FACTORS
determining the further development of key sectors of the economy of the Russian Federation

ENGINEERING MARKET

- Growing demand for engineering services against the background of ongoing digitalisation of the economy and current infrastructure upgrade and energy saving projects.
- The exit of a number of players from the Russian power supply market in the period 2014–2016, who fell down on the sagging market caused by the completion of large-scale investment programmes of capacity supply agreements (CSA) in the power industry.
- New long-term growth factor for the domestic engineering business - the launch of the Programme for the modernisation of thermal power plants in Russia (CSA-2) - the industry players will feel its positive effect for more than ten years to come, until the 2030s.
- Increasing requirements for market participants, Russian engineering companies, the need for their compliance with international standards - the ability to work with customers on the basis of EPC and EPC(M) contracts. For example, Gazprom announced that, starting from 2018, its Investment Programme worth over RUB 1 trln - one of the largest in the country - will rely on the EPC-based approach, which will allow the Company to reduce costs and improve the efficiency of the entire gas industry.[1]
- Highly fragmented market without strong leaders, providing a variety of M&A opportunities.

ELECTRIC POWER INDUSTRY

- High level of deterioration of substations, power equipment, and cable systems.
- Completion of the investment pause period in the electric power industry, transition to the next stage of asset modernisation (large-scale modernisation programme for thermal power plants, requiring about RUB 1.9 trln of investments until 2035; one of the key requirements for these projects: for modernisation, the level of localisation of equipment manufactured in Russia should be 100%).

OIL AND GAS INDUSTRY

- Increasing investments in upstream projects (exploration and production); their volume grew up in Russia in 2017 by 38% to USD 58 bln (IEA data, July 2018); investment revival replaced the investment slump during 2014–2016; Globally, the growth rate of investment in production was significantly lower (about 4%), which offers Russian companies an advantage in the ability to maintain and increase oil production amid possible problems with foreign companies.
- Moderate investment growth will hold up in traditional upstream projects, under which the companies will work to maintain production levels at mature fields (Eastern Siberia); Driven by the commissioning of new fields, the capital expenditures of vertically integrated oil companies will start growing again and this trend will last until 2019.
- Maintaining a high tax burden for the industry.
- The emerging transition from the Western sources of financing of large projects in the industry to the Eastern ones (mainly Chinese sources and sources from the Persian Gulf countries).

PETROCHEMICAL INDUSTRY

- The industry's high potential is gradually realised through the ready availability of raw materials (naphtha, liquefied hydrocarbon gases, associated petroleum gas, ethane, and condensate), the need to phase-out imports of chemical products on the domestic market, and export opportunities.
- Before 2014, Russia was an importer of large-tonnage petrochemical products, and then since 2016–2017 it has already changed over to the export of these products.
- The further development of the Russian industry is focused on medium-tonnage and low-tonnage chemistry, the Russian Federation lags far behind world leaders in this market segment; there are plans to launch about 800 priority products of low-tonnage chemistry in 2020–2022.

1. https://nangs.org/news/technologies/razvitie-inzhiniringa-rossiya-vstupaet-v-gonku-za-liderstvo.