



Investments and Import to Russia: back to growth

6th annual survey of the American Chamber of Commerce in Russia

Report prepared in partnership with EY

August 2021

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Survey Description

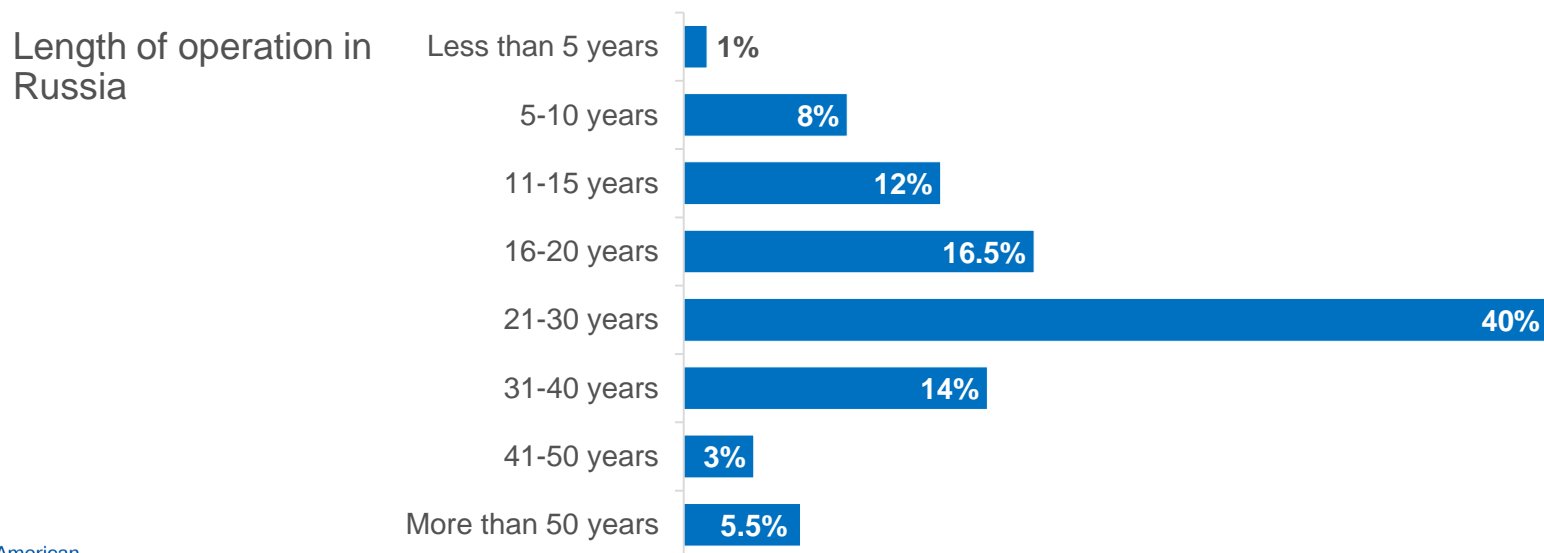
- In 2021, the American Chamber of Commerce conducted its sixth annual survey devoted to the prospects for direct investments and bilateral trade between Russia and the USA.
- 92 American companies – AmCham members took part in the survey.
- This report is based on the survey’s findings, publicly available information and official statistics.
- The purpose of the survey is to show the actual scale of bilateral investment and trade between Russia and the US.
- The survey was conducted in April – May 2021 in partnership with EY.
- The survey’s target audience consists of executives of American companies operating in Russia and government officials of the two countries.

Executive Summary

- Russia is a strategically important market for most of the survey's respondents. The percentage of American companies that take this view is the highest it has been in four years.
- The uncertainty caused by the pandemic is subsiding, and tense relations between Russia and the US have become the new normal. In this situation, American business is gearing up again: 84% of companies said they plan to launch new projects in Russia in the near future – the highest level in the survey's history.
- Sanctions are having a negative impact on business in Russia according to 78% of respondents. The restrictions put American business at a disadvantage compared to companies from other countries and create reputational risks.
- The pandemic has resulted in lower revenues for 41% of respondents, but despite the financial hit, most companies have already resumed pre-pandemic operations or plan to do so this year.
- Official statistics underestimate the actual level of economic relations between Russia and the US. Bilateral investment figures collected as part of the study are 9 times higher than the official figures.

Information on the Respondent Companies

- 92 companies took part in the survey. The survey had 75 respondents in 2020 and 2019.
- The surveyed companies have over 94,000 full-time employees.
- Over a third of these companies entered the Russian market in the 1990s.
- The respondents include American companies that worked with Russia even before the start of market reforms, testifying to the country's strategic importance for global business.



Companies by Industry

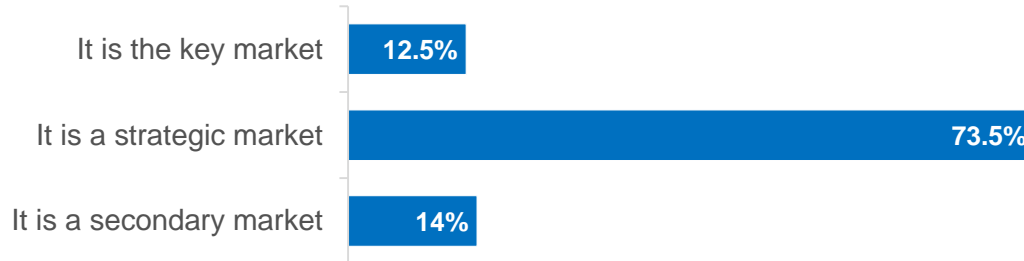
- The respondents this year include many companies in IT & Telecommunications (14% of respondents), professional services (13%) and industrial manufacturing (11%).
- Consumer goods manufacturers (10%) and multi-industry holding companies (9%) are also well represented.
- Companies in the areas of energy & natural resources, hospitality (HoReCa), financial services and healthcare & pharmaceuticals took part in the survey as well.

Industry	% of respondents	Number of companies
IT & Telecommunications	14.1%	13
Professional Services	13.0%	12
Industrial Products Manufacturing	10.9%	10
Consumer Goods Manufacturing	9.8%	9
Multi-Industry	8.7%	8
Energy & Natural Resources	6.5%	6
HoReCa	5.4%	5
Financial Services	5.4%	5
Healthcare & Pharmaceuticals	5.4%	5
Retail & Wholesale Trade	3.3%	3
Business Services & Education	3.3%	3
Media & Entertainment	3.3%	3
Chemicals	2.2%	2
Automotive	2.2%	2
Real Estate	2.2%	2
Pulp & Paper	1.1%	1
Aerospace	1.1%	1
Agriculture	1.1%	1
Construction & Engineering	1.1%	1

Importance of and Outlook for Business in Russia

- 12.5% of respondents regard Russia as the world's most important (key) market.
- Russia is a strategic market for 73.5%.

Russia's importance in terms of strategic development



ⓘ There continues to be a disparity between the stated importance of business in Russia and its contribution to financial results. Most companies call Russia a strategic market, but add that it is not in the top 10 countries for them in terms of revenue. This was the answer given by 47% of respondents.

- 9 of 10 companies expect their Russian business to grow in the next three years. Most respondents (69%), however, believe that growth will be slow.
- The percentage of optimists has increased: this year 93.5% of companies expect better prospects for business growth in Russia. Only 4.5% of respondents expect stagnation.

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



Sanctions

- 78% of companies feel a negative impact from US sanctions on their Russian business. This is two percentage points lower than last year.

How do sanctions impact your business in Russia?



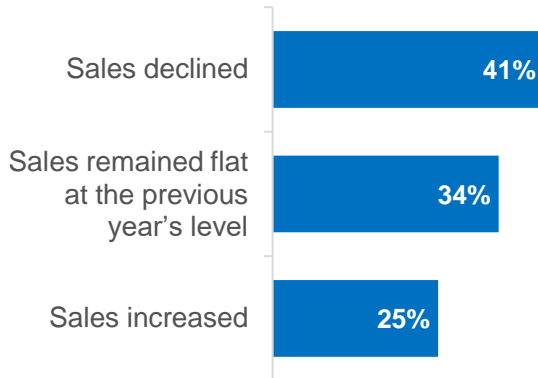
- Sanctions put American business at a disadvantage relative to companies from other countries. This is the most common negative impact of restrictions (noted by 21% of respondents).

Negative impact of sanctions



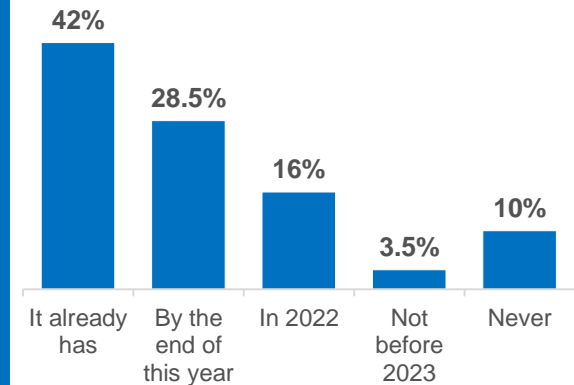
Pandemic

The pandemic's impact on revenue



- Government support has not affected most American companies in Russia.
- 22% of respondents said that support measures were appropriate but on too small a scale.

When will your business return to normal?



- The coronavirus pandemic has had a major impact on the business of American companies in Russia.
- 41% of respondents saw their revenues decline in 2020 as a result of the pandemic.

51%

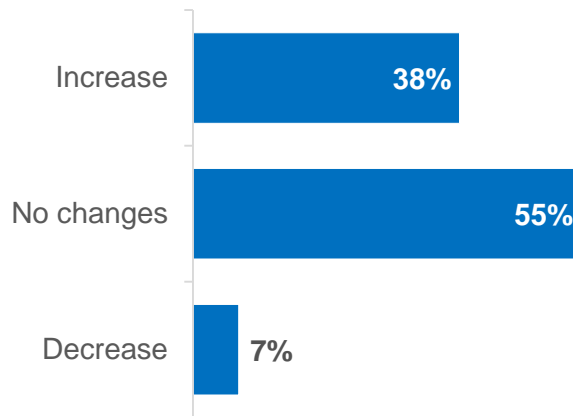
of respondents have not been affected by government support

- Many American companies (42%) have already resumed normal pre-pandemic operations.
- 10% of respondents don't think their business will ever return to normal.

Jobs

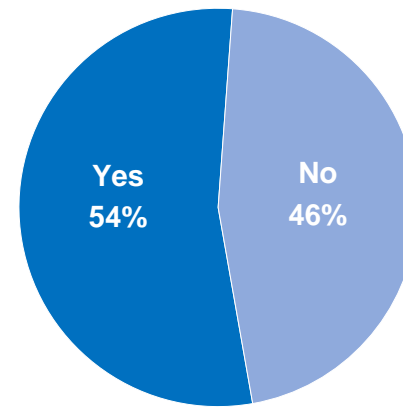
- The percentage of companies that plan to increase their full-time staff in Russia was higher this year: 38% of respondents gave this response, as opposed to 24% a year before.
- Over half of companies (55%) do not plan to hire or lay off employees.

Changes in the number of full-time employees in Russia in 2021



- Over half of respondents (54%) support jobs in the US. This is a positive contribution to the economies of both countries.
- On average, the company supports around 140 jobs in the US.
- Survey respondents create a combined total of nearly 6,500 jobs in the US. as a result of operations in Russia.

Are US-based jobs supported?



Regional Development

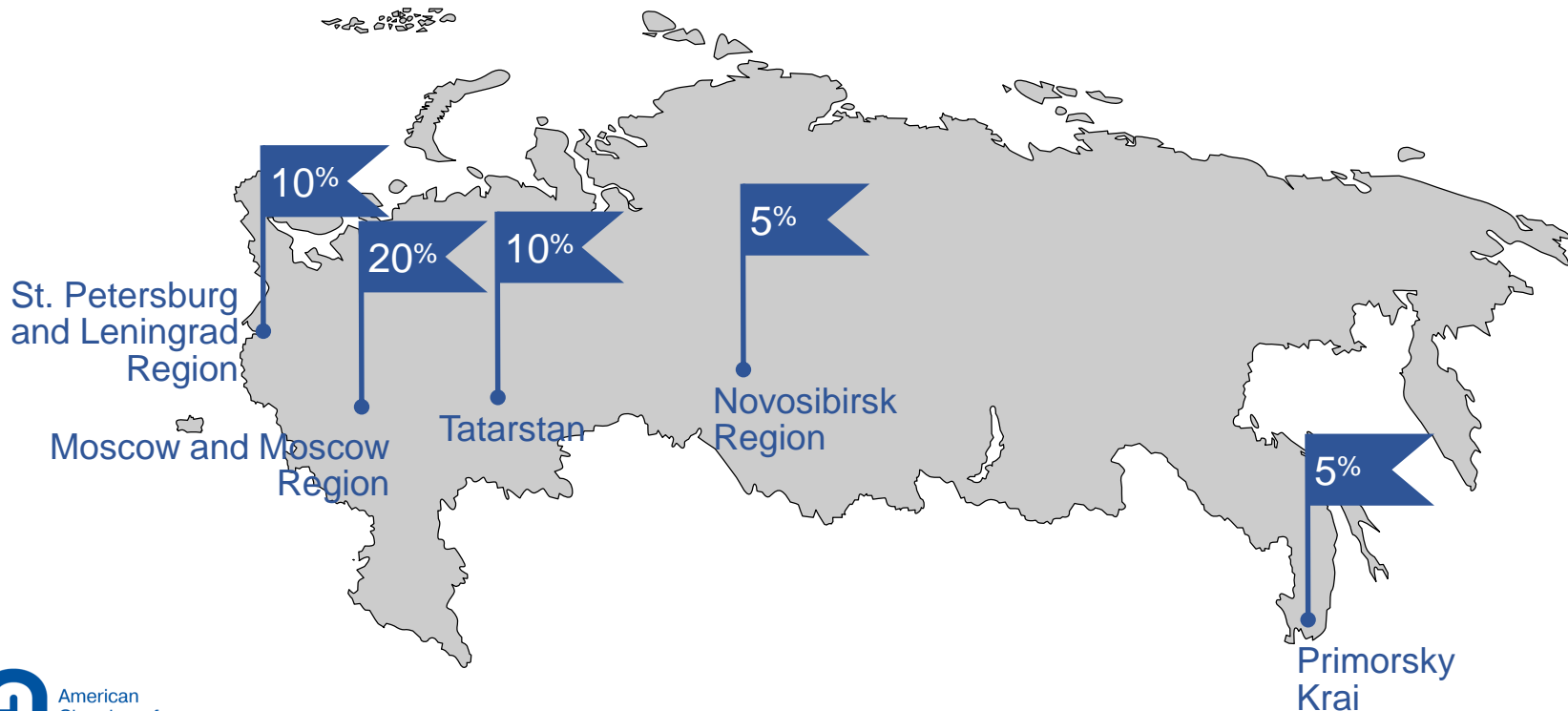
20%

of respondents said that **Moscow and Moscow Region** exceeded their companies' expectations in terms of government openness and opportunities for business development.

18%

of respondents don't see any Russian regions as exceptional (all are more or less the same)

Top 5 regions that have exceeded expectations:

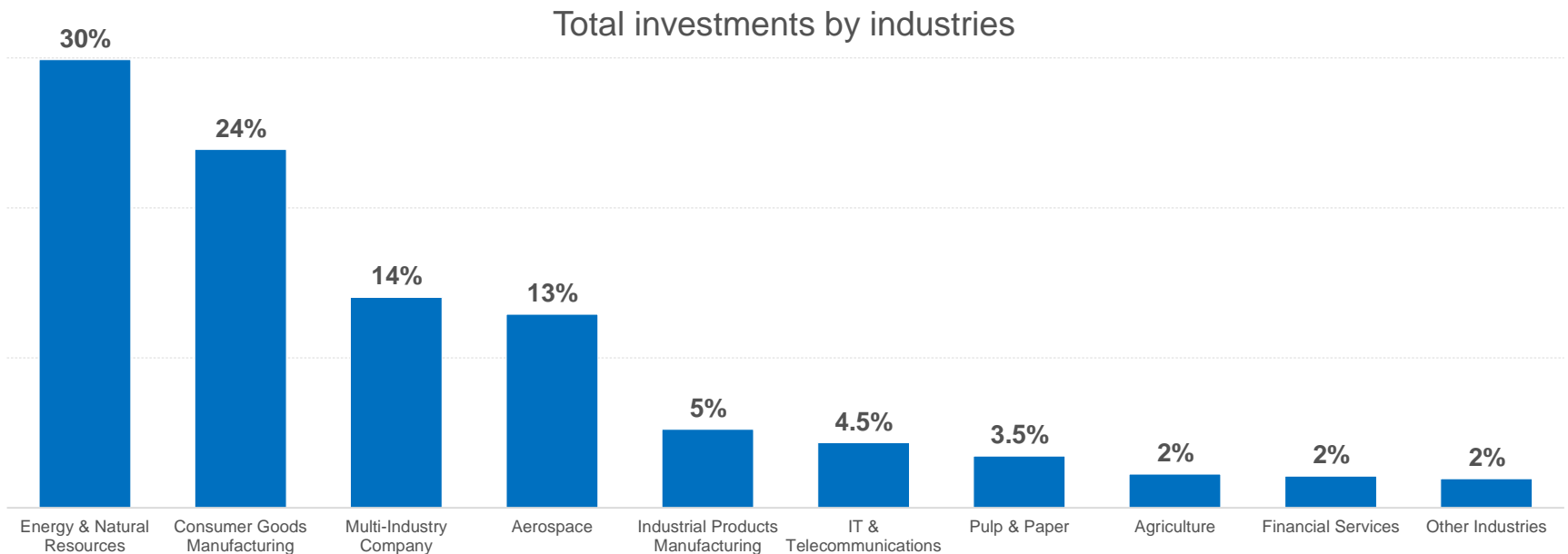


Direct Investments

- During their operations in Russia, American companies have made a total of **\$96.05** billion in direct investments. This estimate is based on the data of 160 companies, including the 92 that took part in the survey this year, as well as public information and data of companies surveyed in the last five years.
- Our findings this year testify to a substantial scale of business cooperation between Russia and the US and demonstrate the important role played by American companies in the Russian economy.
- Official statistics are more modest and may not fully reflect the current scope of trade and economic relations between the US and Russia:
 - According to the Bank of Russia, direct investments from the US amounted to \$10.3 billion in the period from 2007 through 2020 (https://www.cbr.ru/vfs/eng/statistics/credit_statistics/inv_in-country_e.xlsx)
 - The United States Department of Commerce reports that American companies had invested over \$14.4 billion in Russia by 2019 (<https://www.selectusa.gov/country-fact-sheet/Russia>)
- The disparity may have to do with the fact that American companies invest in Russia via other countries and reinvest funds earned locally in their Russian business.
- The IMF's definition of foreign direct investments was used for the purposes of this study (<https://www.imf.org/external/np/sta/di/glossary.pdf>).

Total Investments

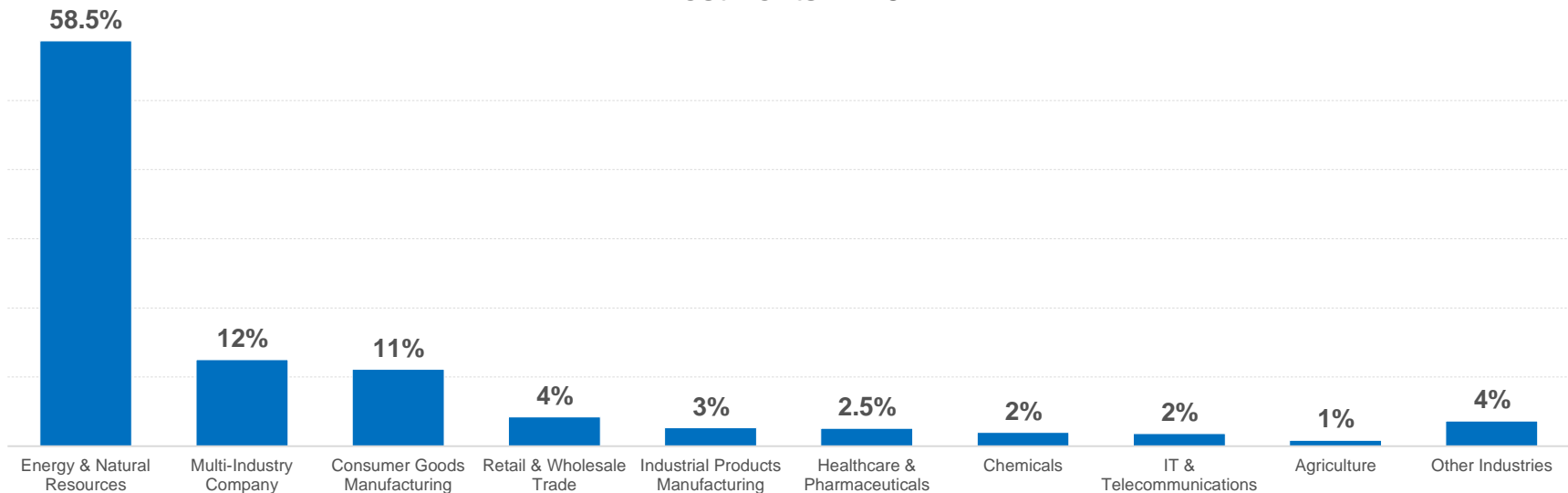
- This year, companies in the area of energy & natural resources were again the biggest investors (30% of accumulated investments and 47% in 2020).
- Consumer goods manufacturers accounted for nearly a quarter of accumulated investments, with multi-industry holding companies accounting for 14%.
- American companies reinvest local revenues in their Russian business. Reinvestments average 47% of the respondents' capital.



Plans for 2021 by Industry

- In 2021, respondents plan to invest over \$1.8 billion in Russia.
- Energy & natural resources will continue to receive the largest portion – over half of all respondents' investments.
- Multi-industry holding companies account for a significant percentage of foreign investments (12%), as do consumer goods manufacturers (11% of all planned investments in 2021).
- 12% of respondents said they do not plan any investments this year.

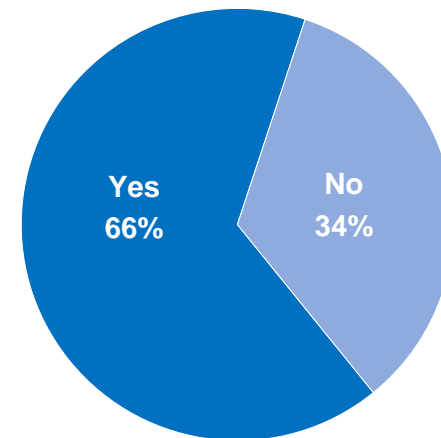
Investments in 2021



Imports

- Russia is an import destination for American companies.
- As last year, 66% of respondents said they import their products to Russia.
- Only 31% of imports come directly from the US, with the rest coming from other countries.
- 28% of companies reported between \$50 and 300 million in imports into Russia last year.
- The survey shows that American companies' imports to Russia are actually around **triple** the amount indicated in official statistics.
- According to the Federal Customs Service of Russia, trade with the US in 2020 stood at around \$23.9 billion, including some \$13 billion in imports from the US.

Does your company import products from other countries to Russia?



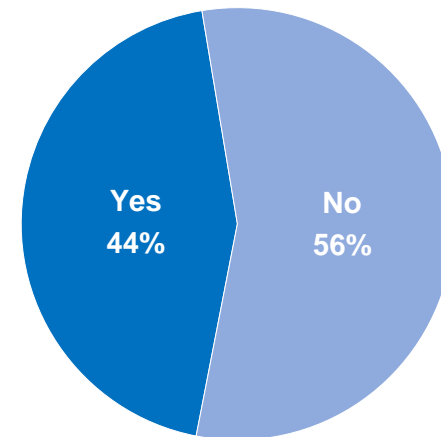
Imports from the US as a percentage of total imports to Russia



Exports

- 44% of the surveyed companies supply goods produced in Russia to other countries.
- Around 17% of goods produced in Russia are exported directly to the US, while 83% of exports go to other countries.
- Nearly half of the surveyed companies export over 20% of the goods they produce in Russia.
- This testifies to the export potential of Russian products and the important role played by American companies in boosting exports to other countries.
- Russian suppliers are joining global supply chains and so increasing the country's export potential.

Does your company export products from Russia to other countries?



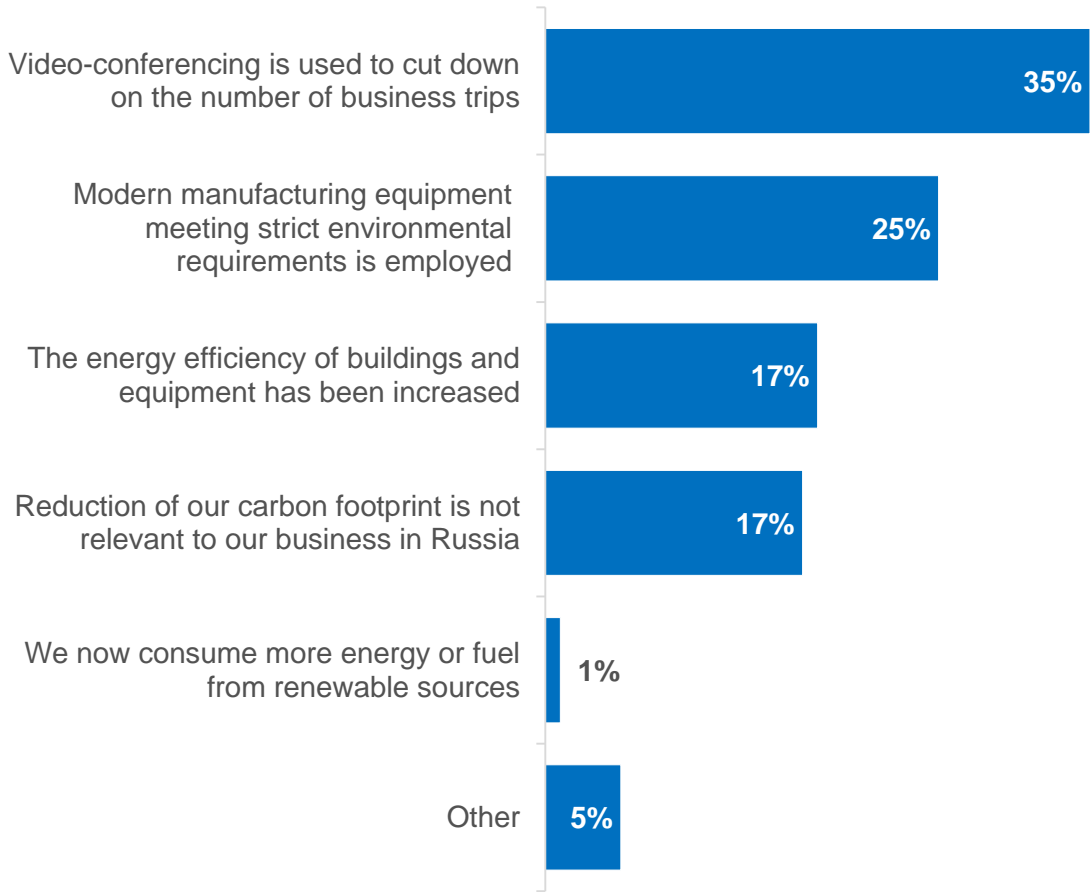
Exports from Russia to the **US** as a percentage of total exports from Russia



Decarbonization

- 92% of respondents noted that their companies adhere to the same decarbonization and carbon footprint standards in Russia and abroad.
- The simplest and most common way that respondents reduced their carbon footprint was the use of video-conferencing to cut down on the number of business trips. This was mentioned by 35% of American companies.
- 59% of companies noted that investments in decarbonization have not yet yielded any financial benefit.

What does your company do to reduce the carbon footprint of its business in Russia?



Development Plans

- In 2020, respondents invested over \$2.2 billion in the Russian economy.
 - The Bank of Russia reported an inflow of \$402 million in American investments in 2020.
- The surveyed companies have somewhat more modest investment plans for 2021 and plan to invest approximately \$1.8 billion in Russia.
 - Not all of the surveyed companies specified the amounts of their actual and planned investments.
 - 95% of companies plan to increase their investments in Russia or keep them at the previous level.
- 84% of respondents plan to launch new projects in Russia in the near future.
 - Above all, companies plan to introduce new products and services on the Russian market (37%) and to expand production (23%).
- The percentage of respondents that do not plan further growth has dropped to 16% – half what it was a year ago. This is evidence that the period of high uncertainty due to the pandemic is drawing to a close and that American business is gearing up for further growth in Russia.

Plans to expand operations and launch new projects in Russia in the near future



Will Russia's Role Change for Your Company in the Near Future?

- *Russia is an important partner for our company, and the strengthening of mutually beneficial cooperation will be <...> a priority.*
- *We expect continued growth on the heels of investment and do not expect any major changes in our role within the corporation.*
- *We don't expect any major change and hope for normalized relations and an improved image so that we can more fully utilize the potential [of Russian business] in our company's overall operations.*
- *[Russia's role will not change], as there are no positive signals on the global agenda for Russia.*
- *Russia will stay cost efficient and attractive <...> among the company's other R&D geographies.*
- *Russia plays the role of growth engine for our global business. We expect to deliver double-digit revenue and profit growth.*
- *[Russia's role for our business] is very much dependent on future US-Russia relations, which as of today are unpredictable.*
- *The answer to this question depends on the economic and political course that Russia takes <...> as well as on sanctions. If the climate remains stable or improves, the company's business in Russia will grow and continue to be a strategic area.*
- *Political agenda is an important factor in strategic decisions to invest and expand in Russia.*

What is Your Company's Development Strategy in Russia for the Next 3-5 Years?

- *We strive to double the business in the next 3-5 years' time.*
- *We aim to grow our business by 60% through a focus on great marketing, better execution, and impactful innovation.*
- *Growth in terms of headcount and R&D areas ownership.*
- *Growth in other regions of Russia, growth in the number of points of sale.*
- *Investments in infrastructure, digital marketing, regional expansion.*
- *The company will continue to invest in growing its manufacturing operations in Russia (including by means of joint ventures with local partners) and will further localize the equipment it uses. <...> The company plans to strengthen its positions in the segment of industrial digital technologies.*
- *Transform all solutions to the 'Everything as a Service' model.*
- *Invest in new cloud solutions to be deployed in a local data center and grow cloud sales and digital transformation projects.*
- *Transition to safer, cleaner, more efficient energy. Adopt low-carbon technologies. Develop business by introducing advanced technologies, including digitalization.*
- *Leaving political risks aside, rapid expansion and investment are possible, but decisions are constantly delayed.*
- *Try to adapt, survive and, if possible, thrive.*



The American Chamber of Commerce in Russia (AmCham) is the leading international business organization in Russia. Founded in 1994, AmCham advocates for the trade and investment interests of its member companies. AmCham's mission is to enhance commercial relations between the Russian Federation and the international business community by promoting an investment-friendly environment.
www.amcham.ru

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