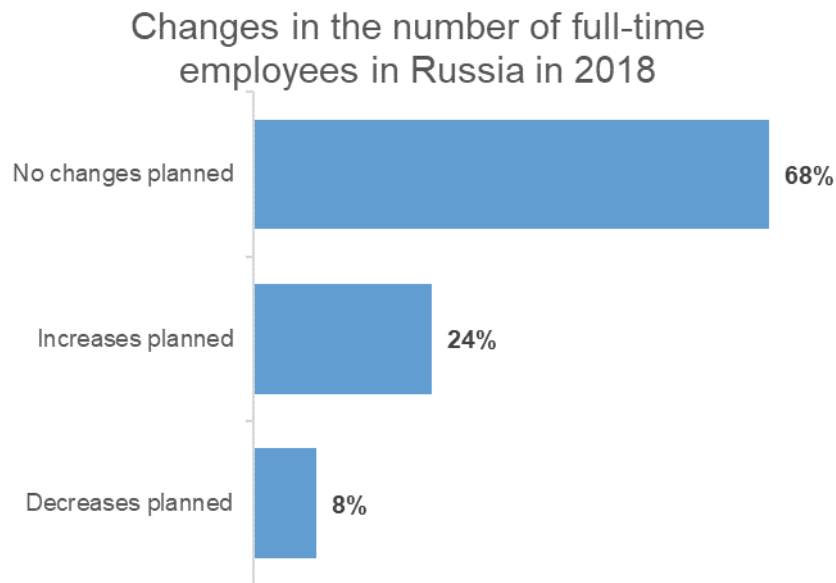
## Negative impact of sanctions





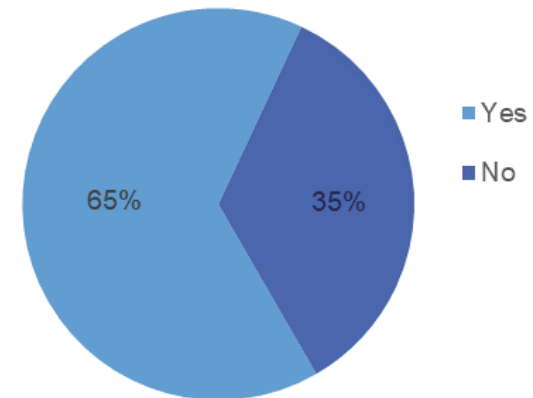
# Jobs

- Almost a quarter of the companies surveyed (24%) plan to increase the number of full-time employees in Russia, but the majority (68%) are not planning any substantial changes this year.



- The majority (65%) of US companies operating in Russia support jobs in the US. This means a positive contribution is made to both countries' economies.
- 26% of them reported that their operations in Russia supported more than 500 US-based jobs.

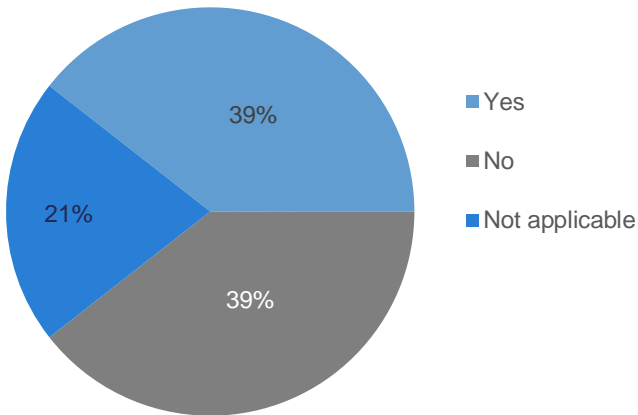
## Are US-based jobs supported?



# Production

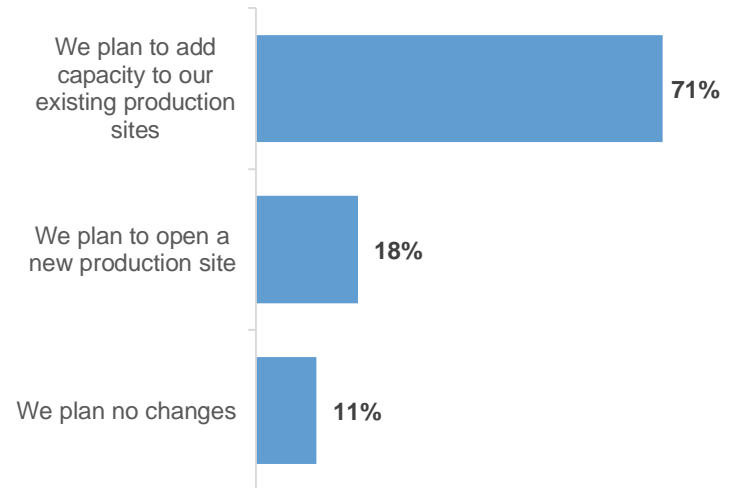
- 39% of US companies surveyed have a production site in Russia.
- Among manufacturing companies (chemical industry, FMCG manufacturing, industrial product manufacturing), practically all the survey participants have their own production site – 93% answered in the affirmative.

Does your company have a production site in Russia?



- Most of them (71%) plan to add to the capacity of existing production sites rather than opening new sites from scratch.

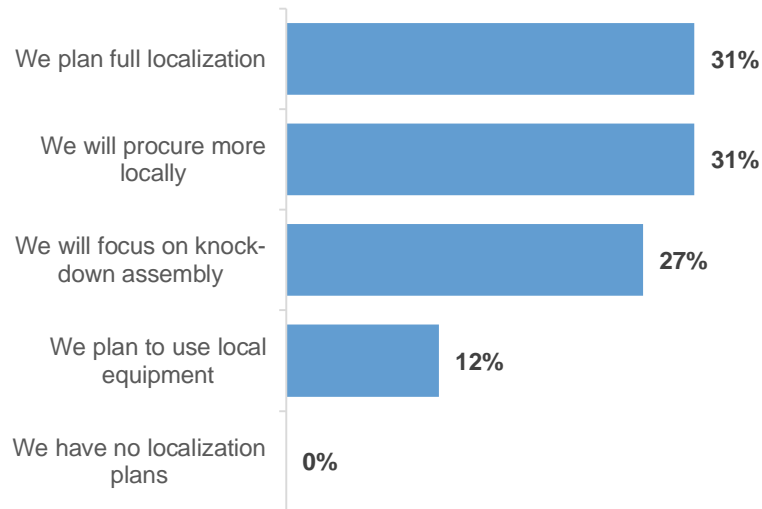
Production development plans



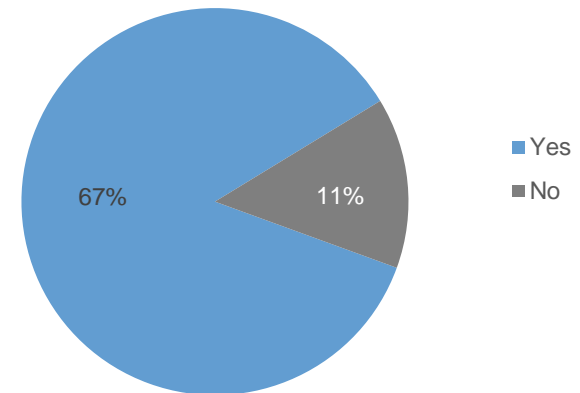
# Localization and Technology Transfer

- Almost a third of companies (31%) plan to achieve full localization at their Russian enterprises.
- The same number of participants intend to procure more products from local suppliers.
- 67% of companies with production sites in Russia plan to use (transfer) new technologies.

Localization plans



Plans for technology transfer to production sites in Russia



# Direct Investments

- Total direct investments by US companies over the entire period of operation in Russia amounts to \$82.6 billion. This is an estimated figure based on data from the 72 companies which took part in this year's survey, public data on investments of several other American companies, as well as the results of the last two years' surveys.
- This year's study therefore confirmed the results of last year's study by the American Chamber of Commerce that there is substantial business co-operation between the two countries and US business plays an important role in Russia's economy.
- Official figures are much lower and may not fully reflect the actual situation in trade and economic relations between the US and Russia:
  - According to data from the Bank of Russia, from 2007 to the first 9 months of 2017 the inflow of foreign direct investments from the US amounted to \$9.5 billion, i.e. eight times lower than our estimate ([http://www.cbr.ru/eng/statistics/credit\\_statistics/inv\\_in-country\\_e.xlsx](http://www.cbr.ru/eng/statistics/credit_statistics/inv_in-country_e.xlsx))
  - According to data from the US Department of Commerce, by 2016 investment by American companies was in excess of \$10.5 billion (<https://www.selectusa.gov/servlet/servlet.FileDownload?file=015t0000000LKNY>)
- The discrepancies are due to the fact that American companies may invest in Russia via other countries and the fact that they re-invest funds generated in Russia in their Russian operations, as well as differences in approaches to calculating and defining investments.
- The survey data show that 62% of total investment in Russia was made directly from the US, while 38% was made from other countries.

Percentage of company's total direct investment from the US into Russia

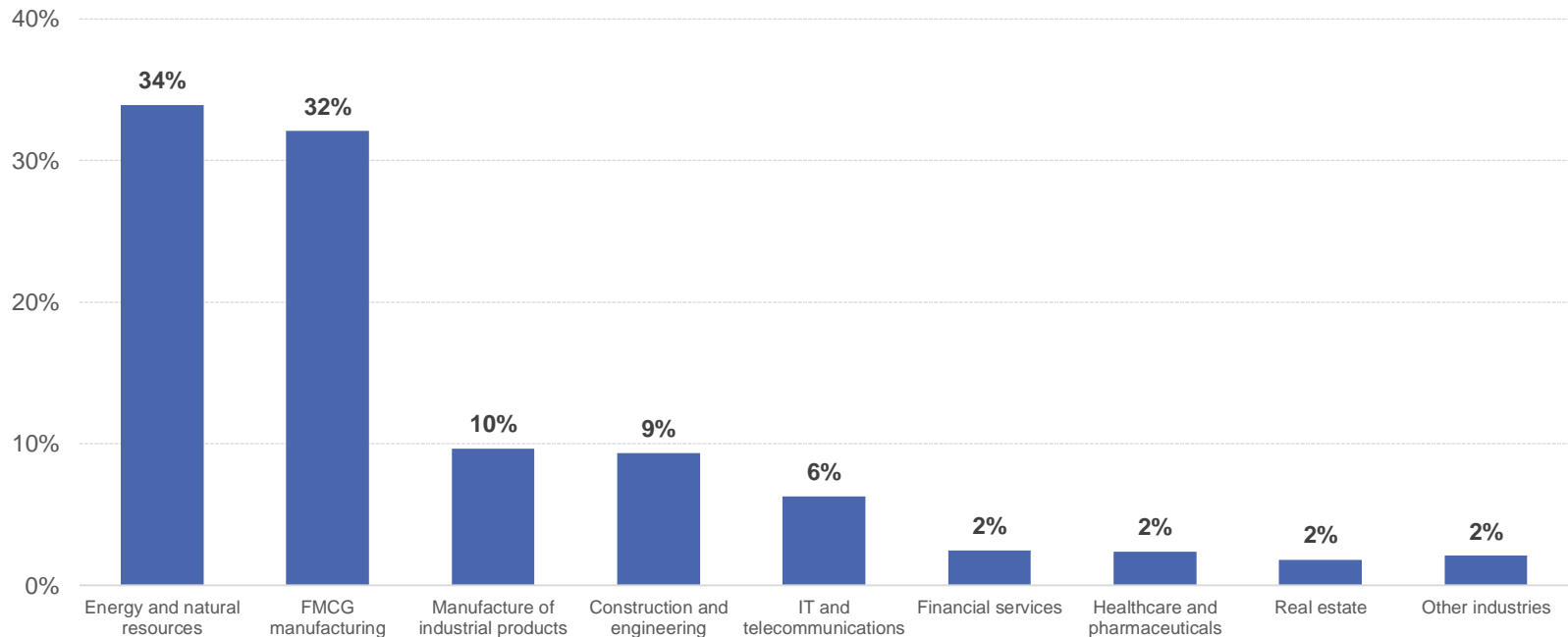


■ From the US ■ From other countries

# Investments by Industry

- A significant proportion of investments by US companies in Russia is accounted for by the energy and natural resources sector (34% of total accumulated investments and 39% of investments in 2017 and 2018).
- Two other popular investment areas are FMCG manufacturing (which accounts for 32% of all-time investments) and industrial product manufacturing (10%).

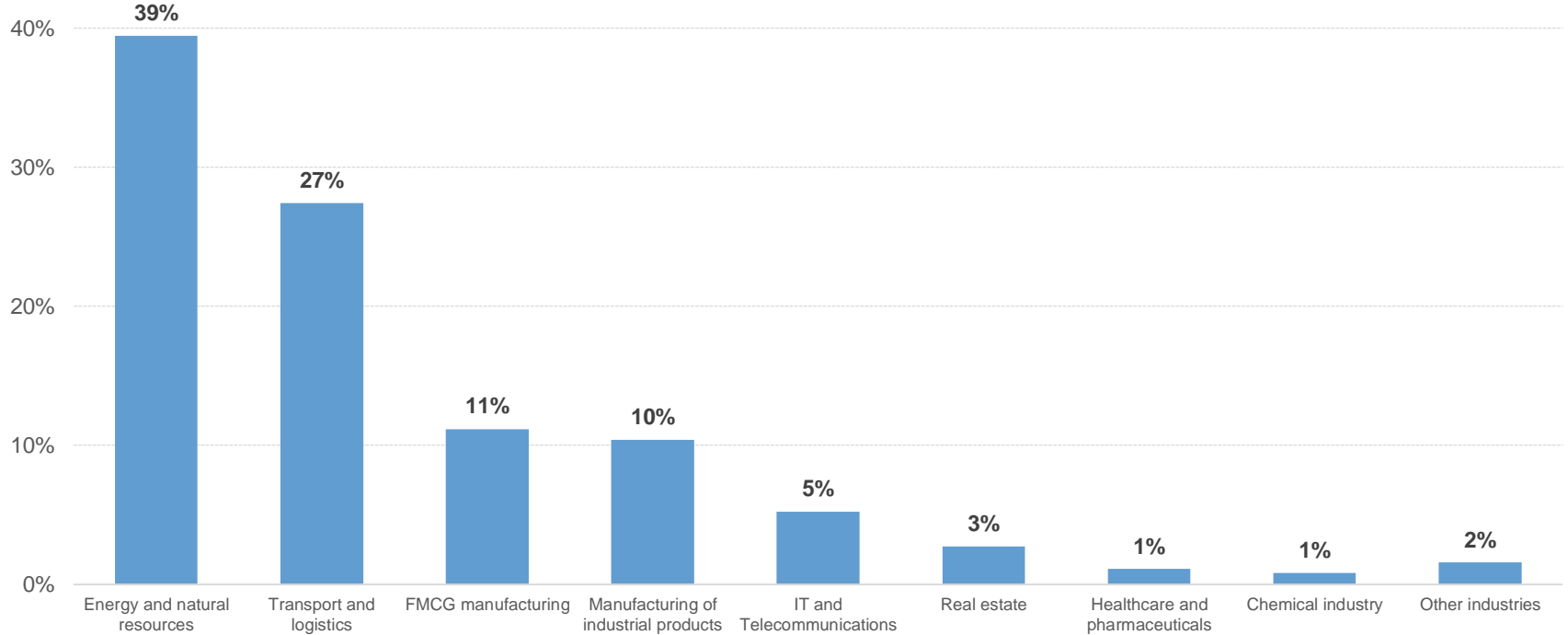
Total investments by industries



# Plans for 2018 by Industries

- There has been a trend towards increased investment in transport and logistics in the last two years:
  - in 2017 the sector accounted for 21% of all investments by companies surveyed,
  - in 2018 their share may reach 27% of the total.

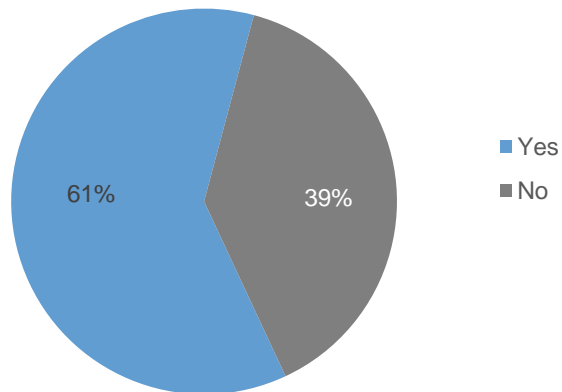
Investments in 2018 by industries



# Imports

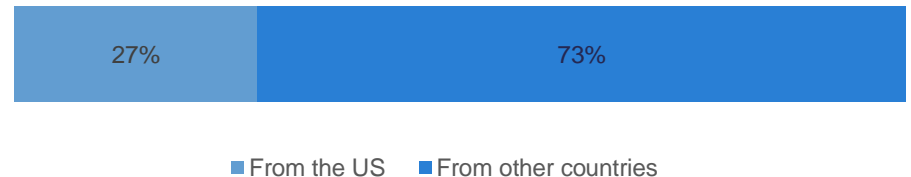
- Russia remains a popular import destination for American companies – 61% of respondents stated that they imported their products into Russia from other countries.

Does your company import products from other countries into Russia?



- But only a small proportion of imports come directly from the US – most (73%) come to Russia from other countries.
  - According to the 2017 and 2016 surveys, 68% and 71% of U.S. imports came to Russia from outside the US, respectively.
- Thus, the real volume of imports of American companies to Russia is about 3 times higher than the official statistics.

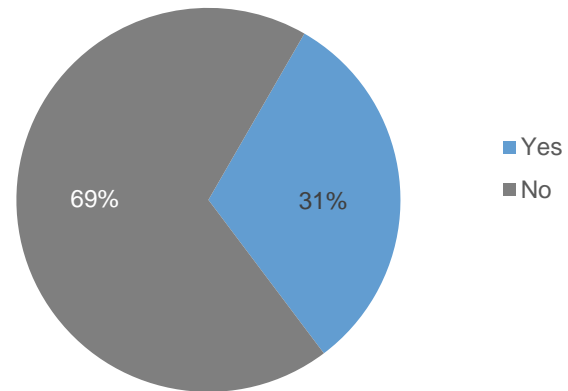
Percentage of imports from the US in the company's total imports into Russia



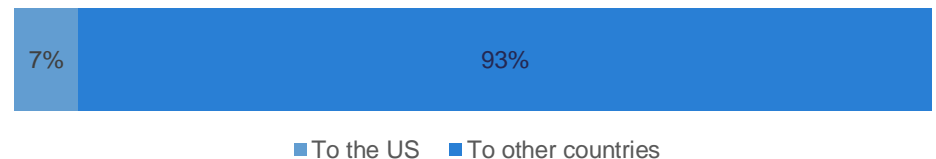
# Exports

- 31% of surveyed companies supply products manufactured in Russia to other countries.
- Products manufactured in Russia have great export potential. Many companies have managed to overcome the economic decline in 2014-2015 and speed up growth by organizing exports of Russian products to other countries.
- The chief exporters have been operating in Russia for a long time (25 years on average). Their prolonged presence on the Russian market has enabled those companies to establish production operations, organize an effective supply chain and use their Russian enterprises as an important platform for exports.
- The US accounts for a small proportion of exports by US companies – around 7%.

Does your company export products from Russia to other countries?



Percentage of exports from Russia to the US in the company's total exports from Russia

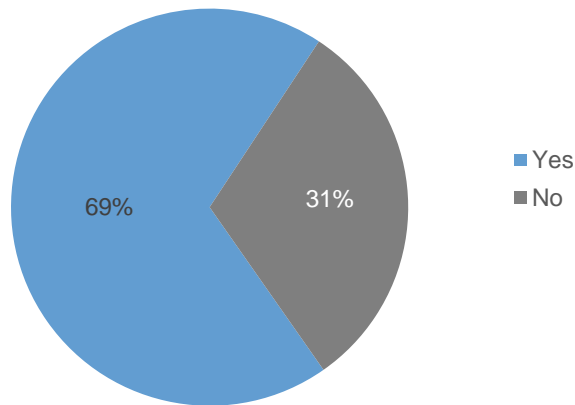




# Development plans

- In 2017 the survey participants invested \$2.862 billion in the Russian economy.
  - By comparison, Bank of Russia data for the first 9 months of 2017 indicated an investment inflow of only \$0.436 billion from the US.
- Investment plans in 2018 are a little more modest – the surveyed companies plan to invest \$2.280 billion in Russia.
  - Not all companies surveyed reported planned investments;
  - At the same time, 87% of respondents plan to either increase investments in Russia or keep them at the same level.
- 69% of companies plan to launch new projects in Russia in the near future,
  - in 2017, 80% of survey participants reported having such plans.

Does your company plan to launch new projects in Russia?



- 24% of survey participants plan development in Russian regions,
  - opening of new offices, logistics centres or production sites.
- 26% of companies surveyed plan investment in R&D in Russia,
  - hiring of R&D experts, establishment of a joint engineering centre.

# Will Russia's role change for your company in the near future?

- *Yes, [Russia] will be one of our strategic markets.*
- *The importance of Russian business will grow.*
- *The role and significance of Russia will increase annually thanks to the growth of cashless payments.*
- *Russia is one of the top 5 markets [for us] and it will continue to have such importance for the company.*
- *Russia will remain one of strategically important global markets for [our leading brand].*
- *Russia will continue to be considered as a strategic market for the company.*
- *No change, our business is stable.*
- *It is very important to maintain a presence in Russia.*
- *[The role of Russia] will not change unless there is a major political or economic blackout.*
- *As long as the political situation does not worsen, we are planning a significant increase in headcount here.*
- *Russia will remain a strategic market for our firm unless [major state banks] fall under the type of sanctions that were levied on [other big local players], in which case a lack of access to local debt capital markets would significantly and negatively impact our ability to invest in Russia.*
- *It's impossible to tell right now. We need to see how the sanctions conflict plays out.*
- *A lot depends on political developments.*
- *If the status quo with sanctions and the political mood persist, there will be stagnation to slow decline in Russia's importance and global relevance for my company.*

# What is your company's development strategy in Russia for the next 3-5 years?

- *To triple the size of our [Russian] business.*
- *Localization and growth.*
- *Steady growth of revenues, client base and loyalty.*
- *Continue develop localization and technology transfer in pharmaceutical sector.*
- *Introduction of new products to the Russian healthcare system and patients.*
- *[Our strategy] is profitable growth.*
- *We will continue to invest at the same pace as we have historically. Russia's assets continue to be priced attractively to their peers in Europe and the United States. Again, an expansion of sanctions could negatively impact this development plan.*
- *We will continue to invest in R&D and do pilots with local partners in Internet of Things, 5G focus areas.*
- *As the company develops and supports small business we will continue to do it, supporting individual entrepreneurs and expanding our regional presence.*
- *We will definitely stay in the market and will look for innovative business models.*
- *Business as usual, and expect improving geopolitics within this period to further expand.*
- *Organic growth and launch of new products.*
- *Moderate organic growth.*
- *Wait and see.*



**THANK YOU!**

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