The 2006-2015 Outlook for the Cement Market in Russia
Summary

The Russian cement market is connected directly with the situation in the construction industry of the country. The world financial crisis affected the construction market extremely negatively, and consequently, the cement industry. Between 2008 and 2010 the sales of cement in Russia went down by 14.5% compared to 2007, having fallen to 48.9 million tons in 2010.

Now the country is witnessing the improvement of the cement market. According to the estimates of BusinesStat, the sales of cement will have increased to 51.8 million tons by the end of 2011. In prospect, the sales of cement will continue growing, backed up by the programs which require a large volume of cement, i.e. housing and infrastructure construction, preparation for APEC 2012 summit, Winter Olympics in Sochi, development of the electric power industry.

In 2010, after the years of crisis, domestic producers started to raise the volume of production of cement. The growth of production during the next years will be backed by modernization of plants and development of new fields of cement raw materials. According to our estimates, the volume of production of cement will have reached 64.3 million tons by 2015.

The 2006-2015 Outlook for the Cement Market in Russia contains the essential data, necessary to comprehend the current market opportunities and conditions and to assess the future prospects, covering such points as:

- The overall assessment of the economic environment in Russia
- Volume of sales of cement
- Balance of demand for and supply of cement
- Economic output, total exports and imports, the volume of merchandise in storage
- Cost price, average wholesale price, import and export cost
- Ratings of the industry in terms of economic output and sales revenue
- Financial and economic profiles of leading enterprises.

In the survey the produce is categorized the following way:

- Portland cement without mineral additives
- Portland cement with additives
- Portland blastfurnace cement
- Portland pozzolan cement
- Calcium aluminate cement

The detailed information on import and export in the report is given according to the Foreign Economic Activity Commodity Nomenclature (FEACN code).

The report contains data on the production of cement by grade and largest manufacturers of cement in Russia.
The survey is based on the official statistics, obtained from:

- Federal State Statistics Service of the Russian Federation
- Ministry of the Economic Development of the Russian Federation
- Federal Customs Service of the Russian Federation
- Federal Tax Service of the Russian Federation

Apart from the official statistics, the survey also contains the results of the research done by BusinesStat:

- Audit of cement trade in Russia
- Survey of experts of the cement market
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**Opportunities of the Russian Economy**

According to the economists’ estimates, Russian economy has no chances for either a slump or a significant growth in the foreseeable future. By any forecast, the annual growth rates of the world economy will not exceed 3% in the years to come, consequently, Russian raw material export has no opportunities for increasing. Besides, developing technologies of oil-bearing sands exploration and shale gas production presuppose drop of prices for crude hydrocarbons. Taking into consideration the fact that costs of oil and gas production in Russia keep growing, the country can lose its source of income in the course of time.

Internal demand lives little hope as well. The measures of the RF Government to stimulate economy have no good effect. A regular increase in pension does not lead to the growing demand for food and goods, because the consumption level of the Russian senior citizens is too low. They tend to save money. Salaries in the state-financed and business sectors are practically frozen, which causes decrease in the real household income and consumption level against the backdrop of the growing inflation.

Demographic trend is also negative. Depopulation of the country will neutralize the effect of growing income even in the most distant prospect.

The Government of the Russian Federation has been lately making attempts to build up businesses that will produce goods with high value-added tax. It is obvious that these measures will not be effective in the context of general and chronic economic backwardness and inefficient state administration. Under the circumstances of the growing internal demand, there is no manufacture of the whole range of consumer goods in the country. Salary increase and loan availability encouraged consumption of imported goods.

Thus, Russian economy, that has no new export sectors, loses the internal market, too. Meanwhile, international corporations continue raising their market shares in Russia owing to their large scale and higher efficiency of transactions.

According to Kseniya Yudaeva, Director of the Centre of Macroeconomic Research of Sberbank, Russia is running the risk of being stuck for the long run in the situation of low rates of economic growth. In order to escape the situation of economic stagnation the country needs a transition from the growth on account of consumption to the growth on account of investments.
Classification of Cement

Cement is a binding substance, which possesses hydraulic properties and consists of a clinker and, if necessary, gypsum or its derivatives, and additives. Cements are classified by purpose (general construction, special construction, non-construction), by type of clinker and material composition, by strength upon compression, by rate of hardening, time of setting and normalization of special features.

General construction cements are binding substances, the main requirement to which is providing solidity and durability of mortars and concretes.

Special construction cements are cements, to which, apart from the grade of solidity, special requirements are raised, e.g. of sulfate resistance, heat segregation, deformation upon hardening, etc.

Non-construction cements are designed for general technical use, not directly connected with construction, i.e. production of molding materials, drilling of wells, insulation of fired materials, etc.

By type of clinker cements are subdivided into cements on the basis of Portland cement clinker and those on the basis of aluminous (high-aluminous) clinker, and at times on the basis of sulfoaluminate clinker.

By material constitution cements on the basis of Portland cement clinker fall into the following types:

- cements without additives, which do not contain active mineral additives or contain up to 5% of additives;
- cements with not more than 20% of mineral additives;
- Portland blastfurnace cement containing more than 20% of blastfurnace slag.

It is allowed to include up to 5% of additives which accelerate hardening or improve solidity to all types of cement. The above-mentioned classification by material constitution is stipulated by the Russian standards GOST 10178, PEST 23464.

By solidity cements are classified as follows:

- high-strength cement (grades 550, 600 and higher);
- increased-strength cement (grade 500);
- general purpose blended cement (grades 300, 400);
- low-grade cement (below 300).

By speed of hardening and time of setting (GOST 30515) cements can be:

- cements with regular hardening rate, i.e. with normalization of solidity at the age of 2 (7) and 28 days;
- fast-hardening, with normalization of solidity at the age of 2 days, improved in comparison with cements of ordinary solidity, as well as at the age of 28 days;
- extra fast-hardening with normalization of solidity within 1 day and earlier (GOST 23464);
- slow-setting (begins to set after 2 hours);
- ordinary-setting (begins to set from 45 minutes to 2 hours);
- fast-setting (begins to set earlier than in 45 minutes).
Production of Cement

The current chapter describes the volume of cement production in Russia during the period from 2006 to 2015. Survey of production is based on the data, obtained from the Federal State Statistics Service.

According to the Federal State Statistics Service, production in physical terms corresponds to the gross output, i.e. includes the products, used for the production needs of the company, and the goods, manufactured from customer-furnished raw materials. Customer-furnished raw materials are materials that belong to the customer and are given to other companies to be processed, according to the contract.

The data on production in physical terms have been also given for the natural persons, who are doing business without forming a legal person.

**Table 32. Production of cement in Russia, 2006-2010 (thousand tons; %)**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production (thousand tons)</td>
<td>54,731.2</td>
<td>59,933.4</td>
<td>53,548.3</td>
<td>44,266.0</td>
<td>50,369.4</td>
</tr>
<tr>
<td>Dynamics (% deviation to previous year)</td>
<td>-</td>
<td>9.5</td>
<td>-10.7</td>
<td>-17.3</td>
<td>13.8</td>
</tr>
</tbody>
</table>

*Source: Federal State Statistics Service. Form № P-1 Data about Production and Shipment of Goods and Services. Index "Production of Cement" reflects the amount of cement manufactured in Russia annually.*

**Table 33. Forecast of production of cement, Russia, 2011-2015 (thousand tons; %)**

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production (thousand tons)</td>
<td>54,215.7</td>
<td>57,626.2</td>
<td>60,636.8</td>
<td>62,947.3</td>
<td>64,307.9</td>
</tr>
<tr>
<td>Dynamics (% deviation to previous year)</td>
<td>7.6</td>
<td>6.3</td>
<td>5.2</td>
<td>3.8</td>
<td>2.2</td>
</tr>
</tbody>
</table>

*Source: BusinesStat, Complex Analysis of Marketing Data*

In 2008-2009, Russian producers of cement were forced to reduce the volume of production due to the lack of demand from construction companies. During this period the volume of production dropped by 26.1%, down to 44.4 million tons.

During the crisis producers of cement did not have funds not only to build new plants, necessary for competition with import suppliers, but even to maintain the functioning ones. Many cement plants were forced to reduce personnel or close the production at all.

In 2010, domestic producers started to raise the output of cement. According to our estimates, in 2013 it will reach the level of the pre-crisis years. By 2015 it will have increased to 64.3 million tons.
Table 54. Value of export of cement by country, Russia, 2006-2010 (thousand dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abkhazia</td>
<td>-</td>
<td>-</td>
<td>63</td>
<td>312</td>
<td>351</td>
</tr>
<tr>
<td>Albania</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>25</td>
<td>28</td>
</tr>
<tr>
<td>Armenia</td>
<td>6</td>
<td>-</td>
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<tr>
<td>Austria</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>34,920</td>
<td>21,960</td>
<td>12,649</td>
<td>55,545</td>
<td>62,477</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>60</td>
<td>-</td>
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<td>-</td>
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<tr>
<td>China</td>
<td>-</td>
<td>3</td>
<td>8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Denmark</td>
<td>-</td>
<td>-</td>
<td>59</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Estonia</td>
<td>114</td>
<td>55</td>
<td>-</td>
<td>47</td>
<td>52</td>
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<tr>
<td>Finland</td>
<td>2,758</td>
<td>105</td>
<td>-</td>
<td>387</td>
<td>435</td>
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<td>-</td>
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<td>Georgia</td>
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<td>Japan</td>
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<td>Kazakhstan</td>
<td>101,241</td>
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<td>Korea (DPRK)</td>
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<td>Kyrgyzstan</td>
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<td>193</td>
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<td>Latvia</td>
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<td>411</td>
<td>84</td>
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<td>Lithuania</td>
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<td>719</td>
<td>46</td>
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<td>Moldova</td>
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<td>Mongolia</td>
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<td>Nigeria</td>
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<td>35</td>
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<tr>
<td>Spain</td>
<td>27,953</td>
<td>5,399</td>
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<tr>
<td>Spitsbergen</td>
<td>-</td>
<td>67</td>
<td>-</td>
<td>-</td>
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<td>Switzerland</td>
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<td>Tajikistan</td>
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<td>Turkey</td>
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<td>1,344</td>
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<td>Uzbekistan</td>
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<td>522</td>
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<td>Yemen</td>
<td>-</td>
<td>16</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other countries</td>
<td>6</td>
<td>313</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>All countries</strong></td>
<td><strong>181,198</strong></td>
<td><strong>177,873</strong></td>
<td><strong>80,348</strong></td>
<td><strong>197,307</strong></td>
<td><strong>221,932</strong></td>
</tr>
</tbody>
</table>

Source: Federal Customs Service of the Russian Federation, Customs Declaration / Transit Declaration for participants of the foreign economic activity “Record of Goods and Funds Transit across the Border”.

*Index “Export of Cement” is calculated by multiplying the net weight of the goods (tons) by the value of one ton of the goods (dollars per ton). Account is taken for the weight of all the goods shipped through the*