

ENGINEERING AND CONSTRUCTION IN THE RUSSIAN DOWNSTREAM: DO NOT MISS THE MARKET

Global energy markets are going through a transformational phase. The Russian fuel and energy complex is also following this trend: projects of simple processing and transportation of hydrocarbon raw materials are being replaced by high-tech plants for liquefaction of gas, deep processing of feedstock, and production of chemicals.

Will the Russian engineering and construction industry that dominates the domestic market today keep pace with the current changes? Market share and profits are not the only things that are at stake, so is the potential for the development of the Russian economy.

Executive Summary

New projects in the transport and processing of hydrocarbons

- The transformation of energy markets and Russia's focus on products with high added value incentivize the development of new industries.
- Investments in transport and processing of hydrocarbons in the Russian Federation in 2019-2023 will double, reaching 3 trln RUB per year. The main growth drivers are deep gas processing, petrochemical, methane chemical and liquefied natural gas (LNG) projects.
- Such plants are highly complex and stimulate the development of the practice of using EPC contracts in the Russian Federation. At least 50% of all investments in LNG and petrochemical industries will be made with the application of this tool in the coming years.

Opportunities of Russian companies in the field of engineering and construction

- For the implementation of large high-tech projects, foreign companies are usually attracted in the role of EPC(M) contractors. The share of domestic EPC contractors in investments currently amounts to 20-25%. Foreign players also serve as licensors of key technologies.
- Despite the expected upcoming growth of this indicator, it is not likely to exceed 50%. Major Russian companies typically act as subcontractors of the 3rd and lower levels.
- Today the share of domestic companies in the Russian market of engineering and construction in the field of transport and processing of hydrocarbons amounts to about 67%.
- If they do not develop their competencies in the face of market growth and its shift towards high-tech industries, in the next 3 years this figure, according to VYGON Consulting estimates, may drop to 50%. In monetary terms, their losses could amount to 0.5 trln RUB per year.
- In order to build up the relevant competencies, it is necessary to stimulate the development of domestic technologies or establish joint ventures with foreign companies with the localization of production in Russia.

Source: VYGON Consulting

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