



Investments and Import to Russia: business in the face of uncertainty

4th annual survey of the American Chamber of Commerce in Russia

Report prepared in partnership with EY

May 2019

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Survey Description

- In 2019, the American Chamber of Commerce conducted its fourth annual survey devoted to prospects for direct investments and bilateral trade between Russia and the USA.
- 75 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 by the American Chamber of Commerce in Russia in partnership with EY in March and April 2019.
- The target audience is executives of American companies operating in Russia and government officials of the two countries.

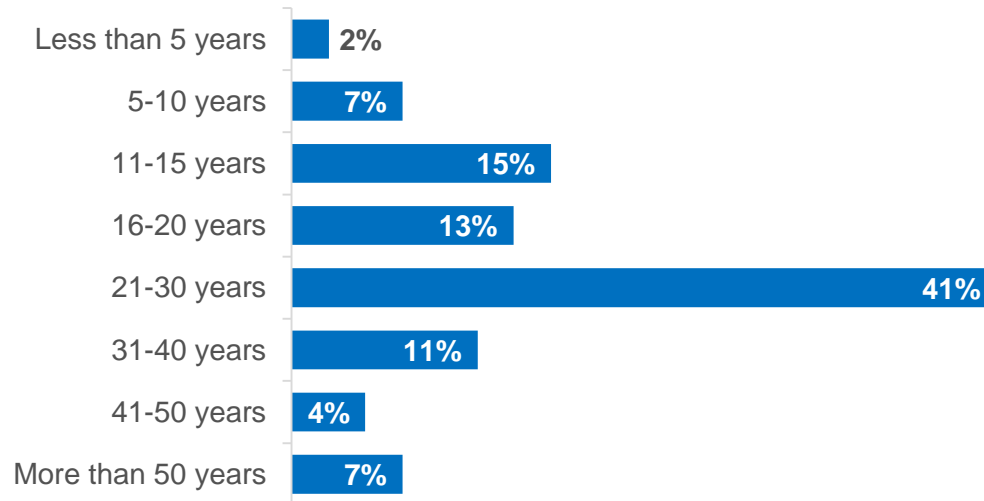
Executive Summary

- Russia is a strategic market for most survey participants. Geopolitical tensions create uncertainties for business, making it prudent to focus on the manageable issues during these times.
- Sanctions have a negative impact on the business in Russia in the opinion of 85% of the survey participants. For a third of them the negative impact is, primarily, the contraction of the Russian market.
- Business climate continues to be a barrier for investment growth. Measures taken by Russia's government will play an important part in creating a better business environment.
- Despite the external constraints, the total number of the US companies planning to launch a new project in Russia has increased, with 79% of the survey participants stating such plans.
- 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 approximately 6 times higher than the official values.

Information on the Respondent Companies

- **75 companies** took part in the survey. The 2018 and 2017 studies had 72 and 83 respondents, respectively.
- The total number of full-time employees of the survey participants was over 114,000.
- Over half of the companies surveyed (63%) have been doing business in Russia since the early 1990s or longer.
- 22% of the companies came to Russia as early as the 1970s-1980s or even before then. This is the best sign of commitment to the Russian market despite political disagreements or economic difficulties.

Period of operation in Russia



Companies by Industries

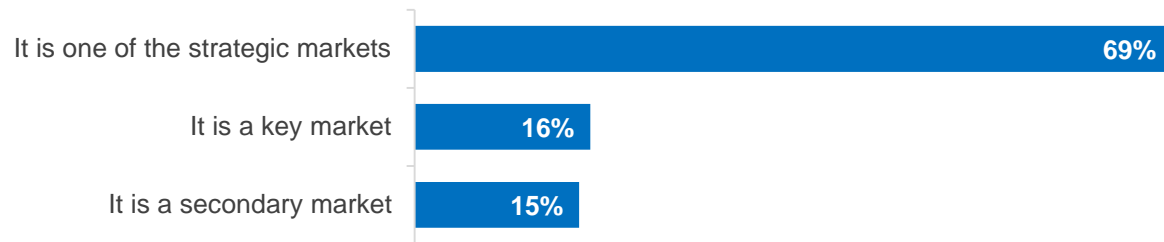
- The sectors with the highest representation in this survey include information technologies and telecommunications (23% of the respondents), industrial products manufacturing (11%), healthcare and pharmaceuticals (11%).
- There are many FMCG manufacturers (8%) and multi-industry companies (8%) amongst the survey participants.
- The sectors of professional services, energy & natural resources, and financial services are also well-represented.

Industry	% of respondents	Number of companies
IT & Telecommunications	23%	17
Industrial Products Manufacturing	11%	8
Healthcare & Pharmaceuticals	11%	8
Multi-industry company	8%	6
FMCG Manufacturing	8%	6
Professional Services (audit, consulting, law)	7%	5
Energy & Natural Resources	5%	4
Financial Services (banks, insurance, leasing)	5%	4
Chemicals	4%	3
Transport & Logistics	4%	3
Construction & Engineering	4%	3
Hospitality	4%	3
Automotive	3%	2
Food Service (fast food restaurants)	1%	1
Media & Entertainment	1%	1
Not specified	1%	1

Importance of and Outlook for Business in Russia

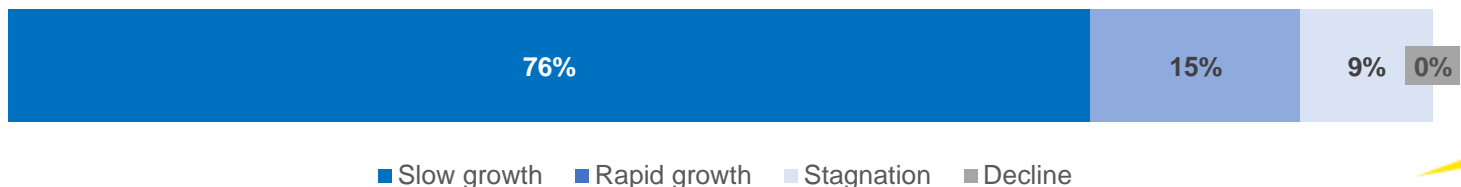
- For 69% of the companies surveyed, Russia is a strategic market.
- 16% of the survey participants view Russia as a key market (one of the most important in the world).

Importance of Russia in terms of strategic development



- 9 out of 10 companies expect their Russian business to grow in the next three years; however, most companies (76%) project that the growth rate will be low.
- There are virtually no pessimists: none of the survey participants expect growth prospects for their Russian business to deteriorate; however, 9% of the companies anticipate stagnation.

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



Sanctions

- 85% of the companies surveyed have experienced a negative impact of the US sanctions on their Russian business. The share of such companies has increased marginally compared to the previous year.

How do sanctions impact your business in Russia?



- Contraction of the Russian market is the most common negative impact of the sanctions (this view is shared by 32% of the survey participants).
- 44% of the companies report that sanctions have had no impact on their revenues in Russia.

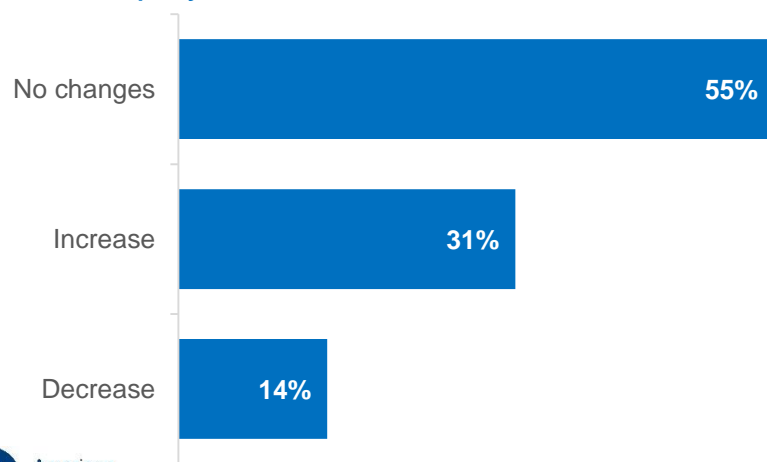
Negative impact of sanctions



Jobs

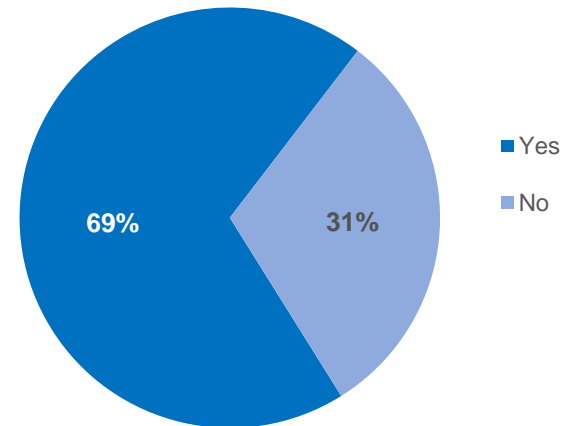
- This year more companies plan to increase the total number of their full-time employees in Russia. The share of such answers is 31% compared to 24% the year before.
- More than half of the companies surveyed (55%) are not planning any substantial changes this year.

Changes in the number of full-time employees in Russia in 2019



- 7 out of 10 US companies operating in Russia support jobs in the US. This means a positive contribution is made to both countries' economies.
- Usually managing a Russian subsidiary requires about 30 staff members in the US.
- Overall survey participants have created above 8,000 jobs in the US due to their operations in Russia.

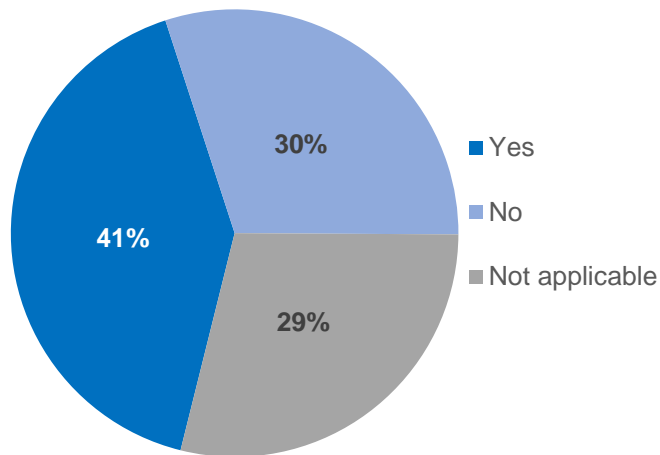
Are US-based jobs supported?



Production

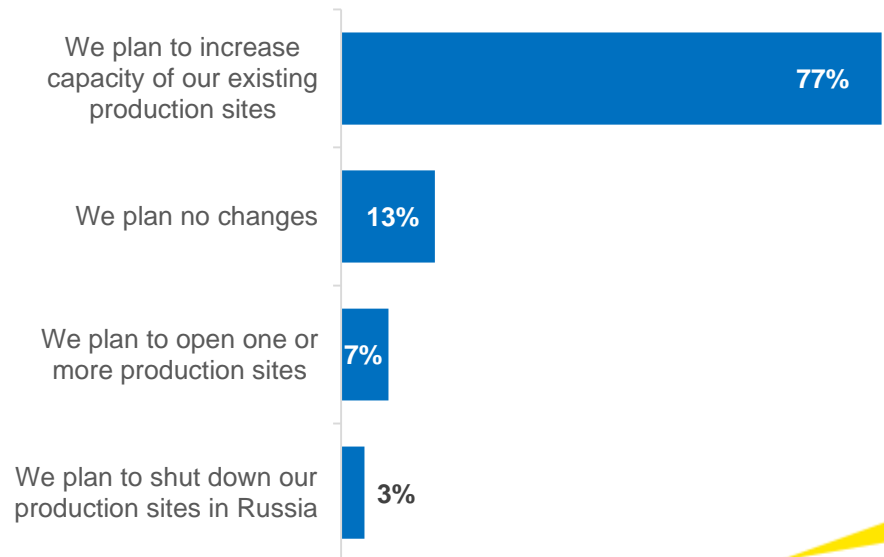
- 41% of the companies surveyed have a production site in Russia.
- 79% of the survey participants running production sites in Russia operate in the automotive industry, FMCG, and industrial products manufacturing.

Does your company run a production site in Russia?



- Most companies with the production sites in Russia plan to increase their capacity (77%).
- Only 7% of the surveyed companies plan to open a new production site.

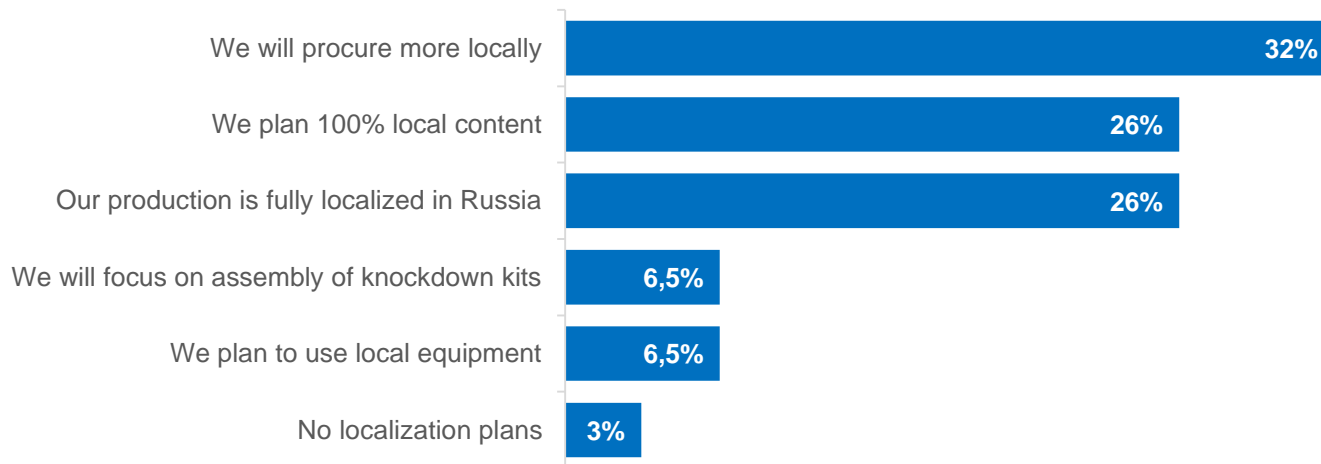
Production development plans



Localization and Technology Transfer

- A quarter of the surveyed US companies with the production sites in Russia has managed to localize their Russian production fully. A similar share expects to do that in the future.
- The most common way of localization is to procure more from local suppliers (as stated by 32% of the companies surveyed).
- 65% of the companies maintaining production sites in Russia will seek to transfer new technologies to their Russian sites.
- 37% of all survey participants plan investment in the research and development (R&D) in Russia, e.g. hire R&D experts or establish own engineering center.

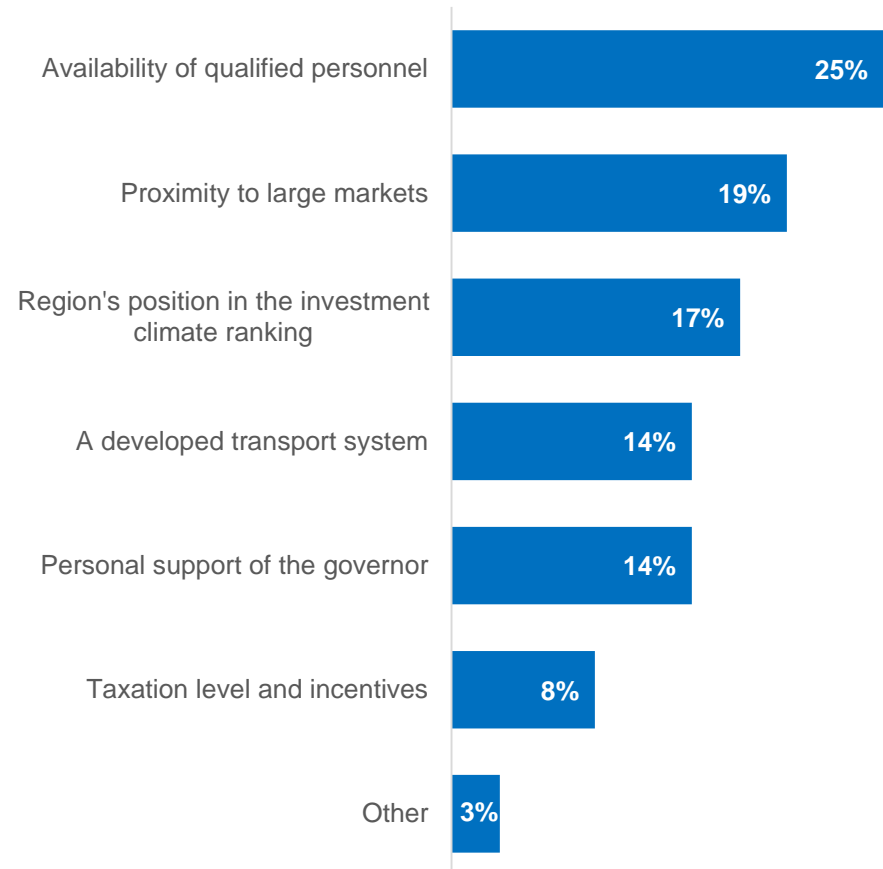
Localization plans



Regional Development

- Every 5th company plans to increase presence in the Russian regions, e.g. open new offices, logistics centers or production sites.
- Most survey participants (70%) do not plan to expand their regional footprint.
- Companies seeking to expand their regional presence in Russia consider the Siberian Federal District (specifically, Novosibirsk and Irkutsk), the Far East, and Nizhegorodskaya Oblast to be most attractive.
- The region selection criteria are fairly pragmatic: availability of qualified personnel (25%) and proximity to large markets (19%) have outweighed the governor's personal support and tax benefits.

The most important factors when choosing a region for investment



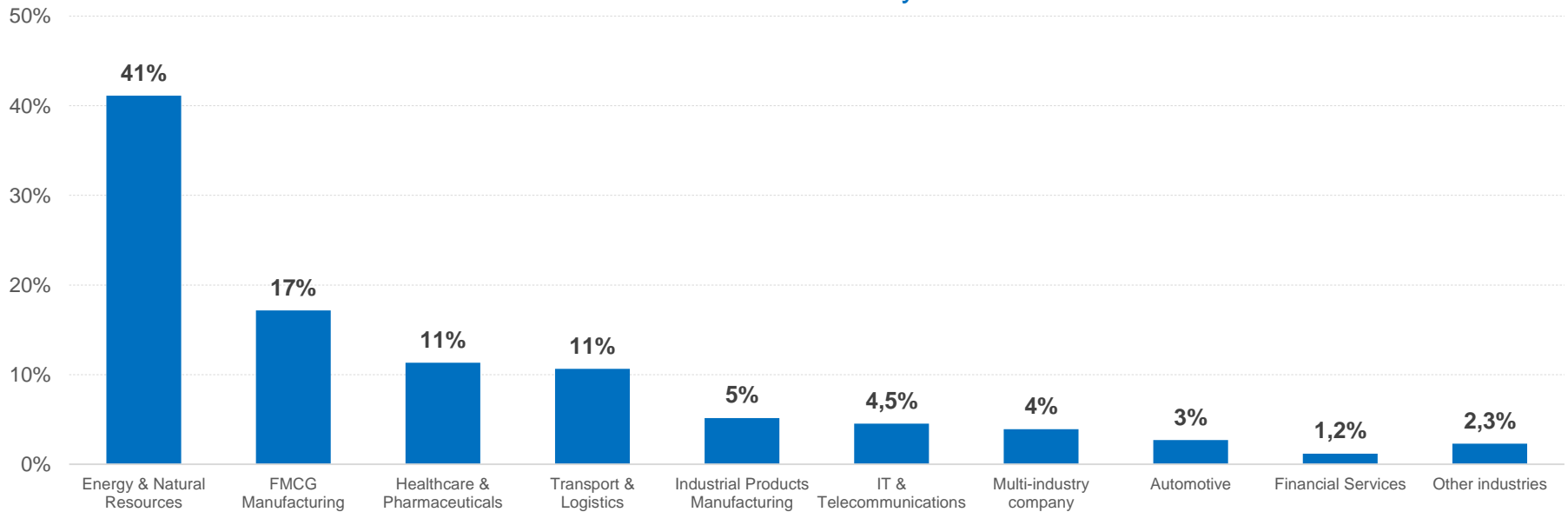
Direct Investments

- The total direct investments of US companies over the entire period of their operations in Russia amount to **\$85.1 billion**. This is an estimated figure based on the data of 75 companies taking part in the current survey, public data on investments of several other US companies as well as the results of previous surveys.
- The results of the current survey point to a significant scale of business cooperation between Russia and the USA as well as an important role the US companies play in Russia's economy.
- The official figures are significantly lower and may not reflect the current status of trade between the two countries fully:
 - According to the Bank of Russia, the total FDI flow from the USA to Russia amounted to \$10 billion over the period from 2007 to the first nine months of 2018 (https://www.cbr.ru/vfs/eng/statistics/credit_statistics/inv_in-country_e.xlsx)
 - According to the US Department of Commerce, the total investment of US companies in Russia exceeded \$13.8 billion by 2017 (<https://www.selectusa.gov/country-fact-sheet/Russia>)
- The discrepancies are due to the fact that US companies invest in Russia through other countries and reinvest their proceeds from the Russian operations.
- The survey is based on the FDI definition by the International Monetary Fund (<https://www.imf.org/external/np/sta/di/glossary.pdf>).

Investments by Industries

- Nearly half of the total investment by the surveyed US companies in Russia is in the energy and natural resources sector (41% of investment accumulated over the whole period and 49% of the total investment in 2019).
- The US companies reinvest proceeds from Russian operations into their Russian business. On average, the reinvested earnings account for 33% of the company's capital in Russia.
- Expansion of production facilities is the most common reinvestment objective.

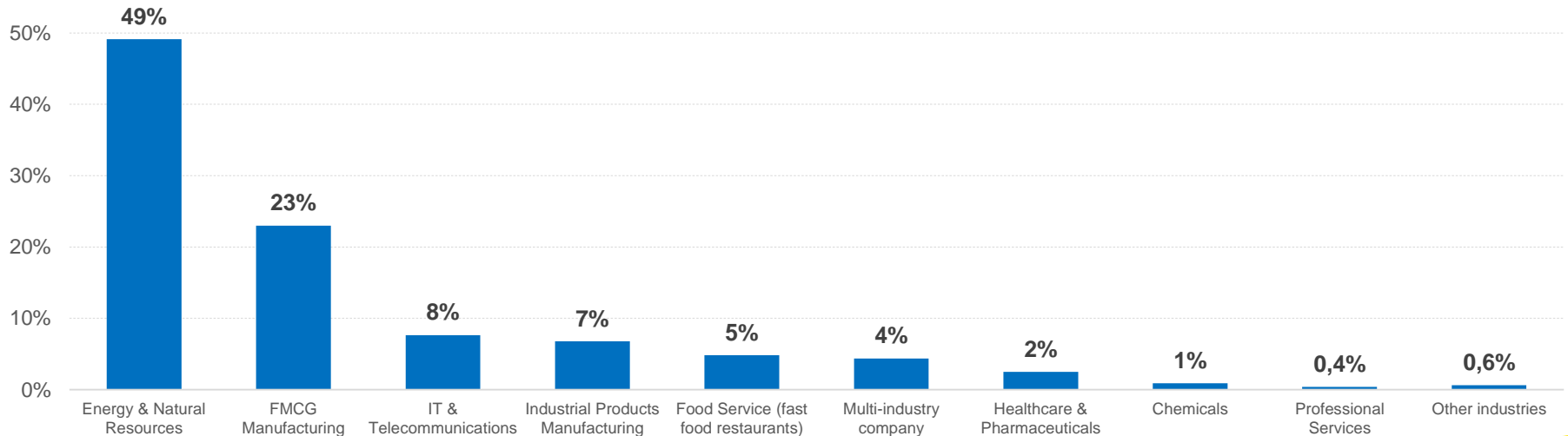
Accumulated investments by industries



Plans for 2019 by Industries

- In 2019, the survey participants plan to invest **\$1.6 billion** in Russia.
- The energy and natural resources sector will continue to lead by the volume of investment. In percentage terms, more investment is planned in this industry in 2019 than what has been accumulated over all the previous years.
- FMCG manufacturers also account for a significant share of foreign investment (23% of the total investment planned for 2019).
- The top three industries with the highest investment also include IT and Telecommunications (8% of the total investment in the current year).

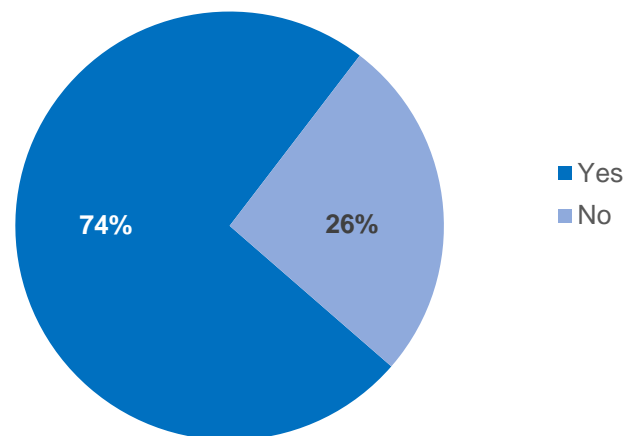
Investments in 2019 by industries



Imports

- Russia is one of the destinations of the US companies' imports.
- 74% of the survey participants noted that they had imported their goods to Russia (versus only 61% last year).
- 38% of the companies noted that their total imports to Russia was within the range from \$50 million to \$300 million last year.
- Only 34% of imports originated in the USA. The remaining share was imported to Russia from other countries.
- The survey indicates that the real volume of US companies' imports to Russia is about 3 times higher than the official statistics.

Does your company import products from other countries into Russia?



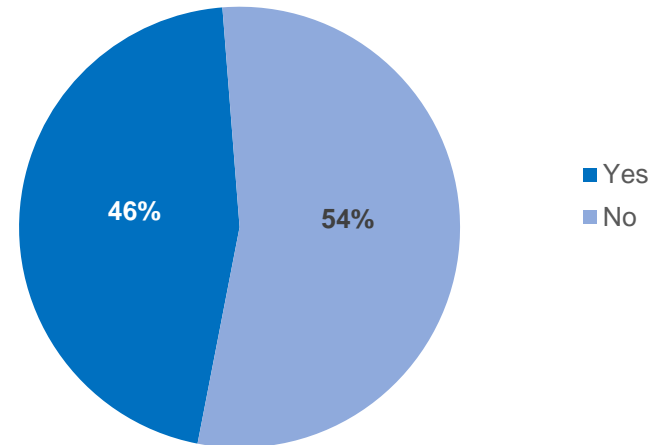
Percentage of imports from the US of the total imports into Russia



Exports

- 46% of the companies surveyed export goods manufactured in Russia to other countries, compared with only 31% last year.
- The US share in the exports of goods manufactured in Russia does not exceed a quarter, while 76% of the goods are directed to other countries.
- 4 out of 10 surveyed companies export more than 20% of the goods manufactured in Russia.
- It shows the export potential of Russian goods and the important role of the US companies in increasing exports to other countries.
- Russian suppliers become part of global supply chains, thus increasing Russia's export potential.

Does your company export products from Russia to other countries?



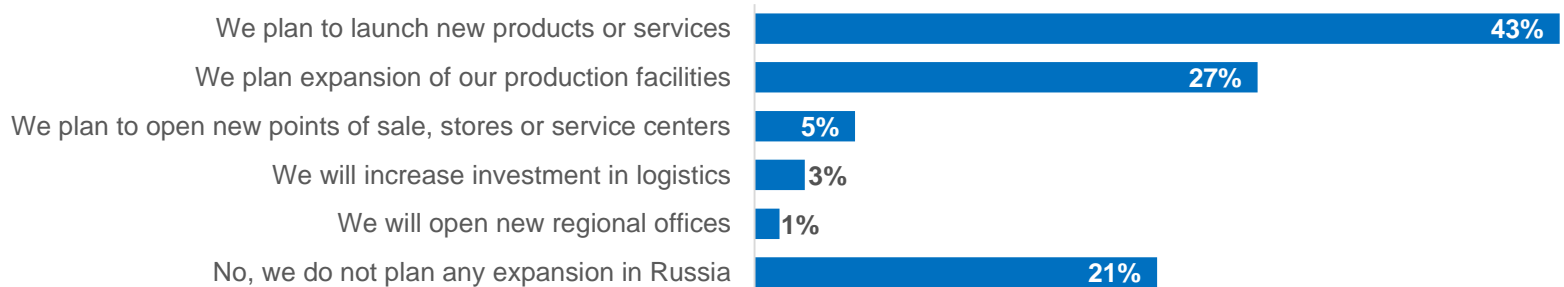
Percentage of exports from Russia to the US of the total exports from Russia



Development Plans

- In 2018 the survey participants invested **\$1.7 billion** into Russia's economy.
 - According to the Bank of Russia data for 9 months of 2018, the FDI flow from the USA was only \$0.4 billion.
- The investment plans of the surveyed companies for 2019 are more modest – they will seek to invest some **\$1.6 billion** in Russia.
 - Not all surveyed companies reported the total actual and planned investment.
 - 80% of the companies plan to either increase investments in Russia or maintain them at the same level.
- 79% of survey participants plan to launch new projects in Russia in the near future. Only 69% of the companies had similar plans last year.
 - Companies primarily plan to launch new products or services in Russia (43%) as well as expand their production facilities (27%).
- Every 5th company (21% of the survey participants) does not plan any expansion in Russia, which points to the uncertainty accompanying US business 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 will remain to be viewed as one of the strategic markets.*
- *If the investment and business climate get more favorable and geopolitical situation less tensed we see tremendous future in Russia.*
- *It is more risky to do business here. It is unacceptable to have a criminal risk for our executive just because we are competing with locals.*
- *The role of the Russian market will hinge on its share in the company's global revenues and profits.*
- *We seek to maintain our leadership position [...] and traditionally highly appraise the significance and role of the Russian market.*
- *Corrections to operational model can lead to double digit growth even in stagnating market. In case of success Russia could step in the league of strategic countries with larger investment opportunities.*
- *If the sanctions regime continues then there will be no positive change of the role of our firm in Russia.*
- *Russia's role will remain unchanged in the near future; however, Russia will restore its status as one of the major markets in a more distant perspective.*
- *I am afraid that political climate puts American companies at a disadvantage.*
- *Risks [of doing business in Russia] will be closely monitored.*

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

- *[Our] company will continue investment in the development of production in Russia (including the joint ventures with local partners) and increase the localization of equipment.*
- *Protect our core business during a time of political turmoil and economic uncertainty.*
- *[Our strategy is] profitable growth of business, cost control and increased productivity, focus on people development.*
- *[Russia can be a] low cost platform to serve local and other markets.*
- *[We are] in a wait and see mode right now – let's see how the new congress and sanctions play out.*
- *[We will] promote our experience and hope for the best.*
- *Keep investing with prudent approach, entering new regions of Russia, export to other CIS countries.*
- *Stay the course: sustainable growth in both consumer and corporate banking, improve client experience and efficiency via digitization of communication and service channels.*
- *Take minimal risks, increase effectiveness, cut costs.*



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