

Russian Fastener Market Analysis

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Introduction

Russia is the largest country in the world and continues to play an important role in the global economy. Although an expansion of sanctions related to the Russia-Ukraine tensions could send business and consumer confidence into downward spiral, Russia still can be recognized as a major participant in global economic environments.

Industrial production in this country increased 2.90 percent in October 2014 over the same month in the previous year. Industrial production in Russia averaged 2.51 percent from 2006 to 2014, reaching an all-time high of 10.90 percent in May 2006 and a record low of -16.90 percent in January 2009.

Manufacturing industries took advantage of the sharp Ruble depreciation and import contraction in the first half of 2014. It appears that manufacturing industries reacted positively to changes in relative prices, reporting an acceleration of economic activities in the second quarter. Russia's manufacturing production increased 3.60 percent in September 2014 over the same month in the previous year. The average manufacturing production in this country is 5.09 percent between 2000 to 2014, reaching the highest point of 27.10 percent in April 2000 and the lowest of -28.10 percent in January 2009. Manufacturing production in Russia is exhibited in the following chart reported by the Federal State Statistics Service.

The Fastener Market in Russia

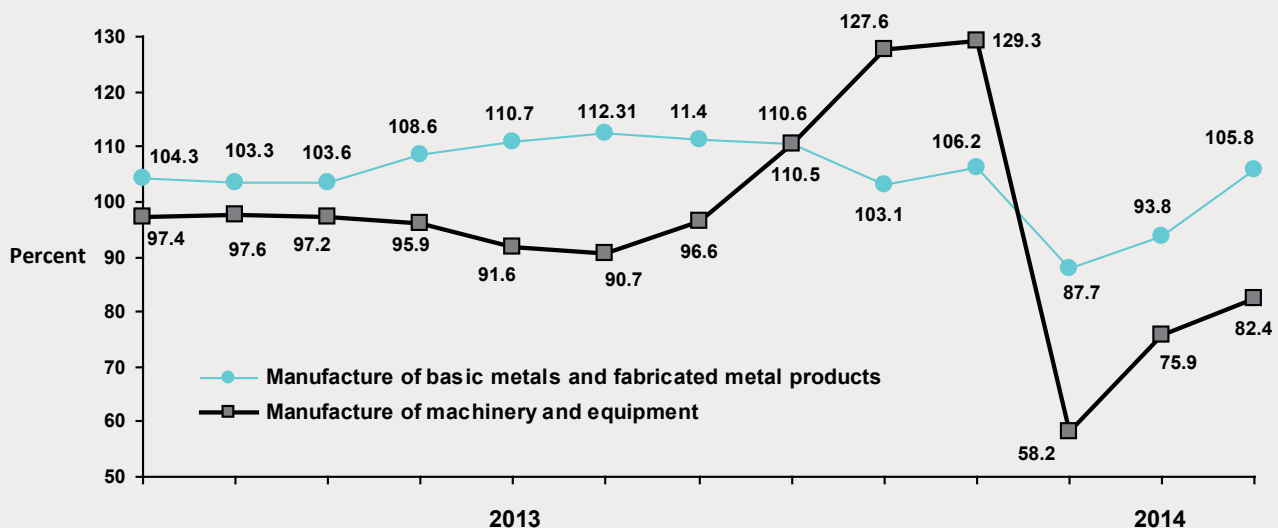
The potential of the Russian fastener market is significant. Heightened fixed investments and rise in the number of manufacturing bases have boosted fastener demand from the emerging economies, including Russia, compared to the more developed markets. Favorable economic climate and rising income levels leading to the increase in demand for durable

goods would drive growth in Russia, India, Thailand, and Taiwan.

The market demand for fasteners continues to be strong, despite the sharp seizure of the construction boom in Moscow and other cities resulting from the 2009 global financial crisis. High import duties in Russia and high demand for quality products create great incentives for local manufacturing to invest, improve standards and increase manufacturing efficiency.

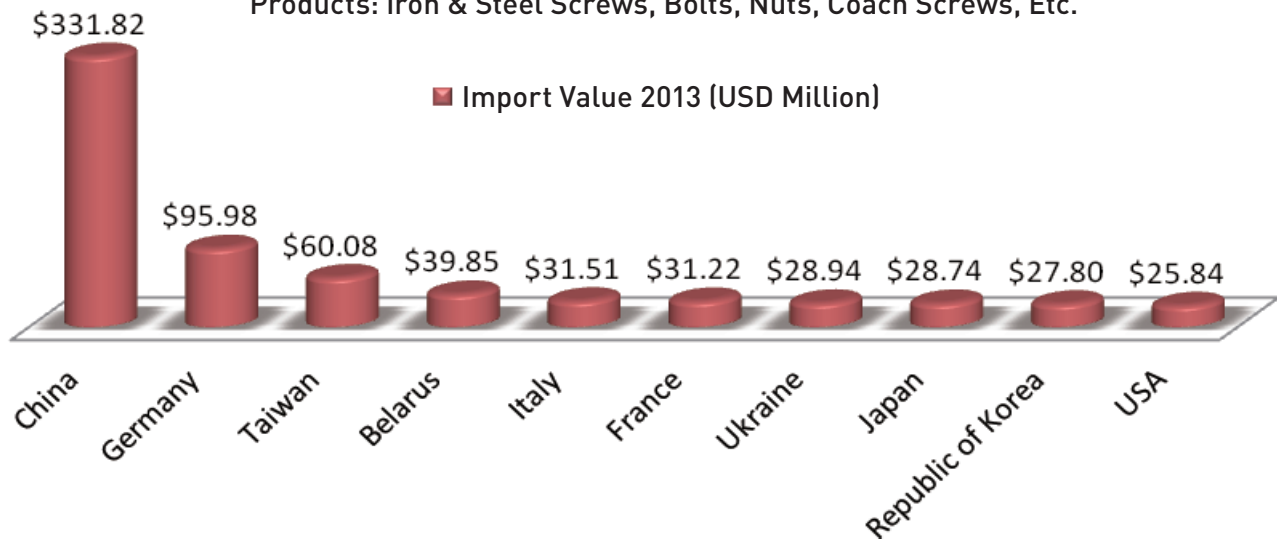
There are strong opportunities in sectors such as construction and automotive in Russia. Automotive appears to be the most significant area for growth expectations; however, in the first six months of 2014, passenger car sales in Russia declined by 7% in unit terms and 3% in monetary terms on a year-on-year basis, reported by PWC. Although there is a decline in automotive sales, among the top ten bestselling models of passenger cars so far, nine are produced in Russia (strongly influenced by protective tariffs and production localization requirements).

The Russian fasteners market demand is expected to reach \$1.83 billion in 2016 with the compound annual growth rate of 5.5%. The growth of automotive component production and small aviation facilities manufacturing amongst local players has significantly increased the domestic fastener demand.



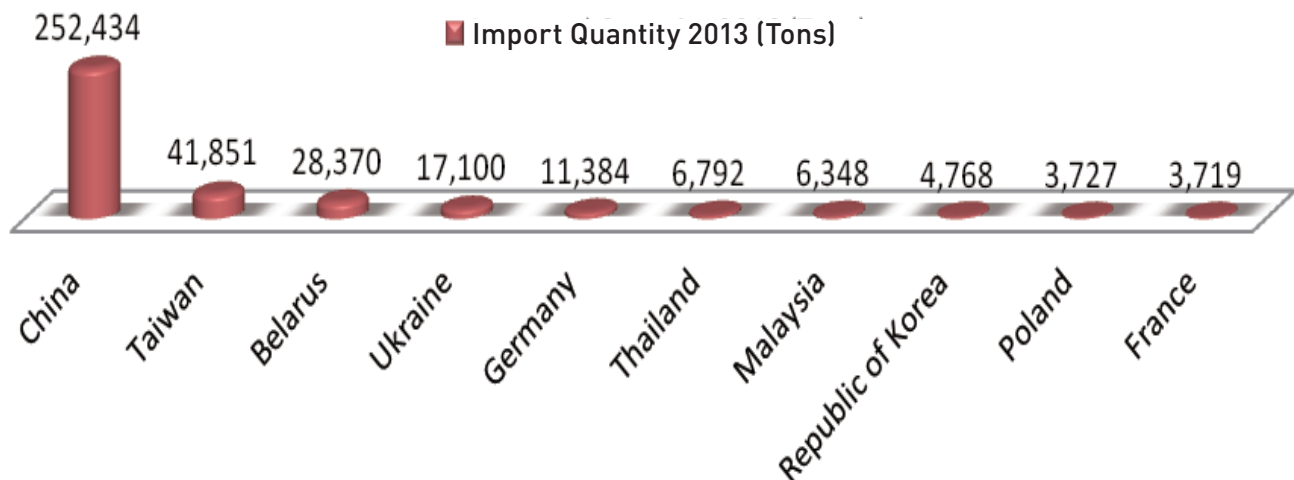
Top 10 supplying markets for the products imported by Russian Federation in 2013

Products: Iron & Steel Screws, Bolts, Nuts, Coach Screws, Etc.



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Moreover, Russia joining the world trade organization (WTO) and the Russian authorities actively promoting increase in domestic military capabilities and increase in international arms shipments, will help the growth of the aircraft, ships and other military installations which can all considerably increase the industrial fasteners demand in the local market.

The Russian government has imposed import measures on a broad range of fasteners (bolts, nuts, washers) coming into the country with the aim of promoting more internal production. However, due to limited industrial investment, Russian fastener manufacturers seldom update their old production facilities, so that hindered the growth of possessions. At the same time, Russian fastener production far fails to meet the domestic demand, so its fastener import becomes growth trend. Russia's fastener import value was \$960 million in 2013, with the main source of imports from China, Germany, Taiwan, and Belarus. The following charts compare the value and quantity of imports from top 10 supplying markets which exported iron & steel screws, bolts, nuts, and coach-screws to Russia in 2013. Russia's imports as reported in "trade statistics for international business

development" represent 2.16% of world imports for this group of products, which is ranked the 12th in the world.

Regarding export, Russia's fastener export value was \$135 million in 2013, with the main export destinations like Belarus, India, and Kazakhstan. The following chart depicts the value of Russian exports of iron & steel screws, bolts, nuts, and coach screws in 2013. The 10 major import destinations are illustrated in the chart. Based on the statistics by "trade statistics for international business development", Russian Federation's export represents 0.3% of world export for the above-mentioned products, and its ranking in world export is 30.

Top 10 importing markets for the products exported by Russian Federation in 2013

Products: Iron & Steel Screws, Bolts, Nuts, Coach Screws, etc.

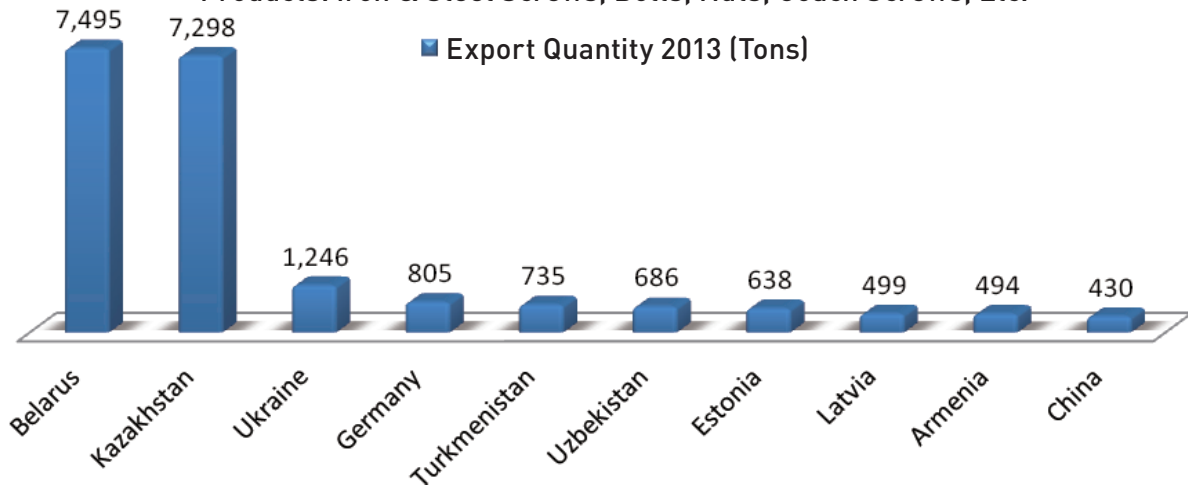
■ Export Value 2013 (USD Million)



Top 10 importing markets for the products exported by Russian Federation in 2013

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■ Export Quantity 2013 (Tons)



2018 FIFA World Cup!

Yes, it's true. 2018 FIFA World Cup! FIFA's decision to award Russia the right to host the 2018 World Cup surprised many, because infrastructure must be built up from practically nothing. Yet could this be the best opportunity to shine light on some of Russia's industrial challenges and problems? Russia plans to spend \$20 billion on Russia's hosting of the 2018 competition. That is a great chance for the local manufacturers in various industries, including the fastener industry, to boost up their production and sales.

One of the best examples is the railway fastener market. Railway fastener includes a variety of fasteners such as rail bolt, rail spike, tension clip, fish plate, all of which are key items of railway fastening system. Russia operates the world's second-largest railway network totaling 85,000km. Huge investment into a modernization programme to upgrade the existing railway and to expand the

network. High-speed rail links are being built for large scale sporting events like FIFA World Cup to link major Russian cities with a total investment cost of €137.5 billion; therefore, it can be just that Russia is a rising demanding railway fastener market.

The development plan is not just limited to Russian railways. This event has significant impacts on other industries as well. Major construction projects, tourist infrastructure, federal motorways, and airport development plans are other examples which bring great opportunities for domestic and international fastener manufacturers.

Sources:

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Russia's Automotive Market: 1H 2014 Results and Outlook, PWC