

The Russian Market: Opportunities for U.S. Manufacturers

Russia Is an Attractive Emerging Market for U.S. Manufacturers across Sectors

Manufacturing generates 11% of U.S. GDP and supports one sixth of all U.S. private sector jobs.¹ With a state-of-the-art production base, this key segment of the U.S. economy is well positioned to take advantage of demand in Russia for high-quality manufactured goods.

- In the first four months of 2010, Russia imported more than \$7.5 billion of machinery and equipment, marking growth of 36% over the same period in full-year 2009. In 2009, Russia's imports of machinery and equipment totaled nearly \$73 billion, after reaching a high of \$140 billion in 2008, a total that represented **53% of the country's imports**. Machinery and equipment imports into Russia saw growth of 38% in 2008 and 55% in 2007.²
- Once Russia joins the WTO, the country will lower tariffs, creating improved market access conditions for U.S. and other foreign firms. Under the U.S.-Russia bilateral agreement on Russia's WTO accession, **Russia agreed to cut tariffs on manufactured goods to an average of 8%.**³

Russian Firms Use U.S.-Made Equipment to Harvest the Country's Vast Resources

Russian enterprises need modern machinery to harvest Russia's abundant mineral and renewable resources, creating demand for U.S. equipment exporters.

- Russian agribusinesses need high-quality tractors to farm Russia's 480,000 square miles of arable land (constituting 8% of the world's farmland).⁴ Russia's imports of U.S. agricultural tractors totaled nearly \$12 million in 1H 2010 after reaching \$39 million in 2009. In 2008, these imports from the U.S. grew 70% annually to total nearly \$350 million.⁵
- With Russia ranking as the world's **largest oil producer** and **second-largest natural gas producer** in 2009⁶, Russian oil and gas firms require high-tech equipment to maintain production. Russia imported nearly \$135 million worth of U.S. oil and gas field equipment and parts in 1H 2010, following full-year 2009 exports of more than \$309 million. Previously, these exports to Russia had grown an average of 21% annually between 2005 and 2008, reaching a peak of more than \$422 million in 2008.⁷

Imported U.S. Equipment Helps Russia Meet its Construction Needs

Russia's residential, commercial and infrastructural construction projects generate demand for imported construction equipment and tools.

- U.S. exports to Russia of pneumatic and hydraulic hand tools are on track to exceed 2009 levels, growing 66% in 1H 2010 over the same period in 2009 to a total of nearly \$39 million. In 2009, such U.S. exports to Russia totaled nearly \$70 million, and in 2008 they had reached nearly \$152 million.⁸
- Russia has 580,000 miles of roads⁹, two-thirds of which are in need of repair,¹⁰ and the Russian government plans to build 150,000 miles of new roads by 2030.¹¹ In 1H 2010, U.S. exports to Russia of road construction equipment grew 290% over 1H 2009 levels to a total of \$26 million, exceeding the full-year 2009 level of \$15 million. In 2008, these exports to Russia had grown 202% to \$90 million.¹²

Russia Figures Prominently in U.S. Manufacturers' Long-Term Growth Strategies

Major U.S. manufacturers have a recent history of success in the Russian market.

- Illinois-based **Caterpillar saw its sales in Russia grow 550% between 2004 and 2008.**¹³ The company opened a \$50 million production facility near St. Petersburg in 2000¹⁴ and upgraded the facility with the addition of a new \$31 million excavator assembly plant in 2008.¹⁵
- As part of a plan to invest more than \$500 million in its Russian operations by 2015, **Deere & Co.** opened a \$125 million manufacturing and parts center near Moscow in April 2010 and is investing more than \$61 million in an agricultural machinery plant in Kaluga.¹⁶

¹ Facts about Manufacturing, "National Association of Manufacturers Website, http://www.nam.org/Resource_Center/Facts-About-Manufacturing/Landing.aspx, (accessed July 16, 2010).

² Экспорт и импорт товаров и товарных групп, "Federal State Statistics Service, http://hi.gks.ru:8080/DDH/showcharts.js?report=exim01&project=BIPortal2_hip&width=1250, (accessed August 13, 2010).

³ Factsheet on U.S.-Russia WTO Bilateral Market Access Agreement, "Office of the U.S. Trade Representative, November 10, 2006.

⁴ Jason Bush, "Farming Makes a Comeback in Russia," *Businessweek*, October 9, 2008.

⁵ U.S. International Trade Commission Interactive Tariff and Trade DataWeb, Total U.S. Exports to Russia, (HTS-8701901065, HTS-8701901070, HTS-8701901060, HTS-8701901055, HTS-8701901090, HTS-8701901035, HTS-8701901015, HTS-8701901010, HTS-8701901040, HTS-8701901030, and HTS-8701901005) 2004-2009 and 1H 2010 YTD, by FAS Value.

⁶ International Energy Statistics, "U.S. Energy Information Administration, <http://tonto.eia.doe.gov/cfapps/jdpbprojct/IEDIndex3.cfm>, (accessed July 16, 2010).

⁷ U.S. International Trade Commission Interactive Tariff and Trade DataWeb, Total U.S. Exports to Russia, (HTS-8413500010, HTS-8413600050, HTS-8428900020, HTS-8428908020, HTS-8430494000, HTS-8430498010, HTS-8430498020, HTS-8431390050, HTS-8431398050, HTS-8431434000, HTS-8431438010, HTS-8479899550, HTS-8479899750, HTS-8479899850, HTS-8485900040, and HTS-8487900040), 2003-2009 and 1H 2010 YTD, by FAS Value.

⁸ U.S. International Trade Commission Interactive Tariff and Trade DataWeb, Total U.S. Exports to Russia, (HTS-8467) 2004-2009 and 1H 2010 YTD, by FAS Value.

⁹ Central Intelligence Agency, "Russia," *The World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/geos/RS.html>, (accessed July 16, 2009).

¹⁰ Economist Intelligence Unit, "Russia Risk: Infrastructure Risk," *Risk Briefing Select*, June 12, 2009.

¹¹ "Russia Needs over 150,000 Miles of Roads for Economic Stability," *SKRIN Market and Corporate News*, May 25, 2009.

¹² U.S. International Trade Commission Interactive Tariff and Trade DataWeb, Total U.S. Exports to Russia, (HTS-8429, HTS-8428900030 and HTS-8426410005) 2004-2009 and 1H 2010, by FAS Value.

¹³ "Caterpillar Chairman and CEO Jim Owens Unveils First Russian Assembled Hydraulic Excavator at Conexpo Russia," Caterpillar, Inc. Press Release, <http://www.cat.com/cda/components/fullArticle?m=37523&x=7&id=1052167>, (accessed September 1, 2009).

¹⁴ «Caterpillar – Россия: О компании Caterpillar» Caterpillar в СНГ и Монголии» Производство», Caterpillar, Inc. Website, <http://rossiya.cat.com/cda/layout?m=60742&x=97>, (accessed September 1, 2009); Robert Obetkon and Richard Lucas, "The Russian Construction and Mining Machinery Market 2007," May 2007, http://www.aem.org/Int/PMR/Russian_construction_and_mining_machinery_market-May2007.pdf, (accessed September 1, 2009).

¹⁵ "Caterpillar to Build Excavators in Russia," *Kommersant*, March 13, 2008; based on March 13, 2008 exchange rate of 1 Euro = US\$1.54, <http://www.oanda.com/convert/fxhistory>, (accessed September 1, 2009).

¹⁶ "John Deere Plans to Invest \$500M," *The Moscow Times*, July 6, 2009; Maria Antonova, "John Deere to Pump \$125M into New Plant," *The Moscow Times*, September 1, 2009; Maria Antonova, "John Deere Opens Factory in \$500M Russian Initiative," *The Moscow Times*, April 28, 2010.