

EY Survey

2020 European Attractiveness Survey

Russia

June 2021



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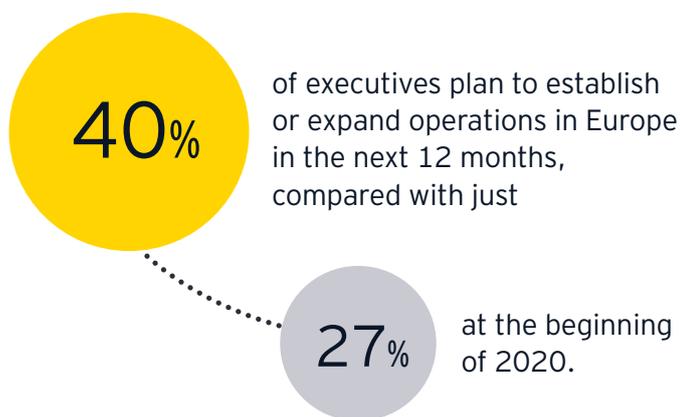
Europe: executive summary

In 2020, the turbulence and uncertainty spurred by COVID-19 caused foreign direct investment (FDI) in Europe to fall **13%** compared with 2019 to

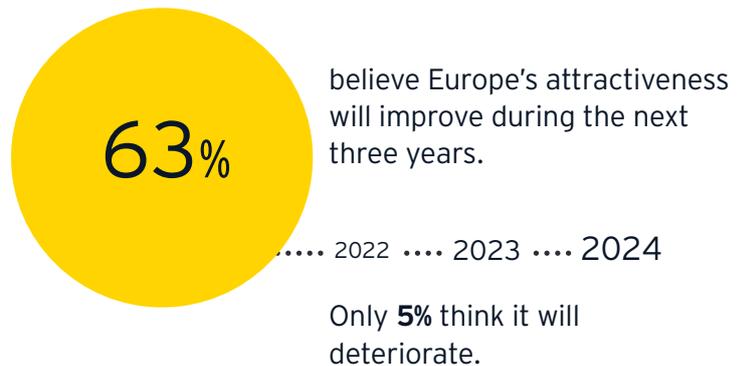
5,578
inward investment projects.

Europe has proved its resilience in 2020 because foreign businesses still see it as fundamentally one of the most stable, skilled and sophisticated regions around the world to invest for the long term.

Investment is set to rebound this year as pent-up demand to execute projects is unleashed:



Reflecting long-term optimism in Europe as an investment destination,



Top 10 European countries by FDI projects

	Country	Number of FDI projects in 2020	Market share
1	France	985	18%
2	UK	975	17%
3	Germany	930	17%
4	Spain	354	6%
5	Belgium	227	4%
6	Poland	219	4%
7	Turkey	208	4%
8	Netherlands	193	3%
9	Ireland	165	3%
10	Portugal	154	3%
11	Russia	141	3%
12	Italy	113	2%
13	Finland	92	2%
14	Switzerland	91	2%
15	Austria	76	1%
16	Sweden	75	1%
17	Serbia	70	1%
18	Romania	57	1%
19	Lithuania	53	1%
20	Hungary	48	1%
	Other countries	352	6%
	Total	5,578	100%

Source: EY European Investment Monitor 2020

Due to its relative success in containing COVID-19 during 2020, investment in Germany fell less precipitously than in France and the UK, meaning that the three are virtually tied as Europe's top investment destinations. France attracted 985 projects, the UK 975 and Germany 930 in 2020.



Supply chain disruption, restrictions on movement, national lockdowns and uncertain demand caused **manufacturing FDI** to decline



A spike in logistics investment by online retailers that were mobilizing to cater for surging demand more than compensated for a significant decline in logistics investment by transport businesses.

Inclinations toward major supply chain reorganization that were present when COVID-19 first hit have evaporated:



Life sciences was the only major sector that experienced an increase in foreign investment as businesses rapidly moved to meet the surging demand for COVID-19 vaccines, treatments and personal protective equipment.



FDI projects: trending down along with Europe

No. 11

Russia's rank
among Europe's
top 20 investment
destinations in 2020

21%

the average decline
in European
countries with
negative FDI growth

1

With 141 FDI projects in 2020, Russia ranked eleventh among Europe's top 20 investment destinations. FDI projects in Russia dropped by 26% compared with the previous year (191), reflecting the wider trend across Europe: the average decline in European countries with negative FDI growth was 21%.

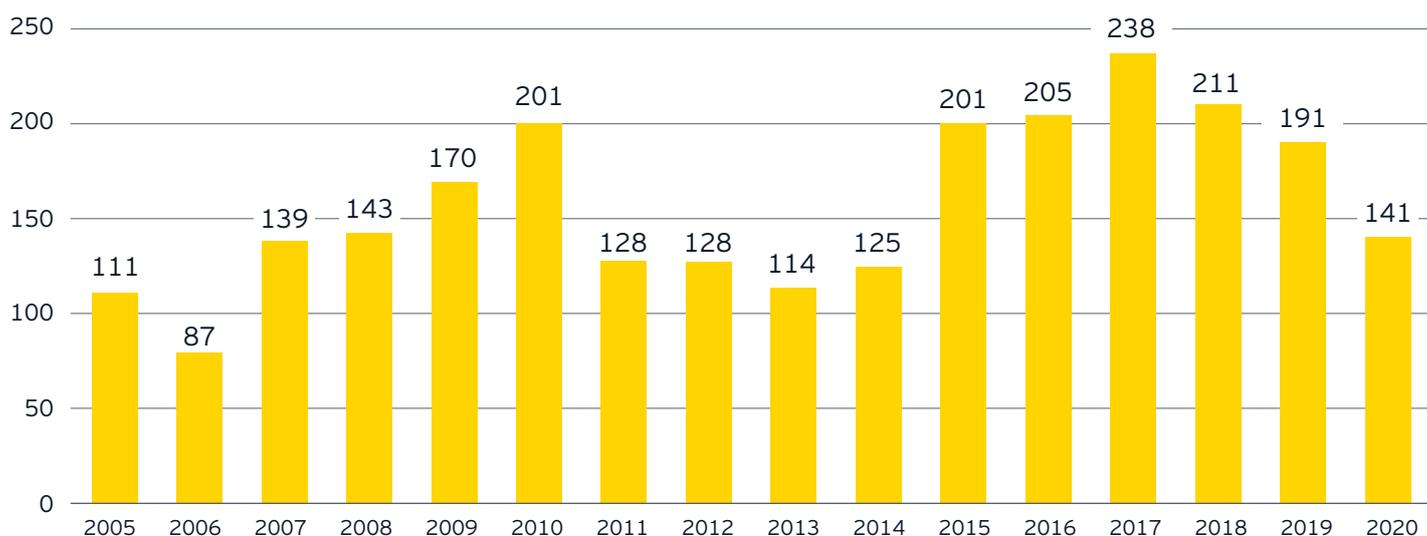
The number of FDI projects attracted by Russia in 2020 was close to that in 2014, with international investors undertaking fewer projects than they would have taken on in better market conditions. The COVID-19 pandemic, coupled with fears of imminent sanctions, had the highest impact on their decisions. Uncertainty about COVID-19 affected FDI flows worldwide: according to UNCTAD, global FDI in 2020 fell by nearly half (42%) to the level last seen in the 1990s.¹ Deepened sanctions and geopolitical threats took a toll on Russia, with its geopolitical risk index rising to 126, which is 11% higher than the 10-year average.²

Last year's decline came off a historically high base, Russia having ranked the fifth most attractive European destination for investment in the record-breaking year 2017.

The pandemic, amplified by the economic downturn, dealt a devastating blow to foreign investment, comparable only to the shock caused by sanctions in 2014.

The share of foreign investments spent on expanding existing operations is on the rise, up from 23% in 2019 to 31% in 2020 (44 projects), although investments in completely new projects continue to dominate, accounting for 69% in 2020 (97 projects), compared with 77% a year earlier.

Number of FDI projects in Russia



Source: EY European Investment Monitor 2020

¹ UNCTAD, Global foreign direct investment fell by 42% in 2020, outlook remains weak, 24 January 2021, <https://unctad.org/news/global-foreign-direct-investment-fell-42-2020-outlook-remains-weak>

² Matteo Iacoviello, Geopolitical Risk Index, <https://www.matteoiacoviello.com/gpr.htm#data>

Investors:

Germany, China and the US
are the perennial trio

1st
place

went to Germany
as the top investor
in the Russian
economy

2nd
place

was shared by China
and the US

2

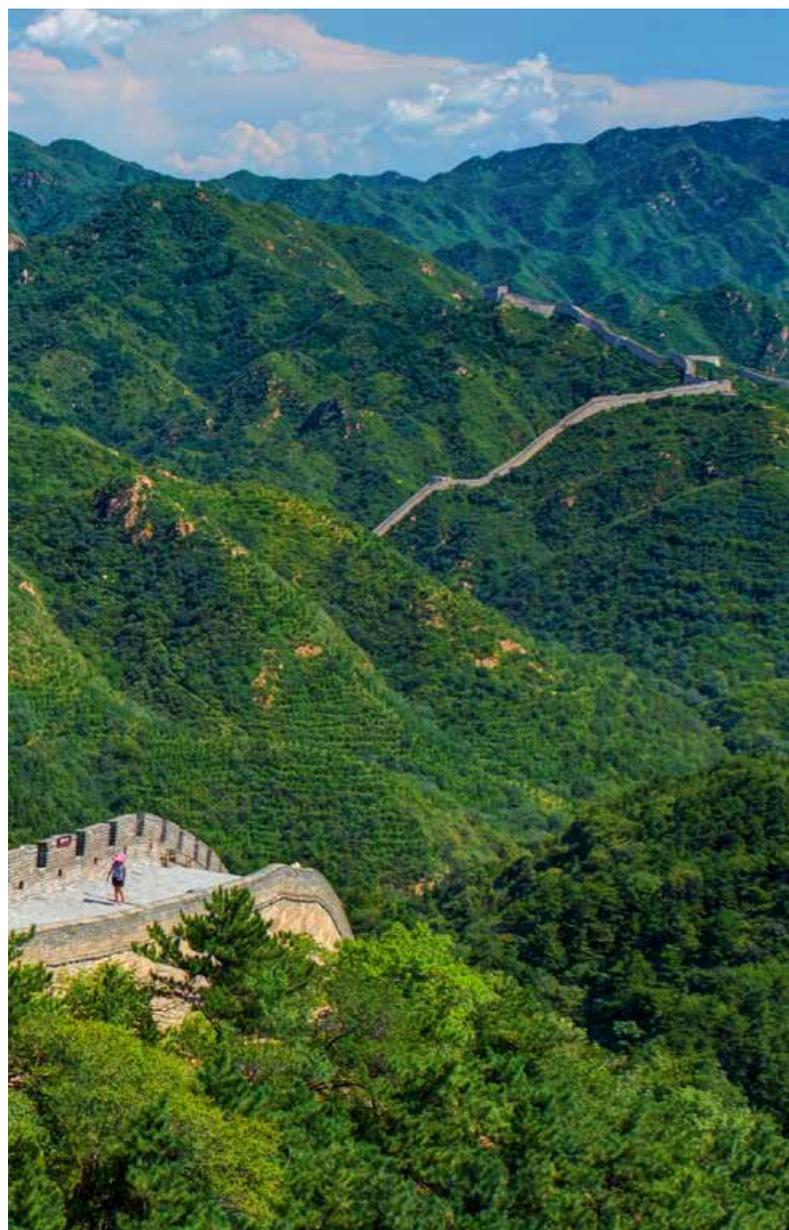
As in 2019, Germany topped the list of major investors in the Russian economy in 2020, though its investments were down 28% year on year, with the number of FDI projects totaling 26. Half of the German funds were invested in agri-food, reflecting the sector's growing attractiveness and profitability. Russia's agri-food exports rose by 20% in 2020, while its total exports dropped by the same proportion.³ Germany has always been among the leading countries investing in Russia, with German businesses undertaking 418 projects over the last two decades, more than other European countries covered by our survey.

China and the US shared the second spot in 2020, with 15 projects each - 32% and 25% fewer than a year earlier.

Like in the case of German investors, over half of the US businesses invested in the agri-food sector. Official statistics suggest that investments from the US are on the rise, despite sanctions and a smaller number of projects: net FDI flows in the first nine months of 2020 totaled \$40,225 million, which is 235% higher than the five-year average.⁴ US companies working here highlight the continued importance of Russia for their business: Russia is a leading emerging market, and having a presence here is a strategic decision for many international players.⁵

China remained focused on high-tech, with electronics taking over the lead from software and IT services as the most attractive sector for Chinese investments in 2020.

Italy moved up from seventh to third place, having doubled the number of projects in Russia from 6 to 13, and is now winning back its title as a leading investor in the Russian economy after slashing its project portfolio in 2019.



³ EY estimates based on Federal Customs Service data for 2020 and 2019: https://customs.gov.ru/storage/document/document_statistics_file/2021-02/08/k8SD/WEB_UTSA_OA.xlsx, https://customs.gov.ru/storage/document/document_statistics_file/2020-02/11/Y85D/WEB_UTSA_OA.xls

⁴ Bank of Russia, Direct Investment in the Russian Federation: Flows by Instrument and Partner Country, 2020 https://www.cbr.ru/vfs/statistics/credit_statistics/inv_in-country.xlsx

⁵ American Chamber of Commerce in Russia and EY, Investments and Imports to Russia, June 2020, <https://amcham.ru/uploads/AmCham%20EY%20Investment%20Survey%202020%20Rus%20PDF1594905041985.pdf>

Machinery and equipment attracted over half of Italian investments. Russia's machine-building sector fared well amid the shocks of 2020, with its output being only 0.5% lower than in 2019. After declining in the second quarter due to pandemic-related restrictions, the sector returned to a growth trajectory, with both output and investment rising on the back of pent-up demand as the restrictions eased.⁶

France slid from second to fourth place in terms of the number of FDI projects, while, according to official data, it is the fifth biggest investor in Russia. The inflow of investments from France exceeded \$1.4 billion in the first nine months of 2020, nearly 17% of total FDI in Russia.⁷

Switzerland maintained its fifth spot in the ranking, despite a 22% drop in investments.

With five projects each, India and Sweden joined the top ten investors in Russia for the first time in the past decade.

At the bottom of the ranking is Finland, which moved down from fifth to ninth position, having slashed its project count by 60%, along with Turkey and the UK, all with four projects each.

The Netherlands, South Korea and Japan dropped out of the ranking of the top investors in 2020.

⁶ Ministry for Economic Development of the Russian Federation, Review of Business Activity, April 2021, <https://economy.gov.ru/material/file/ba98dfa094829a288a5d1a66a8e9502d/210420.pdf>

⁷ Bank of Russia, Direct Investment in the Russian Federation: Flows by Instrument and Partner Country, 2020, https://www.cbr.ru/vfs/statistics/credit_statistics/inv_in-country.xlsx



Top 10 investors in Russia

	Country	2018	2019	2020	
1	Germany	24	36	26	<div style="width: 100%; height: 10px; background-color: yellow;"></div>
2	China	19	22	15	<div style="width: 100%; height: 10px; background-color: yellow;"></div>
	US	33	20	15	<div style="width: 100%; height: 10px; background-color: yellow;"></div>
3	Italy	11	6	13	<div style="width: 100%; height: 10px; background-color: yellow;"></div>
4	France	13	22	12	<div style="width: 100%; height: 10px; background-color: yellow;"></div>
5	Switzerland	9	9	7	<div style="width: 100%; height: 10px; background-color: yellow;"></div>
6	India	3	4	5	<div style="width: 100%; height: 10px; background-color: yellow;"></div>
7	Sweden	4	5	5	<div style="width: 100%; height: 10px; background-color: yellow;"></div>
8	Finland	8	10	4	<div style="width: 100%; height: 10px; background-color: yellow;"></div>
9	Turkey	6	3	4	<div style="width: 100%; height: 10px; background-color: yellow;"></div>
10	UK	2	4	4	<div style="width: 100%; height: 10px; background-color: yellow;"></div>

Source: EY European Investment Monitor 2020



Activities: manufacturing is still appealing

107

manufacturing
projects

12

sales and marketing
projects

3

Manufacturing remained the most attractive activity for foreign investors in Russia. The number of manufacturing projects was unchanged from 2019 at 107, undertaken predominantly by investors from Germany (20), China (13), Italy (13) and the US (11).

The number of sales and marketing projects decreased by 77% to 12, a record low in the history of the survey. According to the RACA, Russia's advertising market contracted by 4% in 2020,⁸ which implicitly confirms the fact that, in the face of the pandemic, many companies were less active on the media and promotion fronts. Germany and France were the top performers, each having invested funds in two projects.

With eight projects, including three from India, business services - for the first time ever - made it to the top three, ranking the third most popular activity in 2020. New projects were launched by foreign engineering and consulting firms. Half of business service projects were undertaken in Moscow and St. Petersburg, the country's economic mainstays.

Top 5 activities

Activity	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Manufacturing	110	62	60	55	69	153	136	178	127	107	107
Sales and marketing	67	51	49	40	34	20	32	21	41	52	12
Business services	-	-	-	-	-	-	-	-	-	-	8
Logistics	9	5	6	9	13	10	15	23	17	18	7
Research and development	5	3	4	4	4	10	10	6	12	8	5

Source: EY European Investment Monitor 2020

⁸ Russian Association of Communication Agencies, https://www.akarussia.ru/knowledge/market_size

Sectors:

agri-food tops the ranking
for the sixth year in a row

42

projects in the
agri-food sector

21

projects in the
machinery and
equipment sector

4



Agri-food remained the largest sector attracting foreign investment in Russia, with 42 projects announced in 2020. Among key factors contributing to its attractiveness were import substitution initiatives and the food embargo imposed in 2014. Restrictions on imports of certain food products sent domestic prices soaring, thus spurring investments, while foreign producers sought to establish local production and supply chains to become less dependent on imported raw materials. Germany and the US were the top investors in the agri-food sector.

Machinery and equipment was the second-largest sector for investment, mostly from Italy (7 projects), Germany (3), the US (2) and China (2).

Third and fourth places were shared between furniture, wood, ceramics and glass (11 projects) and chemicals, plastics and rubber (11 projects, down from 19 a year earlier).

According to the survey conducted by EY and the American Chamber of Commerce in Russia, the chemical industry led in 2020 by share of total investment: 43% of the \$1.8 billion planned to be invested by 75 American companies that took part in the survey. Lower prices for minerals used in production were cited as one of the reasons driving investment activity in the sector.⁹

Transportation manufacturers and suppliers rose from seventh to fifth position in the ranking, albeit with fewer projects, which declined from 11 to 8. With two projects underway, the US was the major investor in this sector. The same number of projects (8) was reported in the electronics sector.

	Sector	2018	2019	2020	
1	Agri-food	32	41	42	
2	Machinery and equipment	29	23	21	
3	Furniture, wood, ceramics and glass	3	4	11	
4	Chemicals, plastics and rubber	21	19	11	
5	Transportation manufacturers and suppliers	19	11	8	
6	Electronics	6	4	8	
7	Wholesale, retail and distribution	6	1	5	
8	Software and IT services	24	10	5	
9	Construction	-	-	5	
10	Consumer products	-	-	4	
11	Pharmaceuticals	8	13	4	
12	Business services and professional services	7	6	3	
13	Health and social services	1	7	3	
14	Metals and minerals	10	3	3	

Source: EY European Investment Monitor 2020

⁹ American Chamber of Commerce in Russia and EY, *ibid.*

Regions:

Moscow and Moscow Region are ahead of the pack

41

the project count in Moscow and Moscow Region, including

9

projects in the machinery and equipment sector

5

Moscow and Moscow Region remained the top destinations for foreign investment in Russia, with a total of 41 FDI projects, down 32% from 60 projects in 2019. The largest number of projects was established by France and Germany (7 each), followed by the US with 5 projects. A year earlier, France was also the biggest investor in Moscow and Moscow Region, investing in 16 projects.

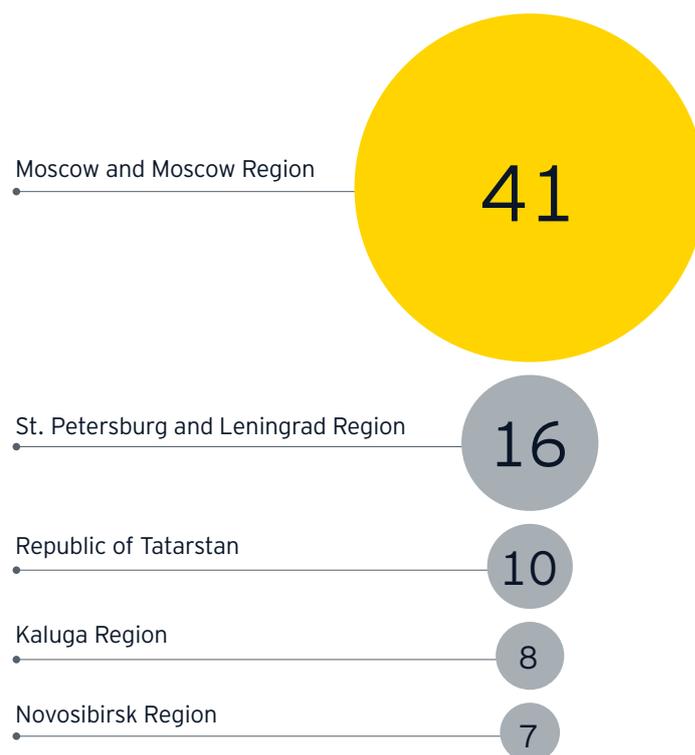
The most attractive sectors in Moscow and Moscow Region were machinery and equipment (9 projects) and agri-food (7 projects). Moscow and Moscow Region have always been a magnet for investors and business activity, contributing over a quarter to Russia's gross regional product¹⁰ and being a home for over 20 million people, or 14% of the country's population.¹¹ With their developed infrastructure, vast market and high position in the national investment ranking,¹² Moscow and Moscow Region continue to be an attractive investment destination.

There were 16 FDI projects in St. Petersburg and Leningrad Region (3 fewer than in 2019), with Germany as the top investor.

The third-largest investment destination was Tatarstan, with 10 projects announced in 2020 (+11% year on year). China was the leading investor in the region, putting up capital in electronics and transportation manufacturers and suppliers. Since 2015, Tatarstan has been in the top three regions with the best investment climate, and was number one in the ASI's National Investment Ranking three times. In 2020, it reaffirmed its status as a top investment destination, having ranked second, behind only Moscow.¹³

Kaluga Region is also in the leading pack, with furniture, wood, ceramics and glass being the largest sector attracting foreign investment. Novosibirsk Region had 7 projects, the same as in 2019, with five of them in the agri-food sector, and Germany remained the major investor.

Top 5 investment destinations



¹⁰ Rosstat, Social and Economic Indicators of Russian Regions, https://gks.ru/bgd/regl/b20_14p/IssWWW.exe/Stg/d01/09-01.docx

¹¹ Rosstat, Social and Economic Indicators of Russian Regions, https://gks.ru/bgd/regl/b20_14p/IssWWW.exe/Stg/d01/02-01.docx

¹² ASI, National Investment Ranking, 2020, https://asi.ru/government_officials/rating/

¹³ ASI, National Investment Ranking, 2020, *ibid.*

Methodology

The evaluation of the reality of FDI in Europe is based on the EY European Investment Monitor (EIM), the EY proprietary database produced in collaboration with OCO.



This database tracks the FDI projects that have resulted in the creation of new facilities and jobs. By excluding portfolio investments and mergers and acquisitions (M&A), it shows the reality of investment in manufacturing and services by foreign companies across the continent. Data on FDI is widely available.

An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity and takes a role in its management. FDI includes equity capital, reinvested earnings and intracompany loans.

To confirm the accuracy of the data collected, the research teams aim to directly contact more than 70% of the companies undertaking these investments. The following categories of investment projects are excluded from the EY EIM:

- ▶ M&A and joint ventures (unless these result in new facilities or new jobs being created)
- ▶ License agreements
- ▶ Retail and leisure facilities, hotels and real estate*
- ▶ Utilities (including telecommunications networks, airports, ports and other fixed infrastructure)*
- ▶ Extraction activities (ores, minerals and fuels)*
- ▶ Portfolio investments (pensions, insurance and financial funds)
- ▶ Factory and other production replacement investments (e.g., replacing old machinery without creating new employment)
- ▶ Nonprofit organizations (charitable foundations, trade associations and government bodies)

* *Investment projects by companies in these categories are included in certain instances: e.g., details of a specific new hotel investment or retail outlet would not be recorded, but if the hotel or retail company were to establish a headquarters facility or a distribution center, this project would qualify for inclusion in the database.*



However, our figures also include investments in physical assets, such as plant and equipment. This data provides valuable insights into:

- ▶ How FDI projects are undertaken
- ▶ What activities are invested in
- ▶ Where projects are located
- ▶ Who is carrying out these projects

The EY EIM is a leading online information provider that tracks inward investment across Europe. This flagship business information tool is the most detailed source of data on cross-border investment projects and trends throughout Europe. The EY EIM is frequently used by government bodies, private sector organizations and corporations looking to identify significant trends in employment, industry, business and investment.

The EY EIM database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 news sources.

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ED None.

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