

Actual import substitution

Russia continues to implement import substitution programmes or at least to offset imports with local products. For example, Rosseti and FGC, the largest Russian users of electrical equipment, as of 2018 already succeeded in reducing the import ratio in procurement to below 15%. In addition, Rosseti presses for bringing this figure down to 5% by 2030¹. In the first instance, this trend offers advantageous conditions for those domestic companies of the electrotechnical market, which managed to begin mass production of their own engineering equipment. Evropeyskaya Elektrotehnica is one such company.

A significant trend for the domestic market is an increased number of major customers imposing strong requirements on suppliers of engineering products within the framework of import substitution and the availability of their own production facilities for the admission to participation in procurement procedures. In June 2018, the Company was awarded a nomination the Leader of Import Substitution according to 2017 results in the framework of the annual all-Russian award "Leader of Competitive Sales" participated by 450 domestic suppliers from various industries.

THE MARKETS

of Engineering and Process Equipment in Russia: current state and trends

The market of engineering solutions and services in Russia as of 2018 was at a relatively early stage of development and consolidation, unlike with the level reached by Western and Eastern developed economies.

This is true for individual segments of the market - for example, for energy and electricity supply solutions. An eloquent fact: in Russia, there are about 5 thousand organisations engaged in the production and assembly of low-voltage complete devices.

Moreover, engineering is one of the most important sectors and its intensive development can facilitate the transformation of the national economy from the raw material model to the model processing and producing high-tech products/services.

According to the Ministry of Industry and Trade of Russia, the volume of the domestic engineering market was slated to reach RUB 2.8 trln by 2018. From the level of 2013 (RUB 1.5 trln), the market had to grow at an annual rate of 13.3% (CAGR). Simultaneously, the share of EPC(M)-contracts² in the home market scheme was supposed to rise to 25-30%.

1. Source: <https://www.vedomosti.ru/business/articles/2018/12/26/790458-tsifrovizatsiya-setei>

2. "EPC (M)" is adopted to denote the following terms of engineering contracts in international practices: Engineering, Procurement, and Construction (Management).

The Company measures the achieved market volume in 2018 as follows

Indicator	Value, RUB bln	Note
1. Investments in fixed assets in Russia	17,595	Source: Russian Federal Service for State Statistics (Rosstat)
2. Engineering solutions market volume, 10% from [1]	1,760	Company's estimate: Energy and electricity supply market volume
3. Process design solutions market volume ¹	786	Company's estimate: volume of the market of equipment for oil, gas and petrochemical industries
Total [2 + 3]:	2,546	

The profile of the engineering market in Russia is directly dictated by the high importance of key sectors of the domestic economy. According to the Ministry of Industry and Trade of Russia, up to 70% of revenue in industrial engineering accrue to large engineering companies in the oil and gas sector, and about 25% - to electrical energy industry².

Besides, the state controlled market in the Russian Federation is at the stage of formation. The roadmap containing the stages and mechanisms for the development of the domestic industry of engineering and industrial design was approved rather recently - in 2013³. The national standard GOST R 57306-2016 "Engineering: terminology and basic concepts in the field of engineerin" intended for the formation and development of the sector of engineering, contracting, and document development services was introduced in Russia on 1 September 2017⁴.

The assessment of the volume and dynamics of the domestic engineering market is complicated by the lack of adequate official statistics in the Russian Federation. Improving the quality of the state statistical monitoring system and new information on the engineering market made available to Rosstat and useful for market participants should ensure the identification of economic activities related to engineering and industrial design, listed in OKVED2 (Russian National Classifier of Types of Economic Activity) and OKPD2 (Russian Classification of Products by Economic Activities).

Since 2014, the intensive development of the domestic market of process equipment has been significantly boosted by Western countries sanctions against the Russian Federation. Restricting access to advanced foreign technologies - primarily in the oil and gas sector - clearly highlighted the need to restore the country's technological sovereignty. Domestic design organisations and local equipment manufacturers for the first time in the modern history of the Russian Federation received such a significant "window of opportunity" - both in financial terms and in terms of the expected protracted sanctions restrictions imposed on our country. For Russian manufacturers of process equipment, the latter factor represents not only the possibility of short-term incomes, but the return to the national producer of control over a significant share in domestic market in the long term, the potential to generate income and profits from in-house developments and during the period after they achieve desired payback.

We also have to admit that the engineering market in the Russian Federation remains informationally closed. Evropeyskaya Elektrotehnika is still the only example of a public, information-transparent company in the domestic engineering market.

1. The calculation procedure: a) solve for 23.2% of [1] - the share of the total investment in fixed assets in the Russian Federation (2016) attributable to the extraction of fossil fuels and coke, petroleum products, and chemical industries (source: http://www.gks.ru/free_doc/doc_2017/invest.pdf); b) subtract RUB 150 bln of investment in the coal industry from [a] (source: <http://www.finmarket.ru/news/4938385>); c) solve for 20% of [b].

2. Yu. Medyanik. Engineering services market in Russia: problems and development prospects // Russian Journal of Entrepreneurship. 2017 T. 18. No. 24. Pages 4221-4234.

3. Order of the Government of the Russian Federation dated 23 July 2013 No. 1300-p "On approval of the action plan (roadmap) in the field of engineering and industrial design".

4. Yu. Medyanik. Engineering services market in Russia: problems and development prospects // Russian Journal of Entrepreneurship. 2017 T. 18. No. 24. Pages 4221-4234.