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Russian Home Construction Product Market



Canada 





**Report for
Canada Mortgage and Housing Corporation**

RUSSIAN HOME CONSTRUCTION PRODUCT MARKET

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Executive summary

Project objectives and methodology

- This study was commissioned by the Canada Mortgage and Housing Corporation.
- The objectives of this study are to:
 - Analyze the Russian housing and construction market by looking at:
 - General economic and business environment
 - Construction sector and housing market
 - Identify and analyze finishing products supplied by Canadian manufacturers that are likely to have a high potential on the Russian market.
- The methodology used to gather the information has been desk-research, PMR ready-made reports, and primary interviews. In total, approximately 90 companies were contacted, and interviews with market experts were conducted, in Russian.

General information

- Russia is a transcontinental country that extends over much of Northern Eurasia (Europe and Asia). Covering a total area of 17,075,200 km², Russia is the largest country in the world, with the 9th largest population in the world and a wealth of natural resources.
- Russia has a total of 142 mln inhabitants, of which the economically active population accounts for 71.6%. The population declined from 148 mln to 142 mln between 1994 and 2009, and is further expected to decline to 141 mln by 2016.
- Roughly 73% of the population lives in the towns or cities. The capital city, Moscow, has approximately 10 mln inhabitants (the greater Moscow area numbers nearly 15 mln citizens).

Economic environment

- Before the 2008 financial crisis, Russia experienced several years of uninterrupted and unprecedented **economic growth**.
- During 2009, the dire consequences of the global financial meltdown and the subsequent recession led to an estimated 8.6% contraction in **Gross Domestic Product**.
- **Industrial output:** Between 2004 and 2007, growth in industrial output averaged 5.5%, driven by increases in production capacity and investment in machinery. The effect of the crisis on industrial output is evident in the estimated 12% contraction in industrial output in 2009.
- Double-digit **inflation** has been one of the long-standing aspects of the Russian economy. Forecasts indicate a substantial drop in inflation between 2010 and 2011. This decline in inflation is a result of a decrease in the general purchasing power of the population.

- **Exchange rates:** In 2008, the Russian Ruble enjoyed a robust performance, strengthening to a notably high level of 24.8 against the USD. In 2009, the RUR fell in value, reaching a level of 31.6 against the USD, prompted by falling oil prices, faltering economy, and increasing risk-aversion of investors. However, with the recovering economy and increasing confidence in the Russian market, the Ruble is expected to recover in 2010 and 2011.

Business environment

- The efficiency of public institutions determines the general business climate in any given country. The World Bank's **"Doing Business in 2010"** survey ranks Russia 120th out of 183 countries in terms of ease of doing business. The survey monitors the countries according to 10 indicators, with each of the indicators discussed below:
- **Dealing with construction permits** in Russia is complicated, time consuming, costly, and can be considered a barrier to doing business. Russia ranks 182nd in terms of ease of dealing with construction permits.
- **Registering property:** It takes 6 steps and 43 days to register property, assigning the country 45th ranking. The cost of registering property is 0.1% of overall property value, which is lower than the rank in the region, OECD and Canada.
- **Securing credit:** This section explores credit information registry and effectiveness of collateral and bankruptcy laws in facilitating lending. Russia ranks 87th in terms of securing credit. The index in Russia is 5.0 - comparable to the average of 4.9 in the OECD.
- **Enforcing contracts:** It takes 37 steps and 281 days to enforce contracts in Russia, and the cost is 13.4% of the debt. The time required to enforce contracts in Russia is much shorter than elsewhere, as it takes approximately 281 days, while it takes 570 days in Canada.

Russian Construction and Housing markets

- Until the financial crisis took its toll on the economy, the Russian Construction market was one the fastest-growing sectors, with construction output experiencing an average nominal growth of 36.2% between 2004 and 2008, driven by a booming economy, provision of loans and promotion of development in the mortgages market.
- In 2009, construction output experienced a decline of approximately 16% from the previous year, reaching a level of RUR 3.87 bn. Although the sector is seeing a slow revival, it is mostly those projects that were left incomplete or frozen during the depths of the crisis that are currently being completed.
- The negative impact of the crisis was evident across all construction segments. However, some segments suffered less than others. Residential, non-residential and civil engineering sectors have all been affected differently:
 - **Residential:** The impact of the crisis on the construction of houses by individual builders was modest, mainly due to the individuals constructing or renovating their houses themselves.
 - **Non-residential:** By mid-2009, a sharp fall of up to 95% of non-residential construction projects was frozen at the planning stage, up to 80%

at the foundation pit stage, and up to 20% at the stage of erecting the building's frame.

- **Civil engineering:** Russia is in need of infrastructure investments, and although the government has been forced to cut spending on infrastructure development, this segment has suffered less than those where private capital dominates, i.e. residential and commercial.
- In 2009, a total of 701,300 residential buildings were completed in Russia, accounting for 59.8 mln m². This was a 6.7% decline from the 64 mln m² the previous year.
- The figures for 2008 and 2009 depict a significant drop from the years 2006 and 2007 from the double-digit growth in the number of homes completed and the total floor space.
- Despite the current drop, the housing market in Russia is set to grow. Factors driving this growth include:
 - A dire need for housing infrastructure: A large proportion of residential buildings in Russia are in need of improvement. The total demand for housing among Russians amounts to approximately 1.6-2 bn m².
 - Support from the Federal Government: The federal government is set to continue supporting housing in Russia by providing housing to people in need, such as war veterans.
 - Efforts to regulate the market according to the programme of "Affordable Housing", which is designed to provide access to affordable housing.
 - A commitment by the authorities to reserve space for housing to be built in the Moscow region, with the space up to 100,000 mln m².
 - The 2014 Winter Olympic Games, in the light of which the housing market is expected to develop, in line with developments in road and transport infrastructure.

Russian Construction and Finishing Materials Market

- In order to provide the Canadian companies with a realistic view of the Russian market, the contents of this chapter are based specifically on primary interviews conducted with associations, businesses, the Canadian trade commission, and manufacturers and distributors of finishing materials.
- This part of the report serves two major objectives:
 - To provide the Canadian manufacturers of finishing materials with an overview of general business conditions on the Russian market by: analyzing recent trends and opportunities; listing the main barriers to entry; identifying and explaining the main channels of distribution; discussing the issue of pricing; explaining specific codes and standards required for importing construction and finishing materials into Russia; and providing general recommendations on the market entry strategy.
 - Analyze products that could have a large potential on the Russian market.
- **Recent trends:** The Russian finishing materials market has undergone a substantial change in the recent years. A decade ago, foreign manufacturers were able to flood the market with quality, high-priced imported products by taking advantage of the lack

of domestically-produced quality products. However, the emergence of local manufacturers has impacted significantly on the entire market structure. Another significant factor to note is the trend towards the building of holiday homes and cottages outside the major cities, which is expected to lead to an increased demand for construction and finishing materials.

- **Future opportunities:** Although recently the general conditions in the construction sector are not favourable, the opportunities in the Russian and neighbouring markets cannot be ignored. Once the companies establish themselves on the Russian market, opportunities within the Commonwealth of Independent States are vast, and are likely to arise further with the growth and development of these economies.
- **Barriers to entry:** The barriers to entry indicated cannot be considered impediments to doing business in Russia. They should, however, be taken into account for Canadian manufacturers interested in entering the Russian market. These barriers include:
 - Emergence of local manufacturers,
 - Competition both from local and foreign manufacturers,
 - Lengthy and complicated customs clearance,
 - Recent unfavourable economic conditions and decrease in the purchasing power of the population,
 - High costs and lengthy transportation of Canadian products into Russia,
 - Product certification.
- **Main channels of distribution:** The distribution of products on the Russian market takes place mainly through exclusive distributors, company representatives, or, DIY retail chains.
- **The most important buying criteria:** Particularly after the crisis, price/quality relationship is the number one buying criteria for the Russian client. Quality, however, is often associated with the brand, and the country from which the product is imported. The crisis has led to an increase in the client's price-sensitivity. Moreover, with increasing availability in the choice of finishing materials, both imported and locally produced, consumers have become more demanding, requiring value for money products and demanding good customer service.
- **Specific codes and standards required for the importation of goods into Russia:** Clearance of goods at Customs is at times considered timely, costly, and bureaucratic. A lack of transparency on regulatory processes often leads importers to turn to customs brokerages/agents that have the know-how to clear the goods.
- **Product Certification:** All products set to be sold in the Russian market require certification. Unless a product is certified, it cannot be imported, or sold, on the Russian market. Ease of certification varies according to products. Regulation regarding products such as lifts, for example, is considered complex and not transparent, lengthy and costly. However, certification of siding, for example, is considered less complicated.
- **Canadian products in Russia:** Canadian siding enjoys a number one position on the Russian market. Although it has been noted that there was once more Canadian products present in the market, such as wood and millwork, the companies have since

withdrawn, unable to compete on price with local manufacturers or manufacturers who do not incur high costs of importing the products into the market.

- **Factors to note in entering the Russian market:**

- **Business culture:** One of the most important factors to take into account in the Russian market is the culture and way of doing business, as it differs from that of western countries. The market is specific, with its own specific requirements. One of these requirements is to establish personal relations with the partners and gain their trust.
- **Increasing brand awareness:** Brand awareness is important in the Russian market. If price matters for the Russian consumer, so does the brand. Thus, investment in increasing brand awareness and advertising is an important factor in the market.
- **Participating in construction exhibitions:** Participation in major construction exhibitions such as “Mosbuild” could be considered a stepping-stone for many manufacturers. Participation in these exhibitions will also indicate to the potential exporter whether the product will gain interest from the market.
- **Testing the market:** It would be advisable for companies to first test the market by bringing in the products in small quantities in order to test whether the product will be well-received in the Russian market, and in the meantime, learn the ways and means of doing business in Russia.
- **The Canadian Trade Commission,** in Canada and in Russia, should be contacted, as these entities will assist with the general guidelines to doing business in Russia.

Products with high potential on the Russian market

- The main purpose of this part of the report is to analyze those Canadian products that could have a high potential on the Russian market.
- Interviews were conducted in order to initially assess the potential of a number of products on the market. Of all the products analyzed, the following were chosen to have the most potential.
 - **Siding:** Siding was imported into Russia in the 1990s, at the time of the development of the Russian construction market. Siding has since become the construction material of choice, growing in popularity year by year. Canadian siding enjoys a very good positioning in Russia, being able to win the trust and respect of the market.
 - **Roofing:** Imported roofing materials have experienced significant growth in Russia, where the market is becoming more and more aware of quality, durable and aesthetically good-looking roofs. Although with the recent crisis the demand for more expensive, imported materials has decreased, with the recovery in the economy, however, the demand is set to continue.
 - **Electric fireplaces:** The market for electric fireplaces in Russia is underdeveloped, with a complete absence of local manufacturers, and full coverage by foreign players. According to primary sources, the leading player in

the market, had, in 2008, a total of 85,000 electric fireplaces installed in Russian homes. Although this accounts for only a very small percentage of total households, the usage of electric fireplaces is new, but, is expected to continue.

- o **Lifts:** The Russian market for lifts has experienced dynamic and consistent growth over the past several years. The recent construction boom and the government's commitment to renewing the old lifts from the Soviet times have been the major drivers of this growth. Currently, approximately 60% of the lifts are in need of modernization. Although the local manufacturers dominate the lower-end of the market and foreign players are already well-established, there is a potential in the market for lifts.
- o **Market for ventilators and boilers:** The heating, ventilation and air-conditioning sector is a dynamically-developing sector in Russia. This report will focus on the two specific segments of this sector, which are Boilers and Ventilators – segments mainly dominated by foreign players.
- o **Wood and wood materials:** Canadian wood products were present in the Russian market approximately ten to twelve years ago, during a time of low competition both from local and foreign manufacturers. However, due to high transportation costs, these companies were unable to withstand the competition and have withdrawn from the market. Although this market is not generally considered 'favourable' for Canadian manufacturers, a potential could lie in certain niche segments.

Project Methodology

This report was prepared using PMR's MarketInsight Methodology. PMR MarketInsight is a methodology developed by PMR which assists in the complex preparation of industry reports.



PMR Project Management Methodology

is a methodology developed by PMR which assists in the management of complex and multi-country projects.



PMR Consulting is an active member of the Society of Competitive Intelligence Professionals.



Sources of the data presented in the report

This report is based on an analysis of data from the following sources:

- PMR's own data, analysis and forecasts.
- Sources in the public domain: the professional press (building materials and construction industry publications) and specialist internet services; the general press; available reports on the construction/construction materials market in Russia, financial reports of market players, documents published by brokerage houses, and the internet.
- For the purposes of this report, interviews were conducted in order that information be gathered from primary sources. These were short and in-depth interviews with:
 - Market experts, manufacturers and distributors for some of the largest companies in Moscow, architects and renovators, customs brokers, certification bodies, and other government departments; and
 - Canadian trade commission in Russia.

Interviews with market experts

- For the purposes of the report PMR Consultants conducted in-depth interviews with market players and experts in the field of construction and construction materials. Most of the respondents were mid- to top-level management personnel in companies active in the relevant markets. The interviews conducted allowed PMR Consulting to understand how the market functions and to better interpret and supplement data gathered from other sources. Overall, approximately 80 in-depth and short interviews were conducted with market experts. The interviews conducted were with the following respondents:
 - Approximately 70 of the interviews were with distributors and manufacturers of construction and finishing materials;
 - 5 architects and construction project management and engineering companies;
 - 2 interviews with customs-brokers;
 - 2 interviews with certification bodies such as Rospomtrest and Rospotrebnadzor;
 - Canadian Trade Commission in Russia

Abbreviations and terms used in the report

bn - billion

CEE - Central and Eastern Europe

CIS – Commonwealth of Independent States (Armenia, Azerbaijan, Belarus, Kazakhstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan),

e - estimate

EU- countries within the European Union

f - forecast

FDI - Foreign Direct Investment

GDP - Gross Domestic Product

H1, H2 - first half, second half

m²- meter square

mln- million

ND - no data

OECD - Organization of Economic Co-Operation and Development

p.p. - percentage point

Rosstat – Russian Statistical Office

RUR – Russian Ruble (Russian currency)

Q1, Q2, etc. - first quarter, second quarter, etc.

USD- United States Dollar

y-o-y - year-on-year

General information about Russia

Demographics

Russia has a total of 142 mln inhabitants, of which the economically active population accounts for 71.6%. The population in Russia has been on a falling trend, decreasing from 148 mln in 1994 to 142 mln in 2009. It is further expected to decline to a total of 141 mln in 2016. This falling trend is one of the biggest threats facing Russian society today.

Demographic indicators, Russia, 2009

Demographic indicators		
Population		142.0m
Change in population size		-0.47%
Age structure	< 14 years	14.7%
	15 – 64 years	71.6%
	> 65 years	13.7%
Average life span		67.5 years (2007)
Median age		38.4 years

Source: Russian Statistical Office – Rosstat, CIA Factbook 2010

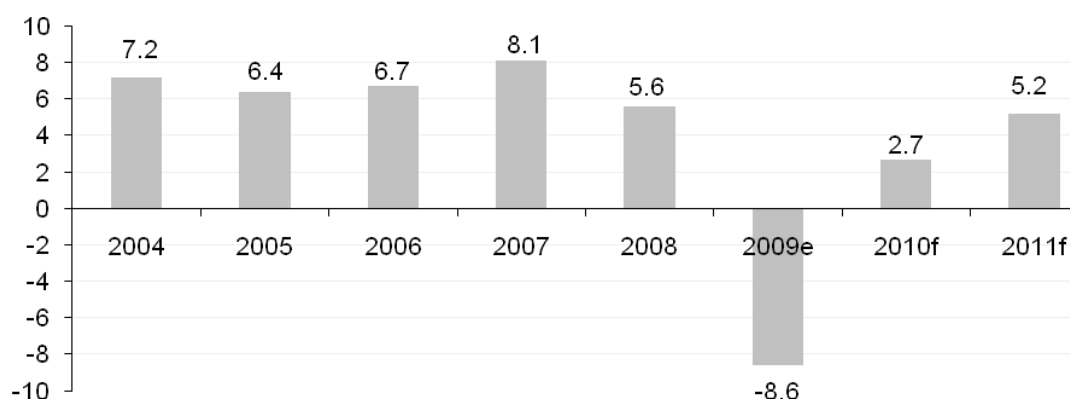
Economic Environment

Gross domestic product

Between 2004 and 2007, the annual GDP growth in Russia averaged 7.1%, driven by the favourable global conditions, increased household consumption, and investment in fixed capital, revived manufacturing activity and strong growth in construction. During 2009, the dire consequences of the global financial meltdown and the subsequent recession led to an estimated 8.6% contraction in the GDP.

As the world economy recovers from its severe decline in demand and output caused by the near-collapse of the global banking system, the Russian economy is expected to return to the path of recovery, increasing to 2.7% and 5.7% in 2010 and 2011 respectively.

Gross Domestic Product growth in Russia [%], 2004 – 2011f

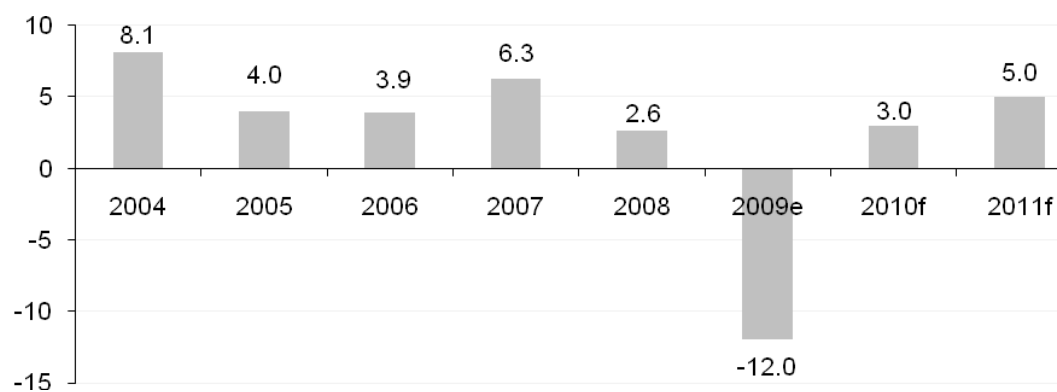


Source: UniCredit Bank Russia, National Bank of Russia, 2010

Industrial output

Between 2004 and 2007, growth in industrial output averaged 5.5%, driven by increases in production capacity and investment in machinery. The effect of the crisis on the output is evident in the estimated 12% contraction in industrial output in 2009. However, it is expected to recover to levels of 3.0% and 5.0% respectively, in line with the forecasts of more favourable economic conditions.

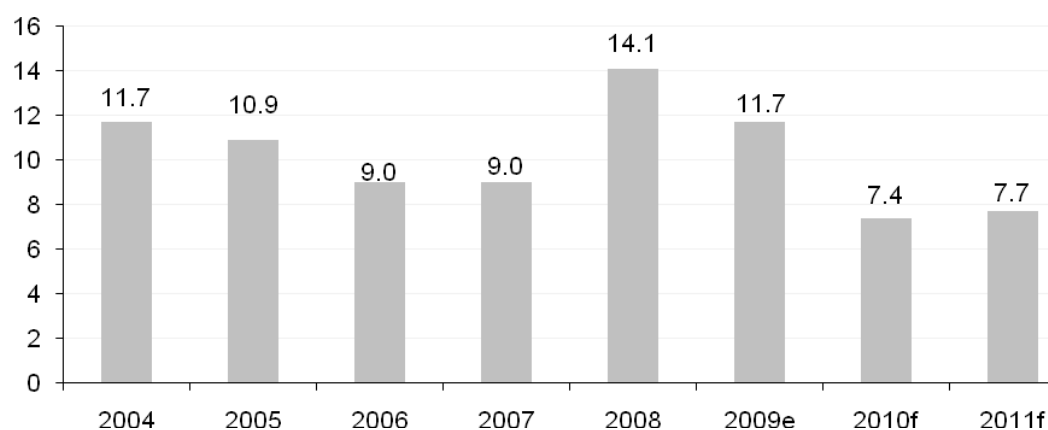
Industrial output growth in Russia [%], 2004 – 2011f



Source: UniCredit Bank Russia, National Bank of Russia, 2010

Inflation rate

Inflation rate in Russia [%], 2004 – 2011f



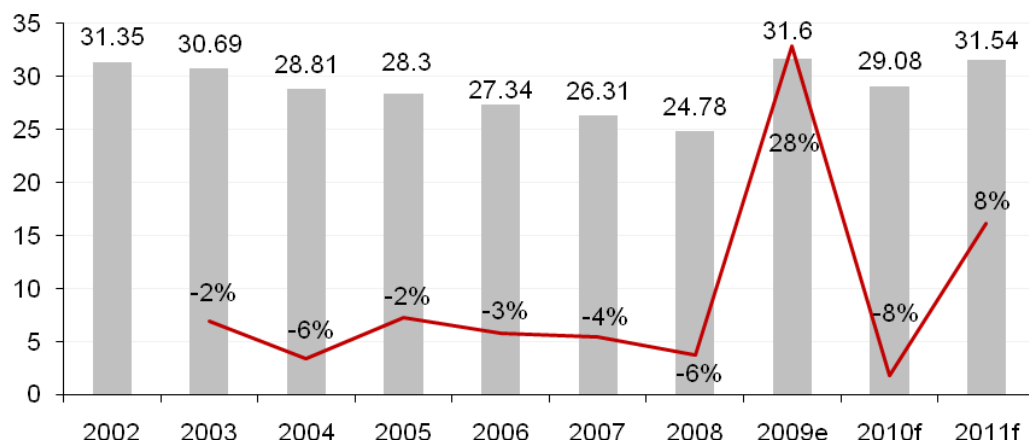
Source: UniCredit Bank Russia, National Bank of Russia, 2010

Exchange rates

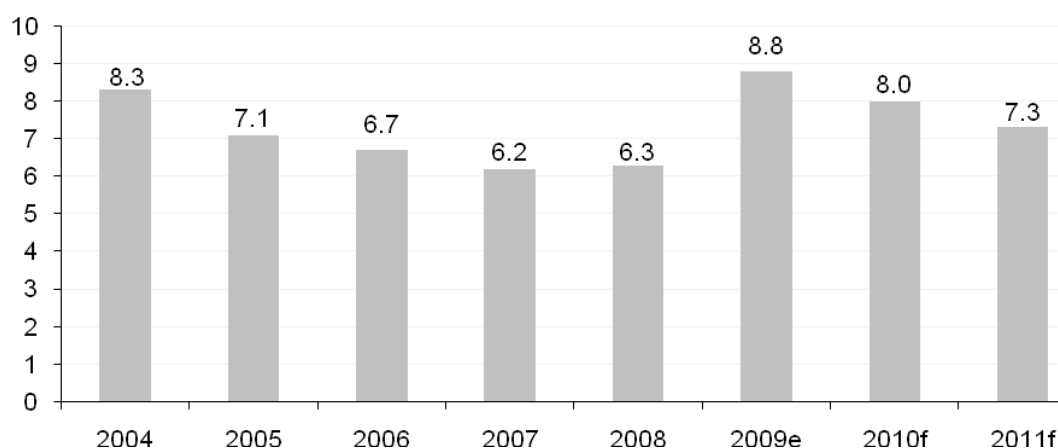
The National Bank of Russia has been in favour of the policy of managed floating, using a two-currency basket as an operational reference point. In 2008, the Russian Ruble reached a notably high level of 24.78 against the USD.

In 2009, the RUR fell in value to reach a level of 31.6 against the USD, prompted by falling oil prices and a faltering economy, as well as the increasing risk-aversion of investors. Forecasts show the RUR recovering from its low to 29.1 against the USD.

Currency exchange rates in Russia [USD], 2002 – 2011f



Source: UniCredit Bank Russia, National Bank of Russia, 2010

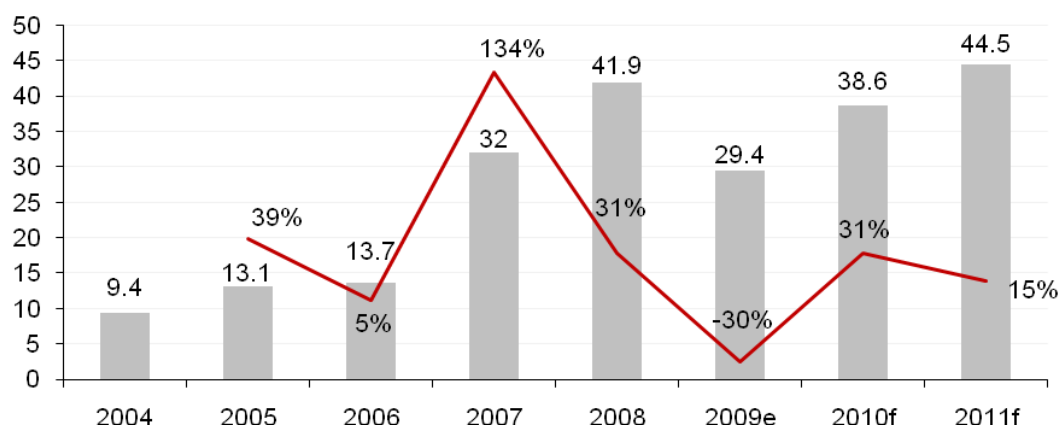
Unemployment rate in Russia [%], 2004 – 2011f

Source: UniCredit Bank Russia, National Bank of Russia, 2010

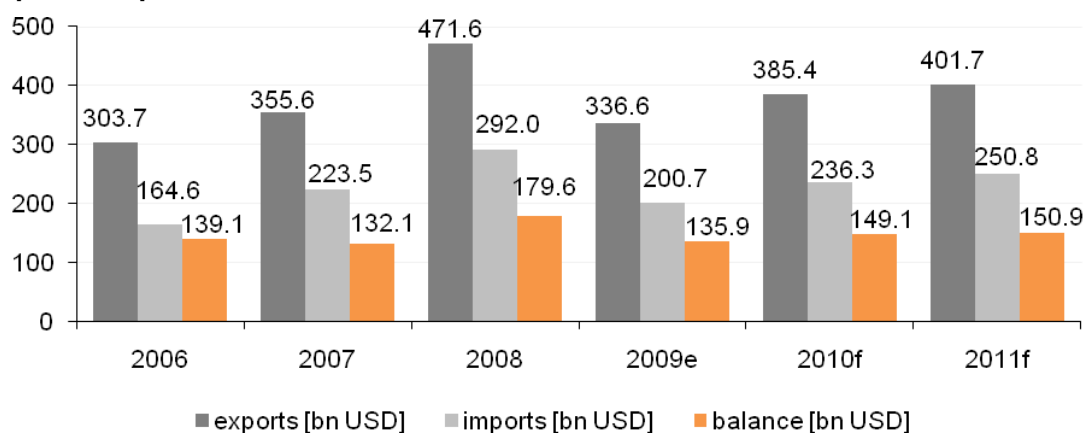
Foreign direct investments

The unprecedented and uninterrupted economic growth, together with the high potential of the internal market had led the energy superpower to become one of the most attractive investment destinations in the world. In 2006, Fitch Rating upgraded the Russian government's rating to a BBB category. Despite the dismal economic situation in 2009, Fitch reaffirmed its BBB rating, reaffirming the outlook as "stable".

In 2007, AT Kearney Consultancy rated Russia as the 9th most attractive investment destination. However, the country slipped by 9 places in the consultancy's rating in 2010. Although FDI flows plunged by 30% in 2009, the large potential of the Russian market and the expected recovery in the economy are expected to fuel investment into the economy, with the Foreign Direct investment reaching USD 38.6 bn and USD 44.5 bn in 2010 and 2011 respectively.

FDI inflow [billion USD], Russia, 2004 – 2011f

Source: UniCredit Bank Russia, National Bank of Russia, 2010

Exports, imports and trade balance [bn USD], Russia, 2006 – 2011f

Source: UniCredit Bank Russia, National Bank of Russia, 2010

Business environment

Introduction

The “Doing Business in 2010” survey ranks Russia 120th out of 183 countries in terms of ease of doing business, a steep slide of 14 places from its position in 2008. This is an indication that small to medium-sized business are subject to over-regulation and red-tape.

Ease of doing business indicators in Russia, 2010

Indicator	Doing business rank 2010	Doing business rank 2008	Change in rank
Ease of doing business	120	106	-14
Starting a business	106	50	-56
Dealing with construction permits	182	177	-5
Employing workers	109	101	-8
Registering property	45	45	0
Gaining credit	87	84	-3
Protecting investors	93	83	-10
Paying taxes	103	130	+27
Trading across borders	162	155	-7
Enforcing contracts	19	19	0
Closing a business	92	80	-12

Source: World Bank, 2010

Starting a business

Starting a business in Russia is considered difficult. Of all the countries covered Russia ranks 106th in terms of starting a business, a 56-place slide from its position in 2008. As evident from the table below, the time and the number of procedures that are required in order to start a business in Russia are above those of the region and OECD countries.

Starting a business indicators, 2010

Indicator	Russia	Region	OECD	Canada
Procedures (number)	9.0	6.7	5.7	1
Time (days)	30	17.4	13.0	5
Cost (% of GNI per capita)	2.7	8.3	4.7	0.4
Min. capital (% of GNI per capita)	1.8	21.5	15.5	0.0

Source: World Bank, 2010

Dealing with construction permits

Dealing with construction permits in Russia is complicated, time consuming and expensive, and can be considered one of the biggest barriers to doing business. Russia is ranked 182nd in the ease of dealing with construction permits. The time required to obtain a license in Russia is almost five times the OECD average – 704 days in Russia vs. 153 days in OECD countries.

Dealing with construction permits indicators, 2010

Indicator	Russia	Region	OECD	Canada
Procedures (number)	54.0	22.6	15.1	14
Time (days)	704.0	264.2	157.0	75
Cost (% of GNI per capita)	2,140.7	536.9	56.1	100.7

Source: World Bank, 2010

Employing workers

Economic evidence suggests that rigid employment regulation reduce labour force participation, often resulting in unemployment and the imposition of restrictions on businesses. Russia's rigidity of employment index is comparable to that of the region, and higher than the OECD countries. Difficulty in redundancy is the largest impediment in the employing of workers category.

The World Bank ranks Russia 109th in the employing workers category. The rigidity of employment index indicates that Russia is 34 points higher than Canada in terms of rigidity of employing workers.

Employing workers indicators, 2010

Indicator	Russia	Region	OECD	Canada
Difficulty of Hiring Index	33	31.9	26.5	11
Rigidity of Hours Index	40	29.9	30.1	0
Difficulty of Redundancy Index	40	25.9	22.6	0
Rigidity of Employment Index	38	29.2	26.4	4
Redundancy Costs (weeks of salary)	17	27.8	26.6	28

Source: World Bank, 2010

Registering property

The ease with which a business can secure rights to property is measured in the table below. The table shows the main indicators, which include:

- Number of procedures legally required to register property,
- Time spent in completing the procedures,
- Costs, such as fees, transfer taxes, stamp duties, and any other payment to the property registry, notaries, public agencies or lawyers. The cost is expressed as a percentage of the property value.

It takes 6 steps and 43 days to register property, assigning the country 45th ranking. The cost to register property there is 0.1% of the overall property value, which is lower than the regional, OECD and Canada.

Registering property indicators, 2010

Indicator	Russia	Region	OECD	Canada
Procedures (number)	6.0	5.7	4.7	6
Time (days)	43.0	59.7	25.0	17
Cost (% of property value)	0.1	2.2	4.6	1.8

Source: World Bank, 2010

Gaining credit

This section explores credit information registry and the effectiveness of collateral and bankruptcy laws in facilitating lending. The Strength of Legal Rights Index measures the degree to which collateral and bankruptcy laws facilitate lending, and ranges from 0 to 10, with the higher score indicating that those laws are better designed to expand access to credit. The Depth of Credit Information Index measures the scope, accessibility, and quality of credit information available through public registers or private bureaux. It ranges from 0 to 6, with higher values indicating that more credit information is available.

Russia ranks 87th in this particular ranking. The index in Russia is 5.0, and, at 4.9, is comparable to the average of OECD countries.

Gaining credit indicators, 2010

Indicator	Russia	Region	OECD	Canada
Strength of Legal Rights Index (0-10)	3.0	6.6	6.8	6
Depth of Credit Information Index (0-10)	5.0	4.0	4.9	6

Source: World Bank, 2010

Protecting investors

The indicators below describe three dimensions of investor protection: transparency of transactions (Disclosure Index), liability for self-dealing (Director Liability Index), shareholders' ability to sue officers and directors for misconduct (Shareholders Suits Index), as well the Investor Protection Index. The indices range between 0 and 10, with higher values indicating greater disclosure, greater director liability, greater shareholder power, and better investor protection.

The business environment in Russia is still not as transparent as that of the other EU economies, although great improvements have been made in the past 10 years. Whilst transactions in Russia are more transparent than the OECD average, the liability for self-dealing remains at a very low level. In terms of shareholder power, the business environment in Russia is favourable, and comparable to most developed economies.

Protecting investors indicators, 2010

Indicator	Russia	Region	OECD	Canada
Disclosure Index (0-10)	6.0	6.1	5.9	8
Director Liability Index (0-10)	2.0	4.3	5.0	9
Shareholders Suits Index (0-10)	7.0	6.1	6.6	8
Investor Protection Index (0-10)	5.0	5.5	5.8	8.3

Source: World Bank, 2010

Paying taxes

The tax system in Russia underwent dramatic reform in 2001. The reform was designed to ease the tax burden on individuals and companies and to simplify the classes of payments for national insurance.

Overall, it takes 11 payments and 320 hours to pay taxes, figures that are comparable to the region and to Canada. The total tax rate stands at 48.3%, compared to the 43.3% that is prevalent in Canada.

Paying taxes indicators, 2010

Indicator	Russia	Region	OECD	Canada
Payments (number per year)	11.0	46.3	12.8	9
Time (hours per year)	320.0	336.3	194.1	119
Total tax rate (% of profit)	48.3	43.4	44.5	43.6

Source: World Bank, 2010

Trading across borders

This topic covers the entire procedure of trading across borders, from the final contractual agreement between the two parties to the delivery of goods.

There are 13 documents required to import and 13 documents to export goods to, and from, Russia. The entire process takes 36 days and costs on average USD 1,850 per container.

The time required for export and import is the factor that most strongly differentiates the region, the OECD, and Canada- 36 days compared to 26.8 (region), 10.5 (OECD), and 7 (Canada). This is a result of Russia being out of the free trade zones, poor infrastructure, onerous customs processes and the lack of well-located sea harbours.

Trading across borders indicators, 2010

Indicator	Russia	Region	OECD	Canada
Documents to export (number)	8.0	6.5	4.3	6
Time to export (days)	36.0	26.8	10.5	7
Cost to export (USD per container)	1,850	1,581.8	1,089.7	1,610
Documents to import (number)	13.0	7.8	4.9	4
Time to import (days)	36.0	28.4	11.0	11
Cost to import (USD per container)	1,850	1,773.5	1,145.9	1,660

Source: World Bank, 2010

Enforcing contracts

This survey measures the time, cost and procedural complexity of resolving a commercial lawsuit between two domestic businesses. The case study by the World Bank involves a dispute whereby breach of a sales contract worth twice the income per capita in the economy. It takes 37 steps and 281 days to enforce contracts in Russia. The number of procedures is slightly more than the OECD average (30.6), but lower than that of Canada, at 46. The time required to enforce contracts in Russia is much shorter than elsewhere, as it takes approximately 281 days, while it takes 570 days in Canada.

Enforcing contracts indicators, 2010

Indicator	Russia	Region	OECD	Canada
Procedures (number)	37.0	37.1	30.6	46
Time (days)	281.0	450.9	462.4	570
Cost (% of debt)	13.4	25.6	19.2	22.3

Source: World Bank, 2010

Closing a business

This topic studies the time, cost and the outcome of the bankruptcy proceedings involving domestic entities, showing whether the existing insolvency laws and regulation respond adequately to the economic/business conditions that lead to insolvencies.

Russia compared poorly with regards to the recovery rate, meaning that the country's insolvency regime is inefficient. Furthermore, the time required to close a business in Russia is 3.8, 3 years longer than the time required to close a business in Canada.

Closing a business indicators, 2010

Indicator	Russia	Region	OECD	Canada
Time (years)	3.8	2.9	1.7	0.8
Cost (% of estate)	9.0	13.5	8.4	4
Recovery Rate (cents on the dollar)	28.2	31.6	68.6	88.7

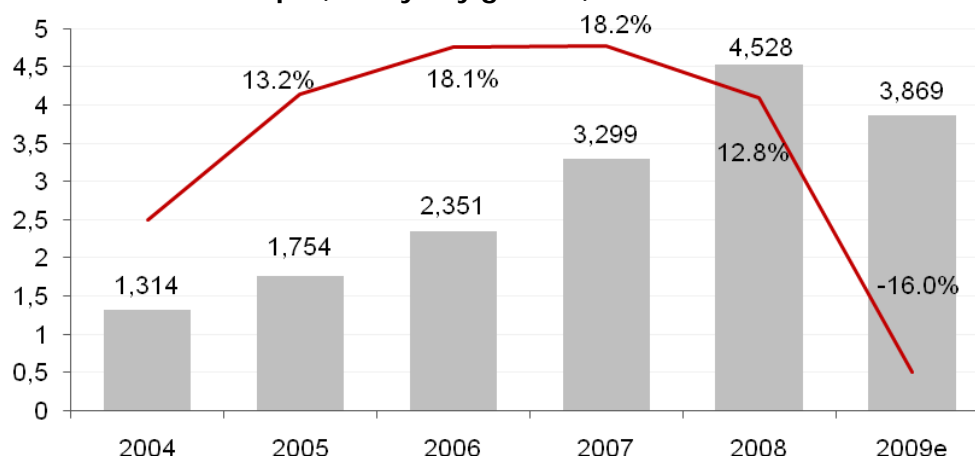
Source: World Bank, 2010

Overview of the Russian Housing Market

Russian construction market

Until the financial crisis took its toll on the economy, the Russian Construction market was one of the fastest-growing sectors of Russian economy, with construction output experiencing double-digit growth between 2004 and 2008, driven by the provision of loans and the promotion of developments in the mortgages market.

Russian Construction output, real y-o-y growth, 2004-2009



Source: Rosstat, 2010

In 2009, construction output experienced a decline of 16% from the previous year, reaching a level of RUR 3.87 bn. Although the sector is seeing a slow revival, it is mostly the projects that were left incomplete or frozen during the depths of the crisis that are being completed.

The decline in construction output was evident in most parts of Russia, including Moscow province, which experienced a 24% decline in 2009 compared to the previous year. The regions with the highest y-o-y fall in construction output in 2009 include Nenets Autonomous District and Arkhangelsk Province, with both provinces experiencing an approximately 50% decline. At the same time, construction work rose by 20-25% in the Ivanovsk and Tula provinces, in the Kamchatka and Primorsky territories, and by more than 80% in the Republic of Tyva. The main drivers of this are the infrastructure investments related to the oil and gas sectors.

Although the negative impact of the crisis was evident across all segments, some segments suffered less than others. Residential, non-residential and civil engineering sectors have all been affected differently:

- **Residential:** The impact of the crisis on the construction of houses by individual builders has been rather modest. Consequently, this segment remained relatively strong, and the recovery is faster. Private individuals have resorted to reconstructing/renovating the houses themselves, which, during the crisis, prevented the sector from reaching the depths of the slow-down suffered by the commercial segment. Certain trends in residential construction are worth noting:
 - Private individuals, who would previously have hired construction companies to renovate their houses, have switched to reconstructing or renovating their houses themselves, without seeking external companies;
 - Instead of purchasing houses on credit, private individuals have resorted to renovating or reconstructing their current houses using their own savings and resources.
 - The government has been purchasing housing in the market in order to fulfil its obligation of provision of free housing to certain groups and individuals.
- **Non-residential:** By mid-2009, a sharp fall of up to 95% of non-residential construction projects were frozen at the planning stage, up to 80% at the foundation pit stage, and up to 20% at the stage of erecting the building's frame.

A sharp fall in the demand for office and retail space, coupled with on-going problems with financing, have forced developers to abandon or postpone many commercial property projects. Out of the three segments, the commercial segment has been the hardest-hit by the crisis. Common trends noted in the sector have been:

 - Fall in demand, with rising vacancy rates in office and retail sectors,
 - Significant fall in rental rates and purchase prices of up to 40%,
 - Rising interest rates for commercial property construction projects of approximately 15-20%, and a reduced availability of financing from banks for real-estate.
- **Civil engineering:** Russia is in need of infrastructure investment, and although the government has been forced to cut spending on infrastructure development, this segment has suffered less than those where private capital dominates, i.e. residential and commercial. President Medvedev's government aims to revive the economy by continuing the infrastructure projects. As such, the sector has escaped the major halt in projects that was evident in the commercial market.

Russian Housing Market

In 2009, a total of 701,300 (59.8 mln m²) residential buildings were completed in Russia. This was a 6.7% decline from the 64 mln m² the previous year. The figures for the number of homes completed in 2008 and 2009 depict a significant reduction from the double-digit growth recorded in 2006 and 2007. These figures mainly depict completion of the projects that had started before the crisis by both developers and private individuals.

Homes completed, number and total floor space, 2006-2010

Indicators	2006	2007	2008	2009
Number of homes completed (in thousands)	605	714	766	701.3
Change (y-o-y)	17.4%	18.0%	7.2%	-8.4%
Total floor space of homes completed (million square meters)	50.6	60.4	63.8	59.8
Change (y-o-y)	16.1%	19.4%	4.5%	-6.7%

Source: Rosstat, PMR 2010

Although the main factor in the slow-down in the building of housing has been the financial meltdown and the subsequent unavailability of credit, other factors have also contributed. These factors include lack of suitable and available land for development (especially in Moscow), expensive building materials, and the contracting mortgages market.

The Housing Market in Moscow

The Central Federal District has historically accounted for, and continues to account for the largest share (31.3%) of the total housing completed in Russia, followed by the Volga (21.3%) and the Southern (15.8%) regions. The Moscow province accounted for 13.8% of all residential housing commissioned in the country during 2009.

The city of Moscow has a relatively low per-capita housing space of approximately 20 m². An important aspect to note is that most of the business in Russia begins in Moscow and Moscow province - a city and region where the opportunities lie. Thus, there is large influx of people not only from other regions of Russia, but also from the neighbouring CIS states.

The lack of suitable and available land for development can be considered one of the largest impediments to the growth of the residential construction in the Moscow region. Per-capita housing space in Moscow is set to increase to 24 m² per inhabitant by 2025. The Authorities in Moscow have announced that 100,000 mln m² of residential space is to be allocated for housing construction by 2025. Although this does not mean that this amount of housing will be built, this is a potential reserve of sites which the city will be able to use for the construction of housing.

An important trend that has been emerging among Russia's emerging middle class is the preference of living in houses located outside of the city. The main disadvantage of these so-called "cottages" is the often-poor transport links with the city centre. If the people do not

live in the outskirts of Moscow, they build cottages and detached houses that are their get-aways during weekends and holidays.

Russian Housing Market forecasts and perspectives

The growth in the housing market is set to continue as the Russian economy revives from the recent crisis, with the revival in investment in housing.

The following factors are set to drive the housing sector in the next two years:

- Individual construction of houses: an increase in the share of housing constructed by individuals. Construction of housing by individuals as a proportion of the total volume of residential construction may increase to approximately 70%. There are two reasons for the above:
 - Individuals find it cheaper to construct their own houses, and
 - The Government is promoting the construction of detached housing through the Fund for Support of Residential Construction Development.
- Improvement in living conditions: Approximately 60% of Russians feel the need to improve their existing living conditions. The total demand for housing is estimated at approximately 1.6-2 bn m². The Russian housing sector is in need of huge investments and renovations. According to official Rosstat data, the wear-and-tear levels of Russia's housing space are as follows:
 - 60% of housing space has low wear-and-tear levels (0-30%)
 - 36% of space is worn out in 31-65%
 - 3% is worn out in 66-70%, and thus in need of either comprehensive overhaul, extensive modernisation, or, alternatively, needs to be pulled down
 - 1% is in critical condition, worn out in over 70%.
- State intervention: The Russian government has committed itself to the provision of housing to those in need and to selected groups of the population such as war veterans and multi-children households. This was evident in 2009, when the state emerged as a major player in the residential property market, accounting for 25% of total dwelling purchases.
- Programme of Affordable housing: Government efforts in regulating the situation with housing construction and financing the "Affordable housing" programme, the programme that aims to aid families that cannot afford houses.
- Since the availability of suitable land for housing is one of the impediments for growth in the residential construction market, the authorities in Moscow have announced that 100,000 mln m² is to be reserved in the city by 2025. Although the authorities indicated that this does not mean that this amount of housing will be built, this is a potential reserve of sites which the city will be able to use for housing construction.
- The 2014 Winter Olympic Games in the Russian city of Sochi is an important factor for the construction sector in the period 2007-2014. The impact of construction will not only be on sporting cultural hotel complexes, but also on housing. As the general

infrastructure improves and the development of road and transport infrastructure continues, the housing market is expected to continue growing.

Analysis of the housing materials that Canadian Manufacturers can supply

Introduction

This chapter focuses on the specifics of doing business in the construction and finishing materials market in Russia. In order to provide the Canadian companies with a realistic picture of the Russian market, the contents of this chapter are primarily based on primary interviews conducted with associations, trade commissions, and businesses (manufacturers and distributors) of construction materials. It should be noted that this is based mainly on the Central region, i.e. Moscow.

This chapter comprises two main sections, which include:

1. The provision of an overview of general business conditions on the Russian market: analyzing recent trends and opportunities; listing the main barriers to entry; identifying and explaining the main channels of distribution; discussing the issue of pricing; explaining the specific codes and standards required for importing of construction and finishing materials into Russia; and providing general recommendations on the market entry strategy.
2. Identification and analysis of specific products: the aim of this part is to analyze products that, if imported into Russia, could have a large potential in the Russian market.

Russian Construction and finishing materials market

Recent Trends

The Russian finishing materials market has undergone a substantial change in recent years. A decade ago, foreign manufacturers were able to flood the market with quality, high-priced imported products by making use of taking advantage of the lack of domestically-produced quality products. However, the emergence of local manufacturers has impacted significantly on the entire market structure. Another significant factor to note is the trend towards building holiday homes and cottages outside the major cities, which is expected to lead to an increased demand for construction and finishing materials.

The emergence of local manufacturers has been the most dynamic trend observed in the market. This has taken place in two ways:

- Direct Investments by foreign manufacturers: The foreign manufacturers, seeing the potential of the Russian market, began their operations by importing products into Russia. However, seeing the potential and related opportunities in the Russian market, foreign manufacturers began building their own factories. This gave them the

opportunity to avoid the logistics-related issues of importing a product into the country, and supply products that are known as “foreign-manufactured” Today, these manufacturers dominate the market in many of the segments of construction materials, providing good-quality, known-branded products; and

- Emergence of local brands: Russian manufacturers have established themselves in the market by large investments in modern machinery and technologically-advanced factories, and by taking advantage of the cheap energy costs and natural resources that are available in the country.

Future opportunities

- Although recently the general conditions in the construction sector have not been favourable, the opportunities in the Russian and the neighbouring markets cannot be ignored. Once the companies establish themselves on the Russian market, opportunities within the Commonwealth of Independent States are vast, and are likely to arise further with the growth and development of these economies. Once a company/brand is able to establish itself in Moscow, and then further expand into the regions, it will also begin to see opportunities in the other CIS countries, which still lack locally produced, good-quality products.

Barriers to entry

Whilst the barriers to entry indicated cannot be considered impediments to doing business in Russia, they should however still be taken into account. These include:

- Competition: the emergence of local manufacturers and increasing competition;
- Lengthy and complicated regulatory processes, such as customs clearance, for some of the product categories;
- Current economic conditions and a decrease in the purchasing power of the population.
- High costs of transportation of Canadian products into the market;
- Length of product transportation time;
- Product certification in Russia. When a new product is imported into the market, specific certification is required. Depending on the product, certification can be lengthy and time-consuming, ranging from a few weeks to a few months.

Main channels of distribution

The distribution of products on the Russian market takes place mainly through exclusive distributors/agents, nation-wide distributors, and DIY chains. Companies with products that require after-sale services, often open up their own representative offices in Russia, and often distribute the products themselves.

Channels of distribution differ for various products. However, the main channels used are as follows:

Manufacturer – company's regional representative – distributors – end clients.

Manufacturer – importer (through exclusive agreements) – dealers – end clients.

Manufacturers – importers - internet magazines and other retail stores -end clients.

Manufacturers – DIY stores (such as Leroy Merlin) and other.

Manufacturer – architects – end clients (Used more for elite, high-segment housing).

Manufacturer – dealers – architects – end clients.

Manufacturer – end client. (When the developer/client buys directly from the manufacturer. However, it can also happen in the case of some companies).

One aspect that should be noted in this section is the presence of local construction markets. These markets are visited mainly by individuals constructing their own houses. Renovators often cite that the construction materials market remains one of the largest places for the purchase of the products for individuals constructing/renovating their own houses.

Marketing and promotion

In Russia, companies invest approximately 10-15% of sales revenues in marketing and product promotion, in order to gain, and keep market share. However, this figure often differs, depending on the product. Should the product be new in the market, the companies implement aggressive strategies to familiarize the market with the specific product.

Most important buying criteria

Price/quality relationship is the number 1 buying criteria for the Russian client. The crisis has led to increased client price-sensitivity. Moreover, with the increase in the choice of materials, both imported and locally produced, and with companies struggling to survive during the economic downturn, consumers have become more demanding, looking at the value for money products, and demanding good customer service.

The Russian market, particularly in Moscow and St.Petersburg, pays attention to the brand of the product. Importance is given to the brand and where the product is imported from. It is often noted by the major distributors that people will generally pay a higher price in order to obtain a branded, well-known, quality product. If they purchase or renovate their homes, they pay attention to quality.

The market experts cited that there have been a number of cases where companies have tried to break into the Russian market, but have later withdrawn. The primary reason for this has been the high prices of imported products.

Specific codes and standards required for importing construction and finishing materials

Customs clearance is a complicated procedure in Russia. Customs authorities require many documents to confirm customs value, HS codes etc.

To any company that is interested in importing a product into Russia, it is highly recommended that it be done through agents/customs brokers who have the know-how and established relations with Customs. It is not only difficult to obtain general information about importing goods, but also to get through to Customs.

Although specific codes are required for the importation of a different product into the country, the following are the general documents that are required:

1. Contract with all enclosures and additions (original and copy certified by the importer's stamp)
2. Bank confirmation that the purchase order and contract have been registered with indication of the payment terms (original and copy certified by the bank)
3. Deal passport (original and copy certified by the stamp of the importer)
4. Invoice
5. Translation of the invoice
6. MAWB (Master Airway Bill)/HAWB (House Airway Bill)
7. Packing list/translation of packing list
8. Certificate of origin (if required)
9. Certificate of compliance (if required)
10. Hygiene certificate (if required)
11. Export declaration - arrives with shpt (EX-1, fax copy is acceptable)
12. Insurance certificate – arrives with shpt (fax copy is acceptable)
13. Price list with original stamp of exporter
14. Full technical and functional description in Russian (required for HS codes confirmation)

Russia being a complicated country in terms of customs clearance, all shipments are subject to a very strict GREENLIGHT PROCEDURE. It is very important that, regardless of the shipping terms, contact be made with the consignee prior to despatch of the goods ex-origin to confirm that all proper documentation has been prepared by the consignee and whether the consignee will accept shipment.

Failure to comply with this GREENLIGHT PROCEDURE will result in heavy additional costs for storage at a customs bonded warehouse which will be recharged to the origin station. The customs brokers will use the procedure for avoiding a cargo's long standing in a warehouse and for shortening the time of a cargo's being in Customs.

Certification of products that are to be sold in Russia

All products due to be sold in the Russian market require certification. Unless a product is certified, it cannot be imported, or sold, on the Russian market. Ease of certification varies according to products. Regulation regarding products such as lifts, for example, is considered complex and not transparent, lengthy and costly. However, certification of siding, for example, is considered less complicated.

Below is a general guideline highlighting the certification of siding and roofing materials in Russia. The main certification organ is Rospromtest, which certifies construction materials in Russia. Rospromtest requires three types of documents to be supplied in order to certify the final product, which include:

1. **Sanitary-epidemiologic certification:** Confirms the hygienic safety of the product.
 - Obtained from: Rospotrebnadzor
 - Cost: USD 770
2. **Certificate of compliance and quality (Optional):** This certificate ensures product quality. Although this Certification is not a necessity for Rospromtest, the distributors pay attention to the quality certification as assurance.
 - Obtained from: An Accredited Centre of Certification throughout the country.
 - Period: 1 or 2 years
 - Cost: 1year - USD 450, 2 years- USD 570
3. **Fire-Safety certificate:**
 - Obtained from: Department of Fire
 - Cost: USD 3,500

According to Rospromtest, it takes approximately 1 month to certify a product, should all the documentation be in compliance with the rules and regulations. However, for each of the above-mentioned certifications, substantial documentation is required, making the entire process of certification lengthy and, at times, complicated.

Canadian products in Russia

Canadian siding enjoys a number one position on the Russian market. Companies entered the market and positioned themselves strongly ten years ago, during the time of the construction sector's development.

It has been noted that there were, approximately ten years ago, other Canadian products on the market. However, due to increasing competition from local and foreign manufacturers, not that many products are left on the market. With comparable quality and lower prices (due to lower transportation costs) the presence of Canadian products in the overall finishing materials market has diminished. The segments that the companies withdrew from were the high-end millwork and hardwood flooring, segments in which Russian manufacturers have come to dominate. The countries that are generally prevalent in the Russian market are Italy and Spain. Many of the Italian manufacturers have built their factories in Russia, and enjoy a strong position in the market.

Factors to take into account with regards to entry onto the Russian market

- One of the most important factors to take into account in the Russian market is the culture and way of doing business, as it differs from that of western countries. The market is specific and has its own specific requirements such as establishing personal relations with the partners and obtaining their trust. The Russian partner needs personal relations with the supplier, in order to conduct business with the client.
- Increasing brand awareness: Brand awareness is important in the Russian market. If price matters for the Russian consumer, so does the brand. Thus, investment in increasing brand awareness and advertising is an important factor.
- Participating in the major construction exhibitions such as “Mosbuild”. In many cases, participation in exhibitions such as Mosbuild has been an important stepping-stone for manufacturers entering the market. Participation in these exhibitions will also indicate to the potential exporter whether the product will generate interest.
- It would be advisable for companies to enter into the Russian market with small quantities of the products, at first. This will be required to check whether the product will be well-received in the market, and to learn of the ways and means of doing business in Russia.
- The Canadian Trade Commission, in Canada and in Russia, should be contacted, as these entities will assist with the general guidelines to doing business in Russia.

Product analysis

Siding

Introduction

Siding was imported into Russia in the 1990s, at the time of the development of the Russian construction market. Siding has since become the construction material of choice, growing in popularity year-by-year.

The acceptance of siding by the market, and the market's potential of the market have led to an increase in imports of siding from North America. North American players have established a strong reputation and positioning in the market by winning the trust of the consumers. In addition, there has been the emergence of local manufacturers - either Russian companies, or, foreign companies which have established manufacturing facilities in the country and provide the market with good-quality, reasonably-priced products.

Types of siding used in the Russian market and characteristics

The most common types of siding used in Russia include:

- **Plastic siding:** Vinyl siding (vinyl siding and exterior cladding): Mainly used for homes and low-rise buildings. Advantages are the aesthetic qualities of the siding, together with the durability and ease of use. The most commonly used siding in Russia - constituting over 70% of the total market for siding.
- **Aluminium and steel siding:** Used in commercial buildings and public buildings such as hospitals, schools, etc. The disadvantage is that it is heavy and easily subject to corrosion.
- **Wooden siding:** Could be used mainly for the finishing of interior. It is expensive and delicate. It is not considered appropriate for the Russian climate, and not therefore widely used.
- **Cement siding:** The latest technology, made out of cement and cellulose, can be used for commercial buildings, hospitals, schools, and other.

This report will focus on plastic siding - mainly vinyl siding, as it is the most commonly used siding in Russia

Market trends and drivers

Since its introduction on the Russian market, siding has become the construction material of choice. Initially, this aesthetically good-looking product was used in the Moscow and St. Petersburg regions. However, the uptake is continuing in the regions, particularly where low-rise detached houses are prevalent. In addition, the recent trend of building holiday homes and cottages outside the large cities continues to drive the demand for siding.

The crisis has led to an increase in consumer price-sensitivity. Thus, local manufacturers have been gaining market share by offering cheaper, good-quality products. The foreign

manufacturers, on the other hand, have been substantially affected by the devaluation of the Ruble and the increasing costs of transportation into the country.

These companies have tried to keep their clients by keeping their prices stable, even at the cost of reduced profits.

North American manufacturers still dominate the Russian siding market.

Market volume

In 2009, the total market volume for siding was 5.2 mln kg, a significant drop from the previous year. Plastic siding continues to be the main product in siding materials, constituting approximately 73%. According to secondary sources, the value of plastic siding in 2009 is estimated at USD 20.6 mln. However, the production and import of vinyl siding plunged by almost 65% between 2008 and 2009. At the same time, there was a significant increase in the volume of cheaper metal siding, imported mainly from China.

Volume of siding materials by category, kg, 2009

	Production kg (e)	Import (kg)	Export (kg)	Market volume	% market share
Plastic siding	1,457,872	3,069,204	650,000	3,877,076	73%
Metal siding	93,371	320,235	25,002	388,604	7.3%
Wooden siding	171,636	378,338	-	549,974	10.3%
Cement siding	-	-	-	86,444	1.6%
Complementary materials	137,482	289,500	3,900	423,082	8%
TOTAL	1,860,360	4,057,277	683,110	5,325,180	100%

Source: Rosstat, Federal Customs Service, PMR, Other

Volume of siding materials by category, kg, 2008

	Production kg (e)	Import (kg)	Export (kg)	Market volume	% market share
Plastic siding	4,032,385	8,798,302	214,049	12,616,638	86.9%
Metal siding	28,571	96,977	63,708	61,840	0.4%
Wooden siding	231,470	507,305	-	738,775	5%
Cement siding	302,677	687,214	-	989,891	6.8%
Complementary materials	36,933	79,753	-	116,686	0.8%
TOTAL	4,732,036	10,169,551	277,757	14,523,830	100%

Source: Rosstat, Federal Customs Service, PMR, Other

Barriers to entry

The most important barriers to entry include:

- **Competition and high costs of entry:** In the Russian market, brand and quality are closely associated. It is important for the market to know that the product is good quality and has been well-received by the market. The siding manufacturers that were able to establish themselves in the market 14 years ago have won the respect and awareness of consumers. Thus, for a new manufacturer to penetrate the market it would need to invest substantially in order to increase product awareness. An important factor to note is that Canadian siding is already trusted and highly in demand. Thus, Canadian manufacturers already have a good reputation as a starting point.
- **Emergence of local players or building of factories by foreign manufacturers:** In connection with the crisis and the subsequent effect on the increase in price-difference between the locally produced and imported siding, the foreign manufacturers have been able to increase their market share.
- **Certification:** all products imported into Russia require certification, which is often difficult to obtain, timely and costly.

Distribution channels

The main distribution channels are:

- **Large nationwide dealers** of construction materials (besides siding, these also have roofing materials in their portfolio, which usually work directly with the manufacturers of siding and roofing materials.
- **Exclusive distributors:** these are companies which have exclusive arrangements with the manufacturers to import the products.
- **DIY retail chains,** which usually work with tile manufacturers directly.

Most important buying criteria

Price/quality relationship continues to be the number 1 buying criteria for the Russian client. However, the market for siding is more affected by brand and quality, rather than price. The reason for this is the emergence of private individuals who construct their homes themselves. They prefer to pay a higher price for a better quality product that will last for many years to come. Thus, they are significantly influenced by the brand and where the siding is imported from.

An important factor to note is that even though consumers have become more price-sensitive, in Moscow and St. Petersburg they are still prepared to pay a higher price for imported Canadian siding. This, however, is not the case in the regions, where consumers look primarily at the price.

Pricing

There is an approximately 25% difference between locally-produced and imported siding. The table below depicts an example of the difference between imported and locally-manufactured siding, with the local manufacturers' prices being lower than those of their foreign counterparts.

Starting prices for siding, USD, per m², 2010

Vinyl Siding	Company a (Canada)	Company b (Canada)	Company c (Russia)
	USD 6.3	USD 5.8	USD 4.7
Exterior Cladding	Company d (USA)	Company e (Russia)	Company f (Russia)
	USD 16.3	USD 13.7	USD 13.7

Source: Nationwide distributor, Mir Krovli

Local vs. Imported products

Imports constitute the majority of siding materials used in the Russian market. Approximately 45% of siding imported into Russia comes from the USA (44.8%), followed by Canada (23.9%), and Poland (20.4%).

Volume of siding materials by category, kg, 2009

	Import			Export		
	kg	kg (%)	\$	kg	kg (%)	\$
Plastic siding	3,069,204	74.5%	7,016,441	650,000	94.8%	1,382,176
Metal siding	320,235	7.72%	469,835	25,002	3.64%	60,880
Wooden siding	378,338	8.96%	357,929	-	-	-
Other siding	65,793	1.63%	133,844	10,600	1.55%	69,715
Complementary materials	289,437	7.18%	656,068	3,816	0.56%	21,273

Source: Federal Customs Service, PMR, Other, 2010

China, Korea and Japan are the main exporters of metal siding to Russia, with China leading at 73.5% of total imports of metal siding. In terms of exports, the largest country to which plastic siding is exported is Kazakhstan, constituting 53.17%, with Ukraine being the second, at 30.1%. The main companies manufacturing plastic siding for export are Orto (60%) and Duke (22.4%).

Exports of plastic siding, 2010

Country	kg	kg (%)	\$	\$(%)	Price \$ /kg
Kazakhstan	342,397	53.17%	742,307	53.71%	2.17
Ukraine	193,754	30.09%	317,596	22.98%	1.64
Belgium	49,662	7.71%	180,976	13.09%	3.64
Moldova, Republic of	27,802	4.32%	60,524	4.38%	2.18
Other	30,378	4.71%	80, 773	5.84%	4.9
Total	643,992	100%	1,382,176	100%	2.15

Source: Federal customs service, PMR, other, 2010

Competitive environment

The Russian siding materials market is mature with established players with the prevalence of North-American manufacturers. Canadian manufacturers dominate the market for vinyl siding and US manufacturers dominate the external cladding market.

However, the most important competition to the foreign players is the emergence of the local players – Russian companies which have invested in manufacturing facilities and are able to compete with the North Americans on price. The market is becoming aware of, and familiar with, the local manufacturers' products, and know that their products are subject to strict quality controls.

Market forecasts and prospects

The market for siding materials is expected to continue to grow in the next few years. The main drivers of this growth are expected to be:

- Continued trend towards the building of cottages and detached houses outside the major cities and the trend towards living in detached, low-rise buildings by private individuals;
- Regional development and the subsequent uptake of siding in the regions,
- Improvements of living conditions, as individuals undertake renovation and reconstruction of their houses.

Roofing

Introduction

The effects of the crisis can be seen in the decrease in production as well as the importing of different roofing materials to Russia. However, the crisis has provided an opportunity for the domestic players to increase their positioning on the market, squeezing out the foreign players who are unable to stay price-competitive due to the devaluation of the Ruble and increasing costs of transportation.

Local vs. foreign production in the roofing market is clearly distinguished among the different types of roofs that are produced. Foreign manufacturers continue to export roofing materials in the metal tiles and shingles categories.

Types of roofs used in the Russian market and their characteristics

The most common types of roofs used in Russia include:

- **Slate board:** asbestos-cement sheets. Widely popular for use in the public buildings, including shopping and entertainment centres, high-rise commercial and residential buildings, office and office-space, as well as factories and farms, schools, hospitals. The Slate board is mainly manufactured by local companies who have been in the market since Soviet times.
- **Euroslate:** This modern, aesthetically better looking roofing is replacing asbestos-cement board. Mainly used in industrial buildings, factories, farms, schools.
- **Metal tiles:** Inexpensive, light, relatively durable and simple to install. Locally produced metal tiles are cheaper and are considered low quality, whereas the imported products are highly regarded.
- **Soft roofing:** Bituminous materials and membranes. Lightweight and increasingly popular. Experts claim that bituminous tiles are replacing metal tiles. Used in reroofing mainly as the material is light and aesthetically good-looking.
- **Rooftiles:** Ceramic tiles and asphalt tiles. Ceramic tiles are considered to be quality, expensive products and are mainly used for upper-segment housing. Durable and renowned for their aesthetic qualities, rooftiles absorb noise better than metal tiles. Asphalt tiles are used for country-housing, but cater for a low-segment.

Market trends and drivers

The most common trend visible in the Russian market for roofing materials is the use of slanting roofs instead of asbestos flat roofs- called slate roofing. Slate board continues to be used for commercial buildings (shopping and entertainment centres, agricultural

and public buildings, whereas good-quality slanting roofs are used for the construction of housing and commercial buildings.

The major driving factor of the switch from locally-produced products to imports is the rapidly-developing segment of the construction of low-rise buildings and cottages outside the cities. The individuals require good-looking products for their own homes. According to the National Roofer's Association, the construction of low-rise housing is the most recent trend in private construction as well as the construction of dwellings taking place within the framework of "affordable housing".

On the supply side of the market, a major trend that has arisen among the distributors of roofing materials is the provision of roof installation. The distributors not only offer roofing products, but also provide installation and after-sale services.

Market volume

According to the National Association of Roofers in Russia, the aggregate market for roofing materials in Russia in 2009 was estimated at 1.2 bn sqm, a 17% slump from 1.38 bn in 2008. However, it is worth noting that before the crisis took its toll on the Russian construction market, the roofing market experienced a double-digit growth of 20% and 15% in 2007 and 2008 respectively.

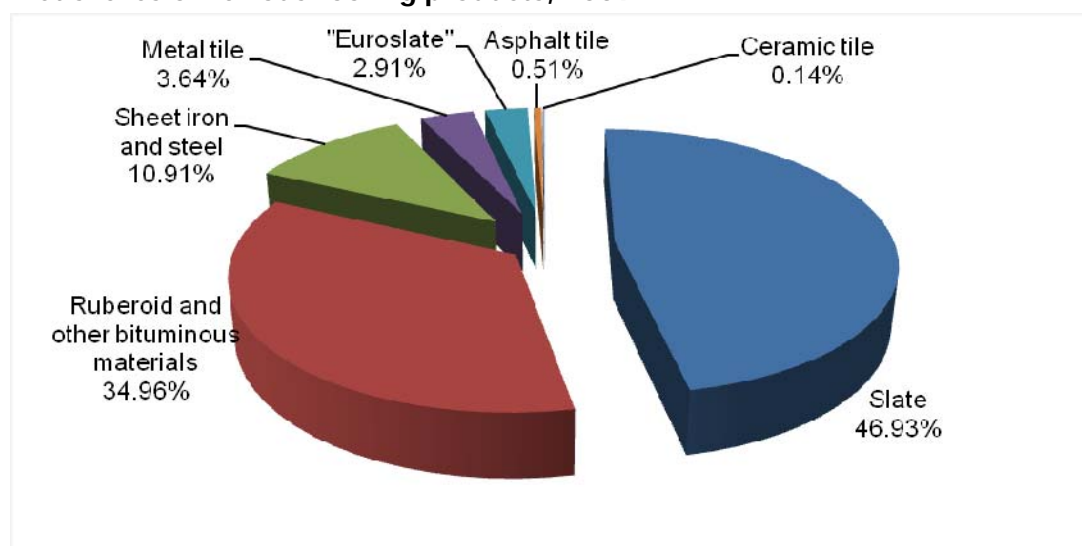
As evident from the table below, the volume of production of all roofing materials decreased substantially between 2008 and 2009. The largest decrease was recorded in the production of cement and clay tiles - the most expensive roofing materials.

Production of roofing materials in Russia, 2008, 2009

Products	2008	2009	% change
Tiles (cement and clay tiles) '000 sqm	1728.3	962.6	-44%
Asbestos-Cement Fiber million pieces	1427.1	1220.5	-14.6%
Soft roofing and insulation materials* '000 sqm	648.236	579.880	-10.5%
Metal tiles	Not available	41306.1	-

Source: Rosstat, 2010

* Rosstat does not publish separate figures that will indicate the % the total figure that comprises insulation materials. Thus, the exact figure for the soft roofing materials manufactured in Russia is not known.

Market shares of various roofing products, 2009

Source: Roofers Association of Russia, 2010

Barriers to entry

The most important barriers to entry include:

- **Competition:** Increasing competition can be considered the main barrier to entry into the Russian roofing market. Foreign manufacturers are continuing to build factories in Russia and local manufacturers continue to increase their production capacities and take advantage of the market, switching to more affordable, locally produced products. In addition, those foreign manufacturers that entered and established themselves in the market 10-15 years ago are now enjoying strong positioning in the market.
- **Decreased profits for foreign manufacturers:** Exporters' profits have been squeezed as they have refrained from increasing their prices in order to remain price-competitive.
- **Economic environment:** The current economic environment and a slowdown in the construction market have been cited as the leading barriers to entry into the Russian market. Due to the decrease in purchasing power, the market continues to use products that it is well-aware of, and is risk-averse to switching to new, unfamiliar products.

Distribution channels

The main distribution channels are:

- **Large nationwide roofers and distributors:** working directly with the roofing materials manufacturers..
- **DIY retail chains:** These retailers work with the manufacturers directly.
- **Local mid/small-size roofers** working within a particular region. They are often used for roof installation, but sometimes act as distributors themselves.

Most important buying criteria

There are two major criteria according to which roofing materials are chosen, which include:

- Technical characteristics of the roof: durability and suitability for a specific climate;
- Subjective characteristics: price and quality, ease of installation, aesthetic qualities.

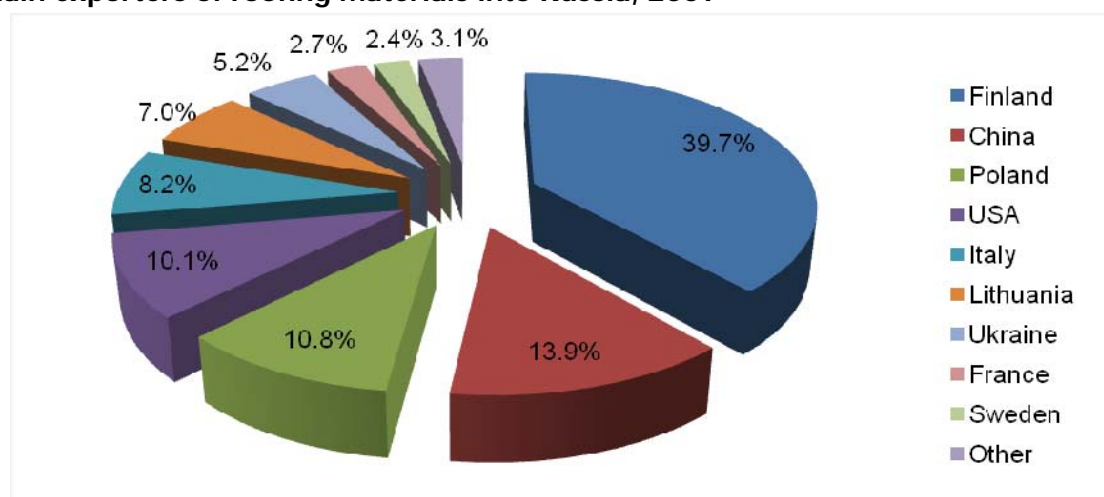
Whilst the price/quality relationship is the number one buying criterion, ease of working with the roofing material and its installation are significant factors, particularly considering the recent tendency of individuals to construct/reconstruct their own dwellings.

Local vs. Imported products

Finland is the number one exporter of roofing materials to the Russian market, constituting approximately 40% of the total volume of imports, with soft roofing and bituminous shingles. However, it is worth noting that local manufacturers also have a strong position in the soft roofing materials. Local production of soft roofing and insulation materials was 579 mln m² in 2009. Unfortunately, Rosstat does not separate these figures.

China is the second-largest exporter of roofs to Russia, accounting for 14% of total imports. China mainly exports metal tiles to Russia, constituting approximately 33.4% of total exports of metal tiles. China also exports metal long-runs, which are metal roofing panels.

Main exporters of roofing materials into Russia, 2009



Source: Federal Custom Service, PMR, Other, 2010

Pricing

Imported products into Russia are generally more expensive than those locally produced. However, pricing for roofing materials is dependent on the type of materials, with slate being the cheapest material of choice, and clay tiles the most expensive.

The table below compares prices for the most widely-used materials, in the middle segment, which are metal and bituminous tiles, indicating a clear distinction between locally-produced and imported products.

Starting prices for roofs, USD, per m², 2010

Metal tiles	Company a (Finland)		Company b (Russia)	
	USD 8.1		USD 7	
Bituminous tiles	Company c	Company d (Russia, Italy)	Company e (Finland)	Company f (Russia)
	USD 16.3	USD 10.9	USD 10.4	USD 5.7

Source: Nationwide distributor, Mir Krovli

Competitive environment

The competitive environment in Russia is divided according to roof types. Local manufacturers cover the entire market for slate roofs, whereas foreign manufacturers are present in the other segments.

Market forecasts and prospects

Although there has been a substantial slowdown in the demand for roofing materials, the market for roofing is set to recover and grow, in line with the pick-up in construction activity.

The reasons for this are:

- Building of cottages and holiday homes outside of the city;
- Increase in low-rise housing within the framework of "affordable housing";
- Increase in the opening of the local roofing manufacturers, which should lead to higher competition and lowered pricing, thus, demand; and
- Pick-up in construction activity.

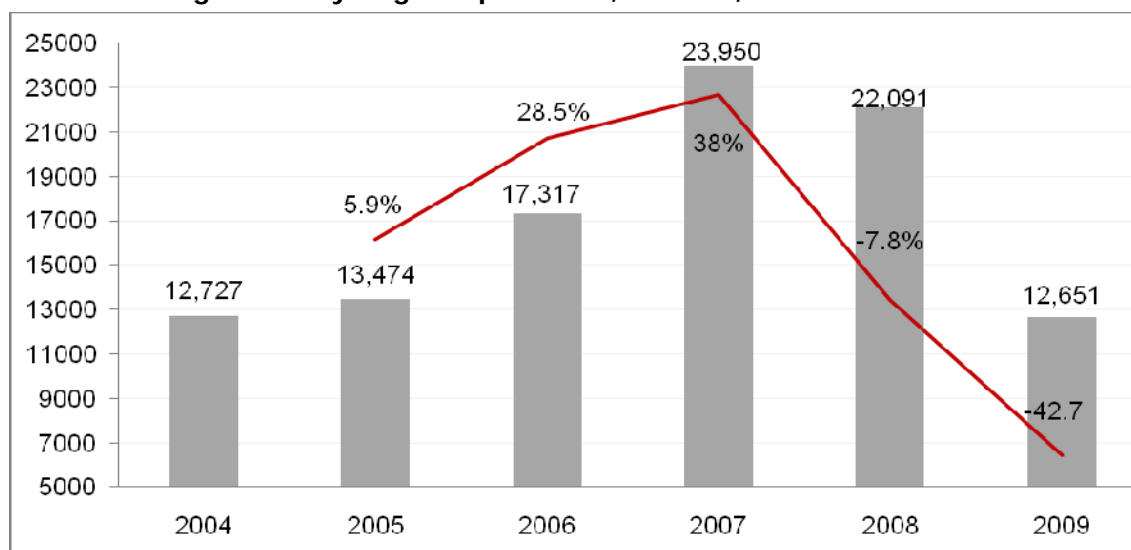
Lifts**Introduction**

The Russian market for lifts has experienced dynamic and consistent growth over the past several years. The report below focuses mainly on passenger lifts, including hospital.

Market trends and drivers

The drivers of the market for lifts can be divided into two broad categories:

- Reconstruction and renovation of old lifts: Approximately 60% of lifts in Russia demand modernization and need change. Thus, the government has allocated funds within the framework of the programme of "Reconstruction and modernization of lifts". This has been a major driving factor in the demand for lifts. In addition, the government's commitment to investing large sums into the reconstruction of institutions etc has led to a substantial demand for lifts. The sector is covered by the lower end of the market, lifts which are called "ekonom-class"- low-segment lifts - and are mainly manufactured by local manufacturers.
- New construction and development: Development of new buildings, office space and special construction projects. Construction of modern, luxury apartments in the cities has been the major driving factor in the demand for higher-priced segment lifts. Although a substantial slow-down has been noted in both of the above-mentioned categories, new construction and development has suffered more than the former, given the freezing of the construction projects.

Manufacturing of lifts by large corporations, number, 2010

Source: Rosstat, 2010

Barriers to entry

The most important barriers to entry include:

- **Regulation:** According to the distributors of lifts, regulation on the installation and use of lifts in Russia is much tougher than in other countries. It is considered a lengthy and often complicated process.
- **Delivery time:** Normally lifts are ordered on an individual basis. Delivery time for lifts, thus, becomes an important factor in the sales process. Timing can become a challenge for Canadian companies importing lifts from Canada, and could put the company at a disadvantage when competing with companies that import from closer regions. It takes approximately 30-90 days for the delivery of lifts from Europe, depending on the complexity of the lift.
- **After-sale service:** The provision of after-sale service is a major factor in the purchase of a lift.
- **Costs of setting up warehousing facilities and representative offices:** In order to avoid the lengthy delivery time from Canada, warehousing facilities would be required to keep stock of the lift components.

Distribution channels

The main distribution channels are:

- **Country representatives:** Almost all foreign companies present in the market have opened their own representation in Russia.
- **Large nationwide distributors:** Just as for the other products, there are national distributors specializing in lifts, and in their installation.
- **Other important players:** although the engineering/project management/construction companies cannot be considered to be distributors of lifts, these are important players, as it is they that decide which lifts to purchase. They have a great

influence on the purchasing of lifts for projects, and may therefore be considered important “targets” for manufacturers.

Most important buying criteria

The most important criteria for the buyers of lifts are as follows:

- Price: Price is the number one buying criteria in the market for lifts;
- Quality: In the category of lifts, quality and price are the most important criteria;
- Brand: The brand does not feature as one of the most important criteria for lifts;
- Ease of installation: technical characteristics of the lifts are crucial in the buying process;
- On-time delivery: On-time delivery of the lifts is an important issue in the buying of the lifts, as the clients want to have the product as soon as possible.

Pricing

The market can be divided into:

- **Low-priced segment:** The low-priced segment of the lifts is covered by the local companies and start at approximately USD 20,000.
- **Middle and higher-end segments:** The lifts in the middle-priced segment start at approximately USD 32,000 upwards.

An important aspect noted is that, for example, a Swiss company, imports all its products into Russia. However, the company has a price proposition where it offers products that are made in the EU, and those made in China. The products manufactured in China are 15% cheaper than those manufactured in the EU. Thus, they cover two market segments, and are able to provide more and less expensive products.

Local vs. Imported products

The market share of foreign manufacturers has been growing steadily over the past several years. However, the Russian market for lifts continues to be dominated by the local manufacturers, covering approximately 80% of the lower market segment. Foreign manufacturers, however, are dominant in the middle-to-higher priced segments.

According to the marketing firm RBC, in 2005, the market share of foreign manufacturers was approximately 14%, in 2006 and 2007 it was 13-16% respectively, but grew to 17% in 2008.

Market forecasts and prospects

There was an approximately 80% freeze in construction projects during the time of the crisis. The completion of incomplete buildings and the revival in the building of new buildings are expected to drive the demand for lifts in Russia. The market for lifts is also expected to grow as a result of the government's programme of "Reconstruction and modernization of lifts", according to which the government allocates special funds for the reconstruction and renovation of new lifts.

Thus, a competitively-priced product, with an acceptable delivery time and after-sales services could take advantage of the potential opportunities in the Russian market.

Electric fireplaces

Introduction

The market for electric fireplaces in Russia is underdeveloped, with a complete absence of local manufacturers. According to a study conducted by the dominant manufacturer of electric fireplaces there were, by 2008, a total of 85,000 electric fireplaces installed in Russian homes. Although this accounts for only a very small percentage of the total households, the uptake of electric fireplaces continues.

It is important to consider that electric fireplaces were non-existent during Soviet times, and neither the culture nor the people are as yet used to these products. However, demand is growing as people begin to reconstruct and renovate old houses, build new cottages and holiday homes where electric fireplaces will be used.

The market can be characterized by the lack of brand variety. The brands that have established themselves in the market are those that have been in place for a long time. According to the major distributors of fireplaces, the variety of the fireplaces offered in Russia is limited.

Market trends and drivers

The main driver of the market is people's increasing awareness of electric fireplaces. The improvement in living conditions and the homes of the general population are the main driving factors of the demand for electric fireplaces.

The drivers of electric fireplaces could be supply side factors as well, such as the emergence of electric fireplaces with new functions, a different design and ease of installation. It seems as if the companies present in Russia are not investing huge amounts into the advertising and marketing of electric fireplaces. The reason for this could be the low levels of competition.

Market volume

Almost 100% of the total volume of the market for electric fireplaces is in the hands of foreign manufacturers. In 2009, there were a total of 24,435 fireplaces imported into Russia, a 47% drop from the 46,321 imported the previous year. The value of the total of the 24,435

fireplaces was USD 3.4 mln in 2009 - a significant drop from the value of USD 6.2 mln recorded the previous year.

Imports of electric fireplaces, in numbers, 2008 and 2009

	Import, number		Import, value \$	
	2008	2009	2008	2009
CHINA	33,817	18,209	4,016,905	2,262,024
IRELAND	12,293	6,194	2,111,613	1,065,949
GERMANY	142	3	47,380	1,641
SPAIN	45		1,122	
UK	10		3,747	
FINLAND	7	24	18,008	11,958
ITALY	3	2	1,607	1,325
KOREA	2		4,322	
NETHERLANDS	1		231	
USA	1	1	381	3,046
OTHER		2		1,622
TOTAL	46,321	24,435	6,205,316	3,347,565

Sources: Federal customs service, 2010

Barriers to entry

The most important barriers to entry include:

- Market awareness of the product: The Russian market is neither aware of nor open to the idea of having electric fireplaces in homes. This can be viewed on one hand as a barrier, or on the other hand as an opportunity.
- Competition: According to market experts, of the estimated 85,000 electric fireplaces installed in Russian homes, approximately 75% are from the leading manufacturer of electric fireplaces.

Distribution channels

Exclusive distributors are the starting points for international players. These distributors either distribute the product to the nationwide dealers or retailers, or sell to the end clients themselves. The largest importer/distributor of electric fireplaces brings in approximately 35% of all imports.

Most important buying criteria

Price and design are generally considered very important criteria for buyers, together with product quality.

Pricing

The major price difference noticed in electric fireplaces in Russia is between the fireplaces manufactured in China and those manufactured in western countries.

Prices of Chinese manufactured electric fireplace start at approximately USD 250. The higher end prices of electric fireplace start at approximately USD 800- USD 1,000.

Competitive environment

As discussed above, the recent financial crisis and the subsequent effect on the purchasing power of the population has led to individuals buying lower-priced electric fireplaces. Chinese manufacturers, or Western manufacturers with production facilities in China, have thus been able to increase their market share. Although the market is aware that the quality of the products manufactured by the Chinese manufacturers (excluding western companies with facilities in China), cannot be compared to the quality of European or North American manufacturers, individuals continued nonetheless to favour the lower-priced electric fireplaces.

Market forecasts and prospects

According to experts, the market for electric fireplaces is set to grow, in line with the pick-up in construction activity, at approximately 10-15% in the next two years.

With the increase in the awareness of fireplaces and more investment in the advertising and promotion of such products, the market for electric fireplaces in Russia is set to develop, reaching regions beyond Moscow and Leningrad.

Market for Ventilators and Boilers

Introduction

Heating, ventilation and air-conditioning is a dynamically-developing sector in Russia. This report will focus on the two specific segments of this sector, which are Boilers and Ventilators. The reason for the choice of these products is that Canadian companies received from CMHC have been companies specializing in the manufacturing of boiler and ventilator products.

Market for Boilers

Introduction

The Russia market for boilers is characterised by dynamic growth, the presence of local manufacturers in the lower segments and strong competition between the foreign players in the middle-to-high segments. Russian boiler manufacturers are lagging behind their foreign counterparts in the provision of good-quality, technologically-advanced, highly competitive products.

There are in general four types of boilers, which include:

- **Gas boilers:** The most commonly-used boilers in Russia, comprising almost 80% of the total market. Mainly for warm energy in the form of hot water or steam. There are two types of gas boilers - those that are based on gas from gallons and those that use municipal gas.
- **Oil boilers:** These are the second most popular type of boilers used in Russia. However, their disadvantage is their more expensive usage, given the frequent rises in oil and diesel costs, even in Russia.

- **Wood and coil boilers:** These boilers run on wood or coal. There is a large trend in the market to change from coal to wood.
- **Electric boilers:** Electric boilers are mainly used in places where no gas is available. Currently, almost 93% of this market is supplied by the local manufacturers which have established themselves in the market during Soviet times.

The focus of this report is on gas boilers less than 1,000 kwt, as these are the most commonly used boilers in the Russian residential market.

Market trends and drivers

The market for boilers is directly associated with construction activity. In addition to new buildings constructed, there are also renovations and replacements of old boilers by new, technologically advanced boilers.

The entry of foreign manufacturers and their offering of technologically advanced, safe products are the supply-side driving factors of this market.

The most significant trend in the market has been the market's uptake of wall-hanging boilers, which, according to Amiko research group, has been growing at approximately 50%. Although local manufacturers have tried to enter the boiler market by importing foreign-produced equipment and assembling it in Russia, their entry into the more quality medium-higher price-segment has been slow, and considered unsuccessful by some players.

Market volume

In 2008, the total of the boilers market was USD 860 mln. Although official statistics are not yet available, the total market value decreased by approximately 30% in 2009, to an estimated USD 600 mln. Before the crisis, between 2007 and 2008, the market was growing at almost 61%, before decreasing substantially between 2008 and 2009, with imports recording an approximately 44% decline.

Barriers to entry

There are a number of barriers to entry into the Russian market. These include:

- **Competition:** The competition in the market for boilers is stiff, particularly in the middle-to-higher segment of the market, where foreign manufacturers are prevalent.
- **Technical parameters:** Gas pressure in Russia is different to that of other countries. The difference in pressure requires the manufacturers to produce boilers that will be suitable for use in Russia.
- **High costs:** High costs are associated with setting up representative offices or arranging after-sale service in order to sell boilers in Russia. Given the nature of the boilers, particularly in the Russian winter conditions, the consumers want to be certain that should anything go wrong with the boiler, they are guaranteed an after-sale service.
- **Competition:** As already discussed, the competition in the market for boilers is stiff. High advertising and marketing costs are required in order to promote new entrants into the market.

Distribution channels

The main distribution channels are:

- **Company representative offices:** many of the foreign companies have opened up their representative offices in Russia. This is important for the Russian market for the provision of after-sale service.
- **Nationwide distributors:** Promoting and selling the product: The national distributors are the second most important players in the market.

Main buying criteria

The most important criteria for the buyers of lifts are as follows:

- **Quality and brand:** The most important buying criteria for clients are quality and brand. Buyers of boilers are prepared to pay a higher price in order to purchase a brand that is trusted and well-known.
- **Technical support:** Technical support is also a crucial buying criterion in this market. Given the conditions of the Russian winter, the buyers want a guarantee of after-sale service that is present for the particular brand, as should anything happen to the boiler during the Russian winter, the purchasers need to know that they can get immediate support from the company in order that their boiler be fixed.

Pricing

The low-priced segment for boilers is covered by the local manufacturers, whereas the middle and higher-priced segments are covered by foreign manufacturers.

The table below depicts the types of buildings in which are used, as well as the prices for boilers in different segments.

Prices for different boilers, 2009

Type of building	Force	Low-priced segment	Medium-priced segment	High-priced segment
Holiday homes (Dachas)	6-12 Kwt	Price range: starting from: USD 170	USD800	-
Flats	24 Kwt	USD 400	Starting price: USD 650	USD 1,200
Cottages	50 KwT	I	Between USD 1,000, and USD 6,000	
Offices	100-1000 KwT	-	Approximately USD 6,000- USD7,000	

Source: PMR, other

Local vs. Imported products

Almost 57% of the total market is comprised of imported boilers. Imports from Germany comprise approximately 32% of total imports into Russia, followed by Finland (18%), Ukraine

(13%), Czech Republic (9.1%), and Italy (7.3%). According to market experts, the volume of imports in the last year has decreased substantially, by approximately 30% - 40%.

Competitive environment

Competition in the boiler market is relatively strong. The market is distinctly divided into two segments, with the lower segment being supplied by the local manufacturers and the middle-to-high segment supplied by foreign manufacturers.

The lower market segment has seen the emergence of a factory which has recently become the number one supplier of boilers in the Russian market, and has steadily increased its exports to neighbouring countries. Below is a table of the leading players in the Russian market.

Market forecasts and prospects

The demand for boilers is directly related to the construction sector. It is said that the market for the boilers, particularly for wall-hanging-boilers, is set to grow further. According to experts, the market is expected to grow by approximately 10% in 2011 and by a further 15% in 2012.

Local manufacturers are still lagging behind in terms of the provision of good-quality, trusted products. Those local factories, which have remained since Soviet times, will require large investments in their production of boilers. However, it is also important to note that the market in the middle-segment is relatively mature, with stiff competition. Thus, entry into the Russian market for boilers will require substantial investments in promotion and advertising.

Market for ventilators

Introduction

The market for ventilators in Russia is dominated by foreign manufacturers, with Sweden being the number one exporter of ventilators to Russia, exporting good-quality, comparatively-priced products. However, the most significant trend observed recently has been the emergence of Chinese manufacturers, which have taken the opportunity of increased market price-sensitivity, increasing their market share.

This report seeks to provide a general overview of the market for ventilators, with a focus on residential ventilation. However, the ventilator market is broad and complex and therefore, for a good understanding, requires a much more detailed analysis.

Market trends and drivers

The most recent trend observed in the ventilator market has been a switch to cheaper, more affordable products. Consumers have switched from ventilators imported from Western Europe to products imported from Eastern European countries. With increasing price-sensitivity, there has also been the emergence of Chinese manufacturers, which have found the crisis to be the perfect time to enter the market.

Barriers to entry

The most important barriers to entry include:

- **Competition:** Competition in the ventilator market can also be considered stiff, particularly in the middle-to higher segment of the market, where foreign manufacturers are prevalent.
- **Timely product delivery:** Timely delivery of Canadian manufacturers' products can be considered one of the main barriers to entry. Given the choice of good-quality imported products in the Russian market, at good prices, product delivery times can be considered a crucial aspect in the sales process.
- **High costs of setting up offices and warehousing facilities:** Consumers purchasing ventilators often need assurance that should there arise any technical difficulties, their product is guaranteed by the manufacturer. Thus, high costs are associated with setting up representative offices, or, training the distributors and installers.

Distribution channels

The main distribution channels are:

- **Representative offices:** All the major players in the market have their own representative offices dealing with after-sale service and support.
- **Distributors:** These are major distributors present in the market who provide sales as well as installation services.
- **Other influencers in the market:** Engineers and construction project managers who are the decision-makers with regards to the type of ventilation to be used for the building.

Main buying criteria

The main buying criteria for ventilators are price, quality, and technical support provided by the manufacturers. Given the nature of the product, technical and after-sale support is also very important in this market, being the reason why foreign manufacturers have opened their representative offices in Russia. Product availability or short-term delivery is also crucial, as the client is often unwilling to wait for a long time to have a specific ventilator installed.

Pricing

Product pricing can be divided according to the countries from where the ventilators are imported. These are as follows:

- **Low-priced segment:** Local manufacturers
- **Middle-priced segment:** Eastern European manufacturers
- **Higher-priced segment:** More Western companies such as

Local vs. Imported products

According to market experts, almost 80% of the ventilation in Russia is imported, with local manufacturers being present in the lower-segment of the market. Local manufacturers have a more significant presence in the commercial ventilator market.

In total, there were approximately 2,589 ventilators imported into Russia in 2009, an almost 65% drop from total figure of 7,292 ventilators imported in 2008.

Import of ventilators

Brand	2008	2009
Number of ventilators '000	7,292	2,589
Import value \$, '000	51,418	16,306

Source: Federal Customs Service, 2010

Note: The ventilators discussed in this report, and the figures provided is classified as: ventilators for tables, for walls, roofs, windows, with maximum power of 125 kw.

Competitive environment

There is stiff competition in the market for ventilators. Although local manufacturers cover a very small percentage of the market, there has been an emergence of strong players.

Market forecasts and prospects

There is potential in the Russian market for foreign manufacturers. The market is set to grow in the next two years, with a yearly growth of 10-15%. As in the boiler market, local manufacturers are still lagging behind in terms of the provision of advanced ventilators. However, the market is supplied by Western European and Eastern European players.

Overview of the millwork and wood materials market

Introduction

Canadian wood products were present in Russia some ten to twelve years ago, during the time when there was little competition from foreign players and almost no competition from domestic manufacturers.

However, much has changed since then. European manufacturers have implemented strategies to enter and establish themselves as the leading players, earning the trust of consumers as manufacturers of quality products. These are manufacturers of wood and related products from Germany, Spain, Italy, Poland, and other nearby countries. At the same time, there has been an emergence of strong local players who have invested large sums in advanced technologies to manufacture products that are comparable in quality and price-competitive.

Canadian companies are somewhat at a disadvantage because of the distance in transportation and related transport costs. Higher costs put the Canadian companies at a competitive disadvantage to their European counterparts. In addition, product delivery time is also an inhibitor. Examples of such products are doors and windows. Doors are custom-manufactured products, and are ordered and imported on an individual basis, unless, of course, they are imported for large-scale projects. The delivery time of the doors, then, becomes a crucial factor, as consumers prefer to purchase doors imported from the neighbouring countries, doors that are less costly, but at the same time, are delivered within a shorter time-frame.

Russia is a large country with vast amounts of natural resources and wood. Consequently, the government is aiming to promote the local companies to supply the local market, instead of exporting the wood to countries such as China. Another important factor that cannot be overlooked in the woodwork market is the government's emphasis and policy of promoting local production. Significant amounts have been committed by the government to invest in the forestry sector, and special efforts are being made by the government to promote local production. Local producers are then able to provide the market with good-quality, reasonably-priced products, at the same time winning the trust of the local market.

Where could the potential lie?

Although in general exporting Canadian wood products to Russia could be considered a challenge, there could potentially be opportunities to consider. These include:

- Finding a niche for Canadian products:** Finding a specific niche in the market that can be covered by products that are original in design and are not that popular in Russia. These are products in the middle or higher-end of the market. For example, in hardwood flooring, the market is supplied by the local manufacturers. However, there is the higher segment of the market which is imported, exotic wood that enjoys relative high demand. Another example to consider could be moulding. The majority of moulding products in Russia are imported from China. Thus, good quality-higher-end wood moulding products could be a niche to consider.

- **Wood-processing machinery:** As already discussed, the Russian government is committing large amount of resources for the development of the forestry industry. In addition, the dynamic growth of the local manufacturers and subsequent investment in production facilities may become good opportunities for the suppliers of wood-processing equipment.
- **Complimentary materials:** There could be a specific market for complimentary materials in Russia. An example of this could be kitchen cabinets, where the wood is manufactured in Russia. However, complementary materials, such as the handles, locks or doors are often imported. Italy is an established supplier of complimentary products into Russia.
- **Good quality products at reasonable prices:** In general, manufacturers and distributors of wood materials in Russia indicate that if the quality of the product is good, and the price reasonable, then it is possible to make it. Thus, offering good-quality products at reasonable prices in Russia, just like in any other market, could open up further opportunities.

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