Blitz survey

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Import substitution: new opportunities or challenges for the Russian economy

In May 2015, EY conducted a survey on import substitution in the Russian economy. The survey results showed that practically every company intends to switch to the use of Russian substitutes or increase their share in production, and one in two companies sees new opportunities for itself in the prevailing situation. However, that process will be lengthy and costly.

Survey participants included the heads of major companies working in the consumer sector, the oil and gas industry, industrial production, the mining and metals industry, and in the field of transportation and technology. A third of the participating companies have over 10,000 employees.

Key findings:

96% of the companies

intend to switch to the use of Russian substitutes or to increase their share in production. Currently, over 40% of the production cost relates to imported components for 75% of the respondents.

54% of the respondents

regard import substitution as an opportunity to increase their market share or optimize the supply chain.

21% of the respondents

can replace the necessary imported components within a year, while more time will be required by others.

50% of the respondents

believe that reduced tax rates (28%) and subsidized re-equipment/modernization (22%) are the most effective means of stimulating import substitution.

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"Our survey clearly shows that business is facing new challenges and that key areas now are the search for new supply chains, the establishment of joint ventures, and the modernization of the existing capacities. In this situation, the leading companies are interested in establishing firm and lasting ties.

An important fact is that business is looking for an opportunity to increase its market share, optimize processes, reduce costs and enter new markets. Import substitution may stimulate labor productivity and the Russian enterprises' competitiveness. Therefore, the government should act in a competent and efficient manner, prompting national enterprises to invest in Russian production.

Import substitution cannot be brought about instantly. Successful global practice shows that the process entails structural reforms and state initiatives. In this case, we can switch from the import substitution strategy to the export-oriented industrial strategy, which proved to be effective in many leading markets."

Survey results:

21% of the respondents say that Russian substitutes are already in use for most imported components.

Most respondents engaged in the production of consumer goods are ready to buy agricultural raw materials and packing materials from Russian producers. All respondents noted that in making a decision to buy products, they make sure that the quality of the Russian supplier's products meets their organization's strict standards of quality, reliability and safety.

29% of the respondents maintain that the transition to domestic substitutes is economically inexpedient or unattractive to them.

79% of the respondents expect the transition to domestic substitutes to be internally financed.

13% of the respondents feel that import substitution is systematically supported at the federal level.

According to the Ministry of Industry and Trade, the total cost of the announced import substitution projects is estimated at RUB 2.5 trillion.

63% of the companies are not ready to produce the necessary materials and equipment. However, by pooling their efforts, some of them intend to develop the Russian suppliers' production potential so that they will produce new types of products.

According to the data of Magram Market Research, obtained by surveying 2,700 small and medium-sized businesses (SMB) in 19 regions of Russia (RSBI Index of OPORA) in Q1 2015, only 7% of the SMBs began domestically producing the components they need. 39% of the companies started to look for new foreign suppliers, while 28% of them use domestic substitutes.

38% of the SMBs noted in Q1 2015 that they largely depend on imported goods, while the figure was 46% in Q4 2014. During that time, the number of companies which replaced imports with domestic substitutes increased from 7% to 15%.