

Sector Report

Marine Russia

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PART I: COMMERCIAL MARINE MARKET

OVERVIEW

In the 1990s, as the Soviet economy collapsed, the shipping sector was one of the few to get to the surface, buoyed by international demand for its tonnage. It migrated to offshore tax zones and operated under flags of convenience.

As a consequence, less than 10% of Russian fleets' business was done in Russia. Now the Russian government wants to change things: they want Russian shipping home again – to increase added value in the energy sector by serving national oil and gas giants. And with the prospect of demand for ships to service giant offshore energy projects and Arctic shipping lanes opening, they also want Russian shipping companies to buy Russian-built ships.

The vehicle for state policy in maritime shipping is a new giant company, created by merging the state's 50.3% share in Novorossisk-based Novoship, the world's twentieth largest carrier, into 100% state-owned Sovcomflot, the world's sixteenth largest. The result is the world's fifth largest shipping company.

The merger should produce both synergies and diversification: Novoship is a classic tank oil carrier working the Black Sea routes, while Sovcomflot concentrates on the ice-bound Arctic and hi-tech transport of liquid natural gas.

Now when state companies Gazprom and Rosneft have secured control of development of offshore gas and oil reserves (specifically the massive Shtokman and Sakhalin projects), the idea is to create linkage to other domestic sectors to increase added value generated in Russia. Shipping services are the obvious next step. Next in line are the shipyards. Ideally tripartite alliances of Russian oil and gas giants, Russian shipping companies, and Russian shipyards should emerge. Sovcomflot management talk of the merged company acting as a catalyst for the development of maritime clusters similar to the role played by Maersk in Denmark, NYK in Japan, Stena Bulk in Sweden or COSCO in China.

Sovcomflot is moving rapidly in this direction, specializing in energy and ice-class shipping, placing orders home and abroad, and rapidly expanding its fleet of LNG carriers, with large orders placed at Korean and Japanese yards – no Russian shipyard currently produces LNG ships, although Baltic shipyards plans to start in 2011.

Supporting offshore projects is however seen to be only the first step. With the Arctic ice melting due to climate change, the Arctic is opening up both for more energy exploration – the US Geological Survey estimates that 25% of the world's undiscovered oil and gas reserves are located in the Arctic – and also for shipping route: the North-East passage, if sailed from Hamburg to Yokohama – is almost 40% shorter than passing through the Suez canal.

The offshore developments are expected to put in place a lot of the shipping infrastructure needed for the Arctic to become a main shipping lane, if present climate change trends continue. Sovcomflot estimates that over the next ten years, Arctic shipping will quadruple in connection with Shtokman alone. Currently there is

almost no shipping in this area at the moment, and so there is little current competition.

Sovcomflot is not the only Russian shipping company to be thinking along these lines. The smaller, private Vladivostok-based Primorje Shipping Company (PRISCO) is also an oil carrier currently increasing deadweight at 18% pa and looking to expand into the LNG market. Prisco is well placed for Sakhalin oil shipping and the company has won contracts to ship oil even against bigger players such as Sovcomflot, with a \$150mn contract to ship oil for Exxon in Sakhalin. As the relationship with Sakhalin develops, Prisco expects half of its business to be domestic.

The Novoship merger was the prelude to a sweeping overhaul of the shipbuilding sector, the cornerstone of which was the presidential decree of March 9th, 2007, "On the Establishment of the United Shipbuilding Corporation" (USC). This decree provided for consolidating all state-owned assets in the shipbuilding branch, totaling around 40 companies, into a holding with 100% state ownership. The USC bundles all existing state shareholdings in maritime shipbuilders. There was a strong political flavor to its launch, with much championing of 'national shipbuilding', at the same time, relatively efficient fully privatized outfits, such as St Petersburg's Baltisky Zavod and Northern shipyards ("Severnaya Verf"), both owned by United Industrial Corporation group (UIC), were not invited to join.

Currently USC unites 170 enterprises with 200 thousand employees, including 9 key Russian shipbuilding design bureau. Structurally USC is formed by 3 Centres of Shipbuilding (Western, Northern and Far East) representing 60% of all Russian shipbuilding capacities. The objective of establishing USC was to provide maximum efficiency via integration of the research, design, shipbuilding and ship repairs companies.

Chairman of the USC Board of Directors is Mr Igor Sechin, Deputy Head of Government of the Russian Federation that gives additional "administrative resource" which is so important in the Russian economy. State ownership share in the USC companies varies from 20% to 80% depending on the company. USC headquarters originally were located in St Petersburg. Current (acting) President, Mr Roman Trotsenko, recently appointed, has brought much stronger business style of management rather than bureaucratic as it was before, and moved the headquarters to Moscow with the main office in St Petersburg.

The declared goal of the USC is to strengthen commercial, not military, shipbuilding in Russia. Currently, Russia basically has almost zero market share in the global commercial shipbuilding industry. Whereas Japan and South Korea each produce 70m tonnes deadweight per year, Russia turns out only 1m, lagging behind Vietnam, Iran and Turkey. But Russian companies place orders worth \$1bn for ships each year, 80% of which go abroad. In fact, 80% of Russian ship-building output is for naval procurement. The imbalance is a legacy of the Soviet era, where naval shipyards were concentrated on Russian territory, with merchant fleet ships being built in Poland, Finland and East Germany, and Ukraine.

As a result, even now that state defense procurement is soaring, Russian yards are on average only working to one third of their capacity. This makes the idea of Russian commercial shipping companies placing a higher proportion of orders with Russian shipyards so alluring.

However, Russian shipyards largely fail to compete even on the domestic market. They suffer from productivity levels far lower than South-east Asian countries. They are also unable to achieve turnaround times anything like the Asian countries, on average half as fast, which is critical, or reliable. Furthermore, Russian shipyards lack the capacity to build the ships with over 80,000 tonnes deadweight that enjoy wide global demand. One major problem here is the location of major shipyards, such as the Admiralty and Baltic shipyards in the historical heart of Petersburg, where there is simply no room to expand.

Despite this complicated situation, Russian planners have identified a market niche they believe Russian shipyards could fill. The grand plan for the ship-building sector is to build vessels to service the Shtokmann gas field and the Pacific shelf projects, as well as for the Arctic shipping routes expected to increase fourfold over the next 10 years.

Government estimates put the number of platforms needed for offshore oil and gas production by 2030 at 40, the number of 85 specialized ships at 80 with more than 140 support ships needed. Demand is set to boom for atomic icebreakers, hydrographic craft for exploration, ice-class oil tankers and LNG carriers, as well as platforms for oil and gas drilling, and pipeline-laying and transport ships

Baltiisky Zavod, Russia's main producer of nuclear and diesel powered icebreakers, and the other United Industrial Corporation shipyards are also active in moving into the Arctic shipping business, including preparation to build LNG tankers that are currently not built in Russia at all. Production is slated to commence in 2011, in time for start of operations at the Shtokman offshore gas field in the Barents Sea.

Confirming this trend of efficient companies responding swiftly to energy sector demand, the to date largest shipbuilding contract resulting from the Shtokman field development – for two marine drilling platforms worth \$2.5bn – has gone to the privately-owned (by "Bank "Rossiya") Vyborg shipyard, which hopes to secure four further such contracts.

Following approved Federal Target Programmes (please see "Opportunities" section) the RF Government has started financing and allowed foreign companies to enter into this sector.

The state-owned Vneshekonombank (VEB) in October 2009 made a decision to give a credit to the Vyborg shipyard located near St Petersburg for construction of the new shipyard in Primorsk. The first allocation will be 700 million roubles (US\$ 24.1 million) total cost of the project is estimated in 38.5 billion roubles (US\$ 1.33 billion), out of which 22 billion roubles is expected to be provided by the state bank. The rest of the sum will be allocated by the Vyborg shipyard owners and by the State Investment Fund (without indemnity, for infrastructure development). The new shipyard is planned to be put into operation by 2013.

Almost the same time a decision on state financing was made for the new shipyard in the Far East of Russia on the basis of the Zvezda plant, which is a part of the United Shipbuilding Corporation. Construction works are planned to launch in 2010 and complete in 2011. The project is estimated in 35 billion roubles (US\$ 1.2 billion) that will be mainly financed by VEB. However this project will be jointly implemented with Yantai Raffles Shipyard Ltd (China/Singapore). Initially the Yantai's project share will be 25%, but later may increase up to 50%. The joint venture will be manufacturing offshore drilling equipment and oil & gas platforms

for the Sakhalin project. The first production will be a unique floating crane with lifting capacity of 20 thousand tons (Yantai Raffles technologies).

Another project of the Zvezda plant being currently implemented by the United Shipbuilding Corporation is a joint venture with the South Korean company «DAEWOO Shipbuilding Marine Engineering» («DSME»), with a charter capital over \$300 million, aimed at the new shipyard construction near Vladivostok for the large capacity LNG tankers.

Both shipyards have already received an order package for the sum of \$5 billion. The main contracts have been signed by USC with Rosneft, Transneft, Gazprom, Sovcomflot, Lukoil, TNK-BP and others.

OPPORTUNITIES

As per the existing programmes in effect till 2030, Russia will build **1400 vessels** of different applications. The approval of the Federal Target Programme **“Development of Civil Marine Engineering for 2009 – 2016”** by the governmental regulation No 103 with a volume of financing at 90.6 billion roubles (US\$ 3.12 billion), gives a start to an ambitious programme aiming to ensure the development of shipbuilding industry in the context of growing civil shipbuilding market.). The programme foresees design and development of 130 new types of vessels, including LNG tankers, and 50 new technologies. 20 billion roubles (US\$ 690 million) will be allocated for further development of the research centres, e.g. Krylov’s Shipbuilding Research Institute.

The state represented by specialized government agencies has assessed its demand in marine engineering:

- in naval shipbuilding a State arms programme has been approved; there exists a forecast of military-technical cooperation; these documents define the demands in naval engineering to the year 2015.
- in the civil sector further development has been approved by the following Federal Target Programmes which open opportunities for the domestic and foreign companies:

“Enhancement of efficient use and resource potential development of fisheries industry in 2010-2013” The programme presumes building of 265 ships and possesses the volume of state financing of 25 billion roubles (US\$ 862 million), including 11 billion roubles for research vessels fleet. Currently it has 84 vessels (including 11 vessels of Ministry of Natural Resources, 30 of Russian Hydrometeorology service, 15 of Russian fisheries and 28 of Russian Academy of Sciences. 80 vessels are to be decommissioned by 2015.

“Development of transport system of the Russian Federation for 2010-2015” with a volume of state financing of 268 billion roubles (US\$ 9.24 billion) for construction of 791 supply, cargo-passenger transportation, safety control and other types of vessels.

“Development of Icebreaker Fleet” with a volume of state financing of over 150 billion roubles (US\$ 5.17 billion). These are 6 nuclear icebreakers and 26 diesel icebreakers, the construction of the latter started at Baltic Shipyard.

“Development of nuclear power sector” with volume of state financing of 60 bln roubles (US\$ 2.07 billion). This new and very interesting area will be developed in Severodvinsk, while design work, focused on module construction will be provided by St. Petersburg designers.

“Development of inland water transport” with a volume of state financing of almost 35 bln roubles (US\$ 1.21 billion). All needs of inland water transport were catered for by local facilities. According to the information of Engineering centre of shipbuilding (former Central design bureau of Ministry of inland water transport) today Basin Departments can guarantee construction of vessels, ensuring navigation safety, but there is a need for dredgers and new solutions for water transportation (catamaran, hydrofoil or air-cushion).

Development of continental shelf:

According to the estimate of the largest companies, possessing resources on the Northern shelf, in the Far East and in Caspian Sea (Gasprom, Rosneft, Lukoil) shelf development will already by 2030 require construction of technical means for production and transportation of up to 110 mln tons of oil and 160 bln tons of gas with a required service infrastructure.

Gazprom, Rosneft, Sovkomflot programmes of development for 2009-2030 envisage construction of 431 ships and marine units. By 2030 in order to fulfill the forecasted volume of production and transportation of hydrocarbons of the continental shelf of Russia the estimated demand in platforms and terminals is 54 units (Rosneft will order 30 offshore platforms; Gazflot – 21 platforms; SovComFlot – 3 platforms), in specialized transportation vessels – 85 units, in supply vessels – approximately 140 units.

Taking into account the fact, that development work has already started on a number of projects, and many clients started to realize their needs, ensuring a full-rate participation of Russian industry in this work is an urgent issue.

Cooperation between JSC Sevmorneftegas (Gasprom subsidiary), JSC Sovkomflot with Admiralty Shipyards and Sevmash on construction of technical means to develop the continental shelf field «Prirazlomnoye» is only a pilot project, and the future cooperation of Russian shipbuilding sector with shelf developing companies will depend also on the results of this project.

The United Shipbuilding Corporation plans to establish a shipbuilding complex in Primorsk (Leningrad region) alongside with the Vyborg plant. Another USC big projects are transfer of the Admiralty shipyards from St Petersburg to Kronshtadt with enhancement of the existing Kronshtadt facilities of the Marine Plant, and further Shtokman project development, including construction of maintenance and repairs facilities in Murmansk (LNG, subsea techniques, etc.)

The demand in marine engineering is tremendous, but the involvement of shipbuilding industry is not yet defined. Therefore the most perspective segments of Russian shipbuilding sector are projected.

CHARACTERISTICS OF MARKET

In view of the fact that Russia is a major maritime state, shipbuilding industry has traditionally been a very important branch of its economy. According to Krylov Shipbuilding Research Institute, in 2008 there were 161 enterprises active in Russian shipbuilding industry (building and scientific sector). There were 190 500 people occupied in the shipbuilding industry, including 158 200 people in scientific and design organizations. The branch cooperates with more than 2 thousand supplying companies.

Based on their past history, St. Petersburg and the North-West Federal District (NWFED) are often regarded as the shipbuilding capital of Russia, accounting for more than 80% of R&D and over 70% of all domestic production. Large-capacity ships and vessels can only be built at the shipbuilding facilities of St Petersburg and Severodvinsk. The concentration of mechanical engineering and instrument building companies in NWFED, together with major scientific centres, place St Petersburg among the most important and powerful regions in Russia.

Today the average age of Russian fleet ships exceeds 18 years, and the significant part of shipboard equipment worked over 20-30 years. For this reason the state support of shipbuilding and ship repair as well as implementation of special-purpose programmes for fleet modernization has become a vital need.

Russian shipbuilding companies are a collection of research and development, design engineering, shipbuilding, ship repairing, machine-building, instrument-making, installation and wiring enterprises which provide manufacturing and ensure a life cycle of vessels and marine equipment, and, what is crucial, which offer cargo owners and ship-owners conceptual designs of vessels and marine engineering.

Main market segments, ensuring shipbuilding operations are as follows:

- naval shipbuilding (in the framework of government defence order and military-technical cooperation programmes);
- seagoing vessels;
- river vessels and mixed river-sea-going vessels;
- research vessels and icebreakers;
- vessels and other means of shelf development;
- fishing fleet.

On commercial sector of civil shipbuilding:

Cargo ships:

The dynamics of goods turnover of Russian ports shows a strong growth of sea shipping. In 2005 turnover of goods made up 407 mln tons, in 2015 it is expected to reach 647 mln tons. A considerable cargo base has been formed in Russia. Liquid cargo and dry cargo are mainly exported, while all other cargo types (so-called «general» cargo) are imported. Growth in goods turnover gives a possibility for development of cargo ships fleet, and since we speak of our local cargo, it is our joint task to increase our presence on the shipment market.

Shipping companies are already integrated into world market of shipping services. Russian shipping companies have over 1500 vessels with total deadweight of 15

mln tons, which makes up 2% of the world shipping fleet and gives a 23rd position in international rating.

Meanwhile the average age of Russian vessels is over 18 years (for comparison, the average age in Japan – 9 years, South Korea - 12 years, Taiwan – 12,7 years). Therefore, alongside with expanding the areas of application for our shipping fleet, there is a need for its modernization.

For a full-scale characteristics of market volume, one should mention that cargo owners and shipping companies develop their business following economy growth. But most often they find solutions for their needs at foreign shipyards. Annually Russian shipping companies place shipbuilding orders abroad for the sum of 1 bln dollars.

The share of Russian manufacturers in the total volume of orders from Russian ship owners is too small – 5% in last 10 years. To the orders of Russian ship owners at the existing manufacturing facilities there is a possibility to build 30-40 marine vessels with a total deadweight of 450 – 500 thousand tons, with certain technological limitations (there is no possibility to build vessels with a tonnage of over 80 thousand tons).

Inland water transport:

Inland water transportation makes a considerable share (approximately a quarter) of all water transportation in Russia. In 2005 over 20 mln passengers used inland water transport. Over 100 mln tons of cargo is being shipped by rivers annually (in 2005 – over 130 mln tons), of which 80 – 85% of dry cargo and 15 – 20% of liquid cargo.

Over 1500 licenses have been issued in Russia, allowing shipping operations by inland water transport, but only 5 – 6 companies demonstrate active interest in building new vessels. At the same time the condition of inland water transport is particularly serious. Currently there are over 9 thousand vessels, which are over 28 years old in average.

Among factors hindering modernisation of water transport one can first of all mention risks, connected with seasonal nature of work, and, hence, with payback increase, as well as with unsatisfactory condition of navigable waterways and hydraulic units.

As for the possibilities for our participation in building of marine and inland water transport (slide 6) – those are cargo-passenger vessels, oil tankers and liquefied gas carriers, etc., with a volume of financing of approximately 170 bln roubles (US\$ 5.86 billion) and that is far from being the limit.

Fishing vessels:

According to Federal State Unitary Enterprise «Giprorybflot», the forecasts on possible catch figures in exclusive economic zone indicate a perspective growth in fish and seafood catch. The structure of fishing fleet is constantly changing. Currently it numbers over 2.5 thousand vessels of various type (the biggest in this category is the Far East Region fleet). More than 50% of the vessels are over 20 years old. Currently around 40% of the fishing vessels in Russia exceed their nominal lifetime. The capacity of this fleet is constantly decreasing and there is a

need for modernization. During past 15 years over 2000 vessels have been written off and there appeared a bad tendency of purchasing used vessels of foreign manufacture (from 1991 to 2007 over 1200 vessels were imported).

Unfortunately, Russian companies do not participate in building big and medium-size fishing boats. At the same time Russian companies have a capacity to fully meet the demand of the fishing industry (over 100 vessels used to be built annually).

A working group for selection of building projects with a leasing funding model has been formed with estimated volume of financing of 100 bln roubles (US\$ 3.45 billion).

Marine Powerplants:

Surviving plants need modernization, and since the age of the equipment is over 20 years, their resource base is obsolete. Nevertheless, such enterprises as Kolomenskiy Zavod, Zvezda, OAO, Dagdiesel, the main suppliers of diesel engines for the domestic shipbuilding industry, have survived. Some experts reckon that if the problem of investments is solved, Russia can build effective and energy-conserving internal combustion engines for ships. Besides, Russia possesses a great experience of usage of nuclear ship power plants.

Navigation:

New vessels, especially war ships, are equipped with digital controls for on-board systems, satellite communication kits and GLONASS satellite navigation system. The network of control-correcting stations (CCS) used to improve the accuracy of the satellite navigation systems is developing step by step.

Shipboard Machinery:

The most of the Russian fleet ships are outdated, and their equipment worked about 20-30 years which was enough time for it to become obsolete and deteriorated. Many Russian shipping companies are aware of the need for retrofitting the fleet and equipping shipboards with newer and safer equipment and facilities; however, not each company actually performs comprehensive replacement. Some ship owners prefer to close gaps related to problem ships in order to maximize their profits with the minimum of investments, and spend money on the ship retrofitting and purchase of new facilities only in case of urgent need.

The global economic crisis has also had adverse impact on the retrofit process, making most of the ship owners put off contracting the delivery of new equipment until better times.

Offshore Oil & gas production equipment:

The Russian Federation is one of the world's leaders by oil and gas reserves and production. Today, Russia produces one seventh of primary energy resources of the globe. There are 12.9% of world's explored reserves of oil and 36.4% of gas. The economy of Russia greatly depends on efficiency of oil and gas producers.

Development of oil and gas potential of the Arctic Shelf of Russia is one of the most important objective, since reserves of explored on the shelves of Far-Eastern and Western Arctic seas cannot cover needs for hydrocarbons. In accordance with "The Programme for Regional Geological Survey of Oil and Gas Content and Subsoil Management on the Continental Shelf of the Russian Federation till 2020", the list of strategic survey areas comprises the Barents, Kara Seas and Sea of Okhotsk.

In accordance with "The Long-Term State Programme for Survey of Subsurface Resources and Reproduction of Raw-Material Base of Russia on the Ground of Consumption and Reproduction Balance of Minerals", oil industrial reserves growth

is to amount 1.3 bln tons by 2020 and 2.15 bln tons by 2030. This means that over 100 oil and gas fields with technically recoverable reserves over 20 mln tons are to be stroke within 20 years.

The main current issues in this sector are:

- Lack of shipbuilding capacities in Russia to meet the objectives of the programmes
- Lack of subsea/offshore technologies

The priority task of Russian oil companies consists in purchase of up-to-date equipment and adoption of new technologies. Use of obsolete equipment is not profitable and can be dangerous. Due to new technologies, well efficiency can be raised significantly and oil and gas output can be increases. The strategy adopted in the Federal Programmes provides establishing new shipbuilding complexes and enhancement of the existing facilities with active involvement of international experience and participation.

Ports industry:

Sea ports are key elements of the Russian transport complex assuring relationships of various kinds of transportation (automobile, railway, etc.). Over 60% of foreign-trade freight traffic of the country accounts for them.

Most of Russian ports were built in 60-70's of the past century. Their state does not meet modern requirements for water depth at berths and in water areas. About half of the ports (31) are shallow, so they cannot serve vessels with deadweight over 10 thousand tons. There are only 10 ports in Russia capable of serving modern vessels with deadweight over 50 thousand tons. Vessels with deadweight over 150 thousand tons can be served only in one sea port – Murmansk.

Today, there are over 1500 items of immovable property (including 521 berths with total length of 80 km) on the balance sheet of Rosmorport FGUP PO.

Most Russian ports are located in freezing seas, which makes necessary the ice channelling 2-6 months. Kaliningrad, Murmansk and ports of the Southern basin are exceptions.

According to the Association of Commercial Seaports (ASOP) having the main task of coordinating efforts on creating conditions of effective development of sea transport enterprises, the freight turnover of the Russian ports for the last 10 months of 2009 was 412 mln. tons, an 8.2% growth compared with the same period of the last year. The tendency of freight turnover growth is observed in volumes of transshipment of dry and bulked cargoes. Transhipped exported cargoes (coal, ferrous and nonferrous metals, corn, ore) increased by 10.9%. The freight turnover of mineral fertilizers, timber cargoes and containers decreased.

Rosmorport FGUP expects the volume of container transshipment in the ports of the Baltic basin to grow up to 2.6 mln. TEU (this unit of volume of cargo is based on dimensions of the standard 20-meter length container) by 2012. Today, total container transshipment volume in Russian seaports of the Baltic basin is 3.5 mln. TEU per year. Even with increasing of transshipment volume, there is a significant excess of container terminal facilities in the Baltic basin. Besides, the part of containers for Russia is served in Finland and the Baltic states. However, Russia needs in expanding port facilities.

Since growth rates of import and export volumes are accelerating, Russian and foreign investors pay more attention to the port industry. With the aim of enhancing investment attractiveness, Russian authorities accepted a number of strategic programs, including Set of Measures on Development of Ports and Special Economic Port Zones program and Program for the Retrofitting of the Transport Infrastructure of the Russian Federation (2002-2010).

It is expected that in 2010 Russian seaports will serve at least 520 mln. tons of dry and bulk cargoes.

(Note: Detailed report on the Russian Ports industry and opportunities can be obtained from the UKTI web site)

KEY METHODS OF DOING BUSINESS

It is essential to know some practicalities of doing first steps in a Russian market.

Language Issue

The majority of Russian companies normally require communication in Russian, even those who import or trade in imported goods. This is characteristic of the Russian market in general across all sectors. It is recommended to provide potential partners with brochures and technical specifications in Russian. Tender documentation will only be issued and accepted in Russian.

General Ways of Doing Business

Having established initial contact it is recommended to follow it up with a visit to the market and arrange personal meetings with potential partners.

Often local companies are unable to reply to the initial offers from British companies because these offers do not contain any financial information. Requesting such information is already an expression of interest and is worth following up with those companies by sending further details wanted.

Courtesy meetings and letters are not part of business culture in Russia, people are used to be very specific and can refuse to meet/speak, if there is no immediate benefit seen.

Sometimes Russian importers are hesitant to react positively to offers from British companies due to the following:

- Initial offers do not contain any technical and financial information
- British companies are not very flexible as far as communication in the local language is concerned. British companies insist on using English as a working language, which does not compare well with German, Italian, Swedish and other exporters.

Other background information on doing business in **Russia** can be found on UKTI's website. Simply go to the Russia country page where you will find information on:

- Economic background and geography
- Customs & regulations
- Selling & communications
- Contacts & setting up
- Visiting and social hints and tips

PART II: LEISURE BOAT MARKET

The Russian market for leisure boats began its growth in 2000. Before the global economic crisis, the average annual market growth for the entire leisure boats sector was estimated at 30%. This impressive growth has led to many foreign entrants and has led to a high-level of competition among manufacturers and distributors. The majority of the growth in this sector is likely attributed to the sales of inflatable boats and medium class motor boats and yachts. While the market for luxury yachts has shown overall growth, it is a niche oriented sector given that the percentage of Russians who can afford to buy expensive leisure boats is limited.

Market demand

The Russian market for leisure boats is rapidly developing and creating opportunities for foreign suppliers. Although the Russian market for leisure boats started to develop in 2000, the Russian yachting boom started in approximately 2004 as a “fashion” trend. Once income levels rose enough and individuals were able to purchase a dream house and an expensive car, the yacht became the next indication of one’s prosperity.

Today, the Russian market offers consumers a great deal of selection when it comes to the leisure boat market. During the last several years, demand has been primarily focused on premium class leisure boats with a length exceeding 35 meters. Market leaders report considerable growth in luxury boats with the market for luxury motorboats and yachts growing considerably in the past three years. In 2005, the share of Russian buyers for all luxury yachts was 6%, today it is estimated at 25%. According to Azimut executives, an Italian manufacturer of yachts, Russia is the company’s second largest market after Middle Eastern countries. Also, the Burger Boat Company has built two identical 45 meter yachts for a Russian customer and The Rodriguez group has sold several exclusive yachts to Russian V.I.Ps.

Given continuing development of the middle class in Russia, there is also demand for less expensive economy-class boats. The market for inflatable boats is also growing and although Russian models are cheaper, companies such as Zodiac and Quicksilver hold about 10% of the local market share. The market volume for inflatable boats is estimated at around 50 000 boats per year.

Market data

According to official Russian customs statistics for the period January-September 2008, the total number of imported leisure boats (HS Code 8903: Yachts & Other Vessels for Leisure or Sports; Rowing Boats and Canoes) amounted to 136,264 units (USD 189 million). Approximately, 93% or 127 502 units (USD 12 million) were inflatable boats with imports coming mostly from China; 110 units (USD 2.2 million) were sailboats with most imports from the United Kingdom; 1 925 units (USD 116 million) were motorboats with most imports from the United States; and 6 727 (USD 59 million) were rowing boats, canoes and sculls with most imports from Canada and the United States. By value, U.S. exporters hold the most market share.

There are no reliable statistics on the number of leisure boats currently in use in Russia. Some sources say that there are about 3 million leisure boats; however the majority of those boats were built during the Soviet era.

Most yacht distributors and showrooms are concentrated in Moscow and St. Petersburg. However, expansion of the distribution network into the regions is beginning. For example, sales are increasing in the Volga region and Siberia, as well as in Sochi, a major Black Sea resort area, where the winter Olympic Games 2014 will take place and where luxury yacht clubs will be built.

While the market for new yachts is more developed in Russia, several companies marketing second-hand products have appeared in the last few years to meet the needs of middle class consumers.

Most yacht owners (especially those with premium class yachts) prefer to keep their boats abroad, so manufacturers may find themselves exporting not into Russia directly, but to Finland, Turkey, Greece, Montenegro, etc. Therefore, it is hard to identify how many luxury yachts have been purchased by Russians.

In 2009, the Russian market for leisure boats was expected to slow down (no data is available yet). Until the current global economic crisis, Russia had a nine-year run of continuous rapid economic expansion (approximately 7% annually). With over 140 million consumers, a growing middle class and almost unlimited infrastructure needs, Russia remains one of the most promising export markets. Prior to the economic slowdown, foreign firms consistently reported that their Russian operations outperformed those in most other countries where they conduct business. They continue to view Russia's long-term prospects as positive.

Key suppliers

During the past several years, many foreign producers entered the market. There are more than 100 foreign yachts and boats manufacturers supplying products to the Russian market. Among them are Bavaria (Germany), Fairline (UK), Princess Yachts International (UK), Dominator (Italy), Benetti (Italy), Beneteau (France), Riva (Italy), Ferretti (Italy), Windy Marine (Norway), Bandido (Germany), Rizzardi (Italy), Harbercraft (Canada), Nordic Ocean Craft (Norway), Viksund (Norway), Sunseeker (UK), Seabob (Germany), ISA (Italy), Avon (Italy), Bayliner (U.S.), Carver (U.S.), Marquis (U.S.), Brunswick (U.S.), Crownline (U.S.), Starcraft Marine (U.S.), Stingray (U.S.), etc.

Those producers have been in the market for some time, maintain a good reputation and have established dealers throughout the country. Newcomers to the market include several Scandinavian vendors including Mondomarine (Italy), Sanlorenzo (Italy), Nahema (France), Rodriquez Group (Italy) and Burger Boat Company (USA). Luxury yachts made in Italy and France are very popular among Russian consumers.

At this time, Russian manufacturers do not appear to hold a viable position in this segment. There are approximately 12 main local shipyards, located throughout Russia; however, their products are generally not competitive with those of foreign producers. The main Russian manufacturer is the Moscow Shipyard. Together with Timmerman Yachts - a Holland producer- they are manufacturing premium class yachts in Russia. Other Russian manufacturers are: Laky Veil (Leningrad region), Samson (Moscow), Speed Hunter (Moscow), Velvette (Kazan), Faserind (Kazan), Fram (Volgograd), Gladius (Saint Petersburg), Edelwies (Engels), Flagship (Kazan), and Russian Motor Yachts (Rostov).

Market entry

There are two basic ways to enter the Russian leisure boat market:

- Via a distributor - a foreign manufacturer may find a reliable Russian distributor to represent the company in the Russian market. The distributor may not be in a position to purchase the product and maintain an inventory but, rather, they will provide the expertise and the market knowledge to promote the product to their clients.
- By appointing a sales representative - a sales representative could be a viable alternative and may work to market, promote, search and communicate with prospective clients.

Market issues and obstacles

Companies entering the market should be prepared to compete with foreign manufacturers, who have a strong presence in the Russian market. There are also a limited number of Russian distributors and a narrow circle of potential buyers, who can afford to buy a motorboat or yacht.

Further, Russia is a geographically vast market, stretching over 11 time zones and encompassing over 17 million square miles. Seriously undeveloped infrastructure causes logistical challenges. Incomplete transition from central planning has led to an insufficiently integrated economy and discrepancies in wealth distribution (geographically and demographically). Conduct of business may be also impeded by: inadequate IPR protection, pervasive corruption (147 of 180 on Transparency International's Corruption Perceptions Index), inadequate corporate governance, developing legal system and lack of transparency. The other major problem is that English is not widely spoken in Russia, so foreign manufacturers might also find it difficult to communicate with prospective partners.

Imports tariffs continue to present challenges to importers. Russian customs are reluctant to consider exporters' invoices as the basis for import duties and sometimes use arbitrary references such as Eurotex and the NADA Marine Guide as sources for retail prices for tariff calculations. Before March 2008, customs had a rule of reducing the retail price by 20% to account for a possible difference between the invoiced price and the one in NADA Guide. However, since March 2008, Eurotex and NADA prices, without any reductions, became the only reference for Russian customs to calculate import tariffs on boats.

Although more and more yachts are being purchased in Russia, the development of the appropriate infrastructure is lacking. Russia lacks yacht clubs (there are about 30 in Moscow and the Moscow region, 10 in St. Petersburg; a few are scattered in other Russian cities such as Nizhniy Novgorod, Voronezh, etc.), marinas, gas stations, service centres and spare parts and equipment suppliers.

MORE DETAILED SECTOR REPORTS

Research is critical when considering new markets. UKTI provides [market research](#) services which can help UK companies doing business overseas including:

- **Overseas Market Introduction Service (OMIS)**. Bespoke research into potential markets, contacts and support during your visits overseas.
- **Export Marketing Research Scheme**. Advice on market research and help to contact subsidised market research administered by the British Chambers of Commerce on behalf of UKTI.

Contact your local [International Trade Advisor](#) if you are interested in accessing these services, or for general advice in developing your export strategy.

Please check www.uktradeinvest.gov.uk for updated versions of Sector reports prepared by UK Trade & Investment team in Russia.

When considering doing business in Russia, it is essential to obtain legal, financial and taxation advice. For further details, please contact:

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PUBLICATIONS

Maritime Market

Shipbuilding, shipping, ports industry, ocean and shelf exploration magazine

<http://www.maritimemarket.ru>

Morskie Vesti

www.morvesti.ru

Sea Ports of Russia, International Freightforwarder and Sea News of Russia magazines

Russian marine information portal

Shipbuilding, transportation and power generation internet portal

<http://www.setcorp.ru/>

Yachting

Yachts and boats magazine

<http://www.yachting.su>

AllYachts.ru

Yahts and motorboats internet portal

<http://www.allyachts.ru/>

EVENTS

Russian Marine Industry Forum

Moscow, Gostiny Dvor exhibition complex
19-21 May 2010
Organizer: Mega-Expo
<http://www.mir-forum.ru>

Transtec

St. Petersburg, Lenexpo
5-7 October 2010
Organizer: Lenexpo/Dolphin Exhibitions (UK)
<http://transtec.transtec-neva.com>

Neva

St. Petersburg, Lenexpo
20-23 September 2011
Organizer: Lenexpo/Dolphin Exhibitions (UK)
<http://neva.transtec-neva.ru/about.html>

Moscow International Boat Show

Moscow, Crocus Expo
15-18 April, 2010
Organizer: ITE Group
Web-site: <http://www.mibs-expo.ru>

Baltic Marine Festival

St. Petersburg, Lenexpo
3-6 June, 2010
Organizer: Lenexpo
Web-site: <http://www.boatshow.lenexpo.ru>

UK Trade & Investment's [Tradeshows Access Programme](#) (TAP) can help eligible UK businesses take part in overseas exhibitions. Attendance at TAP events offers significant benefits:

- possibilities for business opportunities both at the show and in the future
- a chance to assess new markets and develop useful contacts
- grants are available if you meet the criteria
- UKTI staff overseas will be available to assist delegates

Find out if you are eligible to apply to attend this event, and more about the support UKTI can offer, on the UKTI [Market Entry](#) web page.

Details of TAP events can be found in the **Events** portlet on the [country] page. Other **Market Visit Support** may be available via your local International Trade Advisor.

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UKTI's **International Trade Advisers** can provide you with essential and impartial advice on all aspects of international trade. Every UK region also has dedicated sector specialists who can provide advice tailored to your industry. You can trace your nearest advisor by entering your postcode into the [Local Office Database](#) on the homepage of our website.

For new and inexperienced exporters, our [Passport to Export](#) process will take you through the mechanics of exporting. An International Trade Adviser will provide professional advice on a range of services, including financial subsidies, export documentation, contacts in overseas markets, overseas visits, translating marketing material, e-commerce, subsidised export training and market research.